Benoît Cœuré: Interview in *The Yomiuri Shimbun*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *The Yomiuri Shimbun*, conducted by Mr Tadashi Isozumi in Japan and published on 20 May 2016.

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You are attending the G7 finance ministers' meeting in Sendai. What do you think the most important topic for discussion will be?

The Group of Seven (G7) countries are faced with a common challenge: how can they escape from this low growth, low inflation environment? What is important is that they cooperate and act together. To address future challenges, there needs to be a combination of multiple policies.

In order to prevent euro area inflation from being too low for too long, the ECB has brought short-term interest rates to levels close to zero or negative, and is providing forward guidance on the future monetary policy stance. We are also implementing quantitative monetary easing of €80 billion [*about 10 trillion yen*] per month at least until March 2017, primarily by purchasing government bonds but also, starting next month, by purchasing bonds issued by non-financial companies. These actions are mutually reinforcing and in particular negative rates are reinforcing the impact of QE.

Negative rates are also hurting the financial industry…

Negative interest rates impose direct costs on some industries: the banking industry, the pension funds industry and the insurance industry. But so far the overall impact on bank revenue has been positive, thanks to higher loan volumes and lower risk provisions. In addition, the money market in Europe has been functioning at negative rates for almost two years without any disruptions.

The ECB is currently applying a –0.4% interest rate to money deposited by banks on their central bank account. It is in principle possible to cut this rate further, but there is currently no plan to do so. In March the ECB decided to lend money at a fixed rate over four years to banks which increase their loans to households and companies. We have a lending volume benchmark, and the rate will be as low as –0.4% for those banks which outperform their benchmark by a sufficient margin. We are convinced that these credit easing measures are even more important than the negative interest rate, even if they complement each other.

What is the impact of your monetary policy on the real economy, so far?

This package of monetary easing policies is supporting short-term growth in a visible way. The European economy is coming back and recovering from the recession. But monetary policy cannot create long-term growth. Long-term growth will be driven by productivity gains, well-functioning economies and a reformed Economic and Monetary Union. It is the responsibility of the democratically elected governments to propose and implement the right reforms.

Mario Draghi has insisted in his press conferences that fiscal policy and structural policy are also important, yet some European countries still continue to pursue austerity. Could you tell us your opinion on that?

As regards fiscal policy, the discussion in the G7 should not just be about increasing spending, it should also be about improving the quality of the budget. The ECB agrees with the idea that "countries that have fiscal space should use it", but many countries do not have this fiscal space. Reducing unproductive expenditures and cutting taxes or increasing investment in productive infrastructure, such as education and research, can lead to growth without increasing the deficit.

What about foreign exchange policy? The UK pound and Japanese yen have been increasing and volatility is very high. What will the G7 do to reduce volatility?

The G20 countries have committed not to use the exchange rate for competitive purposes, as confirmed in recent meetings in Shanghai and Washington. All of us should act in a way consistent with this commitment and which does not add to global uncertainty.

Emerging markets are slowing down and advanced countries have very low growth rates. What should the G7 and advanced countries do for the world economy?

In a low-growth environment globally, there might be a temptation for some countries to grow at the expense of other partner countries. So it is precisely the role of the G7 or the G20 to resist such temptation.

There is no “magic bullet” for increasing growth. For the G7, it is crucial to send the message to support domestic demand and focus on those structural policies that will be most conducive to growth. You cannot just rely on other countries. The message that we would like to hear is that “growth starts at home”.