MONETARY POLICY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB

Frankfurt am Main, 6 March 2025

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Good afternoon, the Vice-President and I welc

The Governing Council today decided to lowe r, the decision to lower the deposit facility rate – the ed 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 026 and 2.0 per cent in 2027. The upward revision in headline inflation for 2025 reflects stronger e amics. For inflation excluding energy and food, staff project an average of 2.2 per cent in 2025, 2.0 and 1.9 per cent in 2027.

[Christine Lagarde](#)

The President of the European Central Bank

Most meas ying 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 partiall impact on inflation.

[Luis de Guindos](#)

Vice-President of the European Central Bank

Our mone coming meaningfully less restrictive, as our interest rate cuts are making new borrowing less expensive 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.

* * *

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 can borrow for defence purposes, on the one hand. And on the other hand, the announcement by the German authorities of a two-fold programme, in a way: one which is the big infrastructure financing of 500 billion over a period of 10 years, and a special measure that relates to defence expenditure that would be decided in the years to come.

So two observations: One is that this is work in progress, and we have to be attentive, vigilant; we have to understand how this is going to work, what the timing will be, what the financing will be, so that we can then draw the conclusions and appreciate how much it will contribute to growth and what impact it would have eventually on inflation.

So for that part of the work, we have not yet of course determined the conclusion, but one thing that around the table of the Governing Council was clear is that on both accounts that would be supportive to European growth at large and would be a boost to the European economy. Now everything is going to be a factor of the details: where will the purchases take place, what will the timing be, what will the financing be? And all of those are obviously political decisions that are not within the remit of the central bank. But we are very attentive to what will come out of today's meeting in Brussels and any further development on the German political scene to appreciate the economic consequences.

I have another question on the meaningfully less restrictive monetary policy stance: Lending is still down. So

what makes the ECB think that the monetary policy stance is actually less restrictive, because it seems that companies are still holding back from actually borrowing and investing?

My second question would be on the pause, which is likely or not in April: Given the uncertainties, would you rather wait for more wage data coming in, as domestic inflation seems to be stubbornly high?

Our assessment – based on the bank lending survey, the numbers that we receive, and the corporate survey that we hold; and comparing the current situation with the last few quarters, and this month versus last month as well – indicate that lending is actually increasing. Lending to corporates is up by 2%. Lending to households in terms of mortgages is up by 1.3%. Now this is not yet bringing us to the strong, solid, robust levels of borrowing by economic actors, but it is definitely on the way up.

So you have two phenomena: You have interest rates that we see going down, both for corporate and households – not phenomenally yet; we hope that process will continue -- and we are seeing, at the same time, the volume of lending going up as well.

So, on those two accounts, it's one of the elements that we use to determine whether or not – and how much we are or not – still restrictive. And we're not really passing judgement, because I think that particular point is not necessarily the most relevant. What we acknowledge is that it is becoming *meaningfully* less restrictive. And as I said, we take into account all the work that has been done and we assess the process that we are in.

You asked me a second question. That gives me a chance to to explain to you where we are. And I think there is a particular sentence in the monetary policy statement which refers to the particularly high uncertainty under which we operate. Because clearly we have three phenomena that we have debated over the course of this Governing Council. One: The disinflation *is* on track. Two: Monetary policy is becoming meaningfully less restrictive. And point number three: We have *huge* uncertainty. Some people have used the adjective "phenomenal" uncertainty, and we debated as to whether it was high, high and rising, but suffice to say that it is all over – so we have risks all over, uncertainty all over. So under those circumstances, our determination is obviously to reach the destination, but we will do so *without* pre-committing to any particular path. And you have seen that sentence in in our monetary policy statement in the past; I think it is even more relevant at the moment, given the level of uncertainty that we have. So we are not pre-committing to a path. And you might have some governors who will say "I believe that…". It is their individual views -- I can assure you that the collective view around the table is that we do not pre-commit to a path, and we will be – as ever and probably more so – data-dependent. So if the data indicate to us that, in order to reach the destination, the appropriate monetary policy should be to cut, we shall do so. But if, on the other hand, the data indicate that it is not the case, then we shall not cut and we will pause. So that's really where we are: not pre-committing, being data-dependent as ever, and deciding on a meeting-by-meeting basis.

