

## **Benoît Cœuré: Interview with Le Parisien**

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and Le Parisien, conducted by Ms Séverine Cazes and Mr Boris Cassel and published on 7 February 2017.

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### **What is your assessment of the euro, product of the Maastricht Treaty that was signed 25 years ago today?**

The euro is clearly a success. It has created a strong bond between European citizens. We can only influence world affairs if we are united. The single currency allows medium-sized countries like France to speak as an equal to the United States or China. The euro does not constitute a loss of sovereignty, it is a lever of sovereignty.

### **How has the single currency affected our daily life?**

The purchasing power of the French people has been protected by the creation of the euro. Inflation has been weaker since 2001.

### **The French tend to think that the changeover to the euro caused prices to soar...**

In January 2002, when the euro banknotes and coins were introduced, there were admittedly rounding effects that resulted in higher prices, a little bump in inflation. But that was 15 years ago. Since then, inflation has averaged 1.9% annually in the euro area, and 1.7% in France, which is much lower than it was before the euro. In the 1980s, inflation was in double figures (*editor's note: 13.6% in 1980 and 13.4% in 1981*).

### **How do you explain this gap between the perception in France and the figures?**

Many French people have in their heads the price they paid for a coffee or a baguette in francs in 2001. But even if the single currency hadn't existed, prices would have gone up in the last 15 years. In fact, without the euro they would have risen even more.

### **Has the euro had equal benefits for all social groups in France?**

Yes, I believe that the euro has even had greater benefits for the disadvantaged and the vulnerable. The single currency has contained inflation, which is a tax on the poor. The rich can always protect themselves against inflation, for example, by investing in the stock market. That's not the case for households that are dependent on fixed incomes such as social benefits or low pensions, who see their purchasing power drastically reduced when prices rise. The euro has also brought interest rates to persistently lower levels, which is a good thing for anyone taking out a loan to start a business or to buy consumer goods.

### **Has it damaged growth and the battle against unemployment?**

The euro has acted as an economic shock absorber – and I would add that France has weathered the financial crisis very well – but it has also revealed the strengths and weaknesses of each economy. In 1999 the unemployment rate was higher in Germany than it was in France. Now it's the other way around. Yet the two countries have had the same currency for 18 years. The unemployment rate has nothing to do with the euro, it is linked to the success or failure of employment policies.

### **The famous Maastricht criteria are often referred to as a brake on the economy and job creation. Is the famous 3% deficit limit still of interest today?**

The question the French ought to be asking is: would increasing public debt that is close to 100% of GDP create more economic activity? I don't believe it would. It is difficult to explain that the 3% deficit is a straightjacket when France has not respected the criterion once since 2007.

### **In your view, what would happen if France exited the euro, as the Front National is proposing?**

That's not a scenario I want to contemplate as it's not what the French want. When asked if they think the euro is a good thing, the answer is an unambiguous "yes". According to the Eurobarometer, a survey carried out twice a year for the European Commission, public support for the euro last December was 70% in the euro area and 68% in France. But if you do pursue that thought, leaving the euro would mean taking risks which have unpredictable consequences.

### **What are they?**

Leaving the euro would threaten savings and jobs in France. It would certainly lead to a rise in interest rates. Debts incurred by French businesses and households would increase. Inflation, which would no longer be restrained by the ECB, would eat into savings, the fixed incomes of households and small pensions. It would be to choose impoverishment.

### **Does the euro have a future?**

Yes, of course, the euro has a future. But the euro area has to undertake reforms. More coordination between governments, more reforms at national level, more solidarity and perhaps a kind of common euro area budget are necessary. In other words, a greater sense of the responsibility which comes with belonging to the single currency.

### **The IMF is calling for a loosening of budgetary orthodoxy in Europe...**

The IMF says that a fiscal stimulus is useful but it is not questioning Europe's budgetary criteria. The IMF is emphasising fiscal stimulus in countries which have the means, which have the room for manoeuvre, i.e. in countries where the debt is sufficiently low, and in particular in Germany. France has a debt approaching 100% of GDP and it doesn't have the room for manoeuvre for a fiscal stimulus.

### **Do you think the German government is prepared to launch a stimulus?**

They've started doing so. Tax cuts are planned and public investment has increased. But there is also a fairly broad consensus among Germans on the need to keep public debt low as the population is ageing. It is a collective policy choice in Germany that has to be respected.

### **The Greek debt crisis has resurfaced. Would the Greeks have been happier if they hadn't joined the euro?**

Even with the sacrifices that have been demanded of the Greek people, they have never expressed a wish to leave the euro. I don't think that Greece should not have been included in the euro. Its problems are not related to its euro membership: administrative shortcomings, very weak social protection, problematic tax collection, highly specialised economy... Again, the euro exposes a country's strengths and weaknesses. Greece needs to overhaul its administrative and political structures to be able to prosper in the euro. The Greeks are still facing this predicament, but they have to be commended for the major reforms that they have undertaken.

### **And to give a boost to Europe's economy, wouldn't it be possible to lower the value of the euro against the dollar?**

The ECB has conducted a very expansionary monetary policy to stimulate inflation and

employment, a necessary step for the euro area. The ECB has no specific exchange rate target, but the single currency has adjusted as a consequence. Since its last peak in 2011, the euro has depreciated by almost 30% against the dollar. The euro is now at a level that is appropriate for the economic situation in Europe.