1-001-0000

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

BRUSSELS, MONDAY, 7 FEBRUARY 2022

1-002-0000

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

(The Monetary Dialogue opened at 16.52)

1-003-0000

Chair. – I would like to welcome President Lagarde of the European Central Bank to the first monetary dialogue of 2022. The previous one took place on 15 November 2021.

Today, we are holding the monetary dialogue in a virtual format. However, I hope that conditions will allow us to be able to participate physically in our next monetary dialogue during the second quarter of 2022, and of course we all look forward to meeting President Lagarde in person on that occasion.

Since our last monetary dialogue, the ECB Governing Council has held two meetings, in December 2021 and in February 2022, just last Thursday. The ECB Governing Council reconfirmed its decision to reduce gradually the pace of its asset purchases over the coming quarters, specifically regarding the Pandemic Emergency Purchase Programme, which is usually referred to as the PEPP. It was noted again that the ECB will discontinue net asset purchases under the PEPP at the end of March 2022.

The Governing Council also reconfirmed its other measures, namely the level of the key ECB interest rates, its forward guidance on their likely future evolution, its targeted longer-term refinancing operations and an extension of the investment horizon for the PEPP. Once again, in the last monetary policy decisions, the Governing Council restated a very important concept: ‘flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability’. This marks a key element in the design and conduct of asset purchases that has helped to counter the impaired transmission of monetary policy.

As indicated at the press conference on the same day, after the Governing Council meeting last week, the euro area economy continues to recover. In this regard, targeted and productivity-enhancing fiscal measures and structural reforms, attuned to the conditions in different euro area countries, remain key to complementing monetary policy effectively. Particular attention has been given to the trend of inflation, and I believe that, as in November, there will be many questions from our members on that specific point.

The two topics that were chosen by the ECON coordinators for today’s meeting are, first, inflation expectations in the euro area, post-pandemic trends and policy implications, and, second, the communication, complexity and credibility of monetary policy. As usual, all briefing papers that were prepared by the EP panel of experts are available on the ECON website. We had a very good discussion in the monetary dialogue preparatory meeting, which was webstreamed.

A few practical considerations now before starting. First, in line with agreed practices, the following procedure will be applied for this exchange of views: there will be introductory remarks by President Christine Lagarde of about 15 minutes, which will be followed by five-minute question-and-answer slots – two minutes maximum for the question and three minutes maximum for the answer. If time so allows, additional slots will be allocated on a catch-the-eye basis, taking into account the weightings of each of the political groups. I would really please ask you all to strictly respect the time given to you and, since President Lagarde will only have three minutes to answer, I strongly advise colleagues to ask one question, and a maximum of two short questions.

President Lagarde, you have the floor for 15 minutes.

1-004-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Madam Chair, and thank you for your clarification on the one, maximum two, questions.

Honourable Members of the Economic and Monetary Affairs Committee, Ladies and Gentlemen, I am very happy to be with you for the first hearing this year. As we said when we met in November last year, I had been looking forward to joining you in person in Brussels for this hearing if circumstances allowed. However, as the health situation has worsened over the last couple of months, our virtual meetings will have to continue a little longer than we would have wished. That said, I'm looking forward to attending the plenary debate on the ECB's Annual Report for 2021 in Strasbourg next week, and I hope to see some of you there.

On this day in 1992 – on this very day – the leaders of twelve European countries decided to transform the European Community into the European Union by signing the Maastricht Treaty. Thirty years on, Europe continues to benefit from many of the accomplishments of that Treaty.

The Treaty established European citizenship, including the right to move and settle freely in the EU. It granted your Parliament extended powers through your right of co-decision and it strengthened Europe's voice in the world through a common defence and security policy. And, perhaps most importantly, the Treaty laid the foundation for our economic and monetary union, leading to the introduction of the euro and the establishment of the ECB.

As we are celebrating 20 years of euro banknotes and coins this year, there is no doubt that the single currency has been a success. It has brought stability and made us more resilient in the face of the multiple adverse shocks that we have experienced.

Over the past 20 years, the ECB has ensured price stability, with an average inflation rate of 1.7% since early 1999. We are determined to continue doing so.

In my remarks today, I will therefore first update you on the latest assessment of the economic situation in the euro area and present our monetary policy stance. I will do so with a firm determination that clear communication – the topic you have chosen for today's hearing − is crucial for our policy, for our credibility and for the trust people have in us.

Already during my first hearing, back in December 2019, I outlined my aspiration to improve our communication practices so that markets, elected representatives like yourselves and the wider public better understand how we reach our decisions, what motivates them, and how they affect people's daily lives.

Following on from our strategy review, we are now using clearer, more narrative-driven language, together with relatable visuals. As at the last hearing, I will thus explain the key macroeconomics developments discussed in this statement with the help of the charts in the accompanying two-page document that I'm sure you have received and which is available.

When we last met in November, I stated that growth momentum was moderating. Indeed, recent data confirm that quarterly growth slowed to 0.3% in the final quarter of 2021, which still allowed gross domestic product (GDP) to recover to its pre-pandemic level. The moderation in growth momentum has resulted mainly from the rapid spread of the Omicron variant. The associated containment measures have dampened activity, particularly in consumer services such as travel, tourism, hospitality and entertainment.

The current pandemic wave and associated restrictions are likely to continue to have a negative impact on growth at the start of this year. Two other factors which we discussed at the previous hearing − namely supply bottlenecks and high-energy costs − are also expected to dampen economic activity in the near term, and you can see that on the front page of this one-page document in the left-hand column at the top.

However, the economic impact of the current pandemic wave appears to be less damaging to activity than previous ones. Moreover, the aforementioned bottlenecks will still persist for some time, but there are some signs that they may be starting to ease. This will allow the economy to pick up strongly again later this year.

Inflation has risen sharply in recent months and it further surprised on the upside in January, with the rate increasing to 5.1% from 5% in December. Inflation is likely to remain high in the near term. Energy prices continue to be the main reason for the elevated rate of inflation. Their direct impact accounted for over half of headline inflation in January and energy costs are also pushing up prices across many sectors. You can see that very clearly in the right-hand column on the first page. Food prices have also increased, owing to seasonal factors, elevated transportation costs and the higher price of fertilisers. In addition, price rises have become more widespread, with the price of a large number of goods and services having increased markedly.

Financing conditions for the economy have remained favourable. While market interest rates have increased since December, bank funding costs have so far remained contained. Bank lending rates to firms and households continue to stand at a historically low level. You can see that in the left-hand column at the bottom.

Turning to the risk assessment, we continue to see the risks to the economic outlook as broadly balanced over the medium term. Uncertainties related to the pandemic have abated somewhat. At the same time, geopolitical tensions have increased and persistently high costs of energy could exert a stronger than expected drag on consumption and investment. The pace at which supply bottlenecks are resolved is also a further risk to the outlook for growth and inflation. Compared with our expectations in December, risks to the inflation outlook are tilted to the upside, particularly in the near term. If price pressures feed through into higher than anticipated wage rises or if the economy returns more quickly to full capacity, inflation could turn out to be higher.