So I know some will find it frustrating, but I'm terribly sorry. But in the circumstances we're facing at the moment, anything more would would not be very responsible. From one day to the other, the situation changes dramatically, and our projection, the measure of underlying inflation, the price of energy, you name it: risks are all over the place.

You said in the past that the direction of travel was clear, and the only question was about the pace and timing. There was also a mention in the past about inflation reaching target over the course of this year. Now those are gone. You didn't repeat those today. So, how broad was the consensus behind today's rate cut?

The second question is about Russian assets. There seems to be growing political appetite in Europe for seizing those assets. Now obviously, that would set a legal precedent. So how do you think that would affect

the status of the euro as a reserve currency?

This gives me a chance to tell you how the decision was made, and it was made as a result of substantive discussion all around the table on the state of the economy, on our projections, and on the risks that we are facing. And the decision was a consensus, and no one opposed that decision.

Or you might have ä different source of information, but I was sitting in the room, and no one opposed the decision. One governor – specifically Governor Holzmann, for whom I have great respect – abstained. There was no opposition,here was one abstention. So you have the gist of the decision.

On the Russian assets, I think we have made our position quite clear in the sense that those frozen assets, as you know, are being used in order to guarantee 50 billion in loans granted under the ERA by the various members of the G7. This process is underway, and there are political debates that are vastly broadcasted around the fact that we should maybe move from freezing to seizing. This is not for the European Central Bank to debate, but I would certainly submit that the international law basis on which any decision is made will matter as far as other investors are concerned. And it is, I'm sure, an element that will be taken into account by those whose job it is to make those ultimate decisions.

I would like to go back to your previous assertion that there might be a question about the speed of travel, but the direction is clear. So from today's perspective, is the direction of travel still clear? There's only one direction?

And my second question is on the recent market reaction. Borrowing costs have gone up in response to the fiscal news. Do you have any concerns about a return of sovereign debt tensions in the eurozone?

I think I have tried to explain in the previous answer to the question that the situation that we face at the moment is predicated by this disinflationary process that is on track and confirms broadly the estimates that staff has made over the course of time, and without much error most recently. Second, that our monetary policy is meaningfully less restrictive. So we have covered 150 basis points of ground. And three – and that's probably the most important in relation to the question that you've pointed at me – the landscape that we have at the moment is clouded with uncertainty. And more than ever before, it will require that we be vigilant to all governors, all the national central banks, all the economies that are scrutinising the developments and the work that is conducted in each of the national central banks as well as at the ECB. Each of them will continue to scrutinise, and we will all have to be extremely vigilant. We will have to be agile to respond to the data. But as I said, if the data indicates that the most appropriate monetary policy stance is a cut, it will be a cut. If, on the other hand, the data indicates that the most appropriate decision is not to cut, then it will be a pause. I think I have been as clear as I could be on that one.

You asked me a second question which had to do with the markets. We look at all market developments, and we are very attentive to what's happening and we try to understand the reaction function of markets. And clearly there has been a lot of reaction, particularly in the last 12 hours – 24 hours, including yesterday.

But we are not going to be changing a policy stance as a result of a market determination of the last 24 hours. Equally, when we look at the spread, there has been very limited spread variation despite the massive change in the yields. So I think that gives us an answer concerning the solidity of transmission and the solidity of the sovereigns around Europe.

Following up on the last question: So your answer is that the direction of travel isn't clear anymore. would that be the short version of your elaboration? That would be my first question. My second question is that you

pointed to the potential increase in infrastructure and defence spending, which could both add to growth and to inflation. Did you have any discussion in the Governing Council which of the two things are potentially the more relevant one looking forward? And do you have any views yourself on that, given what we know so far on what governments are planning to do?

