1-001-0000

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH CHRISTINE LAGARDE, PRESIDENT OF THE EUROPEAN CENTRAL BANK (pursuant to Article 284(3) TFEU)

BRUSSELS, THURSDAY, 15 FEBRUARY 2024

1-002-0000

IN THE CHAIR: IRENE TINAGLI
Chair of the Committee on Economic and Monetary Affairs

(The Monetary Dialogue opened at 9.14)

1-003-0000
Chair. – Good morning everyone, we start our meeting today with our monetary dialogue with Christine Lagarde, President of the European Central Bank. Welcome, President.

This is the first monetary dialogue in 2024, and allow me also to mention that this is the last monetary dialogue taking place during this ninth parliamentary term.

Let's turn to inflation, which fell further, to 2.4%, in November, reaching its lowest level since July 2021, before increasing again to 2.9% in December. The most recent increase was mainly due to upward base effects for the cost of energy, as we know. It should be emphasised that these inflation levels are considerably lower compared to the average annual inflation in 2023.

According to the most recent ECB staff macroeconomic projections in December, annual HICP inflation is expected to slow down further, to 2.7%, in 2024. After ten rate hikes in a row, the ECB Governing Council left the key interest rate unchanged for the third consecutive time at its last meeting on 25 January. The Governing Council stated that it is 'determined to ensure that inflation returns to its 2% medium term target in a timely manner', that 'the past interest rate increases keep being transmitted forcefully into financing conditions. Tight financing conditions are dampening demand, and this is helping to push down inflation' and, in parallel, that 'the asset purchase programme portfolio is declining […] as the euro system no longer reinvests the principal payments from maturing securities'. Reinvestments under the Pandemic Emergency Purchase Programme, the PEPP, are set to continue 'with a view to countering risks to the monetary policy transmission mechanism related to the pandemic' until the end of 2024.

Finally, let's recall that on the 1 January 2024, we celebrated 25 years of the euro. In this context, taking stock of the euro was chosen as the only topic by the ECON Committee coordinators for today's meeting. Indeed, this week on Monday, we dedicated the whole afternoon session of the European Interparliamentary Week to discussing the outlook of the euro, during the conference organised by the ECON Committee.

The euro is an indispensable part of our daily life today. The euro area has grown from 11 to 20 countries since its foundation. Support for the single currency among euro area citizens is close to record levels and it remains the second most important currency in the world.

Yet there have been tremendous challenges over the years. The ECB's monetary policy helped certainly to weather the financial and COVID-19 crises. Yet new challenges arise in Europe today, and several EMU-relevant initiatives are underway or planned in the coming period: the reform of fiscal governance; achieving a more robust banking union; building a genuine capital markets union; preparing the foundations for a digital euro – and yesterday we had Mr Cipollone updating us on the state of play of that project. It should be mentioned also that the next monetary policy strategy review is planned for 2025. As usual, all briefing papers prepared by the European Parliament panel of experts are available on the ECON website.

A few practical considerations before starting. The following procedure will be applied: there will be introductory remarks by President Lagarde of ten minutes, followed by a first round of questions, with longer slots for speakers in this first round, with 1.5 minutes for the initial question – and I encourage you to have one question so that we have the three minutes for the answer, but then you will have the possibility of a follow-up question of half a minute, with two minutes for the answer to the follow-up. Then there will be a second round of questions with shorter questions of one minute, and three minutes for the answer.

So please keep to the time, and to one question at a time, so that President Lagarde has the time to reply. Let's get started. President Lagarde, you have the floor.

1-004-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Chair, and good morning to you and to all of you in this auditorium.

Today is our last hearing before the end of the legislative term, and as I look at you, I would like to just wish you good luck, because I think that over the last five years we've done some good work, and I hope we can continue to do some good work – and I would like to thank you for that sincerely.

This legislative term has been shaped by a succession of crises – from COVID-19 to Russia's invasion of Ukraine, the energy crisis, renewed conflict in the Middle East, to name a few. These challenges have required EU institutions, within our respective mandates, to take decisive action and to coordinate closely across policy areas to ensure that Europe emerges stronger and better prepared for the future.

Importantly, our two institutions have also used the past term to deepen our accountability relationship, which is essential to the ECB's democratic legitimacy.

So, in my remarks today, I will update you on our latest assessment of the economic outlook and the ECB's most recent monetary policy decisions. I will then reflect briefly upon the theme that you have selected – the first 25 years of the euro – and I will give some hope about the future.

So, when we look at the economic outlook, after expanding by 3.4% in 2022 – which we all seem to have forgotten, by the way – the euro-area economic activity has been weak in 2023, with real GDP growth having stagnated in the final quarter.
You have, by the way – in the two pages that I have always now circulated to you – some good indication of what we have experienced.

So, weakness in activity is broad-based across sectors, extending from construction and manufacturing all the way to services.

Incoming data continue to signal subdued activity in the near term. However, some forward-looking survey indicators point to a pick-up in the year ahead.

According to the latest flash estimate, inflation – as you indicated – edged down to 2.8% in January 2024 after increasing by half a percentage point in December. This rebound in December from November had been widely expected but was actually weaker than we had anticipated. The increase reflected base effects in the energy component due to one-off gas price support measures in Germany and a sizeable drop in fuel prices in December 2022.

Food inflation eased further to 5.7% in January due to a lower inflation rate for processed food, while energy inflation stood at -6.3%. It's the little blue indicators that you see below the line in the box on HIPC inflation.

Core inflation (which excludes energy and food) is declining gradually but its services component has shown signs of persistence.

Wage growth continues to be strong and is expected to become an increasingly important driver of inflation dynamics in the coming quarters. You have that with the ECB wage tracker in the left-hand corner of the front page. So this is reflecting tight labour markets and workers' demands for inflation compensation.

The ECB's forward-looking wage tracker continues to signal strong wage pressures, but agreements in the last quarter of 2023 suggest some levelling.

Wage pressures for 2024 hinge particularly on ongoing and upcoming negotiations that affect a large share of euro-area employees. This will happen in the next few months. Moreover, the contribution of unit profits to domestic price pressures continued to decline, suggesting that, as we had expected, wage increases are, at least in part, buffered by profit margins.

Overall, the latest data confirm the ongoing disinflation process and is expected to bring us gradually further down over 2024, as the impact of past upward shocks fades and tight financing conditions help to push inflation down.

At our January Governing Council meeting, we considered that the incoming information was broadly in line with our December assessment of the medium-term inflation outlook. As a result, we decided to keep our key policy interest rates unchanged.

These interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to ensuring that inflation returns to our 2% medium-term target in a timely manner.

The current disinflationary process is expected to continue, but the Governing Council needs to be confident that it will lead us sustainably to our 2% target. We will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction, taking into account the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

So, let me now turn to the topic of this hearing – the one that you've selected – the euro at 25 – the youngest of the international reserve currencies.

While still young, the euro has nonetheless matured and become an indispensable part of our daily lives.

Its journey from the dream of a few visionary founders to a currency used by 350 million people across, now, 20 countries is testimony to the power and impact of the European project.

During its first decade – childhood, if you will – the focus was on establishing the credibility of the ECB as a new central bank and of the euro as a new currency.

Its second decade – youth – was characterised by the aftermath of the global financial crisis and the ensuing European sovereign debt crisis, which led to concerted European efforts to strengthen the architecture of Economic and Monetary Union, including the creation of the Single Supervisory Mechanism – the SSM.

