Christine Lagarde: European Parliament plenary debate on the European Central Bank Annual Report

Speech by Ms Christine Lagarde, President of the European Central Bank, at the plenary session of the European Parliament, Strasbourg, 10 February 2025.

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It is a great pleasure to take part in this plenary session and discuss your draft resolution on the ECB's Annual Report.

At the ECB, we are deeply committed to transparency and accountability, particularly in how we communicate with the public and their elected representatives in the European Parliament. In fact, in the last parliamentary term we interacted with this Parliament even more frequently than in previous terms.[1]

At the same time, we greatly value the opportunity to hear the Parliament's views. Your resolution and debate are an important pillar of the ECB's accountability framework and a key channel for you to share your views with us – and we listen. For instance, next week will mark ten years since the ECB started publishing the accounts of the Governing Council's monetary policy meetings[2], a major step in enhancing our monetary policy communication and one that this Parliament had called for.

This year's draft resolution covers key issues that are central to the ECB's mandate and the future of the euro area, including our response to inflation, the digital euro and the ECB's role in supporting the EU's broader economic policies. It also reflects the dynamic challenges we face in Europe today, and I look forward to hearing your thoughts on all of these issues and having a constructive dialogue with you.

But let me first start by outlining our view on the current economic situation in the euro area and our monetary policy stance. I will then address the broader economic challenges we are facing and their implications for monetary policy.

The euro area economy and the ECB's monetary policy

The euro area economy grew modestly in 2024. While output stagnated in the fourth quarter, it was still 0.9% higher than at the end of 2023. Surveys indicate that manufacturing continues to contract while services activity is expanding. Consumer confidence is fragile and, despite rising real incomes, households are hesitant to spend more.

Nevertheless, the conditions for a recovery remain in place. A solid job market and higher incomes should strengthen consumer confidence and allow spending to rise. More affordable credit should boost consumption and investment over time. Exports should also support the recovery as global demand rises, although this is conditional on developments in international trade policies.

Inflation stood at 2.5% in January and has recently developed broadly in line with staff projections. Core inflation has remained at 2.7% in recent months, reflecting a sideways movement in both services and goods inflation. Wage growth is moderating as expected, although it remains elevated, while profits are partially buffering the impact of wage increases on inflation.

Inflation is set to return to our 2% medium-term target in the course of this year, with risks on both the upside and the downside. Greater friction in global trade would make the euro area inflation outlook more uncertain.

In total, the ECB has lowered interest rates by 125 basis points since last June, and the deposit facility rate – the rate through which we steer the monetary policy stance – now stands at 2.75%. At our last meeting in January, we decided to lower our key interest rates by 25 basis points, based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. In particular, the disinflation process in the euro area is well on track. Most measures of underlying inflation suggest that inflation will settle at around our target on a sustained basis. And while financing conditions continue to be tight, our recent interest rate cuts are gradually making borrowing less expensive.

We are determined to ensure that inflation stabilises sustainably at our 2% medium-term target. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. We are not pre-committing to a particular rate path.

A challenging economic environment for monetary policy

Let me now turn to the broader economic environment and its implications for monetary policy.

Europe has faced a series of unprecedented challenges in recent years, each with its own far-reaching impact. From the COVID-19 pandemic to surging energy prices and the geopolitical upheaval caused by Russia's invasion of Ukraine, we have navigated our way through a storm of supply shocks. As we look ahead, the frequency of these shocks is likely to remain high.

While we have weathered these crises, the past few years have also revealed missed opportunities and underinvestment in areas such as the digital transformation and the green transition – and the uncertainty surrounding trade and economic policy continues to weigh on consumption and investment.[3] As a result, and as highlighted in reports by Enrico Letta and Mario Draghi, Europe finds itself lagging behind international competitors in productivity and growth.

In a world driven by shifting global dynamics and rapid technological change, Europe must strike a delicate balance between achieving strategic autonomy and preserving its openness to the global economy. As President Ursula von der Leyen and I highlighted in a recent article, Europe's response to these challenges must be bold and strategic. While the outlook may seem daunting, the prospects are more promising than they might appear.[4]

One of Europe's first priorities should be to deepen the Internal Market. By removing remaining barriers within the Single Market – barriers that effectively function like tariffs

– we can unlock economies of scale, encourage innovation and reduce costs for consumers and producers alike. We are already home to a wealth of ideas and innovators. Our challenge is to transform these ideas into technologies that fuel economic growth. To do so, we need to reduce administrative burdens and foster an innovation-friendly environment.

Another critical area is enhancing Europe's autonomy in payments, which form the backbone of our economy and our single currency. At present, a few foreign providers dominate Europe's payments landscape, leaving us vulnerable to external pressures. As we face an increasingly digital future, we must prepare the ground for a digital euro. This will ensure the resilience and public good nature of our payment systems. It will also provide a platform for private innovation in digital payments.

With substantial savings at its disposal, Europe must channel more resources into private investment and scale up financing to support its innovators. A genuine capital markets union designed for citizens and businesses alike will be instrumental here.

More broadly, investment must be the cornerstone of Europe's economic transformation. The focus must be on investing in physical and digital infrastructure, research and development, and green technologies. These are not optional but essential investments required to drive productivity and guarantee Europe's competitiveness on the global stage. Moreover, they will address our energy dependence and help us meet our climate goals – both pressing imperatives.

In this regard, we welcome the European Commission's Competitiveness Compass as a concrete roadmap for action, which will also support the ECB in maintaining price stability by reducing Europe's susceptibility to supply shocks.

That said, the ECB is not standing idle. We are committed to learning from the experiences of recent years. As part of the ongoing assessment of our monetary policy strategy, we are preparing for the risk of an increasingly volatile future. We are taking stock of a changed inflation environment and economic context. We are also focusing on the implications for monetary policy, our experiences with our evolving policy toolkit, our reaction function and how to better deal with risk and uncertainty in policy setting and communications. While the ECB continuously evaluates and adapts its economic models – a topic raised in your resolution – assessing new analytical needs will be one component of this assessment.

Conclusion

Let me conclude.

The challenges facing Europe are immense, but solutions are within our reach. Our opportunity lies in more Europe.

As Konrad Adenauer said 70 years ago, "European unity was the dream of a few. It became the hope for many. Today it is a necessity for all of us." This sentiment rings true today more than ever.

To jointly tackle Europe's challenges, I am counting on the Parliament's commitment. Within its mandate, the ECB will play its part. Ever since the introduction of the euro, the ECB has continuously adapted to changing economic environments to fulfil its mandate. We remain fully committed to delivering on this mandate. We are equally committed to maintaining our active and meaningful dialogue with the Parliament.

Thank you for your attention.

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[1] See Dreher, F., Hernborg, N., Mochhoury, S., Mulder, T. and Schölermann, H. (2024), "The ECB's accountability to the European Parliament 2019-2024: commitment in times of change", *Economic Bulletin*, Issue 7, ECB.

[2] For the considerations behind publishing more detailed explanations of how the Governing Council reaches its decisions, see Draghi, M. (2014), "Monetary policy communication in turbulent times", speech at a conference organised by De Nederlandsche Bank, Amsterdam, 24 April. For the latest account (typically published four weeks after a monetary policy meeting), see ECB (2025), "Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 11-12 December 2024", 16 January.

[3] Andersson, M., Bobasu, A. and De Santis, R.A. (2024), "What are the economic signals from uncertainty measures?", *Economic Bulletin*, Issue 8, ECB.

[4] Lagarde, C. and von der Leyen, U. (2025), "Europe has strengths it can build on", *The ECB Blog*, ECB, 1 February.