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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH CHRISTINE LAGARDE,
PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) TFEU)
BRUSSELS
MONDAY, 8 JUNE 2020

1-002-0000

IN THE CHAIR: IRENE TINAGLI
Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.48)

1-003-0000

Chair. – I welcome the ECB President, Christine Lagarde, to this second monetary dialogue of 2020. Since the last time she attended a hearing with the Committee on Economic and Monetary Affairs (ECON Committee), the scenario has changed dramatically at the global level. That was 6 February, and at that time the economic forecast was still for moderate growth for the euro area. Only a few weeks later, an exogenous shock of tremendous proportions sharply pushed the world towards the most severe economic crisis since World War II. Euro system staff macroeconomic projections published on 4 June show that, in the baseline scenario, real GDP for the euro area should fall by 8.7% in 2020 before rebounding by 5.2% in 2021 and by 3.3% in 2022. This corresponds to a revision compared to the previous ECB staff projections of last March of minus 9.5 percentage points of GDP for this year and upwards of 3.9 percentage points for 2021 and plus 1.9% in 2022. According to the June staff macroeconomic projections, annual harmonised indices of consumer prices in the baseline scenario should correspond to 0.3% in 2020, 0.8% in 2021 and 1.3% in 2022. In March 2020, staff macroeconomic projections put HICP inflation at an expected 0.8 percentage points higher this year, 0.6 percentage points higher in 2021 and 0.3 percentage points higher in 2022. Based on this scenario, on 4 June the Governing Council further expanded and prolonged ECB monetary measures with the aim to ‘contribute to maintaining favourable financing conditions for all sectors and jurisdictions in order to underpin the recovery of the economy from the coronavirus fallout’. The most relevant measures probably consist of the increase by EUR 600 billion in the pandemic European purchase programme (PEPP), whose envelope already amounted to EUR 750 billion, and the extension of that programme until the end of June 2021.

Before leaving President Lagarde to present in further detail the decisions taken at the last meeting of the Governing Council, I would just like to highlight some lessons that we can learn from the current crisis. First, the importance of the euro and of the single market, which are not only the core of European integration, but also the key element of any economic perspective for the European Union in global competitiveness. Second, the crucial role played by European and national public authorities in guaranteeing confidence between different countries, financial institutions and operators during the pandemic. Third, the need for an appropriate mix of monetary and fiscal policy at the EU level to support the economy along a sustainable growth path during these times of geopolitical turbulence and low inflation rates.

The usual preparatory work with our panel of experts focussed this time on the following topics selected by the ECON Committee coordinators: the ECB's mandate; perspectives on general economic policies; and the international role of the euro. On the second item, the ECON Committee has actually decided to issue an own-initiative report separate from our usual annual report on ECB activities. I believe that all this parliamentary work will continue to develop in a constructive spirit of cooperation between Parliament and the ECB. This committee has always taken very seriously its responsibility in scrutinising ECB decisions in the area of monetary policy through our monetary dialogue, in line with the legal and institutional framework laid down in the Treaties. I believe that we will continue to exercise our role with the same commitment thanks also to the excellent and well-established cooperation between the European Parliament and the ECB.

We have many issues to discuss today, but before giving the floor to President Lagarde let me just remind you of the procedure that will be applied for this exchange of views. First, we will have the introductory remarks by President Lagarde for about 15 minutes, and then we will have five-minute question and answer slots of 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 which determines the order of questions by political groups. If time allows, we will have catch-the-eye questions, taking due account of the weightings of each of the political groups. I would please really ask you to strictly respect the time given to you. It is very challenging to hold these kind of hearings and dialogues remotely, on a platform, so please try to keep to your times.

I now open the debate. President Lagarde, you have the floor for 15 minutes.

1-004-0000

Christine Lagarde, *President of the European Central Bank*. – Madam Chair, I bid a good afternoon to all the honourable Members of the Committee on Economic and Monetary Affairs Committee. Ladies and gentlemen, I very much appreciate the opportunity to speak to you today at my quarterly hearing before this Committee as ECB President, although I have to say that it feels very different from the last time we were together in each other's presence. Nonetheless, as Charles Dickens would have said in *Great Expectations*, 'It was the best of times, it was the worst of times'. In both best and worst of times, I highly value those moments when we can exchange views, have a dialogue, where I can address the questions that you have and where I can hear the concerns that are yours.

Since the last monetary dialogue in early February, Europe has entered a crisis of unprecedented scale. I am tempted to borrow the characterisation that you have given to this crisis, Madam Chair, a crisis that as you said is unprecedented in peace time, a crisis that is nobody's fault, that is of no one's making in multiple ways, and a crisis that is affecting everybody, which is why we call it a symmetric crisis or symmetric shock. Overcoming the crisis and mastering the recovery will require, has required already, extraordinary action at both national and EU levels.

In my remarks today I will provide an overview of the economic outlook for the euro area and I will also explain the ECB's monetary policy decisions in response to the coronavirus crisis that we are facing, and then I would then like to share some considerations on the policies needed to support the European recovery. Because this is the topic you picked a few weeks ago, I will also say a few words about the international role of the euro – although on that particular topic you will have more insights and better and deeper analysis very shortly because we will be publishing a report in the course of the next few days. It will be on the ECB website this week.

So let me start with the current economic outlook and ECB recent decisions. The COVID-19 pandemic and measures to contain the spread of the virus have caused an unprecedented contraction of economic activity in the euro area.

Let me start with what we are fairly confident about. Contraction of GDP in the first quarter of this year is 3.8%, our new staff projections see it shrinking by 1.3% in the second quarter. But despite bouncing back later in the year and recovering some of its lost ground, the euro area real GDP is now projected – as you indicated, Madam Chair – to fall by 8.7% over the entire 2020, before it starts recovering in 2021 with growth projected at 5.2% and in 2022 with growth projected at 3.3%.

Two remarks in that respect. We are probably the first large central bank to actually offer a projection. Most of our colleagues so far, and many other institutions, have actually used scenarios. This one is our projection and it is the slightly revised middle scenario of the three scenarios that we had used in the last comments that we made about the economic outlook. We have still kept our two other scenarios – the mild one, quite unlikely, and the severe one, hopefully unlikely – but we have those two out there, and they were published on Thursday of last week.

The sharp drop in economic activity that I have just mentioned – our forecast -8.7, +5.2, +3.3 over the course of 2020, 2021, 2022 – also clearly has a bearing on the euro area inflation. Year-on-year, HICP inflation declined in April by 0.3% and 0.1% in May, mainly due to falling oil prices. Looking ahead, the inflation outlook has been revised downwards substantially over the entire projection horizon. In the baseline scenario, inflation is projected to average 0.3% in 2020, before rising slightly to 0.8% in 2021, and further to 1.3% in 2022.

The monetary policy measures taken by the ECB in March were critical in removing the tail risk of the COVID-19 pandemic and the ensuing drop in economic activity morphing into what could have been a financial crisis. Since March, that risk has receded materially. However, financial conditions are still tighter today than at the outset of the COVID-19 pandemic.

Taken together, two main factors called for additional monetary policy easing: one, the deteriorating inflation outlook threatening our medium-term price stability objective, and second, the unwarranted tightening of financial conditions. The Governing Council last Thursday decided to increase the amount of the pandemic emergency purchase programme that many of you know as PEPP. It was decided to increase by an amount of EUR 600 billion to a total of EUR 1 350 billion. Decision No 1 was to increase the PEPP. Decision No 2 was to extend the net purchase horizon until at least the end of June 2021. And decision No 3 was to reinvest maturing assets acquired under the programme until at least the end of 2022. So a three-pronged approach was taken.

Two specific aspects of the PEPP made this programme the most appropriate tool in our arsenal to step up the monetary policy impulse. First, in line with the execution of the programme over the past two months or so, the in-built flexibility of the PEPP purchases can still play a key role in market stabilisation, safeguarding the smooth transmission of monetary policy across asset classes and among jurisdictions. Second, asset purchases are particularly effective in easing the monetary policy stance in the current crisis environment because they can directly affect market funding conditions for companies and the price of credit for households and for small and medium-sized businesses.

The increase in the envelope for the PEPP adds, of course, to the comprehensive package of monetary policy measures that we have implemented in response to the COVID-19 crisis.

I might say a few words about those because we have not seen each other, we have not really talked to each other since that, so in addition to substantially scaling up our asset purchases, we are providing liquidity at much more favourable conditions through our credit operations. The targeted longer-term refinancing operations – also known as TLTRO III – is the most prominent and effective among them, as it allows to support bank lending to those affected most by the spread of the coronavirus, in particular small and medium-sized enterprises. In addition to that, we have significantly eased collateral requirements, to make sure that banks can make full use of our credit operations and help sustain the flow of credit.

