1-001-0000

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH CHRISTINE LAGARDE, PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) TFEU) BRUSSELS, THURSDAY, 6 FEBRUARY 2020

1-002-0000

IN THE CHAIR: IRENE TINAGLI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 09.10)

1-003-0000

Chair. – We can now start the monetary dialogue with Christine Lagarde, President of the European Central Bank, whom I welcome here. Since the last monetary dialogue that took place at the beginning of December, the economic outlook has not changed much. The incoming data are in line with an ongoing but moderate growth of the euro area economy. This pattern of moderate growth reflects the ongoing weakness of international trade in an environment of continued global uncertainty, which has particularly affected the euro area manufacturing sector and has helped dampen investment growth. However, ongoing – albeit decelerating – employment growth and increasing wages continue to support the resilience of the euro area economy.

While inflation developments remain subdued overall, there are some signs of a moderate increase in underlying inflation, reflecting mainly higher energy price inflation. Although indicators of inflation expectations remain at low levels, recently they have either stabilised or ticked up slightly.

Over the medium term, inflation is expected to increase – supported by our monetary policy measures, the ongoing economic expansion and solid wage growth. Against this backdrop, the last ECB Governing Council decided that the interest rates will remain unchanged as long as it has seen the inflation outlook robustly converge to a level sufficiently close to its target. Moreover, the ECB Governing Council will continue to make net purchases under its asset purchase programme at a monthly pace of 20 billion as long as necessary to reinforce the accommodative impact of its policy rates and to end shortly before it starts raising the key ECB interest rates.

In the light of the long-term decline in the trend in growth, slowing productivity and an ageing population, as well as challenges to environmental sustainability, rapid digitalisation, globalisation and evolving financial structures, the Governing Council decided to launch a review of the ECB’s monetary policy strategy adopted in 1998 and further clarified in 2003. The review, based on thorough analysis, will include quantitative formulation of price stability, monetary policy toolkit, economic and monetary analysis and communication practices, while other considerations such as financial stability, employment and environmental sustainability will be also part of the review. The review will be conducted in full respect of the ECB’s price stability mandate as laid down in the Treaty, and it is expected to be concluded by the end of 2020.

We all appreciate that you already dealt with this issue during your hearing last September and during the last monetary dialogue. Although there will certainly be different opinions as regards the desirable scope and the format of the review, I believe I interpret prevailing opinion here in reiterating once more the importance of the role of the European Parliament and of this committee in particular in this process.

So today President Lagarde will present the ECB's perspective on economic and monetary developments. She will also discuss the two topics that were selected by the Committee on Economic and Monetary Affairs coordinators in preparation for this monetary dialogue, namely the assessment of risks related to financial stability in the euro area, and central banking communication. We have done some preparatory work on these two items with the contribution of distinguished scholars. The papers are available on the website of the European Parliament. We have a lot of interesting topics to discuss and we have many expectations from this first exchange of views. Ms Lagarde, I give you the floor.

1-004-0000

Christine Lagarde, *President of the European Central Bank***.** – Madam Chair, honourable members of the Economic and Monetary Affairs Committee, ladies and gentlemen, good morning. It's a pleasure to be back here and to appear before you after the first Governing Council meeting of 2020, just recently, during which the ECB and the euro system at large decided to launch its strategy review – its monetary strategy review, to be very specific.

It has been 16 years since the ECB has conducted a monetary policy strategy review and, as we discussed in December, in 2003 the world looked very different and many things have changed in between, which clearly warrants the fact that the monetary policy strategy will be reviewed by the ECB. Structural changes that have profoundly affected our environment from an economic as well as other standpoints, and this will continue to be so. More specifically, in the field that is of concern to us, declining growth trend on the back of slowing productivity growth, an ageing population and the legacy of the financial crisis have driven interest rates down. This low interest rate and low inflation environment has significantly reduced the scope for the ECB and other central banks worldwide to ease monetary policy in the face of an economic downturn. Structural challenges, such as new threats to environmental sustainability, rapid digitalisation, globalisation and evolving financial structures have also affected price developments and, therefore, the environment that central banks have a duty to monitor, where they forecast and need to factor into their policies. In the light of these changes, now is the appropriate time for us to conduct that strategy review – with a broad scope – to ensure that we continue to deliver on our mandate in the best interest of Europeans.

During my last meeting before this committee, I made a commitment to listen to people's expectations and better understand their economic concerns. By the way, I have read with great interest some of the papers that you had commissioned to inform us better about communication of central banks and how people are or are not attentive or sensitive to this. This Parliament and your committee, obviously, will be the primary forum for this listening exercise and for putting into practice the principle of two-way communication as I outlined it at our last meeting.

I'm very happy that you have asked me to discuss specifically central bank communication today, but before I get to that, allow me to first provide an overview of the current economic situation in the euro area, and I'm not going to say anything very different from what you have just outlined, Madam Chair.

Broadly in line with our expectations, the euro area economy continues to grow, though still with modest momentum.

The domestic economy remains relatively resilient. Private consumption, for instance, increased by 0.5% in the third quarter of 2019 on the back of further improvements in labour market conditions. The unemployment rate stands at 7.4%, which is its lowest rate since July 2008. The number of people employed keeps increasing and has increased by more than 11 million since mid-2013. The more domestically oriented services and construction sectors also continue to hold up well.

Yet, global factors weigh on euro area growth. To be sure, there are tentative signs of stabilisation. Forward-looking indicators have become slightly more optimistic, as the Purchasing Managers' Index on manufacturing business expectations in 12 months' time have increased in five consecutive months through January to their highest levels in 18 months. Moreover, while uncertainties surrounding the global economic environment remain elevated, those related to trade tensions between the United States and China are receding. Other risks, however, are still lingering or – as with the uncertainty surrounding the impact of coronavirus – are a renewed source of concern.

The overall moderate growth performance is delaying the pass-through from wage increases to prices and inflation developments. Inflation measured by the flash Harmonised Index of Consumer Prices stood at 1.4% in January, in line with our expectations and better than in the previous month.

The euro area economy therefore continues to require support from our monetary policy, which provides a shield against global headwinds. We see that our policy stimulus is being passed on to the financing conditions most relevant to the real economy. According to the latest data, lending rates for businesses are almost 10 basis points lower than they were one year ago, and for households, for house purchases, they are almost 40 basis points lower and close to their historical lows. These favourable financing conditions, in turn, continue to support business investment and consumer and construction spending in the euro area, partially offsetting the negative impact from sluggish development in global demand. At the same time, obviously, we continue to closely monitor the potential side effects of those measures.

Low interest rates bring a lot of benefits to the euro area economy. That being said, low funding costs appear to have also encouraged more borrowing by highly leveraged firms and greater risk-taking by non-banks, such as investment funds, insurance companies and pension funds. In addition, property markets in a number of euro area countries have seen persistently rising prices, although the low interest rate environment is only one among many factors influencing the choice to borrow for house purchases.

In this environment, authorities should continue to use targeted macroprudential measures to address the associated risks to financial stability. At the same time, fiscal and structural policies also have an important role to play in a low interest rate environment. They can lift the growth momentum and boost potential through higher productivity growth. This would, in turn, support the effectiveness of our measures and also help interest rates to rise again in due course.

Let me now turn to the topic of central bank communication.

Those who observe central banks will agree with me that central banks have come a long way in how they communicate. Public institutions, including the ECB, have moved in the direction of disclosing more information and better explaining policy, also, by the way, in response to Parliament demands and public requests.

This Parliament, your Parliament, has encouraged the ECB to follow this path from the very beginning. One of the topics chosen for the first Economic and Monetary Affairs (ECON) meeting in 1999 was the ECB's communication and transparency policy. Good communication forms the bedrock of the ECB's credibility and underpins our legitimacy in the eyes of the people that we serve. But as central bankers, it's also in our interest to communicate effectively:

being open and clear is essential to make our policy more effective. Carefully calibrated communication – think, for instance, of forward guidance, which you have alluded to actually Madam Chair – has itself become a tool of central bank policy.

