

**26 March 2020**

**Interview with Pablo Hernández de Cos, Governor of the Banco de España, published in Handelsblatt**

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**Many economists forecast a decline in economic output of more than 6% this year owing to COVID-19. And some are even talking about 20%. Do you believe this crisis is on a scale surpassing the last one?**

The effects of this crisis are going to be very significant in the short run. But I believe it's still too early to estimate the impact on GDP with any accuracy. Naturally, there's a real prospect that the whole euro area will temporarily go into recession. Short term, the loss of activity may be comparable to that in 2008-09; but let's trust on this occasion that the harm won't be as persistent over time as it was then. This is precisely why forceful and coordinated economic policy measures are essential now.

**With its high levels of debt and unemployment, Spain is one of the most vulnerable economies, alongside Italy. What impact are you expecting in 2020?**

Private sector debt in Spain is not especially high; in fact, it is in line with the euro area average. Admittedly, Spain has not made use of the expansionary phase to reduce its public debt further. Now, the priority is to ensure that all agents - public and private alike - face easy financing conditions, not only in Spain but throughout the euro area. Once this crisis is behind us, we should resume the fiscal consolidation path.

**Spain has set in train an enormous €200 billion aid programme, equivalent to 20% of economic output. Much of the programme is in the form of loan guarantees. Is the country threatened by national bankruptcy if they are ultimately used?**

As I've said, we now need swift, energetic and coordinated action by economic policymakers to overcome the crisis. The Great Recession left us a very valuable lesson for the current circumstances: if we cut financing to private agents, we will greatly heighten the effects of the crisis and, as a result, the increase in public debt will also be greater.

**What do you mean exactly? Do you think the time has come for Eurobonds, i.e. common loans?**

This crisis affects all the euro area countries. It's time to pull together and be efficient in the use of EU resources, which are plentiful, and this is why an ambitious and coordinated

response is needed Europe-wide. The issuance of Eurobonds is one way of providing this European response. If not now, when?

**This week the ECB has adopted new and extensive measures. Is this not enough to calm the markets for the moment and also to improve refinancing conditions for the southern countries?**

The market reaction after the announcement of the new purchase programme was positive, and in the following days a significant impact was discernible on the financing conditions of the euro area economies which had up until then been most acutely affected by the virus. That said, we stand ready to increase the size or duration of our asset purchases, and to adjust their composition, as much as is needed.

**Obviously, in the German government there is concern because a request for ESM assistance might cause panic in the markets. Do you share this view?**

What might generate more panic would be the failure of the European authorities to act. The fact is that the ESM has a broad set of instruments to draw on. Some of them are designed for instances where Member States are under threat of losing access to the market. The European Union also has complementary instruments, such as the European Investment Bank, which offers guarantees and bonds for loan programmes.

**There is still hope that the crisis will be V-shaped, i.e. that decline will be followed by rapid recovery. Do you think this is possible?**

Economic policies must play a crucial role precisely to prevent what is a transitory shock from persisting and leaving a trail of business and job destruction behind it.

The current situation is unprecedented in modern history. Monetary policy has already reacted, and we are also seeing significant action by numerous European governments. These measures must be bolstered by similarly resolute action at the European level. It is imperative, for reasons of solidarity and efficiency, that we share among the European partners the budgetary risks of the Member States arising from this pandemic.

**With the OMT (Outright Monetary Transaction) programme, the ECB can selectively purchase specific euro area countries' bonds. Would this programme not be the clearest way of helping individual countries when they face problems in the bond market?**

The coronavirus crisis is not a shock confined to just two or three countries in the area, and nor does it have its roots in previous macroeconomic imbalances. It is a global health shock which, in the case of the euro area, requires action across all economic policies, including the ECB's monetary policy. The OMT programme was designed for individual countries that have failed to retain their normal access to markets owing to macroeconomic imbalances. But this is something very different. In any event, the OMT programme continues to be an essential element in our toolbox.

**In recent decisions, the ECB also indicated flexibility regarding the limits set on bond purchases. Indeed, it cannot purchase more than one-third of a country's outstanding bonds. For some countries, these limits have almost been reached. Should they be increased?**

These limits have been self-imposed by the monetary authority and should be reviewed if they hamper the fulfilment of the ECB's mandate.

**While other central banks are massively cutting interest rates in the coronavirus crisis, the ECB has refrained from doing so. Some economists say that a bigger cut in euro area interest rates would do more harm than good. Do you share this opinion?**

Our decisions are based on forecasts, subject to high uncertainty in this crisis, that the economic effects will be transitory. Given this forecast, the measures we have taken are those that have been deemed most effective for this situation. However, on the ECB Governing Board we are keeping open the possibility of lowering our interest rates if this were necessary.

**How do you see the stability of the banking system? Do you expect there to be imbalances here?**

Foreseeably, some bank customers will face difficulty paying their loans in the short term. But European banks have capital buffers and can refinance these loans, especially following the approval of the substantial and State-backed national aid packages, and the monetary and prudential policy measures approved by the ECB and the SSM.

**Do you think this crisis might change the relationship between the State and central banks?**

I think it is still too early to assess and be able to draw appropriate lessons from this crisis. We are still too immersed in managing the shock to focus on the long term. Yet this experience should, of course, lead us to carefully consider the role our institutions - central banks among them - should play in order to best serve our citizens. In Europe, it is a fresh warning on the pressing need to continue strengthening the common project. And we also need to restore and reinforce international coordination.

**Does the coronavirus shock mean that the world economy is on the cusp of a turning point? Is there a new fragility afoot?**

The coronavirus does not respect borders and is a problem for everybody, not just southern Europeans. Only if we act together can we emerge from this situation. This applies not only to monetary and fiscal policy, but also to other spheres such as healthcare.