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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  
MONDAY, 30 SEPTEMBER 2024**

1-0002-0000

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

1-0002-5000

*(The Monetary Dialogue opened at 15:08)*

1-0003-0000

**Présidente.** – Je suis ravie d'accueillir aujourd'hui, pour ce dialogue monétaire, M<sup>me</sup> Christine Lagarde, la présidente de la Banque centrale européenne. C'est la première fois sous cette législature que M<sup>me</sup> Christine Lagarde vient devant cette commission. Nous avons un dialogue très constructif et régulier avec la Banque centrale européenne; je suis absolument sûre que cela va continuer, mais je tenais à le souligner, notamment pour les nouveaux membres.

Ce dialogue est essentiel: la Banque centrale européenne est évidemment indépendante, mais elle a une responsabilité vis-à-vis du Parlement européen, qui tient d'ailleurs à cette responsabilité. Durant le dernier mandat, la Banque centrale européenne s'est retrouvée en première ligne pour faire face à la crise de la COVID, pour faire face aux conséquences, ensuite, de la guerre en Ukraine puis de la poussée inflationniste. C'est une institution sur laquelle on peut toujours compter au niveau européen et c'est pour cela que ce dialogue, aujourd'hui, est essentiel.

Nous avons assisté ces dernières années à une augmentation des taux d'intérêt pour faire face à la crise inflationniste. Là, il y a une évolution: la politique monétaire, ce dont on va parler aujourd'hui avec Christine Lagarde. Et puis il y a la question de l'Union des marchés de capitaux, dont on a parlé régulièrement au sein de cette commission, et que le rapport Draghi a également mentionné ces dernières semaines. Cela a toujours été un point important pour la Banque centrale européenne, d'où l'audition d'aujourd'hui.

In this context, two topics were chosen by the ECON Committee coordinators for today's meeting: the assessment of the ECB's monetary policy stance, and the relevance of the capital markets union for monetary policy. As usual, all briefing papers prepared by the European Parliament panel of experts are available on the ECON Committee website.

Before we start, let me inform you about a few practical considerations. The following procedure will be applied: we will start with a statement – the first statement by President Christine Lagarde – for about ten minutes, and then we will open the floor to a Q&A session with a first round of questions, one per political group, with a possibility for a follow-up question, and a second round of questions, where the d'Hondt system is applied. I ask you to respect the time given.

I now give the floor to Madame Lagarde.

1-0005-0000

**Christine Lagarde.** – Madame la Présidente, merci beaucoup. Merci de votre présentation.

And I will go straight into English so that it's easy for those who do not necessarily master our beautiful language, and master other beautiful languages.

So, Madam Chair, Members of the European Parliament, it's a real great pleasure to return to this committee for the first time since the European elections. I very much look forward to exchanges with you all, whether you are new or not-so-new members, over the course of this parliamentary term. It will be a pleasure to come and, first of all, to present and then certainly take the questions that you have.

But let me first congratulate all of you for your re-election or your election because clearly you will be playing a significant role at a time when Europe faces major challenges, and critical decisions will need to be taken over the next five years, and the work that you do in this particular committee is critically important.

As Members of the European Parliament, in general you play an essential role in channelling citizens' questions and concerns about all policies, but also about European Central Bank policies. And I am committed, together with my team members, to maintaining the dialogue that I have always had with your ECON committee. As those members who have been around in the previous term will remember, I'm committed to building a positive and constructive relationship with you, Madam President, but with all of you as representatives of the European people, I think that by working together, we can fulfil our joint accountability, liability and obligations under the Treaty and build better trust in our institutions, and certainly better trust in the European Central Bank.

So, in my remarks today, I will start by providing an update on the euro area economic outlook as we see it. And then I will say a few words about the ECB's monetary stance. And I will conclude, as you can imagine, by a few remarks about the capital markets union, which I have already committed a few speeches or remarks to, because I believe that it's important also from the ECB point of view.

So, turning first of all to economic activity, it has recovered slowly since the end of the pandemic. The post-pandemic reopening allowed the euro area economy to grow during the first nine months of 2022, but economic activity broadly stagnated thereafter. And this was due, among other factors, to the energy price shock following Russia's invasion of Ukraine and the increased geopolitical uncertainty, but also attributable to the tightening of our monetary policy, more on that later.

Growth resumed in early 2024. The euro area economy grew by 0.2% in the second quarter, after 0.3% in the first quarter. However, growth in the second quarter stemmed mainly from exports and government consumption. On the other hand, domestic demand remained weak as households consumed less, firms cut business investment and housing investment dropped. The services sector is holding up, with signs of deceleration, while activity in the manufacturing and construction sectors remains subdued.

Looking ahead, the suppressed level of some survey indicators suggests that the recovery is facing headwinds. We expect the recovery to strengthen over time, as rising real incomes should allow households to consume more. The latest ECB staff projections foresee the economy

growing by 0.8% in 2024, 1.3% in 2025 and 1.5% in 2026. You should have, and I'm sure it has been circulated to you, a little chart that looks like that, which gives you a number of graphs or reference points that can be helpful as I go through the economic outlook description, and you can see the growth progression that we expect in the upper-left corner. The labour market remains resilient - you see that in the unemployment chart and the unemployment rate - with the unemployment rate standing at 6.4% in July, latest reading we have, broadly unchanged from before, a little lower, but it's a matter of decimals, really. At the same time, employment growth slowed to just 0.2% in the second quarter, but still growth. Recent indicators point to a further deceleration in the coming quarters. According to our staff, the unemployment rate is projected to remain around its current low level, and you have that in the unemployment rate charts in the right-hand side of the term sheet that you have.

Turning to price developments, disinflation has been accelerating over the last two months. Headline inflation fell to 2.2% in August 2024 and is expected to drop further in September, mainly on account of falling energy costs. We have seen already some numbers coming down for France, for Spain, for Italy and, more recently, for Germany today, and that confirms this point. Core inflation – taking energy and food out – edged down to 2.8% in August, driven by a decline in goods inflation that outweighed an increase in services inflation.

The indicator of domestic inflation, which only includes items with a low import intensity, remained high in August as wages continued to grow at an elevated pace. At the same time, the overall growth in labour costs has been moderating in recent quarters, and profits have been buffering the impact of higher wages on inflation.

Looking ahead, inflation might temporarily increase in the fourth quarter of this year as previous sharp falls in energy prices drop out of the annual rates, but the latest developments strengthen our confidence that inflation will return to target in a timely manner. We will take that into account in our next monetary policy meeting in October. The ECB staff projections from September foresee inflation to average 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026. And again, you have indications about inflation development in the left-bottom corner of the term sheet that you have. The ECB staff projections from September foresee inflation to average at 2.5% in '24, 2.2% in '25 and 1.9% in '26.

So let me now turn to our monetary policy stance, which is the first topic chosen for today's hearing. I would contend that we have come a long way in the fight against inflation. Remember, in October 2022 inflation was at 10.6%. One year later, by September 2023, the last time we raised interest rates, it had dropped by more than half, down to 5.2%. The decline in inflation and the anchoring of long-term inflation expectations showed that our strong monetary policy response was bearing fruit. Then, after nine months of holding rates steady, we saw inflation halve again. So from 10.6 then 5.2, we were down in June to 2.6% when we started lowering interest rates, as you indicated, Madam Chair.

The new data available at the time of the September Governing Council meeting reinforced our confidence in the timely return of inflation to our 2% target. We therefore lowered the rate on the deposit facility, which is the rate through which we steer the monetary policy stance, and we lowered it by another 25 basis points. We are now down to 3.5% for the DFR.

