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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, 28 NOVEMBER 2022**

1-002-0000

**IN THE CHAIR: IRENE TINAGLI**

*Chair of the Committee on Economic and Monetary Affairs*

*(The meeting opened at 15.05)*

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**Chair.** – Ladies and gentlemen, now we can move to the core of our meeting today, which is the monetary dialogue with Christine Lagarde, President of the European Central Bank.

Welcome, President Lagarde, to this fourth monetary dialogue of 2022. Our monetary dialogue today is taking place in a very particular and challenging economic environment, which is still marked by high uncertainty and strong inflationary pressures. In October, headline inflation in the euro area reached its highest level since the introduction of the euro, with the HICP inflation rate standing at 10.6%. According to the ECB's November Financial Stability Review, the probability of recession in the euro area for 2023 is close to 80%.

Since the last monetary dialogue on September 26, the ECB's Governing Council has continued on its monetary policy tightening path. On 27 October, key interest rates have been increased further, by 75 basis points. In addition, the Governing Council decided to set the remuneration of minimum reserves at the ECB deposit facility rate. Finally, the Governing Council chose to adjust the interest rate applicable to TLTRO III from November 2023 and to offer banks additional voluntary early repayment dates.

Our dialogue today will be the last one of 2022, a year of turbulence and high uncertainty caused by Russia's invasion of Ukraine nine months ago. Since then, the economic outlook for the euro area and the global economy has deteriorated dramatically. At the beginning of 2022, it was only a remote possibility that we would be simultaneously facing such a serious risk of high inflation, recession and financial instability. But as the war continues, this is now unfortunately increasingly becoming a baseline scenario. In this context, two topics were chosen by the ECON Committee coordinators for today's meeting. The first one is 'inflation as a global challenge', and the second one is 'inflation differentials: consequences for monetary policy'. As usual, our briefing papers that were prepared by the European Parliament's panel of experts are available on the ECON committee's website, and some of them were presented and discussed last Thursday in Strasbourg.

Our experts highlighted that both international coordination and domestic coordination between monetary policy and fiscal policy would be extremely important. As for international coordination, our experts' view seems to be confirmed by the most recent OECD economic outlook that was published last week. The OECD finds that when all central banks hike interest rates simultaneously, the negative impact on GDP is larger but the impact on inflation

is smaller because the foreign exchange channel is muted. Coordination would therefore be essential, but we all know that it is historically extremely difficult to get. As for internal coordination, all our experts agreed that domestic, monetary and fiscal coordination would probably be the first and most important step to be considered.

While everybody agreed that monetary policy has to intervene, it is important that fiscal policy plays a role too. By its nature, fiscal policy can be more targeted than monetary policy and therefore may help households and firms to face extra large energy bills and can reduce possible second round effects on wages, making central banks' task easier. Monetary and fiscal policy can be synergic in the sense that if you use both, you can use less of each if taken alone.

Of course, the domestic coordination of monetary and fiscal policy is not easy too. However, an uncoordinated solution may have a strong negative impact on real economy as well on financial stability. What is important is that we should not be too demanding on what monetary policy can do in this context. If we give the idea that central banks can do whatever they want with inflation, we might risk to endanger their credibility and therefore their own effectiveness. We should not ask them too much, but we have to ask them what is right, and we have all to coordinate all the policy efforts on the monetary, fiscal, economic side, because that's the only way we can really get out of the current dramatic situation.

So today's meeting is organised as follows: there will be introductory remarks by President Christine Lagarde of 10 minutes, followed by a first round of questions – one slot per political group – where each speaker will have 1.5 minutes for the initial question and 3 minutes for the answer, with the possibility of a follow-up question of 1 minute maximum for the question and 2 minutes maximum for the answer. Then we will have a second round of questions where we will apply the d'Hondt system, with 1 minute for the question and 3 minutes for the answer. Please stick to the time. One question at a time. This will make the debate easier, smoother and we will have the opportunity to ask all the questions and have all the answers.

President Lagarde, we are now looking forward to hearing you. You have 10 minutes.

1-004-0000

**Christine Lagarde**, *President of the European Central Bank*. – Chair, honourable members of the Economic and Monetary Affairs Committee, ladies and gentlemen, over the past 12 months the ECB has embarked on a swift and comprehensive process of normalising monetary policy.

First, we ended net asset purchases in a matter of a few months. Next, we started raising our policy rates at their fastest pace ever. In my short remarks today I will briefly look back on the past year – as this is our last meeting before year end – and I will focus on the key actions taken by the ECB, and the EU more broadly, to address people's concerns.

I will also address briefly the two topics selected by this committee for today's hearing, namely the global monetary policy cycle and inflation differentials, or the divergence.

So as the Chair indicated, it has been a challenging year for Europeans. The Russian invasion of Ukraine has caused widespread human suffering. It has also shattered our sense of safety, threatened our energy security, disrupted supply chains and contributed to pushing inflation well above our target.

The shock hit just as we were coming out of the pandemic and has continued to cause economic disruptions. The repercussions have been felt not only in Europe but also around the world. Inflation has surged almost everywhere, prompting central banks – pretty much all of

them except two – to raise interest rates, and leading financing conditions to tighten rapidly worldwide.

This is something that you will have observed in the two pages that I'm sure you all received. It's at the bottom of page two. This is also the topic that you have chosen.

Given our proximity to the conflict and our dependence on energy imports, Europe in particular has been hit especially hard. Higher energy costs have been a key driver of euro area inflation, which in October reached double digits for the first time since the start of the monetary union, with a reading of 10.6.

While the energy shock and global bottlenecks have constrained supply, the re-opening of the economy after the pandemic has led to a rapid release of pent-up demand, contributing to the upward pressure from demand factors on core inflation, which has increased gradually over the year. That is referenced in the first page of the document that you have received, in the middle panel.

The rise in inflation affects everyone, but some are feeling it more than others. I am thinking particularly of those on low income who spend a larger share of their consumption budgets on essentials such as food, electricity, gas and heating expenses, while having lower financial buffers to cover the rising cost of living.

Currently, the gap between the effective inflation rate experienced by the lowest and highest income groups is by far at its highest level on record in the euro area. We at the ECB have conducted research on that particular matter to evaluate by how much it is harder on the lower income quintile.

The divergence in inflation rates across euro area member countries is also at a record high, mainly due to different degrees of exposure to the energy shock and to the pandemic. This is also in your two-pager – on the second page in the upper panel – and this is a topic that is widely discussed by the papers that you have commissioned in respect of divergence within the euro area. We are monitoring those differences carefully and expect them to normalise as the impact of these shocks fades over time.

The different shocks over the past year have also had an impact on real economic activity. While the reopening of the economy after the pandemic resulted in surprisingly strong activity at the beginning of the year, growth is now slowing down rapidly as a consequence of the war.

By reducing people's real incomes and pushing up costs for firms, high inflation is dampening spending and production. High uncertainty, tighter financial conditions and weakening global demand are also weighing on economic growth, which is expected to continue weakening for the remainder of this year – fourth quarter – and the beginning of next year – first quarter of 2023. That's referenced in your two-pager as well.

So how can the ECB address people's concerns that I have referred to now while also delivering on its mandate, which is price stability?

Faced with the unprecedented challenges that you know well and that I have briefly alluded to, Europe has risen to the occasion and shown a strong sense of unity and solidarity – thanks also to the crucial role played by this Parliament in pushing for genuinely European actions.

Beyond providing financial, humanitarian and military assistance to Ukraine, the European Union has taken significant steps to shield us from the consequences of the war, enhance our

resilience and reduce our energy dependence. The European response to the war has garnered broad support among citizens, and optimism about the future of the EU has increased.

Two out of three citizens now consider their country's EU membership a good thing, and this is the highest result since 2007. I know we tend to like to beat our chest, but now and again it's also helpful to see how your action – our action collectively – is perceived.

But the same surveys also show that one-third of citizens find the rising cost of living to be the most important issue facing the European Union. Although the majority of citizens believe that the defence of our common European values must be a priority, even if this has a negative impact on the cost of living, every policymaker should respond to this challenge.

So in accordance with its mandate of price stability, the ECB is doing its part. Our third major policy rate increase in October, resulting in a cumulative increase of 200 basis points since July, underscores our commitment to tame inflation. It is the fastest paced ever since the creation of the euro.

This increase was accompanied by a recalibration for our targeted longer term refinancing operations – often referred to as TLTRO III – to reinforce the transmission of our policy rate increases to bank lending conditions and contribute by so doing to the normalisation of the Eurosystem balance sheet.

In December, at our next Monetary Policy Governing Council meeting we will also lay out the key principles for reducing the bond holdings in our asset purchase programme portfolio, because it is appropriate that this balance sheet is normalised over time in a measured and predictable way.

Interest rates are, and will remain, the key tool for fighting inflation. Higher interest rates reduce demand pressures by making it more expensive to borrow money and by influencing how much people and businesses spend, save, borrow and invest. This in turn puts downward pressure on prices, although the adjustment will take some time to be felt in the economy.

