Benoît Cœuré: Interview with Politico

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and Politico, conducted by Mr Pierre Briançon on 23 March 2016, and published on 30 March 2016.

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The last Governing Council meeting on 10 March seemed to be marked by some ambiguity on negative interest rates. On the one hand, the message was that rates wouldn't get much lower. On the other, there was the signal that there could be exceptions…

The question we are always trying to address is how to design our policy so that it is effective in the situation we face at a given moment. The package announced on 10 March was very potent, both in intensity and in sheer volume.

Negative interest rates are not our main instrument, they just support our overall policy. And looking ahead, we're not short of instruments – our choice is quite large. We will be able to deal with adverse situations if necessary.

You indicated that the ECB wasn't deaf to the banking sector's concerns about the impact of negative rates on banks' profitability.

Banks' profitability has improved when you look at the global overall impact of our monetary policy, that is, stronger credit demand and lower risk in the economy. And, as a matter of fact, the interest margin of banks has gone up, not down. Of course, the impact is different depending on banks' business models and on how negative the rates are. I think banks have been reassured about the possible negative impact of negative rates on some of them. They know we will not take rates into absurdly negative territory. But we can never rule out further moves. That would not be credible anyway.

Over the last few months the ECB has been suggesting that it has done its part in the euro zone recovery, and has been asking governments to do theirs. At the same time, it insists it could do even more if needed, and that its toolbox is far from empty. Isn't that partly contradictory?

The roles of the ECB and governments are different. Our job is to bring inflation back to its near-2% level. That's our mandate; you could say that's our contract. Whenever we have doubts that the goal will be reached, we act. Monetary policy has a short-to-medium-term horizon. We think it is up to governments to act to foster long-term growth. According to the European Commission, potential growth in the euro area is at around 1% today. It was almost twice that in the years before the crisis. And we think that structural and fiscal policy must be used wherever there is scope to do so, in terms of both quantity and quality. But it is not the ECB's role to go into detail about what governments should do. The founding treaties are explicit and give us different roles. The idea that the central bank should be the gendarme of economic policy among euro area countries simply doesn't work.

Even though, in the past, the ECB didn't seem too shy about going into such detail?

There is a European tradition – different in this respect from, say, the U.S. – of central bankers being more outspoken, when they feel it can be useful. At the ECB, we feel it is legitimate to speak our mind and explain what is needed to make the euro work better. But what we can't and shouldn't do is go into the detail of what should be government policy.

Mario Draghi, in his last press conference, described the concept of "helicopter money" – the idea that the central bank could finance economic agents directly – as "very interesting". Is that something the ECB is debating?

No. As an economist, of course I find the academic discussion exciting. It is good that academics force us to think outside the box. But as a policymaker, as interesting as it may be, helicopter money is not currently part of the discussion in the Governing Council. If we decided to get into that discussion, we would have to deal with many questions, such as: how exactly would it work in practice? How would "helicopter money" fit within our monetary policy? And finally and most importantly, how do we make sure it doesn't cross the line between monetary and fiscal policy? To be honest, I don't see how it could work without some kind of risk-sharing with governments, which could be practically and legally problematic. So whatever my own intellectual interest in helicopter money, as a Governing Council member I have a fair deal of skepticism and circumspection.

So we're not near the point where the ECB could, for example, decide to finance by itself the big public investment boost it has been calling for? Say, by lending €100 billion or more to the European Investment Bank (EIB)?

The theoretical example you cite underlines the problem I just mentioned of the borderline between monetary and fiscal policy. We are already supporting investment in the euro area through our monetary policy. We have brought down the entire yield curve and we are buying securities of public entities such as the EIB as part of our asset purchase programme. But it is absolutely not our role to decide which investment should go ahead, which bridge should be repaired or which school built, nor whether the investment should be private or public.

Ben Bernanke, in his memoirs, suggests that if the United States and Europe took different paths out of the crisis, that is partly because Europe's monetary policy in the first years was too tight, and its fiscal policy too strict at the wrong moment…

I'm not for rewriting history, but the ECB and governments reacted with the tools they had at the time. They went through three crises – the subprime crisis in 2007, the 2009 global economic slowdown and the euro crisis from 2010 on – without a common fiscal backstop (that only came in 2010 with the European Financial Stability Facility) and without the foundations of a banking union.

If we were to draw lessons from the experience, I would rather insist on the fact that the euro area was too late and too timid in cleaning up and shoring up its banking system, i.e. stress testing the banks, raising capital and shedding bad loans. That partly explains why our recovery is lagging behind that of the United States. In banking matters, forbearance doesn't serve a purpose. You can't buy time. We're catching up now, but we still have some way to go, and the banking union isn't complete.

Some countries, such as Germany, insist that there should be a limit on euro area banks' sovereign exposure. Do you agree?

There are three dimensions in my view. There is the question of sovereign risk for banks. But we must also consider the consequences for government financing, and the functioning of financial markets, which need risk-free assets as liquidity instruments. If you focus on one aspect of the problem and ignore the others, you run the risk of shifting risk around instead of reducing it.

The ECB's policy is increasingly unpopular in Germany. Do you foresee a moment when it might become an obstacle to your own action?

Europe nowadays is a source of irritation for many. Not only its monetary policy, and not only in Germany. We will keep explaining to our critics in Germany – and also to German savers – that their country is one of the main beneficiaries of the euro. A stronger euro area, with inflation of below but close to 2%, would be good for Germany.

As for the debate we may have from time to time with some academics in Germany, I would say there is a certain irony in them taking us to task because we are focusing on our inflation target, since it is at Germany's insistence that the ECB was given that mandate – and that mandate only – in the euro's founding treaties, and in my view rightly so.

Did the euro's jump after your announcement on March 10 disappoint you? It doesn't help your return-to-inflation goal…

The ECB, as you know, doesn't have a foreign exchange target. What I saw is that financial markets in general understood what we did, which is more important than the instant reaction of forex operators.

The dollar/euro exchange rate is mostly driven by different monetary policies in the United States and Europe. What would be more worrisome for us would be a further decline of emerging countries' currencies, and increased volatility of the pound sterling due to the EU referendum debate in the United Kingdom.

Does the ECB have a plan for a possible "Brexit"?

I don't want to meddle in a decision that is for the British people to make. However, as a citizen and a European, of course I want the United Kingdom to remain in the European Union, to which it brings so much. That said, it is normal for us to prepare for any possible scenario, and its impact on euro area banks.

If the other scenario prevails and the United Kingdom remains in Europe, were you reassured by the results of the Brexit negotiations between London and its partners?

We had two main concerns. One was to make sure that the discussion would not make further euro area integration more difficult. The second was that it wouldn't fragment the single market for financial services and strip the capital markets union project of its substance, notably the single rulebook for financial regulation. The final agreement is a balanced one and we have been reassured, even though ambiguities remain, of course.