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

BRUSSELS, MONDAY, 28 SEPTEMBER 2020

1-002-0000

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

(The meeting opened at 15.47)

1-003-0000

Chair. – Good afternoon. Considering that Ms Lagarde is already connected, I will swiftly move to the core of our meeting today, which is the Monetary Dialogue with Ms Christine Lagarde, President of the European Central Bank. I welcome President Lagarde to this third Monetary Dialogue of 2020. The previous Monetary Dialogue took place on 8 June. We met in a virtual format then, and this is the case again today.

The ECB has played its part in the joint effort in the face of the unprecedented COVID-19 crisis. The nature of the pandemic calls for an extraordinary monetary policy response. The ECB has launched the pandemic emergency programme to help stabilise financial markets and ease the monetary policy stance considerably. It addresses the economic shock and aims to repair the economic damage and the resulting downward pressures on inflation.

In addition, the ECB has eased the conditions under which banks can obtain liquidity under its targeted longer-term refinancing operations. Banks can now borrow at interest rates which reach minus 1% under the condition that they are lending to the real economy. The ECB's measures have stabilised markets, protected the supply of credit and supported their recovery. However, the uncertainty of the current environment requires a continued careful approach. The ECB Governing Council has indicated its readiness to adjust all of its instruments as appropriate to ensure that inflation moves towards its aim in a sustained manner. The ECB Governing Council took the latest monetary policy decisions on 10 September, just over two weeks ago. The Governing Council decided to keep its accommodative monetary policy stance unchanged.

Before leaving President Lagarde to present in more detail the ECB's decisions and the underlying reasons, I would like to reiterate why we are here today in the Committee on Economic and Monetary Affairs (ECON) for the Monetary Dialogue. The ECB is accountable to the European Parliament for its monetary policy tasks.

President Lagarde, you recently said that you find it essential that the ECB constantly engage in two-way communication, especially with citizens' representatives. We need to make sure that the ECB's voice is heard by the people and that the people's voice is heard by the ECB. This is the spirit for our dialogue today. We have many issues to discuss and we hope that this exchange of views with you will meet our expectations.

Just a few reminders: the ECON coordinators have selected two specific topics for discussion at this Monetary Dialogue. The panel of experts has prepared briefing papers on these topics. First, accountability mechanisms of major central banks and possible avenues to improve the

ECB's accountability. Second, the ECB's asset purchase programmes: experience and future perspectives. All the papers are available on the ECON website.

In line with agreed practices, the following procedure will be applied for this exchange of views with President Lagarde. First, we will have introductory remarks by President Lagarde of about 15 minutes, followed by a five-minute question and answer slot with the possibility of a follow-up question – time permitting, of course – within the same slots: two minutes maximum for the question and three minutes maximum for the answer.

In the first round of questions, each political group will have one slot and thereafter we will apply the d'Hondt system which determines the order of questions by political groups. If time allows, additional slots will be allocated on a catch-the-eye basis, taking account of the weightings of each of the political groups.

Please, I really recommend everyone to stay within their time. It's very difficult to check and interrupt when you are taking too much time, so if everybody manages to regulate their time it would be really helpful.

Let's open the debate now. President Lagarde, you have the floor for 15 minutes.

1-004-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you, Madam Chair, and good afternoon to you and all the honourable members of the Economic and Monetary Affairs Committee, whether you are currently in Brussels or linked via digital devices.

Thank you so much for yet again giving me the opportunity to speak to you today and to have a frank and timely discussion about the ECB's monetary policy and about accountability, which are the topics that you have selected on the occasion of this dialogue.

What I would like to do is first of all say a few words about the euro area economic outlook and then I would like to focus my remarks on monetary policy and in particular on the role of asset purchases, as you have identified as one of the two topics, and then I will share some thoughts with you, some considerations, about the accountability arrangements.

Turning first of all to the euro area economic outlook. The impact of the pandemic, and I will refer to the pandemic, because whether it is COVID-19, whether it is coronavirus, whether it's these new names that are coming up, 'the pandemic' will be my reference.

So the impact of the pandemic is still being felt across the euro area. People are losing their jobs, people are losing income, businesses are facing difficulties and prospects about the future remain uncertain. Now while euro area economic activity rebounded in the third quarter, the recovery remains incomplete, uncertain and uneven. Consumer spending has resumed significantly, but consumers remain cautious owing to anxiety about their jobs and about the level of income that they will receive.

Similarly, business investment has been picking up but weaker demand and elevated uncertainty continue to weigh on firms' investment plans. It is in that context that the job retention schemes and the national guarantees on bank loans have remained critically important factors in reducing uncertainty and softening the impact of the pandemic.
The latest ECB staff projections foresee annual real GDP growth at -8% in 2020, a slight improvement compared with previous projections (we were at -8.2 and we are now at -8), +5% in 2021, a slight reduction compared with where we were, and 3.2% in 2022. Euro area real GDP is only expected to recover to pre crisis levels in late 2022.

The strength of that recovery remains, however, highly dependent on the evolution of the pandemic and the success of containment policies. The public health crisis will continue to weigh on economic activity and poses downside risks to the economic outlook.

The sharp drop in economic activity earlier this year has weakened price pressure. Annual headline inflation in the euro area stood at -0.2% in August and is expected to remain negative in the coming months, reflecting the effects of earlier declines in energy prices, a stronger euro, and a temporary reduction in the value added tax rate in Germany and also in Ireland. ECB staff project annual inflation to gradually increase, from an average of 0.3% in 2020, to 1% in 2021 and 1.3% in 2022.

So what have we done?

The monetary policy measures that we have taken since early March are providing crucial support to the economic recovery and are helping to safeguard medium-term price stability. Without our measures, we would be facing a deeper economic contraction and more severe disinflation. Our policy support during the crisis has been structured along two main axes: 1. liquidity operations; 2. asset purchases.

First, we have provided access to central bank liquidity at very favourable terms and over long tenors to help maintain the supply of credit from the banking sector. To this end, we have adjusted the terms and conditions of our targeted long-term refinancing operations, called TLTRO III, which strengthen the incentives for banks to lend to the real economy. For a period of one year, banks will be able to borrow at negative rates, which can be as low as 1 percentage point, under the condition that they lend to the economy. Largely in response to that recalibration of our TLTRO rule, we have seen a very high take-up by banks.

So that was on the liquidity operations front. On asset purchases, we have launched the pandemic emergency purchase programme, which I will refer to as PEPP, to ensure the smooth transmission of our monetary policy and to ease the overall monetary policy stance, thereby helping to offset the downward impact of the pandemic on the projected path of inflation.

The PEPP launched with an initial envelope of EUR 750 billion in March, was increased by another EUR 600 billion in June, for a total of EUR 1 350 billion altogether. We also decided back in June that we would conduct net asset purchases under the PEPP until at least June 2021 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over.

In the current environment of elevated uncertainty, the Governing Council will carefully assess all incoming information, including indeed developments in the exchange rate, with regard to its implications for the medium-term inflation outlook. The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Now let me turn to the second topic that is of interest today, which is accountability. I think one of the reasons the ECB has been able to deliver a strong policy response very quickly during the crisis is thanks in part to its ability to act in full independence, as is set out in the Treaty. Now this independence in turn relies on effective accountability mechanisms to ensure that the ECB fully pursues its mandate, as is also, as you know, enshrined in the Treaty.

Delivering on the ECB’s Treaty obligations is a shared challenge for both the ECB and the European Parliament. While requiring effort and commitment from both sides, it is in both our institutions’ interest. To be effective in assessing the ECB’s actions and relaying people’s concerns, accountability practices need, in my view, to meet three different criteria.