Higher interest rates will also have an immediate effect on people's and businesses' expectations about future inflation, thereby guarding against the risk of second-round effects. Persistently high inflation could lead to de-anchored inflation expectations, which then become engrained in wage negotiations and price setting. Not only would the resultant wage-price spirals prove self-defeating in supporting real incomes economy-wide, but it would also hamper the productive capacity of the economy as a whole.

Strong labour markets – with the unemployment rate still at the historically low level of 6.6 per cent in September – are likely to support higher wages. Incoming data suggest that wages are picking up, and we will continue to assess their implications for the medium-term inflation outlook. That is reference to in the first page of the document that we have sent you.

While monetary policy is geared towards bringing inflation back to our medium-term target, the economic outlook will also depend on the action taken by other stakeholders. In the current environment of high inflation, fiscal policy needs to be considerate, to not add to inflationary pressures.

Fiscal support should therefore be targeted, temporary and tailored. It should be targeted so that the size of the fiscal impulse is limited and benefits those who need it most. It must be tailored, so that it does not weaken incentives to cut energy demand, and temporary, so that the fiscal impulse is not maintained longer than strictly necessary. At the same time,

governments should pursue fiscal policies that show they are committed to gradually bringing down their public debt ratio.

Delivering on the ECB's mandate will create the conditions for strong and sustainable growth that will benefit everyone. Yet, achieving price stability is a necessary, but not sufficient condition as other policy areas need to act.

Removing constraints on economic growth through an ambitious economic reform agenda at the EU and national levels will not only rebuild supply that has been impaired by the recent shocks. It will also, over time, strengthen the resilience of our economy in a world that is becoming less predictable.

In this respect, we welcome the Commission's proposal to reform the EU economic governance framework. Sustainable fiscal policies are needed not only to ensure medium-term debt sustainability, but also to support the three key transitions that will determine our future and our growth model, towards cleaner energy, greater economic security and a more digital and productive economy.

The Commission proposals are a good starting point for discussion and I encourage EU policymakers, including the Parliament, to soon reach a viable and broadly shared agreement to help strengthen the foundations of our Economic and Monetary Union.

So in conclusion, we are committed to bringing inflation down to our medium-term target, and we are determined to take all necessary measures to that effect. We expect to raise rates further to the levels needed to ensure that inflation returns to our 2% medium-term target in a timely manner.

In this environment of high uncertainty and with complex shocks hitting the economy, the Governing Council decisions will continue to be data-dependent and follow a meeting-by-meeting approach. How much further we need to go, how fast we need to get there, will be based on our updated outlook, on the persistence of the shocks, on the reaction of wages and inflation expectations, and on our assessment of the transmission of our policy stance.

I now stand ready to take your questions.

1-005-0000

**Esther de Lange (PPE).** – Madam President, thank you very much for being with us today. I would be tempted to directly ask you 'how fast' when referring to your latest statements, but I'm quite sure you're going to stick with the brief that you have, so allow me maybe to touch upon an issue that is not directly linked to monetary policy but that has strong financial stability considerations, and that's the energy derivatives market.

Energy is in all of our minds, and you have spoken about inflation really touching the lowest income groups most, and therefore in this parliament there are many who want to do something and who have already done quite a lot. You've also mentioned the fact that these measures need to be more targeted than they are in most Member States. But I would like to talk about the latest proposal by the Commission to cap them on the head – TTF gas contracts, derivatives – in case certain conditions are met.

Now, you will be aware that the *Financial Times* has also reported that the leading exchange platform for these contracts estimates that merely introducing this cap – so without triggering it – would lead to increased margin calls for energy traders of around 33 billion. That is at least what the *Financial Times* told us. This comes, of course, on top of the fact that many

energy firms are already liquidity-strained, such as Uniper, and that according to the ECB itself margin requirements for energy producers have already doubled in this year.

So my question is, does the ECB share this assessment that we've all read in the *Financial Times* that introducing the price cap would lead to significant increases in collateral requirements? And what is then the ECB's opinion of this instrument, given the effects it could have on energy markets, the ECB's bank credit lines and, in the end, financial stability as a whole?

1-006-0000

**Chair.** – We will have a hearing exactly on this topic on Thursday.

1-007-0000

**Esther de Lange (PPE).** – I'm really interested in what the President has to say on the issue, because it's something that is really close to our hearts at the moment.

1-008-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much Madam de Lange, for this question. It is it is close to your heart, and it is close to our heart as well, because it is clearly one of the key components of inflation. When we look at, you know, by how much energy has contributed to inflation, by how much, month over month it has affected all citizens and clearly impacted inflation, it is important. 41% is not a thing that we should be treating casually.

So we are very attentive to the work that is being done. We are very keen to see a European response, because as I tried to say in my introductory remarks, whenever Europe reacts as a whole and not on a piecemeal basis, country-by-country, it is stronger and it is demonstrating the value that it can deliver for the citizens.

I'm not going to give you much by way of our opinion concerning the proposal – and I'm assuming that you are referring to the cap mechanism that has been put in place and that obviously has been caused by the various margin calls and the derivative market disruption that we saw much earlier –for the simple reason that we've been alerted to it only a few days ago and that the ECB is mentioned on a couple of occasions, actually more than a couple of occasions in that document, and as a result of which we will give a seasoned and thought-through opinion on this matter to see what role we can play, how we can help and in which respect from the financial stability point of view, and purely financial stability point of view, we can offer some assistance.

But, you know, we do not actually take a view on the efficiency of the tool because it is not something for us to opine upon. We will look at it from a financial stability viewpoint and we will look at the instances where the ECB would be called upon to provide its views. But we certainly cannot be acting as a substitute for political decisions that need to be made and that are called for at the political level, not at the level of the European Central Bank.

1-009-0000

**Esther de Lange (PPE).** – One question is already answered – that was whether the ECB would publish an analysis of the proposal, which I think is good. Secondly, would the ECB be interested in having the formal task of giving its opinion before such a cap is triggered so that, if triggering was coming into view, the ECB would be asked, would have to give an opinion on the financial stability implications of that?

If you don't want to answer that question, you can always comment on Governing Council board member Isabel Schnabel's comments last week about the incoming data so far, suggesting that the room for slowing down the pace of interest rate adjustment remains limited. Of course, you are not going to give us much more than your final paragraph, but

maybe you can say a couple of words on her statement and where you expect that analysis to go in the months ahead.

1-010-0000

**Christine Lagarde**, *President of the European Central Bank*. – So this is not really a follow-up question. It's another question that you are asking, which is a completely different story.

1-011-0000

**Esther de Lange (PPE)**. – The first one was a follow-up, whether the ECB would want a formal role in the triggering of the instrument.

1-012-0000

**Christine Lagarde**, *President of the European Central Bank*. – I think I tried to make it clear in my initial answer, which is that if asked about financial stability, my suspicion is that – and this is a bit premature because we have not conducted the analysis, and while our international department has worked really hard over the weekend to make sure that they understood the ramifications, the various points in the decision-making process, where the ECB would be consulted – we would give an opinion, a legal opinion if you will, on the document, on these various aspects; not on the entire instrument that is being proposed, but on the areas where the ECB would be consulted for financial stability purposes, as I understand it, on 'prior upon operating', 'prior to stopping', etc..

So let's wait until the legal analysis is completed and whether we see there is a role for financial stability purposes – and let me stress once again, it's for financial stability purposes, not for political appreciation or calculations.

On the other matter, I'm sure that in the course of the questions that follow, I will be saying a few things in respect of this persistent high inflation that we are seeing now.

1-013-0000

**Pedro Silva Pereira (S&D)**. – Thank you Chair, and thank you President Lagarde for being with us again in the European Parliament.

In October, inflation in the euro area reached 10.6%, but prices declined by 4.2% in Germany – the first month on month decrease since May 2020 – suggesting that inflation might be approaching its peak, which would, by the way, be consistent with the ECB projections, saying that inflation will decline in 2023 and even more in 2024. In fact, your Vice-President, Mr de Guindos, very recently said that euro area inflation was likely at its peak, or anyway close to it.

Do you agree with this assessment that we now have more and more indications that inflation, although still very high, might be approaching its peak and this should have consequences in the decisions of the Governing Council in December? I know that you said that interest rates will remain the fundamental tool of monetary policy and you expect to raise interest rates even more, but would you say that it is likely that the rhythm of this increase is now reduced, taking into account these indications and also the fact that we are heading to a technical recession in the eurozone?

1-014-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much Mr Silva Pereira for this very focused question on inflation, which I think is well chosen, given the importance that it has for people and the very strong value that we give to inflation in delivering on our mandate of price stability.

