

Low rates are here to stay, ECB's Praet tells bankers

October 4, 2016 – *Globe and Mail / Reuters*

The European Central Bank is set to keep its interest rates low until it gets inflation back to its target, the ECB's chief economist said on Tuesday, arguing it was not up to the institution to shore up meagre bank profits.

Banks have complained that ultra-low ECB rates are eating into their lending margins, particularly in countries where cash is abundant and competition fierce such as Germany.

Peter Praet acknowledged the banks' complaints but said the ECB would stick to its ultra-easy policy, which includes a charge on banks' excess deposits, until it brings inflation back to its target of almost 2 percent.

"The ECB will preserve its accommodative stance until inflation returns to our aim," Praet told an event in Madrid.

"Very low interest rates will probably prevail for an extended period of time," he added.

Praet said the ECB would continue to monitor the health of the banking sector, noting a protracted period of low profits would make banks less able to lend by hampering their ability to set aside capital.

But he argued the key to restoring bank profits did not lie with monetary policy.

"A durable improvement in the prospects of the euro area banking system requires further efforts outside the realm of monetary policy," he added.

"These include, most notably, a swift and stringent completion of banking union and additional adjustments in the banking sector towards greater cost efficiency and business models that remain viable in the new regulatory and macroeconomic environment."