

Mario Draghi: Interview with *Der Spiegel*

Interview with Mr Mario Draghi, President of the European Central Bank, and *Der Spiegel*, published on 30 December 2013.

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SPIEGEL: Mr Draghi, do you know Andrea Nahles?

Draghi: I have heard the name before but I don't know her personally.

SPIEGEL: Ms Nahles is the new German Labour minister and boss of Jörg Asmussen, your former colleague in the Executive Board of the ECB. That he gives up this prestigious job has caused great surprise in Germany. Did you chase him out?

Draghi: Jörg and I had an excellent personal and professional relationship. I consider it as a great loss for us that he is returning to the government. Of course we did not agree on every occasion.

SPIEGEL: Asmussen is the third German central banker to give up his job prematurely, after Bundesbank boss Axel Weber and the former ECB Executive Board member Jürgen Stark. Why aren't the Germans happy at the ECB?

Draghi: You can't compare these cases. Jörg has made it clear that it was only family reasons which prompted him to go back to Berlin. I have no reason to doubt that.

SPIEGEL: In any case, Weber and Stark resigned because of your policy, which led to your famous remark in London a year and a half ago about doing "everything necessary" to save the euro. That means, in an emergency, buying up the government bonds of the crisis-ridden countries and taking on risks amounting to billions for which in the end German taxpayers above all would be liable. Can you understand that many German citizens are at odds with this?

Draghi: Weber and Stark resigned before my arrival at the ECB. But the truth is that conditions in the euro area have improved considerably since then. Consider the latest developments: crisis-ridden countries such as Ireland and Portugal are exiting the bailout programme, the risk premia for loans to crisis-hit countries in southern Europe are declining, and investors from all over the world are once again investing in Europe. In other words, most of the financial-economic data are turning in the right direction.

SPIEGEL: Are you saying the euro crisis is over?

Draghi: No, but the fears felt by some sectors of the public in Germany have not been confirmed. What haven't we been accused of? When we offered European banks additional liquidity two years ago, it was said there would be a high rate of inflation. Nothing has happened. When I made my comment in London, there was talk of a violation of the central bank's mandate. But we had made clear from the beginning that we are moving within our mandate. Each time it was said, for goodness' sake, this Italian is ruining Germany. There was this perverse Angst that things were turning bad, but the opposite has happened: inflation is low and uncertainty reduced.

SPIEGEL: The economic crisis in Europe is still threatening to blow up the euro. Growth is low, so unemployment in southern Europe is reaching record levels.

Draghi: The crisis has not been overcome, but there are many encouraging signs. The economy is recovering in many countries, the imbalances in European trade are declining and the budget deficits in the monetary union are falling. That's more than was expected a year ago.

SPIEGEL: But the debt level in many euro area countries is rising unabated, and there's less willingness to reform. Greece, for example, will again miss its targets. Does the country need another bailout?

Draghi: In Greece, quite a few things have changed for the better, but the country has to do more, there's no doubt about that.

SPIEGEL: In fact, the situation is disastrous. If the state has to take up emergency loans again, Greece will definitely be living off the rest of the euro area. How is the country ever to get back on its feet?

Draghi: Some countries need a programme that runs for three years, others take somewhat longer. In Greece, the position at the outset was particularly difficult, so now we have to be particularly patient with the country. That's no surprise.

SPIEGEL: The reform process is slowing down in other countries as well. France, for example, is again making debts, and the planned reforms in the labour market or the tax system are not moving ahead. How concerned are you about developments in the euro area's second-largest country?

Draghi: France is facing the same problems as other countries which need to get their budgets in order and to make structural reforms. Many states have raised taxes and cut investments first. This is the easiest way, but both approaches weaken growth. A more promising avenue is to bring current government spending down and introduce structural reforms in the labour market.

SPIEGEL: The only problem is that France isn't doing that. Aren't you getting tired of repeatedly urging the country to reform, but then nothing happens?