Headline inflation, the one that we look at most, has hit its highest reading in October – 10.6%. Core inflation has been very high as well at around 5%. I would like to see inflation

having peaked in October, but I'm afraid that I would not go as far as that. I think that there is too much uncertainty, particularly in one component – which is the pass through of high energy cost at wholesale level into retail level – to assume that inflation has actually reached its peak. It would surprise me. Obviously, in the longer term, inflation will decline, if only because of our monetary policy, number one, but also because bottlenecks that have been putting pressure on supply will gradually fade out.

But when you look at the other drivers behind inflation at the moment, whether it is food and commodities at large or whether it is energy, we do not see the components or the direction that would lead me to believe that we have reached peak inflation and that it is going to decline in short order. I think that whenever I ask my top-notch economists at the ECB and I ask about the risks, the answer that I get for the moment is that risk is to the upside, without qualifying the upside.

So that's how we perceive inflation at the moment and that prompts us to continue to tame inflation with all the tools that we have and, as you very well noted, the one that is first and foremost efficient in the circumstances is the interest rate.

1-015-0000

**Pedro Silva Pereira (S&D).** – Thank you Chair, may I ask a second question – a different one, but quite an interesting one, on the degree of alignment between monetary policy and fiscal policy. Of course, fiscal policy has to find its way between looking for some consistency with monetary policy, but also supporting the economy, in particular the most vulnerable people and economic sectors, but also not jeopardising the European funds that are now available for investment, for the recovery and the transitions that you mentioned.

One of the topics of discussion on the fiscal policy front in the EU currently, is the calendar for investments and the recovery plans. Would you agree that a more flexible calendar for the use of the recovery funds will be useful to allow for better alignment between fiscal policy and monetary policy and also allowing for better and more rapid results in terms of addressing inflation?

1-016-0000

**Christine Lagarde, President of the European Central Bank.** – That would warrant a much longer response than I'm allowed to give you, but I will try.

Monetary policy and fiscal policy should operate with good understanding of the action of the other. Monetary policy is focused on restoring price stability, on fighting inflation, using the tools that I have just mentioned, and moving out of these accommodative policies that has been the policy for many years – and which is still accommodative, by the way – so, that's what we have to do.

Fiscal policy, at the same time, needs to be attentive to those that are most affected by the current situation and by the necessary monetary policy action that we take, which is why we say that it should be temporary, targeted and tailored. You must have heard that a thousand times.

Unfortunately, when we look at the budgets and the fiscal plans by the various Member States, not all of it is temporary, targeted and tailored. According to the Commission, it's more like 30% of it is. By our own calculations, it's less than 30%. But whether it's 30% or 15%, by our own calculations, it is still way too little, which means that some of those measures that are taken, which are not temporary, not targeted, not tailored, are actually going, ultimately, to contribute to inflation. They will put upward pressure, certainly when normal operations are restored. They might put inflation under downward pressure in the first phase, but it will return to upward pressure when those measures are removed eventually.



I think I would draw a line between the support measures that are decided often at the national level and the fiscal impetus that is given by the Recovery and Resilience Fund, which is targeted at improving the productivity capacity of our European economies, and which as a result will improve and increase the output capacity of Europe.

So I would not put them exactly in the same basket.

1-017-0000

**Stéphanie Yon-Courtin (Renew).** – Madame la Présidente, chère Christine, un grand merci tout d’abord d’être ici. Merci pour votre action déterminée afin de protéger le pouvoir d’achat des Européennes et des Européens qui, plus que jamais, sont attentifs aux décisions prises par, notamment, la BCE, mais également les institutions européennes et les pouvoirs publics.

On ne peut qu’accueillir favorablement les signes volontaristes de la BCE, de sorte qu’une nouvelle hausse de taux pourrait être envisagée, mais on est désormais confronté à une inflation persistante à deux chiffres, et sans être devin – peut-être à la différence de mon collègue précédent –, on peut penser que l’inflation est là pour rester et persister. Ça pourrait être une réalité de long terme si, notamment, les marchés ne faisaient pas confiance à la capacité de la BCE à maintenir la stabilité des prix. Avec cette préoccupation en tête, j’aimerais vous poser trois questions.

La première question porte sur le fait – et on l’a bien entendu de votre part – que la BCE, bien évidemment, s’inquiète de voir les taux de la zone euro s’ancrer à plusieurs points au-dessus de la cible. Jusqu’où la BCE est-elle prête à aller pour agir de manière décisive contre ce problème?

La deuxième chose – comme l’a montré le premier sujet du document qui nous a été distribué et que la BCE vient de sortir – est qu’il existe des divergences significatives de taux d’inflation entre les États membres. Comment l’évolution différente des prix dans la zone euro peut-elle affecter la capacité de la BCE à développer une politique cohérente pour cibler ce problème?

Enfin, j’aimerais vous interroger sur le récent mécanisme anti-fragmentation, dont la mise en place, bien évidemment, vise à alléger la pression sur les écarts de dettes souveraines dans notre union monétaire. Comment évaluez-vous son efficacité et la nécessité de revoir éventuellement ce mécanisme? Ou est-ce un peu trop tôt, puisqu’il est tout à fait récent?

1-018-0000

**Christine Lagarde, President of the European Central Bank.** – *Merci beaucoup. Je vais vous répondre en anglais* – I think it’s more appropriate for most.

You asked me – in view of the very high inflation rates, as most recently read at 10.6% in October for the whole of the euro area on average – how far the ECB will go in terms of setting interest rates and how much further we will hike interest rates.

I don’t have the answer to that question. Or rather, I have a general answer, which is that the ECB will use interest rates and will hike interest rates as long and as much as is needed in order to reach the price stability medium-term target that we have.

We have moved at the fastest pace as ever for the ECB, increasing rates by 200 basis points, first of all moving out of negative territory, and then increasing successively by 75 basis points twice. We are not done with inflation and we still have work to do – whether that will take us into restrictive territory, it may well be, but we will do what is needed and we will use

interest rates as much as is needed in order to deliver on that commitment to return inflation to a medium-term 2%.

On your second question, you are correct. Divergence has never been as important as it is at the moment. If you compare Estonia with France, we have a nearly 15% difference in terms of percentage of inflation, and that is largely attributable to the fact that more of the normal basket of consumption of the Estonian consumer, for instance – taking Estonia because this is the highest in the group – the proportion that is spent on energy and food is significantly higher than what is spent in terms of energy and food by other citizens of Europe, namely those who are located in France – because we have taken Estonia and France, although it's not fair to pick and choose two countries, but they are at the opposite end. So that's one reason.

I think the second reason, which is clearly having an impact for those Baltic States that are amongst the most affected, is the proximity of Ukraine and Russia and the horrible war started by Russia against Ukraine and the fact that, in terms of risk, the Baltic countries are regarded as a higher risk.

The third and final point is that in some of those countries that have a high inflation rate at the moment, possibly less shield measures have been taken by the governments, at least up until now.

Now we expect those divergences to gradually fade, and we hope that they do fade, but that's the situation that we have at the moment. To the extent that supply bottlenecks associated with the proximity of Russia notably, to the extent that energy costs will eventually fade out over the course of time as we restructure and change our policy mix, those divergences will narrow.

Now I'm out of my time, but on TPI, suffice to say that the Transmission Protection Instrument is there, is available, will be used if necessary, and there is no reason on earth at the moment as to why we should either withdraw it, change it, or amend it in any kind of way.

1-019-0000

**Stéphanie Yon-Courtin (Renew).** – Madame la Présidente, j'ai déjà pris beaucoup de mon temps en vous posant trois questions. Je laisse donc la suite à mes collègues.

1-020-0000

**Henrike Hahn (Verts/ALE).** – Thank you very much, Chair. Dear President Lagarde, it's a real pleasure to welcome you back to the ECON Committee. The cost of living crisis and challenging outlook for our economies makes our regular dialogue and monetary policy even more important.

We face a particularly complex situation dominated by the energy price shock, leading to unprecedented levels of inflation for the euro area. To confront this challenge, many policy areas must contribute their bit to limit price rises, to reduce demand for fossil fuels, and to reduce inflation without increasing the risk of a recession.

Fabio Panetta recently noted that – and I quote – ‘appropriate public policies that compress the demand for fossil fuels and stimulate the production of cheaper renewable energy sources can help to contain inflationary pressures’, and we are already using the lower cost of renewable energy to cushion the impact of the fossil fuels shock on energy prices.

This leads me to my question to the ECB. Would you agree that investments in energy efficiency and renewable energies are deflationary in the current context?

1-021-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Madam Hahn, for your question. As a good person from Normandy – and Madam Yon-Courtin will understand – I would say *P't-êt' ben qu'oui, p't-êt' ben qu'non*, because it all depends on timing. I think the jury is still out – and there is a lot of academic research, papers, introspection, speeches being focused on those particular issues – but I think in general, well first of all I would like to start with this fact, it is not green energies that are inflationary at the moment; it is the fossil energies, clearly.

But to your specific question of whether or not investments in green energies are inflationary or deflationary, I think I would say it depends over the course of time. Ultimately, once investments are conducted, once the energy policy mix has changed, then ultimately the marginal unit cost of the green energy kilowatt, megawatt, whatever you want to measure it in, will be cheaper.