In a few weeks, the March ECB staff projections will provide an updated assessment, taking the most recent data into account. This will help the Governing Council better appraise the implication of the surprisingly high December and January inflation figures for the medium-term outlook.

In particular, we will carefully examine how higher energy prices will transmit through the economy and affect the outlook overall. Two channels could be at play, pulling inflation dynamics in different directions. On the one hand, rising energy costs can drive up prices directly, by increasing the cost of production, as well as indirectly, by having second-round effects on wages. On the other hand, they can have a negative impact on the income of households and the earnings of companies, thereby reducing economic activity and dampening the inflation outlook. In the past, the euro area has been particularly vulnerable to the second channel, as surges in energy prices weakened the spending power of households, and reduced inflation over the medium term.

Obviously, in our assessment of the inflation outlook, we have to bear in mind that demand conditions in the euro area do not show the same signs of overheating that can be observed in other major economies. This increases the likelihood that the current price pressures will subside before becoming entrenched, enabling us to deliver on our 2% target over the medium term.

Indeed, while moving up over recent months, indicators of longer-term inflation expectations are consistent with this expectation. Survey-based measures point to inflation returning to 2% by 2023 and remaining close to this level thereafter; and market-based indicators stabilise around levels somewhat below 2%, and you have that identified in the right-hand chart on the back of the page that you have. The solid anchoring of long-term inflation expectations in the euro area is a reassuring development, coming after a long period when they were subdued.

To sum up, the euro area economy has continued to recover, although growth is expected to remain subdued in the first quarter. While the outlook for inflation is uncertain, it is likely to remain elevated for longer than previously expected, but to decline in the course of this year.

In our meeting last week, we confirmed the decisions that we took in December. Accordingly, we will continue reducing the pace of our asset purchases, step-by-step over the coming quarters, and will end net purchases under the pandemic emergency purchase programme at the end of March.

In view of the current uncertainty, we need more than ever to maintain flexibility and optionality in the conduct of monetary policy. Our monetary policy is always data-dependent, and this is all the more important in the situation that we are facing at the moment. We will remain attentive to the incoming data and carefully assess the implications for the medium-term inflation outlook.

Those implications are key parameters in our forward guidance. That forward guidance has several dimensions. There is a defined sequencing between the end of our net asset purchases and the lift-off date. A rate hike will not occur before our net asset purchases finish. Moreover, there are three conditions that will have to be satisfied before the Governing Council feels sufficiently confident that a tilt in our policy rate is appropriate. All the three conditions are meant as safeguards against a premature increase in interest rates. Finally, any adjustment to our policy will be gradual.

At this point, let me conclude. Former Commission President Jacques Delors described the process leading up to the Maastricht Treaty as one requiring ‘great determination, rock-hard solidarity and a little daring from time to time’. The leaders of Europe have once again demonstrated these qualities with their policy response to the pandemic crisis. And, as we emerge from the pandemic, we need to continue down this path.

The ECB will play its part and show the determination needed to ensure price stability. You may rest assured that our commitment to deliver on this remains absolutely unwavering, as does our resolution to explain, to convince, but also to listen and better understand people’s concerns. Our regular exchanges with you, their elected representatives, are crucial in that regard.

With this in mind, I very much look forward to today’s discussion with you.

1-005-0000

Markus Ferber (PPE). – Yes, thank you, President Lagarde, for your explanations. At the press conference on Thursday, you noted in connection with the most recent monetary policy decision that inflation remained very high at over 5 %. And you described this with these words: Compared with our expectations in December, risks are tilted to the upside, particularly in the near term. At our last exchange of views, you maintained that this was all just a temporary phenomenon and referred in this connection also to the German reduction in value added tax, which is no longer statistically relevant. I find it therefore all the more surprising that the European Central Bank does not draw any new conclusions from this new findings. Now, I'm not the biggest fan of Keynes, but he once said: 'When the facts change, I change my mind'. I consider this to be very pragmatic. Why does the European Central Bank not change its opinion now that the facts have changed?

And secondly: You referred briefly to other economic areas in your statement. Last time I asked: To what extent does the exchange rate of the euro against the dollar have an additional impact on inflation? You also touched on energy prices. Oil and gas in particular are traditionally still traded in dollars, and so here too we have the additional dynamics of inflation. We are therefore importing inflation into the eurozone, for example via energy imports. To what extent do you take the impact of exchange rates into account in your reflection? Thank you

1-006-0000

Christine Lagarde, *President of the European Central Bank***.** – Start with the first part of your question, which has to do with our monetary policy decision. And let me just take you through the process through which we went last week on Thursday. First of all, we have indeed confirmed all the policy decisions taken in December. As I said, we confirmed the end of the net purchases under the PEPP, we also confirmed the timeline and the reduced step-by-step approach to net asset purchases under the APP. We also confirmed our forward guidance and we confirmed the sequencing of what we do.

But at the same time, since December, we have received new data that we needed to acknowledge in our communication. And that's what I did on Thursday. So just like last Thursday, I acknowledge that inflation has risen sharply in the recent months, and it has further surprised on the upside in January, with inflation rate increasing from five per cent in December to 5.1 per cent in January. And I also said last Thursday, and I repeated in my introductory statement, that inflation is likely to remain high in the near term. Energy prices, constituting a large part of this elevated rate of inflation, accounting for about half of the headline inflation in January. And, of course, energy prices pushing prices up in other segments as well.

What else did we learn since last time? Well, clearly a good number, which is the labour market conditions, which have improved, unemployment rate at a record low of seven per cent. And we also had the result of our corporate telephone survey, which indicated that there was confirmation of a likelihood of strengthening wages. And finally, we could all see that Omicron had less of an impact than previous waves of the virus have had.

So as a result, and compared with our expectations in December, while the risk to the economy is balanced, the risk to the inflation outlook is tilted to the upside. And this is something that was in our monetary statement that I repeated very clearly Thursday, and I'm repeating again today for you. But of course, the emphasis that we have on this upside risk to inflation projection is particularly strong in the near term.

As I said, the rise is largely driven by energy prices and by supply-side factors. We are not subject to excess demand. We are not subject to labour market overheat as are some other jurisdictions, such as the US or the UK. And survey and market-based measures of inflation expectations have stabilised around our two per cent target. So, the chances have increased, that inflation will stabilise at our target. But there are no signals that inflation will be persistently and significantly above our target over the medium term, which would require a measurable tightening.

So with all that, what we will do at our March meeting is obviously look very carefully at the staff projection numbers and what they will tell us. But there is no need to rush to any premature conclusion at this point in time. The outlook is way too uncertain for that. What we need to do at this point is to increase optionality going forward by clearly signalling that we will continue to be data dependent in line with our forward guidance and our mandate of price stability.

I know this is a bit of a long response and I still have your second question. So I don't know if Madam Chair will allow me to make a few points about this issue of the US situation, because that might take a little while. I'm happy to do so just to particularly focus on the fact that US and euro area comparisons are not necessarily justified.

