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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,**  
**THURSDAY, 19 NOVEMBER 2020**

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

*(The meeting opened at 09.08)*

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**Chair.** – We can now start our monetary dialogue with Christine Lagarde. I welcome ECB President, Christine Lagarde, to this fourth monetary dialogue in the Committee on Economic and Monetary Affairs (ECON) in 2020. The previous monetary dialogue took place on 28 September. Today is the third time this year that ECON is holding the monetary dialogue with you in this format. We really hope we won't have to hold many of these.

The ECB Governing Council took the latest monetary policy decisions three weeks ago, on 29 October. The Governing Council decided to keep its accommodative monetary policy stance unchanged and indicated the following. In the current environment of risk clearly filtered into the downside, the Governing Council will carefully assess the incoming information, including the dynamics of the pandemic, prospects for a roll-out of vaccines, and developments in the exchange rate. The new round of Eurosystem staff macroeconomic projections in December will allow a thorough reassessment of the economic outlook and of the balance of risks. On the basis of this updated assessment, the Governing Council will recalibrate its instruments as appropriate to respond to the unfolding situation.

Last week, on 11 and 12 November, the ECB held its Forum on Central Banking, which examined the challenges facing central banking in a shifting world. The Forum discussed, *inter alia*, how the ECB's monetary policy has responded to the COVID-19 pandemic and the unique environment, and how it could best contribute to supporting the economy going forward. Moreover, the ECB's strategy review is ongoing. It gives the ECB an opportunity to reflect on the best combinations of tools to deliver financing conditions at the appropriate level, how those tools should be implemented, and what features the ECB's toolkit needs to have to deliver on such a strategy.

President Lagarde, you said the following in your keynote speech at last week's Forum on Central Banking: 'the pandemic has produced an unusual recession and will likely generate an unsteady recovery. All policy areas in Europe have responded promptly and decisively. The European policy mix has proven that, when different authorities work together, countries can successfully absorb the pandemic shock. The second wave of COVID-19 presents new challenges and risks, but the

blueprint for managing it is the same. The ECB was there for the first wave and will be there for the second wave.' So now we are very interested to hear more about your assessment of the current economic outlook in the euro area and your expectations for monetary developments looking forward.

Let me remind you that the ECON coordinators have selected two specific topics for discussion at this monetary dialogue. The panel of experts has prepared briefing papers on those topics, which are, first of all, Monetary-Fiscal Nexus after the Crisis, and second, Effects of Pandemic-Induced Uncertainty on Monetary Policy.

The briefing papers are available on the ECON website. We had an interesting presentation and discussion with some of the authors on Monday and we also had the pleasure of listening to remarks by Olivier Blanchard, who participated in our preparatory meeting.

So in line with the usual practices, the following procedure will be applied for this exchange of views. We will have introductory remarks by President Lagarde of 15 minutes, followed by five-minute question and answer slots with the possibility of a follow-up question, time permitting, within the same slot. So please keep to the time when we get to the questions, because working remotely it is very difficult otherwise to maintain our time.

I give the floor to President Lagarde. Welcome and thank you again.

1-004-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much, Madam Chair. If I could have dreamed of a perfect introduction, I don't think that I could have come up with something different from what you just said, because you covered most of the key issues that we have been dealing with since September and more. To you, to the Honourable Members of the Committee on Economic and Monetary Affairs, I would like to wish a virtual, remote good morning and thank you very much for giving me the opportunity to speak to you today as part of our regular hearings.

We continue, and this is clearly demonstrated by the way in which we handle our dialogue, to face difficult circumstances, from both a health and an economic perspective. Pandemics are highly infrequent and unpredictable events, and consequently the economic outlook is characterised by high uncertainty. The key challenge for policymakers will be to bridge the gap until vaccination is well advanced and rolled out and the recovery can build its own momentum.

In this situation, it is pivotal that public policies chart a clear way forward and inspire confidence to EU citizens. Good public policies are what will allow us to persevere in these challenging times, and to do so, they need to be both ambitious and realistic.

Given the central role played by the European Parliament in ensuring that EU policies work for European citizens, I could hardly be in a better place to discuss the topics you have chosen for today's hearing. As you said, the two topics are pivotal at the moment.

First, I will comment on the evolving economic outlook and the impact of uncertainty on the economy. Second, I will discuss the respective roles of the ECB's monetary policy and of fiscal policy in this environment of high uncertainty. I will count the number of times I say the word 'uncertainty' or 'uncertain', but this is clearly the landmark of what we are facing at the moment, which makes our job incredibly challenging, as is yours.

Let's look at the economic outlook and, as I said, monetary policy and uncertainty in that context. While clearly the latest news on the vaccine looks very encouraging, the recent surge in coronavirus cases and the associated re-imposition of a number of containment measures are adding to the already heightened level of uncertainty and present a serious challenge to the euro area and the global economy at large. Following a strong but partial and uneven rebound in real GDP growth in the third quarter, latest surveys and high-frequency indicators signal that euro area economic activity lost momentum going into the fourth quarter. The resurgence in COVID-19 infections is weighing particularly on service sector activity. That is so for sectoral reasons that we can all think of, but also it is especially vulnerable to the voluntary and mandatory social distancing measures that were introduced. The Purchasing Managers' Index (PMI) for the euro area shows that while manufacturing output continued to improve, services sector activity weakened further in October. This uneven impact is also evident across euro area countries, with those countries particularly dependent on tourism and travel affected the most.

So far, government support measures, particularly short-time work schemes, have protected households against job losses and a drop in income. This has not prevented unemployment from spiking in some countries. In addition, consumers are expected to remain very cautious in the current highly uncertain environment as the ramifications of the pandemic are threatening people's employment and income prospects.

In turn, subdued demand and the weakening of firms' balance sheets and profitability are weighing on business investment. Companies are likely to remain hesitant about committing funds to long-term investments as long as there is continued high uncertainty on how the pandemic will unfold and when, as well as the possible roll-out of a successful vaccine.

Overall, the euro area economy is expected to be severely affected by the fallout from the rapid increase in infections and the reinstatement of containment measures, posing a clear downside risk to the near-term economic outlook.

The weakness in economic activity since the onset of the pandemic is also reflected in inflation developments. Low energy prices and the temporary reduction in German value added tax are dampening inflation. But weak demand, notably in the tourism and travel-related sectors, and significant slack in labour and product markets are adding further downward pressure. In this environment, we expect that headline inflation is likely to stay in negative territory until early 2021.

The key role of monetary policy in this situation is to preserve favourable financing conditions for all sectors and jurisdictions across the euro area, as a result providing crucial support to underpin economic activity and safeguarding medium-term price stability. When thinking about favourable financing conditions, what matters is not only the level of financing conditions but the duration of policy support too. In this regard, preserving favourable conditions for as long as needed is key to support people's spending, to keep credit flowing and to discourage mass lay-offs.

As announced at our October meeting, over the coming weeks the Governing Council will carefully assess the incoming information, including the new round of Eurosystem staff macroeconomic projections in December. These projections will enhance our information set and allow a thorough reassessment of the economic outlook and the balance of risks. On the basis of this updated assessment, the Governing Council will recalibrate its instruments, as appropriate, to respond to the unfolding situation with a view to fostering convergence of inflation towards our aim in a sustained manner, in line with our commitment to symmetry. While all options are on the table, the pandemic emergency purchase programme that many of you know under the name

of PEPP and our targeted long-term refinancing operations, known by you as TLTROs, have proven their effectiveness in the current environment and can be dynamically adjusted to react to how the pandemic evolves. They are therefore likely to remain the main tools for adjusting our monetary policy.

We responded promptly and forcefully to the first wave that hit the euro area economies by designing new tools specifically tailored to the nature of the shock and recalibrating our well-diversified portfolio of existing instruments. Our measures have been very successful in stabilising financial markets and underpinning economic activity, thereby helping to offset the downward impact of the pandemic on the projected path of inflation. We will address the current phase of the crisis with the same approach and the same determination.

Let me now turn to the second topic that you have selected, which is the nexus between fiscal and monetary policy. The crisis response so far has powerfully illustrated how monetary policy and fiscal policy can be mutually reinforcing in the current circumstances. For monetary policy, as I have argued above, it is crucial to ensure favourable financing conditions for the whole economy. At the same time, fiscal policy has a primary role to play in bolstering demand in the short and medium term, reinforcing confidence and enhancing the growth potential of our economies. Fiscal policy has this particular role for three key reasons in my view: first, the stimulus needed to arrive quickly; second, fiscal policy has an important sectoral dimension for which monetary policy is not the right instrument; and third, some of the policy tools, for example credit guarantees, are inherently fiscal by nature.