Draghi: In Latin you say: "Repetita iuvant – to repeat is beneficial". The fewer changes made in a country, the more often I repeat my messages. And it works.

SPIEGEL: We have a feeling that the number of governments which can no longer hear your tune is growing. The new coalition in Germany, for example, wants to undo the pension reforms made by the red-green coalition government years ago and introduce a universal minimum wage of €8.50. Are these policies that help the euro?

Draghi: It is too early to assess the policies of the new German government. I can only say that the crisis has shown that the monetary union is incomplete and that the weaknesses need to be remedied. Germany helps the euro best by further strengthening its competitiveness and promoting growth. Whatever helps that process is right, everything else is wrong.

SPIEGEL: Many economists represent a completely different theory. They regard Germany's competitiveness as the real problem of the euro area and are calling for state curbs on exports. What do you think of that?

Draghi: Not much. It's a mechanistic perspective of economic activity, and there's little I can do with it. We won't make the weak stronger by making the strong weaker, as a very wise man once said. That applies to the economy as well. If Germany were less competitive, the euro area as a whole would lose, because less could be produced then.

SPIEGEL: In Germany, ECB policy is unpopular because you have now pushed the interest rates for investments down so far that they are often no longer enough to compensate for inflation. In other words, only fools save.

Draghi: That's not the fault of the ECB. The link between the short-term interest rates set by the ECB and the long-term interest rates paid on investments which are relevant for savers in Germany is not very strong.

SPIEGEL: Really? It's a stated goal of your policy to indirectly suppress long-term interest rates.

Draghi: No, especially in recent years, we were unable to control long-term interest rates – because investors were very unsettled by the euro crisis. That's why everyone has been taking money into Germany to buy safe German government bonds. That's why the interest rates in Germany have fallen. We take the concerns of savers very seriously. But how can we respond? We run monetary policy for the entire euro area, not for a single country. If we are able to dispel the uncertainty, many investors will again take their money out of Germany and back to their home countries and interest rates will rise again.

SPIEGEL: People can see in the statements from their life insurance companies that they are getting ever smaller payouts from year to year because of the interest rates. The truth is that savers are paying the price for rescuing the euro.

Draghi: I am sure that the insurance companies do not refer to the key policy rate when they send their statements. We can only control that rate. Long-term interest rates are determined largely by global financial markets. If the Fed decides to buy US Treasury bonds worth USD 1 trillion a year, then that affects interest rates worldwide.

SPIEGEL: The Fed has now announced to reduce the purchases of government bonds. What does that mean for the Euro area and the Euro?

Draghi: So far markets have shown that the announcement by the FOMC has not affected the euro area markets. Their resilience is greater than a year ago.

SPIEGEL: That does not help the savers much. Currently, you get about 0.8% interest per year on a savings account in Germany, while the inflation rate is 1.3%. Do you think that is a normal and healthy development?

Draghi: Normal and healthy it is not. The real interest rate should be positive under normal conditions. Today in some countries it is negative, in others it is positive and even too high. We are very aware of the risks such fragmentation entails.

SPIEGEL: Which risks do you mean?

Draghi: First, the stability of the financial system is at risk if interest rates are too low for too long. Until now, however, we have only seen significant price increases in some specific and limited markets, for example, in some real estate markets in Europe. The second serious risk is that inflation, which is already clearly below our 2% target, might fall further. Yet we aren't seeing any deflation, i.e. a general fall in prices. But we must be very careful that we do not permanently fall below 1% inflation and thus into the danger zone.

SPIEGEL: How do you intend to react to it – should interest rates fall further?

Draghi: At the moment we see no need for immediate action. We don't have Japanese conditions. There, the expectation of falling prices became entrenched. In the euro area, market participants are convinced that inflation will rise to close but below 2% again. In

addition, Japan for a long time did not respond so resolutely in terms of its monetary policy as did the ECB. And finally, banks and companies in Japan were in a worse condition than those in the euro area today.

