

Benoît Cœuré: Interview with RTÉ TV

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and RTÉ TV, conducted by Mr Sean Whelan on 31 January 2018.

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Mr Coeuré, as you know, the Irish Government have nominated Philip Lane for one of the positions that are coming up. How do you rate his chances? What sort of an executive board member might he make if he gets it?

Governor Lane, he's an outstanding economist. He's a good colleague on the Governing Council of the ECB. Now, as you know, the ECB has a very limited role in that process. We'll give an opinion at a later stage and it's really a political discussion; that's all what I can say.

Let's move on to the potential threat of a currency war that was raised briefly at Davos last week by the US Treasury Secretary. He was talking down the dollar. We've also seen a big post-Brexit fall in the value of sterling and both of those things are closely watched here because about two-thirds of our trade are between sterling and dollar areas. Are we on the verge of a currency war and people devaluing competitively? If we are, why shouldn't the euro do it?

Let me be very clear here; currency war is always a losing proposition, it's something where everybody loses at the end. We have agreements in the G7, in the G20 that we should not target our exchange rates. We want to see exchange rates which reflect economic and monetary policy conditions in different places and we're not going to change it. We've seen quite some volatility recently. If that kind of volatility would lead to an unwarranted tightening of our monetary policy, we would have to reassess and consider. But I think the most important message here is: let's keep to what we've agreed in the relevant fora, which is we're not targeting exchange rates.

Well, interest rates – as you know, a perennial topic, the monetary policy of the ECB – people watching this programme tonight would be most interested knowing when the ECB is likely to raise interest rates and whether that's going to have knock-on effects particularly for their mortgage costs.

We have a clear sequence here and that's something we all agree on in the Governing Council of the ECB. We'll first discuss how and when we stop purchasing assets. Only later on in the second stage we'll discuss interest rates. We've been clear that we expect interest rates to remain at the current levels, meaning very low, for an extended period of time and well past the horizon for asset purchases. Well past means well past so that's not a discussion we're having and we really expect interest rates to remain very low for an extended period of time.

Will the asset purchases go on through September? President Draghi said last week when asked, was August next year or middle of summer next year a likely time, he said yes.

Markets form expectations. We'll have the discussion as policymakers at some point, but that's not something we have discussed so far.

The ECB obviously doesn't set market rates, the rates that banks charge to the likes of me and our viewers tonight, but you do monitor the rates that are charged. Your reporting has shown that Irish banks are consistently charging much higher rates than the eurozone average. Why are they charging so much and what can you do about it?

As you rightly say, we are not deciding on the rates charged by banks. I'm also charged by my

bank in Frankfurt and I have no say on that. What we do is to set the policy rates; that is a short-term rate decided by the ECB. I would say that it mainly reflects Irish banks are still having some way to go to deal with the legacy of the crisis. They've been doing good work in terms of being more productive, more efficient. They are doing a good job to get rid of non-performing loans, but that's a journey and it's a long journey. The Central Bank of Ireland, the Irish Government have been very supportive. There's a whole strategy there but it will take time for Irish banks to come back to – totally to normality when it comes to their legacy costs. That has to be reflected somewhere.

But the Spanish banks also had a property bust and the same problems, but their rates are so much lower.

I think it's very difficult to compare different economies here because we are talking of retail rates and the structures are different in Spain and in Ireland. Well, that's an area where we still don't have a homogenous market across the eurozone. That certainly would have to be a long-term objective but we still have a fair deal of fragmentation here and local conditions do matter.

One of the consequences of the financial bust was the way banks ran themselves. Now, we've been finding out quite recently about a mortgage overcharging scandal in this country by Irish banks that carried on after the financial bust. A lot of people were of the view that the banks just haven't changed their culture. They expected because Frankfurt was getting more involved in regulation and oversight that they would. But they don't seem to be afraid of you guys or the Irish Central Bank; why not?

As you know, the way we are organised under European law is that we – in Frankfurt we are doing banking supervision, which means prudential supervision, while national authorities – including the Central Bank of Ireland – are doing consumer protection. So that's totally consistent. These are mutually reinforcing. We totally share the objectives that banks should put their clients first and they have a duty towards their clients. If there is any breach in terms of if there is any misconduct in that sense, that should be acted upon. But the way it's organised, if the CBI do it, they are doing it quite well so it helps supervision. I believe that good supervision also helps consumer protection, but these are two different tasks.