To date, euro area governments have implemented fiscal measures amounting to more than 4% of euro area GDP in 2020 alone. These measures are in addition to liquidity support initiatives and the operation of automatic stabilisers. These national fiscal responses have been highly effective. Job retention and loan guarantee schemes in particular have helped to secure employment and prevent the unnecessary loss of viable businesses. They have been crucially complemented by EU-level support – the so called ‘safety nets’ – that reinforce their confidence-enhancing effects. By propping up demand and facilitating access to credit for companies in particular, these measures have also reinforced the effectiveness of our monetary policy. While the fiscal measures taken in response to the pandemic should, as much as possible, be targeted and temporary in nature, weak demand and the heightened risk of a delayed recovery warrant continued support from national fiscal policies. An ambitious and coordinated fiscal stance remains critical and we should, by all means, avoid cliff effects.

Public investment can positively affect economic growth in the current circumstances. In an environment of accommodative monetary policy, public investments have the strongest short-term demand effects, including in terms of cross-country spillovers. Moreover, in times of elevated uncertainty, public investment raises confidence and thus tends to have a higher fiscal multiplier. By raising confidence, a push in public investment is also likely to foster investment from private stakeholders. At the same time, we should not forget that the longer-term positive effects on the economy’s potential output and the impact on public finances crucially depend on the effectiveness of investment and the productivity of public capital.

Public investment and reforms, especially if geared towards medium and longer-term challenges such as environmental sustainability and digitalisation, can build a bridge towards a successful and inclusive recovery. We should not think about the two in isolation: combining reforms with an investment-led stimulus has the potential to raise growth even more. The two together should shape the future of our economies and ensure that our economies adapt to the new normal that will materialise once the peak of the pandemic is over.

For these two reasons, the Next Generation EU package must become operational without delay. This is critically important. The package's additional resources can facilitate expansionary fiscal policies, most notably in those euro area countries with limited fiscal space. We should also ensure proper arrangements to allow for the well-sequenced and effective spending of these funds. I therefore welcome the recent contribution by your Parliament to foster transparency and accountability in the use of this EU fiscal support. It is thus more important than ever for monetary policy and fiscal policy to keep working hand in hand, as we have. The Treaty's safeguards ensure that this is done in full respect for the ECB's mandate and independence.

Let me conclude by underlining that Europe's response to the crisis thus far has not only been impressive, it has also been highly effective. Into the second phase of the crisis, we must persevere and continue with the same commitment to keep on delivering results for Europe's people. The overwhelming majority of Europeans – in fact, almost all of them according to the latest Eurobarometer survey, which I'm sure you are all familiar with, demand such action from us. As I said in my introduction, let's ensure that the policies we are shaping allow us to get there. As Johann Wolfgang von Goethe once said, 'In the realm of ideas, everything depends on enthusiasm; in the real world all rests on perseverance'. So we shall persevere!

1-005-0000

**Chair.** – Thank you very much for this insightful speech. Now we can open the floor for our Q&A session, so I will give the floor to the Members. They will have two minutes for their questions, so please keep the time, and then, President Lagarde, you can answer directly. You have three minutes for your answer without waiting for me to give you the floor, so we can save time and avoid possible connection problems.

1-006-0000

**Markus Ferber (PPE).** – Frau Präsidentin! Ich freue mich, dass Sie in Frankfurt schon so gut zu Hause sind, dass sie jetzt auch Goethe zitieren. Vielen Dank für Ihre klaren Worte.

Ich habe zwei Fragen:

Sie haben signalisiert, dass die Europäische Zentralbank in der Corona-Krise auch weiterhin handlungsfähig bleibt. Für die Sitzung des EZB-Rates im Dezember wird – nicht zuletzt deswegen – mit einer weiteren Aufstockung des PEPP gerechnet. Das wirft einmal mehr auch die Frage nach der Legalität des PEPP auf. Der EuGH hat in seiner Rechtsprechung die bisherigen Anleihekaufprogramme der EZB als rechtskonform bestätigt. Dabei hat er unter anderem darauf verwiesen, dass die Anleihekaufprogramme nicht selektiv sind, was er daran festmacht, dass die EZB sich selbst an Ankaufobergrenzen pro Emission und Emittent hält, dass die Käufe bei Staatsanleihen am Kapitalschlüssel angelehnt sind und dass die Kaufprogramme in Volumen und Zeitraum beschränkt sind. Mit dem PEPP hat die EZB maximale Flexibilität bei den Ankaufobergrenzen angekündigt und zumindest suggeriert, dass auch beim Volumen noch Spielraum nach oben besteht. Steht das PEPP mit der EuGH-Rechtsprechung im Einklang?

Und zweite Frage: Ende Oktober gab es an einem Freitagnachmittag für mehrere Stunden einen Komplettausfall des Zahlungsverkehrssystems TARGET 2. Grund dafür war laut Medienberichten eine Computerpanne. Die Auswirkungen hielten sich deswegen in Grenzen, weil der Fehler kurz vor dem Wochenende aufgetreten ist und der Rückstau an Zahlungen dann am Wochenende abgearbeitet werden konnte. Aber das wirft natürlich die Frage nach der IT-Sicherheit in der Europäischen Zentralbank auf. Immerhin haben sie sich ja bei der Bankenaufsicht auch die IT-Sicherheit aus gutem Grund sehr genau angeschaut und auch der Europäische Ausschuss für Systemrisiken hat mehrfach auf Cyber-Risiken hingewiesen. Welche Schlussfolgerungen ziehen Sie aus der Panne bei TARGET 2? Gibt es Redundanzen, die sicherstellen, dass nicht ein einziger Computerfehler den kompletten Zahlungsverkehr in der EU lahmlegen kann?

1-007-0000

**Christine Lagarde**, *President of the European Central Bank*. – On your first question, I would first of all observe that the decision that you're referring to specifically excluded from its scope any exceptional programmes that we were conducting at the time when this matter was under review. I remember vividly reading those lines in the decision that was rendered. If I may, I would suggest that the pandemic emergency purchase programme (PEPP) was indeed designed under exceptional circumstances to deal with the result of the pandemic that was hitting our economies. As a result of that, it is very specific and it was intended to be targeted, to be temporary, to be exceptional, which is really causing it to have a dual function: first of all, making sure that stability is returned to markets so that financing can be made available, and second, it has a monetary-stance function as well. And given the exceptional circumstances of the time, it was necessary to actually use a three-fold flexibility, if I may say: flexibility in terms of assets that we purchased, which were different from the traditional purchase programmes from the past; flexibility in terms of time, so we definitely had to frontload the purchases that we conducted; and flexibility across jurisdictions, because in order to restore that financing stability and bring back stability on the markets, we had to do so. And those three dimensions of flexibility were indeed used very early on as we started rolling out the programme.

It's interesting to note, as we observe the sort of bi-monthly results of those purchases, that that flexibility, which was indispensable at the beginning, proved less indispensable as we were progressing and as the PEPP was extremely successful on particularly the first objective, as was demonstrated by the narrowing of the spreads, by the yields of the respective bonds within the European area, as well as the decline of spreads in the corporate world as well. So I would submit that, given the exceptional purpose and exceptional circumstances, those flexibilities that I mentioned, that were so necessary in the early days and less so as we speak now, was a very specific attribute of the programme and much needed and fit for purpose, if I may say, in order to deliver on our mandate of price stability within the euro area as is mandated under the Treaty.

On your second point, which refers to the payment system and the incidents that we have faced with the payment infrastructure, I'm concerned about it because, as you say, efficient and rapid payments and settling between the European institutions is a clear and very important function of the ECB. So we have decided to launch an independent review of this incident – the recent one – as well as previous ones, because we had four in the course of the last 12 months and because it affected the real-time gross settlement of the TARGET2 system, particularly on 23 October. That is not the last one of Monday, but the one before that. We will conduct that investigation without any delay, without any complacency, because we need to get to the bottom of it and we need to understand exactly what needs to be fixed, what caused the outage: whether it had to do with power, whether it had to do with human error, whether it had to do with intrusion. I do not believe that the latter case is actually what caused the problem, but we need to keep an open mind as to exactly what caused it, and as I said, get to the bottom of it, fix them – and clearly the euro system at large, because these matters were discussed within the whole euro system, not just at the ECB. As you know, there are four national central banks that are very strongly linked in order to deliver on this payment clearing and settlement, but the whole euro system is committed to identifying lessons learned from those recent incidents, in full transparency and taking action accordingly in order to continue providing highly efficient and reliable financial market infrastructures to all the European agents.

1-008-0000

**Jonás Fernández (S&D)**. – En las últimas semanas y, en referencia a la relación entre la política fiscal y la monetaria a la que usted hacía referencia en la segunda parte de su intervención, los hallazgos de nuevas vacunas parecían reducir la incertidumbre sobre la evolución de la pandemia

y, por lo tanto, sobre el periodo en el cual tendríamos que convivir con medidas de distanciamiento social.

Sin embargo, en los últimos días hemos conocido la posición de los Gobiernos húngaro, de Polonia y de Eslovenia en el Consejo, que bloquean la posibilidad de desplegar el presupuesto y el Next Generation EU.

