Benoît Coeuré: Interview in Phileleftheros

Interview with Mr Benoît Coeuré, Member of the Executive Board of the European Central Bank, in *Phileleftheros*, conducted by Mr Theano Theiopoulou on 9 November 2014.

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1. Why was banks' participation in the ECB's targeted longer-term refinancing operations (TLTROs) lower than expected?

There are many reasons, including the disclosure of our comprehensive assessment of euro area banks in October, for which reason they may have preferred to postpone their borrowing to December. Having said this, the September outcome falls within the range of take-up values we had expected, based on banks' behaviour under previous programmes.

2. The volume of non-performing loans in Cyprus is one of the highest in the euro area. Moreover, lending to small and medium-sized enterprises (SMEs) entails higher risk weights and, consequently, capital surcharges. How could banks contribute to growth if lending is limited?

Household and corporate indebtedness in Cyprus is among the highest in the euro area. The cost of risk remains elevated despite some recent improvements. In these circumstances, deleveraging is a natural phenomenon. Nonetheless, banks should make good use of the available lending opportunities and support viable borrowers. The comprehensive assessment has confirmed that, on aggregate, the banking sector is adequately equipped with capital and that constraints on lending arising from the situation of banks are becoming less significant, both in Cyprus and the rest of the euro area.

3. By becoming the supervisor of euro area banks, is the ECB able to completely eliminate the risk of financial crises in the future?

The assumption by the ECB of the responsibility for the supervision of euro area banks last Tuesday marked an important step in European economic and financial integration, probably the most important one since the introduction of the euro. It is a sharing of sovereignty but also a gain of sovereignty: for example, the Cypriot member of the Supervisory Board of the ECB will now have a say in the supervision of large euro area banks. Supervisory standards will be harmonised as the ECB's banking supervision will draw on the best practices of the participating countries, and the ECB will draw on the information gathered in the comprehensive assessment to improve its supervision and foster convergence. Besides, the Single Resolution Mechanism and the Bank Recovery and Resolution Directive, with its new rules for dealing with banking crises entering into force in 2016, will make banks' shareholders and investors more prudent and will better protect European taxpayers from any misbehaviour by banks. That said, the best way to prevent crises in the future is to make sure that our economies are prudently managed and that we don't let financial imbalances develop, as was unfortunately the case before the crisis.

4. The biggest challenge that Cypriot banks have to face today is how to manage and resolve the extremely difficult and sensitive issue of loan servicing…

The Cypriot economy needs a functioning banking sector which contributes to the economic recovery. That can only be achieved if the non-performing loan issue is addressed forcefully. For that, the structure of incentives would have to be changed, so that both borrowers and lenders have a common interest in finding a pragmatic solution to the debt problem. The data tell us that this is not happening. Conversely, non-performing loan levels are continuing to increase. The reform of the foreclosure process is part of the change that has to come about. In this respect, I welcome the Supreme Court decision on the unconstitutionality of the four Parliamentary bills concerning the foreclosure law. This will help to contribute to the reduction of non-performing loans in the banking system and recreate margins of manoeuvre for banks to extend loans to profitable projects supporting the recovery.

5. The Cypriot economic adjustment programme was well on track until recently. However, when political decisions touch upon legal reforms, such as foreclosures and privatisation, delays arise amid reactions…

The work of the Cypriot authorities and their commitment to the programme has been commendable. Those measures were painful and they have imposed a large short-term cost on the economy and Cypriot society. But they have started to pay off. They have helped to stabilise the economy and to improve the confidence of international investors. Institutional and legal reforms are fundamental to enhancing the business environment and boosting economic growth and job creation. This raises difficult political discussions in Cyprus, as in any country, but such discussions are nonetheless indispensable, as this is about changing the business model of the Cypriot economy, and we are in a democratic society.

6. Policy in the euro area is characterised by the lack of a common approach, given that the ECB is willing to proceed, if necessary, with further monetary policy easing and has called on those governments that have room for manoeuvre to loosen their fiscal policies. By contrast, Germany is set against US-style quantitative easing and urges continued budgetary discipline…

Given the latest indicators, we face the risk of a self-fulfilling loss of momentum in euro area growth. The European Commission just marked down its growth forecast. There is a need for forceful and consistent action on all three fronts: monetary, fiscal and structural policies. On the monetary front, the ECB is playing its part: we have substantially eased our monetary policy stance by putting forward several new monetary policy measures, such as negative deposit rates and a credit easing package, including targeted loans to support lending to the economy, and private-sector asset purchase programmes, which will last for at least two years. Together with the series of targeted longer-term refinancing operations to be conducted until June 2016, these asset purchases will have a sizeable impact on our balance sheet, which is expected to move towards the dimensions it had at the beginning of 2012.

On the fiscal side, all euro area countries have room to make fiscal consolidation more growth-friendly by cutting unproductive expenditures. Some countries have limited fiscal space which can be used to boost their long-term growth potential. Most of them do not have that space, and they should not jeopardise the credibility of our common fiscal framework.

Finally, all countries should act together in order to improve the productivity of the euro area economies, which is lagging behind that of the US. This can be done by creating a business climate that fosters private investment and the allocation of resources to competitive market segments. The planned investment package of the new Commission could play an important role in this process. I very much hope that the European Council will endorse it when they meet in December.

7. With interest rates at zero levels, no other tools remain that could help countries achieve faster growth for their economies. What are the challenges that the governments are facing with regard to stimulating their economies?

The ECB is committed to taking additional measures if we face the prospect of inflation being too low for too long. Price stability is the mandate which was entrusted to us by the people of Europe, and we will fulfil it. But monetary policy cannot support growth in a long-lasting way. Only an adequate mix of reforms and investment can do it. And it is a matter of urgency.

8. What are your comments on the recent controversy with the Governor of the Central Bank of Cyprus?

I don't have specific comments to make on that matter, but let me say that Governor Georghadji is a trusted member of the Governing Council of the ECB and has worked hard for the well-being of Cyprus. After reading what the Government spokesman said on Monday I am pleased to see that there is no disagreement between the Governor and the Government and that the issue is abating.