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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, 15 NOVEMBER 2021

1-002-0000

IN THE CHAIR: IRENE TINAGLI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 11.03)

1-003-0000

Chair. – We have now arrived at the final and crucial point on today's agenda, which is the monetary dialogue with Christine Lagarde, President of the European Central Bank.

In this regard, I would like to welcome ECB President Christine Lagarde to this fourth and last monetary dialogue of 2021. The previous monetary dialogue took place on 27 September. Today, we are again holding the monetary dialogue in a virtual format. Having said that, you are no doubt aware that, in line with the EP President's decision of 28 October, all Members taking part in today's meeting are actually in the meeting room. The date of this meeting was, as you can imagine, decided many months ago on the basis of the assumption that the meetings would be held remotely, and the President's decision came too shortly in advance for us to be able to reorganise the entire discussion with Ms Lagarde in her presence, considering also the difficulty of reconciling her institutional commitments with the internal constraints on the management of the rooms and the facilities.

Since both we and she attribute an important and indispensable role to these monetary dialogues, we decided to keep this date already set and to proceed, exceptionally, in this hybrid mode. However, I also understand that if conditions allow, Ms Lagarde will be happy to participate physically in our next monetary dialogue during the first quarter of 2022, and of course we all look forward to meeting her on that occasion.

On 28 October last, the ECB Governing Council judged that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the Pandemic Emergency Purchase Programme than in the second and third quarters of this year. Moreover, the Governing Council also confirmed its other measures, namely the level of the key ECB interest rates, its forward guidance on their likely future evolution, its purchases under the asset purchase programme, its reimbursement policies and its longer-term refinancing operations.

As indicated at the press conference on the same day, the euro area economy continues to recover strongly, although momentum has moderated to some extent. Inflation increased to 3.4% in September, primarily because of the surge in energy prices, but also as recovery in demand is outpacing constrained supply. You foresee inflation rising further in the near term, but then declining in the course of the next year. Moreover, the ECB underlined that market and survey-based measures of longer term inflation expectations have moved closer to 2%.
The two topics chosen by the ECON Committee coordinators for today's meeting are quite timely and help us to better discuss the situation with Ms Lagarde. The first one is the ECB's revised inflation target, and the second is the role of owner-occupied housing costs in inflation

measurement. As usual, all briefing papers prepared by the EP panel of experts are available on the ECON Committee's website. Moreover, as I said previously, the ECON Committee coordinators have exceptionally decided on another topic to be included in this monetary dialogue, regarding improving the ECB's accountability framework. Indeed in recent years, monetary policy has gradually become more complex, with more uncertain side effects and with greater interaction with other policies. Constrained with the lower bound of interest rates, central banks have, out of necessity, used so-called 'non-standard' monetary policy instruments. Faced with an unprecedented economic shock caused by the COVID-19 pandemic, the ECB reacted quickly, forcefully and steadily by employing once again these instruments on an even greater scale.

The completion of the strategy review in July marks, in some ways, the beginning of a new phase for the ECB. We need to reflect on what this revised strategy means for our interaction with the ECB and scrutiny of its monetary policy. The European Parliament considers that improvements to the ECB accountability framework could, and should, be made, while of course safeguarding the ECB's treaty-defined independence.

Ms Lagarde's statements during the monetary dialogue of 28 September 2020 were also going in the direction of reconsidering the accountability practices following the outcome of the review.

So the ECON Committee is ready to start discussions, and actually start negotiations on an interinstitutional agreement to formalise and possibly go beyond the existing accountability practices in the area of monetary policies.

Before starting, a few practical considerations in line with agreed practices. We will apply this procedure: there will be introductory remarks by President Lagarde of about 15 minutes, followed by five minutes of question and answer slots with the possibility of a follow-up question, time permitting, within the same slot. So 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. If time allows, additional slots will be allocated on a catch-the-eye basis, taking due account of the weightings of each of the political groups.

I really ask you to strictly respect the time given to you. I recall that wearing a mask is needed while you aren't speaking, but it is no longer needed when you are speaking. I think I'm done and we can finally give the floor to President Lagarde.

Ms Lagarde, you have the floor for 15 minutes.

1-004-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much Chair, and thank you to you and to all your colleagues for your understanding of the fact that I could not on short notice join you physically in the hemicycle of the European Parliament, but indeed I'll be delighted to come to the next dialogue that we have, circumstances permitting.

If it is the constant wish of President Sassoli – and you indeed – that this meeting be held in person, it's always nicer to see each other and to be there together. So rest assured that I will make a point of being with you next time around!

Let me say a few words by way of introduction, tapping on the key topics that you've identified yourself. We are now nearing the end of the year, which means that you will soon reach the midway point of this legislative term and, for my part, I have just completed the first two years of my mandate at the ECB.

I'm sure that, on taking office, none of us thought that a global pandemic would be at the top of our agendas and for so long. But in the face of turbulence, we came together as Europeans and mounted an unprecedented response to protect people's lives and livelihoods.

The challenge is not over yet. Not only the course of the pandemic, but also the decisions taken by policymakers, will continue to determine the strength of the recovery. That is why our regular hearings are so important.

My remarks today will focus on the outlook for the euro area and the relevance of the cost of housing for inflation, as your committee has requested.

I will do this with a little innovation, a small one but we introduce it now. You should all have received a two-page document, which visualises the content in this statement in a very simplistic and abbreviated form. At your request, I will conclude by discussing how to effectively discharge the ECB's accountability obligations.

Let's look at economic activity, and I would call your attention to the first chart on the left of the document that has been distributed. Economic activity continued to recover strongly in the third quarter: quarterly gross domestic product (GDP) growth stood at 2.2%, and GDP is still expected to exceed its pre-pandemic level around the end of the year. You see that clearly on the chart.

After the great financial crisis, euro area GDP took seven years to return to its pre-crisis level. This time, thanks to the strong and combined fiscal and monetary policy responses, we expect it to exceed its pre-pandemic level in less than two years.

At the same time, growth momentum is moderating to some extent, owing to supply bottlenecks and the rise in energy prices.

Consumer spending is solid, but shortages of materials, equipment and labour are weighing on manufacturing production, weakening the near-term outlook. Although the duration of supply constraints is uncertain, they are likely to persist for several months and gradually ease only during 2022.

Supply bottlenecks are not the only source of downside risk to the growth outlook. Higher energy prices could also dampen growth by limiting purchasing power and holding back the rebound in consumption. On the upside, households still have considerable excess savings, which could boost activity levels if deployed.

Turning to inflation, the rate increased by more than we had anticipated in September, standing at 4.1% in October compared with October a year ago. The upswing in inflation is being driven by three primary forces.

The first of these forces is energy prices. In October, energy inflation accounted for just over half of overall headline inflation. That is the yellow bar you see on the second chart to the right. The second is that recovery in demand related to the reopening of the economy is outpacing constrained supply and this is pushing up prices. The third driver is that the reversal of the temporary cut of German VAT last year is mechanically driving up current headline inflation figures.
The latter factor will fall out of the inflation calculation from January 2022, but the other two may last longer. Current futures prices point towards a noticeable easing of energy prices in the first half of 2022. As the recovery continues and supply bottlenecks unwind, we can expect the price pressure on goods and services to normalise gradually.

As a result, we still see inflation moderating in the next year, but it will take longer to decline than we had originally expected.

