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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, 05 JUNE 2023

1-002-0000

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

(The meeting opened at 15.05)

Chair. – Good afternoon everyone, I want to skip to point three on the agenda, which is our monetary dialogue with Christine Lagarde, President of the European Central Bank. Welcome, President Lagarde.

This is the second monetary dialogue in 2023. Our monetary dialogue today is again taking place in a still-challenging environment marked by uncertainty and inflationary pressures. While headline inflation has declined – it is expected to be at 6.1% in May 2023 – down from 7% in April, according to a flash estimate from Eurostat, mostly due to the ongoing fall of energy prices, core inflation remains high, mostly driven by the rise in food and services prices.

Eurostat flash estimates show a considerable heterogeneity in the rate of inflation. There are some Member States in which the inflation rate is already below 3%, like in Luxembourg, Belgium and Spain, and others in which inflation is still above 10%: Baltic countries, Slovakia. Focus is also on the contribution of high corporate profit margins on inflation, as well as possible wage developments that might further feed into price pressure.

Since the last monetary dialogue on 20 March, the ECB's Governing Council has continued on its monetary policy-tightening path. The Governing Council, during its last meeting in May decided to further raise key interest rates by 25 basis points, with President Lagarde indicating that there is still more ground to cover.

Likewise, the Governing Council decided on a full passive unwinding of holdings under its asset purchase programme, the APP, from July onwards. Furthermore, the largest of the outstanding tranches of targeted longer term refinancing operations, the so-called TLTROs, is expected to mature at the end of June, with banks having to repay about EUR 477 billion. This will contribute to further reduce liquidity in circulation.

In this context, two topics were chosen by coordinators for today's meetings. The first one is the interaction between price stability and financial stability, and the second is the effects of high inflation and monetary tightening on the real economy, which we all know is a concern of many European citizens. As usual, all briefing papers prepared by the European Parliament panel of experts are available on the ECON Committee's website.

Today, Madame Lagarde is here in Brussels not only for our monetary dialogue, but also for the formal conclusion of an important agreement with the European Parliament for structuring the practices for interaction in the area of central banking with the aim of enabling the ECB to effectively discharge its accountability and transparency obligations in full respect of the requirements set out in the Treaty on the Functioning of the European Union.

As President Lagarde recalled last February, this accountability exercise was largely based on practices, most of which were not explicitly written or codified. But now we have changed this, and I'm really, really happy and proud about the work that we all have done.

We have been waiting for a long time. 25 years ago, a Parliament report called for an agreement with the soon-to-be-established ECB, For over 20 years, no progress was made.

But more recently, in this committee, during one of these monetary dialogues, we started to discuss with President Lagarde about this need, and we started with her a very fruitful and productive dialogue. So I'm so pleased that the ECB was ready to engage in this agreement. I want to thank President Lagarde for her openness and her availability.

Please let me acknowledge the important work made by all ECON coordinators, as well as the support that we got from President Metsola and the Conference of Presidents throughout the whole process.

As is now standard practice, there will be an introductory remark by President Christine Lagarde of ten minutes, followed by a first round of questions – one slot per political group, longer slots for speakers in the first round of Q&As with the follow-up questions allowed: 1.5 minutes for initial question, three minutes for answer, a possible follow-up of one minute and two minutes maximum per answer, and then a second round of questions where we apply the d'Hondt system: one minute for the question and three for the answers. So, I ask you to respect the time given to you, and I give the floor to President Lagarde.

1-004-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much Madam Chair and good afternoon to all of you members of the Economic and Monetary Affairs Committee of the European Parliament, ladies and gentlemen. It is a pleasure to be with you again, as the Chair said, for the second time this year and immediately after celebrating the 25th anniversary of the European Central Bank.

I am delighted that some Members of the Parliament attended this celebration in Frankfurt a few days ago, reflecting the close and fruitful dialogue our institutions have always maintained. Since the ECB's creation in 1998, members of the Executive Board have attended over 100 hearings before this Parliament. This engagement has been central to the ECB's accountability and has contributed to the euro becoming a currency that our fellow citizens trust.

So, let us turn our attention to the matters at hand and let me start by providing you with a brief overview of the economic outlook before going on to discuss our latest monetary policy decisions.

Looking at the economic outlook, growth in the euro area slowed, nearly stalled in early 2023. Activity is being supported by lower energy prices, easing supply bottlenecks and fiscal policy support to firms and households.

As the energy crisis fades, governments should roll back the related support measures promptly and in a concerted manner to avoid driving up medium-term inflationary pressures, which would call for a stronger monetary policy response. The ECB welcomes the European Commission's recommendation to Member States to wind down in 2023 the fiscal measures taken in response to the energy price shock.

Domestic demand, especially consumption, remains weak. Business and consumer confidence indicators point to weak activity in the second quarter and remain lower than before Russia's unjustified war against Ukraine and the Ukrainian people.

We see a divergence across sectors of the economy. The manufacturing sector on the one hand is still working through a backlog of orders, but its prospects are worsening. On the other hand in the meantime, the services sector remains resilient, vibrant, especially owing to the reopening of the economy after the pandemic. And you must have received a recto-verso page that describes for you some of the key characteristics of the current situation, and you see the difference and the divergence between manufacturing and services.

Household incomes are benefiting from fiscal support measures and the strength of the labour market, with the unemployment rate having fallen to a new historical low of 6.5% for the euro area.

Looking at inflation, headline inflation has declined from its October peak and stood at 6.1% in May according to Eurostat's flash estimate. While base effects have led to some variation in energy inflation in recent months, the rate declined to -1.7% in May. Food inflation remains elevated but is decreasing and stood at 12.5% in May, down from 13.5% in April.

Price pressures overall remain strong. Inflation, excluding energy and food that I have just mentioned, declined to 5.3% in May, from 5.6% in April. That's what we call core inflation. Upside pressures on both headline and core inflation are still coming from the pass-through of past energy cost increases and supply bottlenecks, which are nonetheless expected to fade gradually over time.

The latest available data suggest that indicators of underlying inflationary pressures remain high and, although some are showing signs of moderation, there is no clear evidence that underlying inflation has peaked.

Wage pressures have strengthened further as employees recoup some of the purchasing power they had lost as a result of high inflation. Moreover, in some sectors firms have been able to increase their profits on the back of mismatches between supply and demand and the uncertainty created by high and volatile inflation.

So what does the ECB's monetary policy mean in that context? High inflation is putting a strain on people living in the euro area. As energy inflation – which imposed a notable burden on

low-income households – declines, the inflation differential between low- and high-income consumers starts to fade away.

Nevertheless, high food inflation continues to weigh on low-income households in particular. And we at the Central Bank and within the euro system at large are fully committed and determined to fighting inflation and to achieve a timely return of inflation to our 2% medium-term target. This commitment to price stability contributes to economic growth and employment in the medium term and, hence, to reducing inequality.

In the light of the ongoing high inflation pressures, in our May meeting we decided to raise the three key ECB interest rates by 25 basis points. We also announced that we expect to discontinue the reinvestment under the asset purchase programme as of July 2023.

Our rate hikes are being transmitted forcefully to financing conditions for both firms and households, as can be seen in rising lending rates and falling lending volumes. At the same time, the full effects of our monetary policy measures are starting to materialise. Recent ECB staff analysis indicates that the effects of monetary policy tightening on real activity and inflation can be expected to strengthen in the coming years, but our assessment is surrounded by significant uncertainty.

Our future decisions will ensure that the policy rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to our 2% medium-term target and will be kept at those levels for as long as necessary.

