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Transcript

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 outlook for energy prices, while highly volatile, currently stands close to the baseline of the June Eurosystem staff projections and well above the levels recorded prior to the conflict in the Middle East. Uncertainty remains high and the full inflationary impact of the energy shock has yet to play out. We are therefore closely monitoring the intensity and duration of the shock, as well as its indirect and second-round effects. We are committed to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term.

With today's decision, we remain well positioned to navigate the uncertainty caused by the conflict. 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 and the risks surrounding it, in light of the incoming economic and financial data, as well as 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

Recent information points to some improvement in economic activity in the second quarter, even though the conflict in the Middle East remained a headwind. Surveys suggest that activity in the services sector has partly recovered, after weakening markedly in the immediate aftermath of the energy shock. Digital services have been robust, in part owing to the increasing contribution from AI-related activity. Manufacturing has continued to hold up, supported by firms building up stocks to guard against supply chain risks, as well as by higher defence spending. Unemployment stood at 6.2% in May, close to historical lows. At the same time, job postings have continued to decline and both firms and households expect the labour market to remain weaker than before the conflict.

Forward-looking indicators suggest that economic growth will remain modest in the near term, weighed down by the energy shock and related uncertainties. Yet the fundamental drivers of medium-term growth remain intact. Private consumption, investment in new digital technologies, government spending on defence and infrastructure, and some recovery in exports should all contribute to overall growth momentum.

The Governing Council reiterates its call for urgent action to strengthen the euro area economy while maintaining sound public finances. Simplifying and harmonising rules across the EU's Single Market, accelerating the energy transition and completing the savings and investments union are key building blocks. Fiscal responses to the energy shock should be temporary, targeted and tailored. The positive vote in the European Parliament earlier this month was a significant milestone on the path to establishing the digital euro. We welcome the shared objective of the Parliament, EU Council and Commission of reaching agreement by the end of this year on the Single Currency Package. The digital euro will complement physical cash with its digital equivalent, providing a means of payment for any digital transaction throughout the euro area.

Inflation

Inflation declined to 2.8 per cent in June, from 3.2 per cent in May. Energy price inflation declined to 8.5 per cent, after 10.8 per cent in May, while food price inflation fell from 1.9 per cent to 1.5 per cent. Inflation excluding energy and food eased to 2.4 per cent, from 2.6 per cent in May, with goods inflation decreasing from 0.9 per cent to 0.7 per cent and services inflation from 3.5 per cent to 3.2 per cent.

The energy shock continues to feed into higher prices. It is becoming more expensive for firms to source inputs and they therefore expect to put up their selling prices. While developments in underlying inflation have remained contained, the full effects of the energy shock have yet to play out. The ECB’s wage tracker and surveys on wage expectations continue to indicate moderate wage growth over the coming quarters. Rising labour productivity has also helped contain growth in unit labour costs. Inflation expectations over shorter horizons remain at elevated levels. Most measures of longer-term inflation expectations stand at around 2 per cent, supporting the stabilisation of inflation around target in the medium term.

While energy price inflation declined in June, its rise since the start of the conflict – and its impact on food, goods and services price inflation – is likely to keep inflation well above target into the first half of 2027. Inflation should then decline, as energy prices are expected to fall and other prices should rise more slowly. However, the conflict remains a major source of uncertainty. We are therefore closely monitoring the size and persistence of the energy price increase, and how it feeds through to price and wage-setting, inflation expectations and overall economic dynamics.

Risk assessment

The risks to the growth outlook are to the downside. While the Memorandum of Understanding agreed between the United States and Iran in June constituted a first attempt to resolve the conflict, recent weeks have brought renewed setbacks and the geopolitical situation remains fragile. Renewed disruption of energy supplies could increase energy prices further and for longer than currently expected. This would weigh on real incomes, spending and investment. A worsening of global financial market sentiment or a tighter supply of credit could dampen demand. Additional frictions in international trade could also further disrupt supply chains, reduce exports and weaken consumption and investment. Other geopolitical tensions, in particular Russia’s unjustified war against Ukraine, remain a major source of uncertainty. By contrast, growth could turn out to be higher if the economy and energy markets were to adapt more quickly than expected to the disruption caused by the conflict in the Middle East or if the conflict was resolved sustainably. Moreover, planned defence and infrastructure spending, and reforms to enhance productivity and complete the Single Market, as well as euro area firms adopting new technologies, may drive up growth by more than expected.