All these measures will support liquidity and funding conditions in the economy and help sustain the flow of credit to households and to firms, including the very small firms. Maintaining favourable financing conditions for all sectors and jurisdictions will underpin the recovery of the economy from the coronavirus fallout.

Our crisis measures are temporary, targeted and proportionate. Their temporary nature is reflected, for example, in the net purchase horizon of the PEPP, which is expected, as I have said, to run at least until the end of June 2021, and in any case until the Governing Council judges that the coronavirus crisis phase is over. So they are temporary but they are also targeted to the specific shock and contingency at hand, aimed at repairing the economic hardships wrought by the pandemic. And they are proportionate to the severe risks to our mandate that we are facing.

The measures we have taken in response to the COVID-19 crisis underscore the Governing Council's continued determination and readiness to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner. We remain fully committed to our mandate, that is beyond question. So allow me at this point to spend a few words on this, as it is the other topic you have chosen for today's hearing.

The ECB received a primary objective from the drafters of the Treaty: that of maintaining price stability. Without prejudice to this priority, the ECB shall support the general economic policies of the European Union. Indeed, price stability, the primary mandate, goes hand in hand with a healthy economy and a sound financial system, and this is reflected in the measures taken by the ECB in recent years in pursuit of price stability. These measures have not only prevented the economy from entering depressed and deflationary conditions, but they have also contributed to supporting employment and to reducing financial stability risks.

In this context, the ECB has to, of course, constantly evaluate whether its policy measures achieve their intended purpose. This assessment also includes analysing potential side effects of the measures considered and determining whether alternative instruments might be more efficient in attaining the objective. In my first hearing before the Committee before I was actually nominated – that was, if I recall, in September 2019, in another world, in a way – I did refer to this assessment that people sometimes refer to as proportionality assessment. I did refer to 'cost-benefit analysis', that's what we do.

More generally, the ECB continuously monitors the proportionality of all its instruments. Such assessments are conducted regularly, as reflected in the monetary policy accounts, as reflected in multiple speeches, and not least – because this is critically important – in the dialogue and in the exchanges that we have with the European Parliament, as we have today. The ECB's strategy review, which I also mentioned in that first hearing and which I have discussed in subsequent hearings, will also play an important part in these ongoing efforts. For instance, consider our decision to expand the volume of the PEPP: on the basis of solid analysis, we determined that asset purchases are a particularly effective tool in the current environment. Given the still fragile state of

transmission, they are also more efficient than alternative instruments, as they have a more direct impact on the borrowing conditions faced by households and firms.

Given the continued disruptions caused by the pandemic, the net effects to be gained from the PEPP expansion are overwhelmingly positive.

The additional asset purchases will contribute to easing credit conditions for the private sector and thus support viable businesses in continuing to operate and in retaining as many workers as possible. This will help to preserve jobs, which is the most important factor determining the income and financial security of individuals and families in the euro area. Our measures play a key role in supporting credit intermediation through banks, not least since the business prospects of the banking system depend first and foremost on the macroeconomic outlook. Finally, our decisions will make sure that higher borrowing needs by fiscal authorities associated with the necessary fiscal response to the crisis will not translate into materially higher interest rates for the private sector.

Overall, the decision to expand the PEPP will prove to have been essential in avoiding an even deeper recession and in quickening our pathway to normalisation. Our measures to combat the crisis also build on instruments already in place that continue to provide significant monetary policy support: our asset purchases under the asset purchase programme, our very low key interest rates, and our forward guidance that firmly connects our interest rate policy and our asset purchases to the outlook for price stability.

Allow me to conclude, Madam Chair, with just a few words on the priorities for the recovery. I believe that the ECB measures will continue to be crucial in supporting the return of inflation towards our medium-term inflation aim after the worst of the crisis has passed and the euro area economy begins its journey to economic recovery.

Faced with that extraordinary shock, we need extraordinary measures. The EU budget can play a key role in mobilising the necessary resources and putting them to productive use. To do so, it will have to be ambitious – not just in size, but also in its priorities and its effective implementation.

The European Commission's proposal for a revised Multiannual Financial Framework and the Next Generation EU are decisive in this regard. And we should not forget that the largest supranational issuance in euro ever announced that is associated with the proposal could also have a positive impact on the international role of the euro.

It will be important to adopt that package quickly. Setting a clear timeline will give more certainty and more confidence to citizens, to businesses and to financial markets. Any delay risks generating negative spillovers and driving up the costs, and hence the financing needs, of this crisis.

European spending will be most effective if its focus is on projects that add real value from a European perspective. The primary common interest is to reduce the fragmentation stemming from the present crisis and divergence in the longer run.

Thanks to the Single Market we are each other's most important trading partners and customers. This was true before the crisis and will especially hold true in a global environment characterised by weak trade and demand. But for the Single Market to work as an engine of convergence, European companies should compete on similar terms. For our joint benefit, European spending should aim to re-establish a level playing field and support those most affected by the crisis.

We also have a common interest in generating the conditions for long-term sustainable growth and protecting the welfare of European citizens. The crisis can be an opportunity to modernise our economies to make them fit for the future. The transition towards a greener economy is a crucial part of this. We have the opportunity to step up the EU's efforts to achieve its sustainability objectives by including climate change and sustainability considerations in the financial response to the COVID-19 pandemic.

Sustainable finance will be key to the transition to a carbon neutral economy. Today, we published our reply to the Commission's public consultation and reaffirmed our readiness, in line with our mandate, to support the efforts of governments, public institutions and the private sector. Moreover, our forthcoming report on the international role of the euro finds that the euro was actually the main currency of denomination for the issuance of green bonds in 2019.

Another key dimension is the digital transformation, and here the recent lockdowns have accelerated the adoption of digital technologies on a broader basis. Now is the time to expedite the digital transformation on a more permanent basis and bring the EU to the frontier of the digital economy. If combined with appropriate reforms at the national level, these measures will strengthen economic resilience and boost our economies in areas with high cross-border spillovers.

Let me conclude briefly. Our common response to this crisis, if used to effectively direct investment towards strategic priority areas, can be a catalyst for realising Europe's longer-term vision. Ensuring a successful recovery will require all EU institutions to do their part. I very much welcome the European Parliament's call for an ambitious European response. I count on this House and this Committee to design a strong and effective Multiannual Financial Framework. At the same time, you can rest assured that the ECB will, within its mandate, continue to support the recovery with all appropriate measures.

Madam Chair, I now stand ready to answer your questions and those of your colleagues.

1-005-0000

Chair. – Thank you very much. Now we start our Q and A session. Please remember that you have two minutes, no more than two minutes, and then President Lagarde can respond directly after the question without me giving her the floor again so we can save some time.

1-006-0000

Markus Ferber (PPE). – Vielen Dank, Frau Lagarde! Schön, Sie bei so guter Gesundheit zu sehen, nachdem wir uns wirklich seit Februar nicht mehr gesehen haben.

Sie haben in der Debatte rund um das Urteil des Bundesverfassungsgerichts zu Recht darauf verwiesen, dass die Europäische Zentralbank allein der Rechtsprechung des Europäischen Gerichtshofs unterstellt ist. Der Europäische Gerichtshof hat in seiner Rechtsprechung die bisherigen Anleihekaufprogramme der Europäischen Zentralbank als rechtskonform bestätigt. Dabei hat er unter anderem darauf verwiesen, dass diese Programme nicht selektiv sind, was er daran festmacht, dass sie sich selbst strenge Ankaufobergrenzen pro Emission und Emittent gesetzt haben, die Käufe bei Staatsanleihen an den Kapitalschlüssel der Zentralbank angelehnt sind und die Kaufprogramme im Volumen und im Zeitraum beschränkt sind. Mit dem PEPP – das Sie ja selber schon vorgestellt haben – haben Sie hingegen jetzt bewusst maximale Flexibilität bei den Ankaufobergrenzen pro Emission und Emittent angekündigt und zumindest suggeriert, dass auch beim Volumen noch Spielraum nach oben besteht.

Deswegen meine Frage: Wie bringen Sie das PEPP-Programm in Einklang mit der Rechtsprechung des Europäischen Gerichtshofs? Und letzte Woche haben Sie ja das PEPP-Programm noch einmal

aufgestockt, obwohl erst ein Drittel des Programms aufgebraucht ist. Es besteht doch dann eher die Gefahr, dass die Munition der Europäischen Zentralbank alsbald aufgebraucht ist.