¿En qué medida considera que este bloqueo puede incrementar la incertidumbre, ante la cual, por cierto, va a tener usted que tomar decisiones en la próxima reunión del Consejo de Gobierno?

Y la segunda pregunta versa sobre esa reunión. Las previsiones de inflación siguen demasiado lejos del objetivo actual del Banco Central. Previsiblemente, al menos durante la mitad de todo su mandato, el objetivo primario no podrá ser cumplido, y yo creo que es urgente que en las próximas semanas tomen medidas más ambiciosas para ayudar a soportar estos periodos de incertidumbre, reanimar la economía y conducir la inflación hacia el objetivo.

1-009-0000

**Christine Lagarde**, *President of the European Central Bank*. – I wish I could address your question, but unfortunately the English translation was not available at all.

1-010-0000

**Jonás Fernández (S&D)**. – Ok, so maybe I can ask you directly in English.

My first question is as follows. As you know, some governments in the European Council have decided to block the new budget and block the Next Generation EU. Given that in the second part of your speech you talked about the relationship between monetary and fiscal policy, I would like to ask you directly about these new uncertainties about the implementation time of the new budget.

The second question is related to monetary policy because, as you know, inflation is so far from the objective. I think that, with the current forecast, at least for half of your mandate the ECB will not comply with its primary objective – its primary mandate, and I hope that, in the next few weeks, new decisions will have to be taken by the Governing Council if we want to solve part of the uncertainty that we see being created by the European Council.

1-011-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much and I'm sorry that you had to repeat your question. Maybe we should have switched to the French translation, which could have worked. But now I get it.

Concerning the first part, which is not really a question addressed to me, but it gives me the opportunity to reiterate that Next Generation EU and the Recovery and Resilience Facility (RFF) that forms a significant part of it are indeed critically important components of the response to the crisis and one that is certainly provided on a pan-European basis, which has been an important component of the fiscal and monetary nexus, which had this European dimension to it that was regarded as extremely positive. So prompt implementation of this Next Generation EU, including the RFF, in order to address the concerns that were first on your mind and on the mind of Council members and Commission members in order to address the situation will hopefully take place shortly.

On your second point, when I look at what the European Central Bank has done (which I have described in response to the previous questions) to address, from a monetary standpoint and with its mandate of price stability in mind, I think that the Central Bank has actually delivered. It has delivered by using two key tools, as you know. One is the Pandemic Emergency Purchase

Programme (PEPP), which I described earlier on, and the other is TLTRO – the new generation TLTRO IV – which was clearly intended to encourage banks to continue lending to the economy and, as a result of that and subject to that commitment and implementation of that commitment, to benefit from attractive rates. I think we have managed to restore some stability. We have managed to maintain financing conditions that were supporting the economic recovery, as we saw it bouncing in May and June, and we have also delivered on our price stability commitment. If I look at what is projected by staff, for instance, what we have done so far, measured from the moment when decisions were made in March and the end of 2022, it is no less than an additional 1.3% growth that we are putting on the table and 0.8% additional inflation.

So only by those yardsticks I think that we have delivered, as we were expected to – and that does not even compute what it would have been had we not acted, because this is counterfactual and less obvious to demonstrate. But I understand from the studies that have been conducted by staff that those numbers are even higher than the ones that I've just mentioned. So I think that we have delivered and, as I said, we were here for the first wave and delivered. We are in the second wave and we will continue to deliver. There is no question in my mind, and that is the reason why, during the last monetary policy meeting in October, I said very clearly, representing the unanimous views of the Governing Council, that we would recalibrate our instruments in order to address the situation.

1-012-0000

**Luis Garicano (Renew).** – A few days ago, we at the European Parliament hosted an expert panel discussion to prepare for your hearing, and Olivier Blanchard, whom you know very well, having worked so close with him, spoke of the excessive risks the ECB's monetary policies take. Essentially the problem is this: the pandemic emergency purchase programme (PEPP) was necessary when it was put in place. I congratulate you on this. It has indeed, as you said in your statement, worked very well at stabilising the financial markets, but the way it has taken excessive risks is (*inaudible*) the spread between the interest rates and the debts of the different countries. By using monetary tools and not fiscal tools we have a policy that is all carrots and no sticks. Essentially, if a country misbehaves, we are out of tools to actually correct that in any way. In fact, some countries, like Italy and Spain, are refusing to use the fiscal tools, the fiscal space available in both the European stability mechanism (ESM) and in the recovery facility. They are saying we were not going to take these loans (*inaudible*). Obviously they prefer money without strings attached than money with strings attached. So the alternative would have been – and I think you might have preferred it initially, but it was a bad moment: I can realise that – using the ESM with the traditional programmes, as Mr Blanchard pointed out. The problem is that once countries are used to receiving unconditional help, it is going to be very difficult to move them to something with strings attached. How do you see this question – should we be using fiscal rather than monetary tools with more conditions attached in order to close the spread between countries?

1-013-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you so much for your question and thank you for bringing back the good memory of the days when Olivier was working at the IMF and I was the Managing Director. I always benefited from his wisdom and his vision, and that's probably the luxury of observing rather than being in the midst of things and of looking in retrospect and considering what would have been the best option had we had the luxury of choice.

But frankly, we were – and we are – facing a global and common shock that has few precedents in recent history. When we put together the Pandemic Emergency Purchase Programme (PEPP), there was no question that it was designed to counter the specific challenges of the pandemic, supporting households and firms throughout the difficult times and restoring financing conditions that were supportive and restoring some stability on the markets that were, if we all



remember, very agitated. While PEPP shares the market stabilisation function with other ECB programmes, such as Outright Monetary Transaction (OMT) and others, the monetary policy heavy-lifting that PEPP helps carry out to ensure that the stance remains appropriate, even in the face of the disruptions caused by the new coronavirus shocks, makes it a very different tool.

If I compare the two suggestions, clearly the one advocated by Olivier – which has, by the way, never been used, as you know well – we were talking in those days of a completely different situation, where one country was facing particularly difficult situations. Remember, back in March all countries were facing difficult situations. It was this symmetric exogenous shock that made no difference and hit all countries. So there is no question in my mind that, at the time, PEPP, as we structured it – this emergency programme that we put in place – was the right monetary policy tool that we had to use at the time to deliver on the dual function that I explained earlier on. So clearly, when fiscal and monetary work together, as it did, I think we provided the best possible response to the exceptional circumstances.

Now clearly, as I mentioned in my introductory remarks, this monetary and fiscal has to continue hand in hand as the pandemic is continuing to unfold without any vaccination rolled out and will take us way into 2021. But it is also clearly the case that, under the Next Generation EU, there are commitments and solidarities that have consideration, which obviously you will be attentive to. And I'm very pleased that the European Parliament took it upon itself to actually verify and see where money is spent, because it is vitally important that it is spent in the right areas with the highest possible multipliers and a real impact on productivity and growth going forward.

1-014-0000

**Marco Zanni (ID).** – Thank you again, Ms Lagarde, for your contribution. In your introduction, you mentioned the risks and effects associated to the COVID-19 crisis, and for sure, skyrocketing levels of debt, both public and private, are one of the most dangerous effects that we will have to deal with in the near future. In the past days, someone included the President of the European Parliament in starting to discuss about the possibility to cancel in the future part of the debt purchased by the ECB under its PEPP programme. We know that there are limits in the Treaty, and I don't want to touch this point since it's a political choice – it's a political discussion. I would just like to know, technically, what would be the impact of debt cancellation on the ECB and in particular if the related losses could harm ECB capacity in pursuing its monetary policy goals – if it would risk bankruptcy or if a central bank runs under different rules compared to private banks or other private companies? Can you also explain how and why the ECB, as stated several times by the bank itself, can work also with a negative equity? Is the ECB in some way a special institution?

1-015-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much for your question, and it gives me a chance to be extremely brief in my response. While I read with interest anything that is said, written or interviewed by all Members of the European Parliament, particularly their President, indeed, and my response is very short, because I don't even ask myself the question. It's as simple as that, because anything along those lines would simply be a violation of the Treaty. The ECB operates under the Treaty. There's an Article 123 of the Treaty, which prohibits that kind of approach, and I respect the Treaty: period!

1-016-0000

**Marco Zanni (ID).** – I know, as I said, that there are limits in the Treaties, but it could happen in the future that, without formal cancellation of the debt, the ECB could incur losses related to its holdings under the asset purchase programme (APP). So I would like to know, technically, what would happen if those losses were to erode the equity of the ECB and how it is possible that the ECB could run also with negative equity.