The risks to the inflation outlook are to the upside. The energy shock could intensify further and its effects on other prices and wages could be stronger than currently expected. The longer energy prices stay high, the more likely they are to drive up broader inflation through indirect and second-round effects. Ongoing trade tensions could give rise to more fragmented global supply chains, curtail the supply of critical raw materials and worsen capacity constraints in the euro area economy. Extreme weather events – as illustrated by the ongoing heatwaves – and the unfolding climate and nature crises more broadly, could drive up food prices by more than expected. By contrast, inflation could turn out to be lower if the conflict in the Middle East was resolved sustainably or if indirect or second-round effects proved less pronounced than anticipated. More volatile and risk-averse financial markets could weigh on demand and thereby lower inflation as well.

Financial and monetary conditions

Overall financial conditions have become slightly tighter since our previous meeting, consistent with the increase in the key ECB interest rates. Bank lending rates for firms and the cost of issuing market-based debt remained unchanged in May, at 3.6 per cent and 4.0 per cent respectively. The annual growth rate of bank lending to firms increased to 4.0 per cent, from 3.4 per cent in April, but this was partly offset by slower growth in corporate bond issuance, which fell from 4.5 per cent to 3.4 per cent. Credit standards for business loans tightened somewhat in the second quarter, as reported in our latest bank lending survey for the euro area. Demand for loans to firms increased slightly, driven by higher working capital needs but also by borrowing for fixed investment by large firms.

Mortgage rates rose to 3.5 per cent in May, after 3.4 per cent in April, while mortgage lending growth edged up to 3.1 per cent. Credit standards for mortgages tightened in the second quarter as banks became more concerned about the economic risks faced by their customers and less willing to take on risks themselves. Demand for mortgages decreased on the back of deteriorating consumer confidence and higher interest rates.

Conclusion

The Governing Council today decided to keep the three key ECB interest rates unchanged. We are committed to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. Our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as 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.

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My first question is about the discussions which you had today. So just to get an understanding of how you have discussed the recent spike in energy prices and what it means for policy setting going forward. I know you don't want to pre-commit, but still, the communique and also what you are saying today, at least in my understanding, reads rather on the side of being more vigilant about the price developments.

My second question would be: Have you discussed the rise in bond yields? Because they are also increasing. And do you factor that into an assessment of how tight monetary policy is actually here in the euro area?

We spent the last two days with members of the Governing Council really looking at all the available data and assessing the situation since the last monetary policy decision that we made back in June. And I'm saying back in June because there's lot of “back to the baseline” in the situation that we are facing at the moment. So, the analysis that we conducted, fed by staff work analysis, really looked into what has happened since June, and what policy decision should we make as a result.

Since our decision in June, we have had some relatively benign developments. You look at inflation, which came out much lower than anticipated: 2.8 versus 3.3[1], a difference relative to our anticipation. You look at economic activity: taking out Ireland, it's a relatively good progression, 0.3%. And then, of course, the Memorandum of Understanding, which preceded a ceasefire, which led to a significant decrease in at least crude oil prices, probably faster than we had anticipated.

But that was the first part of that period of time. Then came the second part, where this Memorandum of Understanding was short-lived, ceasefire was broken several times and led to the current situation where we have clearly a flaring-up of the conflict and serious developments taking place on the commodity markets.

That's what we considered throughout the last two days, and we really applied the method that we have agreed amongst ourselves in such a shock, which is to really try to understand the intensity, the durability and the propagation effects of the supply shock. That's what led us to take the decision that we took this morning of holding our rates for the moment.

You asked me about the euro area bonds. At a certain point in time – because there's a cut-off date at which we stop the clock, if you will – we take all market conditions, including of course the euro area bonds, their evolution into account in that process. So this is part and parcel of, number one, the baseline and, number two, the assessment that we take at the occasion of this meeting.

There is one difference that I'm sure you have noticed, which has to do with our risk assessment. When I say we're back to the baseline, we're also back to the risk assessment that we conducted back in June. And if you remember at our conference in Sintra, I didn't change the direction, but I used the reference to more balanced upside and downside risks, respectively, for inflation and growth. That segment, more balanced, has been removed, and obviously it reflects the succession of the 'embellie', if you will, that we had for a couple of weeks, and then again the flaring-up of the conflict and the impact that it has had on commodity prices, and as a result the expectations that we have in relation to prices.

Was the decision today unanimous or did anyone, even at the discussion phase of the meeting, raise the prospect of increasing interest rates?

The second question is about the indirect and second-round effects that you mentioned in the press release. Can you tell us if you see any evidence of those materialising?

Yes, it was a unanimous decision. But I'm going to qualify that, because there were some governors who asked themselves whether we should not consider a hike – in other words, raising the three interest rates on the occasion of that meeting. And we really had a good, thorough look at the data, at the current development, and we all unanimously decided that we were positioned adequately to wait and be very attentive in the next few weeks to the development of the situation and to the data that we will be receiving in the next few weeks.

