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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, 20 JUNE 2022**

1-002-0000

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

*(The Monetary Dialogue opened at 15.06)*

1-003-0000

**Chair.** – So, dear colleagues, now we move on to our Monetary Dialogue with Christine Lagarde, President of the European Central Bank. So I really want to welcome ECB President Lagarde to this second Monetary Dialogue of 2022. The previous one took place on February the seventh, and today, for the first time since the start of the pandemic, we are holding the Monetary Dialogue in a physical format, and we are really happy to have you in person with us today.

So our Monetary Dialogue today is taking place in an extremely challenging context. This is the first Monetary Dialogue since the invasion of Ukraine. And, according to Eurostat, annual headline inflation in the euro area reached 8.1% in May. For June, Eurosystem staff forecast headline inflation of 6.8% in 2020 to 3.5% in '23 and 2.1% in '24. Core inflation is now projected above 2% throughout the projection horizon.

So this outlook has led the Governing Council to conclude that conditions for lift-off of interest rates have been met, and last week the Governing Council held an ad hoc meeting to discuss fragmentation risks. In this context, the two topics chosen by the ECON Committee coordinators for today's meeting are quite timely. As usual, we have a briefing papers that were prepared ahead of this monetary dialogue by Parliament's panel of experts, and these were already discussed last week and they are available on the ECON Committee's website.

Now, the first topic is the war in Ukraine and its implications for the ECB. The invasion by Russia is, of course, first and foremost a tragic and incomprehensible act of aggression, which is causing immense devastation and human suffering. But it has also significant economic and social implications for the European Union, since it's hitting our economies in many ways by, for example, significantly increasing the prices of energy products and of those of raw materials and food just at the moment when they are starting to show important signs of a stronger recovery from the pandemic. It would be therefore interesting to understand what are the impacts on the economic policy choices of the various policy-makers and in this case, of course, of the ECB.

In this regard, it would be interesting to understand from President Lagarde what the ECB can do and what it cannot do to deal with the economic consequences of the war. And I think in particular, it would be also worth understanding if the toolbox currently available to the ECB is indeed the most effective one to counter this particular supply-driven inflation. Or if other types of interventions would be more incisive or with fewer side effects. There are several things that it would be good to think about today.

And the second topic's title was: 10 years after the 'whatever it takes'. That speech is considered a turn-around point in the European sovereign debt crisis that jeopardised the future of the common currency. It was followed with the announcement by the ECB of the OMT programme, which was actually never used. This topic, of course, was not selected exclusively or purely for this commemorative purpose. Fragmentation has now re-emerged at the centre of the debate on monetary policy.

The PEPP programme and its inbuilt flexibility was introduced exactly to, and I'm quoting, 'counter the serious risks to the monetary policy transmission mechanisms'. And at the moment, PEPP was able to simultaneously and successfully address deflation and fragmentation risks. Well, now, with the war in Ukraine, the magnitude of economic impact differs across the euro area countries. And in addition, the ECB is set to enter into a monetary-policy-tightening cycle to preserve price stability.

So we are seeing in recent weeks an increase in fragmentation in sovereign bond markets. And the word 'fragmentation', as we can see, is increasingly present in the speeches of ECB Executive Board members and in public debate. Today's context, however, is different from earlier episodes with the surging of inflation that we are observing. So a key development came last week when the Governing Council held an ad hoc meeting to discuss these resurgent fragmentation risks. Among other things, the ECB mandated the relevant Eurosystem committees, together with the ECB services, to accelerate the completion of the design of a new anti-fragmentation instrument.

Since the statement after the ad hoc meeting, the ECB Governing Council has pledged to act against the resurgent fragmentation risks. Already in December 2021, I think it would be interesting also to understand today what are the issues, the problems that have somewhat prolonged the setting up of this tool up to today. And furthermore, although some board members have already said something about it, but I think it would be interesting to understand from you any possible insight about what this new instrument should look like or how to boost existing ones based on the mandate that was given to the services.

And finally – I'm sorry, but there are really a lot of things in these days that are interesting for us – finally, it would be interesting to understand if you have an idea about the timing, the horizon. In the preparatory meeting that we had on Thursday, our experts had, of course, somewhat different views on the real risks of fragmentation, because there is a debate about that. But on the basis of past experiences, they all agreed that it would be better to act before the market pressures escalate rather than later.

So all these open questions, I think, make our discussion today really, really timely and particularly relevant. So before I give the floor to President Lagarde, just a few practical considerations about the dialogue, because in line with the decisions taken by their coordinators at their meeting in April, the Monetary Dialogue today will be held in a new experimental format to enable more dynamic exchanges.

So we will have one first round of questions of one and a half minute, followed by three minutes for the answer, and then one minute follow-up by the MEP and two minutes for the answer. So this will really change the format, I encourage you to ask one question for time, because you do have the possibility of a follow-up. And then we will have a second round of questions where each speaker will have one minute for questions and Ms Lagarde will have three minutes for answers, but no follow-up, because otherwise we would stay here until tomorrow.

So if time so allows additional slots would be allocated on a catch the eye basis. So please let us try to make this new format work nicely. Let's respect the time and ask one question per

time. President Lagarde, we are now looking forward to hearing you have the floor for 10 minutes.

1-004-0000

**Christine Lagarde**, *President of the European Central Bank*. – Good afternoon to all of you. It is a pleasure to be back in this room and to be physically present and to see you in real flesh and to acknowledge that none of us has aged too badly. So that's quite comforting; if there is anything that we can find comforting today.

So, as you indicated, Chair, the economic and geopolitical landscape facing Europe has changed dramatically following the unjustified aggression by Russia towards Ukraine. Over the past few weeks and months, Europe – thanks to the work of this Parliament – has responded forcefully by imposing sanctions and implementing measures to reduce its dependence on Russia and to cushion the economic impact of the war. Over the same period, the conditions facing monetary policy have also changed markedly. At our June meeting we therefore decided to take further steps in normalising our monetary policy.

Let me start by discussing our updated assessment of the outlook before going on to explain our decisions in greater details. In view of the new rules that you've just identified, Chair, and that require me to give a shorter introductory statement, I will only be able to present a few elements of our assessment and decisions taken at our meeting on 8-9 June 2022.

So let me first turn to the outlook for the euro area economy. Euro area activity is being dampened by high energy costs, intensified supply disruptions and greater uncertainty, which affects the manufacturing sector in particular. At the same time, activity in the service sector is supporting growth, and the recovery in this sector is expected to strengthen over the coming months. The lifting of pandemic-related restrictions and good prospects for the tourist season are driving stronger activity, particularly in contact-intensive services.

Moreover, a strong labour market, with more people in jobs, will continue to support incomes and consumption. You may have all received actually two pages which include some graphs and short explanation in relation to those indications, that I will not specifically refer to in the course of my comments, because I don't want to spend too much time on that, given that time is limited.

The headwinds from high energy costs, the deterioration in the terms of trade, greater uncertainty and the adverse impact of high inflation on disposable income are expected to gradually fade. As a result, our Eurosystem staff projections see growth at 2.8% in 2022, 2.1% in 2023 and 2.1% in 2024, and this is our baseline projection.

Looking at inflation, it has risen further, standing, as you said, Chair, at 8.1% in May. Energy prices stand 39.2% above their level one year ago. Food prices rose 7.5% in May, in part reflecting the importance of Ukraine and Russia among the main global producers of agricultural goods, particularly grains. Prices have also gone up more strongly because of renewed supply bottlenecks amid recovering domestic demand, especially in the services sector, as our economy reopens. As a result, price rises are becoming more widespread across sectors, and measures of underlying inflation have risen further.

Wage growth has started to pick up, although at the moment it remains modest. We expect negotiated wage growth to strengthen slightly further over 2022 and then to remain above average levels for the projection horizon, supported by tight labour markets, increases in minimum wages and some effects of compensation for high rates of inflation.

These developments are reflected in longer-term inflation expectations, which have increased, with most measures derived from financial markets and from expert surveys standing at

around 2%. Initial signs of above-target revisions to these measures, however, warrant close monitoring.

The baseline inflation projections by Eurosystem staff have been revised up significantly. These projections indicate that inflation will remain undesirably high for some time. They foresee annual inflation at 6.8% in 2022 before it is projected to decline to 3.5% in 2023 and 2.1% in 2024. This means that headline inflation at the end of the projection horizon is projected to be slightly above our target, by 0.1%.

