

Building a More Resilient Financial System

An Interview with Christine Lagarde, President, European Central Bank

EDITORS' NOTE *Christine Lagarde has served as President of the European Central Bank since November 2019. She also serves as Chair of the European Systemic Risk Board, a member of the Board of Directors at the Bank for International Settlements, and a member of the G7 and the G20. Additionally, Lagarde served as Managing Director of the International Monetary Fund, Minister of Economy and Finance of France, French President of the European Union, ECOFIN President, French*



Christine Lagarde

labor law from the University Paris X Law School, a master with major in economics and finance from Sciences Po Aix-en-Provence, and a master in American literature from Avignon Art College.

ORGANIZATION BRIEF *The European Central Bank (ecb.europa.eu) is the central bank of the 19 European Union countries which have adopted the euro. Its main task is to maintain price stability in the euro area and so preserve the purchasing power of the single currency.*

President of the G20, President of the G20 finance ministers and central bank governors, Minister of Agriculture and Fisheries of France, Minister of Trade of France, Global Chairman of international law firm Baker McKenzie, Member of the Global Executive Committee and Managing Partner, Baker McKenzie Paris office, Attorney at law practicing predominantly in commercial, mergers and acquisitions, antitrust, labor law and arbitration for international corporate clients, and a lecturer in contract law at University Paris X Law School. Lagarde has received numerous international awards including the Atlantic Council's 2011 Global Citizenship Award and the European Institute's Transatlantic Leadership Award. Lagarde earned a master in commercial law and DESS in commercial and

How do you define the mission of the European Central Bank and what do you see as its role in the world?

Our primary mandate is to keep prices stable in the euro area. By aiming to keep inflation below, but close to, 2 percent, we ensure that the euro is safe and stable and so provide the bedrock for economic growth and job creation. Besides underpinning Europe's economic strength, the euro also plays an important international role. As the world's second biggest currency, the euro makes the international financial system more resilient and promotes world trade. Our drive to uphold a strong and reliable currency is part of Europe's broader commitment to an open, multi-lateral and rules-based world economy.

What are your key priorities leading the ECB?

Our price stability objective is the lodestar that guides our policy priorities. First and foremost, our priority is to manage the enormous crisis affecting us all. The COVID-19 pandemic has inflicted an unprecedented shock on the European economy. Our resolute and forceful action is essential in supporting the economy on its road to recovery and redirecting inflation towards our medium-term aim.

A second key priority is to adapt to the changing economic environment in which monetary policy operates. Declining trend growth, rapid digitalization and changing financial structures are influencing price developments. Climate change may significantly affect price stability in the future. To preserve the effectiveness of our monetary policy, we not only need to keep a close eye on these issues, but also take action. To that end, we are conducting a strategy review which will cover all aspects of our monetary policy.

Third, a priority close to my heart is to bring the ECB closer to the people. We need to engage in a genuine dialogue to sustain and nurture trust in our institution. People gain a deeper trust in the ECB when they understand our decisions and appreciate their importance for their day-to-day lives.

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How do you define resilience?

Resilience is a quality shared by people and economies; it is the ability to adapt to unexpected circumstances, quickly recover from adverse shocks and bounce back into shape.

What contributions do you feel the ECB can make to build a more resilient world?

As the world's largest trading bloc and the top trading partner of 80 countries across the world, Europe is deeply integrated into global markets. The ECB creates a more resilient world through its contribution to a strong European economy and financial system for the good of Europeans and their trading partners. It does this in two ways. First, by maintaining price stability, which implies achieving the maximum economic growth that we associate with it, the ECB helps stabilize the economy. Second, as the supervisor of the European banking sector, which includes eight global systemically important banks, the ECB works towards building a more resilient financial system.

But a robust economic system is not enough on its own. A more resilient world must be based on more sustainable growth. One important challenge for sustainability is climate change. We are ready to play our part, within our mandate, to address the risks associated with climate change. In this context, we should aim to achieve price stability and economic growth in the most carbon-efficient environment possible.

Who are some of the most resilient leaders you see?

You can see whether leaders are resilient or not in times of crisis. I have noticed time and again that when there is a crisis, women are called to the rescue. Women tend to be more resilient leaders because of their ability to listen, their desire to build consensus and their good awareness of risks. This has certainly been the case during this pandemic where female leaders in countries like New Zealand, Germany and Taiwan have done a very good job. So I think we should promote women's leadership if we want a more resilient world.

There has been, internationally, and even within the EU, a trend away from cross-border collaboration, a rise in nationalism, and a tendency for nations to increasingly go it alone. What does this mean for the future, particularly in the face of far-reaching crises caused by climate change?

Multilateralism has been a powerful engine of growth. It has brought countries and economies closer together. But far too many people still suffer from poverty and a lack of opportunities, which has caused anger, resentment and a retreat from multilateralism. However, despite the global rise in unilateral, go-it-alone approaches, I do not believe that this trend is inevitable, for two reasons. First, we can create a new multilateralism that enjoys broad support by ensuring that economic

opportunities are more widely shared. Second, people's main concerns today are issues such as climate change, immigration and the economic situation, which clearly cut across borders. The EU and other multilateral institutions have a huge opportunity to reconnect with people and make concrete progress in tackling these issues.

How critical is collaboration and strong global alliances to building a more resilient world?

The coronavirus pandemic is a stark reminder of the benefits of multilateralism. Now more than ever, it is vital that we cooperate closely and learn from each other. Only then will we be able to respond appropriately and chart a course out of this crisis that enables a rapid return to sustainable global growth.

But even once the pandemic is behind us, advanced economies will continue to face challenges such as changing global trade, slowing potential growth rates and climate change. These common challenges will require common responses. Promoting a stable and transparent trade system remains essential to the stability of the global economy. Sustainable growth will require strong domestic policies, bolstered by international action. Additionally, only a collective effort to combat climate change can consolidate regional efforts to curb greenhouse gas emissions and effectively mitigate climate risks. ●

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