

Benoît Cœuré: Interview in *La Croix*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *La Croix*, conducted by Ms Marie Dancer and published on 10 June 2015.

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1. The economy

Are we seeing a real recovery in the euro area?

Yes, we are now seeing a recovery. Growth is returning in the euro area, including the countries that suffered the most during the crisis (with the exception of Greece). However, this recovery needs to be consolidated, as it is only just beginning and remains fragile. First of all, it is being driven by a number of temporary factors: cheap energy prices, combined with the low levels of both interest rates and the euro's exchange rate, which are a result of our monetary policy. We will not be able to rely on these factors forever.

The second area of fragility – of concern, even – is the weakness of investment. Until investment has clearly picked up again, we will not be able to say that the recovery is robust. The ECB has contributed to that pick-up in investment by reducing the cost of both short and long-term financing. (The average maturity of the assets that we have purchased is eight years.) However, a sustainable pick-up in investment requires the involvement of other players. It means having a business climate that encourages firms to invest and a favourable regulatory and social environment. It falls to governments and social partners to determine the rules of the game. Banks also need to lend. Lending is picking up in the euro area, but mainly for large firms. Lending to small and medium-sized enterprises is not growing strongly enough. The new banking regulations are intended to discourage speculation; they are not a reason not to finance the economy.

Should we borrow at the European level in order to invest?

Investment should primarily be in the private sector, so the priority, again, should be the creation of a favourable environment. The financial conditions have been achieved, but the regulatory and fiscal conditions have yet to be put in place. The question, then, is whether we need greater public investment in order to act as a catalyst. Yes, certainly – but only in countries with sufficient room for manoeuvre.

Is the recovery not artificial, driven by liquidity?

Prosperity should be judged on the basis of growth and the declining unemployment rate. Liquidity is merely a tool serving that objective. Unemployment has begun to fall – albeit gradually – in the euro area. But in a number of countries, including France, it is not yet declining. In this sense, you are right – the job has not yet been completed.

Is France lagging behind?

I am French. I have faith in my country's ability to create growth, as we have numerous assets, such as our demographics (which are more dynamic than the European average), our ability to innovate and the strength of our exports. So I have no concerns about France's position in the euro area and the world in the longer term. But France is out of step with neighbouring countries such as Ireland and Spain, which have carried out more reforms and done so earlier – not to mention Germany, which is benefiting from even older reforms. At the moment, those countries are reaping the benefits of their reforms in terms of growth.

Are the reforms in France sufficiently ambitious?

Reforms are always more difficult in larger countries, but I am in no doubt that France is on the right track. Now that the recovery has clearly begun, we need to make it stronger and more sustainable. The ECB's actions have created a window of opportunity for reforms. There is a risk that the pace of reforms will slow because of the electoral timetable, but now is the time to push ahead with them.

What is working worst in France?

It is not for the ECB to highlight good and bad points or go into detail about reforms carried out by elected governments. Much has been done to reduce the burden on firms through the Responsibility Pact and the Competitiveness and Employment Tax Credit (CICE), and efforts are being made to cut public spending. We can argue about those efforts (since the ECB would like them to be more ambitious), but efforts are being made. The area where France suffers in comparison with the rest of the euro area is the labour market. It would benefit from moving towards a labour market that is more inclusive of people who have problems finding employment.

2. Financial markets, liquidity and bubbles

Is the excess liquidity that has been injected into the markets – notably by the ECB – not paving the way for a bubble and the next crisis? Are the markets not high on liquidity?

The ECB has pursued its policy of monetary easing – rock-bottom interest rates and purchases of securities in the markets – in order to return to growth and inflation below, but close to, 2% in the euro area, in line with our mandate. We know that this policy has some side effects.

It is true that there is a lot of liquidity in circulation. We are not currently concerned about financial bubbles in the euro area. Financial assets are not over-valued at present; I am thinking of stock markets in particular. But we remain very vigilant in this regard, particularly since rates will remain low for an extended period of time.

Does this mean that the economists who are sounding the alarm are correct?

Such warnings are useful. We must learn the lessons of the financial crisis, which we have scarcely emerged from, and ensure that the growth model in the euro area is different from that which led to the crisis – based on uncontrolled debt, risky (and even unlawful) behaviour by some banks and non-productive investment (e.g. investment in the Spanish and Irish property markets).

To that end, we now have new instruments. The financial sector is much better regulated – thanks, first of all, to the banking union, which allows banking supervision to be independent of political pressures, strict and harmonised. The banks are also better capitalised, and we have new “macro-prudential” instruments aimed at preventing bubbles and financial instability, which we should not hesitate to use.

The ECB is also involved in discussions regarding financial regulation at the global level, where we are arguing that the non-bank sector – “shadow banking” – should be supervised just as rigorously as the banks.

