

## INTERVIEW DER SPIEGEL

SPIEGEL: Mister Governor, we are seeing alarming growth of new COVID-19 infections in many countries in the eurozone. Are you expecting a second lockdown?

Villeroy: The measures just announced by the French President are precisely designed to avoid it. During the first outbreak in March, the French economy, for instance, shrank by about a third. That was indeed a very severe shock. But then we had a very strong rebound, quicker than expected. Today, about 90 percent of our economy is doing quite well, although certain sectors like tourism or the automotive and airline industries are suffering. So, government help should prioritise these sectors.

SPIEGEL: If the situation gets worse in the coming weeks, will the ECB react with a new monetary stimulus package, as in March?

Villeroy: Back then we tried to counter the unique downturn and the threatening financial crisis with a very substantial program, and it worked. The situation has improved since, so we decided at our recent meeting to keep a steady hand. But a steady hand doesn't mean tied hands. If there is a need to take greater action due to incoming data, we would have the capacity and the will to act.

SPIEGEL: Your German colleague Jens Weidmann recently said that a possible resurgence of the pandemic is already incorporated in the existing program. If this is true, then there shouldn't be a need for further action.

Villeroy: You will not oppose me to my friend President Weidmann. You know the famous sentence by John Maynard Keynes: "When the facts change, I change my mind." So far, we are not there. The very accommodative monetary stance we have is at present appropriate.

SPIEGEL: Some members of the council want to end the program next summer. How likely is that?

Villeroy: We have said that the program will run until the crisis phase is over, and at least until next June. Given the uncertain situation today, it would be a mistake to decide an end date now.

SPIEGEL: In late August the Fed announced a new “symmetrical inflation target,” which means: When the inflation rate is below the target for a certain amount of time, the central bank will tolerate an overshooting later. Could that serve as a model for the ECB?

Villeroy: Our own "strategic review" at the ECB has its autonomy from the Fed. But our mandates have in common price stability, and the Fed just confirmed it has an inflation target of 2%. About symmetry: if you look at what our Governing Council has been saying for several months, and what Christine Lagarde clearly stated in Frankfurt in September, it means that the ECB also has a symmetric target.

SPIEGEL: In concrete terms: When the inflation rate is below 2 percent in one period, it has to be above 2 percent in the next one.

Villeroy: we are not yet at a mathematical "average targeting", as the Fed announced while remaining flexible. But we do not want to exclude that, further into the future, the inflation rate may come above two percent, as has happened in the past.

SPIEGEL: The problem is that they aren't succeeding in doing so. The actual inflation rate in the eurozone right now is -0,3 % percent, which means prices are decreasing. So, aren't the central banks no longer able to fighting low inflation rates?

Villeroy: They are. Central banks have the capacity to act, as the recent past has shown. The COVID-19 crisis has clearly increased downwards pressure on prices in a situation where inflation was already low. Our very active set of monetary measures since March avoided deflation and is efficient, if you incorporate the usual transmission delays of monetary policy. We expect inflation to become again positive in some months, and a rate of 1 percent next year and 1.3 percent in 2022. We are on the right path, while still too low.

SPIEGEL: Which is leading to higher prices at the end.

Villeroy: Our aim is to anchor medium-term expectations of inflation around 2%. And almost all economists worldwide agree that such an objective is a solid basis for sustainable growth.

SPIEGEL: Some economists are in doubt, that You have the means to get there. Among other things because of the recent ruling by the German

Constitutional Court. This ruling applies the brakes on the ECB's bond-buying program, with which you are channeling liquidity into the markets.

Villeroy: The ruling was about measures taken before the pandemic. Meanwhile we have transmitted information to the German government and the German Bundestag . They then stated that we clearly comply with the ruling. Our program oriented toward the COVID crisis is another case, with different circumstances .

SPIEGEL: Was the creation of the European recovery fund a step in the right direction?

Villeroy: Clearly yes. Our Governing Council unanimously has been saying for a long time now that monetary policy shouldn't be the only game in town.

SPIEGEL: Are you happy with the design of the program?

Villeroy: As a whole, yes. It should focus on innovation and on the transformation of the European economy. In my view, in the aftermath of the crisis, we should be more Schumpeterian in Europe ...

SPIEGEL: ... you are speaking of Joseph Schumpeter, the Austrian economist who has stressed the importance of entrepreneurship for economic growth ...

Villeroy: If you look at the recent IMF forecast, there is something challenging for us Europeans. The health crisis has indeed been better managed in Europe than in the U.S. But the recession will be more severe in Europe, even in Germany while less so, than in the U.S.

SPIEGEL: What are the reasons?

Villeroy: It was urgent and necessary during the lockdown that the program focused on Kurzarbeit and on a general safety net. But now we need a growth-friendly agenda. We cannot in Europe merely reproduce the past and forget about the digital or ecological transformation. That would be a mistake.

SPIEGEL: Some economists, especially in Germany, argue that in lowering the interest rate, the ECB is creating zombie firms – bankrupt corporations that are only kept alive by the cheap credit provided by the central bank.

Villeroy: I don't agree. If we hadn't decided in favor of our monetary package, we would probably be experiencing deflation right now. This would have been disastrous, including for startups and firms oriented to the future. Monetary policy has a general effect on the economy. In contrast, governments in their fiscal and structural policies can be selective, giving state help to those firms that really deserve it.

SPIEGEL: Some economists are concerned about the increase in the debt level that is accompanying the recovery programs in some eurozone countries. Do You share their worries?

Villeroy: The debt increased in all countries, including Germany – and rightly so. It was the appropriate countercyclical answer to the COVID crisis. So, the problem in several countries is the level of debt that existed before the crisis. And in this respect, Germany clearly had a better fiscal policy.

SPIEGEL: What are the consequences?

Villeroy: in my view there is no need now to change the rules of the Stability and Growth Pact. Instead, we should begin reducing public debt in eurozone countries once the crisis is over and when the economic recovery is completed. Not too early, probably after 2022. Moreover, to ensure debt sustainability, in several countries we need structural reforms to foster growth and employment, and in some countries like mine increased efficiency of public spending.

SPIEGEL: Is this a “No” to a mutualization of national debt?

Villeroy: In the last months the old and fruitless debate about the mutualization of existing debt, about the so-called eurobonds, was at end settled. The national debt will remain the responsibility of each issuing state, and for me this is fully warranted. As the European council decided in July, we will now concentrate on reconstruction and future investment. And therefore, we need a common issuance of debt.

SPIEGEL: Since World War II, there has been a gap in policy orientation between the rules-based and market-oriented approach in Germany and more state coordination in France ...

Villeroy: ... This sounds like a bit of a cliché ...

SPIEGEL: Is this gap now bridged with the fund initiative by Chancellor Merkel and President Macron?

Villeroy: France changed in the last thirty years. Today, there are as many large corporations in France as in Germany. They are completely independent, publicly listed private firms. The number of state-owned firms has diminished significantly. Our central bank is independent, believe me. Sure, we need in this crisis the increased involvement of public authorities on both sides of the Rhine , but I strongly wish and trust that we remain in a market economy. I have , as a European and a close friend of Germany , a deep love for the expression Soziale Marktwirtschaft (social market economy) : we should only add "nachhaltige" , sustainable, in the new world after COVID-19 .

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