The third decade – the one we're in – has been shaped by challenges posed by the pandemic, climate change, geopolitical tensions, and the need to avoid high inflation becoming entrenched. These shocks have highlighted the necessity for new European tools to accelerate the green and digital transitions, and to enhance Europe's energy independence and overall resilience.

As a constant companion, the euro connects us all and offers three key benefits: simplicity, stability and sovereignty.

Simplicity – because it can be used by consumers and firms throughout the euro area without having to exchange currency, without having to think about the FX risk, making it easy to live, to travel, to do business there. This is also reflected in the widespread support for the euro – you mentioned that, Madam Chair – with 79% of euro-area citizens in favour of the single currency.

Second, stability – because, despite recent fluctuations and price shocks, inflation in the euro area has averaged 2.1% since 1999 and, more importantly, longer-term inflation expectations have remained broadly anchored around the ECB's target. This is testimony to the ECB's credibility.

Sovereignty – because the euro is the second most important global currency in the world. It is used in international transactions and therefore protects euro-area consumers and firms from currency fluctuations in an increasingly turbulent world.

The euro has delivered in all these areas and repeatedly demonstrated its resilience and reliability in the face of significant challenges.

This Parliament – you – have played a pivotal role in strengthening the euro's foundations over the years, not least during this last legislative term. Your work to set up NextGenerationEU, reform the economic governance framework, deepen the capital markets union and the banking union, design the legal framework for a digital euro, and address climate change has laid the foundations that will ensure that the euro is fit for the future.

The ECB has also played its part and demonstrated its commitment to deliver on its mandate in a constantly changing environment. As a reminder, let me highlight three ways we have done so in recent years.

First, we have remained unwavering in our commitment to our primary mandate of price stability, responding forcefully to the surge in inflation following Russia's invasion of Ukraine and the subsequent energy crisis.

Second, we have taken steps to incorporate climate-change considerations into our monetary policy operations, and in so doing, played our part in contributing to meeting the objectives set out in the Paris Agreement, within our mandate.

Our announcement in January reaffirmed and expanded our work on climate change and nature degradation in both our monetary policy and supervisory activities, placing a particular emphasis on transition, the physical impact of climate change, and the nature-related risks for the economy and the financial system.

Third, we are making progress on developing a digital euro, which would strengthen our strategic autonomy and support our competitiveness in a digitalised world. You discussed this important matter yesterday with Mr Cipollone, and I would like to thank you all for the close cooperation that we have had over the course of the last few years on this matter.

As we look ahead, for the next 25 years of the euro I can assure you that the ECB will continue to engage closely with the European Parliament, respond to new challenges and constantly review its actions to ensure that it can continue to deliver on its mandate.

The first 25 years of the euro have been a success, but the work is not completed. Economic and Monetary Union is not at an end point. Each European generation must write its own chapter of the single currency's history.

With a new geopolitical landscape emerging, the reasons for strengthening our common currency are stronger than ever.

As Goethe once wrote, 'What is not started today is never finished tomorrow.'

The upcoming European elections will be a chance to set out a new, ambitious agenda to further deepen our Economic and Monetary Union. It is essential that all policymakers grasp this opportunity to ensure that Europe responds to the common challenges that we are facing.

I thank you for your attention and I'm ready for your questions.

1-005-0000

Markus Ferber (PPE). – Madam President! I apologise for speaking in German, but it's my mother tongue. Welcome!

I would also like to...
(Technical issue)
I would also like to thank you wholeheartedly on behalf of the EPP Group for your cooperation. After all, your mandate began just after ours in this legislative period. In this regard, thank you for the very close exchange. It has certainly not been an easy period to head a central bank, nor to be a member of parliament. Even if we have not always immediately seen eye to eye on all matters, our exchanges have been very open and very fair, and for this I would like to express my sincere gratitude.

I belong to the generation of MEPs who were in the delivery room to witness the birth of the euro, as it were. I can still remember an extraordinary meeting one Saturday, where we had to decide on the first eleven Member States to adopt the euro. I am also pleased that the euro has exceeded all forecasts and our expectations from back then, when we were gazing at this newborn, wondering if it would really work.

However, of course, we also need to address the current state of play – and this is also my question. You have two tools at your disposal: the key interest rate to influence short-term interest rates, and the contents of the bonds portfolio for long-term interest rates. The ECB's portfolio or balance sheet has grown enormously in the last years in view of the numerous purchasing programmes. Only now is it being reduced slightly. Of course, there were good reasons for this – this is undisputed. But on the way to 'normal', it is important to also consider this question. Only recently, your chief economist said that it would not be a good idea to return to the pre-crisis status quo. On the contrary, it would – I quote – even be appropriate for the European Central Bank to maintain a larger bond portfolio also in the long term.

I would therefore like to ask: to what extent would you like to reduce the portfolio? Over what timeframe? And why does the European Central Bank not consider a lean portfolio to be appropriate? What are the monetary policy implications of such a strategy?

1-006-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much. First of all, thank you for the compliment, which I happily take. We all need that now and again.

Thank you very much for focusing on the tools that we have and how we see it going forward, which gives me a chance to mention that, at the moment, given the current situation and our fight against inflation and determination to reach the 2% medium-term target, interest rates are the primary tool.

It also gives me a chance to clarify that, in relation to the APP – the asset purchase programme – we have stopped any net asset purchases since July 2023. For the pandemic emergency purchase programme, we will reduce our net reinvestment, as of the end of June, to come to completion of any reinvestment at the end of 2024. So we do that in a sequenced fashion.

As a result of that – because of the reimbursement of the TLTRO, which has happened over the course of time, and will continue until the end of 2024, with a large reimbursement due to take place in March, and because of our complete decline of reinvestment under the APP and the gradual decline over the course of 2024 of our reinvestment under the PEPP – the bond portfolio is slightly declining over the course of time. That is happening rather smoothly, as I like to call it, in the background of what is our main policy tool, which is the interest rate.

Now, a lot of work has been conducted by our staff at the ECB, which has involved many departments, to actually define the operational framework under which we will operate. Because it's obvious that, as the volume of liquidity declines over the course of time, we will arrive at a stage where we will have to decide how much liquidity is needed, what interest rate will be used as the anchor interest rate, and what mechanism we use in order to steer the interest rate where we would like it to be. That will most likely comprise a combination of a portfolio of bonds, but also lending operations of different maturities.

We are not yet completely done with that exercise. We will be finished in a couple of months. At that point, the operational framework review – which needs to be approved by the Governing Council – will then be presented, so that it will be a framework that will have a level of certainty for operators, financial sector at large, banking institutions, of course. They will know how we are planning to operate, to steer the interest rate where we would like it to be.

In terms of size of the balance sheet, I don't want to propose any number yet, but it is most likely that it will be lower than certainly what we have at the moment and lower than what we had. Well, I'm not going to predicate that. I'm just going to say that directionally it will be lower. But it's a lot of hard work, I can assure you.

1-007-0000

Pedro Silva Pereira (S&D). – Thank you, President. President Lagarde, you are very much welcome here, of course.

Now, you started with the economic outlook and the relation between the economic outlook and monetary policy, and I'm very much impressed with the update on the ECB's projections for inflation for this year, 2024. In September, the ECB was projecting 3.2%, and in December, only three months after, the projection is now 2.7%. So a dramatic drop of 0.5% only in three months.