Gleichzeitig lässt sich auch die Wirksamkeit des PEPP in den ersten Monaten noch schwer abschätzen. Die Auswirkungen auf die Zinskurve und die Inflation scheinen jedenfalls – und da liegen auch schon Studien vor – überschaubar zu sein. War es vor diesem Hintergrund nicht verfrüht, dieses Programm jetzt um sechshundert Milliarden Euro aufzustocken? Und können Sie etwas mehr über die Beweggründe sagen?

1-007-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much for your question, and yes, I very much welcome your comments about the fact that we are in reasonably good shape. And I have to tell you that the ECB was not too much affected by the virus.

We only had 13 of our members who caught the virus and most of them are in good shape, with a couple of exceptions. But luckily, I managed to escape, which is of course a blessing that was not necessarily the fate of all compatriots, given the fatalities that we have to regret and the damage that was inflicted on people and the sacrifices that had to be made by all those who fought hard and risked their lives to make sure that they could save lives.

But thank you so much for noticing, and I'm pleased that you are also in good form and I look forward to seeing all of you continue to be so.

You asked me really two sets of questions, but the one that you have focused on is really the monetary policy instrument that we decided to use last week after having conducted a very thorough analysis of its effectiveness, of its efficiency and of its proportionality. And this is a threefold approach that we take in order to select one, or several, of the monetary policy instruments that we believe will be most adequately suited in order to respond to the situation.

And the situation really helped us identify actually two key factors in order for us to respect our price stability mandate. Number one: we had a clear issue – having to do with the inflation outlook. Price stability, as you know – ever since 2003 – is defined by our yardstick, if I may call it that way, which is inflation of 'close to but below 2%'.

We had to revisit our inflation outlook, which was pre-COVID and set at 1.6% at our medium term horizon. This forecast was revised down by 0.3% down to 1.3% and that was the first factor that triggered our monetary policy response.

The second one had to do with financial tightening, which clearly affected all the market and that was clearly, despite some improvement, and thanks actually to measures that were taken back in March, which was certainly tighter than what we had seen back pre-COVID.

So because of these two factors, it was decided that on the criteria of effectiveness, efficiency and proportionality, under current circumstances of that crisis, PEPP was the best instrument that we could use and we had to use it in order to address these two factors. And we clearly hoped to obtain – number one – the easing of the monetary policy stance in light of the unprecedented contraction in the euro area economy, as well as countering the risk to the smooth transmission of our monetary policy styles to the real economy.

So it's with these two elements that PEPP clearly has already demonstrated its efficiency. I remind you what I was saying in the opening remarks: PEPP, ever since it was determined on March 18,

has actually helped avoid the spiralling down of the financing conditions that we were seeing at play at that point in time.

So I would simply add – because I don't want to run out of time and I have already – I just want to add that extraordinary circumstances call for extraordinary measures. PEPP is definitely an extraordinary measure. It is temporary. It is targeted. It is proportionate. And we have clearly analysed it very carefully, and we believe that under those conditions, in response to the current circumstances, with these two triggering factors launching our effort, we believe that that was actually the right response.

1-008-0000

Marek Belka (S&D). – Let me first say that the reaction of the ECB to the corona crisis has been prompt and sizeable, and I commend you for this.

(brief interruption concerning the remote connection)

However, I have two questions. One is about the prospects of strengthening the role of the euro in the global market. Are you of the opinion that the recovery fund initiated has such a potential to create a safe asset, a truly European abundant safe asset, that is the fundamental thing for increasing the role of the euro?

Number two is about the judgment of the Karlsruhe tribunal. It's about the substance of how it is explained – the judgment, or the criticism of the FCC (Federal Constitutional Court) – and the form.

Which form will the explanation take, and can the European Parliament and the ECON Committee be helpful for you in this?

1-009-0000

Christine Lagarde, President of the European Central Bank. – Thank you so much Mr Belka. Hearing your voice reminds me of the good old days when you were a critical figure at the World Bank and I was trying to help at the IMF.

Strengthening the role of the euro is clearly something that we monitor very closely. In fact, as I have mentioned, our report will be released and will be available on the ECB website in the next few days, certainly before the end of this week.

We also support the policies that indirectly strengthen the euro's global standing and, in this respect, to continue to stress that the international role of the euro is primarily supported by a deeper and more complete Economic and Monetary Union, including one reform where you can play a very important role, which is the Capital Markets Union. Pursuing sound economic policies in the euro area is also crucial for the euro's global attractiveness.

What the Commission has announced and some of the priorities that it has identified will, in our view, strengthen the role of the euro. As I mentioned, the euro already has a head start and provides possible avenues to strengthen its global appeal. And it's quite interesting to see the role that that currency has played in the green bond issuance in 2019. A large majority of them were actually issued in euro, denominated in euro. The renewed sustainable finance strategy could also help to consolidate the position of the EU as a global hub for green finance and strengthen the international role of the euro as the currency of choice.

So, if only in that respect, the euro is already leading the charge. Clearly, as an international currency – as you will see in the report that will soon be released – the role of the euro is now

stabilising and anything that is conducted by the Commission at the moment, I believe, will actually be a positive factor in order to support and reinforce the role of the euro as an international currency and as a strong currency.

On your second point, as Mr Ferber has mentioned, our view is pretty well established: that the ECB is subject to the European Court of Justice, that the European Court of Justice has actually ruled back in December 2018 in areas which have been under the review of the German Constitutional Court.

And, of course, we have taken note of the findings of the German Constitutional Court. We have, in particular, noted that the judgment that it has rendered has targeted two German institutions: in other words, the German Government and the German Parliament. And we indeed hope that, and we are confident that, a good solution will be found by these authorities in order to address the concerns and response to the findings of the German Constitutional Court.

As far as European institutions are concerned, we will provide any support and assistance that can be held helpful to one of its Governing Council members, as we have done in the past in not too dissimilar circumstances and, if so requested, we will try to oblige without ever compromising on our independence, compliance with EU law and validity of the European Court of Justice decision.

In terms of proportionality, in terms of accountability, in terms of transparency, the dialogue that we have on a regular basis – that I hope we continue having in a deeper and more substantive format – is clearly playing its part in the accountability which necessarily goes hand in hand with the independence of the institution.

And clearly the strategic review, which will resume, I hope, shortly, will also be a way to address this issue of accountability and dialogue with the European Parliament. So, in that respect, the European Parliament plays a key role.

1-010-0000

Luis Garicano (Renew). – Thank you, Ms Lagarde, for being here. It's great to see you again and to see you in good health, indeed.

You're facing an enormous challenge trying to fulfil your mandate in these uncertain times, and my view is that the ECB and yourself are doing an excellent job in very, very difficult circumstances. And those circumstances haven't been improved and made easier by the Karlsruhe verdict. In its decision on the PSPP (the Public Sector Purchase Programme), the Karlsruhe Court said that a purchase limit of 33% and the distribution of purchases, according to the ECB's capital key, have so far prevented selective measures being taken and, to this extent, these are the crucial safeguards based on which it can be concluded that these are – okay.

Now, the purchases of Italian debt under the PEPP Programme have been running at 25% of total purchases, and the capital key 17% for Italy. I believe this is necessary and I support the ECB's discretion in this respect. But what is your view? To what extent – that's my first question – do you see the prohibition of monetary financing in Article 123 as limiting the ability of the PEPP to deviate, or for your purchases to deviate, from the capital key?

My second question concerns your last point: the role that you just mentioned, the role of the Parliament in this monetary dialogue. Again, the Karlsruhe Court said that the Bundestag is, in ultra vires, is forced to take steps to ensure that the ECB conducts proportionality assessment in relation to the ECB.

I agree with what you just said: that this dialogue, this monetary dialogue, is essential ensuring that the programmes are proportional, that they are transparent, that they are properly conducted, and in this respect I would like to ask you to comment on the role of the European Parliament in doing this. And I also would like you to comment – you said this dialogue will get deeper and more substantive over time – and that’s my second question: what would be your suggestions to us, the European Parliament, to make sure that these dialogues are productive and that we are undertaking our monitoring function as well as we can and as we should?

