

## **Benoît Cœuré: Interview in *Rheinische Post***

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Rheinische Post*, conducted by Ms Birgit Marschall and Mr Georg Winters and published on 13 February 2016.

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### **Share prices are sharply down on the world's stock markets. Why?**

There are several compounding factors, each calling for different answers. First, it's a global phenomenon. Investors are generally anxious about a slowdown in growth worldwide, especially in the emerging markets, and above all in China. Second, there's great uncertainty about the global effects of the low oil price. Initially, it was thought the low price would be good for global growth, but now some negative effects can be seen, particularly in emerging markets. Third, market participants are questioning how profitable banks are and whether they have successful business models for the future.

### **How affected are Europe's banks?**

They are in a much better position today than they were at the height of the debt crisis in 2011 and 2012. Thanks to the banking union they are now much more resilient. They have very significantly built up their capital and liquidity. One challenge they face is their low profitability, which is also related to the current level of economic growth. Also, some banks have a high level of non-performing loans on their books, as a legacy of the crisis. None of these challenges are new: they have been clearly identified, they require forceful action and they will be solved over time.

### **What about Germany's banks? Deutsche Bank and Commerzbank have lost a lot of trust.**

I can't talk about individual banks. Generally speaking, European banks are in a transitional phase and are rethinking their business models, also concerning technological developments. They also face a new regulatory environment. We have had a new framework for the resolution of banks only since the beginning of January. Together with the single supervision, this system will make them stronger and better protect taxpayers, but banks and investors are still learning about it.

### **Is a new financial crisis more likely?**

No. Today in the euro area we have economic growth of between 1% and 1.5% and accelerating, while a few years ago it was negative. This growth is helping the banking sector to recover. Provided we stay on this path I'm optimistic that the crisis will not return.

### **Low interest rates and rising share prices normally go together. Why is this mechanism no longer working?**

As explained earlier, there are other reasons for the recent market movements. Looking back over a longer period, the low interest rates have clearly given a boost to stock markets.

### **How much longer will the period of low interest rates last?**

As long as needed. Rates will have to stay low until we see that the inflation rate in the euro area is moving towards our objective of just below 2%. We at the ECB don't want this phase

of low rates to become normality either. But we still have a pressing need for the low rates so as to get inflation firmly back to 2% and to protect the euro area recovery.

**But we are a long way from 2% inflation because of the low oil price. The ECB will have to lower its inflation forecast.**

Our next staff inflation projections are due in March. Already in January we said that inflation will only very slowly move back towards 2%. Compared with the situation in December we are seeing new downside risks. The main causes are the falling price of oil and a decline in global growth. In the past few days we have also seen greater volatility on the financial markets. If that continues for too long, it can also increase the risk of a rise in inflation being delayed.

**The continued low interest rates are unsettling savers, especially in Germany. What's your advice to savers?**

We have to get inflation to below, but close to, 2% again; that has been our definition of price stability for a long time. Why are interest rates so low? Because the return on capital has declined in the economy. To keep the low interest phase as short as possible we need more private investment as well as government policies which create the conditions for profitable projects to emerge. Meanwhile we can help savers best by keeping policy interest rates low.

**Do governments have to do more to protect savers from losses in the value of their assets, for instance by cutting taxes?**

Our advice to euro area governments is to use the savings gained from the lower cost of debt refinancing in a growth-friendly way to help their citizens. They could, for example, reduce taxes on labour, create more incentives for private investment, or reduce their deficits where required. In many euro area countries the investment climate is too unfavourable.

**Does the ECB need to become even more expansionary in order to prevent deflation?**

This depends a lot on global developments. If necessary, we stand ready to use all of the instruments at our disposal. That includes the key interest rates and the size, composition and duration of our securities purchases. We will take a decision on this in March.

**How will the ECB ever manage to move away again from its expansionary monetary policy?**

Technically speaking, it's not hard to do. The US central bank is currently demonstrating how it's done. What is more important is that our environment – and by that I mean government policies – should support us sufficiently in generating more growth. If this does not happen, we will have to keep rates low for a very long time. So it's not just up to us whether the low interest rate phase can be brought to an end, it also depends on the pace of reform in euro area countries.

**But the refugee crisis means that we're also facing a new challenge right now. Is this going to affect economic developments?**

It is a huge challenge, not only in Germany, but for Europe as a whole. But the refugee crisis is also a great opportunity for Europe if the refugees can be successfully integrated into the labour market. The more Europe stands together in the refugee crisis, the greater is the likelihood that it can be overcome. As a European citizen, I believe that we are now at a historic moment when the EU must demonstrate that it is able to reach a European solution.

### **Is that realistic?**

Europe has already overcome similar situations, for example during the debt crisis. In this case, given that we are talking about millions of people who are fleeing to Europe, I personally believe that the EU has a moral obligation to find a joint European solution. The European project is not first and foremost a financial project. Europe always was, and will continue to be, about bringing people together, not about dividing them.

### **The euro area countries cannot even agree on whether or not there should be a common limit on payments in cash. What would you advocate?**

This is a matter for the EU finance ministers to decide on, not the ECB. There are countries in Europe where cash is very important, and there are others where cash plays a lesser role.

### **But the ECB is responsible for withdrawing the €500 note.**

We have direct responsibility for this because of course we print the banknote. The ECB's Governing Council is currently considering very carefully the question of whether or not to withdraw the €500 note. We hear from the competent authorities that the €500 note is increasingly being used to finance terrorism and launder money. We take this warning very seriously in the Governing Council.

### **What is your personal view?**

Personally I think that we now have fewer reasons for keeping the €500 note than we did when the euro was first introduced, because electronic payments have become much more important. We have been told that the banknote is increasingly being used for criminal activities. That's why I believe that the €500 banknote will eventually be withdrawn, but it has to be done carefully. Let me emphasise that this does not mean that we should do away with cash in general. Cash is crucial in our everyday lives. So even if the €500 note no longer exists, people will still be able to use all of the other banknotes. Given the high importance of cash for the citizens, there is no discussion whatsoever about getting rid of it in general.

### **Greece is under strain from the thousands of refugees who arrive on its shores each day, and it is also going through a severe crisis at the same time. Is the refugee crisis weighing on Greece's recovery?**

We should not mix up the question of whether Greece will meet the requirements of the third financial assistance package with the refugee issue. It is in the interest of the Greek people that their economy becomes stronger, irrespective of the refugee issue. For example, Greece must in any case sustainably reform its pension system.

### **What is your view of the progress made on reforms in Greece?**

The experts from the European Commission, the ECB and the International Monetary Fund (IMF) had productive discussions in Athens, but we are not yet where we want to be. It is no longer about the fundamental aims, it is about the implementation. On this, Greece must stick to the agreement reached in August 2015 on the third assistance package. And at the ECB we want the International Monetary Fund to continue to support this initiative.

### **When will the Greek crisis be over?**

The Greek crisis is over provided that everyone sticks to the commitments made last summer.