Consider that, before our next September meeting, we will be receiving two monthly indicators for inflation. We will be receiving the GDP for the second quarter. We will be receiving two consumer expectations indices. We will be receiving one CPE (Compensation per Employee) number. We'll be receiving two PMI numbers. I'm going through the long list – sounds like a laundry list – but that's just to give you an indication of the volume of data that we will have and the scope of indications that we want to absorb in order to apply our reaction function.

So, we will be receiving all that, we will be looking very carefully at all this data, we will be applying our normal reaction function – you know, inflation outlook, the risk associated with it, the underlying inflation, transmission – and we will be again measuring the intensity, the duration and the propagation of the shock throughout the economy. And, that takes care of your second question, we will be particularly attentive to any risk of second-round effects.

I think it's clear to all of you, all of us, that there are direct effects. It goes without saying that there are indirect effects, when you look at the price of, say, transportation, for instance, pretty obvious. Second-round effects: we are not seeing it. Believe me, we are really scrutinising the emergence of second-round effects, but we are not seeing it.

One of the most up-to-date, informative elements that we have is the Corporate Telephone Survey, where we ask large and smaller corporates: what are your plans in relation to wages? And we are not seeing second-round effects.

There might be compensations on a one-off basis, for instance, but a change from what is naturally incorporated in our baseline, no, we don't see that. And on top of it, what we had anticipated, which was this gradual decline of wages, we are seeing it. I mean, Compensation per Employee is one indicator – went from 3.8 to 3.5 – but we also have the wage tracker, we have the negotiated wages, which is also informative about what is to come. And none of those elements, for the moment, are giving us second-round effects indications.

I heard you say some of your colleagues wondered whether we, or you rather, should already raise interest rates today. You said on another occasion that we decided to hold rates for the moment. Now I'm just going to go and conclude that this sounds very much like you are preparing and signaling a September hike, and I very much invite you to say if that's not the case. But my real question is: what would need to happen for you not to do that? What would need to happen for you not to consider a September rate increase?

And my second question is of a bit of a different nature. You keep feeding speculation that you will leave the ECB early. You've talked about clouds on the horizon. You've talked about captains and ships in crises. I'm really just looking for a yes or no answer today on whether you're willing to commit to serve until the end of your term.

You know, I hate to be boxed in, in any particular circumstances. So on this latter point: number one, it was not discussed at the Governing Council meeting, but I'm going to give you two elements. First of all, you are not going to see the back of me before 2027? And the second point that I would mention is the same that I indeed mentioned once. When there are clouds on the horizon, the captain stays on the ship, and this captain is staying on this ship as long as there are clouds on the horizon. Now, you can speculate, write anything you want, I don't think it's particularly interesting and important. What matters is that we apply the right monetary policy in order to bring price stability. So that will be my answer in response to this point.

More importantly: What we are doing is not giving any forward guidance. I think that I've made that point clear and loud, and I've been doing that for a long time. On the other hand, we are giving framework guidance. So, analysts, you, all appreciate how we assess the situation, what elements we take into account, and it's a combination of the three-pronged approach, which is underlying inflation – I'll cut it short because you know it inside out as I do – underlying inflation, transmission.

But also – and I think I've made that very clear in, I think it was the ECB Watchers speech – I gave clear indication of how we assess the situation in case of an energy shock of that nature, whether it's short-lived, whether it's longer term, whether it's high and long, and I think that all of that stands.

We also, and particularly in light of the most recent variation of and volatility of prices, we also take a view on the duration, the intensity and the propagation of the shock, and it's really on the basis of all those parameters that we make decisions on a meeting-by-meeting basis. As I've said, we're back to the baseline, that stands, we are going to continue to receive all these components and all this data in the weeks to come, and then we will make our decision in September.

Regarding the current today's situation in the the Red Sea: Did you discuss that in the Governing Council meeting and what it might mean for the overall assessment if now a second key supply line might be disrupted?

We have seen multiple developments. As I said earlier, in the last six weeks we've seen improvement, positive expectations, significant reduction of prices followed by negative breakthroughs, significantly increased prices. And by the way, we look not just at crude oil, we look at all the variations of that, including what is known as the "crack spread", to see where money is actually going in case of price increases.

The most recent developments: I'm assuming that you're referring to the Houthi threats against Saudi Arabia vessels and the materialisation that took place this morning. My understanding of that is that it was reported at 10 a.m. Because it was a decision that harnessed a great sense of consensus around the table, we finished the meeting at about 10:15.

So I'm not sure that that particular element that took place this morning – which is alarming, which is clearly going to have an impact, and is having an impact; we can see that on the price of Brent, as it evolves, almost by the hour – but that was not, in and of itself, taken into consideration during the decision that we took this morning. That does not say that we are oblivious to energy shocks that last, that possibly amplify, and that certainly have repercussions. We are very attentive to that.