1-011-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much, Minister – Mr Garicano – I’m sorry, I’m elevating you to another forum here! I think your first question really relates to the issue of the capital key, but I would first of all observe that anything that you read or that we have read in the Karlsruhe Constitutional Court decision explicitly refers to non-PEPP measures. It’s explicitly stated in there. Now I know that commentators draw some conclusions from alternative provisions in the very lengthy and very deep review of the matters, but, you know, it’s clearly excluded, so we have to take things at face value. The ruling relates to the PSPP, as did the European Court of Justice decision, which stated a number of characteristics and safeguards. So, as I said, the PEPP was really thought through for extraordinary times and is therefore an extraordinary tool of our monetary policy toolbox. As I said earlier on, it is temporary: we have set a horizon which is at least June 2021 or any time when the Governing Council determines that the crisis is over. It is targeted, because it’s really intended to prevent and repair the damage caused by COVID-19. And it is proportionate, so we have measured its potential impact and direct and indirect effects in order to make sure that it was the best tool we had to use in the circumstances.

So, back to the point of the capital keys. The capital keys provide a general guide to our purchases under PEPP, but it does not have to be applied at each and every point in time, so there can be deviation at any point in time. And clearly, when you look at the numbers that have been published a few days ago, it is clearly the case that it can – and it did, and it does, and it will – deviate from capital keys in order to reach the goals that we assign to the tool that we are using.

I think it was in the DNA of PEPP when it was first invented in mid-March 2020 that – and I quote from memory, but it was clearly in the statement that was issued and released after the decision was made by the Governing Council – even with self-imposed limits that would impair the proper functioning of monetary policy and implementation of our measures, then we would consider deviating and reconsidering those self-imposed limits. This is clearly the case with the capital key deviation that can take place at any point in time during the life of PEPP.

So to your second point, which has to do with the role of the European Parliament, particularly bearing in mind the strategy review. I don’t want to prejudge, because the strategy review has had time to start, and then we had to just put a big brake on everything that we were conducting, including the reaching-out exercise, including all the efforts that we had been considering to involve as much as possible Parliament, but also civil society representatives, academics and all those interested in monetary policy and how it defines elements of economic development, starting with our primary mandate, which is price stability.

I don’t want to prejudge and tell you already – because it would be my view – what role Parliament can play. I think it is going to be part of their strategy review dialogue to actually explore what kind of role Parliament can play, and in particular the Committee on Economic and Monetary Affairs (ECON), which is so interested in those matters. I would simply say that we have to be mindful of the independence of the Central Bank, and I think that independence goes hand in hand with accountability – but it doesn’t mean co-determination. The monetary policy

determination has to be conducted by the Governing Council, as is provided by the Treaties and by all the supporting architecture that was put together by the founding documents of the ECB. So I know there will be extensive discussions on this matter, but I don't want to prejudge.

1-012-0000

Antonio Maria Rinaldi (ID). – Signora Presidente, apprezzando la decisione della BCE, nell'ambito del suo mandato e della sua autonomia statutaria, di incrementare di 600 miliardi il programma PEPP portandolo a 1 350 miliardi utilizzabili fino al giugno 2021, è possibile tuttavia trarre queste logiche considerazioni: il programma PEPP è di fatto essenzialmente a "costo zero" per i paesi partecipanti in quanto come prassi la BCE per garantire la proporzionalità effettua gli acquisti in titoli con il criterio della chiave di capitale e gli interessi maturati vengono trasferiti alle rispettive banche centrali nazionali, che a loro volta vengono retrocessi nelle casse del proprio Tesoro e il tutto in assenza del rischio inflattivo che possa infrangere al rialzo il *target* del 2 % nonostante la massiccia iniezione di liquidità nel sistema e riducendo gli spread; il *Board* della BCE ha valutato, più di tutte le altre istituzioni europee, la gravità della situazione macroeconomica dell'eurozona e che la proposta "Next Generation", così come enunciata dalla Presidente Ursula von der Leyen al Parlamento europeo il 27 maggio scorso, molto difficilmente sarà attuata nella sua impostazione originaria.

La proposta della Commissione, inoltre, ricalca le linee di politica industriale concepite già anni fa, in un altro scenario congiunturale, ed è ora stato solamente trasposto meccanicamente senza tenere conto della sopravvenuta situazione di crisi economica determinata dalla pandemia che invece incide essenzialmente sui livelli occupazionali e il mantenimento in vita delle realtà produttive.

Questa analisi, supportata anche dall'autorevole Voxeu.org, individua che se tali politiche industriali fossero messe in atto determinerebbero una caduta importante del tasso occupazionale, esattamente l'opposto di ciò che si necessita per risollevare le economie continentali.

Il *Board* della BCE avrà inoltre sicuramente intuito che la proposta della Commissione difficilmente raggiungerà l'unanimità se non a costo di profonde revisioni al ribasso che la stravolgeranno dilatandone notevolmente i tempi di revisione proprio in questo momento, invece, di maggiore necessità e, pertanto, ha ben fatto nel prendere la decisione di incrementare notevolmente il programma PEPP per far affluire immediatamente liquidità.

Inoltre il pacchetto "Next Generation" prevede ben precisate riforme e investimenti per rendere le economie più digitali e più verdi per chi desidera avere accesso ai finanziamenti, così come dichiarato dal vicepresidente Dombrovskis. Le risorse disponibili saranno comunque poco utilizzabili con la stessa intensità da tutti gli attori economici.

In ultima analisi, concludo dicendo che in pochi minuti di conferenza stampa di giovedì scorso 4 giugno, la BCE ha enunciato un'ottima alternativa a quella della Commissione dotando di strumenti efficaci ed immediati l'intera eurozona per fronteggiare la devastante crisi economica correlata alla pandemia, e soprattutto, questo è il punto, ha di fatto neutralizzato sia il *Recovery Fund*, che il MES e il SURE. Praticamente ha fatto la vera Banca centrale.

1-013-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your support, for your views. I'm not sure that there was actually a question embedded in your comments, but I take good note of your remarks. Thank you so much, Mr Rinaldi.

1-014-0000

Chair. – Now we move on to Sven Giegold. I just want to remind you that when you have questions, if you read very, very fast it is very problematic for the interpreters. If your question is not in English, please make sure you ask your questions in a way that is short enough for the interpreters.

1-015-0000

Sven Giegold (Verts/ALE). – Frau Lagarde! Zunächst einmal möchte ich sagen, dass ich finde, dass Sie und Ihre Institution völlig angemessen auf das Urteil des Bundesverfassungsgerichts reagiert haben. Das war, finde ich, die richtige Reaktion.

Ich danke auch für die Erklärung, die Sie heute hier nochmal zum PSPP-Programm und seiner Angemessenheit und Proportionalität abgegeben haben. Ich hoffe, dass das gemeinsam mit dem, was Sie dazu schon erklärt haben, eine gute Basis für die Berliner Verfassungsorgane ist, um diese Forderungen an die Bundesbank, die im Urteil angelegt sind, letztlich zu klären und festzustellen, dass die Proportionalität der Maßnahmen vernünftig dargestellt wurde.

Ich bin weniger optimistisch, was das PEPP-Programm angeht. Beim PEPP-Programm sehe ich vor allem auch eine *Imbalance* – um es so zu sagen. Sie haben hier jetzt in sehr kurzer Zeit zu Recht ein großes Rad gedreht. Aber ich finde, Sie haben auch im Vergleich zu dem, was früher die Linie der EZB war, die europäischen Institutionen zu wenig dazu gedrängt, auch langfristig mit der Fiskalpolitik die Rolle zu spielen, durch die Sie mit ihrer Geldpolitik mehr Luft bekommen. Zu schnell hat die EZB aus meiner Sicht hier jetzt Verantwortung übernommen, ohne gleichzeitig eine dauerhafte Klärung für eine gemeinsame Fiskal- und Steuerpolitik in Europa auf den Weg zu bringen. Ich würde mir dort eine lautere Stimme wünschen.

Zum Zweiten eine letzte Frage: Im Rahmen der Überarbeitung der Strategie der EZB sollten wir aus meiner Sicht auch über ein *Update* der Rechenschaftspflichtigkeit gegenüber dem Parlament sprechen. Ich glaube, unser Dialog kann noch mehr an Tiefe und Qualität gewinnen. Das läuft schon sehr gut, aber damit dieses Missverständnis nicht mehr entstehen kann, dass es keinen ausreichenden Ort dafür gibt, würde ich Sie deshalb fragen, ob Sie offen dafür wären, dass wir im Rahmen der strategischen *Reviews* Ihrer Institution auch unseren Dialog vertiefen und dafür sorgen, dass er noch mehr an Qualität gewinnt?

1-016-0000

Christine Lagarde, President of the European Central Bank. – Thank you so much. *Danke schön, Herr Giegold.* Unfortunately, my German, which is making a little bit of progress, is not going to take me much further than that.

It's funny that actually you are concerned that we were too quick to respond to the dramatic situation because, in your view, we should have waited a little longer and maybe the fiscal response by the European authorities would have been faster, would have been better.

