

## **Benoît Cœuré: Interview in *Le Monde***

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *Le Monde*, conducted by Ms Marie Charrel, and published on 27 July 2015.

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### **Can the threat of Grexit be ruled out?**

I hope so. This was the first time that the question of keeping a country in the euro area had clearly been asked. This question was not put to the ECB, however, but to the government leaders, in a highly political manner. They answered it with the agreement of 13 July. The message is clear: everyone wants Greece to remain a member of the monetary union. They are prepared to continue to show unprecedented financial solidarity towards Athens, but not at any price. Greece must implement reforms that will ensure economic growth and stability.

### **Must there be debt relief for Greek public debt?**

That is no longer a matter of debate. Moreover, the European leaders have shown willingness to discuss this topic. In truth, the question is not whether Greek debt should be restructured, but how to do it so it really benefits the country's economy. Hence the importance of making this restructuring, whatever form it may take, conditional on the implementation of measures that will contribute to strengthening the economy and ensuring the sustainability of the Greek public finances.

### **Will the third rescue package succeed where the first two failed?**

One of the keys to success lies in the capacity of the Greek government to make its citizens understand that the measures requested are not a form of punishment. These measures are crucial to both the development of the economy and the good functioning of the administration. The programme's reforms do not aim to impose unbridled neo-liberalism on Athens. On the contrary, they aim to create a modern and fairer fiscal, social and legal framework, and to build an efficient state that is able to intervene in the economy for the common good, something that the Greek state has often failed to do in the past.

### **The role of the ECB in the Greek crisis has been heavily criticised. Some accuse it of having suffocated the country's banks, others of having helped them too much. Who is right?**

We are the central bank for the 19 countries of the euro area, including Greece. That is our mandate and we have never strayed from it. Since the end of 2014, the amount of liquidity injected into the Greek economy by the Eurosystem has increased from €40 billion to €130 billion. We have taken care that our actions are never a replacement for the political decision-making process. That people are turning to the central bank on issues that demand a political rather than technical response reveals a serious weakness in the institutional functioning of the euro area. This weakness fuels excessive expectations concerning the ECB.

### **What is the nature of this dysfunction?**

If proof were needed, the summit of 12 July provided an example: the 19 government leaders of the euro area were shut away for 17 hours to discuss the details of measures expected of a country that makes up less than 2% of the region's GDP. The decision-making mechanism at the heart of the monetary union does not work well. It is based on an intergovernmental principle that is no longer appropriate. Each of the leaders considers public opinion in his or

her own country, and his or her own country alone. As a result, the compromises reached are unlikely to be the best outcome for the euro area as a whole, but instead represent the greatest common denominator between the member countries. Further, they are the result of never-ending negotiations that increase uncertainty. The five months of negotiation on Greece have come at a significant economic and financial cost. There is an urgent need to abandon this intergovernmental process in favour of a process of shared decision-making based on votes and democratic legitimacy.

**So, in short, you are calling for a form of economic governance at the heart of the euro area, which implies further transfers of sovereignty. Do member countries really want this?**

One thing is certain: if this issue is not addressed, starting today, the monetary union will face the same type of crisis again and again. The Greek crisis has let the genie out of the bottle regarding countries leaving the euro area, and it will not be easy to put it back in again. How to proceed? By understanding that replacing the intergovernmental process with shared decision-making will not diminish the sovereignty of member countries. On the contrary, it will provide more room for the political dimension by ensuring shared responsibility that will enhance mutual trust. Today the ECB functions on the following principle: the Governing Council has a discussion, it then votes if necessary, before moving on to something else. And that works! Take as an example the implementation of the European fiscal framework, which has become complex and opaque. If there were European fiscal instruments that were discussed within a “ministry of finance” for the euro area, under the watchful eye of the European Parliament, political discussion would regain its clout. That would give it some meaning again in the eyes of Europeans.

**What do you think of François Hollande’s proposals in the Journal du Dimanche of 19 July concerning the creation of a tightly-knit “avant-garde” at the head of the euro area?**

Those proposals go towards strengthening the governance of Economic and Monetary Union and are consistent with the “Five Presidents’ Report” published in June, which Mario Draghi co-signed. The ECB needs a strong political counterpart. Otherwise, there will always be a temptation to hold us responsible for political decisions. That was evident during the Greek crisis.

**What risk is the euro area running if it doesn’t go in that direction?**

It would condemn itself to weak growth. The 19 member countries have considerable resources in terms of activity, innovation and human capital. Pooling these resources, for example by completing the single market and having free movement of workers and a common market for capital, would provide a vital boost to growth in the euro area. But giving up on the integration process would create a permanent climate of uncertainty about the integrity of Economic and Monetary Union, which could only be detrimental to investment and employment.

**How can the European project be reinvigorated?**

Its initial goal, which was to guarantee peace, provide an anchor for democracy and promote prosperity, has lost its substance to a logic that is primarily economic and financial. The top priority remains growth and employment. Without that, Europeans will have difficulty understanding and accepting any steps towards further integration. The ECB’s actions and the Juncker plan both go in this direction. But at the same time, the European Union must look to the future and reflect on the project that it wishes to offer its people. It needs to remind them of our shared objectives and values, what Pascal Lamy calls the “European

narrative". In recent weeks many Europeans have been asking themselves: why pay for the Greeks? Only a strong political project, recalling why solidarity between the member countries is essential, while reaffirming the principle of responsibility for the countries which share a single currency, can offer them an answer.

### **What errors were made in the construction of the euro?**

Since the introduction of the single currency, the differences in competitiveness and economic performance have grown. These differences are partly responsible for the crisis. And we haven't reacted sufficiently. It's a lack of collective vigilance, but also of solidarity, because warning a neighbour that their internal imbalances risk doing them no good, that's what solidarity is. In the same way, governments can be inspired by reforms which have proven successful in other countries: why not benefit from that collective richness?

### **Have the Member States, notably France, gone far enough in respect of structural reforms?**

The efforts undertaken are going in the right direction, but it's no easy task. The countries of the euro area are facing a double challenge: preparing for the future by investing particularly in the digital economy, big data and the environmental transition, while managing the burden of the past, namely, public and private debts. Their room for manoeuvre is therefore limited, and the factors supporting growth in the euro area today, the favourable financing conditions, cheap energy and the weakness of the euro, are by nature temporary. To secure the future, the measures that are likely to increase productivity and labour market participation have to be emphasised from now on.

### **The ECB started its programme for purchasing public and private debt (quantitative easing) in March. Is it working?**

The first months have been encouraging: contrary to what some were saying, we have had no difficulty finding assets to buy, indicators of the inflation expectations are showing signs of recovery, lending to non-financial corporations is trending upwards, the recovery trajectory is there to be seen and we expect inflation to move back towards 2%. But we are only at the start of these asset purchases, which we plan to maintain until September 2016, and in any case until we see a sustained adjustment in the path of inflation, in line with our objective. It would be quite premature to start talking about the end of this programme.