We are determined to ensure that inflation will return to our 2% medium-term target in a timely manner. We will continue to follow a data-dependent approach in determining the appropriate level and duration of restriction, focusing on the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. Policy rates will be kept sufficiently restrictive for as long as necessary to achieve our aim. We are not pre-committing to any particular rate path.

Moreover, as we announced on 13 March 2024, some changes to the operational framework for implementing monetary policy took effect as of 18 September. In particular, the spread between the interest rate on the main refinancing operations and the deposit facility rate was set at 15 basis points, instead of 50 basis points. The aim of this measure is to steer short-term money market rates more closely in line with monetary policy decisions.

In parallel to our policy deliberations, we have also launched an assessment of our monetary policy strategy. This assessment will be more limited in scope than our last review, which we completed in July 2021, and will include two work streams. One work stream will focus on the changed inflation environment and the other on the implications for our monetary policy strategy, including what we can learn from the periods of both low and high inflation. We expect to conclude that assessment in the second half of '25 and, before that, I will regularly keep you informed of our analysis and our considerations.

So let me now turn to the second topic of this hearing – the capital markets union. The ECB has long emphasised the need for progress in this area to integrate our fragmented markets and thus foster risk diversification and shock absorption across the European Union. Doing so would support financial stability and facilitate the transmission of monetary policy.

But a deep and integrated single market for capital is also essential for achieving some of the EU's other key goals, from financing the green and digital transitions to enabling savers to earn higher returns. Additionally, young and innovative firms need to grow and become more productive, which will ultimately benefit all Europeans. But for the time being, a lack of access to equity financing is a key factor holding these firms back or letting them go across the Atlantic. Advancing the capital markets union must therefore be a cornerstone of the EU's competitiveness strategy.

Significant efforts have been made over the past decade to move forwards, and I want to pay tribute to the role that the European Parliament has played in promoting an ambitious, European approach. But vested interests, competing national priorities and protection of territories have hampered that process.

Now, at the beginning of a new legislative term, we are at a crossroads. The current political momentum needs to be converted into a concrete agenda with clear priorities. And this agenda must be swiftly followed up with genuine actions.

The ECB's Governing Council laid out its priorities for European capital markets in a statement that we issued back in March. Let me highlight three key areas where progress, in our view, the view of the Governing Council, comprising all governors of the national central banks of the euro area, are. First, we must improve the way we save in Europe. In '22, European household savings exceeded EUR 1.1 trillion. However, around a third of these savings are held in deposits, significantly more than in the United States. You have that comparative as well on the on the back page of this term sheet.

Mobilising even a small portion of these funds and investing them in European capital markets could greatly contribute to the more than EUR 700 billion needed annually to achieve the EU's key strategic objectives. This is also likely to provide better long-term returns for our citizens while improving European companies' access to equity finance.

Second - and yes it is controversial - we need a single regulatory and supervisory ecosystem that promotes market integration. And third, for EU capital markets to be more attractive to investors and issuers, they need to achieve greater scale and depth. This can only happen through integration – especially in our trading and post-trading infrastructure.

So the world is changing. Europe is at risk of falling behind. You've heard that already from my illustrious predecessor, I'm sure. The diagnosis and the remedy are clear. The EU must come together and address its structural challenges to increase its competitiveness.

Advancing the capital markets union is an important part of this agenda, but not the only one. Significant efforts to boost Europe's economic resilience and decarbonise the economy will also be needed. This will require substantial investment in the coming years, which needs to come from both private and public sources.

Progress in these areas will not only enhance Europe's ability to withstand future economic shocks, but also help the ECB to maintain price stability. I'd like to quote former President Jacques Chirac on this. On this particular moment, he once observed: 'the construction of Europe is an art. It is the art of the possible.'

The Parliament has found ways to push Europe forwards before, and I trust you will do so again. The future of Europe is in your hands.

So I want to thank you for your attention. I look forward to your questions when I have the answer. When I know the answer. I promise I will give it to you. If I don't, I will admit that I don't, and I will come back to you when I've done my little research.

1-0007-0000

**Fernando Navarrete Rojas (PPE).** – Hablaré en español, también una lengua bella.

Le reitero el agradecimiento, presidenta Lagarde, por su comparecencia y, en particular, por sus comentarios sobre cómo el sistema financiero, especialmente a través de la unión de los mercados de capitales, puede contribuir a la prosperidad de los ciudadanos europeos, en concreto, asegurando una mejor asignación del factor capital entre países, sectores y empresas.

Supongo que estaremos de acuerdo en que, dada la importancia del sector bancario dentro del sistema financiero, también es importante asegurar una óptima asignación del capital y de la liquidez dentro de la unión bancaria.

En las últimas semanas, hemos visto el anuncio de una operación transfronteriza entre dos bancos europeos, en este caso UniCredit y Commerzbank, y también hemos visto las interferencias que desde el Gobierno de coalición en Alemania se están poniendo para que esta operación pueda seguir su curso.

En el pasado, usted y los miembros de su institución se han mostrado muy favorables a que no existieran barreras a estas operaciones. Y me permito citar sus propias palabras en el Foro Económico de Davos en 2020, cuando afirmaba que «fusiones transfronterizas son una herramienta clave para crear bancos más grandes y competitivos, capaces de responder a los desafíos globales».

Por ello, le quería preguntar si, además de asegurar que esta operación, como cualquier otra, debe cumplir con los requerimientos regulatorios exigibles, también el BCE usará todos los instrumentos a su disposición, dentro de su mandato, por supuesto, para evitar las interferencias indebidas en el proceso por parte de las autoridades nacionales.

Y mirando hacia el futuro y con la lección extraída de este caso, ¿no cree que, dado el grave efecto distorsionador de las intervenciones nacionales en la resolución de las crisis bancarias, ha llegado el momento de avanzar definitivamente en los mecanismos de compartición de riesgos dentro de la unión bancaria —me estoy refiriendo, entre otros al SESD— y,

paralelamente, eliminar las restricciones de *ring-fencing*, tanto explícitas como implícitas, que siguen existiendo en el ámbito supervisor europeo?

1-0008-0000

**Christine Lagarde.** – Thank you very much for your question, in which I see a couple of layers. I will address both of them. First of all, I would not withdraw anything from what I said back in 2020. I believe that cross-border mergers, if they produce larger institutions that are more agile, that have more scale, that have more depth, have lots of benefits. It's not without liability, without potential risks, but of course it is for the undertakers of those initiatives in the private sector to measure all that and to determine whether it does make sense or not.

So on that basis, I stick to my point from 2020: cross-border mergers, banks that can actually compete at a scale, at a depth, and at the range with other institutions around the world, including the American banks or the Chinese banks are, in my view, desirable.

I'm not commenting on any specific merger, as you can imagine, because it is not my role. Our role is limited, from a supervision point of view – and that's the job of the SSM – to determine, on the basis of this qualifying holding, whether the rules are respected and whether the criteria are satisfied. That will be done if and when necessary, and if and when seized.

The second layer of your question relates to banking union. I too believe that banking union, no matter how long it has been tried, needs to be pushed to the end and needs to be completed. We have two legs of banking union. We have the SSM, which has the supervision arm, we have the resolution board, which is also there. But as you indicated yourself in your question, EDIS is desperately missing so that we have three pillars on which banking union can actually be put together.

I very much hope that, within the Eurogroup, and certainly in good coordination with the other European institutions, that matter can be pursued and that the obstacles along the way that have been addressed in the past without success, can be addressed with success.

It's critically important. Banking union, capital markets union – those are two initiatives that we hope can be pursued to fruition under your new term as members of this committee and as members of the European Parliament.

