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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, 25 SEPTEMBER 2023

1-002-0000

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

*(The monetary dialogue opened at 15.19)*

**Chair.** – Colleagues, let's move now to our monetary dialogue. We welcome President Lagarde to this third monetary dialogue in 2023. Our monetary dialogue today is again taking place in a still-challenging environment marked by uncertainty, inflationary pressures and the deteriorating economic outlook in the euro area.

Since the last monetary dialogue in June, headline inflation in the euro area has remained high, but has continued its downward trend and reached 5.2% in August. The September ECB staff macroeconomic projections for the euro area foresee average inflation of 5.6% in 2023, before declining to 3.2% in 2024.

ECB staff and the European Commission staff, in their summer 2023 economic forecasts, have lowered the economic growth projections for 2023 and 2024. This reflected largely the increasing impact of the financial tightening on domestic demand and the weakening of the international trade environment.

Since the last monetary dialogue on 5 June, the ECB Governing Council has continued on its monetary policy tightening path. The Governing Council, during its last meeting in September, decided to further raise key interest rates by 25 basis points for the tenth consecutive time.

President Lagarde indicated that the key ECB interest rates have reached levels which, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target. As concerns the so-called PEPP – the Pandemic Emergency Purchase Programme – the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme until at least the end of 2024. Flexibility – I quote – 'will continue applying in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism'.

Furthermore, in June, the Governing Council confirmed that it will discontinue the reinvestments under the Asset Purchase Programme as of July 2023. In this context, two topics were chosen by the ECON Committee coordinators for today's meeting. The first one is 'Achieving the right fiscal monetary mix in the context of the economic governance review', and the second is 'Excess liquidity in the euro area: developments and implications'. As usual, all briefing papers prepared by Parliament's panel of experts are available on the ECON Committee's website.

Before we start, just a few practical considerations on the procedure. There will be introductory remarks by President Lagarde of ten minutes, followed by a first round of questions, with one slot per political group and longer slots for speakers in the first round of Q&As, with the follow-up questions allowed. These will be 1.5 minutes for the initial questions and three minutes for the answer.

Let me add that if you use two or 2.5 minutes for the first question, I will not give a follow-up because we have to keep to the time. In the second round of questions, we will apply the d'Hondt system, with one minute for questions and three minutes for the answers. So please respect the time given to you so we can have everybody able to ask and receive answers.

President Lagarde, thank you very much for being with us today. You have the floor for ten minutes.

1-004-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much, Madam Chair, and good afternoon to all of you. It's really a pleasure to be back in Brussels for our regular quarterly exchanges.

Since our last hearing in June, the ECB has made further progress in its efforts to bring inflation back to its 2% medium-term target. In order to reinforce progress towards our target, we decided at our latest meeting to raise the three key ECB interest rates by 25 basis points and, based on our current assessment, we consider that our rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to our target.

In my short remarks today, I will outline our latest assessment of the outlook for the economy and inflation and explain our latest decisions. I will also briefly address the two topics selected by this Committee for today's hearing: excess liquidity and the fiscal-monetary policy mix.

Let's look at the euro area economic outlook. Euro area activity broadly stagnated in the first half of 2023, and recent indicators point to further weakness in the third quarter of 2023. Lower demand for euro area exports and the impact of tight financing conditions are dampening growth, including through lower residential and business investment. The services sector, which had been resilient until recently, is now also weakening.

The labour market has so far remained resilient despite the slowing economy, with the unemployment rate staying at its historical low of 6.4% in July. But while employment grew by 0.2% in the second quarter, job creation in the services sector is moderating and overall momentum is slowing.

Looking further ahead, economic momentum is expected to pick up as consumer spending and real incomes rise, supported by falling inflation, rising wages and a strong labour market. Our latest staff projections forecast growth of 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. You have all those indications in the two pages that I regularly send you before the hearing[1].

Turning to inflation, headline inflation continued its decline from its peak in October 2022, last year, reaching 5.2% in August, down from 5.3% in July. Energy inflation ticked up in August

[1] ECB, two-pager:
https://www.ecb.europa.eu/pub/pdf/annex/ecb.sp230925_annex.en.pdf?616865966930bb8cf671db1f9fbb6244

from its downward path but remained negative at -3.3%. Food price inflation has come down from its peak in March but is still high, standing at almost 10% in August.

Inflation excluding energy and food fell from 5.5% in July to 5.3% in August, and most measures of underlying inflation continued to moderate.

At the same time, domestic price pressures remain strong. Services inflation is still being kept up by strong spending on holidays and travel and by high wage growth. In the second quarter, the contribution of labour costs to annual domestic inflation increased, partially due to weaker productivity. In contrast, the contribution of profits fell for the first time since early 2022.

Our latest staff projections show that inflationary pressures are expected to moderate and that inflation is set to reach our target by the end of 2025. It is projected to fall from 5.6% in 2023 to 3.2% in 2024 and 2.1% in 2025.

We remain determined to ensure that inflation returns to our 2% medium-term target in a timely manner. Inflation continues to decline but is still expected to remain too high for too long. To reinforce progress towards our target, we decided to raise our key interest rates by 25 basis points earlier this month.

Based on our latest assessment, we consider that our policy rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to our target. In any case, our future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary. We will continue to follow a data-dependent approach, basing our decisions on our assessment of the inflation outlook in the light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission – the three criteria that we have been flagging now for several meetings.

Let me now briefly turn to excess liquidity, which you have chosen as a topic for today’s hearing.

The shift to a full allotment system during the financial crisis and the adoption of new monetary policy instruments have resulted in a strong rise in commercial banks’ holdings of central bank money.

The surplus of funds over minimum reserves is referred to as excess liquidity. The funds are held as overnight deposits with the Eurosystem, remunerated at the deposit facility rate, and exceed the level of minimum reserves, which are now remunerated at 0%. This is a decision we made in July.

The amount of excess liquidity has decreased by more than one trillion euros over the past twelve months – you have a chart in the two pages which indicates that – for two main reasons. First, the repayments of the third series of targeted longer-term refinancing operations (TLTRO) and, second, the reduction of the securities held under the asset purchase programme (APP), with reinvestments now being fully discontinued, since July this year.

Additional TLTRO repayments and the gradual rundown of the APP portfolio will also cause our balance sheet to shrink over the coming years, further reducing excess liquidity.

At the same time, Eurosystem staff is analysing the optimal long-run size and composition of our balance sheet – and by implication, the adequate level of excess liquidity. This is not a trivial issue as it has implications for the way we implement monetary policy. It is also an issue that is relevant for all major central banks, as the environment in which we operate has undergone fundamental changes over the past decade.

