

LA STAMPA

Ignazio Visco: 'Let's keep an eye on inflation, as risks are not only tilted upwards. Italy stable if it looks to the future'

The Governor of the Bank of Italy: «Continuity in the ECB's monetary policy in 2022, Italy has a capacity for growth that can offset the increase in debt and ease social tensions»

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Damned pandemic. According to Ignazio Visco, if it weren't for Omicron and the other possible future variants, we could view 2022 fairly optimistically. The Bank of Italy's Governor says that, at European level, «let's keep an eye» on inflation and that «risks are not only tilted upwards»: this is why the core message is that ECB monetary policy remains anchored to continuity. That's not all. There is «a certain amount of optimism» regarding the implementation of the NRRP in Italy, also because he assures us that Italy «has the ability to be swift and efficient in all areas, in order to achieve a capacity for economic growth that can more than offset the increase in debt and ease social tensions».

Even the risk of political instability linked to the race for the Presidency and to the political elections that will take place sooner or later doesn't appear to alarm him, as long as the political parties understand the importance of the commitments undertaken for recovery and «are able to look beyond the very short term». This is a clear conviction, unaffected by the spread that is hovering around the 140 mark. Visco argues that political instability only affected the markets when there was confusion at European level too, and «now there is less of it». This is enough for us to imagine a year that could turn out to be a favourable one, as long as the virus does not explode to the point that it limits mobility and affects business and consumer confidence.

Governor Visco, there is a divergence in the monetary policies of the ECB and the Fed, and it is a parallel divergence, as the problems are similar but manifest themselves differently and have found differing solutions. How can the responses provided so far be explained?

«It's true that the problems are similar, but the economic conditions and pressures on the labour market, which then affect inflation, are different. During the crisis, unemployment rose rapidly in the United States and came close to 15 per cent; thanks to the fiscal stimulus package, it then fell to levels of almost 'full employment'. There is an aggregate demand effect in the United States that has not become apparent here yet».

And the European labour market?

«The unemployment rate in Europe has remained essentially unchanged: it moved very little last year, thanks to measures such as wage supplementation. It is falling more slowly here and the hours worked are still lower than before the pandemic. Prices were influenced by the temporary effects stemming

from factors such as the cost of freight and transport, with a marked increase because of bottlenecks in supply at global level. When the rise in energy prices – caused by cyclical, structural and geopolitical factors – comes to an end and when, for example in Germany, the effect of the increase in VAT fades away, core inflation will return to the levels predicted in the latest Eurosystem staff macroeconomic projections».

What are the figures for this?

«After average increases of 3 per cent next year, but which will gradually decline, prices will grow by just below 2 per cent, and will therefore be close to our objective».

So, unless there are unexpected events, we can expect continuity in 2022 in the choices made in Frankfurt.

«We have said so expressly. There will be a reduction in the pace of security purchases in 2022, which will nevertheless not come to a halt before the end of the year; ‘tapering’ will therefore not be concluded before 2023 and very favourable financing conditions for the economy will be maintained. We have also stated that the increase in the official rates - which are, moreover, negative - will take place at a later date. The reason is linked to our inflation projections and to factors that we believe will prevail over the next few years».

In connection with this, what is the debate at the ECB like?

«There is divergence within the Governing Council. The forecasts that inflation will go below 2 per cent in the years 2023-24 are obviously subject to both downside and upside risks. According to some of my colleagues, the latter could prevail. Nevertheless, we have to consider at least two of the underlying factors: one relating to energy and the other linked to corporate margins and the increase in wages. For the latter, we can now assume growth of 3 per cent every year for the next three years. Let’s remember that wages are going up by 4 per cent in the United States and we’re below 2 per cent in Europe, as has been happening for the last twenty years».

What about energy?

«As regards oil prices, futures indicate that they are still high, but already declining compared with the peaks of November. Gas is a different issue, because there is a very important geopolitical component. The high fossil fuel prices can’t be offset through a reduction for all because we are in a phase of ecological and energy transition. Moving towards renewable sources may lead to an increase in relative prices. The excessive costs for some categories, or for some Eurozone areas, can be offset by fiscal measures. The ECB Governing Council will need to ask searching questions about the ratio between relative prices and absolute inflation».

Are wage increases and corporate margins a threat to inflation?

«There are currently no second-round effects on wages and salaries stemming from energy prices, to which the increase in inflation is primarily due, and so I have no particular concerns. I believe that the risks are balanced and not, as some of my colleagues think, asymmetrically tilted upwards. In any case, we are verifying, extremely carefully and month by month, what the risks are and how the determinants of inflation are moving: the labour market, demand and wages».

In this scenario of change, would you be in favour of revising monetary policy objectives?

