

Benoît Cœuré and Jörg Asmussen: Interview with Süddeutsche Zeitung and Le Figaro

Joint interview with Benoît Cœuré and Jörg Asmussen, Members of the Executive Board of the European Central Bank, conducted by Andrea Rexer (Süddeutsche Zeitung) and Jean-Pierre Robin (Le Figaro) on 23 July 2013 and published on 29 July 2013.

* * *

Mr Cœuré, your colleague Jörg Asmussen has criticised the French Government various times, asking them to speed up their reforms. The French Government wasn't amused. Were you, as a French citizen, amused?

Cœuré: I am not here to support the French Government, neither is Jörg here to support the German Government. As central bankers, we have to say what is good for the stability of the euro area, irrespective of our nationalities.

Does being German or French make a difference when working for the ECB?

Asmussen: No, in day-to-day business, nationalities do not play a role.

I understand that this is the theory. But in real life, can you really be free of your national background? Once you go to your home towns, you are facing criticism – and that differs from country to country.

Asmussen: As an Executive Board member you have to be independent and you will not see any flags on the table at Governing Council meetings, only name tags, because the members do not represent a state. It is true that what a central bank is expected to do, or not to do, differs enormously in the euro area. In some countries they ask, "Why don't you do more?" And in other countries they say, "Why do you do so much? You are overstepping your mandate." The answer is always the same: our task is to guarantee price stability in the whole euro area.

Mr Asmussen, you say that nationality doesn't matter. Not long ago, there were reports that you had voted against lower interest rates, what would be expected from a German hawk. Some people say that you seem to be becoming more German the longer you are in office.

Asmussen: That is perhaps what some people say, but I am not sure whether it is correct. I doubt that the assessment that too low interest rates for too long may give rise to risks is a specific German view as it is shared by others, for example, by the Bank for International Settlement.

Cœuré: We all come to the ECB with our national history, shaped by our national politics. We come here with our own DNA. But once we are here, we work for all euro area countries. Both of us have travelled extensively around Europe in order to learn about the different views, and to explain the European view to the general public.

That is right, you communicate a great deal – but on the other hand, what was said at the meetings of the governing council is still a big secret. How does that fit together?

Cœuré: Transparency is important for the effectiveness of monetary policy and for trust in the central bank. There was a time when the ECB was ahead of the curve in its communications and transparency as first central bank with regular press conferences by its president. Now the ECB is the only large central bank that does not publish its minutes of meetings. There is a demand in society for transparency and accountability. Therefore, I personally think that the ECB should start publishing its meeting minutes soon.

Into how much detail would these published minutes go?

Asmussen: The minutes should include who voted for what, and the reasoning behind that vote. Publishing the minutes will sharpen the European mandate, because the ECB will then have to explain why its decisions are in line with the European mandate.

If you publish who voted for what, the Board and the governors of the national central banks might face enormous pressure from the financial industry.

Cœuré: The other side of the coin is, as Jörg has said, that the Governing Council has a European mandate. The governors of the national central banks come here in a personal capacity – they do not represent their institutions or their countries – and should be accountable for what they do.

You said that change might come soon. Is there a majority for it in the Council?

Asmussen: Every majority starts as minority. It is an ongoing discussion in the Council.

One field where central banks are not very transparent is the Emergency Liquidity Assistance (ELA) that is given to banks in trouble. Although this entails huge risks, you never publish any details. Don't you think that the European public should be informed about that?

Cœuré: It is the national central banks that provide that liquidity assistance, so that they have to decide on this issue. To give you another example, the so-called TARGET2 balances measure how money created by the ECB is distributed across the euro area. They are useful indicators and there is no reason why they should not be published regularly.

Asmussen: I would prefer national central banks to be more transparent about the ELA, but, as Benoît has said, that is not for the ECB to decide.

The ECB will take over banking supervision next year. How transparent will you have to be once the new system is in force?

Asmussen: At the national level, banking supervision bodies are fully accountable vis-à-vis the national parliament. When supervision shifts to a European level, it is in the interests of the ECB to have the highest possible accountability vis-à-vis, and democratic control by, the European Parliament. That is the logical counterpart to this task.

Cœuré: Banking supervision can lead to fiscal costs if a bank has to be restructured. That is why we need even more accountability in banking supervision than in monetary policy.

The ECB said recently that interest rates will stay low for an extended period of time. Is that also part of the plan to be more transparent?

Cœuré: Yes, of course. Forward guidance discloses more information on our view of the economy and the conclusions we draw. And it not only concerns interest rates – it is also concerns our liquidity policy. We have been clear that banks can have as much liquidity as they want for an extended period of time.

Even though you are providing banks with that much liquidity, in southern Europe, they seem to be unwilling or unable to handle it through to real economy. Some countries are facing a credit crunch.

