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 keep the three key ECB interest rates unchanged. The incoming information has broadly confirmed our previous assessment of the medium-term inflation outlook. Aside from an energy-related upward base effect on headline inflation, the declining trend in underlying inflation has continued, and our past interest rate increases keep being transmitted forcefully into financing conditions. Tight financing conditions are dampening demand, and this is helping to push down inflation.

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 euro area economy is likely to have stagnated in the final quarter of 2023. The incoming data continue to signal weakness in the near term. However, some forward-looking survey indicators point to a pick-up in growth further ahead.

The labour market has remained robust. The unemployment rate, at 6.4 per cent in November, has fallen back to its lowest level since the start of the euro and more workers have entered the labour force. At the same time, demand for labour is slowing, with fewer vacancies being advertised.

Governments should continue to roll back energy-related support measures to avoid driving up medium-term inflationary pressures. Fiscal and structural policies should be designed to make our economy more productive and competitive, as well as to gradually bring down high public debt ratios.

Structural reforms and investments to enhance the euro area's supply capacity – which would be supported by the full implementation of the Next Generation EU programme – can help reduce price pressures in the medium term, while supporting the green and digital transitions. Following the recent ECOFIN Council agreement on the reform of the EU's economic governance framework, the legislative process should be concluded swiftly so that the new rules can be implemented without delay. Moreover, it is imperative that progress towards Capital Markets Union and the completion of Banking Union be accelerated.

Inflation

Inflation rose to 2.9 per cent in December as some of the past fiscal measures to cushion the impact of high energy prices dropped out of the annual inflation rate, although the rebound was weaker than expected. Aside from this base effect, the overall trend of declining inflation continued. Food price inflation dropped to 6.1 per cent in December. Inflation excluding energy and food also declined again, to 3.4 per cent, due to a fall in goods inflation to 2.5 per cent. Services inflation was stable at 4.0 per cent.

Inflation is expected to ease further over the course of this year as the effects of past energy shocks, supply bottlenecks and the post-pandemic reopening of the economy fade, and tighter monetary policy continues to weigh on demand.

Almost all measures of underlying inflation declined further in December. The elevated rate of wage increases and falling labour productivity are keeping domestic price pressures high, although these too have started to ease. At the same time, lower unit profits have started to moderate the inflationary effect of rising unit labour costs. Measures of shorter-term inflation expectations have come down markedly, while those of longer-term inflation expectations mostly stand 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 key 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 rising real incomes mean 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 hamper 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 by more than expected, or if the economic environment in the rest of the world worsens unexpectedly. Moreover, inflation could decline more quickly in the near term if energy prices evolve in line with the recent downward shift in market expectations of the future path for oil and gas prices.

Financial and monetary conditions

Market interest rates have moved broadly sideways since our last meeting. Our restrictive monetary policy continues to transmit strongly into broader financing conditions. Lending rates on business loans declined slightly, to 5.2 per cent in November, while mortgage rates increased further to 4.0 per cent.

High borrowing rates, with the associated cutbacks in investment plans and house purchases, led to a further drop in credit demand in the fourth quarter, as reported in our latest bank lending survey. While the tightening of credit standards for loans to firms and households moderated, they remained tight, with banks concerned about the risks faced by their customers.

Against this background, credit dynamics have improved somewhat but overall remain weak. Loans to firms stagnated in November compared with a year earlier – after contracting in October – as the monthly flow of short-term loans rebounded. Loans to households grew at a subdued annual rate of 0.5 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.

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Last week in Davos, you said that you consider it likely that interest rates will be cut in the summer, after some of your colleagues already had given similar guidance. Did you discuss the possible timing of an interest rate cut at today’s meeting, also in light of the weak economic data we got from Germany this morning? And if not, if you didn’t discuss it, would you stand by your remark from Davos? Is it likely that we will get a cut in summer? And does that mean that, at least from your point of view, March and April are off the table? And the second question is on geopolitical risks and in particular the Red Sea shipping turmoil. You recently mentioned a possible comeback of supply bottlenecks as a key risk factor for inflation. You also mentioned it today, and your colleague Robert Holzmann even warned that rate cuts in 2024 can’t be taken for granted because of these risks. Given the most recent developments and the ongoing tensions in the region, has the Governing Council become even more concerned about it? And how would you react if risks materialise, for example if inflation picks up again due to higher shipping costs or new supply chain disruptions?