If energy prices keep rising or supply constraints persist, inflation may remain higher for longer than we currently anticipate. This could feed into higher wages and subsequently higher prices. But so far, we see no evidence of this in the data for negotiated wages. We do see wage growth next year potentially rising somewhat more than this year, but the risk of second-round effects remains limited.

Overall, we continue to foresee inflation in the medium term remaining below our new symmetric 2% target.

Growth and medium-term inflation dynamics still depend on favourable financing conditions for all sectors of the economy. Such conditions remain favourable, and bank lending rates to firms and to households remain at historically low levels.

At our October meeting, the Governing Council continued to judge that favourable financing conditions could be maintained with the stance endorsed in September.

Regarding policy interest rates, in our forward guidance we clearly articulated the three conditions that need to be satisfied before rates will start to rise. Despite the current inflation surge, the outlook for inflation over the medium term remains subdued, and thus these three conditions are very unlikely to be satisfied next year.

Meanwhile our asset purchases under the Pandemic Emergency Purchase Programme continue to safeguard favourable financing conditions for all sectors of the economy. At a time when purchasing power is already being squeezed by higher energy and fuel bills, an undue tightening of financing conditions is not desirable, and would represent an unwarranted headwind to the recovery.

As for further calibration of bond purchases, we will announce our intentions in December. Even after the expected end of the pandemic emergency, it will still be important that monetary policy – including the appropriate calibration of asset purchases – supports the recovery throughout the euro area and the sustainable return of inflation to our target of 2%.

I will now turn to the treatment of owner-occupied housing for inflation measurement, as you have requested. The ECB considers that price stability is best maintained by aiming for 2% inflation over the medium term, with the Harmonised Index of Consumer Prices, which I will refer to as HICP, being the appropriate price measure. So it is of primary importance to the ECB that the HICP appropriately represents the consumption patterns of euro area households.

Shelter being a primary need, the cost of housing is an issue that is foremost in many people’s minds. This was actually reflected in our ECB Listens events and in your resolution adopted earlier this year.

We have listened to you and to the public, and we are now proposing steps to better reflect housing costs in the measurement of inflation in the euro area. Doing so, we are mindful of the various technical challenges posed by incorporating housing costs in the HICP and the role that different EU institutions have in this process.

Let me explain this in more detail, as things are more complicated than they may first appear.

One challenge is that housing has a dual nature: at first, buying a house is an investment in an asset. But buyers may have different intentions: they could use the house only as an investment – by renting it out – or use it primarily for consumption – by occupying it as an owner. As the owner-occupier will also benefit from the increase in the house's value over time, it will be used for both investment and consumption.

To ensure that HICP maintains its focus on consumption expenses as is required by the HICP Regulation, only the consumption part of housing costs must be captured. However, doing so is quite challenging from a technical point of view, as shown by the considerable variation in ways the matter is dealt with in other countries.

The first step is to define what should be measured: the owner pays for the house only once, at the time of the transaction, but the owner consumes the housing service for a long time. This issue is solved under the so-called net acquisition approach, whereby a house is treated like any other durable good: prices for new cars, for example, are included at the time of purchase even though the car will be used for the next few years.

The second step, in line with the HICP regulation, is to derive a price index by looking only at transactions to, but not within, the household sector. Sales of houses between households should be ignored, which means focusing mainly on new builds. This results in a relatively small number of transactions per month, which, for smaller countries, may make it impossible to calculate a monthly price index.

In the strategy review we looked at all of these technical issues and how to solve them. As part of the review, the Governing Council decided in favour of including owner-occupied housing using the net acquisition approach. However, the HICP is not compiled by the ECB but by Eurostat and the national statistical institutes. The Governing Council thus proposed a roadmap that takes into account the role of the various EU institutions involved in this process.

This roadmap foresees four main stages for moving to an HICP that would include owner-occupied housing costs.

First, we are constructing an analytical index, which includes owner-occupied housing for internal purposes only. Second, we would like Eurostat to publish an experimental quarterly HICP including owner-occupied housing costs, possibly by 2023.

In parallel, the necessary legal work will be started so that an official quarterly index can be made available, possibly in 2026. Here, let me say this: I am counting on the support of the European Parliament, given that it already requested the integration of owner-occupied housing back in 2016. The aim – and final stage – would be to include owner-occupied housing at a monthly frequency and in a timely manner, hence fully usable for monetary policy purposes.

The Governing Council also decided that, during the transition period, the main reference index for monetary policy will remain the current HICP. Nevertheless, the quarterly standalone owner-occupied housing price index, as well as the quarterly indices, combining HICP and owner-occupied housing, once available, will play an important supplementary role and inform our monetary policy decisions.

Let us now review some preliminary calculations of the experimental index envisaged for the first stage of the roadmap. Adjusted inflation figures, including the owner-occupied house price indices, would currently be slightly higher than the annual HICP inflation rate. Preliminary estimates indicate that the difference was around 0.2 percentage points in the second quarter of 2021, slightly higher than the average since 2012. This reflects strong euro area house price dynamics in the recent period, which remained unabated during the COVID-19 crisis and continued to be supported by strong fundamentals and favourable financing conditions. At the same time, it is important to highlight that during periods when there is downward pressure on housing prices, such adjustments may also result in a lower HICP inflation rate.

Let me now conclude by discussing an issue, which I believe is of crucial importance to both our institutions: namely, how to effectively discharge the ECB's accountability obligations.

Over the past few years, the European Parliament has asked the ECB to improve its communication practices to ensure that we earn people's trust. As you know, I am personally very committed to this issue, and I am pleased to say that we have listened to you and made progress, I believe, in this area.

Our new clear and symmetric 2% inflation target makes it easier to hold us accountable. Moreover, we have taken concrete measures to enhance the clarity and accessibility of our communication to the public, such as the new monetary policy statement following our Governing Council meetings. We are also making 'listening events' a structural feature, extending the principle of two-way communication that we have with you in the European Parliament also directly to citizens.

But this direct communication with citizens can only complement our accountability relationship with the European Parliament, which is prominently enshrined in the Treaty. We need you, as the representatives of the EU citizens, to channel their concerns to us and help explain our policies to them. Delivering on the ECB's Treaty obligations is a challenge shared by both the ECB and the European Parliament.

Over the past two years, I have answered around 300 questions in hearings and responded to more than 90 written letters from you. But we have also gone beyond the regular practices and taken several initiatives to enhance the scrutiny of the ECB's actions.

Together, we have organised additional hearings and visits to the ECB on topical issues, such as the strategy review and the digital euro. As soon as, for instance, the digital euro project was launched, my Executive Board colleague, Mr Panetta, clearly communicated our willingness to have additional regular exchanges following progress made in the investigation phase. Actually, the next of these will take place this Thursday, and Mr Panetta will come.

The flexibility that has shaped our accountability practices in recent years has paid off and we should build on that. The literature on how we can improve our accountability practices – which has been enriched by the studies commissioned by the European Parliament – shows that once you take into account the statutory differences of major central banks, what matters really is how we do things.

These international experiences and things we have learned from past years, together with the provisions of primary EU law, should be our guiding principles when we discuss how to effectively discharge the ECB's accountability obligations in years to come. As the British human rights activist and environmental campaigner Anita Roddick once said, 'If you do things well, do them better'. We will try.

Thank you very much for your attention. I am sure that I stand to answer more than the 300 questions that I have answered over the last three years!