So, what have we decided in terms of ECB monetary policy in view of those circumstances? The current inflation environment – with figures well above our target – clearly poses a challenge. That’s why, at its 8-9 June meeting, the Governing Council expressed its unwavering commitment to bring inflation back to its medium-term target of 2%. With this in mind, and on the basis of the updated assessment I have just outlined, we decided at that meeting to take further steps in normalising our monetary policy.

So, what have we decided? First, we decided to end net asset purchases under our asset purchase programme as of 1 July 2022. Second, as the Governing Council concluded that the conditions underlying our forward guidance have been satisfied, we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting.

Third, looking further ahead, we expect to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting.

And fourth, beyond September, based on our current assessment, we anticipate that a gradual but sustained path of further increases in interest rates will be appropriate. In line with our commitment to our 2% medium-term target, the pace at which we adjust our monetary policy will depend on the incoming data and how we assess inflation to develop in the medium term.

Since the gradual process of policy normalisation was initiated in December 2021, we have pledged to act against resurgent fragmentation risks. The pandemic has left lasting vulnerabilities in the euro area economy which are indeed contributing to the uneven transmission of the normalisation of our monetary policy across jurisdictions.

Based on this assessment, on 15 June we decided that we will apply flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to preserving the functioning of the monetary policy transmission mechanism, a precondition for the ECB to be able to deliver on its price stability mandate.

In addition, we decided to mandate the relevant Eurosystem committees, together with the ECB services, to accelerate the completion of the design of a new anti-fragmentation instrument for consideration by the Governing Council. These decisions underpin our previous commitments to adjust all of our instruments within our mandate, incorporating flexibility if warranted, to ensure that inflation stabilises at our 2% target over the medium term.

To conclude, Russia’s unjustified aggression towards Ukraine is severely affecting the euro area economy and the outlook is still surrounded by high uncertainty. But the conditions are in place for the economy to continue to grow and to recover further over the medium term. Fiscal policy is helping to cushion the impact of the war and governments have intervened to slow energy inflation. Alongside targeted fiscal policies, the implementation of the Next Generation EU programme, the ‘Fit for 55’ package and the REPowerEU plan should also

help the euro area economy. I count on the work of this Parliament to ensure that these important EU initiatives can actively contribute to forging a sustainable growth path and increasing the EU's resilience to shocks.

Thank you, 10 minutes and three seconds. I now stand ready to take your questions.

1-005-0000

**Lídia Pereira (PPE).** – Senhora Presidente, Senhora Presidente do Banco Central Europeu, os tempos que vivemos exigem frontalidade, exigem transparência e coragem quando enfrentamos um cenário económico que é adverso e pode mesmo tornar-se crítico nos próximos meses. A inflação galopante a que assistimos, com taxas homólogas de 8 a 9% na zona euro e na União, colocam em risco a estabilidade de preços e o rendimento das famílias. E a necessária normalização da política monetária está a pressionar os juros da dívida pública, sobretudo em países mais expostos, como Portugal.

O cenário de recessão já não é falado apenas à boca pequena e pode ser aqui uma realidade muito em breve. E, portanto, considerando estes riscos, queria perguntar-lhe especificamente três coisas.

A primeira pergunta é se estão esgotados os instrumentos de política monetária não convencional como a compra de ativos da dívida pública.

A segunda é se o Banco Central Europeu pondera regressar à compra de ativos. Se sim, com que valores e em que prazos?

E finalmente como vai, em concreto, o novo instrumento antifracturação proteger os Estados mais expostos aos mercados da dívida sem que a economia sobreaqueça e a inflação continue a galopar?

1-006-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much, Ms Pereira, for your question and thank you for quoting my three key attributes as identified in my London School of Economics recent speech.

Let me take you back to the decision that we made in June, because that's really the cornerstone of what we decided, I think, as a good example of consistency, courage and transparency. And by consistency, I mean this is a normalisation that has actually started back in December. And we are really following a sequence of developments that are driven by the facts, the numbers, the assessment that we take of the situation.

And what we decided to do, as I said, is in accordance with our sequencing and in accordance with our forward guidance. First, we decided that we would stop net asset purchases as of 1 July. So in a way, unconventional monetary policy is coming to an end when it comes to net asset purchases. That's for 1 July, because we indicated that it would be sequential and that we would, first of all, stop net asset purchases and that we would look at interest rates.

Second, we decided also that the conditions of our forward guidance – the three conditions that I think I have explained on various occasions during those hearings – were satisfied and that therefore warranted that we could hike interest rates, which is the intention that we very strongly clarified at our 9 June meetings that we intend to hike interest rates by 25% at our next July meeting.

But this is not the end of it, because that sequence is really following a path of which we wanted to identify the next steps. So we indicated as a third component that if the situation, if the inflation medium-term outlook situation as we have it, persists or deteriorates, then it

would warrant an additional hike of interest rates, possibly, and that that would take place in September.

And as a subsequent step that we also identified clearly, we outlined what we would do subsequent to September, which is that we anticipate that continuing on after September, we would also increase interest rates on a gradual but sustainable basis as appropriate.

So, all of that is really part of a sequence of decisions that we made in order to normalise our monetary policies in accordance with our mandate. And that is exactly what has taken place. I had indicated that ever since December, and then we had various steps along the line that I will spare you because I'm just on my time, three minutes. I'm trying to deliver, you see, that's what I commit to do.

1-007-0000

**Lídia Pereira (PPE).** – Senhora Presidente, como terminava com a referência ao mandato do Banco Central Europeu, eu aproveitava para falar precisamente sobre isso.

O Banco Central é muito claro na meta de taxas de inflação baixas, estáveis, previsíveis.

Nas atuais circunstâncias, estamos perante situações em que as taxas estão longe de estar baixas, com significativa instabilidade e enorme imprevisibilidade. O objetivo de 2% no médio prazo parece ser aqui uma miragem nos próximos tempos e, portanto, face a este quadro e a alguma morosidade na tomada de decisões da política monetária, eu pergunto à Senhora Presidente: está o Banco Central a cumprir o seu mandato?

1-008-0000

**Christine Lagarde, President of the European Central Bank.** – We at the ECB and within the Governing Council – and, more widely, the euro system – are driven, focused, by our mandate and we have defined that mandate by way of a reference to the 2% medium-term outlook for inflation. We are riveted to that, and that is what we commit to deliver. We have a commitment, and be under no doubt that we are focused on that.

1-009-0000

**Jonás Fernández (S&D).** – Good afternoon, thank you Chair, welcome President. On 20 March 2020, you said in a press conference: 'I'm not here to close spreads'. However, after the beginning of financial turmoil on the sovereign markets, you corrected yourself the next week with another sentence: 'the ECB is fully committed to avoid any fragmentation'.

In the same way, on 9 June this year, you unveiled your plans to finalise the asset purchase programme and to increase the official interest rate in July. However, with the same delay as 2020, you organised an ad hoc meeting of the ECB Governing Council to analyse the re-emergence of fragmentation risk – by the way, without a clear conclusion yet. So my first question is: don't you think your Governing Council is taking decisions or simply announcing them behind the markets?

1-010-0000

**Christine Lagarde, President of the European Central Bank.** – Well, thank you very much for your question, Mr Fernández, because it gives me a chance to really explain why we believe that fragmentation is a risk and how it is very closely associated with our monetary policy.

It is not, if you will, a category that would stand apart, but it is consubstantial to the proper transmission of our monetary policy. And, you know, we have started the path of monetary policy normalisation, as I said to Ms Pereira earlier on, back in December, with a succession of steps taken one after the other validated against the data that we received, that we analysed, and the conclusions that we draw from the assessment of those data against the objective that we have, which is price stability as defined by our 2% inflation medium term.

And, you know, as we do that, we need to be absolutely certain that our monetary policy stance is actually driven to all countries of the euro area. So, if there is a risk that monetary policy is not properly transmitted throughout the euro area, we need to apply flexibility, as we have indicated, and we need to deploy it as required. And that's what I mean by the anti-fragmentation tools and the flexibility that we apply to it.

So, really in essence to your question, what I would really like to point out is the anti-fragmentation is a precondition to the proper transmission of monetary policy. And to those who are concerned that possibly this would be outside the mandate, it is right at the core of the mandate because monetary policy without its transmission within the euro area is actually not doing the job that we are assigned to do under the treaty, which is to make sure that we provide price stability.