Traditionally, as central bankers, we have been more comfortable speaking to experts and markets than to the general public. Markets closely follow what we do, what we say, what we don't say, and surveys and studies find that we are generally well understood by them. We are very attentive to how markets interpret, misinterpret or over-interpret our actions.

But we have to remain vigilant that we do not focus too narrowly on communicating to markets and create our own echo chamber. This is why in my confirmatory hearing before you, I announced that one of the priorities of my Presidency would be to reinforce our bridge with the public and those who represent them.

Our own research finds that even though many Europeans have heard of the ECB, very few have a deeper understanding of what we actually do, and certainly not of why we do it or how the work that we do serves the common good. So we need to improve this, not for the sake of being popular – this is not the point – but so that European people understand what we do and how we do it for them.

We have just started to develop a new survey in which we ask consumers about their expectations on inflation, on housing, on consumption, on saving and on the labour market. We need to understand better, not least because they can vary significantly across different regions and groups in society, rural versus urban. But after all, it is the everyday economic decisions of people and companies that we seek to influence with our policy and communication in order to deliver on our mandate. If our language is obscure, is not accessible, can't be understood then our policy will be less effective and our ability to deliver on our mandate will be impaired.

We also know that people will only come to trust us more – and genuinely see the ECB as their bank – if they better understand our decisions, why they matter to them, and what impact they have on their day-to-day lives. That is why the Governing Council agreed that the strategy review that was approved at our last meeting in January would also look at how we communicate our policy.

Communication is all too often mistaken as a one-way street, with most efforts spent on broadcasting messages. We are all focused on speaking. We love to speak and hear the sound of our own voices, but we need to be at least, in my view, equally focused on listening to people. As US Chief Justice John Marshall observed already in the early 1800s, to listen well is as powerful a means of communication as to talk well. Epictetus said something very similar way back, referring to the fact that we have two ears and one mouth and that we should use them appropriately and in due proportion.

For that reason, a key element of our strategy review, but also more generally, will be to incorporate elements of listening into our framework on a structural basis. Clearly, the dialogue with this committee is already a core component. Beyond that, I am looking forward to a new series of listening events which we will launch as part of our strategy review. We will run these across the entire euro area, together with our colleagues from the national central banks, so that the entire euro system is included and the dialogue is to be had in the national languages that are spoken by the people. We will be keen to hear the views of a wide range of stakeholders, including academics, financial sector representatives, civil society organisations, students and a whole range of people from all categories.

Our first such listening ECB event will take place here in Brussels in late March, where I hope to engage with representatives of EU-level civil society organisations with a wide range of perspectives, and you will all be invited to participate if you so wish. We will also have an online portal on the ECB website where all the information on the strategy review will be available for the general public and, to the largest extent possible, also in official languages. There is a lot of work that is already ongoing and that will see the publication of multiple papers.

Through these channels, we aim to learn directly from civil society organisations and the people who represent them and those who matter most to them – be that on rising rents and house prices, on job uncertainty, on climate change or on digitalisation – and we will assess how we can best take these concerns into account in our actions and our communication, within the limits of our mandate.

The review we have just started will be a thorough and intense process. Over the next 11 months, the dialogue between our institutions will be frequent and deep. The regular ECON hearings will provide the backbone for this discussion, but our discussion will not be limited to these hearings alone. In fact, we will have further opportunities to continue our dialogue very soon: I am looking forward to the visit of a delegation of this committee this coming Monday in Frankfurt, and to meeting you again in Strasbourg on Tuesday, the following day. So it’s a very intense moment of communication with you all and with your colleagues.

I thank you for your attention and I am now very happy to take questions as you see fit, Madam Chair.

1-005-0000

Markus Ferber (PPE). - Madam President, if you will allow me, I shall speak in German. You mentioned the *monetary policy review*, which is getting a bit long in the tooth. Your own member of the Governing Council responsible for the economic outlook, Mr Lane, said that owing to various factors, which you also briefly referred to, we can expect weak or slower growth in Europe in the long term. In this respect, the question arises whether you are still able to achieve the self-imposed target of inflation close to, but just under 2%, if the economic outlook is that growth will probably be well below 2%. So the question is how inflation and economic growth forecasts still correlate. This is, of course, in line with your latest *financial stability review* of November last year, where you described a number of risks that have grown recently. If I have understood your report correctly, you are saying that the risks have increased. I do believe that a whole series of these risks are also linked to the low interest rate environment. This means that the relaxed monetary policy is driving asset prices up - you also talked about interest rate trends - and is depressing the profitability of banks which, of course, provides incentives to assume higher risks. In this context, I should like to ask: How do you see the European Central Bank's ability to respond to a heightened risk scenario of this kind in the eurozone if these risks were to materialise?

1-006-0000

Christine Lagarde, *President of the European Central Bank***. –** In response to your questions, there are two key points that I would like to clarify.

Number one, our strategy review is going to look at all aspects of our monetary policy and will take time. So we have set for ourselves an expected completion date of December 2020. But before that, we’re going to have Governing Council meetings that will look at our monetary policy and determine on the basis of facts, numbers, economic developments, our monetary policy stance.

So we will continue doing that on the basis of our current principles, and our current criteria, going forward, until our strategy review is indeed completed. And we will continue – undeterred by our strategy review – with the normal determination of our monetary policy, going forward.

As part of that, clearly we need to look at all the effects of our monetary policy. We have to start from the impact that it has had, and look at the impact that it has. If I look at the impact that it has had, the fact that we included – both at the conventional level and at the unconventional levels – the tools that we have used has actually produced very positive results. We keep referring to the creation of jobs, and I'm not going to use the 11 million jobs created since 2013, because monetary policy was only one of the several contributing factors, but clearly monetary policy as it stands can claim a portion of those job creations.

Equally, monetary policy can claim the benefit of having contributed to increased growth since 2013, and in the same vein has contributed also to raising inflation a little bit over the course of these years.

So we have to look at those effects and see what impact it has had on companies' life, on people's life, on job creation, and see for ourselves that it has been efficient.

Now we also need to look at those items that you've just mentioned to see whether it has had those side effects, and do a cost-benefit analysis of the positive – and potential other – effects of those monetary policies.

I wouldn't draw the conclusion that our current monetary policy has actually been the main factor in the rise of housing prices, has actually been the main factor in the declining profitability of some of the banks in some of the countries in the euro area. It may have contributed, but I don't think it's a given conclusion because when you compare with other environments where, for instance, interest rates were low, the same effects were not necessarily visible. I would also caution against an overall conclusion that housing prices have increased generally. It's very differently distributed across the euro area, depending on the rural versus urban and – as I said earlier in my introductory statement – it's not entirely attributable to interest rates and the very low financing cost environment that we have at the moment. But we do pay close attention to side effects, and we will continue to do so as we move forward.

1-007-0000

Jonás Fernández (S&D). – Ms Lagarde, when you appeared before this committee a few months ago during the process of electing the new President of the European Central Bank, I asked you whether it would be possible to launch a review of the strategic framework for monetary policy action. I see that the ECB has now started that review, and I wanted, first of all, to congratulate you on opening that debate.

Specifically, with regard to the recently launched debate on the monetary policy review, I think there is a communication aspect that you have explained to this committee very clearly, but I would like to point out to you that I believe we need to be very careful in following that path. It is clear – and, I believe, commendable – that the ECB wants to explain its policies more clearly and get closer to the public. But it is also true that if we make the ECB – an institution that by its very nature has to have a certain amount of independence – part of the public political debate that goes on every day in people's houses and in conversations among members of the public, then I'm afraid it might lose some of the independence and autonomy it has as an institution.

I think we need to be careful, and I congratulate you for trying to improve communication, but we're on a tricky path here, because our money is all based on trust. There's nothing behind it, and trust is gained by being close to the public, but also by maintaining a certain distance from everyday political debate. And I want to convey an element of concern to you.

With regard to the review of monetary policy objectives and instruments, over the past few days it has been suggested that the prices of certain assets – housing, in particular – could be included in the target inflation rate. And this raises a question: if we want a clear inflation target – and I think we need to revise the 2 % in order for the symmetry to be completely clear; and if we're having trouble hitting the 2 % – as Mr Ferber was saying – and we change the way the rate is established, adding 0.2 % by including the cost of housing, then I think the review process is not an honest one.

