Christine Lagarde: ECB press conference - introductory statement

Introductory statement by Ms Christine Lagarde, President of the European Central Bank, and Mr Luis de Guindos, Vice-President of the European Central Bank, Frankfurt am Main, 7 March 2024.

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Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to keep the three key ECB interest rates unchanged. Since our last meeting in January, inflation has declined further. In the latest ECB staff projections, inflation has been revised down, in particular for 2024 which mainly reflects a lower contribution from energy prices. Staff now project inflation to average 2.3 per cent in 2024, 2.0 per cent in 2025 and 1.9 per cent in 2026. The projections for inflation excluding energy and food have also been revised down and average 2.6 per cent for 2024, 2.1 per cent for 2025 and 2.0 per cent for 2026. Although most measures of underlying inflation have eased further, domestic price pressures remain high, in part owing to strong growth in wages. Financing conditions are restrictive and our past interest rate increases continue to weigh on demand, which is helping push down inflation. Staff have revised down their growth projection for 2024 to 0.6 per cent, with economic activity expected to remain subdued in the near term. Thereafter, staff expect the economy to pick up and to grow at 1.5 per cent in 2025 and 1.6 per cent in 2026, supported initially by consumption and later also by investment.

We are determined to ensure that inflation returns to our two per cent medium-term target in a timely manner. Based on our current assessment, we consider that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal. Our future decisions will ensure that our policy rates will be set at sufficiently restrictive levels for as long as necessary.

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

The decisions taken today are set out in a press release available on our website.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

The economy remains weak. Consumers continued to hold back on their spending, investment moderated and companies exported less, reflecting a slowdown in external demand and some losses in competitiveness. However, surveys point to a gradual recovery over the course of this year. As inflation falls and wages continue to grow, real incomes will rebound, supporting growth. In addition, the dampening impact of past interest rate increases will gradually fade and demand for euro area exports should pick up.

The unemployment rate is at its lowest since the start of the euro. Employment grew by 0.3 per cent in the final quarter of 2023, again outpacing economic activity. As a result, output per person declined further. Meanwhile, employers are posting fewer job vacancies, while fewer firms are reporting that their production is being limited by labour shortages.

Governments should continue to roll back energy-related support measures to allow the disinflation process to proceed sustainably. Fiscal and structural policies should be strengthened to make our economy more productive and competitive, expand supply capacity and gradually bring down high public debt ratios. A speedier implementation of the Next Generation EU programme and more determined efforts to remove national barriers to deeper and more integrated banking and capital markets can help increase investment in the green and digital transitions and reduce price pressures in the medium term. The EU's revised economic governance framework should be implemented without delay.

Inflation

Inflation edged down to 2.8 per cent in January and, according to Eurostat's flash estimate, declined further to 2.6 per cent in February. Food price inflation fell again, to 5.6 per cent in January and 4.0 per cent in February, while energy prices in both months continued to decline compared with a year ago but at a lower rate than in December. Goods price inflation also fell further, to 2.0 per cent in January and 1.6 per cent in February. Services inflation, after remaining at 4.0 per cent for three months in a row, edged lower to 3.9 per cent in February.

Most measures of underlying inflation declined further in January as the impact of past supply shocks continued to fade and tight monetary policy weighed on demand. However, domestic price pressures are still elevated, in part owing to robust wage growth and falling labour productivity. At the same time, there are signs that growth in wages is starting to moderate. In addition, profits are absorbing part of the rising labour costs, which reduces the inflationary effects.

Inflation is expected to continue this downward trend in the coming months. Further ahead, it is expected to decline to our target as labour costs moderate and the effects of past energy shocks, supply bottlenecks and the reopening of the economy after the pandemic fade. Measures of longer-term inflation expectations remain broadly stable, with most standing around 2 per cent.

Risk assessment

The risks to economic growth remain tilted to the downside. Growth could be lower if the effects of monetary policy turn out stronger than expected. A weaker world economy or a further slowdown in global trade would also weigh on euro area growth. Russia's unjustified war against Ukraine and the tragic conflict in the Middle East are major sources of geopolitical risk. This may result in firms and households becoming less confident about the future and global trade being disrupted. Growth could be higher if inflation comes down more quickly than expected and rising real incomes mean that spending increases by more than anticipated, or if the world economy grows more strongly than expected.

Upside risks to inflation include the heightened geopolitical tensions, especially in the Middle East, which could push energy prices and freight costs higher in the near term and disrupt global trade. Inflation could also turn out higher than anticipated if wages increase by more than expected or profit margins prove more resilient. By contrast, inflation may surprise on the downside if monetary policy dampens demand more than expected, or if the economic environment in the rest of the world worsens unexpectedly.

Financial and monetary conditions

Market interest rates have risen since our January meeting and our monetary policy has kept broader financing conditions restrictive. Lending rates on business loans have broadly stabilised, while mortgage rates declined in December and January. Nevertheless, lending rates remain elevated, at 5.2 per cent for business loans and 3.9 per cent for mortgages.

Bank lending to firms had turned positive in December, growing at an annual rate of 0.5 per cent. But, in January, it edged lower, to 0.2 per cent, owing to a negative flow in the month. The growth in loans to households continued to weaken, falling to 0.3 per cent on an annual basis in January. Broad money – as measured by M3 – grew at a subdued rate of 0.1 per cent.

Conclusion

The Governing Council today decided to keep the three key ECB interest rates unchanged. We are determined to ensure that inflation returns to our two per cent medium-term target in a timely manner. Based on our current assessment, we consider that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal. Our future decisions will ensure that our policy rates will be set at sufficiently restrictive levels for as long as necessary. We will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to our medium-term target and to preserve the smooth functioning of monetary policy transmission.

We are now ready to take your questions.