If it doesn't work that way, if there is a risk that it doesn't, then it is our duty to actually apply the tools with the flexibility that is required to that end and with the power that is needed in order to fight the risk of fragmentation. And I think that you mentioned, President, that there was dissent between those who discussed last week on the papers that you were presented, but that there was one point that was agreed between them, which was that you have to kill it in the bud.

You don't want to let the fragmentation risk happening and impairing the transmission of monetary policy. You want to pre-empt that and you want to prevent it. And you can follow up now. I'm on time.

1-011-0000

**Jonás Fernández (S&D).** – I agree with you. The point is that I think that the ECB is acting behind the markets on this matter.

In any case, my second question. On 22 April 2020, right after the outbreak of the COVID-19, the ECB suspended its reliance on credit rating agencies to determine the eligibility of government debt for monetary policy operations. Unlike any other central banks, the ECB had been relying on credit rating agencies to determine whether the government debt of Member States was eligible for the ECB operation. However, on 24 March 2022, the ECB decided to return to the same stabilisation framework that was in place before the pandemic. Once again, the ECB will rely on credit rating agencies for its monetary policy. But now you reserved the right to deviate from CRA in line with its discretion.

In short, I have two questions. First, in your opinion, can the ECB framework on collateral contribute in some way to fuel the risk of fragmentation? Second, when you talk on discretion, what are you talking on? Don't you think predictability, uncertainty are better attributes for a central bank?

1-012-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you, Mr Fernández. Not exactly a follow-up question, but an entirely new question. So I would need more time, actually, if I was to give you a full answer to your question.

As you know, the Eurosystem has a well-established credit assessment framework, which is called ECAF, that defines the procedures, rules and techniques for the acceptance of high-credit-quality assets as collateral and for the purchases in its monetary policy operations.

And as you rightly said, that system was partly suspended back in April of 2020 in order to make sure that we could actually respond to the requirements of our mandate, in order to make sure that financing would be available, and in order to make sure that the economy

would continue to operate. And I think that in and of itself is a response to those who argue that we would be dependent on the rating agencies if it's necessary to suspend, if it is necessary to not apply them – as has been the case in relation, for instance, to Greece, for which we carved out an exception – we do so.

Added to which, even when we, gradually over the course of time between now and 2024, re-established the old parameters under which we valued the risks that we are taking using the credit rating agencies, we do always very carefully review the criteria that are being used, very carefully investigate what kind of disclosures are being used and, in relation to climate risks in particular, we do request that rating agencies include in their documentation and in their ratings sufficient climate-related disclosures so that we can have a proper assessment of our risks.

This is work in progress at the moment, but we have our framework, we can get away from it if necessary and called for by circumstances. And in any event, we are very attentive and do not blindly take the ratings produced by the rating agencies. Thank you.

1-013-0000

**Luis Garicano (Renew).** – President Lagarde, it's great to see you here in person indeed, thank you.

So, as you know, a previous generation of European policymakers tried to keep exchange rates of countries with very different underlying economic conditions inside a target zone – it was called the exchange rate mechanism – and they failed. It was about the exchange rates and the reason is that the policy allowed for one-way bets and the speculators eventually forced the hands of governments. You remember the UK Government had to leave on the famous Black Tuesday; they couldn't defend any more the exchange rate.

And so, I wanted to ask you about this anti-fragmentation tool in this context. Why do you think, and why does the Governing Council, think that keeping asset prices within a band, keeping interest rates of different countries within a band, with different fiscal conditions, etc. will be less difficult than it was to keep the exchange rates? Won't the markets coordinate in the same way against the band? And it's also very different to keep this band because we don't really know what the prices are. Mr Visco says 150 basis points between Italian and German debt, I have no idea why this is a good or a bad band. I don't know, I mean, in order to have a band like this, we need a framework to be able to differentiate true credit risk from financial fragmentation, induced speculation, blah, blah, blah. But I don't I don't really know what that framework is.

And I wanted to explain to us what is the framework that you think we can use to think about what is this band, what are the right limits, why do we think we can defend it? And of course, if the bank ends up disagreeing with the market about what the band should be, then the risk is that the ECB ends up buying everything and not the market, because that's the only agent willing to buy.

1-014-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you, Mr Garicano, for your question. You know, since a gradual process of policy normalisation was initiated back in December 2021, the Governing Council has repeatedly pledged to act against resurgent fragmentation risks. And the ad hoc Governing Council that I called last week decided two actions on the basis of that repeated commitment that the Governing Council has made.

First, to apply flexibility in reinvesting redemptions under the PEPP portfolio. Why is that? Well, because the pandemic has left some serious vulnerabilities in the euro area economy,



which are indeed contributing to the uneven transmission of the normalisation of our monetary policy across the euro area countries.

Second, in order to enrich our toolkit and to include an anti-fragmentation instrument, we mandated the relevant Eurosystem committees, together with the ECB services, to accelerate the completion of its design for consideration by the Governing Council.

So, I know that it is going to be terribly tempting by many of you and all the best ones in this room to actually ask me, what kind of band, what kind of spread, what kind of speed, what kind of measurements, what kind of criteria, what kind of framework will eventually be decided? And I will not. I simply will not. So, you can ask me in any kind of versions of that. And I respect very much the fact that it is a question that is on your mind and on many minds. But work is under way at the moment. The Governing Council at this ad hoc meeting tasked the committees to do the work, and the work is underway.

But suffice to say that the fragmentation will be addressed if the risk of it arises, and it will be done so with the appropriate instruments, with the adequate flexibility. It will be effective. It will be proportionate. It will be within our mandate. And anybody who doubts that determination will be making a big mistake. Thank you.

1-015-0000

**Luis Garicano (Renew).** – Since the future is unknown, let's think about the past. I mean, Mr Draghi also had the idea of an anti-fragmentation tool and he actually proposed an anti-fragmentation tool, which was the outright monetary transactions. And this tool is conditional.

And, as the Chair of our Committee, Ms Tinagli, said, it wasn't used. But it's there and the market knows that, it was in fact the tool that stopped the previous run. What is wrong with the existing tool? Do you think a tool in order to work has to be unconditional? And, of course, if it's unconditional won't the governments just profit from this difficulty in distinguishing between true credit risk and fragmentation of risk, to misbehave in some sense.

What's wrong with the existing framework, Ms Lagarde?

1-016-0000

**Christine Lagarde, President of the European Central Bank.** – Well, Mr Garicano, how we react to the risk of fragmentation is going to depend on the situation that we face. And situations are different on each and every occasion. There is nothing wrong with OMT. And OMT is a tool, it belongs in the toolbox and it can very well be used if the circumstances warrant so.

But we have demonstrated in the past over and over that we can actually design with the adequate level of flexibility and with adequate creativity, a tool that is going to address the specific case that we face. And we will do so again, as has been decided last week. But there is nothing wrong with OMT.

1-017-0000

**Ernest Urtasun (Verts/ALE).** – President Lagarde, thank you for being with us today. For months, you have been declaring that inflation was temporary, supply-driven and imported in order to justify not to change your monetary policy decisions. But now an interest rate hike has been announced. Of course, monetary policy decisions are always a result of a cost-benefit analysis. There are always winners and losers. In our opinion, the ECB should be clear about the other options on the table and what was the calculated risk of the particular chosen policy. I think more clarity is needed for citizens on the impact that this decision will have on their purchasing power, on employment, and on their cost of living.

Because our fear is that while the ECB cannot tame inflation with higher interest rates, you could trigger a recession. So my question would be, could you explain to us which costs you have identified when discussing whether to increase interest rates or not in the Governing Council? And what are the expected side effects or the collateral damage of your decisions of increasing interest rates in the current economic outlook?

1-018-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Mr Urtasun, for your question. First of all, I just would like to mention that we stopped using the word ‘temporary’ or the reference to ‘transition’ back in December of 2021. So while it was, for a period of time, considered as transitory and temporary – not just by us but by many – we stopped using those references in December. What’s more, I think we were the first – and at the moment the only – central bank in the world to have decided to actually conduct an internal investigation as to why we had misjudged certain factors that had a major impact on inflation and caused us to miss our inflation projections by such a number.

So, we acknowledged that it was no longer temporary and transitory back in December and, what’s more, we also tried to investigate what caused us to be off the chart in relation to our inflation projection. Surprise, surprise, a lot of it – 75% of it actually – had to do with the mis-assessment of energy prices and, for the rest, a large chunk of it was also attributable to the mis-assessment of the consequences of the bottlenecks and the impact it would have on supply relative to the demand caused by the recovery, particularly in relation to goods.

