Volker Wieland **March 20, 2024**

President Lagarde, Ladies and Gentlemen, Dear Friends,

I am very pleased to welcome you to this conference, which brings together "The ECB and its Watchers" since 1999. Today's event is the 24th instalment in the series. I am delighted to see the two people who started this in the front rows: Otmar Issing and Axel Weber. Actually, Otmar recently wrote a paper on the Importance of Central Bank Watchers (Conferences), which is available at the welcome desk. Also, it is great to have all three former ECB chief economists here today: Otmar, Jürgen Stark and Peter Praet. You have been in the hot seat at the ECB watchers, and I am very happy that Philip Lane is continuing the tradition.

When we met last in March 2023, core consumer price inflation stood at 5,3% and was rising. The ECB had raised the deposit facility rate to 3%. It had done so in spite of the turbulence in the banking system and the collapse of Silicon Valley Bank and Credit Suisse. Yet, money market rates were still below core and headline inflation. The short real rate was still negative. Now, with more rate hikes under the belt, the deposit rate stands at 4% (since September), while core inflation is 3.1% and headline 2.6%. Policy tightening has delivered a positive short-run real interest rate. Over last year, policy moved towards what is called the "Taylor principle" in the economics profession.

However, domestic inflation remains higher. Considering the broadest measure, the GDP deflator, domestic inflation was 5,3% in the last quarter. And the ECB staff estimates it at 3.4% for the current and 3.2% for the next quarter. Markets and experts expect all measures of inflation to decline further, and interest rate cuts to follow later this year. How far they may decline, that could be a question to discuss in the first debate on "inflation and monetary policy".

Last year's decision, to keep tightening policy throughout the financial turbulence proved to be the right one. The euro area banking sector has withstood higher rates surprisingly well. In the second panel, after lunch, we'll take a deep dive into monetary policy transmission via the banking system, and perhaps the role of prudential policies in this context.

The third panel will take a broad look at the policy implications of geo-political risks. We are in the 3rd year of the Russian war of aggression on Ukraine. And, on October 7 last year, the Jewish holiday of Simchat Torah, the Hamas organisation of Gaza carried out a horrible terrorist attack on Israel and started a war with awful consequences for Gaza itself. And, tensions in the Far East with China over Taiwan continue to remain of significant concern.

The situation in Ukraine looks very difficult. There is a lack of weapons, ammunitions, soldiers and U.S. support. Europe needs to step up to the plate and provide ammunitions and weapons that are much needed. Also, we need to watch out that our regulations or investment criteria are not applied in a way that hinders the fast built-up of our own defence industry and defensive capabilities.

In the Middle East, the attack of Hamas on Israel had the explicit goal of triggering a larger war and drawing many states into armed conflict. Fortunately, this has not happened, or at least has remained limited, so far, to rocket attacks by Hisbollah and Huthi militias.

More than 50 years ago, on October 6, 1973, Egypt and Syria launched a surprise attack on Israel on the Jewish holiday of Jom Kippur, what became known as the Jom-Kippur war or the October war. It was accompanied by an oil embargo of Arab OPEC countries on Israel's allies. Actually, there are several similarities between the Arab-Israeli war and global energy crisis in the early 1970s, and the wars and energy crisis now. Thus, it is of interest to compare the two periods from a macroeconomic perspective.

Here is a chart that overlays U.S. consumer price inflation for the two episodes. The two vertical lines mark the dates of the oil embargo in 1973 and the Russian attack on Ukraine in 2022. In the 1970s, inflation started out at a higher level. But in terms of the speed of the rise and decline of inflation, the episodes look very similar. Of course, we expect inflation to decline as indicated by the dashed-orange line. In the 1970s inflation rose again. Actually, Richard Clarida published an article 24 years ago, that suggested this was (at least partly) due to the Fed's failure to implement the Taylor principle.

How does the picture look for the euro area? In the 1970s, the inflation experience of European economies was very heterogeneous. Here I show the average of CPI inflation rates for Germany, France, Italy and Spain. Again, there is a level difference. The increase in 2020-21 is a bit faster than in 71-72. The decline of inflation is equally fast, but stopped earlier in the 70s. One could think of lots of questions, but let's see what we learn from the contributions to today's conference.

President Lagarde, we are very grateful that you are starting us off with your Presidential Address. Thank you very much for your commitment to this event over the years! Everyone here, of course, knows you, your exceptional career, and the many positions of great responsibility you have held in past years. So I will not list your many accomplishments in detail. But I am sure, that your wide experience—in policy and politics, in government as minister with several different portfolios, at the helm of the International Monetary Fund and the European Central Bank—with monetary, fiscal, financial and geo-political matters, is a great asset as the ECB has to navigate this complex monetary, fiscal, financial and geopolitical environment.

So without much further ado, may I ask you to the podium.