

## A conversation with Governor Visco

As is right and natural, Ignazio Visco reiterates Mario Draghi's 'Whatever it takes'. For the Bank of Italy's Governor, the ECB's monetary action in support of the European economy, under attack from Covid-19, is 'sufficient as of today', yet this means that 'if necessary, we stand ready to do more'. We have been hit by a crisis that 'involves the whole world economy' and is a 'global shock'. The impact for this year, admits the Bank of Italy's Governor, 'will be substantial, but the policies in place are doing everything possible to limit its strength and duration'. Italy is reacting 'as it must' and the Government's measures, along with those of the European institutions, go in the right direction to overcome a 'transitory phase which will be overcome'. What is now needed is a planetary counter-offensive, with 'greater coordination among countries' and 'an instrument that can be rapidly deployed', enabling the EU to 'collectively finance the reconstruction that must follow the emergency.' 'Coronabonds' in short. Or something very like them, which, 'will allow us to continue to build a united Europe.'

Visco's tone is measured, reflecting the seriousness of the times but without any hint of alarm. The world has changed; all is suspended. The crisis we are living through reminds him of Hemingway's *A Farewell to Arms*, with its plot of dramatic conflict and strong emotion. The Governor expresses his solidarity with and admiration for those who are on the front line, in the hospitals, where some of his own family members are also working. He follows the unfolding events 'mostly working from home, participating in numerous video calls and teleconferences with the Governing Council of the ECB, central bank governors and ministers, at European, G7 and G20 level'. And the Bank, too, he assures us, 'has responded very rapidly to this emergency. Today more than 90 per cent of our staff are working from home; we continue to meet multiple commitments and to be fully present, providing analysis and proposals to the Italian and European authorities.'

*What is your assessment of Italy's response to the crisis? And of the possibility of coming through it without paying too high a price?*

With such an unexpected and difficult situation, it is not the time to judge. It is time for each and every one of us to do our duty, to ensure that the exceptional measures taken will be successful. They are designed to protect our health and the lives of each and every one of us. The rules must be followed with the utmost vigilance, mindful of the risks involved. It seems to me that the country is reacting as it must. I believe that the Government's message about the need for responsible behaviour is clear to all.

*Do you already have an idea of how much this will affect Italy's economy? And for how long?*

The Bank of Italy's economists are constantly monitoring the potential costs for our economy. The impact this year will be considerable, but the policies in place are doing everything possible to limit its strength and duration. It is vital that everyone understands that this extremely difficult time for our country, and for the lives of each one of us, is

nevertheless transitory. The more responsibly we behave as individuals, the sooner and the better we will emerge from this crisis.

*What is your assessment for Italy and Europe?*

The crisis is affecting the entire global economy. It goes to the very core of our humanity: affecting our lives, the way we socialize, the real economy, our businesses and workers, and inevitably extends to our financial system. Precisely because the crisis is global, so too must be our response. Greater coordination between countries will enable all of us to leave it behind sooner and at a lower cost.

*The ECB has primed its bazooka. It has long been said that the margins for monetary policy are limited. Is it true? And if so, to what extent?*

We have demonstrated that there are no limits to our action when it comes to fulfilling our mandate. The scale of the interventions agreed is unprecedented. We will purchase more than 1 trillion worth of public and private bonds this year and will provide banks with all the liquidity they need to support credit to households and businesses. We will do whatever is required to ensure the smooth functioning of financial markets and the transmission of monetary policy in all euro-area countries.

*Are there margins for widening the scope and range of central bank intervention?*

We are constantly monitoring the economic and financial conditions. The measures adopted have proven to be effective in easing tensions; today we believe that this is sufficient, but if needed, we stand ready to do more. We will not tolerate the risk of monetary policy transmission being compromised in any country; we stand ready to increase the size of our intervention and to change its composition and duration.

