

Christine Lagarde: Interview with Le Journal du Dimanche



Interview with Christine Lagarde, President of the ECB, conducted by Marie-Pierre Gröndahl and Hervé Gattegno

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There's been a glut of bad news throughout Europe recently. How can we hold to the economic projections?

Uncertainties are indeed multiplying. As far as the economists at the ECB can remember, there have never been as many. Our projections are published every three months. One way of preserving a degree of optimism despite the current circumstances is simply to think back to the ECB's projections released in September 2020 and the multiple uncertainties they took into account. What were the salient facts back then? The terms of the final Brexit deal were not yet known. The risks of a no-deal exit were still present, as much for the European Union as for the United Kingdom. On the pandemic front, no vaccines had been found and it was impossible to predict when they might become available. The US elections, of crucial importance for the whole world, had not yet been held. All of these major uncertainties have now been resolved, notably the most important one of all – the availability of reliable vaccines – because several have since been authorised by the competent international health authorities. That's a new situation and it's certainly a reason to be optimistic.

But is it enough to hope that 2021 will be a better year than the one before?

At the ECB we remain convinced that 2021 will be a recovery year. The economic recovery has been delayed, but not derailed. People are obviously waiting impatiently for it. We expect the upswing to gather pace around the middle of the year, even if the uncertainties persist. We are not immune to unknown risks surfacing. Let's be clear: we will not see a return to pre-pandemic levels of economic activity before mid-2022.

What rate of growth do you expect for the euro area this year?

Around 4%. Maybe a little lower. This would already be a sharp increase relative to the contraction of 6.8% registered in the euro area in 2020. Everything will depend on the vaccination policies and the rollout of the campaigns. And on the economic measures taken by governments in response to health requirements.

On 21 July 2020, the European Heads of State and Government agreed on an exceptional recovery plan worth €750 billion. Are you concerned about the plan's implementation?

There is no doubt that the current crisis has strengthened the European Union. The decision taken by the Member States to borrow jointly for the first time marks a moment of exceptional cohesion in the history of the European project. But the momentum must absolutely be kept up. The pandemic has an accelerating impact on everything: so we, too, need to speed up. You fight fire with fire. It's better to act quickly, even if you might then have to backtrack to correct things that may have gone wrong.

The plan needs to be ratified in time for the European Commission to borrow as planned next June, and to then distribute the funds among the Member States of the European Union. In order for it to do so, all of the national recovery plans, comprising measures to promote green and digital transitions, will have to be submitted to the Commission very soon.

How will the ECB continue to act?

For its part, the ECB has been supporting households, firms and the Member States' economies since the outset of the crisis. It acted extremely quickly, unveiling an initial €750 billion programme on 18 March 2020, followed by two other expansions amounting today to a total envelope of €1.85 trillion. Faced with the spread of the virus, it was important to prevent a fragmentation of financing conditions across euro area countries. We committed ourselves to remaining active in the markets until at least March 2022 in order to support and preserve financing conditions in Europe. Our preferred tool is the pandemic emergency purchase programme (PEPP), which differs from the ECB's other asset purchase programmes, for two reasons: it is an emergency programme targeted to this crisis, and it gives us the option of deviating from the usual limits if they stand in the way of the support we need to provide to euro area economies. It's an exceptional and temporary tool. As I have been saying since March 2020, our commitment to the euro has no limits. We will act for as long as the pandemic is causing a crisis situation in the euro area. We think that the time horizon of March 2022 is reasonable and that the PEPP envelope is appropriate. But if the ECB's Governing Council

thinks there is a need to do more, over a longer period, we will do more. However, if the whole envelope does not need to be used, we will not use it in full. That's the principle of flexibility.

Doesn't this accommodative monetary policy stance create risks?

We don't see anything that gives us cause for concern. We do not yet see property bubbles at the euro area level, but we see signs of overvaluations in some of the euro area's major cities in France, Germany, Luxembourg and Belgium, for example.