To this end, we are conducting a comprehensive review of the operational framework for steering short-term interest rates, assessing the costs and benefits of alternative regimes. We aim to conclude this review by spring 2024 and we will, of course report, to this committee on the outcome, at each of the meetings that we have.

Allow me to conclude and, by way of conclusion, to touch on the other topic that you have selected, of the monetary and fiscal policy mix. The last few years have been particularly turbulent, with unprecedented shocks hitting Europe. Decisive progress in your parliamentary term has shown that Europe can stick together, respond to challenges and emerge stronger.

But important legislative work remains to be done before next year's elections. Making progress on banking union, capital markets union and the digital euro rests in your hands. Your involvement is also crucial for the second topic chosen for today's hearing: ensuring the right mix of fiscal and monetary policies in the euro area.

Before the pandemic, fiscal policy was often pro-cyclical. But the response to the pandemic was different. National fiscal policies responded counter-cyclically to the downturn, working in tandem with monetary policy and supervisory measures.

As the energy crisis fades, governments should continue to roll back the related support measures to avoid driving up medium-term inflationary pressures. At the same time, fiscal policies should be designed to make the euro area economy more productive and to gradually bring down high public debt.

A robust economic governance framework is overwhelmingly in our common interest. Agreement on the reform of the EU's fiscal framework should therefore be reached by the end of the year.

We have outlined four priorities in our ECB opinion, which I would summarise in four key guideposts: lower sovereign debt and lower heterogeneity of debt levels across countries, higher growth and higher counter-cyclicality of fiscal policy.

Now is the time to move forward on this dossier, and I count on this committee to play its part in ensuring a timely adoption. That is also important for us, as monetary policy deciders.

Thank you very much for your attention. I apologise for having extended a little bit my speaking time.

1-005-0000

**Luděk Niedermayer (PPE).** – Thank you very much, Irene, and thank you, Madam President, for being here. I always appreciate your introduction.

Let me start with the moment you end up in the new fiscal framework. You highlighted why you think it's important, so I wonder if you can elaborate what are for you the main risks if we are not able to conclude the negotiation and the new fiscal framework will not be adopted relatively quickly.

Second, on monetary policy, I guess in our last exchanges, you very often compared the situation between the eurozone and the US, and rightly you pointed out that economic situation in the US is different, the cost of inflation is different, and so that's why there is quite a substantial difference in monetary policy.

I wonder how you see situation now, because it seems to me that both parts are facing demand inflation, both are facing the risk of wage growth that can feed into inflation and both sides are a little bit struggling with higher inflation expectations. So I wonder how you see the difference here and what is for you the relevance of weaker possible GDP growth in the eurozone, for monetary policy?

1-006-0000

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

On the first question, which relates to the fiscal framework, the governance framework that has been tabled by the Commission, let me first of all signal our strong support for the objectives pursued by the Commission in formulating its proposal, in particular the ownership that is expected by Member States so that we do not have Member States saying 'well, Brussels has decided'. No – ownership by the Member States of the governance within which they operate their fiscal policies.

Number two, simplicity, which is also an item that the Commission has advocated and which I hope will result from the ultimate decisions that are made and that are negotiated with you in particular.

The third one, which we regard as important as well, is the capacity to enforce the respect of the framework so that it is not just an illusion or an agreement without much by way of enforcement – so the ability to enforce the non-respect of the governance.

The fourth goal pursued by the Commission is the sustainability of the debt of the Member States over the course of time. Of course, as you know, 'over the course of time' relates to the possibility to extend in certain circumstances.

So, with all that, as is required under the process, the European Central Bank has issued an opinion on the proposal that was put together by the Commission, and I have tried to summarise that – although maybe a bit too much by way of summarise – but the first item is obviously to bring down the high debt level. Number two is to reduce the heterogeneity as much as is possible between the Member States, because you have great divergence between the various Member States. Number three is ways to incentivise growth and, number four, the focus put on counter-cyclicality, which is not something that we have always seen in the previous Growth and Stability Pact – quite to the contrary in some instances.

So we support the Commission's key principles. We have identified what our four key items are, going forward, and we very much hope that the process will take its course diligently. Our hope is that, at the end of this calendar year, there will be an agreement so that we can move into Calendar 2025, which is preparation of the budget by fiscal authorities in the fall of 2024 with a governance framework that is agreed. Because if that doesn't happen, given the succession of Member State elections, these elections for the Parliament here, it is likely to be deferred and deferred way too long for us in monetary policy terms to have the good understanding of what the fiscal framework will be for the Member States. That is a difficult parameter to have for us as monetary policy deciders.

Your second question had to do with the difference between Europe, and the euro area in particular, and the United States. I will not go back to why inflation is different and why the tools and the targets and the pace adopted by each institution – the Fed, on the one hand, the ECB, on the other hand – have differed. I think we know the differences.

But you specifically referred to wages, and it is clearly different between the United States labour market and the euro area labour market as well. You have more by way of collective bargaining agreement in our part of the world, and less so in the United States. There is a degree of flexibility, mobility, market determination that probably prevails in the US market more so than it does over here. As a result of that, the adjustment has probably been quicker in the United States than it has been here in our part of the world, in the euro area. We are seeing a lag time in terms of wages adjustment, labour market adjustment to the circumstances that we have observed.

So I would observe that now the labour market is finally adjusting and will probably take a little bit more time to adjust and to come back to, you know, real salaries that amount to what was pre-COVID and the trend where it would have been had it not been for COVID.

1-007-0000

**Pedro Marques (S&D).** – Thank you, Madam Chair. Thank you, President Lagarde. I will speak in Portuguese today. I would like to thank you once again for your willingness to take part in this regular dialogue here at the European Parliament and at the European Central Bank in Frankfurt.

After our meetings in the early summer, our political family expected a sign of caution and a slowdown – a halt – in interest rate rises, but that has not been the case. Rates recently went up again in September. The rise in interest rates is having very serious social consequences, particularly for the families that are most dependent, most burdened by mortgage payments. I would therefore like to ask you: when you take the decision to raise interest rates, do you take into consideration the social conditions of the most burdened European families? A word on that matter from you would be very important.

In addition, from an economic standpoint, you have told us that we could actually be in a worse situation following the slowdown in the first half of the year. We could therefore be on a path towards a recession in the European economy. Might we be seeing an overshoot of the effect of interest rates? Production prices grew by over 30% and are now falling 6% and the ECB said, in Issue 3 of its Economic Bulletin this year, that this has a direct impact on consumer prices.

