MONETARY POLICY STATEMENT

PRESS CONFERENCE

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

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 disinflation process is well on track. Inflation has continued to develop broadly as staff expected, and the latest projections closely align with the previous inflation outlook. Staff now see headline inflation averaging 2.3 per cent in 2025, 1.9 per cent in 2026 and 2.0 per cent in 2027. The upward revision in headline inflation for 2025 reflects stronger energy price dynamics. For inflation excluding energy and food, staff project an average of 2.2 per cent in 2025, 2.0 per cent in 2026 and 1.9 per cent in 2027.

Most measures of underlying inflation suggest that inflation will settle at around our two per cent medium-term target on a sustained basis. Domestic inflation remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay. But wage growth is moderating as expected, and profits are partially buffering the impact on inflation.

Our monetary policy is becoming meaningfully less restrictive, as our interest rate cuts are making new borrowing less expensive for firms and households and loan growth is picking up. At the same time, a headwind to the easing of financing conditions comes from past interest rate hikes still transmitting to the stock of credit, and lending remains subdued overall. The economy faces continued challenges and staff have again marked down their growth projections – to 0.9 per cent for 2025, 1.2 per cent for 2026 and 1.3 per cent for 2027. The downward revisions for 2025 and 2026 reflect lower exports and ongoing weakness in investment, in part originating from high trade policy uncertainty as well as broader policy uncertainty. Rising real incomes and the gradually fading effects of our past rate hikes remain the key drivers underpinning the expected pick-up in demand over time.

We are determined to ensure that inflation stabilises sustainably at our two per cent 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. 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.

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 euro area economy likely grew modestly in the fourth quarter of 2024. The first two months of 2025 saw a continuation of many of last year's patterns. Manufacturing is still a drag on growth even if survey indicators are improving. High uncertainty, both at home and abroad, is holding back investment and competitiveness challenges are weighing on exports. At the same time, services are resilient. Moreover, rising household incomes and the robust labour market are supporting a gradual pick-up in consumption, although consumer confidence is still fragile and saving rates are high.

The unemployment rate stayed at its historical low of 6.2 per cent in January, and employment is estimated to have grown by 0.1 per cent in the last quarter of 2024. However, demand for labour has moderated, and recent survey data suggest that employment growth was subdued in the first two months of 2025.

Uncertainty has increased and is likely to weigh on investment and exports by more than previously expected. But growth should be supported by higher incomes and lower borrowing costs. According to the staff projections, exports should also be supported by rising global demand so long as trade tensions do not escalate further.

Fiscal and structural policies should make the economy more productive, competitive and resilient. The European Commission's Competitiveness Compass provides a concrete roadmap for action and its proposals should be swiftly adopted. Governments should ensure sustainable public finances in line with the EU's economic governance framework and prioritise essential growth-enhancing structural reforms and strategic investment.

Inflation

Annual inflation stood at 2.4 per cent in February, after 2.5 per cent in January and 2.4 per cent in December, according to Eurostat's flash estimate. Energy price inflation slowed to 0.2 per cent, following a strong increase to 1.9 per cent in January, from 0.1 per cent in December. By contrast, food price inflation rose to 2.7 per cent, from 2.3 per cent in January and 2.6 per cent in December. Goods inflation ticked up to 0.6 per cent, while services inflation eased to 3.7 per cent, from 3.9 per cent in January and 4.0 per cent in December.

Most indicators of underlying inflation are pointing to a sustained return of inflation to our two per cent medium-term target. Domestic inflation, which closely tracks services inflation, declined in January. But it remains high, as wages and some services prices are still adjusting to the past inflation surge with a substantial delay. At the same time, recent wage negotiations point to a continued moderation in labour cost pressures.

The assumption of higher energy price inflation led staff to revise up the headline inflation projection for 2025. At the same time, staff expect core inflation to continue slowing, as labour cost pressures ease further and the past monetary policy tightening continues to weigh on prices. Most measures of longer-term inflation expectations continue to stand at around 2 per cent. All of these factors will support the sustainable return of inflation to our target.

