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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

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

BRUSSELS WEDNESDAY, 4 DECEMBER 2024

1-0002-0000

IN THE CHAIR: AURORE LALUCQ
President of the Committee on Economic and Monetary Affairs

1-0003-0000
(The Monetary Dialogue opened at 14.35)

1-0004-0000
Présidente. – Je suis ravie d’accueillir, pour la deuxième fois depuis le début de cette législature, la présidente de la Banque centrale européenne, M[me] Christine Lagarde. Nous avons le plaisir de nous revoir après avoir réalisé une mission la semaine passée à la Banque centrale européenne. Nous avons pu échanger sur la politique monétaire, sur l’euro numérique et sur la supervision bancaire. C’était une mission essentielle; merci encore pour votre accueil. Je pense que ces moments, ici au Parlement européen, et les missions que nous pouvons avoir à la Banque centrale européenne, sont des éléments essentiels pour nos deux institutions.

En parlant de nos deux institutions, un rapport d’initiative sur les activités de la Banque centrale européenne est en cours de préparation. Cette année, il sera élaboré sous la responsabilité d’Anouk van Brug, du groupe Renew, qui en est la rapporteure. Nous en discuterons d’ailleurs demain.

Quelques éléments au sujet du dialogue monétaire d’aujourd’hui. Nous allons discuter de deux sujets. Le premier, ce sera l’évaluation trimestrielle d’orientation de la politique monétaire de la Banque centrale européenne, le second, le nouveau cadre de gouvernance économique et ses implications pour la politique monétaire.

Pour commencer, l’orientation de la politique monétaire: depuis notre dernier dialogue monétaire, au mois de septembre, l’inflation globale dans la zone euro est passée à 2 % en octobre – ce qui constitue l’objectif de la Banque centrale européenne. Pour rappel, elle était de 1,7 % en septembre. L’inflation sous-jacente devrait rester autour de 2,7 % en novembre, soit le même niveau qu’en octobre. Depuis ce premier dialogue monétaire, toujours, le conseil des gouverneurs de la Banque centrale européenne a décidé de réduire les taux d’intérêt directeurs de 25 points de base supplémentaires – il s’agit de la troisième baisse consécutive des taux d’intérêt –, et le taux de facilité de dépôt s’établit désormais à 3,25 %.

Du côté du cadre économique entré en vigueur en avril, comme vous le savez, il y a évidemment un lien entre la politique monétaire et la politique budgétaire, l’une influençant l’autre – la politique monétaire avec les taux d’intérêt, mais aussi la politique budgétaire, puisqu’elle peut avoir un impact sur l’inflation. Il est donc essentiel de pouvoir discuter de ces deux éléments, d'autant plus que nous sommes dans un contexte où il va y avoir un besoin massif d'investissement, à la fois public et privé, pour relever un certain nombre de défis communs.

C'est donc de deux sujets essentiels que nous allons discuter aujourd'hui, et je voudrais remercier toutes les équipes qui ont préparé les documents utiles à cette réunion, auxquels vous avez accès.

There will be an opening statement from Christine Lagarde lasting for about ten minutes. It will be followed by a Q&A session with the following rule: 1.5 minutes for the initial question, three minutes for the answer, with a possibility to have a follow up for one minute maximum for the question and two minutes maximum for the answer.

Then there will be a second round of questions where we will apply the d'Hondt system – one minute for the question, three minutes for the answer and, if the time allows, there will be a catch-the-eye session.

I will ask you to strictly respect the time that was given to you, and you know that I am quite strict on this. So thank you for respecting the time slot that you have.

I will now give the floor to President Lagarde for an opening statement of ten minutes.

1-0006-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Madam Chair, and good afternoon to all of you.

I'm extremely pleased to return to this committee to discuss the ECB's monetary policy at this critical juncture in Europe.

We are witnessing a rapid shift of the geopolitical landscape, but also enduring major structural challenges to our economic model. Europe's response must be swift, and it should focus on spurring investment, fostering innovation and raising productivity. This will require bold policy action and, together with the new European Commission and the Council, you – Parliament – will have an important role to play.

In my remarks today, I will discuss an important element of this response, which is the new economic governance framework. That's a topic that you have chosen. But I would also like to start by updating you on the ECB's assessment of the euro area economic outlook and our monetary policy stance.

Let's start with the euro area outlook. We saw moderate growth in the first half of 2024 following, I remind you, five quarters of stagnation. Real GDP growth was largely driven by export and government consumption. Domestic private demand remained weak, amid high economic policy uncertainty and the effects of past monetary policy tightening.

More recently, in the third quarter of 2024, real GDP rose by 0.4 %, driven in part by temporary factors such as, for instance, the Paris Olympic Games. You can see that in the two-page document that I hope you all have received. But, despite this good and favourable number of the third quarter of 2024, survey-based data suggests that growth will be weaker in the short term on the back of slowing growth in the services sector and a continued contraction in manufacturing.

Further ahead, the euro area's economic recovery should start to gather some steam. Consumer spending is expected to pick up as real incomes rise, and investment is expected to recover as the impact of past monetary policy begins fading.

The euro area labour market has so far proven resilient. The unemployment rate remained historically low at 6.3 %; latest reading was October. Same month, the employment expanded by 300 000 jobs. Same reading, but for the third quarter. At the same time, surveys point to slowing employment growth – still growth, but slowing – and further moderation in the demand for labour. You have that as well in the two pages that I have given you.

The medium-term economic outlook is uncertain and dominated by downside risks. Geopolitical risks are elevated, with growing threats to international trade. High degrees of trade openness and integration into global supply chains make the euro area vulnerable to foreign shocks, with potential trade barriers posing threats to manufacturing and to investment.

Turning to inflation, headline inflation increased further to 2.3 % in November from 2 % in October, according to Eurostat's flash estimate. The increase in the last two months – remember we were at 1.7 % in September, 2 % in October, 2.3 % in November – was driven mainly by a moderation in the fall of energy prices and an increase in food inflation.

Core inflation, so taking out energy and food, remained unchanged at 2.7 % in November. Likewise in October. And it is expected to hover around current levels until early 2025. Services inflation remained the biggest contributor to inflation and stood at 3.9 % in November, driven in part by recent high wage growth. Overall, growth in labour costs has been moderating in recent quarters, notwithstanding the volatility of negotiated wage growth over the summer, and is set to continue easing. Domestic inflationary pressures are also receding as profits have been buffering still elevated labour cost development.

Looking ahead, inflation is expected to temporarily increase in the fourth quarter of this year as previous sharp falls in energy prices drop out of the annual rates – it's also often called the base effect – before declining to target in the course of next year, 2025.

Let me now turn to our monetary policy stance. In October, the ECB lowered its key interest rates by 25 basis points following previous rate cuts in June and in September by 25 basis points as well, totalling now 75 basis points.