But in the first phase, as we will have a transition which will require, probably, some continued investment in fossil fuel, whether we like it or not, and significant investment in the production of green energy sources, at least in a first phase it is likely to have upward pressure on prices rather than downward pressure on prices.

So I think it's really a matter of where in time are you focusing your question. If you say in the medium-term, in five or six years time, most likely, but in the first place, probably not.

1-022-0000

**Henrike Hahn (Verts/ALE)**. – Thank you very much. I think we might disagree on the latter aspect, but I think we can agree that hiking interest rates is not a very targeted tool, as this equally impacts all sectors of our economy and, in the current context, price rises come from a very specific source – namely fossil fuels.

So would it then not be a more logical and effective use of monetary policy to introduce dual rates or differentiated rates rather than using the blunt tool of rising interest rates across the board?

So with its successful, targeted longer-term refinancing operations, the ECB has already accumulated a lot of experience when it comes to attaching conditions to the way banks use ECB funds. So this know-how could now be applied to differentiated interest rates for investments in energy efficiency and renewable energies. Do you agree on that?

1-023-0000

**Christine Lagarde**, *President of the European Central Bank*. – I guess you would agree with me that our mandate is price stability. As a result of that, the distinction that you draw – and that one could find perfectly legitimate – would actually result from a decision under a determination that is made here, that is made in national parliaments, that is implemented by governments.

Enhanced credit terms can certainly be decided at those levels. But it is not for the European Central Bank – particularly to the extent that we are now normalising balance sheets and procuring to doing that in the months to come, and with the price stability mandate that calls for a unique interest rate, or rather three unique interest rates – it's not for the ECB to do that.

1-024-0000

**France Jamet (ID)**. – Madame la Présidente, Madame Lagarde, bonjour, je crois que vous serez d'accord avec nous aujourd'hui pour admettre que nous sommes au bord du gouffre. Je crois que cela a été dit, puisque la revue de stabilité financière de la BCE de novembre semble le reconnaître elle-même.

En effet, l'inflation est là et une très grave crise financière s'annonce, puisque la BCE nous propose de faciliter le dérapage de l'endettement des États avec le mécanisme anti-fragmentation. Ainsi, tous les États membres pourraient emprunter au même taux. Et parce que la crédibilité de l'Union européenne n'existe pas, et qu'elle repose simplement sur celle des États membres et particulièrement de l'Allemagne, en grande difficulté aujourd'hui, ma question est la suivante: comment pouvez-vous nous garantir que ce ne seront pas les épargnants ou les contribuables qui paieront la note?

Enfin, avec la crise économique, déjà sévère, qui mine le niveau de vie de nos compatriotes, l'instauration de taux variables sur les crédits immobiliers – qu'aucune banque française ne pratique – va vraisemblablement nous mener à des drames qui toucheront les plus précaires. Alors ma deuxième question, Madame Lagarde, consiste à savoir si l'on va reproduire l'affaire des subprimes en France? Et est-ce que la BCE ne va pas ainsi contribuer à tuer le système bancaire français, ou plutôt le modèle bancaire français?

1-025-0000

**Christine Lagarde**, *President of the European Central Bank*. – *Merci, Madame Jamet, pour vos questions.* On the first one, I would like to disagree, respectfully, with you because I think that Europe has credibility. I don't think that we can just assume that the credibility belongs to each and every Member State. We can see that very clearly, because we act as the agent of Europe when it comes to the Recovery and Resilience Fund and the borrowing programme that the European Commission has been tasked to do.

I can assure you that Europe as a risk exists on its own. It's a supra-risk, meaning that it is in the same family of risks as the European Investment Bank and a few other international institutions – the ESM as well. It's obviously another institution that is borrowing at a level which is regarded by rating agencies, by investors, as a risk of its own. So that's point number one.

Point number two, I think the action of the European Central Bank, both in terms of its central banking activity, which is often narrowed to the monetary policy determination, but also its supervision activity – which I think will be commented upon on 1 December, because my colleague Andrea Enria will be coming to answer your questions – I think quite to the contrary has actually helped strengthen the banking system throughout the European Union.

You've asked about the solidity of the system and whether the ECB would actually undermine it. I think we have contributed to strengthening the banking system. If you look at the solidity of the banks at the moment, it is significantly stronger than what it was back in 2008. I was Finance Minister of France at the time, and I can assure you that whether you look at the ratio, the capital ratio, the core equity tier one numbers, whether you look at the liquidity ratio, the leverage ratio, there has been significant improvement and that is caused by your action, but it's also caused by the European Central Bank action, in particular in its supervisory capacity.

1-026-0000

**France Jamet (ID)**. – Madame la Présidente, sans vouloir être désagréable, il y a une amplitude économique, dans les pays de l'Europe, faisant, Madame Lagarde, que l'on ne peut pas forcément considérer, s'agissant de crédibilité, qu'une addition de faiblesses fait forcément une force.

Ensuite, est-ce qu'il n'y a pas une contradiction, si l'on prétend conduire une politique monétaire restrictive, avec la hausse des taux d'intérêt pour lutter contre l'inflation, alors que l'on encourage en même temps les États à s'endetter et donc à accroître la masse monétaire qui est parfaitement inflationniste?

1-027-0000

**Christine Lagarde**, *Présidente de la Banque centrale européenne*. – Je vous remercie du suivi que vous faites de la question.

Je crois l'avoir indiqué dans mes propos introductifs: ce que nous poursuivons actuellement, c'est notre mandat, la stabilité des prix. Et pour ce faire, nous utilisons un instrument principal, qui est le taux d'intérêt. Nous l'avons utilisé rapidement. Nous allons continuer à le faire jusqu'à ce que nous arrivions au taux d'intérêt approprié pour délivrer cette inflation de 2 % dans le moyen terme. C'est là notre objectif.

Par ailleurs, nous avons aussi indiqué qu'au prochain conseil de politique monétaire du Conseil des gouverneurs, nous allons déterminer les grands principes de notre réduction de la taille du bilan de la Banque centrale européenne. Je pense donc que, quand vous parlez de l'addition des faiblesses qui ne fait pas une force, je crains malheureusement d'être à nouveau en désaccord avec vous.

1-028-0000

**Johan Van Overtveldt (ECR)**. – Thank you Chair. Thank you also, Ms Lagarde, for being here. The ECB is fighting some very important short-term battles, but there are, of course, longer-term issues which we should address. I'm thinking even more specifically about the 2% inflation target.

During the last decade, the ECB hardly achieved that target because inflation usually was lower, and as you spoke about yourself in your recent speech at the European Banking Council, there are several forces in the real economy that lead us to expect structurally higher inflation in the future.

So isn't it time to start thinking about the usefulness of this 2% inflation target? Due to the fact that you're constantly missing this target, you're undermining the trustfulness, the trust in the ECB.

1-029-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much. You are right to focus on one word which is extremely important, which is that of the credibility of any central bank, including the European Central Bank – and probably more so the European Central Bank, because we are dealing with 19 different fiscal policies and 19 Member States, soon to be 20 as of the 1 January when Croatia joins the euro area.

That credibility is going to be tested, is being tested, by the determination with which we return inflation back to the 2% medium-term objective that we have. That is the reason why we have to be determined, why we have to take that job very seriously, particularly in view of the high resilient inflation that we are seeing at the moment.

Is it time to change the yardstick by which you measure your performance? I don't think so. I think the debate could be had at some stage. The debate was actually taking place a few years back when a very reputable economist who was at the time at the IMF suggested that another number could be used eventually. But now is not the time to do so and it's clearly against the objective that has been defined as price stability for which we have to align our efforts and redouble our efforts going forward.

I'm tempted to actually disagree with you on the assertion that you made that we have constantly failed to deliver. I think if you look historically, there was a long period of time when, on average, inflation actually was at 2%. Then we had a period of about ten years where inflation was way below 2% to be in negative territory in December 2020, if you

remember. Obviously we have the situation that we have at the moment, which is too high – persistent inflation that we have to tame, and that’s what we will do.

1-030-0000

**Johan Van Overtveldt (ECR).** – Just for the record, in terms of underachievement, I was referring to the last decade and not to the time before. But anyway, my follow-up question switches to the short-term. That’s a weak link, I admit, but anyway.

You have already elaborated on how far we should go with driving interest rates up now. Executive Board member Isabel Schnabel last week was quite explicit about that because she suggested that policy rates should end up in real territory, which means above inflation.

I’m not going to do the math here, but that means that interest rates would have to go up a lot from where they are today. Do you agree with that statement, or what would in general be your comment on that statement?

1-031-0000

**Christine Lagarde, President of the European Central Bank.** – You know the beauty of the European Central Bank, of its Executive Board and its Governing Council, is that while we are all engaged in the same fight and we all have the same objective ultimately, everybody has their opinion, everybody has their conviction and I, as President of the ECB, respect that. While some people might argue that this is cacophonous, I’m very sorry, but this is a debate and this is a debate that is healthy and that is good to have. It’s sometimes difficult to preside over those debates, but it is my job and I’m very happy to deliver on that job.

