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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, 23 JUNE 2025**

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

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(The Monetary Dialogue opened at 15:11)

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Chair. – We can now move to one of the most important items in our session today, which is the dialogue with President Lagarde. We have the honour of hosting her today at a very particular juncture, though there are unfortunately many particular junctures at the moment, when political, geopolitical, economic – and perhaps even financial – instability is becoming the norm. It is therefore a particular juncture that is likely to last, and, at this particular juncture, we need to grasp the risks of financial instability. We must also tell ourselves that Europe has a card to play – that of being a pole of political stability, a pole of economic stability, a pole where at the end of the day the rule of law is respected and which can act as a safe harbour.

At this particular juncture, which is continuing and is unfortunately likely to continue for a number of years, the euro is the second-leading currency behind the dollar. It is the currency of the world's leading trading power and it is a currency which can, in my view, assume a new rank. As President Lagarde recently said in the *Financial Times*, this will not happen without political will, because this currency is a political institution, it is a political institution based on trust, and trust is created by institutions and especially by an institution called the European Central Bank, to which, I believe, we owe a great deal, as it is acting as a kind of shelter in the storm. Today, then, we will try to assess how long that storm will last and also how savage it will be.

With monetary dialogues like the one today, alongside the work on the activity report and the annual visit by members of the Committee on Economic and Monetary Affairs to the European Central Bank, we have what is an essential exercise for Parliament – that of democratic scrutiny and good cooperation with the European Central Bank. Today, we are going to discuss two main subjects. First, the quarterly assessment of the monetary policy stance of the European Central Bank and, second, stablecoins and other crypto-assets and the developments and challenges for the monetary policy of the European Central Bank in respect of these two developments.

As regards monetary policy, since our last monetary dialogue in March, the European Central Bank has estimated that headline inflation in the euro area fell to 1.9 % in May, after reaching 2.3 % in February. In these circumstances, the Governing Council of the European Central Bank decided to lower key interest rates by an additional 25 basis points. This is the eighth

consecutive reduction in interest rates, and the deposit facility rate now stands at 2 %. At the same time, the Eurosystem balance sheet has continued to be regularly reduced.

As regards stablecoins and crypto-assets, the rise of stablecoins and other crypto-assets poses risks for investors, for the financial system itself and for central banks. This is all the more true given that the United States is now moving towards increasing support for digital assets, without, however, moving to develop or to issue digital currencies via central bank – in fact rather the opposite. This development ties in with the debate on the introduction of the digital euro. Were stablecoins, guaranteed by the dollar, to enter more widespread use, deposits could migrate from European banks, which could undermine Europe's monetary sovereignty, weaken the control of price and financial stability and diminish the international role of the euro, which would be particularly regrettable in the current context, because, as I said, we have a card to play here.

As usual, all the background material prepared by Parliament's expert group on the two topics for this monetary dialogue is available on the website of the Committee on Economic and Monetary Affairs.

Before starting, let me give you some guidance on the running order for the day: President Lagarde will have 10 minutes for her introductory remarks, followed by a first round of questions. Members will have one and a half minutes for the initial questions, with three minutes for the answer, with the possibility of follow-up questions. There will then be a second set of questions, with one minute for the question and three minutes for the answer. Clearly, if we have time, we will then take requests for interventions. I would ask you to scrupulously respect the time allocated to you.

President Lagarde, after this long introduction, it is my pleasure to give you the floor to shed light on the current situation.

1-0004-0000

Christine Lagarde, *President of the European Central Bank*. – Madam President, the battle may be long, but it is a grandiose one and I will bend to the task.

I will switch to English to tell you that it is a great pleasure to be back with you and to continue the regular exchanges that we are getting accustomed to.

This year, as you've indicated, has been a year of profound global economic and geopolitical uncertainty. As we navigate a world increasingly marked by fragmentation, uncertainty and conflict, Europe must reaffirm its role as a pillar of economic and political stability.

And with the foundations of global balance under strain, the international financial system is also entering uncharted territory. A key part of this evolving landscape is the rapid rise of crypto-assets and stablecoins.

For this hearing, you asked me to elaborate on the emerging challenges and opportunities associated with these new digital developments.

But before I do that, I would like to update you briefly on the ECB's assessment of the euro area economy and our monetary policy stance.

Eurosystem staff expect the euro area economy to grow by 0.9 % this year, 1.1 % in 2026 and 1.3 % in 2027. You must have received – and I don't know if it is tabled or if you've received it separately – two pages that I have committed to always deliver to you so that you can consider

some of the charts that we use. In the left hand corner, you have the indication concerning the growth of GDP.

In the first quarter of this year, manufacturing strengthened and the services sector grew moderately. At the same time, the labour market remained robust, with the unemployment rate at 6.2 % in April, which is the lowest number since the launch of the euro.

Survey data point overall to some weaker prospects for economic activity in the near term. Higher tariffs and a stronger euro are expected to dampen exports, with high uncertainty delaying investment decisions.

But there are several factors that are keeping the economy resilient and that should support growth over the medium term. The strong labour market, rising real incomes, robust private sector balance sheets and easier financing conditions, partly due to our recent interest rate cuts that you have reminded us of. All of that should help consumers and firms withstand the fallout from a volatile global environment. Defence and infrastructure spending investment should also bolster growth.

Risks to growth outlook remain tilted to the downside. In particular, growth could slow in the event of a further escalation in global trade tensions and the associated uncertainties, deteriorating financial market sentiment and continued geopolitical tensions. Having said that, a swift resolution to trade and geopolitical tensions or a further increase in defence and infrastructure spending could spur activity by more than is expected currently.

The global economic outlook continues to face exceptionally high economic and political uncertainty, but as I said recently in a piece that you mentioned in the *Financial Times*, 'moments of change can also be moments of opportunity'. Support for the euro area has reached an all-time high. I strongly recommend that you look at this bottom left – support for the euro: 83 %. It's never been so high, since the euro was launched.

Now is the time to make the euro area economy more productive, more competitive, more resilient. We all need to see targeted fiscal and structural policies and strategic investments. The proposals in the Competitiveness Compass should be adopted swiftly. The savings and investments union must be completed, and a legislative framework to pave the way for the potential introduction of a digital euro should be put in place rapidly, please. By making the right policy choices, we can leverage the current momentum to boost the economic perspectives for Europe and for its citizens.

Inflation is currently at around our 2 % medium-term target. Headline inflation decreased from 2.2 % in April to 1.9 % in May, reflecting a strong decline in services inflation after a temporary jump in travel-related services prices in April as a result of Easter.

Core inflation – excluding energy and food – also declined from 2.7 % in April to 2.3 % in May. Most indicators of underlying inflation continue to suggest that inflation will stabilise sustainably at our 2 % medium-term target. Nominal wage growth continues to moderate and stood at 3.8 % in the first quarter of this year, down from 4.1 % in the fourth quarter of 2024. It should continue to follow its downward path as pressure to recoup past real wage losses fades.

