# 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, 4 December 2024*

I am pleased to return to this Committee to discuss the ECB's monetary policy at such a critical juncture for Europe.

We are witnessing a rapidly shifting geopolitical landscape, but also enduring major structural challenges to our economic model.

Europe's response must be swift. It should focus on spurring investment, fostering innovation and raising productivity. This will require bold policy action and, together with the new European Commission and the Council, this Parliament will have an important role to play.

In my remarks today, I will discuss an important element of this response – the new economic governance framework – which you have chosen as one of the topics of this hearing. But I would like to start by updating you on the ECB's assessment of the euro area economy and our monetary policy stance.

## The economic outlook and the ECB's monetary policy stance

The euro area saw moderate growth in the first half of this year, following five quarters of stagnation. Real GDP growth was largely driven by exports and government consumption. Domestic private demand remained weak amid high economic policy uncertainty and the effects of past monetary policy tightening. More recently, in the third quarter, real GDP rose by 0.4%, driven in part by temporary factors such as the Paris Olympics. However, survey-based data suggest that growth will be weaker in the short term, on the back of slowing growth in the services sector and a continued contraction in manufacturing. Further ahead, the euro area's economic recovery should start to gather some steam. Consumer spending is expected to pick up as real incomes rise, and investment is expected to recover as the impact of past monetary policy tightening fades.

The euro area labour market has so far proven resilient. The unemployment rate remained historically low at 6.3% in October, while employment expanded by 300,000 jobs in the third quarter. At the same time, surveys point to slowing employment growth and further moderation in the demand for labour.

The medium-term economic outlook is uncertain, however, and dominated by downside risks. Geopolitical risks are elevated, with growing threats to international trade. High degrees of trade openness and integration into global supply chains make the euro area vulnerable to foreign shocks, with potential trade barriers posing threats to manufacturing and investment.

Turning to inflation, headline inflation increased further to 2.3% in November from 2.0% in October, according to Eurostat's flash estimate. The increase in the last two months – following a deceleration in previous months – was driven mainly by a moderation in the fall in energy prices and an increase in food inflation.

Core inflation – excluding energy and food – remained unchanged at 2.7% in November and is expected to hover around current levels until early 2025. Services inflation remains the biggest contributor to inflation and stood at 3.9% in November, driven in part by recent high wage growth. Overall, growth in labour costs has been moderating in recent quarters – notwithstanding the volatility of negotiated wage growth over the summer – and is set to continue easing. Domestic inflationary pressures are also receding as profits have been buffering still elevated labour cost developments.

Looking ahead, inflation is expected to temporarily increase in the fourth quarter of this year, as previous sharp falls in energy prices drop out of the annual rates, before declining to target in the course of next year.

Let me now turn to our monetary policy stance.

In October the ECB lowered its key interest rates by 25 basis points, following the previous rate cuts in June and September. The information available at our October meeting confirmed that the disinflationary process was well on track. Our deposit facility rate, the rate through which we steer the monetary policy stance, now stands at 3.25%.

We will review our stance again next week, following our data-dependent and meeting-by-meeting approach. We are therefore not pre-committing to a particular rate path.

## The new economic governance framework

Let me turn now to the second topic you have chosen for our hearing today – the EU's new economic governance framework.

Fiscal policy is essential to address the multiple challenges Europe is currently facing, ranging from the green and digital transitions to economic security and defence. But for fiscal policy to be credible and powerful, it also needs to rest on strong foundations.

The EU's new economic governance framework strikes a balance between ensuring medium-term fiscal sustainability and fostering strategic investments and growth-enhancing reforms.

If implemented effectively, it will provide three major benefits.

First, it can help address the challenges related to elevated debt levels, which have partly arisen from policies designed to buffer the impact of recent crises across the economy. The framework focuses on debt sustainability, thereby also supporting monetary policy transmission.

Second, the framework strives to balance gradual and sustained fiscal consolidation with incentives for much-needed investment and structural reforms. It introduces the possibility of extending fiscal adjustment paths from four to seven years. Such extensions are contingent on growth-enhancing investments and reforms being implemented, which would in turn further strengthen debt sustainability by raising potential growth. Reducing high debt levels also increases the space for strategic investments at the national and European levels.

Third, the new framework can help to make the fiscal stance more countercyclical, smoothing out economic fluctuations and thereby supporting long-term growth in conditions of price stability.

Implementing the revised economic governance framework fully and transparently is thus key to safeguarding Member States' capacity to invest now and in the future.

The challenges we face also require us to rethink the EU's role in addressing strategic investment needs. As Enrico Letta and Mario Draghi observed in their reports, Europe is currently falling short of its potential.

