Benoît Cœuré: Interview with *France 24*

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, with *France 24*, conducted by Ms Stéphanie Antoine on 8 June 2016, and broadcast on 9 June 2016.

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The pound sterling took a further hit following news that the Brexit camp might win the EU referendum. The IMF believes that a Brexit would cause the UK's GDP to fall between 1.5% and 9.5%. What would be the impact of a Brexit on the British and European economies? Have you quantified it?

It is not the job of the ECB to make this kind of calculation. The IMF does that very well already. I think they have clearly explained the possible mechanisms. We believe that it is in the UK's interest to stay in the European Union and in the EU's interest to keep the United Kingdom in the EU. Together we are stronger, and we will all be stronger, including the UK, if it stays in. Of course, it's now a sovereign choice and the decision of the British people must be respected, whatever it may be.

Are you concerned about a Brexit?

The competent authorities are preparing for all scenarios, as they should. In this context, the ECB's responsibility is quite limited. It is to provide reassurance on the possible impact of a Brexit, if that came about – which we hope not – on the confidence of economic players and on the stability of the financial markets. From that perspective, the ECB is preparing itself for all eventualities, as it has always done in such circumstances, and preparing to take steps to stabilise the markets, notably by providing liquidity, as we have always done in such circumstances. It's simply what we do.

So a Brexit could have an impact on the ECB's monetary policy?

No, not necessarily on monetary policy, but on the access of economic players to liquidity, even if I firmly believe that won't be necessary, because everything has been well prepared. If it did prove necessary, and we will do what we have to, in coordination with other central banks, as we have always done in these circumstances.

Turning to Greece, an agreement was reached on 24 May between Athens and its creditors, and the tug-of-war to release the next tranche continues. What do the Greeks have to do to obtain this new loan?

No, there is no tug-of-war. There are a number of commitments that were made by the Greek government vis-à-vis the Eurogroup, as you pointed out. The Eurogroup asked the Euro Working Group and the institutions concerned to verify the implementation of this agreement, and we are almost at the end of this process. I am very confident that in the coming days they will dot the i's and cross the t's of the agreement, which will open the way to disbursing this tranche of aid to Greece. This will be the culmination of much hard work on the part of the Greek government to comply with the terms of the agreement made in summer 2015. It is really significant effort, with very substantial reforms, and I think we can all be pleased that we are approaching the end of this phase of the discussions.

People are asking, and rightly so, if the Greeks are doing enough to satisfy their creditors...

We are checking the details. I am not worried about the fact that the decisions can be made in the coming days.

As long as there is no growth in Greece, won't it be very difficult to make reforms?

Yes, that's true and that's what's making the situation difficult for the Greek government and for the Greek people in general. But, on the other hand, if there's no reform, there's no growth. So the reforms are vital – the sooner, the better. That's why I am glad that we are now very close to an agreement. The faster the agreement is concluded, the sooner confidence can return to the Greek economy, including depositors' confidence in Greek banks, foreign investors' confidence in the Greek economy. I believe there is a real chance now to enter a positive spiral of confidence for the Greek economy. We are very near to it.

Olivier Blanchard, the IMF's former chief economist, is calling for a fresh restructuring of Greece's debt. What does the European Central Bank, as a very large holder of Greek debt, think of this?

He's right. To begin with, let's not forget that Greece's debt has already been restructured. It is sometimes said that Europe waited for too long and that it is now time to start restructuring Greece's debt. Let's bear in mind that Greece's debt was already restructured twice in 2012, with its private debt cut in half and its public debt undergoing extensive restructuring, with a prolongation of maturities and a cut in rates, which already represents an improvement of the terms of the debt.

Therefore the question is: "Is a third round of debt relief for Greece necessary?". And the answer is: "yes". Moreover, during the Eurogroup discussions and the discussions that we are having at the moment, the ECB has approved an analysis of the sustainability of the Greek debt which was carried out with the European Commission and the European Stability Mechanism, which shows indeed that there are serious concerns about the sustainability of the Greece's debt, if there are no relief measures. So the ECB agrees with this diagnosis: relief measures are needed to reduce Greece's debt and put it back on a sustainable path. The Eurogroup is committed to this and I welcome this decision.