Let me go through each of the three. First, they need to be commensurate with the ECB's tasks and responsibilities, implying that they have to evolve in line with the complexity and scale of the ECB's measures. Second, they need to be underpinned by timely and adequate information and transparency arrangements. And third, they need to be based on mutual trust to ensure constructive discussions on critical and difficult issues.

Over the years, our two institutions have worked together to build and strengthen their accountability relationship, well beyond what was provided under the Treaty. Indeed, I would argue that this relationship as it has matured over time meets the three criteria that I have just spoken about.

First of all, the ECB's accountability practices have evolved over time. With the launch of European banking supervision back in 2014 specific accountability arrangements were established for the ECB's supervisory arm. We also strengthened our relationship to reflect the greater complexity of the ECB's monetary policy measures.

For example, when the ECB was taking unprecedented action during the exceptional circumstances caused by the pandemic, I held an ad hoc exchange of views with the political group coordinators of your committee. Moreover, we have agreed to interact more closely in the context of the ECB's strategy review and ensure that our regular dialogue plays a key role in how we inform about this exercise. The outcome of this strategy review will also provide an opportunity for us to consider the ECB's accountability process and practices.

The ECB's accountability has also been enhanced by a better flow of information between our two institutions. As we discussed last February, this requires us to continuously aspire to communicate as clearly and as openly as possible. As part of this endeavour, and also in response to parliamentary and public demands, the ECB has already started providing more detailed information about its asset purchases and current holdings on its website.

Today I can announce an additional transparency measure. From now on, we will publish on our website the opinions of the ECB Ethics Committee for cases of conflict of interest and post-mandate gainful employment by the members of the ECB's Executive Board, members of the Governing Council and members of the Supervisory Board. This new initiative complements the single Code of Conduct for high-level ECB officials and demonstrates our strong commitment to integrity and good governance. It will facilitate public scrutiny, thereby enhancing trust in the ECB and ultimately in the decisions of the ECB.

This leads me on to my final point on good working relations requiring trust. Trust, on the one hand, that criticism of the ECB reflects concerns raised by European citizens on matters that fall within the ECB's mandate. And trust, on the other hand, that the ECB listens and takes such criticism into account. This trust forms the basis of our constructive dialogue, both formal and informal, and ensures that our relationship delivers.

And so it does.

In response to your call for the ECB to reflect on ways of reducing the burden associated with the collection of statistical and prudential data – an activity which costs the banking sector several billions each year – we proposed practical solutions in cooperation with other European authorities and the banking industry, while improving the quality of the data collected.

At the very beginning of my term of office, you invited the ECB, in full respect of its mandate and independence, to reflect on how its policies could support the green transition. The ECB's Governing Council has now decided that from 2021 onwards – 1 January, actually – the euro system will accept bonds with coupons linked to certain sustainable performance targets as collateral for credit operations and outright purchases for monetary policy purposes, provided that they comply with other eligibility criteria. This is a change.

Building on the three criteria that I mentioned earlier on, I think we should continue to do what we have been doing all along: ensuring that our accountability practices remain commensurate by letting them evolve in a flexible manner and by adapting them in line with the demands for scrutiny from European citizens. Because we can only make improvements if we are aware of people’s expectations and concerns in relation to the ECB and its policies, we are inviting everyone in the euro area to share their ideas and their comments through the ‘ECB Listens’ portal on our website. I can tell you that there have been many visitors already, and many comments.

So let me conclude. Our regular exchanges are crucial in explaining the ECB’s actions to people across Europe and to you as their representatives. This is even truer in testing times when the people of Europe expect the EU to rise to the challenge. A recent survey that you commissioned shows that more than two-thirds of Europeans would like to see the EU have more competences to deal with crises, such as the pandemic. Citizens clearly look to the EU for answers, and you play a central role in ensuring that such answers are forthcoming.

The measures adopted thus far by national governments and the European institutions are reinforcing our monetary policies. At the same time, our policies are creating the most favourable conditions for the full impact of structural and fiscal policies to be felt. Parliament’s calls for an ambitious European response were heard by European leaders. It will now be important to ensure that Next Generation EU funds are used not only in a timely fashion, but also in a way that enhances long-term growth and supports common EU objectives. If we get it right, Next Generation EU could be just the game changer that Europe needs in terms of modernisation, in terms of resilience and in terms of prosperity. I know that you are all working very hard along those lines.

Thank you very much. Madam Chair, I turn the floor back to you.

1-005-0000

Sven Simon (PPE). – Thank you very much, Madam President, for taking time for this dialogue, which is, I think, extremely important, especially in times when the ECB takes measures which are controversial. I very much appreciate your open, transparent and dialogue-oriented approach and your smart information strategy. Thank you for that.

Last week, the Bruegel Institute published a report with the title: Why has COVID-19 hit different European Union economies so differently? In its analyses, the Institute comes to the result that the pandemic emergency purchase programme (PEPP), has been successful in countering the risk that high public-debt euro area countries would be cut off from the market if they attempt to expand their debt issuance to respond to the crisis. I think this is a big success for the European Central Bank, which should be communicated and I would like to ask the secretariat to distribute this analyses of the Bruegel Institute to the members of this committee.

Nevertheless, it is important to continuously monitor the proportionality of ECB measures in its impact on the economy. In this spirit, I have three questions. First, how do you assess the impact of the PEPP on housing prices, especially in countries with the highest relative increase in housing costs since 2009, such as Germany? Second, how does the ECB mitigate the risk of zombie companies developing – companies that have no viable business model but nonetheless survive due to cheap liquidity? And third, what steps – perhaps most important – has the ECB undertaken within its mandate to coordinate its monetary policy with the fiscal policy of Member States. Are you satisfied with the steps taken so far by Member States to align fiscal and monetary impulses?

1-006-0000
Christine Lagarde, *President of the European Central Bank***.** – Thank you to Representative Simon for this triple question.

On the first two that really impact on the pandemic emergency purchase programme (PEPP), I would just like to remind ourselves that the purpose of PEPP was threefold.

We really wanted back in March, when it started, to stabilise markets as quickly as possible, and I think that we have very much achieved that, as is seen by the yield of the sovereign bonds, as seen by the spread and how much closer these bonds are nowadays.

Second, we also wanted to ease our monetary policy stance to help counter the substantial downgrade to our inflation outlook that was caused by the pandemic. So both in terms of stabilisation and in terms of monetary stance, I think that PEPP has been extremely efficient and extremely helpful.

The impact on housing is not something that we are indifferent to, because we are very careful, as we look at the effectiveness and the appropriateness of all our monetary policy tools, to the side effects. We have not seen a significant material negative side effect resulting from the use of PEPP. Quite the contrary. We think that the net impact of PEPP has been largely positive.

In terms of zombie companies, I think the same applies. We obviously monitor all that and we know that there were indeed some companies that had some liquidity risks, and the concern was to make sure that the liquidity risks under which they were operating did not turn into a solvency risk, but we do not believe that in terms of the side effects of PEPP we have aggravated that particular situation.

The coordination between the monetary and fiscal authorities: I would rather call it work that was conducted hand-in-hand. It is a very significant variation compared with the previous crisis, the great financial crisis. Whether you look at 2009, or whether you look at 2011, the European sovereign debt crisis, there was not the same level of hand-in-hand work at the time.

In this particular case, I think that all authorities, whether at the national level, at the European level, whether in fiscal terms or in monetary terms, really reacted very promptly and worked hand-in-hand in order to leverage each other's strengths and inefficiency. I think that has been extremely helpful.

