Peter Praet: Interview in *L'Opinion*

Interview with Mr Peter Praet, Member of the Executive Board of the European Central Bank, in *L'Opinion*, conducted by Mr Luc de Barochez on 15 September 2016, and published on 20 September 2016.

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Growth is flat, unemployment is high, deficits are large, reforms have stalled... To what extent is France a concern for the European Central Bank?

Unlike many other EU countries, France has come through the financial crisis relatively unscathed. It has also not experienced a sovereign debt crisis. Yet, despite conditions not being too bad, the French economy remains surprisingly subdued and the gloomy mood persists. Successive governments have shown that they are willing to introduce structural reforms. And some reforms have indeed been implemented. But we are seeing significant difficulties in pushing them through. The biggest concern is the job market, in particular youth unemployment. The government has clearly realised that it is harder to do business in France than other countries, such as Germany or Belgium. This is due to labour relations, among other things. Which is why the reforms to the labour law, to facilitate company-wide agreements, are a step in the right direction.

What is the most important solution for a country like France? Policies to increase competitiveness or prioritising a reduction in the government deficit?

Both are important. Our message is that debt must remain sustainable. But it isn't just a question of the absolute value of the debt. The quality of public finances is key. Take healthcare spending. A country that spends less in this area can sometimes offer higher-quality care than a country that spends far more. On the other hand, if debt sustainability can be improved by a certain reform, perhaps some small measure of budget flexibility might be given to facilitate the implementation of this reform. This sort of flexibility is accepted by the European Commission. But often budget flexibility is granted and then there's a problem following up on the reform!

The President of the Commission, Jean-Claude Juncker, wants to double the size of his investment plan, to €630 billion. Is this crucial for growth?

It's a good policy direction, but it's still difficult to assess what the concrete effect of these investment plans will be. For now, investment dynamics in the euro area as a whole, and in each member country, remain too weak.

Speaking for Germany, Wolfgang Schäuble rejected ECB President Mario Draghi's call for the country to put its surplus at the service of the recovery. Do you feel like you're preaching in the wilderness?

Germany respects the criteria of the Stability and Growth Pact - thanks to budgetary surpluses and despite high levels of immigration, it is optimistic that it will bring its debt below 60% of GDP, the limit set by the Maastricht Treaty, sooner than expected. However, the country's enormous current account surplus is an anomaly at almost 9% of GDP. Growth is too driven by external demand. Germany has the fiscal space to develop internal demand.

Berlin is accusing the ECB of being responsible for this imbalance, as your monetary policy is weakening the euro and boosting exports.

Our monetary policy has been extremely accommodative since spring 2014, in response to inflation figures and outlooks that were too weak for too long. It's a single monetary policy for the euro area as a whole. It isn't necessarily optimal for all countries at all times. Every country should, therefore, develop other ways to correct the tensions and imbalances. In the case of Germany, the country has to decide for itself how it wants to develop its internal market, whether by raising wages, increasing investment or reducing taxes. For example, Germany needs structural reforms in certain sectors, like services. The very good environment provides a unique opportunity that won't necessarily last, as Germany is facing substantial industrial challenges in the years to come, for example in the car industry.

The ECB has just gone over the €1 trillion threshold with its securities purchases under its quantitative easing programme, but the impact on inflation and growth seems to be negligible.

We can't say that because where would inflation be without our policy? Let's not underestimate the critical situation we found ourselves in. Our monetary policy has been essential to avoid a severe recession. At the start of the crisis in 2007-2008, a huge gap opened up between long-term expectations, based on an assumption of high growth rates, and harsh reality. Exaggerated expectations led to excessive indebtedness. We are experiencing the correction of this overborrowing. Thanks to our standard and non-standard monetary policy measures, such as our public debt purchases, the situation is starting to return to normal.

This ultra-accommodative policy ends in principle in March 2017. Will you stop at this deadline?

Our monetary policy objective is to return inflation to levels below, but close to, 2% over the medium term. We will maintain the very substantial amount of monetary support necessary to fulfil our mandate. Our monthly asset purchases to the tune of €80 billion should continue until the end of March 2017 or beyond, if necessary, and in any case until we see a sustainable adjustment in inflation in line with our objective.

When considering the potential risks to growth, are you including the possible election of Donald Trump in the United States with a protectionist programme?

It's important to distinguish between election speeches and actual policies. Speeches today are tending to be increasingly national and protectionist, and not only in the United States. Currently, people are seeing the negative side of globalisation more than the positive. This erosion of trust in the importance of international trade is worrying and may hinder the spread of ideas and know-how which is essential for growth. For years, the consequences of globalisation for some segments of the population have been underestimated – supporting policies are necessary.

Another potential risk for growth – if Matteo Renzi were to lose his referendum this autumn in Italy, should we fear a new euro area crisis?

In Italy, like in France or in other countries, the problem is convincing the population that reforms are vital for prosperity, and then implementing these reforms. The Italian government has undertaken some major reforms. Pension reform, for example, has greatly improved the sustainability of pensions.

European banks are complaining about your negative deposit rates. Can you reassure them that you won't go any further into negative territory?

We are aware that the interest rate configuration may be difficult for banks. But it is a part of their environment to which they have to adjust. We should also remember that a large part of the problem arises from an unrestrained financial system which has indulged in excess. The favourable financing conditions, supported by our very accommodative monetary policy, have greatly facilitated balance sheet adjustments in various sectors of the economy, including the financial sector.

Bankers must carefully consider their business models. Some banks have adopted a good attitude – they realise they are in a difficult environment and that they have to manage it. How long will this situation last? Some market participants fear that our rate configuration could remain unchanged for a very long time, e.g. for ten years. Personally, I think that we shouldn't be overly pessimistic.

Don't you believe in secular stagnation?

No. We face serious adjustment difficulties, which stem from the slowdown in productivity, but this slowdown can be managed by structural reforms. Secular stagnation is not inevitable.