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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, 21 JUNE 2021**

1-002-0000

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

*(The hearing began at 16.16)*

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**Chair.** – Good afternoon, everybody. We can resume our session with our Monetary Dialogue. So, in this regard, I welcome the ECB President, Christine Lagarde, to the second Monetary Dialogue in the Committee on Economic and Monetary Affairs (ECON) for 2021.

The previous Monetary Dialogue took place on 18 March. On 10 June last, the ECB Governing Council decided to confirm its very accommodative monetary policy stance in order to preserve favourable financing conditions, to reduce uncertainty and bolster confidence, thereby underpinning economic activity and safeguarding medium-term price stability.

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 next year, its mandate of price stability in the medium term as well.

We took note of your commitment, Madame Lagarde, in the introductory remarks at the Monetary Dialogue held on 28 September last year, to interact more closely in the context of the ECB strategy review and to ensure that our regular dialogue plays a key role in how we inform about this exercise.

Since the launch of the strategy review on 3 January 2020, its conclusion has been postponed to the second half of 2021 due to the pandemic. As this extraordinary exercise will soon come to an end, we have proposed, exceptionally, to add the strategy review to the two other topics that were selected by the ECON coordinators for today's Monetary Dialogue.

So the two specific topics selected by the coordinators for discussion at this Monetary Dialogue are, first of all, the effects of the negative interest rate policy and, the second, the spillovers from US fiscal and monetary policies. All the briefing papers prepared by the panel of experts are available on the website.

In line with agreed practices, the following procedure will be applied for this exchange of views. There will be an introductory remarks by President Lagarde of about 15 minutes, followed by five-minute question-and-answer slots, with the possibility of a follow-up question, time

permitting, with the same 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 group. If time so allows, additional slots will be allocated on a catch-the-eye basis, taking due account of the weightings of each of the political groups. Please, I ask you all to strictly respect the time given to you.

President Christine Lagarde, we are looking very much forward to hearing you. Welcome again. You have the floor for 15 minutes.

1-004-0000

**Christine Lagarde**, *President of the European Central Bank*. – Dear Chair, honourable members of the Economic and Monetary Affairs Committee, ladies and gentlemen, it is a pleasure to be back with you for this second session, as you mentioned, Madam Chair.

While we are, unfortunately, still meeting ‘on air’ and not in person and we are still in a virtual setting, the health situation and economic prospects across Europe have improved on the back of significant progress in vaccinations – with more than 100 million people in the European Union now fully vaccinated. This makes me hopeful that we will meet again soon in person in Brussels, face to face. Let’s hope so.

In my remarks today, I will first discuss the economic outlook for the euro area before turning to the ECB’s monetary policy, including the recent decisions taken by the Governing Council and, as per your explicit request, I will also update you on our ongoing strategy review, which you have mentioned.

Let me first of all look at the current macroeconomic and inflation outlook for the euro area. The outlook for our economy is indeed brightening as the pandemic situation improves, as the vaccination campaigns progress, and as confidence begins to rise again. We expect economic activity to accelerate as of this quarter amid support from fiscal and monetary stimulus and a vigorous bounce-back of services activity in particular, which has been hardest hit by the pandemic and associated containment measures. Manufacturing production remains robust, although supply shortages, mainly related to difficulties in procuring materials and equipment, could generate some headwinds for industrial activity in the near term.

Soft data also signal strong momentum in global activity, led by the rebound in advanced economies, where vaccination rates have picked up. Additional fiscal support, most notably the US fiscal stimulus package, is also supporting the recovery. These developments boost foreign demand and so have positive spillover effects on the euro area.

Looking ahead, we expect economic activity to improve strongly in the second half of 2021, supported by a robust rebound in consumer spending and solid business investment. Our latest staff projections currently foresee annual real GDP growth at 4.6% in 2021, 4.7% in 2022 and 2.1% in 2023. The risks surrounding the growth outlook have become broadly balanced. While on the downside, the spread of virus mutations continues to be a source of risk, on the upside, brighter prospects for global demand and a faster-than-anticipated increase in consumer spending could result in an even stronger recovery.

Turning to price developments, euro area annual inflation has picked up over recent months, largely owing to temporary factors, including strong increases in energy price inflation. Headline inflation is likely to increase further towards the autumn, reflecting mainly the reversal of the temporary VAT reduction in Germany, before then declining at the start of next year –

the inflation rate, not VAT in Germany – as temporary factors fade out. Underlying price pressures are expected to increase somewhat this year owing to temporary supply constraints and the recovery in domestic demand, but are likely to remain subdued.

As you specifically asked me to comment on the spillovers to the euro area from rising inflation in the United States, let me point out that these occur both through the direct channel of imported goods originating in the United States and through several indirect trade or expectations mechanisms. For example, to the extent that the increase in inflation reflects stronger demand in the United States, inflationary pressures for the euro area can materialise owing to higher foreign demand for euro area goods and services. International spillovers from US inflation can be amplified if people in the euro area shape their inflation expectations also on the basis of developments in the United States. Overall, however, the effects on euro area HICP inflation are expected to be moderate.

Once the impact of the pandemic recedes, the unwinding of the high level of slack, supported by accommodative fiscal and monetary policies, will contribute to a gradual increase in underlying inflation over the medium term. However, the upward effect of the underlying inflation pressures on headline inflation will be roughly counterbalanced by the expected decline in energy prices.

Accordingly, our latest Eurosystem staff macroeconomic projections foresee headline inflation at 1.9% in 2021, 1.5% in 2022 and 1.4% in 2023. Compared with the March 2021 ECB staff macroeconomic projections, inflation has been revised up for 2021 and 2022, largely owing to temporary factors and higher energy price inflation, and is unchanged for 2023 at a level which unfortunately is below our inflation aim.

Let me now turn to the ECB monetary policy stance and the decision that we took a few days ago. At our last monetary policy meeting in early June, we conducted a joint assessment of the developments in financing conditions, taking into account the updated inflation projections. Borrowing conditions for firms and households have remained broadly stable, although market interest rates have increased further since March. While partly reflecting improved economic prospects, a sustained rise in market rates could translate into a tightening of wider financing conditions that are relevant for the entire economy. Such a tightening would be premature and would pose a risk to the ongoing economic recovery and the outlook for inflation.

Against this background, at its meeting on 10 June the Governing Council decided to confirm its very accommodative monetary policy stance. In particular, based on our joint assessment, we expect to continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) over the coming quarter at a significantly higher pace than during the first months of the year.

Our comprehensive package of complementary measures has proven effective in preserving favourable financing conditions for all sectors of the economy, which is essential for supporting a sustained economic recovery and safeguarding price stability.

Asset purchases under the PEPP have helped to stabilise financial markets and ensured a smooth transmission of our monetary policy to the key interest rates that determine the funding costs for businesses and households. Meanwhile, our targeted longer-term refinancing operations (TLTRO) have provided banks with funding on favourable terms provided that they sustain their lending to customers.

The total amount borrowed in Eurosystem refinancing operations stands at around EUR 2.2 trillion. Since the outbreak of the pandemic, this has been almost exclusively concentrated in the third series, known as TLTRO III. In all, TLTRO III is expected to contribute to increasing

lending volumes by over 4% cumulatively and to lowering lending rates by more than 60 basis points.

Without our measures, we would have faced a much worse growth and inflation outlook, subject to significantly greater risks. According to our conservative estimate, the measures taken by the ECB since March 2020 on asset purchases and TLTRO will cumulatively increase inflation by around 1.2 percentage points and real GDP growth by around 1.8 percentage points between 2020 and 2023.

The asset purchases and TLTRO also strengthen the effectiveness of the other measures in our toolbox, including the negative interest rate policy, which you asked me to discuss today. We have clear evidence that cutting the deposit facility rate below zero percent has provided additional economic stimulus as it has fed into lower lending rates, thereby helping to improve overall financing conditions for firms and households.

