

Philip R Lane: Interview with Sky TG24

Transcript of the interview with Mr Philip R Lane, Member of the Executive Board of the European Central Bank, and Sky TG24, conducted by Mr Alessandro Marenzi, Sky TG24, with the participation of Mr Federico Fubini, Corriere della Sera, and Mr Franco Bruni, Bocconi University, and broadcast on 23 November 2019.

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Alessandro Marenzi: Sette anni fa Draghi disse: faremo tutto quello che serve per preservare l'euro. [...] Dopo sette anni c'è ancora questo problema di preservare l'euro o non si pone nemmeno più la questione?

Philip Lane: What we have seen in the last seven years is a very long track record of a very stable currency. Remember what we have seen in these years: we've seen the interest rates in Europe very low, the spreads between governments much more narrow, and the inflation is controlled. So, yes, a very stable currency, and in the surveys the European population is increasingly happy with the euro as a currency.

Alessandro Marenzi: I tassi bassi o negativi si stanno sperimentando nel concreto. [...] Quanto durerà questa situazione e quali rischi ci sono in una situazione così paradossale per certi aspetti?

Philip Lane: Let me emphasise that the reason why the interest rates are so low is a very high level of saving but a low level of investment. Your question there is really: are we going to see high savings and low investment remain for a long time? We think at the ECB it depends very much on the policies of European governments. Policies that are pro-business, pro-investment will help to restore the interest rate [to a higher level]. Also a policy that encourages spending so that the savings rate comes down a little bit, that would also help. I would not exaggerate the role of the ECB. Behind the ECB is the deeper question of; why is investment in the European economy so low? Why is the saving rate in the European economy so high compared to investment?

Federico Fubini: [...] Pensa che ci sia un punto oltre il quale la politica dei tassi negativi finisca per ledere la percezione che una parte del pubblico europeo ha della Bce?

Philip Lane: I think it's important to emphasise that we recognise the dangers. For example, you give the example of negative rates on deposits, and this is why at the ECB in recent years, we take a multidimensional approach. We do have the negative rates, but we also have the asset purchase programme. We have targeted lending and we have forward guidance on interest rates, so we are trying to make sure that not all of the monetary policy operates through the negative rate. But we cannot rule it out. Of course, everyone agrees: at some level the negative rate will not be helpful. But our assessment is: we are not at that level now. If it is necessary to put the rate lower, we will be prepared to do so. It's a very important message and this goes back to the wider discussion.

In any country, those who are a saver – every saver – would like to see a higher interest rate. But the answer to that is: let's get the European economy to invest more, because without more investment those savings have nowhere to go. The key to more investment is really good policies across the European Union: pro-innovation, pro-enterprise, pro-education. The key to a high return on investment is much more about those policies. It's a mistake to exaggerate the role of the ECB.

Franco Bruni: [...] Molti di noi pensano che sia il momento di ripensare con calma alla strategia della banca centrale nel perseguire il suo obiettivo statutario e fare una

riflessione che metta insieme l'esperienza di questi anni e guardi al futuro tenendo conto anche di queste obiezioni sui tassi negativi, sull'eccesso di liquidità. Mi domando se c'è in programma di cominciare a pensare a una riflessione strategica.

Philip Lane: I think it's important to recognise that already the ECB has changed quite a bit, essentially from 2014 onwards. The ECB I think surprised many commentators by being so aggressive to tackle low inflation. The ECB has launched the sovereign bond programme. It has launched targeted lending, many innovations. Even this year, in the summertime we clarified that the inflation rate of 1.6 is too low, so the discussion now is much more precise. We do not find it acceptable to have inflation around 1.6. So 1.6 is not close to 2. That is important. We also emphasised in recent months that we view the inflation aim as symmetric. So we care just as much about inflation too low as inflation too high. Remember 20 years ago, the challenge was to convince everyone that we would keep inflation low. Now the challenge is to convince everyone that we will make sure inflation goes back to where we'd like it.

I agree with you; many people agree that essentially the last major review was 2003. It is time to take stock, look at this experience and also recognise what element is unique to the ECB, and what is a global issue. As you know, the Fed in the US is in a review right now and many of the challenges are the same.

Alessandro Marenzi: [...] Molti sostengono che l'arsenale della Bce è vuoto, che non ci sono più molte altre munizionisoluzioni. È vero oppure sono troppo critici coloro che dicono che siamo sostanzialmente indifesi se arriva una nuova crisi?

Philip Lane: I think that is overly dramatic. I think everyone watching should be assured that, of course, as the ECB – as the controller of the euro currency – we have many ways to provide monetary accommodation. We all the time are examining our options, our instruments. But please remember: our ability to control the money supply is a very powerful weapon. Although, of course, we are in negative territory with negative rates, with all the programmes, the idea that monetary policy is at some limit: we don't see it. Our assessment, the work of our staff, believes that we have more room if we need it. Please remember, our forecast is that actually we will see an improvement in the next year or two. The scenarios where we need to have more dramatic policies, yes, if there is a severe negative shock, a big recession. But under the baseline, under the most likely scenario, we think the current policies are in good shape.