Madam President, could you be clear with us – with the European people – and at least make it clear that you are now going to stop interest hikes for an extended period of time? Could we please have that clarity from you? Thank you.

1-008-0000

**Christine Lagarde,** *President of the European Central Bank***.** – First of all, thank you very much for putting the question as clearly as you have, and allow me to possibly not reach exactly the same level of clarity and definitive judgement as you expect and as – honestly – I would like to be able to make!

I think that the best thing I can do if, Madam Chair, you give me the time, is to take you to one particular paragraph of the introductory statement that we issued at the time of our monetary policy decision, because it is really embedded in that statement that we have both the issue of the level and the issue of the length of time, which are two big considerations for the monetary policy decision that we debated at length at our last monetary policy meeting and which led us to decide to increase, by 25 basis points, all three rates. Every portion of that paragraph matters. It starts with 'Based on our current assessment…' – I pause – '…if there are no other significant shocks and the current assessment holds …' gap '…we consider that the key ECB interest rates have reached levels…' – here we go, 4%, that's what was decided – 'comma' '…maintained for a sufficiently long duration…' – that's the length of time during which it has to be held – '…will make a substantial contribution… – 'substantial contribution' is not a run of the mill 'business as usual' kind of wording in a monetary policy statement – '…to the timely return of inflation to our target.' – and then we go back again to level and length – 'Our future decisions will ensure that the key ECB interest rates will be set at sufficiently restricted levels for as long as necessary.' – don't forget, based on our current assessment of the beginning of the paragraph – 'We will continue to follow a data-dependent approach to determining the appropriate level and duration.' – yet again, the two components come together – 'In particular, our interest rate decision will be based…' – and that's the usual wording that you always now find in our statements – '…on our assessment of the inflation outlook in light of the incoming economic and financial data', 'the dynamics of underlying inflation' and 'the strength of monetary policy transmission'.

So while I cannot make a definite statement – as much as I would like to do it – we are data dependent. Based on the current assessment, we believe that there is a substantial contribution that is made to returning inflation to target at 2% in a timely manner.

Do we also have on our mind – not in the back of our mind, but on our mind – what pain it inflicts, what suffering there is. Yes, it is on our mind, I can assure you. And yes, we know that, for instance, 30% of households in the Member States have variable interest rate mortgages. It is hard, we know that. We also know that the price of fuel, the price of gas at the gas station, the price of energy in general, is also weighing hard on low-income households. Yes, we do know that. But we also know that our mission, our duty is to return inflation back to target in a timely manner. The faster it gets there, the more stable prices are, and the less painful it will be going forward both for those who invest, but also for those who have borrowed.

I hope my explaining the paragraph to you clarifies a little bit what the intention of the Governing Council is behind that decision.

1-009-0000

**Nicola Beer (Renew).** – Ms Lagarde, I'm happy to have you here today and I'm very happy that you mentioned the digital euro as one of the files we have to push up, because I'm convinced that an attractive financial market has to boost such innovation. Given the progress in digital currency around the world, it is time for Europe to move on with high quality privacy and also usability standards, but to move on very quickly.

If you follow the public debate of citizens, it is crucial for me to make very clear that the digital euro is the additional digital equivalent of physical cash, not less. If not, we will not convince users and shop holders to accept it. In this context, I wonder how you plan to measure the success of the digital euro – by the volume of transactions, by the number of users or by something else? What is in your mind? Given the cost of implementation and privacy concerns, how do you tackle the major privacy concerns? If you ask for a transition and holding limit and identification with a consequence of total traceability, will this not hinder the acceptance of the digital euro? Would a digital equivalent of cash not need the possibility of a digital euro in private, so I mean unhosted wallets?

I'm sure that the digital euro has enormous advantages. We even have the chance, being Europeans, to be the frontrunner in the world, in front of the Chinese and the US, convincing even Africans, Americans, Asians to use the digital euro just on their smartphone without the need of having an account in Europe, making the EU a geopolitical player in financial markets, given the right decision quickly now, and so I'm very interested in your answers to my questions.

1-010-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Well, thank you so much for your question on the digital euro. There's a lot going on in that field – and not just at the ECB and within the whole Eurosystem, but more generally in terms of payment system infrastructure and how both payment and infrastructure will be transformed, and possibly disrupted, by digital being applied to both payments and infrastructure of payments.

Let me try to articulate for you what I see as the success of a digital euro. First of all, I think it will not eradicate cash. It's not a substitute. And just like you, I regard it as digital cash+. So, if it can be user friendly, if it can be free, if it can be a universal digital mode of payment throughout the entire Eurosystem, I think it will have checked many of the boxes, which I believe would characterise it as a success, because if it is easy to use, if it is free and if it is universal in the whole territory of the Member States, there should be no reason why those who are digitally inclined, like so many of us, would not actually use it.

I don't know if it will be by virtue of the number of transactions or by the number of users or by the category of age groups that will use the digital currency, but my bet is that if on those three criteria, and if we manage to make sure that privacy is protected – not anonymity, but privacy is protected – and we can address all the conspiracy theory that abounds about this as if, you know, Big Brother was going to suddenly determine what you buy when you buy it and how restricted it should be, then I think it would be characterised as a success. That's how I see it.

Let me also maybe give you an idea about the timetable, because while a lot of work has been done in the last three years in terms of exploring, surveying Europeans and what they want, it's not until later in October that the Governing Council will decide whether we can move ahead with more piloting of the project. And it's not yet out there because the pilot will probably take us another two years, at least, before the final say by the Governing Council on the basis of the legislative proposal that has been put on the table by the Commission, that will come to you, that we will be able to move ahead.

So it's taking all that into account and working hard and adjusting to the technologies that will be best conducive to the success that we will move forward with what I personally think should be a key option for Europeans to transact.

1-011-0000

**Rasmus Andresen (Verts/ALE).** – Thank you so much. President Lagarde, it's good to have you back here in the committee.

Over the last 12 months, we have seen the steepest rise in interest rates in the history of the eurozone – as a response, of course, to the energy price shock, basically coming from fossil fuels. But what we don't know yet so much about is how much economic damage the higher interest rates will still bring, with some of our economies facing a recession and also a high need for green and for social investments.

According to the EU Commission, the newest figures for the investment gap for the energy transition is EUR 620 billion annually. We, at least as Greens, think that your monetary decisions are slowing the economy and are also playing a role in decreasing the level of investment.

So what I would like to ask you is if it really makes sense from your perspective to slow down the economy with a record level of interest rates in a time where we actually have a big need of investments? Slowing down the economy makes sense if the economy is overheated from our perspective, but is this really the case right now?

