

Benoît Cœuré: Interview in *Le Monde*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Le Monde*, conducted by Ms Marie Charrel on 27 June 2016, and published on 1 July 2016.

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Does the victory for Brexit in the referendum of 23 June put the European project at risk?

No, I do not think so. The British vote raises questions for Europe, of course, but first of all let's read it for what it is – a decision of the British people. It's up to them to be the first to draw lessons from it, and that will take time.

But Brexit highlights the dysfunctioning of the European Union. How can it be put right?

Let us be realistic: the urgent thing today is to clarify the timing and the method, as prolonged uncertainty would have an economic cost first of all for the United Kingdom but also for the European Union.

It's also vital that responses are guided by the collective interest of Europe and not by national or sectoral interests. For example, knowing who would benefit from any relocation of British financial activities is not for me the most burning issue.

We shouldn't overly chastise ourselves either. Europe is an extraordinary political construct which has brought peace and prosperity to a continent which has known division, war and poverty. Its *raison d'être* has evolved but it remains more necessary than ever. It has become a tool for managing globalisation through the implementation of common rules that protect employees and consumers. Is this protection imperfect? Let's discuss it and reinforce it. But we won't achieve this by rejecting Europe. Without Europe, a country such as France would find itself alone and without weapons in the face of ruthless global markets.

But concretely, what message could give renewed confidence to Europeans won over by eurosceptic movements?

There's no shortage of long-term projects for Europe. I can't imagine the future of monetary union without a more complete banking union and elements of fiscal union. But things have to be done in the right order. Let's start by reconciling people with Europe by taking concrete initiatives that create growth and jobs. The Juncker plan, which invests in European projects, is one such initiative. Others are necessary. The ECB, in its field, is also contributing, for its monetary policy is one of the main factors in the current recovery.

The other priority is to restore confidence between European countries. Today each country doubts its neighbour's ability to reform its economy and willingness to move forward together. Which country would want to share its budget with another one that is permanently testing the limits of common rules and is proud of doing so? Governments are continually adopting new rules while claiming they are exempt from them. We cannot move forward under these conditions. Once confidence returns, it will be time to integrate further.

What form should this stronger integration take?

Some issues are essential but do not fall within the remit of the ECB: such as defence, security, border control or climate change. Within a Union of 27 countries, different configurations are possible, but that mustn't be done at the expense of the single currency! The euro is a reality and it must be protected. That assumes going further towards integration in financial and fiscal matters, centred on common euro area institutions accountable to the people. Without this, our capacity to react to new crises will be limited and once again it will be the most vulnerable and the youngest who stand to lose. The experience

of the crisis has convinced me that an intergovernmental Europe, where fiscal and financial decisions are taken by governments alone would condemn the euro to long-term fragility. The Greek crisis has shown the limits of such a process: the decisions are too slow and incur a high cost for everyone.

If the political response is a long time coming, should we fear a return of the sovereign debt crisis, as in 2012?

Since 2010, whenever the integrity of the single currency was threatened, European political leaders have taken the necessary decisions. A year ago, they confirmed that Greece would remain in the euro area. If new vulnerabilities were to appear, I am confident that governments would pull together again.

Is the turmoil on the markets caused by Brexit going to continue?

The adjustments have been significant, but there has been no dislocation of the financial markets, which have continued to function normally. Central banks will continue to monitor these developments closely and be ready to intervene if financial stability is threatened by providing, for example, the necessary liquidity both in euro and foreign currency.

On the subject of central banks: doesn't resorting to negative rates, by penalising the banking sector, risk making monetary policy less effective in supporting growth?

Negative rates are only one of the tools of our policy. They reinforce the effectiveness of asset purchases and thus increase the positive impact of our actions on growth. So far the negative consequences feared by some, such as the rise in bank charges or reduced lending have not been corroborated by the facts. On the contrary, lending is increasing everywhere in the euro area. Banks generally have benefited from this increase and from the improved solvency of their clients. Similarly, returns on savings, once adjusted for inflation, are near their historical average. Finally, we don't currently see any financial bubbles.

Let's not delude ourselves: some of these criticisms are also the expression of vested interests. When the ECB raised its rates in the past, it was criticised by exporters who feared being penalised by a euro that was too strong. When the ECB lowers rates, it is blamed by savings managers and the banking sector. It's precisely for that reason that the ECB is independent – to stand up against those special interests.

Why is the ECB now taking the risk of buying private sector assets?

These purchases make it possible to increase and spread the reduction in borrowing costs to all enterprises, including those whose securities we do not buy. We only buy bonds rated as investment grade by at least one of the four credit rating agencies that we recognise.

What is missing in the euro area to revive strong growth?

A pick-up in activity is certainly there. It is healthy because it is being driven by domestic demand and investment. But it is still restrained by high unemployment rates and debt levels and it will inevitably suffer from the "uncertainty shock" created by the British referendum, even if that impact is difficult to quantify at the moment. There is worse: "potential" growth, i.e. the growth the euro area could attain in the long term has dropped dangerously. In 1992, according to the European Commission, it was 2.6 % per annum, compared with 2.8% in the United States. Today, it is approximately 1%, i.e. half the US figure. This fall endangers the sustainability of the European social model – and underlines the need to reform our economies so that they create more growth and jobs. If everyone plays their part, trust between countries will return, and Europe will move forward again. This shows at the same time that the solution to the problems of Europe lies in Paris, Berlin and Rome as much as in Brussels and Frankfurt.

What should be the reforms in France?

The ECB doesn't tell governments what they should do! What we can do is to compare what works or not in European countries. Reforms which open up goods and services markets are

just as important for growth as labour market reforms because they redistribute purchasing power. During the crisis, most countries gave priority to cutting labour costs in order to regain competitiveness and that has been beneficial to employment. But it has meant that the bulk of the cost of adjustment has been borne by employees. Although the sequence of reforms clearly depends on political constraints, those which succeed are those which are part of a comprehensive strategy.

In that context, is the El Khomri labour law a missed opportunity or a step forward?

Seen from Frankfurt, the aims of this reform are balanced, including greater flexibility but also decentralisation, while strengthening the rights of employees. That's good for jobs, especially for young people.