

Benoît Cœuré: Interview with Europe 1

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and Europe 1, conducted by Mr Jean-Pierre Elkabbach on 9 December 2016.

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So, the ECB has extended its large-scale purchases of private and public debt. A sum of €80 billion was being injected per month, and it will be €60 billion per month until December 2017, i.e. an extra nine months. The ECB is changing the amount and the pace. Does that mean it's a warning to Member States to get ready to fend for themselves?

First of all, it's a sign of confidence in the euro area economy. The fact that we can reduce the quantity of purchases also shows our confidence in growth and in the ability of inflation to return towards 2%, which is what we are aiming for.

And how high will inflation be? It's rising very slowly but it's not at 2%.

It's going to increase very slowly and we think it will reach around 1.7% by the end of our projection period, so it will be approaching 2%. One way to sum up simply what the ECB's Governing Council decided yesterday is to say that the euro area is recovering, it's getting better but it still needs its medicine – an accommodative monetary policy with low rates. So we are reducing the dose because things are improving but we are extending the prescription for longer.

The euro area is not cured, but...

It's not cured.

But it's doing less badly.

It's doing less badly.

But it can't take care of itself.

It's doing less badly but it's not doing well enough and that's why the prescription has been extended, and there is indeed, as you say, a kind of "warning" or let's say...

An alert.

An alert, a message, which is as follows: all this won't last forever, it can't last forever, sources of growth have to be found that don't depend on monetary policy. Long-term interest rates are going to rise and economic actors must prepare themselves – governments in particular, which have benefited greatly from the decline in rates. They must prepare for an environment in which monetary policy will be less necessary and where growth will have to come from elsewhere.

That's why you are making no commitment for 2018.

We already have a commitment until the end of 2017, which isn't bad, as this makes it possible to cover a whole year, when there will be many economic risks inside and outside the euro area, as we well know.

But it was noted that Mario Draghi said yesterday that, if necessary, the policy would be eased and liquidity would continue to be provided so as to improve the economy and growth.

More will be done if necessary, of course, but the diagnosis that was reached yesterday by the Governing Council is that a little less is necessary today because growth is stronger and Europe is doing better.

And to make this quite clear, how much will the ECB disburse in, say, 2017?

The decision that was taken yesterday is to extend our asset purchases for a further nine months by buying €60 billion per month of various financial instruments, which makes an additional €540 billion euro. That's the decision: we will add €540 billion to the €80 billion per month planned for the first three months of 2017, making €240 billion, so for the whole of 2017 that comes to slightly less than €800 billion extra compared with what we are doing already.

And since March 2015?

Asset purchases today come to around €1.5 trillion in total, so if we add 1,500 and 800 it means that, at the end of next year, we'll be at just over €2.3 trillion.

Yes, and you realise that with this €2.3 trillion growth is good, average, but it's not stronger. What would happen without this €2.3 trillion?

Well, without it, if the ECB wasn't doing what it's doing, growth would be between 0% and 1%, inflation would be close to zero and unemployment wouldn't be falling in the euro area. But as you know, unemployment is now falling fairly quickly in the euro area. It peaked at 13%, which is very high, at the height of the crisis and now it's at 9.8%, so it's below 10%. The euro area has created 4 million jobs in four years, that's not bad.

Yes, this morning we have to say "Thank you, ECB". The Banque de France has just said this morning that it is lowering its growth forecast for France to 1.3% for 2016 and 2017, and then to 1.4% in 2018 because of the worsening international environment. Is the Banque de France more pessimistic than the ECB? Because you are saying that the growth situation isn't bad in France.

No, we agree with the Banque de France – growth will be weaker in France than in the rest of the euro area, unfortunately.

1.3%, 1.4%?

Yes, 1.3% in France, 1.7% in the euro area, so France is lagging behind in terms of growth.

And what does France have to do to recover or catch up with the other countries? When you read the programmes of the candidates for the presidency, whether on the right or the left, do you ever say to yourself that this one or that one would enable France to catch up?

The ECB doesn't get involved in politics...

Of course.

So don't expect me to express a preference for one of the candidates.

However.

However, in general terms, we take note of this delayed growth and also the difficulty of reducing the unemployment level in France which, despite starting to fall very recently, is struggling to dip below 10%. So there is a need for labour market reform and reform of the services sector, as that is where jobs are created, as well as a need to be more ambitious in opening up the

services sector, for example the regulated professions. In addition, and this is a message that might not please people in France, but it's my duty to say it – reforms are also needed in terms of fiscal balances. French debt is approaching 100% of GDP, and the deficit is still above 3%.

So you are issuing a warning to those candidates, whoever they may be, that are saying they are willing to let deficits slip above 3%.

Yes, we must...

That's unacceptable.

The candidates for the French presidential election, whoever they may be, shouldn't think that, when they take office, they will find a pot of money to spend or room for budgetary manoeuvre. This room for manoeuvre doesn't exist and there is a risk that interest rates will rise. If and when interest rates begin to rise, the debt burden will increase and the risk is that it will crowd out all other government spending.

Benoît Cœuré...

It's a risk.

The ECB is no fortune teller or oracle, but no doubt you already know what 2017 will look like?

As we see it, 2017 will be a year when activity accelerates. We are very confident about the recovery in Europe.

But aren't there risks?

There are political risks just about everywhere, both within the euro area and outside it. But it isn't the ECB's task to manage political risks. That's for politicians to deal with. It's up to us to draw the economic conclusions. The euro area will still require some sort of financial protection to navigate what will be a risk-filled 2017.

But when you talk about political risks, that means you see people going to the polls in the Netherlands, France, Germany and, probably, Italy, as a risk.

That's not a risk, that's democracy.

So more precisely, what would you describe as a risk?

For us, the risk is that Europe comes under increasing strain and pressure from nationalists, protectionists and sovereignists, who...

So you are worried about the rise of extremism and nationalism in Europe, and in all countries, maybe even including France.

It's a concern for us in all countries, because it reduces our ability act jointly. Europe is strong when its countries can act jointly. The problems Europe is facing – terrorism, security, the refugee crisis, but also growth and employment – are problems that we have to overcome together, and if each government turns inwards to focus on national interests and preparing for elections, there will be no more capacity for acting as one.

And at the same time, Donald Trump is setting an example, a bad example, and the United States will become inward-looking as well.

Geopolitical risk – the risk of a change in the international balance of power – is another risk

Europe will have to face next year.

Benoît Cœuré, should the whole of Europe be worried about a banking crisis? Because among the uncertainties, and even though we were told that the banks were sound, we're hearing that Deutsche Bank has problems, that Portuguese and Italian banks are struggling, and that certain banks have to be recapitalised. What do you say to that?

I don't believe there will be a banking crisis, but I do think that European banks have profitability problems and that there are too many banks in Europe, so reforms are needed.

In other words, some banks have to go.

Yes, but that's an issue for the banks themselves. Solutions must come, first and foremost, from the private sector – banks are commercial enterprises and public money won't resolve the issue.

So banks will disappear, but not in France. Just to reassure us, how are the banks doing?

As far as I'm aware, French banks are sound, that's what our banking supervision colleagues are telling us.

And we need to make more out of Europe.

We need more Europe, otherwise we won't manage to solve our problems.