

Philip R. Lane: Interview with Expansión



Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Andrés Stumpf on 22 February

26 February 2021

After the Christmas holidays and a third wave of the pandemic, what's the current situation of the European economy?

2021 is an unusual year. Some of the current restrictions on economic activity are going to be extended. But, while we're facing these short-term risks, there is the prospect of vaccinations bringing a sea change in the second half of 2021. In the second quarter activity will already start to recover compared with current levels. The timing of this rebound will depend on how the public health situation develops, in terms of both the vaccinations and the delays that the mutations of the virus could cause.

If the restrictions are extended, will you revise down the macroeconomic projections at the next meeting in March?

It's a bit early to answer that because we haven't finished preparing them yet. The more severe the impact of the virus, the more prolonged will be the lockdown measures. And that can affect the projections in the near term. But we know from last year that when the economy is unlocked and activity recovers, there can be a fast rebound. The effect of the lockdown on economic activity is less than it was last year. The European economy has had to learn to live with these measures. It's very difficult for the sectors most

severely affected, but there are other sectors that are coping with the pandemic. China is growing at a good pace, which is good news for the world economy. So if the lockdown lasts a few weeks longer it won't have much of an impact on the final growth picture in 2021. We think a lot of the pandemic shock will have been offset by the end of the year.

Doubts have recently arisen about a potential pick-up in inflation in the United States. Is this a concern in Europe too?

We are looking very carefully at measures of inflation compensation. What we are seeing is a mix of a rise in expected inflation and an increase in the inflation risk premium. And this is actually good news, because it shows that scenarios of the world economy heading into deflation are much less likely. Our December projections had inflation at 1.4% in 2023, so it is still very low and lots of support is still needed for it to climb upwards. What we're seeing now is not a significant and persistent change in the path of inflation. At this stage, an excessive tightening in yields would be inconsistent with fighting the pandemic shock to the inflation path. That's what we said, and that's what we will be continuing to keep an eye on day by day.

Is there not a risk of the European economy overheating after unprecedented stimulus?

That's an interesting debate for the United States, with the approval of new fiscal measures, but not so much for Europe. Here there's no risk of overheating the economy with the stimulus. A lot has been done on the monetary policy side and fiscal policy has been very active, but at levels that are nowhere near the scale of the US stimulus.

Together with the inflation expectations, there has been a rise in yields. Could this become a problem if they continue to rise before the economy recovers?

This is the paradox of the financial markets and the overall economy. It can be problematic if market optimism moves ahead of the current state of the economy. We are carefully monitoring the rise in yields. These questions all come into sharp focus, especially when we have a new inflation forecast. In any case, it's important to remember that our pandemic emergency purchase programme (PEPP) will be used flexibly in response to market conditions. We have our regular monetary policy meetings, but our market operations can also be conducted in a flexible way between meetings, if necessary.

Will debt purchases be able to address increases in bond yields if they are caused by a rise in expected inflation?

If you look at the size of the ECB balance sheet, the cumulative impact of asset purchasing has had a very large downward effect on the interest rates in Europe. This is a balance sheet view – that the overall stock of what we hold has a significant downward impact. The other mechanism, the “flow view”, is that if there are significant market movements – as there were in March 2020, for example – then the central bank stepping in can play a stabilising

role. There is more than one mechanism through which asset purchasing can influence the market. But at the same time, it is crystal clear that we are not engaged in yield curve control, in the sense that we want to keep a particular yield constant. With the purchase programme we are trying to move the curve in a certain direction and with enough force to support inflation dynamics.

Do companies need more credit to survive?

Clearly there are limits to the amount of debt that firms can take on, and these limits are partly set by the firms themselves. The specifics depend on the individual country and the nature of the industries in that country, but there is a recognised role in this crisis for outright transfers or equity conversions. It is a major challenge for governments and there is no one way to tackle it.

The drop in demand for credit makes it difficult for banks to meet the ECB's funding conditions with regard to maintaining lending volumes.

