Benoît Cœuré: Interview with Bloomberg TV

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and Bloomberg TV, conducted by Ms Caroline Connan and broadcast on 9 July 2018.

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Donald Trump has pulled the trigger on tariffs on China; China is retaliating. Could that complicate the ECB's task going forward?

What's really important for us to gauge is the impact on business confidence, which so far has been limited. We see this escalation process: we start with skirmishes and then skirmishes may turn into clashes and then, at some point, clashes may turn into a fully-fledged war. That would be very bad for business confidence. So far, the backdrop is very strong growth in the Eurozone, resilient growth in the Eurozone, meaning that what we've seen so far doesn't have the potential to derail the recovery.

Can the ECB just sit back and watch this trade war happening?

We are never sitting back and watching; we have to understand what's going on. So far we believe that growth is strong enough to withstand the shock.

Have you already seen some companies holding back investments because of these protectionist policies risks?

Yes, that may happen. We are not complacent on the possible risks. A fully-fledged trade war would be extremely bad for the world economy – starting with the United States, by the way. The first victim would be American jobs, American workers. We very much hope that this doesn't happen.

What could be the long-term impact?

The long-term impact is about how the world is run. It's about having an open, free market economy globally, with the rule of law and with instruments for nations to talk together. That's how we've worked since World War II and we've been very well served by the system. We want it to continue. It has to be improved; it has to become fairer, it has to deliver fairer outcomes for workers and for households, but it has to remain open. It has to remain built on trust between nations.

We've got this trade war going. We've got uncertainties around Brexit. We've got geopolitical risks, with new sanctions on Iran. What is the biggest risk you see throughout this summer?

To start with, we see risk as coming mainly from outside the Eurozone. Primarily that's about trade tensions, as we've just discussed. That's about escalation of trade tensions denting business confidence globally, and that's the main risk.

Could the ECB have to rethink its path between supporting growth and fighting inflation because of these risks?

These risks were discussed when the Governing Council met in Riga last month. We discussed risks thoroughly and we designed a path of sustained monetary accommodation, anticipating that net asset purchases end in December 2018, but with a continued degree of monetary accommodation being delivered by rate guidance – enhanced guidance on rates – and by reinvestment policy. That is the balance we struck in Riga and it already took account of the risks.

Despite all these headwinds we've been discussing, the ECB still plans to exit QE by the end of this year. What could derail these plans?

That's clearly what we anticipate. Now, that said, it will be data dependent – as with everything we do. But as we speak, in mid-July, I see no reason to change our expectations.

There has been some confusion among investors about the ECB keeping rates on hold until "at least through the summer of 2019"; can you explain to us again what this means?

"At least through the summer" means "at least through the summer". It is date-based guidance, which so far we haven't done, so it's a step forward in enhancing our forward guidance. At the same time, it gives us enough flexibility to adjust depending on the data flow.

Does that mean we could see a decision on rates as soon as September 2019?

That's not something I can comment on today, by definition; we did not discuss it in Riga.

Could this actually come before the summer of 2019? Could we see any change of policies before then, depending on the risk we are currently seeing?

The expectation is that rates will remain low, at the current level, at least through the summer of 2019.

The ECB wants to keep this guidance quite vague at the moment?

It's not vague; it's precise enough to anchor, to pin down money market rates. It has been, by the way, very effective. It has been well understood by the market, so I see no reason to change it while it works.

Mario Draghi, the ECB President, has flagged that the reinvestment of maturing bonds could be the next important policy step for the ECB. Will this become a way for the ECB to provide a little easing?

It is an important part of a package of measures that delivers monetary accommodation, sustained monetary accommodation beyond the end of net asset purchases, that is, after December 2018. There are two aspects: we have the enhanced rate guidance and we have the reinvestment policy. So it is clearly part of the package. It will ensure that the ECB keeps a very significant market presence beyond the end of the net asset purchases and for an extended period of time after the end of the asset purchases. That said, we haven't discussed any details, so any details related to the maturity of our reinvestment, that's a technical discussion. That's not something the Governing Council or even our committees have discussed.

Is it going to be done before the end of this year?

We'll certainly have to discuss it. I see it as a technical discussion; I don't see it as a major aspect of our monetary policy when it comes to the maturities. But the commitment to reinvest is important because it will ensure a continued market presence, which is important to maintain the degree of monetary accommodation.

Could these reinvestments exceed €160 billion next year, could they be closer to €200 billion, for example?

The reinvestments are quite mechanical. They derive from past investment policy. As you know, we are committed to being very transparent. We are publishing the reinvestments 12 months in advance so you will have the numbers when they come.

There is some flexibility when it comes to reinvestments. Can the ECB and some national central banks reinvest a government bond into a corporate bond, or vice-versa?

That is not something we've discussed. That will be a technical discussion. What I don't expect is any departure from the principle of capital key investment of government bonds, which has been a key principle at the heart of our public sector purchase programme.

There are reports about some kind of "operation twist" from the ECB about buying long-term bonds. Is this happening?

As I said, that's not something we've discussed.

That's something you're planning to discuss? That's something that's on the table?

We will discuss the reinvestment policy; that will be a technical discussion. I don't think it's a major aspect of our monetary policy.

With Brexit it seems like we've had a major step; on Friday night, after 12 hours of discussions, Theresa May managed to get some kind of blueprint. Do you see this as good news or bad news?

The ECB is not part of the negotiations. The negotiations between the United Kingdom and Europe are led by Michel Barnier on the European side. So we certainly defer to Mr Barnier when it comes to the political direction of those negotiations. It is clearly very positive that the UK authorities are willing to engage in a constructive way, in a practical way, in a detailed way. It will be for Michel Barnier to react to the paper. That said, and beyond the positive news in terms of how the discussion is moving on, we also believe at the ECB that private players, industry, have a responsibility to prepare for the worst outcome. So hope for the best, but prepare for the worst.

In fact it seems like we have an agreement to have similar regulation in the industrial sector and the agricultural sector, but not the services sector. As we know, the financial services sector is what worries investors the most. Is this the big concern here?

I will defer to Michel Barnier to pass judgement on that. What we certainly believe very strongly – as does the European Commission and as do all Member States – is that the key principles which uphold the Single Market should not be harmed. Certainly, a good solution should be found with the United Kingdom, but that cannot be at the expense of the fundamental principles that have upheld the functioning of the Single Market.

Should the EU actually extend the deadline beyond March 2019 – if that's a possibility – to have a better agreement?

That's part of the political discussion; that's not for us to decide.

Very finally, the Eurozone budget – which is an idea wanted by the French President, Emmanuel Macron – seems to face a lot of opposition. Do you think it's a good idea? Is it necessary and what could overcome this opposition?

It is not an easy discussion. It's a fundamentally political discussion that's about sharing money, that's about sharing sovereignty. It's good the discussion has started. It's good that ministers and leaders are discussing ways to make the Eurozone more resilient and to make the Eurozone stronger. Given the amount of uncertainty that we see around us in the world, all of us in Europe, in the Eurozone, have a duty to make our system stronger. It's good that that the discussion has started, finally.

Even if it's being delayed, even if it might not happen in this mandate of Emmanuel Macron?

No one expects that discussion to be easy, so there is lower-hanging fruit such as completing the banking union. We would certainly hope that the capital markets union would feature more prominently on the agenda and also that the rules, the fiscal rules and the macroeconomic rules we've been working with, can be improved, can be made more credible. Fiscal union is not low-hanging fruit; it is difficult, it will take time, but it's good that that discussion has started.