

Mario Draghi: Interview with *Der Spiegel*

Interview with Mr Mario Draghi, President of the European Central Bank, in *Der Spiegel*, conducted by Mr Michael Sauga and Ms Anne Seith on 22 October 2012, published on 29 October 2012.

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SPIEGEL: President Draghi, do you have a savings account?

Draghi: Yes.

SPIEGEL: Do you know how much interest you are getting?

Draghi: Around 1.75%, that's the current rate on savings in Italy.

SPIEGEL: The rate on a German savings account is even lower than that. The returns are not anywhere near sufficient to make up for rising prices. Are savers picking up the bill for the euro crisis?

Draghi: No. If we do not resolve the euro crisis, we will all pay the price. And if we do resolve it, we will all benefit, particularly German taxpayers and savers. Interest rates in Germany are at a low level, with some negative bond rates, not because of our measures, but because Germany receives safe-haven flows from other parts of the euro area.

SPIEGEL: Nevertheless, many people, particularly in Germany, are worried about the value of their money, because the European Central Bank has reduced interest rates to a historically low level and announced its intention to make large-scale purchases of government bonds issued by indebted southern European countries. Are people right to be worried?

Draghi: We take the worries of the people very seriously. People are right to ask why we felt it necessary to announce the programme for government bond purchases. One thing should be clear: responding to the crisis of confidence, while maintaining price stability, will benefit German taxpayers and savers.

SPIEGEL: Then please explain it to us.

Draghi: The crisis of confidence means that money is flowing to Germany. This depresses interest rates in Germany and increases interest rates in other countries to unjustifiably high levels. Put simply, interest rates reflected, among other things, speculation that the euro area could break up. This speculation was unfounded, and we had to counter it.

SPIEGEL: And so you decided to help out the governments in Rome and Madrid.

Draghi: No, the decisive factor was something else. The high bond yields also caused interest rates on corporate and housing loans to shoot up. This put the effectiveness of our monetary policy at risk: no matter how much we cut interest rates, there was no longer any effect on the real economy. We couldn't just sit back and do nothing.

SPIEGEL: Many experts have expressed doubts that the interest rates on loans in Spain and Italy were really at alarming levels.

Draghi: There is no reason for this; we have a great deal of evidence. Take the bank in Spain that could barely issue a bond, although it was, objectively speaking, just as solvent as a credit institution in Germany. No wonder that banks charge completely different interest rates on loans depending on which side of the border they are resident. Also, for this reason, a married couple can get totally different mortgage conditions for an apartment in Madrid than in Munich.

SPIEGEL: It is not unusual for interest rates on loans to vary from country to country.

Draghi: That is true, but the scale of the differences had exceeded all normal levels. Interest rates do not have to be identical across the whole euro area, but it is unacceptable if major differences arise from broken capital markets or concern about a euro area break-up. In addition, short-term rates were higher than long-term rates in some countries, which we always see as a warning sign. All of our analysis indicated that we were facing a serious crisis of confidence, and that we urgently needed to do something about it.

SPIEGEL: But many people, particularly in Germany, believe that your measures are illegal. You are circumventing the prohibition on financing government deficits by printing money.

Draghi: That is incorrect. We are prohibited from buying bonds directly from governments, and we abide by this prohibition. But we are allowed to purchase bonds on what is known as the secondary market – that is, from banks or financial institutions – if it is necessary for our monetary policy. And that's exactly what we are doing.

SPIEGEL: The question is why you had to frighten people with the comment that you were preparing to purchase “unlimited amounts”. Didn't you realise that this would make people anxious?

Draghi: I chose the word “unlimited” in order to clearly indicate our determination to defend the euro. One has to understand how markets work. But unlimited does not mean uncontrolled; on the contrary, we will only buy bonds from those countries that accept strict conditions, and we will check very carefully whether those conditions are adhered to.

SPIEGEL: We have our doubts about that. Would you really refuse to help a country that does not fulfil the reform requirements?

Draghi: Of course. If a country does not adhere to what has been agreed, we will not resume the programme. We have announced that we will suspend operations once a programme country is under review. We will then ask the International Monetary Fund and the European Commission to assess whether the country is keeping the conditions of the agreement, and only after a positive assessment will we resume operations.

SPIEGEL: One only needs to consider the example of Greece currently to get an idea of how credible such statements are. The government in Athens repeatedly broke their commitments to the troika (made up of the IMF, ECB and European Commission) and yet they are now about to receive the next tranche of financial assistance anyway.

Draghi: That is not an appropriate comparison. Greece will not be considered at all for our programme because it is targeted exclusively at countries that finance themselves, now as before, on the capital market. This is something completely different.

