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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, 2 DECEMBER 2019**

1-002-0000

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

(The meeting opened at 15.07)

1-003-0000

Chair. – Colleagues, we now turn to the core of today's meeting, which is the monetary dialogue with Madame Lagarde. I would really like to welcome the European Central Bank President, Christine Lagarde, to the European Parliament for the last monetary dialogue of this year which, however, is the first for Madame Lagarde. The previous one, as you remember, took place on 23 September.

Since the last monetary dialogue, the ECB's monetary stance has remain unchanged. Further to the decision adopted last September, policy measures continue to ensure supportive financial conditions to underpin economic momentum, which is characterised by a protracted weakness in euro area growth dynamics, the persistence of prominent downside risks and muted inflation pressures.

The comprehensive package of policy measures will contribute to a further easing in borrowing conditions for firms and households. These will support the euro area expansion, the on-going build-up of domestic price pressures and thus the sustained convergence of inflation to the ECB's medium-term inflation aim.

Today, President Lagarde will present the ECB's perspective on economic and monetary developments. She will also discuss the two topics selected by the Economic and Monetary Affairs Committee coordinators in preparation for this monetary dialogue, namely the review of the ECB's monetary policy strategy and the future of money.

We have done some preparatory work on these two items with the contribution of distinguished scholars. The papers are available on the website of the European Parliament.

As regards the review of the ECB's monetary policy strategy, we appreciate that you already dealt with this issue during your hearing last September. Although there will certainly be different opinions as regards the desirable scope and the format of the review, I believe I interpret the prevailing opinion in reiterating the importance of the role of the European Parliament, and of this Committee in particular in this process.

I really hope that the President can take this request into account.

We have a lot of interesting topics to discuss and we have many expectations from this first exchange of views, so Madame Lagarde I give you the floor.

1-004-0000

Christine Lagarde, President of the European Central Bank. – Madam Chair, honourable members of the Economic Affairs Committee, ladies and gentlemen, it really gives me great

pleasure to come back before you. This is as you have said, Chair, my first reporting meeting with your Committee and I certainly welcome the chance to report on my last four weeks – so don't expect that I'm breaking ground yet, because I am very much going through an accelerated learning curve, where I am trying to learn German, but I am also trying to learn central bank language in order not to disappoint those who believe that any word is actually charged with a hundred years of monetary policy determination. So bear with me, show a little bit of patience, don't over-interpret, if I may say so. I will have my way of also addressing some of the key issues that have to do with monetary policy.

As you have indicated, Madam Chair, the dialogue between the European Parliament, and particularly your Committee and the ECB, is in my view extremely important and a very valuable tool in order to be able to actually understand some of the issues that we all as Europeans are struggling with, and for us to explain how our mission is delivered upon.

As I was telling you earlier on, a very moving moment for me in the last few days was the moment when I actually signed my first euro banknote, and I only measured the importance of it after having heard Jean-Claude Trichet remind me that it is an important moment, when I received from friends and family members the request that they see that euro banknote as quickly as possible. It really determines and identifies very clearly the vivid imperative upon us to be the custodian of the euro.

As you know, in the euro area, the support for the euro and its credibility has increased. It has risen from a low of 62% in 2013 at the time of the crisis, to an all time high of 76% today.

Trust in the custodians of the euro, that is the ECB, has also grown, but certainly not in the same magnitude as it has for the euro. It has been less dynamic. My predecessors at the ECB were very attentive to that and have already acted to address this challenge. The ECB's accountability practices have evolved as has its communication strategy. And the ECB's transparency, ethics and good governance frameworks have been harmonised, strengthened and extended to all members of the Governing Council and Supervisory Board.

But it is important for me that our focus on connecting with the people of the euro area, those we serve, continues and grows much stronger, in particular by improving the way in which we communicate with the general public.

This is why your role, as members of the European Parliament, as Members of this Committee, is in my view so important. You make sure that the people's voice is heard by the ECB, and that the ECB's voice is heard by the people.

Communication to me is a two way street, and it is vitally important for democracy, which is a founding principle of Europe. It is in that spirit that I will approach this hearing, and all those that I am looking forward to having with you over the course of the next few years.

So let me start by looking first at the current economic situation in the euro area which you, Chair, alluded to in your opening remarks, and then I will turn to the two key questions that you asked me to comment upon.

Euro area growth remains weak, with Gross Domestic Product (GDP) growing by only 0.2% quarter-on-quarter, in the third quarter of 2019. This weakness has been mainly due to global factors. The world economy outlook remains sluggish and uncertain, and this in turn lowers demand for euro area goods and services, and it also affects business sentiment and investment.

As the sector most directly exposed to these global developments, the manufacturing industry has been suffering the most, and we are also seeing signs of spillovers to other parts of the economy, with recent survey data pointing to some moderation in the service sector.

Yet in spite of that consumption has held up fairly well. Labour market conditions have continued to improve, encouraging consumers to remain confident and continue to spend, but that has been the most vibrant part of our economy.

The prolonged slowdown in economic activity has nevertheless been affecting price developments, which remain subdued – and you know that is an important matter for us. According to Eurostat's flash estimate, inflation stood at 1% in November, and whether we look at surveys or market-based measures, inflation expectations are at, or close to, historical lows.

So what can the ECB do in a weaker environment to fulfil its price stability mandate?

Well first of all, monetary policy can respond effectively, even when growth is being dampened by external factors, and it can do so by ensuring favourable financing conditions for all sectors of the economy and providing visibility on those conditions into the future.

Backed by a steady flow of credit on affordable terms, both households and firms can consume, can invest more. Such support for internal demand reinforces in particular the service sector, which of course is the most labour-intensive in our economy. That in turn helps to protect jobs and incomes and thereby sustain consumption, partly offsetting what I referred to earlier, which is the external shock.

We are seeing this mechanism in action today. The relative resilience of services so far is the key reason why employment has been very little affected by the global manufacturing slowdown.

In response to the weaker outlook, the Governing Council of the ECB took a series of decisions in September this year to ensure that financing conditions remained favourable. As you will remember, because my predecessor, President Draghi, reported to you on 23 September, the Governing Council at the time decided a package that comprised lowering the interest rate on the deposit facility – so the deposit facility rate was reduced to -0.5%. The second item in the package was to restart the net asset purchases. The third item in the package was to strengthen forward guidance on both tools – the interest rates and the purchase programme. The fourth was to make the conditions on targeted long-term refinancing operations (TLTROs) – the way in which the economy is financed through a special financing programme that this made available to banks – more attractive. And the fifth item was to introduce a new regime of remuneration for excess reserves that are held by banks within the euro system.

These measures are intended to work together, and do work together, to keep interest rates at all maturities around levels that are consistent with very accommodative financing conditions.

The ECB's negative policy rates and forward guidance on their likely future path influence short to medium-term interest rates, which are used by banks to price their loans to corporates. In parallel, the net purchase of bonds eases medium to long-term yields which provides the benchmark for long-term loans that are generally made available to households.

The more attractive conditions available under the TLTRO – which is called the TLTRO 3 – helps keep bank credit flowing to customers at affordable terms, and there was a clear focus on all sectors but the housing sector.

At the same time, the Governing Council's decision in September showed that it was alert and attentive to the potential side effects of monetary policy.

This new two-tier – that's what it is called – regime of excess reserve remuneration actually exempts a share of banks' liquidity deposited with the euro system from the negative rates applied on the deposit facility. This will also ensure that banks remain willing and able to pass on very accommodative financing conditions to the economy at large.

The ECB's accommodative policy stance has been a key driver of domestic demand during the recovery, and that stance remains in place. As laid out in the ECB's forward guidance, monetary policy will continue to support the economy and respond to future risks in line with our price stability mandate, and we will obviously continuously monitor the side effects of our policies.

As I confirmed to you last time I was here, the ECB remains determined to deliver on its commitment to comply with its mandate. This commitment is vital for the stability of the euro area economy and for the welfare of euro area citizens.

But you've also asked me to discuss two key issues of, in my view, a structural nature, that our monetary policy is now facing, and in particular you've asked me to touch on the ECB's monetary policy strategy.

The review of that monetary policy strategy will start in the near future.

As you probably know, a monetary policy strategy is not something that is unheard of, it is actually an exercise that is conducted by many central banks around the world, at different rhythms and at a different pace depending on those banks. The FED in the United States is currently going through that exercise. It will most likely complete the exercise that was started about a year ago in the second half of 2020.

The Central Bank of Canada is conducting those strategy reviews every five years to make sure that it is on track with delivering on its mandate.

In our case, the ECB last conducted its strategy review in 2003 – that's 16 years ago, and in those 16 years many things have happened. The macroeconomic landscape has been marked by the great financial crisis in 2008 and then the sovereign debt crisis that triggered here in Europe in 2011.

More recently, that landscape has been affected by low inflation pretty much around the world and certainly in the advanced economies. At the same time, new challenges are taking place – from demographic changes, ageing of societies, predominantly in the advanced economies, but also massive technological changes and breakthrough, especially when they are compounded, and climate change has finally reached the mainstream debate and is hitting the screen of everyone who is interested in the future and has policy responsibilities.