1-005-0000

Markus Ferber (PPE). – Madam President, I shall speak in my mother tongue and will focus on the first topic, inflation. As you yourself have said, inflation was 4.1% in October according to Eurostat, in other words twice the 2% target figure. Market inflation expectations, which you unfortunately neglected to mention, now also exceed the 2% target rate. The five-year/five year forward inflation swap, a key market gauge of inflation expectations, climbed to a seven-year high in October. Other market-based inflation predictions are also well above 2%. Furthermore, a glance at current exchange rates indicates that EU inflation figures will be aggravated by the weakness of the euro. Despite this, you have ruled out any interest rate measures this year and indicated that they are extremely unlikely next year. However, central bank monetary policies in other countries have begun to bow to rising inflationary pressures.

Hence my first question: What is it you know that the other central banks do not, which explains why you are not turning the interest rate tap? In the light of current developments, do you really consider the approach to inflation you have just described, with its three conditions for an interest rate increase, to be the right one? You have declared: 'We represent the people.' So I must be frank with you. People are gradually losing confidence as they find themselves getting virtually nothing for their savings that are, on the contrary, being eroded month after month by galloping inflation. In view of this, do you really believe that it makes sense to adhere any longer to your expansionary monetary policy?

1-006-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Ferber, for your question, which focuses on a topic that is very much on everybody's mind, and it is on our mind as well, as it is of real concern for European citizens.

Inflation has indeed been surprising to the upside, and this for a while, particularly so in October, where it raised the mark of 4.1%, as you mentioned. We fully understand that these developments are a key concern for many people because it determines a notable rise in the cost of living and it erodes purchasing power.

Let me just remind ourselves why we are seeing this spike in inflation. We see three key drivers, as I mentioned in my remarks. The first one is a surge in energy prices. When you look at the little chart that we produced in support of our discussion today, you see that it represents roughly 50% of the total components and drivers of inflation at the moment. It is a combination of supply and demand factors.

The second driver is that the reopening of the economy is leading to a recovery of demand that is outpacing a constrained supply. Taking out energy and food, this is very much the case, but it is particularly the case in relation to services, which have been hard hit during the pandemic.

The third one is a base effect that is clearly associated with the pandemic, and one key example that you're very familiar with is VAT in Germany, which mechanically will come out of inflation in early January 2022. This represents quite a significant part. If you look at Germany alone, it's anywhere between 130 and 150 basis points that will automatically come out of the measurements as of January.

This is not to say that we should not be concerned but, clearly, given the identity of these three drivers, yes, we believe that, in the course of 2022 – and mechanically for German VAT, for instance, and for other reasons that we can discuss further if you want – we believe that they will gradually fade out in the course of 2022, probably a bit later than we had anticipated, but in the course of 2022. But our medium-term projections certainly see inflation at a subdued level and certainly below our 2% target, which – as you know – is number one, the target and, number two, the time horizon within which monetary policy is potent.

If you consider the immediate short term, if we were to have any kind of tightening approach to the current situation, it would actually do more harm than good, and it would begin having an impact at a time when inflation is actually returning to lower levels. So we are taking those matters very seriously. We are looking under the skin of inflation to really understand what the drivers are and, most importantly, what the risk is of second-round effects.

On that front, as you know, given that we are predominantly a service economy, what matters most is wages. If wages begin to rise in significant amounts and on a sustainable basis that then translates into prices, then we would be in the presence of these second-round effects that would drive inflation on a more sustainable basis. But we don’t see any evidence of that.

Yes, price negotiations have ticked up a little bit, from 1.3 to 1.7, largely attributable to bonus schemes and special payments in the second quarter of 2021 – we don’t have more recent numbers at the moment. From the corporate sector surveys that we conduct, we know that wages will rise most likely more in 2022 than they have in 2021, because there was a compression element in 2021 and there will be a catch-up process in 2022. But we aren’t seeing either those significant increases that would lead us to believe that there will be second-round effects.

1-007-0000

Pedro Silva Pereira (S&D). – President Lagarde, you are very welcome here.

Let me begin by expressing my political support, and the support of my political group, to the current ECB approach to monetary policy. As you rightly said in Lisbon, and again here today, undue tightening of financing conditions when purchasing power is being squeezed is not desirable, and would represent a dangerous headwind for the recovery.

As what counts is the medium-term outlook on inflation, and as we are dealing with transitory factors, there is no reason, according to the ECB mandate, to abandon the current expansionary fiscal policy, and we welcome your announcement that an increase in interest rates is unlikely to happen next year.

I have two questions though. The first is on the Pandemic Emergency Purchase Programme. The ECB announced that this programme would last at least until March 2022, or until the pandemic crisis is over. Now, it seems clear that the pandemic crisis is not over. As you said here today, the challenge is not over yet. We see COVID-19 figures rising, we see several European countries adopting confinement or restrictive measures again, and we see supply chain disruptions caused by the pandemic. So my question is: does the announcement made by the ECB remain valid, meaning is the ECB ready to prolong the Pandemic Emergency Purchase Programme if needed, as seems likely now, or at least is the ECB ready, as an alternative, to increase the size of purchases under the normal asset purchase programme?

My second question is on the role of credit rating agencies. For more than a year, the ECB adopted a temporary framework for collateral easing, suspending in practical terms the reliance on the sustainability risk assessment made by the credit rating agencies. My question is: are you planning to come back to the full reliance in the risk assessment made by the credit agencies, which was so disruptive in the past, or are you planning to review the collateral framework or to prolong the temporary arrangement that is now in place?

1-008-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you very much, Mr Silva Pereira. Let me, first of all, focus on the Pandemic Emergency Purchase Programme (PEPP) that you referred to, and particularly its duration.

What was decided when we put in place and subsequently amended the PEPP – I will call it the PEPP because we all know it under that name – was that we would continue net purchases at least until the end of March 2022, or until the coronavirus crisis phase was over, as determined by the Governing Council. I think that particular statement stands, and it is with that statement in mind that, come next December, we will be looking at, number one, a fresh set of numbers that will be projections that will encompass the whole of 2024, and we will look at the health and sanitary situation to assess whether this pandemic crisis phase is indeed over or not. I think that it is on the basis of those numbers and the circumstances then, that we will roll out what we plan for PEPP and post-PEPP.

In a post-pandemic world, clearly we will calibrate purchases. We will announce such proposals in December and, as we have stated in our strategy review and recognised, at the lower bound policy needs to be persistent in order to entrench the recovery and make sure that, beyond the shocks that may move prices from time to time, inflation remains durably at our target. This is also the spirit in which we have designed our forward guidance, as you know.

We will articulate all that at the Governing Council meeting on 16 December and on the basis of fresh data. The same principle will actually apply to our collateral framework. As you know, we have considerably eased our collateral framework in a way and made some exceptions and some additional credit claims (ACCs) in order to accept a larger pool of collaterals that will also be looked at in our December meeting to determine whether we continue, amend or otherwise change our framework, going forward.

1-009-0000

Luis Garicano (Renew). – Thank you, Madame Lagarde, for being here, and thanks for your efforts with respect to owner-occupied housing. Your approach seems sensible and we support it. You take me back in time to when I was working on that topic in Eurostat before I went to Chicago. The year was 1992 and we were trying to decide whether or not we would include this in the CPI. I hope you have better luck this time. I don’t want to count how many decades it is now!

