

Benoît Cœuré: Interview with Corriere della Sera

At its meeting on Thursday, 7 March, the ECB decided to add to the monetary stimulus already in place. What happened? Did the extent of the economic slowdown in the euro area take you by surprise?

The slowdown didn't come as a surprise. Economic activity was exceptionally strong in 2017, thanks to global economic conditions. We knew that euro area growth would adjust towards its potential rate. The slowdown has been stronger than expected and started sooner, which motivated the decisions we took. But those decisions don't represent a turnaround in our policy; they have been carefully calibrated to this diagnosis. We are adjusting to the new reality rather than reversing our course; we don't see signs of a recession at present. The ECB staff projections have been revised. They previously envisaged that growth would be consistently above potential, which would have pushed inflation towards our objective of lower but close to 2%, whereas they now foresee that actual output will be initially equal to or below potential output, which means it will take longer for inflation to reach 2%.

In the event of external shocks, could the ECB go back to buying bonds on the market?

We don't see the need. We are still seeing robust economic growth, although it's less strong than before. It will take longer for inflation to reach our objective, but it will get there. We are reacting to the developments we have seen so far, so we will keep rates at zero for longer, we will continue to reinvest payments from maturing securities in our portfolio, and we will grant banks liquidity at favourable conditions provided that they finance the real economy. If you're asking me about another asset purchase programme, all I will say is that this instrument is now part of our toolbox, but it is not needed now.

Do you think that European governments are pursuing appropriate fiscal policies under the circumstances?

It's difficult for a central banker to give detailed advice on fiscal policy, since fiscal policy is a matter for democratically elected governments. What I can say generally is that the current fiscal stance in the euro area as a whole is slightly expansionary and supports economic activity. The European Commission has invited those countries that have fiscal space, such as Germany, to use it in the way they consider most appropriate for their economies. Those who don't have any fiscal space shouldn't use it or pretend to have it. This applies not just to Italy, but also to France. Both countries still have some way to go to rebuild their fiscal buffers.

Many market participants believe that Italy could be a source of crisis in Europe...

It's not for me to talk about politics. But it's true that, economically speaking, Italy is in a difficult juncture. It is the only euro area country that is experiencing a technical recession. And it has not seen an improvement in the labour market, which is another thing that sets it apart from other euro area economies. In the longer term, Italy's problem is well known: it is productivity growth. I don't believe that any of this has to do with the euro, otherwise it would be a general problem across the euro area. The response is to focus on the country's strengths, such as its small and medium-sized enterprises. And to use the Single Market to leverage their strength and help them export to global markets. Isolation and protectionism don't work. Europe is an asset for our economies.

It seems to be difficult at the moment to undertake the much discussed reforms to complete the banking union and the capital markets union. Do you share this impression?

Yes, I do, and it's a concern for the ECB. We firmly believe that Europe is part of the solution in dealing with the problems faced by European citizens. Many citizens in many countries are angry because economic results are not what they should be, because it has taken too long to recover from the financial crisis, because unemployment especially among the youth – is still high and because globalisation has not lived up to its promises, instead increasing inequality and marginalising parts of society. The measures needed to respond to these issues can only be effective at the European level. Not everything is working well in Europe and it begs a discussion. Italy, as a founding member of the EU and as the third economy of the euro area, needs to be part of it.

What do you think of the proposals for reform made by Macron?

I don't want to comment on what the French President says. He has sparked a debate on the future of Europe, and every country should get involved. If European leaders focus only on domestic politics, this inward-looking attitude can only make Europe weaker.

A return to the previous era of globalisation without barriers is unlikely, isn't it?

This is indeed unlikely. And that's good news, since the reason we are experiencing problems today is that globalisation didn't deliver on its promises. As Tommaso Padoa-Schioppa once said: "Those people who complain that we won't get back to the pre-crisis path forget that it was the very path that led to that crisis". We are currently undergoing a very disorderly transition and there is a temptation to turn to nationalist ideas, when one of the great successes to emerge in the aftermath of the Second World War was the creation of an international order based on trust. Change is needed; for instance, we were naive about opening up international financial flows. There was too much financial globalisation, and this led to volatility and systemic risk and it has eroded fiscal resources because multinationals have become footloose. To a certain extent, financial openness cancelled out the benefits of trade openness. We need to come up with a new international order that can overcome these problems. But returning to a system based on domestic

priorities alone will clearly not work.

Don't you think that central banks have been charged with too many roles and responsibilities?

Yes, I do. People expect too much from central banks, considering what we can do and the mandate they have given us in the first place. If you give a central bank too many objectives, you transform it from an apolitical entity with a narrow mandate into a political institution. We have a duty to deliver on our mandate, that is price stability. But giving us too many objectives would make us political, which we certainly don't want to be.