1-007-0000
Jonás Fernández (S&D). – Welcome President. Three questions. First, do you not expect the inflation rate to be close to 2% at least by 2023? Three years without fulfilling your mandate and, by the way, many more years without fulfilling it until now. Why don't you take more measures just now? Second, as you have stated, the ECB is currently carrying out a strategic review. Are you looking at accountability aspects? What did you think about the revision of the mandate of the Federal Reserve in the States? And finally, last week the ECB defended a permanent version of the recovery and resilience facility. Can you explain to us your opinion about this possibility?

1-008-0000
Christine Lagarde, *President of the European Central Bank***.** – Well thank you very much for your questions. First of all, again I would observe that all the tools that we've used in our monetary policy toolbox, starting with extremely low interest rates. I remind you that the DFR is at minus 50 basis points, that the asset purchase programme was ongoing and that we have added to that two major tools if you will, PELTRO in order to make sure of liquidity through to the economy via the banking intermediation, and second our asset purchase that was intended both for stabilisation purposes and for monetary stance. I think that, using all these tools in the

toolbox, plus via the collateral review that we conducted in order to enlarge the volume of collaterals that could be taken up, we have had a very significant impact on the economic situation, on the credit situation, as well as on the risk of fragmentation. So clearly we are far away from the goal that we have, which is close to, but below, 2% and we are not complacent about it. We have demonstrated that when it comes to recalibrating our instruments and changing its focus, increasing its size, we are always prepared to do so in order to deliver on our mandate, but clearly what we have done so far has been extremely, as I said, targeted, indeed temporary when it comes to PEPP, proportionate and we will continue to be very attentive to all the information that comes in a more reliable and solid way in the weeks to come in order to define what we do going forward.

On our strategy review, we started just pre-pandemic and we managed to conduct one key session. That was a stocktaking exercise. Unfortunately, as the FED did actually, we suspended the review and we just resumed about two weeks ago. We will continue this process until completion, which is scheduled for September 2021.

The FED started way back and earlier than we had, and I came with their conclusion which has been communicated by the Chair of the FED in Jackson Hole in a speech that he gave at the time, which has been further clarified in the latest monetary policy decision that was rendered, and which clearly refocuses on the second of the two mandates that is pursued by the FED, which is employment, which is now defined in a slightly different way and in an asymmetric way. Now clearly we’ve taken [*inaudible passage*] the communications that surrounds this new determination and this will be one of the elements that we will take into consideration in our own strategy review as we develop it. It’s interesting to note actually that the forward guidance that has been in place at the ECB has very much been inserted into the FED’s new monetary policy, not verbatim but very much to the same effect. So there is an element of borrowing from each other, and clearly the FED has demonstrated that when it comes to forward guidance.

The paper that you referred to, which was published last week in the economic bulletin of the ECB, if I recall, indicates that we clearly support the recovery and resilience fund and the overall New Generation EU package that was adopted by the European Council earlier in the summer, and we believe that it has been a very strong component to restore the confidence in the European Union and that it’s a political determination that was expressed in no uncertain terms, and that it is demonstrating that Europeans can actually decide to jointly borrow, to allocate funding between grants and loans in order to first of all, stabilise, and second transform, the European economy. We’ve also noted in the past, and we keep noting, that a joint fiscal approach is indeed very helpful and very much needed in order to complement monetary union.

1-009-0000

Luis Garicano (Renew). – It’s good to see you Ms Lagarde, I hope you’re doing well in these strange times. I agree with you that the impact of the pandemic is highly uneven and that, probably, the recovery will also be very uneven, as you have said. I fear that it will be really persistent in the way that we have seen really large differences in growth in Q2 – for example in Spain an 18% drop, Germany a 10% drop – that seem likely to persist into the next quarters, and probably likely to feed into inflation expectations.

My question concerns how the ECB will act in the face of these enormous disparities in growth rates and, presumably, in inflation rates in the future. I anticipate you will have more trouble maintaining cohesion among your board members. We have heard that Mr Panetta said last week that the risks of over-reaction in terms of monetary policy are much lower than the risks of a policy that is too slow, or too timid, to react to the worst-case scenario; while Mr Mersch was pointing out that Pandemic Emergency Purchase Programme (PEPP) and similar programmes were exceptional, temporary and that the deviations from the capital key should not be extended.

I would like to ask you two questions on this on this topic. Would you be able to maintain and potentially increase in the New Year even after the corona crisis is over, the differences in support that PEPP provides to different countries in the EU, increasing as needed the deviations from the capital key guidance? How far can this support go?

And second, how would you deal with differential inflation and deflationary threats in different countries? Will you be more concerned with countries facing downside deflation risks or overshooting inflation risks? How will you weight these differences and how will you manage them in your monetary policy?

1-010-0000

Christine Lagarde, *President of the European Central Bank*. – I'm doing fine, and certainly focused on the job and delivering as much as we can. And most at the ECB are doing fine as well, we have a few victims of the pandemic but not too many and we try our best to avoid that.

First of all, I'm not overly concerned about the fact that people have slightly different views and opinions. As you know, I am more of a consensus-builder, but you can only build consensus if views are slightly different amongst Members.

I don't encourage massive dissent. But I think that dissent and discussions are healthy amongst members of the Executive Board. I think what is actually important is that once a decision has been made and once a majority has been established, then it's a question of discipline and staying the course and being together at that point in time.

As far as the PEPP is concerned, and what we do with PEPP: that particular programme, as I think I've said before, has flexibility in its DNA. And that's the key word that applies to the PEPP, and I think we've demonstrated that flexibility, both in terms of time, so we did frontload PEPP when it was needed, but its flexibility in terms of asset classes as well. We went for corporate bonds; we went for commercial paper, which was not on the cards in the first place, and certainly not in that magnitude, and across jurisdictions.

As you said, we did deviate from capital keys as and when it was needed, and as was appropriate in order to respond to the goals that we had with PEPP. Of course it is temporary, targeted... (*inaudible*). Indeed it is a flexible instrument and has to continue to be flexible in order to respond to the situation and to the exceptional character of this situation.

So the deviations from capital keys have varied over the course of time but they have narrowed recently. Were there to be the need, should the situation worsen or there again be a risk of fragmentation, I am sure that the Governing Council would have the wisdom to apply these flexibility criteria in the three dimensions that I have mentioned: time, assets and jurisdictions as well.

In terms of inflation, one of the attributes of this close to, but below 2%, had to do with the fact that we had different levels of inflation between the various Member States. Clearly we are guided by the euro area inflation, and while we're looking at each and every Member State, it is the euro area inflation that actually matters for monetary policy.

We had last week a very interesting seminar on inflation developments and trends, which clearly have been changing, and that we tried to analyse in detail in order to really appreciate how these trends and how the measurements will matter in terms of defining our price stability objective.

This is part and parcel of the strategy review. We did not come to a final conclusion on the occasion of that seminar, but it's going to be part and parcel of the overall thinking process around our strategy review.

1-011-0000

Gunnar Beck (ID). – Thank you, Madam Chair, welcome Madam President, good afternoon Ms Lagarde.

You justify your expansive ECB monetary policy as a extraordinary means in extraordinary times. I have here a chart from Degussa AG. According to the chart, the money supply in the eurozone – the M1 money supply – has been increasing significantly faster than the gross national product since 2003. The M1 money supply has increased by some 500% since the introduction of the euro, whereas the gross national product – the actual gross national product of the eurozone – has grown hardly at all. Since 2010 the increase in the money supply has gathered pace and economic growth has slowed.

I have a question about this: Could you give me one historical example of a similar or even just a roughly comparable increase in the money supply in the medium or long term leading to real economic growth without a major redistribution of assets from small to large and without a significant debasement of spending power? Thank you very much.

1-013-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question. It's a fact that M1 has increased. It's a fact that M3 has increased, and it's hardly surprising, given the fact that we have used our targeted longer-term refinancing operations (TLTRO III) in order to make sure that credit flew to the economy and that enterprises could access loans and could finance their capital expenditure as well as their cash needs.