Demand did not rise in fact, although consumption remains below the level we had in 2019. So my question to you more directly goes on how the ECB can justify the latest interest rate tax increases to further dampen the demand?

1-012-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Well, thank you so much for your question. It allows me to focus on one specific issue, which is the financing of green investment, going forward.

But let me preface that with the justification for our various decisions over the course of the last 12 months or so, and that lies squarely in our mandate: to procure price stability and to return inflation to what has been defined as price stability, which is 2% in the medium term. That's what is driving us. That's what is obsessive about the mission that we have and the mandate that we are given by the Treaty, by which we abide. That's where we are, and that's predominantly interest rates that we can use as a key tool in order to return inflation to the 2% target.

Now, let me now turn to what is really the core of your question, which is there is a big investment need – various numbers are circulated, but I use the EUR 600 billion by way of simplification between the green and the digital investments that are needed from now until probably 2025 in order to align with the Paris Agreement and to make sure that growth is based on green and digital rather than fossil fuel and antiquated other tools.

Those investments, I think you would agree with me, are long-term investment – most of them. It touches on infrastructure. It touches on significant investment that will procure a return in a number of years.

To structure those investments, investors need to understand where inflation will be, where prices will be, what will be the cost of construction, what will be the cost of maintenance, what will be the cost of running these new infrastructure models. If inflation is out of hand this will not work, because investments will not take place. We need to be able to anchor inflation expectations so that those who invest appreciate that in three years, five years, ten years, inflation will be kept under control at this price stability objective that we have. So that's the reason why we believe that it is important to anchor inflation expectations and to make sure that investors who will be investing in the green industry and in digital have less uncertainty and more expectations.

1-013-0000

**Rasmus Andresen (Verts/ALE).** – Thanks for your answer. First of all, on the data-based approach – you were speaking about a data-dependent approach in your initial remarks – I would like to get a better understanding on what data precisely actually is showing you that the level of interest rate hikes you have decided on are important to bring inflation down, or if this is maybe not up to the policy level – to energy policy, to fiscal policy, to deal with the level of inflation? So I would like a little bit more on the data you are working with.

The second question is on the figures the Sustainable Finance Lab came up with, basically mentioning that, for the Netherlands alone, the interest rate hikes means that the cost of renewables are increasing by EUR 70 billion. So there is a direct effect on the level of investments in sustainable renewables with the decisions you made on the monetary policy side.

So I would also like to get your remarks on this and also to get a better understanding maybe of some of the debates you are also having internally in the ECB.

1-014-0000

**Christine Lagarde,** *President of the European Central Bank***.** – That's a really long question, but let me focus on the first part where you want to fully understand what we mean by data dependency in particular.

So we have identified three key areas that are helping us form a judgement and determine the assessment of the current situation and what will help us reach the 2% target. Those are three. The first one is the inflation outlook, and that is informed by economic and financial data that are embedded in models – and I say models on purpose because there are large key models, but also supplemental models in order to assess the inflation outlook, so what will inflation look like, taking into account current assumptions on multiple matters in 2024 and 2025 and in 2026 later on. That's number one.

Number two, we look at underlying inflation numbers, some of which are empirically collected and aggregated. Others are also model based. That is caused by the fact that, around headline inflation, which is the one instrument that we use to measure what people are putting up with in terms of prices, but which has a lot of noise around it, so we try to take out the noise – the energy, the food – and then we try to dissect the underlying inflation using multiple ways of focusing on what will really help us identify what is the medium term inflation.

The third element is the strength of the monetary policy transmission. So for that, we look at how fast does it travel to money markets, to banks, to financing institutions at large, and how does it then travel to the economy? What are the costs of borrowing? What is the duration? What are the terms and conditions that are offered? That helps us understand whether when we increase rates, which is the key tool that we have available for that, whether it actually impacts on the financing of the economy. So we look at those three categories of data informed by different components in order to assess what is most efficient and what takes us to the 2% target medium term that is really driving us.

Now, I know you asked me a specific question on the Netherlands, but I would beg you to consider what would happen if we just let inflation run loose. How much certainty, how much confidence would investors have in the fact that five years, six years, seven years, ten years from now, when those projects eventually procure a return to the investors, they don't know whether inflation will be anchored or whether it will be loose and running. That's what's guiding us.

1-015-0000

**Chair.** – Thank you very much. Please, these follow-up questions are meant to be a follow-up of half a minute. I this say because we have a long list of speakers and I would like to accommodate everyone.

1-016-0000

**Johan Van Overtveldt (ECR).** – Thank you, President Lagarde it is good to have you here. Two questions. The first relates to the second topic of today, which has not been touched on already by the colleagues, on excess liquidity. EUR 4 trillion excess liquidity, that's still a huge amount and I dare say a potential threat to your fight against inflation. What do you think about the idea to increase minimum bank reserves to sterilise more of this excess liquidity rather quickly and maybe efficiently? I would like to hear your opinion on that and also whether that is something that the ECB is contemplating at the moment.

Secondly, on the fiscal-monetary balance, we have now, of course, in the EU the Recovery and Resilience Facility, with billions flowing, which means an additional fiscal stimulus to the economy. To what extent does the ECB feel this to be a kind of hindrance to its anti-inflation policy, this extra fiscal stimulus?

1-017-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much for your two questions. On your first question, I hope we gave you the right indication in our two pages but, if you look at it, I hope you don't find four trillion and I hope you see more of 3.6 trillion in terms of size of excess reserves.

Now, I'm saying that and taking a little bit of pride in that, because if you compare the balance sheet reduction of all large central banks around the world, the European Central Bank is the one that is reducing the size of its balance sheet in comparison to GDP at the fastest pace, so we are going faster than the Fed at the moment and we are going faster than the Bank of England at the moment. This is attributable to two things. One is the reimbursement of the TLTROs that you will remember, and the second is the decision that we made to reduce reinvestment quite early on, as early as March this year and then gradually to not reinvest at all as of last July. So the combination of these two things: reimbursement of TLTROs plus reduction of reinvestment and continuing total discontinuation of reinvestment has brought us from 4.7 trillion down to 3.6 trillion. I'm giving that as an *ordre de grandeur*, a general magnitude, but it is reducing and it will continue to reduce because the TLTRO reimbursement will continue in the coming weeks and months and because the APP will continue not to be reinvested. So by virtue of these two factors continuing, it will continue to reduce.

Back in July, we looked at multiple options and we really considered various possibilities – one of which you've mentioned – and after having really assessed all risks, benefits, timing, we determined that the best thing to do and the only thing that we decided was worth it at this point in time was to bring the remuneration of minimum reserves requirement down to 0%. So the minimum reserves are no longer remunerated at DFR, which used to be the case. That's the solution that we thought was most adequate, appropriate, proportional to the circumstances in view of the gradually declining excess reserves because of the two factors that I have mentioned.