On to monetary policy, I worry about two things: the averages – high inflation, lower growth than predicted – and the variance – the spread between the performance of different countries, which is increasing. In terms of GDP growth, for example, there are countries which will bounce back at the end of this year, like France, and Germany in 2022, Italy by the spring maybe, and Spain by 2023. As a response to increasing inflation and to the uncertainty in the outlook, the markets are expecting that you’re going to tighten monetary policy next year. We know, as you have told us, that’s not your plan, but they didn’t really believe your repeated statements. The markets are insisting that this is going to happen next year, and you haven’t really pushed back hard. You said that the markets were ahead of themselves, and that it was not for you to say.

I see two risks to the withdrawal of QE and increasing rates, which are obviously financial stability and fiscal sustainability and contagion. We need to give certainty, and I understand the concerns of my dear colleague, Markus Ferber. Like the Socialist Group, I think I am – and we are – broadly supportive of what the ECB has been doing up to now, but I want to put two concerns on the table.

My first question: four months after the new strategy was released, we still have very, very little idea on what the right path of asset purchases consistent with your strategy is. You haven’t told us anything. The markets are wondering when that is going to be changed. My second question is related to my point about divergence. Fragmentation was a key element that the PEPP addressed. Shouldn’t that flexibility be kept without the PEPP, or is fragmentation no longer a concern without the pandemic?

Maybe I can just ask about interest rates. To comment on what I said, you say nothing for 2022. What about 2023? Your forecasts suggest that you also wouldn’t raise rates in 2023.

1-010-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Garicano. Who knows, maybe we can borrow from the work that you did back in the 1990s, because this owner-occupied housing cost is a really tricky business, and certainly experts and great brains have worked hard to find a path to having a harmonised accurate consumption portion of housing properly identified and included in the HICP in due course. I'm sure that, given your knowledge of the matter, you appreciate why it will take a bit of time before it's actually embedded in the indices.

Turning to your first question about, in a way, the diversity of inflation rates and diversity in the timing of recovery, yes it is accurate that some countries will recover and be back to their pre-pandemic level as early as now, almost, and others will have to wait another few months, and for some another few quarters.

That really has a lot to do with the timing and the severity of the waves of the virus and the associated containment measures that were taken, as well as difference in economic structures. We know that, for instance, the sensitivity to social distancing measures has weighed more heavily on service activities than on manufacturing activity. However, the significant relaxation of these measures has led to a narrowing of the gap that we had envisaged. If you remember, some three quarters ago, we had assumed that countries that were heavily dependent on service activities, such as tourism in particular, would recover a lot further out in 2022. This is moving in a better direction now and Next Generation EU, if implemented rapidly and actually hitting the ground running as quickly as possible, should hopefully participate in reducing this gap even further. So that's on the distribution of recovery timing within the same euro area.

I would like to just correct briefly what you mentioned about the fact that I did not push back on the expectation of a rate hike. I think I did say very clearly – that was in Lisbon, Portugal so a few days after the press conference for sure – and I did say very specifically that, given what we saw and given our forward guidance and the three conditions that have to be satisfied, it was, in my view, very unlikely that we would see any kind of rate hike or tightening in the course of 2022. Standing by those statements, I don't think I would venture into 2023, but certainly, for 2022, I repeat that point that I made at the time.

I hope you did not misunderstand what I said in relation to PEPP because the Pandemic Emergency Purchase Programme was clearly intended with two particular focuses. One was the issue of fragmentation and the mechanism of proper monetary policy transmission throughout the whole area, and the second one was the monetary stance. Clearly, the first one was critically important in the early days and the second one prevailed over the first as we moved into a stabilisation of the euro area and the announcement of Next Generation EU. But the two arms are there and clearly at the heart of the Pandemic Emergency Purchase Programme. It's not one or the other and the two are critically important, whether under PEPP or under any kind of programme.

1-011-0000

Ernest Urtasun (Verts/ALE). – Thank you, Madame Lagarde, for being with us this morning. As you could expect, the debate on inflation is also very lively in our House. I can only say that, as Greens, we also strongly support the ECB decision to keep the financing conditions favourable at a time when this higher inflation most likely, as you have explained very well this morning, reflects a temporary rebound after months of deflationary trends and economic downturn, due to the pandemic.

We agree absolutely with your assessment that a premature withdrawal of accommodative monetary policy would be detrimental for the recovery, and we are happy to see that the ECB is committed not to make the same mistake made in 2011 when it raised interest rates in the early hours of the sovereign debt crisis, increasing borrowing costs and slowing economic growth when exactly the opposite was needed.

On that front, I would like to ask you a couple of questions. Firstly, I think it would be very interesting if you could develop a bit more on the data suggesting that there are no second-round effects so far, and that the ECB has data suggesting that this is clearly not happening. You have already mentioned that, but it would be good to know a bit more about this.

Secondly, on your output forecast, you still expect the economic output to exceed its pre-pandemic level around the end of 2021, but the sanitary situation in Europe is worsening, and I would like to know how you see that and how you think this could impact your output forecasts. Also, how do you think these worsening sanitary conditions could impact wage growth, which is also going to be a key component in this debate?

1-012-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you very much for your two key points and let me go back to the wage growth and the second-round effect, because this is a key item that we are monitoring very carefully and trying to get as much intelligence as possible on.

If you look back, wage growth has been relatively resilient before the outbreak of the pandemic and then it was, on balance, more stable and certainly moderate during the pandemic because of the increased uncertainty and volatility in general. Now the current status of wage negotiations points to moderate negotiated wage growth likely to be weaker in 2021 than in the previous year. This is clearly what we're seeing from the quarterly numbers that we have: 1.7 % in the second quarter, 1.4 % in the first quarter.

Those are the numbers that are hard data but of course we're looking in the rear-view mirror for that because those are data that go back a few months. Incidentally, from 1.4 to 1.7 was largely attributable to Germany when one off special Coronavirus and relief payment was disbursed across several industries, and that pushed salaries higher.

Looking forward, which is far more interesting but also more adventurous in many ways, we try to get as much information as possible from corporate contacts, from trade union contacts, as well as the discussions that we are having at the European level as a dialogue between institutions and both the business associations, as well as the union associations.

It seems to us that the salary negotiations that will take place and will be implemented in the course of 2022 will lead to higher wages and higher negotiated wages in 2022 than in 2021 for two reasons. One is because of the catch-up relative to 2021, and also because of the return to employment and the increased activity and, in some sectors but in some sectors only, shortage of manpower.

I'm saying some sectors because we also have quite a lot of slack in our workforces. When you look at the numbers, we still have the 7.4 unemployment numbers in terms of participation in the workforce, in terms of hours worked we're still below the pre-pandemic levels. So we have good reason to believe that there is slack out there, and it's not because in the restaurant industry, in the accommodation and hospitality industries, there are clear shortages – that's for sure, that shortages apply across all sectors of the economy.

We are led to believe that while negotiations will lead to slightly higher wage increases in 2022 than in 2021 we believe that there is sufficient slack in the economy in terms of labour availability to not have significantly higher wage increases going forward that would possibly lead to this second-round effect that we have mentioned that goes from prices to wages and back to prices again.

You also asked about whether this exceeding the pre-pandemic at the end of the year would actually stand in the face of this renewed COVID and the contagion cases that are recorded in some Member States. This is again something that we’re going to have to look into carefully at our next Governing Council meeting. It is clearly, when we look at the balance of risk, one of the components that weighs towards the downside of the balance of risk, that we still see as balanced. But it is one that would certainly aggravate the downside of this broadly balanced assessment of risk that we have at the moment.