The Eurosystem staff projections see inflation staying temporarily below 2 % in 2026, driven in part by a stronger euro and a decline in energy commodity prices, before returning to target in 2027. Headline inflation is expected to average 2 % in 2025, 1.6 % in 2026 and 2 % in 2027. The outlook for euro area inflation is more uncertain than usual, with frictions in global trade responsible for both upside and downside risks. Upside risks include a possible fragmentation

of global supply chains, while downside risks include lower demand for euro area exports and countries with overcapacity rerouting their exports to the euro area.

With inflation set to stabilise around our 2 % target on a sustained basis, earlier this month the Governing Council decided to lower the key interest rates again by 25 basis points. At the current interest rate levels, we believe that we are in a good position to navigate the uncertain circumstances. Especially in the current conditions of exceptional uncertainty, we will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance.

Our interest rate decisions will be based on the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. We are not indeed committing to a particular rate path.

Let me now turn to the second topic, which is new forms of digital assets, including stablecoins and other crypto-assets.

Crypto-assets have become a fast-developing segment of the financial landscape. Unbacked crypto-assets – those that are not backed by a physical or a financial assets – have seen their market capitalisation surge from less than EUR 200 billion in early 2020 to around EUR 2.7 trillion this year. This remarkable growth has been marked by investor speculation and extreme price volatility. You have a good example of that on the back of the two-page document, which is called Topic 2, where you have a clear indication of both crypto-asset market capitalisation and values. These characteristics render such assets unsuitable as a reliable means of exchange and expose investors to significant risks.

For now, risks to the euro area's financial stability from crypto-assets appear limited, but the rapid pace of developments, combined with data gaps that may create blind spots, require closer monetary monitoring. Survey data from selected euro-area countries suggest that around 10 % of households hold crypto-assets, with around 14 % expressing an interest in future purchases. As holdings and valuations of crypto-assets rise, the risk for investors from sharp price corrections increases and could reverberate across the financial system.

As unbacked crypto-assets have risen in capitalisation, so have stablecoins. This specific type of crypto-asset aims to maintain a fixed value relative to one or more referenced assets. Currently, 99 % of stablecoins are denominated in US dollars. Stablecoins often act as an entry point to crypto-assets and facilitate crypto-asset trading. They also attract users by promising faster and cheaper corporate and retail cross-border payments.

At the same time, though, stablecoins are privately issued and notably pose risks to monetary policy and financial stability. These assets are not always able to maintain their fixed value, compromising their usefulness as a means of payment and a store of value. Moreover, a potential shift in deposits used for payments and savings – from banks to stablecoins – could adversely affect the transmission of monetary policy through banks. Stablecoins must therefore be governed by sound rules, especially when they operate across international borders.

The European Union has taken a decisive step in this direction. The Markets in Crypto-Assets Regulation, also known as MiCA, is the world's first regulatory framework for stablecoins. It allows EU-based stablecoin investors to redeem their holdings at par value at all times and requires a substantial share of stablecoin reserves to be held in bank deposits, as a result minimising the risk for consumers and financial stability.

However, major jurisdictions, including the United States, are still working towards establishing their own regulatory frameworks. By way of example, Tether, the largest

stablecoin issuer, is currently based in El Salvador, which lacks any prudential frameworks for stablecoins.

This fragmented approach prevents a global level playing field and can open the door to new risks and systemic vulnerabilities. We must therefore remain alert to developments in other jurisdictions and advocate for globally aligned regulations for stablecoins.

In this context, accelerating progress towards a digital euro is a strategic priority. Beyond addressing some of the risks posed by stablecoins, a digital euro would help safeguard Europe's bank-based financial and monetary system. Not only would it strengthen Europe's strategic autonomy, but it would also ensure an innovative and resilient European retail payment system.

If we want to foster innovation and build resilience, deeper European integration, particularly in financial markets and payments, is not merely a political aspiration but a strategic necessity.

As the French writer Émile Souvestre wisely observed, 'there is something more powerful than strength, more powerful than courage, more powerful than genius itself: it is the idea whose time has come.'

I would contend that Europe might very well be that idea, and that it's time to fully embrace it – not only as a concept, but in all its manifestation. That is what the citizens of Europe have entrusted us to do.

1-0006-0000

Fernando Navarrete Rojas (PPE). – Chair, thank you; thank you President for these comments. I would like to ask you – because I'm a bit puzzled – how can it be that we in Europe are risking some risks of currency substitution by dollar-denominated stablecoins and at the same time be in a position to become the global reserve currency? Being at both places at the same time seems a bit of a contradiction.

My second question is on the claim of the digital euro as the best counter for this risk, if it exists: how can it be that an instrument that is designed as a means of exchange is a good counter for the stablecoin that's mostly, as you mentioned, a store of value development in the market.

My third question is: why would European citizens getting their income in euros risk getting foreign exchange risk in their daily lives in order to reap the benefits of dollar-denominated stablecoins? That seems a bit odd to me.

And on the fundamental issue of becoming the global reserve currency: how do you see the transition for the European economy from running large current account surpluses to the consequence of being the reserve currency of large and growing current account deficits, as the US has done in the last half century?

1-0007-0000

Christine Lagarde, President of the European Central Bank. – Thank you so much. You asked me about ten questions in one!

On your first one: it's not mutually exclusive. You can very well be the second currency that is used by a central bank as the international reserve, as is the case for the euro. As you know, the US dollar currently holds about 58 % of central bank reserves, roughly 57/58 %, the euro roughly 20 %, and gold – thanks to the appreciation of gold – has now also acquired a significant role. But if we only talk currencies, it's the dollar and it's the euro. And the euro is the second currency regarded as an international reserve by central banks. So that's the landscape.

In the face of that, there is a possibility for that second international reserve currency to work hard on its fundamentals, to improve a number of things – to make sure, for instance, that its geopolitical status is preserved and to make sure that its economic attractiveness is enhanced, and to guarantee that the legal framework within which it operates is safe and well-guarded. These are, as I see them, the three key attributes of an international reserve currency in order to be in a position to attract investors, to reassure investors and to have a flourishing currency.

I don't see the incompatibility between those aspirations, for which we have to work. That's the point of my op-ed and the speech that I gave in Berlin. It's a possibility, but it has to be earned, especially if, in the face of that, you have a currency which, either by way of its sovereign currency or by way of privately owned instruments such as stablecoins, is trying to expand its role and to make sure that the deposit or the guarantees against the stablecoins are actually a sovereign debt instrument of that particular country. So I don't see any inconsistency between the two. You may want to aspire to a particular role, particularly in the face of a threat posed by another currency. That's how I analyse the situation. I don't see that these two be mutually exclusive.

As I know you are the rapporteur for the digital euro proposal that hopefully will be under review by this extraordinary Parliament, I would like to just remind us what the digital euro will do. I'm not going to go into too long a description because you in particular are familiar with it. But I just want to remind you that it is an instrument that can provide what no other instrument can provide for the European citizens. I will mention three of these things.

It's a free-of-charge basic digital euro payment service. Number two, it's available for any digital payments in all euro area countries, which is not the case at the moment. Digital means are not available to all European countries. Third, it facilitates offline payments, which very few payment systems offer. If you are only to consider these three, they have no parallel and no competition on these three features alone. I'll be very happy to expand further on the role of the digital euro, because I think it's a critically important project, especially in the current circumstances – not only the wholesale one, but also the retail one.