You know, I have to tell you that when we saw the deterioration, when we realised – one country after the other the impact of the shutdown of the economy, the likelihood of the economic impact of the lockdowns that were imposed on all sectors of the economy except the vital ones and those that just simply had to continue for health and safety and survival reasons – we had to take action.

And it felt very much that way, particularly on the night of the 18th, when the Governing Council decided to actually launch the pandemic emergency purchase programme. I really do not think that any of us on the Governing Council had on our mind the fact that we should game and we should anticipate and just wait for others to move. We just had to do what we had to do, that was our duty: we have a mandate and we were seeing the risk of the negative spiral accelerating and we

just had to respond. Our monetary policy had to be transmitted to all corners of the euro area. I think there was no option but to do what we had to do.

I would also observe that, from a fiscal standpoint, a lot of extraordinary actions were decided at the national level, but also at the European level. At the national level, it is no less than 3.5% of European GDP that is now being spent on fiscal expenditure. That's not to include the massive measures that were also decided in order to guarantee the lending that was being done by banks in order to just keep the economy afloat and to make sure that working capital of companies that were just losing revenue because they had to stop activity, would not just dry up and that salaries could be paid, that payroll could be done and that rents could be honoured.

So, I think that there was a national response. It was complemented quite rapidly by the European response under the leadership of President von der Leyen. I think that the Commission went out to find any funding that was still available in order to apply it to the crisis and quite widely, based on my personal experience of the birth of those programmes, to address the concerns of sovereign with the ESM, the concerns of companies with the EIB and the concerns of employees with the SURE programmes that were put together quite rapidly. There was also a response at that level of the European institutions.

So, number one, we did what we had to do and we had to do it rapidly in order to stop the negative spiralling and to make sure that there was monetary policy transmission. Number two, fiscal authorities also rose to the occasion and also went about their duties.

On the strategic review and what we can do together, I very much welcome a dialogue, I very much welcome that this be also the topic of our quarterly hearing and we are going to use digital communication, more so than ever, because we now have more than two months under our belt, if I may say, of using those devices in order to have as rich, dense and diverse a dialogue as we can, and the European Parliament will play a key role in that respect.

On the topic of effectiveness, efficiency and proportionality of our tools: we have been doing that for a long time with the Parliament, we will continue doing so and to the extent that we all decide that transparency is a necessity, then we'll do more of it for sure.

1-017-0000

Derk Jan Eppink (ECR). – Madam President, it was very nice to hear the quote of Charles Dickens in your introduction. Charles Dickens has written a lot, also about debt! In David Copperfield, he wrote: 'debt results in misery'. His main person actually accumulated so much debt through overspending that he ended up in a debt prison.

Now Madam President, you're piling up a lot of debt on debt and it's historically as if there's no tomorrow. Had Charles Dickens lived today, probably, he would describe you as the '*Marie Antoinette de la dette*'!

The ECB policy is in fact bound to keep interest rates permanently low to avoid bankruptcies in southern Europe. This hurts the savers and pension funds in northern Member States. It also hurts the banks themselves.

How long is the ECB willing to go on, on this political route? Is there an end to it? Is there a ceiling? Is it 100% of the GDP of the eurozone, in which case we are nearly half-way. Thank you, and I've stayed within my time!

1-018-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much, Mr Eppink. I would like to assure you that the key concern that we have in designing our monetary policy instruments, in assessing them individually and as a package, has to do with delivering on our mandate, which is price stability, and in making sure that the circumstances of economic development, of sustainable growth are actually gathered in order to contribute to the creation of jobs and in order to contribute to the economic growth going forward.

That, in and of itself, is not the purpose that we're pursuing. So I would encourage you to not refer to me as the 'queen of debt', but if I can be, together with the ECB, referred to as the prompt respondent to an economic crisis that from a sanitary, to an economic, to a financial crisis could have engulfed the euro area in a negative spiral, then we certainly claim to this effort. But, I can assure you that our intention is precisely the one that I have just mentioned.

1-019-0000

Manon Aubry (GUE/NGL). – Madame Lagarde, c'est en effet un temps intéressant pour vous interroger sur la politique monétaire européenne. Et je vais commencer avec une question qui semble toute simple, mais qui, je pense, est essentielle, à propos de la politique monétaire européenne actuelle. Pensez-vous qu'il y a de l'argent magique?

Si vous répondez non à cette question, ce que je suppose, alors d'où viennent les 1 350 milliards d'euros du nouveau programme de rachat d'aide de la BCE face au coronavirus? Et combien la BCE pourrait-elle injecter en tout? Puis, finalement, une question qui est sous-jacente: la BCE pourrait-elle faire faillite?

Je pose toutes ces questions parce que je me souviens de votre prédécesseur, Mario Draghi, qui avait été interrogé sur le sujet et qui avait assuré que la Banque centrale européenne ne pouvait pas venir à court d'argent. Et donc, si elle ne peut pas venir à court d'argent, pourquoi ne pas annuler les dettes publiques qui sont déjà détenues au bilan de la Banque centrale européenne? Cela permettrait de soulager significativement les États pour la relance, plutôt que de faire peser cela sur les épaules des citoyens européens comme une forme d'épée de Damoclès.

Et une question sous-jacente à cela: qui est légitime pour décider de ce qu'il faut faire de la politique monétaire? Et manifestement, au vu du peu d'échanges que nous avons, que ce soit à nous, parlementaires, ou aux citoyens européens, on ne nous demande pas vraiment notre avis sur cet usage de la politique monétaire. Et si on nous le demandait, peut-être que ces milliards ne bénéficieraient pas à des multinationales polluantes, comme vient de le démontrer l'ONG Greenpeace, qui révèle que pas moins de 7 milliards et demi du programme coronavirus ont profité aux énergies fossiles.

Et ce déficit démocratique de la politique monétaire est, je pense, d'autant plus problématique que les personnes qui pilotent la politique monétaire aujourd'hui, semblent sujettes à des conflits d'intérêt. Je pense à plusieurs membres du conseil des gouverneurs, qui détiennent des titres d'entreprises éligibles à vos programmes de rachat de dettes, comme Isabel Schnabel, qui possède des actions dans Bayer. Je pense aussi à un autre cadre de premier plan, Natacha Valla, qui est directrice générale adjointe pour la politique monétaire. Selon vos listings, elle est encore officiellement en poste et, dans sa carrière, elle a multiplié les conflits d'intérêt, comme l'a révélé Mediapart. Dernièrement, elle a été élue au conseil d'administration de LVMH, une entreprise qui bénéficie aussi du programme de rachats de titres. Donc, je vous remercie de nous éclairer.

1-020-0000

Christine Lagarde, *President of the European Central Bank*. – Merci beaucoup, Madame Aubry, pour votre question. I'm going to switch back to English for everybody's comfort.

Let me tell you what we have tried to focus on in our monetary policy determination in the last three months. We were facing an extraordinary crisis that caused all the economies of the euro area to just freeze, stop. That would have inflicted incredible income losses on all citizens, predominantly those who were self-employed, but also SMEs, in particular.

In addition to that, we also saw the negative spiralling of financing conditions, and particular segments where liquidity was drying up rapidly. So the ECB and the Governing Council decided, first of all, to make sure there was plenty of liquidity in the system so that we did not have a complete dry-up and seizure of the economy as I witnessed it back in the great financial crisis.

Secondly, we also decided to make sure that as much credit as possible could flow to the entire economy. We put in place the LTRO and made sure that banks, which are the dominant provider of financing in our region of the world, could be incentivised to continue lending to corporates, to SMEs and to households. That was the second goal that we pursued – make sure that there is credit flowing into the economy so that, again, employers could have the working capital in order to pay the rent, and in order to make the payroll.

The third avenue that we pursued, which is a normal attribute and a normal tool of monetary policy, is to expand asset purchases. In doing so, back on 12 March, we decided to increase the PSPP, which was scheduled ever since last September to buy an additional 20 billion per month. We increased it by 120 billion, as it clearly had to be increased significantly [*inaudible passage*] and temporarily defined in order to deal with the damage caused by the pandemic.

That's how we created the PEPP, which is clearly buying bonds, assets, and predominantly roughly 80% of public – in other words, sovereign – bonds. That's really the largest packet of our purchases. Roughly 20% of it is on corporate bonds and commercial paper purchases. There's an interesting element about that larger part, which is that because we are very active in that respect and because we want to push all companies, it is clearly necessary to make sure that SMEs have access to finance. So, the ECB is monitoring very closely the implications of the economic fallout of the COVID-19 pandemic for the financing condition of SMEs in particular, and the transmission of its monetary policy in general.

