1-001-0000

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS MONETARY DIALOGUE WITH CHRISTINE LAGARDE, PRESIDENT OF THE EUROPEAN CENTRAL BANK (pursuant to Article 284(3) TFEU) BRUSSELS, THURSDAY, 18 MARCH 2021

1-002-0000

IN THE CHAIR: IRENE TINAGLI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 09.03)

1-003-0000

Chair. – We can now start our monetary dialogue with Christine Lagarde, President of the European Central Bank. Welcome, President Lagarde, to this first monetary dialogue of 2021.

The previous monetary dialogue took place on 19 November 2020. Today, once again, as since the beginning of the pandemic, the Committee on Economic and Monetary Affairs (ECON) is holding the debate with you in a virtual format.

While the better prospects for global demand, bolstered by sizeable fiscal stimulus, and the progress in vaccination campaigns, are encouraging, the ongoing pandemic *(inaudible)* including the *(inaudible)* implications for economic and financial conditions continue *(inaudible)* a downside risk.

As the Commission outlined on 11 February when presenting its Winter 2021 Economic Forecast, the protracted crisis is having negative impacts on the real economy of the euro area through bankruptcy as well as long-term unemployment and higher inequalities, even between Member States.

A rapid and extensive vaccination campaign and prolonged fiscal and monetary support are the two key elements to ensure a smooth and balanced recovery in the EU.

Against this background, on 11 March the ECB Governing Council decided to maintain an accommodative monetary policy stance to support economic activity and the robust convergence of inflation to levels that are below but close to two per cent over the medium term.

In the meantime, the ECB is conducting its strategy review aimed at providing ideas about the best tools and objectives to fulfil, in the macroeconomic landscape of the next years, its mandate of price stability in the medium term as well.

For today's meeting, the ECON coordinators have selected two specific areas for the monetary dialogue. The first is a how to recalibrate monetary policy instruments to address the economic fallout from the pandemic. The second is the danger of cliff effects within the path to recovery. All the briefing papers prepared by the European Parliament panel of experts are available on the ECON website and were discussed during the preparatory meeting that took place on Monday.

In line with ordinary practices, the following procedure will be applied. There will be introductory remarks by President Lagarde of 15 minutes, which will be followed by five-minute question and answer slots, with the possibility of a follow-up question, time permitting, within the same slot. So, it would be two minutes maximum for the question and three minutes maximum for the answer. In the first round of questions, each political group will have one slot and thereafter we will apply the D'Hondt system. If time allows, additional slots will be allocated on a catch-the-eye basis taking account of the weightings of each of the political groups.

I would ask you to really strictly respect the time given to you. It is not easy to chair the meeting and to keep the time, so I would appreciate it if you could do this.

I will open the debate now.

1-004-0000

Christine Lagarde, *President of the European Central Bank***.** – Chair, honourable Members of the Economic and Monetary Affairs Committee, ladies and gentlemen, good morning. I am very happy to appear again before your committee for, as your Chair just indicated, our first regular hearing in 2021.

Today is a very special day for us as it marks the one-year anniversary of the extraordinary Governing Council meeting during which we decided to launch the Pandemic Emergency Purchase Programme (PEPP). That was on 18 March 2020.

Standing where we are today, the economic situation looks brighter now than it did back then and we can expect it to improve over 2021. In the short term, however, the economic outlook for the euro area remains surrounded by uncertainty due to the dynamics of the pandemic and the speed of vaccination campaigns. The severe impact that the pandemic continues to have, not just the economy but on all aspects of our lives, does not allow us to celebrate the anniversary of the PEPP. It is nevertheless important to look back and proudly acknowledge our collective efforts in shielding European citizens from what would have been even worse outcomes.

In my remarks today, I will focus on the euro area economic outlook and the ECB's monetary policy stance in the light of the Governing Council's decisions taken on Thursday of last week. I will conclude by discussing the policy mix required to secure a solid path to economic recovery. So let me touch on the current macroeconomic outlook.

The rebound in global demand and additional fiscal measures are supporting global and euro area activity. At the same time, persistently high coronavirus infection rates, the spread of virus mutations, and the associated extension and tightening of containment measures continue to have a negative impact on euro area economic activity. As a result, real gross domestic product is likely to contract again in the first quarter of 2021 after having declined by 0.7% in the fourth quarter of 2020.

Looking ahead, the ongoing vaccination campaigns, together with the gradual relaxation of containment measures, underpin expectations of a firm rebound in economic activity in the second half of 2021. Over the medium term, we expect the recovery in demand, as containment measures are lifted, to be supported by favourable financing conditions and an expansionary fiscal stance.

This assessment is also reflected in the March 2021 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP growth at 4% in 2021, 4.1% in 2022 and 2.1% in 2023, broadly unchanged compared with the December 2020 Eurosystem staff macroeconomic projections.

The risks surrounding the euro area growth outlook over the medium term have become more balanced owing to better prospects for the global economy and progress in vaccination campaigns. However, downside risks remain in the near term, mainly related to the speed of virus mutations and the implications of the ongoing pandemic for economic and financial conditions.

Turning to inflation, euro area annual inflation has picked up over recent months, mainly on account of some transitory factors. Headline inflation is likely to increase in the coming months, but some volatility is expected throughout 2021, reflecting the changing dynamics of the idiosyncratic factors which are currently pushing inflation up, but which can be expected to fade out early in 2022.

Underlying price pressures are expected to increase somehow this year due to current supply constraints and the recovery in domestic demand. Nevertheless, we judge that these pressures will remain subdued overall, also reflecting low wage dynamics and the past appreciation of the euro. Once the impact of the pandemic fades, the unwinding of the high level of slack, supported by accommodative fiscal and monetary policies, will contribute to a gradual increase in inflation over the medium term. Survey-based measures and market-based indicators of longer-term inflation expectations remain at subdued levels.

While our latest staff projection exercise foresees a gradual increase in underlying inflation pressures, the medium-term inflation outlook – with projected annual inflation at 1.5% in 2021, 1.2% in 2022 and 1.4% in 2023 –remains broadly unchanged from the staff projections in December 2020 and certainly below our inflation aim.

Let’s now turn to the ECB’s monetary policy stance and effectiveness. So, against this background, preserving favourable financing conditions over the pandemic period remains essential to reduce uncertainty and bolster confidence, thereby underpinning economic activity and safeguarding medium-term price stability.

Let me further elaborate on our assessment of financing conditions. This is defined by a holistic and multifaceted set of indicators. It is holistic because we consider a broad array of indicators, spanning the entire transmission chain of monetary policy from risk-free interest rates and sovereign bond yields all the way down to corporate yields and bank credit conditions. It is also multifaceted, because we take a sufficiently granular view that enables us to detect movements in specific market segments in a timely manner.

Last week, as it received a new round of staff projections, the Governing Council conducted a joint assessment of these multiple set of indicators against the evolution of our inflation outlook since the last projection exercise. We concluded that the increase in risk-free market interest rates and sovereign bond yields that we have observed since the start of the year could spur a tightening in the wider set of financing conditions, as banks use them as key reference points for determining credit conditions.

Therefore, if sizeable and persistent, big increases in those market interest rates, when left unchecked, may become inconsistent with countering the downward impact of the pandemic on the projected path of inflation. Based on this joint assessment, the Governing Council announced that it expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of 2021. While records of our weekly purchases will continue to be distorted by short-term noisy factors, such as occasionally lumpy redemptions, the step-up in the run-rate of our programme will become visible when ascertained over longer time intervals.

Purchases will be implemented flexibly according to market conditions and always with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

The PEPP is not the only tool the ECB is using to support favourable financing conditions over the pandemic period for all sectors of the economy. The third series of targeted longer-term refinancing operations, also known as TLTRO III, remains an attractive source of funding for banks. The TLTRO's built-in incentive structure ensures that banks have access to ample funding at very favourable conditions if they maintain their lending to the real economy. This supports bank-based financing conditions for firms and households.

Likewise, the remaining monetary policy instruments in place, ranging from our key ECB interest rates to the Governing Council's forward guidance and the Asset Purchase Programme, make a crucial contribution to the ample degree of monetary accommodation that is necessary to support economic activity and the robust convergence of inflation to our definition of price stability.