Finally, conventional wisdom that used to apply has been challenged and monetary policy globally has had to explore uncharted territories.

So this really calls on us to review our strategy and to consider how our monetary policy can best deliver on its mandate. Indeed, a question that is common to the entire community of central banks today, and that is being explored by others at the moment, is how to best define the medium-term objective of monetary policy so as to ensure that expectations are firmly anchored.

This could be particularly beneficial in conditions like today's in which the policy space to buffer the economy from adverse developments is more limited than it was prior to the crisis. We are all trying to get a better understanding of how the longer-term trends I mentioned earlier might actually affect variables we monitor regularly and try to control.

That being said, it would be premature and it would be counterproductive in my view at this point in time for me to settle on what the strategic review will be, because the whole point of the exercise is precisely to first of all include the entire Governing Council in the framing of that strategic review and to open avenues for dialogue with all those who are interested in the matter. That includes experts, and you just mentioned that you are also consulting with experts, that includes first and foremost you as the conduit for the views that you hear from your constituencies and that two way street communication that I very much believe in will really find its place in that strategic review.

How, where, at what speed, at what pace, during what sequence of the exercise, is something that I would certainly welcome your views on, but I'm not going to have a definite resolution about that because for the Governing Council to be also part and parcel of that initial exercise of framing the way in which we conduct the strategic review.

Third, civil society representatives will also need to have a conduit, and I welcome very much their views in relation to monetary policy and how we can deliver on our mandate.

I can assure you though that two principles will apply: thorough analysis and an open mind. This will require time for reflection, and for wide consideration, including by the stakeholders that I have just mentioned.

I was informed by my predecessors that in the past, in 2003, the Parliament and this Committee in particular, offered a unique forum for dialogue which has been enriched by the expert reports – some of which were prepared ahead of this hearing.

The ECB greatly benefitted from this debate 16 years ago when it undertook its strategic review. This time around, given that communication is much more vibrant, given that the tools of communication can certainly open the field in a much broader way, I'm sure that there will be even more vibrant exchange and an enriched dialogue between us on these matters. But I certainly see it as my responsibility as the ECB President to report back to you and to engage in further discussions – as I said, once the Governing Council of the ECB has identified the framework within which we need to review our strategy.

The second topic on which you've asked me to discuss today is what we call the future of money. Indeed, as central banks navigate the complex and changing landscape, we should not only aim to anticipate future trends, but we should also try to shape them, and in doing so we should be particularly attentive to risks and make sure that we perform a thorough analysis of the cost and benefit.

The financial services environment is evolving as new entrants shake up the markets and disrupt it. Public demands are there. The on-going discussion around so-called stablecoins offers a glimpse of the changes that are yet to come. This phenomenon could disrupt the current payment landscape with spillover effects for monetary policy transmission, financial stability and the international monetary system more broadly.

But I can assure you that the ECB is not standing still.

Actually, I remember when I was last with you for this nomination hearing, I did mention TIPS to ensure that you all knew about TIPS. I had just learned about TIPS. Well, I know a little more now.

So TIPS is Target Instant Payment Settlement, and it's not surprising that actually we didn't know about it so much, it's because it happens very much behind the scenes. It happens between banks to make sure that there are instant payments between banks on a 24-hour basis, seven days a week and 365 days a year.

So it happens behind the scenes but it allows for instant payments between them and it certainly responds to the growing user demand for instant payments and helps ensure that bank account holders in Europe can be reached and can actually transact.

So by offering settlement in central bank money, TIPS increases the speed and safety of customers' daily transactions.

Is it yet well spread throughout the banking system? Not yet, because clearly some of them had developed their own system, but we very much hope that it will be more broadly used and disseminated in order to facilitate transactions and make them safer.

Second area, since 2016 the ECB has also been exploring the application of new technologies, particularly the famous DLT – distributed ledger technologies – to market infrastructure. Together with the Bank of Japan, the ECB is conducting a research project called 'Stella', which is investigating innovations that can facilitate safer, faster and cheaper financial transactions.

But driving change also means identifying and managing the risks that come with breaking new ground. Innovations, including stablecoins, will only be beneficial if the associated risks are mitigated through effective regulations – that's where you come into play – and oversight. So I believe that we should follow the golden rule of supervision in that matter: same business, same risks, same rules, no matter what the window dressing is, no matter what the technology implies.

We must ensure that stablecoins do not compromise the safety and efficiency of the payment system, or the soundness and stability of the financial and monetary system. This is all the more important for stablecoins with a global reach.

The G7 Working Group chaired by my fellow Executive Board member, Benoit Coeuré, has made clear recommendations with a view to developing a globally consistent approach to their regulation and oversight.

As it did for the general data protection regulation, the famous GDPR, I believe that the European Union can show the way here. In line with international standards and recommendations we – and of course you are co-legislators in this respect – should develop and enforce regulation that strikes the right balance between innovation on the one hand and risks on the other hand – supporting innovation but addressing and being mindful and cautious about the risks.

The ECB is ready to play its part and is already collaborating with other central banks and international authorities to that end. We are also reviewing our oversight framework to capture innovative payment solutions, including stablecoin arrangements, and in doing so we are following a risk-based and proportionate approach.

Looking ahead, the ECB will continue to act as a catalyst for change. We will go on engaging European shareholders to actively contribute to a Pan-European payment solution.

We also play our part, in full independence, in assessing the value of central bank digital currencies for European citizens and the broader economy. A central bank digital currency would allow citizens to use central bank money in their daily transactions. However, depending on its design, a central bank digital currency could pose risks.

For instance, this could alter the way in which monetary policy is conducted and transmitted in the real economy. It could also carry implications for the functioning of the global financial system and its stability.

So the question of central bank digital currencies and their optimal design certainly warrants further analysis. Our ultimate goal is to foster safer, innovative and integrated payment in euro. This will in turn benefit everyone in the euro area and it will strengthen the euro internationally as well.

So, Madam Chair and honourable Members of the ECON Committee, the last Parliament elections that you went through highlighted clearly that people expect ambitious responses from Europe.

Matching these expectations by working together is the best way to strengthen people's confidence in the European project, the euro and the ECB.

Jean Monnet once said 'everyone is ambitious, the question is if one is ambitious to be or ambitious to do'. Certainly at the ECB we are ambitious to do and to do so jointly with others whenever that is possible.

(Applause)

1-005-0000

Lídia Pereira (PPE). – Senhora Lagarde, bem-vinda ao Parlamento Europeu mais uma vez e pela primeira vez como Presidente do Banco Central Europeu.

Então, os cidadãos querem, a economia precisa e a Europa ganha com um euro mais forte ao serviço do crescimento e da competitividade. A política monetária é fundamental; a manutenção da política de juros baixos e de compra de ativos são medidas bem-vindas.

Aumentar o volume mensal de compras líquidas de zero para 20 mil milhões de euros é uma ajuda importante a países com elevada dívida pública que estão numa situação frágil para enfrentar o período de menor crescimento que se avizinha, mas entre estes países há quem esteja perto dos limites fixados para o programa de compra de ativos.

Por outro lado, no passado dia 22, a Sra. Lagarde recordava que o investimento público na área euro continuava abaixo dos níveis pré-crise e que precisamos de equilibrar a consolidação das contas públicas com níveis suficientes de investimento.

A verdade é que continuamos a ter países, como Portugal, Espanha, Chipre, em que o investimento público se aproxima dos 2% do PIB. Em alguns deles, este défice de investimento sente-se bem nos serviços públicos essenciais que em rotura falham na resposta às pessoas.

Em países em que a dívida está no máximo e o investimento no mínimo, que papel pode desempenhar o Banco Central Europeu nestas situações, que opções defende para a gestão da dívida e que equilíbrio perspectiva para o reforço do investimento público?

1-006-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much for your question, which addresses, in my view, what is a key issue, which is that of investment, that of competitiveness and that of efficiency. It was fascinating, actually, for me and for many of those who read it, to see what the European Investment Bank (EIB) in its very broad study concluded in terms of shortage of investment and lack thereof.

So, what can a central bank do? First of all, it has to ask itself: ‘what is my mandate?’, and the mandate is price stability, which has been defined back in 2003, under the strategic review that was then conducted, as an inflation aim which was defined *as close to but below 2%*. Therefore, a central bank has to use the tools that it has available, and those that can be made available, in order to reach that aim which defines the price stability of its mandate. Clearly, facilitating investment, making financing accessible to households and corporates in order for them to be able to invest, is one of the key responses that a central bank can actually offer. The ECB has indeed, ever since the crisis, endeavoured to provide those tools and to provide that financing at a cost that will actually encourage and facilitate investment. It has to do that on the basis of data, on the basis of the information that is available to it, and it has to continue doing so when the information provides continuous slowdown of the economic terms, and that’s what we are doing.

1-007-0000

Jonás Fernández (S&D). – Bienvenida, presidenta. Una pregunta muy simple. En las actuales previsiones del Banco Central Europeo, ¿en qué fecha cumplirán su mandato?

1-008-0000

Christine Lagarde, *President of the European Central Bank*. – I’m not sure that I understood the question. You want me to give you the forecast of growth in eight years’ time?