We will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, our policy rate decisions will continue to be based on our assessment of the inflation outlook in the light of the incoming economic and financial data, on the dynamics of underlying inflation and on the strength of monetary policy transmissions.

Now, as you have requested, let me discuss the financial stability outlook. Financial stability is a pre-condition for price stability and vice versa. Financial stability in the euro area has proved robust so far, but we continue to assess possible risks, taking into account a wide range of indicators. They are mentioned in the two pages that you have received as well.

Euro area banks' exposure to the recent banking sector stress which arose in other regions than the euro area has been limited. But challenges to funding and asset quality may weigh on future profitability. More broadly, as financing conditions tighten, we will gain more insight into the resilience of euro-area firms, households and banks.

The medium-term orientation of our monetary policy strategy allows us to consider financial stability in monetary policy decisions if this supports the pursuit of price stability. Conversely, price stability remains as crucial as ever for durably preserving financial stability and we do not see a trade-off between financial stability and price stability in the euro area.

Over time, the pursuit of price stability through monetary policy, and of financial stability primarily through macro-prudential policy, are complementary. In addition, the ECB has the tools to provide liquidity to the euro-area financial system, if needed, to preserve financial stability and the smooth transmission of monetary policy.

We remain committed to price stability and to support financial stability, it is essential that you, as co-legislators, make tangible progress towards completing the banking union and that you strengthen regulatory policies to further enhance the resilience of the euro-area financial sector.

To conclude, in 1998, 25 years ago, former ECB President Willem Duisenberg stressed that the European System of Central Banks should be open, transparent and accountable, noting that 'the most important challenge for the ESCB is to win the confidence of the citizens of Europe'. Twenty-five years later, this is still an important challenge, and we are working hard to further foster trust in our institution. But the ECB cannot do this alone.

Today's dialogue with you, who represent the people of Europe, is essential to that endeavour. And this is why I am also, like your Chair, delighted that we just signed, together with President Metsola, an exchange of letters between our two institutions: the European Central Bank and the European Parliament. Building on our close and fruitful dialogue over the past 25 years, this exchange of letters will allow us to better structure our interactions and facilitate effective cooperation.

At this point I would like to really pay tribute to your Chair, who is really largely accountable for the success of this endeavour. This exchange of letters owes a lot to her, so thank you Madam Chair.

Together we must do all we can to keep listening and responding to the concerns of the European people. With that I thank you and I stand ready to take your questions.

1-005-0000

Luděk Niedermayer (PPE). – Thank you Irene, and thank you Madam President, for being here, you should know that we value that. And for me, this is one of the most important meetings that we have had at the ECON Committee.

I thank you for your introduction. So let me sum up. We have, I would say, three key factors that helped us to get inflation to better level. The first is obviously a decline of energy prices, not just the growth, but the level of prices that is substantial. The second, decline of the real income by quite a substantial part of population and the third, the monetary policy action. So we succeeded to get the inflation from ten-ish, let's say, to six-ish. That is very good.

But looking ahead, I guess we will see income recovery, as you rightly pointed out. The energy prices probably don't have big potential to go lower. And we don't know, frankly, if there will be fiscal tightening. So aren't you really afraid that to get from 10 to 6 was much easier than to get from 6 to 2? And, if this is the case, what you should do in order to achieve this and get us closer to the target because the conditions are very different.

And the second, echoing the topic that was selected by us. As we know, long yields, government bonds are roughly below 2008 level. And if a hypothesis that to get inflation down from six-ish to 2% would be difficult, that means that they will stay high for some time. And this would really trigger the long-term repricing of some assets. That means the long government bonds, the real estates and so on.

And in our preparatory meeting, there was some concerns that this repricing can have some impact - I'm not talking about financial stability - but can have material impact on the valuation of the assets in financial sector and mostly in the banking.

1-006-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much, Mr Niedermayer, for these two questions. I might focus a little more on the first one because we have limited time, and I think that's a critical question.

And I would observe, first of all, that - yes - the numbers are better because you are right that at the peak in October, we were north of 10%. And we are now gradually moving down, at least in terms of headline inflation. With the heterogeneity that the Chair mentioned earlier on with countries that are much further down and countries that are still way up there, and some very close to 10%. So, it is going down and for some of the reasons that you have explained.

You know, it's interesting to see that what had pushed inflation up very fast and which is taking it down – maybe as fast, but we are not exactly certain about the velocity at which it goes – is energy. So, energy prices have been critically important in bringing prices up either directly or indirectly as well, and I'm sure we'll discuss that this afternoon. And equally, base effects and general level of energy prices going down is having an impact on headline inflation.

Now, this is not the only key item which is producing this move from 10-ish to six-ish, as you said. When you look at the supply side, it's also some easing in the bottlenecks. And when we look at all indicators, PMI, for instance, the PMI on delivery of goods is significantly improving. So, the easing of supply, on the one hand, the significantly reduced energy costs are obviously having an impact on headline inflation, as is also monetary policy.

I think we're beginning to see the impact of decisions that we began taking in December 2021 with the announcement and then the implementation of the scaling-down of net asset purchases under various programmes, followed by the interest rate increases. And that is beginning to have an impact, obviously visible in the tightening of financing costs. I think that's where we are seeing it the most.

Will it be as fast and as efficient in terms of bringing it from the six-ish to 2% - not two-ish - 2% medium-term target? We will have to take the measures that are required to that effect, and we will do so because we are committed to this 2% medium-term target. As the two components on the supply side, energy and bottlenecks are fading away, obviously additional forces will have to develop in order to bring inflation rate from this six-ish per cent to the 2% medium-term target that I have mentioned.

Do we have a risk of repricing? Well, this is a topic that was extensively reviewed in the Financial Stability Review that was published last week. And it is a risk that is out there that we monitor and look at very carefully. But I think we have observed during the difficult period of March, which many have called 'mad March', that European financial institutions, banks in particular, have proven to be much more solid than was feared by some, better capitalised with liquidity coverage ratios that help them be stronger, despite the turmoil that we observed both on the west as well as next door in Switzerland.

And, you know, we should just take the right credit without being complacent because there is a risk of repricing that we should monitor carefully.

1-007-0000

Aurore Lalucq (S&D). – Mesdames les Présidentes, je voudrais vous remercier toutes les deux, parce que pendant toutes ces années, on a eu un dialogue de très grande qualité grâce à vous deux. On parle souvent de la démocratisation de la Banque centrale européenne. Je ne sais

pas s'il y a beaucoup de banques centrales qui viennent discuter aussi souvent avec les élus que nous sommes, donc un très grand merci à toutes les deux.

Vous l'avez dit, Madame Lagarde, au tout début de l'inflation, on ne peut pas répondre à un choc d'offre avec une augmentation des taux d'intérêt, et on ne peut pas répondre non plus à de l'inflation importée avec une augmentation des taux d'intérêt. Et on se doute parfaitement que la Banque centrale européenne s'est trouvée dans une situation difficile à partir du moment où les taux augmentaient côté américain.

Maintenant, le problème, c'est que la hausse des taux, je ne vous apprends rien, crée un risque pour les *spreads*. Ça crée un risque aussi de stabilité financière parce que, de toute façon, que les banques soient bien régulées ou pas, on a des moins-values latentes dans les bilans bancaires. Par ailleurs, et votre institution l'a reconnu, aujourd'hui l'inflation est tirée essentiellement par les marges, et la question de l'inflation alimentaire le montre parfaitement. Et on n'est toujours pas en période de surchauffe, donc sans période de surchauffe, vous l'avez dit, croissance basse, consommation basse. Je ne vois pas comment un taux d'intérêt peut résoudre quoi que ce soit face à ce type d'inflation.