Risk assessment

The risks to economic growth remain tilted to the downside. An escalation in trade tensions would lower euro area growth by dampening exports and weakening the global economy. Ongoing uncertainty about global trade policies could drag investment down. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, remain a major source of uncertainty as well. Growth could be lower if the lagged effects of monetary policy tightening last longer than expected. At the same time, growth could be higher if easier financing conditions and falling inflation allow domestic consumption and investment to rebound faster. An increase in defence and infrastructure spending could also add to growth.

Increasing friction in global trade is adding more uncertainty to the outlook for euro area inflation. A general escalation in trade tensions could see the euro depreciate and import costs rise, which would put upward pressure on inflation. At the same time, lower demand for euro area exports as a result of higher tariffs and a re-routing of exports into the euro area from countries with overcapacity would put downward pressure on inflation. Geopolitical tensions create two-sided inflation risks as regards energy markets, consumer confidence and business investment. Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected. Inflation could turn out higher if wages or profits increase by more than expected. A boost in defence and infrastructure spending could also raise inflation through its effect on aggregate demand. But inflation might surprise on the downside if monetary policy dampens demand by more than expected.

Financial and monetary conditions

Market interest rates in the euro area decreased after our January meeting but have risen over recent days in response to a revised outlook for fiscal policy. Our interest rate cuts are gradually making it less expensive for firms and households to borrow and loan growth is picking up. At the same time, a headwind to the easing of financing conditions comes from past interest rate hikes still transmitting to the stock of credit, and lending remains subdued overall.

The average interest rate on new loans to firms declined to 4.2 per cent in January, from 4.4 per cent in December. By contrast, firms' cost of issuing market-based debt rose to 3.7 per cent, 0.2 percentage points above its December level. Over the same period, the average interest rate on new mortgages declined to 3.3 per cent, from 3.4 per cent.

Growth in bank lending to firms rose to 2.0 per cent in January, up from 1.7 per cent in December, on the back of a moderate monthly flow of new loans. Growth in debt securities issued by firms rose to 3.4 per cent in annual terms. Mortgage lending continued to rise gradually but remained muted overall, with an annual growth rate of 1.3 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 stabilises sustainably at our two per cent 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. 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 stabilises sustainably at 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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My first question is on the way forward. So you say that your monetary policy is becoming meaningfully less restrictive. Does it mean you could slow the pace of rate cuts now and perhaps pause in April? Did you discuss such a scenario at your meeting today?

And the second question, perhaps related to that, is on fiscal policy. There's a pretty drastic shift on the way with plans for much higher defence spending, and in Germany's case also infrastructure. There's been a significant market reaction as well. Could you elaborate on how the Governing Council expects this to change the economic outlook and monetary policy?

In your first question, you very well noted that we have changed the wording of the fourth paragraph of our monetary policy statement. So let me try to explain what it means because it's not just an innocuous little change, it's a change that has a certain meaning. What we had previously was that we would keep our restrictive monetary policy as long as was necessary. And that was very much a static assessment of what was needed. We are now moving -- by having “our monetary policy is becoming meaningfully less restrictive” -- to a more evolutionary approach. So in other words, we take account of the journey that we have travelled – 150 basis points since we started cutting – and we acknowledge the fact that, as a result, it is becoming meaningfully less restrictive. We add to that, in the same paragraph, the two forces that we are seeing operating on our financing conditions. I used a comparison a few weeks ago, when we were at the G20 in South Africa, of the Cape of Good Hope, where you have warm water from the Indian Ocean and the cold water from the Atlantic – and this is really where the position is at the moment, where we have the impact of the current monetary policy decisions that we take, and have been taking, which is to cut rates. But at the same time, we still have the cold water of the Atlantic, meaning the remaining effects of decisions that we have taken over the course of time. And that's really where we are at the moment, and that has led us to acknowledge the fact that our monetary policy is becoming meaningfully less restrictive.

So you asked me the second question, which has to do with the most recent development. And I have to say that we have not been spared recent developments in the last few hours and and days. And the one that you're referring to is the announcement by the European Commission, on the one hand, of this 800 billion comprising the 150 borrowing facility and the 650 space within which member states