

President Lagarde, Governor Villeroy de Galhau, Governor Escriva and Governor Nagel, ECB Board Members Schnabel and Lane, 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, we meet for the 25<sup>th</sup> conference. – (slide) -- Of course, given the series started in 1999, it’s turning 27. But there were 2 years without such a meeting. So we celebrate 25, and we are honored, President Lagarde, that you have chosen to address this group regularly at this occasion. We are very grateful for that. You are the third ECB President to support this series in that way. This reminds me of this celebration - -- (slide) --- with your predecessors Jean Claude Trichet and Mario Draghi, at the 25<sup>th</sup> birthday of the ECB.

Yet, the celebration is short. There are momentous changes afoot. Our thoughts are now more focused on this – (slide) – namely how to quickly build up our defensive capabilities. This is of the essence. And as we prepare for war in order prevent war, the following famous citation from the “Art of War” comes to mind. – (slide) -- If you know the enemy and know yourself you need not fear the results of a hundred battles.

In some way, the quest for such knowledge is our objective today. – (slide) -- We aim to contribute to the ECB’s strategy review by reviewing the lay of the land – the economic environment, by reviewing the armaments – the ECB ‘s tools and by reviewing the strategy. We will do so in 3 panels. Because of the listening purpose, the format is different from the usual one. Instead of debating directly with the two other experts, the Governors will chair the debates of three academics, current or former policy makers.

As we think of the lay of the land, the big news of the day come from Berlin. Our political leaders are envisioning a large debt-financed spending boom focused on defense and infrastructure. While there is no doubt in my mind that the extensive buildup of defense is extremely urgent and at least in the near to medium term, substantial debt finance is needed, some caution is in order.

Let us consider for a brief moment the last large debt-financed infrastructure boom in Germany. – slide -- This was the re-unification boom. Between 1990 and 1995, Germany's sovereign debt to GDP ratio rose by more than 15 percentage points. But also, inflation surged from 2% to 6%. Policy rates were raised from about 4% to almost 9%. Many of us remember the consequences.

Does history repeat itself? No. Could similar forces be in play in coming years? Quite possible. This needs some careful attention.

President Lagarde, we are very grateful that you are starting us off with your Presidential Address. Your leadership is essential. Just following your footsteps in the last few days for a moment is a tour de force. You made key decisions with your fellow central bankers, you explained it all to the media, you met with European government leaders, you are connecting to the world of finance, you return to speak to ECB watchers and you will swing by parliament next week. Everyone here, of course, knows your exceptional career and the many positions of great responsibility you have held in past years in policy, politics and finance. They have more than prepared you for your role at the helm of the ECB and in the center of European policy making. So I will not list your many accomplishments in detail, but instead wish you continued success in leading the ECB as Europe prepares for these new challenges and battles.

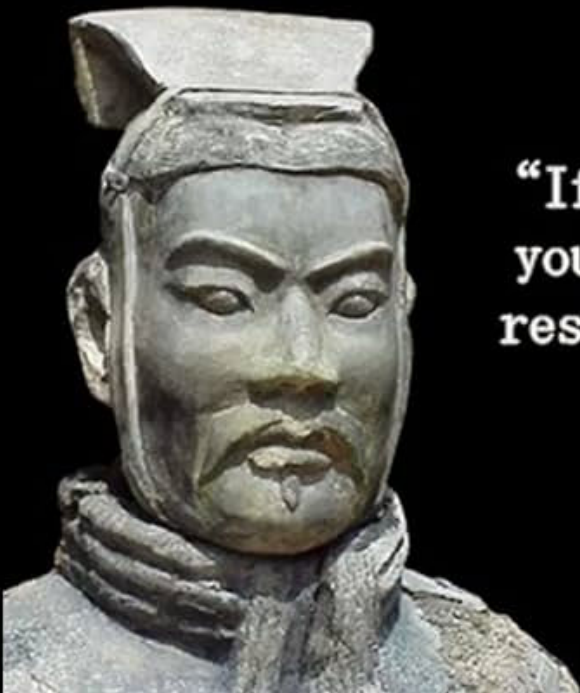
So without much further ado, may I ask you to the podium.





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yourself you need not fear the  
results of a hundred battles.”

– Sun Tzu



## Today, contributing to the ECB's strategy review



# THE ECB AND ITS WATCHERS

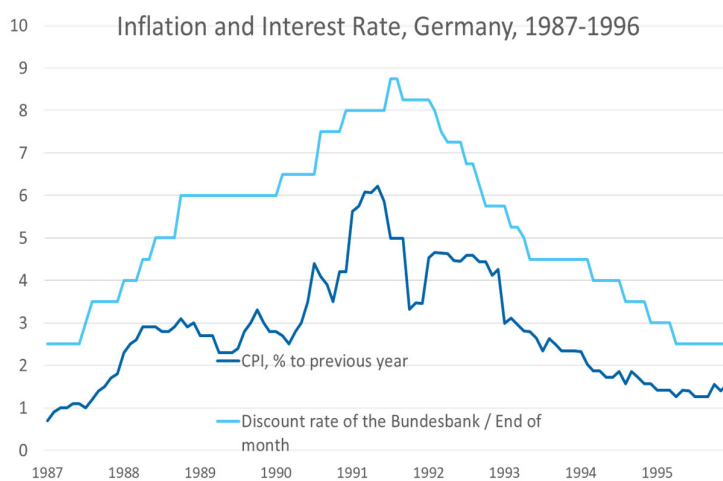
Panel 1: Reviewing the lay of the land – the economic environment

Panel 2: Reviewing the armaments – the ECB's tools

Panel 3: Reviewing the strategy

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## Recap: Germany's last debt-financed infrastructure boom after re-unification



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