But you asked me a third question. You said, 'why on earth would a European citizen who earns his living, who receives his wages in euros, want to actually invest those euros into another currency for which there is a stablecoin available?' Very simply, imagine that the interest served on that stablecoin is of a magnitude – imagine 4.25 %, for example – as opposed to a much lower interest rate, if any at all, back to where he or she has earned his or her wages. That's an incentive. If I have the choice between receiving 2 % or receiving 4.25 %, I'm probably going to look at the 4.25 %, especially if that stablecoin issuer tells me that I am fully guaranteed and will have full access to the redemption, safeguards and guarantees that would be available in my hometown. So that's one reason why I think it might be attractive to actually do so.

On your final question, which is 'how do we transition from the position we are in to another position which would be more balanced?' Time. Even with the reforms and the strengthening and the enhancement that I have mentioned at the very beginning of my response to your question, I'm not suggesting it's going to happen overnight. As I said, it needs to be earned, and the hard way probably for some of them. But it will necessarily take time during which rebalancing will take place. I'm sorry that I took a bit long, but it was a multifaceted question that I tried to address.

1-0008-0000

Carla Tavares (S&D). – Chair, President Lagarde, I would first like to welcome the way in which the European Central Bank has played its central role in economic and European politics in such difficult and challenging times for the world and, in particular, for the EU.

Following your recent interview with the *Financial Times*, I would like to ask three questions. As one of your main proposals is the creation of a true European safe asset, I would like to ask you: what conditions do you consider essential for this European safe asset to fulfil its role and be accepted politically? What conditions should it have in terms of design and size if it is to be attractive to the market? Do you also think a safe asset worth EUR 5 or 6 trillion is a realistic value?

And a fourth question: what role and support would the ECB offer in supporting the safe asset's liquidity?

1-0009-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your question.

I think it is commonly accepted now that we in Europe need what we supported as the capital markets union, which has been renamed the savings and investments union to include both the banking union and the capital markets union. For the purpose of the latter part, the capital markets union, most experts will agree that we need a deep, liquid market.

That deep and liquid market is not going to take place simply by merging certain operations or simply by aligning or coordinating or bringing together the supervision institutions. It will also require assets that will be available. Now there are some already – if you look at what the European Commission has issued since COVID, we do have some European bonds, if you will, that were decided at the time. We are talking about EUR 800 billion. If you look at some of the issuance that will probably take place over the course of time by some significant signatures country-wise, there will be more investment coming up, but it doesn't have the solid and sound and very large dimension of the US treasury market.

As a way of addressing this, some proposals are currently suggested by various economists. There has been a proposal recently that has been published by the Peterson Institute and authored by Olivier Blanchard and Ubide. There is another proposal that was worked on a few years back, which has been picked up by Philip Lane in his most recent speech as well.

Those options should be considered and are really worthy of our collective thinking. As all those papers mention, it's not clear, straightforward or an easy journey. It will require a lot of thinking, a lot of consideration, a lot of assessment of the legal hurdles, of the difficulties and all the rest of it. But it is certainly something that is worth consideration and which will ultimately be decided by policymakers. It's not for the Central Bank to actually ultimately decide that particular matter.

1-0010-0000

Carla Tavares (S&D). – We have just spoken about the issues of investor runs and – as often happens – from many central banks to gold rather than to the euro, despite the crisis that the dollar is experiencing. What view does the European Central Bank also take of this matter? And what more immediate measures is the European Central Bank coming up with to, essentially, counter this trend, which we can feel happening?

1-0011-0000

Christine Lagarde, *President of the European Central Bank*. – What the ECB can do is make sure that it delivers on its mandate and that it guarantees price stability and fights inflation, as is expected of it and as the Treaty refers to very specifically as our primary objective. That's what the ECB can do.

I think the fact that the euro as an international reserve has not budged much from 20 % in terms of international reserve held by central banks and the fact that over 40 % of international transactions in the trade are determined in euro is also an indication of the trust that investors and people in the trade have in the euro.

All of that is a consequence of the action of the Eurosystem at large and the ECB. But if investors or if central banks want to secure their gold reserve or want to increase their gold reserve, there's not much that we can do about it other than be a solid alternative which is delivering on its mandate.

I think we need to also distinguish between the volume of gold and the value of gold, because it's obvious that there has been an increase in volume. And some central banks over the last three or four years have increased the volume of gold. But the value of gold has been a significant enhancement to the determination of that reserve in the central bank reserves.

1-0012-0000

Enikő Győri (PFE). – Madam President, welcome back.

My question would be about the new slogan of this legislature, which is simplification. I would really like to know the ECB's opinion on that.

First, I've read, of course, your interview where you are speaking in favour of reducing regulatory burden. I fully share that. But at the same time, there was an ECB opinion on Omnibus I where, in my understanding, the ECB is arguing in favour of maintaining reporting obligations.

Would you agree with me that, if we were to make these sustainability goals more rational, or at least reduce the regulatory prioritisation, wouldn't the need for such extensive information and reporting naturally diminish as well? In other words, do you agree that this burden is directly tied to the level of ambition of the goals themselves?

Here, I'm a bit lost between the two statements, and I really would like to know because concerning price stability and potential growth, our experience with the Green Deal hasn't been very positive from a competitiveness and growth point of view.

1-0013-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much for your question and thank you for pointing to this opinion that we issued at the Commission's request concerning the Omnibus proposal.

To state our position in as simplified a way as I can, given that simplification is now the buzzword, we appreciate that some simplification is needed. We appreciate that some streamlining is recommended. And we appreciate that there could be productivity gains as a result of that – no question.

That is the reason why we support and we are positive about the overall proposal. But of course, we have to look at things from our perspective, and our vantage point is price stability and

financial stability, because the two of them are closely interlinked. In order to appreciate the risks that are taken to assess properly the value of collaterals that are used in the process of lending activities, we need to have enough information – not too much, but enough information – to appreciate and determine the risks.

I think it's in that context that we have suggested that rather than eliminating any and all reporting by companies under a certain threshold, that simplified reporting be asked from them. So we appreciate the 1 000 threshold. We understand that this is being debated, with another proposal with a 5 000-employee threshold. But what we're saying is that, below those thresholds, it would be helpful for the purposes of us analysing the risks and the appropriate reporting that is needed for that, to have a simplified reporting system – not with the hundreds of data points that is expected from the large companies, but with a simplified set of data.

1-0014-0000

Enikő Győri (PfiE). – I have my own doubts whether risks are very much related to reporting obligations and greening, and whether green investments have been better off than any other investment. My reading is not the same.

My second question concerning another aspect of your interview is on your words on QMV, which is the qualified majority voting, because you in general abstain from making political declarations because your priority, as you have just said, is price stability. I was quite shocked that you were speaking against the veto, saying that it should not no longer be allowed to stand in the way of the collective interest of the other 26 Member States.

Meanwhile, veto is for strategic and sovereignty issues, a legal way of decision-making in the European Union under the Treaties. I could even quote Charles Michel, who was arguing in favour of maintaining the veto, saying that if you don't forge first a unity and you just impose something on a Member State, you will never create unity.

I would like to understand why you changed and were coming out with something of a strong political statement and whether it is related to price stability at all.