We will also continue to monitor developments in the exchange rate regarding their possible implications for the medium-term inflation outlook. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation moves towards our aim in a sustained manner, in line with our commitment to symmetry.

So, let's now address the issue of the path to a solid economic recovery. When looking ahead, decisive action in other policy areas to support the recovery remains essential and should build on the favourable financing conditions prevailing in the euro area. When appearing before the European Parliament last month, I pointed out that the strength of Europe's crisis response over the last 12 months crucially depended on the strength of national and European responses across all policy areas – monetary, fiscal, supervisory and regulatory. We should continue to rely on the same recipe when it comes to securing a path to a solid economic recovery. An ambitious and coordinated fiscal stance remains critical.

National fiscal policies should continue to provide critical and timely support to firms and households most exposed to the pandemic and the associated containment measures. At the same time, these measures should, as much as possible, remain temporary and targeted in nature to address vulnerabilities effectively and support a swift recovery. By brightening economic prospects for firms and households, fiscal policy would also strengthen the transmission of our monetary policy measures. Fiscal policy can also act as a catalyst to transform our economies in this recovery phase. This is why the Next Generation EU package should become operational without delay.

In the coming weeks, Member States should ensure a timely ratification of the own resources decision and should finalise their recovery and resilience plans. The European Parliament can play an important role in making sure that these plans are well-designed and that they include productivity-enhancing structural policies to address long-standing weaknesses and accelerate the green and digital transitions.

All of us, across all policy levels, should ensure that we use the thrust of the recovery to transform our economies and make them fit for the world of tomorrow, for instance by reducing and preventing climate risks. The ECB is ready to play its part in line with its mandate. This morning we published the preliminary results of our first economy-wide climate stress test to help both authorities and financial institutions assess the impact of climate risks over the next 30 years.

To conclude, when we announced the PEPP one year ago, the Governing Council declared that it would do everything necessary within its mandate and explore all options and all contingencies to support the economy through this shock. Looking back at the past year, I think we can affirm that we have delivered on this commitment. But there is no room for complacency. The ECB will continue to deliver on its mandate and support the recovery with all appropriate measures. I now stand ready to take your questions.

1-005-0000

Markus Ferber (PPE). – Frau Vorsitzende, Frau Präsidentin! Nachdem Sie ja heute in Frankfurt sitzen, würde ich es doch mal wagen, den Dichterfürsten Johann Wolfgang von Goethe zu zitieren: „Die Botschaft hör ich wohl, allein mir fehlt der Glaube." Das stammt von Goethe.

Ich habe schon langsam die Frage, nachdem Sie jetzt dieses einjährige Jubiläum des PEPP so groß gefeiert haben, ob wir hier immer noch auf dem richtigen Weg sind. Sie haben jetzt ganz aktuell ja noch mal das Volumen erhöht und damit ein Signal in die Märkte gesendet, dass die EZB sehr schnell reagieren kann. Das mag sicherlich positiv sein. Aber ist es noch verhältnismäßig? Kann es nicht zu einer falschen Erwartungshaltung in den Märkten führen, wenn die Europäische Zentralbank auf jeden kleinen Ausschlag in den Märkten gleich mit massiven Anleihekäufen reagiert?

Inwiefern berücksichtigen Sie in Ihrer Entscheidungsfindung, dass die Signale, die Sie heute senden, womöglich zum Problem werden können, weil das PEPP ja auch irgendwann mal auslaufen wird? Wir hoffen ja doch, dass wir irgendwann mal aus dieser Pandemie herauskommen.

Sie haben im Rahmen Ihrer Pressekonferenz, nach der letzten geldpolitischen Sitzung, ja auch darauf hingewiesen, dass das Wachstum der Geldmenge M3 im Januar dieses Jahres bei 12,5 % lag. Ich habe ein bisschen die Sorge, dass wir uns in so einem – ich beschreibe es mal – Ketchup-Effekt befinden, was die Inflation betrifft: Zuerst kommt überhaupt nichts aus der Flasche, und dann klopft man ein paar Mal darauf, und dann hat man plötzlich den ganzen Ketchup auf dem Teller liegen. Also haben Sie nicht die Sorge, dass wir plötzlich in eine ganz davongaloppierende Inflation kommen können? Da haben Sie gerade gesagt, das hätten Sie im Griff?

Ich habe da große Zweifel, dass, nachdem die Inflationssteuerung ja bisher auch nicht funktioniert hat – darüber haben wir letzten Monat im Plenum diskutiert –, Sie in dem Sinn Inflationssteuerung betreiben können.

1-006-0000

Christine Lagarde, *President of the European Central Bank***.** – First of all, I would like to observe that we did not celebrate the first anniversary of PEPP in great pomp. We are very humble in our celebration, which is to say that what we promised we would deliver, and I think we've delivered, but there is no great pomp about it because we need to avoid complacency and it's not time to celebrate, there is too much hardship to conduct any celebration.

We hope that one day we will celebrate the recovery when it has taken root, and it is solid and sustainable because it will clearly have an impact on us delivering on our mandate and maintaining price stability.

Are we giving too strong a signal at the moment? Let me state very clearly that what we are doing with PEPP is making sure that we preserve favourable financing conditions. This is the goal, and to do so we conduct a joint assessment, we look at the financing conditions all the way through the chain and we look at the impact these financing conditions could have on credit and subsequently on economic activity, on price stability and on the inflation path that we have as our direction.

What we are responding to is a yield increase that could get ahead of the expected economic recovery. That's what it is, and while we believe that 2021 will be a year of recovery, we don't see it happening until the second half of 2021 and we believe that any yield increase that would operate as a bit of a break would be undesirable. That's exactly the purpose of the decision that we took on Thursday last week at the Governing Council table.

The second point that I would like to make, which applies also to inflation, is that of course we are not going to be focused on blips, on unsustainable moves and I think we need to warn ourselves together about the fact that we will see inflation numbers go up in the course of 2021. That's what I tried to explain, but just as we cannot confuse the forest for the tree, a short-term inflation movement that is related to temporary factors of a transitory nature should neither precipitate any particular move. Quite the contrary.

So, we're not playing catch-up at all. We are actually trying to prevent that yields step ahead of economic development, and we are trying to strengthen the recovery by steadying those favourable financing conditions that we are committed to and that we have affirmed throughout.

1-007-0000

Margarida Marques (S&D). – Senhora Presidente Lagarde, a complementaridade da política monetária e da política orçamental tem sido essencial na resposta à crise pandémica. Esta complementaridade que os estímulos orçamentais amplifiquem o efeito multiplicador das medidas que têm sido implementadas e anunciadas, facilitando a estabilização.

Esta semana, o Ecofin e o Eurogrupo vieram assegurar que é necessário continuar com apoio público, não só em 2021, mas também em 2022. Veem no futuro a articulação destas duas políticas sem comprometer o espaço próprio em que ambas têm para operar.

Segunda questão, como se poderá incorporar na futura revisão das regras de governação económica este novo entendimento da Polifin com as políticas orçamentais.

Uma outra questão: como avalia o risco do aumento das taxas de juro e qual é a tolerância do BCE relativamente a este aumento? Como devemos adaptar a forma como são feitas as análises de sustentabilidade da dívida pública? Dívida ou custos?

Como vê o *phasing out* das medidas que os governos têm tomado de apoio à solvência e liquidez das empresas? Há riscos diferentes, dependendo dos tipos de medidas que foram preferíveis como resposta à crise? E, finalmente, não existe um risco de o BCE começar a iniciar um processo de retirada de estímulos de forma prematura ou ter uma resposta insuficiente?

1-008-0000

Christine Lagarde, *President of the European Central Bank***.** – Well, thank you very much, Ms Margarida, for your question. I know that you take particular interest in this issue of the appropriate cooperation, coordination, and work in tandem between fiscal policies on the one hand and monetary policy on the other. From the monetary policy perspective, I would agree with you that an ambitious and coordinated fiscal stance remains critical in view of the sharp contraction in the euro area economy and continued high uncertainty regarding the economic outlook.

