

## SPEECH

# Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

## Speech by Christine Lagarde, President of the ECB, at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

*Brussels, 15 February 2024*

Today's hearing is our last before the end of this legislative term.

Let me therefore start by thanking you all sincerely for the constructive dialogue we have had over the past years.

This legislative term has been shaped by crises – from the COVID-19 pandemic to Russia's invasion of Ukraine, the energy crisis and renewed conflict in the Middle East. These challenges have required EU institutions, within our respective mandates, to take decisive action and to coordinate closely across policy areas to ensure that Europe emerges stronger and better prepared for the future.

Importantly, our two institutions have also used the past term to deepen our accountability relationship, which is essential for the ECB's democratic legitimacy.

In my remarks today, I will first update you on our latest assessment of the economic outlook and the ECB's recent monetary policy decisions. I will then reflect upon the first 25 years of the euro, which you have selected as the topic for this hearing.

### Economic outlook

After expanding by 3.4% in 2022, euro area economic activity has been weak in 2023, with real GDP growth having stagnated in the final quarter. Weakness in activity is broad-based across sectors, extending from construction and manufacturing to services.

Incoming data continue to signal subdued activity in the near term. However, some forward-looking survey indicators point to a pick-up in the year ahead.

According to the latest flash estimate, inflation edged down to 2.8% in January 2024 after increasing by a half percentage point in December. The rebound in December had been widely expected but was weaker than anticipated. The increase reflected base effects in the energy component due to one-off gas price support measures in Germany and a sizeable drop in fuel prices in December 2022. Food inflation eased further to 5.7% in January due to a lower inflation rate for processed food, while energy inflation stood at -6.3%.

Core inflation (excluding energy and food) is declining gradually but its services component has shown signs of persistence.

Wage growth continues to be strong and is expected to become an increasingly important driver of inflation dynamics in the coming quarters, reflecting tight labour markets and workers' demands for

inflation compensation.

The ECB's forward-looking wage tracker continues to signal strong wage pressures, but agreements indicate some levelling off in the last quarter of 2023. Wage pressures for 2024 hinge particularly on the outcome of ongoing or upcoming negotiation rounds that affect a large share of euro area employees. The contribution of unit profits to domestic price pressures continued to decline, suggesting that, as expected, wage increases are at least in part buffered by profit margins.

Overall, the latest data confirm the ongoing disinflation process and is expected to bring us gradually further down over 2024 as the impact of past upward shocks fades and tight financing conditions help to push down inflation.

## **The ECB's monetary policy**

At our January Governing Council meeting, we considered that the incoming information was broadly in line with our December assessment of the medium-term inflation outlook. We therefore decided to keep our key policy interest rates unchanged.

These interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to ensuring that inflation returns to our two per cent medium-term target in a timely manner. The current disinflationary process is expected to continue, but the Governing Council needs to be confident that it will lead us sustainably to our 2% target. We will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction, taking into account the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

## **25 years of the euro**

Let me now turn to the topic of this hearing – the euro at 25, the youngest of the international reserve currencies.

While still young, the euro has nonetheless matured and become an indispensable part of our daily lives.

Its journey from the dream of a few visionary founders to a currency used by 350 million people across 20 countries is testimony to the power and impact of the European project.

During its first decade, its childhood so to speak, the focus was on establishing the credibility of the ECB as a new central bank and of the euro as a new currency.

Its second decade, its youth, was characterised by the aftermath of the global financial crisis and the ensuing sovereign debt crisis, which led to concerted European efforts to strengthen the architecture of Economic and Monetary Union, including the creation of the Single Supervisory Mechanism.

The third decade, its early 20s, has been shaped by challenges posed by the pandemic, climate change, geopolitical tensions, and the need to avoid high inflation becoming entrenched. These shocks have highlighted the necessity for new European tools to accelerate the green and digital transitions and to enhance Europe's energy independence and overall resilience.

As a constant companion, the euro connects us all and offers three key benefits: simplicity, stability and sovereignty.

*Simplicity* because it can be used by consumers and firms throughout the euro area without having to exchange currency, making it easy to live, travel and do business there. This is also reflected in the widespread support for the euro, with 79% of euro area citizens in favour of the single currency.<sup>[1]</sup>

*Stability* because, despite recent fluctuations and price shocks, inflation in the euro area has averaged 2.1% since 1999 and, more importantly, longer-term inflation expectations have remained broadly anchored around the ECB's target. This is a testimony to the ECB's credibility.

*Sovereignty* because the euro is the second most important global currency. It is used in international transactions and therefore protects euro area consumers and firms from currency fluctuations in an increasingly turbulent world.

The euro has delivered in all these areas and repeatedly demonstrated its resilience and reliability in the face of significant challenges.

This Parliament has played a pivotal role in strengthening the euro's foundations over the years, not least during this last legislative term. Your work to set up Next Generation EU, reform the economic governance framework, deepen the capital markets union and the banking union, design the legal framework for a digital euro and address climate change has laid the foundations that will ensure that the euro is fit for the future.

The ECB has also played its part and demonstrated its commitment to deliver on its mandate in a constantly changing environment.

As a reminder, let me highlight three ways we have done so in recent years.

First, we have remained unwavering in our commitment to our primary mandate of price stability, responding forcefully to the surge in inflation following Russia's invasion of Ukraine and the subsequent energy crisis.

Second, we have taken steps to incorporate climate change considerations into our monetary policy operations and in so doing, play our part in contributing to meeting the objectives set out in the Paris Agreement, within our mandate. Our announcement in January reaffirmed and expanded our work on climate change and nature degradation in both our monetary policy and supervisory activities, placing a particular focus on the green transition, the physical impact of climate change, and the nature-related risks for the economy and the financial system.<sup>[2]</sup>

Third, we are making progress in developing a digital euro, which would strengthen our strategic autonomy and support our competitiveness in a digitalised world. You discussed this important topic with Mr Cipollone yesterday and I would like to thank you all for the close cooperation on this topic over the past few years.

As we look ahead to the next 25 years of the euro, I can assure you that the ECB will continue to engage closely with the European Parliament, respond to new challenges and constantly review its actions to ensure it can continue to deliver on its mandate.

## Conclusion

Let me now conclude.

The first 25 years of the euro have been a success, but our work is not done. Economic and Monetary Union is not an end point – each European generation must write its own chapter of the single currency's history.

With a new geopolitical landscape emerging, the reasons for strengthening our common currency are stronger than ever.

As Goethe once wrote "What is not started today is never finished tomorrow".

The upcoming European elections will be a chance to set out a new, ambitious agenda to further deepen our Economic and Monetary Union. It is essential that all policymakers grasp this opportunity to ensure that Europe can respond to the common challenges we are facing.

Thank you for your attention. I am now ready to take your questions.

## Annexes

15 February 2024

[Introductory statement in charts](#)



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1.

European Commission (2023), [Standard Eurobarometer 100 - Autumn 2023](#).

2.

ECB (2024), "[Climate and nature plan 2024-2025 at a glance](#)".

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