1-0015-0000

Christine Lagarde, President of the European Central Bank. – I try to stay as much as possible outside the political arena. I was in that world; I'm no longer in that world.

But I'm also practical, and when I hear this consistent and enduring aspiration to have a capital markets union – because we want to attract and we want to keep in Europe the financing that is so badly needed in order to finance start-ups, in order to make sure that activities and innovation can prosper and turn into the unicorn of this world – I suggest that having those kinds of projects blocked by one or two Members who do not see them fit for their own national purposes is a hurdle if we want to achieve a project that is common to all and that will enhance the productivity and develop growth for all of us. So it's in that context that I make that statement.

1-0016-0000

Giovanni Crosetto (ECR). – Madam President, I would like to start with the latest projections reported during the ECB press conference at the beginning of June, which you essentially repeated to us today, in particular with the downward revisions on inflation, which mainly reflect assumptions on energy prices and a stronger euro, as you told us.

The estimate for 2026 to date is an average of 1.6 %, while overall inflation over the twelve months fell from 2.5 % in January to 2.3 % in February, from 2.2 % in April to 1.9 % in May.

But what is worrying, President, is not so much inflation as economic growth, which is expected to stop at 0.9 % in 2025 and only 1.1 % in 2026.

Turning to monetary policy, again in the ECB's communication, there is no longer any reference to a less restrictive monetary policy. I wanted to ask you: are we moving towards a neutral monetary policy? I also wanted to ask you, President, given the discouraging growth figures and given the objective of price stability in the short term, which has broadly been followed, do you not believe that the ECB should follow up on the provisions of the Treaties and support the economic policies of the European Union, including through expansionary monetary policies?

1-0017-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much for your question that brings us back to the macroeconomic situation and the fight against inflation.

Again, let me remind you that we started off from a height of 10.6 %, which was the highest inflation reading we had on average for the euro area. We're now down to 1.9 %. It's not the first time that we are going under 2 % – we went under 2 % in September – but this is the second time.

Our forecast for 2025/2026/2027 is 2 %, 1.6 %, 2 %, which leads us to consider that medium-term inflation for us is now at the target that we wanted to see and that we have determined as our price stability definition.

We believe that with the eight rate cuts that we have decided on over the course of the last few months, and with the last one that was decided only a couple of weeks ago by -25 basis points, we are now well positioned in order to face the very uncertain circumstances that keep developing in front of our eyes. We will, as I said, continue to work on the basis of data as they unfold, not only looking backward, because we do have some backward information, but also looking forward and trying to understand the economic situation and how it will develop, both in terms of growth, in terms of labour, in terms of wages, in terms of services, in terms of manufacturing.

We will be looking at all of that, and we will be particularly attentive also to the price of commodities going forward, because if there is one thing that has triggered movement up and down, it's certainly the price of energy in the most recent years.

We will be looking at all those data as they unfold, and we will determine our monetary policy stance on the basis of the three key criteria which we will continue to use: the inflation outlook; the underlying inflation; and the strength and the dynamics of monetary policy transmission.

That's where we are – as I said, well-positioned, attentive going forward, not providing for any particular rate path in the future, and we will be as cautious and agile as is needed in those circumstances.

1-0018-0000

Giovanni Crosetto (ECR). – Madam President, also during the last press conference in June, you pointed out that a deterioration in financial market confidence could lead to more stringent financing conditions and greater risk aversion, thus reducing investment and consumption.

So, I have a question about the reduction in the European Central Bank's balance sheet, because in one of Parliament's recent studies, it was pointed out that, while the recent lowering of

interest rates is a less restrictive monetary policy, as we have said, the reduction in the European Central Bank's balance sheet goes in the opposite direction.

Don't you think, President, that reducing liquidity could make the already difficult financial conditions even more restrictive, even against a backdrop of decreasing interest rates?

1-0019-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you again for this second question. We don't see that as inconsistent again. That is so because of the pace at which we are gradually reducing the size of the balance sheet of the ECB. We are still in a situation of very abundant liquidity, and the pace at which the balance sheet is being reduced by no reinvestment under any of our programmes is progressing very smoothly without putting any kind of squeeze on the liquidity that is largely available and abundant.

1-0020-0000

Gilles Boyer (Renew). – Madam Chair, I wish to thank President Lagarde for being here and for her clarifications. I would like to focus on the digital euro project you mentioned. My Group also views the introduction of this tool as a strategic priority. It is now even more necessary than ever, as you said, given the changing international situation.

Stablecoins have every right to exist, of course. Indeed, they do already exist, and we regulate them to protect European investors or speculators – depending on how we chose to label them. But we believe it absolutely essential that the public be offered something else, alongside the three pluses you have mentioned, to which I would of course add guaranteed value that safeguards investors.

This is a hot topic here in this Parliament, where there is much hope but also much fear – and both may be exaggerated, but at the end of the day we have to 'deal with the matter' as we say in bad French. I recently saw a study commissioned by European banking associations, which are worried about the cost of establishing the digital euro, which they estimate – and I quote – at 'between EUR 18 and 30 billion', which is a fairly wide range.

I would like to know whether these estimates surprise you, whether they seem to you to be in line with the assessments made by the European Central Bank and, if not, what might, in your view, be the reasons for this difference.

1-0021-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you very much for your question concerning this digital euro project. I would like to preface my comment directed at your specific question with a request that this debate – however passionate, however likely to raise concern or fears – move fast, because I think that we all bear a responsibility in the face of historical development if this project is not at least put for debate in front of you in short order.

We are doing the best we can technically; we're doing the best we can in defining the principles and the rule books. But if the matter is delayed, I think we will all be responsible for it, and I hope this is not the case.

Concerning the cost of the digital euro, the amount that you mentioned – EUR 18-30 billion – that was, I think, identified by one of the large accounting firms, Pricewaterhouse, not to mention it. The amount didn't really surprise me, because I think it's a matter of who asks for the mandate and what is the scope of the mandate.

There is very limited transparency about that. The methodology that has been used has certainly not been shared, and maybe it has been shared with some of you, but it has not been shared with us. It's not a number that we recognise in terms of the cost that the industry would have to suffer. I understand that it can be used as a threat and as something that is of great concern, but I don't think that this is to be reconciled with the cost that we assess. So, I don't have enough verification of data as far as those calculations are concerned to actually opine on its credibility or actual utility other than as a fear.

On the second point, I can assure you that the ECB is committed to keeping the cost for the development and the operation of the digital euro as low as possible, while adding value for consumers and for merchants. It is the Eurosystem that would bear the cost of the establishment of the digital euro, just as it is the Eurosystem that bears the costs of issuing banknotes. Banknotes are not invoiced to the banks. The Eurosystem pays for the issuance of banknotes and, of course, there is seigniorage associated with it. This is not totally irrelevant in the context of the digital euro, but it would be for the Eurosystem to pay for it, not for the banking industry.

The final point in terms of cost. Obviously it's going to depend on its design, and it's going to depend on the pace at which it is developed in order to be as user-friendly as possible and as broad as possible, but a lot of that is going to be in your hands. It will be the European Parliament who will ultimately decide many of these features. That's what I could say about the cost, and I share with you, Mr Boyer, your impatience to see it to the floor of this Assembly.