First of all, the consensus around the table of the Governing Council was that it was premature to discuss rate cuts. In addition to that, I typically stand by my comments. So the comments I made to your television channel, Bloomberg, I certainly stand by them. I'm not sure that I would exactly characterise them as you have, but I stand by what I have said, not what others have commented that I have said. One other thing which was very much the consensus around the table was that we had to continue to be data-dependent. So rather than being fixated on any kind of particular calendar, which would be being date-dependent, we reaffirmed our data dependency. And I have flagged in the course of the monetary policy statement some of the areas that we will be particularly attentive to in the course of the next few months.

You specifically addressed the issue of the supply bottlenecks. I would be maybe a bit cautious about the use of supply bottlenecks because it was very much associated with the consequences of COVID and the multifaceted bottlenecks that we observed both in shipping, in port handling, in dispatching of containers, which was really a very sizeable disruption in the whole logistics chain. But we are observing very carefully because we are seeing what you are all observing, which is that shipping costs are increasing, delivery delays are increasing and, while we all know that there is more shipping capacity than there was in 2020 and 2021, we also know that costs and fees are increasing. Now, I think most observers agree to say that it has a moderate impact. The percentage of the water transport costs is a little north of 1.5% of total input costs. But we are being very careful and looking attentively to the developments, and it's pretty clear. I think whether you look at the IMF, the OECD, or other commentators, if the conflict in that region was to develop further, clearly that would be an additional risk, whether it's a question of the disruption of shipping that we alluded to or the price of energy and commodities at large.

I have a question because you are always referring to wage data. There's loads of wage data around. What are you actually really looking at, and is there a cut-off point in the coming year? Because clearly, we can look at wage data throughout the year. And then I would like to again bring you back to that "before summer" decision. June is a good time, isn't it? Because you have a new round of staff projections. So in case the inflation outlook would materialise to be lower than we have it now, would that give you more ground to actually cut rates?

Thank you for your question on wages because, as you have noted, it is an item that we're going to look at and that we have looked at very carefully, as we are also looking very carefully at profit unit and the link between labour unit and profit unit, which was one of the key assumptions we had under our baseline. I'll remind you that the baseline we had was that wage increases would gradually over the course of time be absorbed by a gradual reduction of profit unit, and that's exactly what we are seeing. It's often said that wage indicators are backward-looking, and yes there is a whole battery of backward-looking indicators. For instance, the latest – I think it's the compensation per employee data – that is available dates back to October. So what we have in addition to that is indices that we have built over the course of time, one of which actually originates from Ireland. Our chief economist, Philip Lane, was at the origin of that one, which is the wage tracker. This receives almost live any change to negotiated agreements in particular, and we receive that on a constant basis.

The other indicator, which also is important not so much in relation to wages but in relation to the tightness of the labour market, is Indeed, which gathers all the vacancies advertised, particularly on the internet. That informs about the tension of the labour market and of course is telling us a little bit where we are heading in terms of that tightness, which itself results in a position of strength in the negotiation for one party or the other. We are seeing those indicators at a high level. What we are also seeing on the wage tracker is stabilisation, which explains the comments included in the monetary policy statement. And in Indeed we are seeing also a slight reduction of the volume of vacancies that are advertised. Now, we take all these data at face value, and we try to constantly corroborate them. We do that with the national central banks, observers, and economists to make sure that we really canvas the 20 Member States as accurately as possible. It's not elusive because really, we're trying to pin it down, but it requires that we look at it from multiple angles to make sure that we are as accurate and as up to date as we can be. Being forward-looking is not an easy one for wages. But just to give you an idea, I think it's 40% of the employees covered by our wage tracker which have had their employment contract renewed without new terms of salary levels in December. So the 40% include those whose terms and conditions have expired and must be renewed at the end of December and those for which the same will happen in the first three months of 2024. So you have 40% of the workforce of whom salaries, wages, one-off payments are yet to be determined and will be tracked by our wage tracker. This information will come in the course of the next few months, which will be of course really rich in information to help us better understand exactly where we are on wages.