SPIEGEL: The condition of European banks is bad enough. So the banking union is going to come now and create a level playing field for all banks in the euro area. How important is the project for the monetary union?

Draghi: Extremely important. Europe's financial system is still fragmented. Although the gap in funding costs for banks within the euro area is no longer as wide as it was two years ago. But in lending the differences are still very large, and in some countries the credit flow is disrupted. The banking union can help to restore confidence in cross-border lending. The most important objective of the Asset Quality Review is transparency. We want to shed light on what is hidden in the banks' balance sheets.

SPIEGEL: The EU has just agreed on a procedure how to handle banks that are not viable. Does the new resolution mechanism meet your wishes?

Draghi: I really want such a mechanism to work. We, as a supervisory body, decide only whether a bank is viable or not. Then the resolution authority has to decide what to do with the bank: close it, split it up or sell it. The problem is, when we say that the bank is not viable, steps then have to be taken extremely quickly. And it is certain that it does not work when hundreds of people across Europe have to discuss what needs to be done.

SPIEGEL: But is that certain with the decision taken now?

Draghi: If urgent action is needed we'll have a fast-track procedure that gives the Council and the Commission 24 hours to decide on proposals of the Board of the resolution mechanism. If they don't decide a bank faces liquidation, so there will be enough pressure to find a solution.

SPIEGEL: What condition are European banks in?

Draghi: To find that out, we will be closely examining the balance sheets of banks in the coming year. No conclusive judgement can be reached prior to that. But the banking system is now in a much better position than four years ago. Since then, around €0.5 trillion of fresh capital has flowed into the euro area banks and many institutions have changed their business models. What is also certain is that almost all banks have been operating much more profitably and with lower costs.

SPIEGEL: You paint a very positive picture of the euro area, but many German policy-makers remain very critical of ECB policy. How much longer can the conflict between you and Bundesbank President Jens Weidmann go on?

Draghi: I would rather speak of convergence than of conflict. Our positions have clearly moved closer to each other and cooperation has improved. Take the recent interest rate reduction, Bundesbank President Jens Weidmann initially had some reservations, but then he said that this step was justified. I have often said that I have great respect for the Bundesbank as an institution and for what it means to the Germans.

SPIEGEL: That sounds rather like Christmas harmony. Some economists in Germany speak of the “Club Med” when they talk about the majority of southern Europeans in the Governing Council and accuse you of copying the inflation policy of the Bank of Italy in the 1970s.

Draghi: There are only a few who are insinuating that I am helping Italy because I'm Italian. This doesn't affect me. I have proved often enough that I adhere strictly to the mandate of the central bank and run a policy for the entire euro area. This is also true of my colleagues in the Governing Council. No one there thinks in nationalist categories; that applies more to those who voice such unjustified criticisms.

SPIEGEL: But ECB policy is very sceptically viewed not only by the Bundesbank, but also by the Federal Constitutional Court. Probably at the beginning of the year, the Court will decide whether the ECB's bond-buying programme complies with the Basic Law. Are you worried about the verdict?

Draghi: There is no point in thinking about a court ruling beforehand. But we are certain that with all our monetary policy decisions we are operating within our mandate.

SPIEGEL: Many expect you that the judges will set a limit on government bond purchases. What will you do then?

Draghi: There are already limits. We have said from the beginning that our programme would be limited to the purchase of securities with short maturities. Apart from that, we can only wait, we have no plan B.

SPIEGEL: Now you need a successor to the outgoing ECB Executive Board member Asmussen. The Federal Government has nominated Sabine Lautenschläger, the current Vice-President of the Bundesbank. What do you think of her?

Draghi: I have known Ms Lautenschläger for years and appreciate her work as supervisor. Appointing the members of the Governing Council is a matter for the governments of the euro area. But I would welcome it very much if the vacancy could be filled by a woman.

SPIEGEL: Mr Draghi, thank you for this interview.