You are not worried that an abrupt reversal in the markets could quickly break through all of these firewalls?

Admittedly, there has been some short-term volatility in the markets [ed.: yo-yoing rates]. That is inevitable, not so much because of the monetary easing pursued by the ECB, but because of uncertainties in the global economy, which went through a soft patch in the first quarter of this year. The financial markets need to adapt to the fact that we now have very different monetary policies in the United States and the euro area and a new regulatory environment. That is causing a lot of uncertainty and will entail a period of adjustment.

The ECB does not intend to counter that volatility in the short term, which would effectively give market participants a free insurance policy. However, we will not allow excessive fluctuations in financial markets to threaten the achievement of our objective, which is to ensure price stability in the medium term. The best contribution that we can make is to be clear about the future direction of monetary policy. For this reason, we have been clear about the fact that purchases of securities will continue until September 2016 at least, and longer if necessary.

Does the ECB still have room for manoeuvre, or has it now used all of the tools at its disposal?

The reason that rates are at zero and purchases of securities are being carried out is because we want to kick-start the European economy and raise inflation towards 2%. This is a temporary strategy aimed at responding to the very specific situation that we saw in 2014, when inflation rates deviated from our target on a lasting basis and flirted with deflation.

Were we to abandon that policy today, we would plunge the euro area into an undesirable situation where both growth and inflation were weak in the long term. Some people refer to that as the “world of 1%” – i.e. 1% growth and 1% inflation. There is, of course, no question of us doing that.

But monetary policy cannot do everything. In order to avoid the “secular stagnation” that certain economists fear, monetary policy must be supplemented by (i) responsible fiscal policies that use available room for manoeuvre in countries where it exists but prevent debt from exploding in countries where debt levels are high and (ii) an economic environment that allows firms to invest and create jobs and fosters employability.

Does the ECB feel that it is alone in tackling the crisis in the euro area?

We are independent of governments, and vice versa. There is dialogue between the various European institutions, but there is a concern that monetary policy is the sole response to the current crisis. That would be doomed to failure.

Does the ECB’s quantitative easing signal a return to currency wars?

There are no currency wars at present. The depreciation of the euro is the result of differences between the euro area and the United States in terms of their respective positions in the economic cycle and, accordingly, their monetary policies. Our partners recognise that our monetary policy decisions are appropriate given the situation in the euro area. This is not a question of seeking to influence the euro’s exchange rate, in respect of which the ECB has no specific objectives.

3. Greece

Could the ECB find itself on the front line when it comes to saving Greece if the negotiations fail? Could it end up having to print money? Will this involve it operating outside of the European treaties?

We are already on the front line and we are fully playing our part as the central bank responsible for all 19 countries that share the single currency, including Greece. The liquidity provided to Greek banks by the Eurosystem (the ECB and the Bank of Greece) has increased from €45 billion in December 2014 to €119 billion today, which gives you an idea of the extent of the support provided by the ECB to Greek firms and households.

However, our ability to act is governed by rules stemming from the treaties, which have been approved by European citizens: on the one hand, we can only lend to Greek banks if they are solvent and provide collateral, and on the other hand, we are not allowed to lend to the Greek government (or any other government). It is for the governments of the euro area, which together form the Eurogroup, to decide whether they wish to lend to the Greek government and under what conditions, not for the ECB.

In 2012 Mario Draghi said he would do whatever it takes to save the euro, but within the ECB's mandate. The ECB is an institution that has powerful instruments, but it can only use them within the narrow scope that has been set for it by the treaties, under the supervision of the European Parliament and the Court of Justice of the European Union. Respecting the law is fundamental to respecting democracy.

That being said, I refuse to discuss a Greek exit from the euro area because we are not working within that framework. We are financing the Greek economy and we are working alongside the IMF and the European Commission to secure an agreement with Athens, with the aim of keeping Greece in the euro area.

Should Greece's debt be restructured?

This question is not taboo, as the Greek debt has already been restructured for private banks. As for the public creditors, they have already agreed to significant adjustments regarding the extension of repayment periods and rate cuts, with the result that the Greek debt burden is now significantly lower than that of Italy or Spain as a percentage of national income.

Should more be done? The answer will depend on the final terms of the agreement between the creditors and the Greek authorities. This is the yardstick against which we will reassess the sustainability of the debt. The money that is at stake belongs to taxpayers in euro area countries, so it is for their governments, not the ECB, to make decisions in this regard.

Could the ECB make some kind of gesture?

The ECB's claims on Greece stem not from loans that have been granted to the country, but from bonds purchased in the capital markets at the height of the crisis to improve the transmission of our monetary policy decisions. We are not allowed to restructure them, as the treaties prohibit us from providing financial assistance to states.