SPIEGEL: Many people are nevertheless concerned that the ECB wants to take a vast amount of high-risk government bonds from southern Europe onto its balance sheet. You already have on your books around €200 billion in securities from countries such as Portugal and Ireland. Will it be the taxpayer who ultimately has to jump in if the countries cannot service their debt?

Draghi: I do not anticipate this; quite the opposite. So far we have actually made a profit on our bond purchases, which has gone to the national central banks, in turn profiting the governments and taxpayers.

SPIEGEL: Can you guarantee it will stay this way?

Draghi: One thing is clear: if the governments in southern Europe continue with the successful implementation of policy reforms seen in the last few months, German taxpayers will make a profit from our purchases. There is no better protection against the euro crisis than successful structural reforms in southern Europe.

SPIEGEL: This can also be expressed in a different way: your balance sheet is dependent upon political developments in Madrid, Rome and Lisbon. Do you think it is wise for a central bank to make itself dependent on governments in this way?

Draghi: We are not making ourselves dependent, quite the opposite. When the crisis escalated in early summer, the ECB had three options: first, do nothing, allowing the crisis to get worse and worse with greater risks, particularly for the German taxpayer; second, provide support unconditionally; or third, provide support under certain conditions. The ECB chose the third option because that was the best way to combat the causes of the crisis. Governments must commit to sound economic and financial policies. This is how we ensure reform in the euro area – and our independence.

SPIEGEL: Experience teaches us somewhat differently. If you artificially lower interest rates, it makes it easier for governments to become indebted and decreases the pressure for reform.

Draghi: High interest rates are the most significant source of pressure for a government resisting reform, I agree with you there. This is exactly why we insist on adherence to strict conditions. Moreover, we do not want to completely eliminate differences in interest rates between countries. We will only intervene if the differences become excessive.

SPIEGEL: Many experts doubt that you can make a clear distinction in this regard.

Draghi: We would disagree. There are models and indicators available that will help us to make an informed judgement.

SPIEGEL: When you announced your programme, interest rates in Spain, for example, stood at 6.5%. What proportion of this was speculative?

Draghi: I will not tell you that: we have decided not to give exact figures for our programme that we could later be pinned down to. What I can tell you is that a good analysis will provide you with the necessary indications regarding at which point the differences give cause for concern.

SPIEGEL: We fear that you are getting entangled in hopeless political discussions with the European governments. In order to put Monetary Union on a firm footing, you are in favour of, for example, greater centralisation of economic and financial policy. Up to now we have seen little of this.

Draghi: This is not how I see it. Governments are on the right path. They have committed themselves to transferring more competencies for budgetary and financial policy to the European level. They need to take the necessary decisions on this at their summit meeting in December.

SPIEGEL: Up to now, governments have only been ready to concede greater powers to the Commission regarding the control of their budgets. The actual decisions will continue to be taken at the national level, however.

Draghi: The governments have taken decisions that would have been inconceivable even one year ago. This is progress, but it is not enough.

SPIEGEL: Why not?

Draghi: If you want to restore confidence in the euro area, you need rules. But that is only the first step. You also need to ensure that the rules are adhered to. This is what was lacking in the past and what governments need to work on.

SPIEGEL: Finance Minister Wolfgang Schäuble has proposed giving the EU Commissioner for Economic and Monetary Affairs a direct say in national budgets. What do you think of that proposal?

Draghi: I am fully in favour of it. Governments would be wise to seriously consider it. I firmly believe that, in order to restore confidence in the euro area, countries need to transfer part of their sovereignty to the European level.

SPIEGEL: But it is precisely that that many governments are unwilling to do. Why are they so against it?

Draghi: A lot of governments have yet to realise that they lost their national sovereignty a long time ago. Because, in the past, they have allowed their debt to pile up, they now need the goodwill of the financial markets. That sounds like a paradox, but it is nonetheless true: it is only once the euro area countries are willing to share sovereignty at the European level that they will gain sovereignty.

SPIEGEL: The second measure with which you wanted to place Monetary Union on a firmer footing was the establishment of a single supervisory mechanism (SSM), with the ECB at the helm. However, it will now not be up and running on 1 January 2013, as planned. Are you disappointed?

Draghi: Not at all. What is more important is that the SSM works well, not when it starts. Otherwise, the reputation and independence of the ECB are at risk.

SPIEGEL: Why do you think that the ECB will do a better job of supervising banks than the competent national authorities have been doing until now?

Draghi: It is not that we want to replace the national supervisory authorities; on the contrary, we want to work closely with them. However, they need to be independent of their governments in their assessment of the problems. In the past, problems in the banking sector have been hushed up time and again.

SPIEGEL: Like in Spain...

Draghi: I am not going to mention any names. However, I am certain that we will be able to act more independently and quickly if Frankfurt is at the heart of the decision-making.

