

The dispute between Germany and the European Central Bank worsens

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On 8 April, the German Minister of Finance, Wolfgang Schäuble, criticised the European Central Bank (ECB) for its aggressive monetary policy, claiming that it was one of the key reasons for the AfD party rising levels of support in Germany. Schäuble's stance has been backed by a section of German economists and Christian Democrat politicians. Chancellor Angela Merkel and the president of the Bundesbank, Jens Weidmann, made attempts to temper the discussion, stating that the ECB was only implementing its goals to stabilise inflation. The statements from the German Minister of Finance have been criticised by his French counterpart, who said that politicians should respect the independence of the ECB.

The European Central Bank decided in March this year to reduce interest rates (which are the base for the calculation of interest on loans in the eurozone) to zero, and also to expand the scope of buying up treasury bonds, and thus offer support to the public finances of those eurozone member states which have problems with indebtedness.

Commentary

- The reaction from one of Germany's key politicians to the European Central Bank's moves should be seen as extremely harsh; and this may make public opinion even more distrustful about this institution's operation. Until recently, Germany was one of the main advocates of the ECB's independence from political interference; and this was one of the conditions which Germany insisted on when granting consent to the formation of the eurozone. Schäuble's reaction was most likely intended to be a sign to the ECB that Berlin would not accept any further moves to stimulate the economy through the central bank's quantitative easing.
- German politicians can see that the ECB's moves are putting Germany's economic interests at stake. Low interest rates are beneficial to indebted southern European countries, such as Spain, Portugal and Italy. In turn, German citizens will sustain losses as their profits from savings will be reduced. Low interest rates also place pressure on German banks, since the inflow of cash is decreasing due to low returns from deposits. This also means an additional burden for insurance companies which, in the case of life insurance are often obliged to guarantee a fixed rate of return to clients – and this is much higher than the present market situation can offer. These costs do not yet appear to be high if the alternative could be to aggravate the problem with indebtedness among

member states and the disintegration of the eurozone.

- The ECB's moves are ever more frequently the subject of debate in Germany. Politicians from the government coalition find it difficult to explain to public opinion the motives behind the extraordinary actions taken by the ECB. The AfD has capitalised on this, claiming that the aggressive monetary policy will reduce the incomes of German pensioners. This is the argument the government coalition fears, since it expects that social inequality and low pensions might be the main issues in the discussions in the run up to the election to the Bundestag in 2017.