Benoît Cœuré: Interview in *El Financiero*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in *El Financiero*, conducted by Ms Leticia Hernández Morón, and published on 4 November 2015.

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How can the financial system be kept stable amid divergent monetary policies?

Monetary policies in advanced economies are indeed set on different courses as a result of different positions in the business cycles. The United States is at a more advanced stage in the cycle compared with the euro area, where the policy is and will remain more accommodative. In view of the current volatility on the global financial markets, it is vital that these different paths are not in themselves a source of instability. I think the key word here is transparency. As central banks, we need to be as clear as possible about what we are thinking and heedful of the financial reaction. In the case of the ECB we introduced forward guidance in 2013, we have been very clear about the path of accommodative policy due to the economic situation, and we have been specific about the downside risks in the scenario, particularly at the ECB's most recent meeting in Malta. The Governing Council saw an increased risk that inflation would stay too low for too long, and concluded that additional monetary policy reactions could be warranted, should this risk materialise. Thus transparency is the key word.

What are the side effects of the ECB's monetary policy outside the euro area?

We are mindful of the impact of our decisions on the rest of the world, and in particular on neighbouring economies. But our mandate is limited to the euro area and in the end, the best contribution that we can make to the global economy, also to neighbouring economies, is to make Europe as robust and stable as possible.

How have you handled the effects of the monetary policy of the US?

The decisions taken by the ECB are based on the region's economic and financial situation and do not specifically follow any adjustment made in the United States by the Federal Reserve System or in any other part of the world. We ensure that the financial conditions in Europe are appropriate for the economy.

What measures have to be taken to manage the risks of greater global financial integration without losing the benefits that it brings?

Volatility is currently high in global capital markets, due to macroeconomic uncertainty and changing business models. In such an environment, policy-makers could be tempted to take a protective stance and ring-fence their financial systems. But that would hamper the efficient allocation of resources in the global economy, or in other words, that would be bad for growth and jobs. The Financial Stability Board and the other financial standard-setting bodies, such as the Committee on Payments and Market Infrastructures which I chaired last week in Mexico, play an important role in keeping everyone together and ensuring that the new financial regulations are implemented consistently. Financial protectionism is a temptation that we all have to resist.

Do you think that developments in the financial sector have made the world a riskier place?

The financial sector is much more secure than in 2008 because the regulatory and supervisory environments have been much strengthened. The banks are smaller, their conduct has improved and they are better capitalised. The financial system's resilience to shocks is much better now than in 2008. But there is no room for complacency. Digital banking and digital finance have the potential to change market structures very rapidly. There is also room for better oversight of non-bank players ("shadow banking") and better incentives for bank senior managers. The regulatory community has to address these changes. But in general I think that we are at a more secure juncture than before the crisis, especially because the banking industry is more regulated and better supervised. And in the euro area, by taking responsibility for banking supervision exactly one year ago, the ECB has certainly contributed to this.

The surplus liquidity is not getting to the market and is reflected in the prevailing deflationary conditions. Where is this liquidity staying?

The most important question for me is: how can the economy create better long-term investment opportunities, so that liquidity goes to the right place? This is the question on which policy-makers should focus their attention. Central banks can provide liquidity and improve financing conditions, but at the end it is the responsibility of elected governments to make their economies more business-friendly so that profitable projects can materialise.

What did the ECB learn from the Greek episode?

Greece is unique and but the Greek experience offers useful lessons on the functioning of our monetary union: until 2010 in Greece, wrong decisions were taken in the public sector and macroeconomic imbalances were allowed to build up. The lessons for the future are that euro area countries should understand that their decisions will also impact on their neighbours, and that they have to enforce policies that are fiscally prudent and prevent imbalances from emerging. Prevention is key. Coming back to Greece, Member States agreed in August to provide further financial assistance in exchange for a comprehensive reform programme. The conditions are now met for confidence and financial stability to return as soon as possible, provided that the programme is implemented swiftly. The health check by the ECB of the large Greek banks is another step forward, and bank recapitalisation should be completed by the end of the year.

Do other countries worry you?

The situation in the euro area is considerably more robust than it was a couple of years ago. Financial conditions have improved thanks to ECB measures; governance has been strengthened and we have instruments to maintain stability that we didn't have a couple of years ago. Banking union delivers strong banking supervision. Finally, reforms in various countries such as Spain and Italy have already started strengthening those economies. That is why our recovery is now solid, and the main risks to it come from outside of Europe.

Is there a before and after for the euro area following the Greek crisis?

Policy-makers are learning that being part of the single currency comes with benefits but also with responsibilities. Monetary union is not a technical enterprise: it is a political project. A stable monetary union requires convergence in economic performance, sound national policies and a sense of shared responsibility, with common instruments. A lot has been achieved already but we're not yet at the end of this process, as the "Five Presidents' Report" (signed by the European Council, European Commission, Eurogroup, ECB and European Parliament Presidents) demonstrated earlier this year.

What's the outlook for the year ahead?

The first thing we want to achieve is price stability and that means maintaining trust in our capacity to raise inflation to close to 2% over the medium term. That's our priority. A second one is to continue the construction of banking union by delivering strong and harmonised supervision across the 19 participating countries.