So, M3 is a reflection of that and the fact that lending to the economy, particularly to the corporate sector grew at plus 7%, which is more than twice the average that we had observed back in February, is a clear reason why we have seen that significant increase.

I just want to remind you that, as far as monetary policy is concerned, we are guided by our mandate, and our mandate dictates that we address price stability. That is our mandate and we measure that by reference to the inflation aim that has been defined back in 2003. And it is those particular principles that are currently under our strategy review and will be until completion of the process.

But this is what guides us: its price stability, it's the inflation aim that is associated, and that has been defined and that's how we can be predictable and how we can actually help boost the economy by means of more investment, by means of more jobs.

And in that respect, I think that what we have just recently done has been measured against what if we had not done it; and it is clear that we have contributed over the course of this exceptional period to the improvement of the economic situation, and we have prevented a massive deterioration that would otherwise have been seen.

1-014-0000

Chair. – Before I give the floor to the next speaker, Bas Eickhout, I would like to remind the members of the committee that in the papers that the expert panel has provided us, there are also some interesting analyses comparing what would have happened without this programme. These are very interesting papers that could really help members to go deeper into these issues.

1-015-0000

Bas Eickhout (Verts/ALE). – Thank you very much, President Lagarde, for being here with us today – sort of 'being here'. I would like to talk about the green targeted longer-term refinancing operations (TLTRO), if you don't mind.

Since the launch of the ECB strategic review, we have seen a growing debate on how the ECB could incorporate climate factors into the ECB's supervisory and monetary policy operations. As you are very well aware, since a couple of months the EU has now adopted its Taxonomy Regulation, which provides a democratically constructed framework to define sustainable economic activities. And with that, a key obstacle is gone – for the ECB to make its monetary policy operations more sustainable – since there is now a democratic mandate in this taxonomy.

Turning to the TLTRO, there is a very interesting paper by Positive Money Europe and the Sustainable Finance Lab. It's on greening the TLTRO programme. Green TLTRO programmes are refinancing operations where the interest rate that banks pay is determined by the volume of taxonomy-compliant loans issued by the banks. I think what you can conclude, and the report also very clearly shows this, is that green TLTROs would contribute to achieving the ECB's primary mandate by addressing market failures that undermine the broader economic preconditions of monetary stability.

Secondly, green TLTROs would support the ECB's efforts to reduce environmental and climate-related financial risk built up in banks' balance sheets and thereby contribute to financial stability. And, green TLTROs will help to align monetary policy with the ECB's secondary mandate which requires it to support the EU's environmental objectives, where this is possible without prejudice to price stability, which has also been discussed. I

I know that the report has been received also in Frankfurt and has been discussed. I would very much like to hear from you on this idea of green TLTROs. Do you think and do you confirm that this proposal is technically feasible? And, secondly, since last year you told us that you would leave no stone unturned, are you considering to take the concept of green TLTROs in your part of the ECB's review later on?

1-016-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much for your question. The very simple answer to your question is yes, because you are asking me whether we would be prepared to consider this proposal as part of our strategy review, and the answer is yes.

As you know, and as I've said in front of your assembly, climate change is a matter that has to be part and parcel of our strategy review, not because it is a secondary objective, but because of its impact on price stability, because of its significant impact on risk assessment and risk management. The green TLTRO, as you called it, is a matter that is of interest and that we will look at. I think that this report is due to be presented rather soon and discussed, and I think that there will be a representative of the ECB who will be attending that presentation and I'm very pleased about that.

1-017-0000

Derk Jan Eppink (ECR). – Madame President, the Dutch Prime Minister, Mr Rutte, told the Dutch people that the recovery fund of EUR 750 billion was a one-off operation.

Now I read in the International Financial Press that the ECB is of the opinion that the Recovery Fund should have a permanent character. This means that the Recovery Fund will become the beating heart of a permanent transfer Union, channelling money from the north to the south. Is that allowed by the Treaty? Is that within your mandate as a central bank? The purchase policies of the ECB so far have already created long-term low interest rates, which reduces the capital of savers and retirees.

Meanwhile, the ECB has purchased so much debt that its balanced total is equivalent to 63% of the national income of the entire eurozone. In the United States, it's only 36%. So, Madame

Lagarde, is the ECB later on going to buy the entire public debt of Italy and Spain? I foresee on the basis of your policy that the Netherlands will have no other choice but to leave the eurozone.

1-018-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you very much. I'm so pleased that the Netherlands is part of the eurozone and I hope it stays that way.

Let me point you in the direction of the actual publication by the ECB, because there's nothing like the authentic and entire document as published and not as elicited and spun by any particular magazine or newspaper. If you have a chance to read this box, which was published in the Economic Bulletin article last week, you will see that there is a clear reference to the fact that the New Generation EU is a one-off, so it certainly does emphasise the fact that it was also a one-off response to exceptional circumstances, which we, as so many others, have applauded and are encouraged by, given that it demonstrates the determination by the political leaders sitting around the table at the European Council to actually take the right measures to respond to the crisis. So it has nothing to do with what you referred to in the beginning of your question. I really very strongly encourage you to read this article and I'll be very happy to actually send it to you directly so that you can have the original source. Far from us to have reached the conclusion that you've mentioned.

Second, I just want to also slightly correct the numbers that you've used, because the actual balance sheet of the ECB is not in the range of the 65% of the euro area GDP. It's 56%, which is indeed more than the size of the balance sheet of the FED, with reference to the GDP of the United States, but that's hardly surprising, because clearly the financial market in the US is organised completely differently than our organisation. I would take this opportunity to stress that having a deep and liquid capital market that applies to the Union would actually be a good response to what is needed: financing tools that are less necessarily reliable on the banking system and that can actually source financing from the markets.

1-019-0000

Dimitrios Papadimoulis (GUE/NGL). Welcome back, Ms Lagarde! On a number of occasions, I have heard you express the view that monetary policy alone is insufficient to deal with a crisis and that financial policy measures are also needed. That is very true. Indeed, you have reacted promptly with an ambitious asset purchase scheme. However, we now need even more effective financial instruments to deal with the crisis, which is leading to greater disparities in the EU, not to mention the onset of a major recession.

While welcoming the recovery fund, Parliament is also calling for an increased multiannual European budget to ensure a robust, sustainable, and fairer recovery.

I should like to hear your opinion of its recommended financial policy measures, which diverge from the Council proposals, given that we are now entering into negotiations.

The second major issue is the FinCEN scandal. In the wake of the Panama Papers, CumEX and Cum-Cum revelations, large-scale money laundering operations involving European banks that receive generous EU support are now coming to light. And I ask you: Are you responsible for this continuing failure? What action will you take to tackle more effectively this widespread and heinous financial crime, for which honest taxpayers and businesses are paying the price and which is undermining our economy?

To turn to the third issue, I frequently hear you mention the need to strengthen democratic control over the European Central Bank. We in the European Parliament would also like to achieve this. A few days ago, on 23 September, the Bruegel Institute published a study containing specific proposals on how it might be done. Have you seen these proposals or had the chance to study them and would you be prepared to accept them?

1-020-0000

Christine Lagarde, *President of the European Central Bank*. – On your first question, as I have mentioned, it has been extraordinary in this particular crisis to see how monetary policy and budgetary policy, meaning fiscal, at the national as well at the European level, have actually worked hand-in-hand.

I think it's attributable to that cooperation that the measures against the exceptional circumstances and the economic crisis that Europe has gone through were efficient.

Clearly, you as Members of Parliament are playing a critical role in relation to the Multiannual Financial Framework (MFF), in relation to the Recovery and Resilience Fund, and particularly your ECON Committee is right in the centre of those debates.

