Benoît Cœuré: Interview in *Kathimerini*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Kathimerini*, conducted by Giannis Papdogiannis and published on 13 July 2014.

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After a prolonged period of instability and uncertainty, Greek banks are showing signs of stabilisation. What is your opinion about their situation?

The Greek banking sector has come a long way over the last four difficult years. It has undergone major consolidation and Greek banks have been recapitalised. Today Greek banks no longer need to make use of emergency liquidity assistance and have managed to gain access to the international markets. These are encouraging signs. We now have to wait for the outcome of the ECB's comprehensive assessment, which will be available at the end of October. Looking forward, the main challenge that has to be addressed is the high percentage of non-performing loans. Several initiatives have already been announced by the Bank of Greece in this respect. A change in the payment culture will also help deal with part of the problem.

Until recently Greece was solely dependent on official financing as it had no access to markets. However, the successful recent share capital increases undertaken by banks and the return of the Greek sovereign to bond markets indicate an increased appetite by private investors for Greek risk. How much does this change the overall picture? Can it help Greece get out of the crisis faster?

The improvement in financing conditions for Greece and Greek banks is encouraging. However, the transition to smooth and regular access to capital markets will be a long one. The benign investor perception today is based on the assumption that reforms will continue. The Greek authorities thus need to continue to be determined in their reform efforts.

What else should Greece do in order to get out of the crisis permanently?

The significant adjustments made so far under the macroeconomic adjustment programme have allowed the Greek economy to enter a new phase, moving from stabilisation to economic recovery. It is now important to ensure that the country stays on course with the reform process in order to reduce unemployment and achieve sustainable growth based on sound public finances, which will improve living standards for all. This includes achieving the ambitious fiscal targets that have been set. Let me stress that opening up and liberalising product and service markets and fighting unjustified privileges, tax evasion and corruption more effectively are of key importance for improving social fairness and reducing unemployment.

Do you think that the ongoing stress tests performed by the ECB and the European Banking Authority (EBA) could trigger a new round of uncertainty? What do you think the results of this exercise will be?

It would be inappropriate to speculate about the outcome of the exercise which is still ongoing. As I said, the outcome of the ECB's asset quality review and the EBA's stress test will be published in the second half of October. The comprehensive assessment will significantly increase transparency as regards the underlying quality of banks' assets in a consistent manner across countries. It will therefore make a substantial contribution to reducing market uncertainty about banks' soundness.

What does the banking union mean for European citizens? What does it mean for the banking system? Will the banking union be meaningful?

The banking union seeks to address some of the main causes of the financial crisis, such as the weak oversight of some banks and the link between banks and sovereigns, which amplified the crisis. By creating a level playing field and making sure that the control of banks is at arm's length from local politics, the banking union will lead to a more resilient and efficient banking system. This in turn will benefit the economy and, consequently, every European citizen. It will also improve the transmission of the ECB's low rates to companies and households. Finally, banking union comes with new rules for managing banking crises, which will make sure that it is the investors who must pay first of all for errors committed by banks, and taxpayers only as a last resort.

For countries like Greece in particular, what does the banking union mean for the business and banking sectors?

Once the fragmentation of the euro area banking system has been dealt with, it is clear that interest rates will become more even throughout the euro area. This means that the cost of money for Greek businesses will be reduced, allowing more room for investment and new business initiatives. This in turn will help reduce unemployment. That said, I am not suggesting here that interest rates should be equal across the entire euro area. This was the situation before the crisis and it led to imprudent investment decisions.

The Greek crisis has challenged the euro area's resilience and cohesion. Do you think that the crisis of the euro is now over?

The situation in financial markets has significantly improved over recent years; risk premia on sovereign bonds of the so-called stressed countries have declined substantially over the last two years. This is, in particular, a result of both the progress with economic adjustment, especially in programme countries, and the strengthening of European crisis prevention and management mechanisms. In this respect, the decisions establishing an effective banking union have been decisive. Thanks to determined actions by European institutions, expectations of a break-up of the euro are gone, so in this sense the crisis of the euro is certainly over. However, complacency would be totally misplaced. Debt is too high, both public and private; economic growth is too low; and unemployment is at an unacceptable level, in particular for the youth. The euro area is no longer in a financial crisis, but it is still in a growth and unemployment crisis that requires resolute action.

The economies of the euro area are experiencing varying rates of growth that lead to imbalances. After the significant fiscal consolidation achieved by the countries in southern Europe, what are the next necessary steps in order to deal with these imbalances?

