

Peter Praet: Interview in *Knack*

Interview with Mr Peter Praet, Member of the Executive Board of the European Central Bank, in *Knack*, conducted by Mr Ewald Pironet and published on 6 January 2016.

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For over a year now, the European Central Bank (ECB) has been printing heaps of money, pumping it into the economy and pushing interest rates down to almost 0%. When may this policy be deemed a success?

You may label that ECB policy a success if inflation, the rise in the cost of living, stays below, but close to, 2% over the medium term. That is our mandate. I admit that our policy has not yet been successful enough: inflation rates in Europe have been at the very low level of almost 0% for quite some time now. That is why we are continuing to take the necessary measures to drive inflation up to 2% over the medium term. However, the point at which we think we will reach 2% is constantly postponed, because all kinds of things are happening that are dampening inflation, such as the decline in oil prices or lower economic performances in the emerging countries. We have decided to maintain our policy until March 2017. But we need to be careful not to jeopardise the ECB's credibility by shifting that horizon.

It is up to the ECB to keep inflation at just below 2%, but it is failing to do so. We don't see many positive effects from the ECB's policy in other ways either: economic growth is fragile at 1.5%, unemployment stands at 10%, with youth unemployment as high as over 20%. You can't really give the ECB good marks for that?

If the ECB had not taken the measures that it did, we would be in a depression; I'm convinced of that. And a depression would be much worse than what we are experiencing today and worse than what we went through over the past decade. Let me recall: after the banking crisis, we had a severe recession in 2009 and the economy then recovered in 2010 and 2011. This was followed by the debt crisis – centring on the sovereign debt of several European countries – which plunged the European economy into another recession. This recession was not as deep as the one in 2009 but it did last longer, because it took us two years to get over it. Economic growth picked up again somewhat at the end of 2013 and in 2014, but as of the spring of 2014 we saw another slowdown in growth and were at risk of running into a third recession. In January 2015, ECB President Mario Draghi announced that the ECB would pursue a policy of quantitative easing: we now print money and pump it into the economy in order to help ease credit conditions. Were it not for the monetary policy of recent years, we would certainly have landed in a deep recession. The euro area might have fallen apart and that would have been a catastrophe. The ECB therefore did what it had to do, but monetary policy cannot resolve all problems. We have always said that politicians have to do their job. They must carry out structural reforms, reduce government debt and create a more flexible labour market. That would contribute to a smoothly functioning economy.

Owing to ECB policy, interest rates are extremely low, there's no longer any return on savings. So people are tempted to take more risks with their money, by buying shares or real estate for example. This pushes up prices and may give rise to bubbles that suddenly burst, resulting in serious financial disasters. Is that a real danger?

Absolutely, that is an important point. The ECB's policy undoubtedly has unintended consequences. In some countries, there is a risk that real estate prices or some equity and other financial markets are increasing in a way that is too rapid or artificial. We are keeping a close watch on that and interventions to avoid bubbles are possible if need be. The emergence of bubbles is a justified concern. But if the ECB were not pursuing its current policy, the financial concerns would be even more serious because the economy would be in poorer shape.

When and how are we going to move back towards normal interest rate levels? What needs to happen before the ECB will start to discontinue its exceptional policy?

The ECB will continue pursuing its policy for as long as necessary. What needs to change before we adjust the policy? To put it simply: the rate of inflation needs to move sustainably towards 2%. Looking at the current economic situation, I think that the present policy will continue until at least 2017 and for longer if necessary.

What if ECB policy ultimately doesn't work as in Japan? Will you propose "more of the same"? Or is there a plan B?

There is no plan B, there is only one plan. The ECB stands ready to take all measures that are necessary to bring inflation to 2%. If you print enough money, you will always get inflation. Always. But if oil and commodities prices tumble, it is more difficult to allow inflation to rise. If a whole series of such factors occur, you can't do anything other than somewhat postpone the date on which you seek to reach the higher rate of inflation.

Do you think that the ECB's policy is working for all euro area countries, both for Spain and Portugal, for example, as well as Germany? Aren't the financial economic differences in Europe too large for the ECB's "one-size-fits-all" policy?

One size doesn't necessarily fit all. It remains extremely difficult for the ECB to follow a strategy that is optimal for all European countries. But you have to look at where we came from. Prior to the introduction of the euro, the internal market came under pressure from exchange rate crises: national currencies sometimes fluctuated sharply in value. After the launch of the euro, the euro area enjoyed a number of calm years but, unfortunately, the member countries did not make use of this time to carry out the necessary reforms at national and European level nor, in particular, to put efficient crisis management arrangements in place. And the countries that experienced serious difficulties three or four years ago, such as Ireland, Portugal, Spain and Italy, are nonetheless beginning to recover, thanks in part to ECB policy. We also see that Germany, the strongest economy in Europe, is not experiencing any major disadvantage from that same ECB policy. Admittedly, it's a continuous search for a policy that is as favourable as possible for everyone. What does one do with Greece, say, which has fundamental problems with its competitiveness? The Greek crisis would not have become so large if the European institutions had not been so weak and if more decisive action had been taken, with better crisis management.

Are you surrounded by enough people who dare to contradict you? Do you speak to people who dare to question ECB policy?

Oh yes, definitely. I listen to people who say that the ECB should take a different approach. I respect those opinions. We ourselves naturally reflect on whether our policy is correct. For example, we explore what the consequences would be if we were to raise interest rates rather than lower them. But our analyses convince us that we are following the correct strategy. Besides, that strategy has not been determined by Mr Draghi and a handful of ECB Executive Board members; it came about with the agreement of the large majority of the Governing Council, on which all national central banks governors in the euro area have a seat. I would never have imagined that the euro area could break up, as almost happened in 2012. Nor did I think it possible that the ECB would have to print more than an additional €1.5 trillion (i.e. €1,500,000,000,000), and pump it into the economy in order to respect its mandate. The ECB has acted resolutely but the story is not over yet. In order to emerge from the crisis, it is crucial that the other authorities also do their homework. It is not up to monetary policymakers to resolve structural problems.