I will try. The key point is the differences between these two economies: the US on the one hand, the euro area on the other hand, and I will be super brief and happy to come back to that. I think it's a question of completely different fiscal stimulus, completely different demand, completely different labour market and completely different core inflation.

So with those four key categories, we obviously have an economy that is responding differently and that will require a different rhythm and pace going forward, but I'll limit my response to that and be happy to go back.

1-007-0000

Costas Mavrides (S&D). – Thank you very much, Madam Chair.

Madame Lagarde, in these two minutes that I have, I'd like to praise you, first of all, for the monetary policy response to the COVID-19 crisis. It was very important that we had a supportive monetary policy as long as it was necessary. And, by the way, your point is well taken that is clear that we have an upside risk on inflation, which has risen sharply in the last couple of months, but some more conditions are necessary before making any decision for the near term.

Having said that though, a few very short questions. What do you think about housing prices, which are also on the rise, but, at the same time, is a social problem for many middle class and lower level citizens throughout Europe that also affects, in a way, the multiple effect on the economy?

Second, do you think that it's about time now, also taking into consideration one of your remarks about the sense that fiscal capacity could help steer the aggregate euro area fiscal policy stance, and that would ensure a more appropriate macroeconomic policy mix, to think in a more concrete way about the creation of a well-designed, European safe asset?

One last comment, how do you plan for the ECB to have a more effective role in ensuring that the emerging and digitalisation process in the banking sector will be done in full respect of consumer rights? And, by the way, we look forward to welcoming you in Cyprus in the next few weeks.

1-008-0000

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

I think your first question related to housing prices in general. It is a fact that housing prices have increased across the euro area and that macroprudential measures have to be used in all specific countries, and sometimes specific places in countries, where measures can be helpful.

But, beyond that, housing costs are a component that so far we have not taken into account adequately in the measure of inflation that we have had. This was recognised during our strategy review, where we decided to include owner-occupied housing costs into our measure of inflation.

This is not something that can happen overnight because it needs a statistical process that is consistent across the euro area but, once Eurostat and the national statistical institutions in the various Member States have concluded the work, then we should take into account the owner-occupied housing costs, which are underestimated and constitute a real cost for our European fellow citizens.

The second question you asked had to do with safe assets. Well-designed common safe assets could benefit the effectiveness of monetary policy and financial stability by mitigating the negative feedback loops between sovereigns and their domestic banking sector, as well as flights to safety, which were observed during previous crises. Obviously, what we saw with the Next Generation EU, the Recovery and Resilience Facility (RRF) and subsequent most recent bond issuance – and further bond issuances I'm sure – is that there is appetite in the markets for such an instrument. This will be a matter for the European Council and the European Parliament to debate and decide, but suffice to say that out there markets have that expectation and it would comfort the strength of what has been built over the last 30 years.

Your third question had to do with digital currency. On that point, I can assure you that the work that is being done at the moment is certainly very mindful of European citizens' preoccupations, expectations and, in particular, in relation to privacy rights, protection of information and consumer protection. Those matters will indeed be taken into account as we are exploring, for the next few quarters, the opportunity of going ahead with the digital euro. There is no doubt in my mind that the European Parliament will be involved in that as often as possible and as my colleague, Fabio Panetta, is reporting back to you on a quarterly basis.

1-009-0000

Luis Garicano (Renew). – Thank you, Madam Lagarde, for being here and telling us about those decisions. The market, as you know, interpreted your press conference on Thursday as a major policy change, through rate raises, and as a big change over the announcements you had been making.

So I was quite reassured by your comments right now and your commitment to gradual adjustment – no premature conclusion, you said, and the three conditions are still there. But I am still very worried about the return of financial fragmentation. Last week you said there are no spreads. Well, the spreads are returning and I want to ask you just one question about the sequencing. The sequencing – first QE removed, then raised rates – has been constant throughout, and you even said it today, but I'm worried that this will increase fragmentation and that the debt from different Member States will be priced very differently and potentially risk spreads will return to very elevated levels. I know that you can stop adjustment of your purchases in the PEPP Programme and you could still get flexibility in reinvestment decisions, etc., but is that enough? Do you have enough tools to keep the spreads from blowing up? That is my question. If not, are you open to keeping some QE while you start to raise interest rates, reversing the sequencing that we have been anticipating?

1-010-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Garicano, for your pointed question and for only asking one!

As you know, we are as equally concerned about our monetary policy stance as we are concerned about our transmission of monetary policy. So we will use any tools and any instruments that are needed in order to make sure that our monetary policy is properly transmitted throughout the whole euro area to all Member States when the conditions are satisfied. And I do believe that we have the tools and that we have the instruments.

1-011-0000

Henrike Hahn (Verts/ALE). – Madam Lagarde, we are facing a spike in inflation in the euro area, so we are all – that means politicians, economists as well as citizens – discussing what the best monetary policy actions should be at this stage.

As Greens, we strongly support the ECB's decision to keep financing conditions favourable, and this takes place at a time when an elevated rate of inflation is primarily driven by higher energy costs, as you mentioned before. Inflation reflects as well a temporary rebound after months of deflationary trends and economic downturn due to the pandemic. Additionally, the high prices are largely driven by supply restrictions on energy – the field where monetary policy impact is limited. So we believe that a premature withdrawal of accommodative monetary policy and raising interest rates sharply would just be bad for the recovery and employment rates, as you mentioned before as well. It's important not to make the same mistake as in 2011, when the ECB raised interest rates too early in the sovereign debt crisis, thereby increasing borrowing costs, slowing economic growth and increasing unemployment when exactly the opposite was needed.

So could you please elaborate, Madam Lagarde, on what elements point to inflation decreasing by the end of this year, thereby justifying the current monetary policy stance. What is the ECB doing to counter the current concerns in some Member States that inflation might be there to stay?

1-012-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Ms Hahn, for your question. Concerning inflation, as I said in my introductory statement, risk to our inflation projections is tilted to the upside, particularly in the near term, and this is something that we have to take into account, that we have taken into account in our monetary policy communication last Thursday, and that we will continue to observe, particularly in our March – and then later June and September – monetary policy meetings, when we receive the projections that are produced by staff.

We obviously have to take those numbers for December and January, which were surprisingly high – and surprised us all – into account in order to identify the path towards medium-term outlook inflation, which is one of the conditions that we look at in order to take monetary policy decisions going forward as this is part of our forward guidance.

Having said that, I also identified clearly, especially in the statement that I gave you in my opening remarks, that inflation and the current circumstances can have a twofold effect, given the drivers behind inflation. What is behind inflation numbers, and the particularly high inflation numbers? It's largely – more than 50% – energy-prices driven. It is supply driven and the bottlenecks are playing a critical role in that respect. So that can have a twofold impact. One is that it can push prices up and tilt it to the upside, and that's what we are seeing particularly in the near term, but it can also have a dampening effect on consumption and on investment because it squeezes the income that is available, and as a result would have a downside impact on both growth and inflation.