1-0009-0000

**Fernando Navarrete Rojas (PPE).** – Muchas gracias por su respuesta. En este sentido, le quería hacer una pregunta muy concreta: ¿qué opinión le merecen las propuestas que hay en el informe Draghi sobre competitividad, precisamente, para intentar sortear estas dificultades que estamos teniendo en la unión bancaria, en la unión de los mercados de capitales, mediante la creación de una llamada 28.<sup>a</sup> jurisdicción, en la cual podrían estar los grandes operadores financieros europeos?

1-0010-0000

**Christine Lagarde.** – I will be very blunt on this question, because I think that it's an urgent imperative to face all options possible in order to improve competitiveness.

I think the diagnosis posed by President Draghi in his report is very clear. The gap we have in terms of innovation, the gap we have in terms of productivity has to be addressed, and I think all means need to be used in order to try to close those gaps as quickly as possible.

Several means are envisaged. If it takes the 28th regime for Member States in order to do that, then it should be envisaged, it should be considered, and it should not be set aside as something that is too difficult.

I know it's not flavour of the day in all corners of the European institutions, but I think that we do not have the luxury of time to actually exclude potential options.

1-0011-0000

**Jonás Fernández (S&D).** – Bienvenida, presidenta. Me uno al agradecimiento por su presencia y por su declaración inicial y volveré sobre la primera parte de la pregunta del señor Navarrete.

Llevamos años en esta comisión y en otras instituciones trabajando por el avance de la unión bancaria y, en los últimos meses, ha habido algunos apuntes que yo creo que merecen la pena ser comentados.

En primer lugar, esta comisión aprobó, al final del mandato pasado, un Reglamento del SESD. Fuimos capaces de llegar a un acuerdo entre distintos grupos políticos para poner en pie un sistema híbrido que combinara la existencia de seguros nacionales con un SESD que proveyera liquidez y que algunos creemos que puede ser una buena base para desatascar algunas negociaciones. Me gustaría saber su opinión sobre este asunto.

También hemos votado la revisión del marco de gestión de crisis bancarias y garantía de depósitos. En este caso, también tenemos texto por parte del Consejo. Y, de nuevo, si el Consejo no es capaz de tener un texto sobre el SESD, en el caso del marco de gestión de crisis bancarias y garantía de depósitos, el texto del Consejo, si se me permite, creo que no responde a la lógica de la propuesta inicial de la Comisión acerca de los problemas que tenemos actualmente en la unión bancaria. Me gustaría saber su opinión sobre los distintos textos para, de alguna manera, alumbrar el diálogo tripartito que debemos empezar.

Y, en tercer lugar, hay muchos *stakeholders* que dificultan el avance de la unión bancaria. En el Consejo hay muchos. Me gustaría volver sobre el tema de la posible operación entre UniCredit y Commerzbank, que, de alguna manera, viene a reflejar la vocación de varios en Europa empeñados en evitar que la unión bancaria avance. Conozco sus palabras de 2020, a las que hacía referencia el señor Navarrete, pero me gustaría conocer sus palabras de 2024 sobre este asunto.

1-0012-0000

**Christine Lagarde.** – Thank you very much, Mr Fernandez, for your questions. Let me start with CMDI, because this is a piece which is critically important, and we strongly support the proposal that had been put together by the Commission and that had been forwarded to Parliament.

I'm not sure exactly where the trilogue stands at the moment, but the views of the European Council certainly depart from the draft that was initially proposed by the Commission, and on which we have issued an opinion in full support of the proposals that were there. We hope that, as part of that trilogue, and certainly with your involvement, a return to or at least rapprochement towards what the Commission had tabled would be certainly in line with the opinion that we have issued.

I think I'm pushing an open door if I say that if banks are relatively small, if their profitability is relatively low, if their scope and scale is significantly smaller, they stand at a competitive disadvantage relative to the largest American and Chinese banks at the moment. Clearly any attempt – especially if it's on a cross-border basis, but any attempt – to enlarge, deepen,

strengthen European banks will be beneficial, bearing in mind that not all mergers are fine and that there are liabilities, that there are risks that need to be considered in the process and that need to be considered by the stakeholders.

I can assure you that us, the ECB, through the arm of supervision and verification, will do its job in verifying the proposal that will be put to it.

1-0013-0000

**Jonás Fernández (S&D).** – Le había hecho tres preguntas. La primera de ellas era sobre el SESD: decía que esta comisión aprobó un texto sobre el SESD y que la negociación en el Consejo no avanza. ¿En qué medida considera usted que la propuesta de esta comisión puede ser útil para desatascar la negociación en el Consejo?

1-0014-0000

**Christine Lagarde.** – I would very much hope so, and I would very much hope that the Council will take into account the larger interests of Europe at large, and not the national timidity prerogatives and territorial aspects. Because we know that in order to move to the third leg of the banking union, we need EDIS to be approved.

1-0015-0000

**Enikő Győri (PFE).** – Thank you so much, Madam President, and welcome back. I am very pleased that you are here and we have this very good opportunity for an exchange of views. After a small interruption in the Spanish interventions, I will switch into Hungarian, with your permission.

Tisztelt Elnök Asszony. Két kérdésem lenne. Az első a makrogazdasági témában, a második pedig a tőkepiaci unió témájában. Teljesen egyetértek a helyzet leírásával. Ön úgy fogalmazott, hogy erős ellenszelek akadályozzák a gazdaság magára találását. Én egy erősebb szavakat használnék, hogy ez a jelenlegi helyzet, ez nem jó senkinek és nem maradhat így. Amit ön felvázolt pályaként, én azt értem. Én becsülöm az EKB nak az elmúlt hónapokban végzett politikáját, óvatosan emelni és nagyon óvatosan visszajönni. Amit nem látok, az, hogy mire alapozza a növekedéssel kapcsolatos optimizmusát. Én itt inkább több akadályt látok. Beszél a beruházásoknak a gyengüléséről. Beszél arról, hogy azért az inflációban is vannak bizonytalansági tényezők, energiaárak. Most éppen jobb a helyzet, de semmi garancia nincs rá, amíg egy háború mellett élünk, hogy ez így marad. Élelmiszerárak, azért még nem vagyunk túl ott sem a nehezen. A munkaerőpiac rendben van, de én nagyon úgy látom, hogy nagyon törekeny.

Mire alapozza elnök asszony az optimizmusát? Úgy, hogy egyébként pedig újraindulnak a túlzottdeficit-eljárások, új fázisba lép a gazdasági reformcsomag, ami megint nem a pénzbőség irányába megy. Én a növekedésért aggódom.

A másik kérdés a tőkepiaci unió tekintetében pedig – és itt néhány keserű tapasztalatból származik, amit mondok –, hogy nagyon egyenlőtlen fejlettségűek a pénzügyi piacaink. Nagyon nagy az eltérés, különösen Kelet-Közép-Európa és Nyugat-Európa között. Mi a garancia arra, mi a megoldása Önnek arra, hogy a kevésbé fejlett pénzügyi piacok ne járjanak rosszul a tőkepiaci Unióval?

Én egyetértek azzal, amit mond. Az megengedhetetlen, hogy Európa ennyire lemaradjon Amerikához képest, de mi a garancia, hogy a kicsik nem sérülnek, a gyengébb piacokat nem tarolják le a nagyobb piacok és a nagyobb szereplők?

1-0017-0000

**Christine Lagarde.** – Thank you very much, Ms Győri, for your questions. I think your main question was 'what keeps you an optimist' in spite of the situation as you described?

