

## **Peter Praet: Interview in Les Echos**

Interview with Mr Peter Praet, Member of the Executive Board of the European Central Bank, in Les Echos, conducted by Ms Isabelle Couet and Ms Catherine Chatignoux on 25 September 2017 and published on 29 September 2017.

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### **The German election is over. In your opinion, does the result hamper the chances of reforming the euro area?**

What's important for us, beyond countries' electoral calendars, is a stable currency and stable prices. Today, the institutional reforms needed to strengthen the euro area after this decade of crises must be successfully completed. The sovereign debt crisis of 2010–12 exposed the euro area's weaknesses, in particular the lack of a single system of banking supervision and a collective crisis management mechanism.

### **In terms of European governance, what is the priority?**

The priority is to finalise the banking union, in other words to truly break the bank-sovereign nexus. It is commendable that financial institutions have reduced their exposures to the public debt of their respective countries since the crisis. However, banks are still too exposed to their domestic economies. The banking union is currently still too much of a collection of national banking systems. The euro area has established a Single Supervision Mechanism for the banking sector and the basis for a Single Resolution Mechanism for distressed banks. But, in the case of public intervention, too much of the ultimate responsibility still remains at national level. A genuine Single Resolution Fund needs to be set up, without delay, at European level, to ensure the stability of Economic and Monetary Union.

### **In concrete terms, how do we get there?**

The banking union will remain incomplete for as long as each banking subsidiary in a country is obliged to fulfil all the conditions regarding capital and liquidity. The aim of the banking union is for banks to be able to manage their balance sheets as a single entity, regardless of their location in the euro area. The strategy for getting there is a combination of reducing banking risks, in particular by strengthening regulatory requirements, and increasing the power of the Single Resolution Fund. Unfortunately, a binding timetable that would entail a fundamental reconfiguration of the European banking landscape has met with reservations. But it is key to ensuring the stability of the European banking system and the successful transmission of the ECB's monetary policy decisions.

### **So do you support the creation of a European Monetary Fund?**

Yes, this is the other main priority for the euro area. The idea is to manage and prevent crises more effectively. As with the European Stability Mechanism, the role of an "EMF", or rather a European Stabilisation Fund, would be to lend money to governments under certain conditions. The key questions are: who will the decision-makers be? What role will the European Commission play? What will the governance structure look like? How much firepower will it have?

### **We also need to know whether we want the assistance to be provided to countries on the condition that they restructure their debt. This is what Germany's "five wise men" want...**

In general, conditionality does not entail a restructuring of the public debt, which really is a last resort. This is a topic that must be handled with great care. Let's not forget the market reaction in

2010 when, in Deauville, Angela Merkel and Nicolas Sarkozy talked of engaging investors when a government was in serious trouble.

**The ideas which are currently circulating include that of a euro area budget.**

The question is knowing what function to assign to a euro area budget. Personally, I think that the stabilisation function for a country facing an economic shock is appealing in terms of economic theory, but I'm sceptical at the political level. The fear is that transfers are always made in the same direction and that the taxpayers of the countries offering support do not agree with this. However, a common budget may enable public goods, such as security and defence, to be financed more efficiently. In the euro area one of the urgent problems that needs to be addressed is the insufficient real convergence of the economies. A labour market that is too rigid in certain countries may, for example, inhibit the good functioning of the monetary union. Even though it is the responsibility of individual countries to carry out the necessary structural reforms, incentive mechanisms at euro area level require careful consideration because of these external effects.

**Are the Macron reforms going in the right direction?**

I would say so. These reforms are very encouraging. This is no longer the policy of small steps; this time the bar has been set very high. Now the reforms need to be implemented and supported by the public. We can also pay tribute to having the courage to carry out reforms while the recovery is under way and the efforts no longer seem absolutely essential.

**Would you say that the euro is now too weak for Germany, but too strong for France, Italy and the others?**

Before the crisis there were marked differences in wage costs and competitiveness, in Greece in particular. These persistent differences have created serious tensions within the euro area. Macroeconomic imbalance adjustments are not made via the exchange rate in the monetary union. That's why it's essential that the labour market and the goods and services markets work well.

**The Bank for International Settlements is worried about risks caused by monetary policies that are too accommodative. What's your reply to that?**

Our main objective is to ensure price stability. The financial crisis has created deflationary risks. Our monetary policy measures have played a key role in the economic recovery, which is necessary for inflation to gradually return to levels in line with our objective. The question is knowing whether the central bank has gone too far in its monetary policy easing. Now that the gap between growth potential and real activity is narrowing, have we accomplished our mission? At this stage, my reply is no. The economic expansion that is under way is not yet feeding through into higher inflation. We are not changing our priorities, but we must take into account the improvement in economic conditions when calibrating our measures.

**Should an end date for QE be announced?**

No new decision has been taken since the Governing Council meeting on 7 September. We had concluded that a very accommodative monetary policy stance would remain essential to our mission and that we would decide in the autumn on the calibration of our purchase programme for the period beyond the end of the year.