Ma première question est donc la suivante: quel est l'état des discussions au sein de la BCE sur la question du rôle des marges dans l'inflation? Deuxième question, vous venez de dire tout à l'heure, à juste titre: «la Banque centrale européenne ne peut pas faire tout toute seule, notamment sur la réglementation bancaire», est-ce que, sur la question de la lutte contre l'inflation, notamment contre l'inflation alimentaire, la Banque centrale européenne peut œuvrer toute seule? Est-ce qu'elle n'a pas besoin de l'aide des États, notamment pour qu'ils rappellent un peu à l'ordre certaines entreprises qui ont tendance à avoir un effet de cliquet, c'est-à-dire que les prix augmentent et puis finalement, c'est très confortable et donc on ne les baisse pas. Comment les États membres peuvent-ils vous aider dans cette perspective?

1-008-0000

Christine Lagarde, *Présidente de la Banque centrale européenne*. – Merci Madame Lalucq de vos remerciements. À la Banque centrale européenne, on est effectivement très sensibles à la qualité du dialogue et à l'importance que représentent ces moments de dialogue entre les parlementaires et nous-mêmes. Vous êtes le reflet des Européens, de leurs soucis et vous exprimez leur voix, et pour nous c'est extrêmement important de l'entendre de votre bouche.

On essaie de la manière la plus rigoureuse possible et en s'appuyant sur des données – je vais revenir sur ce point-là parce que c'est un point qui est difficile – d'analyser les sources d'inflation et les moteurs qui contribuent en particulier à l'inflation. On a commencé à indiquer dès le mois de septembre 2021, sous la plume de l'économiste en chef Philip Lane, que les autorités budgétaires, par l'arme fiscale, devaient participer aussi au combat que nous menions contre l'inflation. Ça a été repris de manière beaucoup plus extensive lorsqu'il – c'est encore lui d'ailleurs, lors d'un discours à Trinity College, en 2023 cette fois-ci – a examiné par secteur, par pays, les contributions des différentes politiques de marge des entreprises, et de quelle manière celles-ci contribuaient ou non à l'inflation.

Il y a maintenant des études qui corroborent un certain nombre de ces éléments, et de manière assez simplifiée, ce qu'on a pu constater, c'est que pendant l'année 2022 en particulier, un certain nombre de secteurs – je pense notamment à l'agriculture, à la restauration, à la construction, aux transports – avaient été en mesure de transférer vers le consommateur et l'utilisateur la plupart des augmentations de coûts qu'ils subissaient. Et donc on a pu constater un maintien des marges dans la mesure où celles-ci n'étaient pas

réduites pour prendre en compte une partie de cette augmentation des coûts importés à laquelle vous faisiez allusion tout à l'heure.

Ce phénomène est moins évident depuis le début de l'année 2023, mais il a été très clair pendant l'année 2022. On s'aperçoit maintenant que, en face de cette contribution des profits, on avait une contribution maintenant des salaires. Ce que nous avons indiqué de manière la plus équilibrée possible – parce que c'est notre rôle de le faire de manière équilibrée, et ce n'est pas à nous d'organiser le dialogue social –, c'est qu'il était très important que les partenaires sociaux, c'est-à-dire d'un côté les employeurs, de l'autre côté les salariés, puissent avoir un dialogue concerté pour qu'on ne se trouve pas en face de ce que j'ai appelé une inflation «*tit for tat*»: c'est-à-dire que chacune des deux parties souhaite récupérer l'intégralité de ce qui a été perdu au titre de l'inflation importée. Parce que si on se trouve dans cette situation-là, on aura alors le risque de devoir engager des mesures de resserrement de politique monétaire beaucoup plus importantes.

La suite des opérations ne nous appartient pas. C'est évidemment aux partenaires sociaux, c'est peut-être aux États, sous leur égide, que ce type de dialogue doit s'engager pour arriver à une répartition adéquate de cette inflation importée. Je suis en train de dépasser mon temps, déjà, donc je m'arrête.

1-009-0000

Engin Eroglu (Renew). – Sehr geehrte Frau Lagarde, auch von mir herzlichen Dank, dass Sie so regelmäßig in unseren Ausschuss kommen. Das gibt uns die Gelegenheit, mit Ihnen ins Gespräch zu kommen. Ich glaube, das ist auch wichtig. Wie Sie schon gesagt haben, wir im Europäischen Parlament vertreten die Bürgerinnen und Bürger. Und so ist es wichtig, dass man die Argumente miteinander austauscht, die Sorgen miteinander teilt und aber auch nach gemeinsamen Lösungen sucht.

Wir reden ja jetzt im Kernpunkt über das schwierige Thema der Inflation. Und Sie hatten es ja schon gesagt, die Inflation sind Durchschnittswerte, die auch im Euro-Währungsraum in den verschiedenen Mitgliedstaaten verschiedene Höhen haben. Das heißt, wir haben nicht eine Inflationsrate für die komplette Europäische Union oder den Währungsraum. Wenn man nach Deutschland schaut, ist es ja so, dass es nach Bundesländern aufgeteilt ist. Nun ist es so, dass man – wenn man draußen unterwegs ist – hier und da doch erhebliche Unterschiede im Gespräch mit den Bürgern spürt. Und so ist es so, dass vor allem – wenn ich in Deutschland unterwegs bin – die Menschen im ländlichen Raum eine gefühlt höhere Inflation wahrnehmen als die Menschen in der Stadt. Das kann natürlich verschiedenste Gründe haben: Auf der einen Seite die Sprit- und die Energiekosten, auf der anderen Seite die ständig steigenden Preise fürs Wohnen, oder aber auch, wenn es vielleicht in der Stadt vergünstigte Tickets für den öffentlichen Nahverkehr gibt, die die Menschen im ländlichen Raum zwar kaufen können, aber davon nicht einen hohen Vorteil haben. Dann haben Sie ja gesagt: „Wir haben es jetzt geschafft durch die Zinserhöhung.“ Und auch aus meiner Sicht: Ich hätte mir da eine mutigere Zinserhöhung gewünscht, um die Inflationsrate zu senken. Aber die Frage ist: Gibt es sozusagen auch Messungen innerhalb der EZB, zwischen ländlichem Raum und Städten? Das würde mich wirklich interessieren. Und wenn ja, wo kann man diese Daten bekommen?

Und eine weitere Frage ist, wenn ich eine zweite Frage noch stellen darf: Wir erleben ja jetzt, dass wir es geschafft haben, die Energiepreise runter zu drücken, und ich bin der festen Überzeugung, viele Verbraucher haben auch Energieverbrauch vermieden. Sie sagten selber: „Wir haben es jetzt geschafft, die Inflation bei Lebensmitteln von 13 1/2 im April auf 12 1/2 im Mai zu reduzieren.“ Aber die Vermeidung von Lebensmitteln ist halt schwierig. Und

deswegen die Frage: Wie schaffen wir es denn tatsächlich, gerade im Bereich der Lebensmittel schnell und drastisch die Inflationsrate runter zu bekommen? Denn hier ist es für die Verbraucher und Verbraucherinnen einfach nicht möglich, ihr Verbrauchermuster zu verändern?

1-010-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much, Mr Eroglu, for the various points that you made and the questions.

Let me just observe first that both energy prices and to a much lesser extent, food prices are now either stable or going down, which is the case for energy prices. We are now in negative territory one year over the other. And that matters actually for low-income Europeans. So I don't have good numbers or good comparisons between rural versus urban, but we know for a fact that low-income Europeans are suffering more from inflation on energy and food than people with higher income simply because they consume more of energy and food relative to their overall income.