Now on your second question, I know you all want to move faster than light and certainly faster than our brain power collectively can determine. As I said, those announcement dates from yesterday and honestly in 24 hours, our staff, despite the great work that they do and despite the agility that they demonstrate, particularly in those times, are not in a position to identify how much it will contribute to growth and to European GDP. Nor are they in a position to identify how it will impact inflation. Intuitively, all of us around the table, the governors believe that if all that works, and that's a big if, because it needs to be decided, it needs to go through the parliamentary channels, it needs to then be implemented -- if all that works, it will boost growth. But there is more to come, frankly, and I think that we need to be attentive to the coming days and weeks, and then try to anticipate the economic consequences that it would have and how it would be distributed as well. On your first point, the reason I gave earlier quite an elaborate answer is because the situation is not as straightforward, black and white, we go here, we go there. It is not what we are facing at the moment. And as I said, repeatedly, we are not pre-committing to any particular rate path. We will be data dependent more than ever and we will decide meeting by meeting. One thing that is really clear for me, because you asked me my view, is that we have to reach our destination. And let me just mention one thing, because some of you might be attentive to when we reach that target of 2%. If you look at the projection of staff, you will see it's very early in 2026 and not in late 2025. That is so because of energy prices. Staff have considered that on the basis of the cut-off date that they have, which was quite a few days ago, it was legitimate, on the basis of future prices both on oil and gas, to probably increase the inflation projection by 0.2%. If you look at energy prices today, whether it's oil or gas, the impact would be seriously different. So that gives us the dimension of uncertainty that we have and the many risks that we have to look at. It's energy prices, it's trade policy, it's potential retaliation, it's massive investment programmes. There are a lot of variables that we have to be attentive to, that we have to be vigilant about. But there are certain things that are solid and stable, and actually fall in line with the projections and anticipation of staff. If you look, for instance, at wages, if you look at the labour markets; they are really moving in line with what we had expected. The same goes for services. There are some stable elements. Those of you who were here last time and at the monetary policy meeting we had before, you will remember I said I am particularly attentive to the price of services. I'm particularly attentive to the domestic underlying inflation. I'm particularly attentive to wages in all their dimensions. And that is heading in the direction that we had anticipated, which is comforting given the work that we've been doing.

You've said in the past that monetary and fiscal policy must work hand in hand concerning different spending. Do you think this investment should be accompanied by accommodative financial conditions? And the second question relates to uncertainty and risk, especially geopolitical ones. Do you consider that we are in a "whatever it takes" moment, as said by Mr Merz a few days ago.

On the first one, as I said, it's work in progress. But if the proposal by the Commission for massive borrowing programmes and exemption under the escape clause, and the two proposals identified by future Chancellor Merz, if all that was to work, it would certainly have a fiscal impact, which itself would have an impact on demand. So we will have to take that into account and factor that in. But I don't see that as related to our monetary policy because our monetary policy, provided under the mandate that we have in Article 127 of the Treaty, is price stability. And we're going to really adhere strictly to our mandate of price stability. We are attentive to transmission, we are attentive to underlying inflation, we are attentive to the inflation outlook and all of that is informed by a large amount of data. But if your question is intended to ask whether we would participate in a financing effort, this is not the purpose of the ECB. There is a European Investment Bank, there are multiple institutions whose actual purpose it is. Our purpose, our mandate, is price stability.

On your second question “whatever it takes”. Geopolitical risks on the one hand, determination by policy makers on the other hand, it is really something that is in their hands, because it will contribute to boosting the European economy, because hopefully it will be a source of innovation. Typically, investments in defence are a source of innovation and therefore will improve productivity. We are very attentive to that and we are hoping that it will have those impacts on the European economy. Is it a “whatever it takes” moment for the German economy? It is not for me to say. It is for the political leaders to appropriate that expression.

