

## **Benoît Cœuré: Interview in Le Figaro**

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in Le Figaro, conducted by Mr Fabrice Nodé-Langlois and published on 25 June 2018.

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**At the summit on Thursday France and Germany are to present their joint roadmap for European reform. At a time when many citizens are calling Europe into question, why should it be reinforced?**

We are living in a confusing, dangerous world which is evolving very fast and not always in the right direction. Europe is once again in rough waters and it is its duty to protect its citizens. If a boat is caught in a storm, the crew needs to cooperate closely, not work at cross purposes. Europe will not be able to establish a joint defence capability or improve border control unless it has a robust economy. That is why we urgently need to strengthen the euro area. We cannot afford to have another ten years of crisis. Existential discussions on the single currency are a waste of time. Surveys show that the vast majority of European citizens are in favour of the euro.

**Emmanuel Macron and Angela Merkel propose creating a budget for the euro area. What is that budget for?**

The Meseberg agreement is an important contribution to the reform of the euro area. The euro area budget is a useful idea. In the first instance, the common budget can help to accelerate convergence among Member States. At the time of the Maastricht Treaty, it was somewhat naively thought, in France especially, that Monetary Union was going to bring about convergence by and of itself. That was not the case. With time, it could help a country hit by a recession that it could not tackle alone, even if its public finances were in order. Look at Ireland, which in 2008 was hit by a severe financial crisis, followed by a recession, despite having a sound budget. It was not able to manage on its own. The budget is also a political symbol for the shared interest of euro area countries. The euro area should be about more than individual interests in a currency managed by the ECB.

**How can this convergence be improved in practice?**

We can invest in infrastructure or in facilitating reforms that strengthen the euro area. I am thinking for example of the Greek land registry, which is still not in place and which could have been financed by this budgetary capacity if it had existed.

**The roadmap does not mention any figure for this budget. Do you find that disappointing?**

Let's wait to see the amount, which can build up over several years. The budget should be large enough to deal with an economic shock in a euro area country.

**What do you see as the priorities for improving the euro area?**

First, we need to strengthen the single market, complete the banking union and the capital markets union. These are very technical projects but they can boost growth and stimulate investment and innovation.

Next, the euro area countries should be able to absorb shocks without things going badly wrong, as happened in Greece, Portugal, Ireland, Spain and Cyprus. How do we get to that point? In France people still think the solution lies in new taxes or in more European spending. There may well be a place for such measures, as discussed, but the first line of defence is that each country should make its economy more resistant and restore the fiscal room to manoeuvre that

has now disappeared. Yet we have to admit that our budgetary rules have not attained their objective. At present, virtually the only country with fiscal buffer is Germany. France needs to keep reducing its deficit to below 3% of GDP in order to restore its resilience to shocks.

### **And what else is needed?**

The ECB needs a well-functioning political framework, which requires coordination and trust between the member countries. One has to rebuild this trust, which has been damaged by ten years of crisis. It is of vital importance to the ECB that the different countries have a shared vision of their future and are able to work together. It's not up to us to steer euro area politics.

### **What about the euro area Minister of Finance? The Franco-German roadmap doesn't mention this at all...**

Let's not put the cart before the horse. A euro area Finance Minister would imply the existence of a common political area, which I think is essential, but we aren't there yet. The starting point is the Eurogroup, with its toolbox, including the European Stability Mechanism (ESM), the European rescue fund. Germany and France are proposing to strengthen it by enabling it to intervene fast in the event of a banking crisis or to help a state before it's too late, and that's a good thing. By the way, at the ECB we don't much like the term "European Monetary Fund", which creates confusion both with the IMF, a very different institution, and the ECB.

### **"Fast"? So you mean without necessarily waiting for a vote in the German Bundestag to save, for example, an Italian bank?**

In fact, it's vital for the euro area to be able to take decisions fast. The ECB can do this. The 25 members of our Governing Council may have their differences, but we analyse, we debate, we try to build a consensus and, finally, we take a decision on which nobody has a veto. By contrast, the crisis management system in the euro area is essentially intergovernmental. This method carries a high economic cost because it's a procrastination machine. Look at the Greek crisis, which is finally coming to an end after eight years! And it turns every decision into a zero-sum game. The challenge for the European Council, at the end of this week, will be to move from a Europe of horse-trading to a Europe that builds its own future. Europe has to show that it is taking its destiny into its own hands.

