

Speech by Christine Lagarde, President of the ECB, at the opening plenary session of the European Parliamentary Week 2021 in virtual format

Frankfurt am Main, 22 February 2021

I would like to thank you warmly for inviting me to speak to you today. It is a privilege to have an opportunity to talk to the citizens' representatives at the heart of European democracy.

Events like this one allow us to consider national debates in discussions about our common challenges as Europeans.

For all of us, the past year of the pandemic has been an extraordinary challenge. And, at all levels, the public policy response has been truly impressive. National responses have spearheaded the policy effort, with fiscal measures amounting to, on average, 4.5% of euro area GDP.

Yet the response to this crisis stands out from previous ones in that the level of policy alignment achieved has been truly unprecedented. The strength of Europe's crisis response has crucially depended on the strength of national and European responses across all areas: monetary, fiscal, supervisory and regulatory.

But the pandemic is not over yet. Policy alignment will continue to be imperative for what lies ahead. So I would like to look at the ways in which our policies can keep reinforcing each other in addressing two common challenges: shielding the economy and subsequently transforming it.

Shielding the economy

While people are drawing hope from the start of vaccination campaigns, the first challenge – “shielding” – calls for us to continue to bridge the gap until widespread immunity is achieved. Across Europe, people are still grappling with the economic and social consequences of the pandemic. And it is still highly uncertain how the next stages of the pandemic will unfold.

In this context, our pandemic emergency purchase programme (PEPP) has been tailored to the pandemic, helping to stabilise markets and ease our policy stance to support the recovery. It will continue to be a crucial tool. The PEPP envelope of €1.85 trillion gives us considerable firepower and flexibility in conducting purchases.

Moreover, our targeted longer-term refinancing operations will remain an attractive source of funding for banks, supporting the flow of credit to households and firms. SMEs tend to benefit disproportionately from abundant and cheap credit, and smaller firms have been able to borrow at the lowest rates ever recorded.

The ECB will continue to support all sectors of the economy by preserving favourable financing over the pandemic period, as it has done since the start

of the crisis. This commitment implies looking at indicators along the whole transmission chain of our monetary policy – from risk-free rates to government borrowing costs to capital markets to bank lending for firms and households.

Within the broad-based set of indicators that we monitor to assess whether financing conditions are still favourable, risk-free overnight indexed swap (OIS) rates and sovereign yields are particularly important, because they are good early indicators of what happens at downstream stages of monetary policy transmission, since banks use those yields as a reference when setting the price of their loans to households and firms. Accordingly, the ECB is closely monitoring the evolution of longer-term nominal bond yields.

The overall policy mix, however, remains essential. While the pandemic persists – and lockdowns and heightened uncertainty continue – firms and households will only be able to take full advantage of favourable financing conditions if national policy measures are deployed to help monetary policy unfold its full potential.

By continuing to take the lead in protecting the firms and sectors most exposed to the crisis, fiscal policy can help brighten economic prospects for firms and households, thereby strengthening monetary policy transmission. The ECB's Consumer Expectations Survey demonstrates this: people who consider government support to be more adequate display less precautionary behaviour. Those people are in turn more likely to respond to favourable financing conditions and increase their consumption.

In the euro area, the budget balance is expected to be -6.1% of GDP in 2021. With monetary and fiscal policies working in tandem, we hope that we will finally cross the bridge and reach the other side of the pandemic.

Transforming the economy

The second policy challenge will arise as the economy gradually reopens. And this second challenge will be quite a different one.

It won't be about returning to the pre-pandemic status quo. It will be about bringing the economy rapidly back to potential, while using the thrust of the recovery to transform our economies.

The focus will then be on reducing the damage caused by the pandemic, such as permanent job reductions, which one in five firms are considering. At the same time, it will be crucial to harness the potential offered by the pandemic, which has spurred a multi-year leap in digital progress and has brought a new focus on sustainability. Digital and green technologies present massive possibilities for more vibrant, inclusive and sustainable growth. In the energy sector alone, scaling up green investment to the necessary levels could create an estimated 1.1 million jobs across Europe by 2030.^[1]

Europe is leading the way in addressing this double policy challenge. Its Next Generation EU (NGEU) recovery package is designed to support demand today and generate growth potential tomorrow through investment and reforms.

Indeed, NGEU is expected to provide, on average, around 1% of GDP in grants and loans per year over the next three years, while committing 37% of funds to green investment, and 20% to digital.

Next to EU policies, national policy action will have to play a vital enabling role in smoothing the transition and promoting change.

First, by ensuring that NGEU funds can be fully operational when the decisions on own resources are ratified in all Member States, which in many cases involves national parliaments.

And second, by creating the right economic environment to boost the impact of NGEU. This means improving the quality of government spending and ensuring that NGEU is firmly rooted in sound structural policies conceived and implemented at the national level. If used for productive public investment, NGEU funds could increase real output in the euro area by around 1.5% of GDP over the medium term.^[2] So these must be priority areas if we are to reform, modernise and come out of this crisis with renewed vigour.

Conclusion

Let me conclude by emphasising that all of us, across all policy levels, must pull together to meet our shared challenges and ensure that Europe can emerge stronger from the pandemic.

