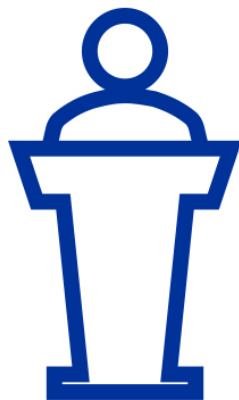


Christine Lagarde: Remarks at the Annual Meeting of the Council of Governors of the Arab Central Banks and Monetary Authorities



SPEECH

Contribution by Christine Lagarde, President of the ECB, during the session “Economic, financial and monetary impact of COVID-19 pandemic, and post-crisis options for policies and tools”

Frankfurt am Main, 13 September 2020

The global economy underwent a deep and synchronised contraction in the second quarter of this year that was unprecedented in both speed and extent – far exceeding the declines witnessed during the global financial crisis. The ECB’s September projections for global growth excluding the euro area are for -3.7% in 2020, 6.2% in 2021 and 3.8% in 2022. Global economic activity has begun to recover since mid-May as various measures put in place to contain the spread of the pandemic were eased. The recovery has been substantial – but it remains *uneven, uncertain* and *incomplete*.

The *unevenness* of the recovery partly reflects the timing of the spread of the pandemic across the globe and the measures that were put in place to contain it. For example, the economic contraction in China was concentrated in the first quarter of this year, and the Chinese economy rebounded strongly

in the second quarter, just as other economies were entering a downturn. Yet that rebound is itself uneven across sectors. Industrial production in China in July was up 4.4% on a year ago, but retail sales were down.

This divergence between sectors also results in an uneven impact on countries that extends beyond the direct impact of the pandemic. For example, the sharp fall in tourism and oil prices has notable economic implications for Arab countries, even if they have been relatively successful in containing the outbreak. The IMF's latest forecasts for GDP growth in the Arab world are for a steeper decline and shallower recovery than in the rest of the world: -5.7% in 2020 and 3.5% in 2021.^[1]

The *uncertainty* of the global recovery relates mainly to the path of the pandemic, and the timing of an effective medical solution. While the global rate of new cases has somewhat stabilised since the start of August, albeit at high levels, a number of countries are witnessing a renewed increase in cases following initial success at containment. Global measures of uncertainty have fallen from their record highs earlier in the year, but remain at elevated levels. And the recovery is *incomplete* because there is still much ground to recover.

For the euro area, a similar assessment applies. The incoming data show a strong recovery, but also one that is uneven, uncertain and incomplete. Our latest macroeconomic projections signal that output will rebound in the third and fourth quarters by 8.4% and 3.1%, respectively, broadly in line with the expected pace set out in the June projections. Growth is projected to average -8% in 2020, 5% in 2021 and 3.2% in 2022. But only towards the end of the projection horizon is output projected to return to its pre-pandemic level.

Both hard and soft indicators have rebounded sharply since April, but in most cases they remain notably below pre-pandemic levels. For example, by June industrial production had recovered around two-thirds of the trough, but still remained approximately 11% down on February. High-frequency indicators such as mobility data, electricity consumption and credit card transactions displayed progressive improvement in July and August, although these data are highly seasonal which prevents us from drawing strong conclusions.

The unevenness of the recovery is highlighted by the divergence between services and industry, in contrast to the crisis a decade ago when activity in these sectors moved in tandem. The services PMI declined to 50.5 in August from 54.7 in July, while the manufacturing PMI continued to improve marginally. Retail trade has returned to pre-pandemic levels but expenditure on several consumer services remains exceptionally low. With consumer and business services accounting for 55% of the euro area economy, it is clear that a full recovery requires a more significant rebound in these sectors.