The information available at our October meeting confirmed that the disinflationary process was well on track. Our deposit facility rate, often referred to as the DFR, the rate through which we steer the monetary policy stance, is now at 3.25 %. We will review our stance again next week following our data-dependent and meeting-by-meeting approach. As a result, we are not pre-committing to a particular rate path.

Let me now turn to the second topic that you have chosen for our hearing today, which is the new economic governance framework.

Fiscal policy is essential to address the multiple challenges Europe is currently facing, ranging from the green and digital transitions to economic security and defence. But for fiscal policy to be credible and powerful, it also needs to rest on strong foundations.

The EU's new economic governance framework (EGF) strikes a balance between ensuring medium-term fiscal sustainability and fostering strategic investments and growth-enhancing reforms. If implemented effectively, it will provide, in our view, three major benefits.

Benefit number 1: it can help address the challenges related to elevated debt levels, which have partly arisen from policies designed to buffer the impact of the recent crisis across the economy. The framework focuses on debt sustainability, as a result also supporting monetary policy transmission.

Second benefit: the framework strives to balance gradual and sustained fiscal consolidation with incentives to much-needed investment and structural reform. It introduces the possibility of extending fiscal adjustment path from four to seven years. Such extensions are contingent upon growth-enhancing investments and reforms being implemented, which would in turn further strengthen debt sustainability by raising potential growth. Reducing high level debts also increases the space for strategic investment at the national and at the European level.

Third benefit, as we see it: the new framework can help to make the fiscal stance more counter-cyclical, smoothing out economic fluctuations and thereby supporting long term growth in conditions of price stability. Implementing the economic governance framework fully and transparently is thus key for safeguarding Member States' capacity to invest now and in the future.

The challenges we face also require us to rethink the EU's role in addressing strategic investment needs. As Enrico Letta and Mario Draghi observed in their reports, Europe is currently falling short of its potential.

A key idea running through the reports – both of them – is that Europe is bigger than its constituent parts. Well-defined joint EU investments would boost potential growth and contribute to macroeconomic stability. They would allow us to harness economies of scale and address cross border challenges to the benefit of all Europeans, adding value beyond what national investment could achieve alone. They would also send a strong signal of unity to private investors within and outside the European Union.

Such investments must be coordinated and equipped with ambitious reform efforts. At the EU level, completing the capital markets union – you will hear me say that over and over – which we discussed in my previous hearing before this committee, and deepening the single market, are essential.

Member States also play a crucial role in reducing obstacles in entrepreneurship, helping firms to innovate and grow and aiding the efficient allocation of capital and labour. Progress towards closer European integration, paired with national reform efforts, is essential for a more dynamic and competitive economy, one that supports citizens' standards of living and enables businesses to thrive.

In conclusion, Europe's geopolitical and structural challenges require coordinated and determined action from policymakers. And, as the Greek storyteller Aesop wisely said, 'in union there is strength', and citizens' trust in the European Union is at its highest level in 15 years now.

The Commission has set an ambitious policy agenda to tackle these challenges, which you have endorsed. It is now up to you, up to all of us, to make it happen. The ECB will play its role in supporting Europe's longer-term sustainable growth by fulfilling its mandate of price stability.

Thank you for your attention and look forward to your questions.

1-0007-0000

Markus Ferber (PPE). – Vielen Dank, Frau Lagarde. Ihr Chefvolkswirt Philip Lane hat in einem Interview oder besser gesagt in einem Podcast mit der *Financial Times* angekündigt, dass die Europäische Zentralbank bei der Ausgestaltung der Geldpolitik zukünftig den jüngsten makroökonomischen Daten weniger Gewicht zukommen lassen wird und stattdessen wieder stärker auf eigene zukunftsgerichtete Prognosen zurückgreifen wird. Die Entscheidungen, so sagte er, müssten stärker künftige Risiken berücksichtigen als rückwärtsgewandte Daten.

Das ist natürlich insofern eine Kehrtwende, als die Zentralbank in den letzten Monaten immer wieder betont hat, dass sie auf Basis der aktuellen Datengrundlage entscheiden würde. Dazu kommt: Wir hatten das ja schon mal mit den Modellen und den Prognosen der Europäischen Zentralbank, die ja nicht unbedingt immer ganz genau das getroffen haben, was stattgefunden hat – gerade während der Corona-Pandemie haben sie ziemlich oft daneben gelegen. Der Inflationsschub und die Hartnäckigkeit der Inflation wurden jedenfalls von diesen Modellen deutlich unterschätzt.

Sind Sie überzeugt, dass die Europäische Zentralbank ihre Modelle inzwischen hinreichend verbessert hat, sodass sie nun eine wirkliche Entscheidungsgrundlage darstellen können? Oder macht es nicht doch mehr Sinn, mit den aktuellen ökonomischen Daten zu arbeiten?

1-0008-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Ferber. Allow me to use the language of Shakespeare as opposed to Goethe, because my German has improved a bit, but not that much. It's a very interesting question that you put, and I will address it from two perspectives – three actually.

One is, I think I have very honestly come to you in our debates in the last five years – particularly at the time when we had significant differences between our forecast and the data that subsequently resulted from the empirical reality – to admit the fact that in the situation where we had massive shock and totally unpredictable developments, our models were not at their best in order to deliver the perfect results. So granted.

Second, as a result of that, of course, our economists and our experts have worked hard on models, to improve upon them and to make sure that we could be as precise and as little away as possible from the actual realisation. But it remains a fact that, however improved, models will not necessarily capture some of the developments that we have seen.

For instance, they cannot anticipate and calculate necessarily what the impact of a war will be, depending on where it is, what impact it is, what commodities will be at risk. Nor can it actually determine, in a very precise way, what climate change risks will produce in terms of outcome to our economy.

So with that as a background, I think the points made by Philip Lane, our chief economist, were the following: at some point in time – not today, because we still have ground to cover and because we are still in a universe where backward-looking and current data, if you will, are still very relevant but at some point in the future – we will have to move from backward-looking to forward-looking elements, which obviously will give more weight, at some stage in the future, as he said, to our projections and to the data that we try to analyse and elicit from previous occurrences.

So I think that's clearly the message, and it testifies to the fact that our battle against inflation is nearing completion – not completed, not mission accomplished yet as we still have a bit of work to do, but we are in sight of the target – and that would predicate that we begin looking forward more than we have in the last couple of years, I would say.

1-0009-0000

Markus Ferber (PPE). – If you will allow a short follow-up question about the portfolio, in the last month you have had a little decrease in the portfolio, but there are still some voices inside the ECB saying that it would even make sense not to reduce the portfolio and to keep it on a high level. What is the outlook, from the ECB side, on how to develop the portfolio?

1-0010-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you again for your great question. In that particular respect we are very predictable. We have indicated that we would continue reinvesting 50% of PEP from July to December, and that as of December we would stop any reinvestment. So it would be the same regime as the APP – no further reinvestment. This will actually stop on 15 December, because this is the last effective date.

