Speech at the ceremony marking the change of office at the Regional Office in Bremen, Lower Saxony and Saxony-Anhalt

21.03.2022 | Hanover | Joachim Nagel

Words of welcome

Ladies and gentlemen,

I am delighted to welcome you here to celebrate and mark the change of office at the Bundesbank's Regional Office in Bremen, Lower Saxony and Saxony-Anhalt. At last, we are able to come together again in one place. This will bring particular pleasure to Mr von Stenglin, as it means he can bid farewell in person – after many years of contact and communication with you, the numerous guests gathered in this room. But it is also a boon for Ms Paetsch, the new President of this Regional Office, giving her an opportunity to introduce herself to you face-to-face.

And I myself am pleased to be here today. After all, I did spend my first four years at the Bundesbank – around 20 years ago – in Hanover, as head of the President's Office at the then Land Central Bank under Hans-Helmut Kotz. He was a valued mentor, and our dialogue and shared work shaped the further trajectory of my career.

So allow me to give you a warm welcome as our guests here at Schloss Herrenhausen. It's certainly not a bad stand-in for our wonderful Regional Office on Georgsplatz – plus it has that still all-important advantage of being more spacious. So we can easily make sure we stay the right distance from one another. I'd like to give a special welcome to the Minister President of Lower Saxony. We are pleased to have you here, Minister President Weil. And warm greetings also to Dr Nesemann from Bremen, President of the Association of Independent Savings Banks, the Verband der Freien Sparkassen. And, last but not least, welcome to Professor Keitel, who is President of the Halle-Dessau Chamber of Industry and Commerce in Saxony-Anhalt. All three will be speaking to us later on, with their intimate knowledge of the economic landscape in the three federal states under the umbrella of this Regional Office.

2 Stephan Freiherr von Stenglin

My dear Mr von Stenglin, building trusting relationships in these three federal states did not, I suspect, require the 11 and a half years that you spent as President of this Regional Office. For you discharged the many and varied tasks belonging to a president's portfolio with a great deal of élan and palpable pleasure. It was your desire to convey the Bundesbank's positions on issues of monetary policy and stability policy in your region.

I've heard that you would, ideally, have left no invitation to an event unaccepted. And that certainly kept your team here on their toes. But everybody knew this much: a central bank can only guarantee price stability – its primary mandate – if it has the trust and support of the people.

But trust is predicated on knowledge: in this case, knowledge of fundamental economic interrelationships – and knowledge of the very particular value of a stable currency. And trust flourishes especially freely when you can exchange ideas at a personal level. It was with verve that you tended to both aspects: you imparted knowledge and you entered into dialogue, talking with representatives from the economic, political and administrative spheres as well as with the general public.

You gave out invitation upon invitation, to Forum Bundesbank talks, events hosted at all branches in your region, to the annual reception in Hanover, regional Banking Evenings, expert dialogues, press conferences and two open days in Hanover, each of which was attended by more than 5,000 people. The encounters and opportunities for sharing that you had there were particularly important to you.

And you also enjoyed using art to open the doors to the Bundesbank. One example was the time you inaugurated the freshly restored fountain designed by Emil Cimiotti, a sculptor and native of Lower Saxony, situated in the Brunnenhof courtyard on Baringstrasse. In your speech, you stressed that too much water from the fountain can be harmful, specifically if it's left to spray out unchecked, while too little water robs the fountain of its vitality. With these musings on the nefarious effects of too little and too much, perhaps you also had monetary policy in mind, too.

My dear Mr von Stenglin, you not only invited people into the Bundesbank, but also spent time out and about in the region, giving talks at institutions and associations, speaking with expertise and – something which is also a gift – with charm, too. In this way it's likely that you made quite some contribution to fostering that trust which a clear majority of citizens have in the Bundesbank – and which has even grown in recent years.

We at the Bundesbank have been paying particular attention to younger people for some years now, as it's in that part of society where interest in central banks and central banking topics tends to be on the low side. All the more important, then, have been the many events and initiatives to promote economic education run by this Regional Office and its President in schools, universities of applied sciences and universities in Bremen, Lower Saxony and Saxony-Anhalt.

Mr von Stenglin, in all of this you never lost sight of the fact that a president of a regional office is not only an external representative of the Bundesbank but is also the head of an organisational unit of a public sector agency. You cultivated a direct connection to your staff. You listened to them, treated them with respect, acted as a mentor. That is what "good management" looks like. And that is what made you so well esteemed here, not far from your Lower Saxony roots in Celle.

But prior to your taking up the mantle of President at this Regional Office, you spent 25 years working in the field of international economics. You were one of the voices of stability-oriented Bundesbank stances both at home and abroad.