It's very new for the ECB to speak out in this way…

No, we've said it, the ECB's President has said it. It's new because Greece's situation has changed. And the longer the situation is drawn out, the more urgent the need to alleviate the Greek debt becomes. But, again, it is no substitute for the reforms which are needed to restore growth and productivity to the Greek economy. It is a supporting measure. What is truly needed to put Greece back on a growth trajectory is reform.

Turning our attention to France, is the proposed new labour law, known as the El Khomri law, a good reform?

Let me say that, seeing this from Frankfurt, and from a European point of view, the tone of the French debate is sometimes a little surprising. This law is described in the French debate, as an ultra-liberal law. In fact, if you look closely, there are elements of flexibility, elements of decentralised decision-making, and there are also elements of additional rights for employees. From a European perspective, it is somewhat surprising that people in France are concerned about a labour market reform process which has been conducted elsewhere in Europe, by governments of both left and right – I can think of the Italian government as an example. The El Khomri law is in keeping with the reform of the labour market in Europe; it's a law that will create jobs; it's not a law that disadvantages young people, as I think Laurent Berger has said; it's a law that will create jobs, especially for the young.

So it should be done – is that what you're saying?

Yes. But it's certainly not up to the ECB to judge the details, the legal form, the various articles... What I'm saying is that there is a dynamic under way in labour market reform which, experience has shown, has been a success in other European countries, regardless of their political inclination.

Should the public deficit be increased, just in order to push through a structural reform like this one?

This is an important debate, but it's also important to draw a distinction between countries. In general, it is true that, from the ECB's point of view, monetary policy has had a lot to do to stimulate growth in recent years; better support by fiscal policy would allow the ECB to do the job better. We are convinced about that. Now, the kind of fiscal support necessarily differs from country to country depending on their budgetary and economic situation. It has to be said that there are very few countries in the euro area that have the fiscal space, that have the freedom to increase their deficit...

Is that the case for France, Mr Cœuré?

No, I don't think that is the case for France. France's public debt has increased very rapidly over the past 10–15 years, regardless of the government in power, so, again, this is not a matter of politics. French public debt has increased very sharply. Can we really afford today to advise the French government, of whatever kind, to increase the debt still further, to incur further debt for the French? I think the answer is "no". Therefore, the remedy differs according to the country.

In all euro area countries, however, there is significant fiscal space to have a coherent mix of fiscal policy, i.e. make an effort to redress unproductive spending, to steer fiscal policy towards promoting growth, i.e. either by cutting taxes when they are too high or by making public investments, especially for young people, in research, innovation, or wherever it can be put to good use. So this discussion on the quality of public spending is important for all countries and it is important for France.

Aren't the monetary policies of the central banks – with their very low, even negative, interest rates – risky? There is a real debate on this subject...

I encourage all of our critics to take a few moments, a few seconds, to consider what things would be like now if we hadn't done what we did. If the ECB hadn't taken the measures it has taken in recent years, there would be no growth in the euro area. Inflation, according to our calculations, for what they are worth, using models developed by ECB economists, would be half a point weaker, i.e. it would be negative, with all the risks of a deflationary spiral that that entails. Thus, the alternative scenario is frankly not very attractive.

Monetary policy has helped to boost growth in the euro area. Of course, it is not enough. You need reforms, you need productivity, you need projects to finance. We can make the financing of projects more attractive but then there have to be projects to finance. It's up to firms and the Member States to take care of that. But without the impetus provided by monetary policy, growth would not have picked up. Behind your question, there is the issue of possible risks to financial stability...

Yes, the risks of bubbles....

Well, we can't see these bubbles. There are no credit bubbles in the euro area. Moreover, the banking sector continues to shrink in the euro area, and for good reason: the size of the banks had become excessive. There is no overvaluation of assets, for example, on the stock and property markets, on average, in the euro area. There may be small bubbles, some simmering in certain segments of the markets, but that is for the national authorities to deal with. But there is no financial stability problem in the euro area today. We are vigilant, we will continue to keep a close eye on developments, but at the moment the assessment is clearly positive.