Now, the obvious question is: to what extent is the restrictive monetary policy of the European Central Bank based on wrong understanding about inflation and wrong projections about inflation?

The second question is related with the medium-term target. Now, the medium-term target is at around 2%. The medium term is normally understood as being two years. Now, the projections of the ECB – even if pessimistic – they say in 2025 2.1%, in 2026 1.9%.

Does this mean that your understanding that a cut on the interest rates might happen sooner than expected – because you talked about the summer – and would that be possible already in April?

1-008-0000

Christine Lagarde, *President of the European Central Bank***.** – I'm sure you expect me to answer that question specifically.

Thank you very much for your twofold question. The first one you ask – when you referred to the projection exercise that we conducted in September, as corrected by the projection exercise that we had in December – points me in the direction of the solidity of our projections.

I'm proud to say that the ECB was the first central bank – back now about a year and a half ago – to acknowledge that our projections had suffered errors, and we went deep into why that had happened. I can tell you that we do that on a regular basis, because there are always errors and inaccuracies relative to the reality.

What I can tell you is two things. Number one, most of the errors in the projections that we produced in the last three years had 80% to do with energy prices. That's number one.

Number two, from projections revised to the upside, we have now moved to projections revised to the downside, and the magnitude of those revisions has reduced significantly over the course of time.

So do we take complete solace and consolation as a result of that? No, because we want and we need to constantly improve and shock our models, use a series of models, to constantly check and verify the value and the solidity of our projections.
In times of massive shocks, as we suffered in 2020 and 2021, everyone was off track in terms of accuracy of projections, simply because of the magnitude of the shocks – that simply could not be apprehended by the models that we had. So, we added to that sensitivity analysis, scenario analysis, to be as accurate as we can.

But energy prices continue to be largely difficult to predict. The spot price – we know what it is today. But, of course, we have to take into account future prices, which all experts will agree are the best we have, but not good. So unless there was an alternative, more valuable than that, we're going to continue using that, and there will be margin for errors. We have to just simply acknowledge that.

The second point, as you are predicated, I'm not going to tell you when in the late spring it would happen or in the early summer or whatever. But I will say one thing. We are confident that directionally we're heading towards the 2% – medium term, in a timely fashion.

But, as I also put in writing in my introductory remarks to you, we need to be more confident. We don't have enough yet at this point to be certain that it is sustainable. We do not want the risk that it be reversed, which would then be a waste of everything that we've done, and would lead us to having to take yet more measures.

So, we need to have more confidence, and that confidence will result from data that we will continue to receive, and to collect, and to dissect, in order to really make sure that we are we are heading in that direction.

The final thing I would say is: I would not necessarily assume that three years is always the medium term. It really depends on the magnitude, the persistence of the shock, among others. It could be longer. It could be shorter. But we should not just assume that three years is three years. Thank you.

1-009-0000

Pedro Silva Pereira (S&D). – Just a short question on the completion of the Economic and Monetary Union, because you've addressed that issue, which we asked for.

My question is: is the eurozone sufficiently prepared for the next crisis? Of course, it is better prepared, we know – we have the European Stability Mechanism, the banking sector is more resilient, the provision has improved. But is it sufficiently prepared?

Would you say – or would you agree that – the fundamental missing piece is a permanent financial instrument with robust fiscal capacity to address crises, to ensure stabilisation and promote investment?

1-010-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you for your follow-up question.

Number one: we are much, much better prepared, because the banking system is stronger, better structured, better capitalised, has more liquidity, more instruments that measure those levels, and is better supervised. And I would like to put in a word for the SSM, which I believe has really delivered on the mission that it was given. So, better prepared and stronger banking system, no question about it.

But we would be in a much better position – let's face it – if banking union was completed. The work that you have done on the – what do you call it? – the crisis mechanism, the CMDI – the work that you have done there, if it could be completed, it would be extremely helpful.

The issue of liquidity and resolution is one that also will need to be addressed – and the two big elephants in the room, which you all know very well about, is: number one, completion of banking union – I just mentioned that, but I'm just thinking about EDIS, which is a very important development.

The second one – which I'm happy to talk about, and I could talk for a long time about it, so maybe I'll stop – but it's capital market union, which everybody sort of talks about, brags about, but nothing happens – or not enough – I shouldn't say 'nothing happens' – not enough.

1-011-0000
Eva Maria Poptcheva (Renew). – Thank you very much, Chair, and President Lagarde. I'm joining also my colleagues by thanking you always for your frank exchange with us, and this is very much appreciated.

I also wanted to ask you about the PEPP programme – the pandemic emergency purchase programme – and, actually, the effect it has. To two aspects, I would say. On one side, the interest rates, and on the other side, the fiscal rules that we have just adopted.

I listened to you very carefully when you explained, of course, that the reinvestment of the maturing assets is going to fade out until the end of the year. Last week, we had a reinvestment of maturing assets for some EUR 4.6 billion. So I'm wondering, even if it fades out until the end of the year, do you think it still can have an effect on the interest rates?

But then the second aspect, of course, is the fiscal rules that we have just agreed on – Parliament and Council – and there, of course, we have a very careful balance between more flexibility for governments, in terms of determining their debt reduction and deficit reduction path. But this is, of course, paired also with some responsibility. This is why we have the different safeguards, and we have put in also on the side of the Parliament, also the role of the independent fiscal institutions, etc.

But, of course, as we know, programmes like the PEPP – and this is maybe a question to the future, because we cannot exclude that these kind of programmes might be repeated in the future – how you see these kinds of programmes actually bringing down the borrowing costs by Member States with high debt levels – for example, Spain and Italy – with these fiscal rules that we have given ourselves that actually also ... a very important aspect there is the responsibility in terms of debt levels and deficit. Thank you very much.

1-012-0000
Christine Lagarde, *President of the European Central Bank***.** – Thank you so much for your question, which is quite specific on PEPP. Let me just clarify precisely what we are doing with PEPP.

So, PEPP was intended and is called 'pandemic emergency purchase programme'. So, it was really intended to address the pandemic circumstances and make sure that there was plenty of liquidity available. Of course, the pandemic has run its course and we all hope that it's behind us and it's not going to come back anytime soon.

So what was decided, in late 2023, was to continue reinvesting what comes to maturity in a gradual way. So we continue, in the course of January to June, with full reinvestment. So we are present on the market for the amount of bonds that come for redemption. Then, from early July until the end of December, we reduce the reinvestment by an average of EUR 7.5 billion per month. So we reduce our footprint on the market, and at the end of 2024 we stop any reinvestment. So we move to the run-off mode, just as we are with APP at the moment.

One of the attributes of PEPP was its degree of flexibility, and that flexibility continues to be available, with a reduced basis from early July onwards. But it will still be there and we can still avail ourselves of that flexibility.

Now, what we have seen in 2023 – because that's where you make the link between the ECB presence on the market and sovereign debt – and we hope to continue seeing in 2024 (in 2023 APP was in run-off mode from July onwards) is significant issuance of bonds by the many sovereigns in Europe. Despite the fact that our footprint was slightly reduced – gradually announced and communicated as clearly as possible – that has gone very smoothly.

So it gives, in a way, full ability to the fiscal rules and to the governance framework that you have completed – and congratulations for doing that – its ability to play out and to deliver on the commitments that are made by the sovereigns.

