INTERVIEW

Interview with El País

Interview with Fabio Panetta, Member of the Executive Board of the ECB, conducted by Luis Doncel and published on 11 April 2021

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The recovery in the euro area is still very fragile, and the vaccine rollout is progressing slowly. How is this slow progress affecting the economy?

Uncertainty has receded to some extent, but is still high. The vaccine rollout is accelerating but remains slow. And in a number of countries the pandemic is spreading fast, which is weighing on the economic outlook. While the US economy will return to its pre-crisis levels this year, we will not do so before mid-2022. And, unlike the United States, we will not return to our pre-crisis growth path, meaning that we may have permanently lost two years of growth. Inflation is projected to remain well below our 2% target in the medium term, compared with around 2% in the United Kingdom, the United States and Canada. We need more ambition to help economic activity reach its potential and see inflation converge towards our aim. And we need to give consumers and investors more certainty about the prospects for the European economy.

After an Easter week without tourists, it is still not clear whether or not summer can be saved. The prospect of a recovery keeps moving further and further away. Do you think the Spanish Government's forecasts for this year are too optimistic?

In general, it would not be prudent to bet on a rapid recovery. There may be risks associated with expecting improvements that in the end may not materialise. And even if we do manage to exit the pandemic soon, we will realise that there is actually more damage to the economic fabric than is currently visible. There is nothing to prevent a stronger recovery in the euro area, which will limit this damage, but the economy must receive the necessary amount of monetary and fiscal stimulus. A truly prudent policy approach calls for leaning towards injecting too much stimulus rather than too little.

Many analysts fear that the recovery may be uneven across countries. Are you worried about the potential harm to Spain or Italy if stimulus is withdrawn early?

There is a significant risk of divergence. The pandemic has affected each country differently, depending on its exposure to the most affected sectors. But there has been a common European response. We can have a more uniform exit from the crisis by using the €750 billion available under the EU recovery instrument – NextGenerationEU – wisely, and this should be accompanied by the necessary reforms in each country. If the funds are invested in future-oriented growth sectors, the recovery will be more balanced. If successful, this plan could serve as a prototype for a future common fiscal instrument.

Should Europe follow the United States' example and provide greater fiscal stimulus?

The United States' fiscal stimulus programme is ambitious, especially this year, and that is a key reason why our growth paths are diverging. Committing to "run the economy hot" is beneficial for employment, investment and productivity growth. And a faster recovery helps the poorest members of society. In Europe, we have to make the EU recovery instrument operational so that the European Commission can start making disbursements soon. And we should consider providing more fiscal support to help drive demand back to its potential level faster.

The German Federal Constitutional Court has just blocked ratification of the EU recovery plan, which was already running behind schedule. Are you worried that the funds may not arrive in time?

I really hope the Court takes a decision as soon as possible. We need European funds to be released quickly. All Member States, including Germany, will benefit from a faster and stronger European recovery.

A year has passed since the ECB launched its biggest programme to tackle the coronavirus crisis. Are you concerned about the increase in debt market yields?

In December we increased the pandemic emergency purchase programme to €1.85 trillion and in March we accelerated the pace of purchases. These decisions have been very effective. They are protecting the European bond market, and European nominal sovereign yields have partly decoupled from US yields. That, in turn, has exerted downward pressure on real interest rates, adding stimulus to the recovery. We saw the risk that the increase in yields in the United States could spill over to the euro area. If we hadn't intervened, the tightening of financing conditions would have had a negative impact on growth and inflation in Europe. With inflation projections still way below 2%, we couldn't accept a tightening of financing conditions, irrespective of its cause or origin – this would have been inconsistent with our policy mandate. Favourable financing conditions are an intermediate target for achieving our primary objective, which is inflation close to 2%.

At a time when the euro area is unable to get close to the 2% objective, some economists are ringing alarm bells about unwanted inflation in the United States as a result of President Biden's stimulus plan. Is the era of very low inflation coming to an end?

In the United States inflation is seeing a return to healthy levels because monetary and fiscal policies are working forcefully together. In the euro area the medium-term inflation outlook is unsatisfactory. Inflation will temporarily increase this year due to some transitory factors that will fade out in 2022. However, with a more dynamic policy mix, we could also fully benefit from the improved global outlook.

After playing a major role in the last crisis, central bankers once again find themselves in the eye of the storm. Are these superpowers, which at one time appeared temporary, now permanent?

The best way to make central bankers less relevant in the future is to ensure that the economy improves and inflation reaches its objective. I would love for us to go back to being seen as boring. We probably already are, but I want to be even more so [laughs]. That would be the sign that we have delivered.

Quoting Daft Punk lyrics is not typical for a boring speech by a central banker. You were calling for more urgency from the ECB.

I wanted to highlight the high cost of delaying essential decisions. This doesn't mean that we need to act with urgency all the time. My call for more action was specific to a situation like the one we're in now, where we are far away from our inflation aim. We should only take action when necessary, but if you delay you end up having to take even more action at a later date. We have experienced this situation in the past.

Some of your more hawkish northern European colleagues on the Governing Council may think differently...

Views on the speed of decision-making may vary, but there is agreement on the direction of monetary policy. Here, I have to acknowledge the key role of President Lagarde. In a period of high uncertainty, reflected in different views on the outlook, she has managed to obtain unanimity or a hefty majority for all the decisions we have taken.

Given the magnitude of the crisis, should the ECB expand its toolbox?

We do have room for manoeuvre because so far we have only used part of the €1.85 trillion envelope. But if we spend this money and still fall short of the objective, then we will need to do more. We cannot be satisfied with inflation at 1.2% in 2022 and 1.4% in 2023. The argument that we could extend the horizon to meet the aim is not a convincing one. The ECB has failed to reach its aim for too many years already. Waiting will be even more costly. It would make it more difficult to re-anchor inflation expectations and we would risk a permanent reduction of economic potential.

How are the assessments on the launch of a digital euro coming along?

A digital euro would offer all Europeans a form of sovereign money to make secure digital payments anywhere in the euro area free of charge while protecting their privacy. In the coming months, the Governing Council will decide whether or not we should launch a formal project to get ready to issue a digital euro. We will analyse all key factors, including compliance with anti-money laundering and tax evasion regulations. We want to understand all the implications before taking a decision on its introduction. If these intermediate steps are successful, we could be ready to launch the digital euro within five years.

Are you not worried about falling behind other countries, like China?

China started work on a digital currency in 2013 and is more advanced. Canada and Sweden are also further along. In the euro area we are in a similar position to the United States, Japan and the United Kingdom. But this is not a race. There is too much at stake. We will learn from each other and cooperate.

During talks held with stakeholders in the last few months, have you been able to allay their concerns about a digital euro?

We are well aware of the risks that a digital euro, if not properly designed, could pose to financial stability, but there are ways to avoid them. We are going to proceed with the utmost caution and this should reassure banks and intermediaries. Under no circumstances will we compromise financial stability or financial intermediation.

The ECB's strategy review is ongoing. How are the discussions progressing on fighting climate change and changing the inflation aim from "below, but close to, 2%" to the more direct formulation of 2%?

Nothing has been decided yet. We are discussing the optimum aim. My view is that 2% is the most suitable level, and it should be symmetrical. As for climate change, our primary objective is price stability, but we also want to incorporate this important factor. President Lagarde is committed to the ECB doing its part to fight climate change. We will provide an answer later this year.

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