So that’s for the temporary and transitory, because I think that it was considered to be such. There is still a very large part of our inflation that is caused by energy. If you look at the May number, for instance, 39% or 39.2%, if I recall, is attributable to energy. So it’s not as if it was a minor sideshow; it is an important portion which has also a spillover impact through the pass-through into other prices. But we don’t use temporary, we don’t mention transitory anymore, and we acknowledge the fact that our projection was off the chart in relation, particularly, to the impact that energy would have, as well as the consequences of bottlenecks.

Now, we have a mandate, which is price stability. We have a strategy that has led us to agree unanimously that price stability would be defined by reference to inflation at 2% over the medium-term. In the face of the data that we receive and our assessment of the inflation medium-term outlook, we had to deliver on that mandate. When you have inflation at 8.2% – last reading in May – and when you have a projection which is north of 6% for the whole of 2022, which is more than three times our target, we have to ask ourselves, what decision do we make in order to fulfil our mandate?

We of course also have to try to assess what impact it will have. Now we play with different factors, the inflation numbers and our assessment of the medium-term outlook. We also have to be cognizant of the inflation expectations that play a critical role, which for a long period of time were lingering around 1.5% at the best, and which are now at target – and for some indicators or some surveys slightly above target.

Now, that’s an important factor. We don’t want these inflation expectations to de-anchor, because to bring them back to the 2% target is going to be difficult if we wait for too long. So we have to be on time – not behind the curve, but on time.

The third element that we also look at very carefully is wages and wage increases as negotiated, or as observed on the markets. So it’s on the basis of those hard inflation readings, our outlook for inflation in the medium-term, inflation expectations and the wage numbers that we have to decide to act in accordance within our mandate. And that’s exactly what we

did over the course of the last few months, starting in December, when we actually announced that we would be looking at normalisation of our monetary policy.

But of course, as we do that, we try to assess how proportional our measure will be on the basis of what the expected outcome is. We judge that on the basis of these three categories of facts. In particular, we had to announce what we announced on 9 June, that is stopping the net asset purchases, intending firmly to increase by 25 basis points our interest rates, and continuing the path if the situation persists or deteriorates over the course of time. I've largely exceeded my response time now.

1-019-0000

**Ernest Urtasun (Verts/ALE).** – Of course you're fully right on that, but still I think we can agree that inflation is supply-driven and important. These two considerations that you made in the past, I think they still stand. We do not see, or at least you make rarely, signals of wage-price spiral. So still I do not see how an interest rate hike may tame inflation. I think this has to be better explained, Madam Lagarde. I think, with the facts that we have in front of us, this is still very much debatable and doubtful. My follow-up question would be to ask if you have calculated the impact that this is going to have on employment.

1-020-0000

**Christine Lagarde, President of the European Central Bank.** – Let me try to come back to this and explain very briefly, because I know I've run out of time.

If it is very clear, as it should be, that the ECB is determined to deliver on its mandate: price stability, inflation medium-term at 2%, then obviously in the wage negotiations, for instance, between employers and employees through unions or otherwise, the expectation is that at least in 2024, and possibly declining over the course of 2023, inflation numbers will be lower – and inflation expectations, as you know, are critically important.

In order to avoid what is called a second-round effect, where you have high prices, high salaries negotiated, high prices continuing to hike as well, we have to make sure that this does not happen. That's just, for instance, why we think that our action is helpful and effective.

1-021-0000

**Gunnar Beck (ID).** – Hello, Madam Lagarde. Good to see you again. Inflation is currently running at 8.1%. Many speakers have mentioned that already. Now in Switzerland it's a mere 2.9%. Nevertheless, while the Swiss National Bank at its last meeting thought it necessary to raise rates by half a percentage point to combat a much lower rate of inflation, the ECB has indicated it would raise rates by a mere quarter of a percentage point next month, and it gave us a certain prospect of possible further, I suspect, tentative rate rises in the future.

So what I would be interested in knowing is really why do you think a less aggressive rise in interest rates is sufficient to combat a higher rate of inflation when the Swiss National Bank is thinking exactly the opposite. The forecasting record of the Swiss National Bank isn't any worse, to put it mildly. I think I'll leave it at that.

1-022-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much, Mr Beck. I take the view that comparisons are odious and we should not rate one central bank against the other, be that the Central Bank of Switzerland or any other central bank, because circumstances are different, the history of monetary policy are different, the strength of the currencies are different. I think that we have to look at what we have to do in relation to our mandate, in relation to our economic area, which is the eurozone.

I would also observe that at our last Governing Council meeting on 8 and 9 June, we did not make a decision on 25 basis points. We identified a path that started back in December, which is materialising one meeting after the other and which takes this sequential approach to

normalisation of monetary policy. So by that, as I said, we decided to stop net asset purchases. This will be effective in a week's time.

We then decided, shortly after that, some time after that, which is at the July Monetary Policy Governing Council, we intend to increase by 25 basis percentage points. Subsequent to that, if the situation in relation to inflation persists or deteriorates, it would warrant a larger increase than 25 basis percentage points and on, beyond September, so that we are on a path to normalisation of monetary policy in the euro area.

It is a very significant change from what we have seen for the last 11 years and certainly a move towards exiting negative interest rates in reasonably short order in accordance with both our forward guidance and our sequencing. So we committed, we are delivering, and that's exactly what's happening now.

1-023-0000

**Gunnar Beck (ID).** – Yes, well, I'm not so sure that comparisons are all that odious. Let me try it a different way. I do think they mean something. I don't mean this just rhetorically. I do think it can help to put the experience of one actor in the context of another. I'm sure we tend to agree on this. But let's look at the actual legal mandates here.

The ECB is obliged to pursue, or to secure, price stability to the detriment of any other goal. So in other words, as you well know, it can pursue other economic policy goals, but not at the expense of price stability. The mandate of the Swiss National Bank is, if anything, a bit more permissive.

So, again, how would you justify your very gradual approach when you're exceeding your target by so large a margin?

1-024-0000

**Christine Lagarde, President of the European Central Bank.** – Mr Beck, I don't mean to be too picky, but I'm not sure that I would agree with your characterisation that it is 'to the detriment of'. It's almost that, but not quite. I think the Treaty says 'without prejudice to' the primary objective. So the secondary objectives are there. They are embedded in the Treaty and they can be delivered on, or followed, or acted upon, as long as it is not with prejudice to the primary objective. I think we agree on that.

It is clearly guided by our primary objective that we are moving in the direction that we are moving, and that we indicated and reinforced at the time of our June meeting. We've identified a path. We will walk that path. We will deliver on it and we will, as a result, comply with our mandate.

1-025-0000

**Johan Van Overtveldt (ECR).** – Welcome for my part also President Lagarde. A lot of issues have already been raised, so I'll try to be a little bit creative.

The ECB recognises now that inflation is a major problem, is a major problem that we have to confront and that the ECB has to confront. Now, isn't your present policy to a substantial extent self-defeating? I mean, the following: we see the interest gap with the United States widening, and in accordance with that, we see the euro exchange rate go down. That's already going on for months now. And of course, a lot of our import prices are in dollars, so they are going up. So the downward shift of the exchange rate of the euro is pushing up inflation and that is mainly due to the interest rate gap with the United States.

Second question: what you outlined now, I mean you as ECB Governing Council, as the normalisation of monetary policy means a stabilisation in nominal terms of the balance sheet, don't you think a reduction of the balance sheet in nominal terms is also necessary, and how do you see that going together with interest rate policy?

1-026-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much, Mr Van Overtveldt, for the creativity of the question, as you identified it yourself.

It is the case that the United States of America operates under different circumstances from the euro area. And I would mention one example, which is a clear, distinct factor – two actually. One is: geography matters. The proximity of Ukraine to the euro area is a critically important factor, first. Second, when we look at our dependency in terms of energy supply, we have been, and we still are, highly dependent on alternative sources of energy, particularly in the fossil energy business. This is not so the case in the United States of America.

So, just as an example of how two large economies, the euro area being larger actually than the United States, how two large economies differ in their characteristics. In the same vein, the policy adopted by the Fed is different from that adopted by the euro area. And there is no question in my mind that there are spill-over effects from the monetary policy decisions made by the Fed.

