Benoît Cœuré: Interview in *Alternatives Economiques*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Alternatives Economiques*, conducted by Ms Sandra Moatti and published in the May 2015 issue of the magazine.

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There is a great deal of discussion about the effects of QE. What can you hope to achieve when long-term yields are already extremely low?

Within the euro area, the transmission channel that is almost the most important in my view is confidence. Confidence that the ECB will take its mandate to keep inflation below, but close to, 2% seriously. Before we took this step there had been doubts about the willingness of the ECB to respect its mandate. But it was the only substantive measure possible in the circumstances; we had run out of conventional measures because the scope to lower key rates had been exhausted.

The second channel is to lower borrowing costs, which aren't negligible for companies and households. The policies combating fragmentation in the euro area have borne fruit; now when interest rates for government borrowing fall it has a noticeable effect on corporate borrowing costs across the euro area – which was not the case even two years ago. That's essential if investment is to recover. Sure, rates are already low, but since QE was announced and implemented at the start of March long and very long-term interest rates have fallen significantly in all countries, including Germany and France, and even more in Spain, Italy and those most affected by the crisis, such as Ireland and Portugal.

The third channel works through portfolio rebalancing: it's still too soon to assess that. Bank and non-bank investors who sell us their securities have a very strong incentive to invest elsewhere rather than leave their money doing nothing, with deposits at the ECB costing – 0.20% p.a. The sharp upturn in the real economy should encourage them to lend more to business. In that sense, the time is right: the impact of QE is being felt just as the recovery is being confirmed, and it will reinforce it. It's a mechanism that is potentially powerful.

The final channel, of course, is the exchange rate: this is not an objective in itself, but it reflects market participants' expectations of the different monetary policies being pursued on each side of the Atlantic. If you include the oil price too, you have a combination of factors favouring recovery and investment. So as things stand right now, there is no reason to worry about the euro area recovering in 2015 and 2016. Mind you, all these factors are short-term. One possible concern is the ability to boost the potential growth of the euro area, which has been hit hard by the crisis. That's more a long-term issue, though.

Aren't you afraid that one of the effects of QE will be to create price bubbles for certain assets? Does the ECB have the means to combat these side effects?

Our actions do have an impact on asset prices; you just have to look at the way markets have risen since the public asset purchases started. We monitor risks to financial stability very closely: Tommaso Padoa-Schioppa used to say this was in central banks' DNA. But let's not forget that the objective of monetary policy is price stability. Financial stability involves different tools. As far as we are concerned, it's a question of bank regulation and "macroprudential" tools.

There is one effect you didn't mention: this policy cuts governments' interest rate costs and potentially gives them room for fiscal manoeuvre again.

That is not our objective. Monetary policy serves to guarantee price stability and support the productive economy. Where countries have room for fiscal manoeuvre, lowering rates increases the scope that can be used to support growth, particularly by increasing investment. Where countries do not have this room for manoeuvre, such as France, my advice would be to use the lower rates to lend credibility to debt reduction, rather than to increase spending or cut taxes. However, that's not a matter for the ECB to decide. It's the European Commission that is the guardian of the fiscal policy framework in the euro area.

Would you say that QE is helping immunise the euro area against the risk of an exit by a Member State, even if this is not its objective?

I wouldn't put it like that. It is certainly reducing the risk of contagion in the euro area, but the context right now is very different from 2012. The problem for countries such as Portugal, Spain and Ireland is no longer an exit from the euro area, far from it. Their main concern now is how to capitalise on the return of growth in order to step up the reduction in unemployment and return to normal as quickly as possible. I am leaving out Greece, which is a very specific case in the light of the discussions ongoing at the moment.

It was Greece that I had in mind...

The exit of Greece is not a scenario we are working on. All the efforts being made at the moment are aimed at updating the relationship with Greece in the light of the new priorities of its government, within a framework which remains that of the euro area and which implies rights as well as the duty to respect the common rules. So we are not putting the question in those terms.

You expressed your concern about long-term growth. Couldn't the ECB do more to relaunch investment in Europe in particular through more targeted policies?

It is not for the ECB to encourage particular investment decisions which form part of this or that policy. To do so would be to cross the line between monetary and economic policy. However, everything we are doing at the moment forms part of an approach aimed at rekindling investment. Compared with the traditional policies of central banks, which are geared to the short term, QE is an extension of the intervention horizon of monetary policy. For instance, the average term of the securities purchased as part of QE is nearly nine years. So monetary policy is having more impact than before on the financing conditions for long-term investments. This is particularly crucial for financing investments linked to the energy transition. In short, we are creating favourable conditions for long-term investment, and it is up to the governments and the European institutions to take advantage of these conditions.