Indeed, around five million fewer people were employed in the second quarter of this year relative to the end of 2019, and if the current strength of the rebound does not continue – or fails to spread across all sectors – it is unlikely that they will all be re-employed in the near term. While the various job-retention schemes introduced by governments have so far been effective in cushioning the fall in income and preventing a more precipitous

decline in employment, and the numbers of people enrolled in those schemes are falling as activity picks up, keeping job support schemes in place is critical to avoid a sharp increase in unemployment later in the year.

Faced with a high degree of uncertainty, households and firms have delayed consumption and investment, exacerbating the downturn and slowing the recovery.^[2] The ECB's Consumer Expectations Survey shows that households sharply increased their desired amount of precautionary savings following the pandemic outbreak, and have only somewhat moderated that desire since. Total investment in the euro area fell by 21% in the first half of this year and the data suggests only a partial recovery thus far.

Looking ahead, the evolution of the pandemic and its associated containment measures is an ongoing source of uncertainty, especially given the recent rise in cases in several European countries. But it has also become increasingly clear that the pandemic will bring about considerable changes in how we organise production, work and consumption – and this applies at the global level, too. Emphasis on greater resilience in supply chains may encourage a return of some production from overseas. In the opposite direction, physical lockdowns have vastly increased awareness of the ability of technology to facilitate the provision of services from a distance.

While some sectors will grow as a result, others could enter a long-lasting decline if, for example, there is a sharp increase in working from home, or a large reduction in business travel. According to estimates from the International Labor Organization (ILO), around one in five workers worldwide work in occupations and live in countries that have infrastructure that is sufficient to enable them to work effectively from home, rising to almost one in three workers in Western Europe.^[3] Reflecting this, the stock prices of real estate investment trusts investing in offices and retail space have not benefitted from the broader financial market rebound seen over the summer, and remain 40-50% below the February highs, while those focusing on industrial property have largely recovered. In many parts of the world, managing this transition through appropriate macroeconomic policies will be key to reducing uncertainty.

The challenging economic environment continues to weigh on underlying price pressures. In the euro area, inflation fell to -0.2% in August from 0.4% in July. Beneath this sharp decline, inflation excluding food and energy fell from 1.2% to an all-time low of 0.4%. Though temporary factors distorted the August figure, underlying price pressures have weakened due to subdued demand and significant labour market slack. Near-term price pressures will also remain subdued due to the recent appreciation of the euro exchange rate.

While the recovery remains incomplete, it continues to be bolstered globally by substantial support from both fiscal and monetary policy. The IMF estimates that, relative to its projections in January 2020, fiscal deficits this year will be more than five times higher in advanced economies and more than twice as high in emerging market economies. In the euro area, countries have taken unprecedented steps to stabilise and support their economies, with national fiscal measures taken thus far amounting to around 4.5% of euro area GDP. Those national efforts have been reinforced by policy moves at the

European level.

The €750 billion Next Generation EU recovery fund has the potential to make a significant difference to Europe's economic trajectory over the next few years. The size of the financial support envisaged is macro-economically meaningful, totalling almost 5% of GDP for the euro area. But it is important to ensure that agreement is reached on the outstanding details of the package so that the funds can start flowing on schedule in January 2021, and it is crucial that those funds are used productively to modernise our economy, helping reduce uncertainty about structural change.

Monetary policy has also reacted strongly to the pandemic. At the ECB, our first step was mainly focused on stabilising financial markets and addressing fragmentation. The measures we have introduced – notably our pandemic emergency purchase programme (PEPP) – have largely succeeded in offsetting the harmful tightening in financial conditions we saw earlier in the year. This is visible, for example, in the dispersion of long-term government bond yields, which is now close to its lowest level since the outbreak of the global financial crisis. Low benchmark yields have in turn helped support credit growth for firms and households: the annual growth rate of loans to firms reached 7% in July, up from 3% in February.

But we are now moving more into the second step, which is about returning the inflation path to its pre-pandemic trajectory and ensuring that it continues to re-converge with our aim in a sustained manner. To achieve this, the PEPP is fundamental, since – alongside its market stabilisation function – it is also a powerful tool for easing the overall monetary policy stance in the euro area. This was an important rationale for the expansion and extension of the PEPP in June.

