Provision of deficit and debt data for 2018 – first notification – Euro area government deficit at 0.5% and EU28 at 0.6% of GDP – Government debt at 85.1% and 80.0% respectively

In 2018, the government deficit and debt of both the **euro area** (EA19) and the **EU28** decreased in relative terms compared with 2017. In the **euro area** the government deficit to GDP ratio fell from 1.0% in 2017 to 0.5% in 2018, and in the **EU28** from 1.0% to 0.6%. In the **euro area** the government debt to GDP ratio declined from 87.1% at the end of 2017 to 85.1% at the end of 2018, and in the **EU28** from 81.7% to 80.0%.

Full text available on EUROSTAT website

Statement by Jean-Claude Juncker, President of the European Commission, on the occasion of the death of His Royal Highness Grand Duke Jean of Luxembourg

I was deeply saddened to learn of the death of His Royal Highness Grand Duke Jean.

Like everyone else in Luxembourg, I had enormous respect for a man of great dedication, kindness and courage who throughout his long reign always gave the best of himself to his country. Luxembourg owes him a huge debt. His passing is a great loss to the Grand Duchy and to Europe as a whole.

Grand Duke Jean was always close to the people of Luxembourg who are today united in grief. At this sad time my thoughts go out to the Grand Ducal family, to whom I express my sincere condolences.

Benoît Cœuré: Interview with Frankfurter Allgemeine Zeitung

Interview with Benoît Cœuré, Member of the Executive Board of the ECB, conducted by Johannes Pennekamp and Philip Plickert on 17 April 2019 and published on 23 April 2019

Mr Cœuré, the fire at Notre-Dame was a catastrophe for France and Europe. My sincere condolences! We hope that the cathedral can be rebuilt as quickly and as beautifully as possible.

I found it all very moving; I lived in Paris for twenty years. But what also moved me greatly and impressed me was the great sympathy and solidarity from the whole of Europe. Notre-Dame is the most visited historic building in Europe – it embodies many of Europe's values. It is good to see that there was such a strong sense of commonality after the disaster.

Let's turn to monetary policy. Complaints about the ECB's negative interest rate on deposits have increased significantly. Each year Europe's banks are paying around EUR 7.5 billion in "penalty interest". Mario Draghi has indicated that a tiering of the negative interest rate could be considered in order to relieve the burden on them. Would you be in favour of that?

I find the intensity of the discussion surprising, because it focuses on a narrow aspect of our monetary policy. The debate about interest rates being low for long should be broader. We understand the concerns of those affected by the harmful side effects of very low interest rates. These are increasing with time. There are possible concerns about financial stability; asset

prices are rising. Bank profitability is also a concern. However, the negative deposit rates are really not the biggest problem. Their contribution to low bank profits is limited. Banks should think more about their costs.

Does that mean that you are not in favour of a softer, tiered negative interest rate?

No, it doesn't. It is a useful, relevant discussion that we have had before and should revisit regularly. Japan and Switzerland have tiered systems. But the negative deposit rate is not the most important reason why interest rates are so low. If we change something, there has to be a monetary policy reason for doing so. At the current juncture, I do not see the monetary policy argument for tiering. However, we must keep a close eye on developments. Those who would profit from tiering are, above all, banks with high excess liquidity, of which many are located in France and Germany where bank lending is already running high. Thus there is no evidence so far that the negative deposit rate is bad for lending. On the contrary.

The Governing Council of the ECB says that key interest rates will remain as low as now until at least the end of 2019. However, some bank analysts do not expect the first interest rate rise until late 2020.

We are not tied to such market expectations; they are an important input, but we are not led by them.

Are those who do not expect an interest rate rise until later completely wrong?

Well, that reflects an assessment of the downside risks which is different to that of the Governing Council.

There has been a lot of bad news on the economy recently: sentiment indexes and industrial new orders have fallen. How bad is the economic situation in the euro area?

I have mixed feelings. On one hand, the slowdown in growth is probably only temporary. We expect growth to return in the second half of the year. There are no grounds for overly gloomy thoughts. On the other hand, it is very uncertain how long and how strong the downturn will be. The reasons for the uncertainty are political: the trade tensions stemming from the United States, and also Brexit to some extent. Growth will only return in the second half of the year if there are signs of a resolution to the trade dispute.

The ECB's growth forecast for this year in the euro area is 1.1%, and next year 1.6%.