It is not by piling new debt over old debt that the euro area will finds its way out of the crisis: it is by growing out of debt, which means strengthening the long-term growth potential of our economies. This requires continuing reforms in individual countries and a further strengthening of the euro area governance framework to allow for a collective approach to economic reform. Let me add that countries which have been under EU-IMF programmes, including Greece, have made remarkable efforts in this respect, but reforms in larger countries are even more crucial for the economic future of the region.

Is the series of measures announced by the ECB in June sufficient to reinvigorate the economies of the euro area?

A low interest rate environment for an extended period of time will help economies get back on track and the targeted longer-term refinancing operations (TLTROs) which will be launched in September will support bank lending to households and non-financial corporations. But our measures are no panacea. We have been removing some roadblocks on the road to recovery, but monetary policy cannot improve productivity and long-term growth. For that, countries must want to change inefficient structures and outdated models. Let me add that this is not in contradiction to the European social model, but rather the contrary: reform is necessary to sustain the European social model, which had become financially unsustainable in many countries.

Should the recent measures not yield the expected results, what are the ECB's alternatives? Should we expect even more drastic initiatives?

The Governing Council of the ECB is unanimous in its commitment to using unconventional instruments within its mandate should it become necessary to further address risks of too prolonged a period of low inflation. But our focus today is on implementing the measures we announced in June and on allowing them to find their way into the economy.

What did you discuss when you met with the Greek opposition leader, Mr Tsipras? Did he give you the impression that he is adopting a more pro-European agenda?

The situation and prospects of the Greek economy were discussed. But since it was a private meeting, I do not think it would be correct for me to comment on what Mr Tsipras said. It is important for us to maintain dialogue with political forces in all countries, without prejudice to our independence.

Currently the Hellenic Financial Stability Fund has a buffer of €11 billion. Could this amount be fully or partly used to cover the financing gap in the future?

The Hellenic Financial Stability Fund (HFSF) was established to provide a capital backstop for the banking system. In addition to providing capital to the banks and covering funding gaps in the resolution, the funds available at the HFSF had a significant signalling effect on depositors' confidence at the peak of the crisis. Going forward, it is important to keep the crucial role of the unallocated capital backstop in mind, while it is for the experts to assess what capital backstop needs to be available at the HFSF. Such an assessment can only be conducted after the completion of the comprehensive assessment of Greek banks.

Italy and France are asking the EU for more drastic action in order to boost growth. Isn't it reasonable after the fiscal consolidation to place more emphasis on growth?

Indeed, growth is crucially needed, but this should not undermine necessary fiscal consolidation efforts. EU leaders have agreed to enforce the existing rules. The Stability and Growth Pact should not be stretched to the point where it would lose its credibility.

Will banking supervision be truly common and single? Or will it eventually benefit large banks or banks of major countries?

For the first time ever, we will have a truly pan-European supervisor, a supervisor with a truly European mandate. This will support the effective application of the single rulebook developed by the European Banking Authority (EBA) and, therefore, a harmonisation of supervisory standards in Europe. By tackling regulatory arbitrage and removing national bias, confidence in the supervision of banks will be significantly enhanced. The ECB will ensure that strong supervisory standards are applied in a homogenous way across the whole euro area. In addition, given a stronger consolidated perspective, efficiencies with respect to the allocation and transfer of intragroup capital and liquidity across the euro area can be enhanced. This will contribute to reducing market fragmentation, fostering financial integration and reaping the full benefits of the Single Market.

We have been experiencing a low interest rate environment for a long time. What does this mean for banks and how will they be able to deal with the gradual exit from the accommodative monetary policy?

Rates will remain at the current levels for an extended period of time. By the time we start exiting this environment, the recovery will be more robust, and banks, thanks also to the banking union, will be in a better position than they are today.

As a result of the crisis, several bank mergers and acquisitions have taken place in Greece. Do you believe that there is also a need for greater concentration within the sector at the European level? Do European banks exhibit excess capacity?

The consolidation of the banking sector in Greece was a natural consequence of the crisis. The four core banks acted as consolidators, acquiring the good parts of the resolved non-viable institutions. I don’t have specific views on banking consolidation at the euro area level because I believe that it should be the outcome of a market-based process. I expect the banking union to improve the efficiency of the industry by creating a level playing field, by exposing unsustainable business models and by making public support for banks more difficult.