Well, first of all, we have reasons to believe that while the recovery is timid, we are having some recovery. So 0.8 % is not what we would hope for, but it is some recovery. Given the increase in real income for consumers around Europe, we should see as the driver of activity, consumption. Given that monetary policy now has a stance, which I described earlier in my introduction, which includes some reductions in interest rates, we believe that investors should find financing at more accessible, affordable levels. So consumption and investment, which are not at very good levels at the moment, granted, should pick up, and that's what we found our projections on for 2025 and 2026 – 1.3 % in 2025 and 1.5 % in 2026.

The second reason which gives me some optimism is the fact that inflation that was so high back two years ago – 10.6 % in October 2022 – has now significantly declined and was halved twice, by 5.3 % and now 2.6 %. The latest reading we will know in a few hours, probably tomorrow, but it's likely to be close to 2 %. You know we always have a range projections and it's likely to be below the baseline, which is an indication that the fight against inflation is progressing and the disinflationary process is in play. We know that the three last months of 2024 will probably see an uptick because of base effects, but still directionally – and we look at multiple points – it is heading towards our medium term 2 %.

The third reason that gives me some optimism is the fact that, in the last two years, Europe has created 2.8 million jobs. So it's not so much that unemployment has gone down to its lowest-ever level, but it's also the fact that the European economy has created 2.8 million jobs. Yes, we know there is some hoarding in our economies and it's probable that in some countries employers hang on to their employees despite the fact that the activity is still at relatively low, but beginning to recover, levels. So that's what gives me some optimism.

I would say that the fourth thing that gives me optimism is you, because you have in your hands to push all European players to look at change, to look at improving our competitiveness and improving our productivity. We have to really step ahead and really be up to the challenge that we are facing.

1-0018-0000

**Enikő Győri (PFE).** – Köszönöm szépen, Elnök Asszony! A fogyasztásról csak annyit, hogy majd az Európai Bizottságnak a véleményére is kíváncsi leszek, mert az Európai Bizottság nem szokta szeretni a fogyasztás által vezérelt növekedést. Ha megtenné, hogy a tőkepiaci unióra vonatkozó kérdésemre válaszol... Köszönöm szépen.

1-0019-0000

**Christine Lagarde.** – I can't exactly remember your question. I remember hearing you say that you agreed with my assessment of the imperative of the capital markets union.

1-0020-0000

**Enikő Győri (PFE).** – Just let's put it very short. My question was that the development of the financial markets inside the European Union, in the 27 Member States, is very uneven. What I would like to understand – and I'm asking it from very bad experiences concerning, for example, the review on MiFIR when we had the issue with the consolidated tape, which was very much in favour of just the big stock exchanges and not the small ones. So how you can see that this capital markets union will not be realised to the detriment of the small and weak players and will eliminate any level playing field and we will have just big players from Western Europe, even in Central and Eastern European countries, where we have an underdeveloped capital market?

1-0021-0000

**Christine Lagarde.** – That's a very good point. It's clearly the case that when we have 27 post-transaction infrastructures, it's not efficient. But it's also the case that we cannot just centralise everything into one single centre. So how the sum of each 27 will actually be more than the addition of them is something that is going to have to be worked out, but I wouldn't exclude that in that process some will have to give up a little bit of the territory that they have, of the supervision authority that they have, so that it benefits the entire group. The right balance, the right way to compromise, I think, is an art that – as I indicated in my quote earlier – is the art of the possible, but it requires that level of art about it.

1-0022-0000

**Giovanni Crosetto (ECR).** – Riguardo al mancato completamento dell'unione bancaria, che sappiamo essere necessaria per ottenere e completare un vero mercato integrato del credito, della finanza e quindi dei capitali, sappiamo anche che la frammentazione del sistema bancario fa sì che non si finanzino quegli investimenti importanti di cui abbiamo bisogno e, quindi, il tema della dimensione delle nostre banche merita un approfondimento.

Tra le prime principali banche al mondo per capitalizzazione, nessuna di queste è europea e la prima banca americana per capitalizzazione equivale all'incirca alle prime dieci banche europee per capitalizzazione. Quindi esiste un tema legato alle dimensioni e alla competitività.

Vorrei anch'io portare all'attenzione un caso recente e cioè quello dell'ingresso di Unicredit, banca italiana capitalizzata a 60 miliardi, all'interno del capitale di Commerzbank, banca tedesca capitalizzata a 17 miliardi. Siamo in attesa, come Lei ha detto, che la vigilanza BCE consenta a Unicredit di arrivare al 21 %.

Io Le vorrei chiedere, Presidente, molti osservatori pensano che operazioni come queste, senza parlare di questa nello specifico, ma operazioni del genere siano il vero test per arrivare a una vera unione bancaria. Lei può sbilanciarsi e dirci se, secondo Lei, questo è un vero test?

E un'altra domanda: molti osservatori pensano che non sia stato opportuno che un governo nazionale intervenisse in un'operazione di mercato tra soggetti quotati in borsa. Potrebbe darci la Sua valutazione gentilmente?

1-0023-0000

**Christine Lagarde.** – Thank you very much for your question. I think that if you all use your respective national language, I'm going to invest in some more elegant little thingies (*earphones*) here! But be that as it may, I told the first two Members of the European Parliament that I was not going to actually take a view on any specific merger, and I regret to tell you the same thing, because this is not my place, this is not my role. All I can say is that larger banks with better market cap, with better profitability, with better scale, with better depth, are more likely to compete with their respective competitors in the United States and in China.

Yes, you're right about the market cap of the largest US bank and how it dwarfs many of the European banks. So the European Central Bank will do what it has to do, which is to examine the criteria that apply to the acquisition of qualifying holding in any case of merger – be this cross-border or not, cross-border. We will do so if and when we are asked, and we will do so without any bias and in a very disciplined way, as is required by the Treaty.

1-0024-0000

**Giovanni Crosetto (ECR).** – Avrei, se posso, una domanda circa l'emissione del debito comune da parte dell'Unione europea.

Leggendo il report da ultimo del presidente Draghi, abbiamo letto che servirebbero all'incirca 800 miliardi per rilanciare l'economia e queste sono le condizioni necessarie per costruire un vero mercato unico, che dovrebbe essere il progetto, l'obiettivo e la visione europea per realizzare questo tipo di obiettivi fondamentali per la nostra competitività.

Io Le rivolgo una domanda e Le propongo anche una riflessione.

L'emissione del debito comune significa emissione di *safe asset* a queste condizioni di mercato; significa anche consentire all'euro di affiancare il dollaro come riserva di valore.

A livello europeo noi abbiamo un risparmio molto alto che rischia di andare altrove e tantissimi studi, tra cui gli studi che noi abbiamo richiesto per questa commissione, stabiliscono che un *safe asset* europeo è vitale per il completamento dell'Unione del mercato dei capitali.

Ecco io Le volevo chiedere se, secondo Lei, l'emissione del debito europeo non potrebbe costituire quel *safe asset* di cui abbiamo bisogno.

1-0025-0000

**Christine Lagarde.** – Well, thank you for your second follow-up question, which is a big question in and of itself. The first observation is that in the 380 pages of the Draghi report there is a lot more than just that joint debt issuance, which seems to have been the focus of so many criticism and comments. So I would I would refrain from narrowing any assessment of the Draghi report to that and only that. I think it's reductive and I think there's a lot more to be commented upon and to draw from that report than just that point – number one.

Point number two, Europe has already issued joint debt and we try to support the Commission in this issuance of debt within the euro system by helping with the issuance. That works pretty well. So the value of the European debt that has been issued under the European Recovery and Resilience Fund is actually a relatively safe asset. It is not at the level of the best rated sovereigns around, but it is of a high level. So we already have some indication as to how the financial markets, and how the investors, are looking at that jointly issued debt.

