Benoît Cœuré: Interview with CNBC

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and CNBC, conducted by Mr Steve Sedgwick on 6 April 2018.

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You've been talking about trade and that is the key topic here in Cernobbio and indeed globally at the moment as well. What's your contribution this morning on this topic?

The point I was making this morning at the conference is that first we're not sure yet that we're in a trade war. As much as possible, if we could avoid the bellicose semantics and come back to a reasonable discussion, that would help for economic confidence. That also means that if this would morph into a full-fledged trade war, this has the potential to have quite damaging consequences for growth and jobs globally, including in the US.

Is it already having ramifications in global financial markets? We've seen the volatility and equity markets. We've seen higher borrowing costs as well. It looks like it's already having the effects of a trade war without being a trade war yet.

To some extent, yes, we've seen that. We've seen obviously stock prices going down, some risk premia are going up, so some tightening of financial conditions globally starting with the US. But it all depends on how the situation will evolve. Certainly what we don't want to see is a general tightening of financial conditions.

In terms of the effect it's going to have on rate raising on both sides of the Atlantic, what do you see as the ramifications for interest rate policy first perhaps for Federal Reserve and then for the ECB?

For the Federal Reserve I wouldn't dare comment. I don't think they would like it too much and it's not my job. As far as the eurozone is concerned, so far I would say we can look through. It all comes against a backdrop of a very strong growth momentum, very broad. This recovery, this expansion is the strongest we had for at least 10 years. In terms of its breadth across the board, across sectors, across economies, that's the broadest we had for the last 20 years, I would say. The starting point is a very good one and the economy is quite resilient.

There are two reasons why bonds go up, why yields go up or the rates on those bonds go up and yields go up and interest rates go up; One, the economy is going very, very well – or sometimes the economy is going very, very badly. Then the ECB perhaps has to step in again. Do you fear the ECB has to take more action to offset the negative effects of a potential trade war?

That's not a discussion we're having today. The discussion we're having today is on how the mix of our instruments will have to change in the future. I think there is very broad agreement in the Governing Council of the ECB that a high degree of monetary accommodation will remain needed and that's irrespective of the trade war or anything we've seen recently. That's because the economy and in particular the inflation in the eurozone is not yet where we want to see it. Monetary accommodation will remain needed but we'll see a change in the mix of our instruments. In particular as we come closer to the point where our medium-term inflation objective is met, I would expect the role of rate guidance to be strengthened. We've been clear on that.

In terms of the models which you must be running that a trade war could affect as well and could affect Europe as well, those models would've been run at the ECB, I'm sure. What are they saying?

They clearly say that a trade war would have a damaging impact on the global economy, more so in the US and more so in economies which are either very closely related to the US or are deeply integrated in global value chains. The impact on the eurozone would be less and it all depends on how this conversation on trade will evolve and we don't know yet. That's why I'm saying we should look through it.

Does the ECB have the tools, though, to negate the effects of a trade war if indeed the worst ramifications do happen?

We are very much data driven; we are driven by facts. We'll look at how all kinds of circumstances, including trade but also the global economy generally and the momentum we have in Europe, feeds into eurozone inflation and that will be the basis for our decisions. So far we are coming from a starting point which is strong and where we have increasing confidence that our inflation objective will be met.

When I look at some of the wage deals going around at the moment in Germany and beyond, I see very healthy wage growth of some of those deals as well. When's that going to start feeding through into broader inflation, the kind of figures you want to see to be able to feel more comfortable about raising rates to a normalised level?

We've seen some uptick in inflation even in the most recent numbers. It is slow, because we are starting from a point where unemployment at eurozone level was high and broad. We know that it takes time for it to translate into wage pressures. We have to be patient, but there is no reason to think that this will not translate into higher price and wage pressures. We've started to see it.

In terms of the cover you've given countries like Italy and others as well, do you feel they've squandered that cover that the ECB has given and the support the ECB has given them through a lower yield and lower borrowing cost? We still seem to be going through the same arguments, the same structural issues. In fact if anything a potential new government in Italy could scrap some of the reforms that the ECB so applauded.

Certainly the advice we are giving to governments, insofar we can give advice to governments, because they are independent from us as much as we are independent from them. The only advice we can give is to use that environment of strong growth, of lower rates to build the buffers in the economy. That includes building fiscal buffers but that also includes doing structural reforms so that the economy can become stronger.

Listening to some of the more recent speeches from Mr Draghi and hearing comments from yourself and others, I don't get the impression that the ECB feels that their opportunity has been taken. Am I wrong?

There has been some disappointment on the fiscal side where we believe that governments generally could have made better use of the windfall of lower rates to reduce their deficits, to consolidate their finances in a more permanent way, in a more structural way. That's true. Now, when it comes to reforms in the real economy we've seen a lot going on. Look at how much Spain has reformed its labour market. That's now yielding very positive results in terms of job creation. Look at what France is doing, which really goes in the right direction, so reforms are being done.

Are they being done in Italy?

I cannot really comment on Italy at that current stage where we are in a political flux and that's clearly not our role to step into that.

Apart from trade and your desire to see greater productivity reform, structural reforms,

fiscal buffers as well, what are the other issues that you have greatest concern about at the moment in global markets, global economy?

Trade – as we just discussed – is clearly top of the agenda. That's the biggest concern we have today.

And Brexit?

Brexit is a concern but there is a political negotiation and the ECB is not part of this political negotiation. We very much hope that this can be settled in a way that makes it smooth, that does not harm confidence. But we also trust that it can be settled in a way that preserves the integrity of the European project in terms of the four freedoms, in terms of the single market, in terms of having effective ways to regulate our financial industry and to supervise our financial industry to achieve stability in Europe.

A huge part of the EU financial industry is based in the United Kingdom, the fundraising for the broader EU is based in many ways in the United Kingdom. The clearing, the forex, the bond trading as well. If that is taken away or the access for those markets is taken away, that leaves a huge black hole for countries like Germany, for Ireland, for countries that actually feel that they could fill that gap. They can't necessarily, can they?

Any such movement has to be decided by the industry. It has to be led by the market. What we want to see as a central bank, what we want to see as overseer, as supervisor is that effective supervision continues to be delivered wherever the financial industry is located. Location choices should be for the industry to make themselves.

You have no doubt, regardless of the final status of the relationship between the United Kingdom and Europe, that your relationship with the regulators, with Mr Carney and what have you, will be exactly the same as it is now?

What I can say at the current juncture is that our relationship with the Bank of England is one of the main assets we have. We have a trust relationship with the Bank of England and that will be a very strong asset for the future.