You're comparing ... I think you have something actually in your recto-verso documentation, it's a bit of a complicated one, but it's the last graph that you have at the bottom of page two, which indicates the difference between the lowest and the highest income households, where you see that the lowest income households suffered more from inflation and are now beginning to suffer less than they had previously because energy prices and food prices, to a lesser extent, but also food prices are not as high as they used to be.

So, that's what I can say in terms of impact of inflation on people. Rural versus urban, I think that we would probably circle back to use of energy in particular because rural Europeans generally tend to have to use their car, they do not have public transportation available. And the benefit of some of those single-priced tickets that are made available, for instance, in Germany and just have to use their car or any other individual mode of transportations.

And unfortunately, as the European Central Bank and working with all the national central banks of the 20 Member States, we have to make monetary policy decisions for the overall euro area. And we cannot surgically go down to the *Land* level or to the regional level or even to the country level, because our remit is the entire euro area. So some fiscal measures can help.

And in particular, I think that it is the case that governments are still trying –and that is something that the ECB supports – to help the most vulnerable with targeted, temporary and tailored measures in order to give them the support to resist the inflation, which is still to this day, too high and against which we will continue taking measures until we get to the target 2% medium term that we have set for ourselves.

1-011-0000

Henrike Hahn (Verts/ALE). – Thank you very much, dear President Lagarde, it's always a pleasure to have you and thanks for that.

Here is my question. On 23 February, the ECB reported zero profits for 2022, and this was largely driven by the remuneration of commercial bank deposits at the central bank. And, based on current interest rate developments, the ECB is on track to remunerate bank deposits to the tune of EUR 150 billion per year. And your colleague Mr de Guindos, Vice-President, told us two weeks ago here in the ECON Committee that this is not a problem of remuneration of reserves, but a situation of excess liquidity.

And since Central Bank profits and to some extent losses are passed onto national budgets, this still represents a massive taxpayer-backed subsidy to private banks, of course. And one way to limit the amount of subsidised windfall profits to banks would be to reintroduce the two-tiered system of non-interest-bearing minimum reserve requirements that was already used in the negative interest rate environment.

Which leads me to my following question: does the ECB consider plans to limit the remuneration of banks deposits, for instance, via a two-tiered reserve system? And if not, why is this the case?

And if you allow me a second very short question, I would be happy. Some might argue that these transfers to banks are needed because, when interest rates increase, bank profits tend to decline, which can make them more vulnerable. However, any financial stability risks due to rising interest rates should be addressed via adjustment of banks' capital and liquidity ratios and not via direct subsidies.

So my question would be: does the ECB have any evidence that would suggest that reducing the remuneration of excess reserves could affect financial stability?

1-012-0000

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

First of all, let me state that the key objective that the European Central Bank pursues is price stability, as defined under our strategy review as this 2% medium-term target, and that we have to use the tools that we have available in order to do that. In the current situation and in the face of the very high inflation numbers that we see, particularly the underlying inflation numbers, for which we don't see evidence of them having peaked or peaking yet, we have to use interest rates. And that's the reason why we have consistently raised interest rates by 375 basis points since we started back in July 2022.

One of those rates that we have increased is the deposit facility rate (DFR) at which reserves are remunerated. And exactly for the reason that Vice-President de Guindos mentioned, which is that there is excess liquidity in the system, those reserves that return to the ECB are remunerated at the DFR.

When we set our interest rates, we are focused exclusively on the objective of price stability and reaching the objective. We're not looking at whether banks are making profit as a result or not. We are looking at whether or not banks are transmitting monetary policy.

That's a critically important matter, and it's one on which the ECB would like it if banks were really transmitting full fledge to not only the lending that they procure to corporates and households, but also to the deposits that they take from corporates and households, and not only the term deposits, but all deposits, if they were to transmit those rates on both sides of the activity. We're not seeing enough of that in relation to deposits.

But as far as other objectives are concerned, this is not what we are focusing on at the moment.

1-013-0000

Michiel Hoogeveen (ECR). – Thank you, Chair, and thank you, President Lagarde, for being present with us here again today.

In order to control high inflation, you are hiking interest rates. Now, if you remember the monetary dialogues we had some years ago, I believe it started too little, too late. But I think you are on the right path right now.

My question is: however, if fiscal policy does not follow your fight against inflation, it will be lost quickly or become too costly over time for society to bear. Governments and the EU continue to increase their spending and, against the backdrop of rising expenditures on health care and pensions due to the aging of the population and massive subsidies in climate-related projects, digital development, military spending, aren't you worried and frustrated that you are stepping on the brake of inflation on the one hand, but, on the other hand, governments and the European Union are continuing their spending fiscal policy, making your fight against inflation more difficult?

Now, I know you are an independent institution, so I'm a bit on a slippery slope here maybe, but according to you as an economist, what should governments and the EU do in order to most effectively contribute to the fight for price stability and the 2% inflation target? And do you think in that sense, austerity and reforms, necessary reforms in the eurozone are inevitable?

1-014-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much, Mr Hoogeveen, for your questions and I'm going to focus on the alliance, if you will, between monetary policy and fiscal policy. And you are right that the ECB is an independent institution.

Yet, both in our monetary policy statements recently as well as in my opening remarks with you this early afternoon, I did mention the fact that we were expecting and hoping and encouraging fiscal authorities to roll back some of the blanket energy-support packages that were put in place at the time when energy costs were extremely high and when fiscal authorities decided that it was appropriate to give sometimes blanket support.

What we historically have said for the last year or so – and I now hesitate to use this triple 'T' because I've been saying it so much: targeted, tailored and temporary. And unfortunately, when we look at the fiscal supports that is given across the euro area, about 10 to 15% of those national support plans are actually targeted, temporary and tailored. So, in addition to saying when you focus on the most vulnerable, make sure that you design your support in such a way that it is targeted, temporary and tailored and, for the rest, roll it back and roll it back now.

It remains to be seen whether this happens or not, particularly concerning the energy supports, given that energy prices have gone way down, both gas as well as oil. Some of the national plans provide for financing and grants and supports until the end of 2023. Our hope, so that these subsidies, grants and payments do not fuel inflation, is that Member States will in fact roll back those support packages and will look at either financing structuring programmes that will help productivity of the economies or the digital and the green goals that they have set for themselves.

It remains to be seen. But we are looking at that very carefully, because it could participate in fuelling inflation.

1-015-0000

France Jamet (ID). – Madame la Présidente, Madame la Présidente Lagarde, pour limiter les effets négatifs de la pandémie et les conséquences du conflit russo-ukrainien, vous l’avez rappelé tout à l’heure, les gouvernements se sont engagés dans une politique du «quoi qu’il en coûte», et si cela était alors nécessaire, cela a entraîné effectivement beaucoup de dettes.

Aujourd’hui, nous avons 2,1 % de croissance dans la zone euro pour 3,6 % de déficit. Nous devons donc emprunter 3,5 € pour générer 2 € de richesse. Il faut ajouter à cela les intérêts et, corollairement, la politique de la hausse des taux qui augmente drastiquement la charge de la dette des États, comme cela a également été évoqué. Cette situation risque de mettre en péril l’équilibre budgétaire des pays les plus fragiles de la zone euro et peut provoquer aussi une hausse considérable des taux obligataires et nous entraîner dans une dangereuse spirale.