To avoid the side effects of monetary policy as it currently stands, perhaps there is a need to overhaul tax policy. I'd like to know what you think about yesterday's Commission communication on allowing tax policy to help you.

1-008-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much both on account of your recommendation on communication, which I take seriously – and I'll say a word on that – and for your question about housing costs.

On communication, I hear what you say, and I think that we will have to err on the side of caution while also being mindful of being capable of listening as much as one can. As we will listen, we will also need to explain a bit what we do, because it was very surprising to me to see how little people in general know about the ECB and what it does. Let's face it, when you start talking about the euro system, then you have big eyes opening and get 'the euro system, what is this?'

I think we owe it to the European citizens to explain what we do and why what we do matters – why we are the custodian of a currency that they all relate to, regard as one unifying factor. The euro is highly respected in general in many, many corners of the euro area. I think we need to do that and we really want to listen.

But erring on the side of caution, I agree with you, I think one of those components will be not to raise expectations, and not to tell anyone, including the people with whom we communicate, that we could do more than we can actually deliver. I'm particularly concerned about that, because I think one of the elements of trust and credibility is to actually do what you say and say what you do, but not go beyond that because otherwise expectations are unnecessarily raised and disappointment follows, and then trust is undermined, so I take you comment very seriously.

On the housing front, at the moment, the HICP, the inflation measurements, here in Europe does not take into account the housing costs associated with being the owner of your property. My recollection is that in the entire indice, housing costs represent 6.5% of the total cost. If you ask anyone – family, friends and beyond – 6.5% is on the low side, to say the least.

So how do we respond to that, without being accused, or without running the risk, of changing the goalposts, because that's what people could argue about: you measured for a period of time against a particular structure and now you're proposing to change the structure.

Equally, I think we have to be mindful of being true to what people regard as their cost structure, and if housing costs represents that little we have to question and wonder whether that is legitimate or not.

Added to which, we will be facing difficulties about the value of the occupying of the house of which you are the owner and the running costs of that, and the running value of that, relative to the initial investment. So it's not without technical difficulties anyway, but I think we owe it to a true reflection of costs incurred to at least ask ourselves the questions and see how we can address it best in order to be true to both the principles as well as the actual expenses borne by people.

1-009-0000

Chair. – Before moving to the next speaker, please let me remind you that we have five-minute slots. I would kindly ask you to stay within the two minutes for the questions as an act of courtesy not just for the next speakers, but also for Ms Lagarde so that she can have the time to answer properly.

1-010-0000

Luis Garicano (Renew). – Madame Lagarde, you took me back in time. In 1992-93, I spent a full year working on harmonising the price index at Eurostat, and owner-occupied accommodation was the problem. So good luck with trying to deal with it. That was a long way back.

As policymakers, we haven't done enough to complete the work on the banking crisis, not just because of what is missing, but also because what is there is not quite working. I fear that the vicious feedback loop between states and banks is still very much alive. I want to focus on one particular aspect of that, which is the loop between the banks and the states – the banking rescues.

We created a Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB) to try to solve that problem. Cases like NORD/LB recently and Italian bank rescues have called all that into question. On NORD/LB, the SSM, under the supervision of the European Central Bank, has let the NORD/LB be for a very long time – over a year – under its minimum capital without actually calling foul there, saying it was in trouble and forcing it to do something on its capital position. The SRB has allowed all this money to pour into this case and other banking rescue cases.

So the question is: do we think the mechanism is working? Do you think that regulatory forbearance goes too far so that we are keeping banks alive without actually saying that they are failing or likely to fail? Do you think the SRB – so I guess that's the SSM and the SRB – is actually doing its job, or is it using the public interest assessment in a very restrictive way to let all these banks absorb a lot of state money? Because what happens when state money gets used is that the state's finances are put at risk. Do we need to change the regulatory framework here, from Parliament?

1-011-0000

Christine Lagarde, *President of the European Central Bank***.** – I think the ECB agrees that the resolution framework could be improved, and that a stronger role for the Single Resolution Board (SRB) could support a level playing field across the Banking Union. As an additional option, a targeted harmonisation of insolvency regimes should, however, also remain on the table. By the way, I think it would also have a serious impact and a positive one on the capital markets union, which I'm very keen to see making progress for multiple reasons.

On the European Deposit Insurance Scheme, if you want to just also hear about that, because I think it's a compliment to the SRB, the proposal for differentiated sizes of national deposit insurance schemes during a transition phase warrants further analysis, and I'd like to thank you for your own contribution to that work.

In line with the objective of a true banking union, national compartments should be phased out over time and risk-based contributions, calculated at Banking Union level, should become the main tool to mitigate moral hazard. While liquidity coverage could be a first starting point, the end goal should be a fully-fledged European Deposit Insurance Scheme (EDIS) that provides full coverage of both liquidity needs and losses.

I think that addresses the concerns that you raised.

1-012-0000

Jörg Meuthen (ID). - Madam President, Public opinion in Germany has now clearly realised that the only thing citizens can expect from the ECB is a continued assault on their savings. You have already stated on several occasions that you intend to continue this policy of permanent expropriation through low interest rates, negative interest rates and the expansion of the money supply. I assume that in future you will paint this policy with its anti-social implications in the most radiant colours. You should be aware that your fiscal-policy-dressed-up-as-monetary policy has a massive redistributive effect and creates a lot of negative incentives.

This is so obvious that it is no secret either to social scientists, or to ordinary German citizens who see their savings melt away in their accounts every day. My first question now is that, given that the focus of your term of office as ECB President is not on a return to stable money, but on better PR for the course plotted under Draghi towards a completely soft currency euro...

- Madam President, You are constantly talking about *trust and credibility*.

But your own credibility - please face the facts - is actually close to zero. *Nobody trusts you, you should be aware of that.* Have you ever had studies or opinions drawn up in the ECB or through the ECB examining the dangers of an increasingly critical public opinion towards the ECB regarding the effectiveness of the unethical policy you are pursuing?

Have you ever investigated - or do you have any idea - at which point expropriation through negative interest rates will make people take to the streets, like the French *gilets jaunes*, and resist the ECB's policies?

Second question: How can you in all conscience go ahead with this unethical expropriation of savers' retirement provisions? How can you live with the fact that you have robbed German savers of around EUR 120 billion of their savings alone and are adding insult to injury through your own policies? And finally, thirdly: What do you actually intend to do in terms of monetary policy if, for example, owing to the absurdities of the Green Deal policy or other measures by the Commission, economic dynamism is further weakened and the economy slumps and slides into a recession?

Which instruments will you deploy since the cupboard is bare?

1-013-0000

Chair. – I'm sorry. Time's up. I'm sorry. I said the questions should be below two minutes, so if you could please let Madam Lagarde answer the questions. Thank you.

1-014-0000

Jörg Meuthen (ID). - *Last sentence, please*. What will your *whatever it takes* mean in practice? Do you have any idea what instruments you will deploy if we slide into a recession?

1-015-0000

Christine Lagarde, *President of the European Central Bank***.** – I think when you manage to deliver more jobs, improved growth, inflation is kept at a level which guarantees price stability, you actually try to do your job, and this is really in line with the mandate that was entrusted to the European Central Bank. When in 2014, major decisions were made in order to enlarge the toolkit of the European Central Bank, it was actually to support and help the economy and deliver on its mandate.

You cannot only focus on one single side, a fact that you have identified and that you've characterised, but you have to look at the entire picture and you have to look at the entire tools that are used, on both the monetary front and the fiscal front and from a structural reform point of view as well. I believe that in that respect, the European Central Bank has done what it had to do.

Clearly, it would be ideal, and nobody would like to move back into positive territory more than me and would be more confident because growth has returned, because investments are coming back, because productivity is up and because the fiscal policy is working on a par with monetary policy in order to amplify the impact of our monetary policy. But we need to move patiently to help drive the economy in that direction, and I can assure you that these matters will be under close review when we examine our monetary strategy. But monetary policies have to change over the course of time, in accordance with the facts that we see, in line with the mandate that we have received and without making a mess of it, to be blunt.