1-0022-0000

Gilles Boyer (Renew). – I would just like to thank you for your answers and for imparting your experience on this matter.

As far as we are concerned, the question is no longer whether we need to do this, but how and, indeed, to do so quickly – because the world you talked about in your introductory statement will not wait for us.

1-0023-0000

Damian Boeselager (Verts/ALE). – Madam President, thanks a lot. Let me go back to the stablecoins interventions. As you know, we deliberately and explicitly rejected the creation of an equivalence regime for foreign stablecoin issuers and crypto providers in the MiCA Regulation, because we saw considerable risk when it comes to stability criteria. Since then, as you have also said, there have been recent developments, for example, with the Trump administration's fast tracking of the GENIUS Act and the executive order and so on.

Now we hear that there could actually be a way that US stablecoins could obtain full market access via the backdoor of fungibility and the multi-issuance schemes together with EU-based companies, especially if the Commission interprets MiCA like that.

So I was just wondering, Madam President, how do you assess the implications of permitting – or not – stablecoins via this multi-issuance with third country issuers in Europe? What would that mean for the requirements that we set out in the regulation? And what would you recommend to the European Commission therefore?

Then I have a follow-up later.

1-0024-0000

Christine Lagarde, President of the European Central Bank. – Thank you so much for your very pointed question!

Maybe let me try to explain a little bit. My understanding of how MiCA was prepared, organised and approved was on the basis that there could be multiple issuers. The assumption, I believe, when this draft was prepared was that the issuers would be located in different European Union countries. I think it's on the basis of that understanding that MiCA includes the principle of 'fungibility'. In other words, if I issue in one European country and there is another issuer in another European country, there is a review of the equivalence of the provisions and the terms and the guarantees and the redemption conditions.

Now, given the very fast and very decisive development of stablecoin issuance in the United States, which is, as you said, likely to be governed relatively soon by either the GENIUS Act or the STABLE Act. One is currently being approved by the Senate; the other one is in debate and will probably be approved by the House, and they will probably reconcile the text of these two documents in relatively short order.

Under those terms and conditions, there are some terms applying to, for instance, redemption. There are some terms applying to the deposits that are backing the stablecoin. There are some terms concerning the fee earning that the stablecoins can have. The problem is that, if we apply the fungibility principle across Europe on the one hand and the United States on the other hand, it is likely and we believe that there actually are already some loopholes, to which the President has actually alluded.

I will give you a very clear example of one such loophole. If you have this multiple issuance as defined by the MiCA – US-Europe – and if, for instance, there is a redemption taking place in relation to the US portion of that stablecoin, for which redemption is sought in Europe, because redemption is granted without fee in Europe, whereas in the US – under the most recent development of their draft – there is a fee that is paid by the beneficiary of the redemption, then it becomes far more attractive to ask for redemption in Europe than to ask for redemption in the US.

If that movement is amplified by large development and possible difficulties in any such stablecoins, the European safeguards, backup deposits will be exposed. That's one small example of discrepancy, which I believe we should not take in a too broad an interpretation, but rather in a narrow interpretation in order to eliminate that potential risk.

1-0025-0000

Damian Boeselager (Verts/ALE). – If you want, you can add your recommendation to the Commission in your answer to my second question. It is about the question of payment sovereignty, where we, I think, have a mutual understanding that maybe it's good to have a digital euro – and one of the shadows and some others have already spoken about it.

I think we have a common understanding on the payment sovereignty issue and the advantages of the digital euro on that side. I was just wondering: when it comes to stablecoins, once MiCA is correctly applied, do you really believe that the digital euro solves additional issues also in relation to stablecoins? Or do you think this is more something that has to be governed by MiCA? That would be my question.

1-0026-0000

Christine Lagarde, President of the European Central Bank. – Given the speed at which things are going at the moment, I would say that the properly interpreted MiCA would be the first line of defence, but I would also contend that the digital euro can actually provide the business case that the stablecoins are advertising – more efficient, cheaper, faster payment. This is something that the digital euro can offer and, as a result, I think that the digital euro should be a rapid second line of defence if it can be instrumented and if it can be voted upon.

1-0027-0000

Siegbert Frank Droese (ESN). – Dear colleagues, Madame Lagarde, several EU countries, including Germany, are planning huge new debt packages and disregarding the Maastricht criteria. However, as we all know, these are not political recommendations, but mathematical rules designed to prevent the monetary union from snowballing out of control. They are intended to ensure that the repayment of debts remains at least mathematically possible and that new debts do not pay off old ones. Otherwise, the market knows that countries will rely on inflation to erase their debts or simply not repay them at all. As a result, interest rates rise because the price of money – the interest rate – rises with the growing demand for money.

Your institution, the ECB, has countered this in the past with programmes such as the APP. It has bought up government bonds with newly created money, artificially increased the money supply and pushed down interest rates. However, in our opinion, this policy has directly expanded the money supply and contributed significantly to inflation in recent years. The war in Ukraine and the sanctions against Russia only served as additional price-driving factors. It is also clear that the new debt programmes, often justified by our need for defence, will further push up inflation and make life more expensive for citizens in Europe.

My first question: is the ECB already planning a new asset purchase programme, i.e. another round of increased purchases of government bonds with fresh money, in order to offset the expected interest rate rises in the member states? Have been preliminary discussions with the Member States already taken place or have internal agreements been signed?

1-0028-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your question, and I will reiterate a point that I think I have made on several occasions most recently, which is to very specifically indicate that our best tool, and the tool that we are actually using in order to tame inflation, is interest rates. We do have other tools; they are in the toolbox. They have been used in the past, in particular when we were at the lower bound, but those are not the tools that we are currently using. We certainly prefer to use interest rates as our favourite instrument.

1-0029-0000

Siegbert Frank Droese (ESN). – You have given me a good cue, Madame Lagarde, on working with interest rates. The interest on NextGenerationEU debt is expected to eat up around 15% to 20% of the annual EU budget from 2028. Let's leave aside for now why the EU is making little efforts to repay the money, as this can be explained by its interests, which happen to coincide with those of the financial world. I am interested in your view, Ms Lagarde, on the impact that the large new debt pots, especially Germany's, will have on interest rates and the annual interest burden on EU budgets imposed by the joint debt taken out under NextGenerationEU.

1-0030-0000

Christine Lagarde, President of the European Central Bank. – We determine our monetary policy on the basis of the data that we receive and on the basis of the objective that we have. The objective is 2 % medium-term inflation, which we regard as price stability. On that basis, of course, we factor in all the data that we can assemble, and we decide our monetary policy stance on the basis of the three criteria: inflation outlook, underlying inflation and monetary policy stance.

Obviously, the weight of debt on sovereign, on investors, corporate and households are factored into our projections. When we do our baseline scenario, when we do our other scenarios and

sensitivity analysis to arrive at the projections that are used for us to decide our monetary policy stance, we also factor in the service of debt that the sovereigns have to weigh.

But this is not the driving force or the only driving force. It's one of the components that we use in order to assess the other three criteria that I have mentioned.