Additionally, as I have said in my introductory statement, we are working on the operational framework that will inform us on the most appropriate size of the balance sheet. That work is ongoing. It is technical, it is difficult. We have to look at various options, whether we adjust relative to what we had, whether we take into account how the operational framework has served us well in times of renewed crisis – all of that will come to fruition and completion in the spring of 2024. So we will have certainly more to report on that.

On the second topic that was of interest to your group and on which you had five papers, if I recall, some of which were really interesting I have to say, of course the Recovery and Resilience Facility (RRF) matters, but if we measure the impact that it has and confront that with the impact that is figured out by the Commission, by your experts as well, we come to about three percentage points over a period of five years, if I recall – I will double check again, but I'm almost certain that's the impact that the RRF would have. If you just look at the fiscal effort that was produced in 2022, we're talking about 2% in one year. So it is not to minimise the impact of the RRF, but it is not going to be of such significance that it would hinder the monetary policy determination that we have defined and decided in the last few meetings.

1-018-0000

**Johan Van Overtveldt (ECR).** – Madam Lagarde, in the last months core inflation bumped around between 5% and 6% – 5.2, 5.8, but always between 5 and 6. What do you make of that, of it being so stubborn in that fork? Doesn't that indicate that interest rates have not risen far enough to break this core inflation pressure?

1-019-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much. On core inflation, we are currently at 5.3%. We came from 5.5 and before that a higher number, so there is a declining trend in core inflation.

Core inflation, as I said earlier on, is a strong indicator that we take into account as part of all the underlying inflation indicators that we use. Because, while removing energy prices and food prices, we try to really get to the core of inflation, the one that that is now unfortunately domestically driven, more so than in the past, but which gives us a good indication of what the medium-term inflation rates will be.

As I said earlier on, based on our current assessment, we believe that these rate increases, applied to the three interest rates, will make a significant contribution to reaching the objective of 2% that we have for the medium term, if it is sustained and kept for a long enough period of time. This is something that is not measured in short distances; it is a long race that we are in.

1-020-0000

**Gunnar Beck (ID).** – *Welcome back President Lagarde.* Over the last 18 months, the ECB has increased the interest rate ten times. Nevertheless, the ECB interest rate level remains well below the German inflation rate of 6.4 %. On the other hand, interest rates are now significantly above the inflation rate in countries such as Spain, where it stands at only 2.4 %.

So it is no wonder that while the Bundesbank is calling for further interest rate increases in order to reduce inflation, southern countries want exactly the opposite. You are thus not in an enviable position – Madam President – caught between a rock and a hard place. Since, unfortunately, we are now in a monetary union, which by definition can only have a single monetary policy, you will have to make a choice at some point.

My question is: How will you decide? Your introductory and previous comments suggest that you consider the current level of interest rates to be sufficient. But I would like to insist on a point touched on by my colleague earlier: In the event that the decrease in core inflation proves to be too sluggish, what then

1-021-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much for your question and thank you for identifying two issues. One is the heterogeneity that we have amongst Member States, which is a fact, but which can vary over the course of time. If you look, for instance, at some of the Baltic countries, which had extremely high inflation rates in 2022, those numbers have gone down dramatically – I mean, it's not dramatic because it's a blessing that monetary policy is working and that other factors are also affecting the economy. So, there is heterogeneity, but it's not always in the same direction, and it can vary over the course of time. But it is the issue of the euro area where we have one single monetary policy and we have 20 different fiscal policies and unfortunately not yet a governance framework that would hopefully bring that interaction and those differences in fiscal policies in the same direction.

Core inflation, as I said, with the caveat that I mentioned – because it's not the only element that we look at, we look at underlying inflation at large and we try to take out not only the direct, but also the indirect impact of energy prices, food prices and we try to really focus as much as we can on wages, we look at services in isolation, we look at the trend and there is a whole variety of measurements that we take into account. But, what we use is the inflation outlook and the inflation outlook we have it in the HICP number headline, the overall number, but also in core numbers, and what we see in the core inflation outlook, is core inflation returning to 2.2% in 2025.
So core inflation is also going to move downwards in the course of the next two years. It's not exactly in line with headline because we have our inflation outlook over the whole of 2025 at 2.1% when we have core inflation at 2.2%. And I'm not suggesting that 0.1% is nothing and should be just ignored – no, we have a target and it's 2% – and that's where we are aiming for and that's where we need to decide for how long we stay in sufficiently restrictive territory in order to get to our 2%. I hope I was specific enough.

1-022-0000

**Gunnar Beck (ID).** – I'll be efficient and talk English. I take your point about the Baltic States, but I'm not so sure that applies to Germany. Of course, we have a curious inversion within the eurozone now, with Germany being a high inflation country. But that has reasons, of course. The German Government is borrowing much more now and then it's wasting the money on what I tend to call 'world rescue operations'.

Now, if you raised interest rates further, you'd do everyone, including the Germans, a great service, because you'd make it much more difficult for Germany to waste all that money on essentially sterile projects.

1-023-0000

**Christine Lagarde,** *President of the European Central Bank***.** – I recognise the efficiency of your English in relation to a very, very German question, if I may say!

I don't comment on specific countries' situations or the politics behind investments and projects, but I think it's fair to say that some countries in the euro area are revisiting their business model, are in need of solid investment, in infrastructure in particular, and I think that the determination to do so in order to improve productivity and maybe in order to reorganise production and refocus a business model might not be such a bad idea.

1-024-0000

**José Gusmão (The Left).** – Madam Chair, Ms Lagarde has said that ECB policy follows a data-dependent approach. What the data shows is that, when this policy began, underlying inflation – inflation that is sensitive to the action of inflation, the energy and food prices – was at 4%. At its peak in March this year, it was 5.7% and is today 5.3%.

What I would like to understand is what data does the ECB need in order to realise that this policy is not efficient. Because these are analyses by the European Central Bank itself.

Inflation was, at first, overwhelmingly caused by changing energy prices and, later, by food prices. Underlying inflation, as somebody here said, is very stubborn. So the question is, if a tool is not working, whether the ECB's plan is to keep using that tool even more and for longer, and whether this is what the ECB calls a data-driven policy.

1-025-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much for your question. Allow me to take out the numbers, because I think that we have to look at headline. This is where it hurts, and this is where we are also focussed on. Headline inflation was at 10.6% back in October. It is now down to 5.3%. So it has more than been halved.