Of course, despite these positive effects, negative interest rates have often been criticised because of their potential adverse side effects. On the whole, however, our assessment of our experience with negative interest rates continues to be positive as the benefits continue to outweigh the costs. In this regard, our two-tier system for reserve remuneration has been acting as an effective mitigation tool for the banking sector. Banks can deposit part of their excess liquidity at a preferential rate, thereby limiting their direct costs and preserving their role in transmitting the accommodative stance of monetary policy to the economy.

Finally, let me turn now to our ongoing strategy review. I have actually just returned from a two-day Governing Council retreat dedicated essentially to that topic.

As you know, we embarked on this journey in January 2020, shortly after I took office. Unfortunately, we had to take a long pause due to COVID, and we suspended our strategy review activity in April and resumed it in the autumn. Since the autumn we have progressed vigorously. The review is taking place after a long 17-year period with no review and is designed to cover all relevant aspects of our monetary policy, in line with our promise not to leave any stone unturned.

The Governing Council's deliberations so far have been supported by a tremendous effort by the many staff members of the ECB and national central banks, in a genuinely European effort. This collaboration has been organised into 13 different workstreams.

We also gathered essential input for the review by having many outreach events throughout the euro area and collecting views from a wide range of stakeholders. We listened to expert audiences like academics and analysts, to politicians, civil society organisations and individual citizens. I greatly appreciate the insightful contributions from the European Parliament throughout the process. We have listened carefully to the concerns you raised during the hearings, the plenary debates, the ad hoc visits to the ECB, in our correspondence, and also in your resolution on our Annual Report.

Since all the issues covered in the seminars are highly interdependent, the remaining discussions will focus on deriving their joint implications for our monetary policy strategy. We made good progress during the retreat, and we will make the outcome of the strategy review public after we have taken formal decisions – and we are not yet at that stage.

Let me reassure you that this Parliament will continue to play a privileged role in the follow-up phase. This Committee represents a unique forum for presenting the outcome of the review to all European citizens, and I am looking forward to the constructive debate which will follow.

To conclude, Madam Chair and honourable Members, as the recovery is gathering pace, we need to remain vigilant and ensure that policy support continues to provide a bridge over the pandemic and well into the recovery.

The common European approach adopted during this crisis is a great achievement and should be strengthened further. With Europe playing a key role in shaping people's lives, it is important that we take the opportunity to make the most of the attention we receive.

As the French Enlightenment thinker Emmanuel Joseph Sieyès once said, 'Authority comes from above, trust from below'. This holds true to this day and is why I was pleased to see that the latest Eurobarometer recorded widespread increases in public trust in all EU institutions. Some 49% of EU citizens now say that they trust the European Union – an increase of six percentage points compared with last summer.

We should build on this in the recovery phase and ensure that we continue doing all we can to earn the trust of those we serve.

Thank you very much for your attention. I now look forward to hearing your views and answering your questions.

1-005-0000

**Chair.** – Thank you very much, Madam President. I now open the floor for the Q&A session with our members. We start with Markus Ferber from the EPP.

1-006-0000

**Markus Ferber (PPE).** – Frau Präsidentin! Ich freue mich, dass wir uns in dieser spannenden Zeit, in der wir hoffentlich die dritte Welle von Covid überwunden haben und uns ernsthaft mit dem Thema *Recovery* und Resilienz beschäftigen, austauschen können. Ich habe zu den Themen, die Sie angesprochen haben, jeweils eine kurze Frage:

Die *Federal Reserve* – also die US-Notenbank – hatte ja in der vergangenen Woche angekündigt, dass sie angesichts des höheren Inflationsdrucks ihre erste Zinserhöhung wahrscheinlich ein Jahr früher durchführen wird. Und Sie haben in der Pressekonferenz der letzten geldpolitischen Sitzung gesagt, dass Sie zwar davon ausgehen, dass der Inflationsdruck in Europa zunehmen wird, aber alles in allem verhalten bleiben wird – Sie haben das ja gerade noch mal dargestellt. Und Ihre Schlussfolgerung war, dass die Leitzinsen – ich zitiere – auf ihrem aktuellen oder einem niedrigeren Niveau bleiben werden, bis wir feststellen, dass sich die Inflations-Aussichten über einen längeren Zeitraum bei zwei Prozent einpegeln. Das bedeutet ja, dass die Schere der Zinsen in den USA und in Europa aufgehen wird. Was heißt es für den mittel- und langfristigen Kurs der EZB, wenn diese Schere aufgeht?

Zweitens: Zur Überprüfung der Geldpolitik hat ein Mitglied des Direktoriums der Europäischen Zentralbank gefordert, dass sich die Europäische Zentralbank vom Prinzip der Marktneutralität verabschieden und das Prinzip der Markteffizienz einführen soll. Dies würde es, so dieses Direktoriumsmitglied der Europäischen Zentralbank, ermöglichen, Belange des Klimaschutzes besser zu berücksichtigen. Wenn ich in der Universität richtig aufgepasst habe, heißt aber Markteffizienz als Grundprinzip, dass die Europäische Zentralbank nicht mehr der neutrale Akteur am Markt ist, sondern ganz aktiv im Marktgeschehen Einfluss nimmt, insbesondere unter dem Thema Ressourcenallokation und unter Klimagesichtspunkten. Halten Sie es mit

dem Mandat der Europäischen Zentralbank vereinbar, dass Sie einen Wechsel von der Marktneutralität hin zur Markteffizienz durchführen? Vielen Dank.

1-007-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much. It's very nice to see you, Mr Ferber, because I think I missed you at the last hearing we had. So it's nice to see you on this occasion.

On your first question, it's always difficult to make comparisons. And I would observe, first of all, that as far as the Fed decision of last week is concerned, my understanding is that it is more the dot-plot reading that gives a slightly different calendar from the one that was anticipated. And as we have been reminded repeatedly by Chair Powell, dot plots are one thing, but it's not a decision nor even a projected decision: it's the result of 18 different views by members of the Federal Open Market Committee (FOMC). So I wouldn't pass judgment on when any interest rate is expected as far as the Fed is concerned. That's point number one.

Point number two: the United States and Europe are clearly in a different situation. They're in a different situation in terms of the cycle, they're in a different situation in terms of inflation, and they're in a different situation in terms of inflation expectations. And as far as our inflation in Europe is concerned, we have clearly seen a sharp increase – as I mentioned in my remarks earlier on – this year compared with last year. But when we look at inflation today, we really have to remember what it was last year. And we must just remind ourselves: the last four months of 2020 were in negative territory. So it's hardly surprising that as the situation improves and as the pandemic fades and vaccinations accelerate and containment measures are gradually lifted and the situation improves, we see a significant increase, which has a lot to do with base effect.

So when we look at the cause of the relatively high inflation rates that we have at the moment, it has to do with base effect. It has to do with energy cost – it will be even more later. It has to do with the German VAT rate, which is now back up, as opposed to reduced as it was last year. And there is also the price of carbon, which has had quite an impact on prices in Germany in particular. And we finally have a weight re-equilibrium, if you will, in the consumer expenses. So for all these factors, we have a high level of inflation at the moment and inflation rates are higher, rather. But we really believe that these are temporary, technical, sometimes ad hoc specific factors that will gradually fade away as we move into the beginning of 2022, and while hopefully as the recovery is pursued and more firmly rooted, we will see slack reduced. But at the same time we will also lose out on some of the base effects that we have seen and that we are seeing at the moment. So I think that on the inflation front, I wanted to really clarify the situation because I don't think that we can actually compare the US situation and the euro situation.