1-009-0000

Jonás Fernández (S&D). – No, the forecast for inflation: when inflation will be close to and below 2%, because this is your responsibility in the ECB.

1-010-0000

Christine Lagarde, *President of the European Central Bank*. – I don’t think that anybody in their right mind would venture into forecasting any particular number, be it growth or be it inflation, eight years from today. There are instruments that are market related and market based that allow to define, with a certain perspective, the expected inflation. This is one of the many instruments that we are looking at and that I will be looking at in the future – certainly not the only one in isolation; it’s one of them. But our goal has to be what the strategic review will actually determine. At the moment, I, the Governing Council, all members of the ECB and its terribly competent staff operate on the basis of that mandate as defined, which is very simple: close to but below 2%, and everybody is actually trying very hard to converge towards that aim. It might be different once the strategic review is completed.

1-011-0000

Jonás Fernández (S&D). – Do you have a date in your forecast? I can imagine that in your forecast you have a date when the inflation rate will be close to 2%.

1-012-0000

Christine Lagarde, *President of the European Central Bank*. – The sooner the better.

1-013-0000

Jonás Fernández (S&D). – Señora Lagarde, ha hablado usted sobre la revisión del marco estratégico de la política monetaria del BCE. Se trata de una cuestión sobre la que le pregunté también en la audiencia que tuvimos con usted en el proceso de nombramiento. Ha dicho que es pronto para determinar por dónde podría ir esa revisión de la estrategia, pero me gustaría

preguntarle por la actual. Y preguntarle en qué medida cree usted que el actual objetivo de situar la inflación en el 2 %, pero por debajo del 2 %, puede ser interpretado como un objetivo simétrico o no.

1-014-0000

Christine Lagarde, *President of the European Central Bank*. – The issue of symmetry is clearly one of the items that will be debated as part of the strategic review. It is currently being debated by the FED in its own strategy review. It's one that arguably has been actually indicated by my predecessor, President Draghi, as having a symmetrical nature and, as we are reviewing items that constitute our price stability objective, clearly the notion of symmetry will be part also of our review process, because whatever items you look at, whether you look at an aim, whether you look at a band, whether you look at a range, whether you look at flexibility around it, whether you look at the term, you clearly have to also ask yourself the question of symmetry about it. So this is an exercise going forward. I'm not passing judgment on what it is at the moment, I'm saying that this is a component that needs to be included in our discussion.

1-015-0000

Stéphanie Yon-Courtin (Renew). – Madame la Présidente, je vous remercie à nouveau d'être parmi nous. Les défis auxquels la BCE est confrontée sont nombreux, et j'en évoquerai deux. Le premier, hélas très classique, est celui de l'égalité hommes-femmes. Il s'agit de favoriser cette égalité, en particulier dans le cadre des nominations des exécutifs des organismes financiers, monétaires, économiques, pour éviter de revoir à nouveau cette photo d'il y a quelques jours, où vous étiez la seule femme au Conseil des gouverneurs. Voilà pour le premier point. À ce sujet, seriez-vous prête à ce que l'on mette en place une règle obligatoire selon laquelle, pour toute future nomination, on présente un homme et une femme, comme Ursula von der Leyen l'avait proposé, notamment pour la Commission européenne?

Le deuxième défi, plus récent, a trait à la lutte contre le changement climatique. La semaine dernière, un groupe de 164 experts et ONG vous a adressé une lettre ouverte pour demander à la BCE d'accélérer les efforts dans la lutte contre le changement climatique. Cette lettre constitue un bel exemple concret de la volonté de la société civile de s'engager davantage auprès de la BCE et de prendre davantage en considération et donc d'entamer ce dialogue que vous appelez de vos vœux. Vous venez à nouveau de le souligner, comme vous l'aviez fait lors de l'audition de septembre, l'importance et les avantages mutuels d'un dialogue fructueux et actif avec la société civile, en mentionnant, notamment, je me souviens, lors de l'audition, en septembre, votre expérience au FMI. Seriez-vous prête à renouveler cette expérience et pensez-vous déjà à une façon, à des modalités pratiques, pour impliquer la société civile, notamment dans cet effort pour la transition et la lutte contre le changement climatique?

1-016-0000

Christine Lagarde, *Présidente de la Banque centrale européenne*. – Merci infiniment pour cette question à deux volets, que je vais traiter chacun à leur tour.

Sur la première question, celle du meilleur équilibre entre les hommes et les femmes, et en particulier de la présence accrue des femmes au sein des organisations à caractère financier: je mène ce combat depuis longtemps, je ne cesserai de le mener et j'accueille avec beaucoup d'espoir votre contribution à ce processus.

Aujourd'hui, le Conseil des gouverneurs de la Banque centrale européenne est composé de 25 personnes dont 24 messieurs. J'ai beaucoup d'affection pour eux et beaucoup de sympathie pour les hommes en général, mais ce n'est pas une représentation normale de nos sociétés, et il me paraît indispensable que cette situation puisse évoluer de manière positive pour mieux refléter la société dans laquelle nous vivons.

Malheureusement, un certain nombre d'éléments ne dépendent ni de moi, ni de la BCE. Vous savez que parmi les 25, il y a 19 gouverneurs des banques centrales du système, qu'on appelle

l'Eurosystème, qui sont tous – je le dis avec beaucoup de respect et d'amitié pour eux – des messieurs. Donc, cela n'est pas en mon pouvoir. Peut-être pouvez-vous jouer un certain rôle, en encourageant les autorités nationales de vos pays d'origine à prendre en considération le talent des femmes pour qu'elles puissent devenir, éventuellement, gouverneuses des banques centrales concernées. J'en connais quelques-unes et si vous avez besoin de noms, je serai ravie de vous les communiquer.

En ce qui concerne les candidats, avoir par principe au moins un représentant de chacun des deux sexes me paraît être une très bonne pratique. Je vais être très égoïste et faire une exception, car je sais que demain vous auditionnerez deux candidats qui sont un homme et une femme, mais qui sont candidats pour deux postes. J'aimerais bien que votre règle, la règle à laquelle vous faites allusion, ne s'applique pas dès demain, pour la raison très simple que j'aimerais vraiment beaucoup ne pas être toute seule dans le Conseil des gouverneurs de la BCE, parce que si ça continue, je vais rester seule pendant un certain temps – et c'est un peu solitaire, d'être seule femme dans un groupe d'hommes. Donc, que cette règle soit en place, oui – je suis une ardente partisane de la mixité en matière de candidatures, mais si vous pouviez considérer que demain, on a un bon équilibre, cela permettrait d'avoir une autre femme au Conseil des gouverneurs de la Banque centrale européenne.

Je dis tout un tas de choses qui sont probablement peu politiquement correctes, et qui ne sont sans doute pas les bienvenues, mais je vous assure que je vous parle avec mon cœur. Il est important d'avoir une variété de vues, d'avoir une diversité reflétée dans toute instance, y compris au sein du Conseil des gouverneurs de la Banque centrale européenne.

Deuxième point, en ce qui concerne le changement climatique. Je vous l'avais dit lors de mon audition de nomination: je suis fondamentalement convaincue du caractère central et prioritaire de la lutte contre le changement climatique. Je suis aussi convaincue que chacun, quel que soit son domaine, doit s'informer, déterminer à quelles conditions il ou elle peut participer à cette lutte contre le changement climatique.

Le mandat de la Banque centrale européenne, ce n'est pas le changement climatique. Le mandat prioritaire de la Banque centrale, c'est la stabilité des prix. Pour autant, la Banque centrale européenne a aussi un mandat qui n'est pas défini comme primaire, mais comme secondaire, et qui inclut notamment toutes les décisions de politique économique qui sont prises par les institutions européennes. Par conséquent, et par rattachement, on pourrait parfaitement considérer que le changement climatique constitue un des éléments du mandat – secondaire, certes, mais du mandat de la Banque centrale européenne.

Ce que j'espère vivement, c'est que dans le cadre de la revue stratégique que nous engagerons dans les prochaines semaines, nous pourrions aussi inclure le changement climatique comme élément fondateur pour déterminer où, quand, comment et dans quelle mesure la Banque centrale européenne peut le prendre en considération – et que cela conviendra au Conseil des gouverneurs.

Je sais que je dépasse un peu le temps qui m'est imparti, mais c'est un point vraiment important et qui me tient à cœur. Si vous me le permettez, je voudrais continuer un tout petit peu.

Pour vous donner un exemple: pour faire ses prévisions en matière macroéconomique, la Banque centrale européenne utilise des modèles, des modèles macroéconomiques. Il faut *a minima*, me semble-t-il, que ces modèles macroéconomiques incorporent dans l'évaluation des risques qui est faite le risque du changement climatique. *A minima*.

Deuxièmement, il faut que, dans sa fonction de supervision des établissements bancaires, la Banque centrale européenne puisse également, grâce à des obligations de déclaration et de transparence, déterminer si, oui ou non, les établissements bancaires prennent en compte le changement climatique quand ils évaluent les risques et quand ils acceptent des produits financiers.

Troisièmement, dans sa gestion directe ainsi que dans la gestion du portefeuille qui soutient le régime de retraite de la BCE, une politique est déjà mise en œuvre pour favoriser les instruments financiers dits «verts».