As I said, we are data-dependent, and we make decisions one meeting at a time. What we have done in the course of this meeting today is that we have confirmed our inflation outlook and we consider that the information that we have received in the last few weeks since our December meeting showed that the medium-term inflation outlook is broadly following the path that we had projected in December. That's point number one. Point number two, we look also very carefully at data concerning underlying inflation and here we are seeing a decline across the board of pretty much all our indicators. We also look carefully at inflation expectations. Those were a few weeks which were rich in information, where we have seen that both the market-based and the survey-based inflation expectations are also, both in the short term and for some of them also for the medium term, really coming in at around our 2% target. And of course, we look at the latest inflation numbers, and you will have seen all of you that the December number was 0.5pp north of the November number, which was this 2.4. But we had expected that upside, which was caused by base effects largely attributable to German measures. It was weaker than we had anticipated but it was totally predicted, and it does not detract from the view that we have that the disinflation process is at work. And – I should have mentioned that because I mentioned the inflation outlook and the underlying inflation – of course we look very carefully at the strength of monetary policy transmission. And here again we had some good data and information, notably from the bank lending survey.

You're data-dependent to this data on wages that won't be published before late spring. Don't you think this could lead to cut too late, if not before June? Could you explain more about the word "premature" when you speak about rate cuts? Does that mean that the Council has spoken about cuts?

I'm not going to elaborate much further on that. All I can say is that the consensus around the table of the Governing Council this morning was that it was premature to discuss rate cuts. It's as simple as that. You had another point on wages and the publication of wage numbers. We will have a lot of information coming in the next few months. So we will have our projections in March. That’s a big set of information that will clearly inform on the inflation outlook and which will lead us to assess whether we are on path. We will receive two monthly inflation data for January and February before our March meeting. And then we will continue to receive additional data and, you’re right, some of those wage data will come in later. But we look at a whole range of data. We’re not only focused on wages. We are clearly interested in wages because it’s a significant component of services, and services is that section in the breaking down of inflation which is still quite resistant and stayed at 4% from December to November. It’s the only item that has actually stayed at the same level.

Firstly, just to go back to wage growth and what you’re looking at, is it fair to assume that the focus on wages means that you need to see wage growth falling before you’re prepared to cut rates? Or do you just need to see it stabilising? What is it you want to see from this wage data that you’re waiting for? And the second one is a bit of a longer-term question. Where do you see the neutral rate? And do you think that the neutral rate has been pushed up by the crises that we’ve seen over the last few years, is it unchanged or has it actually come down? What’s your view on that?

On wage growth, I think whether you look at past wage numbers, whether you dissect that in compensation per employee, in negotiated wages, taking on or excluding the one-off payments, we are seeing a slight decline. So it’s directionally good from our perspective. To your question about should it stabilise or should it decline, it’s already declining. Clearly, our hope is that the wage increases – because we are still seeing an increase, whether you look at 5.2% or 3.4% depending on what measurement item you take – are sufficiently absorbed by the profit unit, as we are seeing happening at the moment. So that it does not go into fuelling inflation, which would create the risk of a second-round effect, which we are not seeing for the moment. So the hypothesis that we had when we built the baseline of December, which was that the profit unit would eventually come down as a result of dampened demand as a result of our monetary policy stance, is actually happening, and there is a phenomenon of catching up for employees. It’s also one of the reasons why we see growth coming up and the recovery beginning in the course of 2024; because of rising wages while inflation comes down, which will free up some purchasing power, which hopefully will stimulate consumption.

On your second question, I’m not going to answer it because the real answer is that I’m not so sure, and it’s the honest answer to you. I could play a game of telling you that maybe it’s a little higher, but we’re not going to know until we get to that point of the neutral interest rate. And as policymakers, I think it’s our responsibility not to predicate, not to anticipate, but to make the right policy decisions in due course to make sure that we reach our medium-term target of 2%.

Given that markets expectations are still optimistic, of course the ECB is data-dependent, but would you say that the case for a rate cut in April is unlikely? And the second question refers to growth again. You said that there are more downside risks and if it's true that the path of disinflation is following your December projections, is it true also for growth?