1-0031-0000

Lídia Pereira (PPE). – Madam President, the stabilisation of inflation at 2 %, despite the international landscape we are seeing, is good news.

Monetary policy normalisation is already being felt in household budgets, particularly with the fall in interest mortgage rates, but there is still room to better pass on these reductions in interest rates. That seems obvious to us.

Now, the unstable and unpredictable international scene – the trade war and the conflict in Iran are just two examples of that – will, of course, have an impact on Europe's economic growth, and therefore I am talking about a risk and a challenge. But my questions are not about good news, evidence or risks and challenges, but rather about the responses that Europeans expect.

My first question is: what is your view on the regulatory and administrative simplification efforts we are making and the impact they may have on both investment and productivity? Again, this is not the same angle as the question asked earlier, but I believe it is important, considering that customs fees can increase bureaucracy. So, what is your view on the simplification efforts currently being made?

And the second question is: what are your expectations for the financial literacy strategy that the Commission will be presenting next quarter? And what role can banks play? And the European Central Bank itself?

1-0032-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your two questions. I'll start with the second one on financial literacy.

We believe that this is an important mission. We are very pleased to see that the Commission is paying serious attention to financial literacy. It's important because, number one, it equips consumers and investors with the needed knowledge to appreciate how they can manage their risks, their portfolio, their income, their debt. For us, it's really important because it helps them expect inflation. It helps them manage their budget and anticipate the risks associated with inflation. It helps them determine what these inflation expectations are.

In particular in relation to a category of people whose financial literacy is way below average and standards, namely women, we, at the ECB, have decided on every 8 March to assess what each national central bank of the euro system is doing in order to improve financial literacy at large for all, but with a specific focus on women.

Your second question is related to simplification. In the dialogue that we have with the non-financial sector, both small companies and larger companies, we have all – you and us as well – heard loud and clear that too much bureaucracy, too much red tape is a red herring to their productivity, to their investment, to their business development and creation of value.

In that context, that there be simplification as a policy is good, as long as it is not intended to defeat the purpose of the institutions or the policies that were decided. I'll give you an example. At the European Central Bank, at a recent Governing Council, there was a decision to set up a

task force on simplification, so there is a group of governors who are together working and looking at where they can be simplification and where they can make suggestions to the Commission later in 2025.

This high-level task force is presided by my Vice-President, Luis de Guindos, and they will be focusing on areas where there is overlap, where there is redundancy, where there is duplication. To give you an example, the legislation on the SSM – the supervision arm of the ECB – will not be modified. This is not an area where the task force has focused its interest. But when you have overlapping, when you have buffers that come on the top of buffers and that are actually overlapping with each other, I think that's an area where the task force will make some proposals.

1-0033-0000

Irene Tinagli (S&D). – Dear President, so during both your interventions and some of the answers – I'm going back to crypto – you mentioned the risks that the diffusion of dollar-pegged stablecoins in the European Union could have.

We also have a study commissioned by the Parliament that highlights this risk, and I'm just mentioning two that also emerged in the previous debate. You mentioned, for example, the differences in redemption policies between the EU and the US, which could put pressure on liquidity for banks. We've also mentioned the possible incentives for European workers to invest their salaries in dollar-pegged stablecoins due to different interest rates.

So this is exactly the reason why we as co-legislators, when we were negotiating MiCA, deliberately excluded a third country equivalence regime here. So now it seems – and I'm also quoting what colleague Boeselager said – that the European Commission is about actually to permit all of this with a Q&A that would allow that.

How worried should we be? What could be the impact on the European banks' business models, their stability, the intimidation capacity and also their role in the transmission of monetary policy? Because I think this could be very disruptive. I would like to you to elaborate a little bit more on that.

1-0034-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your question and thank you for the role that you played at the time when MiCA was put in place, because it was the first regulatory framework within which those digital assets could be issued. And I think that it's a comprehensive legislation which addresses most of the risks arising from crypto-assets, by introducing precisely these uniform EU market rules for crypto-asset issuers and crypto-asset service providers.

I'm so pleased that you reminded us of the context in which this third-party legislative framework was set aside and was not considered as an option, which I'm afraid is likely to be the case now. And I think that it would be really important if the co-legislator was to, again, consult and check what the initial intention of the co-legislator was; to return to what was intended.

I'm not going to pretend that I'm an originalist in the constitutional sense, but we know the threats. We know the risk and the hazards that would result from an extensive interpretation of the concept of fungibility. And I think it's important to go back to it and to do that with open eyes, appreciating the risk that is taken.

1-0035-0000

Luděk Niedermayer (PPE). – Thank you. And thank you, Madam President, for being here also. I appreciate your comments on the digital euro, which I share.

But let me go back to old-fashioned inflation, which you started to talk about at the beginning. It seems that in the euro area we are on track to be where we should be. But let me ask you how you see the situation of other developed countries like the US or UK, where it seems to be more difficult to get inflation stably close to 2 %?

And also, you quite well mentioned the risks that are in the global economy, like the tariffs. Also, one should include the risk of the limited availability of raw materials from China. And also, you somehow gently pointed out the risk that in Europe we will not do our homework.

I wonder if these risks – if they materialise – if you consider them as predominantly pro or anti-inflationary risks?

1-0036-0000

Christine Lagarde, President of the European Central Bank. – Thank you very much for your pointed questions and the various topics, which we are currently monitoring as closely as we can.

And let me mention, first of all, that all of that is, of course, for great uncertainty. It's a word that I think I must have mentioned at least ten times in the last monetary policy statement that we issued after the last Governing Council. It's uncertainty about tariffs. It's uncertainty about the availability of raw materials and the prices at which they will be supplied. It's uncertainty about the smoothness with which the supply chain will respond to challenges. It's uncertainty about the rerouting of goods that are produced in countries of which the destination is no longer assured.

So, we have all of those sources of uncertainty, and we have to try to tackle these sources of uncertainty as best as we can. And to do that, we produce our analysis; excellent staff at the ECB and around the Eurosystem join forces in order to offer the best projections that they have. And now we associate with that some scenario analysis in order to not just have the baseline that we use, but also a good positive scenario and a severe scenario. And we have to make assumptions on all these matters that we have just talked about – tariffs, raw materials, supply chain reconfiguration, the rerouting of products or the redirecting of products. Those are all elements that we have to consider in the assumption that we make to define our scenarios. We also consistently do sensitivity analysis, that applies in particular to energy.

And it's the aggregation of all this work and this analysis that helps us, I think, arrive at the best possible anticipation of what we are facing. And that helps us when we determine our monetary policy stance. But it is hard, these days.

1-0037-0000

Nikos Papandreou (S&D). – Most of my questions were answered, but having to do with the stablecoin, it's a little bit of an ironic term, because the problem with financial literacy is if you're a consumer and you see the word 'stablecoin', you might think it's a great thing, stable. So, it's a little bit of a trick, I would say.

The financial literacy really needs to point out the levels of risk: some stablecoins are riskier, some have immediate redemption, others are a bundle of assets, as you know, so you can't get your money back exactly when you think you would. So, we need to have that included in the financial literacy, especially for the average citizen who sees 'crypto' and thinks it's a way to

make fast money many times, and we see young people especially playing with it. So, I think we need to include that in the financial literacy. And the digital euro will be the one without risk.

