

## **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, Strasbourg, 6 October 2025.

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[Charts](#) accompanying the speech

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

In recent months we have faced a period of heightened uncertainty. Yet, despite these challenges, the euro area economy has held up well.

This resilience is no coincidence. It reflects, in no small part, the strength of two achievements we sometimes take for granted: our Single Market and our single currency, the euro.

As a foundation for stability and a powerful symbol of European unity, both at home and abroad, the euro is one of Europe's greatest assets.

But in today's geoeconomic world, the likelihood of larger and more diverse economic shocks is expected to remain a constant feature of our environment. This prompts an important question: in this new global landscape, what role should the euro play on the world stage?

I will focus specifically on this question in my remarks today. However, let me first provide an overview of our assessment of the euro area economy and our monetary policy stance.

### **The outlook for the euro area**

Over the first half of the year the economy grew by 0.7% in cumulative terms, thanks to resilient domestic demand. Stronger growth in the first quarter partly reflected frontloading of global trade ahead of expected tariff increases. Growth was lower in the second quarter as this effect reversed.

Sluggish export performance, driven by higher tariffs, a stronger euro and increased global competition, is expected to hold growth back for the remainder of the year. However, the effect these headwinds have on growth should fade next year. At the same time, survey indicators suggest that services continue to grow, signalling some positive underlying momentum in the economy.

Despite softening labour demand, the labour market remains a source of strength and is expected to support consumer spending. Consumer spending and investment should

both benefit from our past interest rate cuts feeding through to financing conditions. Investment should also be underpinned by substantial government spending on infrastructure and defence.

As a result, ECB staff expect the economy to grow by 1.2% in 2025, by 1.0% in 2026 and by 1.3% in 2027.

Risks to economic growth have become more balanced as the likelihood of major tariff-related downside risks materialising has fallen, owing to the new trade deal. At the same time, risks remain that renewed trade tensions could further dampen exports, investment and consumption. By contrast, higher than expected defence and infrastructure spending and productivity-enhancing reforms would add to growth. Geopolitical tensions remain a major source of uncertainty.

Inflation remains close to our 2% target. According to Eurostat's flash estimate, it edged up to 2.2% in September, from 2.0% in the previous three months, mainly due to higher energy inflation. Core inflation – excluding energy and food – remained at 2.3%. Indicators of underlying inflation remain consistent with our 2% medium-term target. Real wages have caught up with levels seen before the inflation surge. Nominal wage growth was 3.9% in the second quarter, down from 4.0% in the previous quarter and 4.8% in the second quarter of last year. Forward-looking indicators, including the ECB's wage tracker, suggest that wage growth will moderate further and contribute to easing domestic price pressures.

The ECB staff projections see headline inflation averaging 2.1% in 2025, 1.7% in 2026 and 1.9% in 2027. Inflation excluding energy and food is expected to fall from 2.4% in 2025 to 1.9% in 2026 and 1.8% in 2027, owing to the stronger euro and declining labour cost pressures. Notably, the outlook for euro area inflation remains more uncertain than usual, with a still volatile global trade policy environment responsible for both upside and downside risks. At the same time, as new information has come in, the range of risks on both sides has narrowed.

## **The ECB's monetary policy stance**

With inflation currently at around 2% and expected to remain at around that level over the projection horizon, we can say that the disinflationary process is over. At its most recent meeting, the Governing Council therefore decided to keep its key interest rates unchanged.

We are determined to ensure that inflation stabilises at our 2% target in the medium term. We will continue to determine the appropriate monetary policy stance by following a data-dependent and meeting-by-meeting approach. In particular, we will base our interest rate decisions on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. Therefore, we are not pre-committing to a particular rate path.

## **The international role of the euro**

Let me now turn to the international role of the euro, your chosen topic for today's hearing.