In terms of market neutrality versus market efficiency, which is the gist of your second question, I just want to go back to Article 127 of the Treaty on the Functioning of the European Union, which says clearly that the ECB is required to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. So the idea of market neutrality is not something that is embedded in the Treaty. And what the Treaty says is 'principle of an open market economy with free competition', yes, 'favouring an efficient allocation of resources'. So the market neutrality concept has been used to operationalise this principle. But the ECB may deviate from a market allocation built on market neutrality if it is required to fulfil its mandate. And, you know, we have growing evidence that financial markets and banks are currently not fully pricing and managing the potential risks that may stem from climate change and the transition to a carbon-neutral economy. And as a result we might actually wonder whether this efficient allocation of resources is currently delivered upon, which would perfectly justify that we might deviate from this operationalisation, by way

of market neutrality concept, of what is the principle in the Treaty, which is open market economy with free competition favouring an efficient allocation of resources. So I think that addresses your second question.

1-008-0000

**Costas Mavrides (S&D).** – Madam President, firstly I would like to underline the swift reaction and vital contribution of the ECB in addressing this unprecedented crisis. As a Group, we do believe that it is important to keep those measures in place as long as necessary, to be followed by a gradual shift to recovery-support tools, taking into consideration at every step the current conditions. I would give one example: for achieving financial stability, the monetary policy should be complemented by a high-quality European safe asset. I'd like to get the ECB's and your views on this.

My second point concerns the digital euro. This would be a very simple point. If digital euro implies a direct involvement of the ECB, would that mean that this would be the end in the current-account banking credit system?

And my final point, Madam President: the use of abusive terms and practices in consumer contracts by the banking sector is still a major issue in a number of Member States, having a tremendous effect on consumers and being detrimental to fair competition. In fact this is related to the not effectively implemented relevant directive. My question to you is this: can the ECB play a key role in achieving fairer competition and a less abusive banking system? Thank you for listening.

1-009-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much, Mr Mavrides, for your question, which certainly gives me a chance to say a few words about what we are hoping with the digital Euro, because this is a project that we have launched in terms of initial exploring, and which will be further discussed by the Governing Council on 14 July with a view to deciding whether we actually go into an active exploration phase before deciding to actually go forward with digital Euro.

But let me try to identify why we're doing it, and what risks are involved. We believe that a digital euro could help Europe and its financial sector to fully embrace the benefits of the ongoing digital transformation which is happening and which is being encouraged by other European institutions, including yours. It could also ensure the availability of central bank money, physical and digital, if cash usage was to shrink dramatically or non-euro-denominated private payment solutions were to become dominant, or would try to become dominant. Added to that, I would also mention that it could probably enlarge access in the form of digital euro for people who otherwise would not necessarily have a bank account, have access to the deposit facilities that are available to many, but not to all.

So there is an inclusive role that a digital Euro can play as well. But of course it can also bring risks if it is not designed and implemented properly. And that's one of the reasons it is taking a bit of time to actually prepare for that, because it is not without some risks. It could, for instance, have a negative impact on financial stability by inducing large shifts from private money to digital euro. This might increase the funding costs of banks and, as a consequence, interest rates on bank loans, potentially curtailing the volume of credit to the economy. Such risk would be higher if a digital euro is used as a widespread store of value. And this is why it should be designed carefully as an attractive means of payment, more than as a form of investment. And that could be achieved by remunerating digital euro holdings at variable rates. Or another possibility could consist of establishing a cap under which only digital euro would be made available.

If we decide to introduce a digital euro, the euro system must do it without jeopardising financial stability and monetary transmission. We will continue assessing the design features and tools to safeguard those critical elements of monetary policy transmission, of financial stability, and with a view to protecting what is dear, as we know, to citizens at heart, which is the protection of their privacy. And that is certainly better done by a digital euro that is under the control of the European Central Bank, which has no interest in exploiting data, than if it was handled by some private operator that would certainly have some vested interest in also exploiting the data.

So those were your questions about digital currency and our digital euro, more than currency, actually. Concerning fairer competition between banks, I think that other institutions are better placed to actually organise fairer competition. And what actually can be extremely helpful in that respect is improve transparency and better information of banks' customers. And I certainly believe that the way in which digital techniques and digital tools are transforming the relationship between traders and purchasers, between bankers and customers, should be conducive to more transparency and ultimately better competition between banks. That would be beneficial to the customers and would give them better choices, but I'm afraid that it's not for the ECB to actually offer those very important services of supervising the competition issues.

1-010-0000

**Luis Garicano (Renew).** – Thank you, Madam Chair, and thank you Madam Lagarde. It's great to have you here. I followed your testimony with much attention, and I want a few clarifications, if possible.

First of all, I'm very glad that the European economy is brightening, the outlook is brightening. I also agree with you that it would, however, be premature to tighten inflation, to tighten policy at the ECB. It's a bit too early for that. Are you worried about a too sudden and too early tightening of fiscal policy? Do you think that could happen? You're following very much this whole debate, and I know it's separate, but monetary and fiscal policy have to be coordinated, obviously.

The second question, and also coming from your testimony, you thought the risks of contagion from US inflation were moderate – that was your word. I would like to hear a little bit more on this. Why are you sanguine about this? Why do you not worry to the extent that we don't really know how the inflation anchoring works and how self-fulfilling inflationary processes can start?

So those would be my two requests for clarifications about this – the contagion and the fiscal policy tightening, or early tightening.

One question about the strategy review. You said you just came out of it, and you said – your declarations were something like – you were making good progress when meeting with the bankers. I wanted to ask you about two topics that I think the strategy review should address. One is the distributional impact of quantitative easing. Are you considering that? The fact that quantitative easing is very much benefiting those who are holders of assets, who see asset prices increase and as a result this lead to huge increases in inequality.

A second question: are you worrying about the safe asset situation in the euro area? At the moment, without a safe asset, as people like your chief economist, Philip Lane, have put it, there is a risk of self-fulfilling-flight-to-safety dynamics. Illiquidity in individual sovereign bond markets can just start these dynamics, which are obviously very unstable. Will the strategy review tackle these challenges of the safe asset at the European level?



1-011-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Mr Garicano, and thank you for your multiple questions. It's actually more than two. Let me maybe touch on some and go a little bit deeper on others.

In terms of the fiscal policy and how that can actually operate in good coordination and cooperation with monetary policy, what we have observed – and both you and I know that – is that fiscal and monetary policies have worked hand in hand a lot better during the pandemic crisis, and that has certainly explained why the euro area economy is bouncing back now and is at least initiating, and hopefully will develop, this process of recovery that we are seeing. It is clear (and we have said so) that additional fiscal and monetary support will continue to be needed in order to support that recovery process. And I think I've used, on a couple of occasions, the concept of the crutches, one being fiscal, the other one being monetary, in order to support the ailing economies that are now going through recovery. But certainly the need not to drop the crutches too early and not to drop one of the crutches too early, because that would not help with a harmonious, solid, sustained recovery that we very much hope for. So we are seeing good institutional measures taken, both in relation to the escape clause, in relation to EDP procedures, and it is very likely that fiscal authorities are taking their budgetary definition and design approach with that in mind. So fiscal support will continue to be needed, in our view, and should not be tightened prematurely, so that we can continue to accompany and support the recovery process.

On the risk of contagion from US inflation, I just want to come back to the spillover effect of the US ARP (American Rescue Plan Act). So I'm only talking about ARP. I'm not talking about the American job plan. I'm not talking about the American family plan, which are much longer-term projects which have not even yet been voted on by any of the two Houses. So I'm only talking about the first one. And it is clear that this plan is having a significant effect on the US economy, particularly in 2021. You know, the details of this ARP – I'm not going to go through that again, but we also believe that as such and because of the fiscal boost that it gives to the economy in 2021, it will have also an impact on the euro-area GDP and inflation. We've tried to assess what the impact will be and it's still at a very preliminary stage, and we assess at this point that the impact on GDP, cumulative over the period from 2020 to 2023, will be of 0.3% with a particular impact in 2022 – that's for GDP. And in terms of inflation, we believe that the cumulative impact from 2020 to 2023 will be of 0.15%, with specific and more impact in 2022.