After completing the Bundesbank's civil servant training programme you first worked in International Relations, dealing with IMF (International Monetary Fund)-related matters. The Bank then soon seconded you to the IMF (International Monetary Fund) to serve as advisor to the German Executive Director. At that time, many former Soviet republics were applying for IMF membership. Current events are showing us just how important international organisations can be for countries applying for membership.

After a brief interlude at your home base, the Bundesbank's Central Office, you were posted abroad again from 1995 to 1999, working as financial attaché to the German embassy in Rome. At that time, preparations were under way for the third stage of Economic and Monetary Union. In March 1998, the crucial convergence report was presented to the Council of the European Union. It formed the basis for the introduction of the euro in the first eleven countries at the beginning of 1999. Your contribution lay in providing expertise about Italy.

This was followed by several years back at Central Office in Frankfurt and another stint at the IMF (International Monetary Fund) in Washington, this time as Alternate Executive Director for Germany. While posted there during the financial and economic crisis, you participated in IMF (International Monetary Fund) discussions and resolutions on support programmes for euro area countries. That was your contribution to overcoming the challenges posed by the European sovereign debt crisis. And now we are facing another major challenge – in Germany, Europe and worldwide.

3 Economy activity

I'm sure everyone in this room was horrified by the invasion of Ukraine by Russian troops almost four weeks ago. Conditions in the country have since evolved into a humanitarian crisis. And there is no end in sight. The German Federal Government has clearly condemned this attack on an independent sovereign state: nothing and no one can justify it. The Bundesbank supports the Federal Government. We are thus implementing the agreed financial sanctions against Russia in Germany. And I would like to add that I wholeheartedly support the sanctions.

In our role as banking supervisors, and given our financial stability mandate, we are also keeping a close eye on current developments at banks and on financial markets. And we are doing our part to ensure the stability of the financial system. At the same time, we are assessing the economic repercussions of this war for Germany and for the euro area – its implications for economic activity, price developments and monetary policy.

While the unknowns make it impossible to do so reliably at present, we can already see that the economic effects may vary considerably depending on developments. Before the war started, the economy was on a fairly good track. In Germany, it saw strong growth last year of 2.9%. However, this did not fully make up for the downturn caused by the pandemic. In the euro area, on the other hand, the economy was already back at its pre-crisis level, following growth of 5.3% last year.

For spring 2022, the economy in Germany and in the euro area was expected to flourish, once the Omicron wave subsided and coronavirus rules were relaxed. The Russian attack on Ukraine has now darkened the economic outlook. Three main factors are important here.

First, the war has driven energy prices up dramatically. Oil and gas prices have reached exceptionally high levels at times and could go up even further. Losses of confidence as well as purchasing power will potentially constrain private consumption. Second, the war plus sanctions and retaliation measures are directly hampering trade with Russia and with Ukraine. We are thus experiencing supply interruptions, the effects of which we have seen not least in the manufacture of passenger cars in Wolfsburg. And this is coming at a time when the coronavirus-related materials shortages have tailed off somewhat but have not yet been overcome. Third, the war is bringing considerable uncertainty in its wake and weighing on private consumption and investment.

The ECB (European Central Bank) staff economists presented a new projection on 10 March. The baseline scenario projects euro area economic growth of 3.7% in 2022. The December projection was thus revised downwards by half a percentage point. However, growth could be another 1.4 percentage points lower in the most severe scenario, according to the ECB (European Central Bank) staff estimations – that is, if all three factors I mentioned were to deteriorate even further. Hence, there are significant downside risks to economic activity at present.

4 Price developments

Inflation has also developed contrary to expectations and has been surprising significantly to the upside for some months now. Even before the war against Ukraine, the inflation rate was very high: as measured by the Harmonised Index of Consumer Prices, the rate in Germany peaked at 6% in November of last year. Euro area inflation was reported at 5.9% last month. That is the highest inflation rate since the introduction of the euro.

This strong price inflation was only partly attributable to clearly defined one-off effects. The more important factor was that the global economy recovered unexpectedly quickly from the coronavirus crisis. As part of this recovery, energy prices and transport costs picked up dramatically, as did import and producer prices. Food prices also rose considerably, as well as prices for services which were especially affected by protective measures. In other words, prices saw upward pressure across the board over the past few months. Given the surge in energy prices on account of the war, consumer price inflation is likely to pick up again substantially, particularly in the near term.

According to their latest projections published on 10 March, ECB (European Central Bank) economists are now expecting an inflation rate of 5.1% this year as measured by the Harmonised Index of Consumer Prices. The Bundesbank believes this figure could be similarly high in Germany on an annual average.

It is particularly people with low incomes who suffer under sharply rising prices. However, current inflation is being driven largely by factors such as energy prices, over which monetary policy has no direct influence. Targeted transfers are an appropriate way to provide particularly hard-hit people with some measure of relief.

