



Interview with De Telegraaf - 3/3/2020

“ECB Strategic Review – More Evolution Than Revolution”

What are the economic risks of the corona virus?

"The human consequences are of course the most serious. And it is still too early to quantify the economic consequences. Before the virus broke out, we saw signs of stabilization and even improving growth. The virus undoubtedly has negative consequences for production and economic growth. We do not yet know the extent of this."

Former DNB-president Nout Wellink is even warning of a recession.

"Growth should remain positive for the eurozone as a whole for this year. The growth in the Netherlands is quite resilient, just like in France and the US. "

In Germany, economic growth is only 0%.

"I'm not going to make predictions about other countries. But we know that growth in Italy and Germany is lagging behind the rest of the eurozone. The negative impact of the corona virus depends on the duration of the outbreak. There are clear effects on the supply side of the Chinese economy, and now elsewhere. But will it also have an effect on consumer demand and exports? The question is whether there will be a temporary dip or a prolonged one. Another key question is the psychology: often with such shocks, the fear and uncertainty are more harmful than the virus itself. "

Should the ECB take these effects into account in its monetary policy?

"Our current monetary policy is already very expansive and acts as an economic stabilizer. We also ensure that banks have sufficient liquidity through our regular refinancing operations and TLTRO (targeted long term operations). As a result, banks can provide loans to companies that are temporarily experiencing problems due to the virus crisis. But monetary policy should no longer be the only game in town. That is why governments must also do their bit. "

The markets are already counting on additional stimulus from the ECB. But that is not going to happen?

"We make policies based on our own analysis. If necessary, we would stand ready to take appropriate and targeted measures, taking into account the liquidity needs of banks and businesses. Moreover, governments with fiscal space should use it. "

What should the Dutch government do, for example?

"You are already doing very well. In the budget for 2020, fiscal space has been used to reduce the tax burden on households and thus stimulate purchasing power. And in the future investments could also be made in digitization and the energy transition. The Netherlands shows how it can be done, in Germany it goes somewhat slower. "

The ECB again announced a new package to stimulate the economy last September. What do you think about the use of these instruments in the current economic situation?

"At the time, there was a discussion on this. I belonged to those that questioned some of those measures. But the broad monetary policy has stance undoubtedly had a positive effect on the economy. Since 2014, 11 million jobs have been created in the euro area, between 2 and 3 million of them thanks to ECB policies. We must nevertheless keep an eye on the side effects. And we know that there is a lively debate about the negative interest rates here in the Netherlands.

Small savers no longer receive interest and larger savers even have to pay.

"It depends on where you put your money. One key word is diversification: shares, real estate, fixed-income securities. "

Why does the ECB always lower interest rates when there is no longer a crisis?

"Low interest rates have structural underlying causes beyond monetary policy. There is a worldwide trend that interest rates are falling due to aging, lower productivity and higher savings. This means that the central bank needs new instruments. Because if the equilibrium interest rate is already structurally lower, cuts in central bank key rates alone are no longer sufficient. Then traditional conventional monetary policy threatens to become less and less effective. That is why we also need unconventional instruments now. "

Because of these structural factors, shouldn't you look at the inflation target of the ECB?

"We stick to our mandate: sustainable price stability. ECB policy can only address cyclical problems in the economy, not the structural problems. That is why the euro area governments need to do structural reforms. In the Netherlands, this has been very effective; last year's growth was higher than the euro zone average. And in France the scale of structural reforms is impressive at present. One million jobs have been created in four years. "

From the outside, those reforms in France do not always seem successful.

"Reforms are still needed, for example in the field of vocational training. And social conflicts are more common in France than in the Netherlands. We simply have a different society. But look at the results: business investment and employment are at their highest in France."

Which direction is the ECB's strategic review going?

"This review launched by Christine Lagarde is important for clarity in the debate, as the last one was 17 years ago in 2003 under Wim Duisenberg's leadership. Expect an evolution, more than a revolution. "

Central bankers do not like revolution.

"No indeed, but this review should significantly improve our clarity, completion and communication. More clarity about our inflation target, which should be symmetric, and flexible: we cannot guarantee that we achieve an inflation of say 2.0 all the time, or immediately. Completion, to incorporate two dimensions of a sustainable price stability: financial stability and climate change. Climate change and energy transition may have long-term adverse economic effects: hurting real GDP growth, and pushing up energy and food prices. We work actively with Dutch National Bank and its President Klaas Knot on these matters. Last, we must enhance our communication. We already talk regularly with financial institutions, with market participants. But if you look at who determines the prices and salaries: these are companies and households. We must explain our goals and listen more to them, including on their inflation expectations."

Many people do not understand why you are creating problems for pensions with your interest rate policy.

"Pensions are influenced by interest rates, but also by economic growth. Monetary policy supports, without a doubt, current and future growth. So you also have to take into account this positive impact. Households in the Netherlands also benefit from low interest rates through stronger employment and cheaper mortgages. So look at the economy as a whole. "