*Frankfurt's move, and the crisis in general, have brought to light the usual differences between northern and southern European countries. Can this obstacle be overcome?*

The accounts of the Governing Council's deliberations in some newspapers are inaccurate, as will become clear when the minutes have been published. As always, there were intensive and in-depth discussions about the various options. There were a few differences of opinion as to how to intervene. However, all the members of the Council not only agreed on the need to act, but also on the need to clarify in the Communication that the package adopted is a proportionate response to the changed market conditions.

*What is the role that awaits European nations in supporting businesses and the economy?*

Above all else, the challenge of containing the spread of the virus and of supporting a severely tested health system must be addressed. At the same time, it is necessary to work for the benefit of firms, especially smaller ones, and households. The measures already introduced are designed to avert the risk that the epidemic and the actions taken to combat its spread could endanger the jobs and income of citizens. The Government rightly announced its intention to introduce additional measures in accordance with developments.

*What are the priorities for the hoped-for phase two, starting from when the virus has stopped spreading?*

Much will depend on how long the pandemic lasts. We can't rule out that what you call 'phase two' may initially look like a recovery characterized by low job creation. It will therefore be necessary to maintain expansionary monetary and budgetary conditions for a certain period of time, while investment in training will be encouraged and appropriate structural reforms will be adopted, reforms which have been under discussion for some time now.

*Italy's government debt is very high already. How much does this affect the possibilities for a rapid recovery? Is it sufficient to spend well to avoid any repercussions?*

Interventions to limit the spread of the virus, to keep the loss of life as low as possible and to help households and firms in difficulty actually reduce the debt-to-GDP ratio compared with a scenario in which they are not carried out. The debt level will not hinder the adoption of these measures: the national and European institutions will have to continue to act in a coordinated manner and to take appropriate measures.

*This can only be done if the spreads do not stymie the hopes for recovery. Do you think it can be done?*

Today, as in the past, the ECB has demonstrated its determination to maintain relaxed financial conditions, so that the highly expansionary stance of monetary policy can continue to be transmitted in full to all countries. The recovery will help bring down the spread further, given that it will facilitate an additional fall in risk. Once the crisis has passed, it should be made clear that current expenditure, fiscal measures, and public investment must be framed within a coherent strategy, in which the return to a gradual and continuous downward trend in the debt-to-GDP ratio, albeit from a higher level, cannot but be a part. This is necessary to ensure that the recovery of the growth rate of the economy corresponds to interest rates on public debt that are as low as possible.

*There is a need for Europe. Ursula von der Leyen has said that coronabonds are being considered. Are you a proponent of eurobonds? Has their time now come? What is a truly feasible solution?*

The decision to 'suspend' the Stability Pact demonstrates awareness of the seriousness of the situation and the firm intention of European institutions to promote a coordinated response to the emergency. It is also important that we act quickly to devise an instrument, which could allow the joint financing of the 'reconstruction', which must follow the emergency phase. This phase, which is so hard for all of us, must provide an opportunity to move forward in the construction of a united Europe.

*How can the 'hawks' be convinced that there is nothing immoral about sharing the cost of relaunching Europe?*

I don't know if those whom you call the 'hawks' believe that a shared action to relaunch the European economy is 'immoral'. Frankly, I doubt it. I do think, however, that there is a lack of trust. The wounds of the global financial crisis and the sovereign debt crisis are still fresh.

But this is not the time to fear opportunistic behaviour, because we all have too much to lose if Europe does not move together. No country can overcome this challenge alone.

*Banks play a key role in keeping the economy going. Can the system hold?*

In recent years, Italy's banking system has strengthened significantly. The measures taken by the Government and the ample liquidity provided by the eurosystem ensure that banks are in a position to support the real economy in this difficult phase and, as soon as we come out of it, are ready to drive the recovery.

*How important is it for political debate, which if we are being honest is often heated here in Italy, to focus on the common good and not to build on differences?*

The country must be united, everyone must play their part. The relationship with Europe must also regain serenity. This is not the time for division: viruses are not partisan and, as we have seen, do not respect borders.