Benoît Cœuré: Interview with Reuters

The data has improved since the last Governing Council meeting. How is this affecting the policy discussion?

When you look back at soft and hard data that we've had over the last weeks and months, it gives a much, much better picture than the one we had, say, one year ago. It's a job-rich recovery and it's much broader both across sectors and across economies. That's all positive.

The strength and robustness of the growth rate today in the euro zone shows that our measures have been working. It's fair to say we now see our monetary policy measures fully unfolding. We said it would take time for policy to fully pass through to each and every part of the euro zone economy, in particular across countries. We're seeing this now.

What does that imply for future policy? It all depends on how confident we'll be that price pressures will be building up to a point where inflation will be sustainably converging towards two percent, which is our definition of price stability.

The growth picture makes us more confident that this will happen. But we cannot be sure at which pace and it's fair to say that today, given the information that we have, we cannot yet be sure that the upturn in inflation is sustainable and self-sustained, that it will be there without our monetary policy support.

This comes when you look at different measures of price pressures. One important measure is wages, which we still see as weak in spite of the material decrease in unemployment across the euro zone.

You said that the situation improved a lot over the past year yet the guidance is exactly the same as it was back then. Which parts of the guidance could change to reflect the improved economic situation?

There are different components in our guidance. Part of the guidance I would call it structural, so it's not meant to be changed. It describes our reaction function, so the way that our monetary policy reacts to data. Just to give you an example, that includes that our monetary policy support is conditional on inflation being on a sustainable path towards 2 percent. That is structural and we're not going to change.

When it comes to the choice of instruments – and that is both the choice of instruments within the toolbox and calibrating the intensity of every one of them, so namely the amount of asset purchases and the level of rates – that has to be guided by facts because different instruments serve a different purpose. They have a different impact on the economy.

There has been much discussion about the sequence. It can be changed but the way we look at it will be about the costs and benefits of the instruments. In particular it will be about the costs and benefits of having the very low and negative deposit facility rate that we have today. And that discussion has to be informed by facts.

If you ask me if I see grounds to change the sequence today, for me the answer is no. In particular I currently don’t see any evidence that the deposit facility rate at -0.40% would warrant a change in the sequence, and there are known merits to the sequence as it stands today. But that’s my assessment based on the current expectations about the economy and it could change. It’s not set in stone.

What’s an example of a scenario in which you would advocate raising the deposit rate before ending net asset purchases?

I don’t want to speculate on decisions that the Governing Council has not yet taken because that’s not a discussion that we’ve had. If you ask me in an abstract way, and that’s only my personal view, that could be the case if we had strong evidence that the negative Deposit Facility Rate would impose a cost on the banking industry that would be such that this could become a hindrance to our monetary policy transmission, to the bank lending transmission channel. Again, I don’t think this is the case today. Since the negative DFR has been introduced, the positive effects have dominated – the latest Bank Lending Survey has confirmed this. In particular, the effects related to the higher volume of loans and also the de-risking of the flows of new loans that are extended to the economy. That’s because the economy is doing better, and that is good for the P&L of banks.

Keeping the door open to further deposit rate cuts was one of the ways in which the ECB was trying to avert the risk of deflation. Now that risk has dissipated, so could this be the right time to rule out further rate cuts?

I don’t want to anticipate discussions that we’ll have in the Governing Council but it’s clear that the deflation risk is now off the table and that is also being acknowledged by financial markets, by money market rates and even at the longer end of the curve. Term premium has increased substantially since September and part of it is related to the deflation risk being now clearly off the table from the market’s standpoint.

If you do not remove that reference to lower rates, do you not risk losing credibility?

One important consideration is to keep our forward guidance in line with facts. We don’t want to let a gap emerge between our forward guidance and our own expectation based on facts. The credibility of our forward guidance depends on it being adjusted to reflect facts.

Do you think such a gap is starting to open up now?

No, I don’t think so. It’s an ongoing discussion. In the last meeting, the Governing Council has reassessed its perception of the balance of economic risk. Different Governing Council members were coming from different places and there had been public statements. The Governing Council converged on the unanimous view that risks are still tilted to the downside but they are rebalancing and that’s a reflection of the continuous reassessment of risk by the Governing Council.