1-013-0000

Eva Maria Poptcheva (Renew). – More than a follow-up question, thank you for your words on the capital markets union. I've been involved, for example, in the Listing Act that we concluded just a couple of weeks ago with the Council and, just to confirm, it is very disappointing how we hear from the governments all the time how important it is to have the capital markets union, but when we are about to adopt legislation that goes exactly in that direction it is continuously very difficult.

So, thank you also from our side for making that point.

1-014-0000

Chair. – I join Eva on this statement, because this House is always very vocal about capital markets union, always ready to work with clear provisions and norms and acts, and then we always bump into the same problems with the Member States. So I hope that your words reach those who they have to reach.

1-015-0000

Philippe Lamberts (Verts/ALE). – Madam President, this is the last monetary dialogue in this parliamentary term and it is my last ever as I will be leaving Parliament, after 15 years in ECON in particular.

Given my responsibilities as Group Chair, we have not seen each other a great deal, but I didn't want to miss the opportunity to talk to you during your last visit before my departure.

I realise that I have started in French, but the question I am going to ask you is so technical and has so many English terms that I think I will continue in English. It's a bit silly, but that's how it is.

Before that, however, I would like to say that – unlike your predecessor – you have really included climate risk as a source of risk to both financial stability and our macroeconomic development. And I must thank you for that.

But between the words and the action, there's still a gap. Of course, you cannot decide as an autocrat, so you need to enlist support in order to make it happen. But I'd like to compliment your initiative called the 'climate-related pool limits'. That is, limiting the acceptable collateral from high-carbon issuers. But I see still this as – if it materialises – something very limited.

Indeed, the first shortcoming that I see is that the haircuts that are applied to such collateral would not be applied to reflect climate risk, as far as I know. The haircuts that would be applied to securities that would be taken as collateral from high-carbon issuers would not suffer from an adapted haircut depending on their climate risk. We believe that in order for the thing to work you should not only limit the amount of collateral, but for that collateral that you take, apply a haircut that really reflects the climate risk.

The second is the scope, because my understanding is that these limitations would only apply to corporate bonds. But actually corporate bonds is 2% of the accepted collateral, which is basically a tiny fraction. So why do you not envisage including covered bonds or asset-backed securities? I know the exercise is difficult, but this is half – well, not exactly half, but 42% – of the collateral that you take, and that would already have much more impact.

So, again, congratulations for taking climate into your thinking. But the action, in my view, is falling short at the moment.

1-017-0000

Christine Lagarde, *President of the European Central Bank*. – *Merci beaucoup*. But considering that your question was in English, I'll try to tackle it in English as well.

So, yes, we have included climate-change considerations early on, and it was part of our strategy review. It was not only recognised as a key principle, but also it included an action plan with specific dates of completion of projects, so that we could just check against the reality of what was happening, whether we were delivering on our commitment.

We have in January adopted a new plan which incorporates nature degradation and includes stock-taking of what we have done and provides for new development going forward.

So it's not a one-shot deal, good-intention, greenwashing central banking. It's a deliberate attempt to include those critically important matters in line with our mandate, and without prejudice to our primary objective, which is price stability.

But I would contend that the primary objective itself requires that we take into account climate-change and nature-degradation considerations, not to mention the secondary objective, which should also help deliver on the policies and the objectives that you set as institutions going forward.

So, what we have done in relation to – and I will spare you what we do on supervision, the stress testing, the macroeconomic determination, the models, and all of that – I will focus on what you have focused on, which is the portfolio and how we include certain elements.

The first one that we started with is the tilting exercise that we started back in October 2023. That is clearly already delivering on the flow of corporate purchases, because I think – from memory – we have reduced our carbon footprint in relation to the flow – I'm not talking about the stock, I'm talking about the flow – by 65%. So that's not a trivial outcome.

The second thing that we are doing is – in relation to collaterals, as you suggested – we are reducing the taking of collaterals in order to take more green collaterals and less of the brown collaterals.

What we are not doing – because we believe that we do not have sufficient data, sufficient information in order to do so – and we have scheduled 2026 as the timeline against which we should do that – is what you suggested, which is to apply those haircuts to what is either not green, does not include transition, or does not include the required disclosure. That's the plan that we have and we will continue rolling it out. But we need to have solid data, because we do not have the capacity to do it ourselves.

Now, you mentioned the ABS and the covered bonds, and on these two categories: same thing. We do not yet have the data. Of course, it's more sophisticated and complicated, but we hope that this will come, and it's not in our hands.

1-018-0000

Michiel Hoogeveen (ECR). – Thank you, Chair, and thank you, President Lagarde, for being here. Indeed, what you mentioned is that for 25 years the debate surrounding monetary policy has constantly been changing and, as you've addressed just now and also in your recent speeches, there has been much more emphasis, indeed, on climate change – on the effects climate change has, and that's influenced by the ECB's mandate.

Now, of course, the climate is changing, global temperatures are rising and, yes, this could affect monetary policy. But what I'm trying to say here is that there are always external risks that could affect monetary policy. In order to calculate such risks, we also have risk agencies.

Don’t you believe that the European Central Bank should be a bit more cautious when playing a role in supporting the secondary objective of climate change? And don’t you think there is a risk that encouraging these greener investments will prompt governments to spend more, potentially also to unprofitable investments, which in turn will increase their debt and also increase inflation? Thank you.

1-019-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question. I think in our determination of our monetary policy stance, we try to take into account all risks. In delivering on our supervision mission we try to take into account all risks as well.

To give you an example, geopolitical risk that results from the crisis in the Middle East, for instance, or from the Red Sea difficulties – we take that into account, we have to. We have to use our judgment on the basis of all available information concerning the cost component of shipping, concerning the number of vessels that are rerouted somewhere else.

So it is not to say that we only consider climate change consequences. We consider all possible risks to the extent that they affect either our projections, the inflation expectations and, of course, our monetary policy stance.

I think, on the risks posed by climate change, we are not adventurous. I think we are realistic and we are trying to be as cautious as possible, which is the reason why, as I was telling Mr Lamberts, we will take into account the necessary discount when we have reliable data that we can trust and on which we can base our judgement.

I equally think that if we were not doing that, if we were not taking climate change into account, we would miss out severely on a risk that is of a very special nature. I’ll give you an example. We did, together with EIOPA – ECB and EIOPA together – we did an assessment of what we call the ‘insurance gap’.

We realised that there is a very significant proportion of insurable risks that are simply not insured or not insurable. We will begin seeing more and more of those premium payment term where insurance companies will say: ‘terribly sorry, I cannot extend your policy because the risk that I’m insuring currently is too high’. Whether it is at insurance or reinsurance level, this is going to be compounded.

What is the link with what we do? Well, I would predict – it’s not something that I see now and or that we see already now, but it’s something that is in the making – there will be quite a few financial institutions and banks that will say: ‘risk not insurable? Risk not insured? Well, I’m terribly sorry, but I cannot offer the mortgage unless I offer it at such terms that I actually include some sort of self-insurance programme’, assuming they wanted to go in that direction. That obviously has an impact on the transmission of monetary policy.

So that’s just to give you an example of how and why climate change considerations and the impact that it has on risk really matters a lot for the work that we have to do. Thank you.

