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, 20 March 2025.

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Charts accompanying the speech

It is a pleasure to be back in Brussels for our regular exchange.

Since we last met in December, the new US administration has taken office and embarked on a new course in domestic and foreign policy. This has far-reaching implications for the global economic and political landscape, and it forces Europe to address both long-standing and new challenges in trade, economic competitiveness and defence. It is clear that the world is not waiting for us.

In this context, your chosen topic of trade policies is pertinent and extremely timely. However, before we discuss that topic in more detail, let me start by updating you on the euro area economic outlook and the ECB's monetary policy stance.

The outlook for the euro area

In 2024 the euro area economy recovered despite many headwinds. Euro area GDP grew by 0.9% on average, about twice as much as it did in 2023. Growth slowed in the fourth quarter of 2024, however, and the first months of this year have seen a continuation of many of last year's underlying patterns. Manufacturing is still contracting, although survey indicators are improving. High domestic and global policy uncertainty is holding back investment, and competitiveness challenges are weighing on exports. At the same time, services remain resilient. Moreover, rising household incomes and a robust labour market are supporting a gradual pick-up in consumption.

Heightened uncertainty is likely to dampen investment and exports more than previously anticipated. However, growth is expected to be supported by higher incomes and lower borrowing costs. Additionally, exports should benefit from rising global demand, though this remains contingent on developments in international trade policies. The latest ECB staff projections expect the economy to grow by 0.9% in 2025, 1.2% in 2026 and 1.3% in 2027.[1] These estimates are subject to considerable uncertainty, also owing to the trade policy environment, which I will discuss in the second part of my statement.

Turning to price developments, the disinflation process is well on track. Headline inflation decreased from 2.5% in January to 2.3% in February, mainly on account of a drop in energy inflation. Core inflation – excluding energy and food – also declined slightly from 2.7% in January to 2.6% in February, reflecting lower services inflation. Domestic inflation edged down in February but remains high, as wages and services prices in certain sectors are still adjusting to the past inflation surge.

Nominal wage growth moderated over the course of 2024. It is expected to continue decelerating in the coming months as real wages have caught up with levels seen before the surge in inflation, leading to fewer demands for inflation compensation.

The ECB staff projections see inflation moderating slightly in the coming months and then hovering around our 2% target as of the first quarter of 2026. Headline inflation is expected to average 2.3% in 2025, 1.9% in 2026 and 2.0% in 2027.

The ECB's monetary policy stance

Let me now turn to our monetary policy stance.

Earlier this month we lowered our key interest rates by another 25 basis points. Inflation is developing broadly as expected, with most measures of underlying inflation suggesting that inflation will settle at around our 2% medium-term target on a sustained basis.

The deposit facility rate now stands at 2.50% – 150 basis points below the 2024 peak. Our monetary policy is becoming meaningfully less restrictive. New borrowing is becoming less expensive for firms and households, while loan growth is picking up. At the same time, past interest rate hikes are still being transmitted to the stock of loans, and lending remains subdued overall.

We are determined to ensure that inflation stabilises sustainably at our 2% medium-term target. Especially in current conditions of rising uncertainty, 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.

The impact of a shift in US trade policies

Let me now turn to the second topic of this hearing – the impact of the shift in US trade policies on the euro area.

The new US administration is changing direction in several policy areas, with trade being a focal point. As a result, uncertainty about the future path of trade policy has soared to exceptionally high levels.

In our interconnected world, increased trade frictions are detrimental to global growth and welfare.[2] They raise costs, disrupt production and often lead to an adjustment of supply chains.[3] This also encourages "tit-for-tat" retaliatory policies, further undermining the benefits of free trade.

The euro area, which is very open to trade and deeply integrated into global supply chains, especially with the United States, is particularly exposed to shifts in trade policies.[4]

As regards the impact of specific trade measures, the situation is of course still evolving, and any estimates are subject to considerable uncertainty. That said, ECB analysis suggests that a US tariff of 25% on imports from Europe would lower euro area growth by about 0.3 percentage points in the first year. A European response in the form of raising tariffs on US imports would further increase this to about half a percentage point. The brunt of the impact on economic growth would concentrate around the first year after the rise in tariffs; it would then diminish over time, however leaving a persistent negative effect on the level of output.