We have calibrated our monetary policy measures so that we get through to the citizens and sectors most in need of support, notably SMEs, with a view to avoiding the seizure that we would have had, had we not been active.

So this is what we've done, and certainly not with any other, ulterior, motive.

1-021-0000

Chair. – Thank you very much. Now we've finished the first round of questions. Before starting the second round, and since we are really running very late, I will have to change the rules a little bit. I will allow one minute per question. So you can ask only one question, because if you ask two or three questions instead of one it not only takes more time for the question, but it is also impossible for President Lagarde to answer in three minutes.

Now we will start the second round – one minute, one question – and I would ask the secretariat to help me in managing the time because for me it's very difficult if I jump in to cut off the speaker. It's very unpleasant and I don't like to do it.

The next speaker is Frances Fitzgerald from the PPE.

1-022-0000

Frances Fitzgerald (PPE). – Good afternoon, Ms Lagarde, I trust you can hear me OK. Thank you and your team for the work that you have been doing. I did have two questions, I might shorten them. I was very pleased to hear you talking about the opportunity to modernise from a climate-change, gender and so on point of view, I think it's a real opportunity. In terms of the fiscal stimulus that is available at the moment, I wanted to ask you if you thought that eurozone governments are doing enough in terms of fiscal stimulus at this time? Do you think eurozone governments, eurozone countries, are making the best use of the ECB's pandemic purchase programme? It may be a little early to judge that.

And very briefly within the one minute, I would ask you whether you have any plans to change the approach to the so-called 'fallen angel' companies. There is a change in the USA. At what point and under what conditions would you consider allowing for the ECB to outright purchase the bonds of these companies?

1-023-0000

Christine Lagarde, President of the European Central Bank. – Clearly it is in the interest of all countries that there be a coordinated fiscal reaction. Intra-euro-area trade makes up about 45% of euro area GDP; supply chains are three times more integrated in the euro area than they are with the US and China, and without effective action, supply chain interlinkages will multiply the shock caused by the lockdown measures and hamper the recovery.

So it's not enough that they be the right level of fiscal response, which is going to be a matter of, clearly, how affected by COVID-19 countries are; what kind of – I was going to use the word business model – a country has: whether it depends heavily on tourism, whether it is export-driven or not. That is going to really have an impact on how the fiscal response is designed and calibrated.

But, what I regard as very specific to the euro area is the fact that it has to be coordinated. We are each others' best partner, best clients. We are each others' supply chain links, and we have to make sure that we prevent and repair the impact of coronavirus for all of those countries, individually but also collectively. And that's the reason why I think some of the European-wide instruments that are being designed – particularly using the European Investment Bank, but also the SURE programme, the European Stability Mechanism – are clearly important in order to enhance the coordination that is so badly needed.

Your second question, having to do with the 'fallen angel' issue, is something that we have not discussed at the Governing Council, and clearly we will be monitoring this going forward. We don't want procyclicality to be an aggravating factor or an impairment to our monetary policy, and we will monitor carefully.

1-024-0000

Paul Tang (S&D). – I would like to underline the words by my colleague, Marek Belka, and thank you for the prompt response to the COVID-19 crisis.

To be short, I want to ask you about the negative implications of the corporate sector and the purchase programme and the PEPP.

First of all, the ECB buys hundreds of millions of corporate assets, including from polluting companies like Shell and Total, and socially-harmful companies like British American Tobacco.

At the same time, these same companies benefit from the cheap loans but bring the benefits of the cheap loans not to the real economy but bring them to the shareholders. So Shell and BAT paid out EUR 1.3 billion in dividends and Louis Vuitton EUR 2.6 billion in dividends.

The first question is: is it possible for the ECB to restrict share buybacks or dividend payments in order to increase the effects on the real economy?

Second, sustainable finance is key to the green transition, you write today, and I think the report is good. Can't the ECB live up to it? Can it not apply the 'do no significant harm' principle and restrict the assets from companies like Shell and BAT so that they do not include socially or environmentally harmful companies?

1-025-0000

Christine Lagarde, *President of the European Central Bank*. – I will first pick up on the share buyback and dividend payments because as you know we've been quite attentive to this, and although not directly as the ECB, but the Single Supervisory Mechanism (SSM) with which you have a regular dialogue, together with other institutions, asked and strongly recommended to banks not to proceed to share buybacks and not to proceed to payment of dividends. There are institutions towards which the SSM has authority and can make recommendations. This is not the case in the entire corporate world, but in the area where the SSM, which is indeed separate from the ECB when it conducts its monetary policy – and I'm aware of the distinction between the two – but the SSM is clearly active, and you will hear me later on responding to your questions as Chair of the European Systemic Risk Board (ESRB), and again the ESRB to a broader audience of players and with a further horizon is also making the same recommendation of no share buyback and no payment of dividends for reasons that I will be happy to develop later on as Chair of the ESRB and reporting as such.

On your issue of essentially the greening of the ECB Corporate Sector Purchase Programme (CSPP) portfolio, I think first of all the immediate focus that we have pursued had to do with addressing the economic consequences of the coronavirus pandemic. And as I said earlier on, there was urgency, we had to live up to the challenge and to respond to the crisis. We did so, we moved very fast and clearly that was the order of the day.

Second, I would say that the euro system – so the ECB and the 19 central banks of the 19 Member States – hold close to 20% of CSPP-eligible green bonds whose proceeds are used to finance projects with an environmental benefit. So our purchases of those green bonds reduce their yields and hence support their issuance. In addition, the more this market segment develops and grows, the more the euro system will purchase green bonds. Let me add – and this is not to undermine the strength of your argument, which I very much recognise, certainly from a personal point of view which I hope I will share more and more with members of the Governing Council and with the institution at large – the backward-looking analysis of the carbon intensity of our purchases based on sectoral data can be misleading. I think a meaningful exercise would actually require more granular data, and as you know in the report that you referred to, first of all – and I would like to actually recognise, acknowledge and celebrate the work that you have done as the Parliament in order to push the taxonomy as much as you have and that is going to be helpful – I think we need more. We need the Commission to continue its work in terms of implementation and making all the technical decisions that are needed in order for us to act upon it. But we are also asking that maybe further and more work be done in order to identify not just what is green and what is *a contrario* non-green, but what is actually brown, and that's where it often proves to be difficult politically. I completely recognise that is where granular data is going to be needed and helpful, because the energy sector, which you mentioned, is a very large issuer of bonds indeed, but they do issue bonds sometimes also for green purposes. So we need to conduct a really deep

and granular, almost a per-issuance basis analysis of the not granularity, but the 'greenality' or the 'brownality' of the bonds in order to ascertain exactly where and how we support this fight against climate change, which I think is critically important, although subservient to our price-stability objective, which is our primary mandate. But the more you, the more the Commission, the more the Member States align their objectives with the green dimension, with the fight against climate change, with the fight for diversity, clearly the more legitimate this green economy becomes, and therefore, through price stability, our primary mandate, we have to support it.

1-026-0000

Stéphanie Yon-Courtin (Renew). – Madame Lagarde, merci pour votre engagement déterminé à soutenir l'économie dans cette pandémie sans précédent, comme vous vous étiez engagée à le faire devant nous. Je veux vous remercier également de vous adresser directement aux Européens, comme vous l'avez fait notamment à la télévision française, jeudi dernier.

Nous devons rappeler à nos citoyens que l'Europe est là auprès d'eux en ces temps difficiles. Et vous incarnez avec d'autres, cette voix de l'Europe qui doit porter dans tous les territoires, et je pense en particulier à la Normandie, qui je le sais, vous est chère, tout comme à moi.

La semaine dernière a malheureusement confirmé que les négociations sur le Brexit sont en panne, notamment parce les Britanniques remettent en cause leurs engagements passés, pourtant écrits noir sur blanc dans la déclaration politique, signée par le Premier ministre britannique.

Au-delà des conséquences immédiates d'un possible «no deal», qui serait désastreux pour le Royaume-Uni et pour nous également, cela pose la question de la coopération dans le futur, notamment au niveau international, pour assurer la stabilité financière.

Alors de votre point de vue, Madame, celui de la Banque centrale européenne, comment pouvons-nous assurer que les Britanniques coopèrent à l'avenir sur ces enjeux si cruciaux, tout en protégeant les intérêts européens?

1-027-0000

Christine Lagarde, présidente de la Banque centrale européenne. – Je reconnais en vous la Normandie et le souci que nous avons l'une et l'autre des rapports qu'entretiennent la Grande-Bretagne avec le reste de l'Europe, et la côte normande est évidemment directement impactée.