1-013-0000

Gerolf Annemans (ID). – Madam President, your colleagues at the Federal Reserve, the Bank of England and the Czech and Hungarian central banks are planning to raise their interest rates or have already done so. Despite the fact that its October inflation figures were the highest in thirteen years, the European Central Bank continues to maintain that the situation in the euro area is totally different. This is a remarkable claim to make, given the globalised and deeply interconnected nature of the world in which we live. According to the ECB, inflation in the euro area is a temporary glitch and not a permanent or structural problem. However, this does not rule out the risk of a structural wage-price spiral, especially in those euro countries (such as my country, Belgium) where gross salaries are pegged to inflation in line with a price index set by the government in what is known as automatic wage indexation. In Belgium, gross private and public sector earnings increase each time price levels rise by two percent or more, ensuring that purchasing power is automatically maintained within a two-percent margin, which is in itself a good thing, of course. At the same time. however, automatic wage indexation is a recipe for turning temporary inflation into a permanent and structural problem, setting in motion a wage-price spiral similar to the one we witnessed in the 1970s.
Madam President, on the assumption that the ECB is unlikely to raise interest rates, I should like to know your views regarding automatic wage indexation in the light of the current inflationary surge in the euro area. In other words, what can euro countries with a statutory automatic wage indexation system do to break or curb the high inflationary pressures in their countries, given that ECB interest rate policy does not necessarily take this into account?

1-014-0000

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

Let me go straight to the key point that you’ve identified, which is that of indexation. I think one of the key differences that we have between now and the ’70s – and you take me back to my earlier years in university – is that in those days, pretty much all the European Member States had such indexation clauses.

If we look at the situation nowadays, very, very few countries – certainly yours – have kept those indexation clauses, which do imply this sort of almost mechanical effect, with the passing of time of course, between the recorded inflation on the one hand and wage increases on the other hand. But it is one of the very few countries left in the euro area that still has straight indexation clauses, and it is, in my view, an improvement since the ’70s to have managed to do away with these automatic indexation clauses.

Let me just backtrack for a second and let us just remind ourselves that what the European Central Bank has to do – and its mandate is very clear and it’s a single mandate – is maintain price stability by all the means that monetary policy instruments have to offer. This is what we will do and will focus on.

Under the strategy review, we have tried to simplify and to better communicate what we mean by price stability and, instead of having that close to but below 2%, which left room for some ambiguity, we have clearly stated that our target was 2%, and 2% symmetric, which meant that deviation on one side or the other side of 2%, over or below 2%, were both undesirable. The second key item that we also identified was the medium term, over which we have to table our action in order to make sure that we deliver on our price-stability mandate.

On that basis, all our actions are determined and we have to be riveted to this target of 2% and we have to measure inflation outlook – inflation projections, if you will – over the horizon that we have in order to make sure that we deliver in the medium term that 2% target that we have set for ourselves. Under the current circumstances and when looking, as I said, under the skin of inflation, we believe that the inflation spike that we see at the moment is of a temporary nature, driven by those three key factors that I identified earlier on.

It's on that basis that we will deliver on our strategy, and respect our forward guidance, which is very clear as to when and how we need to move towards a different line that would ultimately lead to an interest hike in accordance with our forward guidance on interest rates and our forward guidance on asset purchases as well. It's the combination of the two that would lead to the calendar that we will observe.

1-015-0000

Michiel Hoogeveen (ECR). – Thank you, Ms Lagarde, for having this dialogue again. While cases are going up in some countries, and we see the reintroduction of some restrictions, I do believe our first physical meeting is coming closer and I look forward to it.
In the Netherlands, while speaking of it, people are worried. When looking at the housing market they see prices skyrocketing, making them vulnerable to price corrections, and they see everyday kitchen-table items getting more expensive every day. When filling up the car with petrol at the station, they would rather look away because of the high prices. Inflation in the eurozone is now 4.1%, double the ECB target, but in the meantime, in the US, we see an inflation that has risen to 6% – a 30-year record.

You stated many times that the ECB expects high inflation to be transitory, mainly due to the supply-chain disruption of the COVID crisis. However, suppose that high inflation turns out not to be transitory but perseveres into the second half of 2022, as they are now afraid of in the US as well. This could create a self-fulfilling wage-price spiral, as is being stated in the US as well.

If it were not transitory, you would have to clamp down hard because you waited too long to act, raising interest rates too quickly and hitting the economy and asset prices, as we've seen in many of the rate cycles of the second half of the 20th century – as is being said in the US now.

Despite all of this, your chief economist, Mr Philip Lane, has stated in a recent interview that the eurozone is different. However, he did not elaborate on what he actually meant by 'different'.

So my question is: do you share the opinion of Mr Philip Lane, and if yes, based on what arguments? My final question. If inflation is not transitory, what is the ECB going to do to press down its inflation to the target of 2% a year to avoid such a scenario? I look forward to the scenarios that the ECB has ready for us to explain.

1-016-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you, Mr Hoogeveen, for your question. I do look forward to seeing you and all Members of the European Parliament sooner rather than later, I would hope, and certainly early in the year when we have our next meeting.

Let me just make one short point about housing costs and then focus on what is essentially at the heart of the difference between what you referred to as the US inflation and the euro area inflation. On housing costs, euro area house price growth certainly has accelerated since the start of the pandemic, but the dynamics of house prices differ substantially across the euro area, and there are countries where it is clearly significant.

The Netherlands is definitely one of them, but there are other countries in the euro area where that price dynamic is not at work at all. Second point: I think we have heard loud and clear from you and from the people of Europe who participated in our ECB Listens event that housing costs matter a lot for them, and it's in that spirit that we have decided, as part of the strategy review, to include owner-occupied housing costs in our measurement of inflation.

I have tried to describe as well as I could the steps that it will take and the technicalities of dissociating from the house price, the investment portion and the consumption portion.

I can assure you that we will endeavour to do as good and as fast a job as we can within our area of jurisdiction. We are not the only one in that game. You will play a part too, as Members of the European Parliament, because there will be a time when a legislative measure will have to be taken by the European Parliament to actually embed into the rules of Eurostat that owner-occupied housing costs are included in HICP on a monthly basis and in a harmonised way. I really hope to count on you at that point so that we can make sure that owner-occupied housing costs are definitely in HICP.

On the second point, which has to do with the difference between US inflation and euro area inflation, we are not navigating at the same speed and, when you look at the latest numbers for the US, we are on 6.2% for October, whereas we are at 4.1% here in the euro area. When you strike from the headline numbers anything related to energy and food and come to core inflation, if you will, the difference is even greater. The core inflation in the US is 4.6%, whereas for us it's 2.1%. So a teeny tiny bit above our target, but still in a manageable range from our account.

Contrary to the euro area, price pressures in the US have broadened significantly across the board. When you look at all the line items, taking out energy and food, all line items have significantly increased in the US economy, whereas this is not the case in the euro area. We are looking very, very carefully at that and we are looking at all those items. As I said earlier on, we are looking at the wage increase in the months to come and we will be monitoring as much as we can in order to take all those signals into account when we make our determination on monetary policy.

1-017-0000

Chris MacManus (The Left). – Thank you, Chair, and thank you, Madam President, for joining us this morning, and like others to acknowledge the positive comments regarding maintaining expansionary policy. As has already been stated, we know that inflation is tracking upwards, however with the expectation that it would slow down, but it appears that we have entered a new set of conditions.

