

# Fabio Panetta: Interview with Le Monde



INTERVIEW

## **Interview with Fabio Panetta, Member of the Executive Board of the ECB, conducted by Eric Albert, and published on 16 June 2020**

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**In March, the ECB launched the pandemic emergency purchase programme (PEPP) with a package of €750 billion. On 4 June, it added €600 billion. At the speed you are using it, it will all be spent by February 2021 and more will be needed. Is your policy working?**

Yes, it is working. But we're fighting against strong headwinds. So we need forceful measures to avoid the tightening of credit conditions, stabilise the economy and thus respond to inflation moving further away from our aim. This is why we recently decided to expand the PEPP by €600 billion. We have a pragmatic approach and we stand ready to adjust our policy in line with our mandate, based on our assessment of the medium-term outlook. At the moment, there is still a lot of uncertainty around how the public health and economic situation will develop. It would have been unwise to go for the "full monty" –using our firepower to a larger extent – without a clearer picture.

**What would the "full monty" look like then? How about a write-off of sovereign debts, which is a popular idea with some economists in France?**

The Treaty on the Functioning of the EU is clear: Article 123 forbids monetary financing. If we buy sovereign bonds and decide not to eventually seek repayment, it would be monetary financing and thus it would not be

legally allowed. I am aware of the ongoing debate in France on the idea of cancelling debts. But this is just not an option for the ECB. And not only due to the legal constraints: it would expose us to citizens losing trust in the currency, similar to what happened in some countries when people needed to push around wheelbarrows of banknotes because the banknotes had basically lost their value. It would end in financial disorder. This is not the path to prosperity and this is why the Treaty forbids monetary financing.

**Another idea is simply to roll over debts in perpetuity, or at least for a very long time..**

We have a reinvestment policy, which means we will roll over debts until it is necessary to do otherwise to achieve our price stability objective.

**The Federal Reserve already buys so-called fallen angels. Are you in favour of this?**

We have shown that we are ready to take all the necessary measures to reach our inflation objective and we are still guided by this aim. Fallen angels? We haven't discussed it in the Governing Council but we will consider that if necessary.

**Debt in many European countries will be very high after the crisis, especially in Italy. It will be next to impossible to increase interest rates or tighten monetary policy. Have we not entered a new era of monetary policy, with rates that will stay low for a very long time?**

Based on the inflation outlook, I expect a prolonged period of very accommodative monetary policy to fulfil our mandate. This offers the right conditions to national and European authorities to stimulate growth, to conduct reforms to improve competitiveness and to make sure that we exit this crisis better placed to deal with future challenges.

**Let's turn to fiscal policy. The European Commission has proposed a new €750 billion package, including €500 billion of grants. It would be a historical move. However, it looks like nothing will be agreed at the EU summit this week (19 June). How urgent is it for them to act?**

It is extremely urgent and the aim should be to deploy it as soon as possible, no later than early 2021. The longer we wait, the costlier it will be to intervene. Both fiscal and monetary policy need to work hand in hand to bring the economy back on track as soon as possible. To be effective, fiscal policy needs to modernise the economy, for instance by investing in human capital, technology and the protection of the environment.

**Are European authorities doing too little, too late?**

European authorities have already delivered measures that were unimaginable only three months ago, and we have to be realistic; the political debate takes time. European authorities have shown a remarkable awareness of the need to intervene. I remain optimistic.

**This might be so but, meanwhile, Euroscepticism is rising, especially in your**

**country, Italy. How dangerous is it?**

Euroscepticism has been largely motivated by the mistakes made in the financial crisis and, more recently, by the immigration crisis. Reactions to the coronavirus shock have been very different. European authorities have acted much more decisively, and they have delivered, despite sometimes harsh discussions. Italy, like all other countries, will benefit from European spending through the issuance of EU debt. The announcement by France and Germany was very important in pushing towards an ambitious European response. Germany was perceived by some as resisting a common European policy. This perception has changed. As for the ECB, we have learned the lessons of the sovereign debt crisis and acted rapidly and forcefully. Acting together means acting more effectively. And all Europeans are benefiting.

**Are you saying that the pandemic has actually been a time when Europe proved it could act?**

“Europe will be forged in crises, and will be the sum of the solutions adopted for those crises,” as Jean Monnet once said. European integration is a constant process. It sometimes seems slow, but who would have thought ten years ago that countries would give up responsibilities for banking supervision? That EU authorities would now bring forward a forceful fiscal response, amounting to 10% of GDP? Probably no one. Day to day, we might not see progress. But 20 years from now, those who write the history books might well see this coronavirus shock as a turning point for European integration: a key moment for Europe, when we all understood that addressing challenges together brings benefits to everyone.

**The euro was launched 20 years ago, but it has not become a meaningful competitor to the dollar, which is still used three times as much in international reserves. Is it a failure?**

I believe the euro could and should have a bigger international role. This has not happened because the institutional framework of the euro area is incomplete. To reduce the gap with the dollar and for all Member States to benefit from the euro's global currency status, the euro area needs to offer international investors a common safe asset and deep, liquid European capital markets. It must also continue to react forcefully to crises, through policies designed for the benefit of the euro area as a whole. And we, as a central bank, also need to live up to our responsibilities, acting decisively as we did in this crisis, and providing a liquidity backstop to holders of liabilities in euro in phases of turbulence.

**Does this mean the ECB should be ready to be an international lender of last resort, like the Federal Reserve?**

Personally, I do think we should do more in this direction, yes.

**Bulgaria and Croatia are next in line to join the euro. Is it really a good idea to accept countries whose economies are very different and which are much poorer than other euro area countries?**

A country can only join the euro area after a serious convergence process, comprising institutional convergence, financial convergence and macroeconomic convergence.

**Sure, but Greece had a convergence process. It didn't end up well, did it?**

Maybe in the past the importance of convergence and, in particular, of all its facets, was underestimated. Today, we take convergence more seriously: to be accepted in the exchange rate mechanism (ERM II, a two-year process before formally adopting the currency), countries now have to accept banking supervision by the ECB, for instance. And Croatia and Bulgaria took bold measures to converge.

**When will they join?**

If the process is completed successfully, they could join ERM II by the end of the year. So, the first available window for Croatia and Bulgaria to join the euro area would be 2023, if all preliminary assessments are successful.