So that's very predictable, and our overall portfolio declines gradually over time. It has happened in a very smooth way with the APP, in a very smooth way with the reduction of the PEP reinvestment, the reduction by 50%, and we will just continue to deliver as we have indicated. The other story is – and that's probably also included in your question – that at some stage in the future, when the operational framework has been revisited and thoroughly discussed, we will have to ask ourselves, what is the adequate size of our portfolio?

But we'll come to that question when we get there; it's premature for the moment. For the moment, we are on this declining path of our portfolio.

1-0011-0000

Evelyn Regner (S&D). – I'd like to raise a question on the secondary objective as laid down in the Treaties. The discourse whether the ECB has one or two mandates is wide and varied. In 2021, executive board member Frank Elderson said that the secondary objective is a duty rather than an option.

It's almost as if the secondary objective of the Treaty is a Rorschach test – everyone sees and interprets something else. We know we need to act, but too much vagueness could cause inaction.

Therefore, my question to you, as ECB President, is how does the ECB implement these objectives? And could it be done more, especially right now with regard to new challenges such as climate change, geopolitical tensions and cybercrime, in relation to the primary objective?

1-0012-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question. Actually, your question gives me a chance to tell you how much we appreciated your visit. You were not alone; there was a whole group led by your President, and that visit to the ECB and the lunch we had together were a really great occasion to better understand what we were all focussed on, and working on very hard, in the same spirit, a European one.

But coming back to your question, you asked me as the President of the ECB how do I respond to that? I'll respond to that clearly with a jurist's background. For me, the primary objective is price stability and that is set out very clearly in the Treaty. No question about it. The secondary objectives are without prejudice to the primary objective. So to me there is a strong reinforcement and focus on the primary objective, which is defined as price stability, and it has the benefit of being squarely defined. Price stability has its requirements, its considerations, its input.

The secondary objectives come in the second place and are not specifically defined. There is a list that is out there in the Treaty, but it's not as squarely defined as price stability and it has those keywords 'without prejudice to'.

Having said that, you also alluded to climate change, and it begs the question of how do you justify that climate change be actually factored into your monetary policy decisions or in your considerations regarding financial stability, in particular, because price stability and financial stability are clearly linked?

I believe that the primary objective, in and of itself, is sufficient to justify that we actually consider climate change as an element of our strategy. It takes multiple dimensions, and I think I've explained before the EU Parliament several times how and why it matters, both from a macroeconomic point of view – and that comes to inform our monetary policy decisions – and from a risk management point of view, and it comes from a supervision side, which is also part of the European Central Bank, although I have to be careful to separate properly the Central Bank pure activity and the supervision activity. But the primary objective in and of itself justifies that we actually include climate change in all these three dimensions that I have just mentioned.

1-0013-0000

Auke Zijlstra (PfE). – Mevrouw Lagarde, met interesse las ik uw interview in de Financial Times vorige week, waarin u de Europese Commissie en de lidstaten adviseert hoe om te gaan met de aangekondigde handelspolitiek van de volgende Amerikaanse president Donald Trump. Ik begrijp dat een assertiever gebruik van importheffingen door onze belangrijkste handelspartner, zoals door hem aangekondigd, een effect kan hebben op het prijspeil in de eurozone. Ik juich het dus toe dat de Europese Centrale Bank het effect daarvan probeert te voorspellen.

Maar ik twijfel over uw chequeboekstrategie, waarbij u de EU aanraadt om meer goederen van de VS te kopen in ruil voor behoud van gunstige handelsvoorwaarden. In dat interview noemt u specifiek Amerikaans lng en militair materieel. Maar de Europese Commissie beoogt juist om een grotere Europese energieproductie na te streven – daarvoor is 300 miljard gereserveerd – en de nieuwe defensiestrategie heeft als doel om de militaire productiecapaciteit in de EU op te voeren. Ook daar gaat geld heen. Maar u zegt nu eigenlijk: “Met de komst van Donald Trump zijn dit geen goede beleidsbeslissingen meer.”

Mevrouw Lagarde, is de les die wij van Trump moeten leren niet eerder dat Europa op eigen benen moet leren staan, zowel wat betreft energie als defensie, alsook in zijn eigen grotere nucleaire sector? Daarbij denk ik aan bijvoorbeeld de bouw van kleine modulaire reactoren; geen betere manier om het prijspeil in de eurozone stabiel te houden. Bovendien: wij importeren al meer uit Amerika dan we exporteren, dus waarom zouden wij deze handelsbalans nog verder willen verstoren?

1-0014-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much for having read my interview. That's really kind of you.

You referred to one particular item of the interview, which was probably a bit too long, but which covered a lot of ground and did not only focus on this. Be it as it may, I think the two are not mutually exclusive. They actually complement each other, and you can very well determine that you are going to develop your energy as predicated by the Draghi Report, the diagnosis of which I totally concur with.

You can perfectly decide that you're going to develop your defence industry and be able to manufacture at scale, while at the same time appreciate that, in a trade relationship, there is a significant element of negotiation that can happen on the basis of arm's length or from a position of inferiority.

All I'm trying to say here is that if you are strong enough at home, which is one of the components that you're suggesting, it makes you strong as well in the negotiation position that you have with any other party. That was the point that I was trying to make.

But the key point, from my perspective, in terms of how it impacts growth, how it impacts inflation, how it is favourable to the development of our potential: the worst that can happen is trade war and the sort of tit-for-tat and retaliation approach that is certainly not conducive to further trade development and the growth that would result from it.

1-0015-0000

Auke Zijlstra (PfE). – I very much appreciate your dislike of a possible trade war. Could you elaborate a bit on the import-export disbalance in this case? You're suggesting importing more from the United States, but we are already importing more from the United States than we are exporting. So there is a disbalance there.

1-0016-0000

Christine Lagarde, *President of the European Central Bank***.** – I think the European Union, and the euro area for sure, is more vulnerable for two reasons. One, because it is much more open to the rest of the world than economic zones like the United States or even China. Second, because it is part of a supply chain, which makes it dependent on the supply of either raw material, parts, because our supply chains have been scattered all over the world.

So it does put us in a position of vulnerability, which is translated in pure trade. I'm not talking about the overall balance of payments, but in pure trade, as being at risk of these trade restrictions, whether they are by way of tariff or non-tariff barriers.

1-0017-0000

Denis Nesci (ECR). – Signora Presidente, Lei ha parlato nella Sua relazione introducendo un po' quello che è l'orientamento delle politiche monetarie con un approccio prudente, diciamo "attendista". Ma nella fase iniziale della Sua relazione ha parlato di stimolo agli investimenti.

Allora, sono due aspetti, diciamo, un po' in contrapposizione. Forse sono dovuti alle recenti turbolenze che si stanno verificando in Francia dove si è riacceso il timore di una nuova crisi sul debito sovrano in Europa. La BCE ha introdotto il TPI, che è uno strumento che non è stato ancora testato, che mira a prevenire la frammentazione dei mercati finanziari. Tuttavia, le condizioni per il suo utilizzo non sono ancora presenti, mentre i mercati si muovono più rapidamente delle decisioni politiche.

