

Merkel Urged to Deliver Message to Draghi: End Record-Low Rates

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Angela Merkel and Mario Draghi.

Lawmakers allied with German Chancellor Angela Merkel say it's time for the European Central Bank to offer a way out of record-low interest rates and she should tell Mario Draghi so.

As Merkel hosts the ECB president for a private meeting in Berlin on Friday, German banks, her party bloc and Bundesbank head Jens Weidmann are pushing for Draghi to offer an exit strategy from quantitative easing. Designed to spur inflation and counter "economic malaise" as Europe's debt crisis recedes, the policy is seen by critics as hurting German savers and retail investors, who tend to prefer low-risk investments.

"I trust that the chancellor will clearly address the concerns related to the ECB's policy" when she hosts Draghi at the chancellery, said Alexander Radwan, a member of the German parliament's finance committee and lawmaker from Merkel's party bloc. Merkel should help to ensure "that Europe recognizes the limits of central-bank policy," he said.

While ECB policy is out of Merkel's hands, the low borrowing costs for the 19 euro-area nations are adding to dissatisfaction among members of her party whose loyalty is already strained by euro-area bailouts and a record influx of refugees to Germany.

Merkel and Draghi's meeting is routine and the government won't have any comment, a German government spokesman said by e-mail.

That hasn't stopped Wolfgang Schaeuble, Merkel's finance minister since 2009 and one of her key allies, from publicly prodding the ECB and portraying its policies as a threat to financial stability. Monetary policy has fueled a tendency toward "exaggeration in financial markets," with liquidity spurring nervousness "that's materializing in China now," Schaeuble said in Brussels on Thursday.

"I will not deny that the low interest rates are worrying us," Antje Tillmann, the finance policy spokeswoman of Merkel's party bloc, said in an interview. Germany can manage the low-rate environment only in the short term "and I hope therefore that this will change. I believe Mr. Draghi knows that we're waiting for this."

Bundesbank Warns

Weidmann warned on Tuesday in Paris that low rates over an extended period squeeze bank profits and risk fueling financial bubbles. Supervisors will keep a close eye on banks whose earnings are plummeting in the low-rate environment, Felix Hufeld, president of Germany's BaFin financial services watchdog, said the same day in Frankfurt.

"The fact that interest rates have been extremely low for years is increasingly bothering banks in Germany," Hufeld said. Morgan Stanley economists including Elga Bartsch said they don't rule out more ECB easing this year, possibly in June or July.

Signs have increased that ECB stimulus may have bolstered the euro area's fragile recovery. That may not be enough to persuade the ECB to reverse a policy that's helping cash-strapped governments refinance debt cheaply, some Merkel allies say.

'Political Trap'

"I see no rate increases in the euro zone in the medium term because unlike the Fed, the ECB is caught in a political trap," said Carsten Linnemann, head of the small-business caucus in Merkel's parliamentary group. "Debt in the euro zone keeps rising, despite dramatically low interest rates."

German banks are especially hard-hit by that policy because net interest income is by far the largest source of revenue, Michael Kemmer, general manager of the Association of German Banks, told reporters on Wednesday in Berlin.

"By opening the monetary floodgates, the ECB has taken pressure off disciplining banks and disciplining politicians to advance reforms," Kemmer said. "That's the downside of the low interest-rate policy."