The targeted longer-term refinancing operations (TLTROs) have a big incentive built in to maintain credit and lending to the real economy. In return for that, there's a very low interest rate on offer. The banks might say that they would prefer less demanding targets but we have to strike that balance. In any case, funding conditions are still very favourable, even for those banks that don't meet the TLTRO requirements.

Have you accepted that the take-up of liquidity by banks will be lower than in 2020?

It is not a proper comparison. In 2020 there was an extremely high demand for credit, whereas the current situation is different. What we should be looking at is whether our decision to extend the programme is benefiting the European economy, and we absolutely think it is.

How do you see the economic situation in Spain?

The virus is affecting all countries in Europe. But when you look more closely at the economic structures, the hardest-hit countries are those at the forefront of travel and tourism. Spain is in this group and there is no doubt that the pandemic has posed a bigger challenge here. This should be fully recognised. And it has been in the design of the Next Generation EU fiscal stimulus package and definitely will be in any type of forward-looking assessment. Spain's path to recovery will look different from that of countries with economic structures that are not so focused on these sectors.

So the recovery will take longer then?

One of the differences will be the timing of the recovery, yes. But the nature of the recovery will also be different because of the importance of travel and tourism. It is a sector where there is pent-up demand – many people will want to go to Spain again. In other countries some sectors may be affected by structural changes, but I doubt that there will be a permanent shift away from tourism.

Spain will come out of the crisis with a high level of debt. Are you concerned about countries with debt-to-GDP ratios above 100%?

It is important to distinguish between the near and medium-term challenges. In the near term, in this environment of extremely low interest rates, the challenge is not the level of debt; the challenge lies in ensuring that the European economy makes it through the pandemic, in the sense of keeping as many workers and firms as possible in good shape, and in having a sustained recovery. Only once we have managed that, at a much later date, should we go back to thinking about the usual challenges related to fiscal policy. Right now the focus clearly should be on getting through this pandemic phase and having a good recovery.

Is a 60% debt-to-GDP level, as enshrined in the Stability and Growth Pact, still desirable?

It is written into the EU Treaty and designed with the long-term perspective in mind. In the current situation of extremely low interest rates, debt levels that are higher than what we have become accustomed to can be considered sustainable. Once the pandemic is over, there should be a discussion about reducing debt ratios. But the important topic is not the preferred debt-to-GDP levels, it is the speed of adjustment, the measures taken and the macroeconomic context in which they take place.

With the private sector saving a lot, we are not seeing the current account deficits we saw in the mid-2000s. So from a macroeconomic point of view, this situation is totally different. And, because this debt has been raised at very low interest rates, the financing of it is being absorbed by investors. It is not creating, at the moment of issuance, a significant immediate burden, in contrast to previous episodes. So in a lot of the debates progress has been made in updating beliefs about deficits and debt, but that conversation is not yet over.

What do you think about the surge in bitcoin? Could it pose a threat to central banks?

I think it is interesting to look at bitcoin as a crypto-asset instead of a crypto-currency because it is not particularly easy to use it to make payments. It has gone up considerably and we have seen similar situations before in the markets. If you ask somebody why they invested in bitcoin, in most cases the response will be that they expected the price to go up, and not that they did it because of the monetary policy situation. So we do not view the rise of bitcoin as a warning to central banks. An asset with no intrinsic value can go up in price because of the collective belief that its price will continue to rise, but that market has a risk of generating dramatic losses, and anyone thinking of investing in bitcoin needs to understand this risk.

If the recovery is delayed or there is another shock to the economy, does the ECB have any ammunition left?

Without a doubt. First, the ECB's ability to create euro liquidity is a huge

asset for Europe. Second, we always remind people in our policy statements that we retain the option to move the key policy rates lower. We remain confident that if we decided it was the correct decision to make, we could move interest rates. We have the asset purchase programmes and the TLTROs could be boosted, depending on the nature of the shock. Throughout this pandemic, the ECB has been quite effective in stabilising the European financial system and in creating the conditions for those who can benefit from low interest rates to take advantage of them. Under the current conditions, of course, a very large sector that can benefit from low interest rates and take advantage of them is the government sector. If there's a negative shock, fiscal policy has a very powerful countercyclical role to play.

