

Yves Mersch: Interview in Hospodarske noviny

Interview with Mr Yves Mersch, Member of the Executive Board of the European Central Bank, in Hospodarske noviny, conducted by Ms Kristina Votrubova on 11 January 2019.

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There are rumours about the ECB's plans to raise interest rates, however there are also voices that it is not a good idea, as the situation is changing. What is the ECB's position?

The ECB's position is that we will continue with our policy of monetary accommodation for as long as necessary. We are confident that what we have done is helping us to get inflation in line with our objective at levels below, but close to, 2% over the medium term.

So no date has been established for raising the interest rates.

We never announce in advance how, when or by how much we intend to use different instruments. That is not how central banks work. We give broad forward guidance on the direction of our monetary policy. But we always look at incoming information and evaluate whether it is in line with how we expected the economy to behave. What is currently happening to the economy is still broadly in line with our baseline scenario. We had already anticipated a slowdown in growth when we announced these baselines. Now that the slowdown is materialising, we do not have to take it into account for a second time in our policy response. Fundamentals have not changed but political uncertainty has increased.

Slovakia would need interest rates to rise as household debt is increasing alarmingly. What is the ECB's view of the situation in Slovakia?

First, we conduct monetary policy for the euro area as a whole rather than for individual countries. Second, if we raised interest rates to curb household debt, the effect would also impact the corporate sector and investment. That is why there are macroprudential instruments at the disposal of national authorities. And I have seen that the competent authorities in Slovakia, including the national central bank, have taken action to tackle the dynamic rise of household debt. I think once you have put such instruments into action, you would like to see also what the effect of these instruments is. Do they work as is expected? And, as I have been told, there seems to be a positive reaction.

In the majority of European countries, the economic cycle has already reached its peak and the euro area economy is slowing down. How does the ECB view the situation and what are you going to do about it?

As I said, we take the expected path of the economy into account in our policy decisions. However, a slowdown does not mean that we will slide into a recession. What is happening right now is what we expected to happen.

So are you reconsidering plans to end quantitative easing?

At each meeting of the Governing Council we assess whether the economy is in line with our expected baseline scenario. If we identify a deviation, we analyse the reasons for it and the impact it is likely to have on inflation. Let me remind you that our sole objective is to maintain price stability.

The German economy, which is the largest economy in the euro area, has underperformed expectations. What does this mean for the euro area as a whole?

The slowdown in the third quarter was mainly caused by the automotive industry, which was

affected by the diesel scandal and related aspects. But a slowdown in one quarter in one country is not sufficient to prompt a monetary policy response at the euro area level. We would have to see whether a slightly deeper slowdown in one quarter might not be followed by a slightly better performance in the following quarter. Once the relevant data are available, we will assess the trend and the future path of the euro area economy. We will then judge whether it is still in line with our inflation expectations, as price stability is the only needle in our compass.

How will Brexit affect the euro area economy?

The UK economy has been deeply integrated into the European one in very diverse sectors. Inevitably, Brexit will have some consequences. However, it is unclear which players will be relative winners or losers, as the consequences will not be evenly distributed. Obviously, we would have preferred not to have Brexit, because we are not eager to see unnecessary shocks to the economy. For me, the main concern is uncertainty, which has a negative impact on all sectors of the economy and on all countries.