

Benoît Cœuré: Interview with Radio Classique

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and Radio Classique, conducted by Mr Nicolas Pierron on 23 January 2017.

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Mario Draghi, President of the European Central Bank, is to be investigated by the Ombudsman of the European Union, following a complaint from an NGO. He is suspected of entrusting the private sector with insider information in the context of a group called the G30. How do you respond to these allegations?

The mere fact that those questions are being asked shows that we are transparent, since all meetings of the members of the Executive Board of the ECB with representatives of the private sector, whether bankers or not, are made public. As a matter of fact, my calendar, my diary, is published every month on the ECB's website. As for the substance of your question, for us to be able to understand what is happening in the economy we have to meet private sector actors, including bankers. And yet, this has to be done in a transparent way, which is the case with the G30.

So this won't go any further?

The Ombudsman of the European Union is pursuing the matter, she's doing her job and we shall see what she has to say. But the same Ombudsman, Ms O'Reilly, acknowledged that the ECB had made significant progress in its transparency and its communication policy, notably with the publication of the minutes of Governing Council decisions and also, as I said, with the publication of our calendars. So the ECB has made great efforts to be more transparent and to make its contacts with the private sector public. This is not a matter of pride, it's completely normal.

Donald Trump was sworn in on Friday in the United States. His programme includes a sizeable fiscal stimulus, which is already pushing up interest rates in the US, bond rates. Will this have an impact on Europe?

It is undoubtedly too early to judge the decisions of the new administration as it is only just beginning, but I would draw two conclusions. The first is that it is very important for us that financial conditions in the euro area remain appropriate for the euro area economy, i.e. that the euro area is protected from external financial shocks. For example, the rise in long-term interest rates observed since the end of last year has had a fairly limited impact on the euro area, thanks to our monetary policy. We will watch closely to make sure that financial conditions are appropriate for the state of our economy. And the second conclusion, which is more general, more political, if you will, is that we are in a world full of uncertainties (economic, political); a framework for international cooperation is needed. So whatever decisions Mr Trump and his administration may take, what we want is for them to be analysed and discussed in an international context, particularly in the context of the G20, which is really the forum where such discussions should take place.

Aren't you worried, however, about the protectionist measures that Donald Trump is planning in the months, the years, to come?

Again, nobody knows, it's too early to know what he's going to do exactly, but protectionism, right now, is clearly a bad idea. We live in a world where productivity and innovation (the output of innovation, the spread of innovation) are what matters to ensure prosperity. It is difficult to imagine that a world in which borders are closed to both goods and capital, and to the free movement of people, would favour innovation. So, economically speaking it's a bad idea, yes.

Protectionism is a bad idea. Inflation has also returned to Europe, but the European Central Bank is at the moment refusing to increase its interest rates. Why?

Inflation is increasing, but for a reason which is very simple and easy to identify, which is the increase in commodity prices, or rather the end of a period marked by sharp falls in commodities. So it's our job to understand to what extent that increase in the price of raw materials and food will have a lasting impact on inflation. At the moment, that is not the case. It's something that we are watching and will watch carefully in the coming months. But for the time being, this increase is temporary and does not justify ending the ECB's policy, particularly quantitative easing.

In other words, very low rates, almost at zero, and liquidity injections through the markets, through asset purchases on the market.

Precisely. That day will come, the day when we have that discussion will come, and I will welcome it because it will be a sign that the economy is healthier, but today it's still a little too early.

When will that be? In 2018?

It's a discussion we'll have on the basis of the economic indicators. You know we are very pragmatic people, we look at the figures and then we'll see how inflation is being passed on to what we call underlying inflation and also how inflation is being passed on to wages, i.e. we'll see if wage negotiations are taking account of price increases. At the moment, that's not really the case.

In any case, it won't be in 2017, there will be no increase in the ECB's interest rate in 2017.

It's something we'll examine in the light of the economic indicators, sorry to disappoint you.

Germany is becoming impatient. There's talk of inflation which could exceed 2% on an annual basis in Germany this year. Inflation which hurts German savers. Wolfgang Schäuble, Minister of Finance, is calling on the ECB to act this year. What do you say to him?

First, Mr Schäuble has always been very respectful of the Treaties and the independence of the central bank, so I am not too worried on that front. And in general, Germans understand very well that the European Central Bank has an inflation mandate for the euro area. They understand that inflation in the euro area should return towards 2% and I think they also understand that to have a strong economy in the euro area is in the interests of Germany. And that's what we are working on.

Doesn't this difference, at least between Germany and the rest of the euro area in respect of inflation, illustrate the inability of monetary policy to act when faced with a currency area which is still heterogeneous, the euro area?

That's quite true. That's quite true. It's a problem we had before the financial crisis, with a large divergence in labour costs in the euro area, which incidentally the central bank at the time, headed by Jean-Claude Trichet, spoke out against (without much of a result, but we did speak out). As a central bank we can only work effectively if the economies of the euro area are sufficiently convergent. Convergence is needed in the euro area for monetary policy to function well, but also if you want to pave the way for a further strengthening of the euro area, because the various Member States have to trust each other, and for that their economies need to be comparable. This also applies to France, incidentally.

And the convergence you're talking of – what does it mean for France?

French growth is now picking up but it remains lower than that of Germany and the euro area, so the reforms in France have to continue in order to consolidate growth. And that will allow France's voice to be heard in the euro area.

What are these reforms?

I am not going to enter into a debate which is now an election debate. The reforms are...

Is it necessary to copy what Germany has been doing for a decade, wage moderation alongside a more flexible labour market?

Yes, there is a need for a labour market which works in a more flexible way, but there must also be productivity, innovation and education enhancement policies, notably in higher education, to ensure that France remains at the forefront of innovation.

And Germany, for its part, must it also make efforts?

Yes, Germany has implemented major reforms in the past from which it benefits today, but its demographic prospects are more difficult than those of France, so it too must continue with reforms, and in particular it must invest.

Last question, on the budget deficit. Should Europe be more tolerant of the sacrosanct 3% objective?

I don't believe that this is an issue that concerns Europe. Indeed, France has been above 3% for many years now, so it clearly shows that the problem doesn't lie so much with Europe, and it shows that there hasn't really been austerity in France. France today, in 2017, is on the threshold of being able to pass below 3%.

Do you think it will achieve that?

France can achieve it. It will depend on the new government's policies. I think it is important that France achieves it. I'm concerned, by the way, by the declarations of various candidates, on both left and right – this is not a question of politics – which envisage bouncing back, returning, to above 3%. What does that mean? It means that France's public debt will continue to grow and I, as a French taxpayer (because I am also a French taxpayer), do not want France's debt to rise to 120% or 130% of GDP.