Does the ECB reiterating the need for fiscal policy to take a leading role suggest that monetary policy has reached its limit?

There is no limit of the sort that many people imagine. There is no hard limit. The issue is more about the efficiency or the scale. The recovery will be faster and the efficiency will be better if fiscal policy makes its contribution. In a low interest rate world (enabled by the ECB), fiscal policy is more effective in dealing with adverse macro shocks.

You always repeat this, but is lowering rates further really an option?

We wouldn't say we could use this tool if we didn't believe it. When we say that we can move rates lower [the deposit facility rate is currently -0.5 per cent], we do all sorts of calculations and analytics to make sure that it's a credible and honest statement. What we have been saying all year is that, in the context of the crisis we have been going through, protecting credit through the TLTROs and making sure that the yield curve is at a low-enough level through the PEPP is the best combination. That logic still holds but the pandemic is of course not the only shock that could hit the economy and we have to be prepared. All the tools are available.

And what about the ones that have never been used, like purchasing bank debt or even shares?

We have a group of experts at the ECB and the national central banks who look at all the options. But under the current conditions we remain confident that the tools we have deployed up to now are the right ones for dealing with this situation and preserving the favourable financing conditions that are necessary for the recovery.

[Venezuela: head of mission to the EU](#)

declared persona non grata



On the initiative of the High Representative of the Union for Foreign Affairs and Security Policy, the Council today agreed that the head of the Mission of the Bolivarian Republic of Venezuela to the European Union be declared *persona non grata*.

This is a response to the decision by the Venezuelan government to declare the head of the EU delegation to Venezuela as *persona non grata*. The EU considers this declaration as wholly unwarranted and contrary to the EU's objective of developing relations and building partnerships in third countries.

Remarks by President Charles Michel following the first session of the video conference of the members of the European Council



Today we focused on five critical areas in our fight against COVID-19: vaccinations; new variants; travel restrictions; vaccine certificates and international solidarity. We also discussed the lessons learned from this crisis – to strengthen our health systems and improve our EU coordination.

Vaccinations

Our top priority now is speeding up the production and delivery of vaccines, and vaccinations, across the EU. That's why we support the Commission's efforts to work with industry – to identify bottlenecks, guarantee supply chains, and scale up production. And we want more predictability and transparency – to ensure that pharmaceutical companies comply with their commitments.

Variants

We face new variants, so we need to adapt our strategy. We must continue to identify mutations as early as possible. That's why enhancing our sequencing capacity is key to these efforts. And we need to continue to invest in vaccine research to update our vaccines.

Travel Restrictions

When it comes to travel, we need to respect the common approach we agreed:
– Non-essential travel may still need to be restricted but measures should be

proportionate.

– And we must ensure the flow of goods and services in the single market, by making use of the Green Lanes.

I trust the Commission to make sure that these principles are respected.

Certificates

We also discussed vaccination certificates. We agreed to continue our work on a common approach. More work needs to be done – on digitalisation and on cooperation with the World Health Organisation. But tonight we felt more and more convergence among us on this important topic. The European Council will revert to this matter.

Solidarity

This pandemic is global. We won't be safe until everyone is safe. So we reaffirmed our solidarity with third countries – through COVAX and the sharing of vaccines with our neighbourhood, and beyond. For instance, just yesterday, 600.000 doses of COVAX vaccines were sent to Ghana – the first to be shipped and delivered. With more than 2,2 billion euro already donated by the EU and Member States, we are a leading contributor to COVAX. And we agreed to continue working on a way to share vaccines. And especially health workers should be among the first protected. Our help should go to all those in need, including in Africa, Western Balkans, Eastern Partnership and Latin America.

We also started discussions on the lessons learned from this crisis. And how to make our health systems stronger and more resilient for the future. Multilateral cooperation is key, not only to tackling COVID-19, but all future health threats. We are committed to improving global health security – through a strengthened World Health Organisation. I proposed an international treaty on pandemics. And we are getting more and more support for this idea not only in Europe, but also outside Europe.