ECB support should not be withdrawn prematurely or abruptly in order to avoid the cliff edge effects and not delay the economic recovery. This is the topic that you've selected for this particular event and I think that the feature of graduality is addressed by many of the authors who've participated in your expert panel. It is also one of the main differences that we are seeing through this crisis – through the pandemic-related economic and financial crisis – where fiscal measures of all sorts, at national and European level, are actually working in tandem and in synchronisation with monetary policy measures that have been decided by the ECB.

And that's not only fiscal, actually, it's also regulatory, because when at the European level the escape clause was triggered and when the State aid regulations were implemented, it also accompanied and supported the movement. The same was true with supervision measures, which also allowed for the use of buffers in order to help the financial sector resist the difficulties. So, this synchronisation of the four key levers that are available, was efficient and hopefully will continue to deliver through the recovery process.

Now, on your second point. The mandate of the ECB is price stability. I think many of the measures that you've alluded to have to do with fiscal policies. We certainly hope that the two policies – fiscal and monetary – will continue to work together, but everybody must do their job and not try to substitute the other. We will be guided by our mandate of price stability going forward. Having said that, and that's a caveat because I think it also addresses the issue of the efficiency of the euro area in particular, any improvement that has to do with the insolvency procedures, the speed at which reorganisation re-structuring can happen, will actually help in the process of moving towards a more efficient banking union throughout the European Union.

1-009-0000

Luis Garicano (Renew). – Madam Lagarde, it's really great to see you here. I'm very worried about the differential pace of recovery that we can anticipate in the US and Europe. It looks like we are heading, again for a self-inflicted policy trouble. First of all, the vaccination pace is so slow. Second of all, the fiscal stimulus is very much, enormously larger in the United States. I wonder what your reaction to the differential is.

In particular, the US has already seen inflation at target, but Europe is looking into inflation in 2023 which is clearly, very clearly, below target. Should we be looking for lower real interest rates? What is your reaction to that clear below-target inflation?

Second, how can we avoid the crowding-out of whatever fiscal policy we want with only three months of guidance on the PEPP, which is what we have agreed on – what you have agreed on Thursday. Is that sufficient guidance for the market?

Third, could you give us an update on the fiscal framework – sorry, on the revision of the multiannual framework of the ECB for the future?

I was thinking fiscal because that's my fourth question, and I realise that's going to be harder for you to answer, but should we be looking at, talking about, making the Next Generation permanent? Should we be thinking about expanding it? What should be the aggregate stance? I realise that it's not your job, fiscal policy, but to the extent that there is an important interaction, do you think we're doing enough on the fiscal front?

1-010-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you, Mr Garicano, for your triple questions in a way.

Let me just say first of all that we expect that the fiscal stimulus package that has now been decided and which is already in the process of implementation, with cheques out in the mail already, will most likely provide a significant temporary boost to US growth in line with the temporary increase in government consumption and income transfers.

As a result of that we should expect a modest boost to euro area GDP and inflation resulting from this large additional US fiscal stimulus package. This assessment is part of our latest projection report, although not included in the projection numbers, but as you know *(inaudible)* there is a box in the projection report that was released which actually focuses on the impact that the US stimulus would have on euro area growth.

Will that lead to a divergent and not synchronised recovery? Most likely, and we were not immune to that promptness back in 2009 and following. We are in a slightly different position today, and frankly my message today is what has been decided in 2020 was a breakthrough, was a new way of operating as a Union, and it needs to be delivered upon. My sense is that rather lamenting on the insufficiencies, the different pace, the diverging impact, I think all of us should put all the energy we have into making sure that we deliver and that implementation follows through as quickly as is possible, without too much procrastination.

It's not just about the size, because when you look at the fiscal support that was provided in 2020 in Europe versus what was provided in 2020 by the US, yes, there is a slight difference. But when you put together the fiscal discretionary aspects, plus the automatic stabilisers, Europe's not that far away and operates at national and European levels as well.

So, we should not be too downbeat about ourselves, but we should absolutely deliver because, as we said earlier, if fiscal does not operate in sync with monetary policy, *the amplifying effect is going* to be wasted.

In terms of below target inflation, let me just repeat. We are not complacent and we are not going to be complacent, and we will focus on preserving those favourable financing conditions, conduct the joint assessment between the financing conditions and the inflation outlook, making sure that we counter the downward impact of the pandemic on our inflation path. We will be patient. We start from a different base by the way. The US is much closer to its aim than we were when we started into the pandemic, into this pandemic crisis.

On the three-month guidance, let me just remind you that PEPP is earmarked, identified, has in its DNA flexibility – flexibility on all scores. Given the decisions that were taken in December, it was necessary to actually give some guidance – people in some quarters would have expected more guidance – but clearly what we have seen is an undesirable movement of the yields and of the risk-free interest rates that could actually have a negative impact on the economic recovery which is not yet there. That's the reason for the next three months' commitment to significantly increase our purchases.

We will of course measure every six weeks, when we have our Governing Council monetary policy meetings to again conduct the joint assessment – monetary conditions and the inflation outlook. If needed we will move, but at least we have the three months' commitment to significantly increase and we will reassess the situation regularly and use all the flexibility that we have – frontloading, if necessary, across asset classes, across jurisdictions as well. We'll be there.

1-011-0000

Antonio Maria Rinaldi (ID). – Signora Presidente Tinagli, auguri per il nuovo incarico nazionale.

Presidente Lagarde, nella crisi pandemica la politica monetaria della BCE ha sicuramente riposto un forte supporto, come ad esempio i 1 850 miliardi di PEPP, quasi due volte e mezzo l'intero Next Generation EU in meno di due anni contro sei, e la stessa politica fiscale europea ha positivamente dato il suo contributo.

Lo stesso non si può dire per le regole sulla definizione del *Past Due,* che identificano i crediti scaduti o sconfinanti da più di 90-180 giorni che rientrano nel novero delle posizioni in default e dell'NPL, le quali rimanendo invariate fanno ritenere che nulla, nel frattempo, sia accaduto per effetto della crisi scaturita dalla pandemia.

A breve termineranno le moratorie concesse e le imprese e le famiglie saranno trattate con una condizione di normalità. Le banche saranno quindi costrette a segnalare come *Past Due* e NPL anche coloro i quali si trovano, seppur temporaneamente, in una situazione di emergenza. Questo potrebbe dare luogo nell'eurozona a moltissime bancarotte e fallimenti non dovuti, come afferma la stessa Banca mondiale in una relazione del 2020.

Naturalmente non spetta al Presidente della BCE o al suo *Board* determinare le regole sul credito, però sarebbe molto interessante sapere se Lei abbia stimato quale impatto superiore avrebbe avuto l'azione della BCE in termini di efficacia al supporto dell'economia reale se anche le regole su *Past Due* e NPL fossero state ammorbidite per almeno due anni nei confronti delle famiglie e delle imprese.

Pertanto penso sarebbe utile ed estremamente interessante una stima dei Suoi tecnici su tale azione di *policy*.

1-012-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you, Mr Rinaldi. Let me just state that while we are of course attentive to NPLs and their management, and that remains one of the key priorities of the ECB, it is a matter that will be much better addressed when Andrea Enria comes before you for a hearing, because this is clearly a matter that the SSM is addressing and which he addressed very specifically in his letter to banks, asking them to be very attentive and focus on each and every single case to make sure that there is proper treatment of NPLs.

I think that is what is clearly needed and will keep banks busy for the next, for the next few months.

Now let me just – because that's more in our area – mention to you what we have been doing with an eye particularly on SMEs, on the self-employed and on households, because that financing is of vital importance for sustaining the euro area's real economy. What we have done is, with our mandate of price stability, calibrated our monetary policy measures so that liquidity gets through to the citizens and sectors most in need of support – notably SMEs, the self-employed, craftsmen and households.

We've done that particularly using the TLTRO. Larger towns, big corporates have the possibility to go to the market; they have a possibility to issue. SMEs don't do that on a regular basis, so they need access to good and cost-effective financing terms. That was the whole purpose of TLTROs.