This is precisely that twofold impact that we have to unpack, if you will, to define our medium-term inflation outlook, which is critical for the purpose of our forward guidance. That's what we will be doing in the next monetary policy Governing Council meetings, when we have projections. The first one will be in March and will give us a chance to assess the sustainability of the inflation push that we are seeing.

But, for the moment, let me remind you that we are not seeing any de-anchoring of inflation expectations to the upside. We are seeing a degree of re-anchoring, if you will. In other words, we are covering the ground towards target, but we are not seeing any de-anchoring to the upside.

1-013-0000

Valentino Grant (ID). - Madam President, Ms Lagarde, on 26 January 2022, the Fed announced its intention of progressively shedding securities accumulated during the pandemic. No further sales are planned and only some of those falling due will be renewed.

It has also indicated that the new operational framework for US monetary policy is conditional on continued broad supply, incorporating a rich securities portfolio in line with the real economy.

Although the ECB has announced its intention of holding on to all securities purchased under the PEPP pandemic programme until the end of 2024, while continuing the rollover of securities purchased under the APP, it has not yet clarified whether it intends to maintain the new operational structure based on excess reserves or revert to the previous policy of keeping reserves low.

I should therefore like to know on what basis the ECB is planning to operate.

1-014-0000

Christine Lagarde, *President of the European Central Bank***.** – I think you've rightly pointed to yet another difference between the US economy and the euro area economy, and the difference between what the Fed is considering and what the ECB is also considering and its pace and the step-by-step approach that we have. As you indicated, at our meeting on 16 December, we decided to put an end to the net asset purchases under the Pandemic Emergency Purchase Programme and, while so doing, we've also decided to extend by one year the reinvestment of PEPP until June 2024.

We believe that those measures will actually be helpful and appropriate, in particular in relation to some of the Member States – one of which was specifically mentioned in our 16 December monetary policy statement, which is Greece. We also at that time identified the need, if so required, to use flexibility, which has served us well under the pandemic emergency programme. Flexibility applies, as you know, to the category of assets, to the geography and to time. So we will use flexibility and that will be helpful going forward during that expanded reinvestment period of time.

1-015-0000

Michiel Hoogeveen (ECR). – Thank you, Chair, and thank you, Ms Lagarde, for having this dialogue with us again.

We can never build a lasting economic recovery by going deeper into debt than we have ever done before. Inflation is the cause of recession and we are not having real economic prosperity until we stop fighting the symptoms and start fighting the disease. These are the words by Ronald Reagan during the presidential campaign in 1980, and they still ring true today. Back then, President Carter blamed double-digit inflation on all sorts of external factors. He blamed OPEC for high energy prices, companies for the lack of productivity and people, frankly, for living too well.

Fast forward to 2022, and we could say the same thing. ECB is blaming inflation on high energy prices and supply chains and the economy for doing too well. In the meantime, people are asked to share in scarcity due to the climate crisis.

However, as in Reagan's time, we don't have inflation because the economy is doing too well, we have inflation because the government has been living too well and central bank policies are the root cause. The balance of the ECB keeps growing by grinding out printing press money, and instead of incentivising governments to balance their budgets, your low interest rate policies continue to force government spending.

Now, I welcome your change of tune where you at least seem to hint at ending the asset purchasing programme and eventually start hiking the interest rates. But aren't we already way behind the curve here? I ask you: how far does inflation have to rise until the ECB starts hiking interest rates? And aren't you worried the more the ECB delays, the greater the risk of a stronger monetary policy tightening that unduly suffocates the much needed inclusive and sustainable recovery?

1-016-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Hoogeveen. Three points. First of all, I don't think that you will disagree with me that additional debt was indeed required at the time when the pandemic hit and was indeed necessary in order to make sure that all economic actors could survive and that the economy could be supported, and that the bridge across the pandemic could be built and extended so that we do not suffer the scarring, the massive lay-offs and the significant volume of bankruptcies that we would have otherwise had.

So in doing so, the fiscal authorities had to do their job. Now, it's obvious that when the pandemic is over, when the situation is restored, when recovery is well underway and sustainable, different budgetary policies have to be decided and a different fiscal approach is needed. It cannot anymore be about wide support. It has to be targeted, it has to be focused and it has to be productivity enhancing. Those are critical conditions going forward.

Now, I would disagree with you on the characterisation of inflation because I think that it's really important to understand what is fuelling inflation so that we can also determine what will help in maintaining price stability, which is the mandate of the ECB – and I'm back to inflation, ECB, price stability.

What constitutes currently this surprising high inflation that we've experienced in November, in December, in January and that we believe are going to continue for a little while and then decline over the course of 2022? It is predominantly energy costs and bottlenecks that affect a constrained supply in response to strong demand.

Now, if we were to take monetary policy action by way of gradually putting an end to asset purchase prices and rapidly hiking interest rates, would that have an impact on energy prices right away? I don't think so. Would that unleash, suddenly, wonderful shipping and handling of containers and driving of trucks? I don't think so. But equally, our mandate is price stability, and we have to focus on the data, we have to analyse whether the short-term movement that we see, which is obviously tilted to the upside, is going to have an impact on the medium-term inflation outlook. We have to see that, if it is the case, it is sustainable and that Governing Council members are sufficiently confident that it is going to re-anchor at a target of two percent. Then, of course, we have to take the necessary decisions, which will be in turn and in sequence, gradually reducing and putting an end to asset purchases and then, shortly after that, hike interest rates. But that is going to require careful analysis of data, making sure that the medium-term inflation outlook is at target, and sustainably so, and then taking action.

1-017-0000

Dimitrios Papadimoulis (The Left). Madam President, Ms Lagarde, I should first like to ask you about the bond market. Despite references to reinvestment and Greek bond market flexibility in the immediate future, your arguments have done nothing to prevent a large increase in Greek bonds on the market, up by 2.3% in just a few days. In view of this, are you now in a position to make some kind of forecast regarding the pace and volume of suitably flexible Greek bond purchases over the coming period? Similarly, are you concerned about growing public debt? In my country, Greece, it has risen to over 200%. What is the effect of inflationary trends? Do you also agree with the deduced rate of excise duty on... [recording stopped abruptly due to faulty connection]. There seems to have been some kind of technical hitch. As I was saying, in response to the large increase in fuel prices, the Commission is proposing to include in its toolbox of measures a reduced rate of excise duty on fuel from October to provide relief for households and businesses. Do you concur with this proposal? Having informed us that the current high inflation rate is principally due to spiralling fuel prices, do you consider this measure useful?

1-018-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Papadimoulis. I hope I can cover all your points.

I think the first one you had related to the use of the reinvestment of the Pandemic Emergency Purchase Programme (PEPP) and more so the reinvestment period that we extended at our 16 December meeting.

What we have realised by observing carefully PEPP is that the inbuilt flexibility has been very successful in containing the risk of fragmentation compared to the initial phase of the pandemic crisis. So, at the moment, we see little evidence of risk to the transmission process. But if we were to see such risks occurring, certainly the reinvestment of PEPP is one of the tools that we could use applying the needed flexibility to that effect. But the pandemic has clearly shown that monetary policy needs tools at its disposal, that we have that, and that we can react quickly if necessary, and we will do so.

