MONETARY POLICY STATEMENT

Ljubljana, 17 October 2024

PRESS CONFERENCE

Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB

Good afternoon, the Vice-President and I welcome you to our press conference. I would like to thank Governor Vasle for his kind hospitality and express our special gratitude to his staff for the excellent organisation of today's meeting of the Governing Council.

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. The incoming information on inflation shows that the disinflationary process is well on track. The inflation outlook is also affected by recent downside surprises in indicators of economic activity. Meanwhile, financing conditions remain restrictive.

Inflation is expected to rise in the coming months, before declining to target in the course of next year. Domestic inflation remains high, as wages are still rising at an elevated pace. At the same time, labour cost pressures are set to continue easing gradually, with profits partially buffering their impact on inflation.

We are determined to ensure that inflation returns to our two per cent medium-term target in a timely manner. We will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim. We will continue to follow a data-dependent and meeting-by-meeting 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

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dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

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 incoming information suggests that economic activity has been somewhat weaker than expected. While industrial production has been particularly volatile over the summer months, surveys indicate that manufacturing has continued to contract. For services, surveys show an uptick in August, likely supported by a strong summer tourism season, but the latest data point to more sluggish growth. Businesses are expanding their investment only slowly, while housing investment continues to fall. Exports have weakened, especially for goods.

Although incomes rose in the second quarter, households consumed less, contrary to expectations. The saving rate stood at 15.7 per cent in the second quarter, well above the pre-pandemic average of 12.9 per cent. At the same time, recent survey evidence points to a gradual recovery in household spending.

The labour market remains resilient. The unemployment rate stayed at its historical low of 6.4 per cent in August. However, surveys point to slowing employment growth and a further moderation in the demand for labour.

We expect the economy to strengthen over time, as rising real incomes allow households to consume more. The gradually fading effects of restrictive monetary policy should support consumption and investment. Exports should contribute to the recovery as global demand rises.

Fiscal and structural policies should be aimed at making the economy more productive, competitive and resilient. That would help to raise potential growth and reduce price pressures in the medium term. To this end, it is crucial to swiftly follow up, with concrete and ambitious structural policies, on Mario Draghi's proposals for enhancing European competitiveness and Enrico Letta’s proposals for empowering the Single Market. Implementing the EU’s revised economic governance framework fully, transparently and without delay will help governments bring down budget deficits and debt ratios on a

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sustained basis. Governments should now make a strong start in this direction in their medium-term plans for fiscal and structural policies.

Inflation

Annual inflation fell further to 1.7 per cent in September, its lowest level since April 2021. Energy prices dropped sharply, at an annual rate of -6.1 per cent. Food price inflation went up slightly, to 2.4 per cent. Goods inflation remained subdued, at 0.4 per cent, while services inflation edged down to 3.9 per cent.

Most measures of underlying inflation either declined or were unchanged. Domestic inflation is still elevated, as wage pressures in the euro area remain strong. Negotiated wage growth will remain high and volatile for the rest of the year, given the significant role of one-off payments and the staggered nature of wage adjustments.

Inflation is expected to rise in the coming months, partly because previous sharp falls in energy prices will drop out of the annual rates. Inflation should then decline to target in the course of next year. The disinflation process should be supported by easing labour cost pressures and the past monetary policy tightening gradually feeding through to consumer prices. Most measures of longer-term inflation expectations stand at around 2 per cent.

Risk assessment

The risks to economic growth remain tilted to the downside. Lower confidence could prevent consumption and investment from recovering as fast as expected. This could be amplified by sources of geopolitical risk, such as Russia’s unjustified war against Ukraine and the tragic conflict in the Middle East, which could also disrupt energy supplies and global trade. Lower demand for euro area exports due, for instance, to a weaker world economy or an escalation in trade tensions between major economies would further weigh on euro area growth. Growth could also be lower if the lagged effects of monetary policy tightening turn out stronger than expected. Growth could be higher if the world economy grows more strongly than expected or if easier financing conditions and declining inflation lead to a faster rebound in consumption and investment.

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Inflation could turn out higher than anticipated if wages or profits increase by more than expected. Upside risks to inflation also stem from the heightened geopolitical tensions, which could push energy prices and freight costs higher in the near term and disrupt global trade. Moreover, extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices. By contrast, inflation may surprise on the downside if low confidence and concerns about geopolitical events prevent consumption and investment from recovering as fast as expected, monetary policy dampens demand more than expected, or if the economic environment in the rest of the world worsens unexpectedly.

Financial and monetary conditions

Shorter-term market interest rates have declined since our September meeting, owing mainly to weaker news on the euro area economy and the further fall in inflation. While financing conditions remain restrictive, the average interest rates on new loans to firms and on new mortgages were down slightly in August, to 5.0 per cent and 3.7 per cent respectively.

Credit standards for business loans were unchanged in the third quarter, as reported in our latest bank lending survey, after more than two years of progressive tightening. Moreover, demand for loans by firms rose for the first time in two years. Overall lending to firms continues to be subdued, growing at an annual rate of 0.8 per cent in August.

Credit standards for mortgages eased for the third quarter in a row, owing especially to greater competition among banks. Lower interest rates and better housing market prospects led to a strong increase in the demand for mortgages. In line with this, mortgage lending picked up slightly, growing at an annual rate of 0.6 per cent.

Conclusion

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. We are determined to ensure that inflation returns to our two per cent medium-term target in a timely manner. We will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim. We will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration

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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. We are not pre-committing to a particular rate path.

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.

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