A view has emerged that when it comes to normalising policy it’s better to be slightly late than too early?

I don’t see that argument as being very convincing when it comes to communication. The communication of the Governing Council has to remain in line with facts and an evolving reality. There’s always the temptation of gradualism in monetary policy. Too much gradualism in monetary policy bears the risk of larger market adjustments when the decision is eventually taken. That’s the way I would see it.

What do you mean by gradualism?

It’s the risk that our communication deviates from economic reality, which could cause a more forceful market adjustment down the road. I don’t see much merit in this. In particular, because that’s sometime the argument, we should certainly not put too much weight on political timelines – elections and the like. We do monetary policy based on facts, not political outcomes.

Some measures of market volatility at multi-year lows: is the market being complacent and how does that affect your judgment? What are the banana skins on the road ahead?

Market complacency is a concern. There is a disconnect. There is still quite a lot of uncertainty about the future course of U.S. economic policy, which is being resolved over time but only gradually as the new administration settles in. There is concern about the consequences of Brexit both for the UK and for the euro area.

Political uncertainty in the euro zone is reduced, clearly. Part of it has been taken out by the outcome of the French presidential election and that is good news. But the main source of uncertainty comes from the outside.

Given this amount of policy and macroeconomic risk that there is around, there is no room for complacency for market participants so they have to be prepared for possible market adjustments. They cannot work under the assumptions that the current, very benign market environment is going to stay forever.

How would the U.S. policy risk play out?

It’s not about the policies themselves, which are decided by the U.S. government and by the Fed and on which the ECB does not comment. It’s about market preparedness to cope with possible changes in policy. Also in terms of market functioning. We want to be sure that whenever the constellation of asset prices adjusts based on economic or policy changes, that kind of adjustment can be processed in a smooth way by global financial markets.

There are known concerns that are related to the limited balance-sheet capacity of large dealers to cope with large changes in asset prices, with lower market liquidity globally in some market segments. That relates to the changing structure of liquidity provision on capital markets, with less liquidity provided by large broker dealers and more by asset managers, which operate under a different set of regulations. This is discussed in the Financial Stability Board and other places.

We have the duty to warn market participants that they have to be ready for that. We're sending the same messages to governments, that they have to be prepared for higher long-term financing costs eventually. They have to plan their fiscal policy accordingly.

Are they actually preparing?

I trust them to do so.

Will the ECB be on the hook eventually if yields go up, governments are not prepared and you guys have to step in again to keep yields in check?

Our role as central bank is always guided by monetary policy considerations. So we will always do whatever is needed to bring euro area inflation back to close to 2 percent, no less but no more.

How do you see the balance of risks for inflation?

When you look at the four criteria that Mario Draghi has set as the metrics against which we assess the sustained adjustment it's clear that some conditions are not yet met.

For instance we need to be sufficiently confident that the rise is durable and will not reverse, which is the second criterion. When you look at measures of core inflation there has been an increase in April but the jury is still out as to how much of it is related to seasonal effects and particularly to Easter and so it's too early to conclude that there would be a sizeable upward adjustment in core inflation.

The third criterion was that we want to be reassured that the upward path in inflation can be maintained even in conditions in which monetary policy becomes less accommodative. And this also is not there. The future path of inflation remains dependent on a very substantial degree of monetary accommodation.

So when you look at the four criteria, the conditions are not yet met.

So are the other two ticked?

The first crierion is that the path of inflation is expected to reach levels below but close to 2 percent within the medium term horizon. I would say broadly yes. By and large yes, based on current staff forecasts. But it also depends on what you call the medium term. The fourth criterion is about euro area inflation, and not the inflation of any individual country, which goes without saying. So the question is more about sustainability and not being reliant on our monetary support, and these are criteria 2 and 3.

So we're not there yet. We're not yet at a stage where this strong demand for labour would translate into higher nominal wages. But at some point we'll reach that point and then wages will start rising. There are good reasons to think we'll get there. We've been in this initial stage of the recovery, where it has been a lot about part-time jobs and temporary contracts. Of the net employment created since the crisis, around one third has been for workers under temporary contracts and around one quarter part-time. And undoubtedly the objective of these workers is to work more, not to get pay rises. But time will come when full- time and permanent jobs are created, and then wages will rise.