I will revert to English in response to your question on Brexit.

The ECB has no role in the negotiations and the process is fully in the able hands of the European Commission and of Michel Barnier, who's receiving mandate from the Member States on the one hand, and the UK Government on the other hand.

So we are closely monitoring all economic and financial-sector risks in the context of the COVID-19 pandemic and re-evaluating how they might interact with those associated from different Brexit scenarios.

Given the unprecedented challenges for the global economy, a sudden transition to World Trade Organization trading rules at the end of this year could raise additional concerns for the euro area, although fewer concerns, in our view, than it would for the UK itself.

Current macro-financial risks could be intensified if a no-free-trade Brexit agreement scenario interacts with the ongoing global economic shock.

So it remains crucial, in our view, that the euro-area banks and other market participants use the remaining time to implement their Brexit plans so that they are prepared for change in the regime after the transition period ends.

1-029-0000

Sven Simon (PPE). – Madam President, one of the structural problems of the euro is that the eurozone is macro economically divided between north and south, and the coronavirus seems to widen Europe's north-south economic divide. The ECB tries its best with monetary policy measures to counteract but the success is limited. I think you agree with that.

You mentioned now the Next Generation EU programme. From your point of view, which structural reforms do we have to take with economic policy by means of the European recovery instrument so that we counteract the imbalance? And, taken the weak legal basis of the instrument, do you see the need for a treaty reform to provide the EU with more competencies that will enable it to force structural reforms in the Member States in order to support your policy and reduce the macroeconomic divide?

And you mentioned that you are aware that the PEPP does not fulfil the criteria of the European Court of Justice, perhaps you could elaborate a little bit more why, nevertheless, you think that the PEPP is within the Treaties or in accordance with the Treaties.

1-030-0000

Christine Lagarde, President of the European Central Bank. – Mr Simon, I would like to challenge you on that last statement. I've never said that the PEPP does not conform or comply with the ECJ rules in respect of the PSPP. Each and every programme that we design and that we regard as most effective, most efficient, most proportionate is going to be different. So I would certainly not derive from a particular assessment in relation to a particular programme any general rules or general principles.

That's my first point in response to your sort of over-generalisation of the European Court of Justice findings that were applied to the PSPP and not at all to the Pandemic Emergency Purchase Programme.

On the other point, you raise a very interesting issue as to what structural reforms would be most adequate. I'm sure that this is a question that crossed the mind of President von der Leyen and all the members of the Commission when they started designing the recovery and resilience plan. To that question, clearly, there are probably as many answers as there are Member States, because clearly the national plans that will identify the reforms will be specific to each and every Member State.

In one particular country it will probably be about reforming the justice system, in another country it will be changing or redesigning a bankruptcy law. In another country it will have to do with capital market terms and conditions. In others it will be about facilitating the providing of services in accordance with various principles that have been identified.

So there is no one single recipe, and that is the reason why the recovery and resilience facility that has been proposed by the Commission has actually the potential to support the recovery and mitigate economic divergences caused by COVID-19, which has hit with a symmetric shock but clearly delivering non-symmetric damage to the various Member States of the European Union.

So, by using the national plans and making sure that the right structural reforms are associated with the recovery and resilience plan, I think the Commission is exactly pointing the finger at

where divergence can be reduced, where a more level playing field can be restored, so that the whole single market can be more effective and we can help each other better.

1-031-0000

Gunnar Beck (ID). – Good afternoon to you, Madame Lagarde. I'll leave the metaphors about the necklace affair and Madame de Pompadour to Ms Merkel and Ms von der Leyen, I think they are more deserving in that respect, and your predecessor left you an unenviable task.

It has been suggested here today that the ECB provide a proportionality assessment to the fiscal and wider economic consequences of its QE programmes relative to its monetary policy goals as part of the monetary dialogue with this committee or possibly do so by way of an additional chapter in its strategic review or by publishing its internal deliberations.

My question is, are you confident that such an assessment will meet the conditions of the German Federal Constitutional Court as set out on 5 May 2020, especially in paragraphs 234 and 5 of the judgment, which require a direct response to the FCC, as well as a new Governing Council decision? A simple yes or no question.

1-032-0000

Christine Lagarde, President of the European Central Bank. – Thank you so much, Mr Beck, for your very pointed question.

We are all interested in the findings of reputable and respectable constitutional courts as the Karlsruhe Court, but I'm very strongly of the view that the European Central Bank is subject to EU law, is governed by EU law and that its jurisdiction is the European Court of Justice, which has determined that the PEPP is actually in compliance with the mandate of the European Central Bank.

So as I said, mindful of decisions that have been rendered, the ECB is also confident that a good solution will be found and it will certainly see how it can support and help its Governing Council members in order to respond to any request that this Governing Council mandate would be under.

As far as the effectiveness, efficiency and proportionality that we apply to our monetary policy decisions, we clearly intend to continue to have the dialogue that we've always had with the European Parliament in that respect whenever new instruments were designed, whenever new decisions were made, whenever calibrations were conducted, and we will continue doing so.

I have tried to identify for you in the context of my opening remarks the proportionality aspect of PEPP and the reasons why it appeared to us based on very thorough and deep analysis and comparative elements and counter-factuals running that the PEPP was the right instrument to respond to the current exceptional circumstances.

We will continue to have this dialogue and, as I said earlier on as well, as part of our strategy review, we will endeavour to listen to your views, to the views of civil society, in order to make sure that we are as accountable as we should be given the independence that we benefit from, and given the mandate that is driving our action.

1-033-0000

Joachim Schuster (S&D). – Frau Lagarde! Ich will jetzt viele Sachen nicht wiederholen, weil vieles schon gesagt wurde. Gleichzeitig möchte ich aber nochmals kurz auf das Urteil des Bundesverfassungsgerichts eingehen, das ich dem Europäischen Gerichtshof aber auch insgesamt dem Vertragswerk der Europäischen Union gegenüber als ziemlich anmaßend erachte. Denn man kann die negativen Punkte, die das Verfassungsgericht beschrieben hat, ja eigentlich durchaus auch so interpretieren, dass da vor allen Dingen ein Defizit der wirtschafts- und finanzpolitischen

Koordinierung in Europa zum Ausdruck kommt, weil die Geldpolitik ansonsten natürlich bestimmte Auswirkungen gar nicht erst gehabt hätte.

Das führt mich zu der Frage, die mich jetzt für die Zukunft interessiert. Und zwar wird natürlich im Moment richtigerweise sehr viel Geld in den Markt gepumpt, die Konjunkturprogramme laufen in vielen Bereichen über Verschuldung, was auch im Moment alternativlos ist. Aber natürlich birgt das mittelfristig inflationäre Gefahren. Deswegen stellt sich für mich die Frage: Wie stellen Sie sich eigentlich eine Abstimmung zwischen Geldpolitik und Finanzpolitik vor, um inflationäre Gefahren zu minimieren? Es geht um mittelfristige Gefahren, denn ich weiß, dass es kurzfristig im Moment keine Anzeichen dafür gibt.

Und umgekehrt hatten wir es nach der letzten Krise, dass keine inflationären Gefahren da waren, sondern wir es mit Deflation zu tun hatten. Welche Kombination also von Geld- und Finanzpolitik schwebt Ihnen eigentlich vor, um weder Deflation noch Inflation anzukurbeln?

1-034-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much, Mr Schuster.

Once again, to put things in perspective, we have a primary mandate and that primary mandate is price stability. We use all the devices that are available, and I think that what we have at the moment is a whole package, which brings together very low interest rates, forward guidance, different categories of purchase programmes and the long-term refinancing operations, as well as a pandemic-specific liquidity backstop. And it is the whole package that we assess to determine the optimal response in order to deliver on our mandate of price stability.

Second, I would observe that, as some of your colleagues have indicated, we have seen quite a powerful fiscal response in very short order, both at the national level, but also at European level. And you will be key actors in debating the MFF in order to also identify the tools that will be used from a fiscal point of view in order to respond to the situation.

My hope is that, in the present circumstances, fiscal and monetary can actually work hand-in-hand in order to provide a platform from which our economies will be able to be repaired, and we'll bounce back with a slightly different – actually significantly different – focus on green and digital. That is my very dear hope.

1-035-0000

Karima Delli (Verts/ALE). – Madame Lagarde, l'Union européenne fait face à une polycrise: une crise sanitaire, environnementale, économique, mais surtout sociale, d'une violence inouïe, qui touche en priorité les populations les plus fragiles.

