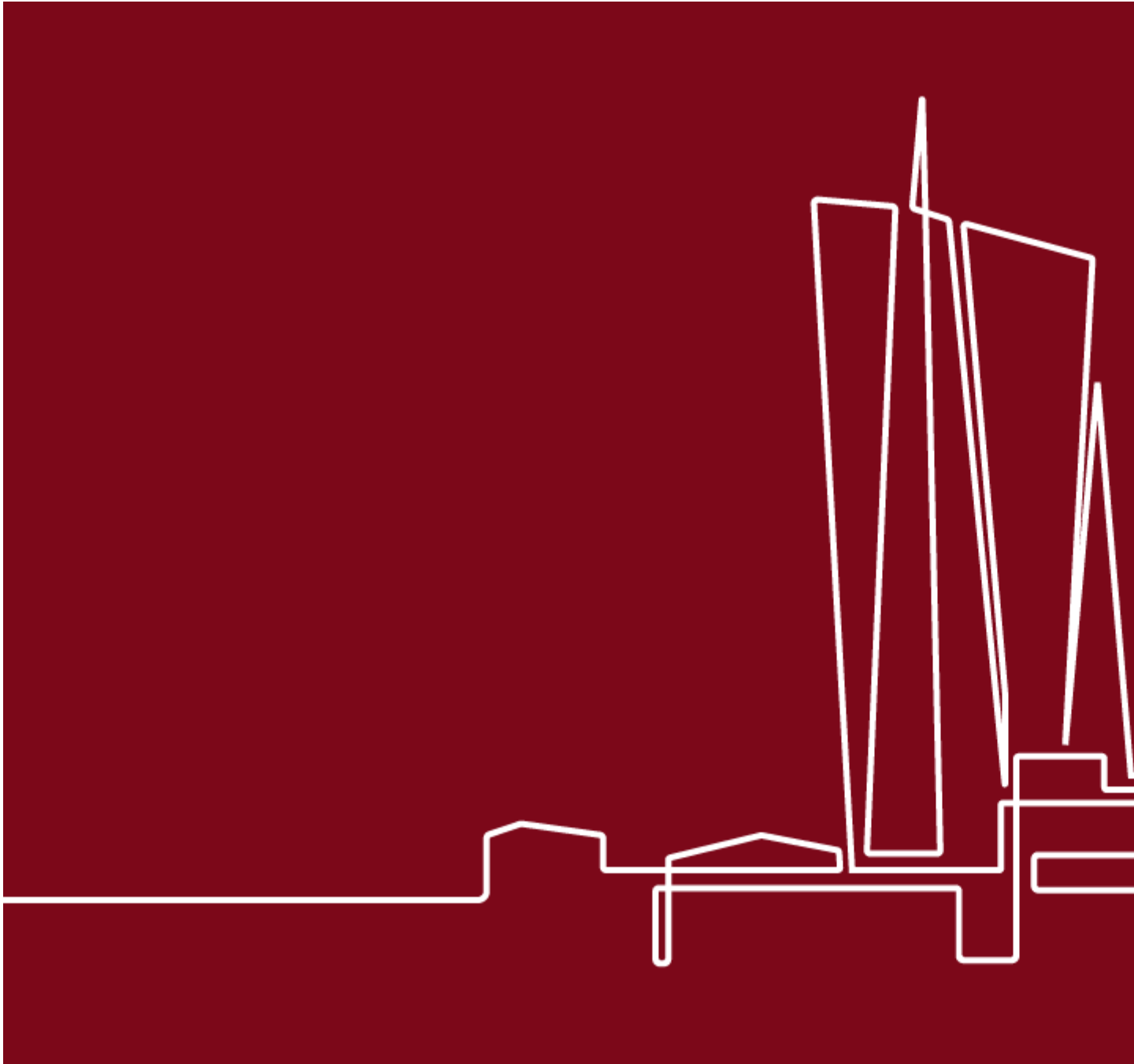


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Ossig: “Negative interest rates hit banks and customers alike”



- Association of German Banks unveils position paper on ECB monetary policy
- Reduce burden of negative interest rates
- Set inflation target corridor in future

The Association of German Banks has unveiled a position paper on the review of the ECB's monetary policy. "We welcome the ECB's plan to review its monetary policy strategy this year," said Chief Executive Christian Ossig at the association's New Year press conference. "The review is absolutely essential because the risks and side effects are becoming increasingly clear," he continued. The unwanted consequences of negative interest rates were particularly far-reaching. "The side effects

of negative rates call the efficiency of monetary policy into question. They hit banks and customers alike. We're in the same boat as our customers."

The position paper argues that the tiered interest rate should be used more resolutely to relieve the burden of negative rates on the banking sector. In Japan, over 90 per cent of excess liquidity is exempt from the negative interest rate. In the eurozone, the figure is currently less than 50 per cent. Ossig: "European banks are still paying the ECB a special tax to the tune of around five billion euros a year, with almost two billion coming from German banks. So we're calling on the ECB to reduce the special burden the negative rate is imposing on banks and their customers to the greatest possible extent."

Another key issue that the strategy review should examine is the inflation target, in the banking association's view. "The ECB has gradually narrowed its self-set inflation goal to an exact target of 1.9 per cent. And it has reacted too mechanistically when this target is not met," said Ossig. Monetary policy was not a precision instrument, however. Ossig recommends greater flexibility on the part of the ECB: "The partly self-imposed pressure to act could be alleviated by setting a target corridor for inflation." A range of between one and two percent would make good sense.

Greater transparency in the ECB's communication would also be desirable. The private banks believe this should be as transparent as possible to market players, academics and the public at large. Differing monetary policy views among members of the ECB Governing Council should also be made public.

Another question of great importance to banks is what "green" monetary policy might look like and what status it should have. Ossig: "It's true that the ECB could pursue climate policy objectives under its secondary 'mandate'. But despite the crucial importance of climate protection, the ECB's primary objective must remain price stability."