The reduction of inflation – am I going to claim that it is all caused by ECB monetary policy? No, because it would not be the honest approach and it would not show much integrity. A large amount of that, when we look at headline, is caused by the fact that energy prices have come down and that they have moved from extremely high territories to slightly negative territory in the last reading that we have. It is also because food prices have gone down a bit.

But it is also because monetary policy has had an impact – not on the whole, but an impact has actually taken place. If we look at the period 2022 to 2025, we estimate that the contribution of monetary policy will be at least 2% of reduction of inflation, on a steady basis.

So monetary policy also works, and I think that it will actually work more and more as the nature of inflation itself is morphing into an inflation that is much more domestic, that is much more associated with services and which therefore has, as a key component, wages but also the way in which margins by the corporate world are accommodating wages, which is something that we are now finally beginning to see.

Core inflation has gone down and directionally it is trending south, which is good, and we have it in terms of inflation outlook at 2.2% in 2025 – so a significant drop over the course of the next few months to take us back to the 2% medium term inflation target that we have.

1-026-0000

**José Gusmão (The Left).** – Thank you, Madam President. You said that you were not going take the credit for the reduction of inflation for energy and food, but then you did exactly that. I would like to draw attention to a topic that has already been raised here, which is the impact of investment restrictions on a crucial objective for inflation: the impact on investment.

Once again, I've already heard the idea that underlying inflation is an essential indicator for understanding how effective monetary policy and interest rate instruments are. That is a fact I've already seen in a number of European Central Bank reports.

But if we want to talk about energy prices, we have to look at other types of policy, and one such policy is promoting investment. It was the first time I've ever heard someone from the central bank say that a record interest rate hike has no negative impact on investment. And investment in the energy transition is one of the fundamental instruments for controlling the energy inflation linked to the fossil fuel industry.

1-027-0000

**Christine Lagarde,** *President of the European Central Bank***.** – I hope you don't get me wrong. I'm not saying that our interest rate policy has no impact on inflation. It does. I have actually mentioned to you the estimated percentage by which it reduces inflation, going forward.

So I'm not saying that it does not. I'm saying that it does. But I'm also – out of honesty and acknowledgement of the facts – recognising that the decrease in energy prices has had a significant impact on the reduction of headline inflation.

If I was to claim the contrary, it would just be dishonest on my part. But I'm saying that our monetary policy has an impact, no question, on inflation. It also has an impact on investment – that's clear. Our bank lending survey that we conduct on a regular basis tells us exactly that.

It tells us that it has reduced the flow of loans to corporates and it has reduced the flow of mortgages to households. That's a clear fact. It also tells us that the interest rate which is charged by the lenders has increased and that our monetary policy decisions have actually been transmitted very efficiently to the financing of our economy. So, on those accounts, it certainly has an impact and it is intended to dampen growth, to slow down, in order to tame inflation, which is the ultimate goal that we have.

1-028-0000

**Othmar Karas (PPE).** – Madam Lagarde, I will speak in German, my mother tongue. I have only one question. You mentioned before the banking union, the capital markets union and the digital euro.

So I would like to ask you: What significance does the creation of the fiscal union hold for you? We need the Capital Markets Union (CMU) to ensure ample investments – you have already established the link to inflation. But we are currently talking more about the EU budget framework agreement than about the creation of a fiscal union. What would the significance of a fiscal union be as regards the response to the current issues?

1-030-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much for helping me to clarify. I suppose we will all agree that while we have monetary union, we do not have fiscal union, and while there is one central bank, there are 20 different treasuries around the euro area.

So let me point out two things: one is, for us, it would be really helpful and very important to understand what the governance framework is within which those 20 treasuries and 20 finance ministers operate. We have had the escape clause ever since COVID has hit us. We no longer have the escape clause, we have Commission recommendations, and it is not a very efficient way to operate, going forward. It would be much better for all involved to have a governance framework that citizens would know about, that finance ministers would know about, that you could all control and appreciate and understand, and by which we could determine the yardstick of our monetary policy because we would know what the rules are. So that's point number one. Hence the importance of the governance framework, and the hope that I form that your institution, and those who are having a trilogue – I hope at some stage – will result in something that can be operational.

Point number two. I think it has been demonstrated that during COVID, when Member States agreed to put fiscal efforts together, it showed a degree of cohesion, efficiency, togetherness, which was very convincing to markets – if I'm only to look at that, taking out the European faith that many of us have, that we can actually act together. But markets were not fooled. They thought, okay, there's something happening there, and they looked at it as, you know, a budget facility that was brought together between Member States.

It's obviously a direction that is worthy of exploring further. I know that my predecessor at the European Central Bank has committed an Op-ed as written in *The Economist*, in that respect, and I'm sure will be having views in his new capacity as appointed by the Commission. But having budgetary capacity to respond in common to challenges that are common, from climate change to defence to health issues, would be of great support to monetary policy.

1-031-0000

**Jonás Fernández (S&D).** – Welcome, Madam President, I will ask my question in Spanish. There is no doubt that the work you are doing at the helm of the European Central Bank is very complex – even more complex at the moment – and I welcome the efforts to ensure transparency when explaining the monetary policy, but I believe that monetary policy should actually be more predictable.

Here I return to one of my concerns – and something I have asked about on a number of other occasions – regarding the revision of the mandate and the goal of stabilising inflation at around 2% in the medium term. This medium-term approach, while welcome, gives rise to some uncertainty, because we do not know what 'medium term' means in reality.

I previously asked you what the ECB's interpretation of 'medium term' was. You replied that it could be interpreted in different ways but, in my view, it is important for the market and citizens to know what it refers to because it forms the basis of what we can expect in terms of your decisions.

Why do I believe this? Because the inflation forecasts published by the ECB itself on 14 September 2023 – before the decision to initiate or apply a further interest rate hike – put inflation at the end of 2024 at between 2% and 3%, slightly above 2.5%. I am talking about the ECB's forecasts for the last quarter...

...the last quarter of 2024, the inflation forecast is below 3%, between 2 and 2.5%. If the average inflation of the year is 3.2% in the last part of the year, inflation has to be below 3% – of course up to 2%, but between 2 and 3%.

So as I said at the beginning, if we interpret the medium term as being perhaps 18 months, 24 months or 12 months – whatever our interpretation is – we could go ahead with this interest rate increase, or not, or see it as reasonable, or not, if the forecasts themselves put inflation at just over 2% in 12 months.

1-034-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much Mr Fernandez, because you actually, in a way, inform my answer to your question by referring to answers that I gave you in the past, which is – as you said yourself – that the definition of medium-term is not set in stone. It's not fixed because it's going to be a matter of the magnitude, the origin, the deviation from inflation and it's eminently variable – but it's medium-term.