One of the values of the MFF is precisely that it extends over a period of time, and it plans for not only a response to the exceptional circumstances with a view to stabilising the situation, but also plans into the future of the European Union and what focuses it will have going forward – whether it's green, whether it's digital and whether it's allocated to different funds, as a portion of the Next Generation EU fund is intended to be. Hopefully this budget that you are discussing, that you will be reviewing and voting upon, will allocate sufficient investment into those strategic areas that will actually transform our continent with a view to making it fit-for-purpose in this different environment.

On the money laundering issue, clearly money laundering and combating the financing of terrorism is a matter for national authorities, and it's not an area where the European Central Bank actually plays an institutional role. I welcome the fact that the Commission has made proposals in order to establish at a European level a way in which anti-money laundering (AML) and countering the financing of terrorism (CFT) could be better coordinated and better chased in order to eradicate those criminal behaviours.

Democratic control. I'm not sure that I am totally comfortable with the word 'control'. I think that 'accountability' is the one that best describes – as provided for under the Treaties – the relationship that we have between us, between the European Parliament and the European Central Bank. I think the concept of control is more associated with the European Court of Justice, which has ultimate control from a judicial and legal point of view over what we actually do. But I'm fully supportive of the measures that have been taken and that we can continue to develop as our activities change in terms of accountability between our two institutions.

1-021-0000

Isabel Benjumea Benjumea (PPE). – Thank you very much for coming to report (inaudible passage) to the Committee on Economic and Monetary Affairs of the European Parliament on behalf of the European Central Bank. I think it is very important to report not just to Parliament but also to the public, and I wish to thank you for all the steps you have taken to render this transparency and reporting much more accessible to the public, which I consider to be essential.

I had two very short questions and one comment to make. The first concerns the maintenance of interest rates and the purchase programme, the PEPP, which we have been discussing so far in terms of the effect we believe it will have on European savers. Because there is a risk that, given the lack of profitability, given the low profitability that the financial sector itself can offer with these interest rates, savings will go outside the EU and savers will look for products outside the EU. I would like to ask you about this.

I also wanted to ask you about small and medium-sized enterprises. I think it is very important to take measures, not just those already being taken but also fresh measures, to make credit more accessible for small and medium-sized enterprises. But it is also very important that they have access to capital, and on this point you have briefly referred to the capital markets union. I would like to ask you to say a little more about the steps that need to be taken to make the capital markets union a reality, in relation not just to small and medium-sized enterprises ...

(inaudible passage)
... fiscal measures that Member States are taking as regards how opportune or otherwise these are and the need to extend them over time. And so, the impact on savers of maintaining interest rates and of the purchase programme, measures for SMEs as regards access to credit and broadening supply from the capital market, and finally the fiscal measures taken by the Member States, and the possibility of extending these or improving them.

1-022-0000
Christine Lagarde, *President of the European Central Bank***. –** Thank you so much for your three questions. First of all, the negative interest rate on the ECB’s deposit facility, which was introduced way back in June 2014 and which is currently standing, as I have mentioned, at -50 basis points, or 0.5%, has to be seen against the background of a longer term of a lower natural rate of interest in advanced economies.

So the ECB is aware that a prolonged period of low interest rates can have side effects and can have an impact on the saving behaviour of some of the economic actors. I have to tell you that we would very much like to see those savings that have accumulated, particularly during the pandemic lockdown period as a result of forced saving, but also more recently as a result of precautionary saving, be actually diverted to either consumption or investment.

So it’s not so much the fear that it would fly to more rewarding investments going forward, it’s more the desire to see it being diverted to consumption and investment that we have at the moment. But clearly, in addition to those risks of side effects that I’ve just mentioned, there are also some very important positive effects of an accommodative monetary policy stance.

And the ECB’s monetary policy has boosted employment, supported non-financial corporations’ balance sheets, high employment has also been the result of the monetary policy that is characterised as accommodative. So it cannot be just a one-sided analysis of what we’re doing; it’s multifaceted, and in the main it’s been a net positive based on our experience of negative rates.

Your second question dealt with SMEs’ access to finance and I have to tell you that since mid-March we have actually taken multiple measures in order to enlarge access by SMEs, by self-employed people, to the lending that is available at very, very attractive rates under the TLTROs in particular. And we have accepted credit claims of a much broader nature at the request of many of the national central banks in the euro area.

So I think that SMEs, self-employed people and families, of course, that want to or need to have access to finance can certainly find this financing available, and we’ve accommodated that as much as we could.

I would like also to mention the fact that by having banking intermediation we are actually facilitating access by SMEs, because, in the main, the large corporates can access the capital markets, which is not the case for SMEs, unfortunately. So the fact that we have solicited, encouraged, incentivised banks to actually lend to the economy has de facto been directed to SMEs, in addition to the additional credit claims that I have mentioned earlier.

The fiscal measures that were taken, just as an observation, we consider that on average it's no less than 4.5% equivalent GDP that has actually been expanded by the fiscal measures that have been decided by the national Member States in the last few months, which is significant and a solid response to the exceptional circumstances that we are facing. And that's not to mention the roughly 20% equivalent of GDP that has been offered as guarantees, particularly for the loans.

Is that enough? I think the key point now is to make sure that this fiscal support is sustainable, because we're clearly not out of the woods yet, and the recovery has to roll not to stall.

So, my hope is that the measures that are going to be taken going forward in the various budgets that are submitted, and we are beginning to see this here and there, is that fiscal support is sustained, is continued, and that authorities appreciate that we need to continue to work hand-in-hand, fiscal and monetary, national and regional, at the European level in order to respond to the circumstances.

There will be a timing issue, there will be a synchronisation issue, between the gradual pick-up of the recovery if it is well sustained and the gradual withdrawal of some of those exceptional supports, but we're not there yet in my view.

1-023-0000

Eva Kaili (S&D). – Thank you, President Lagarde, for your efforts during these challenging and uncertain times. During this pandemic, beyond everything else, we have also understood that digitalisation and the use of new technologies is necessary.

We saw the digital finance package a few days ago by the European Commission. While we witness the involvement of large technology and consumer companies in several stablecoin initiatives, the best known of which is Libra, we also have European Member States like Sweden exploring coins like the e-krona in order to provide efficient means of payments for mainstream-use cases like international remittances – we have cash transfer programmes, international consumer-to-business payments, cross-border payments – with a reduction in the cost and time of transactions, the fees for these transactions, but also improving accessibility for citizens and the use, of course, of these crypto assets as an alternative means of payment or even as a form of value.

Basically, they are leveraging the inefficiencies and segmentation we all witness in the European retail payments market. We all agree that we need modernisation, but I would like to know, since you are for the last two years exploring the risks, the benefits and the operational challenges of these new technologies, if you could give us an idea of when and how the ECB would take steps to have a swift transition from open banking to open finance? Also, if the ECB is actually ready now to take bold steps to achieve that?

1-024-0000

Christine Lagarde, *President of the European Central Bank***.** – That's a huge, big topic and one that is clearly of concern to all European authorities and it is certainly, and has been, a concern for us as well.

I'd like to just draw a little distinction between some of the references that you've made. I think it's important to appreciate that you have, on the one hand, the crypto-assets which are often simplified by reference to Bitcoins, but there are a few others as well. Ether is clearly another one.

But those crypto-assets, in our view, do not at the moment – given their size, given the very speculative aspect of this product – raise any particular risk or concern when it comes to actually disrupting the payment system, disrupting the currency system that we have in place. So it's one category of assets, but I wouldn't regard them as currency or satisfying the criteria of currency.