The PEPP has also helped stabilise markets and ordered a tightening of bank lending rates to allow the liquidity needs of SMEs to be provided under favourable conditions. I just want to stress for you the fact that we test that. We have our finger on the pulse of those activities through the survey on the access to finance of enterprises. It's called SAFE. We conduct in on a regular basis. The next one will come out in March. The last one that we had was concluded for the period until the end of September, and SMEs have reported an increase in the availability of bank loans including, for the first time, an improvement in access to public financial support and a decline in bank interest rates.

So, from our corner of monetary policy as a central bank, we certainly have focused on those areas. The same was true when we used the collateral identification and increased the volume of collateral and the type of collaterals in order to help with the financing. So, we've done all that and when you say that conditions have not changed, I would contend with that and argue that we did indeed focus on SMEs, we did indeed focus on those that were most at risk during the pandemic and for the rest.

Obviously, as the recovery takes hold, it's right for the banking sector and for each and every bank to look into its books and to look at the relationship with its clients to assess what the outcome will be and take advantage of the good supervision that is provided.

1-013-0000

Ernest Urtasun (Verts/ALE). – Thank you, Chair. Thank you President Lagarde for being with us this morning. I will focus on climate change and the role of the ECB, as on previous occasions. Recently the President of the Dutch Central Bank stated the following: 'climate change can carry serious risks to financial and price stability. For that reason, in the medium to long term, a stable climate can be seen as an important precondition for central banks to be able to deliver on their mandate.'

My first question, President Lagarde, is whether you agree that climate change could be considered a precondition for price stability and therefore that it could be included in the primary mandate of the ECB. I would like to know your opinion on that.

My second question, which is related to climate change as well, is on the Eurosystem collateral framework. There's a very interesting report by Professor Gabor about that which actually shows that 59% of the corporate bonds that the ECB accepts as collateral are from carbon-intensive sectors and also that, when applying the haircut, the average haircut in non-carbon-intensive sectors is actually higher than the haircut applied to carbon-intensive sectors. So, the report basically calls for an exclusion of the fossil fuel bonds from the framework and secondly for a carbon-aligned haircut to be applied. Do you agree with that and do you think that in the monetary policy review that you will be conducting that the collateral framework will also be addressed in that sense?

1-014-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you Mr Urtasun for your two questions. Let me be very clear about the first one, which is on the issue of whether climate change at large – and I'll provide a bit more detail on that – is to be considered part of our primary objective. The answer is yes, and I'll try to explain to you why we believe it is so.

We have not, by the way, a complete and final determination on that particular aspect of the impact of climate change and the level at which it needs to be considered. This is a matter that is under discussion at the Governing Council. So, I'm here stating views that are shared with staff and I'm setting out my view on the matter, as well as that of many members of the Governing Council and the Executive Board.

It is relevant for our primary objective because it could affect the intensity, the volatility and nature of macroeconomic shocks over the policy horizon. This could make it more difficult to assess the ECB monetary policy stance and how best to adjust it. Second, it could instil potential persistent trends in inflation and affect the interaction between monetary and fiscal policy.

To give you an example, which has actually affected not coming out of Germany in the first few months of this year, is the impact of carbon pricing policies and how these raise prices of fossil fuel energies, for instance. Third, it could certainly impact the natural rate of interest and, as a result, conventional policy space that we have available in order to decide and implement monetary policy decisions. It could change the way in which monetary policy is transmitted to the macro-economy, a study with the potential impact on financial markets and finally it could have an impact on the ECB's balance sheet, like exposures to climate-related financial risks and possible stranded assets.

In my view, this will become more and more confirmed over the course of time. Measures taken by the Commission in terms of disclosure – measures decided by your Parliament and which will be complemented by ongoing measures that are discussed at Commission level – will actually take hold and become effective and will help us make sure that these various items are actually channelled properly into our monetary policy decisions. This will occur from a price stability point of view (primary objective), from a secondary objective point of view and from pure risk management when it comes to the supervision aspects when that is done by the ECB.

On your second point, we have indeed received in great pomp the report that you are referring to. Our team is currently looking at it very carefully to assess its accuracy, the depth of it and the granularity of its analysis – I don't doubt it, I just need time to actually look into it. But be that as it may, it is a case that as part of the strategy review, we will look at not only the non-monetary portfolio management, but also the monetary portfolio management from this perspective. That would apply to the purchases of *(inaudible)* bonds, which is only a small proportion of our total asset purchases, to collaterals and what kind of haircuts and how we value. But clearly there are – and I want to emphasise this – strong linkages between the work that is done in terms of information disclosure assessment ratings on the one hand – where you have the hand, where governments have the hand – and the consequences of that in terms of duration and ratings.

1-015-0000

Johan Van Overtveldt (ECR). – Thank you, President Lagarde, for being here. I have a more general question and a specific question. The more general question relates to the decision last week by the ECB to keep interests low, or even negative, for at least the coming three months, maybe even longer.

It is quite clear that this feeds into financial instability, with highly-distorted risk evaluations, with rising levels of leverage throughout, with continued bubbles in sub-markets, etc.

Shouldn't monetary policy be more explicitly taking into account elements of financial stability, since we all know that financial stability at the end of the day is also a danger to price stability and economic growth and recovery, or are we really now in a situation of fiscal dominance where it is the prospect of huge deficits and escalating debt levels that oblige us, so to say, the ECB, to stick to very low or even negative interest levels, whatever happens for the rest?

My second, and more specific question, is about the recent IMF report on increasing corporate power, where they indicate there are also major macroeconomic consequences of that rise in power, and more specifically a reduction in the transmission of monetary policy. I would like to hear your feelings about that. Do you have the impression that the effectiveness of monetary policy is reduced by this market increase in corporate power?

1-016-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Van Overtveldt for your questions.

On the first one, you really raised the issue of the effectiveness of what we do and the scope of our analysis when deciding monetary policy.

Number one, we are focused on price stability. This is the primary objective, which it is set out very clearly in the Treaty and rules that we have to respect, because we are rule-based.

But having said that, we do take into account financial stability, we do monitor and look very carefully at side-effects and we do measure the effectiveness of the decisions that we propose and that we make relative to potential side effects. That applies to the cost of housing, for instance, determining whether there is exuberance at that particular moment or not and what affordability there is.

All the central banks in the world also take those matters into account. It is embedded in the medium term that we have in order to *(inaudible)* our inflation aim and our delivery on the basis of our price stability objectives. It is an ambitious matter that we continue to review on a regular basis. Financial stability is reported upon in the Governing Council of the ECB twice a year, and we have a very thorough look into how financial stability evolves and whether or not it is at risk. It is something that we will consider very carefully as part of our strategy review going forward.

On the latter part, pricing actually does play a role for sure and we are delivering against our mandate and braking, I believe, as efficiently, effectively and proportionately as we can in this regard.

1-017-0000

José Gusmão (The Left). – Senhora Presidente Lagarde, queria retomar a questão da comparação do estímulo orçamental entre a União Europeia e os Estados Unidos.

É verdade, como disse, que os estabilizadores automáticos são mais significativos na União Europeia do que nos Estados Unidos, mas, mesmo tendo em consideração o peso dos estabilizadores automáticos, o esforço contracíclico na União Europeia está muito aquém, muito distante do dos Estados Unidos.

Acresce que, como a Comissão Europeia anunciou o fim da suspensão da cláusula de exceção do Pacto de Estabilidade e Crescimento, muitos países mais endividados estão a utilizar os fundos europeus para substituir despesa de investimento que fariam normalmente, ou seja, a perspetiva de cortes mais à frente está a prejudicar os esforços de muitas economias, particularmente as sobre-endividadas.

E, portanto, queria colocar-lhe a questão de saber qual é a posição do BCE sobre instrumentos que estão a ser mobilizados por outros bancos centrais, nomeadamente instrumentos de financiamento monetário e notificação dos défices e também a questão que foi colocada por uma petição de vários economistas sobre o cancelamento das dívidas públicas detidas pelo BCE.

Já sei que me vai dizer que essas medidas não são legais à luz dos Tratados e do mandato do BCE.

