Peter Praet: Interview in Der Spiegel

Interview with Mr Peter Praet, Member of the Executive Board of the European Central Bank, in Der Spiegel, conducted by Mr Stefan Kaiser on 19 June 2017 and published on 22 June 2017.

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Mr Praet, you are a Belgian who was born in Germany and who spent the first years of your childhood here. Can you understand why so many people here regard the European Central Bank (ECB) as the greatest threat to their personal wealth?

I think the German public is much more impartial on that point. Most people understand the position we are in: we have to define the right monetary policy for a monetary union with very different countries. The press often criticises us for this, but the personal discussions I have here are much more courteous and relaxed. Even the discussions within the ECB's Governing Council are very good, even when there are critical voices.

But it's the Germans who complain most about the ECB, isn't it?

Of course, criticism in Germany is somewhat more vocal than in other countries. That also has to do with Germany's role in the financial and euro crisis. Because, on the one hand, it had already undertaken important reforms and was in a stronger position. And because, on the other hand, the people of Germany are by tradition not so highly indebted. That's a cultural thing – and I very much share it. But it's also a factor that played a role in the origin of the crisis.

How?

It concerns the creditor-debtor relationship: before the crisis, Germany was a significant lender to other countries. German savers invested, mainly via their banks, a lot of money abroad – in those countries where households and companies had bigger debts, for example Spain. And the crisis came and the money flowed back – €400 billion came back from Spain alone and a large part of that originated in German savings. The ECB made liquidity available to banks in exchange for collateral. That prevented a meltdown of the financial system, which otherwise would have led to strongly deflationary pressure across the euro area.

So Germany was also saved by the ECB?

In Germany, one might say that it's obvious that debtors have to pay back what they owe. But the lenders also bear a responsibility. They too should be careful. The Germans are complaining about the interest rates being so low. We understand that. But they also have to bear in mind that lenders were very well protected in and after the crisis – and that none of Germany's large neighbours slipped into a depression. That too would have had a serious impact on the economy, not least in Germany.

What do you say to those people who put money to one side month by month in order to be able to afford a little something when they get older – but whose plans won't work out now because of the zero interest rates?

We have studied how the low interest rates affect the disposable income of households, including in Germany. People not only earn interest on their savings, but they also borrow money – for example, if they buy a house. And the results show that the advantages offset the disadvantages.

So there's no reason to complain?

Yes there is, because of course not everyone benefits. All monetary policy decisions have undesirable distributional effects as well. Consider, for example, the equity markets, where prices have risen dramatically. In Germany, those suffering most from the low interest rates are middle-aged people who own a small fortune and have invested it largely in savings accounts and in interest-bearing securities – i.e. it's not very diversified.

Are you telling Germans that their money would be better invested in shares?

Of course I'm not giving investment tips; I'm a central banker. And to be honest, I invest my money in a similar way to most Germans.

In Germany, some economists are already warning about the economy overheating – and in many other countries in the euro area, the recovery is now evident. Isn't it the right time to exit from the policy of extremely cheap money?

As a central bank, we conduct monetary policy for the whole of the euro area – and this policy has been working. There is a broad-based recovery happening and it will probably continue. Germany has made a bit more progress than others in that respect. The output gap is closing, in other words, Germany's economy is exploiting its potential virtually to the full. Surprisingly, prices are still rising slowly. But this will change over the short or long term. And it will help to trigger a change in monetary policy. So there is light at the end of the tunnel.

Before you raise the key interest rates, you intend to wind down government bond purchases from the current €60 billion per month to zero. But can it be done so easily? The bond spreads for countries such as Italy might once again shoot upwards, as during the euro crisis.

If the spreads for a particular country rise, that's not a monetary policy problem. We are not singling out particular countries and neither are we there to ensure governments have favourable financing conditions. When the day comes, we will look at inflation and act accordingly, regardless of whether governments complain. We forewarned them and they clearly understood that. I have just read a commentary by the Italian Minister of Economy and Finance, Pier Carlo Padoan. "When the bond purchases come to an end, we are on our own", he writes. And he's right.

Italy is currently in any case the euro area's problem child. Nowhere else is the economy growing so slowly; nowhere else are the banks sitting on so many non-performing loans. How serious is the situation?

Indeed, the Italian economy hasn't grown for 20 years. Real GDP per capita – taking inflation into account – has stagnated over that period. Italy therefore has a deep-seated problem. The government is addressing that, but it also has to convince people to support the reforms. In fact, the economy has great potential, with very many creative enterprises.

Until now, Greece was always the euro area's shakiest prospect. But the country has just agreed on new loans and further debt relief with its international creditors. Observers are now expecting the ECB to also accept Greek government bonds in its purchase programme. They have been excluded until now because of doubts about the sustainability of the country's debt.

Before we change any aspects of the asset purchase programme, we need to conduct our own analysis of Greece's debt sustainability. We will not rely on others for that. Whether it's the European Stability Mechanism or the European Commission, everyone has their own perspective. But when it comes to buying bonds, we have to take a look for ourselves.

That means the answer is "no"?

That means we have to take a look for ourselves.

The Brexit negotiations started this week. From an economist's perspective, how important is it that the EU and the United Kingdom reach an agreement?

Extremely important. When we say that the economic outlook for the euro area is good and that risks are broadly balanced, that doesn't mean that there are no risks. There is currently a lot of uncertainty about the direction of the United States' economic policy in the coming months. We now have a good sense of how things will develop in China, but not in the United States. And it's a fairly similar story with the United Kingdom. It shows how a country can create severe difficulties for itself. Europe offers a robust institutional framework, including for trade. The internal market works and is very important. And now the United Kingdom is leaving it and heading for great uncertainty.

What can the negotiations achieve?

In my opinion, the British have made a huge mistake. Populist forces have stirred up people's fears and fear is not a good counsellor. The damage is done, the British economy is already slowing down. Now it is just about minimising the negative impact. I hope there will still be a reasonably sensible solution.

Does US policy also concern you a lot?

Not many major decisions have been made there yet, unlike in the United Kingdom. And I hope that, in the end, reason will prevail. In general we should not get mixed up in power politics where everyone only seeks their own advantage. Ultimately, the danger is that large countries dictate deals to the others. That would be catastrophic. We need strong international institutions. And we again need a unified Europe. Because the weaker Europe is, the more dangerous it will be for us.