5 Monetary policy

However, as members of the ECB (European Central Bank) Governing Council we must ensure, with determination, that the strong inflation does not become entrenched and does not lead to excessively high inflation in the medium term. In this context, potential second-round effects are a central risk. The unemployment rate in the euro area has dropped to a historically low rate; the shortage of skilled labour is growing. This could strengthen wage dynamics. Second-round effects may, however, also arise from the current wave of price increases driving up inflation expectations. The longer the high inflation rates persist, the more strongly these expectations will be driven up. The Bundesbank's online surveys serve as a warning. For a few months now, both households and enterprises have been considerably adjusting their inflation expectations upwards for the coming 12 months.

There appears to be a growing consensus among experts that, for the foreseeable future, inflation rates will no longer be as low as they were pre-pandemic. In my view, we must remain very vigilant against upside risks to price stability over the medium term. Although the ECB (European Central Bank) staff projections for the coming two years indicate falling inflation rates in the euro area, moving towards our 2% target, uncertainty surrounding the price outlook is exceptionally high. And it has increased as a result of the war against Ukraine.

Thus, in the current environment, there is even more reason than before to keep all options on the table with regard to the monetary policy stance so that the ECB (European Central Bank) Governing Council can also respond quickly if necessary. President Lagarde summed this up concisely on 10 March following the ECB (European Central Bank) Governing Council's monetary policy meeting by saying "maximum optionalities in the face of maximum uncertainty".

This has also shaped the ECB (European Central Bank) Governing Council's decisions. Net purchases under the asset purchase programme, or APP (Asset Purchase Programme), are being scaled back more quickly than originally planned – from €40 billion in April to €20 billion in June. If the incoming data support the expectation that the medium-term inflation outlook will not weaken even after the end of the net purchases, the ECB (European Central Bank) Governing Council will conclude these net purchases in the third quarter. One thing is perfectly clear to me: if the price outlook requires it, we will need to further normalise monetary policy and also begin to hike our policy rates.

Monetary policy always depends on current data. In the current situation, we would be wise to put a particular emphasis on this data dependency. The recalibrated forward guidance on interest rates provides scope for taking data-driven action. The ECB (European Central Bank) Governing Council now foresees adjustments to the policy rate taking place "some time after the end of the net purchases". Any adjustments it makes will be gradual. One thing is clear, though: there will be no change to the previously communicated sequence – the net purchases will be concluded prior to a policy rate hike. Provided the net purchases end in the third quarter as currently planned, this will provide the opportunity of raising policy rates this year if needed.

Up until recently, many were concerned that monetary policy might “choke off” the economic upswing if tightened too soon. The risk, they said, was of ultimately plunging the economy back into a low-inflation setting, which was an argument for patience and taking a “wait-and-see” attitude. As I see it, the risk of acting too late has now become greater. Exercising due caution given the exceptional degree of uncertainty, we should not drag out the exit from the very accommodative monetary policy. Otherwise, interest rates would have to increase later on all the more quickly and by more. But an abrupt interest rate hike would place a greater strain on enterprises and households and could lay bare existing vulnerabilities in the financial system and trigger significant market turbulence.

6 Conclusion

I’m sure, dear Mr von Stenglin, that you will continue to follow these highly uncertain future developments closely, as you have always been a passionate monetary policy maker and Bundesbanker. You have been one of the voices of the Bundesbank’s clear stability policy stance in Germany and abroad for 36 years now: diplomatically adept and very well networked up to the highest echelons of politics. Your departure is a loss for the Bundesbank.

I’ve heard that you were often to be found rowing before starting your day’s work: sometimes on the Potomac, sometimes on the Main and sometimes on the Maschsee. This is your second great passion besides monetary and foreign exchange policy. On your retirement, I wish that there will always be enough water beneath your keel – for your rowing – and that you will therefore be able venture to new shores if you wish to do so. You are handing over a house in very good order to your successor, Ms Paetsch.

Dear Ms Paetsch, you know first-hand how to run a Bundesbank regional office. You were Head of In-house Operations and thus also Deputy to the President of our Regional Office in Hesse for eight years. Prior to this, you were former Executive Board member Carl-Ludwig Thiele’s personal assistant and, before that, you worked in our Directorate General Legal Services. In this role you helped contain the wildfire of the financial crisis – knowledgeable, level-headed and solution-oriented. In just the same way, you will lead today’s Regional Office, not far from your northern German roots in Göttingen. I wish you every success in this new position.

Before I hand over to Minister President Weil, I will now present you, Ms Paetsch, with a bouquet of flowers for your new office to further brighten up your first few days there. A second bouquet goes to you, Mr von Stenglin – as a token of thanks for your exceptional commitment to the Bundesbank, with all the relocations and strains that you have experienced along the way. I would now like to thank you all very much for you attention and now invite Minister President Weil to the lectern.