Particularmente em relação ao financiamento monetário, que consequências negativas é que espera que a utilização desse instrumento tenha, por exemplo, do outro lado do Atlântico e a segunda questão que lhe queria colocar é, exigindo alguns destes instrumentos alterações aos Tratados da União Europeia, há instrumentos que procuram, de alguma forma, prosseguir o financiamento e que são legais, nomeadamente, a conversão pública em títulos de muito longo prazo e gostaria de saber qual é a sua análise em relação a essa possibilidade.

1-018-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you, Mr Gusmão. First of all, I think we should be a little careful, all of us, about undermining *(inaudible)* position, running down the measures that should have been undertaken. Whether you look at the automatic stabilisers, whether you look at the fiscal discretionary effort, whether you look at the European level, the overall package is a significant fiscal response to the pandemic and to the crisis that followed from that.

And second, again, I would hope, because it must come under monetary policy, I would hope that Next Generation EU will be implementable as quickly as possible, just as SURE was implementable promptly and was taken advantage of in order to support the *(inaudible)* schemes and the unemployment benefits regimes that were available and could be complimented throughout the European Union. It also matters just for the direct economic consequences from a macro point of view. It matters for the confidence effect that it has on our economies.

On your second issue, I'm going to repeat myself, Mr Gusmão, but you don't expect less from me. Any discussion of cancelling government debt is illegal, full stop. And I think that there can be lots of nice, sophisticated arguments about the fact that the word cancellation is not actually included in Article 124 of the European Treaty, but I hope that those supporting this idea look carefully at what we have published and at speeches that have been given. It is a clear case looking at the text of the treaty and looking at the precedents that have been decided, and that sets the way in which articles are to be interpreted. It is straightforward without anything equivocal about it, without any ambiguity about it. So, it is illegal.

Second, it is an accounting illusion. What you increase on the one hand you reduce on the other hand, exactly in the same proportion. So an accounting illusion. Third, it makes no economic sense at the moment whatsoever, and there are very good writings by many economic professors on the matter – one of whom I can think of is Olivier Blanchard, for instance. As long as the financing conditions are in the situation they are in at the moment and kept favourable by the central bank, it doesn't make economic sense. And fourth, it undermines the credit of the European Union and the euro area and the European Central Bank, and if you undermine the credit and the credibility and the confidence, you actually shoot your own goal. It undermines Europe, it undermines our credibility and ultimately it runs the risk of significantly increasing the financing costs.

So, as I said, illegal, accounting illusion, economic nonsense and threatens Europe – that would be my summary: a response which I know you're not going to like.

1-019-0000

Lídia Pereira (PPE). – Senhora Presidente, Senhora Presidente do Banco Central Europeu, Madame Lagarde, o Banco Central Europeu tem sido fundamental para uma resposta rápida e eficaz às consequências económicas severas da crise pandémica. Alguns qualificam o Next Generation EU como «a bazuca»... *[sem som]*.

Ora, o programa de emergência de compra de ativos do BCE será à volta dos 1,85 biliões de euros e que é, no fundo, aquilo que eu considero uma verdadeira «bazuca» invisível.

Estamos a um ano do final desse programa e congratulo-me com o anúncio da aceleração das compras ao abrigo do PEP.

A manutenção das taxas de juro diretoras a um nível historicamente baixo, bem como a flexibilidade sobre rácios de capital dos bancos, são também importantes instrumentos, são medidas estruturantes, com que os bancos podem cumprir melhor a sua missão de financiamento à economia real, geradora de empregos.

Os bancos são, por isso, Senhora Presidente, atores principais no cenário da recuperação e têm responsabilidades acrescidas e, hoje, pergunto-lhe sobre as moratórias de crédito que, em Portugal, no meu país, são muito significativas. Nós estamos no Top 3 de Estados-Membros na percentagem de moratórias e no Top 5 no que toca ao seu valor absoluto.

Por um lado, como vê o risco da transformação das moratórias em crédito malparado? Há presidentes dos bancos portugueses a falar de um «tsunami» de crédito malparado e, ainda esta semana, Andrea Enria deixou avisos importantes sobre o assunto.

Por outro lado, como é que vê o papel dos bancos na saída deste quadro de moratórias, como é que se equilibra o apoio à economia que devem protagonizar com as suas necessidades de financiamento e estabilidade?

1-020-0000

Christine Lagarde, *President of the European Central Bank***.** – Madam Chair and Ms Pereira, thank you for your question.

We have said – and I think I mentioned that in my introductory statement this morning – that the fiscal extraordinary measures that were put in place by the Member States and at the European level, both in terms of fiscal discretionary measures but also in terms of additional measures, such as moratoria, such as guarantees, should not be lifted until the recovery is *(inaudible)* sustainable and *(inaudible)* and that any removal or withdrawal of these measures should be conducted as gradually as possible as the economy picks up.

This is the real challenge going forward both for banks and also for governments operating in good synchronisation. So, avoiding the cliff effect that you have focused on is what should be addressed from the fiscal side by moving very gradually.

I think that the Commission communication was pretty clear, not last week but the week before, in referring to the graduality in moving into 2022 for the escape clause and deferring the EDP until a later stage. This is also testament to this necessity to move gradually and to reactivate the normal way of operating but not in an abrupt, brutal way, which would be very detrimental to the economy and would lead to these defaults that you've alluded to. This is really our position on that front.

1-021-0000

Paul Tang (S&D). – Thank you Chair and welcome Ms Lagarde, I think it was you, but also your predecessor, who says that central banks cannot be the only game in town and indeed they are not. For example, we see in the US, the American Rescue Plan and recovering resilient funds, but also spending through the automatic stabilisers. But, like you said, it's mainly not only about the size of the spending programme, it's also about the composition of the spending programme, and there's a clear difference between the US and Europe where the Biden Administration sends money directly to citizens and the EU funding seems to be more targeted towards long-term growth creation.

I want to be know a bit more about how you see fiscal policy and the type of spending that is conducive for recovery and economic growth. Do you see the Biden programme or parts of the Biden programme as an example for Europe? And what do you hope for from the recovery and resilience plans that will be put forward by the Member States? What type of mix can they best have between public investments aimed at the long run or short-term tax relief in the short run? I hope I make myself clear.

1-022-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you for your question, Mr Tang.

There are differences in approach, and I think it partly has to do with the different structure of our respective economies.

The US, on the one hand, which has limited automatic stabilisers, which didn't have much by way of demand support that sort of came almost automatically, which prompted the authorities last year, and yet again this year, to strongly support demand, to do so massively and our economy here in Europe where we do have those automatic stabilisers and where the policies were intended to actually contain income and support income through the various furlough schemes and other mechanisms that were put in place, and extended over the course of time beyond what's otherwise applicable. So, demand was supported in a different way and led to different consequences.

What Next Generation EU and in particular the fund under which Member States will apply with their RRF is clearly intended to do is to enhance productivity, to transform our economies towards greener, more digital economies in the future, and to encourage Member States to address some of their weaknesses to help them along the structural reform paths that have been identified for, sometimes, a few years, and have not be delivered upon. So, it has a structural effect that the current US stimulus package does not actually include.

I don't think that we are at the end of the day on that front, and it's very likely that other plans that take a bit more time to mature will be proposed by the US administration as well – taking up the structuring perspective we have under the European Union fund going forward – with a focus on infrastructure, with a focus on strengthening the structural components of the US economy that are in bad need of that. So that's how I think you could compare both approaches.

1-023-0000

Caroline Nagtegaal (Renew). – Thank you, Ms Lagarde, for being here. Recently there are reasons to be consciously positive about the future. Vaccinations allow us to move towards a more normal life.

But what we are seeing on the market is this optimism (*inaudible*) translated into an increase in capital market interest rates – or I'll put it differently, less negative interest rates.

(because of connection problems, the speaker is disconnected for a few seconds)

At the same time, last week you announced the use of the flexibility under the Emergency Purchase Programme (PEPP) to increase purchasing. In my view, it's not surprising that interest rates are gradually rising because of the good economic outlook and also the massive support packages.

So, my question is, is the ECB so negative about the economic outlook that it's deemed necessary to accelerate the buying programme?