En dernier lieu, je crois qu'il serait aussi parfaitement légitime et souhaitable que, dans le cadre de son mandat et, évidemment, en veillant à la stabilité financière, la Banque centrale européenne se penche sur la manière dont elle exerce l'ensemble de ces opérations, en prêtant une attention particulière aux impératifs du changement climatique.

Pardon d'avoir dépassé un peu le temps de parole, mais c'est un sujet qui est compliqué.

1-017-0000

Stasys Jakeliūnas (Verts/ALE). – Welcome President Lagarde, and I welcome your open way of talking and also ambition to act, so hopefully we'll see that in the future. I will ask you about the central bank's digital currency, but before, some contextual statements: asset liability, maturity mismatches – the core, at least from my point of view, structural issue in the banking system. 'Too big to fail and too interconnected to fail' remains the issue, even though there were some mechanisms created, which I welcome, of course. Moral hazard in the financial system is evident, and the incentives to maximise profit, especially short term, is also a problem. Financial technologies development and disruptions including the stablecoins, virtual assets or whatever you want to call them, is also an issue.

You mentioned the climate change and the financial instability implications: repricing hazard risk, etc., etc. With that context, and having in mind that one of the objectives, hopefully, in the monetary strategic review could be a financial stability mandate, expanded and defined more specifically, how would you see the digital currencies developed by central banks as a potential solution to these problems? I know it's too premature to see that you have a specific point of view, but where is the ECB as far as this project is concerned, time wise, technology wise? Are you cooperating or discussing, for example, with Riksbank, which is developing the e-krona project, which I assume is similar, and how long would it take before we have specifics on this central bank digital currency project of yours?

1-018-0000

Christine Lagarde, President of the European Central Bank. – The core of the mandate is price stability: not financial stability but price stability. Having said that, clearly, a central bank has to be attentive to economic developments, to financial development as well, and to stability of those two trends to the extent that they inform and actually have an impact on price stability itself.

To your point about central bank digital currency. I've tried in my introductory remark to point to two areas. One is that we have to be able to analyse and measure the impact that it would have in terms of monetary policy transmission, in terms of financial stability. And the two actually matter. If you really develop that concept of the Central Bank digital currency, one has to really wonder about safety, about security of the consumers, about the international monetary system at large and its safety, the role played by commercial banks, and how customers actually access that central bank digital currency. So it's all those questions together that have to be taken into account and that hopefully will be taken into account as we work towards digitalisation of currencies. This is an exercise that is conducted at various forums in which we participate. As you know, the Bank for International Settlements (BIS) is

going to be quite active with its innovation hub, of which Benoit Cœuré, an existing but soon-to-be former member of the Executive Board, will be driving the exercise. It's also something which is being conducted at the Financial Stability Board (FSB) level in order to identify how innovation actually serves safety and reliability of the system. I know that the Swedish Central Bank has actively engaged in developing a central bank digital currency. So has the National Bank of Switzerland, and clearly the PBOC in China is also endeavouring to develop a similar system.

I would say that it's an area where we have to rush slowly, because there is clearly a demand. There is clearly a technology that is developing and that would support such an innovation. But when I say slowly, I think we really have to be mindful of what risks such a system would actually trigger, both in terms of monetary policy transmission, international monetary system, and the financial system at large.

1-019-0000

Hélène Laporte (ID). – Madame Lagarde, tout d'abord, je tiens à vous remercier pour ces échanges. Lors de vos récentes interventions médiatiques, vous avez défini les grandes orientations futures de la politique monétaire de la Banque centrale européenne, dont vous êtes la présidente depuis le 2 novembre dernier. Dans la continuité de votre prédécesseur Mario Draghi, vous avez déclaré vouloir poursuivre une politique monétaire accommodante, caractérisée par le maintien des taux directeurs d'intérêt à un niveau historiquement bas et par la prolongation du *quantitative easing*, c'est-à-dire le rachat d'actifs sur les marchés financiers. Et ce, avec un triple objectif, qui est tout à fait louable: lutter contre le risque de déflation, contre l'atonie de la croissance économique et contre le chômage de masse.

Ma première question va porter sur les statuts de la BCE qui, actuellement, ont comme seul objectif d'assurer la stabilité des prix, en maintenant l'inflation autour d'une valeur cible de 2 % par an. Au regard des fondamentaux économiques que sont la variation de la productivité du travail, des salaires et du taux d'emploi des facteurs de production, quel est l'intérêt pour la BCE de conserver cette règle d'or qui la contraint à utiliser tous ses atouts? Car si d'aventure, et cela peut se profiler, une nouvelle crise économique survenait, comment la BCE parviendrait-elle à mener une politique monétaire contracyclique, avec des marges de manœuvre aussi réduites?

Dans ces conditions, ne serait-il pas plus judicieux d'ajuster la valeur cible d'inflation à 1 % par an et d'intégrer dans les statuts de la BCE des objectifs de taux de change et de plein emploi?

Ma seconde question va porter sur la création d'un budget propre à la zone euro, idée que vous avez défendue, notamment aux côtés de notre président Emmanuel Macron, mais qui peine à convaincre une majorité de nos dirigeants au sein de la zone euro. Cette création est chère à de nombreux théoriciens, comme Mundell, mais la création d'un budget de la zone euro est censée rendre son fonctionnement optimal en facilitant les transferts budgétaires entre États membres. Quel en sera le montant, et surtout quel en sera le coût pour la France, déjà contributrice nette au budget de l'Union européenne à hauteur de 8 milliards d'euros en 2018? Ou tout du moins, pouvez-vous nous dire comment va s'articuler ce projet? Merci.

1-020-0000

Christine Lagarde, President of the European Central Bank. – I might actually respond in English, if that's okay with you, because I have to do a good balance. I did a big chunk in French earlier on.

I think it will be precisely the exercise that will be undertaken as part of the strategic review to ask ourselves, this is what was defined in 2003, close to but below 2%, and whether, in view of all the changes that have taken place of the current economic circumstances, of the

structural trends that we observe, whether that price stability definition or the objectives that are framing the price stability mandate, whether they are still valid – how much so? In what format, with what leeway, with or without band, as an objective or as a name? I mean, there will be multiple shades of the actual inflation aim that will be discussed – and what the outcome will be, we do not know at this stage, but clearly every stone will have to be turned and every option will have to be examined. As I said earlier on in my introductory remark, it will be a thorough analysis and it will be open-minded. But at the bottom of this lies the mandate of the ECB, which is to deliver on price stability. It has clearly been an efficient tool and one that has actually contributed significantly over the last few years to maintaining stability, to supporting growth, to creating jobs. And in my view, the use of that particular policy and the use of the tools that was relied upon by the ECB were extremely necessary and adequate in order to deliver what they have delivered.

Now, on your second question, I have to confess that I missed the second part of your question. Can you remind me what it was?

1-021-0000

Hélène Laporte (ID). – J’avais une question sur la création d’un budget propre à la zone euro. La France est déjà contributeur net au budget de l’Union européenne à hauteur de huit milliards d’euros; c’est pourquoi j’aimerais connaître enfin le montant dont il serait question, en particulier pour la France.

1-022-0000

Christine Lagarde, President of the European Central Bank. – I’m not going to surprise you greatly in that respect, but to the extent that there is a monetary union which is called the euro area, which has a currency which is called the euro, it would be very welcome, and it would put us in the same category as other monetary unions to have a fiscal capacity.

Now whether you call it BICC and it is focused on convergence, it is focused on competitiveness, or whether – better – it also includes a stabilisation impact, clearly that would be a welcome improvement to the overall architecture of the euro area.

1-023-0000

Johan Van Overtveldt (ECR). – Thank you for being here, Madame Lagarde. I have three questions for you. I will try to be brief. First of all, on climate change or fighting climate change, which you defined as a mission-critical priority for the ECB. Simultaneously, Mr Weidmann from the Bundesbank declared, and I quote again: ‘a monetary policy which pursues explicitly environmental policy objectives is at risk of being overburdened’. I would like you to comment on Mr Weidmann’s remark.

Secondly, on public investment: you declared yourself to be in favour of more public investment. Two sub-questions: first of all, would you support an initiative whereby the deficit in terms of the judgement by the European authorities would be cleared of investment so that the 3% deficit norm would be with investment excluded? And secondly, what role do you see for the ECB in financing those public investments?

My third question is about productivity. You also emphasised recently that you see the need to improve productivity, but there’s mounting evidence that central banks, with their very low interest rates, are contributing to the slowdown of productivity by keeping so-called zombie firms alive. Please comment on that.

1-024-0000

Christine Lagarde, President of the European Central Bank. – On climate change: as I said in my earlier comments, we have, as the Central Bank, to explore, in all the dimensions that we develop, implement and orchestrate, how climate change has or doesn’t have an impact and how we can be effective in participating in the fight against climate change. Now this – and I agree with Mr Weidmann – does not turn us into having, as mandate number one, the fight against climate change. This is a matter where, clearly, governments, policy-makers

have the key role to play. But it doesn't stop us from having to look into our operations and identifying how we can be effective. As I said earlier on (unfortunately in French, but I will say it again in English), number one: in our macroeconomic analysis, we need to include, in our modelisation of the economy (which is one of the major tools that we use), climate change in there. Number two: in our supervision of banks we also have to include climate change, and clearly there are now central bank governors of the euro system who are vocal about it, where clearly the transparency of disclosure, the assessment of risk have to be part and parcel of the supervision that is conducted by the supervisory authorities, including the Single Supervisory Mechanism (SSM).