1-020-0000

Michiel Hoogeveen (ECR). – Thank you so much for your answer. I do believe that it is good that we separate the debate from the science – the climate change debate – and the green central banking policy debate on how you pursue these kinds of policies.

I would really love to hear your answer on this, because it worried me quite a lot when I read an article yesterday that one of your board members, Frank Elderson, steers the internal culture within the European Central Bank, and it was quoted in an article by *Politico* where he told an internal meeting that if people don't buy into the institution's – the ECB's – green objectives they aren't welcome here anymore: 'I don't want these people anymore'. He even said, in person or an online meeting: 'why would we want to hire people who we have to reprogram? Because they came from the best universities, but they still don't know how to spell the word 'climate' […] Anyone already working at the ECB should be retrained'.

So what I'm trying to do here with this question is also to ask: isn't the ECB now going into this kind of groupthink that there is a certain mindset on what green central banking should be, and is there not enough of an internal debate at the European Central Bank on this?

1-021-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for giving me a chance to address this issue. Despite the fact that we are focused on reality, anxious about the future and relying heavily on sciences and facts and reliable data, we encourage – celebrate – diversity at all levels.
I have been criticised for supporting diversity – and I will stand for diversity. Always. Not just gender diversity, which I have devoted a lot of my energy and time to, and will continue to do so, but diversity of thinking, diversity of background, diversity of views, because it is from that diversity that we will have the best conclusions, the best consideration and, hopefully, the best policies.

So I stand by my colleague, Frank. But equally, and probably more importantly, I and others value diversity in the institution that I lead and, as I said, this is across the board – all the usual definitions of what diversity means, but also diversity of thinking, diversity of background. I think that we will improve our work as a result of that. Thank you.

1-022-0000

Chair. – I'm sure this is a topic, an issue, to which we will go back often because it is something indeed in the making.

If I may add, President Lagarde, to what you just said about the work you did with EIOPA, just recently I was contacted by people and insurers that were highlighting to me that some companies are changing their policies and, how can I say, not covering any more the environmental risks that they were covering earlier because the risk has increased. So the risk of going towards a system where certain risks are under-covered when actually the risk has increased is indeed out there.

So I think the important thing, as you said, is to monitor, to get the data in trying to understand and be prepared for handling those risks that could spread out and affect the stability of the economy. So, of course, this is something we need to monitor carefully, with the data, and it is certainly something we need to talk about. So thank you for the chance of talking about it now.

1-023-0000

Antonio Maria Rinaldi (ID). – Madam Chair, dear President Lagarde, honourable colleagues, I will be very brief, but I have a very specific question.

Taking the latest confirmed annual inflation figures published by Eurostat on 17 January, with a range in the euro area from 6.6 to 0.5 %, and a widespread economic slowdown triggered by the monetary and fiscal contraction, how do you think that the ECB, of which you are president, can effectively counter those phenomena by correctly calibrating the rate instrument, given that the needs of the Member States, in terms of both monetary policy and other matters, are clearly so different?

Our concern is, given that there are such strong inflation differentials in the euro area, how is it possible to carry on with only one monetary policy?

1-024-0000
Christine Lagarde, *President of the European Central Bank***.** – Thank you so much for your question. Well, we proceed with one monetary policy because we are one monetary area. This is the mission that we were entrusted with and which we have to deliver upon.

I know that it's often the case that one of you will have a specific question on a particular country, but we have to look at aggregated numbers for the whole of the euro area, and we can only decide one monetary policy.

Fiscal authorities operate differently, because we do not have a fiscal union and they can take remedies or the measures that – within the parameters of the new governance – will be appropriate for their respective economy.

But to your specific point about the differential of inflation across the euro area, you are absolutely correct that we have seen, particularly in the early days of inflation rising, significant differences, and they were caused by different circumstances.

One circumstance was the proximity to Russia. So we've seen the Baltic states, in particular, suffer as a result of what was estimated as a potential risk for them.

A large chunk of the increase in variation between the countries also had to do with energy. Those countries which had an energy mix that included a lot of renewable, for instance, or which were less dependent on the import of gas from Russia into their country, had less inflation as a result.

These differences still exist, but as the preponderance of energy, in particular – food to a lesser extent – reduces, then those differences between inflation rates in different countries is reduced significantly. We still have some, but it's really now becoming much more marginal, and as we get closer to 2%, it will continue to be so – failing another major shock, particularly an energy shock, which I certainly don't hope, but we cannot exclude.

1-025-0000
Antonio Maria Rinaldi (ID). – Madam Chair, honourable colleagues, a very quick question.

With regard to the latest data on US economic growth in comparison with the euro area, I would like to ask you whether you have brought that issue up at the Council of the European Central Bank, along with the growth differential issue, so that action to reduce rates that is more short-term and stronger than the Federal Reserve's can be taken.

1-026-0000
Christine Lagarde, *President of the European Central Bank***.** – Thank you so much. The reason I started my introductory remarks concerning the economic outlook with a reminder of where our growth was in 2022 is because we have a short memory. In 2022, the European growth was a little bit north of one percentage point more than US growth. So things are not always as doomed or as predicted as we think.

It is the case that growth in the United States will be – confirm numbers – will show a significantly higher number than the one we have in the euro area, and there are multiple reasons for that. Energy is certainly not a minor contributor – and the fiscal support that is afforded by the United States has also had a lot to do with it.

Do we pay attention to what is happening in the rest of the world? Yes, we do. Do we look at the spillover impact of decisions that are made elsewhere, including in Washington DC? Yes, we do. Do we decide independently on the basis of all the data we have and with a view to deliver on our mission? Yes, we do. Thank you.

1-027-0000

Dimitrios Papadimoulis (The Left). – Madam President, Ms Lagarde, I would like to welcome you once again to the last monetary dialogue of this mandate. The subject of this dialogue is the 25 years that have passed since the creation of the euro and the general observation that we have a monetary union but the 'economic' part of the Economic Union is lacking. We do not have a fiscal union, we do not have a banking union, because in all these years, the third pillar has still not been completed and without it there is no banking union; we do not have a tax union because nothing has been done about the fiscal paradises that exist within the EU and it is not the Parliament that is responsible for this but the Council. You called for a more ambitious agenda ahead of the European elections and you suggested new tools. Although it is not your responsibility, I would like to ask you if you could make some more precise proposals regarding the completion of the third pillar because a common currency cannot survive for long without a common economic policy. The monetary union cannot go far in history without an economic union. Do you believe that new tools, such as the positive step made with the Recovery Fund, would be positive? I ask because many are not prepared to discuss it even at government level. Bearing in mind the risks we are facing, are you prepared to make suggestions to other authorities, the Commission, the Council and other EU institutions, because the last five years have seen a succession of crises? I also have a more specific follow-up question for afterwards.

1-028-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much for your question. I concur with your diagnosis that, while we have a monetary union, alive and kicking and delivering on its commitment and its mandate, there are other attributes, part of the EMU, that would be extremely useful in order to have a complete set and a better-integrated monetary and economic zone.

I have mentioned completion of banking union, which currently has two pillars, but the third is missing. So, the SSM is alive and working well, has been now in existence for more than ten years. The Single Resolution Board is also there and available. But the third pillar is missing.

Second, capital markets union – which everybody talks about at the moment because it's flavour of the day, but where there is no delivery of actual tangible outcome that would build capital markets union.