1-017-0000

**Christine Lagarde**, *President of the European Central Bank*. – As the sole issuer of euro-denominated central bank money, the euro system will always be able to generate additional liquidity as needed. So by definition, it will neither go bankrupt nor run out of money. And in addition to that, any financial losses, should they occur, will not impair our ability to seek and maintain price stability. I'm afraid that it's yet again a fairly simple, straightforward answer, but that's the reality that we are dealing with, and I don't speculate on alternative scenarios, because we have a treaty. We are the only issuer, and we are not at risk as a result.

1-018-0000

**Sven Giegold (Verts/ALE)**. – Madame Lagarde, the ECB has, with its fast and bold reaction, played an outstanding role in stabilising European economies during the euro crisis as well as during the pandemic. Expansionary monetary policy measures were warranted and adequate. I am, however, concerned regarding the recent development of your targeted longer-term refinancing operations (TLTROs). As a tool to promote bank lending, the TLTROs have provided beneficial borrowing conditions to banks that meet targets regarding their lending to households and firms since 2014. Yet, with the easing of conditions in spring this year, the current TLTRO III has become more of a broad subsidy scheme for euro area banks without effective conditionality. This has led to a record take-up of TLTRO loans in June of EUR 1.3 billion. However, the banks can now borrow money even below the ECB's deposit rate. This means that even carry trades in which banks borrow TLTRO funds and deposit them in the deposit facility of the ECB can be profitable.

Against this background, I would like to ask you the following questions: first, how many banks participating in the current TLTRO programme do you expect to be eligible for borrowing at the -1% interest rate? Second, how do you ensure that TLTRO incentivises the productive lending needed for the recovery from the pandemic rather than questionable carry trades, the build-up of unsustainable debt? Third, do you consider that the TLTRO programmes have distorted the markets for banking bonds so that healthy and unhealthy banks pay very similar interest rates for their refinancing? Can market forces still play out the way they should?

1-019-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much for your questions directed to the second key arm of our response to the crisis – the targeted longer term refinancing operations which, as you've indicated, have proven extremely efficient.

Let me address two points. One is that it's a refinancing programme that was put in place with one clear purpose, which was to maintain, sustain and continue lending to the economy at large, because clearly, at the beginning of the crisis, we saw the risk of a freeze of the economy and a freeze of the financing extended to companies. So that was really the purpose that we were pursuing.

As a result of that – my second point – we built that refinancing programme with a key conditionality, which is an imperative in order for banks to be eligible for the very favourable rate that you have mentioned. That key conditionality is at least to maintain the lending volume that you had provided pre-COVID crisis. So the principle of the conditionality is that, if the lending is not maintained at least until it is at the pre-COVID levels – and there is a whole series of complicated thresholds and measurements and reference periods that I'm sure you're familiar with and that I will not go into because otherwise we will exceed the time – and if they don't deliver on that conditionality, the favourable rate is not available and is returned to the deposit facility rate (DFR), which is minus 50 basis points.

So the risk of arbitrage and the risk of trade-offs to which that you think we should be attentive is not taking place. I don't think it's embedded in the system that we have built. I think the reason it has been so successful – because it has been, the take-up was quite phenomenal in June – had to do with two things. One is that the rate was attractive and banks felt that the conditionality would be satisfied – and we all hope that it will be because otherwise the rate is not available – because they had a strong demand from firms and, in order to respond to that strong demand, went out and availed themselves of the TLTRO rules. But, believe me, we are going to be extremely attentive, whether it's on the basis of the bank lending surveys, whether it's on the basis of the feedback that we get from corporates – and we have our forum in order to actually assess those points – or on the basis of data that we can collect. We will be attentive that the TLTRO rules continue to be angled toward that purpose that we had, which was continued support to the economy. Thank you for your support.

1-020-0000

**Roberts Zile (ECR).** – Thank you, Ms Lagarde, for your very comprehensive description of the macroeconomic situation and needs to do on both sides, in particular also on our fiscal policy side, but you described it very well. Coming to the details, you know that yesterday Commission went with data about the Europeans semester, where we can see very different eurozone Member States of the EU are coming to very different policy measures, including also – some of them are not using, in my view, some expansionary fiscal policy measures, and particularly with the credit guarantees and some kind of other subsidies for the businesses, particularly. Taking account also the different structures of economies in different eurozone countries and also outlook, which was recently published, also in the Financial Times and some other papers, so some of the eurozone Member States can expect that they will come to GDP growth on pre-pandemic level already at the end of 2022, but some will be far behind it. This description, I'm asking also – taking account also that the ESM is not used, as was asked by my colleague Luis Garicano and also politically will be not used and also RFF loans I think in the majority of cases will not be used, taking everything in account, I have two questions. The first one is: what do you think – how we can influence to borrow money and whatever we use for the Member States and to go with a responsible fiscal policy in the future – would it be helpful if the Commission will come in the next few months with some certain principles on how we can create, how we can come back not to the same level of the growth and stability pact, which is a general escape clause or returning to the previous criterion, but something which encourages countries to understand that the next two, three, four years, where we cannot have either of those rules? I think this would be very important.

The second question to your responsibilities to expansionary monetary policies, taking account also of differences in the eurozone. When you will have to increase in the future or definitely, so interest rates or to create a different environment when we are coming out of the crisis, differences will be huge among eurozone Member States and you have only limited (*inaudible*) like PEPP or similar instruments which are different country by country. Perhaps you can do some fine tuning, but in general the interest rate worked for all eurozone. What do you think would be the best solution for also your part of responsibilities in this difficult environment?

1-021-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much for your, in a way, multifaceted question. I will focus on the present. It's in a way difficult enough to address the multiple challenges that we are all facing at the moment, let alone trying to project ourselves into a few years from now.

So, in the present circumstances, I agree with you that we are facing a fragmented situation. It's fragmented also in the way in which corporates rely on, or avail themselves of, schemes that have been put in place. We are following that very carefully. This is certainly our concern here at the ECB. It's also a concern at the European Systemic Risk Board (ESRB) that we will be talking about

separately later on this morning. But it's obvious that in some countries the guarantee schemes in particular that were made available have been extensively used, and in other countries much less so, and sometimes for reasons that we cannot really elicit very clearly. But there are discrepancies and there is fragmentation as a result of that, and while sometimes similar fiscal schemes were offered, they were not taken up in the same fashion.

So I would say: number one, we are clearly monitoring and following this; number two, we have a euro area mandate. Although we look into country-specific circumstances, we operate at the euro area level, and this is the mission that we were endowed with. And number three, while clearly the monetary and fiscal nexus is important, as I mentioned in my introductory remarks and as I strongly believe myself from previous life, countries in their reform efforts should not spare the opportunity to actually provide the foundation for the fiscal benefits of current policies and the monetary stabilised induced financing circumstances. They should not lose that opportunity to transform their economies in a sustainability direction and a digital direction, but also in an improved productivity direction as well, because that is how they will get a bigger bang for their euros. The three should be aligned in the same direction in order to prepare Europe to be a strong player on the geopolitical and geo-economic scene.

1-022-0000

**Δημήτριος Παπαδημούλης (GUE/NGL).** – Ευχαριστώ, κυρία Πρόεδρε, ευχαριστώ κυρία Λαγκάρντ, και για την ενημέρωση που μας κάνατε. Οι τελευταίες εκτιμήσεις της Επιτροπής προβλέπουν μια μεγάλη αύξηση του δημόσιου χρέους για όλη την ευρωζώνη, πάνω από το 100% του ΑΕΠ. Για τη χώρα μου, την Ελλάδα, το χρέος έχει ανέβει πάνω από το 200% του ΑΕΠ. Το Σύμφωνο Σταθερότητας έχει ως όριο το 60% του ΑΕΠ και οι προβλέψεις λένε ότι για αρκετά χρόνια, ίσως και δεκαετίες, θα υπάρχει μια απόκλιση ανάμεσα στην πραγματικότητα και στον κανόνα.

Πώς βλέπετε την άποψη, που υπάρχει ισχυρή μέσα στο Ευρωπαϊκό Κοινοβούλιο, ότι θα πρέπει να υπάρξουν αλλαγές, αναθεώρηση σε αυτό το Σύμφωνο Σταθερότητας, έτσι ώστε να γίνει ένα σύμφωνο σταθερότητας αλλά και βιώσιμης ανάπτυξης.

Και το δεύτερο ερώτημά μου: δίπλα στην ισχυρή νομισματική πολιτική πολλοί λένε ότι χρειάζεται και μία ισχυρή και με μεγαλύτερη διάρκεια δημοσιονομική πολιτική σε ευρωπαϊκό επίπεδο. Με δεδομένες και τις απειλές από ορισμένα κράτη μέλη ότι θα καθυστερήσουν ή και θα μπλοκάρουν το Ταμείο Ανάκαμψης, θα ήθελα να σας ρωτήσω πώς εκτιμάτε εσείς τις προτάσεις, τις σκέψεις που από ό,τι ξέρω υπάρχουν τόσες μελέτες και μέσα στους κόλπους της Ευρωπαϊκής Κεντρικής Τράπεζας που ζητούν το Ταμείο Ανάκαμψης να έχει μεγαλύτερη διάρκεια από αυτήν που έχει ήδη αποφασιστεί από το Συμβούλιο και ενδεχομένως κάποια του στοιχεία να γίνουν και στοιχεία μιας μόνιμης πολιτικής δημοσιονομικής στο επίπεδο της Ευρωπαϊκής Ένωσης και της ευρωζώνης. Σας ευχαριστώ.