This is how financial markets are organised. This is a strength of the United States, the depth of their capital market, which hopefully we can fix one day by having capital markets union in this part of the world and being as deep and as liquid as they can be, which would be a very good way to make sure that Europe is a bit more sovereign in capital markets than it is at the moment.

So we are talking about two different zones. We are talking about two different policies. And we are talking about different position in the cycle as well, and significantly different fiscal stimulus administered early on during the pandemic, which has put the two respective economic zones in completely different positions.

So having said all that, it is true that for the last 12 months, if you compare the euro and the US, there has been a depreciation of about 8%. If you compare the euro with other international currencies such as the yen, the euro has appreciated relative to the yen by about the same amount, roughly 7%. If you take a basket of currency, the euro has not depreciated in the way it has relative to the dollar.

So a question that is begged by that situation is: is it the euro depreciating or is it not the dollar appreciating as a result of the monetary policy that it has decided, as a result of the economic zone and the strength that it has relative to our exposure?

I think all of that comes into play, but I think what is important is that with our monetary policy, we have to respond to the situation and make sure that we address these spill-overs that we will be observing and that we should counteract in this particular market.

I think you had a second question. We've identified a path, and that path is we stop net asset purchases, we use interest rates as the key tool, we deploy flexibility if and when needed and required in order to make sure that monetary policy is duly transmitted throughout the euro area. We will look at balance sheets probably at a later stage, not at this point in time.

1-027-0000

**Johan Van Overtveldt (ECR)**. – You referred to the fact that the ECB missed out on the energy price increases. That you missed out on the energy price increases initially. And now you've come to the conclusion that they have been very important.

Would you agree with me that the energy transition pushing up prices of raw materials and raw minerals to very high percentages – I'm talking about copper, aluminium, nickel, lithium and a lot of others – is a basic part of that energy price increase and tends to become structural?

1-028-0000

**Christine Lagarde, President of the European Central Bank.** – There is academic work under way to really analyse the portion that is directly attributable to energy prices, particularly fossil energy prices, and how much is attributable to energy prices because of the pass through of energy prices into other sectors of the economy.

But what we see when we look at inflation and we look at HICP, we look at core inflation, we look at underlying inflation, we look at the sticky inflation, we look at all slices and dices of inflation to make sure that our analysis is correct, is that we see an upside to prices and an upside to inflation that is applying to all categories, including underlying inflation, including sticky inflation and, of course, including too the HICP numbers, which is the one that we've agreed to take into account.

So, this is a phenomenon that is applying across the various items that we consider, some of which is partly indirect second round impact of the pure energy prices increase that we are suffering and have been suffering for the last 12 months.

I'm sorry that I'm coming back to that, but inflation is really something that we scrutinise to the extreme. What we also see at the moment is that it's not just a portion of the items that are affected by inflation in excess of 2%. It's about 70% of items in the inflation basket, to use the analogy of the basket, that are north of 2%.

1-029-0000

**Δημήτριος Παπαδημούλης (The Left).** – Προαναγγείλατε μια σύσφιξη της νομισματικής πολιτικής που μπορεί να γίνει και εντονότερη από τον Σεπτέμβριο. Το ερώτημα μου είναι: δεν σας ανησυχεί μήπως, μετά το αρχικό λάθος της υποτίμησης της έντασης και της δριμύτητας του πληθωρισμού, μήπως το νέο μείγμα νομισματικής πολιτικής που προαναγγείλατε οδηγήσει στην αύξηση των κινδύνων ύφεσης και στασιμοπληθωρισμού; Δηλαδή υπάρχουν αρκετοί που σημειώνουν τέτοιους κινδύνους. Και δεύτερον, στη μελέτη επιπτώσεων -διότι πέρα από την κεντρική σας πρωτεύουσα αρμοδιότητα σωστά σημειώσατε ότι έχετε και δευτερεύοντες αλλά πολύ σημαντικούς στόχους με τη νομισματική σας πολιτική- σας έχει απασχολήσει η επίπτωση αυτής της πολιτικής που εξαγγείλατε στην αγοραστική δύναμη των μισθών και στο κόστος ζωής; Και τρίτη ερώτηση: Αυτό το νέο εργαλείο που προαναγγείλατε, πότε ακριβώς θα ανακοινώσετε πώς ακριβώς θα λειτουργεί και ποιες πιστεύετε ότι θα είναι οι επιπτώσεις στα spreads των ομολόγων του Δημοσίου σε χώρες όπως η Ιταλία ή η πατρίδα μου η Ελλάδα;

1-030-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you, Mr Papadimoulis. You raised multiple points in your question, so the first one that I want to flag is that I have not used the word 'tightening', I have deliberately used the word 'normalisation' of monetary policy. This is what we are doing. We are normalising monetary policy, moving away from net asset purchases, moving into the use of interest rates – in order to apply probably more conventional monetary policy tools – but we certainly are not tightening monetary policy.

Second, you asked a very important question: by delivering on what we said, which would be the interest rate hike in July, followed by another one – possibly higher – if the situation persists in September, and a subsequent gradual but sustained path of increases, are we not running the risk of putting the euro area into recession? Obviously we have to be attentive to that. Our primary mandate is price stability, but we have to also be attentive to what's happening in the economy because one impacts on the other.

The baseline that we have in our macroeconomic assessment is of 2.8% growth this year, followed by 2.1% next year and the following one. So we do not have recession in our baseline. Obviously, our baseline is predicated on the anticipation of our monetary policy

decisions as we have made them and on taking some assumptions in relation to wage increases, in relation to access to oil, gas, etc.

Now we also have to be attentive to potential risks which, as far as growth is concerned, are to the downside. We have, to that effect, drawn a scenario which is called the ‘severe’ or ‘adverse’ scenario, which takes as its hypothesis a more severe boycott, rationing, development of the war and so on and so forth, where we actually, in that case, if that scenario was to materialise, would then be taken into negative territory when it comes to growth.

So we are, as I said, not planning on any such recession for the baseline that we have, but we are also monitoring very carefully, and we are particularly attentive to the impact that oil and gas access or shortage or boycott would have on our economies.

On the new tool, nice try! But I’m not going to give any more answers than the one I gave to Mr Garicano, because this is work in progress. The committees are working and it will be there. It will be effective, it will be proportional, it will be within the mandate, and nobody should doubt our resolve and our commitment. If they do it, it will be at their peril.

1-031-0000

**Δημήτριος Παπαδημούλης (The Left).** – Την περασμένη Τετάρτη, τα δεκαετή ομόλογα της Ιταλίας και τα spreads τους έφτασαν σε ύψη που είχαμε να δούμε από το 2014. Ανάλογη πορεία είχαν και τα δεκαετή ελληνικά ομόλογα. Και διαβάζω ότι, σύμφωνα με μια μελέτη της Goldman Sachs, το εργαλείο που έχετε προαναγγείλει, το backstop, δεν θα κατεβάσει τα spreads στα ομόλογα των χωρών του Νότου, αλλά ίσως ανεβάσει τα spreads στα ομόλογα της Γερμανίας για παράδειγμα. Χωρίς να θέλω να σας πιέσω να πείτε περισσότερα από όσα είστε έτοιμοι να πείτε, συμφωνείτε με αυτή την εκτίμηση της Goldman Sachs; Έχετε ίσως κάποιο σχόλιο;

1-032-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you, Mr Papadimoulis, but we try to have our independent assessment of the situation, and we try to learn from our staff, from the staff of the Eurosystem, and to actually apply and determine our policy on that basis.

We are mindful of what is happening around us, but we are also driven by the work that we do and our own analysis. We are guided by public interest, first and foremost.

1-033-0000

**Anna-Michelle Asimakopoulou (PPE).** – Thank you for being here, Madam Lagarde. I appreciate your commitment to delivering within your mandate. This is important to our citizens, who are feeling the pain – and we’re still in the baseline scenario so I can’t imagine what it would be like if we were in a downside scenario!

I basically have two questions. One has to do with your sequencing approach for normalisation with respect to interest rates. What do you think is the determinative factor that made you choose this approach as opposed to a more aggressive approach, like the one selected by the Federal Reserve?

The second question is that you said that you’re using this flexibility for stabilisation, and in the PEPP reinvestments you have stated in your announcement that these can be adjusted flexibly across time, across jurisdictions, across assets, in order to tackle the risk of eurozone fragmentation. You mentioned the Greece exception, and I’m from Greece. So this can be used to purchase bonds issued by Greece over and above the rollovers of these redemptions. My question is, how far does that go and what would it take to broaden, let’s say, the scope of this exemption?

