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**Statement by Ms. Lagarde
European Central Bank**

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IMFC Statement

Statement by Christine Lagarde, President of the ECB, at the fifty-second meeting of the International Monetary and Financial Committee

Introduction

Since our last meeting in April, global economic activity has remained subdued but steady, despite ongoing trade policy headwinds. This resilience partly reflected a frontloading of demand in anticipation of tariffs, which temporarily boosted activity but is unlikely to be sustained. As this effect fades, global growth dynamics are expected to soften further.

A predictable and open international economic order remains essential to sustain global trade, investment and shared prosperity. While recent preliminary trade agreements have reduced uncertainty, it remains elevated and may weigh on investment. The full impact of the evolving policy environment will only become clearer over time, but early signs are already visible in the reconfiguration of global trade flows.

Global headline inflation is projected to moderate gradually, though the outlook is expected to diverge across countries, reflecting the varying impact of the volatile global policy environment, especially in relation to trade and fiscal policies and geopolitical tensions. In this environment, while monetary policy stances are set to become more divergent, it is imperative that central banks have the independence to fully deliver on their mandates.

Monetary policy

In September the Governing Council kept the key ECB interest rates unchanged, with the deposit facility rate – the rate through which we steer the monetary policy stance – standing at 2.0%. We are determined to ensure that inflation stabilises at our 2% target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance and are not pre-committing to a particular rate path. In particular, our interest rate decisions will be based on the inflation outlook and the risks surrounding it, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. Earlier this year, in June, we concluded our monetary policy strategy assessment, confirming our symmetric 2% medium-term inflation target while updating the

framework to ensure the effectiveness of monetary policy in an uncertain and potentially more volatile inflation environment.

Economic activity

The euro area economy grew by 0.7% cumulatively over the first half of this year. Stronger growth in the first quarter partly reflected a frontloading of trade ahead of expected tariff increases, which reversed in the second quarter.

Higher tariffs, a stronger euro and increased global competition are expected to hold back growth for the rest of the year, but the effect of these headwinds on growth should fade next year. Surveys point to robust growth in services, indicating some positive underlying momentum in the economy. Furthermore, despite some signs of softening labour demand, the labour market remains resilient. This should support consumer spending over time. Consumer spending and investment should both benefit from more favourable financing conditions as our interest rate cuts feed through to the economy. Increased government spending on infrastructure and defence should also support investment. This is reflected in the latest ECB staff projections, which foresee growth of 1.2% in 2025, 1.0% in 2026 and 1.3% in 2027.

Risks to 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, the risk remains that renewed trade tensions could further dampen exports, investment and consumption. Geopolitical tensions remain a major source of uncertainty. In contrast, higher than expected defence and infrastructure spending in the EU, together with productivity-enhancing reforms, would add to growth. By fostering innovation, diversification and resilience, such ambitious reforms would also mitigate the economic tail risks arising from geopolitical tensions.

In the current environment, governments should address the considerable need for strategic investment while ensuring sustainable public finances. Where more efficient spending leads to higher growth, this would also create fiscal space, providing room for greater public investment in strategically important areas.

Strengthening the euro area's resilience and competitiveness is crucial in this environment. Following up on the recommendations in the reports by Mario Draghi and Enrico Letta with concrete action and accelerating implementation, in line with the European Commission's roadmap, remains essential. Moreover, completing the savings and investments union and the banking union to an ambitious timetable and rapidly establishing the legislative framework for the introduction of a digital euro remain imperative. Europe should take decisive steps to be ready for sizeable longer-term challenges,

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including in relation to digitalisation, climate change and nature degradation, defence and ageing populations.

Inflation

Headline inflation remains close to our 2% target. According to the flash estimate, it edged up to 2.2% in September from 2.0% in the previous three months, mainly because of an increase in the volatile energy component. Core inflation – excluding energy and food – was unchanged at 2.3%. Indicators of underlying inflation remain consistent with our 2% medium-term target. 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. Along with productivity gains, this will help keep a lid on domestic price pressures, even as profits recover from low levels.