If you combine the medium-term plus the three criteria that I have mentioned – and when we look at underlying inflation for the reasons that I have mentioned and that you know well, which is that underlying inflation informs us well on the medium-term that we hope for – it gives us at the moment a number of 2.2% for the whole of 2025. So, core inflation is at 2.2% for the whole of 2025, which is taking us much closer to target, especially given that the headline then is for the whole of 2025 at 2.1%.

Now, am I saying to you that medium-term is 2025? No, I'm saying that we need to get to 2% in the medium-term. I think that based on our projections, we reach actually the 2% in headline during the third quarter of 2025. Now we need to be confident that we are really there and that it is sustainable, which is why we look at a momentum in terms of inflation. We look at the annual numbers as well. But obviously we are getting very close to our target by then.

The second, I will bring three things together. There's the medium-term that we just discussed. There is the timely return of inflation to the target – so it means that we cannot just be slow going along the way – and then there is the length of time. It's really by combining those three elements of timeliness, of sustainability, hence length of time, and medium-term that I think that we will make that sufficient contribution to arriving at target under the current assessment.

1-035-0000

**Eva Maria Poptcheva (Renew).** – President Lagarde, you often tell us that the restrictive monetary policy currently adopted by the European Central Bank can be perfectly combined with expansionary fiscal measures, provided that they are concrete and target the most vulnerable groups. Yet some Member States are not following that path, and are instead adopting indiscriminate and general fiscal policies.

One example in the country I know best, Spain – although this can also be seen in measures taken by other Member States – is the indiscriminate 8.5% increase in pensions, all pensions, in 2023. It is estimated that in 2024 this increase is basically going to use up the entire public spending margin allowed under the European Stability Pact – now reactivated – giving us a deficit of 3% or even higher than 3% of GDP.

I therefore want to ask you, President Lagarde, if you believe that indiscriminate expansionary fiscal policies jeopardise price stability in the medium and long term?

And I have one very short question. In the wake of the differing opinions Parliament and the Central Bank had over the appointment of the Chair of the banking supervision mechanism, what do you intend to do to improve relations between our two institutions, as the European Parliament obviously has a very important role to play in the democratic legitimacy of the European Central Bank?

1-036-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much for your question on the fiscal measures and programmes that have been put in place and are still being proposed. You are correct in that we have said it should be temporary, it should be targeted and it should be tailored. We are now saying, given that the energy crisis is fading out – and, of course, I have a little caveat on that, because we are seeing the price of oil moving as well, but at least as a global energy mix, if we take into account oil, gas and electricity prices, we are certainly not in the heights where we were about a year ago.

So, as the combined energy mix prices are fading out, we are saying to Member States, roll out, remove those programmes, those subsidies, those shields, those grants that you had put in place. By a large account, Member States are actually doing that. We are now seeing, here and there, some Member States trying to design programmes, measures, support packages that, from at least the accounts that we are hearing, seem to be a lot more targeted to the most vulnerable, the most exposed – I don't want to mention any particular countries, but we know that some countries are currently discussing those very targeted and minimal programmes in order to alleviate the burden of variable mortgage rates, for instance.

So, as designed, as indicated, it seems to be satisfying the targeted, temporary and tailored programmes. If it was not targeted, temporary and tailored, then we would go back to the risk of having support that would work in the face of monetary policy and would be at risk of stirring prices up and introducing inflationary pressures that are not desirable at the moment.

1-037-0000

**Joachim Schuster (S&D).** – Thank you for your explanations, Ms Lagarde. However, I am finding increasingly difficult to understand your approach. Above all, I would be interested in the following: What theoretical economic interconnections underpin your policy?

Interest rate increases have an impact on demand-driven inflation and are important in that regard. However, this inflation is not driven by demand at all, but by supply. Hence, one could argue, quite pointedly, that inflation has decreased despite your interest rate hikes, as such increases pose challenges in addressing supply-driven inflation. Bringing down energy prices, for instance, has required significant investments. All this is made more difficult by your approach.

At the same time, such misguided policies bring forth negative social factors, adverse economic elements, and challenges for the green transformation. Therefore, I would like to ask: Either you think that one can also combat supply-side factors with interest rate increases, in which case I would like to know that this is the case. Or you should tell me: What aspect of the core inflation that you constantly stress is really demand-induced? And what is nothing more than a consequence of supply-side inflation, which we simply cannot fight with interest rate increases as this is not possible from an economic theory point of view?

1-038-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much for your question. Let me first of all point out that even in the case of supply-driven inflation, we cannot let inflation expectations de-anchor.

Traditionally, if it is purely supply-side, temporary, as has been the case in the past on some energy shock that our economies were confronted with, the typical response is: see it through, do nothing, don't move on the interest rates; it will go away by itself. But it is not going away by itself, and we have to anchor inflation expectations.

Added to which, as we analyse it now, inflation is not only supply-driven; it is also partly demand-driven. I think there is no disagreement on that front amongst all economists. Part of the inflation that we are facing now *is* demand-driven, and it was a mismatch between supply and demand, post-COVID, that ignited inflation, which was then certainly exacerbated by the terrible Ukraine war that was started by Mr Putin, which increased the price of energy, not only in 2022, but later on.

1-039-0000

**Joachim Schuster (S&D).** – *(The Member interrupts Ms Lagarde, shows the inflation chart on the two-pager and points to figures on it).* The finances show differences, if you look at these figures.

1-040-0000

**Christine Lagarde,** *President of the European Central Bank***.** – I wish I had my figures in front of me, but I gave them all to you. There they are. Yes, well, that's exactly my point. If you look at the left side of the chart, you have a large chunk which is caused by energy. But if you look at the other components – you're talking about this one, right? If you look at this one, you have initially a large contribution by energy prices and food prices. But if you look at anything that is post Q2, actually a little before that, you have HICP excluding energy and food, which is a major driver. So we're not talking anymore about supply shock. We're talking about – partly, you're right, there is some component which is indirect impact of energy and cost and energy and food cost push, no question about it – but you also definitely have a mismatch between demand and supply when, post-COVID, suddenly you had these supply bottlenecks applied to a demand that was pent-up demand post-COVID, where everybody wanted to buy goods – and not only goods, but then services because people suddenly recovered the freedom to walk around, to take holidays, to take transportation and so on and so forth. There is a large component of demand about it and the mismatch between the two is clearly explaining some of that.