1-034-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Ms Asimakopoulou. You raised two points. The first one is the issue of sequencing, and I know it has been debated and some have argued that we didn't have to wait until we had completed net asset purchases in order to use the interest rate as a tool for our monetary policy stance.

I think there was, in our analysis, an issue of predictability and credibility. We had said all along on this aspect of our forward guidance, which was designed in another time, that we would finish with net asset purchases before we started interest rate hikes or the use of interest rates. Although it was designed in previous times, and it could have been thought through yet again, we decided to err on the side of credibility and predictability. That is why we adopted that phase of finishing net asset purchases as of 1 July, which is as early as possible, in the third quarter, and then moving on with the interest rate.

On the other issue, we have decided to deploy flexibility in relation to the reinvestment of the redemption on the PEPP, as you very rightly identified, across classes of assets, across time, across jurisdictions. And we will do that. The technicalities and the ways in which this shall be conducted is actually being worked on as well at the moment.

1-035-0000

**Paul Tang (S&D)**. – Ms Lagarde, I want to discuss a specific type of inflation. Isabel Schnabel has coined the term 'greenflation'. Though the speech itself in March was nuanced, and I still find the term confusing – if not potentially misleading – she concludes that greenflation can be expected to exert upward pressure on the prices of a broad range of projects during a transition period.

Now I find it hard to find grounds for this conclusion when you consider the levelised cost of energy. It is clear that the cost of sun and onshore wind energy have declined rapidly in the last ten years and are now the cheapest sources of energy. Shifting to solar and onshore wind energy will then contribute to deflation, rather to inflation. Don't you agree with that?

That's my first question. Related to that, what scope do you see for more targeted ECB policymaking, for example bringing the portfolio into line with the Paris Agreement or stimulating green collateral? Would this not help to fight inflation while keeping Europe on track to finance the transition?

1-036-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much, Mr Tang. There are two points that I would like to make in response to your question which are equally important.

Number one, the current high energy prices that we observe across all sources of energy, but more particularly, of course, fossil energy prices should not ever be a pretext for slowing down the transition towards green energy and towards the implementation of Fit for 55 as well as the regeneration EU, which have been discussed – and I believe approved – by Parliament. So that's point number one.

Point number two – and I'll discuss the greenflation issue as point number three – is that the main sources of inflation at the moment and the ones that are causing 39.2% of our current reading on inflation are not greenflation, which is not irrelevant, but extremely marginal, but fossilflation, the inflation caused by fossil energy sources.

So there are developments at the moment. There is literature that is beginning to emerge as to the inflation versus deflation impact of green energy, investment in green energy, and the scale and period of time over which investment will be needed and costs will be brought



down over the course of time. I think there is, you know, not consensus, but at least the emergence of a consensus, including that in the short term, green energies are more likely to use – using the very nice formula that you quoted – upward pressure on price dynamics, which is a nice way to say that it will probably be inflationary in the short term, but that in the medium term, given the source of energy that we are talking about and the non-fossil aspect of it and the depreciation over the course of time and amortisation of the equipment that will be needed and the large investment that will be needed, then it will be, on the contrary, putting downward pressure on price dynamics and as a result, be deflationary. I think that's at least the analysis that we are conducting at the moment.

I can assure you that relative to the action plan that was attached to our strategy review back in July, we are marching on, working hard and we are completely on time when it relates to the various components of what we are committed to do.

I know there is one aspect which has not yet been debated within the Governing Council, which I find personally – me as Christine Lagarde, not necessarily as the representative of the ECB – worthy of consideration by the Governing Council, and that is something where Bank of Japan and the PBOC in China have endeavoured to explore, which is green long-term refinancing operations to determine how more attractive financing could be made available to the financing of projects that are, by all accounts, labelled and considered as green.

Now this is controversial. It's not yet certainly approved. I think it's worthy of being explored. It will also require that we all together make progress in the fields of measuring, rating, analysing, so that we avoid the greenwashing that abounds and that we see in various corners. Because I don't think that in that particular respect we can misrepresent on any account.

1-037-0000

**Billy Kelleher (Renew).** – This really is where the monetary policy of the ECB and the fiscal policy of Member States meets in a debt dance. Be it a d.e.a.t.h dance or a d.e.b.t dance, it makes no difference.

I just want to raise the fact that is staring us all in the face. Some Member States have huge levels of public debt. We are now in a situation where inflation is at about 8%. There's going to be wage demands across the entire European Union. Some Member States may, because of the government make-up, be able to withstand it. Others may not. But the bottom line is there are going to be huge pressures on wage inflation, coupled with, in the short and medium term, interest rate rises to address the inflationary pressures and to stick to your mandate in the ECB.

Do you not agree that this will have real serious implications for take-home pay for people across the entire European Union in terms of real take-home pay because of interest rate rises and inflation as well, in the short and medium term?

Bearing in mind, Ms Lagarde, you do say that if they look into the future three or four years they might see we're getting to 2%, but in the meantime what do Member States and governments tell citizens across the entire European Union about the fact that the money in their pockets is not enough to put a roof over their heads or meals on the table as it stands?

So, with that in mind, you talk about an anti-fragmentation framework or instrument. Is that just not another word for the ECB basically saying at some stage that you will become the lender of last resort again?

1-038-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much for pointing out what I would call the distributional effect of some of the policies that are taking place, and the impact that particularly the cost of energy has and the cost of food has on those that are most exposed.

Two things. One is, I believe that by delivering on our mandate, which is price stability, by doing all we can do in order to maintain inflation expectations and ultimately bring inflation down to 2% in the medium term, we are helping those that are most exposed as well. Inflation, it's undisputed, hurts first and foremost those who are most vulnerable.

If you look at actually the sort of distribution of inflation across Member States and across segments of the population, it is those who consume – and have to consume because that's how they go to work – energy and those who spend a larger percentage of money on food that take the biggest hit as a result of inflation.

So, if you look at households across the euro area, those least privileged spend about four times as much as the more privileged on energy and food, and by bringing inflation down, as I said, in the medium term to 2%, we hope that we can actually help in that respect. That's point number one.

Point number two, it is necessary that authorities actually take the fiscal, targeted and temporary measures in order to help those that are most exposed. I think some countries are trying very hard to do that. Others have not yet been able to operate the practicalities of these distributive fiscal policies in order to help those most vulnerable amongst their population. I hope they do that, because that would be the best use of fiscal resources that are scarce.

1-039-0000

**Joachim Schuster (S&D)**. – Frau Vorsitzende! Ja, da kann ich gleich ein bisschen an die Frage davor anknüpfen.

Denn ich glaube, wir haben doch gesehen, dass die steigende Inflation nur bedingt auf monetäre Faktoren zurückzuführen ist, sondern sehr viel mit Faktoren zu tun hat, die eigentlich über die Geldpolitik wenig bis gar nicht beeinflusst werden können. Das ist der Krieg in der Ukraine, das sind teilweise noch COVID-Auswirkungen, das sind die Veränderungen der globalen Lieferketten, die hier durchschlagen.

Und die zweite Sache: Weil die Unterschiede zur Schweiz und zu den USA noch kamen, darf man ja nicht außer Acht lassen, dass wir in der Europäischen Union eine sehr spezifische Konstruktion unserer Wirtschafts- und Währungsunion haben. Deswegen kommt für mich heraus – und Sie waren darauf schon ein bisschen eingegangen – die Frage: Eigentlich ist das Ganze doch nur so in den Griff zu bekommen – auch im Sinne einer Senkung der Inflation –, wenn wir es mit einem *policy mix* zu tun haben, wo natürlich die Zentralbank eine zentrale Rolle spielen muss, aber auch die Wirtschafts-, Währungs- und Steuerpolitik sowohl der Mitgliedstaaten als auch der EU gefordert ist, weil man ansonsten nur negative Auswirkungen daraus haben wird.

Welche Anforderungen gibt es da aus Sicht der EZB? Und gibt es – das wäre das Beste – auch noch entsprechende Abstimmungen zwischen den verschiedenen Ebenen? Denn ansonsten sieht es düster aus, finde ich.

