

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 Francine Lacqua on 25 January 2019.

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Benoît Cœuré, the ECB executive board member, joins us right here in Davos. Thank you so much, Mr Cœuré, for joining us.

Good morning.

You flew in after the news conference in Frankfurt yesterday. Overall we heard President Draghi talk about these risks to the downside, but how would you explain it in your words? Why did we not foresee this?

We did foresee it, actually. The tone of our discussion yesterday was acknowledging that there is quite a lot of uncertainty around, that a lot of the uncertainty is political, has political sources and, first and foremost, global trade which is a politically-engineered uncertainty. We knew that growth would have to slow down because it started from very high points back in 2017–18. But the slowdown has surprised us. We have been surprised. We have to be very careful to monitor the data and that's what we're doing now. We are analysing the data, trying to understand what's going on, and in particular what we have to understand is the persistence of this shock to eurozone growth. I would say: today the jury's still out.

When you talk about a shock to eurozone growth, how much of it is actually trade and how much of it is actually internal slowdown?

A lot of it is trade. A lot of it comes from the outside. The Governing Council has said for months that most of the downside risks come from the outside. Until yesterday we had said risks were balanced or they were moving to the downside. Now, we say they have moved to the downside because these risks to global trade have materialised.

What about Brexit?

First, the ECB is not part of the negotiations. I very much hope that it will yield results and that we can find a solution. But it's not for us to discuss. What I would say is that there are substantial risks to real growth in the United Kingdom, but also as a knock-on effect on the eurozone. So we are not complacent about it, but the financial sector is now pretty well prepared for a no-deal Brexit, if that were to happen, because there has been a lot of work.

But have companies actually prepared for a Plan B? If there is a no-deal Brexit, what would it mean actually for growth in Europe? You say: systemically, we're okay...

Systemically we are okay. For the functioning of the financial sector, which is a lot in London, as we know, I think most of the players are well prepared now.

Do you worry about a big shock, though, to PMIs, to GDP if there is a no-deal Brexit?

That would be a big shock to the UK economy. How much will it ripple around? We don't know yet, but there would be an impact, of course.

Given this environment, can the ECB hike rates this year?

As I said, we are monitoring the data. We have this rate guidance: we say we are not going to move before through the summer. We could change it, we could extend it. The market sends a

signal that it expects the rate hike to be much later than what we have said. It is part of the functioning of our rate guidance; it shows that the rate guidance works well to anchor expectations. It's too early to have the discussion because we are still (in the process of) understanding the nature of the shock.

Are you comfortable with how the market took the President's comments yesterday?

Yes, we are. We've seen quite a lot of flattening of forward curves, even ahead of the Governing Council, and that, in itself, provides financial accommodation, so it's part of the solution. We are comfortable with it. If the market were to overreact, if at some point we see market expectations which don't fit the way we see the economy, then we would have to react. We would adjust our guidance; and we may have to do it at some point.

Would that be after March?

I don't know. It's a thought process and it's very much data driven.

What tools does the ECB actually, or could the ECB, deploy to counteract this slowdown?

Looking back, any time we've had to adjust to a new environment, we've done so, either using existing instruments or finding new instruments within our mandate, legally. We've been able to do it. What we have today in our toolbox, as you know, is negative rates. It's rate guidance, which we can adjust. And it's liquidity provision which, as you know, was part of the discussion yesterday, even though, here again, it's way too early to take a decision.

Benoît Cœuré, talk to me about TLTROs. We heard from President Draghi yesterday that the ECB will need to have a good monetary policy case to offer a new round of long-term loans. The market is reading this as actually this is now less likely. Was that the message?

No, the message is: there are different contingencies and we need to find the instruments, which one is best fitted to the contingency we're seeing. TLTROs are about credit, right? It's not about providing liquidity per se. There is a lot of liquidity in the system; excess liquidity is very ample in the eurozone. The TLTROs are addressing what we call "impairments in monetary policy transmission" – that is, they are supporting bank credit. We have to know if what we are seeing now is an impairment or is likely to lead to an impairment of bank credit. Then, that could be an instrument; it's very much – possibly – on the table, but depending on the contingency we are facing. We need to think more deeply about it.

So do you have an idea what kind of conditions you would need to actually offer a new round?

Obviously that's a lot about monitoring the way credit is extended by banks all around the eurozone, globally and locally, and how much bank funding will impact the rate of lending to the economy. So far, financial conditions remain very supportive of growth and that's also why we didn't move yesterday; because we feel that the setup we have, the instruments we've deployed, provide for a financial environment which is very supportive of the economy.

But do you worry that there's a risk that, basically, the banks will start repaying some of these TLTROs this summer?

Yes, there is, and that's why we are starting that reflection now. But as the President said yesterday, that has to be a monetary policy discussion. We are not going to have an LTRO or a TLTRO for the sake of banks meeting the net stable funding ratio. That's not the business line we are in; that's for banks to prepare for themselves.

But if they repay, that would tighten financial conditions?

Well, that's part of many business decisions that banks are taking. Our job is to look at the outcome in terms of financial conditions and to see if it's proper in terms of the monetary conditions that we want to see. So it's one issue. But it's only one argument among many others.

Are you talking to the banks to have an idea of what they'll do so that you can prepare yourself also for the balance sheet?

Yes, we are, of course. And we are talking to our supervisory colleagues because that's what they do: talk to banks.

Benoît Cœuré, how much does the personality of the President actually influence the decision of the Governing Council?

Well, that's an interesting question. The Governing Council is a collegial body; the President has to be in a position to filter information out of the diversity of the Governing Council and to build consensus, which the Presidents so far have been able to do and have done very well. It is important to be in a position to build consensus.

How can you see the dynamics of the Council changing once President Draghi leaves?

I don't see the dynamic of the Council changing very much. We have a diversity of individuals and that's why we have a Governing Council. It's right because we need to filter out the diversity of views in Europe. That's what the Governing Council is there for.

Benoît Cœuré, you said that you will continue to work for Europe and you don't exclude any possibility. If you were offered the top job – President of the ECB – would you accept?

Yes, who wouldn't? But it's really not for me to decide, it's not for me to reflect on. I want to continue to be useful. There are many opportunities. I have a job at the ECB until the end of the year, so it's really not for me to have that discussion.

Benoît Cœuré, thank you so much for joining us right here at of course Davos, World Economic Forum 2019.