

Hearing at the Committee on Economic and Monetary Affairs of the European Parliament

Introductory statement by Christine Lagarde, President of the ECB, at the ECON Committee of the European Parliament (by videoconference)

Frankfurt am Main, 28 September 2020

Madam Chair,

Honourable members of the Economic and Monetary Affairs Committee,

Ladies and gentlemen,

Thank you very much for giving me the opportunity to speak to you today and to have a frank and timely discussion about the ECB's monetary policy, as befits the topics you have chosen for this hearing.

After a few words on the euro area economic outlook, I will focus my remarks today on the ECB's monetary policy and in particular on the role of asset purchases, before sharing some reflections on the ECB's accountability arrangements.

The euro area economic outlook

The impact of the coronavirus (COVID-19) pandemic is still being felt across the euro area. Businesses are facing difficulties, people are losing their jobs, and prospects about the future remain uncertain.

While euro area economic activity rebounded in the third quarter, the recovery remains incomplete, uncertain and uneven. Consumer spending has resumed significantly, but consumers remain cautious owing to anxiety about their job and income prospects.^[1] Similarly, business investment has been picking up, but weaker demand and elevated uncertainty continue to weigh on firms' investment plans.

In this context, job retention schemes and national guarantees on bank loans remain critically important factors in reducing uncertainty and softening the impact of the pandemic.

The latest ECB staff projections foresee annual real GDP growth at -8.0% in 2020, 5.0% in 2021 and 3.2% in 2022. Euro area real GDP is only expected to recover to pre-crisis levels in late 2022.^[2] The strength of the recovery remains, however, highly dependent on the evolution of the COVID-19

pandemic and the success of containment policies. The public health crisis will continue to weigh on economic activity and poses downside risks to the economic outlook.

The sharp drop in economic activity earlier this year has weakened price pressures. Annual headline inflation in the euro area stood at -0.2% in August and is expected to remain negative over the coming months, reflecting the effects of earlier declines in energy prices, a stronger euro, and a temporary reduction in the value-added tax rate in Germany. ECB staff project annual inflation to gradually increase, from an average of 0.3% in 2020, to an average of 1.0% in 2021 and 1.3% in 2022.

The ECB's monetary policy

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

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

And second, we have launched the pandemic emergency purchase programme (PEPP) to ensure the smooth transmission of our monetary policy and to ease the overall monetary policy stance thereby helping to offset the downward impact of the pandemic on the projected path of inflation. The PEPP, launched with an initial envelope of €750 billion in March, was increased by €600 billion in June to a total of €1,350 billion. We will conduct net asset purchases under the PEPP until at least the end of June 2021 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. In the current environment of elevated uncertainty, the Governing Council will carefully assess all incoming information, including developments in the exchange rate, with regard to its implications for the medium-term inflation outlook. It continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

The ECB's accountability arrangements

The ECB has been able to deliver a strong policy response during the crisis thanks in part to its ability to act in full independence, as set out in the Treaty.

This independence in turn relies on effective accountability mechanisms to ensure that the ECB fully pursues its mandate, as also enshrined in the Treaty.

Delivering on the ECB's Treaty obligations is a shared challenge for both the ECB and the European Parliament. While requiring effort and commitment from both sides, it is in both our institutions' interest.

To be effective in assessing the ECB's actions and relaying people's concerns, accountability practices need to meet three criteria. First, they need to be commensurate with the ECB's tasks and responsibilities, implying that they have to evolve in line with the complexity and scale of the ECB's measures. Second, they need to be underpinned by timely and adequate information and transparency arrangements. And third, they need to be based on mutual trust to ensure constructive discussions on critical and difficult issues.

Over the years, our two institutions have worked together to build and strengthen their accountability relationship, well beyond the requirements of the Treaty. Indeed, I would argue that this relationship meets the three criteria I have just spelled out.

