

Benoît Cœuré: Interview with BFM Business TV

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and BFM Business TV, conducted by Mr Stéphane Soumier on 12 March 2018.

* * *

Mario Draghi talks about growth and he says that it is “strong and broad”. And yet, the European Central Bank remains infinitely prudent. Is growth in Europe as strong and broad as all that?

It is strong, broad-based and inclusive, i.e. for the first time in a long time the whole of the euro area is growing – all regions, all industrial sectors, and this is a new development, and very positive. But, I should say first that inflation is not yet quite where we want it to be; the ECB’s projections put inflation at 1.4% for next year, which is good, but not close enough to 2%. So we are not yet quite where we would like to be in terms of inflation. Second, the international risks are significant, no doubt we’ll talk about them in a moment. And third, this growth still depends greatly, I would even say too much, on monetary policy. According to the ECB’s econometric models, with a growth rate of around 2.5% in the euro area, 0.5%, half a percentage point, is dependent on monetary policy. In other words, had it not been for all the ECB’s measures, growth would not be 2.5% in the euro area, it would be 2%. And inflation would also be half a point weaker.

Still, it’s not as strong as that. In any case, the euro area still isn’t able to progress at that pace by itself today...

It is too early to declare victory. We are going in the right direction and the decision taken by the ECB’s Governing Council last week, which entails changing our communication very slightly to show that we no longer intend to increase the scale of the central bank’s monthly asset purchases, represents a small communication step which shows our confidence. So confidence is growing but we cannot yet declare victory.

Nevertheless the market is expecting the asset purchase programme to come to an end, in September, December. What do you say to that? Is it still too early to say?

No, the end is inevitable. We have always said that quantitative easing would not last forever. We have not yet discussed the when and how of its termination. But it’s understood, of course, that this is the direction in which things are going. What has not been discussed by the Governing Council, however, is an increase in interest rates. It is very clear to us that short-term interest rates those the ECB controls, will remain at very low levels, well beyond the horizon of our asset purchases.

In other words, when Reuters says that the teams at the European Central Bank presented to the Governing Council a scenario envisaging an increase in the rates in mid-2019, it’s a scenario that you are telling us you are ruling out?

This is what the markets are forecasting; the ECB’s teams have Bloomberg screens like everybody else. But the Governing Council has never discussed this.

Bloomberg or Reuters screens ... Let’s respect the competition! Anyway, I’m looking at the very latest indicators on our economic activity. Manufacturing in January was clearly declining in France, two months of slight pressure in Germany, with the mid-February PMI data also falling back a bit. Aren’t we levelling off now? We have finished accelerating and in fact the risk is that growth will fall back...

No, I don't think that it's worth being frightened by a few indicators. Growth is strong. There is a kind of stabilisation of the growth rate, when we talk about what's called the "second derivative" rather than growth itself. Maybe there's a stabilisation. In a way, that strengthens the belief that there have to be structural measures which will take over from monetary policy. Of course, that is the only possible direction.

You have described your policy as "giving time" to all the governments to attempt reforms. Has France now taken the right road, the right direction?

Yes, but it's not the job of the ECB to give lessons to or to go into detail about what this or that government must do, because we don't do politics, that's not for us. We have a mandate which is very simple, which is to bring inflation in the euro area back towards 2%. And we're making very good progress towards that, but we're not quite there yet. Then, growth drivers are needed, growth in investment, in consumption, to take over from monetary policy. For that to happen, economies have to perform better. What we see in France is in fact going in that direction. There is a reform momentum which I think has two dividends: one for the French economy itself and one for the euro area. France is a very large country, the second-largest country in the euro area. The euro area needs reforms and having a strong French economy is also something that can set off a series of dialogues, a series of reforms right across the euro area.

France is now taking the path of that reform momentum and growth momentum?

Yes, but I don't want to judge the ways and means of the French government, or the sequence of reforms.

No, but as for the priorities set, labour law, public sector, then pensions, is it roughly what you recommend?