That's looking of course, at history. What happens in the future is something that will have to be decided by the European institutions in charge of the financing of this competitiveness and productivity improvement plan over the years, and the public and private partnership between the two sources of financing will need to be debated.

I just want to remind you for the record, because this has been issued by the Governing Council of the ECB, that the Governing Council has actually supported the concept of joint fiscal capacity. So it's not the joint debt issuance, but it's also a common financing that is identified as part of the budget.

1-0026-0000

**Anouk Van Brug (Renew).** – Thank you very much for being here. I would like to elaborate a little bit more on inflation, because I'm glad to hear that the ECB has managed to bring down the inflation levels to a more acceptable level, and it has certainly helped the Eurozone. However, core inflation in all Member States except for Portugal and Finland is still above 2 %, and the ECB was rather late to act when inflation started rising, but is rather quick to act when it needs to get lowered again. I'm concerned about this seemingly structural asymmetry in the ECB's policy. Do you agree that such asymmetries hamper the ECB's ability to act and allow inflation to remain on higher levels than it would if the ECB would be more assertive and restrictive in its monetary policy decisions?

1-0027-0000

**Christine Lagarde.** – Thank you so much for your question.

First of all, I just want to remind you that as part of our strategy review, the one that we did in 2021 and which we are now just beginning to review, as was agreed, the measure of inflation, the yardstick that we use to determine whether we have reached the 2 % medium term target is HICP, so it's not core inflation, it is HICP. At this point in time, certainly the direction is trending downwards, and it's one of the reasons why I was indicating my relative optimism in view of the mission that we have, which is price stability. But as we have said repeatedly, we don't look at one data point, we look at a variety of data point, and while data-dependent, we also look at core inflation. It's obvious that domestic inflation, which the inflation from which we try to strip out anything that is not domestic, is reducing very gradually. Why is that? Because, of course, there is a large component of domestic inflation which is determined by wages – and wages have increased of late because of the lag time that there is between price increases and wage negotiations.

So we are looking at that carefully to see whether wages are beginning to decelerate, which we are beginning to see, and whether profits are beginning to also buffer some of those labour costs so that there is no transmission of those labour cost increases straight into prices. This is what we had envisaged in our projections way back about three projection exercises ago. We are beginning to see margins being compressed, absorbing the higher labour cost, wages negotiations showing some deceleration in their growth – still growing but beginning to decelerate – and the labour market, which is still solid but showing signs of reduced activity. We see that in the new hires indicators as well as in the vacancy relative to unemployment.

So, HICP – we are comforted and strengthened in our confidence. We look at other indicators. We are also seeing that this is moving also slightly downwards, and we are going to take all the necessary decisions, stay as restrictive as long as necessary and as restrictive as is needed in order to reach our 2 % in a timely manner. But the signs on the inflation front are an indication that the disinflationary process is well under way.

1-0028-0000

**Anouk Van Brug (Renew).** – Thanks very much for clarifying this. However, core inflation still is also too high. So my concern remains the same. The asymmetry here implies that inflation will remain higher than it needs to be, which means you cannot lower interest rates the way the US is doing, for example. Could you please elaborate on this more?

1-0029-0000

**Christine Lagarde.** – When I look at core inflation, I also see a downward trend. So it is still above 2 %, for sure. 2.8 % was the latest reading we had at the consolidated euro area level, and it has come down. We will continue to observe this directional trend. We have reasons to believe that the services, is also beginning to abate slowly and gradually. So we are heading in that direction of reduced inflation. We are not going to wait until everything is at 2 % to reduce rates. This is a medium term 2 % symmetric objective. So we will continue to observe the inflation outlook.

The inflation outlook is the projection that we have for inflation. The second is the underlying inflation. So we look also carefully at the elements that you have just mentioned – in particular services, domestic inflation, PCCI and all those indicators that we have – and we also look carefully at the transmission of monetary policy. So we take into account those three components to really confirm that we are heading in the direction of 2 % in the medium term, and that we reach that 2 % in a timely manner.

As I said, we have a range of projection, and while we are now slightly below baseline, we are in that range of projection, and we will continue to make our decisions at each and every meeting on the basis of those elements.

1-0030-0000

**Damian Boeselager (Verts/ALE).** – Thank you so much, President, also for your words of congratulation to our re-election. Two questions – one on the capital markets union. I think we all agree that it's important, but it seems that national leaders often stop it because of short-sighted 'nation first' dynamics. I was just wondering, what's your clear message to national leaders there? And if that doesn't work so easily, what are other levels to unlock investment? What do you think, for example, of allowing institutional investors to invest in venture capital funds or other levels?

Then, second, last week we had a hearing in the ECON Committee on the time lag also of monetary policy. So I was just wondering whether you also have this analysis that it's 18 to 24 months until monetary policy takes full effect and whether you analyse the recent rate increases you did versus other factors that could have led to a decrease in inflation, such as energy prices? So can you distinguish between the rate effects as well as other effects.

Then I have some more questions in my follow-up.

1-0031-0000

**Christine Lagarde.** – Thank you so much for your questions. If I had the European Council in front of me now, I think I would point to one particular factor, which is innovation. If Europe is not capable of innovating, Europe will not be capable of improving competitiveness, Europe will not be able to close the productivity gap. To innovate, maybe they should speak to the innovators, who invariably will say that they need capital. They need fresh capital at every step of the way and if they cannot secure that fresh capital locally, if they have good innovation, they will move somewhere else. We have an internal market which, if truly internal, would give the scale to those innovators in order to penetrate markets, to develop the innovation. But they need the money. So the capital has to be made available in as deep, liquid, coherent and constructive a way as possible for them to be able to move forward. We have many examples of those innovators who came up with the great idea, who patented the idea and then went around for the second round of financing and didn't find anything. If the capital markets union is tailored for them, then there is no reason why they would move somewhere else.

Now, it's not going to be straightforward, simple, and there will be lots of additional items along the line: bankruptcy, insolvency law, more unity, maybe the 28th mechanism, tax harmonisation and all the rest of it, but we shouldn't stop by finding the obstacles. We should really look at what is at stake – and I think a lot is at stake. So I'm a little bit stepping out of my role and I shouldn't say that, but I believe it very strongly.

So there is significantly less venture capital, money and structures in Europe than there is in other places, particularly in the United States. I think we have to look under the hood of venture capital to understand what is missing here and what is available there, and see how we can tackle that. That would be, I think, the way to go.

On the time lag of monetary policy, I wish I knew exactly whether it is 28 or 24 or 24 plus 6 or 36. I think we have a reasonably good idea of the time lag on inflation, but less so on activity.

You've asked me another question, which is not an easy one and that's, you know, essentially, do you really think that your action has meant a lot in terms of reducing inflation, or don't you think that the reduction of energy prices has been critically important? Both. I think that in the

inflation rise that we have observed, particularly as of 2022, energy prices played a significant part, and the fact that energy prices have come down – remember in 2022 we were at over a hundred sometimes and it's gone down to USD 75 per barrel.

Obviously that reduction of cost has reduced the level of inflation comparatively. But it would not have been enough, and given the multiple origins of inflation – it wasn't just supply, it wasn't just energy, and it was not something that could be regarded as transitory and seeing through it was more than that – I think that monetary policy has played a significant role in bringing inflation down but, more importantly, in anchoring inflation expectations, so that everybody knew that the central bank was going to get to that 2 % in a timely manner, and that we would not give up along the way. I think that has informed the investors, it has informed the markets, it has informed the negotiators in their respective circles of negotiations, and we will stick to that.