That said, it is vital that we continue to support lending across the entire economic system. Banks provide assets as collateral to the ECB and in return they receive funds at very low rates. They then use these funds to lend to firms. The priority is to ensure businesses have access to the funding they need. There is no alternative: when the economy is protected in this way, the ECB's role is not to give one business priority over another. Collectively, we must give priority to growth, competition and innovation. At that point, the natural selection of companies will set in.

How should we react once the crisis is over?

Once the pandemic is over and the immediate economic crisis is behind us, we will have a tricky situation on our hands. We will have to be well organised. And not repeat past mistakes, like closing all the taps at once, cutting off both fiscal and monetary stimulus. Instead, we need to offer flexible support to our economies, and then reduce this support gradually as and when the pandemic subsides, and the recovery takes hold. Economies will then have to learn how to function again without the help of any of the exceptional measures that had to be introduced as a result of the crisis. I am not worried about this, because the capacity for recovery is strong. Our economies are resilient. To convince ourselves of this, we only have to look at the remarkable improvement recorded by the French economy in the third quarter of 2020, when quarterly growth rebounded by 18.5%.

Don't the gaps between euro area Member States make it difficult to come up with a common monetary policy?

Above all else, the coronavirus (COVID-19) crisis has exacerbated any pre-existing gaps. That is why the Next Generation EU recovery plan is even more crucial, particularly the support it will provide through the grants given to each Member State, tailored precisely to their specific national situations. For example, Italy will receive around €200 billion in grants and loans. It is therefore vital that this exceptional solution is not wasted and that it is rolled out as soon as possible.

Concerns are surfacing about the very high debt levels of Member States. Is there any basis for these concerns?

There is no denying that our monetary policy would be more effective if there was a greater convergence of Member States' economic policies. All euro area countries will emerge from this crisis with high levels of debt. There is no

doubt that they will manage to repay this debt. Debt is managed over the long term. Investments made in sectors that are vital for the future will bring stronger growth. The recovery will create jobs and will therefore have a unifying effect. We are transitioning to a different economy, one that is more digital, greener, more committed to combatting climate change and to protecting biodiversity. It will also be driven by new values – which young people are already expressing through their job and career demands – which will meet a new set of parameters. Healthcare in particular is one of their main areas of focus.

A letter signed by 100 economists is calling for cancellation of the public debt owned by the ECB. How would you respond to them?

Cancelling this debt is inconceivable. It would be in violation of the EU Treaty which strictly prohibits monetary financing. This rule is a fundamental pillar of the common framework underpinning the euro. The EU Treaty has been agreed and ratified freely and voluntarily by EU Member States. Rather than expending so much energy asking for debt to be cancelled, it would be much more worthwhile to focus instead on how this debt should be used, on how public funds will be allocated, on which sectors we should invest in for the future. Those are the things we should currently be talking about.

Your predecessor Mario Draghi has been asked to form a new government in Italy. What is your view of his nomination?

Italy and Europe are fortunate that Mario Draghi has accepted the challenge of helping to end Italy's economic and social crisis at a time when it is the euro area country hardest hit by the pandemic.

I have full confidence in Mario Draghi's ability to rise to this challenge. He has all the requisite qualities: he has the knowledge, courage and humility needed to complete his new task, i.e. to restart the Italian economy with help from Europe.

Janet Yellen, the former chair of the US Federal Reserve, has become US treasury secretary. Is it good news?

Having a woman hold this position for the first time is wonderful news! What's more, Janet Yellen has the ideal profile given the circumstances: she is an economist and a labour market specialist. Employment will play a crucial role in restarting the economy. She is also very warm and pleasant. She is as humble as she is brilliant. Her appointment will also help promote smooth economic relations between Europe and the United States. We will once again see a cooperative approach being taken in key areas, such as international trade and how to deal with the challenges of climate change.

You have called for the "greening" of monetary policy. Is this really part of a central bank's mandate?

Absolutely. We all have a role to play in combatting climate change. The ECB is acting in accordance with its price stability mandate; climate change

poses a risk to price stability, since it has an impact on growth, price levels and the economy in general. There is a legitimate legal basis for our stance. Public opinion is in favour of taking environmental, social and good governance criteria into account.