Going forward, it is clear that an appropriate macroeconomic policy mix is crucial for the recovery: faced with significant downside risks and unprecedented uncertainty, monetary, fiscal and structural policies need to work together to maximise the impact of our policy response – both globally and in the euro area.

Continued expansionary fiscal policies are vital to avoid excessive job shedding and support household incomes until the economic recovery is more robust. Today, confidence in the private sector rests to a very large extent on confidence in fiscal policies. This is visible in survey data collected by the ECB, which show that households with more confidence in government support expect lower future unemployment, higher income growth and display lower precautionary behaviour.

Structural policies are equally important today, not only to lift growth potential, but also to ensure that structural changes are inclusive and address ongoing challenges related to climate change. Furthermore, digitalisation is now inevitable and is in many ways desirable, but, historically, technological transitions have sometimes led to higher inequality initially. For change to be sustainable, it is crucial that we do not overlook those who might be displaced by technology, but rather ensure that the right conditions are in place for them to prosper in a more digital

economy.

Monetary policy will continue to play its role in the euro area with full commitment to its mandate. ECB staff estimate that, taken together, the measures implemented since March will add around 1.3 percentage points cumulatively to euro area real GDP growth over the projection horizon, and contribute around 0.8 percentage points cumulatively to the annual inflation rate over the same time horizon.^[4] We estimate that the upward revision to our projection for core inflation in 2022 in our latest projections is due, to a large extent, to the June recalibration of our monetary policy measures. That said, other factors, such as the appreciation of the euro have partly offset the positive pull coming from our measures.

In the current environment of elevated uncertainty, the Governing Council will carefully assess incoming information, including developments in the exchange rate, with regard to its implications for the medium-term inflation outlook. It continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

When it comes to meeting our price stability goal, there is and there will be no complacency.

[ASEAN-EU Ministerial Conference: Remarks by High Representative/](#)



Today the European Union participated in the ASEAN Regional Forum following which the High Representative co-chaired with Singapore Foreign Minister Vivian Balakrishnan the ASEAN-EU Ministerial Conference.

Thank you Vivian (Foreign Minister Balakrishnan),

Dear friends, dear colleagues, dear Ministers,

Let me start by thanking Vietnam for assembling us today despite the difficult situation, and Singapore for the work you have done since 2018 as coordinator for EU-ASEAN relations.

We already met for a Ministerial meeting dedicated to our COVID-response in March, but as this is my first formal ASEAN Ministerial with you, let me assure you again of my personal attachment to bringing our two organisations closer. It is very important for us to be as close as possible.

If the pandemic has taught us something, it is that it is time for like-minded and multilateral organisations to come together, even those as geographically distant as the European Union and ASEAN. Distant geographically, but much closer intellectually, in my point of view.

The COVID-19 pandemic is the last in a series of global challenges that require a multilateral response, which our two organisations are attached to.

I'm afraid that others undercut multilateralism, but our organisations should ensure that our trading systems, prosperity and security are governed by rules and based on international agreements, not on the idea that "might makes right". None of us – neither ASEAN nor the EU – is ready to become part of any "sphere of influence", not to say new Cold Wars.

The EU has been at the forefront of the global response to the Coronavirus. In May we successfully pushed for the adoption of a Resolution on the Coronavirus by the Assembly of the WHO which foresees an impartial, independent and comprehensive review of the lessons learned from the international health response.

We have also assisted our partners around the world in tackling the virus and its socio-economic impact. In ASEAN alone, we mobilised over €800 million in assistance, more than any other partner of ASEAN.

We all know that the short-term challenge is the search of a vaccine. Here in Europe we are facing second waves of the virus and we will not be rid of it until we are better protected. Also here, we choose a multilateral response and the European Union is mobilising up to €400 million in guarantees to support COVAX. We will put our expertise and resources at work with COVAX to accelerate and scale-up development and manufacturing of a global supply of vaccines for citizens across the world, in poor and rich countries.