The second question that you asked had to do with the remedy offered by government from a fiscal point of view in order to alleviate the hardship suffered by our fellow Europeans in case of high energy prices. Now, obviously, the European Commission has taken a view, has published the list of possible tools that can be used which, in our view from a fiscal point of view, should be focused on the most vulnerable, should be short term and applicable for as long as energy prices are causing particular hardship to those households that are bearing the brunt of high energy costs.

I'm not exactly familiar with the type of measure that is envisaged by the Greek authorities, but a sort of blanket VAT does not seem like the targeted tool that is recommended in order to really alleviate the burden on those who are the most vulnerable.

1-019-0000

Lídia Pereira (PPE). – Madam Chair, President of the European Central Bank, I want to focus on the role of the European Central Bank and monetary policy in the recovery strategy. We all hope that 2022 will be the year when we beat the pandemic, but we know that it will naturally be a year of more modest economic growth and that this will tend to slow down in the coming years.

It will also be the last year of application of the escape clause of the Stability and Growth Pact and will be the year of the end of the emergency programme for the purchase of government debt. Moreover, historically high inflation is putting pressure on the European Central Bank, particularly as regards interest rates, and these circumstances put significant pressure on monetary policy.

Economic growth last year was limited and, above all, differed significantly from one country to another, from one Member State to another, a trend which is also expected to continue this year. And many countries continue to have extremely high levels of public debt. Some of these countries have only modest growth in addition to astronomical debt and we are thus talking about an explosive cocktail. I would, therefore, like to ask you what monetary policy instruments the ECB will use and – against the background of a significant reduction in debt purchases – how it will used them to protect the position of these particularly exposed countries, which inevitably have to maintain expansionary fiscal policies to support the recovery?

1-020-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question, Ms Pereira. Let me maybe just go back to the projections that we have, both in terms of GDP and in terms of inflation. In terms of GDP, we observed last year, in the first three quarters, particularly so in the second and less so in the third, a significant growth movement, which really put all our economies on a path to get back to pre-COVID levels. Then the fourth quarter slowed down because of the renewed pandemic wave that we experienced with Omicron. That clearly had a dampening effect on growth and, as a result of that, our growth for the fourth quarter was only 0.3%.

Our projection is that the first quarter of 2022, so leading to March, is also going to be slower than what was anticipated because of that continued dampening effect. But we are also projecting that growth will then pick up and the recovery – actually a strong recovery – will pick up, if only because supply bottlenecks are not going to be with us forever. It is lasting longer than we had initially thought, but it will ultimately be resolved over the course of time because companies are going to find ways around, ways through and alternative modes of supply because energy prices are not going to continue to rise at the level where prices have risen. They will probably remain high for a period and they might be a little higher, but not at the pace as they have in the last few quarters. So we see recovery picking up after the first quarter of 2022.

On inflation, as I said, we had surprising numbers in December and January, and we are of the view that they will continue to be high in the near term, but we are also pretty confident that they will decline over the course of 2022, not all the way back to target. We believe that they will remain higher than our target at the end of 2022, but they will definitely decline.

1-021-0000

Aurore Lalucq (S&D). – President Tinagli, President Lagarde, thank you very much for being here. It is always a very special time for us.

I would like to start with a general comment, one which we all agree on, I believe. I think that the European Central Bank regularly finds itself in a rather difficult situation because it has to implement and supervise monetary policy, it has to make up for the absence of a budget and now it has to manage a rise in inflation when we are a structurally deflationary area. The point is that I share the caution with which you are handling this inflation issue. I also share your analysis on the different types of inflation between the United States and the euro area.

However, I have a question on that subject. If there is a reduction at some point in the rate of inflation with regard to energy, that does not prevent US inflation from continuing to rise, if US activities continue, and it is the same for the British, but for different reasons. What I mean is that interest rates are likely to continue to rise anyway, on the US side and on the UK side, for example. To deal with this inflation – regardless of whether it's good or not – what will be the response on the European side? Can we continue to keep rates low? What are the consequences for spreads? I agree with Luis Garicano on this issue of spreads and I share his concern because I think that the rise in interest rates is linked to more than just the situation on our continent.

Secondly, very quickly, my habitual question on the respect of the ECB's mandate and energy prices. While we can't do anything about energy inflation in the short term, we can do something about it in the long term. So I repeat my question on the greening of the long-term refinancing policy, the question of the rating and discounts on collateral – will we ever have clear answers?

We hear a lot of things that are heading in the right direction, but really, will we ever have clear announcements from the ECB?

1-022-0000

Christine Lagarde, *President of the European Central Bank***.** – I'm going to answer your second question first, actually, because I think that we have: number one, progress; number two, good news.

So as you know, our strategy review unanimously acknowledged that climate change was a factor that had to be taken into account not only for monetary policy purposes, which is under review – and I hope we will have some good conclusions coming soon – but that it also had an impact on the risk to our balance sheets, which required that we could take into account disclosure by corporates, that we could take into account the transition path identified by corporates and that banks would be certainly expected and stress-tested to make sure that they actually operate on that basis as well.

Our determination was embodied in an action plan that was attached to our strategy review and, under the action plan, as you know, we tried to be very specific, disciplined and identify what is done by when. I'm speaking from memory because I don't have my action plan in front of me, but from memory, the impact that it will have on collateral in terms of assessment, possible haircuts and determination of the risk will actually be in the first quarter of 2023. So the work is underway. Some of it will be pretty much done in 2022, but we set ourselves the first quarter of 2023 to actually apply that to collaterals under the CSPP – that's on the purchase of assets, but on the collateral as well. So it's on the two accounts that we will apply the climate change consequences.

On your first question, give me maybe a few seconds once again to reaffirm the principle that we are not in the same situation as the United States. Of course, US inflation, US interest rates and monetary policy do have spill-over effects and we know it and we can see it, and we have to cater for that. But we are not at all in the same situation in terms of inflation. When you look, for instance, at core inflation, the US is at 5.5%. If you look at core inflation here in Europe, the latest number in January was 2.3%. You look at one thing which is critically important to determine whether monetary policy needs to act, and that is the second round effect of inflation, whatever the sources of inflation may be.

Second round effects are really, on the US labour markets, when you look at the ratio between jobs, vacancies and unemployed people, it's above one. When you look at the same ratio here in Europe, it's way below one. When you look at the tensions on wages, it's at least 4% in the US and here in the euro area we are looking, we are scrutinising and we are told by the corporate telephone survey that we conduct on a very broad basis that employers actually see a reinforcement of wage increases and tension. But we are certainly not at the same point and we will be very attentive to that latter factor in the months to come.

1-023-0000

Siegfried Mureşan (PPE). – President Lagarde, thank you very much for joining us again this afternoon. I would like to ask you two questions. The first one is linked to the correlation between an eventual tightening of monetary policy and the investment packages put forward by the European institutions and by the governments of Member States. My specific question is: what are you observing so far in terms of positive and potentially positive impacts of these investment packages, and how do you see the link between these investment packages and an eventual tightening of monetary policy? Are the packages strong enough to keep the economy growing under tighter monetary policy? This is my first question.