Third, we clearly also have to include climate change imperatives in our investment operations – the ones that we do for our own portfolio – and we also have to include that in the management of the pension fund. And we actually do already, but we need to pursue that and determine how much more we can do.

And finally, we need to also examine, as part of our purchase programme, where and how climate change has or should have an impact. Those are questions on which I'm not passing judgement. I don't have a final say, because again, it's a Governing Council determination that needs to point in the direction of the proposals that will then be debated as well. But I would see those four critical areas as those where climate change has an impact.

You asked me the question of investment. It's not for me to dissect how deficit should be measured, what it should or should not include. Clearly, the Stability and Growth Pact, the Six- and Two-Packs that will be under review should clearly identify those issues and should find a resolution of those points. From my point of view and with the objective of price stability, what we need is certainty, what we need is clarity, and I think it's now a common view in the community of the economists and the experts in those matters that the principles that we have in place are fairly complicated, are sometimes at cross purposes, depending on which Pack you find the definition, and I think that anything that could aim at simplifying this would certainly be helpful going forward.

When I responded to the first question, I expressed a concern about the low level of investment in general and not just public investment. I'm not sure that, unfortunately, the ECB can play a key role in investing other than – and that's a key element – providing financing at sufficiently attractive costs so that both households and corporates are actually encouraged to invest, because that will be critically important and that touches on your last question on productivity. Investing in innovation, investing in research and development, investing in developing the economy will actually be conducive to improve productivity, and we need investment for our economy to be more productive.

1-025-0000

Manon Aubry (GUE/NGL). – Madame Lagarde, je vais directement continuer sur le thème fondamental qui, à notre sens, doit occuper, *la* priorité - on peut avoir un débat sur le sujet, puisque vous parlez de «priorité numéro une» ou «une des priorités» –, à savoir le changement climatique.

Je vais intervenir en rebondissant aussi sur la tribune qui a été publiée par les 160 ONG et experts, qui a été mentionnée précédemment. Cette tribune est intéressante – et c'est cette parole citoyenne que je voudrais livrer aujourd'hui –, parce qu'elle demande des actions claires, précises et rapides. Et ce qu'on entend pour le moment, de votre part, c'est une détermination à mettre la Banque centrale européenne au service du climat. Toutes vos déclarations en ce sens vont dans la bonne direction, et on ne peut que vous encourager en disant que la BCE doit mettre la protection de l'environnement au cœur de sa mission, et c'est véritablement un avis que nous partageons.

Maintenant, il faut passer des paroles aux actes. D'abord, la BCE, on le sait, a malheureusement contribué au changement climatique. Depuis 2016, elle a injecté des milliards dans les énergies fossiles, avec notamment plus de 60 % des rachats de dettes privées qui ont bénéficié à des multinationales polluantes, comme Shell ou Total, et la liste est longue. Elle continue de le faire et continuera de le faire tant qu'elle agira dans le strict respect de la neutralité du marché. Vous avez annoncé aujourd'hui, on s'en félicite, une révision de la stratégie monétaire de la BCE, qui a été inchangée depuis 2003, vous l'avez rappelé. Mais pourriez-vous nous en dire un peu plus sur le calendrier, le délai précis pour y parvenir? Comment précisément le changement climatique sera-t-il intégré?

Puis, une autre question se pose: comment finance-t-on des investissements verts, d'une part, et comment sort-on des investissements marron ou sales, d'autre part? Pouvez-vous vous engager aujourd'hui, comme le demande la société civile, à commencer dès maintenant à sortir la BCE des actifs carbonés? Et comptez-vous développer des critères écologiques d'évaluation des actifs dans le portefeuille de la BCE? Vous l'avez mentionné, mais pouvez-vous nous dire plus précisément comment vous comptez faire, et cela sans attendre la taxonomie, dont on sait que la mise en œuvre par le Conseil risque de prendre un peu de temps?

1-026-0000

Christine Lagarde, *President of the European Central Bank*. – I would disagree with your last point, because we are all in this together, and we cannot simply say, okay, well you do your job, and we will do the best we can, but the taxonomy will come when it comes. It's critically important that the taxonomy is arrived at. I don't want to interfere in your debate, because it's not one that I'm especially competent in, but all I know is that it's vitally important that there is a taxonomy and that we can use those tools going forward in the action that we develop.

I am sure that there will be multiple areas of disagreement: transition, no transition? Where do we go? How granular are we going to be in identifying what is green, what is brown and the multiple shades in between? But I really hope that there can be progress in that direction. So in a way it's a side point, but it's a point that is vitally important as well.

On climate change, I have tried to identify those areas where I think, from my vantage point, having been President of the ECB for hardly four weeks now, I think it would have an impact. On the identification of macroeconomic analysis, we must take climate change into account. When we do models, when we construct models, when we try to measure the output gap, when we try to forecast growth, when we try to have identification for expected inflation and all of that, when we try to understand the behaviour of households – 'why do they buy here? why don't they buy this? where do they set up shop? where do they buy a house?' – we need to embed climate change imperatives in that work that we do, and that keeps quite a lot of economies busy and they need to really incorporate that. I hope this will not be too controversial. I would hope so, but this is not something that I call for by myself. It's going to be a joint decision by the Governing Council and one where there will be a dialogue with you and with civil society.

I just spent half an hour with those representing the signatories of the letter that you alluded to, and we certainly agreed to pursue the dialogue, because I need their input. I need their understanding of the imperatives and the conundrum that we have to deal with.

The second area is in supervision. That's an arm that, clearly, the ECB through the SSM can use to good effect, and the national central bank governors and the supervisory authorities in the different Member States can also do their part.

On direct investment, as I have mentioned, where we do buy quite a lot of products that are so-called green in spite of the taxonomy not yet being ready.

On the public purchase programme, let me remind you that 80% of the stock of products that we have is actually government bonds, and we are one of the main purchasers of the bonds issued by the international agencies in Europe that has actually committed to deliver on its green-only investment – that is the EIB.

Granted, in that small portion in our stock, which is private, there are multiple shades from green to brown, and I think it was predicated and it is predicated on the fact that we have to not disrupt the financial markets and comply with what has been defined as market neutrality.

This is a principle that has applied. Should it be revisited? Should we look at it? How do we do that? I think this will be exactly part of the strategic review that we will also need to conduct.

1-027-0000

Luděk Niedermayer (PPE). – Let me say it's good to have President Lagarde here. My first question is on the economy and monetary policy. You said in your opening statement that the economy is rather fragile. At the same time, the ECB took relatively robust measures to support the economy. So I wonder if you still can see that, if necessary in future, you will have sufficient to stimulate the economy further if we slide, for example, into stagnation or recession?

The second, concerning the review of monetary policy: I very much appreciate your willingness and dedication to go this way. I wonder to what extent the monetary aggregates that played a very important role in the framework of the ECB in the past, if the role will be revisited, because, as we all know, many central banks are quite sceptical about the importance of this aggregate giving, for example, divergence of different kinds of aggregates, financial innovations, and so on.

1-028-0000

Christine Lagarde, President of the European Central Bank. – Yes, the economy could be better, and I did say that it was due predominantly to external factors: slow growth – slower than what we would like to see, and certainly below potential.

Do we have the tools to respond in case the situation does not improve? Yes we do, and we are determined to use those tools. Our mandate is, as we said, price stability, and we need to do what we need to do. Clearly, all actors have to play their part, and I would very much hope that they all do as well.

On the monetary aggregates, it's difficult to predict what we will do as part of the strategic review, and I don't think that the field would be as wide open as to question or reinstate the role of monetary aggregates. I don't see it at this point in time, but as central bank digital currencies, for instance, begin to have an impact, and depending on where and how monetary creation happens, that's a theory that could be looked at. I just don't see it at this point in time.

1-029-0000

Paul Tang (S&D). – Ms Lagarde, I welcome your words on how the ECB can incorporate the policy of climate change, given the mandate of price stability. I think it's encouraging but I'm sometimes looking for a bit more specific answers.

First of all, your predecessor, Mr Mario Draghi, told Parliament already on the Corporate Sector Purchase Programme (CSPP) that we will look into this and see what the effect is – the

carbon footprint. Has an evaluation been conducted? If not, why not? If so, could the ECB share the results of this assessment? Secondly on this, will you consider the implementation of a mandatory disclosure of the carbon footprints as the eligibility criteria for issue of bonds in the framework of CSPP?

Then the second question is on taxonomy. The Network for Greening the Financial System (NGFS) has given a recommendation that we need a clear taxonomy around green, non-green, brown and non-brown products as a prerequisite for deepening work. Do you agree with this recommendation of the NGFS for a full-scale taxonomy, not just green but different shades of green, different shades of brown?

