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Opening Statement by Christine Lagarde to the Economic and Monetary Affairs Committee of the European Parliament

September 4, 2019

Mr Chairman,

Honourable members of the Economic and Monetary Affairs Committee,

I am honoured to appear before your Committee for this hearing. The relationship between the European Parliament and the ECB is a cornerstone of our Monetary Union. Central bankers are independent, but not directly elected, and that can only be justified in democracies if they are held accountable by elected representatives. I therefore consider the Opinion of the European Parliament as a key step in my appointment process.

I would like to start by briefly highlighting **some aspects of my professional experience** which I consider particularly relevant to the tasks of the ECB President.

I have been the Managing Director of the International Monetary Fund since July 2011, and have therefore had the privilege to head an institution that is the core of the global financial stability safety net and whose governors are central banks. In that capacity, and also as Finance Minister of France, I have contributed to enhancing crisis resolution tools and financial regulation on both the European and international levels. I have also been directly involved in strengthening the Economic and Monetary Union.

What has driven me in each of these roles is a **determination to serve the public interest** and to **deliver on the justified expectations of the people**. Mindful of the profound impact the decisions of public institutions can have on many people's lives, I have always sought to focus on the fundamental issues of our time. At the IMF this also meant addressing rising inequality, tackling climate change, and promoting fairer and more inclusive growth.

But good leadership is not just about setting out priorities; it is about **listening to all voices, expert advice** and **fostering diversity of thought**. Thus at the IMF I worked closely with our economists to produce evidence-based and data-led decisions, and listened carefully to staff to develop a common and modern vision of the IMF's work. Making the IMF more inclusive, enhancing its diversity and opening it to civil society were central to this strategy.

These are the same values I would promote if confirmed as ECB President. In my remarks today, I would like to lay out more specifically the principles which would guide my approach to the role. There are **three in particular**.

The first is **commitment** to the ECB's mandate as laid down by the Treaty. The second is **agility** in responding to new challenges. Third, **inclusiveness** will remain a core tenet of my leadership and DNA.

1. Commitment and agility

How do I see these principles applying to **monetary policy**?

We know from decades of theory and practice that a clear mandate for monetary policy, and the central bank's **commitment** to pursue it, are vital for stability and welfare. Since its inception, the ECB has demonstrated a steadfast commitment to its goal.

In its early years, it achieved the remarkable feat of steering a diverse monetary union into a regime of low and stable inflation. It then faced an abrupt reversal in the economic environment after 2008, where inflation risks disappeared and were replaced by deflationary ones. Again, commitment was crucial – this time to ensure that price stability was not jeopardised by a long period of what I have termed “lowflation”.

But in doing so, the ECB had **to adjust to the new challenges it faced**. It had to reappraise prior convictions in the light of evidence and experience, and to be innovative in its policy toolkit within the boundaries set by the law. It was exactly this **agility** that allowed the central bank to continue delivering in rapidly changing circumstances. Without this, the crisis would have been much worse.

In fact, the ECB estimates that the economy is almost 2% larger today thanks to the unconventional measures taken since mid-2014. Employment in the euro area has increased by over 11 million since its trough in mid-2013, as those measures boosted confidence in the economic recovery and encouraged job creation.

So, if confirmed as President, I will draw on the same sound principles: **combining firm commitment to the mandate with the agility to adapt as the world around us changes**.

The challenges that **warrant the ECB's current policy stance have not disappeared**. The euro area economy faces some near-term risks, mainly related to external factors, and inflation remains persistently below the ECB's objective. I therefore agree with the view of the Governing Council that a highly accommodative policy stance is warranted for a prolonged period of time in order to bring inflation back to “below but close to 2%”.

But there are also **some important questions on the horizon** that monetary policy will need to address. First, though the impact of unconventional policies continues to be positive, **we need to be mindful about their potential side effects** and we have to take the concerns of people seriously. While remaining committed to our price-stability mandate, this requires continuous monitoring.

Second, the global environment of low inflation and low interest rates **poses strategic questions for all central banks**. They need to enhance their understanding of inflation dynamics; take stock of the new instruments activated to contain the crisis, including balance sheet and other unconventional policies; and reflect on whether their monetary policy frameworks are sufficiently robust to future challenges. My goal will be to ensure that the ECB, for its part, engages in such reflections with an open mind and dedication.

Third, central banks are increasingly facing new types of challenges, not least related to climate change, the disruptive impact of technological change, and the potential fragmentation of the current multilateral order. Here I see it as crucial that monetary policy is **forward-looking** and considers the broader context in which price stability is achieved.

Ultimately, the **effectiveness of our monetary policy hinges on the resilience of the financial system**. The ECB's role in financial stability has expanded significantly in response to the challenges that emerged during the crisis. It has been asked to embrace new responsibilities for macro-prudential policy and to host the new European banking supervisor.

