The ECB will do everything necessary

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The coronavirus pandemic is a public health emergency unprecedented in recent history. It is an unbearable human tragedy played out across the world and our thanks go to the dedicated health workers on the frontline of our health systems. It is also an extreme economic shock that requires an ambitious, co-ordinated and urgent policy reaction on all fronts to support people and firms at risk.

Unlike in 2008-9, the shock we are facing is universal: it is common both across countries and across all sections of society. Everyone must scale back their daily activities, and therefore their spending, for as long as the containment measures last. Essentially, for a temporary period, a large part of the economy is being switched off.

As a result, economic activity across the euro area will decline considerably. Public policies cannot prevent this. What they can do is ensure that the downturn is no longer and deeper than it needs to be. The current situation creates acute strains on the cash flows of companies and employees, putting the survival of firms and jobs at risk. Public policies must help them.

Health and fiscal policies must be front and centre in this response. Monetary policy has a vital role to play in tandem. Monetary policy has to keep the financial sector liquid and ensure supportive financing conditions for all sectors in the economy. This applies equally to individuals, families, firms, banks and governments.

Any tightening in financing conditions would amplify the harm of the coronavirus shock at a time when the economy needs more support. If it becomes harder for the public sector — in the euro area this amounts to broadly half of the economy — to finance itself when private spending is heavily constrained, this can be a threat to price stability.

Over the last week, we have seen conditions in the euro area deteriorate considerably. Our evaluation of the economic situation has darkened. The depth of uncertainty over the economic fallout is now visible across all asset classes, in the euro area and globally. That has led to a tightening in financing conditions, in particular for long-dated bonds. Risk-free rates have moved up and government bond yields — benchmarks that are key to the pricing of all assets — have increased everywhere and become more dispersed. These developments impair the smooth transmission of our monetary policy across the euro area and put price stability at risk.

As a result, the European Central Bank's governing council has created a new Pandemic Emergency Purchase Programme of up to €750bn until the end of the year on top of the €120b in extra purchases announced on March 12. Together this amounts to 7.3 per cent of eurozone gross domestic product. The programme is temporary and designed to address the unprecedented situation our monetary union is facing. It is available to all jurisdictions and will remain in place until we assess that the coronavirus crisis phase is over.

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The new instrument has three main advantages. First, it fits the type of shock we are facing: exogenous, detached from economic fundamentals and affecting all European countries. Second, it allows us to intervene across all durations of bonds, preventing financial fragmentation and distortions in credit pricing. Third, it is tailored to manage the staggered progression of the virus and the uncertainty about when and where the fallout will be worst.

This is reflected in the terms and conditions of the new programme. While the benchmark allocation across jurisdictions will continue to be key to the capital contributions of the national central banks, purchases will be conducted in a flexible manner. This allows for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions.

Moreover, to the extent that some self-imposed limits might hamper action that the ECB is required to take in order to fulfil its mandate, the governing council will consider revising them to the extent necessary to make its action proportionate to the risks that we face.

We are fully prepared to increase the size of our asset-purchase programmes and adjust their composition, by as much as necessary and for as long as needed. We will explore all options and all contingencies to support the economy through this shock. We have also decided to purchase commercial papers of sufficient credit quality and to expand the eligible collateral in our refinancing operations. The aim is to reinforce the actions that we took last week to protect the flow of credit to companies and people.

We are making available up to €3tn in liquidity through our refinancing operations, including at the lowest interest rate we have ever offered, -0.75%. Offering funds below our deposit facility rate allows us to amplify the stimulus from negative rates and channel it directly to those who can benefit most. European banking supervisors have also freed up an estimated €120bn of extra bank capital to support lending by euro area banks.

All this underlines the ECB's commitment to play its role in supporting every eurozone citizen through this extremely challenging time. The ECB will ensure that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb this shock. We will do everything necessary within our mandate to help the euro area through this crisis, because the ECB is at the service of the European people.

The writer is president of the European Central Bank