Benoît Cœuré: Interview with CNBC

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and CNBC, conducted by Ms Julia Chatterley in Davos on 20 January 2017.

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Thank you so much for speaking to us today. So on the bright side, the data's looking more solid, but on the downside it's giving ammunition to the hawks.

Well, we had that conversation yesterday in the Governing Council, and that was really about taking stock after our decisions in December, and the first thing is that-, and the first very positive thing is that what we have decided in December has been instrumental in maintaining the right financial conditions for Europe, which, given overall uncertainty shocks coming from outside is really extremely useful for the economy, so that has worked very well. And second, we discussed growth and inflation. Growth is firming up, so recovery is unfolding in a very nice way, in a very solid way. And inflation is creeping up, as we know. We spent most of the meeting discussing sustainability, and the conclusion was clearly that we want to know more before we can pass a judgment on inflation-, higher inflation being sustainable, and then adjust our programme. That's too early.

The Germans would argue, actually, that their inflation levels aren't creeping, that they're a concern now, and Wolfgang Schäuble said you need to raise rates. When is he going to stop interfering with the independence of the central bank?

I know that Mr Schäuble puts a lot of value on the independence of the ECB, so I'm not too worried about that. What people really have to understand, have to appreciate, and he knows it very well, is that our mandate is about eurozone inflation. So we follow eurozone inflation. Our policy has clearly been working, so that's also one of the positive conclusions. It is working. It is also helping to push inflation up, so everything we are doing is working, and if it's in the interest of Europe, it must be in the interest of Germany, obviously.

Would we say he's being a responsive politician, rather than a responsible one, because he does have elections this year?

He has always been a responsible politician, and he has always had in mind the interest of Europe, so really I am not too worried about that.

Even you said, though, after the December meeting, that the message that the market should take from this is that QE can't last forever. Is that a firm push, once again, that countries need to reform?

So it won't last forever, but again, we didn't have that discussion yesterday, it's too early to have the discussion on when it ends, and even when we taper. That discussion hasn't started yet, because inflation is not firm enough, is not sustainable enough, and that will come, but it will come later. Second, of course governments have to reform. Anything we are doing is not going to push long-term growth in Europe up. I mean, it's not going to improve the potential growth rate of Europe, and for that you need more productivity, you need a better employed labor force, and that's not what the ECB can achieve.

You said you're not talking about tapering at this moment, but you must discuss what tapering would look like for the markets, particularly given the conditions in Europe at this moment. Do you worry about a 'taper tantrum' in the same way that we saw in the United States?

No, we haven't really-, we haven't discussed the shape, the other modalities of tapering. That discussion will come, it's not coming yet.

But do you worry, given the environment in Europe that you're literally just going to have to keep up with the stimulus, that you're not going to be able to taper, as you're talking about? One strategist told me this week that we're going to see negative rates for two to three years in Europe. I mean, that's a real problem.

We'll be able to taper when we have to taper. We still don't have to taper.

So we've got a lot of political risk, as well, in Europe this year. The President of the Eurogroup said to me yesterday he worries about political paralysis, politicians afraid of voters and afraid of markets. That's a problem.

It is a risk, it is a risk for us. I mean, the ECB is not political animal, we are not a political institution, but we operate in an environment where we need reforms to make what we do more efficient, and we need political bodies, policy makers, to be able to get their act together whenever something bad happens to the eurozone. And yes, the risk today is not that much political risk in individual countries. It's a risk that the ministers, Eurogroup, will not find the strength to unite, to put their heads together and act as one, if anything bad happens to the eurozone. So that's a concern. The only answer is to-, step by step to make the eurozone stronger, and to create this sense of commonality, a sense of the need for common action.

We are very divided, the eurozone is very divided at this moment, and there's obviously elections this year. Do you worry about a lost year?

I wouldn't say the eurozone is divided. It's just a risk of being too inward looking.

Do you worry about a lost year, in terms of policy?

It's not a lost year, I mean, there are reforms in countries, reforms are continuing in different countries, but certainly there is a need to take a step to make the eurozone significantly stronger. At some point there will be a need for a quantum leap into making the eurozone more united, stronger, but that's not going to happen this year.

Or next year, or the year after, because no one wants that anymore. The voters don't want that anymore.

Well, the burden of proof is on us. It's on European institutions. The burden of proof cannot be on voters, that's not how democracies work.

Let's talk about Brexit. The President of the Eurogroup said yesterday that the UK's looking at massive unemployment, and that it will go back to the 1970s.