The September ECB staff projections see headline inflation averaging 2.1% in 2025, 1.7% in 2026 and 1.9% in 2027. Core inflation 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. Energy price inflation is expected to remain volatile, but rise over the projection horizon, in part because of the start of the EU Emissions Trading System 2 in 2027. The outlook for euro area inflation remains uncertain, with the 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.

Financial stability, euro area banking sector and non-bank financial intermediation

Euro area banks are well positioned to weather headwinds, as shown by the 2025 EU-wide stress test, with high capital levels and strong non-interest income offsetting net interest income pressures. However, tariffs and geopolitical tensions are weighing on several sectors and may strain asset quality, although recent trade agreements have mitigated uncertainty. In this context, it is worth highlighting the role that the international regulatory framework for banks plays in preserving financial stability. While simplification and minimising undue burdens are welcome, they should not mean deregulation: well-capitalised banks are necessary to support the real economy, particularly during economic downturns. Banking sector resilience and compliance with international standards must be upheld.

Despite episodes of uncertainty, European markets have broadly demonstrated resilience, and the overall market sentiment is positive towards euro area government bonds. Current global market

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pricing and subdued volatility conceal persistent vulnerabilities, while extreme concentration in a small number of highly valued US tech and AI firms heightens repricing risks for heavily exposed euro area investors. The euro area non-bank financial institution (NBFI) sector has been stable, showing no significant signs of stress. However, liquidity vulnerabilities remain elevated. Coupled with pockets of high leverage, this could amplify potential market-wide stress, and the sector may face challenges from rising market volatility and geopolitical uncertainty. Strengthening the macroprudential framework for NBFIs, as the Financial Stability Board (FSB) recommends, is critical. Equally important are international cooperation and better data quality to close information gaps and support compliance with global standards.

In the digital age, payments are continuously evolving. The Eurosystem is progressing with work on a digital euro, while also exploring new technologies for settlement of wholesale transactions in central bank money. With payments becoming increasingly digital, a digital euro would complement cash and ensure that central bank money remains an option for everyday retail payments in the euro area. The Eurosystem's work to make central bank money fit for the digital age will safeguard monetary sovereignty and strengthen resilience. It will also enable private sector innovation and European private payment solutions to achieve pan-European reach, in turn enhancing Europe's strategic autonomy.

Developments in payments have also brought private innovations, including stablecoins. While their use within the euro area remains limited, stablecoins offer cross-border capabilities, which may bring benefits if properly designed and regulated. At this stage, risks to euro area financial stability appear contained. However, the global nature of stablecoins calls for consistent regulatory frameworks. By implementing the Markets in Crypto-Assets Regulation (MiCAR), the EU has taken an important step in this direction.

Currently, global implementation of the FSB recommendations on global stablecoins remains fragmented, with further progress needed. Fragmented stablecoin regulation raises many challenges for supervisors, including the risk of regulatory arbitrage, particularly if the same stablecoins are being issued from multiple jurisdictions.

International cooperation

In this increasingly uncertain global economic environment, the value of having the IMF as an impartial and trusted policy adviser and lender to countries with balance of payments problems cannot be overstated. We support a strong and adequately resourced IMF at the centre of the global financial safety net, and welcome its upcoming Comprehensive Surveillance Review, Financial Sector Assessment Program Review and Review of Program Design and Conditionality.

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Given the urgency of the climate crisis and the significant economic and financial costs it entails, it is important that central banks and international institutions continue to address these issues within their respective mandates. International cooperation should remain in place to help countries evaluate climate risks and strengthen resilience.

Over the past 80 years, the global economy has thrived on a foundation of openness and multilateralism. Any change in the international order that erodes integration or causes fragmentation into regional blocs will be detrimental to the world economy. As a major actor in international trade, Europe is committed to supporting open markets that are grounded in international standards and the rule of law – both of which are closely linked to robust and sustainable growth. At the same time, a well-regulated financial system, underpinned by independent central banks, will remain essential for global stability in an increasingly interconnected and shock-prone world.

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