Finally, President von der Leyen said that she was not planning to allow green investments to be subtracted from budgetary deficits, since it would open a door to greenwashing. Do you think that the framework provided by the taxonomy regulation could provide a solution to the threat of greenwashing and if so, do you think it would be justified to allow room within the EU legal framework for increased government spending on making their economy more sustainable?

1-030-0000

Christine Lagarde, *President of the European Central Bank*. – I'm actually going to read very directly from work that has been produced, because it was prior to me. But I want you to understand that President Draghi's commitment was actually honoured.

He had committed to further look into the climate impact of Corporate Sector Purchase Programme (CSPP) and our programmes in general, and the ECB indeed conducted a preliminary analysis of the matter, and further work is ongoing. For instance, we looked at our CSPP purchases and found that we have bought a considerable amount of green bonds. An Economic Bulletin article of 8 November 2018 showed that through its purchases the euro system has created favourable financing conditions for green bonds and supported their issuance. But we also found that backward-looking analysis of carbon intensity at the level of entire economic sectors, as done in the often-cited studies by Positive Money or the Veblen Institute, can be misleading.

Sectoral data abstract from the large differences within sectors and, most importantly, ignore any dynamics within firms over time. This means that these analyses provide a very incomplete picture of the carbon impact of our asset purchase. The contribution of our monetary policy should be evaluated instead, in our view, in a forward-looking way, looking at what investments are actually being financed by each company that benefited from our accommodation policy stance.

And here, I think that what's behind the latter part – first of all, the study was conducted. You will find in the Economic Bulletin the conclusions of that particular review, which indicates that actually the ECB, by financing in the way it did, has actually encouraged green bond issuance and favoured its financing. You know, President Draghi committed that we would look into it, the ECB has looked into it, and came to some conclusion.

I think the second point that I'm trying to make here is that, to be able to analyse that, you need to be extremely granular – to actually identify, from all actors, what kind of investment is actually being financed and facilitated by particular financing conditions. I don't mean to take any pick at anybody, but you can very well think of what you would regard as a brown entity actually investing in a very green project. How is that analysed? How do you factor that into the analysis of the financing improvement that you provide? That needs to be granular.

In the same vein (but that's an issue that you are going to be debating), how is the financing associated with transition characterised? We know that there are massive financing needs that are out there, to help some of those brown entities move into being less brown, and green at the end of the day. How are those costs identified? How do we help as providers of low-cost financing in order to bring them to that transition? Those are the areas where, clearly, we need to be able to measure but where it's particularly hard to identify the granularity required to come to a proper analysis. We will continue doing that, because you will continue asking me, and you are right to do so.

1-031-0000

Billy Kelleher (Renew). – Welcome, Madame Lagarde. Just very briefly: you talk about a strategic review of the ECB. In terms of the review itself and its capacity to actually analyse the policies of the ECB – and, I presume, the trajectory into the future of the organisation and also the policies that will underpin it in the years ahead – will you be looking at it primarily just on the very narrow focus of the mandate that you presently have, which is near or below 2%, or will you be looking beyond the mandate in terms of broader economic and social progress, economic growth, investment, the capacity for the European Union to fund the decarbonisation of the Union itself through public funding and private investment? Or will it be just a very, very defined review?

In that context, will it be an independent analysis? – bearing in mind that the last review, you said, was done in 2003, and you, being a former head of the IMF, will know full well what the euro and some of the countries went through in the meantime, with huge financial challenges. Do you think that there is now a requirement just to look beyond its remit itself in this review, analysing the Stability and Growth Pact and how Europe can fund itself into the future? Bearing in mind what you said at the outset: we have sluggish growth, the economies are struggling. You speak about more production, more digital and greener, that will require massive investment, and I'm just wondering: with the lame economies that we have across Europe, where will that investment, that stimulus come from? If you could just elaborate on that.

Finally, breaking the first question rule just very briefly: the Commission also is talking about a strengthening of the role of the euro internationally. Will that be part of your strategic review as well?

1-032-0000

Christine Lagarde, President of the European Central Bank. – It's a really broad question that you put to me and one that exceeds vastly the three minutes, Madam Chair reminds me, and the Central Bank mandate as well. I just want to clarify one thing: the mandate, as inscribed in our founding legislation, is price stability and, as opposed to other institutions, we only have this single primary mandate. The FED, for instance, has price stability but also employment as one of its key drivers. That mandate of price stability was defined under the strategic review of 2003 as the 'close to but below 2%', and that's the inflation aim that defined best, in those days, the price stability mandate that was in the Treaties.

With that, clearly we have to start with what we must be best at, which is organise our strategic review around what we have to do, which is deliver on the mandate of price stability. Clearly, there are other aspects than the inflation aim that have to be taken into account in order for us to best deliver on that mandate. We discussed at length the issue of climate change and how and where it impacts on this price stability mandate that we have to deliver upon and how it needs to be, at each and every step of the way, considered, explored and eventually included into the work that we do. Should we go way beyond that and opine or include in our strategic review all the other aspects of European economic policies, European finance? It's not going to be core to the strategic review. If it does have an impact, then it should be considered, and as we know, monetary policy is most efficient and can deliver best

when it is supplemented by other policy aspects, including fiscal policy and structural reforms, in order to fluidify the transmission of monetary policy and to support it. So it's in that respect but not with the focus – not as if it was core to the strategy of the ECB – that we would actually touch on those other issues.

1-033-0000

Danuta Maria Hübner (PPE). – I'm very unhappy that I have to limit myself to one question, but I will do it, and hope it will be an example for the rest!

Madam Lagarde, first of all, yesterday, seeing the two of you – Madam von der Leyen and you – as 50% of the European leadership was really a pleasure, so all the best to you.

When Mario Draghi came here, in most of his speeches in this House he emphasised that actually the ECB carried most of – if not the full – burden of economic stimulus for a nearly a decade. Unfortunately we must admit that he was not successful in passing part of the load on to other policy-makers, in particular those in charge of fiscal policy – and you just mentioned fiscal policy.

So my question to you is how do you see your chance in this respect in the years to come? Is the ECB going to continue this substituting for fiscal policy, or do you think you will finally start complementing fiscal policy?

1-034-0000

Christine Lagarde, President of the European Central Bank. – Yes, it was extremely nice yesterday to be at parity with President Von der Leyen and with President Michel and President Sassoli.

On the combined impact, it would be certainly very efficient if other dimensions of a policy mix were also included in the set of solutions that are proposed to address the slow-growth conundrum that we are facing.

Will I be more successful? The future will tell, but I will do the best I can in order to be so, and I'm always reminded that we do have monetary policy tools available and we will not hesitate to use these if and when needed.

But I also very much hope that other policy-makers realise how important they are and what role they can play, including in leveraging the monetary policy that we adopt.

1-035-0000

Joachim Schuster (S&D). – Ich werde es ein bisschen kürzer machen, weil es viele Antworten schon mit anspricht, die schon gekommen sind. Trotzdem möchte ich noch mal auf die Frage der Wirksamkeit der EZB-Politik eingehen. Denn es wurde in den letzten Jahren viel gemacht; dadurch ist es gelungen, Deflation zu verhindern. Es ist also eine gewisse konjunkturstimulierende Wirkung ausgegangen, aber wir sehen, dass sich das zunehmend erschöpft; dass es eben nicht mehr gelingt, Investitionen mehr anzureizen, dass die Inflation „nicht in Gang kommt“: mit einem Prozent sind wir ja deutlich zu niedrig. Und ich habe auch den Eindruck, dass das mit den Mitteln der EZB auch gar nicht mehr geht. Das Problem bei Investitionen ist nicht, dass die Finanzierungskosten für Investitionen zu niedrig sind – das ist ja eher das, was die EZB beeinflussen kann –, sondern mir scheint, das Hauptproblem ist, dass von der Architektur der Europäischen Wirtschafts- und Währungsunion die verschiedenen Teile nirgendwo gezwungen werden, gleichgerichtet zu arbeiten, und wir eine Haushalts- und Finanzpolitik haben, die über einen *Two-Pack/Six-Pack* eher restriktiv ausgerichtet ist, vorangetrieben dann auch noch von vielen Regierungen – bis hin zu Deutschland –, die die schwarze Null als oberstes finanzpolitisches Ziel hochhalten.

Deswegen die Frage: Wäre es nicht notwendig – oder vielleicht wird es ja auch gemacht –, in ihrer Überprüfung der Währungspolitik diese institutionelle Architektur mit zu überprüfen? Zur Wahl 2003 war ja gerade der Beginn der Europäischen Wirtschafts- und Währungsunion. Und welchen Beitrag will die EZB jetzt in diesem Zusammenhang eigentlich leisten, um grundsätzlich darüber nachzudenken: War das alles richtig, was wir damals gemacht haben?

1-036-0000

Christine Lagarde, *President of the European Central Bank*. – One day, maybe I'll be able to answer in German. You know, one has to ask oneself, are we useful? Are we contributing or not? To determine that, there is clearly the objective against which you measure, which has been identified as the aim of 'close to but below 2%', and clearly at the moment we are not there. But it would be wrong to reach the conclusion that the ECB has not delivered, because you need to run then the counterfactual to determine whether or not we have delivered and whether we did the best we can. When you do that, you actually try to figure out what it would have been like if there had been no monetary policy of the sort that was conducted, and clearly, it shows that the impact on the level of GDP has been significant. The models measure it at anywhere between 2.3% to 2.7%, where the level of GDP would have been lower had it not been for the monetary policy. The same goes for inflation, where, had it not been for the monetary policy, inflation would have been even lower than it is today, by a factor of about a third to half a percentage point.