I am not going to comment on the economic consequences of Brexit. What we are really focused on, and we are very close to the Bank of England, we are exchanging views, sharing notes with the Bank of England. They know what will be the consequences, so I will entirely defer to Mark Carney to pass that kind of judgment, and I fully trust him. What we start considering is the structural consequences of Brexit. How is that going to impact the landscape for financial services? The infrastructures that we need in the eurozone to create growth, etc. It's probably too early to tell, but it's shaping up, I would say, so we have to start thinking about it.

We had some voices yesterday saying that even with a hard Brexit, euro clearing will remain in London. How does the ECB feel?

Well, I mean, first, , before moving to clearing, per se, generally it seems pretty clear now that the

UK will not stay in the single market. Single market is not only about tariffs, it's not only about free access to a market. It's a set of rules. It's a set of rules to protect investors, it's a set of rules to protect consumers, it's a set of rules to ensure a level playing field, among institutions, and it's a set of rules to provide-, to deliver financial stability. When this is gone, we'll have to know which set of other rules will protect investors, provide a level playing field and provide financial stability, and that's very much the background against which any specific issue has to be assessed. So when it comes to clearing, it's very simple. We have an MoU with the Bank of England, we have ways to know what's going on in terms of euro clearing in London. It works very well. Thanks to our good cooperation with the Bank of England, it works very well. But it has foundations, the foundations are the EMIR regulation, the foundation is European law, and it's European law being implemented under the authority of the European Court of Justice. So when this is gone, we'll have to know what are the new foundations, and whether this is good enough to ensure financial stability in the eurozone. So really, our core concern will be financial stability and investor protection, and having a level playing field for eurozone consumers, citizens and companies.

So there are situations where the UK could leave the single market, and you would be comfortable leaving euro clearing derivatives in London, rather than bringing it to the eurozone.

If the new framework is strong enough, yes. Is that possible? I don't know. I don't know. It sounds challenging.

What's the probability of that?

It's not for the ECB to judge alone. The Commission will have a say, governments will have a say. It's only the start of a discussion.

So we've had a number of banks, UBS, HSBC, already saying they're going to remove staff from London and put them in the eurozone. I think they're making a pretty clear judgment about financial passporting.

So here I have to be-, to err on the side of caution. The ECB is supervising European banks. I'm not on that side, personally, but we have a responsibility, so certainly the way my colleagues in the supervisory arm of the ECB, Danièle Nouy, Sabine Lautenschläger, will look at it, is to make sure that any bank that moves to the eurozone will be supervised, will have risk management which will be appropriate, sound enough, solid enough, and they will have that discussion with the banks.

Would you agree it's going to be very, very difficult for the UK to keep hold of all this, in a hard Brexit scenario?

Again, it's too early to tell, there are a lot of business decisions, they depend a lot on the individual environment circumstances of individual banks, so it's just too early to tell.

At the beginning of this interview, you talked about the outside risks. I think the one that's been discussed most here in Davos is Donald Trump, and which way that takes the global economy, the US economy in particular. He's been very critical of Europe, he's said that once the UK leaves, Brexit happens, other countries will leave. Do you think there's an opportunity or a risk here for Europe, in the form of Donald Trump?

Well, we'll have to know more about the new policies. It's inauguration day today, we don't know much about what the new administration is going to do. Given the amount of risk in the global economy, the amount of uncertainty, not only uncertainty about the US, but uncertainty about the emerging market economies, Brexit is another-, adds another layer of uncertainty, Europe will have to be strong and united. So in a sense, we don't need the US President to be strong and united. We need to be united anyway. We have our home work to do, in terms of strengthening the eurozone, and in terms of moving together in the same direction, and this, whatever happens, in a sense, we'll have to do, ministers will have to do, and we'll have to do on our side.

The sad fact is though, he could be the leader to unite us.

We need to be united in any case.

So given all those risks that you just mentioned, how resilient, or how vulnerable, is the eurozone?

Well, if you take a look back, it's-, I think it's fair to say that we are much more resilient, the eurozone is much more resilient than it was only a couple of years ago. The structures have been made stronger, reforms have started in countries, growth is now much higher, it is solid, it is firming up. We are much more solid. That said, we would like to be sure that the eurozone can withstand the kind of global shocks that we've seen in 2007, 2008, 2010. And for that we need to be even stronger, so we'll need more solid institutions in the eurozone, we'll need that sense of commonality that I was mentioning earlier, but for that to happen, you need countries to be closer. So you need countries to converge. You need each and every country to be stronger.

So right now, we're still vulnerable.

We are not vulnerable, we are in a process of strengthening our structures, and the first step is for countries to reform, to provide their contribution, and then at some point there will be another discussion on how to pull things together, and how to make the eurozone stronger as a group. But really, the priority is for countries to reform, to bring their unemployment rate lower, to create productivity, to be business friendlier in each and every country.