My second question is whether you are observing the increased inflation and increased energy prices in general, having an impact upon the political objectives of some Member States joining the euro area in the future. I do not primarily refer to Croatia and Bulgaria, which already have timelines for joining, but to other EU Member States, which are bound by the Treaties also to join the euro area.

1-024-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much. Your first question, actually, gives me a chance to clarify one point. What we are seeing at the moment are real chances that inflation will stabilise at our target, which is 2%. But there are no signals that inflation will be persistently and significantly above our target over the medium term, and it is only in that latter case that it would require a measurable tightening. What we're seeing is inflation moving to target and a re-anchoring of expectations, and that will lead us to a normalisation of our monetary policy, but not the measurable tightening that you referred to.

What is the impact of Next Generation EU and the investment, the recovery and resilience funding? This is very important because it is clearly intended at certain investments that will be – we have all reasons to believe so – productivity enhancing. Focusing on digital and focusing on green growth is likely to be productivity enhancing, making sure that Europe is fit for the future and will have the capacity to resist climate change and to take the right mitigation and adaptation measures.

It should also, as Member States adopt less expansionary fiscal policies – we were at a discretionary 4% and 4.5% – mean that we should decline towards 2% fiscal support. Now, obviously, the fact that the RRF is going to pick up and encourage investment in the right productivity-enhancing sectors is going to be favourable in our view, added to which it symbolises and demonstrates the solidarity amongst Europeans, which is a signal that is expected by market participants, and is expected by many of us actually.

Regarding your second point, on the energy crisis, I'm not sure that I have the answer so I'd have to go a little bit deeper into your question because I'm not sure what impact the energy crisis and the price impact we are seeing act as a deterrent or as an incentive on other Member States. I don't think so, but I will play my joker and come back to answer this.

1-025-0000

Bas Eickhout (Verts/ALE). – Thank you, President Lagarde, for this dialogue.

I would like to come back to the spreads that Luis Garicano also asked about. It is true – and I also really want to thank you for that – that you have explained very clearly how the projections look and how that will inform decision-making and that, for now, you're not considering changes that have been taken before. However, you've also said that all the expectations are tilted upwards, and there is also clearly pressure to do further tightening – I think some of the questions that you are getting today are showing that further pressure.

So I would like to know from you how you assess the risk on the spreads within the EU when you are considering further tightening. Then, more specifically, you said in the answer to the question by Mr Garicano that we have the instruments and the tools, but you left it there. I think it is very important that you elaborate further on what you mean that you have specific tools and instruments to address this. I would like to have a bit more elaboration on that to understand what you have ready there.

1-026-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for reiterating the keen interest that some of you seem to have on spreads.

I will just repeat, as I have a couple of times already, that in pursuing our price stability mandate, it is important that the transmission of our monetary policy is smooth across sectors and across jurisdictions. Sovereign bond yields are important for the transmission mechanism because banks tend to look at those rates when they price loans to the economy.

So we continuously monitor risks to the smooth transmission of our monetary policy stance for all countries in the euro area. The flexibility and scope of our monetary policy tools gives us the capacity to pursue our price stability mandate while ensuring the smooth transmission of our policy across the euro area. Tightening monetary policy does not have to come at the expense of an uneven transmission. This is my answer.

1-027-0000

Marek Belka (S&D). – My question is about diverging inflation rates in the euro area. I don't have in mind countries like Estonia, which is a small-catch country heavily dependent on imported energy, but a country like Germany, for example. Does it worry you that inflation rates, headline inflation rates, in the biggest eurozone countries are so different.

Why is this a worry? Well, if they are different, then they may destabilise the fragile equilibrium that we are observing between short-run inflation expectations and long-term, longer-term, market-based, stable – although recently growing – inflation expectations.

Does it worry you that in some countries, in some important big countries, the inflation rate is so much higher than in others?

1-028-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Belka, it's nice to see you. I hope you can still hear me because the image is frozen, so stop me if you can't hear me.

We are not overly concerned about the temporary divergence of inflation across countries, but we are monitoring developments very carefully and very closely. Currently a lot of the higher inflation dispersion across euro area countries comes from energy rather than underlying inflation. The energy shock is common, but the intensity as well as the mix and type of contract, whether it's fixed or flexible pricing, is different across euro area countries so that large differences were to be expected and these should disappear once energy price developments begin to stabilise.

Inflation is not the only divergence between Member States. We have other divergences, they have to do with the pace at which the pandemic hurts countries and the type of lockdown measures that are taken. Equally, the labour markets are operating differently in different Member States. So this is the economic reality that we have, and obviously, we are watching with great satisfaction the Next Generation EU and the RRF applied to the RRP, which obviously have to focus on trying to not only invest in digital and green, but also to try to close the gap and the divergences that there are between Member States.

1-029-0000

Gunnar Beck (ID). – I should like to ask a question regarding green inflation. CO_2 taxes and the transtition to renewable energy sources exacerbate inflation and lead to higher production costs and thus hamper the competitiveness of industry. The consequence is that while financial investors, green undertakings and the rich benefit, the middle classes see their incomes reduced and lose their savings.

Now, this is not populist scaremongering: The Spanish Central Bank did a simulation of the impact of CO_2 taxes. It concluded that the already high Spanish inflation rate of 6% would increase by 1.5%. And even Isabel Schnabel, the most faithful of the faithful on the ECB Governing Council, recently noted that the green transition poses upside risks to medium-term inflation.

My question to you is therefore: How will the ECB counter the disastrous impact on inflation and competitive disadvantages of the green transition? If it intends to do so, what steps in particular will it take? Or will you simply continue as before until money is finally worthless and only what you own counts – thus also ruining the middle class? Thank you.

1-030-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Beck, it’s always nice to see you as well.

There is no doubt that energy prices in the HICP have increased substantially over the past year, mainly due not so much as to any kind of tax or CO_2 levy, but because of higher oil prices, and more recently also strong increases in gas and in electricity prices, which are closely interrelated.

Now, these upsurges have been partly caused by an unexpected fast recovery of global demand and some constraints applying to supply. Now, according to our analysis, current climate change policies in Europe have contributed on average only marginally to the observed energy price dynamics.

Going forward, the transition to a carbon-neutral economy will require considerably more ambitious climate change policies than we observe today. These additional policies are expected to result in relative prices changes which could provide important price signals for the transformation of European economies.

Now, our duty as the European Central Bank and the measures that we will have to take in terms of monetary policy will be to continue to seek aggregate price stability while allowing relative prices to change. So this will be what we will be riveted to: price stability, which is our mandate, maintaining it, but also allowing relative prices to change.

1-031-0000

Eugen Jurzyca (ECR). – Inflation has reached a new high in the euro area. In my country, Slovakia, prices have risen by 8.5%, and the Baltic States face a double-digit price increase for the second month in a row. So people are genuinely worried about what will happen in the upcoming months, as inflation has been way higher than was predicted, and governments face very tough question – whether they should respond by compensation measures.

