Benoît Cœuré: Interview in Barron's

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, in Barron's, conducted by Mr Pierre Briançon on 5 February 2019 and published on 7 February 2019.

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Why did the European Central Bank both warn against increased risks for the eurozone economy and choose to do nothing at its last meeting?

At this stage, we don't think that we have enough elements to conclude that we're facing a lasting and serious slowdown of the eurozone economy. That said, we have a duty of transparency, we have to communicate on the way we see the economy. Forward guidance implies that you're being honest on the risks ahead. Hence our conclusion that risks have moved to the downside.

And these elements are?

The slowdown itself is not a surprise. Growth in 2017–18 was fast, boosted by world trade and somewhat artificially by the US fiscal stimulus, and we knew this was not sustainable. What we're seeing now is that the slowdown may be broader and longer-lasting than originally forecast. That's mostly due to the uncertainty linked to a possible slowdown of emerging economies, especially China, and another source of uncertainty created by the tense trade relationship between the United States and China, and in general between the United States and the rest of the world. We don't see increased risks mainly coming from within Europe at the moment.

If the risks are piling up, why not act more aggressively?

You must remember that the mere fact of changing our communication by itself triggers some monetary easing. Because we changed our vision of the risks ahead, markets drew their conclusions and the eurozone yield curve is flatter than it was in December. Markets that were anticipating our first rate hike in January now see it coming in May/June 2020, whereas we have said that we expect our rates to remain at their present low levels at least through the summer of 2019. So communication is in itself a monetary policy instrument. If we have to do more, it will have to be based on data.

Is what you call your "tool box" of monetary instruments complete now? Or would you have to invent new ones?

We are now well equipped to face many different types of situations. As of today, we have interest rates at the zero level, or even negative for our deposit facility. Our net purchases of bonds stopped in December but we will keep reinvesting the proceeds and keep our balance sheet as it is for now, so quantitative easing hasn't stopped. We have long-term liquidity operations which could be used again if necessary. And we even have instruments that were announced but have never been used. But even with all this, if we were facing new situations in the future, I'm confident we could be creative again and come up with efficient instruments, all within our legal mandate.

You didn't mention no-deal Brexit among the risk factors?

That is definitely a material risk for the near future, but for now it's not an explanation of the current worsening slowdown. The anxiety and pessimism we see is due to the global factors I mentioned. That said, we've worked a lot with the Bank of England to minimise the possible consequences of a no-deal Brexit, and our joint conclusion is that most of the risk in financial services could be handled by the market players themselves, save for the derivatives clearing question. But that question has now been dealt with by legal assurances given by the European Commission for the next year.

Do you feel the Bank of England and the ECB can continue to cooperate smoothly, whatever the Brexit scenario?

I have no doubt about this in both dimensions of our activities – monetary policy and banking supervision. Our dialogue is very intense, very close. In the case of no-deal Brexit, keeping that confidence will be essential to manage the situation.

Were you surprised by the change of guidance of the Federal Reserve, hinting that rate hikes might be delayed? Does that complicate your task?

I won't comment on the Fed's decision and communication. Let me point out that the US economy is likely at the end of a cycle, and this is a moment that is always difficult for markets in their search for information. That's not the case in Europe, where we are lagging in terms of recovery and where the normalisation of monetary policy is only beginning. The second element to keep in mind is that the nature of the risks we're all facing today is fundamentally political: trade negotiations, relations between the United States and China, Brexit, the political situation in emerging countries, and even some political developments in Europe. Putting a price on political risk is something markets don't do well. It's not business as usual where you run your models and you crunch your data. It's less quantifiable. So markets turn to central banks to seek some reassurance on what lies ahead.

Do you have the feeling that among the political risks you mention could be various threats to the independence of central banks?

That's not my impression. The importance of independent central banks is well understood. But there may be some tensions, because there may be a level of expectation for central banks that is too high after years of financial crisis. There may be a temptation to make central banks responsible for things that governments should address through fiscal policy, for example. Just because central banks had to invent new monetary policy tools to face unexpected shocks in the last decade doesn't mean they can do everything. It's very important for central bankers to refrain from hubris. Central bankers are technocrats with narrow mandates; the counterpart of their authority is that they strictly abide by their mandates. Ours is to maintain price stability. Some things we shouldn't and can't do, for example redistributive policies, or tackling our economies' productivity slowdown.

Market operators wonder about what will happen to Europe's monetary policy once Mario Draghi is gone next November. How much does continuity matter here?

Our own monetary policy committee is the 25-strong Governing Council. Just like the Fed, and contrary to other central banks, we have many people taking part in the decision, so that in and of itself is an element of continuity. Most of our decisions in recent years have been taken unanimously, or by large consensus. The President has an important role, of course, but the overall approach and philosophy of the ECB is unlikely to change at the end of the year.

Some European politicians deplore that the lack of speedy progress on eurozone reform means that the monetary union is ill-equipped to face another potentially serious shock. Do you share their pessimism?

Ever since the euro's creation we've had economists predicting the end of the euro for the next year, and it's still here. And investors know by now that it's always a mistake to underestimate the strength of the European project. It is a long-term political construction. It being political doesn't mean it is easy, and it has both positive and negative consequences. On the positive side, it means that it is resilient when tested by short-term economic shocks. On the other hand, that means that any new integration steps involve a political process that must be approved by 27 governments, subject to local and national political interests. That involves slowness and procrastination, but the result is robust. Even after the crisis we have lived through, which has deeply scarred our economic and social fabric, the level of public support for the euro is at its highest in 20 years. That should be the basis for further progress.