Allora Le chiedo: nel caso in cui si verificasse una crisi di governo in Francia, ritiene opportuno ricorrere a questo strumento? Inoltre, come intende garantire un equilibrio tra stabilità finanziaria e responsabilità politica? L'Europa ha bisogno di azioni decise e di strumenti applicati con coerenza e imparzialità, perché solo così possiamo costruire una fiducia solida tra i cittadini e i mercati.

1-0018-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question. You know, you take me back to what is our mandate. I was so pleased to have the primary objective being one of the lead questions.

What is our mandate as the European Central Bank? Our mandate is price stability. Our target, in order to deliver on price stability, is 2 %; sustainable, medium term.

This is a battle that we have fought and of which the result is now in sight and we will remain focused on this particular fight and making sure that we reach target.

There are many factors that contribute to the economic situation, as you know. Obviously, the growth development matters. Obviously, the geopolitical risks out there are taken into account. And we are attentive to financial stability as well, because the two – price and financial stability – interlink. Without one, you don't have the other; without the other, you don't have one.

So, the European Central Bank, fixated on its mandate and with target in reach and disinflationary process in train, has multiple tools, one of which you have mentioned, which are available at the discretion of the Governing Council and according to the terms that they were set for. *Voilà*. *Ecco*.

1-0019-0000

Denis Nesci (ECR). – Signora Presidente, passando a un'altra domanda: alcuni economisti suggeriscono che un ulteriore inasprimento potrebbe danneggiare in modo sproporzionato l'economia dell'Europa meridionale.

In che modo la BCE mitiga tali disparità a livello regionale?

1-0020-0000

Christine Lagarde, *President of the European Central Bank***.** – You know, Mr Nesci, I'm very cautious about geographical boundaries, distinctions, the South from the North, the frugals versus the non-frugals and all of that, because things change over the course of time. There were countries which ten years ago were regarded as the most vulnerable and less-performing and the situation has changed, over time, based on reforms that were conducted, based on the fiscal policy that was adopted, based on the growth potential that was developed.

So I don't want to draw a line between different regions. I recognise that there is heterogeneity, and I recognise that whether it's about inflation or whether it's about growth – but more so inflation, because that's what we focus on – there is that heterogeneity. The European Central Bank, with one single currency, one single set of interest rates, is not exactly the best equipped institution to deal with heterogeneity, and I think that there are other tools that have to be deployed, whether fiscal or by way of reforms, in order to reach a better convergence between Member States.

Of course, there are further steps that can be taken in terms of common destiny that is translated in fiscal terms or otherwise, and that could also be explored. But this is not for the European Central Bank to deliver.

1-0021-0000

Stéphanie Yon-Courtin (Renew). – Madame la Présidente Lagarde, merci d'être à nouveau avec nous aujourd'hui pour ce dialogue monétaire. Finalement, si on fait le bilan des dernières années, la BCE a réussi à combattre une inflation qui avait atteint un niveau sans précédent dans la zone euro – de 10,6 % en octobre 2022 à 2,3 % estimés pour novembre 2024.
Si le plus gros de cette bataille est derrière nous, d'autres défis en revanche nous attendent, et dans ce contexte j'ai deux questions. Tout d'abord, je souhaite revenir sur l'élection présidentielle aux États-Unis. Si on regarde le verre à moitié plein, vous avez semblé dire que le résultat de cette élection pourrait revêtir, en Europe, un caractère opportun pour pousser un

nouveau programme d’action en faveur de la compétitivité: alors de quelle manière et avec quelles priorités?

D’autre part, avec la numérisation, de nouveaux risques émergent. La dernière analyse de la stabilité financière de la BCE attire l’attention sur les risques d’une bulle financière concernant les actifs liés à l’IA, du fait de la concentration d’une poignée d’entreprises dans ce secteur. Comment la BCE peut-elle prendre en compte ce nouveau risque et y répondre?

1-0022-0000

Christine Lagarde, *President of the European Central Bank***.** – *Merci, Madame* Stéphanie Yon-Courtin. I'll go back to English and I hope you can bear with me.

First of all, thank you for noticing that inflation went from 10.6 % in October down to 2.3 %; and more to come, we hope, in the course of 2025.

Turning to the elections that have taken place across the Atlantic. First of all, I would err on the side of caution because we need to see what is actually done, what is delivered, what is legislated, what is implemented. Whereas words matter, there is something that is 'deeds, not creeds', well, I think we need to see the deeds to understand exactly.

But we need to prepare for that. And I think you used exactly the right word. You used the word 'priorities'. So for those of us, and I'm sure that there are many in this room, who believe that there is value in the Letta and in the Draghi and possibly in the Noyer report as well, prioritising on what is possibly feasible, with efforts, maybe with reluctance on the part of Member States, but which will yield the most, I think would be the right way to go to make sure that we can actually leverage the potential that we have.

I remember the days not so long ago when a lot of trading, a lot of mathematical engineering was taking place in London. You do too. In those days, most players at the tables were not British. Most of them were French. Not only, but there were many Europeans. So the potential that needs to be applied to those new technologies is still around in Europe. And yes, we need upskilling, we need retraining, we need all that. But the strong potential is there. The innovators are here. How the priorities are set in order to keep them around, in order to help them leverage their potential, is, I hope, something that we can achieve together as Europeans.

So, you asked me to identify priorities; I would say leveraging the potential for innovation to make sure that productivity improves in Europe. I don't know if we will catch up with the US' productivity, but we certainly can do a better job and that would help a great deal, including on the front of inflation.

The second thing I would argue, and you've heard me and you know that I care a lot about that, is making sure that we have a larger, deeper and simpler capital market in the whole of Europe. You call it CMU, you call it savings and investments union or whatever. But it's making sure that enough funding goes to the potential innovation that is out here in order to improve our productivity.

Those are two things that I would just keep from my vantage point as some of the priorities. It will not be simple; it will not be a walk in the park. I know that there will be lots of territories and turf wars and all the rest of it, but either we want it or we don't.
On the financial risks: you identified one of them. I think there were three big categories of risk that are listed in our latest report. One is clearly the risk of asset repricing – market correction if you will – for values that are clearly very high and that might call for serious market

corrections. But this is in the field of risks that are identified as the credit risk and the sovereign risks as well.

1-0023-0000

Stéphanie Yon-Courtin (Renew). – Madame la Présidente, nous partageons tous cette urgence, à savoir que l'Europe doit regagner en compétitivité pour servir l'économie européenne. Madame Lagarde, par le passé vous aviez soutenu la création d'une autorité de surveillance européenne, à l'image de la commission américaine des opérations de bourse. Est-ce toujours là votre position?

Quelles autres mesures pourriez-vous soutenir pour avancer justement sur cette union des marchés de capitaux et sur l'union européenne de l'épargne et des investissements, qui doivent aller très vite?