Now I’ll move to the question.

What would your recommendation be if governments are about to implement compensation for households through regulatory or fiscal measures, from the monetary point of view of course? Is there a preference, for example, between lowering tax and providing direct social transfers, or perhaps some other option? Do some of these policies have the potential to raise or to lower inflation?

I know you have already talked about this topic today, but still I think some general, maybe soft signal, to politicians may help the situation.

1-032-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question. It is obviously the case that higher prices, particularly in energy, are suffered by some people more than others and by some countries more than others as well. You mentioned Slovakia. Clearly, countries like Estonia and other Baltic States are also suffering much higher than the average euro area inflation numbers.

As I said also, the Commission – Commissioner Gentiloni, I think – has put together and published a list of all the measures that are being considered and that would be recommended. From our vantage point – given that we do not believe that energy prices will continue to rise and grow at the same pace as they have in the last year, but will probably stabilise, maybe be a little bit higher, but not at the same growth rates as it does so far – it would certainly be helpful not to have across-the-board unspecific measures in order to alleviate the burden, but to be as focused on those people who are most vulnerable, those people who have lower income and the need to drive their cars or the need to pay the bill for fuel and for heating at home.

So measures as focused and targeted as possible and, of course, likely to be removed when the pressure abates and when prices return to lower levels, would be the sort of economic considerations that we would propose.

1-033-0000

Aušra Maldeikienė (PPE). – A study recently published by the ECB showed that a large proportion of Europeans have a very vague idea about the responsibilities of the ECB. When you, President Lagarde, first spoke in this Committee, you emphasised that one of your main goals was broader communication with the public. However, it is very difficult to find information that is understandable to non-professionals when monitoring the ECB's website.

The ECB has also removed the very useful educational games, such as *Inflation Island*, *Economia* and *Top Floor* from its website. The message that the ECB has no plans to bring them back to its otherwise quite bland and non-inspiring section today looks rather ironic. While working as a professor, I used these games in my classes and they worked very well for students. Furthermore, even existing resources online are mostly available in English, which is rather limiting in itself. At the moment, the ECB Outreach and Education page focuses more on offering free iPads than on disseminating key information about basic concepts linked to its mission.

I would like to ask the following question: why has the ECB decided not to follow through on its promise and why, given the ECB's vast resources, have these programmes and games been abandoned?

1-034-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much for a completely legitimate question, and one that I really want to tackle.

We have tried to be simpler in our communication and if you look, for instance, at page two of the document that you've received, you have at the bottom 'communication of monetary policy', and you have a little chart that indicates, by the size of bubbles and level of bubbles, the density and the difficulty of the language that is used in our monetary policy statement. You will see, in the right-hand corner, the little green bubbles – that's me, those are my monetary policy statements – and you can see that, based on those bubbles: number one, it is now shorter; and, number two, it does not require 20 years of higher education and multiple post-doc research theses to understand.

So we are trying hard. This is measured. We will continue trying as hard as we can, because we need to satisfy those who are almost riveted to a jargon that we use, and those are people in the trade, markets, analysts, ECB-watchers, and they are very, very keen and very attentive to sometimes highly sophisticated language that is not always understood by the public at large.

Our job and our mission is not to only speak to them, but to speak to a broader audience, but we have – and I have – to be very mindful of that first group because, if they miss those words, if they don't see exactly the sort of seeds that they expect, they assume and read too much or too little into what I say using other words. But rest assured that we will continue to be narrative-based, simpler, using less sophisticated vocabulary, and shorter in our communication and more to the point. That I can promise you.

On the inflation game that you referred to, which used to be on our website, we are working on replacing it and there will be a replacement. That I can assure you. I also think – and I have not checked lately – that our statistical directorate has put another tool on the website. It's not necessarily a game, but it's a tool that can be used to actually determine the exact level of inflation that you are exposed to, and which can be much more specific and much more targeted to your consumption pattern. That can maybe not be turned into a game, but at least it's tailored and specific.

A final comment: I would just observe that the euro is plebiscited, supported, endorsed and regarded as regards its ownership by a very, very large majority of European citizens. We are close to 80%, if I recall, on the latest count. It varies from country to country but, in the main, the euro is something that Europeans have decided to own and cherish, for many of them. So our job at the ECB is to make sure that we are the right, loyal and dutiful custodian of the euro, and that we stick to our mandate, which is price stability.

1-035-0000

Chair. – Thank you very much. We have now finished the list of registered speakers, but I have several requests for catch-the-eye. We are lucky that we still have some time, so I'm happy that today we can take some of these questions. Let me remind that you that you have one minute for questions in the catch-the-eye, with one minute or two for the answers.

1-036-0000

José Gusmão (The Left). – Madam Chair, President of the ECB, do the characteristics and inequality of economic growth that we are witnessing in the euro area and the European Union speak for – or against – any kind of 'Trichet moment', so to speak?

I agree with the analysis of the very specific nature of the type of inflation we are observing, of the importance of energy prices, of blockages in international production chains, and that is why I do not understand why the ECB's announcements have shown a certain change in discourse with regard to interest rate policy, an ambiguity which has had immediate effects on financing conditions, immediate and unequal effects, and I would like to know whether this ambiguity will represent the ECB's new discourse as regards interest rates, even though the ECB's analyses show that this inflation has such specific characteristics.

And the second question is whether, in the emergency programme and the other securities purchase programmes, it will be the Central Bank's concern to address funding spreads, or whether it considers this not to be a function of the Central Bank.

1-037-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Gusmão. Let me just remind you the key principles that we have. I've said them on Thursday, I'm just repeating them again just so that we make sure that we are on the same page. One is, I said and I say again, that we are and we will be data-dependent.

Second, I said and I say again, that we are going to respect the sequencing that we have agreed, which is that we are going to look at the net asset purchases, which we have on 16 December indicated, we would reduce over the course of time concerning the PEPP and put an end to at the end of March. And that then volume of asset purchases under the APP will decline over the course of time and, depending on the data that we receive, depending on the medium-term outlook and all of that, we will decide of the duration and the term eventually.

Now, I did say on Thursday, and I repeat again that we have a forward guidance, which determines when we are likely to raise interest rates, and this forward guidance is pretty specific. It requires that we be at target, well ahead of the end of our projection horizon, which is roughly three years, so mid-term, that this be sufficiently durable and sustainable so that at the end of the projection horizon, we'd be at target as well. And, third, that the underlying inflation is such that we are confident that progress will be made to reach that sustainable inflation.

So we will be deploying all our projection power, brain-power, judgment on the part of the Governing Council to look at all these elements. But respecting, as I said, the sequencing, our forward guidance and this gradual pace, which has always characterised the way in which we also implement our monetary policy.

Now, I would like to just make one point when it comes to inequality, because it is a fact that the kind of inflation that we have at the moment, which is largely, not only, but largely fuelled by energy prices, is suffered more by low-income households. And their income is squeezed as a result of these energy prices, particularly if they need to take their car to go to work and when they have to pick up the bill to heat the house.