1-023-0000

**Christine Lagarde, President of the European Central Bank.** – You raise important questions, and you are correct that the COVID-19-induced recession and the related sizable fiscal measures implemented by governments will imply significantly-increased government debt. I would not challenge your numbers, I'm sure you've checked them. And these debt overhangs will need to be addressed in due course to reduce risks to debt sustainability in the medium term. However, in view of heightened risks of a delayed recovery, a proper sequencing will actually be key, given that in the short term, continued support from national fiscal authorities and policies will be needed. Having said that, it needs to be continued, and clearly the commitments that are made and that we are calculating on the basis of the budget submission lead us to believe that it will be pretty much in the same ballpark as in 2020. But even if it has to be continued well into 2021, given what the pandemic is going to inflict upon our societies and our economies, risk to the medium-term debt sustainability should not be lost out of sight, because we will return to some degree of normality. The economy will bounce back, as it did in May and June and hopefully for the longer term, and

that will impact numerator and denominator. So when we talk about debt to GDP, clearly debt has increased, and GDP will increase in due course as well. But that sustainability has to be on the mind of policy-makers, and it will be important to take up again soon the discussions on the review of fiscal governance framework. It is something that, clearly, Commissioner Gentiloni has already mentioned and addressed, and it will be for the Commission to come up with proposals and for Member States to agree upon the terms under which they operate, all of that within the parameters of the Treaty, which have their constraints as well.

The Next Generation EU instrument and the recovery and resilience facility (RRF) were particularly welcome innovations on the part of the European institutions, and my strong hope, looking at it from my perspective here at the ECB, is that it will be implemented and it will be rolled out rapidly so that the needs of many Member States can be addressed, as was agreed by the Council and as was approved by your Parliament. Should that be a permanent instrument? It is not for me to decide and not for me to say. I would simply observe that it has been extremely impactful, and hopefully it will be very effective when it is rolled out. I would suggest that it could be interesting to explore whether that instrument or a similar instrument calling on the same principles might be available should similar circumstances of an exceptional nature arise again. But the mere fact that the Europeans could get together and produce that exceptional one-off particular response is, in and of itself, impressive.

1-024-0000

**Enikő Győri (PPE).** – Ms Lagarde, welcome – virtually – to our meeting. I have two questions.

The first one is rather short, concerning the TLTROs. In several earlier speeches, you emphasised the importance of green investments. I would like to ask whether the ECB is planning to launch more TLTROs, this time with a green objective. This is my first question.

My second is a bit more philosophical, continuing along the lines of my colleagues. You also mentioned the revision of the semester framework and the economic governance framework. You must know that in the European Parliament this is a highly-debated issue, and just a few weeks ago we were unable to get to an agreement and adopt a report on the workings of the European Semester, how to revise it, and what to do. You said that even the Commission was planning it right, but then Covid arrived and this kind of work has been stalled. The dilemma here is how long and how lax we can be with our fiscal and economic policy rules. The ECB is, of course, – I think quite rightly – pursuing loose monetary policies, because we desperately need that for revitalising our economy.

My question is if you can say what an optimal fiscal and monetary policy mix is at the present time, and how long we can maintain these lax fiscal and monetary policies without causing durable and permanent damage. We all know that the recovery instrument is also based on loans, so we are putting more debt on the shoulders of future generations. In Hungary we have a very bad experience of that. That's why we were very reluctant but, for the sake of solidarity, we were in favour of that instrument. I would just like to know your feelings about this package.

1-025-0000

**Christine Lagarde,** *President of the European Central Bank.* – Thank you very much for your three key items.

Concerning the green targeted longer-term refinancing operation: as you know, many proposals and new ideas have been floated around and have been examined on possible ways to green our approach to portfolio management, particularly since we decided to launch our strategy review and include climate risk considerations as a key plank of it. I personally am very happy to see that so many experts are really scratching their heads and putting their brains and talent to the service

of the common good in favour of the environment, biodiversity and the fight against climate change. We welcome the wealth of ideas, the proposals and the suggestions that are ensuing from their efforts.

The various proposals that have been advanced and that have been considered so far differ greatly in scope, aim, technical details and implementation aspects, and they all have some merit in that they are driven by the aspiration to green different options of the ECB portfolios or operations and promote sustainability in different segments of the financial markets. But they also all present limitations, shortcomings and still-unresolved issues. Chiefly amongst them is the anchoring of those programmes to a solid and objective definition of what constitutes a green or sustainable financial asset, while at the same time keeping the operational complexity and the administrative burden of the operations manageable for all the parties involved.

So at this point in time, and despite all the efforts, including the efforts of the Parliament – and personally, because this is something that I care very much about, I can't thank you enough for having moved deliberately on the green taxonomy front – I think that part of the way is completed. I know that more work is currently being done at the Commission level and in the various directorates, and I very much hope that the operation ability, as of 1 January 2022, will be a fact. I still think that there is more work to do to define the multiple shades of non-green and to focus on how the transition can actually go forward and be financed.

So it's a complicated matter and not one where we can just say that we'll have a green TLTRO. I wish that this could work, but I don't think that it could be credible, and it's vitally important that all the efforts that we put in that direction actually be solid, documented, evidenced and credible, because they will not be without controversy. But I can assure you that, as part of the strategy review, we are going to address the whole gambit of our duties and our deliverables under the mandate that we have, which is price stability.

But clearly, everybody has to do their job. The European Central Bank – and I find myself, by the way, in great agreement with my colleague from the Bundesbank – everybody has to do their work. No one can just escape their responsibility because it's too hard, and it would not be right to assume that the European Central Bank will take care of it all, and that because the European Parliament has agreed on green taxonomy, we are also on safe ground. No, we all have to do our part under our respective obligations, duties and in accordance with our mandate. This is certainly what we will endeavour to do, looking at all operations, from the very down-to-earth operations of the building of staff management and of organising ourselves to monetary policy implementation.

You had a second question, and I'm afraid that I'm going a bit in excess of the time, so I'll deal with that: what is the optimal policy mix between fiscal and monetary? Well, when I look at the current circumstances, what has worked extremely well is that the two worked hand in hand and we did not intrude on each other's territory. Certainly, from the ECB perspective, we stayed within our mandate. Our independence was never threatened. We were not asked by any fiscal authority to do this or that. I think that it's through this strict allegiance to what we had to do, under our respective mission or mandate for us, that we were effective.

1-026-0000

**Evelyn Regner (S&D).** – Madame Lagarde, we are all aware of the impact monetary policy can have on job creation. That being said, we need to acknowledge the fact that monetary policies are not neutral or sensitive in their very nature, that is neither investment in job creation nor monetary policy itself are gender sensitive. Indeed, monetary policy often fails to consider trade-offs between reducing inflation to very low levels and supporting new employment

opportunities, with consequences for women's paid work. Nevertheless, the ECB can use its regulatory power to channel credit or buy specific bonds for purposes that promote gender equality, as we've seen with the undertaken initiatives of the ECB to fight the climate crisis, for example. My question is are there any monetary policy measures or initiatives taken by the ECB to promote gender equality? If so, would you be so kind as to name a few initiatives; if not, is the ECB considering doing more in this respect?

1-027-0000

**Christine Lagarde**, *President of the European Central Bank*. – Let me say at the outset that the European Central Bank, unlike others, has a single mandate, or shall I say a primary mandate, to which are attached possible secondary mandates without prejudice to the first one, and that primary mandate is focused on price stability.

Is that a shortcoming? I would argue that no, because price stability, as we deliver it, using the tools that we have, is procuring stabilisation of the economy at large. This price stability that we have as a mandate and the economy stabilisation function that it results in, is actually critically important for jobs to be created, for investment to be decided, and for those sectors of the economy that are most exposed to actually have that stability, have access to financing as well. We can, through the price stability mandate that we have, endeavour to deliver the sort of concern that you have mentioned.

Let me just give you an example. It is clear that at the moment, under this, exogenous, asymmetric and very uneven shock in a way, or very uneven in terms of the recovery that is coming out of that shock, that some sectors are more affected than others. Those sectors, including predominantly service activity at large but some particular sectors like accommodation, hotels, tourism, traveling are probably female labour intensive, more so than industry, which has come out of that first wave in a better shape.

By providing financing, number one, from participating in market stabilisation, I think the ECB is playing its part under the constraints that it has and with the mandate that it delivers upon. The ECB contributes to facilitating what is needed, which is a focus on the parts of the economy that are suffering and, as a result, the gender imbalance that is prevalent in those sectors.