I've given a speech back about a month ago in Frankfurt, and I couldn't help but referring to a Kantian shift – starting from the top instead of trying to build bottom-up. I don't know if my hope is well placed. Probably not, because a shift from the top is unlikely to happen because of multiple resistance points, right, left and centre over there, north, south, east and west.

But necessity hopefully will take us there. There is so much to invest for the transition, so much to invest for the digital transformation of our economies. We are north of EUR 700 billion per year. The private sector, as is currently structured, or the public sector, cannot shoulder that. It will not be an environment where things will be easy in my view. So, having this would be terribly important.

You referred to the RRF – and I speak under your control, Madam President – but my understanding of the discussions that you've had as part of the trilogue is that you have managed to insert a provision to the effect that, if there is co-investment together with RRF fund on the part of the country, it will be set aside and not included as regular debt.

Not quite? All right then. My information is incorrect. I'm waiting for the final text to be eventually voted to understand exactly what it is.

1-029-0000

Philippe Lamberts (Verts/ALE). – 150 billion over seven years, so it's no big deal.

1-030-0000
Christine Lagarde, *President of the European Central Bank***.** – Maybe it is a step. It could be a step. Well, clearly the NextGenerationEU was a step in view of circumstances, REPower is also a step. But I think it will arise out of necessity more than advocacy or expectations.

1-031-0000
Dimitrios Papadimoulis (The Left). – Madam President, the European Central Bank points out that part of the lingering inflation, especially food and energy inflation, is based on greed. This inflation exists because some insist on using circumstances to make excessive profits, often through cartel tactics. What can be done to tackle this? Why in my country, Greece, is the rate of food inflation nearly10% and not 5%, which is the European average? Also, the interest rate gap (which is clearly your responsibility) i.e. the gap between the interest paid by borrowers and the interest earned by depositors in Greece, has reached a European record. What can be done to close this massive gap, which is very profitable for the banks but is harming the vast majority of depositors?

1-032-0000
Christine Lagarde, *President of the European Central Bank***.** – Thank you for your quick follow-up. Two things. One is: we are a central bank and we have to stick to our knitting. So, we have to do what we have to do, which is price stability, and deliver on that objective.

To that end, of course, we have to study what are the drivers of inflation. We have done that consistently, and I can tell you that the contribution of profit unit to inflation, which was at the end of 2022 about 50%, in the course of 2023 is now declining, and we have it now at about 25%.

The other component which is taking over is the labour unit. So we are witnessing a decline of the profit-unit contribution to inflation, to the benefit of the labour unit.

The second thing I will say is – sticking to our knitting – there are other institutions whose job it is to investigate and find out whether there are concerted practices, whether they are anti-competition behaviour, and to take action. But it’s not for the central bank to do that. Thank you.

1-033-0000
Chair. – Thank you very much. Now we will start our second round. So let me remind you, only one minute for the question and three minutes for the answer, with no follow-up.

1-034-0000
Lídia Pereira (PPE). – President Lagarde, the euro, which is now 25 years old, is indeed one of the pillars of the Economic and Monetary Union, a Union that, as we have discussed today, is not yet complete. When we look at our economies, the landscape is still very uneven. When it comes to bad debt, for instance, my country is right at the top – around 56 % higher than the EU average. So there is still a large number of Portuguese families who cannot pay off their loans, and support, where it exists, is scant. So what we’re missing is convergence.

Then we have the European Deposit Insurance Scheme, which still has not seen the light of day almost a decade after it was proposed. We’re also missing solidarity. I would therefore like to you ask you directly: why do we not currently have a European Deposit Insurance Scheme? And, since we are talking about debt, convergence and solidarity, I would also like to ask you: when can we expect interest rates to come down? They are so important for Portuguese families, especially when it comes to mortgages.

1-035-0000
Christine Lagarde, *President of the European Central Bank***.** – Well, thank you very much for your question.

One, EDIS is something that we all want to see happening, but it's been debated, debated and debated and it is not happening. I know this is not something that you, under your current term, can do, but I really hope that the next Parliament – and, obviously, the next Commission – will take it to heart to push it forward because it's a missing part of banking union – and it's critically important for those depositors and households that are possibly at risk if the cover that is available to them is not sufficient.
Second, there are differences, and it's a fact that in Portugal in particular, because of the floating rates, the Portuguese households have been exposed much more than other households in Europe to the interest rate hikes that we had to undertake in order to tame inflation.

I think that that's the best contribution that we can make: bring inflation down and make sure that it stays down and that it does not affect the most underprivileged and the most exposed people, so that prices do not skyrocket as we have seen them in 2020 and 2021.

Now you're indirectly asking me the question of 'when are you going to reduce rates?' I can only say that we are in a disinflationary process. We are seeing that. We do not have enough evidence yet to have the level of confidence that we are going to hit our medium-term 2% target and that it will be sustainably there.

That's the conclusion that we have to reach, and it will take data and it will take more time, because we are going to decide meeting by meeting, on the basis of the data that come to us. The last thing that I would want to see is us making a hasty decision to see inflation rise again and have to take more measures. So that's the reason why we are in this modus operandi. Thank you.

1-036-0000

Pedro Marques (S&D). – Dear President Lagarde, it's always a pleasure to have you here. It was really relevant, the work we did through this monetary dialogue this year, and I like that. I will now switch to Portuguese, as my previous colleague also did.

President Lagarde, it was interesting to see that today – and it is certainly related to the upcoming elections in Portugal – the PSD joined those who are concerned about higher interest rates. It is interesting that the PSD and the EPP, which for too long called for and supported interest rates hikes, are now talking about lower interest rates. But it is just as well that more of us are now calling for interest rates to come down.

I would like to talk about Portugal, Madam President, to ask you for your comments on the macroeconomic stability there – in my country – and the substantial reduction in public debt, which has now fallen from 100 % of GDP to pre-COVID and pre-Troika levels. What do you make of those developments and, in particular, the underlying policy, which favoured economic growth while remaining prudent and in line with monetary policy? What lessons can be drawn from that budgetary policy, given that we are currently reviewing the rules of EU economic governance?

1-038-0000

Christine Lagarde, *President of the European Central Bank***.** – The ECB is not a political animal, and I would refrain from making any specific comments about the budget policy, the fiscal approach taken by one party or the other, particularly in the context of imminent elections.

I would simply observe that Portugal, since it has completed the programme that it undertook after the crisis, has shown sustainably strong results, and has seen a decline of its sovereign debt, has reduced its deficit – and it does not vindicate the work that was done by the IMF, by the ECB and by the Commission at the time, but I think that it's clear evidence that when a country supports a set of structural reforms and adheres to the principles, then it delivers results. I'll leave it there. Thank you.

1-039-0000

Caroline Nagtegaal (Renew). – Thank you, Madam Chair, and also a big thanks to Madame Lagarde, and indeed also, from my side, a big compliment to the ECB. The great job that you have bring down the inflation and hopefully the toughest period is behind us.

But please do not fall asleep. Lowering interest rates can be tempting, but inflation is still above the 2%. So most important, in my opinion, when inflation initially started to increase, what we saw that the ECB heavily underestimated both intensity but also the persistence of inflation. So to be honest, the ECB was late to act – and today what I see is that the ECB seems to be eager to do the opposite: act maybe too early.

So my question to you is simple. In that case, what could you do today to prevent lowering interest? Let's say that interest rates too early and risking an increase to inflation again – and maybe a short other question related to that because 'do not fall asleep' is, in my opinion, also a signal for the European banks and the financial institutions.