Taking it all together is this a cyclical upswing or a structural recovery?

So far it's entirely cyclical. In my view, the single most important issue for European governments, ministers and leaders is how to make it structural.

The recovery so far has been mainly driven by monetary policy and low commodity prices. Our models show that around half of the recovery since the crisis can be attributed to monetary policy.

If that remains cyclical we'll be in big trouble because the economy will not generate the level of growth that will be enough to solve the structural issues of Europe.

In particular it would not generate the level of resources that would be enough to sustain the commitments made by European governments, underpinning our social contract.

That should be a priority and that's entirely outside monetary policy.

Is the Eurosystem starting to see signs of scarcity of German bonds?

We are on a path which was very carefully calibrated last December. We don't see a risk of shortage of bonds over the duration of programme, until December 2017 and beyond. There is scarcity but there will be no shortage.

The average maturity of German bonds has gone down considerably since the Bundesbank has been allowed to buy below the deposit rate. What does that tell us?

Buying below the deposit facility rate was an important part of the December decision. We've broadened the eligible universe by lifting the deposit rate facility floor and that's clearly been a key condition for us to keep the program going while respecting the other constraints, particularly the issue and issuer limits, which matter a lot for the Governing Council. The consequence is that Bundesbank and the ECB are buying at a much shorter maturity along the German curve.

What's the economic benefit of that?

The bund curve is a reference curve in Europe together with the OIS curve. So by controlling both the short and the long end of the yield curve, we are setting financial conditions for the entire euro zone. The bund curve is a key driving force behind all bond price adjustments and all asset price adjustments for the whole of the euro zone.

In your cash collateral facility German banks have taken up their allotment and would even take more. Other are meanwhile not using their full quota. Is this framework still appropriate?

We've devoted a lot of time and attention to this issue and it's being monitored very closely. Whenever this framework needs to be adjusted, it will be adjusted. We stand ready to adjust it, if there was a need. So far the cash facility has worked very well. A lot of the distortions we are seeing in the repo market are driven by forces outside of monetary policy, like regulatory constraints, which are particularly visible at the end of the month and quarters. Also the demand for bunds has been partly driven by flight to quality in the face of high level of political uncertainty. That might be abating now. We can't do much to alleviate that.

But you don't see the ECB taking it all upon itself?

The implementation of monetary policy is based on the de-centralisation principle so it will remain that way.

Is there a way to direct more of those 50 billion euros to Germany if they've used up their allowance?

We have flexibility to reallocate part of that capacity.

Greece has made clear progress. But any inclusion of Greece in QE depends on a successful debt sustainability review, which in turn requires a decision on easing the Greek debt burden. What do you need to declare Greek debt sustainable?

We've made it clear that we first want to see a performing adjustment programme. And this we have. Then we want the concerns over the sustainability of Greek debt relieved. This means we have a clear sequence. The first step was for the Greek government and the four institutions to agree on a new set of policies that allows for the conclusion of the programme review and for the IMF to go to their board. The policies are now being discussed and voted by the Greek Parliament, as we speak. This is a positive step. It's been a huge effort for the Greek government and it's done.

The next step is agreeing on measures that address debt sustainability concerns. The framework was set by Eurogroup ministers in May 2016 and it will not change. This will be discussed next Monday in Brussels and I hope they can find an agreement. These measures would be implemented in mid-2018, at the end of the programme, but what we would like to see as ECB is a clear description of the debt measures and how much they would contribute to the sustainability of Greek debt. We need a sufficient degree of specificity.

Once these conditions are met, there can be a successful conclusion of the review by the ESM and there can be a successful discussion in the IMF board. These are all preconditions for us to start a discussion in the Governing Council on QE inclusion. Then the Governing Council will have a discussion on technical measures to be taken. This will include an assessment by the Governing Council on debt sustainability and other risk management conditions.

Monday will be the day for political decisions. I don’t see a discussion starting in the Governing Council on PSPP inclusion before all the steps are taken on the European side and the IMF side, that is, before decisions are taken in the ESM Board of Governors and IMF Executive Board.