Firstly, all of us hope that the worst of the pandemic is behind us, or is nearly behind us, so in my opinion it's imperative that the ECB doesn't become a factor in compounding the new problems facing us. What I mean by that is a narrow interpretation of the ECB's primary mandate of inflation control implemented without any regard to its broader secondary mandate could create a vicious circle of higher borrowing costs at a time when countries need to invest and catch up, not least to tackle the climate emergency.

The secondary mandate, as we know, compels the ECB to support general economic policies in the Union, and as your Board Member, Frank Elderson, stated, this mandate stipulates a duty, not an option. So what assurances can we have that the ECB will continue to play a positive role in aiding the recovery and that it won't hide behind inflationary pressure as a rationale to revert to the old ways of thinking, which hurt us so badly during the last recession of austerity?

Finally, on that note, Madam President, has the ECB accepted that the troika's approach of imposing austerity on countries following the financial crash was the wrong thing to do, given how during this recession we've seen that accommodative policies and increased spending at EU and national level to protect the vulnerable have prevented as much hardship? So could it now be understood, maybe, that the troika approach was wrong?

1-018-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you very much, Mr MacManus. The ECB's supporting role, as foreseen in the Treaty, does not mandate it to support the objectives of the Union directly, but indirectly, by supporting general economic policies put in place by the EU institutions to serve these objectives. In our interpretation, we strongly and consistently emphasise that the ECB can only act upon its secondary objectives if this does not prejudice or conflict with the objective of price stability.

You borrowed a page from my colleague and friend, Frank Elderson, who says that it's mandatory and not optional, but obviously – and he is too fine a lawyer to have forgotten about that – with this caveat that I have just mentioned, which is that we can act upon the secondary objective if it does not prejudice or conflict with the primary objective of price stability. So any measure, any assessment, will actually determine, first and foremost, whether the objective of price stability is met and then, provided that the answer to that first question is yes, of the various options available, we will actually use the secondary objective to possibly make a choice.

But that's just to reemphasise the fact that the primary objective is the one that drives our direction and our policies going forward. It is not to say that the secondary objectives do not matter, but they only matter to the extent that the first is not prejudiced. I'm sure you're familiar with that, but I thought it was helpful to just remind ourselves of that.

So, as part of the secondary objectives, we obviously have the economic development, we have the respect for the environment and the fight against climate change, and so on and so forth. Clearly, those have to be taken into account, particularly if those secondary objectives are stated very clearly by the other institutions, and in particular by the European Parliament, as you have obviously done I'm thinking here, given that you quoted Frank Elderson in relation to climate change and the protection of the environment.

So, if anything, it gives the European Central Bank even more comfort that this secondary objective, for instance, but other secondary objectives as well, have to be taken extremely seriously and without prejudice, of course, to the primary objective. So that's what I would say.

I'm not going to pass judgment on the past, and I'm sure that there are plenty of academic work and political statements that will opine on the appropriateness and the timeliness of one such measure or another at the time when we passed the great financial crisis and headed towards the European sovereign debt crisis, nor would I pass judgment on the methods adopted by the troika and the policy mix that was recommended at the time.

I think that what is important is not to repeat policy mixes or decisions that were eventually harmful or did not meet with a successful outcome. I think that we should be guided by that as we determine what policies we want to apply going forward.

I just want to remind you of one particular point, which is that we want inflation to be sustainably at 2% and, to define that, we have clearly stated our forward guidance which, with the combined three conditions of being at target well before the end of the projection horizon and with sufficient confidence that the progress realised in the short term, is going to be conducive to this sustainable inflation going forward. Those three components, in and of themselves, actually include an indication of the timetable that we have to deliver against.

1-019-0000

Chair. – Thank you very much. We have now finished the first round of questions and we have to start the next one. But, since we are quite late, and I'm afraid we will not be able to make the whole list of speakers. I would encourage my colleagues to keep their questions to one minute, and three minutes for the answer, so we can ensure that everybody among the remaining speakers has a chance to speak.

1-020-0000

Aušra Maldeikienė (PPE). – Thank you, Madam President, for the very interesting explanations. I had two questions but you have already answered the first one, so I'll move to the complementary one.

I would like to ask what the ECB's take is on China's real estate market issues, in particular if it turns out that the problems that China is experiencing are much more dangerous? How will this affect the real economy and financial system in the European Union – and inflation, of course? The United States Secretary of the Treasury yesterday warned that the economic slowdown in China could have consequences for all of China's trading partners. Are you prepared for a scenario in which this slow-down transfers to the eurozone as well?

1-021-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much for your two questions. Rapidly, on the first one which refers, I suppose, to the resolution of the Evergrande situation, which was this real estate company, one of the largest in China, I think many market participants at this point expect that the company could undergo an orderly restructuring, and this would also limit spillovers to other sectors of the economy and to global financial markets. So overall, the risk of a systemic crisis in China appears rather contained, as the Chinese authorities are likely to act in order to limit the ripple effects.

On your second question, on would an economic slowdown in China have spillover effects in the rest of the world and particularly in relation to existing trading partners of China, I think this is a very good point that you are raising and one that is twofold. One is, what is the direct impact? But then I think that we should also ask ourselves what is then the indirect impact, and what consequences do we draw from that in relation to our supply chains, in relation to the movement of capital across the world, including to and from China? And what is the level of vulnerabilities or constraints as a result of the relationships that have been built over the course of time?

I think we need to ask ourselves those questions, and as far as the trading relationship is concerned, I would simply observe that we have a less intensive trading relationship with China than the US does with China. That is in a way the beauty of Europe, and the euro area in particular, to have the ability to trade within ourselves, much more so than the US is in a position to do in the vicinity of other countries.

1-022-0000

Aurore Lalucq (S&D). Madam President, Ms Lagarde, thank you for taking the time to be with us here today.

I have read your article entitled , ‘Acting for the climate: time for action’ and, in my opinion, it really hits the nail on the head regarding the need to abandon fossil fuels, the consequences of failure to achieve ecological transition in terms of inflation and financial stability and the need for public investment. You conclude by saying: ‘Now it is time to act’, which is very well timed, since TLTRO refinancing operations that have, it must be said, greatly benefited the banking sector are now drawing to a close. There is no point in dwelling on that, since history cannot be rewritten. History can however be made. That is something you can do.

Since we have also been talking about inflation issues and it is clear that interest rates cannot affect energy prices or combat deflation, the question is whether it would not be more effective to adopt greener monetary policies, especially when it comes to refinancing. Have you been discussing this possibility? If so, what conclusions are emerging from this? Indeed, this would probably be one of the most effective ways of combating inflation.
As you say, quoting Saint-Exupéry, with whom I also concur, ‘The time has come to act. It is never too late to do something.’

1-023-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Ms Lalucq, for your question. I think what the European Central Bank has tried to do – and I have certainly pushed as much as I could in that direction under the objectives that have been assigned to the European Central Bank under the Treaty. And I have just discussed with Mr MacManus the primary objective and the secondary objective and how the latter can be selected, provided that they don’t prejudice the first one.

On the basis of that background and recognising that it is also for many other actors to take the initiative on climate change, as the European Parliament has done actually, we are trying to import green concerns, the fight against climate change in all the dimensions of the work that we do.

