Interview with Christine Lagarde, President of the ECB, conducted by Dominique Seux, Federico Fubini, Thomas Hanke and Carlos Segovia, published on 18 May 2020

Emmanuel Macron and Angela Merkel are proposing a European recovery fund worth €500 billion. It will be made up of direct transfers rather than loans. What do you think of that? Do you think this European fiscal effort will be sufficient to prevent the ECB from having to do all the work on its own?

The Franco-German proposals are ambitious, targeted and, of course, welcome. They pave the way for the European Commission to borrow funds over the long term and, above all, they allow a substantial amount of direct support to be provided to the countries most affected by the crisis. This is testament to the spirit of solidarity and responsibility the German Chancellor herself mentioned last week. There can't be greater financial solidarity unless there is also greater coordination of decision-making at the European level.

What is your view of the way political leaders are responding to the crisis? When your predecessor said "whatever it takes" in 2012, it came after, rather than before, governments had made commitments.

At the national level, governments have grasped the scale of the challenge. With their direct support for households, payment deferrals and guarantees for the private sector, they have mobilised funds equivalent to 20% of euro area GDP. That's a lot. And the European Commission, for its part, has suspended the limits of the Stability and Growth Pact and relaxed the rules on state aid – that was essential. But there is a limit to all of that; the measures taken have been too asymmetric across countries, varying from 2% to 40% of GDP. The countries with the weakest economies, which in some cases are those that have been hit hardest by the virus, do not have the fiscal headroom to do what is needed to restart their economies. The solution, therefore, is a European programme of rapid and robust fiscal stimulus to restore symmetry between the countries when they exit from the crisis. In other words, more help must be given to those countries that need it most. It is in the interests of all countries to provide such collective support.

What concrete measures do you expect from the European Council?

The Council has a huge responsibility: it must find an adequate response to the severity of the situation, the economic damage and the social suffering. Where are we so far? €540 billion has already potentially been made available, taking together the support from the European Stability Mechanism (ESM), more guarantees to companies (focused on small and medium-sized enterprises) pledged by the European Investment Bank, and the European Commission’s SURE initiative which, from June, is set to co-finance short-time work schemes. The credit lines provided by the ESM have nothing to do with the rescue packages of the past; each country has the option of borrowing funds amounting to up to 2% of its GDP, at very low rates and with minimal conditions attached. Countries will only need to demonstrate that the funds will be used to cover direct or indirect healthcare costs related to fighting the pandemic. This package of support measures is welcome, but it is clearly insufficient to get the euro area economy going again.

What order of magnitude do you think is necessary?

We estimate that the additional government financing needs arising from this crisis will be in the range of €1 trillion to €1.5 trillion for 2020 alone. Some will manage that without difficulty, others will need European financial solidarity. Its size and composition will depend on the ambition of the Heads of State or Government, guided by Charles Michel and Ursula von der Leyen. This European stimulus programme, which I hope will be substantial in size and quickly mobilised, should also be used to invest in common public goods which are best funded collectively rather than individually, because it is more efficient that way. These include health security and the transition towards an economy that is greener, more digital and better protects biodiversity.

If the European Council doesn’t put in place a sufficiently large stimulus fund, can the most vulnerable countries count on the ECB’s rescue programme (Outright Monetary Transactions), and what conditions would be attached to the programme?

Outright Monetary Transactions, or OMTs, are an important instrument in the European toolbox, but they were designed for the 2011-12 crisis, which was very different from this one. I don't think it is the tool that would be best suited to tackling the economic consequences of the public health crisis created by COVID-19. For the systemic shock we are facing today, the PEPP – our programme for purchasing €750 billion of public and private sector securities – seems the most appropriate tool.

Its size was calibrated in March, when we only had an imprecise view of the recession. If your projections develop in June, will that be the time to increase it?

On this topic, we have been very clear and we continue to be very clear – we will not hesitate to adjust the size, duration and composition of the PEPP to the extent necessary. We will use all the necessary flexibility within our mandate. There is no psychological obstacle to our action.

The budgetary situation in Italy, Spain and France was already challenging before the crisis. Doesn't their current situation send chills down your spine? Should the Stability and Growth Pact be abandoned?

The priority now is to help the economies to get back on their feet. States are spending, so debts are naturally increasing. The debt-to-GDP ratio is going to worsen, because we are in a recession. Every country in the world is seeing its debt level increase – according to the IMF's projections, the debt level of the United States will reach more than 130% of GDP by the end of this year, while the euro area's debt will be below 100% of GDP. That's an average, of course; there are differences between countries in the euro area.

But we shouldn't focus on the debt-to-GDP ratio if we want to assess the sustainability of the debt. Growth levels and prevailing interest rates should be taken into account, as these are the two key elements.

I think this crisis is a good time to update the modalities of the Stability and Growth Pact, which is currently suspended. Some innovative proposals have been made in the recent past, especially by the IMF; it would be good to re-examine them to assess their relevance and their efficiency before restoring the Pact. We should ensure that a revamped and simplified pact comes into effect once we are out of this crisis.

What do you think about the idea of "coronabonds", of shared debt?

What's important is that all European countries appreciate the extent to which they are interdependent – a car production line in Germany could grind to a halt because of a lack of spare parts from Italy, Spain or France. Trade within the euro area is now so integrated that it is clearly in the interest of all countries, and the strongest countries in particular, that the weakest countries get back on their feet. Otherwise, everyone will lose out.

If the European recovery plan combines EU grants with loans with very long maturities and low rates, primarily aimed at the countries most in need of them, we will have taken a huge step forward in terms of European financial solidarity.

But what is your role, the ECB's role, in this conflict?

My conviction is clear. The ECB has been assigned a mandate by all the Member States of the European Union, when they drafted and ratified the Treaty. The ECB is under the jurisdiction of the European Court of Justice. And we will continue to be accountable to the European Parliament and to explain our policies to European citizens.

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