We are in January and the first quarter of 2024 is going to end in March. So I think it is totally premature to anticipate what exactly will be the growth projections at our next meeting in March. We will come to that projection when we produce our projections in March. On your other question, I think in terms of an overall evaluation of our policy trajectory, which many of you are after, we need to be further along in the disinflation process before we can be sufficiently confident that inflation will actually hit the target in a timely manner and in a sustainable way at target. So, it's a disinflation process in which we are. It is working but we need to be more advanced and we need to be further along in that process to be confident that inflation will be at target sustainably so. I'm giving you a little indication about what I call the trajectory, but it's not forward guidance. It's trying to give you the mechanics that we will apply in our considerations when we look at data in the next few weeks.

Why did you take out a reference to sustained domestic price pressures from the opening statement and also a reference to unit labour costs? And the second question is about a survey the staff union published earlier this week which showed that some staff are unhappy with you as a leader. So what do you plan to do to win them back?

On the issue of omission here or there, I think you should not be overly focused on what is deleted, what stays in. There are some segments in the monetary policy statements that we are very keen to keep because they indicate the principles on which we lay our monetary policy stance and that are the backbone of our discussions. But a word here or a word there, I would not give it too much weight as such. You may have noticed that we are trying to be a little more simple in our expression, to use fewer words, to be more normal, in a way. And that sometimes implies that we change a sentence, the order of a paragraph versus another one. So don't pay too much attention to the deletion of one word or the other. On the other hand, when you see sentences or block of key points that are repeated on a regular basis, that means something. At the ECB, we have many surveys and we actually conduct surveys in a very technically-proof way that we can trust. And in the surveys that the ECB conducts, we typically ask staff whether they are happy to work at the ECB. Those surveys are responded to at a rate of about 60%, north of 60%. To that question, are you happy to work at the ECB? The overwhelming majority, namely 80%, say yes, I'm happy to work at the ECB. The second question that we ask also is would you recommend to a friend to work at the ECB? The answer is an overwhelming majority again, north of 75%.

And a question that is often asked as well, is do you feel a mission associated to your work? More than 90% of staff says yes. Now we ask lots of other questions about satisfaction, dissatisfaction, compensation, dignity at work and all the rest of it. And we pay great attention to these technically sound responses and we act upon them. And we will continue to do so. Now, what keeps me going is those answers and I'm extremely proud of the staff of the ECB, and I'm very proud and honoured to lead the institution, because we are driven by a mission, delivering price stability but serving the Europeans. And we will continue doing that. That's my response to your question. Those are the surveys that I'm particularly attentive to and keen to constantly improve.

The first question is on the divergence of inflation rates. Now it's been there for a while, but now in some countries, inflation rates have fallen well below 2%, while other Member States have a way to go with regard to inflation rates to bring it down to 2%. So how big of a burden is that in terms of transmission of monetary policy as well as regarding discussions in the Governing Council on the timing of rate cuts? And my second question is on spreads. Spreads of sovereign bonds have narrowed in recent times. Is that good news? Are you pleased to see that or are you worried that markets have gotten ahead of themselves in that regard as well, assuming lower rates going forward?

You know it's inherent to the euro area that we have heterogeneity, that we have divergences, and it does not escape any topic or any field that there is heterogeneity and differences and divergences. It's also the case for inflation, clearly. It is the case for the type of lending terms that are offered to Europeans, whether you have a loan in Portugal or Spain or whether you have a loan in France. When you're a household, you're going to have different terms applying to you. And that's what we have inherited from the euro area. It's what it is. And I can assure you that around the table, all governors come both in their respective category, having in mind their country, but also having in mind the whole euro area and determining the policy for the whole euro area. So we look at that carefully. But there are lots of explanations as to why, for instance, inflation was much higher in the Baltic states than it was in France, for example. But we obviously have to decide for the whole of the euro area and the governors are riveted to that as their area of competence as far as they are concerned.
Spreads is one indication of transmission. And of course, we look at those carefully, but I'm not going to pass any other judgement in that respect.

Can you give us any updates on the state of the monetary framework revision and how important will it be for the future decisions that the ECB will have to make along the year? And the second question if I may. Now that the Fed is letting its emergency liquidity lines for banks expire, do you fear that given the tight financial conditions we could see again some of the tensions on the financial system that we saw last year?