And today, I would propose that our experts – from the EU and from ASEAN – get together to see how best we can cooperate on vaccine security.

But the virus is not just about health, its economic impact is also tremendous, so let's talk about economic recovery. Because the second priority for all of us will be to reboot our economies. As the first investors in ASEAN, the European Union is committed to stepping up our intense economic partnership. The challenge is to promote deeper ASEAN economic integration as well as closer ties between us. Let us do this by

setting norms and standards as opposed to taking these from others.

But what does that mean in concrete terms?

First, to pursue our trade agenda: I am happy that our agreements with Singapore and Vietnam have entered into force and that we are negotiating other agreements with several of you. We should pursue these with a renewed energy and urgency.

Secondly, to work even more closely together to enhance connectivity. I've been saying very nice and good words about it – connectivity will be the work of the 21st Century. We will build on our numerous EU-ASEAN programmes to facilitate trade and integration and to build infrastructure to speed up economic recovery. The launching of the EU-supported ASEAN Customs Transit System later this year is just one example of this support.

And thirdly, we look forward to the finalising of the Air Transport Agreement as soon as possible. The agreement would be the first of this kind, creating the world's biggest aviation market for over one billion people.

I would like to stress the need for a rules-based order as a source of security. We are focusing on COVID-19 and the economic impact, but we should also be vigilant about the undercutting of the international rules-based order in other domains.

We cannot allow countries to unilaterally undermine international law and maritime security in the South China Sea, thereby representing a serious threat to the peaceful development of the region.

Asian security is also European security. Also here, we need to intensify our cooperation. And that's why, for example, we are working with you, our ASEAN partners, to deploy military and counterterrorism advisors in several of our European Union Delegations across Asia, including in Jakarta.

Last year, my predecessor signed an agreement on Vietnam's participation in our European military and civilian missions. I am very happy of that because these missions are deployed on three continents, from the Indian Ocean to Africa. And they contributed a lot to being security providers.

I hope it will be the first of many with our friends in ASEAN, because our missions do not only serve the European interest. They serve first and foremost the interest of peace and security worldwide, especially in some of the most troubled parts of our world, and we have them, we have a lot of problems in our world. We should contribute together to reduce tension and ensure peace.

Dear Ministers, dear friends, I am looking forward to our exchange today. Once again, we are very far away geographically, but our minds grow closer and should be closer in the future.

Thank you.

Closing remarks

Thank you. Yes, I would like to build with all of you the same personal relationship which I have been building since we met in March and I would like to thank you publicly for your participation in the university, summer university, this year, talking about the future of the world, and sharing with a lot of Ministers and professors and students our thoughts on that. Your intervention was very much celebrated and I would like to thank you and to ask that in the future other Ministers of ASEAN can participate in this kind of reaching out to people from an academic and intellectual point of view.

Because I really, I really feel convinced that an ambitious agenda lies in front of us and it is up to us to implement it. In a way we share the same understanding about it, if I may, from what I said; no-one will be safe until everyone will be safe. That way we have to continue to support each other, our mutual health and economic systems. And to provide a global supply of vaccines which has to become a real public good.

We are willing to work together to reboot our economies, and this means to facilitate trade and enhance connectivity.

You will find in the European Union always a trustworthy, reliable and predictable partner. We have no hidden agenda. Only a clear and public agenda, which is to defend the rules-based international system, and ensure that every human being can enjoy the security and rights we sometimes take for granted. But this is not the case for us to be part of humankind.

Dear colleagues, we share a special responsibility: the maintenance of the global, multilateral order, because a unilateral order is just the law of the strong. And our common commitment to this cause and the value of this dialogue – which I have been very happy to share with you today – cannot be underestimated. In times of national protectionism, in times of US-China rivalry and global uncertainty, I think it is more relevant than ever – this kind of agreement, this kind of context, this kind of mutual understanding.