So it won’t surprise you if I say three things. One is that we are going to be data dependent and it so happens that our next projection exercise will actually be in two weeks’ time. So we are in a way relying on numbers and projection and work that has been done back in September, some of which is clearly outdated. But we will have new numbers in December. So that’s point number one. We will be data dependent. We will be looking at, obviously, the outlook, but obviously the persistence of the shock, obviously the transmission to the economy and looking at multiple indicators, some of which have been very, very well dissected by my colleague Philip Lane, who has also given a very good version of his views on certain matters, both of them – Ms Schnabel, Mr Lane – equally fascinating.

The second point is we will be deciding meeting by meeting. So as President, I would absolutely refrain from giving any kind of forward guidance. We have decided that forward guidance was not helpful at the moment. It may well be – and that’s going to be a Governing Council decision – that when the time comes to do some quantitative tightening, we give some indications, and that will be part of the principles that we will decide and that we will debate at the Governing Council meeting that is coming up in December. So, data dependent and meeting by meeting.

Third, as I said, which pace, for how long, how high, is not something that I have a view on. The view I have is that it has to be the interest rate that will be sufficiently high in order to deliver the 2% medium-term inflation target that we have. As I said in a previous speech, I’m not innovating for those of you who are picking up bits and pieces of what I’m saying now, it may well be that it takes us into restrictive territory. But that is something that, as I said, we will be debating meeting by meeting and on the basis of data.

1-032-0000

**Manon Aubry (The Left).** – Madame la Présidente, Madame Lagarde, vous l’avez dit, et jusque-là on sera en accord: l’inflation immense que nous connaissons à l’heure actuelle touche davantage les plus pauvres, qu’il s’agisse de l’impact sur les produits de première nécessité ou les dépenses contraintes qui augmentent fortement, entraînant une baisse des

salaires réels dans la zone euro. D'où notre responsabilité dans la réponse politique que l'on doit apporter. Pour cela, il faut une analyse lucide des sources de l'inflation.

C'est là où j'ai du mal à savoir où vous vous situez. Parce que – et cela a été dit à de nombreuses reprises – l'inflation vient en réalité en grande partie de sources exogènes, notamment le choc énergétique. Vous aviez d'ailleurs dit, en octobre dernier, et vous l'avez redit quand même à demi-mot aujourd'hui, que ces derniers mois, la flambée des prix de l'énergie et des produits alimentaires, notamment, a entraîné une généralisation des pressions sur les prix et une accélération de l'inflation. Ça, c'est la première chose.

La deuxième, c'est que vous avez parlé de la boucle prix-salaires, laquelle boucle est contestée économiquement, y compris par des gens que vous connaissez bien, entre autres dans une étude récente du FMI de ces dernières semaines.

Ma question est donc double: d'une part, pourquoi continuez-vous à brandir cet argument de la boucle prix-salaires comme justification de votre politique monétaire alors qu'on ne l'a pas vérifiée dans la réalité? D'autre part, la Christine Lagarde d'aujourd'hui, du 28 novembre 2022, est-elle d'accord avec la Christine Lagarde d'octobre 2022 et avec cette citation que je mentionnais, qui expliquait que les causes de l'inflation étaient à trouver dans une perturbation de l'offre liée à une succession de crises majeures et non dans un excès de la demande?

1-033-0000

**Christine Lagarde**, *Présidente de la Banque centrale européenne*. – Merci, Madame Aubry, de votre question. Vous posez des questions de principe sur lesquelles je vais essayer de revenir en détail.

First of all, I continue to say that the largest contributors to inflation at the moment are energy and food. Energy, month over month, is about 41%. Food is about 13%. So those are key components. As both you and I agree, it is affecting more the low income people than the high income people because they spend more of their consumption basket on energy, on food, on heating, electricity bills and all the rest of it.

I think when you look into the drivers of inflation – and I agree with you that we have to look at drivers to see what is going to be most effective in terms of response – we had for a period of time a major supply shock and we continue to have a supply shock. The one that you called the exogenous shock.

But it's not that simple. It is also fuelled by demand. So if you ask me whether the November and the October Christine Lagarde is the same person, the answer is yes. There is a driver of inflation that is definitely related and caused by supply. But the recovery that we faced after the last of the lockdown periods was removed, and the pent-up demand that resulted from that fast recovery, that has increased demand and has brought demand as a driver – not on a par with supply as I think supply is still dominant – but demand is now also a key factor.

If you drill down, you see that non-energy industrial goods in particular, the NEIG as it's often referred to, this one is more influenced by supply factors. If you look at services, it is more influenced and driven in terms of inflation by demand factors. So you have both supply and demand that are moving prices upward. So that's on your first key question.

On the second one, which has to do with the second-round effect that we are concerned about, I think it's perfectly fine that some people have different views but, informed by history, we still believe that to have the risk of salaries running on a par with, or ahead of, inflation, as it stands now would actually concur to second-round risk being embedded in the economy and

potential upward pressure on prices that would lead us to have to take a more restrictive policy going forward.

So while it is completely legitimate that salaries be increased in order to help people cope with the current circumstances, the form that it takes, whether it's by way of catch-up or whether it's by way of a special determination, needs to also take into account the risk of the second-round effect.

1-035-0000

**Manon Aubry (The Left).** – Madame la Présidente, vu le peu de temps imparti, je veux juste rebondir sur la première partie de votre réponse, Madame Lagarde. D'abord, je suis ravie que la Mme Lagarde de novembre soit la même que la Mme Lagarde du mois d'octobre. Et vous reconnaissez quand même qu'une part significative de l'inflation provient d'un choc de l'offre plutôt que de la demande. Cela m'amène à m'interroger sur la réponse politique et la réponse monétaire de la Banque centrale européenne, qui me paraissent en contradiction avec ce diagnostic-là. Et c'est pour cela que je vous ai interrogée sur ce diagnostic.

En réalité, en augmentant les taux d'intérêt comme vous le faites, vous vous attaquez à l'inflation comme si le problème venait initialement d'un emballement de la demande, ce qui est contradictoire avec le diagnostic initial. D'ailleurs, vous l'avez redit à plusieurs reprises et encore aujourd'hui, l'objectif de la politique monétaire dans ce contexte-là vise à réduire le soutien de la demande. Pour les gens lambda, réduire le soutien de la demande, concrètement, c'est entrer dans un cercle vicieux qui peut nous amener à une récession économique.

Voici donc ma question de suivi: pour éviter cette double peine pour les plus pauvres qui ont déjà bien du mal à finir les fins de mois, comment assumez-vous de vous obstiner dans cette voie qui est sans issue et qui peut précipiter l'Europe dans la récession? Est-ce que c'est quelque chose que vous craignez, qui peut créer une situation désastreuse pour des centaines de millions de personnes, ou bien l'écartez-vous complètement? Et irez-vous, in fine, potentiellement expliquer aux gens qu'ils vont servir de variable d'ajustement dans cette crise, si c'est cette voie que vous poursuivez?

1-036-0000

**Christine Lagarde, President of the European Central Bank.** – I'm going to try to explain to you why it is, in our view, legitimate to reduce the stimulus to demand, because at the moment, with the rates as they are, with the reinvestment policy as we have it, we are contributing to supporting demand.

Now, if you support demand and you have across from that a supply that is inelastic, that is not going to move much because supply bottlenecks are still there and fade out very gradually, because energy prices are inelastic, at least for the moment, if you push demand up against a rigid supply, where is the adjustment? The adjustment is on prices.

What we would do by continuing to stimulate is simply push prices up. Our job, our mandate is as it is, it is to bring it back to stability and to 2%. So we cannot possibly continue to stimulate demand as we have done and as we are still doing at the moment.

1-037-0000

**Chair.** – Now we start our second round of questions. So let me just remind you that this means one minute for the question, three minutes for the answers and no follow-up. So the next speaker is Luděk Niedermayer from the EPP.

1-038-0000

**Luděk Niedermayer (PPE).** – Thank you very much Chair, let me first say that this time I must agree with many things that were said here, and I want to emphasise some of them. First of all, it's good to look at your decomposition of the inflation pressures in core inflation, where supply and demand are roughly one-one. The second, look at the wage development.



The third, I completely agree with your assessment of fiscal policy, that we cannot afford to increase the demand, and I appreciate your support for improvement of the fiscal rules. I guess it's important that there is no space for forward guidance. And also I appreciate actually that there are a variety of opinions in the ECB Board because this can lead to better decisions.

I have my main question on coordination of the fiscal monetary policy. I am a little bit sceptical about international coordination, because I guess we should rather reflect each other's than to coordinate because we have our own policy goals. But still, I would like to hear what for you is the relevance of the fact that our interest rate differential vis-à-vis the US dollar is basically 200 basis point. That can increase the risk of a weak euro and more importantly, inflation.