So this is what we foresee as the potential impact of the stimulus that is boosting the US economy. But you know, we read the same speeches, we read the same analysis, and it is the case that the US authorities in the main – not all of them, but in the main – analyse these inflation rates and the increase in the inflation rates that they are seeing and experimenting with at the moment as temporary, transitory and likely to fade as well in the years to come.

We have to be very attentive and we all monitor those rates, those forecasts, whether it is headline inflation, whether it is core inflation, and we also look very carefully at inflation expectations. There has been an improvement. This is reflected in the forecast that we have. Certainly this is the case for core inflation, excluding food and energy, which has been increased by 0.1% over the whole period into our medium term, and we need to be very attentive to that.

In particular, we will remain extremely attentive to wage negotiations, which can be of serious consequences. We are not seeing at the moment serious reasons to believe that wages are negotiated at a level that would lead to stronger underlying inflation factors.

So that's what I wanted to tell you in terms of inflation. We are prepared to see through the current period. We believe that it is temporary and transitory. We believe that the impact from the spillover from the US will be limited, and it's now taken into account in our projections.

And we are very attentive to each and every way of measuring inflation in all its dimensions in the most segregated and granular basis as we can, and the same goes for inflation expectations.

Now, you had a third question, if I recall, which had to do with our strategy review. As I said, we would leave no stone unturned. And I think that we have had – if you look at the 13 work streams that are dedicating resources and research capacity to these important issues – we are not leaving any stone unturned. The distributional aspects of our monetary policies are pretty well known, whether it relates to income or whether it relates to wealth. We believe that, on balance, the overall impact is necessary in order to deliver on our mandate. And while clearly it has some beneficial impact in terms of income, we also recognise that it has some consequences in terms of wealth and assets simply because of the increase of asset prices, as we have acknowledged and seen in the last few years actually. But overall and with a view to delivering on our price stability mandate and taking into account as a whole the distributional impact at income as well as at wealth level, we believe that our monetary policy stance is well positioned.

1-012-0000

**Stasys Jakeli nas (Verts/ALE).** – Madam President, I would like to follow actually on the negative rate environment, on the side effects, especially the structural and long-term effects and the distributional effects that have been mentioned. And you said that so far the balance of the side effects is positive. Then the other expression you used, that the balance is necessary. But you also said that these negative rates in general, the policy instruments are needed to facilitate the favourable financing conditions, lending to customers, and of course we agree with that.

But let's take a bit of a more granular view on the lending, and here I would like to refer to Hyman Minsky Taxonomy, which he proposed decades ago on three types of lending or borrowing. First, economic lending and borrowing where the principal and interest rate is returned, paid back out of economic activity, economic returns. And the second is speculative lending and borrowing where only interest rate is serviced. The third, the worst type of lending is Ponzi lending, where borrower and lender assume that the principal couldn't be saved and returned, if any out of the increased asset price. So are you familiar with this type of taxonomy? And could it be useful, actually, in your work as ECB economists, to look at the structure of debt in general in the economy and how the negative rates by facilitating lending, but also facilitating bubbles and the distributional effects, transfer of risks actually from professional institutions onto unprofessional consumers could create financial instability factors while maintaining the growth for the time being?

So let's see about the future of these negative rates, not under the current situation.

1-013-0000

**Christine Lagarde, President of the European Central Bank.** – Let me try to unpack a little bit the question that you asked me and explain to you the logic that we have been pursuing, particularly in the last two years.

We have encouraged and supported lending to the economy, and we have done that particularly using our targeted longer-term refinancing operations (TLTRO) programmes and TLTRO IIIs that I mentioned earlier on. We have done that in order to make sure that the economy could be properly financed.

Second, we have focused on proper transmission of our monetary policy and as such we have also helped banks to finance the economy. That's the whole point of TLTRO: it's transmission of our monetary policy and lending to the economy. Those are the two key goals that we have adopted in that respect. And clearly we had to tailor and we had to incentivise. This is the whole reasoning behind TLTRO, which is made available at very attractive rates for banks, but not

without consideration, and with their commitment that they are going to lend as much as possible and certainly as much as they had to the economy going forward. This programme has been extremely successful.

As I said, we are nearly at EUR 2.2 trillion of lending to banks under TLTROs. It has increased the volume of lending to the economy at large by 4%, and it has reduced the lending rates by 60 basis points. So in that respect, irrespective of the categories of lending, the key point was to make sure that the economy would continue to be financed throughout the crisis. It was a liquidity emergency to begin with, and gradually it became more regular normal lending going forward. And it still continues to be going strongly at the moment. So that's in essence what I wanted to focus on in response to your particular questions.

It has not been without concerns and issues, and we constantly analyse very carefully the efficiency, the effectiveness, we get feedback from the banks, we get feedback from the companies, we get feedback from the SMEs and in particular our SAFE survey, which is which is really focusing on SMEs, tells us that lending is actually available. We are seeing a little bit of tightening at the moment and this is coming back both in the bank lending survey as well as in SAFE, which is the survey that is conducted with SMEs. But that is largely in anticipation of the lifting of some of the moratorium, some of the guarantees and clearly the concern that banks have about the solidity of the likely performance or non-performance, or weak performance, of the loans that have been granted.

1-014-0000

**Gunnar Beck (ID).** – Die sogenannte gefühlte Inflation stieg nach Berechnungen der italienischen Großbank UniCredit im Mai auf 4,1 Prozent. Die gefühlte Inflation gründet sich nicht auf ein vages persönliches Empfinden der Menschen oder Konsumenten, sondern auf eine stärkere Gewichtung von Waren und Dienstleistungen des täglichen Bedarfs wie Kraftstoffe und Lebensmittel, die wegen der höheren Kaufhäufigkeit – gerade bei Kraftstoffen – eher das Konsumentenverhalten vieler Menschen widerspiegeln als die offizielle Inflationsrate.

Nun meine Frage: Passt die Untergewichtung der Kraftstoffe in den Klimaschutzplan der EZB? Denn die Untergewichtung der Kraftstoffpreise bedeutet, dass die reale Inflation für Autofahrer höher sein würde als für Nichtautofahrer.

1-015-0000

**Christine Lagarde, President of the European Central Bank.** – Well, thank you, Mr Beck, it's always nice to see each other, of course, and I thank you for your question, which has to do obviously with inflation and the rising prices for consumers.

So let me come back again, because I believe that it's really important to explain as much and as well as we can why prices are rising now and what is the likelihood of them remaining at that level and continuing to rise. So we are seeing an uptick in inflation and this has been the case regularly: March, April, May numbers; it might temper a little bit around the summer, but it will continue to increase yet again in the autumn. And that is caused, as you rightly indicated, in particular by energy prices, because if you remember back a year ago, energy prices were at rock bottom – around USD 25-30 per barrel. It has increased significantly. It's hovering around USD 60-70 per barrel at the moment. And this has repercussions not only for those people who drive or don't drive – and it depends what kind of car they drive, by the way, if they drive an electrically powered car, it might be a different story – but the price of oil is pervasive throughout the entire economy and has impacts on many entrants throughout all chains of production, even in agriculture, for that matter. So the price of energy has nothing to do with driving or not driving. That's where the driver perceives that the price has increased. But it's affecting the entire economy. And that is why the component of energy and fuel prices impacts inflation rate.

But it is not the only reason. And there are temporary reasons that are also causing prices to rise this year because they had gone down last year significantly. Look at the German VAT rate, which had been reduced deliberately by the fiscal authorities in your country in order to support the economy, in order to stimulate demand. Well, clearly, as this is has now worked, as low as it was last year, it is coming back and there is a trade-off between the two. There is a make-up between the two, if you will. And this is happening once. It is not going to continue to raise prices going forward.

The same goes with some other cyclical factors. For instance, the moment when sales took place in order yet again to accelerate demand has had an impact on the timing of price increases. And as you rightly said, the weight of either services or goods or the category of services and goods that are used to calculate the harmonised indices of consumer prices and which are reviewed annually also had an impact.