1-0032-0000

**Damian Boeselager (Verts/ALE).** – Very quickly, on fiscal union, in a currency union it's cool to have a common monetary policy, but I think you called him your 'illustrious predecessor' has also said that maybe a common fiscal instrument would be necessary. So I was just wondering whether you think that it's necessary in a monetary union to have a common fiscal instrument?

1-0033-0000

**Christine Lagarde.** – It would certainly be very helpful, and it would complete the union in a very constructive way, yes.

1-0034-0000

**Jussi Saramo (The Left).** – Thank you for the very interesting debate we have had. I want to continue with inflation because, as you said, it was more than 10 % – in Estonia it was maybe more than 20 % – and so on. If we watch what's inside – I will continue what was said before – it was not just energy prices, but almost everything, but it was like almost everything connected to what Mr Putin was doing. So actually chips, materials, everything. So in the end, like raising interest rates, it drove the economy down without any effects to the cost inflation that was behind the inflation, most of it. After that, for example, in Finland, when you take the interest rates out of the inflation, we have actually been in deflation for a while. It was actually mentioned for Portugal and Finland here before, and it's not just the periphery, but I think that the situation in Germany looks very bad right now in the nearby future and the real interest rate is currently exceptionally high if you watch to what's been happening after the euro crisis as a whole in Europe.

So my question is, why were the interest rates raised so drastically to combat cost inflation, when it doesn't change the cost inflation and it doesn't affect supply issues?

1-0035-0000

**Christine Lagarde.** – Thank you very much for your question. I'm not going to comment on any specific country; suffice to say that there was a great discrepancy within the euro area at the time of the beginning of inflation and the height of inflation. Now, that spread between the highest and the lowest has significantly reduced. But you are correct that Estonia's was amongst the highest inflation rates.

What we try to do is to look, on an aggregated basis, at all euro area countries, to form a euro area view and to have a euro area inflation rate. It doesn't stop one country from being much higher and one country to be much lower. My recollection is that Estonia was at the high end, France was at the low end. That was 26 % there and 6.6 % at the other end – so a significant difference. Those differences have been reduced now also in a significant way.

Geography speaks, and it is true, as you correctly said, that the countries that were closest to Russia were the most affected in terms of inflation in late 2021 and 2022. But, as I said, this discrepancy between the various Member States has been reduced and hopefully we will get to that 2 % in a timely manner for all. But it will not stop some from being probably significantly lower than 2 % and others from being significantly higher than 2 %.

1-0036-0000

**Jussi Saramo (The Left).** – Thanks for the answer. I don't envy you! In Europe we have a common market but we don't have a common fiscal policy, but we have a common currency. So it's a bit of a problematic structure, I know, but we have these differences and I know that the market is expecting the 2 % targets, but is it just because the market is expecting the 2 %? Why why not 3 %? For me, 3 % would sound better for the whole of Europe as we have to play with these rules that we made that are not so coherent, economically speaking.

1-0037-0000

**Christine Lagarde.** – Well, 2 % has been our target. This is what has been defined as the objective that we want to pursue. It's not a European invention to be fair. It was invented elsewhere, and it has been applied by most central banks around the world. Why is that? Because 2 % gives a little wiggle room for employment negotiations to take place and to progress, because we are not 100 % in the accuracy of our measurement of prices, and 2 % is something that gives a little progression without actually hurting the consumers or the investors. It's a bit of a magical number which is used as that target and which has actually been very helpful to anchor the expectations. People who follow that carefully know that 2 % is the objective that is pursued and to which the economies will return thanks to the monetary policy decisions that are made, particularly in terms of interest rates. It was invented in New Zealand, if I recall.

1-0038-0000

**Luděk Niedermayer (PPE).** – Thank you, Madam President. First, on monetary policy, I share your view. I believe we are on the right track, but vigilance is important. So I guess it's a good idea to know pre-commitments of future steps, because we don't know. But I'm much more concerned about growth. You know, recent OECD forecasts said that the global economy is in good shape, stable growth should be above 3 %. This shows how we are lagging behind. We are also lagging behind substantially, the US, and despite the fact that you talk about rebound, I guess this is a cyclical rebound. But in my view we are facing significant structural changes. The politics is not easier. That's the reality. I guess we are saving a possible debate about reviewing of the environmental targets that I guess would rather undermine than support the investments. At the same time, these targets have triggered innovation that we can produce a lot of things well, but we don't have demand for that. So that means that those innovators are suffering.

So my question is simply, if you share the urgency of the statements of Mario Draghi, who said that we are at the moment that either we change substantially or we will not be able to support our models, can you imagine some measures that will bring structural changes and stronger growth in the near term?

1-0039-0000

**Christine Lagarde.** – Thank you for your understanding of what we do with our monetary policy. I know you follow that very carefully and you're very knowledgeable about it.

I also share your concern about growth – 0.8 % – we have revised downward as we were at 0.9 %, which is not a very high number either, and certainly not at potential. 1.3 and 1.5 for 25

and 26, those are better numbers – at potential and slightly above potential, to be seen and to be determined. Yes, I share your concern about growth.

To your question on what can be done to improve competitiveness and to improve productivity, obviously, if you combine the two reports, maybe the three reports, the Letta report, the Draghi report, and as far as capital markets union is concerned, the Noyer report, the work is cut out for us. The obstacles along the way are many, but hopefully the drive to overcome these obstacles will be stronger and higher than the obstacles along the way.

We have advocated, as a euro system banking authority, in the ECB, and we have identified the three components which we believe are critically important. I've mentioned them in my introductory statement. I also think that in addition to having to finance those two necessary transitions, we have to focus on innovation and we have to make sure that innovation is financed. As I was telling your colleague earlier on, this is an absolute necessity.

1-0041-0000

**Evelyn Regner (S&D).** – Frau Präsidentin! Sie haben sich in der Vergangenheit – und auch jetzt – ganz klar, mit guten Argumenten versehen, für die Verwirklichung der Kapitalmarktunion ausgesprochen. Ein wichtiger Baustein, ein wichtiges Element dabei ist die harmonisierte Unternehmensbesteuerung auf europäischer Ebene. Ich spreche hier insbesondere von den ganz großen Konzernen, den *large undertakings* – 750 Millionen Nettoumsatz pro Jahr. Für wie essenziell halten Sie diesen Bestandteil zur Verwirklichung der Kapitalmarktunion?

1-0042-0000

**Christine Lagarde.** – Thank you very much for your question, short as you said.

The two obstacles that are often referred to on the journey to capital markets union at corporate level - not at supervision level - but at corporate level are: number one unharmonised corporate tax; number two, solvency or insolvency law. And that is the reason why the reference to a 28th regime for Member States that would adopt a unified rules and that would be optional and could be adhered to on a voluntary basis, is at least interesting to consider. Because I think the project to harmonise corporate tax goes way, way, way back, and of course hits the wall of unanimity given that tax competence requires the unanimous agreement of all Member States.

That's all I will say on that one. Not much else that is of my jurisdiction.