1-0024-0000

Christine Lagarde, *President of the European Central Bank***.** – Madame Yon-Courtin, je vous remercie d'aller un peu plus loin sur la question concernant l'union des marchés de capitaux.

I still believe that having a single supervision that needs to be structured to include and make sure that the national existing supervisors are part of the story, but one single supervision, one single rulebook that could be applied across the whole of Europe would be very desirable.

Just as there was one SEC, we need to have one ESMA with decentralised operation or with a system. It can be by way of a two-tier system, it can be by way of decentralisation; there are several proposals on the table that need to be developed. But I think that having supervision as a unifying factor will take us a long way into what I have described in a speech that I gave recently as the entering, the expanding and the exiting of the savings that can be mobilised in order to finance innovation and enterprises in Europe.

1-0026-0000

Rasmus Andresen (Verts/ALE). – Thank you, *Madame* Lagarde, good to see you back in the committee.

In the past years, we discussed a lot on demand-growth, supply-shock-driven inflation. No matter where we are on this, I think we can say that negative supply shocks caused by climate change will be more and more relevant also to price stability. You already mentioned also this in one of your replies to one of the colleagues.

Your colleague, the Finnish governor Olli Rehn, actually also was quite outspoken on what kind of limitations also central banks have to address this issue on supply-shock-driven inflation caused by climate change.

So I would like to ask a little bit more into this. What kind of elements do you see for monetary policy to address this? In your reply to my colleague Evelyn Regner, you already mentioned this, and that climate change is part of your mandate, in the way you pointed that out. But I would like to get a little bit more of a concrete answer on how you would like to see that addressed by the ECB.

It's good we are sharing the analysis, but we also need to follow up with action and there for me your response until now had been a bit unclear.

1-0027-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you, Mr Andresen, and I'll try to be clearer if I was not clear, although Greenspan said something quite interesting about the not-so-clear responses. But I will not bore you with that.

So, point number one: the fight against climate change is not the fight of the ECB. It is primarily the fight of the executive authorities, the parliamentary authorities, the judiciary authorities.

A central bank is not the primary player, which does not mean that it does not play its part. As the composition of the NGFS will attest, which has more than 140 national central banks from around the world gathered to make sure that we can green the financial sector, central banks can play their part.

We can play our part in three dimensions. One is taking climate change considerations into account to determine, for instance, the impact that it has on inflation. Whether you talk about flood, whether you talk about drought, whether you talk about natural erosion, whether you talk about conservation of nature, it has an impact on inflation. This is even in the short term, to those contradictors who will say, 'You're talking about a long-term risk, why would you bother? You should be looking at short, if at all medium term, but nothing further than that.' That's point number one.

Second dimension is the risk management. To the extent that we carry in our balance sheets assets that will or could be impaired by the climate change impact, that risk has to be measured adequately. As you know, we have since October 2022 started tilting our portfolio in order to take that externality into account when we measure the corporate assets, the corporate bonds that we have in our portfolio, and we are working on the collaterals that are held in order to also incorporate the risk dimension in the value of collaterals.

That's a bit more complicated and difficult, and we have decided to defer it by one year because of the lack of clarity of data and the work that we are doing to make sure that we have in place a method that is as not safe, but as solid and transparent as possible because we know that it's a controversial issue.

The third dimension is the dimension of supervision. So, when the European Central Bank, through the SSM, supervises banks, it wants and it has required and has expected banks to actually account for the risk resulting from climate change. Stress testing has been in place, guidelines and expectations have been set. And now the review of the policies determined by the banks are under review, and failure to do that actually leads to potential penalty.

I hope I've been clear in the three dimensions, which, as I said, are the contributions of somebody who is not the main actor and the key responsible for policies.

1-0028-0000

Rasmus Andresen (Verts/ALE). – I have a fourth aspect, I think, which is a bit more in the direction of the monetary policy framework, where I would like to ask you if you think in the context of your reply earlier on, and my question, if you think that we need a regular review of the monetary policy framework also to see or to assess if supply-driven inflation dynamics are addressed in the right understanding or not. So I would like also to hear a little bit more on your perspective on the monetary policy framework regarding this.

1-0029-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you for the follow-up question. First of all, as you know, we conducted a strategy review, which was completed in

July 2021. And, for the first time, as part and parcel of the strategy, we have climate change. It's in the strategy. It's been approved by all the members of the Governing Council. It's not just a strategy up in the air, a great principle. It also includes a checklist of actions that need to be taken with a timeline and with an identification of responsibilities. I'm pleased to say that we are on time and not on budget, because it's not associated with the budget, but the actions that we have committed to do have been delivered.

We are assessing this strategy review, and the result of that assessment will be, I hope, completed in July. And I have proposed to your President that I can inform and report to the Parliament in that respect so that you can appreciate in which direction we are going and you can give some input in terms of this assessment of the strategy. In particular, the point that you made about supply versus demand inflation driven and the response by monetary policy will be part of the two main streams of assessment that we will conduct.

1-0030-0000

Pasquale Tridico (The Left). – *Madame* Lagarde, concerning Eurobonds, which have been previously used for initiatives like pandemic recovery and green investment, complementary to what my colleague Andresen was saying, current discussion however emphasised the use for military expenditure. Now, could this shift in focus from a green investment and emerging pandemic investment use of Eurobonds for that objective, could this shift overshadow green financing and other critical sustainability goals in favour of militarisation? Could pandemic-related measures such as the SURE Fund be adapted to safeguard jobs in sectors like the automotive industry, while supporting the transition towards the electric mobility?

1-0031-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much for your question on Eurobonds. Let me address your question from my vantage point, which really has to do with the completion of the EMU. We have a monetary union; we don't have a fiscal union. There are multiple ways to get to a fiscal union: the ones that you've identified, which is an option. There are other ways: a stronger fiscal capacity. That would be a joint financing of common goods. You've mentioned one of those common goods, which has to do with security.

It's really for the Europeans, as represented by you, as represented by the Council and the Commission, to decide in which direction it goes. But it's obvious that from a monetary union perspective, which is my shop, if you will, having fiscal union would certainly be an improvement.

1-0032-0000

Pasquale Tridico (The Left). – You say that you pay very much attention to the capital market union. How do you see this complementarity in providing and enhancing liquidity for investment in the European Union, meaning that they can create mechanisms for strategic projects or emergency responses?

Again, I think that one of the strategic responses here needs to be given to the automotive sector in Europe. Can we think about a tool which can safeguard jobs there? There are several central banks in the world which have. I know that this is not the mandate of the ECB, but during emergency period, we can have a look at jobs and not only price stability.

1-0033-0000

Christine Lagarde, *President of the European Central Bank***.** – You clearly have a pointed question relating to an industrial sector that is going through a major overhaul, which is caused by new technologies exploited at lower costs, in particular out of China.