I don't think that this is enough, from my perspective, but this is what the monetary authority can do. More decisions have to be made on the fiscal front, more decisions have to be made and implemented on the political front, and I know that you are very concerned and focused on those, and that Parliament at large is and has been.

1-028-0000

**Engin Eroglu (Renew)**. – Vielen Dank, Frau Vorsitzende, für das Wort! Ich hoffe, man versteht mich gut. Frau Lagarde, auch nochmal herzlich Willkommen bei uns im ECON-Ausschuss. Ich freue mich sehr, dass Sie so regelmäßig bei uns erscheinen.

Frau Lagarde, mir liegt vor allem die Stabilität und die Krisenfestigkeit des Bankensektors am Herzen, denn wir haben ja den Nexus Bank–Staat Bank–Wirtschaft, der einfach besteht. Und wie Sie auch, liest man in dem Zusammenhang sehr viel, denn es ist ja immer wichtig zu hören, was andere Fachleute dazu sagen. Und ich habe in der FAZ letzstens ein Interview von einem Vorstandsmitglied der Deutschen Bank gelesen, Burkhard Balz – der ja auch mal Kollege im Parlament war –, in dem er sagt, dass er sich Sorgen um den digitalen Euro macht, beziehungsweise mögliche Stabilitätsprobleme des digitalen Euro auf dem Bankensektor sieht. Ich wollte mal hören, wie Ihre Meinung dazu ist.

Die konkrete Frage ist: Ist es so, dass der digitale Euro dazu führen könnte, dass in Krisenzeiten Anleger ihr Geld sozusagen beim digitalen Euro anlegen und wir damit so einen „bank run“

bekommen: Geld weg von den Banken und hin zum digitalen Euro? Aus meiner Sicht würde das zu einem Krisenfaktor oder zu einem gefährlichen Indikator führen. Und da würde mich mal Ihre Meinung interessieren, und auch Ihre Meinung dazu, ob der digitale Euro vielleicht andere Möglichkeiten der Risiken für uns darstellt. Vielen Dank!

1-029-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much for your question. Again, let me say at the outset that, number one, the digital euro, when it comes – and if it comes, because the decision has not yet been made – will not be a substitute for cash. It will complement cash but it would not substitute cash. So banknotes and coins will continue to be around for those who care to have them more than to have a digital euro. That's number one.

Number two, it is not a sort of top-down approach. It is very much a bottom-up approach. We have seen, over the course of time, more and more Europeans rely on digital currency, instant payment and digital more than material payments. That is clearly accelerated by the current circumstances. E-payments, instant payment and the use of credit cards in those countries that were not very familiar with them have accelerated significantly.

Number three, there is competition around. We all know that, and there are clearly networks that have significant ramifications around that are considering launching some sort of quasi-currency in the form of a stablecoin. I think it is with these three components in mind – in other words, no substitute for cash, a clear response to the demand of the Europeans, and three, the necessity to be there, first and foremost, in order to deliver on serving the sovereignty of the Europeans vis-à-vis their currency, that we are looking very carefully at what a digital euro would look like. If it can be less costly, more efficient, greener and a better response to citizens' demand, we should certainly explore how we can eliminate or significantly mitigate the downsides of a potential digital currency. I can assure you that it is with that in mind that the ECB would not want to impair its monetary policy as such, nor its monetary policy transmission channel. Clearly, it is not with a view to substituting the bank intermediaries that we are looking at how such a digital currency would be constructed and on which backbone it would be supported.

I hope I have addressed the questions and the concerns that you had.

1-030-0000

**Gunnar Beck (ID)**. – Good morning, Madame Lagarde. Let me clarify right away that at present of course, we are not opposed to increased public spending, although for limited purposes, such as health or job protection at national level.

In response to the corona epidemic, the ECB has, since March, bought bonds and other securities for around EUR 870 billion, equivalent to around 7.3% of the eurozone GDP. Mr Draghi previously printed trillions. Despite this, the GDP in the eurozone has contracted more steeply than in the rest of the EU, the US, Japan and the OECD average. Last time I asked you if you could draw our attention to a single historical example where massive money creation has led to sustained economic growth before the policy was abandoned. My question is: how large does the ECB balance sheet have to be or how far would the eurozone GDP have to decline before you would consider abandoning the policy you inherited from Mr Draghi?

Just to round off, please let me add that I do not like asking these questions. I know that economic growth is the result of many policies and factors, but I cannot ask you to comment on policies others are responsible for. However, if the eurozone has been growing more slowly than the rest of the world and our economy is now contracting faster, is this exclusively the fault of our governments and not also, to some extent, the ECB's?



1-031-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much for your points and for your questions. I would like to, first of all, address the issue that you raised first, which is the issue of public spending. What we are observing under the current circumstances is a concern, a lack of confidence, a huge uncertainty on the part of pretty much all economic operators. When I look at the investment numbers, when I look at the consumption numbers, when I look at the PMI and the high frequency indicators, everywhere, wherever you look, you see – and I must have repeated that ten times in my introductory remarks, and it's the word that I hear from those who try to analyse the situation – uncertainty. It's also a fact that, in the face of that uncertainty, the entities, the policy-makers that are relied upon, that are eventually one of the few sources of some certainty, are the public entities. You might have your own view, your own judgment, but that's what we see, and that's what we also hear from the surveys and the consumer-testing that we do and the corporate world as well. We know, and we've seen, that when there is public investment (and that's been historically demonstrated), but when there is public investment in those times of great uncertainty, it kick-starts and it fosters private investment, which is so badly needed and which is called for if we want to escape this current economic crisis. From a macro-economic point of view, it's really fully justifiable that public investment be first and foremost at the moment in order to stimulate what has to come next, which is private investment and the return of confidence for the economic operators.

I would observe, in terms of what we have done, that the size of our pandemic emergency programme, the very high take-up of our targeted longer-term refinancing operations (TLTROs), and the results that have been generated, when I look at all possible indicators – volume of lending, rates at which loans are made available, stability in the financial markets, financing condition in general – and all that go in the direction of supporting the policies that we have deployed, and I don't think that there was any alternative and that there is any alternative under the current circumstances.

1-032-0000

**Joachim Schuster (S&D)**. – Vielen Dank! Wie es ausgeführt wurde, gab es bisher in der Krise ein gutes Zusammenspiel zwischen Geld- und Fiskal-Politik. Das war vor der Krise ja nicht immer so, aber es deuten sich auch jetzt schon wieder Friktionen an zwischen Geld- und Fiskal-Politik, weil aktuell Polen und Ungarn versuchen, aus egoistischen nationalen Motiven den Haushalt und den Wiederaufbaufonds der EU zu blockieren. Das Ganze hat im Übrigen auch immer einen institutionellen Hintergrund, denn die Verträge der EU sehen zwar die Bildung eines gemeinsamen Binnenmarktes und einer Währungsunion mit einer vergemeinschafteten Geld- und Währungspolitik vor, die Wirtschafts- und Finanzpolitik wird aber allein in nationaler Verantwortung belassen.

Zurzeit intensivieren sich nun die Diskussionen, was wir nach der aktuellen Krise machen. Sollen die gestiegenen Schuldenstände wieder zurückgefahren werden, und wenn ja, in welchem Zeitraum? Wie geht es mit dem Zinsniveau weiter? Die extrem niedrigen Zinssätze erleichtern zwar die Finanzierung von öffentlichen und privaten Investitionen, haben aber auch negative Nebenwirkungen. Und wie steht es denn eigentlich mit den mittel- und langfristigen Erwartungen zur Inflationsentwicklung?

Bei all diesen Fragen wäre es sinnvoll, wenn wir eine enge Beziehung und vor allen Dingen einen Gleichklang zwischen der Geld- und der Finanzpolitik hätten. Deswegen die Frage: Welche Erwartungen, Frau Lagarde, haben Sie aus Sicht der EZB an das zukünftige Zusammenspiel der Geld- und Finanzpolitik? Reicht eine Rückkehr zu den institutionellen Verhältnissen vor der Krise aus, oder sollten wir die Erfahrung der Krise zum Anlass nehmen, auch institutionelle Reformen des Eurosystems anzugehen? Und wenn ja, was wären dabei aus Ihrer Sicht zentrale Aspekte?

1-033-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much for both the context and the question. I would totally agree with you that in the current crisis we have seen effective cooperation between the fiscal policies and the monetary policy. I would also submit that there has been no dominance by fiscal or monetary policy and monetary policy has kept its own dominance, and the ECB has remained totally independent throughout. I'm not suggesting that it's a perfect combination, but it has been a very effective coordination.