Alors j’ai plusieurs questions. La première, comment la BCE compte-t-elle piloter les taux d’intérêt pour éviter ce scénario? La deuxième, si l’évaluation de ce risque existe, quelles en sont les projections? Et la troisième, enfin, la BCE a souvent été pointée du doigt pour son fonctionnement en vase clos, et je crois qu’aujourd’hui vous faites l’unanimité, Madame Lagarde, je vous remercie aussi, nonobstant nos désaccords, pour votre disponibilité, pour votre régularité et la qualité de ces dialogues monétaires. Mais pouvez-vous nous en dire un peu plus sur les rapports et les discussions entretenus avec les gouvernements pour élaborer la politique monétaire de la zone euro et gérer la diversité des économies de la zone euro, au-delà des échanges épistolaires avec Madame Metsola?

1-016-0000

Christine Lagarde, Présidente de la Banque centrale européenne. – Madame Jamet, je vais commencer par votre dernier point, parce qu’en réalité, le seul véritable dialogue que nous engageons, c’est avec vous. Je n’engage jamais de dialogue stricto sensu avec les États membres. Je suis occasionnellement invitée, comme mes prédécesseurs, au Conseil européen, pour la partie Conseil de l’euro. Et à cette occasion-là, je fais en général une présentation sur la situation économique, mais je n’engage pas un dialogue véritablement avec eux, puisque l’instance de dialogue c’est ici. C’est avec vous que nous évoquons les questions de fond, que nous soyons d’accord ou pas d’accord sur tel ou tel sujet, mais le dialogue, il est là, il est avec vous, pour la raison que l’on connaît, c’est-à-dire les fondamentaux du traité européen et les engagements que nous avons à l’égard du Parlement européen qui ont été consacrés par cet échange de lettres que nous avons signées cet après-midi.

Je reviens sur la première de vos questions. C’était la question du pilotage des taux d’intérêt. Comme je le disais tout à l’heure, on a augmenté les taux d’intérêt à partir de juillet 2022, on est passé de -50 points de base à +325 points de base à ce jour. Donc ça a été une progression rapide, nécessaire, en face d’une inflation qui était très forte et qui allait, en prévisionnel, le rester pendant longtemps. Donc ça, ce sont les mesures que nous avons prises. Nous avons, lors de la dernière réunion de politique monétaire, à l’occasion de nos projections, indiqué comment nous allions procéder à l’avenir. C’est-à-dire que nous avons décidé de ne plus utiliser ce qu’on appelle la «*forward guidance*», qui permet, en particulier, quand les taux d’intérêt sont très bas, de donner une indication aux marchés selon laquelle ils arrivent à comprendre à peu près dans quelle direction on va, ce qui n’est pas nécessaire en période de taux d’intérêt plus élevé.

Nous avons dit clairement que, premièrement, nous serions «*data dependent*», c’est-à-dire qu’on allait observer de manière très précise les données que nous recevions, soit sur le plan empirique, soit sur le plan des modèles que nous utilisons, et qu’on allait en particulier se

fonder sur trois séries d'indicateurs. Premièrement, ce qu'on appelle l'«*inflation outlook*», c'est-à-dire nos projections d'inflation qui sont modifiées au fur et à mesure que nous recevons des données à la fois financières et économiques. Deuxièmement, les sous-jacents de l'inflation, qui sont une donnée beaucoup plus empirique, mais qui nous permettent de déterminer à moyen terme dans quelle direction les éléments les plus résistants de l'inflation évoluent. Et, troisième élément, la transmission de politique monétaire.

Ce sont donc nos instruments d'observation et de pilotage pour arriver vers l'objectif qui est la cible de 2 % à moyen terme. Je ne peux pas vous en dire plus sur le pilotage des taux d'intérêt, c'est stricto sensu la manière dont nous fonctionnons, et j'espère que ça illustre le fait que je ne souhaite pas que la Banque centrale européenne fonctionne en vase clos et derrière de hauts murs. Je pense qu'il est de l'intérêt de nous tous que nous sachions de quelle manière les décisions se prennent et quels impacts elles peuvent avoir.

1-017-0000

Siegfried Mureşan (PPE). – Madam Chair, President Lagarde, welcome back to the European Parliament. Look, I would like to raise quickly three points. Firstly, how can we all become better at projecting the evolution of inflation? I still recall the discussions that we had here 12-18 months ago, and in the end inflation proved to peak at levels above what we were projecting. What is your assessment now about the models of central banks and how is the ECB looking at its own model? My first question.

My second question: you were talking about the recent increases of interest rates done by the ECB. Can you give us your assessment regarding the consequences which the increases will have upon the growth rate of the euro area for the upcoming months?

And thirdly, it was raised here before - and thank you also for your replies on how eventually governments would need to roll back on some support programmes. My question is: do you see the expansionary fiscal policy that is eventually undergoing as a potential risk for your efforts to bring inflation closer to 2%? We are now, of course, talking, looking at needs to invest more in energy, transition to green economy, support to Ukraine, defence. Is this a risk for decreasing inflation?

1-018-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your three points. How can we get better at projecting inflation and at projecting, full stop?

I think by working as hard as we can at improving the collection of data, having the best statistics material that can be made available and accepting and acknowledging, and think that we have done that. And we were the first central bank to acknowledge it, that we cannot get it right all the time, in particular in the face of large uncertainties and in the face of significant shocks and compounded shocks, as we have seen in the last three years.

I think it's a fact that most institutions, most economists in the world, with a couple of exceptions here and there and, you know them as much as I do, have been off the mark when it came to projecting inflation and projecting growth. Simply because the models that we have cannot capture the level of uncertainty that we faced. So it's one of the reasons why we decided to go for these three elements that I have just mentioned to Ms Jamet.

We continue to use the models. So when we when I say 'inflation outlook, incorporating financial and economic data', it is what our models can produce, but it's not in and of itself sufficient. It's an important element. It's necessary, but it's not sufficient. So we also use

underlying inflation, which is more empirical, more factual, more granular in its dissection of prices, if you will. And, third, the transmission of our monetary policy to appreciate how fast it travels to financing and to the real economy and to inflation. So that's for your first question.

But, believe me, the economists and the econometrists and the monetary experts at the ECB are working as hard as they can to improve upon the results that they produce. But I think we have to be honest and acknowledge that it cannot produce the perfect projections because of what we are facing at the moment.

Your second point: what is the impact of growth on the increase of interest rates? Now, again, this is produced by models.

1-019-0000

Siegfried Mureşan (PPE). – The other way around: what is the impact of you increasing interest rates upon growth?

1-020-0000

Christine Lagarde, President of the European Central Bank. – That's what I'm addressing – the impact of interest rates on growth. As I said, it's produced by our models – so, with the caveat that I just mentioned – and what we have in terms of numbers is that, at current monetary policy, the impact on growth would be -2% until 2025. So I think it's measured. I don't want to give you anything that is out of order, but the impact between 2022 and 2025 would be minus two percentage point on average.

Okay, that's for growth. You didn't ask me for inflation, but I'm happy to give you the impact on inflation as well if you want. The impact would be 2%, so -2% of inflation on average over the period 2023 to 2025, because we consider that there is a lag time between the moment when decisions are made and the moment when it becomes effective.

The rolling-back of measures, as I said, is something that we have advocated and encouraged and that we hope will take place. If it did not, then it would certainly not be helpful in terms of the impact of our monetary policy, because what we're trying to tame on the one hand would be fuelled on the other, which would require that we take harder measures.

1-021-0000

Paul Tang (S&D). – Thank you, Chair, and thank you, Madam Lagarde, for being here, but also for bringing back the words by Wim Duisenberg – I love the way you pronounce his name – for bringing back the words that the ECB needs to be open, transparent and accountable to win the trust of the citizens. And to be open, transparent and accountable, on my side, I just copy and paste the question I put to Mr de Guindos, and hearing your non-answer that you just gave to my good colleague Henrike Hahn, I will try again. Three times a charm, right?