Do you need the IMF on board or just need an up or down decision?

We’ll take our decision independently and we don’t formally need the IMF to be on board but it would clearly give us comfort if the IMF was on board in terms of the credibility of the debt measures.

What may be the impact of the French elections economic growth?

There is less uncertainty, which is good in the short term. Is it a game changer for growth in the short term? I’m not sure. The French recovery was already quite robust before the election. But it does change the longer term outlook because it increases the chance of reforms that could turn the cyclical recovery into a structural recovery, first at the level of France and then at the level of the euro area as a whole.

Plenary roundup: 11-12 May 2017

The European Union’s past, present and future and its Cohesion Policy were the main focuses of debate during the plenary session of the European Committee of the Regions (CoR), held on 11-12 May. In addition to an opinion on the future of Cohesion Policy after 2020, the CoR adopted detailed recommendations on budget rules, a ‘code of conduct’ on EU governance, entrepreneurship on islands, the bioeconomy, social innovation, young people, health, and relations with countries seeking to join the EU. It also discussed the rule of law in the EU and its neighbourhood with the president of the Council of Europe’s Congress of Local and Regional Authorities.

THE FUTURE OF COHESION POLICY

“What we need is an alliance for a strong Cohesion Policy after 2020,” **Michael Schneider** (DE/EPP), State secretary of the Land of Saxony Anhalt, said as he presented his opinion on the long-term future of the EU’s principal investment policy, adding: “The Committee of the Regions can be at the core of this alliance.” The opinion, which was adopted on 11 May, argues that the broader aims of Cohesion Policy – to increase economic, social and territorial cohesion – are “more topical than ever”. Reflecting the assembly’s belief that the EU’s support for regional development is both a significant spur to economic development and a symbol of the EU’s commitment to solidarity, the CoR stated that, “even after the United Kingdom leaves the

European Union, the percentage share of the budget allocated to Cohesion Policy… should remain the same".

Jyrki Katainen , the European Commission's Vice-President for Jobs, Growth, Investment and Competitiveness, told the CoR that the EU needed to look at what it "could do better" to support growth, "especially in the current situation where the budget will most probably be smaller than it is at the moment", a reference to the United Kingdom's planned departure from the EU. Addressing the CoR on 12 May, **Günther Oettinger,** the European Commissioner for Budget and Human Resources, said that there was "as much a need for Cohesion Policy than ever", noting "huge disparities" between regions. He said that, based on the CoR's opinion, "I don't see any differences in approach as to how we can properly shape the modernisation programme" for the policy.

Press release: **EU local leaders want a faster, flexible and ambitious cohesion policy at heart of Europe's future**

Press release: **Cities and regions call for a more bottom-up European Semester process**

Press release: **Le Comité européen des régions demande l'intégration d'une clause d'insularité dans la politiques de cohésion de l'UE pour l'après 2020**

Press release: **Towards a knowledge-based bioeconomy: Cities and regions call for a review of EU policies**

BRINGING EUROPE CLOSER TO CITIZENS

The President of the European Parliament, **Antonio Tajani** (IT/EPP), told the plenary session that cooperation between the European Parliament and the CoR is of fundamental importance to bring Europe closer to its citizens, the first objective of his Presidency mandate. He welcomed the CoR's "Reflecting on Europe" initiative and added "As elected representatives in our regions you have a front role in making that objective a reality."

The CoR expressed regret that the White Paper on the Future of Europe, presented by the European Commission in March 2017, fails to recognise "one of the unique aspects" of the EU – its "multi-level governance". In a resolution adopted on 12 May, the CoR emphasises that "any discussions about the future of the European Union and reforms resulting from these debates must be bottom-up, involving all levels of governance". Among a series of elements identified as being "vital for defining a credible and ambitious scenario" for the future of the EU, the resolution identifies "multilevel governance and subsidiarity across all policy areas", full accountability, and a "comprehensive, properly financed and credible" cohesion strategy "incorporating the UN sustainable development goals". The result of the EU's deliberations should be "political solutions anchored in common solidarity – the fundamental principle of a united Europe" – rather than "minimalist compromises".