The second category, which is a different one, that you referred to as well, falls in the category of the 'stablecoins', one of which being Libra, explored by Facebook, which has this very large network around the world. Those stablecoins raise more imminent concerns, in our view, especially when they have the potential to very quickly achieve scale, given the size of the network on which they could actually deploy their function.

So we are particularly attentive to the stablecoins and I think that it's a matter that you will be able to actually discuss and understand even better when one of our Executive Board members comes to report to you and discuss with you this matter around 12 October, as I remember.

Let me just point out that exploring a digital euro is a matter that is clearly keeping us quite busy, which is not going to happen overnight. Because it's a matter that needs to be explored in depth in terms of benefits, in terms of cost, in terms of opportunities, in terms of risks that it responds to, in terms of consumer aspiration that it responds to, and also in terms of monetary policy and its proper transmission through the usual channels that we have used so far. Whether its wholesale or retail, we believe that this digital euro is perfectly compatible with the continued transmission of monetary policy through our traditional banking system intermediation.

A final point: I think that we cannot just look at the digital euro in isolation. It has to be part of an overall payment system where you clearly have a back-end, which is, in our view, functioning quite properly and that is clearly our target system.

It also needs a front-end, which clearly is under review by a number of European banks under the European payments initiative (EPI) system that was launched a few weeks ago and it includes, as another component, the digital euro that is currently under exploration – I wouldn't say 'under review' because it's going to take time – and it's not to going to happen overnight.

Final point: I think that we have to be very attentive to the fact that, to the extent that private operators conduct the same business, they have to be regulated by the same rules, and that requires also the same oversight.

So in our view, clearly those stablecoins – if they were to see the light of day – would fall under the same regulations, the same oversight and would certainly have to comply with all the rules and would not be allowed to operate until that is the case. I think that was also the view expressed by the ministers of finance at the last Eurogroup meeting in Luxembourg.

1-025-0000

Caroline Nagtegaal (Renew). – Let me start by saying that, unlike my Dutch colleague Mr Eppink, I'm also very glad that the Netherlands is part of the eurozone, although we still have a lot of work to do.

I have a question – or let's call it a concern – that I would like to raise. In March this year you stated 'it's not the role of the ECB to close spreads between the Member States', and I know this statement was observed to be highly controversial. But to be honest, I could not agree more with you, Ms Lagarde, because my fear is that we keep postponing important structural reforms because Member States know that the ECB will be there as a lender of last resort.

And my question is: what is your view on the effects of the bond-buying scheme and the low interest in relation to the structural reforms in the Member States?

1-026-0000

Christine Lagarde, *President of the European Central Bank***.** – As I said earlier on, the monetary policy decisions that we made on 18 March, if I recall, were clearly intended to stabilise the system, and make sure that the fragmentation, that was totally unjustified, could be reduced and to that extent, the use of PEPP has been extremely useful.

On your point about the efficiency of those measures and scope: in our view, monetary policy has to work hand-in-hand with fiscal measures and also with structural reforms. Exceptional circumstances have called for exceptional measures. What has been decided by the Council, and what will be debated and is under review by your committees as part of the New Generation EU recovery and resilience initiative, that is going to be efficient, and that is going to take Europe further and better – if and when the structural reforms that will serve as the backbone of this transformation are actually taken.

It is also an economic truism to say that 'you don't want to waste a good crisis', and it is a fact that structural reforms are often better driven and implemented in times of crisis.

Our hope is that we can continue to support the system and we can continue to deliver on our mandate of price stability, and of making sure that the financial tensions that we observed can be reduced, as they have, but also that structural reforms will be decided at national levels with a good understanding between the Member States, in order to leverage to the maximum possible extent the recovery and resilience facility that that is being debated.

1-027-0000

Georgios Kyrtsos (PPE). – I have three questions for President Lagarde. First question, what about the appreciation of the euro relative to the dollar during this year? Does it worry you in terms of European competitiveness, exports and the recovery of the eurozone? What do you think should be done?

Second question, the level of public debt in most eurozone countries is skyrocketing. When do think that a global assessment of the debt levels should be undertaken and what kind of policies should we follow to control it? A repetition of the policies applied during the previous crisis or a more flexible and expansionary strategy?

Finally, the third question. Any news concerning Mr Stournaras' proposal in favour of the creation of a bad bank that could accelerate the reduction of NPLs in Greece?

1-028-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your three questions. I would first of all observe that the pandemic has sparked strong movements in global financial markets, including on foreign exchange markets with the euro, if you remember, depreciating and weakening in the early phase and then appreciating and strengthening more recently. And then in the last couple of weeks yet again depreciating relative to the high level where it was about four weeks ago.

Exchange rate is not something that the European Central Bank has as a target. We don't target exchange rate. This is not a policy of the ECB, and I'm not going to comment on the level of the euro or on the level of any other currency as a result, but it is clear that the external value of the euro is an important determinant of price-setting in the euro area. And, as a result, because it is an important determinant of price setting and has an impact on inflation, as we have observed, of course we monitor those movements, we monitor the appreciation or the depreciation very closely in order to adjust our measures as a result of the inflation projections that we have in the short and in the medium term.

Your second question dealt with public debt and the skyrocketing of public debt. First of all, we observe a significant increase in public debt in all European countries. Throughout the euro area from north to south, the level of public debt has significantly increased. Two things that I would mention, one is in addition to the debt-to-GDP ratio that we constantly refer to – and which by the way is significantly impacted by the denominator not just the numerator – for the moment we have just an increase of the numerator and no particular movement on the denominator that would upset it.

First comment is: what matters is the service of the debt, and Greece is a case in point where, given the very favourable lending rate that was granted by the ESM under the reorganising of the programme with Greece, where clearly the debt service has actually been extremely important to determine the sustainability of Greek debt. So first of all, more than the debt-to-GDP ratio, which is biased at the moment, I think that debt service is the one that needs to be paid very close attention to, and at the current low interest rate level that we have, that service is generally quite low.

Second, the maturity of debts is also critically important, and we are seeing gradually an extension of the maturities of the bonds that are issued by many of the Member States in the euro area.

Your third question had to do with my colleague and friend, Governor Stournaras. I think you are probably better placed to actually ask him exactly where he stands in relation to this national asset management company or ‘bad bank’, as it is often referred to. I don’t know exactly where his project stands, all I know is that there was a very good round-table organised late last week – on Friday I think – on this issue of the national banks and how they could be organised at a European level, how they could be coordinated and what kind of European regional level could be put in place.

I think that those considerations are important going forward and I’m very pleased that the Commission has also taken on board this particular matter that we very much welcome.

1-029-0000

Hélène Laporte (ID). – Madam Chair, Ms Lagarde, thank you very much for enabling us to have this exchange.

Unlike the classic quantitative easing programme of repurchasing state debts, the rules are much less strict for the pandemic emergency plan, which has enabled the ECB to purchase securities on a large scale in order to reduce the spreads. It has also been able to take securities issued by Greece. Another exceptional measure announced by the ECB is a relaxation of regulation until June 2021 for banks in the eurozone, with the temporary exclusion of some expositions when calculating the leverage ratio. These unprecedented measures will be a test, especially since the new series of targeted longer-term refinancing operations known as TLTRO III have been a great success, accrediting the notion of market dependency to accommodating policies while largely removing the idea of risk for lenders and nurturing market overvaluation.

I would firstly like to ask you about the ECB’s exceptional policy in response to the pandemic, and then put a more general question concerning the revision of the strategic review, given that we do not know very much about the latter.

My first question: There is no doubt that the amount of freedom this programme provides is useful for reassuring the markets, making it very tempting to pursue the PEPP, which is set to finish in June 2021. But have you calibrated the plan in terms of its pace and extent, linking in the danger of a second wave of COVID-19 with the possibility of its extension beyond June 2021? You answered the question I was planning to ask you on flexibility, but by way of confirming what you said, is the ECB not afraid of the eurozone fragmenting as a result of the economic recovery, which will be very uneven?