### **Last Thursday you took part in the Eurogroup meeting on Greece. Are you satisfied with the agreement? Will the debt relief granted be enough?**

This is a turning point for Greece and for Europe. Greece can now free itself from European stewardship. The sacrifices made by Greek society, supported by European solidarity, have paid off. For those who have doubts about this solidarity, I would like to point out that Europe provided Greece with funding of €245 billion! I particularly admire the determination and courage of the Greek Finance Minister, Euclid Tsakalotos.

Greece will also get a clear boost from the debt relief that was promised a long time ago by the European governments. The ECB was clearly in favour of this. The measures decided upon by the Eurogroup go in the right direction, because in the medium term they will make Greece's debt more sustainable and in the long term the ministers declared their willingness to take additional measures should the need arise. But let's not be naive: Greece will move from a dialogue with the European institutions and the IMF to a dialogue with the financial markets, which will be neither easier nor more pleasant. To maximise its chances, the country must continue with its reforms and stick to a prudent budgetary policy.

### **Greece failed to leave the euro area in 2015 and has been through a deep recession. If you could go back in time, would you support Greece in a different way?**

If we want to take a long, hard look at ourselves, we should go back further than the Greek crisis, to the beginnings of the euro area. Between 1999 and 2010, we allowed budgetary situations and wage costs to diverge between countries, which led to the crisis. That was the first lesson. Faced with the crisis, we had to support Greece – it was a question of solidarity. We also had to involve the IMF which, unlike Europe, had experience in supporting countries through crises. And it was essential to reduce public expenditure, because Greece was clearly living beyond its means. The mistake, from my point of view, was in reducing it too drastically, which made the recession worse. We should have been more realistic about the sustainability of Greece's debt and insisted on competitiveness and combatting rent-seeking from the start, instead of leaving taxpayers and workers to foot the bill for the adjustment. I might add that Europe lacks a budgetary instrument to support social adjustment in crisis countries, which could have prevented dramatic situations – schools without heating and hospitals without medicine – such as we saw in Greece.

**On 14 June the ECB announced, as expected, the end of its policy of asset purchases, referred to as quantitative easing or QE. In contrast, the first rise in interest rates is going to come later than expected. Does that reflect your concerns about the robustness of growth?**

Growth is still robust throughout the euro area, despite the moderation in the first quarter, and even in the second quarter in certain countries. But there is increasing uncertainty arising from tensions in world trade as well as the risk of volatility in the financial markets and in certain emerging economies, and we have to take all that into account. Hence the unanimous decision by the Governing Council: on the one hand, due to the robust growth we are confident that inflation will return to close to 2% and we anticipate our net asset purchase programme to end in December; on the other hand, we recognise the need to maintain a very accommodative monetary policy. We expect our policy rates to remain unchanged until at least through the summer of 2019. and we will continue to reinvest the principal payments from maturing securities in our portfolio, or around €15 billion per month, in 2019.

**That's what surprised most observers, and the markets...**

Yes, for the first time, we are communicating about future policy rates with a date, even if it's still only indicative. In our jargon, we call this "enhanced forward guidance". Now that we have decided to end the net asset purchases, this enhanced guidance is necessary to anchor expectations.

**In the end, what will these three years of QE have achieved?**

Don't forget that these measures were decided on in autumn 2014, in the face of a slowdown in growth and a heightened risk of deflation. We needed to react very strongly. QE has considerably improved the financing conditions of households and firms, restarted growth and eliminated the risk of deflation. A Spanish SME can now borrow at the same interest rate as a German SME.

**QE has been criticised for benefiting those most well off...**

I disagree. First, our monetary policy has helped the millions of unemployed who lost their job during the recession. The unemployment rate in the euro area is falling steadily, to a large extent thanks to monetary policy.