So it's up to the Irish Central Bank really to sort this problem?

Absolutely – and they are doing it.

Brexit is obviously something that a lot of people in this country in particular are worried about because we're so heavily exposed. What's the ECB's view on how Brexit might impact on the euro area, but particularly on Ireland?

So far what we can see that the economic impact has been milder than expected. That's mainly because our economy in the eurozone and also in Ireland has been much stronger than expected. So the expansion is now very robust both in Ireland and also at eurozone level. That has allowed our economies to weather the shock in a very positive way. That said, we have to turn to the long term. It's very difficult to argue that Brexit in the long term would be a positive proposition; it's going to be negative. I really trust the political process to deliver a deal, whatever it looks like, which will minimise the cost. For that we have to defer to the political process as ECB. The ECB is not doing the political negotiation; that's for leaders and that's for Monsieur Barnier. We hope it can reduce the cost.

That said, we have to prepare for possible adverse consequences. In terms of financial sector, financial services, financial stability that means that we have a duty to prepare for possible negative outcomes, hoping that it's not going to happen, but it's also our duty to prepare. But also in terms of economic management and in particular for Ireland that means that the economy has

to be as strong as possible, as resilient as possible, meaning growth has been very robust but it could be more balanced. Buffers have to be built for the future, including fiscal buffers, so that's how the economy can best prepare to weather possible negative shocks.

But buffer building up will take a bit of time; we don't have time, obviously, with the Brexit process. It could be quite sudden, within a year.

So when it's comes to the financial stability consequences, that's something that we are monitoring very closely together with all national central banks – and certainly together with the Central Bank of Ireland among others. If there would be any financial stability concern, the ECB would take it very seriously, so that's something we'll be very active monitoring.

It would presumably be better handled than the last financial crisis, would it, because you've got time to prepare?

It's a totally different kind of shock. It's something that goes together with significant changes in the structure of the industry with banks as we know are relocating, moving around. So that's a different kind of preparation. On the supervisory side we also have quite intense work to make sure that any bank relocating to the eurozone would do it in a way that is sound and safe in terms of the prudential standards. Here, I am sorry to tell you, but the ECB will have no preference whether they go to Dublin or to Paris or to Luxembourg because it's all eurozone. So that's not for us to opine on.

One of the things that's often expressed by the Irish Central Bank is that more competition in banking would be good for consumers and particularly on costs and so on. We've seen this month the start of the Second Payment Services Directive. Is that going to do anything for competition in banking ?

It will and we very much hope it will. The PSD2 as it's called – Second Directive on Payment services, PSD2 – it is a competitive shock for banks. That's good because competition leads to innovation. So allowing access to payment services, to payment service providers is the same kind of shock that we had, say, in the telecom sector some 20 years ago. It's good for the consumer and it's good for innovation. Now, of course that comes with two caveats, two maybe conditions that we want to see. First, banks have to be strong enough to cushion that kind of shock. So it makes it even more needed for banks to be profitable and to have credible non-performing loan strategies because that's an additional shock they will have to cushion. It's for them to prepare for that.

Second, we want to be sure that it comes with safety and with protection of individual data privacy. So together with the Commission and with the European Banking Authority we've been very careful to design a framework that protects data and a framework that does not create risk to the safety of customer data. That will be something that we will follow very carefully in the future.

Final question for you, Benoit Coeuré, there's a lot of discussion as you know about the future of Europe going on at the political level. But there's also some bits of Europe that haven't been fully put together yet. Looking ahead to this year of 2018, from the ECB point of view what two or three things would you like to see politicians decide on to start moving on this future of Europe agenda?

So the simple answer is we just want it to happen, right? So we want them to start moving. We very much believe that the eurozone should be stronger and we don't want the ECB to be the only game in town when the next crisis hits. For that you need a stronger eurozone, so in terms of short-term priorities: that means strengthening Banking Union; moving – finding steps towards a single deposit insurance scheme in the eurozone; strengthening the single resolution fund;

achieving more convergence, more harmonisation within the Banking Union. That also means being serious about the capital market union. I think that's something that Ireland has a very strong interest in and will benefit from. Capital market union is a very important project and I very much hope it can be at the top of political priorities.