My other question is related to Eurostat. Last month, I discussed with Eurostat whether housing prices were adequately included in inflation calculations. As you know, I'm from the Netherlands, from the Liberal Party, so this is an important topic, especially since inflation is an anchor for ECB monetary policy.

So is it possible for you maybe to make a sort of commitment today, Ms Lagarde, to keep an extra eye on the effects of monetary policy, especially on housing prices, stock markets, pension funds – I'm a bit concerned about these developments.

1-024-0000

Christine Lagarde, *President of the European Central Bank***.** – Ms Nagtegaal-van Doorn, I hope I'm pronouncing that right – and I hope you get an extra minute for the time when your connection didn't work – I would like to say two things.

When we were confronted in the last few weeks with rapidly increasing yields at the risk-free interest rate level and the sovereign bond yields level, we had to ask ourselves whether that was actually going to preserve favourable financing conditions or whether it would lead to a potential risk that there would tightening in the financing conditions available on the markets.

In view of the current circumstances, where recovery has not taken hold, where we still see a lot of uncertainty on the horizon as is demonstrated on an almost daily basis, where our projections indicate that we will see recovery and pick-up only in the second half of 2021, and when we focus on the inflation outlook, it was indispensable that we responded with increased purchases for the next few months because we do not want to let yields get ahead of what we hope will happen soon, which is an economic recovery.

So, we will stay focused on that, and we will take the monetary policy decisions that align with the commitment to preserve favourable financing conditions, with the joint assessment of those conditions and the inflation outlook. What we must do which is to counter the negative pandemic effect on the inflation that we had. We are resolute, determined and we're going to do that.

We also very carefully monitor and look at the side-effects, if you will, and we do apply the proportionality criteria. We do apply the effectiveness and the efficiency of measurements in order to really calibrate our measures as well as we can. It is clear that at some stage, when the economy recovers strongly, when it is sustainable, self-sustainable, when it is solid, well-grounded that our policy will evolve ... but for the moment we have all that in place, we have very low interest rates, we have the purchase programmes of different categories including PEPP, which is clearly related to the exceptional circumstances that we are going through and we have four targets that will really help us guide all of the economic actors and the market's actors through the path that we take as the economy fully recovers.

Let's face it, we still have a lot of uncertainty and we cannot be complacent.

1-025-0000

Γεώργιος Κύρτσος (PPE). – Κυρία πρόεδρε, αφού ευχαριστήσω την πρόεδρο Λαγκάρντ για το ρόλο της Ευρωπαϊκής Κεντρικής Τράπεζας στη στήριξη της οικονομίας της ευρωζώνης, θέλω να διατυπώσω δύο ερωτήσεις:

Στην Ελλάδα, την πατρίδα μου, ασκείται κριτική στο τραπεζικό σύστημα, με το σκεπτικό ότι οι συστημικές τράπεζες δεν μεταφέρουν επαρκώς στην πραγματική οικονομία τη χρηματοδότηση που τους εξασφαλίζει η Ευρωπαϊκή Κεντρική Τράπεζα. Κατά την άποψη της κυρίας Λαγκάρντ, πρόκειται για ένα ειδικό ελληνικό πρόβλημα —γιατί, όντως, στην Ελλάδα έχουμε ειδικά προβλήματα και στο τραπεζικό σύστημα— ή κάτι που ισχύει για το σύνολο της ευρωζώνης και το οποίο απασχολεί την Ευρωπαϊκή Κεντρική Τράπεζα;

Η δεύτερη ερώτηση έχει σχέση με τον πληθωρισμό που μας απασχολεί τόσο πολύ όλους. Κατά την άποψή μου, το ότι υπάρχει μια ανοδική τάση δεν είναι κακό, διότι είναι ήδη σε πολύ χαμηλά επίπεδα ο πληθωρισμός στην ευρωζώνη σε σχέση με τον στόχο της Ευρωπαϊκής Κεντρικής Τράπεζας, να είναι στο επίπεδο του 2% και λίγο πιο κάτω. Επομένως, προβλέπουμε κάποια πληθωριστική άνοδο που θα ξεπεράσει το όριο του 2%, ενδεχομένως λόγω των τιμών της ενέργειας ή κάποιου εξωγενούς παράγοντα, ή τελικά αυτή η συζήτηση απλώς αναδεικνύει διαφορετικές απόψεις στο διοικητικό συμβούλιο της Ευρωπαϊκής Κεντρικής Τράπεζας για την πολιτική που πρέπει να ακολουθηθεί;

1-026-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Kyrtsos, for your two questions. On your first question on the funding of the economy, we are of the view that the euro area economy continues to face high financing needs as a result of the COVID emergency amidst increasing challenges for borrowers and for lenders.
We have taken very forceful action in order to make sure that funding conditions would be plenty, both in terms of volume and would be accessible in terms of rating. That was the clear intention behind the two exceptional programmes that we put in place at the early stage of the pandemic, exactly a year ago.

That's PEPP on the one hand, stabilising markets' monetary stance and on the other hand, TLTRO III, in order to provide massive financing at very attractive rates for banks. This has worked and it is reflected in the strong increase in broad money (M3) since March 2020. Banks have done their job. They have contributed crucially to covering firms' liquidity needs, which have abated compared to the early stage of the pandemic, and firms' financing costs have remained low.

They are actually historically low. Now it's not Greece-specific, so you will draw your own conclusion, but when we look across the euro area, rates are historically low. Corporates are at 1.51% and households at 1.3%. So, there is clearly a transmission that takes place between the very favourable financing conditions that are offered to banks and the rates at which they value risk when they lend to the real economy. This is very much needed in order to make sure that we support the recovery and that economic actors, at corporate and households' levels can invest, can consume and can kick-start the economy back again.

We also understand from our bank lending survey in particular that some of the terms and conditions – not the rates, but some of the terms and conditions – are hardening a bit because of the risk assessment that is adopted by banks, which is hardly surprising as we are moving into the pandemic and seeing hopefully the recovery, but at a slow pace for the moment. But overall, the combination of the PEPP and TLTROs as structured, with an incentive for banks to finance, has been effective in order to keep rates very low and historically low.

On inflation. As I indicated to you in my introductory statement, our projection for inflation at the end of this year is 1.5%, in 2023 1.4%, with 1.2% in between. It is clearly not our inflation aim, and what we have to do is really analyse the causes, the roots, the sustainability of the factors that impact on price levels and what kind of pressure is applied to prices in order to make sure that we do not focus on short-term factors, on temporary factors, on transitory and technical factors, that would not actually be real inflation.

So, we will not be complacent. We will analyse that in great depth and detail. What we need going forward is that our inflation aim is reached on a robust and solid basis as well.

1-027-0000

Gunnar Beck (ID). – Frau Präsidentin! Die EZB rechtfertigt ihre billionenschweren Anleihenkäufe und ihre Nullzinspolitik damit, dass sie Inflation anheizen wolle. Nun steigt die Inflation, die Konsumenten spüren es bei höheren Strom-, Benzin- und Lebensmittelpreisen. Die EZB selbst erwartet höhere Inflation. Der Ex-Chefvolkswirt der Deutschen Bank, Thomas Mayer, erwartet sogar bis zu fünf Prozent Inflation. Dennoch hat die EZB angekündigt, ihre Anleihenkäufe im Rahmen des PEPP-Programms auszuweiten.

Ich hätte zwei Fragen dazu. Erstens: Wenn die Inflation weiter steigt, wird die EZB ihre Anleihenkäufe einstellen und die Zinsen anheben? Und wenn nicht, wie sonst wollen Sie die Inflation eindämmen? Und zweitens: Können Sie mir ein einziges historisches Beispiel dafür nennen, dass Gelddrucken in Billionenhöhe, verbunden mit eskalierender Staatsverschuldung, dauerhaftes Wachstum schuf?

1-028-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Beck, for your twofold question. You referred to the expansion of PEPP. I just want to remind you that PEPP is actually a flexible instrument that we've used and we have increased its volume twice, first in June and then in December. The end date is the end of March 2022, at least, or any such time when the Governing Council determines that the crisis related to the pandemic is over.