1-040-0000

**Christine Lagarde**, *President of the European Central Bank*. – Well, thank you so much for your question, Mr Schuster. Let me just again reiterate that inflation is largely caused by exogenous shocks, largely attributable to energy, certainly accentuated by what we have experienced since

the outrageous, unjustifiable war by Russia against Ukraine and that, given the magnitude and given the spreading that those factors have had on our prices across the euro area, we had to take measures.

Incidentally, it is not the same whether we look at the Baltic countries, for instance, or whether we look at Malta or France. You are talking about inflation readings that vary from 5.5% to 20%, and this is clearly the illustration of a point that I made earlier on which has to do with geography, proximity to Ukraine and the war and disruption of the supply chain and the proximity of neighbours with which trade is being conducted, but also the importance played by energy and the importance played by food in those baskets in the various countries that are most affected by inflation.

But we do have that fragmentation in terms of inflation, or that distribution across the euro area. That's a point that you made yourself when you said that comparisons with the United States or Switzerland ignore the fact that we are in a completely different political structure as well, with 19 Member States, with 19 fiscal policies, with 19 different treasury bonds that are issued and not one single issuer or one single treasury to contend with and to deal with and to cooperate with.

I come to the second part of your question, which is that, while our mandate is definitely to maintain price stability, we are also very attentive to what fiscal authorities do and how we can either complement each other or leverage on each other. I think that during the pandemic period we have demonstrated that fiscal and monetary policies could work hand in hand and support each other and complement each other. The situation is slightly different now as we proceed into monetary policy normalisation, which leads us to stopping net asset purchases and moving to interest rate hikes in the future.

1-041-0000

**Rasmus Andresen (Verts/ALE).** – Thank you, President Lagarde. I have two questions. First of all, I would like to ask you to elaborate a bit on a statement from your colleague Isabel Schnabel, bringing the attention to the fact that enormous profits are a key contributor to, in fact, inflation. Enormous profits are a key contributor to inflation. And that's what your colleague Isabel Schnabel pointed out, from my perspective, very well.

So I would like to ask you if you are agreeing with your colleague, Isabel Schnabel, and what does that even mean also for the decision-making process in the ECB? And my second question is, in response to or additionally to my colleague Paul Tang, where you once again mentioned the importance of not slowing down the green transition. And of course, I fully agree, but I would like to ask a little bit more into where we stand on the process of debating, for example, a green discount rate also in the ECB. You mentioned that there are different opinions, but I think it's time to speed up also the process here. And I would like to ask you when we can expect some decisions in this regard.

1-042-0000

**Christine Lagarde, President of the European Central Bank.** – Well, thank you very much for asking me to clarify the comments or the views adopted by my colleague and friend, Ms Schnabel. I think I will leave it to her to actually completely identify the whys, the pros and the cons of her statement. But I think that, as far as we are concerned, we trust social partners to reach the right conclusions in relation in particular to the right allocation of profits between reinvestment, wages and distribution of dividends. So that all factors contributing to the economic developments and creation of activity be remunerated as they should be.

And it is in that respect that we believe that we can also play a role in identifying the path that we are planning on taking for the future to reach our 2% medium-term objective and to help guide the discussions that are taking place – that should take place – between the social partners in order to arrive at a proper compensation under the current circumstances. So far

from me to say that there should not be wage increases or compensation, it's completely legitimate that there be such remuneration and such compensate compensation with inflation where it is. But I think that it is also equally important – and that's our job as European Central Bank – to make sure that we maintain price stability and that we can anchor inflation expectations adequately around the 2% and not expose ourselves to the risk of being in excess of 2%.

Now, you had a second question on the green – I'm not sure that you asked about the green bonds in particular – but about green policies in general and how we can deliver on those green policies. I'm going to go back to the things that we have done and the things that will be done. You know that we have a road-map in which we've identified very clearly what we should do, what the timeline is, and who is doing what and who is counting on whom as well. So what have we already done? First of all, in terms of economic analysis, we have started a wide-ranging effort to improve our analysis of climate change and related policies and to adopt our macro-economic models' modelling activity to account for the economic impact of climate change.

This is this sounds like a small task. It is not. It is a fairly complicated endeavour that we have started that is well under way, that is on time. And where we are really spending resources to make sure that our modelling capacity is including now climate change risks and climate change impact on our macroeconomic development.

Second, on monetary policy, we have started to take relevant climate change risks into account in ECB due diligence procedure for its corporate sector asset purchases in our monetary policy portfolio. Remember that we had initially taken those into account for our non-monetary policy portfolio, which is of course much smaller. This is now taken into account in our monetary policy portfolio. When I talk about the non-monetary policy portfolio, that includes in particular the pension fund portfolio that we have at the ECB, which is now ... and I just want to make sure that, yes, we have reduced our carbon footprint by 60% in that respect for our non-monetary policy portfolio.

Now, in terms of financial stability, the ECB regularly monitors and assesses climate related financial stability risks for financial institutions and firms. And we have actually published on this matter in the ECB financial stability review and ad hoc reports. We do that jointly with the ECB. And I'm sure that if you stay a bit longer after 5 p.m., you can also ask me questions from ESRB point of view, because I'm also head of the ESRB.

And two other matters that I would like to mention. One is on stress testing, where we published the results of an economy-wide climate stress test that we concluded at the end of '21, which is not very reassuring, which is quite alarming, and that we hope that players will take into account in order to actually include climate change related risks in their balance sheet, in their provisions, in the way in which they manage risks internally.

And finally, banking supervision: we have increased efforts to systematically integrate climate and environmental considerations into our banking supervision, launching a supervisory climate stress test in January '22, which will be published very shortly. And I have to add that – and I cannot disclose all that at the moment because publication has taken place on the 1st of July – but we will be actually including all those elements that I have just mentioned, which are largely public domain with other matters that are in and finalisation that will be published on 1 July.

So action plan is on. We are on time, we are on budget. We have a climate change centre which is functioning, which is coordinating all the functions within the Eurosystem. And we are, as I said earlier on, marching on. Now I really count also on work that is being done on

the Disclosure Directive in particular, in order to make sure that the delegated act that has been proposed by the Commission is completed as early as possible so that we are not delayed unnecessarily by too long a process that maybe you have to take. I don't want to pass judgment on the speed of the work that you do, but the time of implementation of that is going to be critically important for us.

There are multiple standards out there, as you know, and I would hope that those that are decided at the European level will set standards across the board. But time is of the essence for that, and we will rely on you and we depend on you for that.

1-043-0000

**Gunnar Beck (ID).** – Ms Lagarde. I've done a little calculation here: so if we have 8% inflation this year, 6% next year and then, assuming the ECB is going to back to 2% in two years' time and keeps the inflation rate at about 2%, then over the five-year period, there's been a 22% increase in the index that averages out at about slightly under 4.4%.

So, rather than suggesting that in about three years' time, one may attain the 2% target again, wouldn't it be far more appropriate to talk about a 4+ rate of inflation over a five-year period? Assuming that these figures are at least possible, even if they're slightly lower, we'd still be at around 4% on average. Because that's effectively what people have to suffer.

1-044-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you, Mr Beck. But I don't recognise the numbers that you have mentioned, because the our inflation numbers for '22, '23, '24 are 6.8%, 3.5%, 2.1%. So I don't have any of that 8-6 and the destination number that you have got correctly.

So the intermediary numbers are different, and we cannot rely on a month reading because May '22 compares with May '21, but May '22 is not the entire year '22. Our assessment at this point in time in our projection is that we will be at 6.8% for the overall euro area, and we come from numbers that are far lower. If you look at the two years before that, I remind you that during '20 and '21, inflation numbers were much lower than the numbers that we are talking about at the moment.

So I'm not disputing that inflation is undesirably high and is hurting everybody, more particularly the most vulnerable people. And we need to act and we have to do everything that we need to do and have to do in order to bring inflation back to target in the medium term. And rest assured that we will do so.

1-045-0000

**Michiel Hoogeveen (ECR).** – Thank you, President Lagarde for visiting the European Parliament again. For a long time we had a rather lengthy discussion about inflation and whether it was majorly contributed by Ukraine or either the COVID pandemic or whether the seeds were planted a long time ago with the monetary policy.

But my question is one of the consequences of the monetary policy, and that's the housing market. Last week in the United States, Jerome Powell of the Federal Reserve said that home prices have been moving up very strongly for the last couple of years, and that will change. Also in the euro zone, housing prices have been on a tear for years, even accelerating as the ECB's own ultra-easy policy pushed mortgage rates below zero.