So, we have categories of risk. I'm of course one of the shadow rapporteurs, and I agree with the need for getting there fast, especially in this geopolitical situation. So, I guess that was a comment not a question.

Only one question – a boring economics question – on the predictions, which might have changed given the recent findings of the Eurosystem staff, I see in 2026, 2027, a relatively optimistic role for private investment, that it's going up. And I know you have some comments on that. What is the source of the relatively good increase in private investment? If I'm reading the colour codes right – the green colour – I'm a little bit colour-blind, green is my colour blindness. But if I read it properly, investment is actually doing quite well.

1-0038-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you so much for your colour blindness, or your colourful bias, let's put it that way.

So, the reason we are anticipating a pickup in investment, and in private sector investment in particular, is largely based on the proposed funding and investment in infrastructure and in defence. Those are the two areas where – not only in Germany, but in other countries and Member States in Europe – there will be and there have been announcements for future investment. Now, clearly, the production of such procurement and orders will emanate from production by the private sector. And that's where we think that there will be investment.

But thank you so much, because you reminded all of us of something that I should have mentioned in the first place: the digital euro has no risk, as banknotes have no risk. As long as there is a central bank to issue the digital euro, it's associated with the imprimatur of the central bank.

1-0040-0000

Fabio De Masi (NI). – Madam President, you said something earlier which worried me a little bit, I may admit. You said that the overriding tool to fight inflation should be the interest rate. Now, to the very blunt instrument of the interest rate, to the hammer of the interest rate, every problem looks like a nail. And we have certainly had a very interesting discussion in the last years about how the recent inflationary episodes have been mainly driven by supply-side shocks, bottlenecks and so on. We had it in 2022 with the energy price shock. Now, we have new looming risks. For example, the illegal attack on Iran has triggered a risk of closing the Strait of Hormuz. This would be – *par excellence*, again – triggering probably cost-side shocks, not being driven by demand.

So could I read your statement as suggesting that the best the ECB could do, if we end up again in such a world of energy price shocks and so on, you would again react by raising interest rates and pushing the costs of adjustment mainly to the working people of Europe and to businesses, as rising interest rates do not only kill the source of the problem, but also other unrelated sectors in the economy?

1-0041-0000

Christine Lagarde, *President of the European Central Bank*. – Thank you so much. And you allow me to clarify the fact that, in the face of a supply shock, obviously the Central Bank is going to be attentive to how persistent, how deep that supply shock is going to be. And the key symptom that we would have in order to put the diagnosis on the table is going to be the inflation

expectations. And that's what we have to be absolutely attentive to in all categories of measurements. Inflation expectations are going to be the driving force that will indicate exactly how persistent or not a supply shock will be, and as a result, which instrument and for what kind of duration that instrument should be applied.

1-0042-0000

Fernand Kartheiser (NI). – Madam President, please allow me to make a remark first, in order to support comments that have been made by colleagues here: I don't think that the European Central Bank should get involved into institutional questions, such as unanimity or vote by qualified majority. I think that's more our business and that of the Member States than that of the European Central Bank. Also, I would like to recall that common debts actually forbidden by our Treaties, so we should not go into such policies.

My question is concerning the digital euro. What would be the cost or the perspectives of the European Union if the digital euro would not be introduced? Would the stablecoin then impose itself as a kind of digital currency in Europe – stablecoins that are labelled in US dollars? What would be the perspectives?

And you mentioned several times that actually the development of such cryptocurrency is quite fast. So what is the timeline for us as legislators or co-legislators in order to introduce a digital euro to prevent perhaps such evolutions regarding cryptocurrencies taking over the digital role in European currencies?

1-0043-0000

Christine Lagarde, President of the European Central Bank. – Thank you so much for your question. It's very difficult to actually assess the cost of not doing something, because you really have to come up with the counterfactuals. You have to assess something that doesn't happen – and that's difficult.

I believe that you have to think in terms of risk. And if we see a confluence of our European citizens gradually moving away from the use of cash – not in all countries, let's face it, there are countries where cash will continue to be used and will continue to be favoured, and the European Central Bank is perfectly aligned with that and perfectly aware that cash has to be maintained and cash has to be made available, because this is the promise of the euro – but if we have the confluence of many European citizens, particularly the young people, the generations to come, preferring digital payment and on the other hand, a convenient new instrument called stablecoins, originating from outside the European Union being available and providing services in terms that could be satisfactory to the citizens but could be a danger for monetary policy transmission, that could be a danger for the deposit base that European banks have, then we run a serious risk.

How we can measure it, how we can give it a value is complicated. But if our monetary policy is not transmitted, if the deposits that are usually held by banks are reduced by a significant amount, we know that there is a cost associated with that, and we would be the one paying for it.

I'll tell you my assessment and this is a personal assessment. But when I see the two houses of the US Congress moving as fast as they are moving, when I see an executive order that is taken in March that addresses the issue of both CBDC on the one hand and stablecoins on the other hand, I think to myself that there is a very strong political determination to move ahead as fast as possible – decisively, not just in the United States, but on a much broader basis, for reasons that have to do with the sovereignty, for reasons that have to do with the dissemination of sovereign debt as well.

1-0044-0000

Dirk Gotink (PPE). – Thank you, Chair, thanks for being here, Madam President, it is always very educating, at least for me.

I have a question that is a bit in the continuation of what it means to be a global leader in something in this world, because it's not for free. And you have made statements about the global role that the euro should have. And my reading at the current moment is that actually the US is trying to get rid of their global leadership when it comes to the dollar, because it's extremely expensive. The dollar is overvalued – it's a problem for exports. As it would be for European exports, because the euro would become structurally overvalued, because it would be a safe haven for people around the world if Trump keeps making a mess everywhere.

So, I understand the pros, but there are also cons of being a global leader and being this reserve currency; could you elaborate on sort of the arbitrage there?

1-0045-0000

Christine Lagarde, President of the European Central Bank. – Thank you so much for your question. I'm not convinced that the United States' policymakers want to necessarily undermine the role of the dollar. I think the future will tell and we shall see what the determination is. I would not necessarily make that assumption.

On the second point, in terms of being a reserve currency, it certainly provides some benefits as well. For instance, it lowers the interest rates at which the sovereign finances itself; it constitutes a shield against potential sanctions; it allows to trade in your own currency, and therefore it shields you against the potential risk of foreign currency variations. Those are three that I can just think of right away.

1-0046-0000

Georgios Aftias (PPE) Ms Lagarde, you are well versed in both politics and economics – the role is twofold. How concerned are you about the war in the Middle East with regard to the euro, fuel, inflation and interest rates? This is something that any European citizen may well wish to ask you.

1-0047-0000

Christine Lagarde, President of the European Central Bank. – Thank you for your question. I will address this issue from a purely economic point of view and look at the potential consequences that it has economically and financially.

Any conflict anywhere is a threat to stable, balanced growth and the right equilibrium, which is propitious for investors to invest, for consumers to consume, for employers to employ. And certainly, we're not short of those conflicts at the moment. And what is quite frightening is that it seems that one conflict sort of supersedes the other and we almost forget – from an economic point of view, again, I'm only speaking.