So it is a fact that prices are rising, that we are seeing the inflation rate increase. But it is, as we see it, caused by temporary and transitory factors.

As I also said earlier on, we need to be attentive and we need to monitor very carefully the underlying inflation factors to see whether or not there is a more long-lasting effect. We don't think so, but we have to be attentive and to keep monitoring them.

1-016-0000

**Michiel Hoogeveen (ECR).** – Thank you, Ms Lagarde, for this dialogue. It's my first dialogue with you. I look forward to meeting you in person.

When the music stops in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. These are the famous words by Chuck Prince in 2007, then the CEO of Citigroup, one year before the financial crisis originating in the housing market. It seems today, Ms Lagarde, we are on that dance floor again, somewhat uncomfortable; we keep slow-dancing, anxiously waiting when the music is about to stop.

One of the biggest contemporary concerns, especially in the Dutch economy, is the housing crisis. Young people and middle-class families are forced to participate in a rat race, overpaying in an overheated housing market. Where have we heard that before? This is one of the consequences of your generous money-creation and low-interest policies to keep weaker eurozone countries afloat. Prices of assets such as stocks and real estate are skyrocketing. So also houses for the people are becoming unaffordable. This not only slows down the economic growth that you say you want to promote, but it also creates dangerous bubbles in the economy. When will you consider stopping this generous buying policy? And do you share the concerns of many economists on the housing market bubbles?

1-017-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you, Mr Hoogeveen, and welcome to this dialogue, which I cherish and value as much as I'm sure you will, going forward.

Let me touch on the issue of the housing crisis, which is the one that you raised, but also remind you that the predication of Chuck Prince back in 2007 was certainly followed by a great financial crisis, which in the situation that we face at the moment is not happening. So we have faced and are still facing the consequences of a crisis compared to nothing else, but we are not seeing a financial crisis of the kind that we saw in 2008, and that is precisely because supervision measures were decided, because the regulatory environment was determined and because the financial sector is a lot stronger and more solid than it was back in 2008. So I think that we have to also give credit to those who before us have drawn the consequences of what they saw in 2008 and 2009.

But let me now focus on the issue of property prices, because it's indeed an area where the side effects of monetary policy may potentially show up. Residential real-estate prices continued to grow steadily during the pandemic, and while there are no strong signs of a credit-fuelled housing bubble in the euro area as a whole, residential real-estate vulnerabilities have built up in some countries in recent years, and in some cities, in particular, in those countries. At the same time, the disconnect between housing prices and broader economic developments during the pandemic entails the risk of price corrections. This risk depends to a large extent on the economic recovery path and the aftermath of the policy support withdrawal. And in this context, macro-prudential policy needs to be designed carefully to address country-specific risks and strike the right balance between preventing further build-up of vulnerabilities while at the same time avoiding pro-cyclical effects.

1-018-0000

**Chris MacManus (The Left).** – Good afternoon, President Lagarde, on what is the longest day of the year. Hopefully we'll get out of here early and enjoy a few hours of sunlight while we can.

In terms of the expected lower interest rates that are with us now and probably for the foreseeable future, I'd like to get your views on how that plays into the reform of the fiscal rules. In a draft report of this committee there was a sense that for some a return to debt as the critical measure of economic well-being is something that has to happen as soon as possible or at least eventually. We are living in a low-rate world for now and it seems for the coming period, so is a fixation of measuring debt still as important a measure of a country's economic health as it used to be?

And we all know the fiscal rules set an arbitrary 60% as a debt target. But the European fiscal board has said that this figure is unrealistic and needs to be looked at critically. Does the ECB agree with that statement, first of all? And if it does, does the ECB see any benefit in a new debt target? Or do you think we need a whole new approach without any particular fixation on an arbitrary debt figure of 60% or 100% or indeed any other figure? Should we not measure a country's unemployment rate, productivity, other factors? And as long as the debt remains stable or it's not dramatically increasing, avoid writing in stone any new debt targets that could again become as irrelevant as the old one in this changing world we live in.

1-019-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much, Mr MacManus. Yes, I do hope that we will be able to get out and enjoy the 21st of June, which is the day of music, as well as the longest day of the year.

So turning to your question about the Stability and Growth Pact (SGP) and what happens to it, the SGP has clearly allowed for the necessary fiscal support to combat the crisis, and it was helpful to have those safety valves, in a way, during the pandemic. But there are reasons to review and update it, in spite of those safety valves and avenues in order to address the situation. Because since the start of the EMU, the macroeconomic context has changed substantially. Europe needs a modernised framework with transparent, flexible and credible fiscal rules that will enable counter-cyclical and sustainable fiscal policies. And I hope that the review that is ongoing at the moment will deliver a solution that meets those demands.

Now, if I look at it from a monetary point of view, the guiding principle of any SGP reform is more counter-cyclical of fiscal policies. Too often, pro-cyclical fiscal policies have limited the scope for stabilising output. And this puts, as a result, the onus of stabilising the economy and raising inflation, to be objective, too often entirely on the monetary policy. And central banks suddenly become the only game in town, so cyclical is really extremely important in order for the SGP to be of better service to the European population and certainly to be a better

ally in the monetary policy that has to be conducted in such circumstances. So ideally, a reformed SGP framework would hopefully be already in place at the time when the general escape clause is deactivated.

Whether it will be a 60% debt-to-GDP ratio or whether it will be a 3% deficit ceiling, clearly, the deliberations of the review that is ongoing will have to take into account the Treaty and the provisions of the Treaty. And hopefully they will be wise enough to simplify, streamline and include sufficient pro-cyclicality in the revised SGP so that it serves the European citizens as best as possible through all times of economic shocks.

1-020-0000

**Danuta Maria Hübner (PPE).** – I didn't realise how gender-imbalanced the European Parliament is, on hearing that now.

I would like to go back, Madam President, to the issue of the negative interest rates, because last week we had, as you probably know, an extremely interesting preparatory meeting with excellent experts to prepare for this meeting today.

There were two issues quite clearly coming from the papers and discussion. One is that definitely it is very difficult to separate the effects of negative interest rates from those of other monetary policy instruments. The second conclusion was that actually there is no evidence of significant adverse effects to materialise.

Still, there was one paper coming from Bruegel by Gregory Claeys who said that when you look at the direct cost and share of bank profits, one can see large differences between Member States. That's my first question to you – whether the ECB is looking at this phenomenon, trying to understand why.

Then, from the IMF, Adrian Tobias was very clear that over the long run, the financial vulnerabilities might increase as a result of negative interest rates. My question to you is whether you look at those issues and, should those negative consequences appear, would you be prepared to navigate somehow between the monetary policy and macroprudential one?

The last issue, which I think is extremely important is the one of the reversal rate. Of course, it's a theoretical concept and probably nobody has ever seen the reversal rate, but we don't know really whether we can define the limits. My question to you is, do we know where we are? Because I understand we haven't hit this reversal rate yet, but we still don't know how much room we have – or do we know? Is it at all monitorable for you?

1-021-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much, Ms Hübner, for your questions. Let me just go back to the negative interest rates and really dig into how they transmit and how they affect European citizens.

And let me just first mention again that we believe that it continues to be an effective tool for providing monetary policy accommodation. We have clear evidence that cutting rates below zero provides additional stimulus to the euro area economy as rate cuts are increasingly passed through to bank lending rates and overall financing conditions of firms and households.

Now, if we look at the impact that it has had on banks, the positive impact of negative rates on economic growth, which supports loan demand and reduces loan losses, has so far compensated the negative impact on banks' net interest income. So the low or negative remuneration of safe assets, as well as the negative remuneration of banks' excess liquidity holdings with the Eurosystem have provided an incentive for banks to provide loans to the real economy. So if you put it all together, the banks are not so much worse off, despite sometimes what we hear, but if you take all the components into account, from the tiering system to the TLTROs to the

negative interest rates, and to the impact that our monetary policy has on the economy and the analysis of loans and the provisions that banks have to take eventually on loans, overall, it's not a net negative of serious magnitude.