I like to give examples, and I realise that I have not given a single example of that cooperation and coordination between fiscal and monetary that was not intended, not thought through, but clearly was effective and was decided respectively by the authorities – that is clearly the necessary financing of the economy where, on the one hand, we put together very early on, on 18 June, extremely attractive, targeted, longer-term refinancing operation, which was even improved in June and which had a very significant take-up.

On the other hand, the fiscal authorities decided, respectively at the national level and then at the European level, to put in place those guarantee schemes without which banks probably would have been a bit more reticent to lend to the firms, the corporates, the SMEs and the entrepreneurs. So you have with that the example of a demand, the financing available and the guarantee schemes that were put in place at the national level and topped up, when it's in place, by the European Investment Bank, which also has a window that has been decided and which needs to be completely fleshed out in order to top up those guarantees. So that's a typical example of where monetary policy and fiscal policies actually, hand in hand, responded to a need that was critical in order to sustain the recovery and help with the economy.

As you have observed, interest rates – part of the traditional toolkit of a central bank – are at a very low level at the moment. We have forward guidance in place, that is also part of the toolbox, that will indicate if and when the interest rates will move and, if you observe that and if you read all the commentators about timing, I think the issue of interest rate hikes would not be an immediate concern for those of you who are interested in those rates.

In terms of debt, I think I've said already that the volume of debt and the ratios that are used – debt to GDP – are a factor of both elements of the faction, and that every effort that we make in order to steer growth in order to increase GDP in a sustainable way will indeed aim at reducing the debt-to-GDP ratio, which is calculated accordingly at the moment.

I think that another area where, clearly, fiscal authorities have played their part in helping monetary policy play its role and support the economy is when it used tools that exist under the Stability and Growth Pact, like the escape clause, which was indeed lifted early enough in order to encourage national authorities to do what they had to do. In the same way, the state aid conditions were also lifted in order to help the support of some particularly affected areas.

So I think that all the attributes of those pacts that were agreed have to be looked at carefully. I know that this will be under review by the Commission and that there will be a prolonged debate on those matters in order to best address the situation. But I would simply observe that there are tools in that which have been useful and served the current circumstances as well.

1-034-0000

**Henrike Hahn (Verts/ALE)**. – Thanks for being with us today, dear Madame Lagarde. COVID-19 has shifted the public focus away from the immense physical climate risks that we are facing today and we will face in the future; bushfires, floods and hurricanes have, besides the unbearable loss of people, plants and animal life, a devastating effect on economies and financial stability.

In the past, banks have treated climate change, often through corporate social responsibility, as a reputational risk only. However, it is evident that physical climate risks must be adequately accounted for in the financial assessment and risk management frameworks of banks. This year, the Bank of International Settlements published a survey on 27 supervisory bodies, including the ECB and EDA on their initiatives on climate-related financial risks. A large majority of respondents noted that right now they do not have an explicit mandate, but they also say that such risks can have a strong impact on the safety of individual banks and can pose potential stability concerns for the financial system.

So far, the ECB has focused on raising awareness and providing guidance, but the ECB has not implemented effective supervisory measures for banks related to climate risks. I think this is not enough, being confronted with the tremendous challenges of climate change we are confronted with at the moment. I would therefore like to know what is the road map on implementing measures to include climate risks in the supervisory mechanism and to ensure in a very clear way that banks manage climate risks properly to increase financial stability?

1-035-0000

**Christine Lagarde**, *President of the European Central Bank*. – I think that part of your question addresses the supervisory arm of the ECB, over which, I believe, Andrea Enria is also heard before the Committee on Economic and Monetary Affairs. Having said that, because I'm very focused about those climate issues and concerned that we look at all areas where we can deliver within our mandate, I know that the single supervisory mechanism (SSM) has actually issued now the guidelines which banks have to observe and have to follow, we very much hope, in order to identify the climate risks that they are carrying and in order to be able to report on those risks. My recollection is that this has to be activated and effective in 2022 so that banks actually report those risks that really matter a lot.

The European Central Bank, as you know, is a member of the NGFS which is the network for green finance and is taking an active part in that network. I'm particularly pleased that the current chair of the NGFS, Frank Elderson, received your approval in his candidacy for becoming a member of the Executive Board of the ECB. I'm delighted that he will bring his knowledge, his in-depth concern and passion for these particular causes, in which I would actually include biodiversity, as I'm sure you would too.

In a nutshell, the supervisory arm of the ECB is taking those matters very seriously, is putting the system under pressure in accordance with proper risk management, because those are clear risks that have to be reported, that have to be reflected in the banks and in the banking system under the supervision of the SSM. In the banking side of the ECB, clearly as part of our strategy review, we are going to look at all the portfolios – our own portfolios and the portfolios that we have under our monetary policy – to see how we can best deliver, in accordance with our mandate, without determining by ourselves what would be the right pricing, because this is not something that is within the jurisdiction of the ECB. It is for the policy makers in the legislative and in the executive branch to actually do so and to instrument and activate those from the private sector, including for instance the IFRS, in order to identify properly, record and account for those risks, so that proper pricing is actually reflected.

So it's in those directions – and I will conclude with this – as well as taking into account climate change risks as well as climate change developments, as you've alluded to, that we can also properly measure our price stability objective.

Just to give you an example, how do we determine inflation, how do we anticipate inflation, if we have massive recurrence of catastrophic weather development? How do we measure inflation if a

carbon tax is finally implemented at the right level? These two components have a direct or indirect impact on our inflation aim and it matters enormously for our price stability mandate. So those are two examples from a risk management point of view on the supervisory side and, from a pure monetary policy aim, climate change actually matters.

1-036-0000

**Agnès Evren (PPE).** – Madame la Présidente, c'est un plaisir d'avoir Christine Lagarde avec nous aujourd'hui. Je voulais donc la remercier.

La pandémie de COVID-19 et les règles de distanciation ont bouleversé nos modes de comportement, jusqu'à nos modes de paiement. Depuis mars, on constate une augmentation considérable du nombre de transactions de paiements sans contact par carte bancaire. Toutefois, une étude récente a démontré qu'un certain nombre de nos citoyens étaient inquiets de l'absence de sécurisation de ce type de paiement.

Donc ma question est double, Madame Lagarde. Puisqu'il est vrai en fait que les risques tels que les cyberattaques ou les fraudes sont omniprésents et que la défiance des utilisateurs envers la monnaie, tout comme ces risques liés à la cybersécurité, sont autant de menaces potentielles pour la stabilité monétaire, et alors que la Banque centrale européenne doit publier ce mois-ci une étude sur l'attitude des consommateurs en matière de paiements dans la zone euro, pourriez-vous nous en dire davantage sur les principaux enseignements que vous comptez tirer de cette étude, notamment en ce qui concerne la nécessité actuelle de conjuguer transformation numérique, confiance et protection face aux risques, afin de garantir donc la stabilité monétaire?

1-037-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much for your question. What we did is, we issued a paper in early October – around 8 or 10 October, I can't remember – which really explored in depth the characteristics of a retail digital euro. In so doing, we identified the cost, the benefit, the risks, the upside, and the response that we could provide. After that, we launched the consultation, which started in mid-October and which will close in mid-January.

I don't yet have any outcome of the consultation that I can share with you because, frankly, I don't know yet what's in there. I know that there has been a lot of participation from the usual suspects and we will be very attentive to that, but there has also been a lot of genuine public comments and views expressed about it. We will, of course, take stock of that when we move to the Governing Council to propose that we actually launch a project. And I'm very careful when I say 'launch a project' because, obviously, in addition to the monetary policy channel concern and the financial stability concern, there is also, as you said, the security concern. That includes both the risk of intrusion and the whole category of the cyber risks, but there is also the concern that private information be kept private and secured so that consumers of digital payments are protected in their privacy. This is a really important key element that will be taken into account. But because of this whole range of issues that have to be addressed, in addition to the technological choice that will also be looked at, it's not going to be a six-month project or even a one-year project. It is certainly going to take longer than that and there will be more consultation to be had.

In the meantime, what I think is really important is that the work that the Commission is doing, under the name MiCA, with which I'm sure you're familiar, is critically important because of the principle that the same activity, the same business and the same rules have to apply. As we all know, there are new entrants in this market and they need to be under the same regulation, the same supervision and accountable to the same high standards, including on privacy and the use of personal data – and any data, for that matter.

So I'm giving you a sort of a twofold answer: what we are doing, which will be very public and very transparent, and what you are putting in place, which is also critically important in order to protect stability, privacy and security.

1-038-0000

**Eugen Jurzyca (ECR).** – Madame Lagarde, I would like to ask you the following question. The ECB is going to start buying green bonds as well as accepting them as collateral from the very beginning of next year. I would like to express my concerns that the green bonds might breach to some extent the ECB's mandate. The primary objective of the ECB monetary policy is to maintain price stability. Monetary policy should therefore be independent and neutral to the greatest extent possible, yet one could claim that buying bonds of certain companies that are labelled green breaks the importance of the neutrality principle. To what extent do you consider tackling climate change and environmental issues as being part of the ECB's mandate? Using similar logic, could the ECB in the future start buying, for example, bonds of pharmaceutical companies, with the argument that public health is an important factor for the growth of the economy?