«I see no reason to revise the 2 per cent objective, which was decided this year after lengthy discussion within the Governing Council. The previous guidance, which was the objective of inflation below, but close to 2 per cent, generated uncertainty. For some it signalled that the ECB was more likely to accept inflation below than inflation above 2 per cent. This didn’t make sense. A symmetrical objective will help to keep inflation expectations well anchored in the medium and long term».

There are discussions on the reform of the Eurozone’s stability pact, put on hold to deal with COVID. If you could redesign it, what would you suggest to governments?

«Even before the pandemic there were criticisms on the complexity of the Stability Pact, as there were on the set of budget rules for Member States. The point is that the sustainability of the public finances in Europe and in individual countries is essential. We must understand that we are in a monetary union without being in a federal state: individual nations are responsible for their own budgets but they must not jeopardise overall stability».

Does it make sense to abolish the constraints?

«No. It makes sense to have reference rules that can, in certain circumstances, be revised on a discretionary basis. There's no automatic pilot to solve problems of sustainability or of consistency among the various budget objectives of countries in a monetary union. It needs to be pointed out that in our case it has a serious defect: there is no common fiscal policy. That's not all. There's also a lack of ability to manage things centrally that are of benefit to the community as a whole. We knew this at the beginning of the monetary union and it is a correction that cannot be neglected».

What is needed?

«In short, two things. On the one hand, an instrument for stabilization similar to that put in place during the pandemic emergency. On the other hand, a capacity to revise the laws and the rules of the game as necessary, and here perhaps we need to make use of the Treaties. A public finance institution at central level would be useful; a Ministry, if you will, for Eurozone public economics, if not for the EU, which would be the counterpart to the single monetary policy.

What effect will the political change in Germany have on Europe?

«The ECB has carried out its monetary policy independently from the previous German executive, and we certainly won't change because there's a new chancellor in Berlin. A government is formed democratically, and its choices must be carefully monitored, but monetary policy is independent».

Is this also the case for the reform of the Stability Pact?

«The previous German government had generally been willing to introduce innovative measures such as Next Generation EU. I believe that the responsibility for what will take place is also ours, and we'll have to show that we know how to use European funds well. It is in everyone's interests for the capacities for recovery and growth to be widespread and properly understood. In this sense, the German government will of course be as focused on this as in the past. That said, of course all of us know Scholz, the new Chancellor, very well, having worked with him when he was Finance Minister. I also knew Schaeuble very well. The point is that they both pay great attention to the European dimension and at the same time to the need to keep the accounts in order with no unbalanced expenses».

Your projections for Italy expect good growth for 2022. Nevertheless, you feel that, if the NRRP is not well implemented and if COVID does not come to a halt, it will be worse. How much worse?

«The top risks are really those that may be brought out by the pandemic, especially if the spread of the virus were such as to prompt a return to limits on mobility that would affect the confidence of firms and consumers. It's hard to have precise ideas, as none of us know how things will turn out with Omicron. This is why our projections are cautious on the pandemic side, but there's also a certain amount of optimism on the implementation of the NRRP».

The NRRP is the backbone of the recovery.

«Use of the funds is accompanied by structural reforms that have to increase the efficiency of the administration and of the justice system and to promote competition. They must encourage public investment with significant improvements to infrastructures, and more besides. The over €200 billion to be provided by the NRRP over the next few years must also act as a stimulus for private investment. Given the longstanding slump in Italy's productivity, we believe that this plan could push GDP up by 2 percentage points in the next two years. On one condition: that an efficient and rapid way to spend is found. This would really be something new for Italy».

Is it possible?

«I have been struck over the last few months by some of the demonstrations of general government's ability to adjust. We all have a Green Pass now, we get vaccinated or do a swab and we get a digital certificate within a few hours! We then show it and it's read straightaway. We can be rapid and efficient in all areas, in order to achieve a capacity for economic growth that can more than offset the increase in debt and ease social tensions».

We are about to choose the President of the Republic. By spring 2023, there will be the elections for the Chamber of Deputies and for the Senate. How much does the unknown factor of political instability weigh on Italy's economy?

«Political instability is a complex concept. We have a democratic system and these two upcoming events are part of the normal course of democracy. We only suffered from the effects of political instability on the markets at a time when there was confusion at European level too, and there is less now. The political handover was very simple in Germany, despite the momentous change. We'll see what happens in France, and Italy is no different from any other country».

No risk then? Not even with the 140-point spread?

«There is one crucial condition. All the political parties must understand that the commitments undertaken are important and help strengthen the capacity of the economy to be resilient and to recover after almost 30 years of stagnant productivity. This is why they need to be able to look beyond the very short term. This means that great commitment is needed to overcome the significant lag at technological level and learn to innovate. There are goals to be shared regardless of the positions of the political parties. They have to convince voters of their capacity to achieve these goals, not of their intention to review them. These are things that go beyond election schedules».

