Benoît Cœuré: Interview with BFM Business TV

Interview with Mr Benoît Cœuré, Member of the Executive Board of the European Central Bank, and BFM Business TV, conducted by Ms Hedwige Chevrillon, and published on 9 July 2019.

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Mr Cœuré, your name has frequently been mentioned in recent days, and the European Central Bank (ECB) has been very much in the news, with the proposed appointment of Christine Lagarde as President of the ECB. Your name had been mentioned – do you understand the reasons for the choice that was made?

It's an excellent choice. It's an excellent choice because Christine Lagarde's career, first in France and then at the International Monetary Fund (IMF) in Washington, makes her eminently qualified to be President of the ECB.

In what way?

She understands perfectly how the global economy works, and how the euro area economy works; she knows how to speak to the financial markets; she knows the institutional set-up in the euro area. So she will do an extremely good job.

There are many economists here in Aix. You are a distinguished economist with a fine reputation. It has been pointed out, with some justification, that Christine Lagarde doesn't have a technical background in economics, or in monetary policy. Do we need to worry about the future of monetary policy in Europe?

No. It's a criticism that has been made of Christine Lagarde, but she knows the economy very well – she has led the IMF, she has been finance minister, so she knows how the economy works. In addition, she will have, a team of excellent ECB economists who will work alongside her and advise her, and she will manage things very well.

Yes, but the first one of you – and that would be you, Mr Cœuré – you may, for legal reasons, for reasons of nationality, end up leaving the ECB. This is worrying a lot of people, I won't hide it from you, even people here, who are saying that if Benoit Cœuré were to leave, having been one of the main architects of the current monetary policy framework, that would leave a huge void at the ECB.

I'll be leaving the ECB on 31 December 2019 because that's when my eight-year term comes to an end. Irrespective of Christine Lagarde's appointment, I'll be staying until the end of December, until the end of my term. The ECB's chief economist, my colleague Philip Lane – who was previously Governor of the Central Bank of Ireland – is an excellent macroeconomist and he will be able to steer things extremely well.

Isn't the biggest challenge the question of the team, the future team surrounding Christine Lagarde?

It's a challenge that everyone faces when they take on a new role, of course. But she will make good decisions.

As you said yourself, you're going to be leaving the ECB. Are you a candidate to become Managing Director of the IMF?

No, I'm not a candidate for the IMF. There are plenty of good candidates. Don't ask me who my preferred candidate would be, because the decision is not up to me. My speciality is Europe, and so I'd rather stay in Europe and continue to serve Europe. The way in which I do so remains to be seen; there are various ways. But I'm not a candidate for the IMF.

Listening to the statements made by Mario Draghi, one has the impression that he is inclined to continue the ECB's current interest rate policy, meaning a policy of very low interest rates. That policy is giving rise to considerable side effects, which we will discuss. Do you think this policy will be in place for a long time?

It's a policy that has side effects, and this is something that we are monitoring. We are aware of the side effects, but our policy is necessary. Why is that? It's because our objective is to ensure that inflation comes back to our objective which is close to, but below 2%, and we're not there yet. So, monetary policy needs to be accommodative until that objective is met.

But what if there is deflation with this interest rate policy?

It's a policy which has created tens of millions of jobs in the euro area, which is supporting activity and thus a return of inflation towards 2%, and which is all the more necessary right now, when we are facing a slowdown in the global economy and significant global risks – which are not related to Europe, but rather to trade tensions caused by various countries, and which are affecting confidence. In this environment, an accommodative monetary policy is needed more than ever. The Governing Council of the ECB has said that we are ready to act if new downside risks materialise. So, the policy is necessary to fulfil our mandate.

But what monetary tools do you have at your disposal if you do need to act?

We have used various tools up until now: the forward guidance, through which we steer monetary policy expectations; interest rates, which are very low and which we have said we would be ready to lower further still, if necessary – and I always stress "if necessary"; and the reinvestment of our securities portfolio, which ensures that the ECB has a very significant presence in the markets. And theoretically, we could also resume making net asset purchases, again if warranted by the circumstances.

But what are the circumstances? There are lots of questions about the circumstances. Is it the growth rate? The rate of inflation? A lack of inflation? I used something of a dirty word before when I referred to deflation. I apologise for that, but at the same time, isn't it a kind of sword of Damocles hanging over you?