Je voudrais adresser maintenant quelques commentaires sur la situation dans laquelle nous nous trouvons sur le terrain de la lutte contre le COVID-19.

Je pense qu'il faut tenir un langage de vérité. La situation actuelle est en effet difficile. Il y a une pression très forte dans l'ensemble de nos États membres, il y a une attente très grande de l'ensemble de nos citoyens pour pouvoir retrouver une capacité de vivre dans une société ouverte, avec davantage d'interactions et avec un impact sur le plan économique et social.

Nous le savons, les prochaines semaines vont demeurer difficiles sur le terrain de la vaccination. Mais dans le même temps je veux aussi donner un message d'espoir et un message d'optimisme parce que nous l'avons bien vu aujourd'hui dans le débat, nous avons les moyens, nous avons les ressources, nous avons les capacités pour réussir dans les prochains mois à faire en sorte que l'Union européenne joue un rôle clé, pas seulement pour l'Europe, mais aussi sur le plan international, pour garantir que l'on sorte de cette crise dans laquelle nous nous situons depuis maintenant plus d'un an.

Effectivement, nous sommes un an après la première vidéoconférence qui a été convoquée pour appréhender cette crise. Depuis un an, nous avons connu des

succès. Nous avons connu aussi des difficultés. Nous avons connu aussi des moments plus difficiles, mais il est certain qu'un an plus tard, nous avons une plus grande connaissance de ce virus, des variantes, des mutations.

Un an plus tard, nous avons démarré sur le plan mondial à produire des vaccins et avec un volume de production extrêmement important sur le plan européen, qui doit s'accroître tout au long des prochains mois. C'est donc ce message à la fois de vérité, mais aussi ce message d'espoir que je veux adresser aujourd'hui.

Finally one word on Russia: we will have a strategic debate in March on our relationship with Russia. And I would like to repeat: we condemn the treatment of Alexei Navalny and we demand his immediate release. On Monday, Foreign Ministers reached a political agreement to impose restrictive measures against those responsible for his arrest and sentencing. The decision will be formalised next week, in the framework of the new EU's Global Human Rights sanctions regime.

We also strongly condemn the attack on a delegation travelling on a World Food Programme field visit, in the Democratic Republic of Congo. We express our deepest sympathy to Italy and our condolences to the families of the victims.

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Press release – COVID-19: MEPs discuss ways to increase roll-out of vaccines with pharma CEOs



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MEPs quizzed CEOs and representatives of leading pharmaceutical companies, including AstraZeneca, Moderna, CureVac, Novavax, Pfizer and Sanofi, on how to remove obstacles to faster commercialisation, manufacturing and distribution of vaccines.

You can watch a recording of the hearing [here](#).

During the discussion, MEPs asked about global technology transfers, sharing patents, and how industry intends to update the vaccines in order to keep up with emerging variants. They also grilled CEOs on how the European Medicines Agency could speed up market approval at European level. Some MEPs asked whether an EU export ban on vaccines would help Europe compared to other countries that have introduced export bans. In their remarks, industry representatives highlighted the challenge of building production capacity for entirely new and complex products, and the international nature of supply chains.

“This was a world first: CEOs of the main vaccine manufacturers appearing before elected representatives. It’s good for transparency, and it’s good for democracy. It is crucial to regularly check accountability and commitments made. Moreover, the race to produce vaccines is intensifying and we are gearing up to use all available tools to support it. This was the point of this hearing”, said Environment, Public Health and Food Safety Chairman Pascal Canfin (Renew Europe, FR). “The European Parliament will play its role fully to win the vaccine deployment battle. The contact group put in place by the Parliament and Commission will further strengthen our role”, he added.

“Today’s challenge is about how to produce extremely complex products on a

scale that is absolutely unprecedented. This is an industrial challenge”, said Industry, Research and Energy Committee Chairman Cristian Buşoi (EPP, RO). “This hearing was an exercise in democratic accountability. We wanted to know where the production bottlenecks are and to have a clear picture about the industry’s commitments and obligations. But we also want to help the industry deliver the doses, because our priority is to get vaccination done”.