If you spare a few seconds, also I fully agree with your comments on the risk of spillover of PPI prices into CPI prices. We know that, for example in Germany, since March the PPI is running year on year 30%, that is increasing substantially the risk of a leak into CPI prices. So how dangerous is this, or do you believe that PPI will correct sufficiently and quickly?

1-039-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much for summarising the key points that I tried to make in the many very good questions that I received. That's very helpful.

I will focus on two things in response to your questions. I think there is a little bit of ambiguity about the concept of coordination between central bank policies. I think you rightly pointed out that each and every central bank – be it the Fed, be it the ECB, be it the Bank of England or the Bank of Japan – have their own mandate, have their own accountability to their various parliaments, and are going to take into account only by way of I wouldn't say even spill-over, but by way of spill-back, what other players are going to do, so it's the extent to which a decision that is made outside the euro area has an impact – so that's a spill-back – into our own economic region that we have to take into account.

But it is not the only element, the only sort of extraneity element that we take into account. We also look at exchange rates, because that clearly impacts on inflation and, as you know, has multiple channels to enter into our economies. But we do take those elements into account. Our modelling exercise includes these various components, and the judgement and the discretionary judgement that is also included in the monetary policy determination that we make also reflect, take into account, measure those elements.

But to speak of actual coordination is probably an excess of language. We don't coordinate, we inform each other, we talk to each other, we have regular consultation moments, but we do not coordinate and we are accountable. I'm accountable to this Parliament and my colleague, Jay Powell, is accountable to the Congress. So it's a different story. I agree with you. The differential between their interest rates and our interest rates is a factor of history. The Fed never was in negative territory. The causes of inflation in the United States are different from ours. Their dependency on energy has nothing to do with our dependency on energy. Their labour market is multiply more tight than ours. If you compare just the ratio of unemployed to vacancies theirs is between 1.7 and 2 and ours is 0.3.

So we are talking about different circumstances, a different economy, different exogenous factors impacting it, and obviously different currencies. But each of us, I'm sure – and I can speak for us at the ECB – are determined to arrive at this interest rate that will deliver our 2% medium-term inflation target, be it what it may.

1-040-0000

**Joachim Schuster (S&D).** – Ich will doch noch mal auf die Zinsen zurückkommen. Frau Lagarde, Sie hatten ja gesagt: Die Zinsen sind das wichtigste Instrument. Das Problem ist doch nur, dass Zinserhöhungen gegen die angebotsgetriebenen Preissteigerungen gar nichts nützen. Gleichzeitig führen die angebotsorientierten Preissteigerungen dazu, dass der Nachfragedruck sinkt, weil es ja unverzichtbare Güter sind. Zudem ist es so, dass die nachfragegetriebenen Gründe für die Inflation häufig mit dem Ende der Pandemie und Nachholbedarfen zusammenhängen. Das bedeutet, es kommt dazu, dass sich diese Effekte auch abschwächen werden.

Deswegen jetzt nun die Frage – weil Sie sagten, Sie wollen die Zinsen weiter erhöhen, werden es aber von Fall zu Fall entscheiden, also von jeder Sitzung zu jeder Sitzung entscheiden, ob es noch weiter erforderlich ist. Was sind da Ihre genauen Kriterien? Denn ich sehe im Moment nicht, dass von der Nachfrageseite so hoher Druck ausgeht, dass man weiter Zinsen anheben müsste. Und das Problem ist natürlich, dass Zinserhöhungen eben auch rezessive Entwicklungen vorantreiben könnten.

1-041-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much, Mr Schuster, for your question. Yes, interest rates are currently the most efficient, most adequate and most proportionate response in order to deliver on our mandate and procure price stability as is called for and as defined as our 2% medium-term target.

I tried to explain that, still today, despite the 200 basis points increase that we have decided over the last three monetary policy Governing Council meetings, we are still providing support to demand. We are still in accommodative territory, and we certainly – when you think in terms of real interest rates – are still providing that support to demand.

Now in the face of what we are trying to do, which is to tame inflation and in the face of this dual-origin supply and demand, but probably more important demand aspect as a driver of inflation, we clearly have to continue increasing interest rates. This is something that we said at our last monetary policy meeting, and this is something that we will decide. My suspicion, although I do not want to venture too much into the future, is that we still have a way to go, and we are not done with inflation.

So, yes, we will continue to raise interest rates and we have to stop stimulating demand in the face of this supply rigidity and inelasticity that I referred to earlier on, and the rate that we will have to go to will be the rate that will help us deliver on the target that we have of medium-term 2% inflation.

How will we measure that? Well, we will use inflation outlook. We will use the assessment of the persistence of inflation. We will use the measurement of how our monetary policy transmits throughout the economy, and those components will help us – so it will be a combination of a forward-looking component as well as empirical evidence of what is taking place now and what is likely to happen as a result of what we know of the economy, as well as what we can learn from history. All that will inform our decision, again, on a meeting by meeting basis.

1-042-0000

**Gilles Boyer (Renew).** – Madame la Présidente, Madame Lagarde, merci pour vos interventions régulières devant notre commission. Je ne peux pas m'empêcher de noter qu'il y a un an, nous étions désespérés de voir l'inflation aussi faible, ce qui montre que l'économie est une science explicative beaucoup plus que prédictive. Merci néanmoins d'essayer de nous éclairer sur l'avenir.

De nombreuses questions vous ont été posées sur ce sujet d'actualité, je ne voudrais pas vous obliger à vous répéter. Je vais donc me permettre d'aborder un autre sujet d'actualité. Le développement des nouvelles technologies et certaines initiatives privées en matière monétaire nous interrogent, nous posent ici de nombreuses questions. Comme le projet Libra, qui est pour l'instant avorté. La multiplication des crypto-monnaies à la fiabilité douteuse, comme en témoigne la faillite brutale de FTX la semaine passée, nous laisse craindre que la stabilité du système pourrait être un jour menacée si nous laissons le monopole à l'initiative privée dans ce domaine – un domaine où la confiance est décisive.

La Banque centrale travaille actuellement à un projet d'euro numérique qu'elle garantirait et qui bénéficierait du même niveau de confiance que les billets de banque. La Commission fera une proposition de règlement l'an prochain et les colégislateurs européens auront à se prononcer. Nous aurons bien d'autres occasions d'aborder ce sujet complexe, mais j'aimerais recueillir vos premières impressions sur ce projet important.

1-043-0000

**Christine Lagarde**, *Présidente de la Banque centrale européenne*. – Merci, Monsieur Boyer, de nous emmener vers l'avenir!

First of all, I would observe that Europe has been at the forefront and with MiCA, which will be a reality for economic players in, I hope, two years or a bit less than two years' time, we will have been the pioneers in this world of great inventiveness, great unreliability and use of the alleged-to-be magical technology, distributed ledger technology and others, but which has been a *miroir aux allouettes* for many.

I have said long ago, and I remember that I was being mocked and laughed at initially, that regulation, supervision of crypto-assets as well as stablecoins – but I was mainly referring to crypto-assets at the moment – was an absolute necessity, and on a global basis and I'm still of that view. We're not there, but at least Europe on that territory is ahead of the pack.

But as I said previously, it's one step in the right direction. This is not it. There will have to be a MiCA 2, which embraces broader what it aims to regulate, what it aims to supervise. That is very much needed and I really hope that Europe can continue to be a leader in that respect.

The second point I would make is that I believe that our action and our repeated interventions, sometimes in a discreet way, has been helpful to stop some of the players from engaging further in the field, and Libra is certainly one case in point. But I would put Libra separate from FTX. Libra was intended to be a stablecoin that would guarantee 1 Libra for USD 1 at the time, one Libra for one something else later on. But this doesn't seem to be a very active project at the moment. FTX is more in the field of, not currency, but crypto assets – the stability and reliability of which has been clearly exposed in the most obvious way recently.

So what do we do? We believe that money is actually a public good and that as a result, to the extent that many of our European citizens, compatriots, are looking at digital currencies, digital payment systems, digital ways of operating and transacting, we have to also be able to offer at some stage this digital currency that we are working hard on.

Cash will always be there, banknotes will be there, and there are people who will always prefer to have those banknotes and those coins. But equally, we have a growing number, and in some countries, a very large majority of citizens, who are now saying, I want to pay digital, I don't want to hang around with banknotes and coins.

So we have to be able to offer that. If we don't, somebody else will take that space. *La nature a horreur du vide*. We have to be there and we have to be available, and I'm so pleased that

together with the Commission and then with you completely associated in the process of the legislative instrument that will be the support of this digital euro, we will have that product and that offer available for all European citizens who want to use it. The others will continue to use other payment terms, but we have to be there.

1-045-0000

**Lídia Pereira (PPE).** – Senhora Presidente, vou falar em português. Senhora Presidente do Banco Central Europeu, estamos todos preocupados com os efeitos da inflação e o aumento das taxas de juro do crédito à habitação no rendimento das famílias.