So it's not that I'm satisfied and we should be content with what we've done; we need to strive at doing even a better job – all of us, all policy-makers. But clearly I think that the monetary policy has been as effective as it could be over the years.

I would say that, having a fiscal capacity (BICC is the most commonly-used abbreviation for this, I think, competitive and convergence instrument) as one of the attributes of the Monetary Union, as a fiscal capacity that could be used, including for stabilisation purposes when one country is facing a particular shock, that would be attentive to moral hazard on the one hand but also protecting against the risk, would certainly be an improvement to the Monetary Union.

1-037-0000

Sven Giegold (Verts/ALE). – It's great to have you here, and I'm very pleased that there's at least, at the moment, one woman in the leadership of the ECB, and I hope it will be more soon. Beyond that, I would like to follow up on the issue of climate change and what the Central Bank can actually do.

When you were describing the more concrete measures you have in mind, it was quite obvious from my perspective that the core of monetary policy was not mentioned. So the refinancing operations, which are so critical – they are basically determined by the risk assessment. So therefore, my question is: will you put pressure on the rating agencies you use, or your own risk assessment measures, when it comes to the refinancing operations, to ensure they take climate change into account in the necessary way?

And second, when it comes to the open market operations such as in your QE programme, will you end with the bias which we have at the moment? The automotive industry has 2.16% of the total bonds, but in the QE programme of the ECB it had 6.84%. Very similar for energy: total bond in the EU market: 2.55; QE share of the ECB: 9.54. And quite the opposite for the renewables: total of the bonds: 0.18 and zero purchases by the ECB. All based on 2017 data.

So will you also take the climate change agenda into the core of monetary policy?

1-038-0000

Christine Lagarde, *President of the European Central Bank*. – First of all, on the actual rating: certainly it is critically important that all rating agencies include as part of their ratings the climate change risk. That is not something that should be secluded to specific, EHG-certified rating agencies, and certainly I would hope that the three big well-known rating agencies move in that direction, and if they ask me my views, I will tell them just as I'm telling you now.

Second, the refinancing programmes that we are going through, that we will be going through in the future. That, for the moment, operates on the basis of the market neutrality principle, which has been highly debated, which has different interpretations in different corners, and it is certainly an area where we need to have a debate. And as part of the strategy and as part of the review of the instrument and the tools that we use in order to deliver on the mandate, we have to ask ourselves the question of the appropriateness of the proportionality and of the inclusion of climate change risk as part of the determining factors.

But you have noticed that, whenever it comes to the strategic review, I'm particularly attentive not to pass irrevocable wise judgment on what it will be, because it's a matter that needs to be debated with all members of the Governing Council; the framework has to be agreed with all of them, and no, I'm not running a single-woman shop, no. This is a collective endeavour and one where the dialogue with you all, and with civil society, and with experts, will actually improve on the outcome, and I very much look forward to that.

1-039-0000

Francesca Donato (ID). – Signora Presidente, ringrazio la Presidente Lagarde di essere qui.

Apprezzo molto il suo approccio di apertura rispetto alla richiesta di rivedere, possibilmente, gli obiettivi della BCE. È stato sollevato da diversi colleghi, come detto finora, come questi obiettivi non siano stati raggiunti in pieno: oggi l'inflazione nell'eurozona è intorno all'1 %, quindi il target prefissato è ancora abbastanza lontano.

Sia Lei sia l'ex Presidente Draghi avete più volte sottolineato come la ripresa della crescita economica nell'eurozona dipenda anche molto dal fatto che i paesi membri effettuino delle corrette politiche fiscali di incentivo agli investimenti. Però quello che osserviamo è che i paesi membri che hanno lo spazio fiscale per realizzare questi investimenti utili non intendono utilizzarlo a questo fine, per timore di ridurre i propri surplus commerciali.

Quello che manca, a mio avviso, e che si è ridotto progressivamente negli anni nell'eurozona, è la quota di investimenti pubblici, e questi mancano soprattutto nei paesi in cui la crescita è più bassa a causa di una situazione di arretratezza delle infrastrutture che, a mio avviso, è anche una delle cause più importanti della difficoltà, da parte di questi paesi, di resistere ai cambiamenti climatici e agli eventi atmosferici avversi. In questi paesi abbiamo inoltre una pressione fiscale molto alta, che porta a una compressione della domanda interna e impedisce una ripresa della crescita.

Alla luce di questo, Lei pensa che, oltre agli strumenti attualmente disponibili, la BCE abbia bisogno di crearne di nuovi per spingere in alto la crescita e l'inflazione in Europa? E se sì, quali crede potrebbero essere tali strumenti?

1-040-0000

Christine Lagarde, *President of the European Central Bank*. – To your point about number one: we are far away from inflation. It's quite a fascinating topic that economists are trying to understand and are struggling with, because it's in many corners of the world that inflation is much lower than it was anticipated and much lower than the Phillips curve would normally direct it. Our economists and our analysts within the Eurozone are trying to understand

exactly what is happening under the cover of the engine, and it's interesting to see that at the moment, while unemployment has gone down, employment participation has gone up, and wages, as measured, have gone up as well, yet that should lead normally to price increases – more demand addressed, prices typically should go up, and they don't.

So what is probably happening, and this maybe is corroborated by feedback that you get from constituencies and your own observations at home or elsewhere in the euro area, is that it seems that the employers, of which the cost base is going up because wages are going up, instead of increasing prices as they would typically do normally, actually are squeezing margins. Why they do that is difficult to really assess and understand. Is it because of uncertainty? Is it because of wanting to protect their market share against competition? Is it because of not enough confidence in how they can resist other channels of competition? It's difficult to find out, but that's what we are observing on the markets. Is that going to last? That's a big question. If uncertainty factors tend to dissipate (who knows?); if Brexit rolls out in a smooth way and if the transition period is generally well understood; if the trade adversarial debate leads to a negotiated phase one between China and the US; if the Chinese numbers are going up again: if all these uncertainties that we have out there from a macroeconomic point of view tend to dissipate, will then corporates, the employers in general, will then they channel into prices the increased costs that they are having? That would be clearly critical for the inflation numbers. We will see, but that's what we're observing at the moment.

As far as the other policies are concerned, I've said what I have said. On the fiscal front, monetary policy is best transmitted and most efficient when other policy-makers also do their share. Some countries, I would observe, with fiscal space are actually considering using that fiscal space for good purposes. This is certainly the case in one member of the euro area that I can think of, and this is very welcome.

1-041-0000

Eugen Jurzyca (ECR). – I have to obey the rules set by our Chair, so I will ask Madame Lagarde the question about her publishing analyses of side effects of the current monetary policy next time. Today I will ask you only a question regarding the memorandum of understanding between the ECB and the Court of Auditors. In September Mr Draghi answered my question in this very Committee, saying that the key issue used to be whether the ECA could go into judging not only the operational management of ECB but also the actual effectiveness of undertaken ECB policies. Could you clarify please if ECA is currently authorised under the memorandum to assess the effectiveness of the policies of ECB or not?

1-042-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your question. The operational efficiency of the management of the ECB is essential for the ECB to deliver on its mandate, and it is therefore welcome that the ECB's operational efficiency is independently assessed by the European Court of Auditors, as foreseen in the EU Treaties, and that the ECA can provide advice in that respect. So that applies to the operational efficiency. The work of the ECA in that context will be fully supported, and you can count on me to actually support their work. They will have access to all the documents required for the performance of their task. But at the same time, taking decisions on the substance of the ECB's own task (and that's probably what you call the policies), by definition, is the role of the ECB, and one that has to be kept separate and that has to be conducted in total independence, as is required under the Treaties and the statutes that we abide by.

1-043-0000

Caroline Nagtegaal (Renew). – Yes, thank you Madam Chair and Madame Lagarde, '*félicitations pour votre nomination à la présidence*'. But I will continue in Dutch. It sounds not so lovely, but, well...

Mevrouw Lagarde, u neemt het stokje over in een zeer interessante en uitdagende tijd en het belangrijkste onderwerp onder uw verantwoordelijkheid is in principe de prijsstabiliteit. Die beschermt de koopkracht van de euro en moet ook zorgen voor duurzame groei en voldoende werkgelegenheid. De ECB is volledig onafhankelijk en ik denk dat dat ongelooflijk belangrijk is en ook zo moet blijven.

Wel heb ik wat zorgen bij het beleid van de ECB op dit moment. Het opkoopprogramma is weer gestart en vorige week heeft de ECB zelf nog bevestigd dat de rente significant is verlaagd. Consumenten ontvangen eigenlijk nauwelijks nog rente op hun spaargeld. Misschien moeten we zelfs bang zijn dat ze binnenkort moeten betalen om geld bij de bank te mogen stullen. Als we naar Nederland kijken, zien we dat pensioenfondsen daar enorm groot zijn en een heel belangrijk onderdeel van de sector vormen. Maar ook hier dreigen pensioenkortingen door de lage rente.