As I said, this partnership should not be considered a luxury; it's a real necessity, for us, Europeans. So thank you, thank you very much, Ministers. I'm looking forward to meeting again during the next EU-ASEAN Foreign Ministers [meeting] in December. Maybe we will be able to meet in person in order to strengthen better our personal links. Thank you very much.

Presentation of letters of credentials to the President of the European

Council Charles Michel



The President of the European Council Charles Michel received the letters of credentials of the following Ambassadors:

H.E. Mr Ambassador, Pablo Ariel GRINSPUN, Ambassador, Head of Mission of the Argentine Republic to the European Union;

H.E. Mr Gholamhossein DEGHANI, Ambassador, Head of Mission of the Islamic Republic of Iran to the European Union;

H.E. Mr Santosh JHA, Ambassador, Head of Mission of the Republic of India to the European Union;

H.E. Mr Kristján Andri STEFÁNSSON, Ambassador, Head of Mission of Iceland to the European Union;

H.E. Mr Jestas Abuok NYAMANGA, Ambassador, Head of Mission of the United Republic of Tanzania to the European Union;

H.E. Mr Alhassane IDE, Ambassador, Head of Mission of the Republic of Niger to the European Union

Weekly schedule of President Charles Michel



Saturday 12 September 2020

09.00 Presentation of letters of credentials

11:15 Phone call with President of South Africa and African Union Chairperson Cyril Ramaphosa

Monday 14 September 2020

14.00 EU-China leader's meeting via video conference followed by press conference

Tuesday 15 September 2020

Visit to Greece (local time)

12.45 Meeting with Prime Minister Kyriakos Mitsotakis

14.00 Press opportunity

Wednesday 16 September 2020

Visit to Cyprus (local time)

09.00 Meeting with President Nicos Anastasiades

10.30 Press opportunity

Visit to Malta

17.00 Meeting with Prime Minister Robert Abela

18.00 Press opportunity

Friday 18 September 2020

08.30 Meeting with Frans Timmermans, EU Executive Vice-President for the European Green Deal

11.00 Video conference with OECD Secretary-General Angel Gurría

12.15 Meeting with Michel Barnier, Head of the Task Force for relations with the United Kingdom

[Afghanistan: Statement by the EU High Representative/Vice-President](#)



This statement was delivered by the High Representative of the European Union for Foreign and Security Policy / Vice-President of the European Commission, Josep Borrell, via video message at the launch of the Intra-Afghan Negotiations on 12 September 2020 in Doha.

The European Union welcomes the launch of the direct Intra-Afghan Negotiations between the Government of Afghanistan and the Taliban movement.

This is a ground-breaking moment.

It marks the start of a genuine peace process, which should lead to the peace that the people of Afghanistan deserve and have long demanded.

As the European Union, we urge the parties to accompany the start of the peace talks with an immediate, comprehensive, nationwide and unconditional ceasefire.

With this new chapter opening, a mere reduction of violence is no longer enough. Now all preconditions are fulfilled, nothing should prevent a ceasefire from being accepted and implemented by both parties.

This process must now be truly owned and led by Afghans. International partners must respect Afghanistan's sovereignty and independence when supporting these negotiations.

It must preserve and build on the political, economic and social achievements of the citizens of Afghanistan since 2001, especially on women's rights.

To achieve this, the European Union is working with all parties. We want to ensure that peace negotiations are inclusive and respectful of the wish of Afghans to live in a peaceful, secure and prosperous country. A country with economic development and growth, providing new opportunities for its citizens, where rights are upheld and vulnerable groups are protected.

Let the start of these negotiations be the much-needed and long overdue beginning of a new and more peaceful chapter for Afghanistan.

Link to the video: <https://youtu.be/ww4v8Qw7Cws>