O Primeiro-Ministro português, António Costa, criticou-a de forma feroz, violenta e direta, pelas decisões de política monetária do BCE e não é comum assistir-se a esta agressividade face ao Banco Central. E este é o mesmo António Costa que, segundo alega um antigo Governador do Banco de Portugal, Carlos Costa, precipitou a resolução de um banco em 2015, o Banif, e que se intrometeu no processo de avaliação de idoneidade da administradora de um outro banco, o Eurobic, no caso, Isabel dos Santos, filha do ex-Presidente de Angola José Eduardo dos Santos.

E quero perguntar-lhe como responde às críticas do Primeiro-Ministro português às suas decisões e como avalia as intervenções e pressões dos Chefes de Governo sobre a política do BCE e, já agora, sobre os bancos centrais?

1-046-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you Ms Pereira, you know our mission at the European Central Bank is to provide price stability, and we have to do so in accordance with the Treaty that has tasked us with this mission, and we have to do it in full independence and being accountable to you, to the European Parliament. We are not accountable to the European Council. We are not accountable to any particular government, be it a highly respected and respectable Prime Minister, as is Mr Costa, or any other leader of any government. Our accountability is to the people of Europe and through you.

So we just have to get stuck. Do what we have to do. Have the best analytical tools to reach the goal that we have been assigned. Do our job in full appreciation of the impact of our policies, of the current economic situation, of the impact of other monetary policy decisions made elsewhere and with one compass, and that is to tame inflation and return it to 2% medium-term. That is what we have to do. We will do it. We will not be distracted.

1-047-0000

**Pedro Marques (S&D).** – Senhora Presidente, tenho que lamentar que, desde que o PPE e o PSD aqui pediram insistentemente ao BCE que aumentasse taxas de juro e continuasse a aumentar taxas de juro, depois foi confrontada em Portugal com esta aparente preocupação com as pessoas que pagam os seus créditos à habitação e, aqui, a votarem a favor e a pedirem aumentos de taxas de juro a toda a força.

Ficaram sem discurso e vêm para aqui, num diálogo monetário com o BCE, fazer política nacional. É lamentável.

Gostava de me focar realmente na nossa preocupação com o aumento da inflação e, em particular, com a questão da inflação na área da energia. Como já vimos, ela conta, de facto, para cerca de 50% desta realidade atual e começou tudo aqui, na inflação da energia.

Ora, preocupados de facto com a vida das pessoas, com o custo da energia e com o efeito da inflação e não de um modo artificial, queria perguntar-lhe se as projeções que fizeram em setembro (na altura estavam perto, mas eram ainda incertos os picos que já tínhamos atingido no preço do gás e do petróleo), agora que vão ter novas projeções e já fica mais claro que já atingimos há vários meses os picos do preço do petróleo e do gás, podemos esperar projeções mais favoráveis do BCE relativamente aos preços da energia a partir de agora?

Sei que só vai apresentar resultados daqui a duas semanas, mas agora que já passaram vários meses do pico do preço da energia e do gás, podemos esperar, de facto, previsões mais favoráveis quanto aos preços da energia, quanto à inflação da energia, Senhora Presidente?

A preocupação é efetiva. Não sei o que nos poderá dizer ainda hoje, mas gostávamos de ter um primeiro sinal, de facto, do que parece ser agora algum controlo nos preços da energia ao fim do pico há vários meses atrás.

1-048-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much Mr Marques. I don't want anybody to be under the illusion that we don't pay attention to interest rates paid by those who have mortgages, particularly in those countries where variable rates are the norm and where it's obviously bearing on the disposable income of those who have to adjust to the movement of rates at the moment.

Your question is about energy, and you are correct that gas prices have significantly reduced, even since September. That's on energy natural gas prices. I think we have to ask ourselves, are the reasons behind this drop – which is in the range of about 40% – structural or are they conjunctural and are they going to reverse?

Clearly we've had the mild October weather, and to a certain extent the mild November weather, which have helped a great deal, which as a result has reduced the consumption of gas in most European countries. Second, we have had the great efficiency with which most Member States have filled up the storage of gas, which has also given this sort of comfort that with storage being filled, the pressure upon consumption would be reduced.

But I think we need to be very, very careful because clearly on the gas future markets, the drop has not been as significant. The causes behind this decline of gas and the reduced pressure on the short-term rates, we have to be careful as to whether or not they're going to last. That's the reason why so many conjunctural experts believe that next winter is probably going to be the difficult one, as opposed to this winter. So that's point number one.

Point number two, we are looking at the HICP and there is a pass through between energy prices at wholesale level and energy prices at retail level. We have been surprised to the downward by the October numbers that we had, and that was caused largely by the Italian numbers. We have limited information in that respect because the wholesale prices were then passed through and transferred into retail prices, and that is caused by contractual arrangement, duration of contract, regulatory environment within which gas or other energies are being supplied.

We are still not perfectly clear as to exactly what regulatory changes will affect, for instance, the pass through as of January, which is a time when a lot of contracts are going to be changed. So I think we should err on the side of caution, hoping that this movement that we have seen recently will last, but also understanding that there are forces against us in that respect.

1-049-0000

**Claude Gruffat (Verts/ALE).** – Madame la Présidente, Madame Lagarde, je suis ravi de vous voir parmi nous à nouveau. J'ai deux questions à vous poser.

La Réserve fédérale américaine a un double mandat qui consiste à équilibrer la stabilité des prix et l'emploi. Pourtant, elle est plus agressive que la BCE dans sa remontée des taux, notamment en raison de l'inflation due à la demande – alors que chez nous, elle est due à

l'énergie. Je me demande donc si un double mandat à la BCE modifierait les choix effectués par le Conseil de gouvernance de la BCE et en particulier sur les taux, à titre comparatif?

Ma deuxième question: dans le cadre de la revue des traités, nous examinons l'interdiction du financement monétaire prévue à l'article 123 du traité FUE. Êtes-vous d'accord pour dire que cette interdiction est basée sur une hypothèse monétariste dépassée, selon laquelle la masse monétaire ferait automatiquement augmenter l'inflation? Faire des achats sur le marché secondaire une partie explicite de la boîte à outils de la BCE devrait éliminer les risques juridiques et rendre les leviers de la politique de la BCE plus efficaces. Qu'en pensez-vous?

1-050-0000

**Christine Lagarde**, *President of the European Central Bank*. – On your first question, you rightly noted that the Fed is operating on the basis of the dual mandate of price stability – and on a par – employment, through growth actually. You also rightly pointed out to the fact that inflation in the United States was largely and predominantly fuelled by demand, which itself was supported and stimulated by one of the most massive fiscal support packages, put in place under the end of the Trump era and the beginning of the Biden administration as well.

Ours is different, you're completely right, and our mandate is different.

The primary mandate for us is price stability, and we have a secondary mandate, some of which touches on growth, balanced growth through that prism – clearly employment should be taken into account. Now, what does that mean, secondary relative to primary? We can take into account the secondary objectives of the mandate without prejudice to the primary. So the primary objective prevails over anything, and any measure that we would look at, decide on the basis of the secondary objectives should not hurt price stability.

But confronted with two possible options, one that would be exclusively first objective, price stability and nothing else, and another one that would be without prejudice, price stability and a secondary objective, we can take the second branch of the alternative, and that's what we have done, for instance, in relation to climate change, when we decided, for instance, on the tilting of corporate purchases as part of the refinancing that we are conducting. So, it's not as if employment was completely out of the picture, but it is not on a par, as it is with the Fed.

On the second part of your question, I would say that while we do pay attention to monetary aggregates, particularly M3, the policy is determined by inflation targeting and, to that extent, clearly the growth of the monetary aggregates takes less precedence than it did in the past. I don't think that this is about to change, but we try to integrate as much as possible the considerations when we decide monetary policy stance.

1-051-0000

**Gerolf Annemans (ID)**. – Voorzitter, de inflatie, de zwakke euro en de overbelaste ECB-balans zorgen voor veel ontevredenheid bij spaarders en in zuinige landen met beperkte schulden. Zij zien hun koopkracht, spaargeld, gekapitaliseerde pensioen en welvaart immers wegsmelten. Ik heb in dat verband drie vragen, namelijk over het doel van de groei van de monetaire basis, het bestaan van noodplannen en de wenselijkheid van deflatie.

Gegeven het feit dat de door de ECB opgekochte obligaties op een bepaald moment hun vervaldatum zullen bereiken, zal ceteris paribus de monetaire basis of de hoeveelheid *high-powered money* dalen. Welk doel heeft de ECB zich gesteld inzake de groei van de monetaire basis of de hoeveelheid *high-powered money*?

