

## **Sabine Lautenschläger: Interview in *Frankfurter Allgemeine Sonntagszeitung* – “Savers are not being dispossessed”**

Interview with Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank, in *Frankfurter Allgemeine Sonntagszeitung*, conducted by Mr Rainer Hank and Ms Lisa Nienhaus and published on 6 July 2014.

\* \* \*

*Ms Lautenschläger, what are you doing with your money in these times in which savings are constantly shrinking owing to measly interest rates?*

I, of course, am also sensitive to the fact that interest rates are low. Like many Germans, I have a savings account where the return is currently not particularly generous. I can fully understand that it hurts.

*Why then did you and the Governing Council recently cut the key interest rate yet again? It now stands at a derisory 0.15%.*

The low interest rates are justified because growth in Europe is weak and the inflation rate is going to remain well below the target rate of just under 2% for several years. However, very low interest rates should last only for as long as absolutely necessary, since, like medicines, they are not without side effects.

*Savers are feeling dispossessed.*

It is a bit over the top to speak of dispossession. With our expansive monetary policy, with the low interest rate, we are pursuing our mandate to ensure price stability. Price stability is a precondition for a healthy economy.

*That means you are conducting policy in favour of entrepreneurs, but against savers?*

No, the Governing Council conducts monetary policy for the whole of the euro area, because price stability is of benefit to everyone. In general, savers are also workers or employers; they are not only savers. Therefore, the low interest rates will benefit them in other areas. They ensure that prices remain stable and that is the precondition for growth and therefore, ultimately, job security.

*Why would falling prices be bad for jobs?*

Buyers and investors begin putting off spending in anticipation of falling prices. With lower demand, production falls and the demand for labour declines. That therefore slows down the economy and can lead to a self-reinforcing downward spiral.

*But we're not seeing that in Germany at all. People are consuming, employment is high and companies are doing well.*

And we want it to stay that way. But even in this country inflation has fallen noticeably. In addition, we are observing a slowing down of investment under the influence of expected long-term growth prospects. The negative consequences of this often appear only after a delay, particularly since Germany is not an island.

*The Bank for International Settlements (BIS), effectively the central banks' central bank, is already warning that the ECB's measures are having little direct effect, but are instead having dangerous side effects, namely bubbles.*

Are you sure that that is not a rather provocative and one-sided summary?

*Not at all!*

Our monetary policy is working. During the crisis, it stabilised the euro area as a whole, prevented a much stronger slump in the economy, and improved financing conditions, and that is having an impact on the real economy. Indeed, we are currently seeing moderate

economic growth in the euro area. That is not yet enough for us to breathe a sigh of relief. But an expansive monetary policy can also encourage speculation. Therefore, I will be the first to demand higher interest rates and a tightening of liquidity – as soon as that is justified.

*And what about the high property prices in Germany? Is there a bubble?*

The Deutsche Bundesbank, among others, is keeping a close eye on that and is also seeing warning signs, but is not speaking of a bubble. We are not seeing a strong rise in housing purchases financed by loans. A bubble is always accompanied by price increases and strong credit growth.

*Before you came to the ECB, you were at the Deutsche Bundesbank. The presidents of these two banks have very different opinions. Which of the two is closer to the truth, Jens Weidmann or Mario Draghi?*

I think that the differences of opinion between Mr Draghi and Mr Weidmann are often exaggerated by the media. When making decisions I prefer to follow my own principles and assessments.

*Nonetheless, the two gentlemen fought a duel that even went as far as Germany's Constitutional Court. It concerned whether the ECB should buy bonds from crisis-hit countries.*

The Deutsche Bundesbank and the ECB gave evidence in court as expert witnesses. The action was initiated by others. Moreover, there are many different opinions in the Governing Council, not only those of Mr Draghi and Mr Weidmann.

*Let's talk about your view: what is your position on government bond purchases?*

If you mean the OMT programme ...

*... under which the ECB would buy the government bonds of countries covered by the euro rescue package ...*

... and that comply with the requirements of a stabilisation programme. I am somewhat critical of that.

*What does that mean?*

The ECB's crisis measures have provided governments with, among other things, time to respond to the crisis with better policies. The OMT programme reduces the pressure emanating from the markets and I fear that creates the wrong incentives. There must not be a lull in the drive for reform and budget consolidation must not be put on the back burner.

*Which means that, even as a Member of the Executive Board of the ECB, you continue to side with the Bundesbank and its President, Jens Weidmann?*

I stand for Europe. And that's why the spirit of the treaties is what guides me. And I can understand the reasoning behind a number of Mr Weidmann's assessments.

*If, at some point, the Governing Council of the ECB were to take a vote on whether to activate the OMT programme, would you vote against it?*

I doubt if there are any circumstances that would justify it. But I don't know in what circumstances such a question would come up.

*What about government bond purchases in general? Aside from the controversial programme for crisis countries?*

The ECB is not forbidden from purchasing government bonds per se. A large-scale purchase of securities – whether issued by the government or the private sector – would only be considered in the event of exceptional risk. And this is really not something that I can see at the moment.

*The ECB has done much to buy time for the governments of highly indebted euro area countries with favourable interest rates, so that they can introduce reforms. By way of thanks, these countries now want to do away with the Maastricht Treaty and get further into debt?*

For a permanent exit from the crisis, which is also a crisis of confidence, governments must consolidate their budgets and implement the necessary structural reforms. Only then will the euro area countries increase the competitiveness of their national economies and create a basis for long-lasting prosperity for their people. It would be a huge error to stop this process now, when so much has already been achieved.

*Until recently, the Governing Council of the ECB was a male preserve. Now, with you and the Governor of the Central Bank of Cyprus, there are two women. What has changed?*

Nothing. Expertise has nothing to do with gender.

*So the effort to get more women in management positions does not achieve anything?*

That's not the point. We are talking about the Governing Council of the ECB, which concerns itself with economic issues. Here, individual opinions have little to do with whether you are a man or a woman. Not everything should be made into a gender issue.

*But the atmosphere is surely a bit more cheerful. It's easy to have a laugh with you.*

Do you mean to say that men don't laugh?

*Germans are worried because soon the Bundesbank will not be able to vote in the Governing Council every time, on account of the rotation of voting rights. Is that a bad thing?*

Too much is being made of this topic. Anyone without voting rights at a given time can still clearly express his or her opinion in the Governing Council – and can convince the others.

*Will the others not take us to the cleaners when Mr Weidmann is not voting?*

Nobody will be taken to the cleaners. Moreover, there is no place for resentment. In the Governing Council of the ECB, people exchange their views and now and again are even convinced to change their minds. Since the Governing Council has decided to start publishing its minutes in the near future, you will soon be able to see this for yourself.

*And if Jens Weidmann cannot vote, you can still represent the German position.*

I can always vote, but I take a rather conservative approach. However, above all, I am independent and committed to the ECB's mandate of maintaining price stability.