A key idea running through the reports is that Europe is bigger than its constituent parts. Well-defined joint EU investments would boost potential growth and contribute to macroeconomic stability. They would allow us to harness economies of scale and address cross-border challenges, to the benefit of all Europeans, adding value beyond what national investments could achieve alone. They would also send a strong signal of unity to private investors within and outside the EU.

Such investments must be accompanied by coordinated and ambitious reform efforts. At the EU level, completing the capital markets union, which we discussed in my previous hearing before this committee, and deepening the Single Market are essential. Member States also play a crucial role in reducing obstacles to entrepreneurship, helping firms to innovate and grow and aiding the efficient allocation of capital and labour. Progress towards closer European integration paired with national reform efforts is essential for a more dynamic and competitive economy – one that supports citizens' standards of living and enables businesses to thrive.

## Conclusion

Let me now conclude.

Europe’s geopolitical and structural challenges require coordinated and determined action from policymakers. As the Greek storyteller Aesop wisely said, “In union there is strength”, and citizens’ trust in the European Union is at its highest level in over 15 years.[1] The Commission has set an ambitious policy agenda to tackle these challenges, which you have endorsed. It is now up to you to make it happen. The ECB will play its role in supporting Europe’s longer-term sustainable growth by fulfilling its mandate of price stability.

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

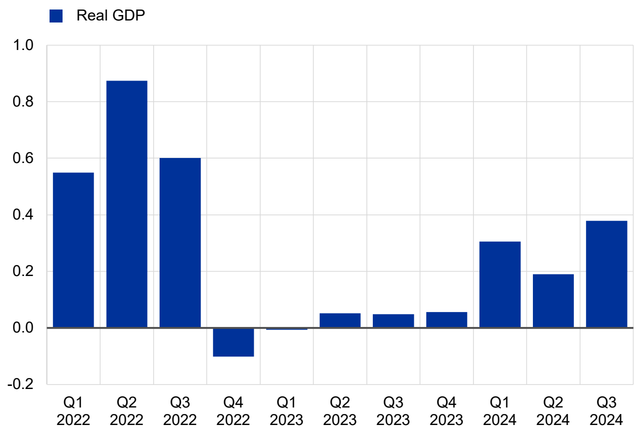
EUROPEAN CENTRAL BANK

# Introductory statement in three charts

ECON hearing with the ECB President on 4 December 2024

## Real GDP growth

(quarter-on-quarter percentage change)




Source: Eurostat.
Note: Flash estimate for the third quarter of 2024.

## Economic activity

**Real GDP grew in the first three quarters of 2024, following five quarters of stagnation.**

- Growth in the first half of 2024 was moderate, driven by exports and government consumption. Domestic private demand remained weak.
- Real GDP rose by 0.4% in the third quarter, driven in part by temporary factors such as the Paris Olympics.

**Survey data suggest that growth will be weaker in the short term. However, the economic recovery should gather some steam in the medium term.**

- Domestic demand should gradually recover as real incomes rise and the impact of past tightening fades.
- But there are large downside risks, including the high geopolitical and trade policy uncertainty.

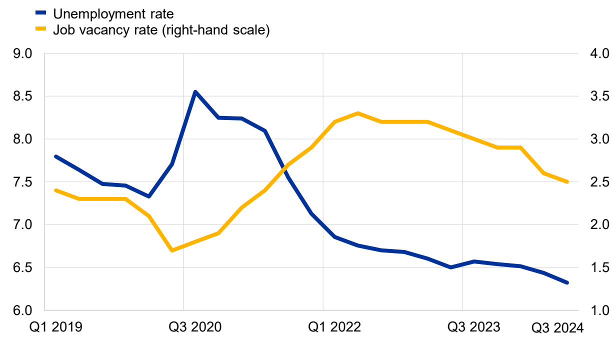
## Labour market

**The labour market has so far proven resilient, but there are increasing signs of softening labour demand.**

- Unemployment remained at historically low levels (6.3% in October, the same as in September).
- Employment continues to expand - by 300,000 additional jobs in the third quarter.
- A decline in the job vacancy rate to 2.5% in the third quarter indicates a softening in labour demand. Early indicators point to further softening in the fourth quarter.