The problem with banks is that they're not always so – well they have some kind of tension between making money and managing risk. So are the boards of the banks, in your opinion, sufficiently aware of the unexpected risk and how to deal with them? Sorry, Madam Chair, two questions.

1-040-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much. I'll start with your second one quickly. We went through a crash test, which was March 2023, and it was, I think, a lesson for all the banking sector.

When we saw Silicon Valley, Signature, First Republic, one after the other experience great difficulty and closure of their activity eventually, I think it was a clear signal that all risks had to be considered, and, in particular, that the interest rate risk – which is associated with a significant change of direction, which had not been taken into account properly – had to be taken into account.

The supervision that takes place in Europe, the SSM, had actually earlier on alerted the banks in Europe that this is a risk that they should be attentive to. So I think that, you know, sometimes it's fashionable to criticise or challenge the single supervision that was put in place. But I think we saw in March 2023 that having single supervision, having all European banks covered under the requirements of Basel III and supervised adequately, I think that was a real plus. So that's the second part of your question.

We're not going to fall asleep, and I can assure you that we are not asleep. We are determined to reach our goal. We will continue to be data dependent. We want to be sufficiently confident. There will be data that will come in in the next few months, on wages notably, which is one variable that we are especially attentive to, on which we will continue to receive input of data. We are obviously attentive as well to profit units to see whether the buffering that we anticipated is continuing to take place.

To those who are a bit chagrined that we would be looking in the rear mirror, because wage data are three months old, they should rest assured that we are looking at multiplicity of data. Obviously, Eurostat is the one that is the common denominator, but we look at lots of other things to understand whether there is the beginning of a shift or whether we are just at this plateauing moment that we observe and we will continue doing that. And, no, we will not fall asleep, I can promise you.

1-041-0000

Luděk Niedermayer (PPE). – Thank you, Madam President, for being here. You have been a great partner of this Committee, and I hope that this will continue with the Members that will come.

Going back to core business and the economic forecast, the situation is better, broadly speaking, if we look at the balance of growth and inflation. But we should not forget that disinflation is taking place also because economic growth is slow.

Looking ahead, most of the concerns – or at least attention – is focused on Germany, because the German forecast is very weak. So I wonder if you can elaborate on how your economists are reading the situation of this very important economy – if you think that the weak forecast is caused by cyclical, structural or fiscal reasons, or how you see the situation, and if you can see space for improvement? Thank you.

1-042-0000

Christine Lagarde, *President of the European Central Bank***.** – At the risk of repeating myself, we look at aggregate numbers; we look at the euro area at large. But obviously we also look into each and every country of the euro area – the big countries, the small countries – and everyone contributes.

But it's obvious that when a country is as large as Germany – which has now become the third-largest economy in the world, given that Japan has moved into recession – it's obvious that the business model on which it has developed its economy needs to be revamped and probably restructured.

We listen to policymakers. We listen to what governments are planning to do. On the issue of competitiveness, in particular, all countries – Germany included – have to work on the energy mix on which they operate, and they have to increase their energy independence.

The single market union needs to be deepened in order to improve competitiveness at large, that of Germany included. But monetary policy cannot, in and of itself, fix the structure of a business model, or cannot deliver on structural reforms that are needed. Thank you.

1-043-0000

Philippe Lamberts (Verts/ALE). – Madam President, it's back to me again and this time I will ask my question in French. The European Union is facing an investment wall for the next quarter of a century. A study that we commissioned – which we will forward to you – puts this figure, for climate alone, at 2.6 percentage points of GDP each year for the next 25 years. So it's clear that the fiscal rules, which you also mentioned, will not make things easier in terms of public finances. But in any case, some of these investments will be financed by the private sector. It's clear, for example, when it comes to energy, that an energy system based on renewables is much more capital-intensive. Interest rates are obviously going to play a crucial role and to some extent favour a fossil fuel system over renewable energies. The direct effect of this bias is reflected in the fact that many projects, particularly in the offshore wind sector, have been postponed due to the interest rate situation. So what is the ECB's response to that? In other words, how can it ensure that its monetary policy does not hamper the transition that it, too, so dearly wants to see?

1-044-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question. Yes, I look forward to your study of how much investment is needed in the coming years. Because we are for ourselves – at the moment at least – relying on the forecast of the Commission: of the 620, on the one hand, 125 on the other hand for, respectively, climate and digital. So I'd be very interested in that.

So, to go back to your point, the best service that monetary policy can deliver is price stability. And I think it is even more important for green investments, which are particularly sensitive to long-term rates. Because, typically, investment in a new mix of energy in order to fight climate change, as you say, is capital-intensive and is long-term investment.

So, by delivering on price stability – and particularly in the long term – we are at least giving more predictability to those who are prepared to invest in green industries and in renewable, for instance. That's the best that we can do.

Now, as you probably saw in the climate and nature degradation – a new plan that we adopted in January – we also left it open to see how we can eventually develop monetary policy tools or instruments of financing, if and when needed. That would be innovative, probably – and I'm not going to mention any specific tool – but that would actually help with the financing of this massive transition.

I would add that the one driving that bus is the government. So, we are on the bus, but the drivers are the government. Thank you.

1-045-0000

Paul Tang (S&D). – Chair, and thank you, President Lagarde, for being here. Thank you also for the past years, for having this dialogue that was constructive and very informative. I would like to commend you as an economist for not always listening to the tribal scientists and having a broader perspective.

I would like to follow up on an earlier question by Philippe Lamberts, but in a broader sense. The ECB has stated on several occasions that the markets do not adequately price climate risks and underestimates them. So when we want to develop the capital market union it's not enough to have integrated capital markets, we need patient capital to take centre stage.

My fear is that, currently, the capital markets are still driven by short-termism and overlook the risks and impacts of global warming in the future. Do you agree on that? What do you want to do? How do you see the capital market union where patient capital takes centre stage? And what do you think of the idea that, especially, transition planning and transition funding should be in the years to come very crucial?

1-046-0000

Christine Lagarde, *President of the European Central Bank***.** – Well, thank you so much. My aspiration is to become a member of the tribe as well, one day. I have huge respect for those who are members, and I value their work every day. I couldn't do without them.

You ask multiple questions. Is there an overlooking of the risk? I would think so – and the work that is done at the SSM, in particular – or at the ECB as well, because we do this work too – indicates that many financial institutions, banks, do not sufficiently assess, anticipate and plan for this risk.

Second point: financing the transition will be critical, and it's one of the three pillars of our climate and nature degradation January plan: assessing the financing of the transition, let alone the prevention mitigation measures, but the transition, which for the moment has not been sufficiently focused on.

One final thing, and I know that this has been talked about, and I had played with the idea myself, and I'm not committing the ECB for that. When you can't succeed on a big-bang project from a top-down perspective, maybe it's best to restrict the scope of the project.

There is talk now of green CMU. If we can't do it on a very broad basis, because there are some pockets of resistance, there are some authorities that are not welcoming this, to the extent that this is a market that has to expand and that will require a lot of funding. That's maybe an avenue that should be explored. It's not going to be for you, Parliament, it's not going to be for now, but I hope we have that on the back of our mind.

1-047-0000

Denis Nesci (ECR). – Madam Chair, honourable colleagues, I will speak in Italian. Thanks also to you, President Lagarde.

