

Christine Lagarde: Debate about the Annual Report

Introductory statement by Ms Christine Lagarde, President of the European Central Bank, on the occasion of the presentation of the ECB Annual Report 2018 at the European Parliament, Brussels, 11 February 2020.

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Mr President of the European Parliament,
Mr Executive Vice-President of the Commission,
Honourable Members of the European Parliament,

It gives me great pleasure to participate for the first time in a plenary session and to discuss your draft resolution on the ECB's Annual Report for 2018.

Independence and accountability are two sides of the same coin for the ECB: one cannot exist without the other. This is why the ECB's relationship with the European Parliament is so important. The ECB's Annual Report is a central element of this relationship, and Parliament's resolution and the subsequent feedback we publish are evidence of the good dialogue between our two institutions.

Having joined the ECB only recently, I read the draft resolution with particular interest. What struck me in particular was our shared assessment of many of the challenges facing the ECB and the euro area. Indeed, the universal nature of these challenges underscores the need for our continued dialogue.

Today, I would like to focus on two of the overarching concerns that stand out from your draft resolution – the role of monetary policy in the current economic environment and structural challenges facing the euro area economy.

The ECB's contribution to the euro area economy

Euro area growth momentum has been slowing down since the start of 2018, largely on account of global uncertainties and weaker international trade. Moderating growth has also weakened pressure on prices, and inflation remains some distance below our medium-term aim.

Against this background, the ECB's Governing Council has acted in a determined fashion to achieve price stability in line with the ECB's mandate. The ECB's monetary policy since 2014 relies on four elements: a negative policy rate, asset purchases, forward guidance, and targeted lending operations. These measures have helped to preserve favourable lending conditions, support the resilience of the domestic economy and – most importantly in the recent period – shield the euro area economy from global headwinds.

Our policy stimulus has supported economic growth, resulting in more jobs and higher wages for euro area citizens. Euro area unemployment, at 7.4%, is at its lowest level since May 2008. Wages increased at an average rate of 2.5% in the first three quarters of 2019, significantly above their long-term average.

But monetary policy cannot, and should not, be the only game in town. The longer our accommodative measures remain in place, the greater the risk that side effects will become more pronounced. We are fully aware that the low interest rate environment has a bearing on savings income, asset valuation, risk-taking and house prices. And we are closely monitoring possible negative side effects to ensure they do not outweigh the positive impact of our measures on credit conditions, job creation and wage income. Such reflections played a role, for example, when the Governing Council decided to introduce a new regime for remunerating the excess reserves held by banks with the Eurosystem.

Other policy areas – notably fiscal and structural policies – also have to play their part. These policies can boost productivity growth and lift growth potential, thereby underpinning the effectiveness of our measures. Indeed, when interest rates are low, fiscal policy can be highly effective: it can support euro area growth momentum, which in turn intensifies price pressures and eventually leads to higher interest rates. The European Green Deal and national initiatives to finance the ecological transition could add to these dynamics by contributing to stronger and more sustainable growth.

Thinking long-term because the future starts now

The European Parliament's draft resolution on the ECB's Annual Report highlights three structural developments affecting the ECB's operating environment: digitalisation, climate change and the institutional architecture of Economic and Monetary Union. I would like to use the remaining time to discuss these challenges.

Digitalisation and climate change are global phenomena. They will not wait for us to gear up and get ready; they will affect us whether we are ready or not. We need to prepare as best we can.

In this spirit, the ECB is assessing the potential and implications of technological developments for payment services and financial stability, and it is also making an active contribution to such innovations.

To this end, we set up a Eurosystem task force in January to investigate the opportunities and challenges associated with different potential designs for a central bank digital currency and to test how they would work in practice. In particular, we want to assess whether a central bank digital currency could serve a clear purpose for the public and support the ECB's objectives. Together with five other central banks and the Bank for International Settlements, we will share experiences in this area and assess the potential cross-border use of such digital currencies.

We also have to gear up on climate change – and not only because we care as citizens of this world. Like digitalisation, climate change affects the context in which central banks operate. So we increasingly need to take these effects into account in central banks' policies and operations.

The ECB has already moved in this direction. First, we are working to extend our knowledge about the economic impact of climate change and ensure that its effects are better reflected in our economic analyses, models and forecasting methods. Second, through its financial stability tasks, the ECB is monitoring systemic risks stemming from climate change and the transition to a carbon-neutral economy. This work will ultimately enable us to test how well the euro area banking sector is able to withstand climate-related risks. Finally, the ECB has taken steps to align its own investment decisions with the objectives of the Paris Agreement. In our staff pension fund, for instance, we decided to switch to a low-carbon index, and we are investigating what else we can do in our market operations.

The strategy review launched by the ECB's Governing Council last month will also take stock of how rapid digitalisation and the threat to environmental sustainability – together with globalisation and evolving financial structures – have further transformed the environment in which monetary policy operates. It will consider all aspects of the ECB's policy framework. We need to reflect on how we can best deliver on the ECB's price stability mandate for the benefit of all European citizens. As part of this process, we will consult the public and listen to their views, expectations and concerns with an open mind.

While I have thus far focused on the ECB, it is important to recognise that digitalisation and climate change are universal developments that affect all of us in Europe and worldwide. Europe is uniquely positioned to master these challenges. Building on common safeguards and competitive incentives, the Single Market offers enormous potential for economic modernisation. Europe can harness this potential in its quest to design effective and affordable responses to the

challenges at hand.

But an important pillar of Europe's response to an increasingly globalised world – Economic and Monetary Union (EMU) – should not be forgotten. And the role of the European Parliament, as co-legislator, in getting our response right cannot be understated.

Over recent years, the euro area's architecture has evolved substantially. But essential elements are still missing or incomplete, hampering its ability to deliver its full potential for euro area citizens. This is why the ECB has been advocating and will continue to make the case for a more complete EMU.

Let me spell out what I mean by a more complete EMU. I mean an EMU with a *full banking union* underpinned by a common deposit insurance scheme; a *true capital markets union* that channels investment to innovative and productive uses; and a *central stabilisation function* as a common line of defence against shocks. A more resilient EMU with these elements would not just help to protect our living standards from adverse domestic and global developments. It would also support Europe's influence in the world, including by making the euro more attractive worldwide.

Conclusion

Let me close by highlighting that the joint nature of the challenges I have discussed will require all parties to do their bit to enable Europe to perform at its best for all of its citizens. This includes the ECB, which within its mandate is ready to play its part.

As I said at the beginning, the universal nature of these challenges also underscores the need for continued dialogue between the ECB and the European Parliament. In this spirit, I look forward to our exchange this afternoon and the final resolution on the ECB's Annual Report.

Thank you.