1-016-0000

Stasys Jakeliūnas (Verts/ALE). – Madame Lagarde, when I joined Parliament here, several months ago, I wondered why communication and forward guidance is so important in the Central Bank rule kit.

It's probably not a coincidence that communication and financial stability are the two topics we're discussing here. I also recall that in maybe September or October, I looked through the research plans of the ECB and found that behavioural economics is on the agenda to deepen the research. I could also refer to the authors or Nobel Prize winners Daniel Kahneman, Robert Shiller, George Akerlof and Richard Thaler, who explore this thing, so maybe behaviour economics is part of the answer regarding how to understand and to manage the financial system.

I also refer briefly to the working paper series, sponsored by the ECB, by Cars Hommes, 'Behavioural and experimental macroeconomics and policy analysis: a complex systems approach', and the key words used in this text are expectations, feedback, learning, coordination failure, almost self-fulfilling equilibria, simple heuristics, et cetera, et cetera. We could add moral hazard; we could add the famous animal spirits into that.

So, what is your view on the role of behavioural economics – to understand and also, maybe, to manage that, because you are for me, sort of a magician, you know? You have somehow to manage animal spirits, among other things. Rekindle them when they are down and probably curb them when they are too wild. So what is your view on these things and research on behavioural economics?

1-017-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your very pertinent and focused question. We tend, in the mission that I have, to look more at monetary economists and eventually macroeconomists, their writings and their papers than behavioural economists. But, in my previous life, I certainly took an interest in what behavioural economists had to say and I think that it's very relevant for the purpose of what our mission is. Those key authors that you have mentioned are also part of the library of the ECB, and we will be looking at them as well as all the others.

1-018-0000

Derk Jan Eppink (ECR). – Madam President, let me first welcome your attempts to improve communication. Your predecessor failed to do so. He got isolated, got slightly grumpy and in the end, he got compared to Count Dracula. I have to admit that this was by the *Bild* title. Likewise, in my country, the ECB is widely distrusted. People feel like they are being robbed, in particular, pensioners and savers. So a lot of work has to be done, but I am glad about your *capacité d'écoute*.

Madam President, you welcome the Green Deal. Its total cost over 20 years amounts to EUR 11.5 trillion – trillion. An additional transition fund will be leveraged to 1 trillion, so EUR

12.5 trillion in total – a huge amount. How will this be financed – and here we have to look at the coming of the monetary policy review by the ECB – with green quantitative easing (QE) or by introducing green bonds? Can you tell the citizen in Europe who is going to pay these vast amounts and what is the role of the ECB therein?

1-019-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question. Yes, the Green Deal advocated by President Ursula von der Leyen is certainly a direction, a project and a mission which I personally welcome and applaud. Now everybody has to do their work where they are and within the mission that has been assigned to them. Clearly, the ECB has a mandate, which is very clear, which has to do with price stability, which relies on a framework, which is very well defined, and which we're going to review as part of our strategy review in 2020.

How the issue of climate change can come into play as part of our strategy review is going to be determined in the next few months. It is critically important to understand how the formation of price – relative prices, inflation expectations, actual cost, consumers' changed behaviour – is relevant for the purpose of identifying some of our measurements and actually relevant for the purpose of price stability.

So, in that respect and where we are with the mission that we have, we will certainly take those imperatives into account and, in the same way, without precipitation because we need to have the truth, we need to have the measurements and we need to be capable of demonstrating the work that we do and the measures that we take.

We can certainly, in the future, look at the collaterals that we take as part of our monetary policies to determine whether or not risks are properly evaluated. The supervision function of the ECB also has to take that into account. So, it is in that respect and within the prism of the ECB's mandate that we can certainly contribute in this overall aim that has been identified by the current Commission under Ms Von der Leyen's leadership as one imperative.

1-020-0000

Dimitrios Papadimoulis (GUE/NGL). Madam Chair, Ms Lagarde, I am pleased to welcome you to our committee. I do have two or three questions. Firstly, since you mentioned the spread of the coronavirus – but did not make any quantitative forecasts – could you please give the European Central Bank's view regarding its likely impact on European and global economic growth? Do you any ideas regarding possible future developments? It would be very useful to have this information.

My second question concerns Greece, my own country. As you are certainly aware, not least as former Managing Director of the International Monetary Fund, Greece emerged from memorandum stewardship in August 2018, achieved growth rates above the euro area average in 2019 and seems set to do so again in 2020. It has considerably reduced its debt and has for some time been effecting a vigorous and successful bond market re-entry. My question accordingly relates to a long-awaited Central Bank decision. In 2015, a EUR 8 eight billion limit was imposed on sovereign bond purchases by Greek banks. Since then, as you yourself acknowledge, the situation has improved significantly. Can we therefore expect some good news and some positive developments in this regard?

And now to my third question. A few days ago, the committee tabled a motion for a resolution for discussion at next week's part session seeking the inclusion of Greek bonds in the quantitative easing programme. When can we expect you to provide us with a roadmap for this initiative?

1-021-0000

Christine Lagarde, *President of the European Central Bank***.** – You referred to more quantitative easing. I just want to alert you to the fact that it was decided in September. There has been nothing more than what was decided in September, and we are in the implementation phase of what was decided then, which is a 20 billion monthly additional asset purchase programme. The impact on the economy and the impact that is intended is actually to act on the long end of the yield curve and to make sure that financing costs are kept at a low level, and I think that it does have an impact, clearly, as other tools that were used and decided upon back in September.

Let's focus on the second part of your question, which is, I guess, more to the point, which is the question of the Greek government bonds, and the question of their eligibility. They are currently not eligible for the new net purchase phase of the Asset Purchase Programme (APP) that, as I said, started back on 1 November, and they were not eligible under the net purchase phase of the APP either in between 2015 and 2018 or for the reinvestment phase of the public sector purchase programme.

If the situation continues to improve as it does – and I think that was mentioned a couple of days ago by my colleague, Vice-President Luis de Guindos, who was in Athens for a conference – and based on the criteria that we apply to all those purchases, I'm fairly confident that Greek bonds will become eligible as well. It's moving up gradually, and I form here every wish that it continues to do so because it will demonstrate that markets assess the situation of the Greek economy as continuing to improve and worthy of improved ratings.

1-022-0000

Lídia Pereira (PPE). – Madame Lagarde, welcome, once again, to Parliament. Your commitment to a close and transparent dialogue with this Parliament, and with this Commission in particular, is a good starting point for the European Central Bank's new communicative approach. Some other euro policy-makers, namely the Eurogroup President, would do well to follow your example.

Maintaining unconventional policies is good news for the time being and starting the Monetary Policy Strategy Review Process is a good opportunity for good news. And, if we are going to have an in-depth discussion, it is better to discuss all the areas of activity of the European Central Bank. Therefore, my question will be about supervision.

The financial crisis exposed weaknesses in banking supervision systems around the world and the European Union responded with more instruments, and has become more robust. The truth is that, even today, scandals still occur to do with failures or omissions by supervisors. When, in reality, the situation calls for greater attention, some supervisors and, in particular, central banks, continue to choose to intervene less.

I wonder, therefore, whether you are comfortable with the current architecture of the European system of banking supervision or whether you agree that the ECB should more incisive in this regard. More specifically, how can we ensure that national supervisors use all the available means at their disposal to guarantee the good standing of the administrators – good standing not just as a concept, but as a value which is used to protect against scandals and, indeed, to prevent them?

1-023-0000

Christine Lagarde, *President of the European Central Bank***.** – First of all, I think that the European supervision is trying to do the best job it can. Second, as you know, there is a discrepancy that is determined by the threshold that is met or not, and there are banks that are actually covered by European supervision and banks that are much more covered by their national supervision. I remember discussions with Madame Nouy, who was the previous head of the Single Resolution Board (SRB), who was really complaining about the fact that there were sometimes so many interpretations for the same provision. I agree with you that tools and the entire toolbox should be used as much as possible in order to anticipate and prevent multiple interpretations and the thresholds that exist between the various banks belonging to the euro area banking system.