Thank you very much for asking for the update on the operational framework. So what I can tell you is that work is advancing at a very fast pace. Many of our teams are working very hard. It’s a technical, difficult issue which has many ramifications and of course there are different options. I think we are narrowing down to what will be optimal from the perspective of our market, which, as we just discussed, has heterogeneity and large differences between the Member States. We will most likely, you know I have to take some precautions because work is underway, but we'll most likely be done by the end of spring. That's my guestimate. Will it matter significantly for the short term? Not necessarily, because we start from a balance sheet size, which will not require that the operational framework principles that we will decide collectively at the Governing Council level will have an impact in the very short term.

And on emergency lines and the risk that we see – you are talking about the US market here. I wouldn't want to pass judgement and I have full trust in my colleagues at the Fed and at the SEC and otherwise to actually supervise very carefully what is going on at the regional banks’ levels. But I'm not passing judgement on that.

The first question that I want to ask is that given the latest PMI and the tensions in the Red Sea, where do you think that growth stood in the fourth quarter of 2023? Do you still stand by your forecast that you made in December that the euro zone will avoid a recession? And the second question is again about the staff survey mentioned before. There was some direct criticism at you. And I wanted to ask, do you think it's fair and how do you plan to address this criticism in the next years that you will still be ECB President?

I don't know exactly what PMI numbers you're referring to because the most recent PMI numbers are actually a little indication that things are coming in place for recovery in 2024. So if you have other PMI numbers that I'm not aware of, then let me know. But you know, when I look at the composite PMI output, it's higher than it was the month before. If I look at PMI future output, it's north of 50. So maybe you have better information. Politico is usually very, very insightful in all sorts of things. But for us, these PMI numbers are a small signal that, having stabilised or stabilising, we have the conditions for recovery that are coming into place. I'm not suggesting that it's going to pick up radically, but it's coming into place from what we see. I think I said that at the opening of the Monetary Policy Statement. But we recognise the weakness of growth, and that weakness obviously applies to Q4. Now you know there are multiple ways to define what is a recession. The technical terminology of two quarters in a row that are negative is one way to look at it. I remember discussing that with my colleague and friend Janet Yellen, where the US had two quarters in a row that were negative. And when I said, well Janet, you must be in a recession and she said, “what with those employment numbers, forget it, we are not in recession.” So I think we have to be attentive to all sorts of data signals and understanding of the economy.

On your second question. As far as I'm concerned, I am irrelevant as long as I deliver on leading this institution of talented people. Not just economists, but talented people who are driven to do their job and to deliver. The rest – me as a person – irrelevant.

You just addressed partially this question, but Italian minister Giorgetti declared a few days ago that monetary policy may be bringing about a recession in the euro area. I was wondering whether you have any comments, not so much on what Giorgetti said, but on this kind of concerns that one can hear here and there? And the other question is on wage settlement. From what you said, I understand that probably the ECB wants to see wage settlements data that have to do with the first quarter, which probably you will receive from Eurostat at the end of April. Am I wrong on this?

On your first question. I would simply repeat what I have said. So I partially responded to your question. We are looking at all data, not just wages. And in terms of activity, what we are seeing is hard data that is weak. You know, you look at industrial production, it continued to decline. You look at retail sales, it remained weak. It didn't decline further, but it remained weak. If we try to look at PMI numbers in particular, as I just said, we are seeing some encouraging numbers, whether it indicates stabilisation or slight uptick. It’s a very early sign. People can challenge PMI numbers and they do, but at least we are seeing numbers that are either to the upside or are stable.

On your other question, as I said, we are looking at all sorts of data. We are looking at wages a lot for the reasons that I have explained, and because there is a catch-up process that is underway and that should run its course this year, probably next year. But we're looking at lots of other things. So I would not draw any conclusion from a date of publication. You have to appreciate that yes, we are data-dependent, but we look at multiple data, wages being a key one of course, profit unit being extremely important as well. Energy prices will continue to matter enormously. They've been taking us up and down and they are volatile and moving almost as we speak at the moment, given the geopolitical developments that we see. We will be looking at fiscal very carefully. There are commitments on the part of Member States’ governments that they will be withdrawing the energy support. We will be very attentive to that, and we will see how much fiscal consolidation there is relative to the budgets that have been submitted. So it's all this data that we will be looking at and you are correct about the date of publication.

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