It's obvious that the current most recent conflict, because of the parties that are involved and because of the geography, could actually create a situation where a significant portion of the oil and gas that transit through the Strait of Hormuz – I think one of your colleagues has mentioned that – could be impaired. And if this was the case, then it would certainly impact the price of oil and the price of gas, which itself, although it is a supply shock, could be one of such depth and duration that it would trigger secondary effects and would apply on a much broader basis than the simple conduit of energy prices.

So, this is a source of concern and it's a point that we have to monitor very carefully. We have to hope that parties can, again, sit at the table, negotiate and hopefully arrive at a settlement arrangement that will not trigger the economic consequences that I have just outlined.

I'm glad that we are in the economic position that we are in at the moment, but there is no question that, certainly in the short term, if that risk was to materialise, it would have inflationary consequences. In the medium to longer term, it's difficult to assess; it's more ambiguous. It's going to be a factor of price rise on the one hand, of dampened demand on the other. So, to actually arrive exactly at the consequences is something that we will only be able to measure over the course of time.

1-0048-0000

Fernando Navarrete Rojas (PPE). – You mentioned that time was of the essence. You mentioned rebalancing the European economy to serve this as a global provider of safe assets. But how much time? And by the way, we're not talking about rebalancing – it's imbalances in the other direction. So how much time, if we do everything right?

And by the way, I think the trajectory you envisage in your op-ed in the *Financial Times* is good in itself, even if it does not lead to the final destination of getting this global dominance.

And the second point is I really want to understand the digital euro in relation to stablecoins, because you see it provides the business case, what the people are looking for. And we had a discussion. The European citizen has to engage in foreign exchange risk, and the counter is that it's interest bearing. Are you now proposing that the digital euro should be interest bearing, just to be a real counter for this? Because that would be extremely shocking.

I think it would be a more efficient counter for this to have an efficient, fast, cheaper means of payment, and interest bearing, and that's something we already have – that's called deposits. That makes the function across borders. I would say that's a good proposition for a safeguard in Europe, but I would like to know your opinion on this.

1-0049-0000

Luděk Niedermayer (PPE). – I have one more old-fashioned question on financial stability, because, Madam President, you mentioned several times that there are risks. So, I wonder to which extent you think that these risks are reflected in the assessment of the financial stability in asset prices and so on.

You rightly mentioned tariffs. We still don't know where we end up, but even now the tariffs are introduced. And there are also other factors that are not very much in favour of some asset valuation. So, I wonder how you see how the financial stability risk is evolving and to which extent there could be some valuation bubbles.

1-0050-0000

Damian Boeselager (Verts/ALE). – Just a quick frustration about the savings and investments union: I feel that everybody is saying that the world is falling apart, we need to be stronger in Europe, we need to do more.

And then we look at the proposal of the European Commission and especially also what the Member States do, and it's a joke compared to what we would need. So I was just wondering if you had new ideas of how we can push the savings and investments union to be a real exercise?

1-0051-0000

Christine Lagarde, *President of the European Central Bank*. – Well, thank you for all these easy questions. Goodness!

Mr Navarrete, I said that time is of the essence, in general. And I might be the oldest person in the room. And the closer you get to the terminal point in your life, the more you think that time is of the essence and the more impatient you grow for things to improve as well as the economic environment in which you operate. Your children grow up and your grandchildren grow up – you get that sense of urgency. And I do.

I really think that in the current turmoil we are in, with more conflict arising on a daily basis, the higher the responsibility we have to deliver on our mandate, as far as the Central Bank is concerned, to strengthen the capacity of Europe, to deliver the European promise to the European citizens and to the world. So that's the reason why I'm saying that time is of the essence.

Can I say how long it will take for those structural reforms to happen? For this new role possibly to come upon Europe? I cannot tell you. I'm sure that it will take time, because we move at a pace that is unfortunately rather slow, if not laborious on occasions. But I would hope that on some of the most critical projects, we can move fast, and we can harness this determination to improve the situation collectively.

You had a second question on the digital euro if I recall...

1-0052-0000

Fernando Navarrete Rojas (PPE). – Are you hinting at an interest rate bearing digital euro?

1-0053-0000

Christine Lagarde, *President of the European Central Bank*. – So, it was absolutely not my proposal to suggest that the digital euro would earn interest. Absolutely not. No.

And as you know, we have quite a lot of debate about the threshold that would apply in order to make sure that financial stability is preserved, and we have had that discussion with many partners involved in the financial and banking industry in particular. And I think that the interest rate bearing account is not something that is considered at all in the digital euro.

I wish all banks would offer interest on all deposits, actually. But this is not the case in all countries, to my knowledge.

On the risk to financial stability: two things, Mr Niedermayer. One is, as you know, since the strategy review that we approved in 2021 and which is currently under review, we try to biannually have a joint assessment between the economic teams and the financial stability teams at the European Central Bank and within the euro system at large, so that we can have a joint assessment. The second thing that is done also, as you know, is the financial stability review that is conducted also biannually with a report that is provided and that is presented by the Vice-President, who is specially responsible for those issues and where we try to identify the sources of financial instability. Clearly, the geopolitical situation is one. Clearly, the uncertainty is one. Clearly, the valuation of assets, if overpriced, is another one.

And we try to look at all the triggers that could start the unravelling of financial instability. And amongst those, as I said earlier on in your previous questions, stablecoins can be a trigger. And that's the reason why we want to just make sure that they operate within a framework that is well interpreted and solid and protects us against potential redemption risks.

On savings and investment: I wish I had the answer. Some three or four years ago, I gave a speech in Frankfurt that I called my Kantian speech, in which I recommended that we not only finesse with little changes at the margin, but that would take a bold and definite approach in order to improve the situation. As you know, one of the steps that I identified was supervision. This is a difficult topic, and this is one that really has to work both bottom up but top down as well. So, I think the joint approach of bottom up and top down is something that is probably recommended in relation to that one.

I think on the issue of the trading and post-trading infrastructure, some progress is being made, but we have to just move faster because otherwise the circumstances around us will move faster than we do.

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Chair. – Thank you, President Lagarde. You have fielded a lot of questions today on simplification, on inflation, on the way that monetary policy can support growth. I think there are two main points to emerge from this session.

The first concerns stablecoins and, from what I understand from the wise words of the European Central Bank, but from also the concerns expressed by MEPs on this matter, it is that the MiCA Regulation must be strictly applied and that the issue of total fungibility is very risky and should probably not be put on the agenda, nor in the European Commission's Q&A replies. I therefore hope that the Commission has followed this debate very closely, since I believe that the message, both on the part of the MEPs who have spoken on the matter, and also from the European Central Bank, has been quite clear.

The second concerns the digital euro. As I understand it there has been, as Gilles Boyer said, both a lot of enthusiasm and a lot of concern over this. Perhaps both are disproportionate, but in any case I think those expressing 'great enthusiasm' and 'great concern' must, at a certain point, leave the room and go and hold the kind of discussions we would know as shadow rapporteurs' meetings.

Thank you very much, everybody. We will resume our session tomorrow. Many thanks again to President Lagarde for having replied to all our questions. Thank you very much.

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(The Monetary Dialogue closed at 16:51)