Benoît Cœuré: Interview in the *Leading European Newspaper Alliance – LENA*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in the *Leading European Newspaper Alliance – LENA*, conducted by Mr Dominique Berns (Le Soir), Ms Anja Ettel (Die Welt) and Ms Manon Malhère (Le Figaro), and published on 11 November 2015.

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How many bankers have you met this week?

You'll have an answer next February, when we will begin publishing the meeting calendars of the members of the ECB's Executive Board on a regular basis. This will give you access to the list of my meetings in November 2015. The decision to regularly publish the meeting calendars of the Executive Board members follows on from other initiatives that aim to make the ECB more transparent, in particular publishing the accounts of monetary policy discussions and the new, clearer guidelines on public speaking engagements.

Regarding the meeting calendars, weren't you pushed into publishing them by the media, to some extent?

No, we were already considering doing it. It was a natural decision for us because it reflects current standards for large public institutions, in particular the European Commission. If publishing our meeting calendars enables us to avoid misunderstandings, so much the better – it shows that it is a useful thing to do. Public debate thus enables us to improve how we operate.

You really didn't think that meeting people from BNP Paribas on the very same day that the Governing Council took a major monetary policy decision would arouse suspicions about your independence?

Do you really think there's a risk there? Our independence towards banks is well known. The person in question was passing through Frankfurt that day and I can assure you that we didn't discuss monetary policy. To be clear: in such meetings we never divulge sensitive information or indications about the future direction of monetary policy. That is against our rules.

Publishing your meeting calendars may not be enough. Why not implement a "quiet period" like the Bank of England, during which no meetings are allowed?

If we need to tighten our rules because the public has a negative perception of how we conduct ourselves, then we will tighten them. Central banks are public institutions and people's perception of what we do is important. But we're not going to stop talking to the market. Communicating with market players is a key part of monetary policy, and is all the more important given that the ECB is implementing new, unconventional monetary policy instruments.

The financial markets seem to think that the ECB will boost its very accommodative monetary policy of purchasing assets, or "quantitative easing", from December… Are they right?

The decision has not been taken. The debate is ongoing. The euro area's recovery is on track and gaining momentum, but still weak, as inflation expectations are not rising and core inflation has levelled out. In December the Eurosystem staff macroeconomic projections will inform our decision.

Given that the ECB has already sent strong signals to the financial markets, aren't you obliged to act now?

No. The decisions we take are based on the economy, not financial markets. We are currently asking ourselves the following question: are some factors, such as the fall in the price of raw materials, temporary? Or rather, will they prevent in a lasting way inflation from returning towards 2%? If the answer to the second question turned out to be yes, additional measures would be taken. In December we will take a decision based on the information we have available to us.

In December the US Federal Reserve System (Fed) will take a decision on whether to maintain its key rates at zero or increase them. Will their decision influence yours?

It will have no direct impact on our decision. Whatever the Fed decides, our monetary policy framework (zero rates, liquidity, "forward guidance" and asset purchases) allows us to keep interest rates low, no matter what happens in the rest of the world. Our policy protects the interest rate curve for the euro area from external shocks. What interests us above all is what the Fed's decision tells us about the US economy. If the Fed were to raise its rates, it would be a sign that growth and employment indicators are robust in the United States. This, essentially, would be good news for Europe.

Despite all of the ECB's efforts to inject liquidity, large companies in the euro area are sitting on mountains of cash and not investing…

Monetary policy is supporting the recovery in demand and has removed a key obstacle to investment – financing. But obstacles remain on the supply side. Weak investment, even though financing costs are low, shows that there is a dearth of projects that are sufficiently profitable in the long term. This reveals a lack of productivity and innovation. The ECB cannot do much about that. On top of this, there are external risks: slowing global growth, particularly in large emerging economies.

In other words, it's pointless to expect that an eventual increase in quantitative easing will be enough to stimulate investment…

Quantitative easing, by pushing back the horizon for monetary policy action, removed the financing obstacle. Lending rates to enterprises have fallen significantly, including in the stressed euro area countries. What we can do, what we must do, is maintain confidence in inflation returning towards our objective of 2%. The ECB, within its mandate, cannot accept inflation stabilising in the vicinity of 1%.

You regularly underline the risks of inflation and growth being too low. But there are always risks – the sky could fall in! And many people in Germany, as elsewhere, on seeing that they are hardly earning anything on their savings, are wondering if we are ever going to see an end to quantitative easing.

Today, the risks for growth and inflation are tilted to the downside. The best service that the ECB can provide to the citizens of the euro area is to fulfil its mandate so that inflation returns towards 2%, which requires the economy to pick up again, jobs to be created and exports to the euro area to find solvent outlets. We are aware that the low interest rates also have negative effects, notably on savings, and could pose risks to financial stability if they were to stay low for too long. We don't want this monetary policy to last too long, but we will apply it for as long as necessary in line with our mandate.

In other words?

Governments need to take action and implement the necessary reforms in order to consolidate confidence and growth, and to demonstrate a credible fiscal policy. If the euro area policy for growth rests exclusively on the ECB's shoulders, things will end badly! Admittedly, we are nowhere near that point. But we sense that there is a temptation to rely entirely on the ECB.

What key measures do governments need to implement specifically in order to restore growth?

It is my personal opinion that, depending on the country concerned, reducing public expenditure or reallocating it towards more productive expenditure is a necessary condition for growth. Governments must take strong and concerted action in order to stimulate private investment. Europe also needs to have a clear prospect of strengthening the single market, which is still insufficiently integrated as far as services are concerned. Moreover, markets need to open up to the rest of the world, and I am thinking here of the negotiations on the Transatlantic Trade and Investment Partnership. That will create opportunities for our firms. Another key aspect in my view is tax stability for firms.

Some economists are of the view that governments should revive growth through expansionary fiscal policies. That's what the Governor of the Oesterreichische Nationalbank said recently. Do you share this opinion?

Everything possible must be done, so long as it always complies with the Stability and Growth Pact (European fiscal rules).

There is very little room for manoeuvre…

Indeed. Some countries have some fiscal leeway which they can use, but we don't advise those without any room for manoeuvre to enter into expansionary policies. The European Commission must apply the Stability and Growth Pact to small and large countries in the same way.

Another effect of quantitative easing is that certain countries, such as Italy, are today borrowing at negative rates. Is this desirable and in everybody's interest?

Sometimes we hear it said that the ECB should have a less accommodative monetary policy because it has created false incentives for governments. This reasoning is not in line with the spirit and the letter of the European Treaties. The ECB is not – and must not be – an instrument of fiscal policy. But we say to the countries in question that they should make the most of the current situation and of the gains stemming from the drop in interest rates to reduce their indebtedness rather than to spend more.

Finally, do you think that the ECB will exit this state of emergency before you come to the end of your term?

As far as the financial state of emergency is concerned, yes I do. The challenge now is to achieve long-term growth.

So, the answer is no?

Let's just say that, increasingly, the challenges that Europe is facing are unrelated to monetary policy.

Let's move on to the topic of Greece. Social discontent is on the rise, the negotiations between the Tsipras government and the "quartet" are already stalling over some points of the new financial rescue plan. Isn't there a risk that the coming months will be turbulent?

No one said it would be easy. The third programme, which was approved by the Greek Parliament, is extremely ambitious. It covers areas that previous governments had not dared to tackle, which call into question existing benefits, for example the battle against vested interests in some sectors. Nevertheless, a positive dynamic seems to have taken hold since July and is starting to bear fruit. Interest rates have fallen and money is flowing back into the Greek banks. And this will speed up once the banks are recapitalised, which must take place before the end of the year. But it won't be easy.