The current economic environment is fragmented and you mentioned the reasons for that in the report. You have also said on numerous occasions that the ECB has no interest in lowering, or intention to lower, interest rates, even though they are sometimes also based on projections, which you yourself have said are not always completely correct. That concerns me. I am concerned about the confidence that the decision creates, in both the real economy and the markets, but also, and above all, about the impact it has on consumers, households and businesses.

I am coming to my question. At the moment, farming, a strategically important sector, is under pressure, and among the many issues that are being challenged is the impact that raising interest rates has on loans and financing and related costs. You talked about insurance: those loans and financing are indispensable for businesses, including for adapting businesses to the green policies imposed by the European Union. I want to ask you: is it possible to take corrective action targeted towards a sector that is so important for the European economy?

1-048-0000

Christine Lagarde, *President of the European Central Bank***.** – Well, thank you very much. But, unfortunately, we do not decide monetary policy for either one country or one sector. We monitor, we observe, but we define our monetary policy stance for the whole of the euro area. Then there are sectoral measures that fiscal authorities at the national or at the European level can consider and can help with.

But you give me a chance to mention something, because you said: 'you have no intention to reduce rates'. I never said such a thing. I'm trying to be very careful when it comes to rates, because there are multiple ears that are waiting for me to clarify or specify. Directionally, the disinflationary process is ongoing. Okay? And, as I said and wrote in my remarks to you, the Governing Council needs to be more confident that that disinflationary process is going to lead us to the 2% medium-term target that we have, and sustainably so.

So I think that's a very clear indication of where it is heading, directionally where interest rates will move, but I will guard against any kind of timing, any predicated guidance, because we have said – and we stick to that – we are data-dependent. I tried to explain that the data that we look at are of multiple aspects and focus, including a variety of instruments and measurements so that we can be as precise and as confident as is needed. Not yet there, but directionally going there.

One more thing that I would like to say is that what we have succeeded in doing is anchoring inflation expectations. Whether you look at market expectation, whether you look at professional survey, market analyst survey, or whether you look at consumer expectations, we are broadly at 2%, and sometimes at 2%. So that is something that I believe we have helped with in terms of anticipating where long-term rates will be. Thank you.

1-049-0000

Martine Kemp (PPE). – Dear Ms Lagarde, thank you for being here for the debate.

With a quarter of a century of life, and despite the scepticism that it faced at birth and during the so-called euro crisis, it is undeniable that the euro has proved to be remarkably resilient. This has resulted in high levels of popularity among European citizens, and all thanks to the evolution of the ECB's monetary policy and strategy during this time, which constantly adapts to arising challenges, forcing us to think outside the box to be able to adjust the rules of the game.

Current times are no exception to that, as digitalisation has radically changed our daily lives. Therefore, apart from the single currency package presented last June, how is the Central Bank actively considering the integration of emerging technologies into the financial landscape? More specifically, what alternative measures are being explored to harness the benefits while mitigating potential risks – and how will this be factored into the formulation of monetary policies for the future?

1-050-0000

Christine Lagarde, *President of the European Central Bank***.** – Well, I concur with you that the euro has been a strong integrator in our European Union and in the euro area in particular. I celebrate the fact that there is an ongoing debate that has started now in countries such as Sweden – or the Czech Republic, actually, for that matter – in relation to the euro, and we know that Bulgaria is working very hard to become a member of the euro area.

Concerning the use of technologies, and financial technologies in particular, we are trying to, as I said, improve constantly our models and use additional and different tools. I can tell you that, using machine learning in particular, our economic department is developing new models that will not necessarily be better or will give a closer result to the reality, but we are constantly trying to compare and to analyse better and to come closer to what will be a very good set of projections.

So, yes, we are using alternative technologies and will continue to do so. We're doing that very carefully. We try to centralise artificial intelligence tools, so that we know who is using what – and it's not in a control-freak manner, but simply to know where developments are occurring, and making sure that we can control the use of it.

1-051-0000

France Jamet (ID). – Madam President, once again, thank you for sharing all these monetary dialogues with us, although I regret that today it is difficult to know what you are going to do with regard to interest rates.

Until now, the ECB's policy has been to raise interest rates rapidly, motivated less by a concern to curb inflation and more by a desire to protect the value of the euro, after it had plummeted against the dollar. But today, the ECB is telling us that the fear of the emergence of a wage-price spiral is responsible for these hesitations.

For more than 20 years, we have had a policy based on wage cuts, which has slashed our citizens' purchasing power. In France, real wages have fallen by 13 % since 1996. A baguette has gone up by 30 % and rents have doubled. Property prices have also doubled. Young people today can't afford a place to live and are unable to build up any personal wealth.

So, Madam Lagarde, in my view, the wage-price spiral does not exist and the data you are referring to seem to be a bit of a smokescreen. Instead, wages have been sacrificed, and more and more French people are now on the breadline.

You used a metaphor a moment ago: we went back to the cradle of the euro, though I don't know what fairies landed on it. Do you not think that after childhood, adolescence and youth, it is now time to lower these interest rates to allow us to reboot economic activity?

1-052-0000
Christine Lagarde, *President of the European Central Bank***.** – *Merci, Madame,* and I'll switch to English so that everybody is on the same page here.

Our mission at the ECB is to provide price stability defined as 2% medium term. I remind you that back in October 2022, inflation was at 10.6%. I'll double check, because I'm always hesitating between 10.2 and 10.6, but it was north of ten and it was double digit. We've brought it back to 2.8% last reading of January, and our forecast for the whole year of 2023 is 2.7% and there is a strong downside associated with that forecast. So we are heading in the direction of delivering on our mission.

We are not seeing second round effect risk materialising. But when we look at the components of inflation, we see that the most resistant one, the one that hasn't really moved much recently, is the service inflation. While underlying inflation indicators all point down now, service inflation continues to hold at 4%, and service is labour intensive, which is why we are looking very carefully at wages.

The wage tracker tool that we use, which includes about 80% of the workforce of the European Union, indicates for the third quarter of 2023 that wage increases were slightly north of 5% – a 5% increase for 2023. What the wage tracker tells us, and the latest collective agreement that are reached in negotiations indicates, is a plateauing of that wage growth.

So we are very cautiously looking at that because it's a preliminary indicator of hopefully where service will be heading – downwards. But, as I said early on, we all have to be confident that it will take us to the 2% medium-term target and sustainably so.

Thank you.

1-053-0000
Chair. – Thank you very much. We have completed the list of registered speakers. We have just three minutes. I want to really thank President Lagarde once again for these years of exchanges.

Madam Lagarde, I can assure you we've really appreciated the openness, the frankness and the fact that you never shied from a single question – we see a lot of politicians here, so we know what that means! That is very much appreciated. Also, you mentioned the short memory of many people, that's true, but I can assure you that we all remember what we all have been through these five years, the challenges that we went through from the pandemic to the war and the energy crisis and the inflation and now another war, and we also share the concern that we do have a unique European Central Bank, one currency, one monetary policy, but we still have a long way to go before we have one fiscal policy, one complete banking union, one complete capital markets union.

We know how challenging it is also to do monetary policy in this unique institutional context. We have still many, many battles and wars to complete our European project, and we are glad to know that you are on our side on that.

(Applause)

(The Monetary Dialogue closed at 10.59)