The negotiations between Greece and its creditors seem to be a dialogue of the deaf...

The goal is to strike a balance between the programme of a newly elected government that has strong democratic legitimacy and the interests of the other euro area countries, which are also democracies. The issue is not just the reforms that are necessary for Greece, but also the fact that these reforms are financed by taxpayers in other countries, who have also been affected by the crisis.

Would a Greek exit from the euro area trigger the demise of the single currency?

The ECB, I reiterate, wants Greece to remain in the euro area. If, one day, a country were to leave the euro area, that would be a serious warning sign for Europe, because the question would inevitably arise as to whether such a scenario could be repeated. But the answer to this question is widely known – it seems to me that there is a broad consensus concerning the conditions that enable each country to benefit from the advantages of the euro on a lasting basis. These conditions include accountability before, and solidarity towards, peers. These common values should be reflected in national and European institutions. Incidentally, the countries that have committed themselves to these values have successfully overcome the crisis (notably Spain and Ireland). So I am not at all worried about the cohesion of the euro area. But if a country were to decide to depart from this consensus, that would undoubtedly oblige the other countries to unequivocally consolidate their commitment to the values I just mentioned by accelerating the process of strengthening the euro area. This would entail the acceleration of a process of institutional reflection which is currently a long-term endeavour.

Is the IMF being too demanding?

The IMF has a different mandate and different shareholders from the European institutions. It works on behalf of 188 countries, most of which are not in the euro area and have a standard of living lower than that of Greece. So the IMF has concerns regarding equal treatment that I think are entirely legitimate.

4. The institutions

Is the euro area today strong enough to face up to a new crisis?

Yes, I am certain it is. Thorough reforms have been implemented since 2010 to reinforce the responsibilities of member countries (notably in fiscal matters), as well as solidarity between them (with the creation of the European Stability Mechanism), while the banking union strengthens banking supervision and has broken the financial link between banks and states.

But we are still only halfway there. We have not yet reached the point where we can be completely at ease about the strength of the euro area in the long term. It is essential that each country implements responsible policies. Economic policies and structural reforms need to be better coordinated, in the common interest, so that each economy becomes more resistant to shocks. The resilience of the euro area as a whole must also be strengthened.

This could be achieved, for example, by giving the euro area a specific budgetary capacity, the use of which would be subject to democratic oversight. The presidents of the European Council, the European Commission, the Eurogroup and the ECB will soon publish proposals on these issues.

Hasn't the euro been a failure, given the substantial divergence among the 19 countries that share the single currency?

No, the euro has not been a failure. It has given our firms access to larger markets and brought about more favourable financing conditions. It is also a symbol that unites Europeans and to which they attach value.

The financing conditions which led to the crisis?

The euro did not cause the crisis. What led to the crisis was that we allowed money to be invested in non-productive activities, like the housing market. We also allowed certain countries to file false accounts and accumulate debt far beyond reasonable levels. This must

be rectified, but the existence of the euro itself has spurred growth in the euro area. Now we have to continue to identify, one by one, the sources of weakness, and propose solutions.

What role can the ECB play in the face of the rise of populist movements? Many people believe that it is not a democratic institution...

The best way to respond to Euroscepticism is to create growth. I repeat, we are using the tools at our disposal to work towards this. Everyone should do likewise.

The ECB is a European institution that has been given certain duties to perform, within a democratic framework. The treaties have been validated through a democratic process. The ECB is accountable to the European Parliament, and it is becoming more and more transparent. It nowadays also explains its actions to national parliaments. We have also increased transparency regarding our decisions by publishing the minutes of monetary policy meetings. One day, I am sure, we will publish how the different members of the Governing Council vote. We have already come a long way in this regard, and we will continue to follow this path.

Will the ECB save the euro?

The euro is no longer in danger in the way that it could have been three years ago. But your question is revealing – it shows that society's expectations of central banks are still excessive. In one respect, the fact that the ECB is independent of political constraints means that everyone pins their (unrealistic) hopes on it in terms of economic policy. But this is unreasonable!

If too much is asked of central banks, they will become beholden to vested interests and less effective, losing their legitimacy in the process.

But isn't this evolution of the role of central banks irreversible?

The best response is to show that we can consolidate growth without relying on monetary policy. This is the biggest issue for the coming months and years. To fulfil their goals in an extraordinary economic environment, central bankers have had to take no less extraordinary decisions that have placed them centre stage. As soon as stability returns, I have no doubt that they will return to their ploughs, like Cincinnatus in Roman times.

Are you a candidate for the position of Governor of the Banque de France?

This is a decision for the French President alone. The Banque de France is the ECB's second-largest shareholder. It is a magnificent institution that should continue to make its voice heard in the euro area and in global financial debates.