There is no deflation in the euro area; we are not talking about a risk of deflation. Inflation is well above zero. The risk is that a series of negative shocks might move us further away from our objective of 2% – that is what we are looking at, what we are trying to understand, particularly in the light of the global economy.

What some people are worried about – and we talk about a lot here – is the possibility of a financial crisis, even a financial explosion, whether in the short or medium term I don't know. Maybe you will give us a time scale. Is there a risk of the bubble bursting or a liquidity crisis on the horizon?

There are always risks in the financial sector, and as central bankers we are paid to worry about them. The role of central bankers and regulators is to worry about risks. Our first conclusion is that we have to maintain and protect the system of financial regulation that has been built since the great financial crisis, since 2007–08. As time goes by, people are tending to forget this crisis, and the temptation returns – particularly under the pressure of different lobby groups – to relax financial regulation. This temptation must be resisted, both in terms of banking and finance more generally.

Then we have to identify the new risks. I see two main risks; there are many but I would like to highlight two of them. First, we have the risk that part of the financial sector slips out of the domain of banks and into the domain of non-banks.

That's already the case...

Yes, it's already the case. The size of banks is now under control; the large banks are handling risk much better than they were before the crisis. But the price to pay for that has been that part of the financial sector has moved to the domain of non-banks – investment funds, money market funds, etc. – which is regulated differently, where we don't have the so-called macroprudential instruments, in other words, a way to control the bubbles, as one might say. These instruments barely exist, or don't even exist at all, in the domain of market-based finance. That's a challenge for regulators, particularly for the next cycle of European regulation over the next five years.

Do you think we need to create new regulatory instruments for this non-bank finance?

Yes, exactly. And the second risk I see – which is of a different nature – is cyber risk, the risk linked to cyber attacks. At the ECB, and elsewhere in Europe, we are paying close attention to this issue. We can't rule out the fact that the next financial crisis may come from a cyber attack on a big financial institution or a financial infrastructure. It's our priority to prevent this risk.

Do you think the chances of a cyber attack are quite high? It's fairly logical given that we're already seeing cyber attacks against companies…

Ask any company director; there are thousands of cyber attacks every day. We're being tested all the time, including at the ECB. It's part of being a company. But the financial system has weak points – there are systemic infrastructures that could be targeted by cyber attacks. At the ECB we've reacted by creating a forum – the Euro Cyber Resilience Board – which assesses the resilience of major European infrastructures. We've also reacted at the level of the G7, with a recent cyber crisis coordination exercise.

Has the ECB already experienced a major, significant cyber attack?

We experience thousands of small ones every day, like everyone…

So no "massive" attack?

Not for now, no. No significant attack. But it will come, and we have to be ready.

You talked about this parallel finance that is becoming increasingly important; there is also a huge amount of money flowing into private equity. Why? Because there is not enough money to be made anywhere else? Is that an amber warning light for you?

Not private equity specifically, no. But there are other areas we are monitoring at euro area level, like real estate financing, which is not a problem in general, but there are small warning signs in certain countries. There are also these so-called leveraged loans – more in the United States than in Europe – but which are starting to become a global problem. So there are a number of warning lights that are starting to flash on the global dashboard. These are signs of financial fragility and we're keeping a close eye on them.

And when exactly will we have a financial crisis? In the relatively short term? Maybe as a central banker you can't say…

I don't know how to answer that question. My job is to make sure the financial system is as robust as possible. At the level of the financial institutions themselves, that's the work of the banking supervisors, my colleagues at the ECB who supervise the banks, who check that they have enough capital and liquidity to withstand a crisis, and at the level of big global infrastructures like payment systems and clearing systems.

There is a major economic debate around the topic of "low rate policies mean we have to completely revisit our traditional macroeconomic models". Olivier Blanchard, in particular, has been vocal, but not just him... Olivier Blanchard, the former IMF chief economist, whom you know well. Shouldn't we revisit our macroeconomic criteria? Can't debt help, as long as it takes the form of infrastructure investment?

I didn't interpret Olivier Blanchard as saying that we had to radically change our economic models, quite the contrary. What he said was that, within the framework of our traditional models, there are indicators, or parameters, that have changed, especially the gap between the interest rate and the growth rate, which is very different from how it has been in the past and that, he says, warrants a policy of re-indebtedness in certain countries.

