

Mario Draghi: Interview with CNN

Interview by Mr Mario Draghi, Governor of the Bank of Italy, with CNN, at the World Economic Forum, Davos, 2 February 2009.

* * *

Introduction by Richard Quest: A European country that is struggling in the throes of recession is Italy where business sentiment has fallen in January for the eighth month running. It is now at its lowest level on record. Mario Draghi is the Governor of the Bank of Italy and he is also the Chairman of the Financial Stability Forum. Last week I spoke to him at the World Economic Forum in Davos. It was clear that we had to understand and I needed to understand from him the situation that we face.

A I think it's worthwhile speaking of what ought to be done rather than how the situation stands. I think the first consideration is speed is of the essence. All governments in the world have designed something, have thought about something, but only very few of them have actually done something. So I think the general consensus of ..., I mean here, but I should say everywhere, is that fiscal packages that are large, that are lasting, and broad-based are key to the recovery and I think that's... and they should be speedily implemented.

Q Well the problem with what you've just said is no-one will disagree with you but it's taking a very long time to get that activity under way. I'll give you an example. Subprime was August 07. The freezing of markets was July to September 08. We are January 09 and we have had bailouts but not really much stimulus package yet.

A Unfortunately the same thing happened with the Great Depression. The first signs of the Great Depression started a few years, several years before actual fiscal action had been implemented. So we don't want to repeat that mistake. I think we have reached the stage where I would say most governments are ready to act and overall consensus is there. So it's time to move now. On the monetary front however, I don't want to stay only with the fiscal side, on the monetary front I think the response by central banks has been prompt and massive and has certainly been very effective. But it's clear that now there isn't much room left to go to have lower interest rates. And also one should keep in mind that monetary policy takes time to produce its effects and it does produce its effects only through the banking sector, which is not in good health. So unless we restore the banking sector's health, monetary policy action is going to take time.

Q We've had a partial recapitalization of banks and some say there's still not enough. We are moving towards the aggregator bank in the US or a good bank/bad bank where the toxic assets ... Italy has never really been infected by toxic assets. That probably didn't ... that's a blessing now.

A I mean, let me say something about the banking sector in general. Market place people, public opinion have lost confidence in the banks' balance sheets. So the prerequisite for any action should be that we have a very significant transparency operation there going on. I think that several of the ideas that have been designed in the last year, like the TARP, the very same bad bank, the idea of segregating toxic assets within banks' balance sheets are all good ideas that could somehow produce the conditions for doing this transparency operation. But unless that is done, when I say transparency, I mean full recognition of the size of what is toxic; but let me finish, unless that is done no significant private flows will go into the banking industry.

Q By saying that you clearly believe that we have not had full transparency yet of the level of toxic assets still outstanding.

A Well, let me tell you, let me give you an example. As late as the Fall of 2008 major banks – and I will not name the country where this was happening – were having the same toxic

assets posted at figures ranging between 50 and 90 cents per dollar, so that is a good example of lack of transparency.

Q I asked Governor Draghi whether he expected ever in his career to have to deal with a crisis like this. He told me, “Frankly no.”