Et donc, des mesures conséquentes sur les plans budgétaire et monétaire ont été et sont plus que jamais nécessaires. Dans le respect de vos compétences sur ce deuxième point, je tiens à saluer la réactivité de la Banque centrale européenne, à cet égard, avec notamment les annonces de rachat de titres de dette publique sur le marché secondaire.

Ces actions ne marquent cependant pas la fin de l'histoire. Ainsi, pour laisser de la marge de manœuvre aux États membres pour une relance nécessaire de l'économie, l'annulation pure et simple de titres de dette est nécessaire.

Donc juridiquement, avec l'interprétation des traités, des protocoles qui sont attachés à cette annulation, cette annulation est possible. J'aimerais donc, Mme Lagarde, que vous m'indiquiez, si vous le voulez bien, dans quelle mesure cette option serait envisageable?

Est-ce que la Banque centrale européenne compte procéder à de telles opérations de rachats de dette sur le marché primaire? Et pour revenir au rachat de titres de dette sur le marché secondaire, laissez-vous la porte ouverte à des opérations encore plus conséquentes en cas de besoin?

Enfin, vous avez évoqué la problématique environnementale, qui est extrêmement importante. Quels sont les leviers d'action dont vous disposez pour enfin intégrer au sein de cette Banque centrale européenne des indicateurs écologiques, pour que, justement, dans vos opérations, cela rentre dans une politique monétaire qui soit conforme au pacte vert et aux accords de Paris?

1-036-0000

Christine Lagarde, *President of the European Central Bank*. – Well, thank you very much for your two points.

On the first point that you made, you know, to me it's pretty straightforward and simple. There's Article 127 of the Treaty, which forbids monetary financing. So this is not something that is allowed. This is not something that we will consider and the safeguards that are associated with each and every programme that we design are precisely intended to prevent the monetary financing that is forbidden under the Treaty.

On the second issue, clearly, we have to align as much as we can and in accordance with our mandate, which is price stability. We have to align with the objective of the economic growth and development policies that are decided by Member States in the European Council, with the European Commission as indicated by President von der Leyen, and clearly, green is one of the driving factors. We need to be in support. We need to be associated and we will participate, as I said, to the extent that it is compatible with our primary mandate of price stability.

There are multiple dimensions that green policies can take, whether it's in relation to the identification of the risks resulting from climate change, which need to be factored into our economic models, for instance, which need to be taken into account in the risk assessments that we make, in conducting the stress test exercises that are done. Whether it is, I hope one day, in the determination of the value of the collateral rules that we receive and we will explore all these dimensions.

As you know, if you were around when I presented the objectives of my strategy review or when I had my hearings prior to my appointment, climate change and biodiversity are two key principles that I would like to see developed in all the dimensions where it is compatible with our primary mandate of price stability. And I will endeavour to convince others of those principles.

1-037-0000

Chair. – Thank you very much. We have 10 minutes left and a little too many catch-the-eye requests. What I will do is select one catch-the-eye from each political group in the order in which we received the request. So we will start with Mr Castaldo from the Non-attached Members, then Mr Kyrtsov from the PPE, Mr Gusmão from GUE/NGL, and Mr Silva Pereira from S&D. We'll take the questions, one minute each, and then Madame Lagarde will have six minutes for the answers.

1-038-0000

Fabio Massimo Castaldo (NI). – Signora Presidente, signora Presidente Lagarde, l'Europa ha le forze per affrontare sia il cambiamento climatico che la crisi della Covid-19? Da quanto ho appreso sulle attività della BCE sembrerebbe in parte di no. Una recente analisi di Greenpeace, infatti, mostra che nell'ambito della risposta alla crisi la BCE ha acquistato obbligazioni dei colossi del fossile per un valore di quasi 7,6 miliardi di euro. Le nuove misure della BCE non prevedono alcun tipo di vincolo ambientale, quindi?

In attesa della *Strategic Review* del mandato della Banca, al centro della quale Lei aveva promesso di mettere politiche di lotta alla crisi climatica, conviene con me che un'azione che la BCE potrebbe intraprendere sia fornire già da ora un'analisi trasparente sull'impatto climatico delle misure che sta adottando e rendere obbligatoria la comunicazione dei dati relativi alle emissioni per le imprese per essere ammissibili al *Quantitative easing*?

Alla luce di quanto ho detto, inoltre, ho letto con interesse le Sue dichiarazioni su come la crisi rappresenti per l'Europa un'opportunità per riformare i termini del Patto di stabilità e crescita, che oggi è fortunatamente sospeso. Concorda con me che sarebbe importantissimo trarre vantaggio da questa situazione per procedere alla definizione di una *golden rule* europea per scorporare gli investimenti *green* del digitale dal calcolo del deficit, quale strumento per stimolare efficacemente la ripresa?

1-039-0000

Georgios Kyrtzos (PPE). – In Greece we expect a new wave of non-performing loans due to the economic consequences of the pandemic. The Governor of the Bank of Greece, Mr Stournaras, supports the creation of a bad bank in view of the worsening of the situation and in order to limit the damage to the banking system and the economy.

What is the ECB's view? Do you evaluate Mr Stournaras' proposal as positive? Do you think that the discussion on the issue is premature? What is your view?

1-040-0000

José Gusmão (GUE/NGL). – Senhora Presidente, Senhora Lagarde, tem que lhes ser reconhecido que insistiu muito para que houvesse uma resposta orçamental à altura na União Europeia. Os valores a que chegámos do ponto de vista do financiamento a fundo perdido baixaram de trilião e meio para 500 mil milhões, ou seja, para um terço dos valores com que este debate se iniciou. Acresce que, se não houver recursos próprios da União Europeia - e eles não estão garantidos - estes 500 mil milhões mais não são do que um adiantamento por conta de orçamentos futuros. Queria saber se lhe parece que esta resposta orçamental é suficiente e como é que vê o impacto que ela trará em orçamentos futuros, nomeadamente na redução dos envelopes financeiros que chegaram aos Estados-Membros, se os recursos próprios não vierem a ser aprovados.

1-041-0000

Pedro Silva Pereira (S&D). – Thank you, Chair. Let me first of all express to you, Madame Lagarde, support for the response to this crisis. I don't think this response was too fast, as someone has said. On the contrary, I think it was timely and badly needed.

I have only one question: is the European Central Bank ready to consider buying on the secondary market the issue by the European Commission in the context of this European recovery plan? I know it is only a proposal for now, but in principle do you see a rationale for including these kind of European bonds in your purchase programmes?

1-042-0000

Christine Lagarde, President of the European Central Bank. – A *tour de force*. On climate change, as I said we are really focusing on COVID-19. But we are not giving up on climate change. The corporate bond purchase is a very limited portion of our overall purchase programmes, and clearly we need to continue to buy as much of the green bonds as we can. We are buyers of 20% of that, we are contributing to reducing the yields of issuance of those bonds and thereby making them more popular, more frequent hopefully, all of them denominated in euros, which is all going in the right direction. We will continue to be an active player, and as our strategy review unfolds, believe me, we will be looking at how we can deploy in all dimensions of our action the imperative of climate change and of preserving biodiversity.

On the use of a bad bank, I heard what my colleague and friend Mr Stournaras said. There is no official ECB position on this issue, and we consider the discussion to be premature with regard to issues arising from the COVID-19 crisis.

On the issue of the fiscal measures, I would suggest that the new Commission proposals actually include a significant volume of grants as opposed to loans, and I don't really understand the reference made to the fact that there would be vanishing grants and increasing loans. Clearly, in the proposals that I have seen, there is a much larger proportion of grants than loans. I think we have to go deeper into that discussion – just saying grants versus loans is not really serving the complexity of the projects and the necessity of the response. It's really going to be a question of how the most affected countries are going to receive those much needed funds – obviously preferably in the form of grants for those countries that have been most affected. Funding needs to be deployed to those most affected, funding needs to be deployed quickly, and I know that Parliament is going to play its part. I very much hope that the Member States will appreciate the urgency of the discussions.

On the buying on the secondary market of EU Commission-issued bonds, whichever agency the EU Commission decides to use or whether it is itself issuing – which I think has taken place in the past with the EFSM, if I recall correctly – of course the ECB can purchase on the secondary market and it is certainly a possibility. My hope is that there will be so much interest in the new European instruments that private sector investors are going to find the proposal to buy quite attractive, thereby creating a new family of very interesting bonds going forward.

Thank you so much. I think I've covered all of them.

1-043-0000

Chair. – Thank you very much.

(The meeting closed at 17.45)