Alessandro Marenzi: Lei viene da un paese che anni fa ha avuto bisogno, l'Irlanda, qualche anno fa ha avuto bisogno di un salvataggio. [...] Si parla oggi molto del fondo salva stati, il Meccanismo europeo di stabilità, s che va riformato e c'è oggi un dibattito molto forte. Lo stesso Governatore della Banca centrale italiana ha detto: attenzione, perché se si fa questa riforma nel modo sbagliato ci sono rischi. Lei condivide queste le riserve o questii dubbi, espressi anche dal Governatore Visco, sul nuovo ruolo che avrà il Mes nella riforma di cui si discute?

Philip Lane: Let me emphasise that the understanding of the reform of the ESM and the very important issues about how sovereign debt will be treated, these are commonly understood. The concerns expressed by Governor Visco, everyone in the ECB, I think everyone across Europe understands this. My assessment is: the proposed reform of the ESM should not be viewed as too dramatic. Remember, right now no government in Europe faces a funding problem. The interest rates on all of the governments are quite low. There is no sign of any government having to go to the ESM and the whole point these days of the ESM is to reassure investors that if there were a problem, that we do have a European institution that will step in. I think that it's a very important debate, but I think everyone should feel comfortable with the proposed reform.

Federico Fubini: Mi verrebbe da chiedere a Philip Lane se ritiene che il principio di un coinvolgimento del settore privato nelle perdite che si è affermato con la direttiva BRRD

nelle banche, sia un principio condivisibile e da tenere a mente e anche da mettere in pratica all'occorrenza in anche nel caso di crisi di paesi che dovessero rivolgersi al Mes per chiedere un aiutoel debito sovrano? [...] Lei ritiene che il Mesl'ESM debba fare un'analisi stringente della sostenibilità del debito con l'idea di imporre delle perdite anche degli obbligazionisti prima di mettere a disposizione il denaro degli altri paesi per sostenere un governo in crisi?

Philip Lane: I think the risk associated with this approach is well understood. But please remember: what is the alternative? To argue that under zero circumstances there can be a sovereign debt restructuring is not plausible. Please remember also: the foundation of the European Union, of the European Monetary Union, is that in extreme circumstances there cannot be a 100 percent guarantee on any sovereign. At the same time, please remember that this reform is in no way suggesting any level of automatic restructuring. Please remember that the ESM has representation from all member countries. I think in terms of logic, to rule out 100 percent, under all circumstances, debt sustainability analysis is just not plausible. [If that is necessary], it has to be the case that sovereign debt hasn't had that [high a] level of market discipline. But equally, I think everyone understands that this is really a very extreme situation.

There can be many situations, I think, like we had in the Irish case, where the ESM money was available without any debt restructuring. We know there's a large grey zone, a zone where, if the ESM funding is available, the sovereign debt is fully sustainable. Really the question of restructuring is only – in respect actually – an extreme scenario.

Franco Bruni: Molti pensano che i paesi che hanno tendenza a fare troppo debito non smetteranno mai di farlo se i tassi di interesse sono sempre molto bassi, se la banca centrale continua a comprare i titoli e se anche le banche commerciali continuano a comprare titoli del proprio governo. [...] Se si tengono si compra tutto, se si tengono i tassi troppo bassi l'indisciplina prevale. Non pensa?

Philip Lane: Let me emphasise that what we see is that the credit spread remains and, as you say, if there is more risk of fiscal problems, the spread goes up. If there is a reassurance that a government will conform with European expectations, the spread comes down. Our assessment is: even though, of course, the Eurosystem is the big purchaser of sovereign debt, the market still understands that it is not a guarantee. Of course, today because of the inflation too low, we have this policy, but it's a policy about inflation. It's not a policy about the public finances. And so in the future, because we do expect inflation to recover and we do not expect that the super-low rate that we see today is necessarily forever, I think any government which is benefiting from the low interest rate today, as part of their fiscal strategy should be using this opportunity, in part to break the debt down in a gradual way. Let me reassure you that the ECB's policy is about inflation. It is not about providing an excuse to governments not to make sure their public finances are in good shape.

Alessandro Marenzi: [...] Il concetto di helicopter money, è una favola oppure è un meccanismo che si può studiare concretamente?

Philip Lane: I think it's a fascinating story to examine and I think it's interesting to discuss. But let me emphasise that it is not on the horizon -even to some people with some of those attractions that we don't think will be true to reality. So it remains the case that I think there are more headaches than solutions with that idea.