To contribute to the EU's process of reflection, the European Committee of the Regions is organising scores of town-hall and other meetings with citizens from across Europe. The feedback will contribute to an opinion by the CoR, requested by **Donald Tusk**, President of the European Council.

Press release: **[Building political alliances to reconnect citizens with the EU]**

Press release: **[Social innovation must complement technological innovation]**

Press release: **[Securing a better future for Europe's youth]**

FUNDAMENTAL RIGHTS

In a debate with the CoR on 12 May, **Gudrun Mosler-Törnström** (AU/PES), President of the Council of Europe's Congress of Local and Regional Authorities, emphasised the record of cooperation over the past ten years between the two assemblies for local and regional politicians, as well as the complementary nature of the Council of Europe and the EU. "Our work provides the foundation for the work of the EU," she said. Ms Mosler-Törnström particularly emphasised the potential for cooperation between the two assemblies on corruption, the monitoring of local elections and developing relations with local and regional authorities along and beyond Europe's eastern and southern borders. In comments about current challenges, Ms Mosler-Törnström noted that the Council of Europe is addressing rule of law issues in Turkey, Hungary and Poland, where planned reforms of local government are "of concern". As part of its critique of actions by the Turkish government that the Council believes are damaging local democracy and "seriously weakening" civil society and political parties, the Council has called for the annulment of decisions to remove mayors.

Separately, in a long series of comments on Turkey, its annual review of progress in the EU's enlargement process from the perspective of local and regional governance, the CoR expressed "concern" about the Turkish government's crackdown in the wake of the failed coup attempt in July 2016, "especially the detentions and removal from office of elected mayors", describing these actions as "seriously" weakening "pluralist democracy at the local level". At the same time, the CoR stated that "an effective working relationship between local and regional authorities on both sides can contribute… to rebuilding some of the trust between Turkey and the EU" and urged the Turkish government to heed a long-standing call by the CoR for an upgrade in contacts between the CoR and local and regional leaders in Turkey. The opinion, by **Rait Pihelgas** (EE/ALDE), Mayor of Ambla, presses the European Commission to report on local and regional governance in enlargement countries "more effectively and in more detail".

Audiovisual:

The CoR has produced a video [summary] of the plenary session. Full proceedings from **[11 May session]** and **[12 May session]** are also available courtesy of EuroparlTV. Photos are available for download on our **[Flickr account]**.

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Federica Mogherini to host a meeting of the Libya Quartet in Brussels on 23 May

The HR/VP will host a meeting of the European Union, the United Nations, the African Union and the League of Arab States (Libya Quartet) in Brussels on Tuesday 23 May 2017.

This will be the second meeting of the Libya Quartet. It follows up on the meeting hosted by the League of Arab States in Cairo on 18 March 2017.

The objective of the format is to support UN mediation and regional work and to step up coordination to further advance the political process in Libya in respect of full Libyan ownership.

EFSA panel renewal 2018: animal health and welfare

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What does the Animal Health and Welfare Panel do?

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To find out more, check out our dedicated topics on:

Save the date: 1 June 2017

Register now on EFSA's website and prepare your application in advance so that you can submit it between 1 June and 8 September 2017.

Would you like to know more?

You can't trust the Tories' promises on social care – Barbara Keeley

Barbara Keeley, Labour's Shadow Mental Health Minister, responding to the Tories' social care announcement ahead of their manifesto, said:

"You can't trust the Tories' promises on social care. In their last manifesto they promised a cap on care costs. But they broke their promise, letting older and vulnerable people down.

"It's the Tories who have pushed social care into crisis; their cuts to councils have meant £4.6bn axed from social care budgets between 2010-2015, leaving 1.2 million people struggling to get by without care. And NHS bosses have recently said that the money the Tories promised them won't help alleviate the problems, with bosses warning the system won't see anything like the level of resource required.

"We need real action to fix the system, not reheated broken promises with little detail about how they’ll be delivered.

“While the Tories offer more of the same failure and broken promises, Labour has pledged action. We’ll increase social care budgets by £8bn over the lifetime of the Parliament, including an additional £1bn for the first year. We will set up a National Care Service to provide the care that people deserve.”