So what does that mean? It means currently redesigning the models that we use in order to forecast, project, anticipate, measure and analyse our action. It means looking at our asset purchase programmes, it means looking at our collateral policies and determination, and it also means managing our balance sheets and, through the supervision of the ECB, asking banks with which we do business to also manage their balance sheets on the basis of the right measurement of risks.

So, whether you look at the monetary policy definition, its implementation and the balance-sheet risk management, on all three fronts we’re moving ahead. And we have agreed – and the entire Governing Council has unanimously agreed – to approve the action plan in order to make sure that we actually move forward. We have dates, we have a deadline, we know when the work needs to be done and by whom, and this is something that is actually in progress and that we will deliver against.

Having a green TLTRO programme, for instance, is not something that we have considered. I’m not totally closing the door on that. It’s not something that the Governing Council wanted to consider, but we have to be agile and able to adjust if need be.

1-024-0000

Caroline Nagtegaal (Renew). – Thank you, Madam Chair, and thank you so much, Ms Lagarde, for being here again.

I would like to hear your thoughts on the symmetries in the monetary policy. Whenever there is even, let’s say, the slightest risk, of this inflation or a slight economic setback potentially impacting the markets, we see that the ECB is always very quick, to support the economy with zero interest rates and also sustained purchasing programmes.

But now that the inflation is on the rise and the economy is recovering rapidly, the ECB is a bit hesitant to stop purchasing programmes and raise interest rates. So this creates, in my opinion, a monetary policy with distortive effects on the economy.

So what's your take on this? And do you agree that these things are potentially damaging also to the real economy? I really look forward to your answer.

1-025-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Ms Nagtegaal, for your question. And let me just one more time, just step back for a second.

Our objective and what we have to deliver, is price stability. We have defined price stability in our strategy review as 2% symmetric medium-term. And under the Pandemic Emergency Purchase Programme (PEPP), since December last year, we have committed to preserve favourable financing conditions in order to make sure that we can actually nurture the economic recovery that is now taking root.

And on the basis of all those components, and given our medium-term objectives and the three conditions of our forward guidance, we believe that we need to continue to support the economy. We need to make sure that the recovery is sustained. We need to make sure that our target is actually not a one-shot quick inflation spike as we observe it, but is sustainable in the medium term. And believe me, once it is anchored in the medium term, obviously we will take the right measures in order to deliver on our monetary policy. But now is certainly not the time, given the inflation outlook that we have and given the forward guidance that we have defined. It is simply not on the cards.

And if, as I said earlier on – I think to Mr Ferber, if we were to take any tightening measures now, it could cause far more harm than it would do any good. In the face of spike inflation, to even hint to tightening in the short-term, would actually hurt the economy and would begin to have effect at a time when inflation begins to come down.

So it's best to actually nurture now and make sure that we can deliver those favourable financing conditions in order to support the recovery.

1-026-0000

Georgios Kyrtsos (PPE). – It seems to me that one of the main issues is when inflation will start going down. I'm afraid we, as Europeans – central bankers and politicians – are more optimistic than we should be. For instance, I read the statement made by Ms Yellen, the US Treasury Secretary, according to which inflation will not be tamed until COVID is under control, and of course we know that COVID will be under control towards the end of 2022, according to the basic scenario of the World Health Organization.

So who is right? The Americans or the Europeans? I am, of course, with the Europeans, but it's a strategic question.

I have to tell you that it is not only Mr Ferber who is worried about the interest rate situation. I am in favour of the ECB's policy because I come from Greece and I think it is a very accommodative policy. Nevertheless, I read in the *Financial Times* today a McKinsey study, according to which declining interest rates have played a decisive role in lifting asset prices of all sorts, but particularly real estate prices. And, at the same time, according to this McKinsey study that is mentioned in the *Financial Times*, it also fuels inflation in rents since so many people can't afford to buy. This mainly affects the younger generation, who refuse to vote because they think that we do not care about their situation.

What is your answer to these questions?

1-027-0000

Christine Lagarde, *President of the European Central Bank***.** – Three questions would actually warrant a good five minutes each and I'm pressed for time by the Chair, but in a nutshell – are we more optimistic or less optimistic than the US?
I think that comparisons are not really appropriate in that respect because we start from a different place in terms of inflation level to begin with – as to when they entered into the pandemic, when we entered into the pandemic. They were in a different place in terms of interest rates, certainly not as much as the lower band as we are and the recovery has taken a different turn as well in the United States. So to compare the two largest economic regions is, I don't think, appropriate when it comes to defining the policies going forward and what are the next moves.

The link between inflation and the pandemic is an interesting one and I think that link is also very specific to a particular country, and we need to be very attentive to our euro area. There are some very interesting statistics about pandemic vaccinations, economic recovery, and I believe that if anything, matters importantly, going forward and will weigh on the upside, will certainly be the progress that is conducted in relation to vaccination and the immunity of populations in general.

So, I don't think that somebody is right, somebody is wrong. I believe that we deal with different situations having started from different places. As I said earlier on in answer to another question, the current US inflation is very different from the current euro area inflation. And when you look in particular – apart from energy prices, because that affects all economies around the world – but if you strike prices from the energy prices and the food prices as well, because it's highly volatile, then you look at the core inflation. The increase in the United States is 4.6%, touching on pretty much all categories of goods and services, whereas in Europe, it's 2.1% and only a minority of goods and services are increasing significantly. So I think that we are in very, very different places.

Now, the impact of monetary policy, on income, on assets, on housing prices is a whole debate that we could have, on which my colleague, Ms Schnabel, has committed a very interesting speech recently, which echoed a research piece that was produced by the ECB a week ago. And while it is clear that the monetary policy has some side effects in relation to asset prices – and in relation to housing, for sure, it also has a significant and positive impact on growth on employment.

I think that we should be mindful of all such impacts and effects when we do our proportionality analysis of the measures that we decide: the positive impact, the side effects that it produces. And I'm not using the word 'negative' because it depends in which position you are. If you are acquiring and you have the benefit of low interest rates and low mortgage costs, then this is regarded by you, if you are acquiring, as a positive, whereas it can be regarded as a negative by others, in particular those who have significant deposits.

1-028-0000

Chair. – Thank you all very much. Now I really would like to give the floor to all the other MEPs so please, I implore my colleagues, one question each.

1-029-0000

Paul Tang (S&D). – I will try to be brief and quick, Chair.

Madame Lagarde, the agreement in Glasgow is fresh and, if anything, it underlines the urgency to translate climate change risk into financial risks, including credit ratings. Already in October 2018, your predecessor Mario Draghi – and he was not very green – pointed out that the euro system was carrying out additional work to further deepen its understanding of rating methodologies and rating processes.

So my questions to you are the following. Do you agree that credit rating agencies have a pivotal role to play in ensuring that climate risks are well integrated in the assessments of companies' financial health? Second, considering the work that has already been done in the past three years and the knowledge that has been gathered, would the ECB be able to speed up the process of assessing how credit rating agencies integrate climate change risks? Thirdly, do you see a role for the EU legislators here to ensure that climate risks are indeed better integrated in credit ratings?

1-030-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you so much, Mr Tang – as always, very pertinent questions, if I may say.

I think that there is another category which will have a critically important role to play going forward in order to actually better inform, properly disclose and adequately measure the risk relating to climate change, and that is the auditing firms. Credit rating agencies will have to take them into account, but those that will actually play a critical role in elevating the requirements and auditing and measuring them will be the auditors, and the work that is being conducted at the moment by the various body setters in relation to audit principles are vitally important if we want to do a good job.

