[Vítor Constâncio: Interview with La Repubblica]

In December, the ECB revised its growth estimates upwards and its inflation estimates downwards. You seem to be concerned by this discrepancy, and especially by the weakness of inflation, as the minutes [of the Governing Council's December 2017 monetary policy meeting] make clear. How do you explain this?

This development is in line with a dynamic we are seeing in all the advanced economies. Growth is accelerating but inflation is still not meeting expectations. In particular, the so-called "core inflation" for December – excluding food and energy components – has been disappointing: it fell to 0.9% because wages still aren't growing sufficiently.

But aren't you afraid that there may be structural reasons for this sluggish price movement? Such as digitalisation, the internet economy, but also the weak position of an ever increasing number of people on precarious contracts who do not have the leverage to obtain wage rises?

Yes, the weakness of wages does play a role, as does technology, but nobody knows precisely the scale of the impact of technology.

Isn't it ironic that the guardians of the currency and wage moderation should be encouraging trade unions and workers to be bolder?

The situation has changed. Historically, central banks have often faced inflationary pressures. Now we are in a new environment that has to do with many structural factors but also with secular stagnation.

So we are facing secular stagnation?

Well, there has been modest growth, and all the indicators say that it will continue like that in the advanced economies for many years.

But some people in the United States think there is a risk of a leap in inflation.

There are always risks but I don't think this will be a problem for the euro area for some time to come. Inflation is weak and will remain so for some time in all the developed countries.

Are there hidden risks in the current divergence between the Fed, which is expected to increase rates three times this year, and the ECB?

There's been a divergence several times since the start of the crisis. Central banks must respond to the particular fundamental situations of their respective economies. When they do, this does not in itself cause problems for financial markets. This is what is happening. Admittedly, the US is further on in the cycle and the Fed's monetary policy is responding to these developments.

Do you see risks to financial stability from, to say the least, the erratic policies of Donald Trump?

Risks to the global economy come mainly from the possible reversal of risk premia in bond markets. A fall in prices and an increase in yields, if sudden and disorderly, could be a threat. We hope that the adjustment to increased growth, and higher inflation in the future, will be gradual.

Are you worried by the recent increase in the exchange rate of the euro?

Looking at fundamentals, inflation declined slightly in December. As it is known, we don't target the exchange rate. But I am concerned about sudden movements which don't reflect changes in fundamentals.

In the minutes of the December meeting it says that forward guidance "could be revisited" early this year. Does that mean that we should expect an increase in rates ahead of time, even this year? Or what does that mean?

It refers to how our forward guidance operates, to the fact that the assessment of our policy in relation to our objectives must include all monetary policy instruments. We see the need for a gradual adjustment of all the elements of our forward guidance if the economy continues to grow and inflation continues to move towards our goal. This does not mean that changes will be immediate.

In other words?

We are not changing the path of our monetary policy. With the decision to halve our monthly bond purchases we have adapted our monetary policy to the new economic context and consequently to the higher inflation ahead. But this does not mean that monetary policy will not remain very accommodative for a long time. We see no inflation risks. We should not choke off growth too soon.

QE will last until September: do you think it should then finally come to an end, as some of your colleagues have been saying?

That's not a very relevant question for me because monetary policy works over the medium term. A few months either way won't make much of a difference.

But allow me to express a doubt: going from a purchase level of €30 billion to zero could shock the markets.

I would limit myself to saying that in the subsequent part of the programme we will have to proceed cautiously, i.e. gradually.

What will happen to the bonds – will you continue to reinvest them? The Fed has already started to shrink its balance sheet.

We are reinvesting them and have so far given no indication of wanting to stop. All will depend on how the economic climate develops.

In Germany there's a slight possibility of a "grand" coalition being formed, which could herald a Franco-German commitment to reforming the euro area. What do you make of that?

There are many ideas around and it's the task of governments to decide. Technically, the two most important things, I think, are the completion of the banking union with the deposit insurance scheme, and the creation of an ad hoc fund with a stabilising role, if need be, to help manage growth. I have not heard any convincing arguments in favour of transforming the European Stability Mechanism (ESM) into a European Monetary Fund.

Would you keep it as it is?

Yes. It has its tasks; it performs them well. The European Commission has its role as guardian of the treaties and it monitors the countries' adjustment programmes. And one of the major things in recent years has been the huge adjustments in the countries which ended up under most pressure during the crisis. All these countries are now growing.

You mean the so-called "peripherals" which have asked for assistance in exchange for adjustments?

Exactly, these countries, except for Spain, which is recovering, have deficits below 3% and have primary and current account surpluses. The account and economic adjustments have been extremely significant, and have been the result of improvement and reform programmes. The IMF and the ECB agree that the current account surplus of the countries that have followed an adjustment programme is structural and not the result of reduced import quotas. So if there have been improvements, why change the role of the ESM?