Because the profitability of European banks is increasing – and one reason is, as pointed out by De Grauwe and Ji, the remuneration on bank reserve. Banks earn more on bank reserves – 3.25% – than they do on ten-year German bonds – 2.5% – and the interest payments to European banks from the ECB amount to roughly 1% of national product, a staggering EUR 135 billion. De Grauwe and Ji concludes therefore, that this is, and I quote, 'an extraordinary act of generosity toward bankers at the expense of taxpayers and the stability of the financial system'. They go on to propose a two-tier system, including a non-interest-bearing minimum reserve requirement. So my question is, what do you think of their conclusion about generosity? What do you think of their proposal? And, third, is this also a discussion at the ECB Governing Council?

1-022-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you, Mr Tang, for your question. Let me try to give you an answer which will not be a non-answer. My answer to your point, and you will regret this, but it's vastly similar to what I said to Ms Lalucq in French, though I'll say it in English to you – and by the way, we did mention Wim Duisenberg extensively on the 25th anniversary. He was the only President who was not with us, as both Mr Trichet and Mr Draghi were in attendance, and we did think about him and I did quote him actually at the end of my remarks, because he was with us and he certainly was with us from the get-go.

So, our key purpose, our main objective, our primary mandate – and I've been reminded many times in this room about my primary mandate and the primary mandate of the ECB – is price stability. That's what we should pursue by all means and with all the measures that we can use. The measures that we can use at the moment are the interest rates and we have deliberately increased interest rates in a very significant manner. The fact that reserves are remunerated at the deposit facility rate is a by-product of the monetary policy measures that we have to take. So, I'm not focusing on margins, on results. The ECB is not even thinking as to whether it is generous or not generous. The ECB is focused on its objective, which is price stability. The question of a remuneration reserve has not been discussed at this point. Voilà.

1-023-0000

Chair. – Actually, Paul, I'm sorry, the second round does not have a follow-up, and the rules apply.

1-024-0000

Christine Lagarde, *President of the European Central Bank*. – I'm going to just add something, because I fully understand your frustration and the perspective that you have. I think the point made by Vice-President de Guindos – maybe it was in response to you, maybe it was in response to somebody else – had to do with the excess liquidity which is in the system.

What is happening at the moment in a discrete fashion is reduction of the balance sheet of the ECB and reduction of the excess liquidity that is around. How is that happening? Because of the reimbursement of TLTROs that have been taking place, that have withdrawn over EUR 1 trillion, another nearly half trillion euros is due at the end of June, that's another one that is going to reduce the balance sheet of the ECB by as much. And we have started reducing reinvestment and are scheduling – I don't want to prejudge what the decision will be next week by the Governing Council, but there's a very strong likelihood that we will simply stop any reinvestment and let portfolio run off over the course of time.

So, all of that is reducing gradually the excess liquidity that is in the system. You will probably think that this is not enough, but we are heading in that direction.

1-025-0000

Chair. – Thank you very much. Let me just remind everyone that we are finishing our round, and then, if we have time, we can still have catch-the-eye and take the floor for additional questions.

1-026-0000

Gilles Boyer (Renew). – Madame la Présidente, si vous m'autorisez, je vais changer un petit peu de sujet – je suis sûr que vous allez m'y autoriser. Je voudrais vous interroger sur le projet d'euro numérique. La Banque centrale européenne mène une phase d'expérimentation depuis deux ans. Nous attendons la proposition de la Commission à la fin de ce mois, et je sais que la coopération entre les deux institutions est fructueuse. Ce projet suscite beaucoup d'enthousiasme, mais aussi beaucoup de questions. Mon groupe a de l'ambition sur ce projet.

Nous pensons que les pouvoirs publics doivent garder l'initiative en matière monétaire et que, si nous ne le faisons pas, d'autres le feront et que nous pourrions le regretter.

C'est un projet majeur qui représente un défi technique, bien sûr, mais aussi un défi politique et presque psychologique. Le rapport des Européens à l'argent liquide varie beaucoup selon les États membres, nous le savons. Et pour que ce projet réussisse, les citoyens européens devront se l'approprier, avoir un niveau de confiance élevé envers un moyen de paiement qui devra être un complément de l'argent liquide, une offre supplémentaire, mais en aucun cas s'y substituer. Je crois que ce sera un point essentiel, et, dans une époque de défiance, le défi sera majeur à relever.

Fabio Panetta nous a expliqué plusieurs fois la philosophie de la Banque centrale et je l'en remercie à travers vous. Pouvez-vous, s'il vous plaît, nous confirmer que vous avez pris cet aspect politique et psychologique en compte dès la phase d'expérimentation et que c'est un aspect presque passionnel? Et ma deuxième question: comment voyez-vous la coordination entre les institutions sur ce sujet? D'abord, entre vous et la Commission pour l'élaboration de la proposition, et ensuite la manière dont nous pouvons nous coordonner utilement entre les colégislateurs pour faire aboutir ce beau projet?

1-027-0000

Christine Lagarde, *Présidente de la Banque centrale européenne*. – Monsieur Boyer, une belle question pour un beau projet. Je ne vais sans doute pas vous répondre en français.

So I'll take your question in English, because we have been working on the digital euro, together with Mr Panetta and with other Members of the Executive Board and all Members of the Governing Council in the English language, and there are some concepts that for me are just in English language. A time will come when it's properly translated – and I think it will have to be because, as you say, we really believe that this is something that needs the ownership of those who will be using it. I am, just like you, convinced that we have to head in that direction because we want to remain sovereign, and sovereignty is also demonstrated by the currency that we use and none of us would like to see another currency suddenly become the attribute of the sovereignty over Europe by somebody else than the Europeans.

So, have we taken into account the two things that you've mentioned? First of all, the sensitivity that varies between Member States and between compatriots of those Member States to cash? 'Yes' is the answer. It's absolutely firm that the digital euro is not to be a substitute to cash and will co-exist with cash for those who want to use one, or those who want to use the other, or those who want to use both. We know that in some countries the use of cash has dwindled very much. In other countries it is still going strongly and that need not change because of the introduction of the digital euro. So, to your first question, irrevocably, emphatically 'yes' – the project is sensitive and attentive to the various, sort of, psychological approach to cash and sensitivity of people to cash.

Your second question was of a more, sort of, psychological response and reaction to a digital means of payment. I think here we have learned a lot from some of the surveys and some of the forums that we opened and to which a lot of Europeans contributed. What we received in terms of feedback in particular – which will not come as a surprise to you because I'm sure you see that on a regular basis – is the particular sensitivity to privacy and the fact that users, those people who cared to answer the surveys, understood that it could not be entirely anonymous like cash because of anti-money laundering, because of countering the financing

of terrorism that requires that banks as intermediaries that will be marketing and using the digital euro with their customers, be accountable for those controls.

But what we heard loud and clear is that Europeans were very attentive to their privacy and certainly do not want to see their data, the use that they make of digital euro being either monetised or exploited in any shape or form. So, I think that the structure that is currently considered is intended to be as protective as possible of the privacy of people, and in particular, the fact that the digital euro cannot be programmable is an important factor to make sure that privacy is protected.

I think on your last question, you asked us what the relationship was between the various institutions. You know, we can only do what we can do, and we don't want to step out of our territory or assume that we know better. There is a role for us to understand how this payment mean can be organised, orchestrated, how the bolts and nuts of this can function, with financial stability associated to it. But then the whole project requires that the legislator – that is you – be proposed a draft, which I think the Commission is expected to release, I hope, before the end of June. That's what we are told as well.