Second, I would say that the European Parliament is playing a fundamental role in the progress being made. The work that you did a year ago in relation to taxonomy has been extremely important, and is regarded around the world as pioneer work. Obviously there are areas where we are not there yet, where certain sectors have not been rated exactly as was anticipated or have not yet found a space in the list, but pioneer work has been done by your Parliament.

The same is true for the green bond proposed regulations on which the ECB has just recently issued a legal opinion. Again, you are ahead of the game and ahead of the curve in that respect. While China has published its own green bond regulatory framework, I think that the European Parliament is the next one to have done so in a very comprehensive way, and that it will continue to play that role.

1-031-0000

Ernest Urtasun (Verts/ALE). – President Lagarde, I have a chance to ask you a second question. We haven't spoken much about the accountability and the relations between the ECB and the European Parliament.

Here I would like to know how do you see the next steps? In your introductory statement you have spoken about keeping a certain flexibility – that what matters is how we make things. But I would like to concretely ask you whether you would agree on having an interinstitutional agreement or not, or how do you see the next steps in relations between both institutions?

1-032-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you, Mr Urtasun, for your second question in that respect.

First of all, I would observe that our current accountability relationship is highly appreciated and that the ECB is committed to delivering on the accountability relationship that we have developed and that goes beyond some of the traditional tools that were used in the past.

We are, of course, interested not only in delivering on that and continuing that dialogue we have and that exchange of views and those visits and those topical consultations that we have had over the course of the last two years, but I think we should also reflect as to how we can further develop the relationship and how more can be done, all within the parameters of the Treaty and in total respect of the independence of the ECB. Those are cornerstones of the relationship that we should have in the future.

The Treaty is very clear on what we can do. I think the independence of the Central Bank is something that was also embedded in the setting-up of this institution. I am not that keen on a particular label, and I think we should be mindful of not undermining the Treaty provisions that actually provide for the relationship between the ECB and the European Parliament. I am more interested in what we can effectively operationalise between us than in the actual title of any framework that we organise amongst ourselves. But we will be working on that and we will be very open to this dialogue.

1-033-0000

Eugen Jurzyca (ECR). – Thank you for the floor, Madam Chair. It looks like we are facing higher inflation than central banks originally anticipated. Among the reasons, one can find the following explanations or arguments for this.

Firstly, in light of COVID-19, Member States abandoned austerity measures, which are anti-inflationary. The fiscal policies of the Member States remain expansionary.

Secondly, money supply represented by, for example, the M2 aggregate, rose by around 25% in two years. If more euros compete for the same goods and services, of course pressure on rising prices is a likely consequence.

Ms Lagarde, what is the weight of these arguments in comparison with the one claiming that it was mostly the supply-chain bottlenecks that have caused soaring prices?

1-034-0000

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

I would stick to my analysis of the key drivers that are behind inflation and this inflation spike that we are seeing at the moment, which has this hump shape according to pretty much all economists, all analysts and all observers of the current situation. That applies as well for a lot of the market information that we receive as well as the professional forecasters.

The key three drivers are: number one, energy. If you look at the chart that you have that is available – and I'm not sure whether it will be visible – you have this long yellow line, and that is the contribution of energy to inflation at the moment. It is about 50% of it. Behind inflation you have a combination of supply and demand, and when you go deep under the skin of that as well, you have multiple causes ranging from reduced wind, maintenance of some of the facilities by Norway, very low inventory in China, geopolitical decisions in various corners of the world. That is on the one hand. On the other hand, you have very rapid – much more rapid than anyone anticipated – recovery that puts additional weight on the demand side. So you have a combination of supply and demand on the energy front, but the bottom line is it's 50% of what is behind inflation at the moment.

Second, you have supply bottlenecks that are caused by a combination of low inventory and very strong demand, also caused by rapid recovery. In some corners of the world we have had a shift in the working patterns of people. If you look for truck drivers in the United States or in the UK, for instance, you find none, and if you want to decongest the ports so that container ships can deliver their containers, you need trucks to take the containers away. This is the kind of supply bottlenecks that we are dealing with at the moment, not to mention those that you know better that have to do with microchips, semi-conductors and the like of it.

The third component, which is going to mechanically get out of our numbers, are those such as the German VAT numbers that will automatically decline quite significantly at the beginning of 2022. Those are, in our view, the key drivers behind the inflation numbers that we have at the moment which again, as I said, is a hump shape that will return, unfortunately, to slightly below target numbers in the next couple of years.

1-035-0000

Frances Fitzgerald (PPE). – Welcome, President Lagarde. And I'm glad to see there's more focus on housing during this hearing today, given the affordability and accessibility issues not just for the younger generation but also for the older generation, given the lack of rental properties right across Europe.

House prices in the euro area were up 6.8% in the second quarter of 2021, and in Dublin today we've a 12.1% rise in residential properties. And the house price rises are showing signs of an emerging housing bubble, no question, and I'm glad to hear you say your remarks. You are proposing steps to better reflect housing costs in the measurement of inflation in the euro area. I think this is really important because we saw in our reports last year, in the European Parliament's ECB annual report, 24% of income is spent by European households on housing.

So my question to you is: what role are current price developments playing in the ECB's assessment of financial stability risks? And given that the ECB's mandate is to maintain price stability, what tools or instruments would be at your disposal in case house prices become unsustainable? And of course, there's also the question of how you would propose to extract a consumption component, as you discussed earlier.

1-036-0000

Christine Lagarde, *President of the European Central Bank***. –** Thank you very much, Ms Fitzgerald, for your pointed question on housing. I will not repeat what we have discussed already on the owner-occupied housing costs because we have begun the work, it's is going to take a little while.

But in the meantime, without including it in the Harmonised Index of Consumer Prices, we will pay attention to a separate index, however imperfect or insufficiently harmonised it is. But we will pay attention. And, based on the measurements so far, we believe that it would have added 0.2% to the last quarter numbers that we had.

Two things that I would like to add: I think that what we are seeing on the face of these housing price increases that are more important in some countries and hardly noticeable in others, and the Netherlands was a case in point, your country, Ireland is another one. And there are few big urban centres where it is obvious that the housing prices are rising, and we have a figure of about 7.2% for ourselves in Q2 2021. So it is a significant number.

What we are seeing is banks taking a much closer look at risks. And that's probably the root of the problem of first purchase or first access by younger people, because banks do pay more attention at the moment, at the risk at household levels and particularly in relation to mortgage.

Second, they do have in place in more and more countries now, as decided by national authorities, more macro-prudential and micro-prudential measures in order to induce banks to take a closer look at risks, particular in the loan-to-value and income-to-value measurements that are available.

And I would also observe that we are seeing in some countries a renewed effort on putting more housing programmes, because there is also, in addition to this demand side that we've just described, there’s a supply issue. And in quite a few countries, those supply issues have to be addressed, and have to be addressed head-on by the by the fiscal authorities.

1-037-0000

Chair. – Thank you very much. We have finished our round of speakers, our Q&A session. I really want to thank all colleagues, because we managed to recover the time and to be perfectly in time.

Thank you very much, and thanks also, President Lagarde, for your availability, for the cooperation. We look forward to meeting you in person in the new year.

(The meeting closed at 12.59)