It may not be easy.

«It is preferable to try and gain votes not by proposing to reduce taxes at all costs but by spending them better, avoiding 'bad spending', as our Prime Minister says when he talks about good and bad debt. It's actually not enough to talk about good debt, because everyone will say that their debt is good. It's not like that. A good debt is linked to a recovery plan, with essential and green infrastructures, investments in digital technology and so on. It's a question of goals, not of political stability».

Are you saying that, now more than ever, short-term thinking is out of date?

«Yes. Yet that doesn't mean that politics has to be absent. Nothing has replaced the role of politics and there has been continual discussion. I believe that we must not go back to making all these amendments to the government budget designed to add new expenditure items here and there. Spending is a question of quality and in the end, we must be able to cut where we see that the costs outweigh the benefits. This is the crucial exercise that we have to be able to get across».

Can it be done?

«We have to understand that, if this is the way forward, we can't be afraid of adverse positions on the part of the markets. People often say that it's the markets' fault if we have to make choices that are also burdensome. That's not the case. Those who operate on the market try to invest funds and want guarantees that their choice will be productive and profitable».

Is there a lesson to learn from the pandemic? Will there be the famous 'new normal'?

«The 'new normal' needs to be understood; it is no trivial thing. There have been some extraordinary changes in the last year. Remote working, for example, has opened up some extraordinary opportunities, but it shouldn't be seen as an absolute alternative to working in the office, to the exchanges of information and skills through direct contact. The pandemic has taught us several lessons. The most complex of these is that, when looking ahead and making forecasts, we have to get over the idea that tomorrow will be like today, and go beyond the conviction that the future may be volatile but essentially stationary. This is a mistake. The world can change and it changes continuously, and there are events and processes that can lead to non-linear events. But we've also

learned how important it is to increase our knowledge and how important, rapid and productive the transmission of scientific progress can be today».

If Greta Thunberg were here, she would probably say it's all blah blah blah.

«It's not all blah blah blah, because we have done a huge amount of work and we'll see the results soon. Greta is right to say that some behaviour has to change. We also need to review how we produce and use energy at a time of transition when – thanks to the large investments made possible by the NRRP in Italy too – we are going to replace non-renewable sources with other types. Some technologies are already in place, although the costs are still high».

Report¹ investigated irregularities that some banks are supposed to have committed in suggesting purchases of diamonds to their customers. Doubt has been cast on the quality of the Bank of Italy's checks. You've said that the investigation is 'incomplete'. Is this the case?

«It's not just incomplete. It's incorrect and misleading, also because it's based on recordings made of conversations in the workplace, without the knowledge or consent of the parties involved, and edited to obscure the context in which they occurred and to confuse their meaning. Statements have been made that are complete fantasy. It was said that there's a 'cupola',² a strong power that influences the Bank of Italy's work. This is ridiculous. Alongside this, allegations were made about mafia-like and masonic environments, which are frankly offensive.

Were the checks adequate?

«The facts weren't presented properly in Report's account. The law is clear: Consob is obliged to intervene and, where necessary, to sanction issues that involve financial investments. The Bank of Italy is responsible for the transparency and the correctness of banking operations.

The Italian Competition Authority (Autorità Garante della Concorrenza e del Mercato, AGCM) supervises commercial operations. Whether they take place inside or outside banks, these transactions with diamonds are a commercial practice. Following the reports, the authorities held consultations and agreed that any sanctions were the responsibility of the AGCM. Having carried out its assessments, the AGCM did impose heavy sanctions on the banks involved. Everyone played their part.

And what about the Bank?

«We have been carrying out prudential supervision on banks under the Single Supervisory Mechanism with the ECB since 2014, but alongside this, we are also concerned with legal and other risks that could damage the reputation and capital of banks. For this reason, regarding the sale of diamonds we intervened on several occasions in the years 2016-18, including sending direct communications to banks. Following an anti-money laundering inspection (and this does come under our jurisdiction), which had brought to light some shortfalls in one of the banks concerned, also with regard to the issue of diamonds, we also imposed a heavy sanction. We also cooperated fully with the judicial authorities. Anyone interested in the details can consult our website. We were not subjected to any pressure, either externally or internally. I cannot and do not wish to discuss here the serious and painful personal difficulties experienced by our colleague, which emerged during the programme, but we will of course give a full account of things to the Banking Committee, while respecting the rules on privacy, when we are called upon to do so».

¹ An Italian TV programme based on investigative journalism (translator's note).

² Cupola is a journalistic term that indicates the top management of the mafia, composed of the heads of the most powerful mafia families (translator's note).