If we look at France, negative rates are now applied to around 35% of the outstanding amount of deposits of euro-area firms, and they are particularly relevant in Germany, where that amounts to 80%. So clear transmission to German firms, not households. But at the same time, those firms – and I will say the same thing for households, for families – the firms are also borrowers. And while they are taking a charge when they have significant deposits with their banks, they're also taking very low financing costs when they borrow. If you look at the households – families – the remuneration of their deposits so far has remained mostly positive, except for high-value deposits in some jurisdictions, mainly Germany, but negative rates are currently applied to close to only 5% of the outstanding amounts of deposit of euro-area households. And that 5% is up to 10% in Germany.

So the first-order effects of negative rates are not on wealth, but rather on income. The boost to the economy from negative rates supports employment and higher wages. This boosts aggregate household income, but also supports the more vulnerable households that are most susceptible to unemployment or wage cuts. So to address your particular point of do we actually analyse and measure the side effects, we do that whenever we make a monetary policy decision. And we measure the effectiveness, the efficiency, the proportionality of the measures that we take. And that leads us to having to measure all the side effects.

Now, concerning the effective lower bound that you mentioned, we are not at the effective lower bound. We still have space and room to manoeuvre if needed. And I have said repeatedly in our monetary policy introductory statement that we could certainly use rates and we could move it down if it is appropriate, necessary, and if our threefold assessment of efficiency, effectiveness and appropriateness leads us in in that direction.

1-022-0000

**Pedro Silva Pereira (S&D).** – Thank you, President Lagarde, for this interesting exchange of views. First, let me say that I very much welcome and support your assessment on inflation. We should not be mistaken by temporary factors. On the contrary, we should pay attention to the underlying factors. I also want to support the ECB decision to maintain supportive monetary policy. And I particularly welcome your statement here today that additional fiscal and monetary support will still be needed in the near future.

Now, in this context, you certainly know that the first recovery plans are now being approved. How do you see the urgency of these financial instruments and the rhythm that has been possible until now? And how optimistic are you that these financial instruments will be sufficient, together with monetary policy, to promote economic growth in Europe?

Second question, a more structural one, we are now using very unprecedented financial instruments with debt being issued by the European Commission itself – very successfully, actually. But we are also discussing our rules for the future. We have the Conference on the Future of Europe. How do you see the prospects of a more permanent stabilisation function in the European Union, where these financial instruments that we are now using very exceptionally can become more permanent so that we can respond to the crisis in a far more effective way?

1-023-0000

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

Let me first of all really recognise the efficiency and the speed at which the recovery and resilience plans (RRPs) have been put together, reviewed, are being processed. And while sometimes particularly observers outside Europe despair of Europe and constantly criticise the way in which we laboriously procrastinate in reaching agreements and coming to conclusions, I would observe that this particular process has been fast. To my knowledge it's a little bit ahead of its initial timing, which I think should be mentioned, acknowledged and celebrated. But this is obviously the beginning of a long journey.

And while the assessment is under way and five RRP's have already been approved, clearly all of those who are participating have their work cut out. We believe that the Next Generation EU package has the potential to support a lasting and transformative recovery, especially for the countries that were hardest hit by the pandemic. In the short run, the funds can help avoid pro-cyclical fiscal policies, number one, such as what comes naturally to mind in that case, which is cuts in the productive public investment. And that would risk repeating the drawn-out recovery experienced after the euro area sovereign debt crisis back in 2011. But in the medium term, Next Gen EU can significantly contribute to modernising Europe's economies by making them not only greener but also more digital, more resilient and supporting the potential output growth and helping with the more productive economies.

Now, as I said, we celebrate the timeliness and the efficiency. We also have to encourage the implementation. And I come to the implementation aspect of it because I think it is critical for two reasons. One is it will be critical to make sure that those two objectives that I have just mentioned – avoiding the pro-cyclical fiscal policies and supporting the modernisation of Europe – it will be critically important to deliver and to implement and to put money where the proposals that have been approved are. That's number one.

Number two: implementation will be critical because it is such an emblematic project and such a pioneer initiative, that if it was to not work, if it was to not be well implemented, it would certainly backfire on the enthusiasm and the great support that was manifested by all, including markets, by the way, when Next Gen EU was approved back in July a year ago.

So there is a twofold challenge, if you will, ahead of all of us. Number one, deliver on the objectives, on the recovery and resilience plans, to support the economy through the crisis and help with the restructuring and the improvement of the productivity of those economies, but also demonstrate that this is a tool that – if used in particular circumstances and clearly indicated as an ad hoc measure – might have a future. And this is clearly for others to decide, but the challenge is clearly there.

1-024-0000

**Lud k Niedermayer (PPE).** – It's a great pleasure to see you again, Madam President. I will focus on inflation and I must say that I am actually quite pleased that we talk about inflation, because slightly higher inflation is the reflection of strong demand in the economy. And this can show that we are on the way to recovery. If we will be dealing now with the deflation, the situation will be more serious.

I have two questions referring to something that was said earlier. So let me talk first about the asset-price inflation or housing inflation. I understand that you don't consider the steep rise of house pricing to be only a matter for the financial stability, but also a kind of indicator of setting-up of especially monetary, but also to some extent fiscal policy. But I wonder on which extent you can get into the conclusion that the risk of asset-price inflation is so serious that it requires correction of the monetary policy that you would otherwise not do.

And the second, concerning inflation – and I guess Mr Garicano was also talking about it – I know that the prevailing feeling is that we are dealing with a temporary rise of inflation, but I



can't help myself, I can see some permanent or at least medium-term issues here, like a certain limitation of supply side, a certain I guess even permanent increase of demand for some materials. Obviously, the climate policy will also play the role. So I wonder, obviously now we are feeling a lot of limitation of supply side and sharp escalation of the demand, but at which moment you would start to challenge the hypothesis that this is of the temporary nature.

1-025-0000

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

As I said earlier, in relation to asset prices, but particularly on residential housing in particular, what I think I have suggested is that while we did not see a general increase across the euro area, we do recognise that in certain countries in particular, and in certain cities in particular, there is a significant rise in housing prices that is not necessarily predicated only on the supply-and-demand principle. But what I said also is that in that respect it was important to use macro-prudential tools in order to resist such a specific risk in potential risk areas and to use them as a balancing act in order not to restrain the recovery at the same time.

On your second set of questions that relate to what contributes to this inflation that we are seeing at the moment, you rightly mention the supply side and the potential bottlenecks. I think we could add to that some of the shipping costs that have significantly increased as well, and some of the raw materials, I would think, of copper, timber, some of the electronic components that enter into the manufacturing process of the automotive industry in particular. All those elements are actually combined to entail price increases. But we believe that this is of a transitory nature, both for the reasons that I have mentioned earlier, but also because those bottlenecks will be resolved. There will be alternatives. There will be ways to increase shipping capacity. It might take a little while. You don't build a ship overnight. It takes a few months. You don't build containers overnight. It takes a few weeks. But we believe that on the supply side, at least, those bottlenecks and those price considerations will probably fade out in the near future.

1-026-0000

**Joachim Schuster (S&D)**. –Vielen Dank, Frau Lagarde, dass Sie uns wieder zur Verfügung stehen. Ich möchte noch einmal Punkte aufgreifen, die schon ein bisschen angesprochen sind, aber zu denen ich noch Fragen hätte.

Und zwar ist zum einen gesagt worden, dass es klar ist, dass die Inflationsrate erheblich gestiegen ist. Im Moment gehen wir davon aus, dass es sich um kurzfristige Faktoren handelt, weil die Ursachen eher so sind, dass es sich wieder beruhigen wird und die Inflation sich im gewünschten Rahmen entwickeln wird.