1-0043-0000

**Lídia Pereira (PPE).** – Senhora Presidente Lagarde, há dois anos, vivíamos o pico da inflação, pouco depois do primeiro aumento das taxas de juro pelo Banco Central, e um aumento que nessa altura foi antecipado pelas taxas Euribor. Ou seja, as pessoas começaram a pagar mais pelos seus créditos antes mesmo de a política monetária se tornar mais restritiva. Agora que iniciámos o ciclo de normalização dessa política, também antecipado pelas Euribor, o que esperamos é que, à medida que o Banco Central baixa as taxas e que os bancos voltam a adaptar-se às condições de mercado, as pessoas sintam isso mesmo no seu bolso, isto é, que comecem a pagar menos pelos seus créditos. No caso de países em que as famílias estão mais expostas a taxas de juro variáveis, esta matéria é particularmente sensível. Eu diria até que é uma questão de literacia financeira, para a qual os bancos também devem contribuir. E, por isso, pergunto-lhe se acredita que os bancos estão a transmitir adequadamente a política monetária do Banco Central Europeu e se antecipa condições para que a Euribor e, conseqüentemente, os créditos possam continuar esta trajetória descendente.

1-0044-0000

**Christine Lagarde.** – Thank you very much for this question. Your observation is correct in that there was anticipation before we started hiking, and there is anticipation and there was anticipation before we started cutting. As a result of which mortgage rates increased prior to rate hikes and mortgage rates have begun declining, not by a very significant amount. We are in the 25-basis-point range roughly at the moment, which is short of the 50 basis points that we have reduced rates by. But it was anticipated.

So it's affecting particularly the variable loans that are prevalent in Portugal, in Finland in particular. It is not having a major effect in all those countries where fixed-rate loans are dominant, in countries like France or Germany or a few others. And the structure of variables relative to fixed rate has also moved over the course of the last three years, which is interesting. Spain, I think is a case in point. So your assessment is correct, and we hope to see this lag time that we were talking about earlier on. Not stopping this decline of mortgage rates as interest rates continue to decline over the course of the next few months.

1-0045-0000

**Pierre Pimpie (Pfe).** – On se rend compte qu'en France, les finances publiques traversent une passe assez sensible. On peut voir que l'écart de cotation entre les taux français et germanique est grand, qu'il est même plus grand, et qu'en fait il est tout à fait possible que cette situation s'aggrave dans les prochains mois. Il se peut même que l'on risque une nouvelle crise de l'euro. Je voudrais savoir si, dans ce contexte, la BCE pourra faire en sorte que cet écart, que ces taux longs restent à des niveaux supportables dans l'intérêt de la zone euro, et si oui, avec quels vecteurs et sous quelles conditions?

1-0046-0000

**Christine Lagarde.** – Je vais vous répondre en français, ce qui est difficile pour moi parce que je travaille en permanence avec des termes anglais, avec des concepts anglais, avec des raisonnements en langue anglaise. Je vous prie donc de me pardonner si parfois je suis un peu inexacte dans le vocabulaire.

Je ne vais pas vous répondre sur la situation d'un pays en particulier: nous regardons la zone euro dans son ensemble et si nous sommes attentifs – bien entendu – au comportement de chacun des pays de la zone euro, c'est celle-ci dans son ensemble qui nous intéresse. Nous sommes très attentifs au cadre de gouvernance européen, en anglais «European Governance Framework», qui a été adopté et qui devient la règle des États membres de l'Union européenne, et qui permettra d'identifier la direction prise par chacun des États membres en matière de déficit, de dette publique et de réformes structurelles.

Les négociations, qui ont lieu en ce moment avec la soumission des plans pluriannuels par chacun des États, seront évidemment examinées de manière attentive, non seulement par la Commission dans le cadre des négociations, mais aussi par tous les observateurs, et nous sommes l'un d'eux.

1-0047-0000

**Stephen Nikola Bartulica (ECR).** – Ms Lagarde, welcome to the European Parliament. I'm a newly elected member from Croatia. I can assure you, my voters are still very concerned with inflation rates. But my question today regards the relatively new practice we see in Europe of deep banking, meaning banks making business decisions based on often ideological or even political reasons. Sometimes the occasion for this has been the climate agenda. As we know, the ECB has also included climate considerations in its policy analysis. And because it claims that climate change influences inflation targeting.

My question is: do you not see the danger, potential danger of abuse of this as a reason to close accounts for some corporate clients in the future who are not meeting the criteria that certain banks are requiring? Could it also perhaps be a distraction for the ECB in its focus on maintaining price stability?

1-0048-0000

**Christine Lagarde.** – Thank you very much. And congratulations on this first election to this very respectable institution. And for choosing the ECON Committee because we have really solid good discussions.

First of all, let me say that the fight against climate change and environmental protection belong first and foremost to the executive and the legislative branch of our governments. It is not for central banks to be, as I say sometimes, driving that bus. But equally, we believe at the European Central Bank that it is part of the components that we have to take into account to properly assess the macroeconomic situation and to properly manage the risk that we have in our balance sheet. And it is as a result of these two necessities: one is taking into account climate consideration when we look at projections, when we look at inflation and managing our portfolio, as well as the collaterals that we receive in consideration for loans that we have to take climate change and environmental protection into account. And this is partly due by the European Central Bank, partly due by the SSM, the Single Supervisory Supervision mechanism.

We have to do that. Why is that? Because obviously climate change has an impact on our macroeconomic development. Whether you look at drought, whether you look at heat, whether you look at floods, all of that impacts the economy. When you look at some of these housing areas that are no longer insured, obviously it has an impact on the risk taken by our compatriots in Europe. And obviously, if you look, for instance, at just the price of food, the impact that El Niño first and La Niña now have on the food prices, we have to take that into account when we do our projections. Because it does have an inflationary or disinflationary impact, and both of them have to be considered. On the risk front, our portfolio has to be assessed taking into account the risk that constitutes, for instance, flood or, for instance, drought or, for instance, the volume of, turnover that is expected in the context of climate developments that were not foreseen at the time when the risk was taken.

So it's for those reasons that we as central bank take into account climate considerations and will continue to do so. The same applies for collaterals, as soon as we have the level of data that allows us to apply this collateral assessment with climate consideration into account.

1-0049-0000

**Ludovít Ódor (Renew).** – Thank you, Madam President, for having this discussion with us. I have three questions, quite easy questions. The first one is related to stance, because you talked a bit about the DFR, but of course, the ECB still has a big balance sheet. So what are the plans to unwind those balance sheet also in relation to the Draghi report, which stated that Europe needs a lot of investment, and a lot of new debt instrument might appear on the market later on?

The second question is related to the one of the charts. For the CMU, I'm very glad that you also presented the savings side, and it is really intriguing that we have a lot of deposits in the portfolios of our households. The question is: why is that? Is it market fragmentation? Is it not well-developed financial literacy or risk aversion simply. Because it is not so easy... if it is market fragmentation then fine. If there are other reasons it's quite hard to change that composition.

And the third question is that we have three excellent reports. So we more or less know what to do. But sometimes the governance framework is holding us back a bit. So what do you think? Is that a relevant hurdle in creating a truly genuine capital markets union?

1-0050-0000

**Christine Lagarde.** – Thank you very much for your informed questions. So on our monetary policy stance, as I mentioned and as you also underlined yourself, our key instrument in order to drive our stance is interest rates. And that is the reason why we have reduced the DFR, the deposit facility rate, by 25 basis points in June and by another 25 basis points in September. So we're down to 350 now.

Our balance sheet, as you know, was very large, and it was very large as a result of the accommodative policy that was in place for a period of years. It increased even more at the time of TLTRO and the pandemic emergency programme that we put in place when Covid started to hit us. We are now in a balance sheet reduction normalisation. And by that I mean, we are calibrating our reinvestment policy. As you know, we have stopped any reinvestment under the asset-purchase programme. So this is now in a run-off mode. And we have also now reduced - and we started in July - we have reduced the reinvestment under the pandemic emergency programme by an average of about EUR 7.5 billion on a monthly basis.