Labour law, the functioning of the labour market, of course, including training, which is essential. In that respect, the good news is that the government is vigorously tackling the reform of vocational training. This is just as important, if not more so, than the flexibility of the labour market and labour costs. For a very long time, emphasis was placed on the cost of labour in France. I don't think now that the cost of labour is a major obstacle compared with Germany, compared with France's competitors. However, we do have a training problem which shows up in all the international surveys, and it is increasingly the priority. And the government is working on it.

There's been talk of a "budgetary jackpot" this weekend, how do you regard that? What are your comments?

It's a slightly ridiculous discussion; I spent 15 years at the Ministry of Finance in a previous life. Whenever France's deficit goes below 3%, there are some good souls who speak of a jackpot. If you listen to them, it means that 3% will not be the upper limit of the deficit in France, it will be the lower limit; it means that the deficit will never go below 3%. Government debt is 97% of GDP. If our deficit remains at 3%, it is clear that we are heading towards serious debt sustainability problems. So we shouldn't listen to those good people who think that there is a jackpot when the deficit is a fraction below 3%. It is a bit like giving an alcoholic sweet to a former alcoholic, so to speak, it seems to me a little dangerous.

And particularly because – and this is a centrepiece of your policy and I think it is the main difficulty you face – the northern European countries, a number of countries there, have been quite clear about the vague attempts at euro area reform put forward by Emmanuel Macron. Why not, but first of all your public finances have to be balanced?

Not only public finances. Growth in France must become strong again, structural unemployment must fall and public finances must be rebalanced. This is what our partners expect, and they're right, it's in our interest.

And so there can be no far-reaching reform of the euro area as long as France has these imbalances in its public finances?

This has long been the case. The lack of reforms or their hesitant nature in France has long been an obstacle to the reform of the euro area. And French politicians are partly responsible. This obstacle is being removed as there is a reform momentum and a downward dynamic in the deficit. And therefore, the barriers are now increasingly in the euro area and take the form of a state of mind which keeps on wanting to set the north and south of the euro area against each other. There is a form of political fragmentation of the euro area which persists, even as the economic fragmentation is declining. It's in the heads of euro area politicians who tend to regard themselves as being from the north, the south, although these distinctions make no sense in that we are all in the same boat.

But how come it doesn't make sense? These distinctions are real. Austerity is in the north now; it's much weaker in the south. It is a reality and moreover you can see it in the data.

No, I don't agree with you. Consider how Spain, a southern country, has reformed its labour market.

The north believes that if the south is pulling through now, it's because of the efforts the north has made, and it is having a training effect...

Say that to Spanish, Portuguese and Greek workers and employees. Tell them that if they are pulling through it's thanks to the efforts of the north. It's thanks to their own efforts, which were very difficult. So there has been a reform movement that in some instances has not been completed, but which has been very painful for the countries of southern Europe, in the countries that were in crisis, and now we have to go beyond that, to turn that page, to look to the future and rebuild how the euro area functions. And to do that, we have to leave the north-south differences behind us.

That means that, in the end, the only two problems remaining in the euro area today are France and Italy...

I don't think that either France or Italy pose problems. France is doing what it has to do and the French president is instilling a reform dynamic in the euro area. To that end, it won't be Germany and France alone that are going to do it, so we also have to listen to what the Dutch, the Finns and the Irish have to say. We have to listen to them, and we will do. But France has triggered this reform momentum and we should be grateful to it for that. As for Italy, the election took place very recently. There are political discussions going on right now, and it's not for me to comment on political discussions...

No, but could this instability slow down the normalisation of monetary policy that you want to implement?

No, we conduct monetary policy for the euro area, not for a particular country.

As for the Trump risk now, because it is like a new risk, and it was Mario Draghi who talked about it like that, we saw this weekend that Europe as a whole, the euro area, and Germany in particular, was the first target of the trade war that Donald Trump wants to unleash, how do you view that?

