Benoît Cœuré: Interview in *Libération*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Libération*, conducted by Mr Jean Quatremer on 14 January, published on 16 January 2015.

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Why has the euro area become a black hole for growth?

The trend of slow growth is not only affecting the euro area, but all developed countries. In Europe, it is also linked to insufficient technological innovation and a lack of dynamism and openness in the economy, and even in societies themselves.

Isn't the single currency partly to blame for the weak growth?

No, not the euro itself. It has even provided protection. But we must recognise that if the financial and economic crisis of 2007–8 became particularly serious in the euro area, it is also because of design flaws in Economic and Monetary Union. The euro was built on an imperfect institutional framework, envisaged by the 1992 Maastricht Treaty and the 1997 Stability and Growth Pact. The framework's principles may well have been appropriate in calm weather, but when the storm broke they proved inadequate. We lacked the instruments for coordination, solidarity and responsibility which would have allowed us to handle the crisis and bounce back more quickly, as was the case in the United States or the United Kingdom. This error has been progressively rectified since 2010 with the creation of the European Stability Mechanism (ESM) and the banking union, the strengthening of economic governance and, in terms of monetary policy, the OMT programme, which allows the ECB to repurchase public debt if needed and has just been validated by the Advocate General of the European Court of Justice. But we still have a long way to go, and the human cost, in terms of unemployment and poverty, of these design flaws, compounded by too little potential for growth, has been considerable.

Only six months ago the ECB dismissed any risk of deflation. Yet prices have begun to fall…

The euro area is not in deflation. But there is a risk, which got worse last summer, that growth and inflation remain weak in the long term and that we fall into a "1% economy": growth at 1% and inflation at 1%. This outlook is dangerous enough to be a concern to everybody. European leaders must mobilise all instruments (monetary, budgetary, structural reforms) so that growth picks up in a sustainable way. It's imperative that we, national governments and European institutions, take joint action to rapidly revive economic activity. This imperative has become even more pressing in light of the Paris attacks, which targeted the European values of freedom of expression, freedom of the press and freedom itself. In my opinion, the attacks have further highlighted, if possible, the fact that certain young people remain marginalised, dropouts, with no job, and at risk in extreme cases of turning to delinquency or even terrorism. Without growth, this can only get worse. Unity among Europeans is a must, including in economic matters. Europe needs a strong economy if it is to defend its values.

Could the attacks undermine confidence and ultimately lead to a drop in economic activity?

I don't think so. From what I have seen in Frankfurt, I can testify that the attacks of 7 January have created a profound sense of unity and solidarity, not only in France but across Europe. It is on this that we must build, in Europe, as in France.

Has the ECB already exhausted all its instruments? Interest rates are at 0.05%, you are lending money to banks for practically nothing (four-year TLTRO loans are at 0.15%), you are even making them pay to deposit money with the ECB, the euro has fallen against the dollar…

The decisions that we took last summer have been efficient, as economic agents are now certain that conditions for borrowing are going to remain favourable for a long time. This has allowed us to protect the euro area economy from international financial shocks, linked in part to the normalisation of US monetary policy. The ECB has placed our economy in a "cocoon" to protect the fragile recovery from external shocks. Does that mean that we have done enough? Since summer 2014, economic growth has got off to a weaker- and slower-than-expected start, and inflation is far below the 2% of our mandate. This means that we have to react and, once again, come up with new instruments to support economic activity, as we have done several times since the beginning of the crisis. But whilst our actions are necessary for economic recovery, they will be efficient only if national governments act in parallel.

So the ECB is ready to pursue US-style quantitative easing, that is, repurchasing government bonds?

The Governing Council will meet on 22 January. The discussion will be about the composition and the scale of our purchases of assets on the markets and the base scenario, if we want to do more, would be to acquire public debt on a large scale on the secondary market (Editor's note: the resale market and not directly from governments). Until now, we have done it in a targeted way for securities (covered bonds and ABS), which contribute directly to financing the economy.

Will these purchases be capped and will they involve all the countries?

That's a discussion that the Governing Council will have on 22 January. We will take into account the American and British experiences in order to decide on the amount of securities to buy in order to restore confidence in inflation returning to a level close to, but below, 2%, while bearing in mind the economic and institutional specificities of the euro area. We also have to decide if the repurchases will focus on the debt of certain countries or if they should be weighted across the whole of the euro area.

Now that the interest rates are very low and the banks are not rushing to lend you money, is QE really necessary? At the height of the crisis, it would have allowed a lowering of rates, but today…

The goal of QE is to provide confidence in the central bank's ability to stabilise inflation. The way in which that works is to anchor the financing rate in the largest possible number of countries at very low levels in order to guarantee funding conditions for European businesses and households at very low rates for periods much longer than at present. What we have done so far has stabilised funding conditions over a horizon of one or two years. It's a matter of adjusting the long-term funding conditions, notably (but not only) in the so-called periphery countries which are in most need of this support.

If QE fails, you won't have any more ammunition.

Throughout the crisis, the ECB has devised efficient instruments to face up to new situations, while remaining within the framework of its mandate. But let's not delude ourselves: the efficiency of what we do will depend largely on what the governments are doing and will do in respect of budgets and structural reforms, quite simply because monetary policy has no impact on growth over the long term. That depends on the productivity of the economy, on human capital, the quality of education, social cohesion and also on the fact that public debt has come back under control. But note that that doesn't mean that we should expect the governments to take steps before we do what we have to do as a central bank. That would be an easy way; it is not my idea of the ethics of responsibility for those who bear public responsibilities, and this is not in accordance with the text of the European treaties, which require us to fulfil our mission whatever may happen.

The eurosceptic parties are gaining strength at each election and it shows that people are fed up with current policies, which are reflected in social decline. Isn't there a risk that the states are politically paralysed?

That they are fed up is no surprise! One cannot blame the people for that; it's a moral and democratic question. It's up to the European authorities and the governments to show that they can create growth and push down unemployment – something they haven't managed to do convincingly since the crisis started. Now the risk is that this fed-up sentiment creates a spiral of defiance: if there are no convincing results, people's confidence in European institutions and in the community construction is undermined. There is no solution without Europe: one cannot sustainably boost French growth if there's no strengthening of German and Italian growth. In some area it's even necessary to have "more" Europe. But to achieve this, it's necessary to restore people's confidence in Europe and to do that growth is needed. Hence the symbolic importance of the Juncker plan, which shows the determination of the governments to create growth.

If Syriza wins the election in Greece on 25 January, will there be a risk that Greece leaves the euro as some in Germany seem to be thinking?

It's not a question of Greece exiting the euro. What's at stake in the election lies elsewhere: it's the composition of the mix of reforms which will allow this country to come out of the crisis once and for all, and to reintegrate the European economies' concert. Depending on the result [of the election], the reform strategy in Greece will be different, that's normal. That's democracy, and it's up to the Greeks to decide. Greece has fully benefited from European solidarity: whatever the election result may be a discussion is needed between this country and Europe to know how these reforms will fit into the European framework and how they will put Greece on a path of sustainable growth which will permit the country to repay its debt to Europe one day.