So, it has a finite life, but I wouldn't say that it's being expanded or reduced. What is certain is that we use whatever of it is needed in order to deliver on our commitment to preserve financing favourable conditions. Less if we need less, recalibration if more is needed. So PEPP is not forever, but PEPP does not have an extension time that was embedded in any decisions mostly.

Now let me turn to inflation, which is our aim in order to deliver on our mandate of price stability. I think in a couple of answers that I gave earlier, I tried to indicate clearly that what we need to do is to see through those inflation increases, those price increases on inflation levels, that would be only related and based on temporary, technical and transitionary factors. I just want to give you a few examples of why we saw inflation move up in January and February.

Remember *(inaudible)* December we were at – 0.3, January + 0.9, February + 0.9 and this was even higher *(inaudible)* which obviously constitutes a very large part of the euro area. Those increases were related to temporary factors, just as the decreases observed in earlier 2020 were also attributable to temporary factors. So just as we saw through those temporary factors that put pressure down, we also have to see through those factors that increase pressure on prices.

So let me put them in ranking order. The first factor that played a role was higher energy inflation. The second – which is very specific to Germany as you know – was the end of the temporary VAT rate reduction. The third was the timing and magnitude of sales in certain countries. And the fourth was the impact of the stronger than usual changes in HICP weightings for 2021 – that's the way in which Eurostat and statistical offices around Europe actually adjust their management of prices in order to be in synchronisation with actual spending by consumers.

So, it is because of those four temporary and transitionary factors that prices have increased and are perceived to have increased. We cannot calibrate monetary policy decisions on the basis of inflation movements that are so linked to temporary and technical factors. It has to be a solid, deeply rooted, robust inflation that is observed over the course of time and not subject to variations that are not long-standing variations.

We might experience something not completely dissimilar if and when recovery picks up as we analyse it *(inaudible)* and when it comes, if we have massive pent-up demand that has a transitionary impact on inflation. We also have to temper that with what is expected in the medium term in order to adjust our monetary policy decisions.

I am running out of time, but on your other point on whether there is a historical example of the success of printing, we're not in the business of printing money. Our objective is price stability, and we have to use conventional measures when they are available – and I've mentioned some of them – and unconventional measures, when it's needed, and they are more effective and proportional.

1-029-0000

Sven Giegold (Verts/ALE). – Madam President, I have the following issue to discuss with you actually. On 25 February the government of New Zealand changed the remit of the Central Bank of New Zealand in order to take into account the effect of its monetary policy on housing prices. We see that lax monetary policy conditions are helpful to stabilise the economy, but on the other hand they are fuelling an asset price bubble, in particular in housing. In New Zealand the figures were dramatic – a price increase of 22% in one year. In Germany we have now seen an increase of 9.6%.

(Speech interrupted owing to loss of audio connection)

1-030-0000

Alfred Sant (S&D). – Madam Lagarde, at the ECB forum on central banks of 11 November, you predicted that the recovery from the economic fallout of the pandemic would be unsteady and you rightly spoke about how services will be fielding the greatest losses and undergoing the toughest recovery. On 1 March, addressing the German Mittelstand Conference, you highlighted, and I quote, 'the pandemic has brought forward the digital transition in Europe by seven years'. And you emphasised that since March last year, the cheap and abundant credits generated by the ECB's policies have led to small loans totalling EUR 730 billion going to SMEs, of which 19% went to the German Mittelstand.

Given that in the European south, economies are extremely dependent on SMEs and on services, not least tourism, and given that they remain extremely vulnerable to COVID-19 shocks and ripples in an unsteady state of affairs, and also given that in their case, the digital transformation unfortunately still lags, could ECB policies be fine-tuned in any way to take the situation of southern economies into special account or do you consider that enough has been done in that regard as of now?

1-031-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you, Mr Sant, for your question. I think that we at the ECB consider that continued access of SMEs, but not just SMEs in the Mittelstand, but also of self-employed craftsman, very small enterprises, is of vital importance to sustain the euro area real economy. That is true in manufacturing and it is even more true in services where SMEs are prevalent. So, within our mandate what we have done is calibrate our monetary policy measures so that liquidity gets through to the partitions and sectors most in need of support, notably the SMEs.

As I was saying earlier on the combination of PEPP and, particularly, the targeted longer-term refinancing operations – TLTROs – has really helped in particular, those enterprises that do not access the markets by way of issuance of instruments and that cannot enlarge their equity by traditional means.

So, access to financing at very affordable rates, as I said historically low by all standards, has been the monetary contribution to the encouragement and support that needs to be given to

SMEs in particular, in order to sustain themselves through the crisis, encourage them as – hopefully – the recovery takes hold and get to the other side of the pandemic bridge on a solid footing with good balancing conditions.

That's what monetary policy had to do in terms of use of instruments, calibrating the instruments and insisting on the banking sector so that financing is not restricted. We don't see tightening, both in terms of volume or in terms of rates, and for the moment this is what we have seen in the economy of the euro area. We will now continue to support that effort using those two instruments, PEPP and TLTROs. TLTROs' number by the way will be published later today and we expect a reasonably high take-up of financing under this TLTRO III, yet again.

We are interested in what Members of Parliament have to say about that. We are also interested in what enterprises tell us about it and we survey them regularly in order to make sure that they receive the right financing at the right terms, at the right cost, in order to sustain them through that pandemic. This is what SAFE, which is that survey on the access to finance of enterprises is telling us at the moment.

1-032-0000

Sven Giegold (Verts/ALE). – Thank you, Chair, for all this courtesy. I'll try to be more precise. On 25 February, the New Zealand Government modified the remit of the New Zealand Central Bank after lax policy conditions led to an unprecedented surge in housing prices in New Zealand. Also, in Germany we are seeing a strong increase. So, for normal housing the price increase in 2020 was 9.6% and in 94% of all German County Councils, also the more remote ones, prices are on the increase, so therefore we are seeing the strong effects of the helpful and supportive monetary policy conditions, which the eurozone needs, but with strong effects on the housing market.

Therefore, my question to you is, will you consider, more strongly, more granularity in your monetary policy conditions in order to limit the damaging effects of the necessary accommodative monetary policy conditions on the housing market? It is so interesting what the New Zealand Government has decided, and I believe the European Central Bank also should take these warning signs very seriously.

1-033-0000

Christine Lagarde, *President of the European Central Bank***.** – *(Speech stopped owing to loss of video connection)* Thank you very much for your question. It's interesting that you mentioned New Zealand, and of course everybody looks at what New Zealand does because it was the first country and the first central bank to actually implement inflation targeting. So, it's always with interest that we see innovation happen in that part of the world. But back to the cost of housing.

We closely monitor the effectiveness and the appropriateness of all our monetary policy tools, including their side effects and our *(inaudible)* suggest that the ECB's accommodative monetary policy only contributed to a limited extent to the strong house price growth that we have seen in the recent year. And we also – you know in the assessment that we do of the side effect, and the three criteria of proportionality, effectiveness and efficiency – we believe that there are beneficial effects of monetary policy on the affordability of financing in order for households to acquire their house and to use their savings together with accessible financing to do so.

But let me just add something on the issue of housing, because it's a matter that was raised extensively during the various 'ECB Listens' outreach events that took place at the ECB, but also at all national central bank levels as part of our strategy review, and the housing cost came back and back again and again, as part of the key preoccupations of European compatriots. As a result of that we are really looking at the inclusion of owner-occupied housing in the basket of goods and services used to measure inflation, and this we believe could technically be accomplished without compromising the quality of the HICP and also taking into account that house prices include an asset component.

So this is very much work in progress. It has not been definitely approved and agreed by the Governing Council, so we're looking at it from a technical point of view, considering the various alternatives, including incorporate those costs, but it will also be a way to assess the proper value of housing into the price measurement that is used in order to identify whether or not we will reach our inflation aim.

1-034-0000

Roberts Zīle (ECR). – *(Speech interrupted owing to loss of audio connection)* Thank you very much Madame Chair and thank you very much Madam Lagarde, not only for your answers, but also for the monetary policy of the ECB in general, which is a calm, professional and long-term monetary view. It very much differs from some other EU policies right now which do not currently have the same evaluation. You also rightly mentioned there should be synergy between fiscal supervisory and regulatory policy – of course the last two perhaps we will not touch on much today.