Today, 22 February, is the birthday of Lord Robert Baden-Powell, the pioneer of scouting. The scout's motto, "be prepared" is apt for us too. For Europe to be prepared and bring about positive change in 2021 and beyond, national and European decision-makers need to uphold our team effort. The ECB will continue to play its part.

[Forward look: 22 February – 7 March 2021](#)



Overview of the main topics and events at the Council of EU and European Council.

The location and the format (physical or virtual) indicated for each meeting are subject to change.

Foreign Affairs Council, 22 February 2021

EU ministers of foreign affairs will be briefed about current affairs and exchange views on Russia, the Strategic Compass and Hong Kong.

Informal video conference of agriculture and fisheries ministers, 22 February 2021

Ministers will discuss the state of play of the bilateral EU-UK consultations on setting definite fishing opportunities for 2021.

Informal video conference of European affairs ministers, 23 February 2021

European Council, the Conference on the Future of Europe and the EU-UK relations will be on the agenda of the Informal video conference of European affairs ministers.

Video conference of the members of the European Council, 25-26 February 2021

The members of the European Council will meet via video conference to discuss the current situation of the COVID-19 pandemic, preparedness for health threats, security and defence, and relations with the Southern Neighbourhood.

Informal video conference of internal market and industry ministers, 25 February 2021

Ministers will exchange views on how national recovery and resilience plans can help EU achieve industrial policy goals (as a contribution to the European Semester process), have a policy debate on the New Consumer Agenda and discuss the way forward regarding the proposed public country-by-country reporting directive.

Informal video conference of research ministers, 26 February 2021

Ministers will exchange views on the possible synergies between the European Research Area (ERA) and recovery and resilience plans and will take stock of information on the latest state of play in pending files and of future initiatives in the field of research.

[Remarks by President Charles Michel at the Munich Security Conference video](#)

conference



First, I want to thank you, Ambassador Ischinger. It's a great initiative to bring together again, transatlantic partners to discuss the great challenges ahead.

In the last seventy-five years, the relationship between Europe and the United States has been the backbone of the rules-based international order. This partnership is underpinned by multiple pillars: our security and defense alliance through NATO; our strong economic cooperation; and, of course, the rich relationship between our peoples.

This is a critical time for Europe, for the United States, and for the world. And we are confronted by massive challenges. This makes our alliance with the US both vibrant and vital. And again, it's more necessary than ever. This is why the European Council – all 27 EU leaders together – have reaffirmed its strategic importance. I believe both sides now want to rejuvenate and solidify our bond. I call it – a “New Founding Pact”.

It's worth reflecting on what the fundamentals of this pact should be. I sum it up in three words: values, prosperity and influence.

First, our values. Together, our values are those of the free world: human dignity, democracy, freedom and the rule of law. These values represent the cornerstone of our relationship.

If our relationship went through four bumpy years, it was not because of differences of views or interests. These are normal. Rather, it was because respecting rules, and respecting agreements, were no longer a “given”. That's why we appreciate the commitment expressed by President Biden: *“We will lead not merely by the example of our power, but by the power of our example.”*

It's precisely when we respect our common values, when we respect each other as equal partners, that we can resolve our differences.

It's precisely when those values are challenged by others, that we must lead by example, to defend them and promote them, at home and abroad.

Today, recovering from COVID-19 is our first priority. More than ever, we must show our peoples that our system of free societies, and open economies, works. And that it works for all.

We – the EU and US – need to join forces to make trade, digital development, green transition and fair taxation contribute to greater prosperity and well-being for our citizens. We want to build back a better, fairer and greener world. For all. This is our European ambition. And we think international cooperation is the only way to succeed.

Now that America, under the Biden-Harris administration, re-joins this common endeavour, our alliance – along with our like-minded partners – constitutes a

formidable and influential power.

When we are on the same page, we have greater influence to promote democracy and drive forward our economies. Together, we are stronger to defend the rules-based international order from the attacks of autocratic regimes, whether from Russia, China or Iran. And we are stronger to ensure peace and security.

When we share the same view of prosperity and well-being, we have greater capacity to deal with major economic actors, to bring them to more fairness and reciprocity while avoiding detrimental competition between ourselves.

A strong partnership needs strong partners. That's why we, in Europe, are growing stronger, to increase our strategic ability to act. For our common values, for more prosperity and for more security. We want to be a strong and reliable partner. Let's make our partnership a powerhouse for a better world. Welcome back America.

Media advisory – Foreign Affairs Council of 22 February 2021



Indicative programme

from 08.00

Arrivals ([live streaming](#))

+/- 08.15

Doorstep by High Representative Josep Borrell

+/- **09.15**

Beginning of the Foreign Affairs Council (roundtable)

Adoption of the agenda

Adoption of non-legislative A items

+/- 09.20

Current affairs and review of the latest international developments

Russia

Strategic Compass

Hong Kong

+/- 14.00

Informal exchange with the US Secretary of State Antony Blinken via video conference

Any other business

At the end of the meeting (+/- 17.15) press conference in [live streaming](#).

Arrangements for the press conference

Please note that there will be no physical press conference. EU accredited journalists will be able to ask questions remotely using [this link](#).

Journalists who already registered for previous Foreign Affairs Council press conferences do not need to register again.

- **Deadline: Monday, 22 February 2021, 16.00**

Further instructions will be sent to all registered participants approximately half an hour after the deadline.

[Visit the meeting page](#)