That's the major risk today, it's true. We hope that it won't happen. But you have to look beyond the aggressive vocabulary, beyond the bluster, and ask what is the risk of a trade war? It is a loss of purchasing power for employees, workers, starting with those in the country that implements

customs duties. The first to suffer will be American workers, it's they who will lose their jobs. And possibly in the rest of the world, depending on how Europe, Japan, China react. So it is potentially a negative shock for the global economy.

One gets the feeling that Donald Trump is trying to test our unity. Do you have that impression too? He has been attacking Germany, German cars...

I'm not going to venture to interpret what the President of the United States says...

But we do need to try to find out what it means, what the impact might be...

It's sometimes difficult, but it's true that this is an opportunity for Europe to demonstrate its unity. I believe that this episode, like earlier episodes involving President Trump, reminds Eurosceptics that Europe remains our best tool, our best form of defence, in a global economy which is fraught with risk and danger. There are many ways in which Europe does not function well, and there is a need for reform, for change. There are things that need to be radically reformed, but Europe is the main weapon we have in this global landscape that is very dangerous, so it needs to be preserved.

So we need to confront Donald Trump directly with all the forces we can mobilise.

We should stay away from the language of war; it's not about confrontation. We're not confronting the American people, or the US economy. We're protecting a modus operandi for the global economy that needs to be fair and balanced. And this fair and balanced modus operandi is currently under threat, so we need to defend it.

Mario Draghi has said that if you impose tariffs on your allies, one may wonder who your enemies are. There should be less escalation in the vocabulary used with Donald Trump because we don't know where that might lead...

The United States is our ally.

Would a minister of finance for the euro area be a strong symbol and is that something you would call for?

Yes, it's a strong symbol. Personally, I'm in favour of it. This is an idea that was put forward by Jean-Claude Trichet in his speech in Aachen a few years ago, when he was awarded the Charlemagne Prize. It would be a useful symbol provided it isn't an empty symbol. So, when the heads of state and government of the euro area meet in June this year to find ways of giving new momentum to the euro area, if the extent of the reforms is to make marginal changes to the European Stability Mechanism and to give a position a new name, that won't achieve much. It would be a useful symbol as long as the reality involves better coordination and more effective instruments to protect the euro area.

So it's too early to talk about this at the moment? It needs to be the culmination of a process.

It is the culmination of a process. You know, with the German government formally being set up this week, the discussion has only just begun. We mustn't be too impatient.

Do you have the feeling that the European Central Bank has saved the euro since 2012?

The European Central Bank has done everything it could within its narrowly defined mandate. And within that mandate, it has ensured the functioning of the euro area, it has dealt with speculation, it has provided a boost that has allowed growth to pick up again and inflation to move closer to 2%. And we did this when we could, within the mandate that we have been given

by the people of Europe.

Ultimately, though, the primary mandate of a central bank – and this perhaps has been forgotten – is to defend the currency that it issues. Without the euro, there is quite simply no longer any reason for it to exist, and everything that implies.

The Governing Council did what it did without hesitation and almost unanimously, but as has often been said, we don't know what the next crisis will look like. Will we be able to do the same thing when there is another crisis, which may be even more severe, or very different in nature? I don't know. But the euro area needs to give itself the means to be more robust, to respond to crises separately from, and in addition to, anything the central bank might do. This is essential for the future. There is no guarantee that we will again be able to do what we did in 2012. We will try to do so again, of course, but each crisis is different, so the euro area needs to make itself stronger.

In that context, you know that there is an ongoing debate which must seem unreal to you but is real nonetheless regarding the nationality of the person who will succeed Mario Draghi. This demonstrates that European unity is failing somehow if all anyone is talking about is the nationality of Mario Draghi's successor.

Yes, you are completely right, this debate is symptomatic of an approach in the euro area that is too often overly nationalistic, with everyone wanting to benefit from their membership of the euro, when it is in fact a shared project. This is a discussion which per se holds no great interest. The President should be chosen on the basis of his or her merits, of course. But it reflects attitudes from the past. And it's exactly what we need to leave behind now.