SPIEGEL: But that means that the independence of your monetary policy will come under threat. Will you still be able to take an impartial decision on interest rates if there is the danger that major banks will be pushed into financial ruin?

Draghi: I am aware of the risk, which is why there must be a strict separation between the two areas at the ECB. The Governing Council of the ECB should assign most of the supervisory tasks to an independent committee composed primarily of supervisors.

SPIEGEL: That sounds modest, because you now actually have more responsibilities than any other central banker before you. You are the biggest creditor of many euro area countries; you are the chief banking supervisor and are designing a new structure for the euro area alongside the President of the European Council, Herman Van Rompuy. Would it be wrong to call you the most powerful man in Europe?

Draghi: That is certainly not the way I see myself. With regard to the banking union for example, we are only providing technical assistance, because we were asked to.

SPIEGEL: You are in the news after every EU summit along with world leaders. Are you trying to say that you don't have any influence?

Draghi: I can see how I may give this impression, but I am well aware that I am a central banker without a political mandate, who only acts together with the Governing Council of the ECB.

SPIEGEL: In Germany, people have several reservations about your crisis policies. Were you surprised to receive so much criticism?

Draghi: I had the opportunity of a very deep and wide-ranging exchange of views with members of the Bundestag last Wednesday. My impression was that I was able to explain a number of issues, in particular how the measures comply with our mandate to safeguard our independence and to ensure price stability in the medium term.

SPIEGEL: This fear stems from historical experience. Germans have learnt that, if central banks flood the markets with money, this always leads to inflation.

Draghi: We have to take these fears very seriously. But the correlation is not so simple. In some cases, such as in the Weimar Republic, printing money caused inflation. But in other cases, proactive central bank action did not.

SPIEGEL: You mean the Federal Reserve System's decision at the start of this millennium to drastically reduce interest rates, a policy which contributed to the price bubble on the housing market and the financial crisis of 2007–08. How do you intend to rule out something similar repeating itself in Europe?

Draghi: We, the Governing Council of the ECB, are committed to safeguarding price stability and avoiding systemic asset bubbles. So far we have seen some rising prices in a few asset markets at the local level. Such phenomena must be dealt with regionally by the relevant political and supervisory authorities, for example by asking banks to hold more capital against their real estate exposure.

SPIEGEL: What would you say to German taxpayers who fear inflation?

Draghi: At present I do not see any risks to price stability. The ECB remains committed to safeguarding price stability as it has always done in the past. We firmly expect the inflation rate in the euro area to fall next year to below our target of close to 2%.

SPIEGEL: At the start of Monetary Union, Germans were promised that the ECB would behave like a second Bundesbank. Many people here now speak of a new Banca d'Italia, which tolerated double-figure inflation rates in the 1970s.

Draghi: I consider such accusations, to put it mildly, inelegant. For two reasons: in the 1970s, the Banca d'Italia was not independent. Today, the situation is completely different. But there is also a personal reason. Because of inflation, my family lost a large part of its savings at that time. You can therefore rest assured that I am personally and not only professionally committed to delivering price stability.

SPIEGEL: Two German members of the ECB's Governing Council have stepped down in protest, and the head of the Bundesbank Jens Weidmann openly opposes your policy. Does that not make you think?

Draghi: Of course. That reflects concerns which we incorporate into our decisions. You can be assured that, in taking measures, we stick strictly to our mandate.

SPIEGEL: Your former colleague Jürgen Stark, who resigned, sees it differently.

Draghi: His reasoning is not shared by the Governing Council of the ECB.

SPIEGEL: But the fact is, you are doing things that would have previously been inconceivable.

Draghi: We are also currently in a crisis that was previously inconceivable. It is therefore not very helpful to compare our measures with the past. When we speak of the Bundesbank culture, we mean a culture of independence and price stability. I am deeply attached to both principles and can assure you that each member of the Governing Council is just as deeply committed to delivering price stability in total independence and fully in line with the mandate of our founding fathers.

SPIEGEL: In a recent interview with *SPIEGEL*, Mr Weidmann warned that central bank financing could become addictive, like a drug.

Draghi: That risk exists, and we have it in mind. But central bank financing can also be helpful, like medicine. And that should also be kept in mind.

SPIEGEL: For how long can these controversies between you and Mr Weidmann continue?

Draghi: I would like certain discussions to proceed in a more controlled way. Mr Weidmann and I still have a great deal of understanding for one another. We have the same goal and our differences of opinion over the correct instruments are not insurmountable.

SPIEGEL: You now live in Frankfurt. How often do you travel to Italy?

Draghi: Not very often. I like Frankfurt, in particular its museums, which my wife and I like to visit.

SPIEGEL: Mr Draghi, thank you for this interview.