So you are against the idea that the ESM might become a budgetary control authority, as some have suggested?

Many ideas are being discussed; the point I am making is that the European Commission had responsibility for the adjustments in these countries, and it worked.

So it was right to give those countries flexibility on their budgets to create room to undertake reforms?

The point is that everyone is now full of praise for the efforts undertaken in those countries that are or were subject to an adjustment programme. That is what counts. So I don't see any reason to adjust the institutional framework and create a new body, thereby reducing the role of the Commission.

Let's talk about the most significant election happening this year, the one in Italy. Some parties are threatening to hold a referendum on the euro, to reverse the Fornero reform or the Jobs Act, proposing measures which, by our calculations, would cost €200 billion…

It's not for me to comment on electoral programmes. What I observe is that the markets are very calm and don't seem to believe that the risks you mention will materialise. I think the markets expect good sense to prevail in the end. More generally, if I look at countries like my own – Portugal – or Greece, with very high levels of debt, I believe that it is important to continue along the reform path.

Non-performing loans are another distinctive Italian feature. We are expecting an announcement from the ECB's banking supervisors on the stocks of these loans. Do you anticipate risks for the market?

On the subject of non-performing loans (NPLs), it has been explained many times that the ECB's banking supervisors aim to ensure that the banks reduce or evaluate their non-performing loans appropriately, treating each case individually. It has never been our intention to introduce rigid new rules that are applicable for all in exactly the same way. This has been made clear, and in that sense I do not anticipate risks.

Yes, but if there is a time limit by which NPLs are reduced to zero – the famous seven years – that is a restriction.

We will see how the banking supervisors decide to approach new NPLs and existing stocks. The discussion is still ongoing. One way or another, NPLs have to be reduced sooner or later. This is first and foremost in the interests of the banks. It must be said, though, that the Italian banks have reduced their levels significantly.

Do you see a risk of bubbles forming, for example in the German property market?

There is no risk of bubbles in general, not in any market in the euro area. In the housing market, average prices are in line with fundamentals, which can be estimated using various methods. In Europe, the same is true of the stock markets and the corporate bond market. The only market experiencing pressure is the commercial property market, but this does not imply systemic risks, as the residential property market would. There are hot spots concentrated in certain cities, of course, but macroprudential measures have been announced or adopted in some countries, such as the Netherlands, Belgium and France. And Germany may now also do the same.

There is a lot of talk about cryptocurrencies. Do they represent a threat to the financial system? What can be done to regulate them?

First of all, they are not currencies. They cannot fulfil the classic functions of a currency, the first of which is to serve as a stable unit of account which can be used to express the value of other goods. If the value of the currency itself is so volatile, then it cannot perform this function; it is in fact a speculative instrument. And their use as a means of payment is very limited. They are used in the shadow economy and in countries where institutions have collapsed and monetary systems are not working – there they are used as a payment instrument of last resort. They in no way represent a threat to traditional currencies. Of course, rising prices have led to such high market capitalisation that a collapse could have consequences. But they wouldn't be systemic. I call these instruments "tulips", recalling the famous tulip bubble and subsequent crash in the Netherlands in the 17th century.

But there is a political aspect. Don’t you think that they are a response to the collapse in confidence in central banks and the traditional financial system?

No, because they are not a threat to traditional currencies, they are not a reliable unit of measure. Moreover, bank deposits are rising. If there was a crisis of confidence, we would see it there.

In Estonia, Kaspar Korjus wants to introduce a cryptocurrency alongside the euro. Is this a threat?

Private-sector operators offering competition to currencies have no chance of success. Ultimately, a currency needs to have state backing, as history has demonstrated. Over the centuries, experience has shown that, even in situations much less complex than today’s, there needs to be a central bank which is given the exclusive right to print money.

Looking back over those years of turbulence, on which occasions were you anxious about the euro?

There were two. The Greek crisis in 2010. And in 2011-12, when market pressure shifted towards Spain and Italy. The European response resulted in, among other things, the creation of the ESM and the transfer of supervisory functions to the ECB. The actions of the ECB, with its Securities Markets Programme and Outright Monetary Transactions, were also crucial. Now we are seeing growth across the whole euro area, with GDP rates at a ten-year high and unemployment – although still too high – at a ten-year low. The macroeconomic equilibrium has been restored almost everywhere. There has been a complete turnaround. It is gratifying.

What has been the most important lesson for the ECB from these years of great crisis?

That non-standard measures are necessary in times of emergency. These measures, which have been deemed legal by the European Court of Justice, are now part of the ECB’s toolkit.