Yves Mersch: Interview in Les Echos

Interview with Mr Yves Mersch, Member of the Executive Board of the European Central Bank, in *Les Echos*, conducted by Mr Jean-Philippe Lacour and published on 15 November 2015.

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Les Echos – What is your reaction to the terror attacks?

Yves Mersch – We are deeply shocked by what happened in Paris. Those atrocious attacks have killed and wounded hundreds of people. We express our solidarity, our compassion, and our sincere condolences to the families and friends of the victims.

Before being able to measure the consequences of these events, what is your diagnostic of the euro area economy?

Recovery in the euro area is ongoing, growth is showing a definite resilience. Domestic demand is supported by consumption thanks to the low price of oil, which increases purchasing power. But the other facet of demand, investment, is not at its best level. This is the case for public investment, especially in countries with room for manoeuvre, while private investment is being held back by the restructuring of balance sheets. The emerging economies are also having an impact on external demand. Inflation is expected to rise again at the beginning of next year owing to base effects on energy prices. However, analysts shouldn't focus so much on short-term data or on certain inflation expectations indices. Our approach is more holistic. We also look at underlying inflation and factors which accelerate inflationary pressures, such as phenomena that have an impact on the capacity for price-setting, etc.

The Autumn 2015 European Economic Forecast also points to a divergence between the two large economies, France and Germany. Is it worrying to see that economic integration is not progressing in the euro area?

Yes, because in a monetary union, differences between countries shouldn't be such as to render monetary policy less effective. Economic structures may differ, but it would be better if economic cycles would converge. That is why we hope that economic cooperation in Europe will be strengthened.

Rather than cooperation, Europe is showing divisions and tensions. With respect to Greece, where the situation with creditors is becoming more strained, should we be worried that the crisis experienced in the middle of the year will flare up again? How would the ECB react?

We have asked Greece to adopt a large number of measures in a very short time. It appears that the Greek government is still finding it hard to implement the agreed programme. The Ministers of Finance of the euro area are confident that the commitments made will be honoured; they are convinced that the necessary measures will be taken in order to release the pledged funds. The ECB does not take a political stance on the matter. It follows rules which are transparent and public.

Portugal, for its part, has plunged into a political crisis following the ousting of the pro-austerity government. Could it become a new Greece?

Those two countries can't be compared. Each has its own experiences. At the ECB, we respect all existing governments, as long as they implement the commitments they have made on behalf of their countries. That applies to Portugal and to all the other euro area countries.

Is France going far enough when it comes to reforms?

France is committed to implementing reforms, although I must say that the laws which have passed through parliament are often somewhat removed from what was originally announced. The Macron reforms, for example, concern a much lower number of professions than initially envisaged. It's noteworthy that other European countries which are also on the path to economic reform, such as Italy, are implementing institutional reforms in parallel with structural reform.

Is the situation in the euro area fragile enough to justify new measures by the ECB?

We are waiting to see the outlook for 2017 in the updated Eurosystem staff macroeconomic projections. At the last meeting in October, the Governing Council of the ECB agreed on the need to re-examine, in December, the degree of monetary policy accommodation. We will examine the effects of measures taken so far and decide if there is a need for further action or not. The discussion will be very detailed, and it is important that proper preparations are made.

That work is currently being done by several committees made up of representatives of the national central banks and of the ECB.

Those experts are studying all the options. It is possible that their work could lead to recommendations being made. However, the Governing Council is independent and has sole authority.

Several central bank governors have spoken in favour of the adoption of new measures.

Of course, but nothing has been decided on! The discussion will take place within the Governing Council, not in the public arena.

It is conceivable that one of the recommendations for supporting growth and inflation would be to expand the asset purchase programme launched in March, in other words, QE – a measure which can by nature be extended. However, it seems that the Governing Council is divided on the subject...

The debate is ongoing. Nothing has been decided yet.

And what do you recommend?

We have not exhausted our options. QE is expected to continue until September 2016, at least. Our monetary policy is medium-term oriented. We are already taking stock of what has been done so far and what remains to be done. And we are making decisions for the future based on the marginal effectiveness of the options we have available to us. Given that a high number of securities have been purchased, if we stopped the programme overnight it would cause a "cliff, effect", that is, a sharp drop in liquidity. We must manage the programme in such a way as to avoid that situation occurring in the markets, independent of pure monetary policy considerations.

The other option referred to in Malta concerns a lowering of the Eurosystem deposit facility rate. The negative rate of –0.20%, in place since 2014, was supposed to be a floor. Why should the ECB change its mind?

Negative rates, with which we have limited experience, have multiple consequences. Some are positive, others less so. They have, for instance, an influence on the exchange rate, which, as you know, is not a monetary policy objective. However, it is a very important transmission channel for prices and growth. Other countries have made use of that instrument, although they are generally smaller, open economies in which the exchange rate plays an important role.

It is highly likely that the US Federal Reserve System will increase its rates in December. That possibility has already affected the euro-dollar exchange rate. Could that exempt the ECB from taking action?

Our discussion does not hinge upon the decisions of the Federal Reserve System. And I would remind you that the exchange rate is not a monetary policy objective. Our decision will be based on the development of the situation in Europe, which can of course be influenced by a change of direction by the Fed. However, like the changing price of oil, this is something we don't have control over.

European banking supervision, under the authority of the ECB, has got off to a good start. All that remains to be put in place to complete banking union is a European deposit guarantee scheme. Does Germany's opposition to the plan worry you?

When you have a single system of banking supervision, it is logical to have, in the long term, a deposit guarantee system that makes the consequences of supervisory failure a shared concern.