Mario Draghi: Interview in *Le Journal du Dimanche*

Interview with Mr Mario Draghi, President of the European Central Bank, in *Le Journal du Dimanche*, published on 15 December 2013.

* * *

Is Europe finally returning to growth?

Growth has returned, but it is certainly not very strong. It is modest, fragile and unequal. Germany is doing well; France, Italy and Spain are improving; things are not going so well in the Netherlands; and Greece and Portugal remain under pressure. Unemployment is still too high, but it seems to have stabilised at an average of around 12%. We forecast that growth in the euro area will be 1.1% next year and 1.5% in 2015.

What is driving the recovery?

Looking at the figures, we can see that exports are picking up again and – this is a new development – consumption is recovering. Various factors have played a role in that. First of all, our monetary policy, which has remained accommodative since 2011, is in the process of bearing fruit. The commitments that we have made regarding the future direction of our monetary policy and our decision in November to reduce the rate on our main refinancing operations to 0.25%, the second reduction in 2013, have also contributed to that. Uncertainty is receding, which should help to stimulate investment and encourage banks to lend. Purchasing power has also improved as a result of declines in energy and food prices.

Do you think that a line needs to be drawn under Greek debt in order for the country to get out of its current situation?

The reform programme put in place with the aid of the IMF and the Commission in liaison with the ECB seems to be bearing fruit. We will examine Greece's budgetary situation and its development at the start of the year. The Greek people have already made a large number of sacrifices and I hope that the country will achieve budget surpluses (excluding its debt burden) as of next year. Nevertheless, the reforms have to continue.

Do you believe that the bitter pill of austerity that was imposed on the countries of the euro area in order to tackle the debt crisis was the right solution, the only acceptable response?

Austerity was essential, as it was the necessary solution to one of the most serious financial crises that we have ever seen. Prior to 2010, the world we were living in was somewhat unreal. Our creditors, institutional investors, were not differentiating between credit to Greece and credit to Germany. When people began having doubts regarding Greece's solvency, all of that came to an end. Institutional investors began re-evaluating the risk profiles of all the countries of the EU. We know what happened next: spreads on lending rates began to increase, distinguishing between countries that were judged to be safe (and therefore creditworthy) and the rest. This crisis has taught us a lesson. It has taught us that we cannot generate either sustainable growth or a fair distribution of prosperity by amassing debt. It has also forced us to focus on the fundamentals in order to check the solidity of each individual economy. That was when we realised that the time for structural reforms had come. Without the crisis, we could have given ourselves more time to implement them, and we could have accompanied the austerity plans with stimulus measures. But as that was not done when we had time, reforms have had to be implemented as a matter of urgency and in a painful manner.

Pierre Moscovici, our Minister for the Economy, believes that France is the victim of "French bashing", as it has reduced its deficit and undertaken fundamental reforms. What do you think?

Major efforts have been made, but it is important that France continues along the path of the reforms already undertaken. The government and the French people are aware of this. Competitiveness remains insufficient, and improvements to public finances must stop being based on tax rises. France needs to return to fiscal stability so that firms start to invest again.

Should Germany, the true engine of European growth, not share the fruits of its growth with its neighbours in order to foster a broad-based recovery?

The real issue here is slightly different. We need to try to understand why Germany is doing better than its neighbours. The answer is that Germany has given itself the means to be more competitive thanks to its bold structural reforms. In the early 2000s, Germany launched labour market reforms. It remains an example for the other EU countries to follow. Its performance is based on the great strength of its small and medium-sized enterprises (SMEs), which are exporting and innovating. That platform needs to be preserved. But Germany should not rest on its laurels and needs to foster investment, particularly investment in infrastructure.

What are the prospects for Europe, given that growth is no longer creating jobs?

Unemployment is indeed the number one problem for the governments of EU countries – starting with youth employment. We are too inclined to think that industry remains the key driver of employment, when in reality it is services that create the most jobs. That is partly because services have been less exposed to competition than the industrial sector.

Banks are being criticised for ceasing to finance the economy. What are you doing to encourage them?

Two years ago we provided them with €1,000 billion in the form of three-year loans, some of which has already been repaid, and since then we have reduced our key interest rates several times. Banks are able to refinance their loans to firms using funds obtained from the ECB. That has given them breathing space. Some of them have been given assistance, and they have been able to increase their capital.