Cœuré: I would not speak of a credit crunch, but some countries are indeed facing tight credit conditions, and this has not improved much recently. That is one reason for keeping interest rates low.

But that is obviously not enough. Can a banking union perhaps help to stabilise the banks in southern Europe, so that they can reassume their task of financing the real economy?

Asmussen: Yes, in particular the asset quality review that the ECB will undertake, together with national supervisors and external controllers, next year is crucial. The United States

have been earlier and faster in cleaning banks' balance sheets than Europe. This is one of the main factors that hold back lending. This review will start at the beginning of next year. And, as market participants usually anticipate developments, that will have an immediate effect.

Do you think that banks will have to recapitalise?

Asmussen: This is precisely what we do not know as yet. Every figure that is floating around is mere guesswork. But we need to have sufficient back-stops in place. There are several layers: The first is private capital, the second are national budgets and the third layer is formed by the ESM that recapitalises banks as part of a banking sector programme with attached conditionality, as it was done in Spain. As a last layer and only in very rare occasions, there can be a direct recapitalisation of banks through the ESM.

A credit crunch is a problem for growth. What other impediments can you see with respect to a recovery in the euro area?

Asmussen: Fragmentation has decreased since last year, but it is indeed still a matter of concern.

Cœuré: Trust in the euro has now been restored and it is an important basis for confidence and an economic recovery in Europe. What is now needed is further economic reform in all countries.

But isn't the exchange rate of the euro itself too high, vis-à-vis the US dollar or the Japanese yen?

Asmussen: We do not have a target exchange rate and we have to say that again and again. In any case, it is a sign of confidence that capital flows from outside have returned to the euro area.

Cœuré: When you look at the export performance of various countries, you can see many differences, so that the exchange rate of the currency as such cannot be considered an impediment to growth. That said, it is one of the indicators that we follow closely.

However, it is a common complaint in France...

Cœuré: Here, I can speak from past experience. There is a particular fascination for currency matters in France that is not shared by other countries. It cannot be used as an excuse not to address the issues of structural competitiveness that French companies are facing.

In France, there are fears that the risk of deflation might be very high...

Asmussen: We cannot see any risk of deflation. We see inflation expectations as being well anchored below, but close to, 2% for a longer period of time.

Cœuré: And that is a major difference to the situation in Japan. There have been comparisons, but whereas in Japan, low growth has led to deflation expectations, this has never been the case in the euro area and, as Jörg has said, expectations there have remained very well anchored.

But as in Japan, people in Europe are talking about a lost decade.

Cœuré: There is a risk of a lost decade in Europe, if the right reforms are not undertaken. But the challenges and answers are very different from those in Japan. It is true that the crisis has been a step backwards [a setback] for the European economy, but the underlying problems, such as declining trend growth and unsustainable social promises, were there before. The crisis has only uncovered them and has shown the need for answers more clearly and more urgently.

But the high level of unemployment is certainly worrying ...

Asmussen: Yes, the level of unemployment is unacceptable. But the question is what we can do about it. We have a strategy in Europe that is based on stable prices, sound fiscal policies

and growth and employment-enhancing structural reforms. It will take some time to see the positive effects, but I don't see any viable alternative.

Cœuré: The high level of unemployment, particularly youth unemployment, shows the urgency of taking forward-looking reforms at the national level and, collectively, at the euro area level.

With the crisis, differences between countries are becoming clearer and larger. Is it a challenge for friendship between European nations?

Asmussen: We must acknowledge the resurgence of national stereotypes. That is worrying. The cliché that the Greek people are lazy, whereas all Germans are hard-working, is simply false ... Reality is more differentiated.

Cœuré: We see the risk of nationalism in European discussions as well, with the temptation to defend narrow national interests. But politicians can overcome this temptation and make progress. Take the banking union, for example. It is the most important step to be taken in European integration since the inception of the euro, perhaps more important than the single currency itself. It will have far-reaching consequences for national economic models and national legislation. So there is room for optimism if we succeed in taking that quantum leap forward.

Isn't that overly optimistic? What can Germany and France do to overcome these challenges?

Asmussen: You have described the challenges rightly, but the answer to them can only be more integration. France and Germany have a leading role to play, because they stand at the core of European integration. They jointly, but only jointly, fulfil the definition of a superpower: if you take action, everybody criticises you for acting. If you don't take action, every one criticises you for not doing so. There are certain projects in which the two countries can take the lead. A joint seat of France and Germany in the IMF Board would be a good idea. But it is vital that this newly formed constituency is open to others and forms the starting point for a European seat at the IMF.

So, if France and Germany are the core of Europe, that is where you will also spend your holidays?

Asmussen: Yes, for my part and, as always in the summer, in a renovated farm house in Normandy.

Cœuré: I will also spend my holidays in France – and enjoy living in Frankfurt the rest of the year!