The idea is that current policy is causing countries to pursue a rather tight fiscal policy, particularly as regards the level of debt…

That does not call for a change in economic theory; it is actually in line with standard economic theory. The parameters have simply changed because interest rates are lower than before. I think he is basically right, but the analysis needs to be done for each country individually. In Europe we would need to carefully identify those countries where interest rates will be persistently low relative to growth rates. I don't think that countries such as Italy, or even France, fall into that group. Interest rates have indeed fallen but they will climb up again one day, and long-term growth rates – potential growth rates as economists would say – are rather low. And the European Commission's assessment, like our own at the ECB, is that there are actually very few countries in Europe with the resources to actively deploy fiscal policy. Germany is one of them but France and Italy are not.

Can we permanently have such low interest rates and no return on savings?

Yes, people are earning a lower return on their savings, but savers are employees and consumers too. And the low interest rate policy has enabled a revival in employment and a recovery in economic activity, which also boost savings.

So you don't see a risk in this policy over the long term? Is there no systemic risk?

Our current monetary policy is designed to respond to a very specific situation, namely to a low growth, low inflation environment which should not last forever. Monetary normalisation will have to set in at some point, but the prospect of that normalisation is moving a little further away. That's because of the risks for the global economy generated by shocks in the United States, in China and in the global trade system. So for the moment, this prospect of normalisation will need to be slightly postponed, but I am convinced that normalisation will have to occur eventually.

Yes, the question is the long term, isn't it?

We conduct monetary policy based on the data at our disposal and we now see a slowdown in the global economy.

Another issue that's very important because it has, and will have, a huge impact is cryptocurrencies, like the famous Libra, which will be launched by Facebook with the backing of large investors. As chair of the working group on these currencies, do you see them as a threat or, on the contrary, as an evolution of traditional currencies?

A G7 working group on stable coins, set up at the request of the French presidency, will present an initial report to the meeting of the G7 in Chantilly in around ten days' time. Stable coins are a global topic affecting all countries, so work will also be carried out at the level of the G20 and the

Financial Stability Board. I think we need a balanced approach to this question; it obviously involves many and varied dimensions of risks, which makes this debate rather complex. There are risks related to anti-money laundering, the anonymity of transactions and the use of these instruments for illicit transactions. And there are financial stability risks and risks relating to the use of the personal data that are generated by these transactions. So we need a multi-disciplinary approach and, most of all, we need a coherent approach at global level, because these are projects which have a global dimension from the outset. The difference between these new projects and the fintechs, as they are traditionally known, is that we have been looking at small projects in what are known as regulatory “sandboxes” and, now, we have an elephant entering the sandbox. That is the issue. So we need to understand what this elephant looks like.

Yes, an elephant!

We need to understand the elephant. But we also need to look at the opportunities, the advances offered by these technologies. They pose a challenge to the traditional banking system, which has not been quick enough to seize the new technologies, particularly in the field of payments.

They do more than challenge them; couldn’t they put them at risk?

Yes, but a technological innovation enabling less costly and quicker international payments is a welcome innovation. Banks need to react and adapt to it, but innovation in itself is a good thing. And it demands a response from us central banks too. Our instant payments projects at the ECB are a case in point. At the ECB we now have an instant payments system known as TIPS which is inexpensive and works extremely well. We need to learn to link these systems with our colleagues in other countries to facilitate cross-border payments. Innovation is also an incentive, a stimulus that enables us to work more effectively.

Currencies are normally minted by states. Don’t you find it shocking that a private concern is “minting currency”, so to speak?

We are not talking about currency, but rather what is known as ‘’stable coins’’.

It’s a means of payment…

They are payment systems, a means of payment as you say, but they may eventually evolve to become financial instruments, perhaps even debt or funding instruments. We will identify all these functionalities and we will have to have a regulation for each functionality such that equivalent activities are regulated in the same way, regardless of the technology behind them.

So you have no concerns about these currencies?

They are not currencies. There is only one currency in the euro area, only one which is legal tender, and that is the euro. There is no other.

Benoit Cœuré, Member of the Executive Board of the ECB, thank you for this interview.