We now have to convince them to take the kinds of risk that are beneficial to the economy, notably by lending to SMEs. It should also be noted that demand for credit has declined. Some firms, having experienced falling sales and a lack of visibility regarding the future, are hesitant about investing, while large firms are increasingly turning to the markets, financing themselves by issuing bonds. Last year, bond issuance by such firms totalled €34 billion, offsetting a contraction in loans of around €20 billion.

Will the banking supervision work that the ECB has been tasked with reveal the presence of a Lehman Brothers among Europe's banking groups?

It is difficult to say at this stage. Countries such as Greece, Portugal, Ireland and Spain, which have been given financial assistance, have already taken steps to consolidate their banking networks. In addition, regulators have asked their banks to make provision for non-performing loans and to increase their capital in order to ensure their solvency. But yes – we need to ascertain the precise situation, and in 2014 that will be the priority of the new European banking supervision mechanism, which will be headed by Danièle Nouÿ.

Has the ECB done all it can to stimulate growth?

In the context of our mandate, yes. And we are always ready and able to act at a later stage. We have already deployed some of our instruments in the context of our accommodative monetary policy, despite the fact that certain people accused us of taking enormous risks and endangering price stability. We have seen nothing of the sort. On the contrary, our actions have had the desired effect. We remain just as determined today to ensure price stability and safeguard the integrity of the euro. But the ECB cannot do it all alone. We will not do governments' work for them. It is up to them to undertake fundamental reforms, support innovation and manage public spending – in short, to come up with new models for growth.

Is the ECB not a prisoner of German budgetary orthodoxy in terms of the interpretation of its mandate?

The ECB acts under the Treaties, which have been ratified by all European countries. The Treaties require each country to ensure the sustainability of its public finances. And this is a question of common sense. Look at what happened when the credibility of certain countries' public finances deteriorated to the point where their access to the market was compromised. They had to undergo the painful adjustment programmes that you have just been referring to. It is the unsustainable debt and deficit levels that render countries prisoners of the markets.

Some people would like to see the ECB fight to combat unemployment, like the Federal Reserve. Why do you refuse to do that?

Our main task is to maintain price stability. Of course, insofar as our actions stabilise the economy, they help to reduce unemployment. However, we cannot reduce the structural level of unemployment, which is dependent on the smooth functioning of the labour market and its ability to better integrate those who have been excluded from it. Taking the example of German growth, that has not come from the reduction of our interest rates (although that will have helped), but rather from the reforms of previous years.

The euro has strengthened considerably against the US dollar. What are you doing to counter that and make the euro more competitive?

I have no desire to speculate regarding the right euro/US dollar exchange rate. We have no objectives in terms of exchange rates. However, I recognise that a high exchange rate has consequences for growth and inflation in Europe.

Which is to be feared more: deflation or a return to inflation?

Neither one nor the other. We are not experiencing deflation. Prices are not falling in a sufficiently strong or generalised manner to entail the postponement of purchases and investment, and thus the kind of economic slowdown that we saw in Japan. Inflation is at a low level, well below the 2% threshold, and should remain weak until 2015. That was why we decided to reduce our key interest rates, in order to have a buffer to curb the decline.

What answer do you have for the growing number of Europeans who no longer want the euro?

I would tell them that the euro is the basis for our future. The euro is a sound currency, and one that is entirely fulfilling its role, but it is suffering from the fact that our monetary union is incomplete and imperfect. We need to complete our monetary union if we want to truly achieve lasting stability and prosperity in Europe. First of all, we need to move forward with the banking union and complete the reform and deficit reduction programmes that we have embarked on. The populist argument that, by leaving the euro, a national economy will instantly benefit from a competitive devaluation, as it did in the good old days, does not hold water. If everybody tries to devalue their currency, nobody benefits. Ultimately, the road to prosperity always goes via reforms and the search for productivity and innovation.

Do you dread an anti-European vote in the elections in May?

I am expecting a stronger anti-European presence in the European Parliament relative to today. We have to be conscious of that and respond to the distrust that has become entrenched in public opinion when it comes to the European project and its institutions. There is no doubt that populist movements are capitalising on that sentiment, but there are also people who are genuinely disappointed. It is up to us to explain why the euro has been and remains a mark of progress, a currency for the future. It is up to us to point out that European integration has proved to be the best way of safeguarding peace. However, we also need to give our community a renewed sense of purpose – to explain that more Europe and greater integration can contribute to progress, economic recovery and prosperity. We have to give people fresh hope.