The first question is on quantitative tightening. The ECB has been carrying out QT for quite some time and if I can use your metaphor, it is a bit of a cold water in the flows. We had TLTROs repayment stopping and then the holdings, their investments of APP and PEPP. So QT has been continuing during the interest rate cut cycle and it is taking place now, together with a kind of a market tightening, the sharp rise of long-term yields of government bonds. So is the Governing Council taking into consideration or quantifying the impact of this QT on its monetary policy and this meaningfully less restrictive monetary policy? And then my second question is on the digital euro, because the Trump administration decided to stop the Federal Reserve’s project on central bank digital currency, and it looks like the Fed might be on hold on the digital dollar for about four years. So it looks like a kind of a golden opportunity for the ECB and the plans of the digital euro. What is the position of the ECB on these issues with these changes also from the United States, and how can the ECB push forward with the creation of a digital euro?

You are perfectly correct in that we stopped reinvesting quite a while ago now under the APP. We stopped reinvesting gradually over the course of time under the pandemic emergency purchase programme and all TLTRO reimbursements have now been refunded. But this is a process which has taken place very smoothly, which has been absorbed by markets in a very innocuous way over the course of time. We don’t regard that as a component of our monetary policy, primarily. It is operating on the back burner, if you will. It has been telegraphed very early on. We have anticipated and communicated to markets so that it happens in a very smooth and gradual manner, which is what we are seeing. The main monetary policy instrument that we have used recently and that will be the driving force is interest rate, not QT or otherwise such financing programmes. We have to calculate everything. So we do calculate, we do try to work with counterfactuals. And you well know that my colleague Piero Cipollone has tried to assess exactly how much it contributes or not, and you know this is something that he has had calculated. But it is not our key instrument and it’s really not perceived as having a significant impact. On your second point, I tend to share your views. Nature does not like a vacuum. We started working on the digital euro way back, actually when I started my term 5 1/2 years ago. I am not claiming parentality on the digital euro because my colleague Benoit Coeuré had already committed a speech on this matter before I arrived, but I certainly carried on with that project. Subsequently, Fabio Panetta on the Board and then Piero Cipollone, who has replaced Fabio, have taken the lead together with a very good team, which is focused on accelerating the pace and hopefully campaigning enough with all the stakeholders – meaning the European Parliament, European Council, European Commission – so that we can eventually, not put to bed, but put to reality this digital euro. The deadline for us is going to be October 2025 and we are getting ready for that deadline. But we will not be able to move unless the other parties, the stakeholders as I call them – Commission, Council and Parliament – actually complete the legislative process, without which we will not be able to move. I think it is critically important, and for the agnostics or the sceptics, it now seems more relevant and more imperative than ever before, both on the wholesale and on the retail level.

Could you guide us a bit more around today's discussion and the consensus and frictions? Do you see more the best diversity of views regarding the current economic outlook or regarding the medium-term outlook? And second question, after what we have seen these last weeks, do you still believe that negotiations are preferable in relations to tariffs and commercial work, or has Europe to show some strength?

My personal view is that you have to negotiate from a position of strength. So one thing leads to the other and that is the hope that I can formulate because we know that tariffs, and particularly if there is retaliation, are not good at all and are net negative on pretty much all accounts. But that's my personal view. Although I think around the table of the Governing Council, we all agreed that it was net negative when it happens and it's even negative before it happens because of the uncertainty that is generated, and the undermined confidence that results from just the threat of those tariff increases, and potential retaliations are putting a brake on investment, on consumption decisions, on employment hiring and all the rest of it. What can I tell you about the discussions? We had quite extensive, intense, lively discussions. But I don't think that we can draw a line between the short term and the medium term. The developments that we are seeing at the moment, because of how they will transform the outlook, because of the impact that they will have on our societies as well as our economies, both in terms of growth and in terms of inflation and in terms of employment and in terms of transformation of Europe -- those are significant changes, essential changes that we are witnessing and for which we have to account to help make the best and the most appropriate monetary policy decisions. But everyone was very engaged, as you can imagine.

CONTACT
European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts