Benoît Cœuré: Exchange of views with members of the French Parliament

Introductory remarks by Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, prior to an informal exchange of views with the Finance Committee of the National Assembly, Paris, 15 May 2019.

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Mr Chairman,

Ladies and gentlemen of the National Assembly,

Thank you for inviting me here today. It is a pleasure to engage in an informal exchange of views with you today on the ECB's monetary policy, and on policies to raise the economic potential of the euro area.

Allow me to start by briefly discussing the economic situation of the euro area.

The euro area economic outlook

In 2018 the euro area economy grew by 1.9%, compared with 2.4% in the previous year. This moderation in economic growth was mainly due to weaker global trade, as well as some temporary factors at both the domestic and global levels.

While there are signs that some of the idiosyncratic domestic factors dampening growth are fading, global headwinds continue to weigh on euro area growth developments. Moreover, the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets is leaving marks on economic sentiment. As a result, the slower growth momentum has extended into the current year.

At the same time, the euro area economy continues to exhibit a high level of capacity utilisation, and the unemployment rate has continued its downward trend. In March it stood at 7.7%, its lowest level since September 2008. Employment gains and rising wages continue to underpin the resilience of the domestic economy.

Looking ahead, the latest ECB staff projections from March 2019 put euro area annual real GDP growth at 1.1% in 2019, 1.6% in 2020 and 1.5% in 2021. At the same time, the persistence of uncertainties, mainly stemming from the global environment, continues to pose downside risks to the growth outlook.

Looking at inflation developments, euro area annual HICP inflation was 1.7% in April 2019. While measures of underlying inflation remain generally muted, the ongoing economic expansion, with tightening labour markets and rising wages, will support the further build-up of price pressures. The latest ECB staff projections foresee annual euro area headline inflation of 1.2% in 2019, 1.5% in 2020 and 1.6% in 2021.

The ECB's monetary policy and its impact on the euro area economy

At its last monetary policy meeting on 10 April, the ECB Governing Council confirmed that an ample degree of monetary accommodation remains necessary to safeguard favourable financing conditions and support the economic expansion. This will ensure that inflation remains on a sustained path towards levels that are consistent with our inflation aim – a rate of inflation which is below, but close to, 2% over the medium term.

We continue to expect the key ECB interest rates to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation consistent with our inflation aim.

The Governing Council also confirmed its intention to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme. This will continue for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

To preserve favourable bank lending conditions and the smooth transmission of monetary policy, and to support access to financing, in particular for small and medium-sized enterprises, the Governing Council decided in March to launch a new series of quarterly targeted longer-term refinancing operations (TLTRO-III). They will start in September 2019 and end in March 2021.

Significant monetary policy stimulus is thus being provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets and the new series of TLTROs. The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards our inflation aim in a sustained manner.

The benefits of our monetary policy measures have been sizeable and tangible. Lending rates for euro area firms and households have declined to historic lows and converged across the region, and growth in bank lending volumes has significantly recovered since the beginning of 2014, thereby supporting investment and job creation.

According to today’s preliminary flash data release provided by Eurostat, there are now 9.2 million more people in employment in the euro area than there were at the end of 2014, just before the ECB announced its expanded asset purchase programme, and 10.8 million more than in the second quarter of 2013, when the number of people in work fell to its lowest point during the crisis.

Completing Economic and Monetary Union

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to raising the longer-term growth potential of the euro area and reducing its vulnerabilities.

Sound fiscal and economic policies at the national level are the first line of defence to make the euro area stronger.

Economic reform needs to be substantially stepped up in euro area countries to increase resilience, reduce unemployment in a lasting way and boost productivity. The country-specific recommendations that the European Commission will publish next month will lay down the main reform priorities to be implemented.

On the fiscal side, the mildly expansionary euro area fiscal stance and the operation of automatic stabilisers are providing support to economic activity. Countries which have fiscal space should use it in a way that makes their economies stronger and more resilient for the future. At the same time, countries where government debt is high, including France, need to continue rebuilding fiscal buffers. All countries can and should reinforce their efforts to achieve a more growth-friendly composition of public finances.

The euro’s benefits, however, will not fully materialise for as long as the architecture of Economic and Monetary Union (EMU) remains incomplete.

Material progress has been achieved in recent years. The European Stability Mechanism has become established as an important safeguard and the reforms currently being discussed will provide it with new instruments to better protect Member States, keeping in mind the longer-term objective of making it a Community institution accountable to the European Parliament.

The creation of banking union, meanwhile, has considerably strengthened the resilience of the euro area financial sector and, together with the Bank Recovery and Resolution Directive, has created instruments to combat banking crises in a way that is swifter and fairer than in the past. Banks directly supervised by the ECB have built up strong capital positions in recent years, with a Common Equity Tier 1 (CET1) ratio of 14.3% at the end of 2018 compared with 11.3% at the end of 2014, and have substantially reduced non-performing loan ratios. These are important steps forward as euro area firms rely to a very large extent on bank credit to finance growth and investment. Let us also keep in mind that these measures build on the achievements of ten years of financial regulatory reform, which should not be reversed.

So what more should be done at the European level?

First, we need to further strengthen the ability of the financial sector to contribute to economic stabilisation. Increased financial integration is the key competitive advantage the euro area should leverage here. During the crisis, integration in the euro area reversed and it has only gradually recovered over the past years. The creditworthiness of banks remains linked to that of national governments. Cross-border investment is not a significant buffer against economic shocks, as it is across US states. The euro area still lacks genuinely integrated capital markets, which hinders the efficient investment of European savings as well as the use of the euro as an international currency.

Recent legislative steps are commendable but they do not measure up to the initial ambition of the capital markets union project. Brexit will further accentuate the need to develop and integrate the EU's capital markets to prepare for the likelihood that the City of London will play a more reduced role in the future as a hub of European savings.

Second, we need to ensure that the EU fiscal framework delivers on its main objective: preserving fiscal sustainability while allowing room for automatic fiscal stabilisation. This is essential to help stabilise the euro area in the face of large shocks without having to rely excessively on the ECB's policies.

Sound national fiscal policies should remain the basis. Simpler and more credible fiscal rules would help ensure that euro area countries build adequate fiscal buffers in good times so that fiscal policy can be used in bad times. The euro area budgetary instrument currently under discussion is a welcome step to support competitiveness and convergence, but it is not designed to fulfil a stabilisation function. In order to play that role, it would therefore have to evolve further in the future.

In the longer term, the creation of a common euro area safe asset, if done in a way that does not undermine incentives for sound national fiscal policies, could have a beneficial impact on the conduct of the ECB's monetary policy, help strengthen the international role of the euro and contribute to completing EMU.

Conclusions

Let me conclude.

The euro, as it marks its 20th anniversary, enjoys broad support among European citizens, with three in four people in the euro area in favour of the single currency. Its growing popularity is testimony to the fact that people have trust in the currency and in the ECB's strong commitment to price stability, which supports investment and job creation.

To preserve this trust, and to deliver on the promise we made when the euro was introduced, namely that it would bring prosperity and opportunities, we need to step up our efforts at both national and euro area level to strengthen the architecture of the single currency. Many of the failings that caused and perpetuated the crisis remain unresolved.

At a time of heightened global uncertainty, completing the euro area's architecture is also necessary for Europe to be able to achieve its other objectives. Europeans won't be able to foster cooperation on security and defence, or to speak with one voice on international affairs, or to complete the Single Market if they repeatedly have to tackle economic crises which are largely of their own making. A sound and sustainable euro area will help redirect political capital where it is most needed.

Ensuring the political relevance and legitimacy of this process is in the hands of the European Parliament and national parliaments. I very much look forward to today's discussion.

Thank you.