I also believe that, in the area of anti-money laundering (AML) and combating the financing of terrorism (CFT), there could also be more and better harmonisation, and that a regulation rather than a directive would actually be extremely helpful in that respect. Supervision spans from the actual supervision and compliance with the various macro prudential requirements and regulatory requirements, but it also goes to the areas of AML/CFT which I'm personally quite concerned about, and where Europe can have more autonomy than it does at the moment.

1-024-0000

Evelyn Regner (S&D). – Climate change is the greatest challenge of our time, and every public authority and every branch of government should contribute as much as possible to make our economies climate neutral over the next decades. The ECB is obliged by Article 127 of the Treaty to support the Union's objectives that work without prejudice to price stability, so there are many ways in which the ECB could contribute to the objective of climate neutrality. The Commission estimated that we will need EUR 260 billion every year over the next decades to fight climate change effectively. Is the ECB willing to contribute to mobilise these funds?

Professor Wieland suggested to the European Parliament in December that the ECB could consider loaning a large amount of funds to the European Investment Bank at the same potentially negative rates that it currently provides to banks under its targeted long-term refinancing operations scheme, in return for delivery of an agreed large programme of public infrastructure and green energy investments across the euro area. Would the ECB be willing to do so?

1-025-0000

Christine Lagarde, *President of the European Central Bank***. –** That's a great question, because it helps me clarify what we can do and what we can't do.

First of all, the EIB is an agency and as such it is not a body to which we can actually lend directly without being at risk of breaching the Treaty. That's number one.

For similar reasons we could not possibly buy EIB bonds on the primary market. So whether it's through loans or through the purchasing of bonds, it's not something that we can do under the Treaty. Buying on the secondary market is something that we can do, that we have done and to the extent that the EIB grows in volumes, in issuance, in dissemination of its financial products, of course we will be very attentive to be one of the purchasers, on the secondary market, of those bonds. So that's where we can actually have an impact.

You also give me a chance to clarify one thing that I thought I had just mentioned, but I will use your question to clarify that yet again. You mentioned how the ECB must support the economic objectives which includes various items, including environmental sustainability. That's where we support. We are not in a policy-making role in that respect and it comes, you know, sort of subject to, or without prejudice to, the primary objective of price stability.

What I suggested, and what I believe, is that within the primary objective, environmental sustainability has an impact and should be factored in, because it has an impact on prices and relative prices, on consumption, on risks anticipated by consumers and by companies and because it forms this aggregate of elements that we have to take into account when we contribute, by our monetary policy, to price stability, which is our key mandate.

So that’s a different angle through which environmental sustainability can be channelled, and should be channelled, if we want to assess prices and determine inflation properly.

1-026-0000

José Manuel García-Margallo y Marfil (PPE). – Welcome to Parliament, Ms Lagarde. What I have to say today may be fairly general, but it is nevertheless important. The documents we have been given show that we certainly have enough to worry about when it comes to geopolitical risks. It was certainly a relief to see the US and China sign the first phase of their agreement, but a number of issues are still up in the air, and that is a cause for concern. The increase in imports from the US to the tune of USD 200 billion will reduce purchases from Europe.

And the news on Brexit is no cause for celebration either. The only thing we know is that the new British Prime Minister won’t countenance anything other than a simple free trade deal along the lines of the Canadian one; he doesn’t want a closer relationship with the EU. And although things seem to be more under control in the Middle East, the situation in Iran is still a worry.

I’m not going to emphasise the housing market risks, of which we in Spain are all too well aware. But I would like to say that it looks as though we’re in a Japanese-style downturn: a long period of low growth, low inflation and low interest rates, but with a level of unemployment that in some countries, like my own, is clearly unacceptable.

Some experts have said that tax or budget measures need to be taken, but they would be very limited given the level of public debt and the fact that new risks, digitalisation and action to combat climate change are going to require two things: investment and compensation for the manufacturing industry. So there are very few grounds for hope there.

With that in mind, what policy is the ECB going to adopt in the medium and long term, given that it has been established that we are in a downturn and that the situation may well worsen in future?

1-027-0000

Christine Lagarde, *President of the European Central Bank***. –** You are right in that downside risks are multiple and, when some of them phase out, new risks come up. This is a factor of how our global economy evolves. I agree with you that the trading-related risk associated with the trade war between the US and China has faded and abated, but now we clearly have the news from China on the coronavirus and we are still very uncertain about the outcome that it will have on the Chinese economy and, more globally, on our world economy. So, again on this one, we need to be cautious, attentive and patient. These pandemics have a tendency to impact and then, once they are contained, the economy bounces back so we have to look at the impact on the way down, but also on the way up. This was clearly what happened with SARS a few years back. We need to see how this one evolves, how closely related in terms of timing contamination it is, and how it’s propagated elsewhere.

On what you have described, the sort of low inflation, low interest environment – and low productivity as well – this is a concern. The reason we have our monetary policy as it is and packaged as it is, is precisely to try to address those issues. I would not, however, compare the current situation of the euro area to Japan whatsoever. Japan had a period of deflation that lasted for decades. Inflation expectations, which are so important, are much lower than the inflation expectations of euro area citizens, which still stands at around 1.7% in our region. So we are talking about a very different situation, where real interest, deflated from inflation in Japan, is much higher than what we have here in the euro area.

So I wouldn't be too negative or too downbeat about the current macroeconomic situation. We have seen signs of stabilisation. The forward output survey, even in manufacturing, is relatively positive and has been for the last five months. There are a few signs that are on the positive side. As I said, we need to support it, be patient on that front, and continue to support the economy by keeping financing costs at a low level.

1-028-0000

Engin Eroglu (Renew). - Madam President, Ms Lagarde, I am very pleased that you have returned to our Committee and that we can hold regular discussions in this way. The fact is that I would like to talk to you a little bit more about the ECB and I am really happy that you want to make citizens more aware of the ECB and, shall we say, sell it to the public. So, of course, my hope is that citizens will get to understand monetary policy a little better and that in the future they may also consider voting for politicians who know their way around economic and currency issues.

In this connection, I would like to speak to you about the ECB's total assets, Ms Lagarde. Its balance sheet now amounts to EUR 4.5 trillion, and so it's expanded considerably since 2015. We started with purchases of EUR 720 billion, then EUR 960 billion in 2016 and so on, until the ECB stopped buying bonds and government bonds in 2018 and then started again in November 2019 to buy bonds on a monthly basis worth EUR 20 billion.

This means that the ECB's total balance sheet is constantly growing. This makes the ECB increasingly important and it thereby plays an increasingly powerful role in European Monetary Union. This will also make you personally more important because you have a long term of office in the European Union. And now the question arises: Where are we going? The fact that the bond purchases are so massive has naturally made refinancing more difficult for the banks trading in the market.

Because if there is a *big player* who buys a lot, States can, of course, fix the interest rate so that they benefit from it.

Now the thing is, with this monetary policy on such a massive scale ... If we take a closer look, we see that some States have now seized this opportunity. I am on your side here. Many States have made hay while the sun shines to overhaul State finances. But there are also those that don't make political use of this low interest rate policy. What do you want to do to prevent these States acting in this way?

1-029-0000

Christine Lagarde, *President of the European Central Bank***. –** Our mandate, I will repeat it *ad nauseam* and I'm very firm on this, is to pursue price stability, and our monetary policy in all its components is designed to reach this mandate.

So with that in mind, the design of asset purchase programmes and collateralised refinancing operations takes into account two things; how effective it is, and second, how risky it is. We clearly have to take the risk component in into account, with a risk control framework whereby risks are mitigated, very closely monitored.

As regards our asset purchases, we have limited the credit risk by purchasing only assets with sufficient credit quality, by setting limits to the amount that we purchase from each issuer and issuance and by ensuring diversification. It's one of the questions that your Greek colleague was asking: when are the Greek bonds going to be eligible? Well, because we do manage risk and because we have to keep that portfolio safe and solid, we do that in a very cautious way, and we monitor that on a very regular basis.

