

ECB's Visco on Coronavirus, Policy Measures, Italian Bond Yields

Interview with Ignazio Visco, Governor - by Francine Lacqua (Bloomberg TV)

Mr Philip Lane of the ECB has come out saying that they stand ready to ensure that spreads do not intercept transmission. What does that mean in terms of policy?

It means that the policies will be adjusted to the circumstances, across time and across jurisdictions, to ensure the proper transmission of the monetary policy decisions that we have taken. These are important decisions, perhaps they have been a little underestimated by the markets so far, but I am sure they will be completely understood as they are put into operation. Obviously, the first response to this crisis – which is extremely severe – is the response of governments. Governments have all the means to support the incomes, the health system, the brave women and men that are engaged in the fight against the virus now and to whom go our appreciation and our gratitude.

Monetary policy, however, has a responsibility to intervene with the maximum possible energy to alleviate the cost of the crisis and especially to ensure that there is no financial market fragmentation that could make the response less prompt and more difficult. This is exactly the main preoccupation we had yesterday. The package has clearly emphasized the need to provide liquidity as conveniently as possible to banks, so that it can then be transferred to firms and workers, and at the same time to intervene in purchasing assets, substantially increasing our program which covers both private and public bonds; these public bonds are obviously to be purchased when needed and as much as needed.

How much more can the ECB do and how quickly? If the markets sell-off continues in BTPs, does the €120 billion actually give you the flexibility to front-load BTP purchases?

First of all, it has to be clear that this has not been the final word. Actually, we have to see how things proceed, how severe the consequences of the crisis are, which are clearly pretty severe in our country. I think, unfortunately, that expectations are not favorable for the whole euro area. If needed, however, there will be more, more actions and more words, perhaps clearer and better understood words, but this means that for the time being the package is pretty substantial: we can front-load, we can concentrate on particular jurisdictions according to the circumstances for a temporary time, but clearly fighting the risk that the widening of spreads, for example, makes the transmission and the processes more difficult for certain countries.

How quickly could this front-load come? If you have to take actions, could they come as early as today? We are trying to get a sense of how quick and how readily the ECB wants to act if necessary

The program has just been decided and it will be in place in the coming days. We already have the older program in action, we are modulating our purchases as markets develop and, in the next few days, the ECB will put in place the purchases that are consistent with this €120 billion increase in the program for this year. Nothing can be excluded for the future, we will see: this regards both the assets that could be purchased and the rates that could be set.

Christine Lagarde spoke of flexibility of the QE program: could you give us specifics of how this could be used to address the current tensions on Italian bonds?

We may speak about Italian bonds but, actually, we have to speak about all the bonds that are going to be purchased with this program, not limited to the Italian ones. Obviously, we may see increases in yields because there are fears in the markets, because there is uncertainty about the threat of the virus and so on, but clearly these increases will be contrasted, in the BTPs, in the *Bonos*, in any jurisdiction. It has to be clear that monetary policy has its own responsibilities but it is not the only policy that has to be in place: as a matter of fact it is a complement to the decisions – very important decisions – that will be taken together in the European Union and will have to be as ambitious, bold and coordinated as we discussed yesterday and wrote in our statement. However, there is no question that there are movements in the spread caused by fears about the effects of the coronavirus and that this will make our provision of liquidity and the impulses that we are giving to the economy more difficult, and therefore there will be targeting and focusing on the jurisdictions where turbulence will occur.

Can the ECB act on the QE further and was this discussed already?

We discussed a lot of things. The details are obviously to be defined, but the amount of this program is different from what was previously expected – much larger I would say. If there was a disappointment concerning the interest rates, the fact that we didn't lower the deposit facility rate has to be understood with respect to an evaluation that many of us made about the relative efficacy that it may provide, considering that it is already negative at half a per cent. That, again, is not necessarily excluded; we discussed it and, for the time being, there is no need to act too quickly while we can already purchase bonds very quickly and we can provide liquidity at very favorable conditions.

Are you expecting BTPs to settle down?

I think so, there is no reason for this spread to be so wide, really no reason at all. The response of the Italian government has been correct and timely: remember, this is a crisis that may follow a similar pattern in other countries and I expect other countries to act in similar ways, and monetary policy and supervisory decisions are there to accompany the substantial decisions that will have to be taken by governments.