Benoît Cœuré: Interview in Die Zeit

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in Die Zeit, conducted by Ms Lisa Nienhaus and Mr Mark Schieritz on 16 May 2018 and published on 23 May 2018.

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Mr Cœuré, we need to talk about Italy, where two populist parties are currently trying to form a coalition. In a draft paper they demanded debt relief of €250 billion from the European Central Bank. They have since withdrawn that demand, but it's still a shock, isn't it?

The political discussion is still ongoing in Italy. The ECB will assess the new government's plans when they are made public.

So, to make the question more general: can the ECB relieve a euro area country from the debts owed to it by that country?

No, it cannot. European treaties prohibit any such debt relief. Central banks cannot finance governments.

The coalition agreement includes tax cuts and spending increases that add up to more than €100 billion according to estimates. Italy is already a heavily indebted country. Are you concerned?

Again, it's too early to comment on plans we don't know. On fiscal policy in general, the ECB's view is well known: Europe has fiscal rules and they should be respected. This is a matter of trust in our common currency.

The ECB's large-scale purchases of government bonds are highly controversial, especially in Germany. Many of your critics now feel vindicated. Wouldn't it be true to say that if you were not buying those bonds, then nobody would be able to call for debt relief?

It's not that simple. The purchase of government bonds is within our mandate. It proved decisive in enabling the euro area economy to overcome the crisis and in restoring growth and price stability in Europe. That is why I will always defend our actions. And we designed the asset purchase programme in such a way that it is not in breach of the treaties.

How did you do that?

For example, we set a strict limit on how much we buy, so as to safeguard the functioning of the bond market. Moreover, the purchases are mainly made by the national central banks, which buy their national government bonds at their own risk: the Bundesbank buys German government bonds, the Banca d'Italia buys Italian government bonds, and so forth. They would have to bear the bulk of the losses if a government could not service its debt. I have always supported this arrangement because it ensures that the ECB does not introduce a fiscal union through the backdoor.

That means that if the Italians failed to repay their debt they would in the first instance harm themselves. The Italian central bank would then bear the heaviest losses.

I can't comment on hypothetical scenarios.

The euro area Heads of State or Government want to launch a reform of Monetary Union

in June. As you said yourself, the economy is growing, the crisis is over. Why the need for yet more reforms?

Indeed, the euro area expansion is strong and broad based. But as Christine Lagarde, the head of the International Monetary Fund, often says [quoting JF Kennedy]: the time to repair the roof is when the sun is shining. Europe has been made more stable over the past few years, but we are not there yet and now is the right time to complete the job.

Have you honestly ever met a politician that fixed the roof when the sun was shining? Most only start repairing it when it's raining.

That is understandable, but if you're right, it means that when the next crisis occurs European leaders will once again have to improvise a wobbly solution during a hectic late-night meeting in Brussels. I don't think that's how citizens expect Europe to be governed.

But isn't that precisely how Europe has always been governed?

It was at the height of the debt crisis, because the situation at the time was unprecedented. The problem with late-night meetings is that, while we can get things done and indeed succeeded in doing so then, this type of improvised decision-making sows the seeds of mistrust – between governments, between citizens and politicians. It is not a tenable situation. Europe needs stable rules and institutions.

In this connection, the ECB has called for a European deposit insurance scheme. So German banks would have to pay towards reimbursing savers in Italy and Spain if banks in those countries failed. How would that make Europe more resilient to crises?

Let me put this discussion in perspective. We need three lines of defence for our Monetary Union. The first is to have well-functioning private markets, which are not yet fully in place. The Single Market needs to be completed, particularly in the services sector. Capital markets are also still too domestic. The second line of defence is to have sound fiscal policies in the Member States. Most countries have now reduced their deficit, but that is mainly thanks to favourable cyclical conditions. Fiscal improvement should be made structural, otherwise governments won't have fiscal space when the next recession hits. Euro area-wide protection mechanisms such as the European Stability Mechanism, the Single Resolution Fund for banks, or a new deposit insurance scheme are only the third line of defence. All existing currency unions have such or similar mechanisms to safeguard the stability of their currency.

What exactly does deposit insurance protect us against?

For one, it can enhance confidence in the banking system by preventing savers from emptying their bank accounts in a crisis situation. History has taught us that such bank runs are highly dangerous.

That all sounds fine, but Germany has a different perspective: a common deposit insurance scheme means that Germans would also be affected if, say, a bank in Italy failed. To return to the metaphor: if it rains, the roof would be in a worse state after the repair than before. Why should we agree to that?

With a proper European deposit insurance scheme, Germans would have fewer problems rather than more. A deposit insurance scheme should be seen as an insurance against economic risks, just as you take out liability insurance to protect yourself against the risk of an accident. If risks are properly priced, it's not a system of transfers between countries and still less from the "North" to the "South", as is too often argued. Of course, banks would need to further reduce risks before the deposit insurance scheme is introduced. Much has been done recently in that respect.

And if the reforms can't be managed by June?

At the moment, all parties seem to be busy drawing their red lines. It would send a more positive signal to think about what they can achieve together. Let me give you two reasons why this is urgent. First, who knows what the next crisis will look like? If our Monetary Union is not made stronger now, then the ECB will have to come to the rescue again the next time there is a crisis, and this may then lead us to test the limits of our mandate. Who knows what the next crisis will look like? That's not what Germans expect of a central bank, and rightly so. Second, the world is in disarray, and many expect Europe to show the way. Failing to decide on our own future would send a signal that we don't know what we want.

Germany is being very cautious on Europe at the moment. Olaf Scholz says that a German finance minister is first and foremost a German finance minister. Do you find that disappointing?

Absolutely not. Mr Scholz is doing his job. And he also said that strengthening Europe is very important to the German government. What surprises me about the debate in Germany is that the impression is often given that half of Europe is after Germany's money.

Isn't that the case?

No, above all it's about putting the right rules in place, strengthening the euro area's institutions and making sure that goods, services and capital markets work better. All of this is in Germany's interest. And not just because other European countries buy German products, but also because German savings are invested in Europe.

But the French government is also arguing for a European budget and a European finance minister. That is about the money.

I believe that a euro area fiscal capacity can be useful to finance investment, including in economic downturns – provided, of course, that Member States respect Europe's fiscal rules in the first place.

Many politicians don't like to be told by the ECB what to do or what not to do.

I know that we central bankers sometimes get on politicians' nerves. But it is our job to keep the currency stable, and that requires stable political foundations. The conditions for improving these foundations have rarely been as good as they are now, because the economy is doing well.

And what if the trade disputes escalate?

A fully fledged trade war would have a very negative impact. At the ECB we've analysed the impact of an increase in tariffs worldwide. The results are pretty bleak. But that's not where we are right now. Economic growth has moderated recently, but from exceptionally high levels. So, we are not too concerned at the moment. We expect the economic expansion to continue, and we are increasingly confident that inflation will rise towards our aim of below, but close to, 2%.

So you will soon be able to end your asset purchases?

At the end of last year I said that I didn't expect that our asset purchase programme would need to be extended again. I see no reason to change my view.

What do you mean exactly?

The programme is currently expected to run until September. We still need to have a discussion about exactly how it will end.

Oh, and we thought that ending it meant ending it, i.e. stopping in September.

The baseline expectation is, as Mario Draghi has said, that there will be no sudden stop. This is a technical discussion.