There are examples, including in Europe, but also I'm thinking of the United States, which found itself in the same situation, where fiscal authorities have set up funds, called them transition funding or retraining funding, either applied, for instance, to the steel industry in Europe, to the textile industry or, in the United States, to the automotive industry. I plead my ignorance in that field, but I think it is more in the field of fiscal instruments that this took place. So, that's on that part of your question.

There's another part of your question, which I think warrants thinking about –and I'm almost tempted to go back to the Draghi Report for that – which is taking the restructuring of the automotive sector apart. But if you look at the investment needs that we have in Europe for security, for energy development, for digitalisation, we know that the needs are massive. I think one of the conclusions by the Draghi Report is that it will require significant private sector investment, but not only. If you ask the private sector – as you do, because this is part of your job more than mine – they are the first ones to say, 'Yes, we can invest, but we need some public seed funding to begin with.'

My recollection of the Draghi Report is that a lot of those investments into the future are based on a combination of roughly 20 % of public money investment and 80 % private sector investment. So it's this blending of financing that may be one of the avenues for the future of those sectors that need massive financing.

1-0034-0000

Rada Laykova (ESN). – Madame Lagarde, we carefully compounded the official inflation data and real GDP growth over the past 20 years, and this calculation suggests that price inflation is about 60 % for the last 20 years, according to the ECB official figures. However, when we consider the changes in the basket of goods, which is adjusted for valid reasons periodically but also potentially allows for manipulation, the actual inflation seems closer to 90 % to 120 %.

Comparing the compounded yearly inflation data published by the ECB with real price changes during this period shows that inflation has likely been consistently under-reported. As anyone can observe, prices have risen more than 60 % over the last two decades. Under-reporting inflation and overstating GDP growth could create favourable conditions for financial markets with lower interest rates and cheaper capital, but this comes with a cost to the public as inflation erodes purchasing power.

This leads to my two questions. First, how reliable are the yearly inflation figures the ECB publishes? And, second, does the ECB have internal data that suggests higher inflation than what is officially reported?

1-0035-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Ms Laykova, for your question, but to my knowledge, in order to calculate inflation, we rely on the Eurostat numbers, and they apply to all European institutions. I don't think that I agree with your statement that it would be biased or miscalculated or inflated or deflated one way or the other. All I know is that we work on the basis of Eurostat numbers.

I'll give you one example. It's a bit of a little story, but there is one category of numbers where we try to sort of look under the skin of the numbers and those are, with all due respect, to Ireland – the Irish numbers, in particular in relation to growth, not so much in relation to inflation.

This is so because there is quite a large movement of intellectual property and rights and licence fees as a result of intellectual property that tend to sometimes distort a little bit what is regarded as the regular, fundamental numbers of the growth of the Irish economy. I think that particular index was designed by the Irish national central bank.

To my knowledge, that's the only area where, without moving away from the Eurostat numbers, we try to inform ourselves a bit better, by having this specific element.

1-0036-0000

Chair. – So now we can move to the second round of questions – so one minute for the question and three minutes for the answer.

1-0037-0000

Marco Falcone (PPE). – Presidente Lagarde, io ho ascoltato con particolare attenzione la Sua relazione e ho apprezzato la Sua sottolineatura del fatto che vi è un panorama geopolitico in evoluzione e che l'inflazione si è attestata ai livelli del 2,3%, forse meno delle aspettative, ma comunque in una condizione di stabilità.

È molto interessante la Sua sottolineatura su tre fattori: stimolare gli investimenti, sostenere l'innovazione e rafforzare anche la produttività. E ha parlato anche di coraggio: cioè bisogna guardare avanti.

In ragione di questa prospettiva e anche alla luce del nuovo governo americano che, sotto la guida di Trump, potrebbe anche imporre i dazi, ritiene che la domanda e la produzione interna possano essere sostenute anche con un abbassamento dei tassi di interesse già nel prossimo Consiglio direttivo della BCE?

1-0038-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you so much, Mr Falcone, for this very pointed question, to which I will not give a pointed response. As you well know, interest rate decisions are determined by the Governing Council, and while I will say that we are on a disinflationary path, and we know that the direction of travel is downward, the pace at which we move down the hill is not predetermined, and I'm not going to commit to any particular number, for sure.

But I would say this, because I think it matters: you referred to the income of people, and I think it's one of the narratives that we have had and that we continue to have, which is that we see a recovery picking up a bit in the quarters to come as a result of real disposable incomes consisting of reduced inflation and higher wages, which have been negotiated over the course of the last few quarters, and if there is enough confidence for the consumers, in particular, and for the investors also, then we should see consumption and possibly investment picking up the pace and contributing to growth going forward.

1-0039-0000

Eero Heinäluoma (S&D). – Madame Lagarde, as you know, there is in this committee great appreciation towards the ECB and also towards you personally. At the same time, I have to acknowledge that there were a lot of questions concerning your latest interview in the *Financial Times* and especially your trade comments, because it has been interpreted in such a way that you would not recommend to respond to the possible tariffs by the Trump administration towards European Union imports.

I'm just wondering if it's a wise negotiation strategy to say, before the negotiations have even started, that we won't do anything – to show a white flag in a way?

And then, was there any kind of coordination with the Commission when you were preparing this interview?

1-0040-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Heinäluoma, for your question on trade, essentially. I'll try to articulate again the position that I gave at the early stage when I was asked also a question on trade. I have a little bit of a background on trade because I was Trade Minister for France as my first public service job, and I did my bit in the WTO negotiations at the time.

Obviously, in an ideal world, trade relationships should be governed, settled, arbitrated, disputed and determined within the ambit of the WTO, and I very much hope – particularly under the renewed leadership of my friend Ngozi [Okonjo-Iweala], who has been reappointed as President of the WTO – that this will continue to be the case.

But we also should not be naive, and my sense – and I tried to explain that in this interview – is that we need to be strong, strategic and sit at the table and, as you know, as devoted to the rule of law as one can be – and I am – we also have to be cognisant and acknowledge the fact that in that particular field, negotiations have to be conducted, and they're best conducted if we are in a position of strength, which is why, when asked about the energy industry and the military industry, whether we should just *baisser pavillon*, that's not what I'm saying.

But I am saying that, at the end of the day, one has to sit at the table because one has to recognise what is on the other side of the table. It's not a white flag.

1-0041-0000

Γεώργιος Αυτιάς (PPE). – Από τη χώρα του Αισώπου, κυρία Λαγκάρντ, ο οποίος δεν ήταν παραμυθάς, ήταν πραγματιστής. Την επόμενη φορά που θα συναντηθούμε θα σας δώσω το βιβλίο του, για να δείτε πόσες αλήθειες έλεγε.

