Christine Lagarde: Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

Speech by Ms Christine Lagarde, President of the European Central Bank, at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 23 June 2025.

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Charts accompanying the speech

It is a pleasure to be with you again for our regular exchange.

This year has been one 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 assets.

First, however, I would like to update you on the ECB's assessment of the euro area economy and our monetary policy stance.

The outlook for the euro area and the ECB's monetary policy

Eurosystem staff expect the euro area economy to grow by 0.9% this year, 1.1% in 2026 and 1.3% in 2027.

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, its lowest level 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 – should help consumers and firms withstand the fallout from a volatile global environment. Defence and infrastructure investment should also bolster growth.

Risks to the growth outlook remain tilted to the downside, however. 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. That being said, a swift resolution to trade and geopolitical tensions or a further increase in defence and infrastructure spending could spur activity by more than expected.

The global economic outlook continues to face exceptionally high economic and political uncertainty, but as I said recently, "moments of change can also be moments of opportunity".[1] Support for the euro has reached an all-time high.[2] Now is the time to make the euro area economy more productive, competitive and resilient. We need to see targeted fiscal and structural policies and strategic investments. The proposals in the Competitiveness Compass should be adopted swiftly. The savings and investment 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. By making the right policy choices, we can leverage the current momentum to boost the economic perspectives for Europe and its citizens.[3]

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 due to 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 pressures to recoup past real wage losses fade.

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 2.0% in 2025, 1.6% in 2026 and 2.0% 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 pre-committing to a particular rate path.

Developments in stablecoins and crypto-assets

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 physical or financial assets –

have seen their market capitalisation surge from less than €200 billion in early 2020 to around €2.7 trillion this year. This remarkable growth has been marked by investor speculation and extreme price volatility. 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. However, the rapid pace of developments, combined with data gaps that may create blind spots require closer monitoring.[4] 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.[5] As holdings and valuations of crypto-assets rise, the risk for investors from sharp price corrections increases and could reverberate across the financial system.[6]

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 reference 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, stablecoins are privately issued and notably pose risks for 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.[7] 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 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, thereby minimising the risks for consumers and financial stability.

Most major jurisdictions, however – 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 framework 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.[8]

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 payments system.

Conclusion

Let me conclude.

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, than courage, than genius itself: it is the idea whose time has come."

Europe is that idea and now is the time to fully embrace it. This is what the citizens of Europe have entrusted us to do.[9]

Thank you. I now stand ready to take your questions.

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[1] Lagarde, C. (2025), "Earning influence: lessons from the history of international currencies", speech at an event on Europe's role in a fragmented world organised by Jacques Delors Centre at Hertie School in Berlin, Germany, 26 May.

[2] European Commission (2025), "Standard Eurobarometer 103 - Spring 2025", May.

[3] ECB (2025), *The international role of the euro*, June.

[4] Aerts, S. et al. (2025), "Just another crypto boom? Mind the blind spots", *Financial Stability Review*, ECB, May.

[5] The ECB Consumer Expectations Survey – November 2024 covering selected euro area countries indicated that, on average, 9.7% of survey respondents (or at least one person in the household) owned crypto-assets, down slightly from the November 2022 figure. Most crypto-asset owners have a relatively low exposure: 54% of respondents reported holdings of below €1,000 and 91% of respondents reported holdings of below €20,000. Overall, this represents about 0.23% of household financial assets and 3% of total crypto-asset market capitalisation.

[6] Although banks' exposure to crypto-assets is still small, it has been increasing. For example, the value of crypto-asset custody services provided by banks increased from €400 million in 2023 to €4.7 billion in 2024. Further information on interlinkages between the financial sector and crypto-assets can be found in Aerts, S. et al. (2025), op. cit.

[7] Lane, P.R. (2025), "The digital euro: maintaining the autonomy of the monetary system", keynote speech at University College Cork Economics Society Conference 2025, Cork, 20 March.

[8] See Financial Stability Board (2024), *G20 Crypto-asset Policy Implementation Roadmap: Status report*, October, for an overview of the progress made in relation to implementing the regulatory frameworks for crypto-assets and stablecoins. The report stresses how challenges, including the inconsistent implementation of the Financial Stability Board's framework, may hinder the effectiveness of these frameworks and lead to regulatory arbitrage.

[9] The latest Standard Eurobarometer published by the European Commission shows that trust in the European Union has reached its highest level since 2007. See European Commission (2025), op.cit.