Mijn vraag aan u is: waarom houdt de ECB zo sterk vast aan een inflatiedoelstelling van 2% en staat de ECB open om ook een andere invulling te geven aan het begrip prijsstabiliteit? U gaf zelf aan dat dit begrip in 2003 is vastgesteld. Er is een ongelooflijk veel gebeurd in 16 jaar tijd en in Nederland bestaat gewoon zorg over het ECB-beleid en het effect op die fondsen. Zoals gezegd moeten pensioenfondsen mogelijk gaan korten op uitkeringen. Wilt u dit meenemen in uw overwegingen?

1-045-0000

Christine Lagarde, *President of the European Central Bank*. – What I can assure you of is that the ECB is not oblivious to the impact and the effects that its policy mix produces and that we monitor and will continue to monitor the impact that those policies have.

It cannot be the issue of one category or another, and we have to take into account all impacts that the policy has. By supporting growth, by encouraging investment, by producing the low-cost financing that is available, by contributing to the creation of employment and jobs in general in the euro area, the ECB is trying to deliver on its mandate and is trying to encourage the growth of this economy. So this is the strongest deliverable that it can produce. Now clearly, there are side effects, and we have to be very mindful of them and we have to anticipate, I think, that the two-tier system which was put in place as part of the package in September was precisely intended to make sure that banks could actually channel through to the economic actors zero interest rates and not negative interest rates, so that it could continue to fuel the functioning of the economy. Now I know that, for some pension funds in particular in some countries, it is an issue, and we will be very attentive to that and see how best we can take those factors into account to define the strategy going forward.

1-046-0000

Piernicola Pedicini (NI). – Signora Presidente, signora Presidente Lagarde, a meno di cambiamenti dell'ultimo momento, al prossimo Consiglio del 13 dicembre, i capi di Stato e di governo che hanno aderito al meccanismo europeo di stabilità (MES) dovranno pronunciarsi sulla revisione del suo trattato istitutivo.

Io voglio far presente che quando il MES si chiamava "fondo salva Stati" non sono stati salvati Stati, come la Grecia, ma piuttosto le banche, specialmente francesi e tedesche che si erano esposte in Grecia e in Spagna. L'Italia per l'occasione ha sborsato 60 miliardi di euro che non sono mai più tornati indietro.

Ora, con questa revisione del trattato, da una parte si affianca il fondo di risoluzione unica delle crisi bancarie e quindi si decide di intervenire in caso di crisi bancarie: dall'altra, invece, si prevede una linea di credito agevolata, una linea di credito rafforzata e nessuna linea di credito per quegli Stati che dovessero avere un debito pubblico giudicato insostenibile, con il

paradoxo che possono accedere al MES le banche che sono in crisi, come la Deutsche Bank, e gli Stati che non ne hanno bisogno, forse come la Germania, mentre non possono accedere quegli Stati che invece potrebbero averne bisogno, essendo però questi ultimi obbligati a contribuire per coprire i capitali e le eventuali perdite.

Qual è la sua opinione sul MES come strumento per intervenire per risolvere le crisi sistemiche nell'Unione europea?

1-047-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much for your question, and let me be extremely clear on the ESM, because I think I have a degree of legitimacy in that respect, because I was in the room when the ESM was first started. The ESM changes that are being considered at the moment are intended to reinforce the crisis management system of the euro area. There is no question in my mind that it is with that purpose that the various proposals are being put to the European Council later this month. I know that this is leading to debates in various countries, but it is precisely to deal with the issue of vulnerability – financial risk – that the ESM should be restructured and strengthened in the way it is envisaged.

The debate about the collective action clause which has agitated some is very close to me, because the IMF at the time played a critical role in actually engaging the collective action clause. What is a collective action clause? It's a provision in an issuance that is intended to make sure that, if there was a restructuring, then minority holders cannot hold all the other creditors hostage to their own very particular interest. It's making sure that the majority is protected against the excess of a minority.

These collective action clauses have nothing to do with the euro area specifically, but they are really an international provision that is recommended the world over in case of any and all issuances in order to facilitate crisis management: not to take away, not to be in any shape hostile to a country, but to help it.

1-048-0000

Margarida Marques (S&D). – Senhora Presidente, perceberá que hoje o combate às alterações climáticas seja o *key point*. Madrid acaba de começar.

Em setembro passado, na audição no Parlamento Europeu aqui nesta casa, anunciou que ia fazer da luta contra as alterações climáticas uma das prioridades do BCE. As alterações climáticas têm também consequências sociais e macroeconómicas, como, aliás, acabou de referir.

Riscos climáticos já foram identificados pelo BCE como um dos riscos principais que podem afetar o sistema bancário da zona euro e também o *outlook* das economias. No seu mandato, Presidente Lagarde, o BCE tem toda a legitimidade para apoiar ativamente a transição para uma economia neutra em carbono. Pode ajudar a definir as regras, mas também a aplicá-las.

Do nosso lado tem todo o apoio. A Comissão Europeia tem as questões ambientais no topo da agenda política, o Parlamento Europeu acabou de aprovar uma resolução declarando o estado de emergência climática e ambiental e no próximo dia 11 teremos um plenário para debater o ambiente.

A revisão da estratégia da política monetária não pode, de todo, esquecer esta dimensão. As questões: encontrará seguramente obstáculos. A minha questão é como vai convencer os seus colegas de outros bancos centrais que pensam que a luta contra as alterações climáticas deve ser do âmbito da política fiscal e não da política monetária?

Que medidas específicas está a pensar propor e implementar, quer em termos das operações internas do BCE, quer no quadro do poder do BCE no que diz respeito ao quadro internacional em que o BCE pode agir? Estou a referir-me a que medidas específicas pretende propor e implementar no âmbito do G7, do G20 ou das relações com a China?

1-049-0000

Christine Lagarde, *President of the European Central Bank*. – I'll be very brief in my response, because I think I have tried to identify that. I would say first of all: in analytical terms; second: in supervision mission; third: in the direct investment and pension fund management; fourth: in the programmes that we operate under, where we have to identify and consider where and how climate change can and should have an impact in the risk assessment that it produces. But I would also mention that we are active in multiple forums and we are a member of the Network of Central Banks and Supervisors for Greening the Financial Sector, which, as you know, at this point in time brings together more than 50 central bank governors and their teams in order to move resolutely in the direction of the greening of operations. We are also active in the G7. We are active through Benoit Cœuré in particular, who has recently produced also some supporting views, and any forum where we are – G20 is another one where, clearly, climate change is going to be and will have to be debated. The strategic review will incorporate those components as well.

Sorry, I think I'm mixed up because Benoit Cœuré is very, very keen on climate change, contrary to what has been reported here and there, but he's more focused on the issue of digital currencies, and that's where he is delivering to the G7 and will actually be part of the BIS to help in that respect. But he's a climate-change-convinced person as well.

1-050-0000

Fabio Massimo Castaldo (NI). – Madame Lagarde, ahead of a change of leadership, the ECB's Board is deeply divided over the future path of monetary policy. As is well known, unity is paramount to the Central Bank's credibility and the ability to influence financial markets. Investors look for a sign that the Central Bank is committed to the measures announced. One of Mr Draghi's accomplishments at the helm of the ECB up until very recently had been getting the Governing Council members to speak with a unified voice. Consensus was essential, for example, during the extraordinary measures introduced on Mr Draghi's watch that are seen as having prevented the Eurozone from collapse during the debt crisis. This unprecedented split undermines the effectiveness of monetary policy just when it needs to convince watchers it can support the economy in the future. For the markets, the current divisions have indeed added to a perception that the ECB's room for manoeuvre is limited. Meanwhile, Member States with available fiscal space look no closer to heeding the call to increase spending that could ease the burden of monetary policy. Therefore, my question to you is: what does this split within that Governing Council mean for policy? Does it make further monetary easing more difficult? If so, what will you do to heal those divisions?

1-051-0000

Christine Lagarde, *President of the European Central Bank*. – It will not surprise you if I point to where people actually agreed, and I think that there was – and I certainly was a witness to that – unanimous consent in the overall mandate and the objectives that were pursued. So all Members were unanimous in their commitment to achieve the ECB price stability objective. The Governing Council was also unanimous on the need to provide additional monetary policy accommodation. Where you then had a difference was on the exact calibration and type of instruments that were used. But this is a healthy discussion, if I may say, and certainly, going forward from my own governance principle, while I will do the best I can to rally a unanimous consent around a package, if and when the time comes when such a package is needed, but if there is dissent, then dissent there will be, and we will need to find a healthy and efficient way to deal with it. There are many other central banks that actually deal with dissent. Obviously it's ideal if you have a unanimous consent, but I think

the institution is strong enough and has established enough of its reputation to actually withstand possible dissent if and when it arises.

1-052-0000

Chair. – Thank you very much. Our monetary dialogue ends here. I wish to thank everyone who participated and I also wish to thank Madam Lagarde. Considering this was our first meeting after only four weeks, we had a lot of interesting topics to discuss, and I am sure that this will also be the case in the future.

(The meeting closed at 17.10)