## Unemployment and job vacancy rate

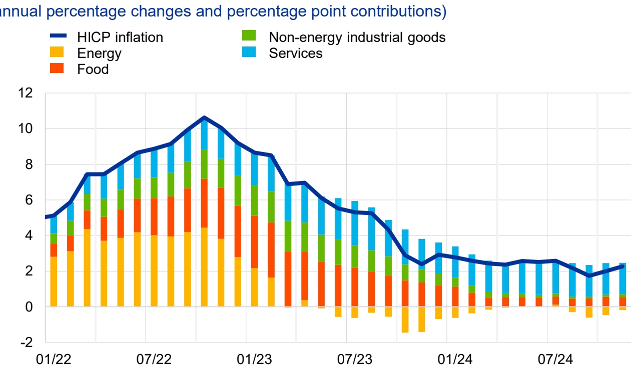
(left-hand scale: percentage of labour force; right-hand scale: percentage)




Source: Eurostat.

## Inflation

(annual percentage changes and percentage point contributions)




Sources: Eurostat.
Note: Flash estimate for November 2024.

## Inflation

**Euro area inflation is on a disinflationary path, with some expected volatility in recent months.**

- Inflation rose to 2.3% in November, up from 2.0% in October. The increase was mostly driven by an expected moderation in the fall in energy prices.
- Inflation excluding energy and food remained at 2.7% in November and is expected to hover around current levels until early 2025.
- After a temporary increase, inflation is expected to decline to our 2% target in the course of next year.

**WANT TO KNOW MORE?**

- Monetary policy statement, ECB press conference, 17 October 2024

# Topic 1: Monetary policy stance

**The ECB has been dialling back its restrictive monetary policy stance.**

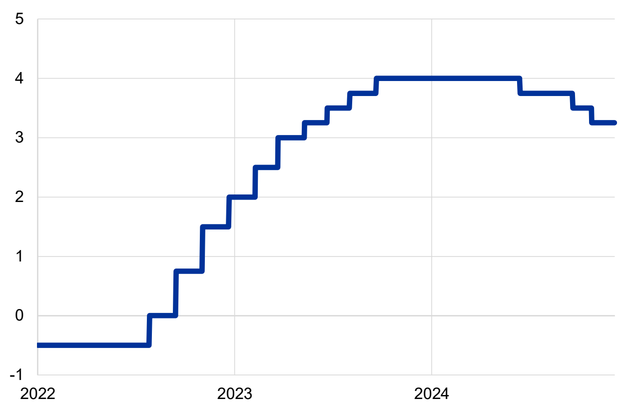
- The ECB steers the monetary policy stance through the deposit facility rate.
- At its most recent Governing Council meeting in October, the ECB lowered the deposit facility rate by another 25 basis points, to 3.25%, as new data available at the time confirmed that the disinflationary process was well on track.

**The Governing Council will review its stance at its monetary policy meeting on 12 December.**

- The Governing Council is not pre-committing to a particular rate path.

**Deposit facility rate**

(percentages)




Source: ECB.

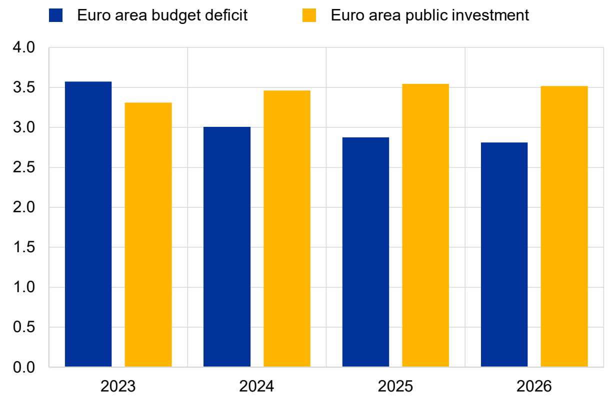
# Topic 2: Economic governance framework

**The new economic governance framework strikes a balance between ensuring debt sustainability and fostering strategic investments and growth-enhancing reforms.**

- Fiscal policy plays an important role in addressing Europe's substantial investment and reform needs.
- The new economic governance framework, which focuses on debt sustainability, should help expand the fiscal space for public investment and reforms by allowing Member States longer adjustment periods.
- Effective implementation can help to reduce debt, thereby further increasing the space for strategic investments at national and European level.
- Public investments should be flanked by economic, financial and structural reforms to ensure that Europe achieves its strategic objectives. Well-defined joint EU investments would allow harnessing economies of scale and addressing cross-border challenges.

**Budget deficits and public investment**

(percentage of GDP)




Source: ECB calculations based on European Commission 2024 Autumn Forecast (AF).
Notes: Projections of public deficit and public investment are based on 2024 AF.

**WANT TO KNOW MORE?**

- The path to the reformed EU fiscal framework: a monetary policy perspective, **Occasional Paper Series, No 349, ECB, May 2024**
- Mind the gap: Europe's strategic investment needs and how to support them, **The ECB Blog, 27 June 2024**