Yes, that is the current staff forecast, which will be revised in June.

Germany is very dependent on exports; it is particularly hard hit by the weakness in trade. Is a recession – at least according to the technical definition of two negative quarters – thinkable?

No, we do not expect a recession. But it is true that the economic slowdown

in Germany is stronger than we had expected. There were temporary factors, such as the problems with emission tests in the car industry. Now things depend mainly on growth in emerging economies, above all China. The German export-oriented growth model also entails risks. It was very advantageous during the upturn of the global economy, now things are not so good.

Would you advise the German Government to increase domestic demand?

The ECB does not lecture the German Government. In its “European Semester” reports, the European Commission made it clear that Germany should balance its growth and increase domestic demand. That could be done, above all, through more investment, which would be good for the Germany economy. In Europe there is much discussion about the level of budget deficits. Of course the amount of the deficit is important for keeping debt under control, but it would be at least as important to talk more about the composition of expenditure. Most countries, including my home country France and also Italy, have no fiscal room for manoeuvre for more spending. However, through reallocation, the expenditure could become more growth-friendly.

To return to the more technical side of the ECB’s policy: you gave banks four-year loans in the order of hundreds of billions of euro, so-called “TLTROs”, which will soon expire. For this there will be follow-on loans. Again with such favourable conditions, even in part a negative interest rate?

The TLTRO loans are not a subsidy for the banks; they are a monetary policy instrument aimed at ensuring adequate lending. The Governing Council will presumably decide on the conditions, including the interest rate, in June. The remarkable progress in lending to the real economy will have to be taken into account. The situation today is very different to 2016, when we issued the last TLTROs to actively support lending. However, we want to protect this achievement.

So the conditions no longer need to be so generous?

The Governing Council will decide on that based on economic data.

The key measure of the success of the ECB’s policy is price stability. Contrary to what the ECB repeatedly forecasts, the rate of inflation remains below the target; the curve is not upward-sloping, but is flat. Inflation could still remain very low for a long time. And that is in spite of the fact that wages are rising significantly. Consumer prices are not following. Is that a puzzle?

It is half a puzzle. At least wages are now rising, following the fall in unemployment, as we had expected. But what is missing is the transmission from wage costs to product and consumer prices. That is a bit puzzling. Businesses are apparently accepting narrower profit margins rather than raising prices. That may be because they do not think demand is strong enough yet and because of strong global competition. But that cannot go on forever. At some point they will raise prices. However, the most recent slowdown in the economy is a setback.

This autumn, ECB President Mario Draghi will step down after eight years in office. So far the ECB has had a Dutchman, a Frenchman and an Italian at its helm, but so far no president from Germany. Can you understand why many Germans want the next President of the ECB to come from here?

I understand that, but it's the wrong way of looking at things. The choice of ECB President should not be based on nationality, but on competence.

But we should not pretend to be so naïve as to think that political and national considerations do not play a role!

Yes, of course, I understand the political process. But the selection should be based on competence. And, if you ask me, I would also be happy to see a woman at the helm of the ECB. Ultimately, there are various criteria – and it is a political decision.

So, what must an ECB President have in terms of qualities, abilities and knowledge?

You will have to ask the European Heads of State or Government; they decide that. What I would say as a central banker is that you have to be a good central bank manager, you must have a strong background in and knowledge of economics, and you must understand the capital markets – without being a hostage to market expectations – and you should uphold the independence of the ECB. And you need to have the ability to lead and to make compromises.

You have ambitions yourself. Some say you have a 10 percent chance of becoming ECB President. However, you are on the Executive Board, and it is crystal clear in the EU Treaty that a re-appointment of Executive Board members is prohibited.

I won't give any legal interpretations. That is up to the EU Heads of State or Government. I have worked for Europe for the last seven years. I also want to continue to serve Europe. The central bank is a place where I can be useful. But, of course, I can also be useful elsewhere.

The ECB leadership has apparently already obtained legal advice which played out the case of you briefly stepping down and then being "re-"appointed as President. Would that not be a blatant ploy? A breach of the spirit of the rules?

I am not a lawyer.

But you would like to do it?

Who wouldn't? But it is not a position that you apply for. We must respectfully wait to see what the politicians decide.

The next President of the ECB will have no easy task. He …

He or she …

He or she must drive forward the "normalisation" of monetary policy. What is

that, actually? What is normal?