In such a scenario, the inflation outlook would become significantly more uncertain. In the near term, EU retaliatory measures and a weaker euro exchange rate – resulting from lower US demand for European products – could lift inflation by around half a percentage point. The effect would ease in the medium term due to lower economic activity dampening inflationary pressures.

Let me stress again that these estimates are subject to very high uncertainty given that the impact of tariff increases may be non-linear, for instance due to a significant reconfiguration of global supply chains. Of course, the high level of policy uncertainty requires us to remain vigilant and ready to act to protect price stability.

Crucially, the answer to the current shift in US trade policies should be more, not less, trade integration, both with trade partners around the globe and within the EU. Trade integration, including free trade agreements, has been a driver of economic prosperity and can protect against unilateral trade measures. In fact, ECB analysis indicates that closer integration with the rest of the world could more than offset losses incurred from unilateral tariffs, including retaliation. In such a scenario only countries engaging in isolationist policies stand to lose. It is therefore important that the EU remains open to trade, and swiftly finalising recent trade agreements with other international partners would be a powerful signal.

We must also use these developments as a catalyst for deepening trade between EU Member States. The Single Market is estimated to have added between 12% and 22% to long-run EU GDP in its first 30 years,[5] and the level of trade between Member States has doubled since its creation.[6]

A deeper Single Market is crucial for reducing trade barriers within Europe and creating the scale necessary for firms to thrive. In addition, the more we exploit our own market, the more resilient Europe is to the impact of global fragmentation and external shocks more generally. With its Competitiveness Compass, the European Commission has put forward a concrete roadmap that should be urgently implemented. In this context, the plan for the savings and investment union presented yesterday is another crucial step.

By enhancing our strategic autonomy and increasing our economic clout, Europe negotiates with trade partners from a position of greater strength – strength that we can only gain collectively.

At the ECB, we will continue to carefully monitor global trade developments and take their impact into account in our monetary policy deliberations. In the current environment, it is important that we anticipate and assess implications of potential trade policy changes.[7] Careful analysis and communication are key, and we are exploring both aspects further as part of our ongoing strategy assessment.

Conclusion

To conclude – in today's turbulent environment, only a united Europe is a stronger Europe.

Jean Monnet once said "make men – *and might I also add women* – work together; show them that, beyond their differences and geographical boundaries, there lies a common interest".

This common interest is the prosperity of people in the EU. To achieve it, we must continue to uphold free trade, and we must strengthen our union.

The Single Market enables this, as it can contain the impact of global trade fragmentation. Let us continue to strengthen this precious tool and forge our own destiny in the interest of all Europeans.

Thank you for your attention. I now look forward to your questions.

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[1] Tariffs that were already in effect when the March 2025 ECB staff projections were finalised (on 19 February 2025) were included in the baseline projections – namely the first batch of bilateral tariffs between the United States and China. Other tariffs that were not yet in place at the cut-off date and those that had been postponed or had only recently been announced were not included in the baseline projections.

[2] See Attinasi, M.G. et al. (2024), "Navigating a fragmenting global trading system: insights for central banks", *Occasional Paper Series*, No 365, ECB; and Gunnella, V. and Quaglietti, L. (2019), "The economic implications of rising protectionism: a euro area and global perspective", *Economic Bulletin*, Issue 3, ECB.

[3] See Attinasi, M.G. et al. (2023), "Global production and supply chain risks: insights from a survey of leading companies", *Economic Bulletin*, Issue 7, ECB.

[4] See ECB Working Group on Global Value Chains (2019), "The impact of global value chains on the euro area economy", *Occasional Paper Series*, No 221, ECB, April.

[5] See Lehtimäki, J. and Sondermann, D. (2020), "Baldwin vs. Cecchini revisited: the growth impact of the European Single Market", *Working Paper Series*, No 2392, ECB, April.

[6] See European Commission (2023) "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: The Single Market at 30",16 March.

[7] For a discussion of monetary policy in an uncertain environment, see Lagarde, C. (2025), "A robust strategy for a new era", speech at the 25th ECB and Its Watchers conference organised by the Institute for Monetary and Financial Stability at Goethe University Frankfurt, 12 March.