Last time we spoke, you addressed the fact that in some countries and cities in the euro zone, there are strong vulnerabilities in the housing market. Also, the European Central Bank said, I think last month, that the eurozone's overpriced housing markets may sag if mortgage rates rise faster, exposing debt-fuelled bubbles in some countries. So how is your assessment now on the housing market vulnerabilities now that the rates in the euro zone will increase?

1-046-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Mr Hoogeveen. It is, in fact, very nice to be here and to see each other in this great European Parliament.

Our assessment is that – I’m talking here residential real estate, not commercial real estate – residential real estate vulnerabilities have been building up throughout the pandemic in several countries in particular, as I had said a previous time. I think I did mention that, but I just want to mention that yet again it is not caused by monetary policy, it’s explained by multiple factors, including monetary policy, but it is also about the supply of housing that is or is not available in many countries, rising demand for housing.

The pandemic has also created a new type of demand, with people deciding to actually leave the central part of the cities to move elsewhere beyond in order to have more space, possibly, and have gardens and have the ability to work flexibly from home as well as in a hybrid way.

So I think all of that is coming together to lead to a strong house-price growth that we measure in some section of the euro area at +9.6% in the fourth quarter of ’21 and indicating mortgage-lending dynamics as well. So there are multiple forces at stake at the moment.

I’m almost infringing on what we will discuss at the ESRB meeting possibly, but many countries have actually received from the ESRB warning or recommendations back in 2019 that related to their vulnerabilities and their exposure, which actually called for macro-prudential measures that were to be taken. And here there are countries such as Belgium, Germany, Finland, Luxembourg, the Netherlands that were actually identified by the ESRB as warranting to take action and possibly follow the recommendations that were specified by the ESRB.

And those macro-prudential measures, particularly when they are borrowers-based, whether it’s mortgage-to-value or whether it is debt service-to-income, actually have an impact on the real estate residential market. But this is a phenomenon that is developing. This is one on which the ESRB is particularly attentive and where recommendations and warnings have been issued and, from many countries, actually implemented in order to resist the current situation.

I think it’s also a risk that has been flagged by the financial stability review report that was published earlier on in June as an area that we had to really pay particular attention to. So thank you for your question.

1-047-0000

**Irene Tinagli (S&D)**, *Chair*. – Thank you all very much. Now, we have the requests for two catch-the-eye and we do have some time. So let me just remind you that the catch-the-eye is one minute for the question and two minutes for the answers. And we start with Georgios Kyrtos for Renew and Mick Wallace for The Left.

1-048-0000

**Γεώργιος Κύρτος (Renew)**. – Θα μιλήσω στα Ελληνικά για να προλάβω, έστω για ένα λεπτό. Πρώτον, καταλαβαίνω την πολιτική της Ευρωπαϊκής Κεντρικής Τράπεζας, η οποία είναι και ευεργετική για τη χώρα μου, την Ελλάδα, και ευχαριστούμε πολύ. Υπάρχει, ωστόσο, πάντα μια κριτική διάθεση έναντι της Ευρωπαϊκής Κεντρικής Τράπεζας. Λέγεται ότι παρεμβαίνει σε ζητήματα που πρέπει να καλυφθούν με καλύτερο συντονισμό της δημοσιονομικής πολιτικής, και τέτοιος συντονισμός δεν υπάρχει σε αυτή τη φάση, ούτε υπάρχει πολιτική βούληση προς αυτή την κατεύθυνση. Ποιο είναι το σχόλιο της κυρίας Λαγκάρντ;

Το δεύτερο σχόλιό μου αφορά τους ανθρώπους του τουρισμού. Όταν ταξιδεύουμε στην Ευρώπη βλέπουμε ότι οι εργαζόμενοι καταπιέζονται από τους ρυθμούς. Ξέρουμε ότι πολλοί

δεν δέχονται πλέον θέσεις στον τουρισμό και ταυτόχρονα βλέπουμε ότι δεν ανεβαίνουν οι μισθοί. Πώς το εξηγεί αυτό η κυρία Λαγκάρντ; Δηλαδή ότι υπάρχουν τομείς όπου οι εργαζόμενοι δεν τα βγάζουν πέρα, αλλά και μία γενική κατάσταση όπου, παρά τον πληθωρισμό, δεν ανεβαίνουν οι αποδοχές;

1-049-0000

**Christine Lagarde**, *President of the European Central Bank*. – Well, thank you very much for your two questions. The first one, which has to do with the coordination with fiscal policy and thank you for acknowledging that our monetary policies is serving your country. It's really nice actually to hear some of those comments occasionally. Thank you.

I think that back in ... we started in December 2021 where the Governing Council emphasised the importance of sustainable fiscal positions for price stability and sustainable growth in a smoothly functioning EMU. And we stand by that comment.

It's clearly a fact that I hope will be taken into account when the new negotiations take place to define the new stability and growth pact, where commitments will provide for more simplicity, more transparency, more predictability, as well as a clear focus on the counter-cyclical fiscal policies that have to be adopted.

I don't want to guess or anticipate what the outcome of those negotiations will be, but we have issued two recommendations by the Governing Council, which were discussed in depth, and hopefully they will be taken into account when the negotiations take place between Commission and Member States and come out at the end of the escape clause time-frame.

Second, on wages: let me just make a few points because I have still a few seconds to run. We are seeing wage increases that are higher than what we had observed in the previous years. When we are saying that we are still seeing moderate wage increases, it's not as we had expected them to pick up given the tight labour market that we have and given the inflation numbers and readings that we have in that respect. So we had anticipated and we still anticipate that it will increase more than what we have observed so far.

But two observations: it is quite difficult to actually observe and measure accurately up-to-date wages numbers because most of the indicators that we have are looking backward and are relatively obscure because you have the indemnification systems that were put in place during COVID that come in the way of those numbers.

It's not noisy, but it's a bit messy. So what we decided – and that's my second point – we decided to put in place a wage tracker analytical tool in order to better understand what was happening on the wage front. But even on that one, it's not that easy because you have the negotiated wages, you have the catch-up effect, which is not always perfectly characterised as such in order to track it, and you have those that are negotiated between social partners, employers and unions and those that are operating at large corporate levels. In addition to that, you have the impact of minimum wages that will be increasing in various, including large, countries of the euro area that will come about in early October for some and a bit earlier for others.

So it requires quite a lot of in-depth analysis and good, thorough work to really understand what's happening on the wage front. But so far, while numbers have increased – they definitely have increased – we are no longer saying that it's hovering around 1.6%. No, it has definitely increased and we anticipate that it will continue to increase.

I don't know if we have included that chart actually. Did we? Yeah. So I think you have – it's on the back. Let's see. Yes, it's that one. It's the one on the front page where you have this here that summarises a little bit the result of the wage tracker that we have we have put in place. But it's

very much work in progress, and we hope that it will continue to improve and be more specific and more precise than what we have.

1-050-0000

**Mick Wallace (The Left).** – Thank you very much, Chair and thank you, Ms Lagarde. I'd like to know what you think of the argument that ECB policy should look to repress asset prices – such as houses and share prices – so as to stop scarce financial resources being wasted in building up paper values. You should be looking to push down the prices of basic goods while allowing for higher returns to investment in green energy and transport, and looking to deliver massive investment in energy conservation and green energy, transport, agriculture and public housing.

So should the central bank not make money a lot more expensive for the rich by hiking up interest rates and providing cheap money for investing in the things that the majority of people and the environment need?

1-051-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you so much for your question. But it's precisely the mandate of the ECB that was assigned to it by the Treaty to maintain price stability. And what we are doing at the moment by following this path of normalisation of monetary policy, is responding exactly to that: bringing inflation down and making sure that it returns to the 2% target that we have assigned for price stability at the end of the medium term. So that's what we are doing.

It so happens that there has been – as we have signalled our determination to follow that path of normalisation – there has been a repricing of assets. But it has taken place, and this is very likely the result of the signals that we have been given concerning this path of normalisation that we are determined to pursue in the months to come until we reach our medium-term outlook inflation target of 2%.

1-052-0000

**Chair.** – Thank you very much. Now we have completed all our speakers for the monetary dialogue. The next point still involves President Lagarde under her other hat of Chair of the European Systemic Risk Board.

But before we start the public hearing for the European Systemic Risk Board, I propose a five-minutes break so we can have a glass of water and allow the other MEPs to join. Thank you, five minutes.

*(The Monetary Dialogue closed at 16.58)*