Gleichwohl kann man nicht leugnen, dass es mittelfristige Risiken gibt, zumal in Reaktion auf die Pandemie zur Stützung der Konjunktur ja richtigerweise weltweit eine weitere Lockerung der Geldpolitik erfolgte und auch die gigantischen Konjunkturprogramme, die weltweit ergriffen wurden, eine preistreibende Wirkung haben können – sie müssen sie nicht haben, aber sie können sie haben.

Damit sind wir dann auch – was schon mehrfach angesprochen wurde – bei den Beziehungen zu den USA und der dortigen Entwicklung. Sie haben zu Recht darauf hingewiesen, dass die Ursachen für die Entwicklung dort anders sind als bei uns und dass ein Übergreifen der Entwicklungen aus den USA auf Europa relativ unwahrscheinlich ist.

Trotzdem würde ich noch einmal die Frage stellen: Wenn jetzt die FED schneller, als wir uns das wünschen, doch zu einer Zinserhöhungspolitik kommt: Inwieweit besteht eigentlich wirklich die Chance, dass wir uns davon abkoppeln können und nicht Schritte nachvollziehen

müssen, obwohl sie in unsere Entwicklung nicht vernünftig hineinpassen? Beziehungsweise: Wie können wir gewährleisten, dass das so möglich ist?

Und damit komme ich zu dem zweiten Punkt, der auch schon teilweise angesprochen wurde: Aus meiner Sicht wäre es dazu also sehr, sehr sinnvoll, wenn wir zu einem viel stärkeren Zusammenwirken von Geld- und Fiskal- und Finanzpolitik kommen würden. Das hat ja in der Vergangenheit nicht immer so geklappt.

Deswegen – Sie hatten es schon einmal ein bisschen angesprochen: Welche Wünsche hätten Sie denn aus Sicht der Geldpolitik? Wie sollte sich die Finanzpolitik insbesondere im Zusammenhang mit dem Wiederaufbauplan und so weiter in Europa von den Grundlinien her weiterentwickeln, damit die Finanzpolitik auch inflationsdämpfend wirkt und gleichzeitig eben auch die Geldpolitik entlasten kann?

1-027-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much, Mr Schuster, for your question, or questions, I would say.

I think your first point related to inflation and in particular inflation in the United States that would eventually have an impact on the timing of the potential interest rate hike in the US, and whether that would lead to any particular consequences as far as the euro area is concerned and whether we would decouple. I would come back to what I said earlier on. The two economies are both very large, sizable, but at a different cycle of the recovery process, and they operate in a different way as well. They have a different inflation level, different inflation expectations, different inflation projections in the medium term. And I think that that will lead to probably different timing of monetary policy stance on both sides of the Atlantic.

And while this is happening and each central bank pursues its own mandate, which is different in the United States from what we have here in the euro area, because clearly the Fed is going to also look at the employment situation and the employment participation, while here in Europe we are looking at price stability, which is our primary objective. We are not either oblivious to what happens on the other side of the Atlantic, and we are attentive to what happens there in terms of policy, what happens there in terms of currency, what happens there, in terms of spillover effects, because all of that can have an impact on prices and how we measure price stability. So while we are attentive to each other, probably the same would be true for Mr Powell, we are not bound and we are not timely bound to what other central banks in the world are doing, be it the Fed.

So what would be my wish list in terms of fiscal policy in order to maximise the impact of our monetary policy? Well I would certainly say a fiscal policy that continues to support and accompany the recovery of the euro area economies, that does not withdraw support too quickly, that avoids any cliff effect. I would also on my wish list have a good and steady implementation of the recovery and resilience plans that have been submitted to the European institutions as part of the Next Generation EU. And I think that that would be my wish list.

It's obvious that we have to work in good cooperation because, number one, it has proven to be efficient in the last couple of years; and number two, there are certain things that monetary policy simply cannot do. It cannot be laser-focused on particular categories of people or companies that need specific support, for example.

1-028-0000

**Henrike Hahn (Verts/ALE)**. – Thank you, dear Chair, and thank you very much for being with us today again, dear Madam Lagarde.

According to the U.S. Bureau of Labor Statistics, the Consumer Price Index in the U.S. increased by 5% between May 2020 and May 2021, which was the largest 12-month increase since August 2008. In response, the Federal Reserve announced that it's bringing forward the timeframe on the next interest rate increase, but has left the interest rate neutral for the moment.

So now in Europe and the euro area, we have obviously lower inflation than the US right now, but it's still rising compared to previous months and years. This is mainly driven by increasing prices for fossil fuels and gas. Do you see this price development in the euro area as a healthy trend towards the declared inflation target of the ECB?

Secondly, since we have had very low inflation over the past years, would the ECB even react at all if European inflation rate is above 2%, given that this could be a catch-up effect?

1-029-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Ms Hahn, for your questions.

At the risk of repeating myself, the U.S. situation and the euro area situations are very different in terms of position in the recovery cycle and in terms of inflation levels, in terms of inflation expectations as well, but also in terms of fiscal stimulus.

The fiscal stimulus that benefited the U.S. economy in 2021 was significantly higher than the fiscal stimulus that was made available in the euro area in order to stimulate the economies. So I think that it's tempting to compare, but it's not particularly judicious, given the many differences between the two economies.

As I said earlier, we pay attention. We are particularly attentive to spillovers and there will be probably spillovers from the higher inflation in the United States. We've measured that at 0.15% over the course of 2020 to 2023, at the end of this medium-term period and with particular impact in 2022. But we do not think that the situations are at all the same.

We conceive, design and implement our monetary policy stance in accordance with, and in order to deliver on, our price stability mandate. During the pandemic period, we used predominantly two tools – the Pandemic Emergency Purchase Programmes on the one hand and TLTRO-III on the other hand, in order to make sure that monetary policy was properly transmitted and in order to make sure that financing was made available widely in the euro area economy.

But when I look at our inflation projection at the end of our medium-term period, which is 2023, at 1.4%, when I look at the inflation expectations that we have, which is way below the aim that we have – which is close to but below 2% – I am certain that we have to continue to implement our monetary policy using the tools that are appropriate under the circumstances.

That is something that we look at in every meeting on monetary policy in the Governing Council, and we will continue doing so.

1-030-0000

**Gunnar Beck (ID)**. – Ms Lagarde, you mentioned the growth projections for the eurozone area for the next few years. These are markedly lower than the growth projections for the US, the UK and the non-eurozone EU countries, and, of course, China. All that against the background to the eurozone suffering more COVID deaths per million than almost the entire world – I mean more deaths together with the UK and the US, and the eurozone may yet beat those two competitors. And it comes after a much steeper economic decline in the eurozone compared to the US, East Asia, China, India and the whole of Africa and Asia. In short, while the economic decline has been steeper, the recovery is predicted to be shallower. Put differently, the eurozone, it appears, has been the sick man of the known world for the last 12 years.

Now my question: in your assessment, is the economic performance of the euro area altogether unrelated to the monetary policy of the ECB and the economic, social-migration and climate-change policies of the EU and its Member States? If so, the inevitable conclusion seems to be that we've had it and are doomed.

1-031-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you, Mr Beck, for your very global and international question. I would be tempted to take point by point your various comparisons, which I don't think are really grounded in the serious in-depth analysis that you normally conduct in such matters, because to actually compare the projection of the euro area for 2021, 2022 and 2023 with the projection of China is not a serious affair. Those are vastly different economies, vastly different positions in the recovery cycle. And it's not very reasonable to do those comparisons.

In the same vein, I'm not going to compete with you on measuring and counting the number of deaths here or there. I think that what I'm focused on at the moment is trying to make sure that the recovery that is nascent, that is gaining ground, is going to be solid, is going to be supported, is going to be solid and sustainable, and will actually provide benefits, income and jobs to the European citizens. And by the same token I will be conforming to the price-stability mandate that the European Central Bank has as its radar, as its focus and as its direction.

