Benoît Cœuré: Interview with Bloomberg TV

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and Bloomberg TV, conducted by Ms Francine Lacqua on 12 June 2017.

* * *

Benoît Cœuré, thank you so much for speaking to Bloomberg TV. Now, the ECB seems to be in a rush to exit this accommodative stance. How dangerous is lower for longer?

Thank you for inviting me. Basically the thrust of what the Governing Council decided last week is to acknowledge the improving economic circumstances, to translate it into a revised forward guidance, because we have to adapt to economic reality, but also to give a sense of patience when it comes to rates being low: we are still not seeing inflation where we would like it to be; we're still not seeing the criteria that we've set for inflation to be sustainable all being met. So you need a sense of patience here.

How much of a nightmare is stronger GDP on QE?

Stronger GDP is good news. It's unqualified good news. This has been acknowledged by the Governing Council last week, and that's why we changed our communication to adapt to the changing reality. It also shows that our monetary policy measures are working. All the jobs that have been created in the eurozone over the last three, four years or so, a lot of them have been created thanks to the accommodative monetary policy stance, so it is working very well. Now, we have an inflation mandate, so when it comes to the next steps we'll have to focus on inflation.

Why was tapering not discussed last week?

That wasn't discussed at all. It is too early to discuss it. We have to acknowledge the changing reality. We discussed a lot the economic situation; we discussed the prospects for inflation. There was a sense of progress also when it comes to inflation where, in spite of the inflation being revised downwards, if you look carefully at the staff forecast, you'll see that inflation is also less dependent on our monetary policy measures, which is one step in the right direction, but it's not yet quite enough to start discussing tapering. We're not there yet.

When do you think tapering needs to be discussed? Even to just accustom the markets to the idea of tapering.

I don't want to give dates here. I don't think it serves a purpose. The reason being that we're very much data-driven. We're driven by facts. So we'll discuss tapering whenever we see the economic situation and the prospects for inflation are right for discussing it.

Do you have in your mind a perfect idea – and I'm not going to press you on it, but do you have a perfect idea of when tapering should be discussed and what it would look like?

No, again, that will depend a lot on the economic numbers; it will depend a lot on inflation. We obviously have to discuss it before the end of the year. That's obvious given what we've said on buying bonds until the end of the year and later if necessary. So that discussion will take place, but it will take place when the data supports it.

Is July a live meeting? I know we were talking about it, but is it a live meeting given that it's July so there's actually usually low volatility in the markets, and given that you're not actually doing any new forecasts?

Well, we do work in July. It may look nice around, but we do work in July. And as I said, the discussion last week was very much about taking stock of the progress in the economy, taking stock of the progress that will support an improved path for inflation, and that's a discussion that we'll have again and again. So one lesson of what we've decided last week, is that the Governing Council wants to keep our forward guidance aligned with reality, and that's going to continue.

You're one of the brightest minds when it comes to academic economics. Why is inflation so low? Is it structural, or is it just that we may be counting things differently?

No, I don't think it's that much about the statistics. That may play a role, but it's a lot about the changing structures of the labour market, in particular. This is a recovery which is jobs-rich. A lot of jobs have been created and are being created in the eurozone economy, but it's a different kind of jobs. A lot of them are on temporary contracts, a lot of them are part-time, and this produces less inflationary pressures. There will be a time where they are consolidated into permanent, full-time contracts, and then nominal wages will start growing, but we're not yet there. So it has a lot to do with the structure of the job market, and that's certainly an area where we're paying a lot of attention, to understand in detail the nature of the jobs being created.

Do you think the market understands all of these nuances quite well, especially when it comes to when you talk about tapering and exactly what kind of potential roads that may take?

I think it's very well understood. The markets have the example of the Fed in the US; it has to be different here, because we are operating on different markets, but we have a successful experience with policy normalisation. We've been able to communicate our intentions. The market reaction to the Governing Council last week was very positive, very smooth. So I'm not very worried here.

Yes, but that's because you didn't announce much. Is there a danger that when you do announce something a little bit more substantive that the markets go haywire?

Well, we did change our communication, and that was a significant change, and the market understood very well, I think.

Give me a sense of, when you talk about forward guidance, and we talked about the data points, and everything seems very, very clear: are there parallels with the Fed when it comes to inflation just not being as strong as you were hoping it would be?

I don't think so, because the economies are different. I was mentioning the labour market earlier on: the labour market has been very different in the US and in Europe. In the US the participation rate has fallen, so a lot of workers have been detached from the labour market, or disenfranchised from the labour market. They're just staying at home, and have lost any hope to find a job. That is not the case in Europe. So we'll have also to account for these differences.

On a trade-weighted basis, the euro is that much stronger compared to the dollar: is that a concern at all? Do you think about it, or not?

Well, we don't have an exchange rate target, and insofar as exchange rate movements do reflect the economic fundamental situation, that's fine, so there's nothing to comment at the stage we're at.

Compared to six months ago, what is the risk that you still perceive – forecasts are a lot better, right? So it seems that things are getting rosier.

Well, the Governing Council has judged last week that risks were now balanced, and also added that we see downside risks mostly coming from the outside. So we see risks surrounding the future course of US economic policies, we see risks in emerging market economies, and these are the risks we want to focus on. Risks coming from the inside, that is, from within the eurozone economy, are much less than they used to be.

How would you qualify tensions within the Governing Council? I know there are different views, but is that healthy? It seems like you're becoming more like an MPC BoE monetary style…

It is healthy to have different views. We are working for 19 countries, so we need different views to be reflected. Different economies inside the eurozone are running at different paces, and that has to be reflected. So, so far so good, as long as the Governing Council can form a consensus. And what we've decided last week was very much a consensus, which is good and gives strength to our communication.