At the end of December we will stop any reinvestment and, therefore, we will continue to normalise our balance sheet by essentially leaving it in a run-off mode and continuing to do so. It has taken place in a fairly gradual and smooth way without disrupting markets. And we obviously are attentive. We are very careful in how this is done. We announced ahead of time so that markets are well prepared for to the process. And as I said, it's a gradual normalisation that is under way.

You had another question which related to the savings. So the savings are this blue box that we have in the column on this term sheet that is in front of you. So a lot more savings and, essentially, deposits in the euro area, a lot less in the United States. So you're right: we need to understand and to assess why that is and whether it is largely caused by fragmentation. Is it caused by the fact that not enough European saving products are available or popular or easy to invest in? Which is, I think, one of the themes proposed by the Noyer report.

Let's have a saving product that speaks to all Europeans and that will incentivise them to direct their savings towards capital that is effectively working for the economy. I think that's the hope that is envisaged in the proposals, if it is caused by anxiety, by lack of entrepreneurial DNA, that will be another rationale behind these much higher savings. But I think it's worth trying to see whether a European-based, attractive saving product can actually draw some savings towards that product.

I think I've covered all your three questions. Or was there another one? Maybe not as much as you would like, but I tried.

1-0051-0000

**Ludovít Ódor (Renew).** – It was on governance. But, to save time, we can go on.

1-0052-0000

**Christine Lagarde.** – I think, as you said, the three reports identify very intelligently, empirically sometimes, the diagnosis, the shortfall, the productivity gap, the need for competitiveness. Some of them really focus on what do we need to do.

And for some of the recommendations, it's painful for the national prerogatives sometimes, for the territorial approach that some authorities have. But then it's a question of political determination and collective leadership. Do we want to move ahead and do we want to move together?

1-0053-0000

**Eero Heinäluoma (S&D).** – Ms Lagarde, nice to see you once again here. And especially I was delighted with the big role which you gave to the capital markets union and reforming it. Obviously that will be the one of the most demanding tasks for this committee and for the whole Parliament during these next five years.

I was also fond of the fact that you acknowledged that there is - could you say? - a lack of trust between the Member States when we are talking about joint governance and supervision of the markets. And you acknowledged also that there are, especially, problems concerning the trust of the smaller Member States. So I would like to hear your comments concerning your model for centralised supervisory ecosystem ... that how to take into account the problems of the smaller Member States to make it possible that we can go further.

And then my second question is coming from the fact that there are so big differences between Europe and USA, and I'm just wondering about the reasons behind it. And is one reason, the fact that the costs for investment products here in Europe are so much higher than they are in USA, that it's not so profitable - if you are a small or retail investor - for people to put your money in these products? And is there something which we could do together to make sure that the competition is really functioning and you don't pay for nothing if you are a smaller investor?

1-0054-0000

**Christine Lagarde.** – Thank you very much for your two questions. On the first one, I believe in the value of standards. And I think that what has been built over the last ten years with the SSM is an example that can be used to see whether we can transform ESMA, for instance, into that institution that would have an overriding role to play that would have some authorities, say above some thresholds, that could set standards that could be in a position to potentially top up some national requirements.

Because this seems to work. It has been laboriously established over the course of the last ten years. It is time-consuming. It's laborious because it requires bringing together all the supervisors into the Supervisory Board. That board I know, and I'm not privy to it because even though in some cases, the president of the ECB and the Governing Council can be tasked to settle matters that cannot be debated or that can be debated, but that cannot be decided at the Supervisory Board level. But I know that some issues are often debated and that territorial views or national prerogatives sometimes come in the face of the overall good. That is the task of the SSM.

But it works and it produces this hybrid system of rules that apply both at the global European level and at the national level, depending on the size of the institutions. So why not use the SSM example as something that has been put in place that works? And that could be probably with variations, probably with particular sensitivity, because you're talking about markets in that particular case, but that could be used in order to develop the role of ESMA, for instance, that could look a little bit more like the SCC with the adequate budget and the adequate capacity to convene the national market authorities in order to form a European-wide view. That's my instinct. Let us see how things work elsewhere, how it has been built, and we have the luxury of one example that actually works. So I think that the SSM is a good example to have in mind.

On the competition question that you asked: I think that the digitalisation of many services and the use of technology - including artificial intelligence for that matter - should be in a position to bring about more competition and reduce the barriers to entry that have been used in the past in order to protect some territories as well.

1-0055-0000

**Fidias Panayiotou (NI).** – My question is about the digital euro. I asked a question in the previous meeting of this committee about the digital euro. It got millions of views and tens of thousands of comments in my social media platforms. And it's clear that the people of Europe are very sceptical about the digital euro, but they seem to favour ideas like cryptocurrencies and, especially, Bitcoin.

And my questions are: do you take into consideration what people think about the digital euro? And what's your opinion about cryptocurrencies?

1-0056-0000

**Christine Lagarde.** – Are you filming just now?

1-0057-0000

**Fidias Panayiotou (NI).** – No.

1-0057-5000

**Christine Lagarde.** – No, okay.

So first of all, if you have contact and a big opening to millions of people, I'm going to enlist your support so that we can have a better understanding of what Europeans and, particularly, young Europeans think. Because we believe in getting client feedback, in getting Europeans' views, in order to make sure that we frame the right product. We believe that, when everything goes digital, when our life is digital, why should central bank money continue to consist only of, essentially, banknotes? So our belief is that we should also have, say, a digital banknote. That's essentially what we want to have, something that is secure, that is safe, that is cheap, and that all Europeans everywhere in Europe can use. And this is the purpose of, I'm sure, the questions that you asked my colleague Piero Cipollone, who is within the Executive Board in charge of this particular project.

But that's what we want to build: a digital banknote which gives quasi-privacy, not complete privacy, because AML, anti-money laundering, has to continue to operate, and because we continue to be accountable for financial stability. But that's what a digital euro is. No more than that. Making sure that we have something that is digital, safe, user-friendly, can be used throughout Europe and that will not cost much to the consumer.

1-0058-0000

**Billy Kelleher (Renew).** – Thanks, Ms Lagarde, for your presentation. Just with regard to monetary policy, and if you look at what has happened over the last number of years, we've had huge increase in deposits across the European Union in European banks. And, at the same time, we don't have a risk-taking banking system any more in large parts of the European Union. So lending to small- and medium-sized businesses, lending to farmers and just lending to the general economy is something that is not happening in the traditional sense, whereby banks were taking deposits and take their margin and lend out to the broader economy.

And if you look at some of the banks, the amount of money that's being lodged in the ECB overnight rather than into the real economy is something that's very disturbing. And I reference

Ireland as well as a key example. So the Draghi report highlights the need for massive investment. So we have two issues with banks that are risk-averse. And we have states that are under huge pressure in terms of their obligations under the economic governance framework, because they're already in breach.

So where do you envisage that large investment requirement for the transition of the economy coming from in view of the fact that many states will not be able to borrow and spend, and the banks in Europe are risk-averse at the moment?

1-0059-0000

**Christine Lagarde.** – The risk-adversity that you're referring to is, obviously, something that can be addressed through the capital markets union. I think that is one of the reasons why the central bank is supporting the capital markets union in order to diversify the risks around the the system at large. And, hopefully, if that proceeds then there will be alternative sources of financing.

1-0060-0000

**Chair.** – Thank you, President Lagarde, for this exchange of views. I take the opportunity to highlight that the next Monetary Dialogue is expected to take place in December 2024. Thank you to all the members of the ECON Committee, and thank you to President Lagarde.

1-0060-5000

*(The Monetary Dialogue closed at 16:48)*