So I would simply observe – having gone through the 2008 crisis as I did in my positions as Finance Minister first and then as Managing Director of the IMF – that the situation that we are facing now is far worse and far more rapid in terms of cycle, and it may well be, Mr Beck, that both the fiscal policies and the monetary policies that have been adopted in Europe and in the euro area in particular have actually served their purpose. And I would contend that actually, by working better in cooperation with each other, we have probably optimised the efforts that we have undertaken, both on the fiscal front and on the monetary policy front.

Our teams actually do a little bit of work to measure what that has contributed to the euro area economy, and I'll be happy to share with you that, in terms of additional economic growth, it's 1.8% of additional GDP that is actually procured by the monetary policy devices that have been used from March 2020 until 2023, as planned for the moment, and an additional 1.3% in terms of inflation. So there is nothing to be ashamed of in that respect.

1-032-0000

**Eugen Jurzyca (ECR).** – Thank you very much for the floor, Madam Chair.

The inflation in consumer prices has been long below four percent. That was one of the main reasons allowing the ECB to continue its expansionary monetary policy of long-lasting low interest rates and APPs in the previous decade, which were further extended for that programme as we entered the pandemic.

But now we see signs that inflation is rising. The Bundesbank estimates that German inflation could rise as high as 4% towards the end of the year. The inflation target of close to but below 2% has been one of the cornerstones of ECB policy and is likely the most publicly-perceived monetary number by eurozone citizens.

This perception is very important, especially in a period when there is a risk of overshooting it. Citizens' trust in their currency is necessary for the stability of the monetary union. Yet now, when people are getting more worried about rising prices, we hear opinions from the Governing Council that the current target for inflation is obsolete and needs to be revised.

Could Madame Lagarde explain how the ECB plans to protect citizens' savings and the purchasing power of the currency they are using? I believe the ability to save money is one of the main pillars of future economic growth.

1-033-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Mr Jurzyca for your question which gives me a chance to actually raise a point that you mentioned, which is trust in our euro. It was very reassuring and very comforting to see in the latest Eurobarometer that 80% of the European citizens of the euro area countries actually value and trust the euro, which is probably the most trusted component of our European fabric, the chemistry that brings us together.

So I'm not oblivious to the obligation that we have as the ECB, as custodian of the euro, to protect our euro, to make sure that our monetary policy is focused on delivering the services that we have to deliver to our citizens and to deliver on the mandate that was assigned to us by the Treaty.

So price stability is our primary mandate and all the tools that we use, the monetary policy stance that we decide are determined by our obsession with delivering on our price stability mandate, which is our primary objective. We're not ignoring the secondary objectives, we take them into account but the primary objective is price stability. And we are going to stick to that.

Now as part of our strategy review we are looking at, as I said, all issues, principles, tools, measurements that we use and that we can optimise in order to deliver on that mandate. And if inflation can be better measured by having more sophisticated tools, if the stability objective can be better and more clearly defined, we are exploring all that.

But it is not going to move us an inch from delivering on our mandate, which is price stability and being the custodian of the euro for the benefit of the European citizen.

1-034-0000

**Isabel Benjumea Benjumea (PPE)**. – Muchísimas gracias, señora Lagarde, por estar aquí hoy en la Comisión de Asuntos Económicos y Monetarios del Parlamento Europeo y por este intercambio, que considero esencial.

Yo quería centrar mi pregunta en tres partes. La primera tiene relación con el Mecanismo de Recuperación y Resiliencia; usted acaba de hacer mención a su lista de deseos para ese plan. Quería, poniendo el foco en que es un plan de recuperación económica que tiene dos prioridades —por un lado, las inversiones y, por otro lado, las reformas—, preguntarle su opinión sobre esas reformas, que, en principio, deben estar alineadas con los objetivos del Semestre Europeo y que son esenciales para la recuperación de la economía en la Unión, y su opinión sobre las prioridades que han presentado los distintos Estados miembros en relación con los planes de reforma, en especial en cuanto a las reformas del mercado laboral y a las reformas que tienen que ver con el sistema de pensiones. Considero que esas son dos de las principales reformas que se tienen que acometer en muchos de los Estados miembros, por no decir en todos. Quería conocer su opinión sobre esas reformas que se han presentado ante la Comisión; algunos de los planes nacionales han sido aprobados recientemente por parte de la Comisión y están pendientes de la aprobación en el Consejo.

Luego, en relación con la política monetaria, se ha hecho referencia recurrentemente en este diálogo, por parte de algunos de los diputados, a la preocupación por la ficción de mantener los tipos de interés bajos o en situación negativa y a la viabilidad de mantenerlos así a lo largo del tiempo, sobre todo teniendo en cuenta —como también se ha dicho anteriormente— que competimos en un mundo global, en el que necesitamos, de alguna manera, salir de la ficción en algún momento y fijar tipos más ajustados a la realidad.

Por último, quiero preguntarle por las compras de deuda de algunos Estados miembros, pues verdaderamente el BCE está siendo el único, o casi el único, que está comprando deuda de algunos de los Estados, y por la viabilidad también de mantener esos programas de compra de deuda en el medio y en el largo plazo.

1-035-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much, Ms Benjumea. I hope it's not too cold where you are because I get worried when I see you in Spain on the 21st of June with a big woolly. I hope you're OK.

On the recovery and resilience plans (RRPs), first of all, the ECB is not directly involved in the process. So I probably know less than you on some of these are RRPs. I read what you read and I know what the focuses should be and what the volume of investment per category should be as well, because those were the prescriptions by the Commission. And whether it's the investment in digital, the investment in green projects, whether it's the balance between investment and reforms, all of that I have no in-depth knowledge of these RRPs. We are sort of tangentially informed whenever there is likely to be an impact on the financial system, for instance, but otherwise I don't have any private views on RRPs myself.

What I know and what I see of great value is that those RRPs are individual to each country. And I know that for some countries, they're also differentiated by region, depending on the level of development of some of the regions, in order to really focus on what is going to improve the productivity of our economies and their efficiency. So in that respect I think that the individuality on a per-country basis is a good exercise and one that I know is going to be checked by you and verified by the European Parliament in good understanding with the Commission, I'm sure.

And I know that there are some countries that are probably proposing labour-market reforms and others that are looking at pension reforms because it is adequate and necessary for them in order to improve the economy and make their economies more efficient and more productive. But I don't think that it's either the fact for all those economies, nor that I have a particular view on any of those plans.

Our monetary policy, as I said earlier on, is riveted to our objective of price stability, and we measure it at the moment as close to but below 2%. We use a battery of tools to that effect. And we have used interest rates. We have used asset purchase programmes of all sorts. We have particularly used the pandemic emergency purchase programme, which has some specific attributes and is marked by flexibility in particular. And we've used targeted longer-term refinancing operations (TLTROs) – the TLTRO family, I, II and now III – in order to finance the economy. And we have all these tools available, in addition to obviously forward guidance, which we have used also extensively since 2014.

And we have to continue considering each and every one of those tools in consideration of the circumstances and the nature of shocks that our economies are subject to, and select the category of tools or the combination of tools that will be most adequately responding to the shocks in order to respond to our mandate. And that's what we will continue doing.

I'm not exactly sure what was meant by the debt purchasing by Member States. Through either the pandemic emergency-purchase programme or some asset-purchase programmes that are ongoing, we at the ECB are buying some sovereign bonds, of course, on the secondary markets. And I don't know whether you were referring to that or something else. I might be out of my depth on your third question, because I'm not sure that I understood exactly what you meant, but I hope I have addressed the other ones.

1-036-0000

**Chair.** – We have finished the list of our speakers ... of our requests and I haven't received any catch-the-eye requests. So I think we can conclude our Monetary Dialogue. I really want to thank you, Madam President, for your availability, for sharing your views, for this exchange of views with us. Also, I thank all my colleagues. We will take a little break and we will resume at 18.15 with Pascal Donohoe. Thank you, Madam Lagarde.

1-037-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much to you. And I hope to see you soon in real life.

1-038-0000

*(The hearing ended at 18.10)*