An interesting question. A lot of thought is given to that at the International Monetary Fund (IMF). The Federal Open Market Committee of the US central bank, the Federal Reserve System, asks its members explicitly for their estimate of the longer-term development of interest rates. We don't do that. We in Europe are also lagging far behind the US economic cycle. I don't know what the long-term aim for interest rates in Europe should be. But for me, "normalisation" means that the key interest rates are again the main instrument of monetary policy – as they were before the crisis. We are not there yet. The bond purchase programme – "quantitative easing" – is not yet over, because we are reinvesting the proceeds from the maturing bonds. Each month we reinvest a substantial sum. Second, the "forward guidance" is now our main instrument; steering the market through words, not through interest rate changes. We are not abandoning the prospect of normalisation, but it has been delayed by the economic downturn.

In the medium term, should the ECB reduce its balance sheet again?

Yes, like the Federal Reserve System. The Federal Reserve kept its bond holdings for a considerable time after the end of the net purchases and then started winding down its holdings. But in Europe we have not got that far yet.

With all due respect for your optimism regarding the economy, what will happen if there is a really strong downturn, perhaps even another full-blown recession? What could the ECB actually still do?

The best answer is that we have managed in the past. Every time there has been a major challenge, we have found a solution. I am confident that, in the event of a shock, we will find a solution in our toolkit that is within our mandate. Monetary financing is prohibited. But I would caution against the view that only the ECB should have to react to **a crisis**. We do not know what the next crisis will look like. Every crisis is different. There will be another crisis; there will always be more crises. It would be very unwise to think that the next crisis will be managed by the ECB without any measures having to be taken by governments. The burden of tackling crises must not rest on the shoulders of the ECB alone.

However, you have already used up most of your ammunition: key interest rates are at zero; the bond purchases have almost reached the limits you set yourselves. What more could you do?

We do not answer this question because it all depends on the type of crisis that we are facing at the time. We have not had a discussion about this in the Governing Council either. Experience has shown, however, that we have a broad range of instruments.

Do the possible instruments also include a devaluation of cash, to make even lower negative interest rates possible? After all, there are already working papers on this subject in the IMF and the ECB. What would citizens make of that?

Simple answer: it is up to the citizens to decide whether they want to use cash. For instance, Sweden is moving in the direction of a cashless society; in the euro area countries, demand for cash is still growing. The central banks are working on digital central bank money as an alternative to cash. We are investigating that. But we do not want to abolish cash.

The question was a different one. The academic working papers of the IMF and the ECB are not about the abolition of cash, but a devaluation through negative interest rates, a kind of penalty interest on banknotes.

That is not a new idea. Silvio Gesell came up with it 100 years ago. But it is not a practical discussion for us.

In the forthcoming European elections, anti-EU, anti-euro and populist parties will probably gain seats. Are you worried that the EU and EU institutions will be weakened by that?

There will probably be a more fragmented Parliament. The legislative decision-making process will be more difficult. Politics as a whole will be more difficult and more complex. We hope nonetheless that European Economic and Monetary Union will be completed. A push towards a capital markets union is needed.

What is that exactly?

A capital markets union means greater integration of the capital markets; a better cross-border allocation of savings. By way of a specific example, a German company investing in French or Spanish companies and vice versa. We don’t see enough of that yet. Capital should go where it is most productive.

A few years ago, Wolfgang Schäuble, as Finance Minister, once complained that the ECB’s low interest rate policy was 50% responsible for the rise of the Alternative for Germany (AfD) party in Germany. Perhaps he wasn’t being entirely serious but the fact is that many citizens are frustrated about the low interest rates which, for example, make retirement provision more difficult. Has the ECB played a part in the success of populist parties?

When the ECB is given the blame for political outcomes, that says more about politics than it does about the ECB. We clearly have a political framework in Europe that has not delivered what the people expect; not the growth, the employment nor the income that people in many countries want. The ECB is an easy scapegoat. Our tower here in Frankfurt is highly visible; many eyes are on us. Yes, we must take into consideration the side effects of our policy, the effects on savers, on house prices, etc. We take that very seriously. But the bottom line is that our low interest rate policy has benefited savers more than it has harmed them, since savers are also workers and borrowers. And in the housing market the low interest rate has also helped encourage more construction. The criticism is often too simplistic.

Joint letter of President Tusk and President Juncker to Volodymyr Zelensky, President-elect of Ukraine

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