So that's the reason we discussed on previous questions that fiscal authorities need to really target and make sure that those low-income households get the benefit of fiscal measures that would be decided by the authorities that have the best competence to target measures.

1-038-0000

Fabio Massimo Castaldo (NI). - Madam President, I should like to thank Ms Lagarde for her presence here to today and for her observations.

In addressing a press conference last week, Ms Lagarde was careful to avoid ruling out an increase in interest rates in 2022, thus effectively anticipating the March decision to bring to a swifter end the purchase of securities. This was in contrast to her opening statement, which simply referred to the need for flexibility in view of the increased uncertainty.

These increases would be the first to occur following the dramatic series of errors committed eleven years ago in circumstances that were not so dissimilar to those of today. This is despite the absence of a single medium-term inflation forecast firmly above the 2% target, while the ECB, headed by you, is not currently anticipating any risk of a wage-price spiral and aggregate demand is far removed from the pre-pandemic trend.

If the above are true, a rise in rates would risk causing a premature tightening of fiscal policy, a mistake that will cost us a slowdown in growth and the consequences thereof, among other things jeopardising employment opportunities, especially for the many workers who have not yet managed to regain a foothold on the labour market.

The medium-term outlook cannot be fundamentally altered on the basis the January figures alone. In view of this, Ms Lagarde, can you give the reason for this sudden U-turn?

1-039-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question and let me again just remind you what we decided at our last monetary policy meeting. We decided to conform to the decision that we had made on 16 December.

But we also received new data which we have to take into account. And those data included, inter alia, the seven per cent unemployment rate, the lowest ever in the last 20 years. We received data concerning the rate of inflation year-on-year in January: 5.1, 0.1 per cent more than December, when we expected some reduction as many other commentators, forecasters and projectionists. And we saw that the base of the products and services that were above two per cent had significantly increased, up to about 60 per cent. And finally, we had the result of our corporate telephone survey, which indicated in the main that there would be wage negotiations and possibly salary increases that were more significant.

So, if you combine all this information, obviously we had to assess our risk to our inflation projection, which we decided was to the upside. Now, that in and of itself is not enough to raise interest rates. Why? Because first of all, we have a sequence that we apply and is going to require that we gradually reduce net asset purchases until we put an end to net asset purchases.

And once that has taken place, that the three conditions that I have mentioned for our forward guidance, which will inform us because there is relative proximity between the end of our net asset purchases and the lifting of some proximity. It's not instant, but when the time comes to eventually lift interest rates, three conditions have to be satisfied: to be at target well ahead of the end of the horizon, durable enough so that it is at target at the end of the horizon and sufficiently strong underlying factors so that Governing Council members are confident that it is going to support inflation to be sustainable and durable.

So, this is not new. The forward guidance principles have been decided in September and the other elements concerning sequencing had been decided before my time. So we are respecting the principles that we have set for ourselves, but we are also mindful of the facts, what impact it will have and whether in particular – not only but in particular – we will see second-round effect as a result of the high inflation number. And it is a fact that if inflation numbers stay high for long, there is a stronger chance that it has an impact on wages and that it has a second-round effect, which would of course, call for monetary policy action. But under the conditions that I have mentioned.

1-040-0000

Rasmus Andresen (Verts/ALE). — Thank you, Ms Lagarde. The facts are clear and, I believe, are there for all to see: During the debate today, we already established that the current inflation was driven mainly by high energy prices.

Now, there are some, especially in Germany, who claim that the solution to all problems lies in a higher level of interest rates. And that is why I would like to again ask you whether you can comment on the impact of higher interest rates on current energy price developments. In your view, does this form part of the solution or not?

And also, what are the effects of higher interest rates especially on unemployment in the current situation, where many European countries are still experiencing a tight labour market owing to the coronavirus pandemic?

1-041-0000

Christine Lagarde, *President of the European Central Bank***.** – I'm not sure that I understand the translation as clearly as I should and as your question is put, but what I understand from your question, as translated, is that high energy prices which, as we all discussed earlier on, are a large cause of the inflation we are seeing at the moment, could be an opportunity for climate change and an opportunity for installing the better green growth that many of us aspire to.

To the extent that relative prices have to increase in order to give way to renewable energy prices in particular, one could indeed argue that those fossil fuel energy prices, be it oil, be it gas, be it coal to the extent that it is a substitute for a high-priced gas supply, will actually open a path for renewable energy prices, in particular in those sectors – and I'm thinking here about solar in particular – where prices have gone down significantly over the course of the last few years. It's hard on people because they have to fill up the tank and pay the bill, and it has an indirect effect on other prices as well, but it is, as a substitute, giving way to renewable energies that could be a much better substitute if we consider climate change as one of the most important challenges that we have to face going forward.

1-042-0000

Martin Hlaváček (Renew). – Thank you very much, Madam President, thank you for joining us, I thank you also for a very pleasant explanation.

I'm getting increasingly more hesitant to what extent is the reserved approach of a central bank to fight the inflation, despite the recent data not driven just by the data, but also to some fiscal and political situation in Member States. As we are getting into difficult times, I'm afraid I wish you remained independent and impartial from politics, otherwise we would have a lot of troubles and I wish you courage for that.

Having said that, I am a little bit concerned nothing has been mentioned here today about a real estate market, and I think for a proper interpretation and reading of the current situation, I would like to ask you one simple question: aren't you afraid that by delaying our response to inflation, we could have risk, at least in some areas of Europe, to create a real estate bubble with all the consequences that it might have? Aren't we risking eventually that – I'm afraid for the younger generation – that they would have to pay for what we are witnessing today with an increased non affordability of housing in the future?

So, any more details about analysis on real estate in this situation would be very helpful. Thank you very much.

1-043-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much for your question focusing on the housing market. It is a fact that housing prices have increased throughout Europe. There is not a bubble that is fuelled on average across all European countries, but prices have gone up. Depending on countries, it could be 7-9%. Those are the orders of magnitude that we are talking about.

Two things: one is that having low interest rates has participated in the process, but has also helped, in particular, young borrowers who do not have a lot of guarantees and who do not have a lot to account for, to actually take out a mortgage. Granted, the prices of those houses were higher, but the low interest rates that they had to pay were certainly helpful in order for them to access their first apartment or their first house.

The second point that I would like to make is that, in such circumstances, there are tools available that national authorities have to use in order to calm markets and in order to dampen the risk of significant price (*inaudible*) ...

Country-specific macroprudential measures can be taken by national authorities because those measures have an impact and can be very useful. Some countries have used them. Expect some specific countries to be identified shortly as strongly encouraged to take those macroprudential measures in order to lower the temperature and to dampen prices going forward.

1-044-0000

Chair. – Thank you very much. Now we've come to the end. We have finished both the registered speakers and the requests for the floor for catch-the-eye.

I really want to thank President Lagarde for her availability and also all the Members who have participated in this interesting dialogue. I look forward to the next one, when hopefully we will be able to meet in person.

(The Monetary Dialogue closed at 18.43)