Πάμε λοιπόν στο θέμα. Σας άκουσα με ιδιαίτερη χαρά να μιλάτε για αλλαγές τώρα, για ανταπόκριση ταχεία, για άμεση αύξηση της ανταγωνιστικότητας, θαρραλέες δράσεις και νέο πλαίσιο οικονομικής πολιτικής. Είναι στοιχεία τα οποία ζητάει η Ευρώπη. Έξω, όμως, οι κοινωνίες λένε, και πρόκειται για εντύπωση που επικρατεί, ότι η Ευρωπαϊκή Κεντρική Τράπεζα βλέπει αφ' υψηλού τα μεγάλα θέματα των κοινωνιών. Και τα μεγάλα θέματα είναι τα εξής: φθηνό χρήμα, χαμηλότοκος δανεισμός, ενίσχυση των νέων για στέγη και άλλες δράσεις.

Και ξέρετε πολύ καλά, κυρία Λαγκάρντ, ως υπουργός Εμπορίου, από τότε σας θυμάμαι, με την ιδιότητά μου ως δημοσιογράφου του οικονομικού ρεπορτάζ στην Ελλάδα για πολλά χρόνια, ξέρετε ότι το φθηνό χρήμα είναι η κινητήρια δύναμη της οικονομίας και της ανταγωνιστικότητας. Ρωτάω λοιπόν: αυτός ο πληθωρισμός σήμερα, με το 2 %, σας εμποδίζει να κινηθείτε προς αυτή την κατεύθυνση; Κάντε το γρήγορα, γιατί αύριο μεθαύριο η Αμερική θα μειώσει τα επιτόκια, και εμείς θα τρέχουμε πίσω από την Αμερική.

1-0042-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Mr Aftias. I would very much look forward to the Aesop book that you promised, because when I was a young girl, I was translating Aesop from ancient Greek into French. I will not be able to read it in Greek. I wish I was, but I will not go into my youth. That's fine.

So, your question is about interest rate. Two years ago, your question would have been about inflation, right? October 2022, exactly two years ago, inflation at 10.6 %.

It's not just because of the Central Bank, but the Central Bank did play its part in bringing that inflation from 10.6 % down to 2.3 %. We're not quite there yet. And we are in that disinflationary path and well advanced.

There are still sectors, like services, like our domestic inflation, that encapsulate a lot of services that themselves are labour intensive, wages, that are way above the 2.3 %, around 4 %, 3.9 % precisely. I'm not expecting that number to be down to 2 % to consider that the battle is won because there will be differences between services and manufacturing. We know that.

But we need to finish the fight, and we will. It's been now three if not four cycles of projections where we have inflation at 2 % in the course of 2025. So that's comforting on the journey that we are taking, which, as I said, is directionally very clear downward.

So, interests have been lowered by 75 basis points. When I say that directionally the path is clear, it is downward, it will continue to lower. At which pace I cannot say today because we are still operating meeting by meeting, we will continue to be data-dependent. The slight shift that has been identified by your colleague, Mr Ferber, in his question, quoting and referring to Philip Lane, has not happened yet. It will at some stage when we stand ready and when we have completed the battle against inflation. Of course, at that stage, it will change.

But, for the moment, interest rates are still restrictive; not as much as it used to be, but still restrictive. And we are seeing, on inflation in particular, the impact of our tightening of monetary policy. It has not faded yet. It is still impacting. It has reached peak for growth, it is still impacting prices and still has an impact on inflation.

And that is a good thing, because the most unfair and difficult phenomenon is inflation, particularly on young people or on people who do not have high income. We are focused on that. We are not up there. We know and we live also with people and those, particularly the young ones, who are looking for an apartment, who are co-renting with friends or still staying at home with parents because they can't afford a house. The whole housing sector requires particular attention in pretty much all European Member States at the moment, and I hope that is the case.

1-0043-0000

Enikő Győri (PfE). – Thank you so much, Madam President, welcome and thank you for the hospitality last week. We had a very good exchange of views with all your colleagues, and I think it helped us in understanding better your views and the situation.

And thank you very much for being so frank and clear on your diagnosis, explicitly mentioning our vulnerabilities and the dangers in today's European economic situation.

You were mentioning that the 0.4 % growth for this month is something which is better than expected, but with 0.4 % there is not too much to be proud about. But I would call it instead it's more like a sluggish economy or closer to stagnation than to growth. Meanwhile, our competitors are doing much better, like China 4.8 %, US 2.8 % and even Russia 3.6 %.

I know that in the Bank you are working with scenarios, and I suppose you have to work even with worst-case scenarios. Now we have, after the Budapest Declaration, at least for certain issues – like capital markets union, internal market deepening, red tape – deadlines. But we know that it will not be easy. We are very much in favour of that, but it will not be easy. What happens if we are unable to proceed according to this time frame? What kind of monetary policy impact will it have if we are unable to put our economic growth back on feet and we will not be able to cope with the present very bad competitiveness situation?

The same goes again for your interview concerning the trade war. Actually, I was very pleased that your suggestion was dialogue instead of going for trade wars. What tools can the ECB use to avoid possible negative side effects of a potential trade war? So, negative scenarios.

1-0044-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much, Ms Győri, for your questions.

First of all, I think we need to always make sure that we compare apples and apples. I don't think that I would compare the 0.4 % growth for the third quarter with the 2.8 % growth per annum that is forecasted by the US. But you have a point, because we tend to always beat ourselves on the chest by always pointing either to the half-empty glass rather than half-full, by using the numbers that are not going to sort of value us as opposed to what others are doing. So I think there is something to be learned about that.

Given our current growth potential, given our demographic situation, I would say that the key priority from my perspective is to improve productivity, which means that we have to focus on innovation. There is wealth in Europe. There is plenty of savings. So, it's a question of making sure that wealth savings are directed to productive endeavours, innovation, that transform themselves into enterprises. I think that that is the key.

To the extent that we can contribute to that as a central bank, we will do it. But the best we can do and the key mandate that we have is to make sure that there is price stability and that investors can anticipate that price will be at target sustainably. So, with little variations here and there, but sustainably, medium term, 2 %. That's what we can provide.

We will offer ideas, we will offer views, we will contribute to the extent we can and to the extent we can be helpful, particularly in relation to the capital markets union, because there are dimensions where we have special expertise and we will contribute that as much as we can.

1-0045-0000

Anouk Van Brug (Renew). – Welkom mevrouw Lagarde, het is goed om u hier weer te zien. Een groot deel van de politieke discussie over de ECB richt zich momenteel op de secundaire doelstellingen, zoals ook mijn collega van de S&D net al aangaf. U antwoordde dat het inbouwen van klimaatverandering in het monetair beleid wordt gerechtvaardigd door het primaire mandaat. Begrijp ik het goed dat dat betekent dat de ECB in de strijd tegen klimaatverandering niet meer kan doen dan het handhaven van prijsstabiliteit, risicomanagement van de balans en toezicht houden op de banken? En geldt dat dan voor het gehele economische beleid van de Europese Unie, zoals geformuleerd in het Verdrag?