So that's on the risk side of things. On the efficiency of it, I said earlier but I'm happy to repeat, the price stability objective that we pursue is also intended to sustain the economy, to help the creation of jobs, to help additional growth, to support investment. One of the reasons why for the financing of investment – whether it is by companies when they buy new equipment, new machine tools, or whether it is households when they change apartment, or buy their first apartment – the financing cost is so low and has been lower over the course of the last five years is because of monetary policy. In that sense, it has helped a lot.

1-030-0000

Gunnar Beck (ID). - Madam President, In September of last year, we agreed that, under your predecessor, the ECB barely followed the letter of the treaties.

You have now assured the Committee that the ECB will not necessarily shy away from breaching its treaty obligations in future if it is in the public interest to do so. On the other hand, however, you are sticking to the ECB's inflation target of asymptotically two percent, although there is no actual legal basis for this in the treaties.

This apparent contradiction could now be interpreted as meaning that the ECB would consider self-imposed targets such as two percent inflation to be more binding than treaty requirements. My question here is: If so, why? If not, are there any treaty requirements in the treaty chapter on monetary policy that the ECB considers to be as sacrosanct as Draghi's reinterpretation of the goal of price stability as meaning two percent inflation?

Now to my second question: The Bank of England has printed money amounting to around 15% of Gross National Product of its currency area, the Fed has printed money worth over 25% of its currency area, while the ECB has printed money worth over 40% of the euro-GNP, and this percentage is rapidly increasing. Could you give me a historical example of how the unrestrained printing of money can create growth and economic success in the long term?

1-031-0000

Christine Lagarde, *President of the European Central Bank***. –** I'd like to clarify two things.

First of all, all the instruments that have been used by the ECB have been taken within the boundaries of its mandate, in life before mine as head of the ECB. This has been confirmed by the Court of Justice of the European Union in relation to the announcement of the OMT instrument, which was never effectively implemented and used, and more recently the public sector purchase programme, the PSPP, which is a component of the asset purchase programme.

The Court has also reasserted their proportionality in relation to the specific objectives of the ECB's monetary policy. Purchases of government bonds under the PSPP are also compatible with the prohibition of monetary financing, which is laid down in Article 123 of the Treaty.

So those are the sort of legal parameters and Court decisions within which the monetary policy instruments have been used and those decisions are binding and their terms very carefully scrutinised by all those who are interested. That's point number one.

Point number 2. You referred to the 2% target and that was mentioned earlier, so I just want to clarify one thing. Price stability in 1998 was at the time defined and explained – and the framework within which it would be measured was determined – as 'below 2%'. That was the 1998 initial determination and you were talking of times when we had massive inflation compared with what we have today. So that was the sort of background for that.

In 2003, that framework was reviewed under a relatively short strategy review and it was then redefined, because from zero, or maybe below zero, to 2% is a large margin. So in order to guide expectations and in order to allow for that space for policy purposes, it was defined as 'close to, but below 2%', because you've observed what other central banks do around the world, which is different from what others do – whether it's the Bank of England, whether it is the FED, it's much more closely defined as 2% and it's currently under review at the FED level.

So those were two clarifications that I wanted to point out to you to indicate within which parameters we operate and what is currently the framework. It is that framework that we are going to review as part of our monetary policy strategy.

With that, clearly, we operate within our mandate under the Treaty with due regard to the case law that has been decided that is binding upon us. I'm a lawyer by background. I follow the rules. But we have to explore all corners of those rules, in accordance with the rules and in accordance with Court decisions.

1-032-0000

Pedro Silva Pereira (S&D). – Ms Lagarde, let me congratulate you on conducting such an important strategy review in the ECB – as you said, in line with the mandate of the ECB and consistent with the launch of the new European Green Deal. But I want to congratulate you as well on what you haven't changed – the support given by monetary policy to economic growth. My questions are, however, on fiscal policy.

You said in your initial intervention that in the current situation of modest growth performance and modest momentum that 'not only monetary policy, but also fiscal policy, has an important role to play'. This is not, of course, a new request from the European Central Bank, so I would like to ask you how do you assess the response of fiscal policy in the eurozone? How would you assess as well the macroeconomic consequences of a failure from fiscal policy to do what is needed in order to support economic growth?
Secondly, we know that your message is particularly designed for those who have room for manoeuvre in terms of fiscal space. Is this a message only for Germany and the Netherlands, or would you say that some other countries still have, or now have, room for manoeuvre to do more in terms of fiscal policy?

1-033-0000

Christine Lagarde, *President of the European Central Bank***. –** I was trying to think of a sport analogy to describe for you how we believe that fiscal policy, appropriately calibrated, can actually enhance monetary policy. I was hesitating between the parallel track and handing-over the baton, but actually it's something in between because, if they can operate in good synchronisation, they actually help each other. This is certainly the case when fiscal policymakers operate in an environment where financing costs are so low.

So we have said, and we have indicated clearly, that where there is fiscal space it would be appropriate for policymakers to actually use that fiscal space in order to support the euro area economy. I'm not going to indicate which exactly of those countries in the euro area have the fiscal space. I would simply observe that some of those countries that have fiscal space have now embarked upon using some of that fiscal space, now and in the near future, in order to actually support the economy, improve productivity, and invest in capacities that are needed. That is certainly welcome from our perspective, as the ECB, because contributing to raising productivity and investing in those long-term imperatives that are education, proper broadband and artificial intelligence, all the tools of the new environment that will make our European economies stronger and more autonomous, is clearly in everybody's interest.

1-034-0000

Damien Carême (Verts/ALE). – Ms Lagarde, at your hearing before you took up your duties I asked you about the relationship with citizens that you wanted to implement. I am happy to learn this morning that you are already getting on with the task.

You want to investigate public opinion, ask citizens about inflation, about work, about housing, to go back to the issues you were just talking about. But I think that we must now listen to the millions of European citizens who are on the streets asking for the climate to be saved, and also the CEO of a major French insurance firm who says the world will soon no longer be insurable given the scale of the damage – both damage caused by climate change and damage to the economy.

The ECB has consistently said that it follows the principle of market neutrality when selecting assets under the asset purchase programme for the business sector. Do you intend to use the current revision of the monetary policy framework to also review this principle, given that its application has in fact resulted in a portfolio of disproportionately pro-carbon assets, i.e. strong generators of climate risk, which is anything but neutral?

The question is therefore how the ECB, particularly through its supervision, can contribute to a sustainable economy and the fight against climate change, as this is fundamental. Do you think that the ECB should make it one of its research priorities?

1-035-0000

Christine Lagarde, *President of the European Central Bank***.** – Yes. The first point is what I was just talking about with Ms Regner, which is the impact of environmental issues in general on the objective of price stability, and how this can best be taken into account.

Today – and the figures may not be absolutely perfect – but if you look at the 77 000 economic studies and works published in general, and figure out the proportions, barely 0.1% deal directly with economic issues related to climate change.

So it is very clear that in terms of research it is essential to work more closely on the relationship between climate change and inflation, climate change and prices, climate change and productivity – all these elements are relevant to our mandate. So that is the research dimension and the impact this work will have on the price stability objective, which is our mandate.

Secondly, there are a number of funds where, without calling into question the principle of neutrality we were just referring to, we can perfectly well act – I am thinking in particular of the pension funds, and the European Central Bank’s own funds, and in these two areas, in terms of pension fund investments action is already being taken and tasks have been given to the portfolio managers to act accordingly – we are currently looking into how we can replace the current indices with carbon neutral indices, at the very least. And in terms of reserves we are looking at how action against climate change can be taken into account.

On monetary policy itself, over the portfolio as a whole, in simple terms about 80% of the portfolio is in sovereign bonds – so there is no major impact there – and 20% corresponds to purchases of corporate assets, and here, yes, the principle of neutrality is observed.

I think we have to take a look. There are different opinions, I know, in other banks, particularly central banks, and within the Governing Council, but that should not prevent us from looking. And then there is the whole issue of the securing of claims because the entire portfolio of collateral, in particular of the European Central Bank today, is managed – as I just said to the gentleman – with a highly attentive and highly measured degree of risk so as to protect the portfolio against risk. But the risks relating to climate change are not specifically taken into account.