European Banking Supervision has done an effective job in strengthening capital buffers and reducing risks on banks' balance sheets. Common Equity Tier 1 ratios have risen from 11% at the end of 2014 when European supervision began, to 14% in 2018.¹ The stock of non-performing loans of significant banks has almost halved.

A series of challenges nonetheless remain. **Both banking union and capital markets union need to be completed** to foster deeper private risk-sharing in the euro area and expand access to finance. Bank profitability is low. And the landscape of the financial sector is being changed by the growing role of non-banks in intermediation and technological transformation. The share of non-bank financing flows to euro area firms has risen from around 30% before the crisis to more than 50% today. Fintech firms now receive around a quarter of the financial service industry's venture and startup funding.²

In this environment, central banks and supervisors need to ensure the **safety of the financial sector**, but also to be open to the **opportunities provided by change**. In the case of new technologies – including digital currencies – that means being alert to risks in terms of financial stability, privacy or criminal activities, and ensuring appropriate regulation is in place to steer technology towards the public good. But it also means recognising the wider social benefits from innovation and allowing them space to develop.

¹ ECB (2019), Supervisory banking statistics.

² IMF (2019), "Fintech: The Experience So Far", Policy Paper No. 19/024.

2. Inclusiveness

For central banks to safely navigate these currents and crosswinds, **inclusiveness** is essential. To me it means **two things**.

The first is **cooperation**. Within the Eurosystem, there is a **wealth of expertise we can draw on** to prepare for the future and strengthen our capacity to tackle common challenges. An excellent example is the Network for Greening the Financial System launched by central banks and supervisors in 2017.³ This will help identify and measure the financial system's exposures to climate-related risks and foster a greener financial system.

Central banks can also play a key role in sustaining global cooperation, thereby helping to underpin the multilateral order in their fields of competence.

But central banks do not act in a vacuum. The effectiveness of monetary policy can be enhanced by appropriate national and European policies, and by the trust of the public. So I see a possibility for deeper cooperation in other policy areas, too.

Completing the Single Market remains one of the most powerful tools we have to spread new technologies and raise productivity, while also safeguarding consumers and protecting labour standards by limiting "social dumping". This holds true for the real economy – and especially in the area of services – but also the financial sector which I already touched upon. The role of the Parliament here is instrumental as the co-legislator.

Another area is **fiscal policies**, which need to be available to stabilise our economies through downturns and avoid overburdening monetary policy.

In my experience as Finance Minister, I have witnessed the difficulties in coordinating fiscal policies, which are inherently focused on national issues and not the euro area perspective. That is why I am convinced that we need **both effective and simplified rules and a meaningful euro area fiscal instrument as a complement**. In other words, we need to further institutionalise cooperation rather than trust it will emerge in crisis times.

In the short term, concluding the reform of the European Stability Mechanism, operationalising the backstop to the Single Resolution Fund and establishing a scalable Budgetary Instrument for Competitiveness and Convergence would be useful steps forward.

In combination with other reforms to the financial and payments systems, these measures would also help **strengthen the international role of the euro**. That would afford the euro

³ <https://www.banque-france.fr/en/financial-stability/international-role/network-greening-financial-system>

area more of the benefits of issuing an international reserve currency, and a greater degree of strategic independence in an increasingly uncertain world.

The second dimension of inclusiveness is **diversity**.

As Paul Valéry rightly said in the aftermath of the war: “mettons en commun ce que nous avons de meilleur et enrichissons nous de nos différences”. Simone Veil made a similar observation as President of the European Parliament. In other words, she understood that diversity was a strength. I am of the same view.

Diversity means drawing on all talents from all backgrounds, and committing absolutely to all people being treated equally – be that on the basis of gender, race or nationality. But it also means **speaking and listening to as wide a range of voices as possible**, and making that dialogue a central part of policymaking.

The ECB needs to be understood by the markets that transmit its policy, but it also needs to be understood by the people whom it ultimately serves. **People need to know that it is *their* central bank**, and it is making policy with their interests at heart. One of the priorities of my Presidency, if confirmed, will be to reinforce that bridge with the public.

There is much we can learn from those who see the different aspects of monetary policy in their daily lives, be they trade unions, consumer groups, NGOs or other civil society partners. Beyond the regular accountability hearings in front of this assembly, **listening to their voices can only make the ECB’s policymaking stronger**.

Trust in the euro currently stands at 76%, the highest level ever, thanks not least to the courageous actions of the current ECB leadership.⁴ Yet trust in EU institutions, including the ECB, is not at the same level. In further strengthening our bond with the public, we can build on that confidence in the euro and extend trust in the wider European project. To deliver on commitment, agility and inclusiveness, **innovation and cooperation will be required in addition to accountability and communication**.

I look forward to a fruitful exchange during today’s hearing, not only to answer your questions, but also to hear your views.

Thank you.

⁴ Spring 2019 Standard Eurobarometer.