My second question follows the statement by François Villeroy de Galhau, who would like to see the purpose of inflation evolving under the ECB's strategic review. He imagined including the cost of housing and removing any ambiguity about the target value of 2% not being the objective per se. This is clearly a significant view which will launch a debate on the 2% rule, and this would constitute a paradigm shift – a step which the FED did not hesitate to take. Would you be inclined to modify your target value for a certain period, without causing a tightening of monetary policy? Or at least to review the composition of the price index used in order better to reflect consumer feeling?
Madame la Présidente, Madame Lagarde, merci beaucoup de nous permettre cet échange.

1-030-0000
Christine Lagarde, *President of the European Central Bank***.** – On the first point: yes, flexibility has been the cornerstone of PEPP ever since its inception and its recalibration and its extension have demonstrated that flexibility.

Clearly, we have to be mindful of the circumstances, we have to anticipate the exceptional downside risk if they were to materialise. I can assure you that in the projections that we have released in September we did take into account resumption of contagion from COVID-19: not a measure of complete lockdown but certainly containment measures that were taken in the course of the resurgence of the infection.

It's part of our projections. Some containment measures were included as well and I think that it's against that background and against those projections that we will be receiving more empirical data, more tangible news that will help us calibrate and possibly recalibrate if needed, the instruments that we are using, whether it's PEPP or whether it is other tools in the in the toolbox.

Second, as I said earlier on, the use of PEPP has been particularly effective when it comes to reducing the fragmentation risk and when it comes to making sure that monetary policy was transmitted throughout the entire euro area. So, it has been useful and if it is needed again then we will use it again with the degree of flexibility that would be appropriate and necessary in order to respond to the situation.

The inflation evolution and the change of paradigm. I've said it, but I will say it again. We have had two seminars: one which was a stock-taking exercise, a sort of preliminary before we entered into the actual substantive issues. The first big substantive issues that we tackled last week were inflation measurements and trends of inflation, and clearly as part of the inflation measurements we looked at the Harmonised Index of Consumer Prices (HICP), how they had evolved over time, how had improved over time, what items were not included, for example, the owner-occupied housing costs are not included in the inflation as it is measured in France, whereas it is included in inflation as measured by the Fed, for instance, or as measured and used by the Bank of Japan.

We also identified what is not measured – whether it's health, education, defence, and so on and so forth. I think at the end of the day it will be a matter of having a tool and an instrument that will best respond to the need for transparency, for clarity, for reliability, for regular improvement. And that will be a decision that will be made at the end of the process, not in anticipation of the discussion that we will have, notably on price stability and the mandate that we have.

We debated that. We debated the trends that we have seen around the world concerning inflation, which has to do with, clearly, a varying relationship between the level of employment and price level, which had to do with what I referred to as the lowering of natural interest rates earlier on, for all sorts of reasons.

Those debates are part of our strategy review and I'm sharing that with you because you just expressed the fact that you don't do much about it. Clearly, in the public account that will be released, we will mention some of the discussions that we are having. The difficulty about sharing too much too early is that it's a bit like a jigsaw puzzle: you cannot release one piece of the jigsaw puzzle, you have to bring them all together and then roll it out so that make sense and it's understandable and clearly communicated, and we will do that in as palatable language as we can.

So, that's where we stand in terms of inflation consideration and thinking and, obviously, some members will feel that they want to share their views, they want to communicate their views and I applaud the outreach events that will be organised by many national central banks, including the Banque de France, which has undertaken a good grade exercise throughout the country.

1-031-0000

Pedro Marques (S&D). – We are indeed experiencing a monstrous recession like nothing we have seen or experienced. The response from fiscal policy and monetary policy finally came hand-in-hand, as it was needed for so many years. Still, the recovery remains – at the least – uncertain, as you have already referred.

Even in the current interest rates environment, it is obvious that the room of manoeuvre to inflate even further the Member States' fiscal policy action will be eventually limited, in time, at least on the current economic policy framework. And it will only be partially and slowly compensated by the recovery plan. On this basis, how do you see the evolution of monetary policy in the short term?

I want to salute the ECB's statement of open-mindedness on the strategy review, but if the ECB has been persistently unable to deliver on the inflation target, are you open-minded on non-traditional monetary policy instruments that could be more effective in terms of transmission of monetary policy than the current ones that you have been using?

Also, keeping an open mind, what is the role that you see for the ECB to assume in terms of its position on the common debt to be issued by European institutions?

1-032-0000

Christine Lagarde, *President of the European Central Bank***. –** On a lot of points that you just mentioned, I would like to advise you that we are trying to help the Commission as much as we can in relation to the Support to mitigate Unemployment Risks in an Emergency (SURE) programme, the one that is intended to support Member States in order to guarantee those part-time unemployment schemes – the furlough schemes – as they exist. We have made some really good progress to be able to respond to this SURE programme, and make sure that we can actually provide the technical backbone on which SURE can be deployed.

For the Recovery and Resilience Facility, it's a much, much broader enterprise, and one where clearly we don't really know exactly what the timetable will be, what the periodicity of issuance will be, what markets exactly, how green those bonds will be, which we understand a good category will be. So it's more difficult for us to see how and whether we can help on that particular front.

On your previous questions, I would like to say that – and repeat probably –there has been a good degree of efficiency, which has been actually noticed around the world and that financial markets have also noticed. It’s because monetary policy and fiscal policies at national and European levels have worked together hand-in-hand in order to address the exceptional circumstances that we have seen.

My second point is that, as I said, we are not out of the woods yet and recovery has to roll not to stall. If the fiscal support that has been put in place was to be withdrawn, was to slow down, was to be restricted, or if there was great discussion about that at the moment, I think it would be counterproductive.

If I can get to give a message at this point in time – in addition to the fact that monetary policy will be attentive and will continue to be accommodative in response to the exceptional circumstances – it is that fiscal support is absolutely needed and needs to continue to work hand-in-hand with our policies.

1-033-0000

Ernest Urtasun (Verts/ALE). – President Lagarde, I have two concrete questions. Firstly, on the Monetary Policy Review, I would like to ask if you can update us on the timeline for that review. We’ve been discussing this a lot this afternoon, and it would be good to know what timeline you are working with.

Secondly, I would like to ask you about a couple of things that have already been mentioned. In relation to the decisions of the Fed, in the revision would you be willing to consider a flexible inflation target, or also – something we haven’t mentioned yet – the possibility of having a symmetric approach, targeting price level or the nominal GDP level as well. Will that be considered?

Also, the issue of ‘helicopter money’. Are there any discussions in the ECB analysing the technical feasibility of such a proposal, because other central banks in other areas have been working on that.

My second question relates exactly to what Mr Marques touched upon. You said that both in relation to Support to Mitigate Unemployment Risk in an Emergency (SURE) and to the Recovery and Resilience Facility (RRF), if I understood correctly, you have been providing technical assistance.

In terms of the financial conditions in which these debt emissions will be developed in the coming months, what role, if any, do you foresee for the ECB? Because I think it is going to be extremely important that the ECB creates the necessary conditions for these debt emissions to be successful, which as everybody knows really is a challenge.

1-034-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you for the many questions. On the first one, the strategy review will clearly tackle in particular our monetary policy but also the communication of our monetary policy and the accountability of the ECB, as I mentioned earlier on. The timetable that we have has been extended a bit because we had to suspend our work during the peak of the crisis, because all staff simply had to be completely focused on delivering and producing the tools, and implementing the purchases programmes that we had in place.