Background

Developing and distributing effective and safe vaccines against COVID-19 is the most effective response to the pandemic and is at the heart of the EU’s recovery strategy. Given the importance of increasing production and access to vaccines, this hearing aimed to establish the facts and to find solutions to improve the roll-out of COVID-19 vaccines in Europe.

Another objective was to have an open discussion with the CEOs of the pharmaceutical industry, the Commission and other stakeholders on how to overcome impediments to speedier commercialisation, manufacturing, distribution and equitable access to the COVID-19 vaccines.

Statement of the members of the European Council on COVID-19 and health, 25 February 2021



I. COVID 19

1. We are determined to continue to work together and coordinate our action to tackle the pandemic and its consequences. The epidemiological situation remains serious, and the new variants pose additional challenges. We must therefore uphold tight restrictions while stepping up efforts to accelerate the provision of vaccines.

2. For the time being, non-essential travel needs to be restricted. We welcome the adoption of the two Council recommendations on travel within, and into, the EU, according to which restrictions can be introduced in accordance with the principles of proportionality and non-discrimination and taking into account the specific situation of cross-border communities. The unhindered flow of goods and services within the Single Market must be ensured, including by making use of Green Lanes.

3. Vaccination has now begun in all our Member States and our vaccine strategy has ensured that all Member States have access to vaccines. Even so, we need to urgently accelerate the authorisation, production and distribution of vaccines, as well as vaccination. We also need to enhance our surveillance

and detection capacity in order to identify variants as early as possible so as to control their spread, as set out in the Commission Communication on the *'HERA Incubator: Anticipating together the threat of COVID-19 variants'*. We support the additional efforts by the Commission to work with industry and Member States to increase the capacity of current vaccine production as well as to adjust vaccines to the new variants as necessary. We also support the Commission's ongoing efforts to accelerate the availability of raw materials, facilitate agreements between manufacturers across supply chains, scope existing facilities so as to help production scale-up in the EU and further the research and development efforts. Companies must ensure predictability of their vaccine production and respect contractual delivery deadlines. Transparency with regard to the overall efforts should be enhanced.

4. We call for work to continue on a common approach to vaccination certificates and will come back to this issue.

5. We reaffirm our solidarity with third countries and underline our determination to step up our global response to the pandemic. We remain committed to improving access to vaccines for priority groups in our neighbourhood and beyond, based on common principles, and to supporting a global approach through the COVAX Facility. We welcome COVAX's first plans to distribute vaccines to 92 low- and middle-income countries. We commit to contributing the EU's fair share to the funding of ACT-A.

6. We will continue to keep the overall situation under close review and take action as needed.

II. HEALTH

7. Although the COVID-19 crisis is not yet over, it is time to start strengthening our future health resilience now.

8. We will work to improve EU coordination, in line with the Union competences under the Treaties, to ensure better prevention, preparedness for and response to future health emergencies. As a matter of priority, work is needed to ensure that the EU will have the means to secure enough vaccines and critical supplies for all its Member States, to support the entire process of developing safe and effective vaccines and medicines including through early investment in production capacity, and to make best use of big data and digital technologies for medical research and healthcare. Work on the Health Union proposals and on the Pharmaceutical Strategy, including as regards access to medicines across Member States, should also be taken forward.

9. We invite the Commission to present a report by June 2021 on the lessons learned from the COVID-19 pandemic so far. The report should also address information-sharing, coordination, communication and joint public procurement, as well as how to ensure adequate production capacity in the EU and build up strategic reserves while supporting the diversification and resilience of global medical supply chains. This work should be followed up in the second semester of 2021.

10. Global multilateral cooperation is essential to address current and future health threats. We are committed to advancing global health security, including by strengthening the World Health Organization and working towards an international treaty on pandemics within its framework. In this context, we look forward to the G20 Global Health Summit in Rome.

We strongly condemn the attack on a delegation travelling on a World Food Programme field visit in the east of the Democratic Republic of Congo. We express our deepest sympathy to Italy and our condolences to the families of the victims.

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