EUROPEAN CENTRAL BANK
EUROSYSTEM

Combined monetary policy decisions and statement

18 July 2024

Monetary policy decisions

The Governing Council today decided to keep the three key ECB interest rates unchanged. The incoming information broadly supports the Governing Council's previous assessment of the medium-term inflation outlook. While some measures of underlying inflation ticked up in May owing to one-off factors, most measures were either stable or edged down in June. In line with expectations, the inflationary impact of high wage growth has been buffered by profits. Monetary policy is keeping financing conditions restrictive. At the same time, domestic price pressures are still high, services inflation is elevated and headline inflation is likely to remain above the target well into next year.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim. The Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions will be based on its 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 Governing Council is not pre-committing to a particular rate path.

Key ECB interest rates

The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 4.25%, 4.50% and 3.75% respectively.

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Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)

The APP portfolio is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

The Eurosystem no longer reinvests all of the principal payments from maturing securities purchased under the PEPP, reducing the PEPP portfolio by €7.5 billion per month on average. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024.

The Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.

Refinancing operations

As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, the Governing Council will regularly assess how targeted lending operations and their ongoing repayment are contributing to its monetary policy stance.

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The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation returns to its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:45 CET today.

Monetary policy statement

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.

The Governing Council today decided to keep the three key ECB interest rates unchanged. The incoming information broadly supports our previous assessment of the medium-term inflation outlook. While some measures of underlying inflation ticked up in May owing to one-off factors, most measures were either stable or edged down in June. In line with expectations, the inflationary impact of high wage growth has been buffered by profits. Monetary policy is keeping financing conditions restrictive. At the same time, domestic price pressures are still high, services inflation is elevated and headline inflation is likely to remain above our target well into next year.

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 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 indicates that the euro area economy grew in the second quarter, but likely at a slower pace than in the first quarter. Services continue to lead the recovery, while industrial production and goods exports have been weak. Investment indicators point to muted growth in 2024, amid heightened uncertainty. Looking ahead, we expect the recovery to be supported by consumption, driven by the strengthening of real incomes resulting from lower inflation and higher nominal wages.

Moreover, exports should pick up alongside a rise in global demand. Finally, monetary policy should exert less of a drag on demand over time.

The labour market remains resilient. The unemployment rate was unchanged, at 6.4 per cent in May, remaining at its lowest level since the start of the euro. Employment, which grew by 0.3 per cent in the first quarter, was supported by a further increase in the labour force, which expanded at the same rate. More jobs are likely to have been created in the second quarter, mainly in the services sector. Firms are gradually reducing their job postings, but from high levels.

National fiscal and structural policies should aim at making the economy more productive and competitive, which would help to raise potential growth and reduce price pressures in the medium term. An effective, speedy and full implementation of the Next Generation EU programme, progress towards capital markets union and the completion of banking union, and a strengthening of the Single Market are key factors that would help foster innovation and increase investment in the green and digital transitions. We welcome the European Commission's recent guidance calling for EU Member States to strengthen fiscal sustainability and the Eurogroup's statement on the fiscal stance for the euro area in 2025. Implementing the EU's revised economic governance framework fully and without delay will help governments bring down budget deficits and debt ratios on a sustained basis.

Inflation

Annual inflation eased to 2.5 per cent in June, from 2.6 per cent in May. Food prices went up by 2.4 per cent in June – which is 0.2 percentage points less than in May – while energy prices remained essentially flat. Both goods price inflation and services price inflation were unchanged in June, at 0.7% and 4.1% respectively. While some measures of underlying inflation ticked up in May owing to one-off factors, most measures were either stable or edged down in June.

Domestic inflation remains high. Wages are still rising at an elevated rate, making up for the past period of high inflation. Higher nominal wages, alongside weak productivity, have added to unit labour cost growth, although it decelerated somewhat in the first quarter of this year. Owing to the staggered nature of wage adjustments and the large contribution of one-off payments, growth in labour costs will likely remain elevated over the near term. At the same time, recent data on compensation per employee have been in line with expectations and the latest survey indicators signal that wage growth will moderate over the course of next year. Moreover, profits contracted in the first quarter, helping to offset the inflationary effects of higher unit labour costs, and survey evidence suggests that profits should continue to be dampened in the near term.

Inflation is expected to fluctuate around current levels for the rest of the year, partly owing to energy-related base effects. It is then expected to decline towards our target over the second half of next year, owing to weaker growth in labour costs, the effects of our restrictive monetary policy and the fading impact of the past inflation surge. Measures of longer-term inflation expectations have remained broadly stable, with most standing at around 2 per cent.

Risk assessment

The risks to economic growth are tilted to the downside. A weaker world economy or an escalation in trade tensions between major economies would weigh on euro area growth. Russia's unjustified war against Ukraine and the tragic conflict in the Middle East are major sources of geopolitical risk. This may result in firms and households becoming less confident about the future and global trade being disrupted. Growth could also be lower if the effects of monetary policy turn out stronger than expected. Growth could be higher if inflation comes down more quickly than expected and rising confidence and real incomes mean that spending increases by more than anticipated, or if the world economy grows more strongly than expected.

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 monetary policy dampens demand more than expected, or if the economic environment in the rest of the world worsens unexpectedly.

Financial and monetary conditions

The policy rate cut in June has been transmitted smoothly to money market interest rates, while broader financial conditions have been somewhat volatile. Financing costs remain restrictive as our previous policy rate increases continue to work their way through the transmission chain. The average interest rate on new loans to firms edged down to 5.1 per cent in May, while mortgage rates remained unchanged at 3.8 per cent.

Credit standards for loans remain tight. According to our latest bank lending survey, standards for lending to firms tightened slightly in the second quarter, while standards for mortgages eased moderately. Firms' demand for loans fell slightly, while households' demand for mortgages rose for the first time since early 2022.

Overall, credit dynamics remain weak. Bank lending to firms and households grew at an annual rate of 0.3 per cent in May, only marginally up from the previous month. The annual growth in broad money – as measured by M3 – rose to 1.6 per cent in May, from 1.3 per cent in April.

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. 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 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.