From there on, it's going to be work that will bring, I'm sure, the three key institutions – the Commission, Parliament and the Council – together to make sure that all factors are taken into account. Our job is to make sure that it can work, that it's going to be conducive to financial stability, protecting of our monetary sovereignty, but the legal framework within which that will work out will be your call at the end of the day.

1-029-0000

Henrike Hahn (Verts/ALE). – In the last Governing Council meeting of 4 May, the ECB decided to discontinue reinvestments of its asset purchase programme from July onwards. This means that the green tilting of its corporate sector purchase programme will come to a premature end. Addressing this issue, Executive Board Member Schnabel said in a January speech that the ECB needs to consider actively reshuffling the portfolio towards greener issues. So therefore, I would like to know, is the ECB considering actively selling carbon-intensive bonds and purchasing green ones to continue fulfilling both its primary mandate of price stability and its secondary mandate by indirectly supporting the EU's environmental objectives?

1-030-0000

Christine Lagarde, President of the European Central Bank. – Thank you, Ms Hahn. Your question actually reminds me of how much progress we have made since some of the first few sessions where I had this dialogue with you and when I tried to explain what our strategy would be and when I tried to convince some of my Governing Council members that, yes, of course, climate change was something that we had to factor into our monetary policy, our risk management and our portfolio management, including a portfolio for monetary policy purposes.

So, huge progress. One of the – I would say – key milestones of progress was, since last October, the tilting that we used in relation to the monetary policy portfolio, and we then moved on in February and increased the tilting rate that we applied, which led to a significant decarbonisation of our monetary policy portfolio. That was done through the reinvestments. So, whenever redemption came about and we reinvested, we reinvested taking into account disclosure, footprint and transition plan in order to assess how the risk was actually considered by the institution of which we were purchasing the bonds.

Now, of course, if and when we stop complete reinvestment and if we let run-off take place, this tilting will not operate anymore. I think Ms Schnabel was right to say that we will then have to consider how we can actually continue to implement the climate change strategy that was adopted in order to be Paris Agreement-compliant in the situation of run-off. We have not yet made a decision. These are measures that are under review and that, of course, I will report back to you when they are decided. But they are on the agenda.

1-031-0000

René Repasi (S&D). – Thank you so much. I was triggered by your introductory remarks that also repeated the monetary policy statement of 4 May when there was a reference made to profits, when you had the reference that in some sectors you were able to see that profit margins were increased due to the mismatch between supply and demand. You mentioned it, and your colleague in the Governing Council, Isabel Schnabel, last year said that, on average, profits have recently been a key contributor to total domestic inflation above the historical contribution, which I find indeed a very interesting statement. Interesting in a sense that basically, by monetary policy tools, you cannot do much about price increases, in particular if they relate to market power and, seeing what we know from competition law, we have increases in prices if there is cooperation, some sort of cartel behaviour, behind even leading companies raising prices on markets.

Therefore, I would like to dive a bit deeper on which evidence you base your conclusion on the influence of profits on inflation. Second, from an ECB perspective, which tools the European Commission, as the other difficulty-accountable institution when it comes to competition law to the European Parliament should actually have in order to tackle this, since competition law procedures take ages until they actually have any effect whilst here we need to have quick action. So I will be curious on your statement.

1-032-0000

Christine Lagarde, President of the European Central Bank. – I'm not sure exactly what your question is, but I'm happy to comment on the respective contributions of profit on the one hand, and wages on the other hand, to inflation, because that has been the debate, and the issue that has been underlined by both Philip Lane in the first place, Isabel Schnabel as well, was the contribution of profit to inflation, which had gone a little bit missing for a very simple reason which has to do with the fact that we don't have as much and as good data on profit as we do on wages.

I think that if I had the choice, I would like to improve our data on profit on an aggregate basis as well as on a more granular basis to really fully understand and appreciate the transmission of the cost push that was suffered by many corporate sectors into final prices. I would also like to improve the data that we have on wages as well, because it's generally very much looking backward and we are building indicators to try to understand exactly where collective agreements and where negotiations are leading for the future. But it's not as good as it should be to perfectly inform us about the respective contributions of both.

But as I said, I think to Ms Lalucq earlier on – maybe it was somebody else I can't remember now – we have observed late in 2022 and certainly early in 2023 that over the course of the year 2022 certain sectors in particular of the economy had taken advantage of, as you said, the mismatch between supply, constrained by bottlenecks and demand, enhanced by recovery, and a situation of everybody is in the same position, we're all going to increase prices, which can be concerted practice, which can be just market-driven practices. In those circumstances, those sectors have taken advantage to push cost through entirely, without squeezing on margins, and – for some of them – to push prices higher than just the cost push that would have resulted from the imported inflation.

I mentioned a few sectors that are well known and which have been mentioned in the March speech by Philip Lane, it's agriculture, it's construction, some services activities, and I think that it's important that competition authorities could actually look at those behaviours. I would certainly regard that as perfectly called for in order to fully understand and appreciate the legitimacy of some practices or the concerted practices, if they apply.

1-033-0000

Eugen Jurzyca (ECR). – Madame Lagarde, the Central Bank and governments can both affect inflation. If governments have smaller fiscal deficit and public debt there will be less new money in the economy, which can help lower inflation. I wonder if the Central Bank knows how much the government or governments need to save to keep inflation below 2% a year.

I also want to ask you, what do you think about the new Commission proposal to change the rules for government spending? I think the plan is too vague and does not have clear numbers that the governments have to follow. Do you think the plan is strong enough to deal with inflation from the government side or the Commission side?

As a footnote, I would like to inform you that I used an artificial intelligence tool – the one which is not prohibited by the creators to be used in politics – to help me formulate these questions. So I would like to understand the reaction of the public to the use of artificial intelligence by politicians.

1-034-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much, Mr Jurzyca, for your question. I can assure you that my response is not driven, built or assisted by artificial intelligence, be it a legitimate or illegitimate device or tool.

Your question is focused on the fiscal governance proposals that emanate from the Commission and on which the European Central Bank will give its opinion as is required. The position was fairly recently published, but we certainly first of all welcome the fact that this proposal is on the table because we hope that the time will be sufficient before the end of 2023 for a new framework to be agreed between the parties so that Member States can operate and decide their public finance management and their fiscal operations within a new framework.

We welcome certain elements of this fiscal governance proposal. In particular, we welcome that there would be more national ownership; that is good. We also appreciate that there is a stronger focus on high debt levels and a medium-term perspective. We agree – and we had said initially that stronger enforcement measures would be necessary and an essential part – and we certainly look forward to constructive solutions to still-open issues. So we will be as good a partner as we can if our views are sought, and we will give our opinion on those proposals.

We understand, and we have actually discussed those objectives, but the fact that one of the objectives is a realistic, gradual and sustained adjustment of public debt seems to be a good objective. Second, reducing debt heterogeneity between Member States within Europe is also the right objective, in our view. Incentivising growth and investment, is a right objective, and enhancing counter cyclicalities is also a good objective.

So, those are the key parameters and the key considerations that we have had when we heard the evolution of this fiscal governance proposal. We hope that progress will be made. We

know that it's controversial. There are a few Member States that are not exactly on the same page as the proposal by the Commission, but we really, really hope that something is reached in terms of agreement before the end of the fiscal year 2023, so that in 2024, Member States, when they prepare their budget, know exactly within what framework they operate. We cannot continue to function in limbo, if that was not the case.

1-035-0000

Chair. – Thank you very much, Madam President. That is actually the same view that we have at Parliament, and that we have expressed many times. We are ready to work on it. We are just waiting for the translation so we can formally start, but we have already informally started to work on it, and we hope to be able to push it and finalise it within the end of the legislature.