First of all, the ECB's accountability practices have evolved over time.^[3] With the launch of European banking supervision in 2014, specific accountability arrangements were established for the ECB's supervisory arm. We also strengthened our relationship to reflect the greater complexity of the ECB's monetary policy measures. For example, when the ECB was taking unprecedented action during the exceptional circumstances caused by the pandemic, I held an ad hoc exchange of views with the political group coordinators of this Committee. Moreover, we have agreed to interact more closely in the context of the ECB's strategy review and ensure that our regular dialogues play a key role in how we inform about the exercise. The outcome of the review will also provide an opportunity for us to consider the ECB's accountability practices.

The ECB's accountability has also been enhanced by a better flow of information between our two institutions. As we discussed last February^[4], this requires us to continuously aspire to communicate as clearly and as openly as possible. As part of this endeavour and also in response to parliamentary and public demands, the ECB has already started providing more detailed information about its asset purchases and current holdings on its website. Today I can announce an additional transparency measure. From now on, we will publish on our website the opinions of the ECB Ethics Committee for cases of conflict of interest and post-mandate gainful employment by the members of the ECB's Executive Board, Governing Council and Supervisory Board.^[5] This new initiative complements the single Code of Conduct for high-level ECB officials and demonstrates our strong commitment to integrity and good governance. It will facilitate public scrutiny, thereby enhancing trust in the ECB and ultimately in its decisions.

This leads me on to my final point on good working relations requiring trust. Trust, on the one hand, that criticism of the ECB reflects concerns raised by European citizens on matters that fall within the ECB's mandate. And trust, on

the other hand, that the ECB listens and takes such criticism into account. This trust forms the basis for our constructive dialogue, both formal and informal, and ensures that our relationship delivers. And so it does: in response to your call for the ECB to reflect on ways of reducing the reporting burden associated with the collection of statistical and prudential data – an activity which costs the banking sector several billion euro each year – we proposed practical solutions in cooperation with other European authorities and the banking industry, while improving the quality of the data collected.^[6]

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

Building on these three criteria, we should continue to do what we have been doing all along: ensuring that our accountability practices remain commensurate by letting them evolve in a flexible manner and by adapting them in line with the demands for scrutiny from European citizens. And because we can only make improvements if we are aware of people's expectations and concerns in relation to the ECB and its policies, we are inviting everyone in the euro area to share their ideas and comments through the [ECB Listens portal](#) on our website.

Conclusion

Let me conclude.

Our regular exchanges are crucial in explaining the ECB's actions to people across Europe and to you as their representatives.

This is even truer in testing times when the people of Europe expect the EU to rise to the challenge. A recent survey commissioned by this Parliament shows that more than two-thirds of Europeans would like to see the EU have more competences to deal with crises such as the COVID-19 pandemic. Citizens clearly look to the EU for answers and you play a central role in ensuring that such answers are forthcoming.

The measures adopted thus far by national governments and the European institutions are reinforcing our policies. At the same time, our policies are creating the most favourable conditions for the full impact of structural and fiscal policies to be felt.

The Parliament's calls for an ambitious European response were heard by European leaders. It will now be important to ensure that the Next Generation EU funds are used not only in a timely fashion, but also in a way that enhances

long-term growth and supports common EU objectives. If we get it right, Next Generation EU could be just the game changer that Europe needs – in terms of modernisation, resilience and prosperity.

[¹][Dossche, M. and Zlatanos, S. \(2020\), "COVID-19 and the increase in household savings: precautionary or forced?", *Economic Bulletin*, Issue 6, ECB.](#)

[²][ECB staff macroeconomic projections for the euro area, September 2020.](#)

[³][Fraccaroli, N. et al. \(2018\), "The evolution of the ECB's accountability practices during the crisis", *Economic Bulletin*, Issue 5, ECB.](#)

[⁴][Introductory statement by Christine Lagarde, President of the ECB, at the ECON committee of the European Parliament, Brussels, 6 February 2020.](#)

[⁵][Available on the ECB's website.](#)

[⁶][See "ECB proposes to reduce reporting burden for banks and increase data quality", press release, 21 September 2020.](#)