In de Nederlandse Tweede Kamer, het Nederlandse parlement, heeft de minister van Financiën, mevrouw Sigrid Kaag, op vraag van voormalig Europarlementslid Derk Jan Eppink verklaard dat Nederland over noodplannen beschikt om uit de euro te stappen. Ze heeft ook toegezegd om de parlementsleden inzake te geven in de plannen. Bent u op de

hoogte van deze zaak? Heeft de ECB een noodplan indien landen uit de eurozone willen stappen en bent u bereid om inzage te geven in die plannen?

Wat is het standpunt van de ECB inzake deflatie? Bestaat het monetaire beleid van de ECB erin om de stijging van het algemeen prijspeil tot stilstand te brengen of om de stijging van het algemeen prijspeil teniet te doen? Met andere woorden wil de ECB de inflatie stoppen of zelfs ook nog terugdraaien?

1-052-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you, Mr Annemans for your many questions, actually! On your first point, I think you referred to the bonds that will come to redemption in the next few months. I have said, and I'm happy to repeat, that at our next December monetary policy Governing Council meeting, we will discuss and decide the general principles that will apply to this balance sheet reduction that is part of the monetary policy normalisation that we have to undertake.

But I can tell you that in my view, the main characteristics of these principles will be that it should be measured and that it should be predictable, because what has been quantitative easing over the course of time, many years, has to be then measured because you undo what you have done at a measured pace and it should be done in a predictable fashion. That's number one.

It's interesting that you would raise the issue of exit from the euro. I mean, this is a debate that was killed a long time ago, and I think that the irrevocability of the euro is a key component, is part of the DNA of all those Member States who join the euro and who will join the euro. Countries are still in the waiting line to join. The next one, as I said, is Croatia. Bulgaria is the one that is working hard to satisfy the requirements as well.

But for me, that debate is off the table and it is certainly not one that we undertake and enjoy and entertain in our Governing Council, I can assure you. I don't think that it will ever be the case.

I can't remember what your third question was, but you had a third question. Oh yes, of course, do we want to eliminate inflation, do we want to reduce inflation? What we want is to procure price stability. That is the requirement. That is our primary objective under the mandate that was assigned by the Treaty's founding fathers and mothers. And we will do so. It has been defined, as part of our most recent strategy, as 2% in the medium-term, symmetric for that matter. So it will be this symmetric medium-term 2%.

1-053-0000

**Eugen Jurzyca (ECR)**. – Thank you, Madam Chair, and thank you Madam Lagarde for being here again and answering our never-ending one-minute questions.

First of all, I would like to say that I am keeping my fingers crossed for the ECB in fighting inflation. It is much more difficult work than contributing to inflation by loosening either monetary or fiscal policy.

Now the question, Madam Lagarde, is that you stated in the previous committee meeting that indeed the ECB made mistakes in the inflation forecasts and you are looking to improve your models. The question is, couldn't it be that the sharp increase in the money supply since 2020 has been a much bigger contributor to rising prices than the ECB initially expected?

And my footnote question, if I may, is that you mentioned the word or term 'a real economy'. Is it necessary to keep using this term as opposed to 'financial economy'? Because then in real political life, it is difficult to explain to people why they earn less money in the real

economy than bankers earn in an unreal economy, and why shouldn't we tax much more the unreal economy to subsidise the real economy?

1-054-0000

**Christine Lagarde**, *President of the European Central Bank*. – Thank you very much, Mr Jurzyca, for your two questions.

Unfortunately, in answer to your first question, we have to look at the counterfactuals. What would have happened had we not decided to put in place the Pandemic Emergency Programme, the PEPP? What would have happened if we had not put in place the long-term refinancing scheme and encouraged banks to continue to support the economy – the SMEs, the corporates, but predominantly the small and medium-sized enterprises, because the corporates could go out and issue bonds and seek financing on the markets, but small and medium-sized enterprises don't and in Europe they predominantly go and seek financing from the banks.

When you ask yourself the question of 'what would it have been had we not done that?' I think that the answer is probably a much worse collapse than what we had on our hands – a much worse collapse because financing would have been completely retracted and frozen, much more collapse because a lot of companies would then, instead of having been put on this sort of survival line, have filed for bankruptcy. A lot more people would have been unemployed because they would have been just laid off as a result.

What we did might not have been perfect – we wish perfection was of this world – but it's the best that we could do using the tools that we had available at the time, and given the lower bound at which we were, in order to support the economy and make sure that it would not end up in a complete collapse that would have been accelerated by a financial crisis. I think the way we tailored it was precisely intended to make sure that there was liquidity and that the economy – be it real or otherwise, and I agree with you, call it real, call it not real is not exactly the appropriate division of labour between these two – would have been in a terrible shape had we not done what we have done.

1-055-0000

**Fulvio Martusciello (PPE)**. – La mia domanda è diretta: che idea ha della situazione dell'economia italiana? Noi abbiamo l'impressione che una nuova tempesta finanziaria stia arrivando sul nostro paese. Sappiamo che la BCE e la Banca d'Italia detengono 685 miliardi di euro di debito pubblico, a cui vanno aggiunti 383 miliardi nelle mani delle banche nazionali.

Ora, se la nuova linea è quella di smobilitare con una certa rapidità questo impegno, non voler più comprare debito nazionale, e oltretutto si è anche fatta balenare l'ipotesi di vendere i titoli in possesso alla BCE sul mercato secondario per alleggerirsi di titoli il cui prezzo sta scendendo, questo produrrà naturalmente due effetti, la vendita a prezzi stracciati e soprattutto l'impossibilità di collocare nuovo debito.

Sappiamo che i governi precedenti a questo hanno usato il nuovo debito per finanziare misure di impatto sociale e, naturalmente, l'impossibilità di collocare nuovo debito bloccherebbe gran parte di queste misure.

Ritiene questa analisi fondata? Ritiene che l'Italia possa andare incontro a una tempesta finanziaria? Quindi quale idea ha della situazione economica italiana?

1-056-0000

**Christine Lagarde**, *President of the European Central Bank*. – Let me first of all observe that it's very fitting and timely that Italy has, for the first time, a female prime minister. I wish her the best success in the endeavour to actually drive the Italian economy towards a successful path, because I think it's in the interest of all Europeans and indeed all Italians.



Now, having said that, I am not going to comment on the political situation. I never do that for any particular country, and I would certainly not do that in respect of Italy. But two things, in my view, are really important.

One is that significant progress had been made in the last couple of years, in particular in terms of structural reforms, in terms of improvement to the productivity of the Italian economy, as a result enhancing its potential output. Those structural measures hopefully will be there for the long-lasting period that will be necessary to prove the efficiency for the economy.

The second point is that the Italian economy has been and is the largest recipient of the recovery and resilience funds. That's obviously in consideration for a recovery and resilience plan that includes a number of yardsticks, a number of measures, a number of changes that need to happen. Our hope, from a monetary policy standpoint, is that those measures will be delivered upon in order to help the Italian economy facing the hardship that it was the first to face when COVID started hitting our shores.

I believe that it's a great opportunity to demonstrate that from the fiscal and structural standpoint, there can be a strong determination to actually pull Italy into that improved economic situation going forward.

1-057-0000

**Chair.** – Thank you very much. Now, we have a few minutes left, and I have one request for catch-the-eye. So I give the floor to Michiel Hoogeveen.

1-058-0000

**Michiel Hoogeveen (ECR).** – Thank you, Chair, and thank you President Lagarde for being here and answering our questions today.

Last month on the RTE Late Late Show, you said the ECB was busy fighting deflation to get prices at a stable level, and you said that a speedy recovery plus the energy crisis caused by Mr Putin caused the inflation crisis, and inflation pretty much came from nowhere.

But wouldn't you agree that the expansionary monetary policies of increasing money supplies for a long time – so even before the pandemic, before the war in Ukraine – at least sowed the seeds of the current inflationary crisis? Looking back, do you truly believe inflation came from nowhere? Or do you think you and your advisors could have acted sooner or more resilient to prevent such crisis?

1-059-0000

**Christine Lagarde, President of the European Central Bank.** – Thank you very much, Mr Hoogeveen, for watching the Late Late Show, which is obviously more of an entertaining Irish long-standing television programme that I was encouraged to participate in. The things that you say in the spirit of the audience that you try to interest in economic matters, I think what would have been probably more accurate on my part would have been to say that we did not see inflation coming at the speed, at the rate and with the persistence that we have now experienced.

One of you was reminding us that back in December 2020 – that is less than two years ago – we were in negative territory and in a matter of 18 months, it went from below zero to almost 11%. So that's really what I meant to say, which is we've seen something that was brutal, way too high and persistent.

I think that we have now to concentrate on that and see what we can do and how far we have to go in order to make sure that we bring it back to the 2% medium-term target that we have. Believe me, we will do that.

1-060-0000

**Chair.** – Thank you very much. We are perfectly in time, and I really want to thank President Lagarde for her availability and all the MEPs who participated in this monetary dialogue, which was very, very interesting. So thank you very much to everybody. Have a nice evening. The meeting is closed.

*(The monetary dialogue ended at 16.58)*