We will be looking at concluding our strategy review in September 2021. By then we will have another nine – sorry is it 9 or 11, I’m trying to remember, because we have 10 workstreams that are producing a total of 12 different seminars on multiple topics, ranging from the financial instruments, inflation measurement and trends, to the impact of climate change, to the policy of communication, to price stability of course.

It is with that timetable of successive seminars that we will wrap up, probably with a mid-term review around January, and will complete the process in June of 2021. Hopefully, by then, we'll be able to have our usual Sintra annual gathering of monetary policy experts, academics and Members of the European Parliament as well. So we will cross our fingers and hope that the resurgence here and there of the pandemic will not stop us in the renewed energy that we are deploying in order to deliver on the strategy review.

The second set of questions, which was multiple, brings me to a point that I would like to make, which is that symmetry is a matter that had been settled by the European Central Bank, and which was actually, if I recall, approved and reiterated in many introductory statements read by my predecessor, President Draghi.

I know that there is doubt here and there as to whether, given the provisions of our price stability – which is close to but below 2% – the symmetry was measured with the same impetus, or the same momentum, depending on whether it was below or from above, but my understanding is that at this point in time, without going into a strategy review, symmetry is something that had been already debated and approved.

We will be looking at multiple options, let's face it, because I did say that during the strategy review process, we would leave no stone unturned. So if there are alternative ways of measuring, if there are alternative definitions of stability, if there are various ways through which to reach the price stability that we set for ourselves in order to better serve the European economy and European citizens, then of course we will look at all the options. At the end of the day we will settle on what will best respond to what has been assigned to us as a mandate under the Treaty, which is price stability.

The ECB's role. We are prepared to do what we can to help. I think that we have advanced quite a lot on the SURE Programme. It's far more preliminary and I'm not sure that I can say much more than what I have said concerning the Recovery and Resilience Facility, because as I said, the periodicity, the volumes, the exact intent are not clear enough for us to be able to actually respond by offering services.

If we could, if we have the capacity to do so, we will. But I would also like to mention that even if we do not serve as a backbone for technical purposes, given that we are allowed under our various purchase programmes to buy some of the bonds issued by regional institutions, as we do with the EIB for instance, we will also be able to do that with the issuance by the Commission. So this is another way of helping, indirectly of course, but which is perfectly envisaged and encouraged.

1-035-0000

Fabio Massimo Castaldo (NI). – Madam President, honourable colleagues, President Lagarde, a few days ago, the European Banking Authority announced that its guidelines on the payments moratorium and the related corporate risk classification would be withdrawn at the end of September, as they were no longer justified given the current state of the pandemic.

This decision is being taken despite the fact that a second wave of COVID is a reality and the prospects for a vaccine remain uncertain. Applications submitted after 30 September will be subject to the usual rules – i.e. those classifying loans covered by a moratorium as being unlikely to be repaid, with the risk of there being a jump in the volume of non-performing loans (NPLs). This will necessitate banks setting aside additional funds to cover loan losses even if there is no actual default.

This situation, in addition to influencing the credit rating of the borrower, will significantly exacerbate the conditions for access to credit for households and businesses, at the very time they need it most. It is a situation being blindly created by a further shift towards automatic rules to the detriment of discretionary decision-making.

In the light of what I have said, would you agree with me that a precipitous interruption of support measures could prove fatal and that this decision should be rethought?

1-036-0000

Christine Lagarde, *President of the European Central Bank***. –** It is the case that, as a result of the pandemic and as and when moratorium or guarantees fade away or are withdrawn, there will be indeed consequences if the recovery has not picked up massively by that time. So, hence my recommendation to the fiscal authorities to be extremely gradual and prudent and cautious in the way in which they remove, they withdraw, they phase out the various support systems that they have put in place. That's point number one.

Point number 2: although we have not seen a massive increase of non-performing loans (NPLs) so far, it is also a fact that banks throughout Europe – and elsewhere for that matter – have increased the provisions for non-performing loans going forward. And the NPL management and, ultimately, reduction is and will continue to be one of the ECB's key priorities.

So we will be extremely attentive to that and we will liaise with other authorities in that respect.

1-037-0000

Eero Heinäluoma (S&D). – Thank you, Ms Lagarde, for your very thoroughly thought answers and your directness in your answers. I just would like to come back to the money-laundering question because that's an important thing, and people in Europe and also in the world are more and more asking: are you really doing something to this problem?

Obviously we know that this is not the responsibility of the ECB now but the question is: what ought to be in the future? And also the big question is that: is ECB, as the supervisor of the banks, is it hard enough when it comes to the licenses of the banks and the willingness to withdraw the licenses from the banks if they are caught in connection with money laundering?

And then I'm also interested to hear your viewpoints when we know that quite a few Member States have said that we ought to have a European-level supervisor for looking at the problems of money laundering. And perhaps this could also be connected to the ECB; so what's your opinion concerning the need for a European-level supervisory body?

1-038-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you so much for coming back with this last question on anti-money laundering and the financing of terrorism. These two often go together, and I think that we all need to be particularly cautious as you know there will be assets for purchases, there will be non-performing loans being bought here and there and that's an ideal time and vehicle for some of this money laundering to actually take place below the radar screen.

So, I think that authorities in the various Member States, hopefully, are very aware and attentive to that. But weaknesses in the European framework on anti-money laundering and countering the financing of terrorism or in its implementation are, in our view, a risk to the integrity and resilience of the European banking sector.

The ECB's supervisory tasks explicitly exclude – as I said earlier on – anti-money laundering / countering the financing of terrorism (AML/CFT) supervision of banks and, under the Treaty, the ECB also cannot exercise such a task. So, countering money laundering and combating the financing of terrorism remain a national competency.

But we have seen that, because of fragmentation, because of differences in the scrutiny of supervision and the supervision practices in that field of AML/CFT, this can actually undermine the integrity and the stability of EU banks. So we really welcome the ongoing discussion on improvements to the AML/CFT framework, including the establishment of an authority which, at the European level, would actually be the supervising authority in that respect.

It's always difficult to establish that level of supervision because the national levels are going to resist, and are going to resent it. But, frankly, in a matter and as critical and as sensitive as AML/CFT, I hope that these particular sensitivities can be overridden.

1-039-0000

Pedro Marques (S&D). – Ms Lagarde, a quick question. Going back to one of my points, the fact is that we didn't achieve the inflation target and now we are even further away from the target, because now we are in deflation, at least the numbers from August are deflation. So my point is, clearly: what additional monetary policies can we perform, what instruments can we deliver on to get us close to the objective and to get us further away from long-term unemployment in Europe?

That's the risk we are facing. Fiscal policy is doing a lot, but more has to be done from the side of monetary policy for us to even be close to the 2% target.

1-040-0000

Christine Lagarde, *President of the European Central Bank***.** – I think I did answer your question. I just want to remind you what our projections are when it comes to inflation – and that will not surprise you – but it's gradually increasing to 1.3% at the horizon of provision, which is not satisfactory.

It's not close to the aim that we are pursuing and that has been defined for price-stability purposes under the mandate, and as I said earlier on, if and when we get the right level of information, the appropriate and reliable data and the empirical evidence, we will look at what needs to be done, what tools should be used and whether we need, or not, to recalibrate and what kind of flexibility we need to use.

Second, I would also remind you what I said earlier on, which is that, as part of the strategy review, we are going to look at a combination of the inflation measurements, the inflation trends, the price stability objective that is assigned to us under the mandate and we will come up with a holistic proposal in relation to a strategy for monetary policy purposes.

1-041-0000

Chair. – Thank you very much, President Lagarde, for these two hours of dialogue, and for your availability. Thanks also to all the MEPs who participated with their questions.

(The Monetary Dialogue closed at 17.40)