

Benoît Cœuré: Interview in Gazeta Wyborcza

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in Gazeta Wyborcza, conducted by Mr Leszek Baj on 16 May 2014.

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Gazeta Wyborcza: Is there a recovery in Europe? On the one hand, the growth of the German economy exceeds 2%. On the other, in several countries GDP is contracting, and some of the larger economies, such as the French, Spanish or Italian economies, are still lagging behind.

Benoît Cœuré: We are definitely looking at a recovery. This is good news. But the latest GDP figures have confirmed that this recovery is moderate and uneven. At the same time, inflation is low.

Is there a risk of deflation in the euro area?

We consider the risk of deflation to be very low. But the rate of inflation – 0.7% in the euro area in April – is rather far from our inflation objective consistent with price stability, which is about 2%.

For us at the ECB, there are two key questions at the moment. First, what are the risks to economic growth and is there a risk that this growth won't be sustainable? Second, it will be important to know whether this period of low inflation won't be excessively prolonged. These are the elements that we will consider when setting our monetary policy.

Can the ECB take action then? Is it going to support the European economy and try to push inflation up a little?

If the uneven pace of economic recovery in the euro area is confirmed and if we see a risk of inflation being too low for too long, we can take action in June. We can act in various ways, depending on the situation. At present, however, it is too early to say what exactly we're going to do. A lot depends on the forthcoming economic data and on our staff growth and inflation projections, which are to be released in June.

Your room for manoeuvre is limited as interest rates are already very low: the key rate is only 0.25%.

They are low but they can still go lower.

Are negative interest rates in the euro area possible?

Negative rates are one of the instruments available to us. They have been discussed extensively by the Governing Council. We are technically and legally prepared for such a possibility. And market participants are well aware that we are contemplating such a move.

Wouldn't negative rates discourage people from keeping their money in banks?

This depends on how negative they would be. Indeed, rates that fall deep into negative territory could have an impact on depositors. But a deposit rate slightly below zero does not necessarily imply that depositors would be affected, while still providing incentives for banks to lend more.

In recent years, the ECB has used a number of non-standard monetary policy tools. It has purchased bonds on the market, pumped hundreds of billions of euro into the market in the form of cheap loans for banks.

The ECB has had to use different instruments at different stages of the crisis. Now the economic and financial situation in Europe is significantly better. Financial fragmentation has receded, Member States have made significant efforts towards economic convergence and the governance of the euro area has been strengthened. We are gradually moving out of the

crisis phase into a different environment, with the focus shifting from solving the crisis to ensuring stable economic growth and inflation close to 2%. It requires a different approach and different instruments.

The developments beyond our eastern border are the big topic of debate in Poland at the moment. Could the conflict between Russia and the Ukraine affect Europe and its economy in any way?

The impact on trade or the financial system has thus far been limited. But this situation does give rise to uncertainty, so it can be regarded as a potential negative factor that could hinder economic growth in Europe, and that is part of our risk assessment.

What about the strong euro? Aren't you worried it could cause problems for European exporters and hinder the recovery?

The ECB doesn't target the exchange rate. Our primary mandate is price stability, and within this mandate, the exchange rate of the euro is among the factors determining the level of inflation. And indeed, the strong euro is contributing to the current low inflation. Consequently, any further strengthening of the euro strengthens the case for more policy action by the ECB aimed at bringing inflation closer to 2%.

Is there a risk of global currency wars? Each country wants to overcome the crisis as quickly as possible and the easiest way is to weaken its currency and thus improve the position of its exporters.

These issues have been discussed many times, including among the G20. Countries have agreed that the exchange rate should not become a target for monetary policy. As long as the exchange rates are driven by the various countries' internal situations and domestic monetary policy actions, this is not a currency war but an adjustment of exchange rates to the current policy, stemming from their economic developments. This assumes, of course, that exchange rates will adapt in a flexible way to the changes in economic conditions and monetary policy.

It was thanks to the weakening of the zloty – among other things – that Poland has come out of the 2009 crisis unscathed. For many people, this is an argument against the joining the euro area.

Poland's future is linked to the euro area and the future of the euro area is linked to Poland. The euro area without Poland – one of the largest EU countries – will not be complete. That is why Poland is welcome to join. But it is up to you to meet the entry criteria, laid down in EU law, and, in doing so, decide when to join.