How do you rate political concerns? Is there a danger that because France is out of the way and it was an outcome that the markets like, that we now underestimate political risk?

Well, political risk is there. It's not for us to decide on political risks. We're not a political institution; we don't decide based on political outcomes. We decide based on economic facts, and political timelines should certainly not be in our way when we have to decide on monetary policy. That said, it's true that political uncertainty has held back consumption and investment to some extent in the eurozone. I very much hope that in France this will not be the case any more. That will certainly support the strength of the French economy. I also very much hope that the outcome of the French election can support a momentum of reform, starting in France, obviously, but also in Europe, that will support our monetary policy. We want a stronger eurozone for our monetary policy to be effective, and France has a key role to play here.

When it comes to fiscal policies, Mario Draghi has been asking for fiscal policies for as long as I can remember: why would it be different this time?

It's not that much about fiscal policies; it's a lot about structural policies. It's about improving labour markets, and, as I said, it's about making the eurozone work better, which is a political discussion, which the ECB cannot lead, and should not lead, because we are not a political institution. We don't have a mandate to do that. So we need eurozone Member States, starting with Germany and with France, to lead the discussion, and I very much hope, I'm very confident now, that that discussion will start.

Does the UK election last week make your job harder or easier?

Well, the UK is not so important for the eurozone economy. I wish the best for the UK economy; I certainly trust the Bank of England to steer the economy through this political uncertainty, but at the end that's not a major risk for us.

What does it mean for clearing houses?

Clearing houses is an important discussion. That discussion has to be led by the European Commission, because that's about law-making in Europe. The European Commission will, within days, I guess, make new proposals when it comes to derivatives and to clearing houses, with an objective to ensure the safety and soundness of clearing across the EU when the UK leaves. So far, we've been able to ensure the safety and soundness of euro-denominated clearing through very robust arrangements that we have with the Bank of England and with the CCPs located in London, and that works very well. The basis for the arrangements will fall in 2019, when the UK leaves, and so we need an alternative. Different alternatives are considered by the European Commission, and they have to lead that discussion. So I would defer to the Commission here.

Right, but countries want basically sovereignty over that, and the ECB, the Governing Council, I believe, the best person to regulate that is yourselves. How do you think it will end up?

The Governing Council, the ECB has a stake in that discussion, insofar as financial stability is concerned, and insofar as monetary policy transmission is concerned, and we have a statutory role as central bank of issue for euro-denominated transactions, and I welcome the fact that the Commission has referred to the role that we should play as central bank of issue, and we certainly need to play a strong role here. But when it comes to requirements which will be hard-wired into European law – so say, for instance, location: do we need location? – that's for the Commission to have a say. That's not for us to decide.

Give me a sense of what happens with Greece.

Greece will be discussed in the Eurogroup in Luxembourg on Thursday this week. That's another of a long series of meetings. I very much hope, and the ECB very much hopes, that this will be the concluding meeting that will make more precise the way the Greek debt will be addressed by the Eurogroup. The Greek government has done its part. They have done their part in terms of policies, in terms of the MOU, and now it's for Eurogroup ministers to deliver when it comes to confirming the sustainability of Greek debt. As I said earlier, it wouldn't serve a purpose to keep the Greek economy in limbo for one more year. We need a decisive act by the Eurogroup that will create confidence in the Greek economy. It's time for investors to come back in Greece, it's time for depositors to bring back their money to Greek banks, and it's for the Eurogroup to give the signal that will make it possible.

So you think the resolution this week will be something that's acceptable to the ECB?

Well, another discussion will be about the monetary policy consequences and inclusion of Greek debt into QE. That's a different discussion. It is a monetary policy discussion. So the Governing Council will take whatever will come out of the Eurogroup, and this will be considered and assessed against our rules. We're certainly not going to be part of a political quid pro quo with the Eurogroup. These are two different discussions.

I know we're going round the world in 15 minutes. Give me a sense of banks and how concerned you still are about Italian banks. The resolution last week that we had in Spain, is it a blueprint for how you think Italian bank problems should be resolved?

I'm very hesitant to pass judgment, or even pass a comment, on Italian banks. I'm not a supervisor, and we have a separation principle that it's for my colleagues on the supervisory side to assess and communicate. So Danièle Nouy and Sabine Lautenschläger will do that. When it comes to the resolution of Popular last week, the main lesson is that we have a system that works, so that is a positive test for the institutional set-up that we have, with the Single Resolution Board, European Commission, Single Supervisory Mechanism, and ECB in its monetary policy function: that cooperation has worked very well, in a very swift way, which is what you want to see in the case of resolution. Would that be the case for any other bank? I don't know. All banks are different, and, well, you know that quote from Leo Tolstoy, who said that all happy families are alike, and every unhappy family is different. So every failed bank is different.

Very diplomatic. One very last question, because we haven't talked about China at all: when it comes to external factors, how should we look at China?

China remains a major area of interest for us. I would not say of concern, or risk, because so far the Chinese authorities have been able to steer the transition in the Chinese system very well, and to provide stability to the world economy. That said, there are issues to be addressed: shadow banking, corporate debt, transition towards domestic demand, transition towards a decarbonised economy. These are daunting challenges that will stay with us in the years to come, but so far the Chinese authorities have been very successful in steering the economy and not making China become an issue for the global economy. We've got enough issues, so we don't want China to become one of them.