

Benoît Cœuré: Interview in *Le Figaro*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Le Figaro*, conducted by Ms Alexandrine Bouilhet on 4 April 2014.

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***Le Figaro*: Isn't the strong growth seen in the financial markets out of touch with economic reality?**

Benoît Cœuré: Markets are anticipating economic recovery. That is a good sign, and we think they are right! It is not a bad thing in itself to anticipate a recovery! We at the ECB believe that the recovery is already underway, albeit a gradual and fragile one, and so we want to accompany it with low, or even lower, interest rates for a prolonged period.

Is this strong growth not already creating bubbles?

In our opinion, no – not in the euro area. But, in a period of very low interest rates, there is a need for vigilance. If this risk were to materialise, supervisory authorities in the Member States have new “macro-prudential” instruments at their disposal, not to mention the other macroeconomic measures.

Is the ECB really ready to start quantitative easing (QE)?

Yes, the Governing Council is unanimous in its commitment to using unconventional instruments, including QE, if the current period of low inflation extends for longer than expected. We do not consider that necessary at present, because the low level of inflation is partly due to temporary factors and we believe in the recovery: inflation should therefore increase. But we will continue to monitor developments very closely and act if required.

How can QE help to increase lending?

That is the question! Even if QE means there is more liquidity on banks' balance sheets, there is no guarantee of that increasing lending. The ECB cannot be a substitute for putting the banking sector back on a sound footing. The review of banks' balance sheets that we are carrying out in 2014 will help. QE in the European context would inevitably be different to the approach taken in the United States.

On that issue, Mario Draghi has weakened the euro. Why?

Market participants have now fully understood that the exchange rate is not an objective of our monetary policy, but it is nevertheless an important variable in our decision-making because of its influence on price developments. In a period of low inflation, the effects of exchange rate developments are closely monitored.

What should be done to weaken the euro further?

Another reason why the euro is at this level vis-à-vis the US dollar is that the euro area has recorded large and growing current account surpluses – [Editor's note: forecast at €286 billion for 2014]. This is new. Before, the current account of the euro area was generally balanced. It is not the case that Germany, for example, exports too much, as is sometimes argued, but that euro area domestic demand is weak. From this perspective, the best solution is therefore to support domestic demand by investing, and that is also a way of preparing Europe for the future! But, these exchange rate issues go beyond just the European framework.

At USD 1.37, isn't the euro overvalued from a French perspective?

France's situation within the euro area is exceptional in that it is the only country, at present, with such a large current account deficit – [Editor's note: €36 billion in 2013]. The solution is to increase competitiveness, as foreseen by the government.

France has asked for more time to reduce its deficit: does it risk being punished by the markets?

Europe has high expectations of France, because France is the euro area's second largest economy. The euro area needs a strong France. France also has its own responsibility: to make credible the economic government of the euro area, which it itself called for and which is gradually being put in place. This governance sets out targets for both nominal and structural deficits. As the European Commission reiterated, France has already had two extensions. It must live up to its commitments. It is all about credibility and trust.

Can France manage without the euro?

Without the European Union and without the euro, France would be an average, vulnerable power, over-indebted and with declining productivity. The euro and Europe give France protection that enables it to remain in charge of its own destiny, while managing its own reform process.