Benoît Cœuré: Interview with CNBC Television

Interview by Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, with CNBC Television, conducted by Mr Geoff Cutmore and broadcast on 12 October 2015.

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Since the low of 2013 it has been Germany and Spain that have been delivering slightly better economic data and yet, in recent weeks, what we have seen is perhaps they have come off the boil a little bit. Italy is still not really knocking it out of the park but doing a little better than expectations, and France actually surprising to the upside a little bit. Do you think that tells us now that the periphery economies and France are as competitive as Germany?

Well, my first remark would be that if we look at it from an ECB perspective we don't want to focus too much on the short-term ups and downs. What we see is a steady recovery momentum in the euro area. This is being confirmed, so one month it comes from Germany, the other month from Italy. When you look through it you see a steady recovery momentum in the euro area, and that is exactly what we want to see. And then, yes, in the periphery of Europe we are seeing reforms finding their way into the economy at different paces, at different rhythms. But yes, reforms are working, they are delivering.

Quite a lot has been achieved since the bottom of the financial crisis and yet this doesn't get talked about too much at the moment. Do you undersell that story? We've had the banking union, we've had all sorts of progress in the area of reforms. Does that message get lost when people just look at the headline data?

Well, it's not so bad not to be too much in the news. We do look at the discussion, we do hear the discussion here in Lima. And that is not really about Europe, which is good news; it shows that there is trust in our recovery. It is true that a lot has been done. A lot has been done from an institutional standpoint, the banking union in particular. A lot has been done in countries that are reforming their economies, reforming their labour markets, and we are gradually seeing it in the numbers.

What is it though that needs to happen next for Europe to get back its confidence, to get back its swagger? Because, would you not agree with me, that the uncertainty itself is something that is undermining confidence and preventing economic activity?

That is absolutely right: you can see it in the numbers, you can see it in the lack of investment that we have today in Europe. We want investment to come back and investment is about confidence. Investment is about animal spirits, so you need these animal spirits to gather and to show up. And for that, you need reforms in countries. There are very high expectations for Europe – people want to be in Europe, they want Europe to deliver jobs, they want Europe to deliver reforms. We've got to live up to these expectations.

How do you deliver that message from an ECB perspective?

Well, the first thing the ECB has to do is to just do our job, which is to bring inflation back towards 2% and to create an environment that makes it possible to invest and to reform. That environment is there now. The ECB is not going to create projects, the ECB is not going to create jobs. We create the environment, and the governments have to get their act together and reform. The governments have to make tax reforms and regulatory reforms and instil confidence in the business community.

We've had two very interesting political outcomes recently: Alexis Tsipras easily survived a no-confidence vote this week, and we also have seen, of course, a pro-austerity minister return in Portugal. What do you think that tells us about how Europeans feel about their economic future?

Well, obviously, I don't want to pass judgement on political outcomes. But what we can see is that the people of Europe understand the need for reforms. It has to be done differently in different countries and different environments, but there is a need for reform that is very well understood.

But is it a reflection of, perhaps, people's improving incomes or the fact that they feel financially better off?

They feel better because the whole environment is better than it was only one year ago or six months ago. We are moving out of a crisis, and the conditions are here for recovery to kick off, to accelerate, and this is understood. But now people have to create the right projects, they have to invest and they have to create jobs. And that is not something the ECB will do or can do.

Let's talk about what the ECB can do for a moment here, because the markets are now very much looking at China, its impact on Germany and wider Europe and the fact that the Federal Reserve has delayed its interest rate increase. They are saying that these two issues point to the ECB ultimately having to extend its programme or indeed deepen it. Do you think that those institutions are making a mistake by jumping to that conclusion?

I guess we are all in the same place here. The global economy is growing modestly and the euro area economy is recovering modestly. We don't want to waste that recovery, so we have to be very careful. Certainly, in our judgement, in our analysis, the risks come from the outside. So we see a downside risk to recovery. That downside risk doesn't come from inside the euro area, it comes from outside, and in particular from emerging market economies. We are following this very carefully and, of course, we have got to be ready. If anything were to happen, we want to know what we would do. Here in Lima we are very much in fact-finding mode. We are listening. We are listening to Chinese colleagues, listening to the IMF very carefully. If anything were needed, we would need to be ready. But it is too early to pass that kind of judgement.

So we shouldn't prejudge here. I wonder if part of the reason is that there's still a lag effect in the existing QE programme?

Of course, we have only executed, delivered, one third of the programme. We are also benefiting from these lag effects of the previous measures: targeted liquidity tenders, forward guidance, low interest rates. It is all feeding into the economy at a slow pace, so it is certainly too early to measure the full extent of what we have done over the last couple of years.

So, is it premature to start thinking about another QE programme?

It's premature to discuss it. But it is certainly our duty to be prepared to cope with all kinds of contingencies.

The oil price has been fascinating recently. We are back at USD 50 a barrel here. So we are starting to ask the question whether inflation expectations are being pitched too low, because people are fixated on a continuation of a very low oil price.

Inflation expectations are well on course in the long term, so the whole discussion is about how fast they will come back to 2%, how fast inflation will come back to 2%? The faster, the better, obviously, so if the oil price were to stabilise, if that gave a sense of stability and security to economic actors, that would certainly be good news in that picture. That 2% inflation target is really the encore for the whole recovery process in the euro area. It is very important that it comes as quickly as possible.

But is there potentially a faster rebound out here because of what's happening in the oil price? I mean if anybody's taking a short euro position on expectations of continued deflationary pressure from low energy prices, should they be reviewing that position and thinking hard as to whether they want to take that chance?

Well, it's not going to change the growth outcome, the growth outlook much, but if it [a rise in the oil price] can bring inflation expectations in line with 2% sooner, that would certainly be a positive factor for the whole recovery process.

Just one final question. We are talking about how Europe gets its mojo back, if you like, its swagger. Do you think credit availability and bank lending now are on a clear upward trajectory from here? Any reason to be concerned at all that the credit taps are starting to get turned off?

No, the credit taps are clearly open everywhere in the euro area, and what we have done at the ECB has been very helpful. It is really finding its way to the end of the pipeline, that is to the corporations. Funding costs for non-financial corporations have decreased by 75 basis points over the last year, so there's no financial obstacle to recovery. The obstacles are elsewhere. It's really about confidence coming back and animal spirits coming back.