I actually have no more speakers registered on the list, but Mr Nikolaou-Alavanos has asked for the floor for catch-the-eye.

1-036-0000

Λευτέρης Νικολάου-Αλαβάνος (NI). – Κυρία Πρόεδρε, κυρία Lagarde, πριν μερικούς μήνες ήδη καταδεικνύαμε τα καταστροφικά αποτελέσματα για τους εργαζομένους που είχε δημιουργήσει η αύξηση των επιτοκίων από την Ευρωπαϊκή Κεντρική Τράπεζα στον προηγούμενο νομισματικό διάλογο. Τώρα, με βάση τις εκτιμήσεις σας, αφενός δεν προβλέπεται υποχώρηση της τιμής του πληθωρισμού, τουλάχιστον στα είδη λαϊκής κατανάλωσης και τα τρόφιμα, μια υποχώρηση, η οποία εξάλλου δεν θα μείωνε τις τιμές τους. Η υπερχρέωση των λαϊκών νοικοκυριών και η αδυναμία αποπληρωμής δανείων οδηγεί σήμερα σε χιλιάδες πλειστηριασμούς κατοικιών. Και όλα αυτά ενώ, πάλι σύμφωνα με τις δικές σας εκτιμήσεις και της Παγκόσμιας Τράπεζας, η Ευρωπαϊκή Ένωση και ολόκληρος ο καπιταλιστικός κόσμος μπαίνει σε τροχιά ύφεσης και πιθανής νέας οικονομικής κρίσης.

Για τους εργαζομένους, κατά την άποψή μας, υπάρχει λύση. Πρόκειται για συλλογικές συμβάσεις εργασίας με πραγματικές αυξήσεις στους μισθούς, κατάργηση του ΦΠΑ και των ειδικών φόρων κατανάλωσης, προστασία της λαϊκής κατοικίας και περιουσίας από τα αρπακτικά τραπεζών και funds και φορολόγηση των μονοπωλιακών ομίλων στο 45% στα κέρδη, καθώς και κατάργηση όλων των φοροαπαλλαγών σε εκείνους που συγκεντρώνουν αμύθητο πλούτο και συνεισφέρουν μόλις το 5% των φορολογικών δαπανών. Αντ' αυτών, η Επιτροπή στις εαρινές συστάσεις προτείνει καθήλωση μισθών μέχρι το 2027, και εσείς το ίδιο πάνω-κάτω, κόφτες στις κοινωνικές δαπάνες, υπερφορολόγηση του λαού. Αυτό είναι και το κοινό πρόγραμμα Νέας Δημοκρατίας, ΣΥΡΙΖΑ, ΠΑΣΟΚ στην Ελλάδα, που θα εφαρμόσει και η επόμενη κυβέρνηση.

Κατά την άποψή μας, είναι εμφανές ότι Ευρωπαϊκή Ένωση και Ευρωπαϊκή Κεντρική Τράπεζα εξυπηρετούν την καπιταλιστική κερδοφορία και όχι τα δικαιώματα των εργαζομένων. Θα ήθελα ένα σχόλιο από εσάς. Για μας είναι ξεκάθαρο. Το κρίσιμο για τον λαό είναι σήμερα να έχει ισχυρή λαϊκή στρατηγική αντιπολίτευση και να δυναμώσει η πάλη του ενάντια σε αυτή τη στρατηγική.

1-037-0000

Christine Lagarde, President of the European Central Bank. – Thank you, Mr Alavanos, for your comments. I'm not sure that there was any question in your remarks, but let me clarify a couple of things.

One is that everybody has to do their job, and the job of the European Central Bank is to restore price stability. Now, some people might quarrel that we should have started a few months earlier than we did. But we are certainly determined to bring inflation down. Inflation

hurts the poor. Inflation hurts the most vulnerable. What I want is to see inflation down to 2% – and the faster the better. That’s what we are doing. That’s what we’re going to work for.

So, you take your view, I have my views, but I have a job, and the job is to bring inflation down. That’s what we will do.

1-038-0000

Luděk Niedermayer (PPE). – Thank you very much, Irene. I want to emphasise that I fully agree with you, Madam Lagarde, that this is the job the ECB should do and this is the best for the people if the ECB succeeds.

But let me go back to the reply to my first question, because you said, very rightly I guess, that there were some factors that helped you to reduce inflation and they are gone, and some other factors should play more of a role. So I wonder if you can imagine that these are different factors than further monetary tightening and, if so, what factors do you have in mind?

1-039-0000

Christine Lagarde, President of the European Central Bank. – So, to recap, I think the comments I made in response to your question was that, yes, energy had brought prices up very fast and was also bringing prices down – maybe not as fast, we shall see. I also mentioned the bottlenecks that were fading away gradually and which are therefore facilitating the provision of supply. So, on the supply side, we have reduced energy costs and bottlenecks fading out.

There are other elements that we are not yet seeing necessarily in the numbers, and that’s how some energy costs have infiltrated many other elements of the goods and services that are captured in the inflation analysis and in the HICP in particular, but also in core inflation. So, that will also gradually fade over time with the lagged effect that we constantly observe. So, the gradual fading out of indirect impact of energy prices will also impact inflation.

Another point which is also going to be interesting in the months to come is how much this sort of lagged effect of recovery – which is impacting demand, not supply this time – how much those lagged effects will last and how they will fade out. That will also impact inflation going forward. So you asked me a couple of factors. Those are two that come to mind if I’m extremely modest, because I would say that the third one is our monetary policy, which has started, as I said, in December 2021, with interest rates increasing as of July and, if you take into account a lagged time of at least 18 months, if not more, then it will begin to take hold in the course of 2023, and probably more so in the course of 2024.

1-040-0000

France Jamet (ID). – Madame Lagarde, je me doute bien qu’il n’est pas évident de répondre en trois minutes, mais j’ai l’impression qu’une de mes questions était restée en suspens, et je voudrais la reposer. Je voulais connaître vos projections sur la hausse drastique éventuelle des taux obligataires.

1-041-0000

Christine Lagarde, Présidente de la Banque centrale européenne. – En fait, on ne fait pas de projections des taux obligataires. Nous, on observe un certain nombre de données, comme j’ai essayé de vous l’expliquer tout à l’heure, qui résultent soit des modèles, soit des données empiriques, soit de la transmission monétaire, et ça nous amène à déterminer nos taux d’intérêt.

Évidemment, on observe attentivement l’évolution des taux obligataires sur les marchés. On observe l’évolution en tendance, on observe les variations, on observe tout ça et on aura

certainement plus d'informations à l'occasion des projections du mois de juin qui seront publiées à la suite de la réunion du Conseil des gouverneurs qui se tiendra le 15 juin. Donc là, je pense qu'on aura plus d'éléments pour nous permettre d'analyser, en particulier, la transmission de notre politique monétaire par le biais de l'ensemble des instruments. On le sent, on commence à l'analyser de manière assez fine, maintenant, en termes de transmission par les institutions bancaires, on le voit sur les taux d'intérêt, on le voit sur les volumes des encours qui sont consentis au crédit. On en saura un peu plus long au mois de juin, parce qu'on aura trois mois d'analyse supplémentaires qui nous permettront de suivre ça de plus près.

1-042-0000

Chair. – Thank you very much. I don't see any other requests for the floor, so I think we have covered extensively all the topics that were on our agenda. I really want to thank President Lagarde for her availability, and all the members that participated in this dialogue.

(The monetary dialogue closed at 16.37)