My question is coming from the even more increased divergences between Member States of the European monetary union or euro zone, its *(inaudible)* or after the pandemia. So, if you are looking forward to different fiscal policy measures done by all Member States, or if you're looking also at New Generation EU or MFF issues, it is still not clear for Member States how it would be calculated, the EUR 360 billion of possible loans, taking into account that some Member States will even just go directly to the financial market without conditionality for reforms and investment under the RFF. There is great uncertainty, taking account also of the general escape clause, which perhaps will be somehow removed, and then it would be again Stability Growth Pact indicator in some version of life from 2023.

Also, TLTRO III, you said that it will be published now. I think in some Member States not many commercial banks are very ready to key *(inaudible)* and that also can create emergencies. If we are going to savings issues, which has also had dynamics during the pandemia, these are also very different in many Member States.

So, what can we expect as a result of these divergences? Does it create for you a problem, after we are coming out from the pandemia to even more divergence, to create the joint monetary policy from the ECB point of view? Do you see also a problem not only in general for you, but also for the ECB?

1-035-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much Mr Zīle, and thank you for the 'thank yous'. I will share that with the entire staff of the euro system because we don't celebrate with great pomp, but we celebrate the hard work that has been put into the implementation of monetary policy by the entire staff of the system, certainly at the ECB. I just want to take that opportunity to share your thanks with them.

I think you raised the issue of uncertainty and divergence, the two hurdles that we have on the path to recovery. On uncertainty, from our monetary point of view, we try to provide as much certainty as we can by focusing on preserving favourable financing conditions, so that economic actors know that they will be able to finance their consumption, their investment, whether they are small or large enterprises, at favourable terms. All our instruments are geared towards that. We will use the flexibility that is embedded in some of our programmes in order to deliver on that and we will do so as we progress towards a solid and sustainable recovery on the other side of the bridge of the pandemic that we have faced and that we continue to face.

That's playing our part. Hopefully other actors, other institutions, will play their part. I think the Commission is well aware of that level of certainty that needs to be offered to all actors – from banks to households – in terms of the timing of the general escape clause, the use of expiry about the re-examination, and continuation of the work that has been initiated by the Commission on the Stability and Growth Pact going forward. I hope that there is the right sequence in these two elements, so that there's as much certainty as possible and there is a framework available to economic actors so that they know what's coming and how they can adjust to it.

On the issue of divergence. It's a clear hurdle, and on that we're going to have to live with this and try to mitigate, because you have divergence in the fiscal position in which Member States went into this pandemic. You have divergences in the economic activity that some have versus others – predominance of services, higher manufacturing sector and others, strong focus on social-distanced services such as tourism, such as recreational, such as leisure, that is more important in some than in others. This clearly will have an impact on how the whole euro area is going to come out of the current situation. Our hope is that, from a monetary point of view, we will be able to use our PEPP instrument to make sure that we don't see fragmentation and that we maintain stability.

On the fiscal side, clearly the use of the Next Generation EU will be important in the way it is structured in the mix of grants and loans, and with a focus on what will enhance productivity and improve the economic situation, and by so doing addressing the divergence phenomenon that we know we have, as entering into the pandemic.

1-036-0000

Frances Fitzgerald (PPE). – President Lagarde, I want to begin by welcoming the work that you and your colleagues have been doing. The speed of the response, the speed of the support to households, to businesses has absolutely made a difference, a huge difference in what is a really catastrophic situation.

I want to return to something we haven't spoken about today, and that's Brexit. We have the Trade and Cooperation Agreement still to be ratified, and some bumps on the road and some serious disagreements between the EU and UK, but what I want to ask you is, from a macroeconomic perspective, do the consequences of Brexit still pose threats to the eurozone economy or do you feel the full effects of Brexit have already been felt?

Secondly, in relation to the Brexit Adjustment Reserve Fund – the Commission proposed it, to help deal with the most adverse effects in the Member States and sectors most affected – how important is it for EU institutions to continue focusing on providing financial support to those countries most severely impacted by Brexit, and not to dilute it even more?

1-037-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much Ms Fitzgerald. Your question focused on the macroeconomic impact of Brexit and whether it is now felt that it is behind us, or whether it is ongoing and how badly it will affect us.

The UK's departure from the EU Customs Union and the Single Market has indeed affected trade flows and caused some shifts in financial sector activity (*inaudible*) on the freight flows. We hold, on a regular basis, discussions with non-financial corporate players, and it was quite striking to hear some of them explain how the shipping traffic had actually changed because of the difficulties in transit between the EU and the UK.

So, the negative economic impact of looser economic and much looser financial ties is expected to affect both the UK and the euro area – and certainly more so the UK than the euro area – and you will not be surprised to hear that we believe that the impact will be different across Member States depending on their economic links to the UK. Obviously Ireland is one that is high on the list of those countries that are most affected by the consequences.

We are hoping that Next Generation EU and the various funding mechanisms and reserves funding that are available at EU level will also take those factors into account, and the macroeconomic projections of how badly some countries will be affected relative to others, in order to tailor properly the support and the help that will be given.

Apart from monetary point of view, as I said, we will be using the tools that are specific to the pandemic and tools to make sure that our monetary response actually prevails and that there is good monetary transmission throughout the entire euro area, including those that are across the sea. That is certainly part of our mandate.

1-038-0000

Eero Heinäluoma (S&D). – Thank you, Madam Lagarde, for being with us for this valuable meeting for both of us. ESMA just yesterday warned around the risks related to stablecoins and cryptocurrencies, and the ECB has also been quite concerned about the monetary impact of the stablecoins. We have heard and been informed that the ECB is now doing work around this digital euro.

What's the situation with this project, because obviously it could be some kind of help for those people who would like to have these new types of payment and do it in a very safe manner? So, what's your impression concerning the project? At the same time do you think the ECB ought to have a stronger role, for example a veto right in the authorisation process of stablecoins?

1-039-0000

Christine Lagarde, *President of the European Central Bank***.** – I think it was one of your colleagues who said better to have a Lagarde coin than a Libra coin. I think that we took that to heart, and are working hard in order to make sure that we explore the project of having a digital euro that would be a form of central bank money, rather than one of those crypto assets or crypto coins run and organised on a private sector network.

The possible establishment of a digital euro and any related services provided by the Eurosystem acting in its capacity as monetary authority will obviously be guided by the preferences of European citizens, and by a decision of the Governing Council that is expected mid-2021, to determine whether or not we go into the exploration phase, which in our view will probably be in the range of two years.

In terms of a timetable, I remind you that back in October we issued a very detailed and in-depth policy paper focusing on feasibility and analysing the risks of its transmission to currency stability, and we put it out for public consultation.

We got 8 000 views back from the public. We are completing now the analysis of those views and trying to identify the main concerns, which revolve around stability and security, protection of private life and of private data, which are clearly attributes of a sovereign bank digital currency as opposed to the other coins that we are seeing discussed here and there.

Once that is done, in April it will be presented to the Governing Council. It will also be debated with you, because my colleague Fabio Panetta has been invited by the Chair to come on 14 April, I think, to present the output of that consultation.

Once that has taken place, the Governing Council will have to discuss whether we move ahead or not, and whether we open a two-year process during which we will explore the feasibility, technology and structure of a digital currency.

There is a lot of momentum; there is a lot of enthusiasm. Everybody would like us to move faster and further and with great furore and excitement. We need to be careful. We need to respond to the needs. We cannot concede on pure fun or glamour. It needs to be solid, it needs to be safe. It is granted by the Central Bank and it needs to have all the attributes of a sovereign bank-backed currency.

That is my assessment of the situation as it is at this moment and of the timetable. My hope is that we move forward, but it’s something that will be decided in a couple of months.

1-040-0000

Chair. – We have concluded our Monetary Dialogue. I thank again President Lagarde for her availability. I thank all the Members for participating in this dialogue. We will definitely meet with Mr Panetta on the digital euro, and we will see Madam Lagarde as a guest again on the next occasion.

(The Monetary Dialogue closed at 11.07)