Mijn tweede vraag gaat over de recente piek in de inflatie, die vooral veroorzaakt werd door de schok in de energievoorzieningen als gevolg van de oorlog in Oekraïne, niet als gevolg van klimaatverandering alleen, waar u veel tijd en aandacht aan besteedt met de ECB. Wat kan u doen om de impact van geopolitiek in de modellen van de ECB en het beleid op te nemen en alle externe bronnen van inflatie daarmee gelijk te behandelen?

1-0046-0000

Christine Lagarde, *President of the European Central Bank*. – I wish we lived in a perfect world where everything could be modelled and everything could be anticipated and predicted, but unfortunately this is not the world we live in. So thank you very much, Ms Van Brug, for your question. We try to do as good a job as we can to deliver on our mandate, which is price stability, which is our primary objective.

To set the story right, and I've answered Rasmus Andresen, I think, very clearly on that front, we have a primary objective, which is price stability, and we have then, as a second paragraph, secondary objectives, which are identified and listed, which are also to be taken into account without prejudice to the price stability primary objective.

We believe that even without going into the argument of is it under the secondary objective, and which one is valid and which one is not valid, that could lead us to discussions *ad nauseum* and *ad nutum*, I argue that the primary objective in and of itself is sufficient to justify that we take into account a factor like climate change in the three dimensions that I have explained.

I think that this is the most efficient and fastest way to incorporate, within our mandate and within our duties, the fundamental monumental issue of climate change, which is for other people to tackle first and foremost.

Can we incorporate in our models the unpredictable, unexpected madness developments that we can't understand? Probably not. Can we refine our models in order to take into account what has occurred with our view to aiming to 2 %? We are doing that. But the totally unpredictable, the massive supply shocks one after the other? Probably not. Which is why we can vary between this more backward-looking, less forward-looking to a more forward-looking, less backward-looking approach that I have described earlier.

I hope I have addressed your question.

1-0047-0000

Carla Tavares (S&D). – Senhora Presidente Lagarde, agradeço a apresentação e a partilha que hoje fez nesta comissão. Senhora Presidente Lagarde, sempre foi uma apoiante da criação de uma capacidade orçamental na União Europeia e colocava-lhe duas questões/reflexões.

Tivemos recentemente declarações de um país Estado-Membro, mostrando abertura para termos mais dívida comum, um orçamento maior e mais ajudas de Estado, de forma a podermos financiar as prioridades da União Europeia no futuro. Pergunto-lhe se acha que este é um caminho para um compromisso alargado na União. Por outro lado, também uma questão: se na sua opinião e com a sua experiência, entende que a Europa tem condições económicas e políticas para esperar pelo próximo Orçamento Plurianual pós 20-27 para avançar com um novo instrumento de apoio ao investimento, ou se deve tentar fazer esforços antes para alcançar uma nova capacidade orçamental, antes, naturalmente, de 2028.

1-0048-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you very much, Ms Tavares. Yes, you are correct that the ECB, at least on my watch, has been supportive of increased fiscal capacity. It has been the position of the Governing Council. We have issued, if I recall, a statement to that effect, and it's part and parcel of what we believe would be good and better certainly for the euro area.

I'm not sure which Member State you refer to, but any new Member State which is convinced that for common goods, such as some of those that we have mentioned, security, climate change, common goods in general, common financing is desirable, whether by way of an increased fiscal capacity or by way of joint debt. This is something that I'm sure is desirable, and the more, the happier or the more efficient at the end of the day.

I'm not exactly sure what you're referring to with 2027 and 2028. For me, I have 2026 in the back of my mind, which is the time by which the RRF must be expensed and the commitments made to benefit from the RRF have to be demonstrated. I think that that's a huge responsibility on the shoulders of Member States, particularly those that are high beneficiaries, because they have been high sufferers as a result of COVID-19, to demonstrate that joint borrowing and grants can be expensed and can be focused on what will be both the common goods and the purpose for which the funding was made available with the conditions that were committed by the Member states.

So I don't know if you want to follow up with 2027/2028. I was a bit lost with that.

1-0049-0000
Carla Tavares (S&D). – Estamos a trabalhar no próximo MFF e, portanto, no fundo, o que lhe perguntava e queria saber a sua opinião é se nós conseguimos esperar pelo pós 27, ou seja, pelo fim deste quadro financeiro, ou se antes de 28 teremos que ter aqui uma outra resposta sobre o ponto de vista orçamental, enquanto Estados-Membros.

1-0050-0000
Christine Lagarde, *President of the European Central Bank***.** – I don't have the answer to that. All I know is that, unless there is a major crisis, things move slowly and we are pressed for time. Time is of the essence. I don't know if that answers your question. I hope it does.

1-0051-0000
Chair. – Now we move to catch-the-eye.

1-0052-0000
Catch-the-eye procedure

1-0053-0000
Fabio De Masi (NI). – Ms Lagarde, when I opened the *Financial Times* this morning, I read about Mr Nagel, the head of the German Bundesbank, asking the German Government to reform the national debt brake and – allow me this comment – If I had been ten years younger, I would have splashed cold water on my face, feeling maybe I'm still dreaming, because with that position I was for a very long time in a minority position, especially if you're German, but in the European Parliament and in the German Parliament!

However, I share the concern that Pasquale mentioned that a lot of this debate is currently driven by the demands from the armaments sector, less so civil infrastructure, which expands our predictive capacity, but my simple question to you is, do you agree with Mr Nagel, who is also a central banker, that Germany should maybe do more to address its public investment needs?

1-0054-0000
Christine Lagarde, *President of the European Central Bank***.** – Yes.

1-0055-0000
Fabio De Masi (NI). – Thank you. That's a very precise answer.

1-0056-0000
Jonás Fernández (S&D). – Welcome, President. I just asked for the floor to comment or to know how you see the increment of the volatility in the sovereign markets and, more concretely, in France, around France's public debt, given that in the last few days we saw as the spread of France's debt was higher than Greece's, for example.

My second question in relation with this is if this evening the no confidence vote is approved in the French Parliament. In that situation, I imagine that the budget will not pass. If the budget will not pass, I don't know if the ECB considers that the conditions that the public debt have to meet to use the TPI. If there is not a budget, I don't know if the conditions that we need to have to implement the TPI will be met.

1-0057-0000

Christine Lagarde, *President of the European Central Bank***.** – Thank you, Mr Fernández, for your question. I will not address any particular Member State. I understand that there are constitutional and organic law provisions to the effect that that country will have another form of operating budget that will continue to be run. But this is something that I would not venture in because it's not my direct field.

On the issue of sovereign bonds, I would refer you to the special Financial Stability Review and a report that will be published by the ESRB later today, which specifically focuses on the general volatility of sovereign bonds and the risk that it implies.

1-0058-0000

(End of catch-the-eye procedure)

1-0059-0000

Présidente. – Merci, Madame Lagarde, pour ce dialogue monétaire. Le prochain aura lieu en mars 2025. Je vous propose une pause de dix minutes.

I propose a ten-minute break before we move to the second session. Thank you.

1-0061-0000

(The Monetary Dialogue closed at 16.05)