1-039-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much for your question. First of all, I would observe that we already buy green bonds. I think that as part of its purchase programmes, the ECB probably buys – and I could check the numbers and confirm that to you – but the ECB buys about 20% of the available green bonds at the moment, and we are seeing more green bonds issuance as we speak and from many corners of the euro area, so I don't think that that particular set and trend of purchases is going to go down in terms of volume, if not in terms of percentage. So we do that already and we do accept them as collaterals already. What I think you're referring to is a decision that has been made to actually accept a particular derogation in terms of the structure of the green bonds that we accept, which provides for a variable coupon as opposed to a fixed coupon, which was the rule previously. And that will certainly help buying, or rather accepting as collaterals, some of those green bonds, because quite a few of them are climate-related and therefore have an element of uncertainty about them and adherence to the climate-related objectives. So that's what will come in place as of 1 January.

But I think you're referring to a sort of broader question which has to do with the role played by climate change imperatives and the respect of our environment and of our biodiversity in our monetary policy. And at the risk of repeating myself, this is a matter that will be debated at large within the Governing Council as part of our strategy review, because I believe for myself that we should look within our mandate and in accordance with the provisions of the Treaty that require, number one, that we pursue price stability as our primary mandate with secondary objectives that are laid out as well and observing free market principles to the extent that free market principles are supported by appropriate information and risk assessments that we operate as such.

Two things: one is, I believe that when it comes to measuring price stability, as I said earlier on, the issue of direct or indirect climate change have an impact, no question about it. Number two: I believe that in terms of what tools we have and what manoeuvring room we have in order to set inflation, we have to be mindful of the natural interest rates which, as you know, have lowered over the course of time but could continue to lower eventually, if we were to see even much more savings by Europeans because they are concerned, because they are afraid that climate change is going to be upon them and therefore they have to save more. In our assessment, we also have to be mindful of climate change. So in that respect, I think climate change has a direct impact on how we measure our price stability objective, how we deliver on it. And how that impacts on our monetary policy portfolio management will be determined,

number one, by the Governing Council as part of its duties on the basis of what I have mentioned: in other words, the terms of the Treaty and the requirement to operate in accordance with free-market rules. Well, we'll go in details on these market rules principles to see whether future reporting requirements, future risk disclosures and the transparency that operators will be called upon to deliver will actually have an impact on how we deal with our collaterals and how we deal with our straight asset purchases.

1-040-0000

**José Manuel García-Margallo y Marfil (PPE).** – Primero, haré una declaración, en segundo lugar, una constatación, y en tercero, la exposición de un problema.

Mi declaración es que no existen alternativas razonables a las medidas que hasta ahora se han adoptado. Por el Banco Central, tipo de interés, liquidez y compra de activos, programa que considero completamente ajustado a derecho. Por parte de la Comisión, redes de seguridad y flexibilización de las normas del Pacto de Estabilidad y Crecimiento. Y por el Consejo, plan de recuperación, que debe ser implementado cuanto antes.

La constatación es que los Estados miembros, gracias a la flexibilidad de la Comisión y a la actuación del Banco Central, están pudiendo financiarse en condiciones razonables. Esta flexibilidad ha beneficiado más, como es lógico, a los países que tienen mayor margen fiscal, pero ha sido también conveniente para los que tienen menos. Mi gran pregunta aquí es, desde un exclusivo punto de racionalidad política, dejando consideraciones reputacionales aparte, ¿es razonable que los países con menos margen sigan acudiendo al mercado o que se acojan al Mecanismo Europeo de Estabilidad, que para eso se creó?

La exposición del problema es que, si bien ahora, como he dicho, no hay dificultades para ningún país, a medio plazo, a medida que la deuda aumente, los mercados empezarán a discriminar, a seleccionar, a priorizar a los países en función de las dimensiones de su deuda, de su déficit estructural y, especialmente, de su credibilidad. La vigilancia para que el dinero que llegue por una vía u otra sea empleado en programas de reformas, de modernización, de sostenibilidad me parece absolutamente esencial, y el papel del Banco Central, en cuanto que su presidenta es también presidenta de la Junta Europea de Riesgo Sistémico, me parece capital. La pregunta es: ¿Considera que, a medio o largo plazo, se va a producir esta discriminación por los mercados, que puede provocar una diversificación, una ampliación de las diferencias entre las primas de riesgo de los distintos países, o considera que mi exposición, mi planteamiento es erróneo?

1-041-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you so much. You give me a chance to say a couple of things, actually. One is, I'm not sure that 'political' and 'rationality' actually go well together. I have not met political rationality much in my short but intense political career in a previous life. But be it as it may, I would simply like to say that what we have done, and in particular with the pandemic emergency purchase programme (PEPP), is something that we are really proud of, because it has been effective, because it has been rapid and because it has really responded to the dual function that was assigned to it. And as such it was clearly, and it is, a monetary policy instrument, therefore associated with no conditionality. I cannot opine on what the markets think. I'm not the markets. We are the European Central Bank and we do what we have to do under the circumstances in order to deliver on our mandate.

1-042-0000

**Chair.** – I have had a request for a catch-the-eye question. I had two, but I cannot give the floor to Non-attached Members because these are the rules that the coordinators have set for catch-the-eye. So I give the floor to the first request that I received, Mr Lefteris Nikolaou-Alavanos. But please just for one minute, because we are way over time.

1-043-0000

**Λευτέρης Νικολάου-Αλαβάνος (ΝΙ).** – Κυρία Πρόεδρε, πολλές φορές έχουμε συζητήσει σε σχέση με τα προνομιακά επιτόκια δανεισμού της Ευρωπαϊκής Κεντρικής Τράπεζας, της Εθνικής Τράπεζας, για την ένωση κεφαλαιαγορών, την ανάγκη για τραπεζική ένωση, τις απαιτήσεις δηλαδή των μονοπωλιακών ομίλων για να συνεχίζουν να κερδοφορούν. Όπως έχετε υπογραμμίσει, αυτό που διαταράσσει το σχέδιο μεταξύ άλλων είναι τα μη εξυπηρετούμενα δάνεια. Και δίνεται γραμμή και με το χθεσινό δελτίο Τύπου του Ευρωπαϊκού Εξαμήνου σε τράπεζες, funds και κυβερνήσεις να πάρουν μέτρα με χιλιάδες πλειστηριασμούς κατοικιών, κατασχέσεις λογαριασμών, οικογενειών που ζουν στα όρια της εξαθλίωσης. Στην Ελλάδα, η κυβέρνηση έφερε νέο νόμο για τον λεγόμενο πτωχευτικό κώδικα με τις ευλογίες της Ευρωπαϊκής Ένωσης. Με βάση αυτόν, τελειώνει η τυπική προστασία της πρώτης κατοικίας, καθιερώνεται για πρώτη φορά πτώχευση φυσικού προσώπου ακόμη και για οφειλές 30.000 ευρώ και καθυστερήσεις ακόμη και έξι μηνών, τη στιγμή φουντώνει η ανεργία, οι απολύσεις χωρίς αποζημίωση, χιλιάδες άνθρωποι βρίσκονται χωρίς καν επίδομα ανεργίας. Το σύνολο της περιουσίας, οι κόποι μιας ζωής θα πάνε στα χέρια των πιστωτών, στα αρπακτικά τραπεζών και funds για την αποπληρωμή χρεών. Ολόκληρες οικογένειες δηλαδή καλούνται να επιβιώσουν με τις λεγόμενες εύλογες δαπάνες διαβίωσης 600 ευρώ, ενώ αντιμετωπίζουν και πιθανές ποινές φυλάκισης. Η ερώτησή μου είναι η εξής: πώς τοποθετείστε στο αίτημα για απαγόρευση πλειστηριασμών λαϊκής κατοικίας και δέσμευσης λογαριασμών από τράπεζες και ιδιωτικά funds; Πώς τοποθετείστε για την απαίτηση για δραστική μείωση των χρεών των λαϊκών οικογενειών στις τράπεζες, διαγραφή τόκων, ουσιαστικό κούρεμα του χρέους, ώστε να δοθεί πραγματική διέξοδος και όχι παρατεταμένη ομηρία εργαζομένων, βιοπαλαιστών, αυτοαπασχολούμενων;

1-044-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you so much. First of all, let me say that I have huge personal sympathy for the situation of those that are most affected and who are often the most vulnerable because they are either the women or the young people or the lowest-income people. But in my position as President of the ECB, there is not anything that I can actually do or focus on in respect of this particular matter. It's really something that belongs to another forum than mine.

1-045-0000

**Chair.** – Thank you very much. Now we close our monetary dialogue.

*(The Monetary Dialogue closed at 11.14)*