

Philip R Lane: Interview with Yle

Interview with Mr Philip R Lane, Member of the Executive Board of the European Central Bank, and Yle (Finnish public service broadcasting company), conducted by Mr Aapo Parviainen and broadcast on 1 July 2019.

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What are the alternatives to fight for the euro when recession hits the euro area next time?

What I said today at the conference is the ECB has been creative in developing a toolkit, moving the interest rate below zero, being active in purchasing government debts, special lending programmes for banks and also communicating about future policies. Taken together this has worked quite well, it's worked quite well so far and I'm confident if there is a downturn more can be done. So if you like the main conclusion of my talk today is that we should be confident that even under these conditions the ECB has the policy measures to allow it to respond to shocks to the economy, shocks to inflation. Being a central bank is a very powerful institution, the ability to influence financial conditions is quite extensive and so we should be confident about the effectiveness of our policies at the ECB.

Do we have to accept these negative interest rates looking forward?

I think we should view this as a temporary measure. The negative interest rate allows more spending by firms, more spending by households. By allowing the European economy to grow more quickly when the economy has recovered then the interest rate will turn positive again. So not forever but for a while.

Can you give a time estimation?

It depends on what happens, as you know the world is quite uncertain, we have a baseline forecast which remains optimistic for Europe but we recognise there are downside risks.

What about inflation then? It's far from target.

Well I think we have to take a measured approach. Compared to say 2014 there's been a good recovery of inflation, so compared to the risk in 2014 year by year inflation is moving upwards. But as you say it's still not yet at the objective level. So we continue to have a lot of accommodation and we have said that if there are further negative shocks, we can do more. So I think it's important to be in the middle, inflation is recovering, we expect it to continue to recover but the job is not over.

But there is no need to change the target?

The target is, I think, not at the centre of any issue right now. At the centre right now are the shocks hitting the world economy and the importance of the ECB to respond to those shocks.

Looking at the world economy now, how big a risk is this trade war?

So I think it is important to recognise that domestically the European economy has many positives. By the way the trade war does not extend to the Single Market, most trade in the European Union, most trade for Finland, a lot of that is going to be with the other members of the European Union, which has no trade war. But unfortunately the trade war, the trade discussion between China and the United States does carry risks for the European economy and many firms here in Finland sell to Asia, to America, many firms across Europe, so the quicker this trade dispute is settled the better for the European economy.

If we take another risk – Brexit – how do you see that?

Again we have a situation now where there is a lot of uncertainty. Either we will have a Brexit that is negotiated or we have a no-deal Brexit or there are other scenarios. So I think in the coming weeks and months we'll get some answers, this cannot go on forever. I think everyone is indicating we need to come to a conclusion and once that conclusion is reached – especially if there is a reasonable negotiation, a reasonable outcome – then uncertainty will be reduced and that can be good news. On the other hand if it's a no-deal Brexit that will cause more disruption.

And your favourite deal is?

Well again it's up to the politicians. As for the ECB we will just respond to whatever happens. It's up to the political leaders of the United Kingdom to finalise Brexit.

In Finland we always compare ourselves to Sweden. When this first crisis hit Sweden they kept doing well and Finland not so well, and then comes this question of if it has been a good idea at all to be a member of Economic and Monetary Union. How do you see this?

So I'm a very big fan of the euro. I think it's pretty important to recognise that without the ECB the crisis we had would have been worse. Imagine the crisis of those years without a powerful shared central bank. If we had had 19 separate currencies during the crisis the outcome would have been worse. Especially for small countries, the euro provides a lot of stability. I think increasingly as you know in the surveys the euro is very popular and I think that assessment by the European population is correct. It is a very good invention for Europe and I think for all of us in the euro area we should be proud of our common currency.

One personal question. You are an academic, how do you see your new position now as Chief Economist? Your position is very important in the ECB.

So I think monetary economics, central banking is very closely connected to academia. One of the reasons the Bank of Finland is having this conference today is to recognise the importance of interaction between central bank officials like myself and university professors and students. This is an area where I've said in the speech the ECB has to be a learning organisation, we have to learn from our own research, from the university sector, from other central banks. So actually I think this is an area where I feel coming from a university background helps me in my current job.