The international standing of currencies evolves slowly. For decades, the US dollar has been the dominant global currency, while the euro has firmly established itself as the second most used currency worldwide. This is evident in our latest report on the international role of the euro.<sup>[1](#)</sup>

However, the world is in transition. Geopolitical shifts and heightened policy uncertainty remind us that no currency's global position is guaranteed. In this changing landscape, there is a unique opportunity to create conditions to strengthen the euro's role on the global stage.

International currencies can appreciate in times of global stress as they attract safe haven inflows. Yet, there is no mechanical relationship between the global status of a currency and its exchange rate.

At the same time, raising the euro's global standing would bring tangible benefits. For instance, greater use of the euro in trade invoicing would reduce transaction costs for exporters and shield prices in the euro area from exchange rate volatility. Moreover, increased foreign demand for euro-denominated assets would lower borrowing costs for households, businesses and governments – in the context of the United States, this is often referred to as the "exorbitant privilege".<sup>[2](#)</sup>

We will not realise the full benefits of a stronger international role of the euro unless we adopt the right policies. To seize the benefits while avoiding the risks, Europe must do its homework and strengthen its foundations.<sup>[3](#)</sup>

First, from an economic standpoint, we need to create the conditions for sustainable growth and investment. Completing the Single Market remains essential to unlocking Europe's full potential. At the same time, we must integrate and deepen our capital markets, taking concrete steps towards completing the savings and investments union, for which an ambitious timetable is critical. We look forward to the European Commission's forthcoming initiatives in this regard, notably the Single Market roadmap and the proposal for strengthening capital market supervision. Moreover, additional steps like joint financing of public goods – such as defence – would help establish a safe and liquid pool of EU public debt. One year on from the publication of Mario Draghi's report on the future of European competitiveness, the time has come to put words into action.

Second, on an institutional level, we must safeguard investors' trust in the institutions and policies that underpin our currency, including by upholding the rule of law and defending central bank independence.

Third, from a geopolitical perspective, we must maintain our commitment to open trade and strike new agreements with global partners. At the same time, Europe must invest in its security to navigate an increasingly uncertain world.

These responsibilities rest, first and foremost, with governments and legislators. The ECB's role is to safeguard price stability, ensure financial stability and improve the financial and payments infrastructure that supports the euro. We are committed to continue supporting an environment in which the euro can thrive.

For example, by extending swap and repo lines to key partners, we safeguard against euro liquidity shortages abroad disrupting the smooth transmission of our monetary policy – which in turn encourages those partners to transact more in euro. Moreover, our work on settling transactions in central bank money using distributed ledger technology supports the development of Europe's digital capital markets, while aiming to enhance wholesale payment systems.<sup>4</sup> Likewise, we are working on a digital euro and pursuing initiatives to enhance cross-border payments in euro, which could potentially facilitate international cross-border transactions in the future.

## Conclusion

Let me conclude.

The euro was born out of a vision of a stronger and more united Europe. Today, that vision must adapt to meet the challenges posed by profound geopolitical shifts and to seize the opportunities offered by digital transformation.

The euro can be more than the currency of a continent and a symbol of unity – it can become a global anchor of trust. But vision alone is not enough. Europe needs bold reforms to turn this vision into reality. Now is no longer the time to just discuss reforms; now is the time to implement them.

Together, let us move forward with determination to deliver the Europe our citizens deserve and to strengthen the euro for the future.

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<sup>1</sup> See ECB (2025) [The international role of the euro](#), June. The report shows that the euro accounts for around a fifth of international currency use, behind only the US dollar – which accounts for around 55% – but well ahead of other currencies.

<sup>2</sup> For example, research indicates the US Government saves up to 2% in interest costs per year on foreigners' Treasury holdings. See Jiang, Z., Krishnamurthy, A. and Lustig, H. (2021) "Foreign Safe Asset Demand and the Dollar Exchange Rate", *The Journal of Finance*, Vol. 76, No 3, pp. 1049-1089.

<sup>3</sup> 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.

<sup>4</sup> ECB (2025) "[ECB commits to distributed ledger technology settlement plans with dual-track strategy](#)", press release, 1 July.