It is likely, therefore, that the assessment criteria and the indicators that will be used to that end – several are already emerging – will need time to mature. It will be necessary to see how we can consolidate them, but I believe that with help, in particular from some national central banks that are already making progress in this field, I hope that we will be able to act to take account of the risks. And here we are no longer talking about price stability, we are talking about a risk management policy.

1-036-0000

Frances Fitzgerald (PPE). – Welcome back, Madame Lagarde, to the ECON Committee. I want to welcome the consultations that you're going to have in Member States, and your comments on housing because I think they will form quite a priority consultation given what our citizens are experiencing.

We're now in the post-Brexit situation, and trying to finalise the trade talks over a short period. I wanted to ask you, how do you feel the banks in the eurozone are prepared to deal with Brexit, particularly in a no-deal scenario?

Secondly, how important do you think it is that we have close regulatory cooperation or alignment with the UK on financial services post Brexit?

The other question I wanted to ask you related to the issuer limit in the quantitative easing programme of 33%. The ECB holds a significant portion of the bonds and issuance in some Member States, such as Ireland, Portugal and Germany and is close to reaching the issuer limit in these countries. How can you ensure, how can the ECB ensure, that these countries are not disproportionately affected by the 33% issuer limit and that the ECB is buying what is justified by their capital key? Have you considered increasing the 33% issuer limit in the quantitative easing programme, or could I ask you, are there circumstances that you can see rising where you might consider removing that limit or changing it, perhaps some adverse circumstances, either an individual country or across the euro area?

1-037-0000

Christine Lagarde, *President of the European Central Bank***.** – First of all, on the post-Brexit situation, I just want to mention to you the fact that we at the ECB are prepared. We have taken actions and precautions and we certainly have with the Bank of England the appropriate swap arrangements so that currencies in both euros and sterling will be available and will not contribute to a situation of volatility or disruption.

The banks themselves have been reminded over and over in all corners of the euro area to anticipate, to take their precautions and to be prepared for what might be, in December, the settlement of a relationship that will affect trade predominantly, because the financial regulatory issues and the banking issues are separate from the trade negotiations that are happening at the moment. We are in a way lucky that Basel III is a harmonising platform on which banks are regulated, according to which they are supervised, and we very much hope that Brexit will not be an opportunity for a race to the bottom and that the regulatory environment created by Basel III in particular, will be respected to the letter and in spirit as well between the parties.

The close relationship that had been built over the course of time will be different, let's face it. As the UK has decided for Brexit, it clearly cannot be the same relationship, it cannot be business as usual. Equally, I believe that because of the intelligence, because of the information, because of access, I very much hope that we can continue to have a good – arm's length – but good and solid and deep relationship, because I think it is in the interest of the euro area to maintain that relationship.

On the issue of quantitative limit, clearly we have to respect proportionality, we have to respect limits and keys as they apply and as they are resulting from principles that have been approved. I really don't want to think of circumstances where we would have to anticipate or examine whether or not limits have to be exceeded, but I would say *que será será* and we have to face any circumstances and deliver on the mandate that we have under those circumstances, so I don't want to put myself in that particular moment at this point in time. I hope that our policy will be so efficient and the fiscal authorities will be so receptive as well that we will by all means avoid such a situation.

1-038-0000

Johan Van Overtveldt (ECR). – I would like to thank Ms Lagarde for being here. I have a statement and a question for you and, of course, I would like you to comment on both.

The statement I would like to make is based on statements by two of your colleagues, Mr Panetta and Mr Mersch. Mr Panetta said here in the European Parliament during his hearing in December: 'the ECB has key responsibilities regarding financial stability, not least because financial stability is a precondition to price stability.' Mr Mersch recently in a speech in Luxembourg said the following: 'the increase in asset and housing prices is excessive and results from the exceptionally long period of extremely accommodative monetary policy.' Now if I combine those two statements, there's an ironic logic in it. The accommodative or extremely accommodative monetary policy leads to elevated asset prices, which threaten financial stability, which in turn is a threat to price stability, so what they are saying basically is that the ECB is derailing at the moment with respect to its prime objective of price stability.

That's the statement I would like you to comment on, and then the question has to do with your remarks on higher productivity which are, of course, very true and very right to say. But isn't the ECB contributing to having capital and labour stuck in lower productivity entities with a kind of natural survival of lower productivity entities within the economy 'thanks' to the policies of the ECB.

1-039-0000

Christine Lagarde, *President of the European Central Bank***.** – We have to be attentive to financial stability, and we are. We look at all components of the economic and financial landscape within which our primary mandate is again price stability, not financial stability. But it's clearly an area that we have to watch and the interconnections between the two are, as you know, the subject of huge scrutiny and review by academics and by policy-makers as well. We do not currently see evidence of misalignment across asset classes in the euro area beyond the easing of financial conditions intended by the ECB's measures – I say in the euro area.

We don't see strong signs of housing bubbles forming in the euro area as a whole. There are residential real estate prices that in some urban centres are increasing significantly and where, clearly, micro or localised measures could certainly be considered by the local authorities. When supply is short, financing conditions are favourable. When demand is high, clearly you have price increases that need to be addressed and the supply side needs to be addressed.

There was a European Systemic Risk Board (ESRB) warning, if you remember, that was issued in September 2019 on that very specific point so we are attentive to those risks and we are clearly warning, at the level of the ESRB. Is that threatening housing affordability in some corners? Possibly, which is why the supply side has to be addressed by the authorities. But for the moment – and I've expressed my views many times over on this particular point – the monetary policy that we have in place is clearly intended to maintain that price stability, to reach the level where we regard our objective as satisfied, to sustain growth and the creation of jobs, and to encourage investment.

That takes me to your second question, which has to do with the contribution of the ECB to low productivity through the financing costs that would actually make the life of those unproductive companies easy. It is the concept of the zombie firms whose life would be facilitated by low-cost financing. Again, we don't see any evidence of that. What we need to do is to make financing available and encourage the financing of investment by all the people – households – and all companies. We can’t distinguish between a company that is not doing well and a company that is doing well. Its’s not for us to do that. We have to make the financing available.

I would call your attention to one study that was conducted recently in Denmark, where negative rates have been negative for much longer than in the euro area, which concluded with the fact – and they did an empirical study – that financing was not a major contributor to the formation or the increase of zombie firms.

1-040-0000

Eero Heinäluoma (S&D). – Madame Lagarde, I would also like to welcome your announcements to improve the ECB communication efforts. However, a strong and effective ECB communication policy should, of course, go beyond only explaining monetary decisions. One of the important things is that the ECB ought also to inform the public about the risks facing the eurozone and our financial markets.
I have here a small quote from Danièle Nouy, previous Chair of the ECB Supervisory Board. She said, some time ago, that one of the key risks for the euro area banking system is conduct risk, which includes money laundering. I have to say that I fully agree with this because money laundering, which you have already mentioned, is something which is totally unacceptable and is still present in our eurozone financial markets. At the same time, we have to acknowledge that perhaps the ECB also got some bad publicity during the recent AML scandals. The Single Supervisory Mechanism Regulation is clear that the ECB should cooperate with the national competent authorities in the fight against money laundering.

I have two questions for you. The first one is: could the ECB do more in tackling the problem of money laundering? The second one is, since you have great experience from your years as Head of the IMF and you know the US system very well: are we too soft on financial crimes in the European Union? Could we take some examples of what has been learned from US experiences?

1-041-0000

Christine Lagarde, *President of the European Central Bank***. –** Clearly, anti-money laundering and combating the financing of terrorism (AML/CFT) are key components in order to maintain the integrity of banking and financial systems in general, and the current supervisory fragmentation and differences in supervisory practices in the AML/CFT fields can severely undermine the stability of European banks, and thereby the ECB’s supervisory effectiveness, particularly in cross-border capital. So for this reason, the ECB within the remit of its supervisory functions takes the prudential implications of money laundering risks very seriously. But it is not the ECB that is responsible for enforcing legislation or prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

The legislative steps taken so far to enhance the European AML/CFT framework will in our view not be enough to effectively prevent money laundering and terrorist financing in the banking sector, and further steps are necessary to improve the effectiveness of the AML/CFT framework, in particular for those cross-border activities. So we very much welcome the ongoing discussion that is taking place, and we stand ready to support that.

