

Dimitar Radev: Eurozone slowdown likely temporary

Publication in the MNI based on an interview with Mr Dimitar Radev, Governor of the Bulgarian National Bank, conducted by Mr Luke Heighton and published on 17 May 2019.

* * *

The eurozone slowdown may prove temporary, the governor of the Bulgarian National Bank told MNI, but whether Europe emerges from the current soft patch by the second half of 2019 is uncertain.

"The euro area's economy beat many economists' expectations in the first quarter. But the pace and direction of the economy over the coming months and quarters are yet to be seen," said Dimitar Radev, a member of the European Central Bank's General Council since his 2015 appointment, noting the persistence of global trade tensions and "political developments" in Europe.

"Recent data may be interpreted as signs that the region's slowdown may be temporary," he said in an emailed response this week to questions.

Asked whether slow eurozone growth pointed to 'Japanification', he replied: "comparisons with previous historical episodes and other economies do come to mind when we observe prolonged periods of slow growth, very low interest rates and aging population in Europe."

"Policy responses may be effective only as long as they target structural areas, such as education, labour market and pension reforms. The focus needs to remain clear: to stimulate productivity and competitiveness," he said, calling for more growth-oriented fiscal policies.

"This does not necessarily mean higher spending. Moreover, higher spending would be counterproductive in countries with no fiscal space."

—POLICY REVIEW

Radev, was circumspect regarding recent calls for a review of the ECB's monetary policy strategy. He also expressed caution in response to suggestions the institution should lower its mandated medium-term inflation rate target from close to but below 2% to around 1%.

"There may be reasons to start thinking if an overhaul needs to be considered," he said. But he added: "Whatever, if anything, the ECB decides in this regard should be shaped into a carefully communicated process. I cannot but fully agree with a recent comment by Peter Praet who warned that such public announcements may be misread and, furthermore, interpreted as the ECB admitting to having failed on its mandate, which is not the case."

The ECB has "plenty of instruments" at its disposal in the event of a severe economic downturn, he said, adding: "The door is not closed to asset purchases, and there is no rule-set limitation on moving rates such as those on the standing facilities or the regular open market operations.

"We know there may be varying degrees of support within the Governing Council for certain especially non-standard measures, if those are to be considered. Hence it is also true that the effectiveness of any firepower of the ECB ultimately depends on its determination and leadership rather than variety or size of the tools."

Offsetting the negative effects of sub-zero interest rates has been a key topic for discussion since March, when remarks made by ECB President Mario Draghi in Frankfurt led to speculation he was considering the introduction of a tiered central bank deposit rate.

—NEGATIVE RATE CONCERN

"There are good reasons to be concerned about the very low or negative rates, particularly if they persist. Banks may be less motivated to improve efficiency, given their low funding costs. At the same time, the asset side of their balance sheets may erode and is exposed to a future turn of the cycle, and this risk needs to be adequately priced."

Bulgaria, which joined the European Union in 2007, already meets key criteria for adopting the euro, and its national currency is expected to enter the EU's Exchange Rate Mechanism II later this year.

Nevertheless, the country is unlikely to enter the currency union until at least mid-2022, Valdis Dombrovskis, EU Commission Vice-President for the euro said in January, with Radev agreeing that obstacles to accession remain.

"We need to speed up the process of real convergence," he said. "The challenges we face are structural, rather than fiscal or monetary ones. More needs to be done also on the institutional front. While the institution of public financial management is exemplary, as evidenced by results, some other institutions need major improvement."

In Bulgaria popular and political support for further deepening European integration "remains above the EU average, despite, and probably, to some extent, because of recent developments," Radev said.

"It is becoming a rational rather than an emotional choice, and this is good news."

All original text can be read [here](#).