But if you look, going forward, we are still in a situation where energy plays a minor role now and where we still have this domestic component of inflation that we have to reduce and to tame down. So it's both a combination of making sure that inflation expectations remain anchored, and people know that we will return to the 2% target, and the components of inflation and what is driving it at the moment.

1-041-0000

**Eugen Jurzyca (ECR).** – Thank you very much for the floor. Madam Lagarde, in the last decade, we experienced a period of low inflation with quantitative easing stimulating the economy. For the last two years, however, we have found ourselves in a new era of high inflation that requires a policy of quantitative tightening to control inflationary pressures.
Unfortunately, an unintended consequence of this policy is hindering economic growth. While the inflation rate in the eurozone is steadily decreasing, the ECB's own projections suggest it may take at least two more years to reach the 2% inflation target.

At the same time, there is a possibility that the entire eurozone may enter recession in the coming months.

So my question is, will the ECB maintain its tight monetary course to continue reducing the inflation rate, but possibly leading to a prolonged recession? Or will it consider reducing interest rates even before the inflation rate reaches a more moderate level, which could prolong the current period of high inflation? Or do you perhaps see any other option?

1-042-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you very much for your question. As I have repeated many times in this ECON Committee, for which I have huge respect, our mandate, our objective, our imperative is price stability. It was entrusted to us under the Treaty, and we have to deliver on that mandate. So bringing inflation back to 2% is the necessity.

We do not have a recession in our baseline. We have had stagnant growth – granted, our forecast for growth in 2023 is 0.7%, going up to 1% in 2024 and 1.5% in 2025, which is roughly potential growth as we had it for a long period of time. So no recession is on the cards under our baseline, and we will return inflation to 2% in the medium-term as we are committed under the mandate.

We are not talking about reducing rates. Rate cuts have not been discussed by the Governing Council and I spent a little bit of time – maybe too much to the liking of your Chair – trying to explain that paragraph, which is key in our monetary policy statement, because we do insist concurrently in each and every segment of that paragraph on level and length, duration and rates.

So, we have to be in that restrictive territory for long enough to make sure that we do return it to 2% – and we are confident that it does return to 2%. I'm not the only one saying that. The Fed has that view as well, and I think it's actually a fact that we have to stay for a period of time in order to make sure that it is returning to 2%.

1-043-0000

**Gunnar Beck (ID).** – Thank you, Chair. I'm going to articulate some particularly German concerns about the digital euro, so let me do that in German.

Just over two weeks ago, we had a very interesting meeting with Fabio Panetta. Many critical questions were raised – including by my Christian Democrat and Social Democratic colleagues – which remained unanswered. What did become apparent in the course of the debate was that the ECB, as the host of the digital euro wallets, could not guarantee the anonymity of digital payments, even if it wanted to do so, as Mr Panetta asserted.

Regarding the first question, you distinguished between 'anonymity and privacy'. I would like to know what exactly you meant. You thought you could safeguard the privacy of the payment, but not anonymity.

Now for my second point: The advantages of the digital euro vis-à-vis many private digital currencies remained equally unclear, except that in a vague, romantic sense it is European. There is no reason to give a green light to the project and hardly any interest in doing so. Why is the ECB now so determined to introduce the digital euro? What specific benefits are there for users or for the majority of the EU population?

1-045-0000

**Christine Lagarde,** *President of the European Central Bank***.** – Thank you so much for putting this question, because I think it's an important issue and it's one that our compatriots are interested in.

In a world where so many things are now done in a digital way, whether we like it or not – whether it's our children playing games, whether it's us filling in forms, whether it's money moving around, whether it's an order being put and retail being conducted – it is predominantly and more so by the day, digital, digital, digital.

Our money system is based on central bank money and commercial bank money. The first part, central bank money, at the moment is provided by banknotes. I'm oversimplifying it, but that's central bank money. In tomorrow's world where everything goes digital and where there is this appetite for digital tools and devices, why should the central bank only have as its central bank money, banknotes, and not be open to also having digital cash – because digital money will be attractive to the users. That's what the surveys actually tell us. But in addition to that, we need a central bank anchor that is not just banknotes, but also digital cash, if it is so desirable to our compatriots.

Now, you asked me about the difference between privacy and anonymity. Based on the feedback that we received from European compatriots who have been surveyed and asked the question, people are really interested in having a high degree of privacy. In particular, they don't want what is called the 'programmable currency', where somebody else elsewhere would decide what they can buy, how they can buy it, and all the rest of it. On the other hand, they are not unhappy if with that digital money they can organise and plan in terms of payment.

It is that optimisation that we are trying to work on: protect privacy, but because digital money leaves a trace, be it blockchain or otherwise, it will not be entirely anonymous as a banknote would be. But will the ECB actually see the data of people, what they buy, how they spend digital cash? No. Under the system as it currently stands, using the intermediaries of commercial banks to disseminate digital currency, the banks eventually will have data – but they have data anyway. When you look at your monthly report or bi-monthly report, however it is forwarded to you, the bank has access to how much you have spent on food, how much you've spent on rent, how much you've spent on holidays, on transportation. This is not something new. This would not come with the digital euro. It's your bank, your intermediary, which actually analyses that and then shares it with you. Nothing more would happen.

I think to procure the anonymity that banknotes provide is actually contrary to a goal that you all have in this institution, which is to fight money laundering, which is to fight the financing of terrorism, so that data eventually, upon request by a court, for instance, can be made available in case of high suspicion of money laundering. I'm using words with a bit of caution because this has not been, you know, identified, worked out and debated within your institution here. You will have something to say. You are the guardian of privacy for our compatriots. But in terms of mechanics and process, data will not be available to the ECB. It's not going to be a big brother ECB, which looks into the details of transactions as they're conducted.

Added to this, I know that there is work that is being done at the moment under the leadership of the soon-to-be-former member of the Executive Board, Fabio Panetta, on identifying very small amounts that could operate without any data being available even to an intermediary bank. Now, I'm not sufficiently deep into those works, which have to do with technicalities as well, to give you full light on that, but I'm sure that as work progresses, you will be kept informed.

One thing that I should mention as well, is that cash will always be there. So for those who are so keen to want to buy a car with banknotes because they don't want any Big Brother bank – not the ECB, but another bank – to know that they are buying a car, they can still do it. It's fine!

1-046-0000

**Chair.** – We have completed our list of registered speakers, and we managed to do everything perfectly in time, so I really want to thank all the colleagues who participated in the monetary dialogue for the interesting questions and the lively debate, and thank you to President Lagarde for her availability and openness in sharing views with us. We will take a one minute break to allow a change of scenery, and then we will continue – with the report on the ECB, actually.

*(The monetary dialogue closed at 16.58)*