Let me just suggest two things which in my view would contribute to reinforcing the fight against money laundering and the financing of terrorism and would strengthen the autonomy of Europe in that respect and hopefully would be more effective. Number one, in terms of the legal basis on which to ground action, I don’t think a European directive is the right response. A European regulation would be the right response because the transposition then and the multiple variety of transpositions that I’m sure Madame Nouy was referring to, would not happen, or not in the same way. Second, there should be more coordination between the various authorities in charge of enforcing AML/CFT in their national jurisdiction and there should be a better instance, agency, whatever it is, that actually coordinates and has enforcing power at a certain level. The ECB does not have that authority, it does not have that enforcing capacity, and it's something clearly lacking.

1-042-0000

Danuta Maria Hübner (PPE). – Madame Lagarde, it has been a pleasure listening to you. I would like to ask you about the international role of the euro because, as you know, for two decades we have basically been leaving this issue to market forces. It has put us second in the ranking of important global currencies, but we are very far behind the first currency. Two years ago, Jean-Claude Juncker also put the issue of strengthening the role of the euro in the global context on the political agenda and the Commission issued two communications, where I think they made a strong case for strengthening the role of the euro.

So my question to you is whether you still think that it should be left to market forces or is there space for supportive policies and reforms that could bring it? Also, remembering that you are not only a monetary policy, but are also a payment system, institution, could the ECB also be part of this exercise?

1-043-0000

Christine Lagarde, *President of the European Central Bank***.** – I don't know if it's the last question, but it's one on which I would like to spend just a little bit of time because I think it's critically important.

The euro is one of the key international currencies that are regarded as internationally tradable and it is, as you said, ranked second, way behind the dollar. It has increased in proportion in the basket of currencies that are determined to value the special drawing rights and it has increased in the proportion of reserve held by central banks around the world, up to a point where it has stabilised and slightly declined. So it's roughly stable, but it's second, way behind the dollar.

Being a leading international currency gives you responsibilities. It gives you benefits as well, and we can go through the list of them, but it certainly contributes to the autonomy and the strength of the nation or the region from which it is issued. In that respect, I would like to mention three areas where we need to continue making progress and where your role is key if we want to get to that stage where the euro is regarded as one of the two lead currencies on the international scene.

One is that we will not have an international euro, so to speak, at that level unless there is a deep and liquid capital market. If you look at history – and I gave a speech yesterday on that topic so I'm very keen on that – one of the factors that helped the dollar remove sterling from its leading position – one of the factors, not the only one, but a major contributing factor – was the depth and the liquidity of its capital market. You call it CMU. The capital markets union has to happen fast, particularly with what is happening on the European scene and the departure of the United Kingdom. I think if that is not a triggering factor to engage all of us into forming the capital markets union, I don't know what else we need.

So that's number one. Number two is that you are completely right to refer to payment systems. We need to have fluid, instant, efficient payment systems within the euro area, and we are heading in that direction. The Target Instant Payments System (TIPS) that allows for access by banks to central bank liquidity is in place. It works well and it needs to be adopted on a much broader basis. We need to have a retail payment system that is working better, that is smooth, and that is made here.

That's the second dimension. The third dimension, which I would also mention and which I think is key, is the ability that we have to fight against cyber-risks. In a way it's part of the payment system architecture but it goes beyond that, and clearly on those three particular chapters – capital markets union, payment system and ability to defeat cyber-attacks – we need to be strong if we want the euro to be that international currency of reference.

1-044-0000

Chair. – Before giving the floor to the last speaker, just let me say that these are two issues that are very close to the heart of this committee. As a matter of fact we have requested two own-initiative reports on the capital markets union and on the international role of the euro. Of course they are still subject to the authorisation of the Conference of Presidents, but we all hope it will go well because we are all aware of the importance of these topics and I am glad we had a chance to discuss them with you.

Gilles Boyer is the last speaker, and then I am afraid we will not have time for catch-the-eye because we also have voting afterwards.

1-045-0000

Gilles Boyer (Renew). – Thank you for coming here and for inviting us to Frankfurt on Monday, which we are looking forward to.

I would like to thank you for having made communication one of your priorities. I can assure you that the ECB is not the only European institution which needs to meet this challenge. Having said that, I would like to thank you for taking the issue to heart. We are having to deal with technical and complex issues, and I would need more than two ears to grasp all the dimensions.

It is very difficult to simplify complex things, especially, as sometimes happens here, we have rather got into the habit of doing the opposite. I would like to raise with you the matter of negative interest rates, but in more moderate terms than those in which they were raised before me.

Many of us here approve of this policy, which in our view is appropriate to the circumstances and in line with the mandate given to you. However, being paid for borrowing money remains something which is intellectually hard to conceive and difficult to explain in simple terms without going into technicalities.

I have two questions – as a parliamentarian, but also as a citizen and as a taxpayer – on the possible consequences of this policy. First of all, it clearly allows for greater access to credit for individuals, which is, of course, a positive point. That said, I wonder how the banks would resist increasing rates after having granted hundreds of thousands in real estate loans over very long periods, at very low fixed rates. In other words, are we not running something of a systemic risk for the banking sector in the event of a rate rise?

Secondly, the effect of very low rates is to encourage savers – who are not always adequately warned – to invest in riskier products in an attempt to maintain the return on their savings; this is clearly an additional risk. The money costs less but the profitability requirement has not lessened, and here, too, I would like to know how you would react if large movements towards riskier investments were to have difficult consequences. Please see these as friendly questions from a Member who is seeking to understand in order to be able to explain.

1-046-0000

Christine Lagarde, *President of the European Central Bank***.** – I will try to answer your questions and I would like to thank you for noting that the monetary policy decisions that have been taken so far have been both legitimate and necessary to support prices and achieve this objective of price stability laid down in the mandate.

I will start with the first risk you identify, that is to say the risk that households in particular may make excessive use of credit, so that they are then exposed to a rise in interest rates. It is a risk which exists, and it is a risk for which two measures are taken or can be taken.

First, we have the macro and micro-prudential measures, i.e. the limits. A number of ratios are used, such as the amount of the loan in relation to the repayment capacity or the amount of the loan in relation to the total cost of the acquisition. In short, several ratios exist in this area and can be used. A number of national central banks – including, I believe, the Bank of France – and the finance ministry have pointed out that they had to be implemented, particularly in relation to the duration of loans, because there is also a lengthening of maturities, which is an additional risk for families making use of low-interest loans over very long terms. So that concerns the macro and micro-prudential measures.

Secondly, I was just talking about the need for patience. We hope that the macroeconomic situation will not only stabilise, but gradually improve, and that the monetary policy that has been implemented, supported, we hope, by good tax policy, will lead to a recovery in activity, and an increase in the rate of inflation, and will therefore allow us, in time, to return to a more conventional monetary policy.

In this context it is clear we need ‘more speed, less haste’, as the saying goes; there is no question of making sudden changes, for the reasons you mentioned about risks for households, businesses, the banking sector in general and our economies. Therefore, caution will have to be exercised when the situation improves.

I also wanted to mention a third element that we have been implementing since September, which is the two-tier system, meaning that negative rates do not affect banks so long as they remain within reasonable reserve limits, which are set at six times the amount of the legal reserves.

The search for yield is the risk sometimes taken by a number of other institutions, and it must be anticipated by these institutions. It is not up to the Central Bank to take monetary policy measures to this particular effect, but clearly, in investment policies, in hedging policies, in portfolio diversification policies and in the very definition of the development strategies of these institutions, the financial environment in which they operate must be taken into account in order to anticipate possible risks.

Again, I believe that we should remain prudent and progress slowly in the hope, at any rate, that the macroeconomic situation picks up significantly.

1-047-0000

Chair. – The hearing is closed. I thank Ms Lagarde again for being here and for answering all our questions.

(The meeting closed at 11.09)