I can already tell you that we asked staff to conduct some really in-depth analysis for our September meeting on the various oil prices, as I just mentioned, but also gas, because when you look at energy prices, oil has certainly gone up, and is going up as we speak, but gas has significantly increased as well, and given the level of inventory that is at rather low levels, this is also a matter that will be under sensitivity review. In addition to the scenario work that we do, given the magnitude of changes that are taking place.

I'm trying to poke a bit more on what's been discussed on potential hikes. Given that there was some sort of push for a back-to-back, front-loading type of hiking today.

No, no, there was no push.

Push is the wrong word. Who has the burden of proof, going into September? Is it on those arguing for a hike, or is it on those arguing against the hike?

My second question is on the minimum reserve requirement. Did you have any discussion about raising it, and/or will it be open for discussion in the next months?

The burden of proof is on data, as simple as that.

On the minimum reserve requirement, it was not discussed on the occasion of this Governing Council, which doesn't mean to say that it will not be discussed, it will. It will, as it has been, by the way.

I would like some clarification on the alternative scenarios. Given that you are willing to give some framework guidance. Is there a point at which the milder scenario is no longer a possibility, even if the conflict ends? And could that point be reached in between today and the September meeting?

And a second question. How are you planning to balance the agility of the Central Bank with avoiding sudden shifts in direction? Because, two weeks ago, we had a completely different situation, and that could have needed a completely different monetary policy decision.

Your first question deals with the sustainability of the milder scenario, right? Or the likelihood of materialisation. It's not a question to which I can give a reliable answer. Why do I say that? Not because I cannot think, or the staff cannot help us think, along those lines. But we have seen so abrupt changes, occurring in a matter of days, not just in terms of the level of the conflict but also the consequences in terms of energy prices.

Remember how fast energy prices went down after the announcement of the Memorandum of Understanding. Now, once burned twice shy, it could well be that another announcement of such Memorandum of Understanding will not have a similar impact. Because there is rising uncertainty, and it applies across the board.

But still, the situation can reverse so fast that it's difficult to either affirm or challenge the possible materialisation of this mild scenario. As we stand now, today, it looks quite unlikely, let's face it. But taking a view on the likelihood of materialisation is another story, because of the uncertainty that we have. And that's precisely the reason why it is helpful to have the scenarios and to test our recommendations and a stance against all scenarios and to have a range of assessments.

I'm not sure exactly what you meant about our agility, but what I can assure you is that staff at the ECB is working flat out to absorb all the data, almost as they come, and to make sure that while sticking to principles of cut-off dates of the reaction function that we apply, they are still capable of absorbing all developments. And that's really a factor of the agility that we try to demonstrate. We've done that in the past and we will continue to do so.

With all these developments that change quickly, I think it's particularly important that markets understand this framework guidance. Do you think that they fully understand the guidance framework and the reaction function? I'm not asking if they are pricing right, but do they understand what you are saying, in a moment where things can change so quickly, and is there a way to improve that understanding?

This is a question that we asked ourselves as well. And our assessment on the basis of the transmission, and the almost immediate transmission, the tightening that we have observed on markets, our understanding is that our reaction function is very well understood by markets. The fact that it has been well-articulated, that it's concise in its expression, that it can be understood, I hope, by all, but certainly by markets, I think is a factor of stability in this very, very uncertain landscape in which we are trying to navigate. So, I really think that it is well-understood.

And analysts, markets, you, have access to a similar range of data as we do, and as they are published – so the integrity of the data is important, the immediate assessment of such data and taking on board of such data is important as well, but the reaction function is something that is very stable.

Speaking of inflation, one of the countries with high inflation in the recent months is Bulgaria. How do you access this data?

And I have a second question that's somehow interconnected. How do you assess the outlooks for eurozone enlargement, given the signals that are coming from Hungary?

You are correct that Bulgaria is currently experiencing a high price level, high inflation, and that may have to do with the fact that some prices that had been kept on hold for a period of time have found their way into the markets.

It's not totally unusual, and we always have divergences between member states. I think what matters is the commitment of Bulgaria to observe sound public finance and to make sure that inflation returns to more acceptable levels, in particular for the Bulgarian population. We monitor the overall euro area, but we are attentive to divergences and this is clearly one of them at the moment.

On the issue of enlargement, this is a topic that is not really for us to decide. It's a matter where we give views, particularly in relation to inflation. It's a matter that is essentially under the consideration of the European Council and the Commission. As you know, there is a process. Bulgaria went through that process successfully, and we are always ready to welcome more members, as long as they satisfy the requirements and comply with the criteria, and the convergence conclusion is positive. So, we'll see. As you know, it always takes a little bit of time. But ultimately, all members of the European Union, except for one, are expected to join the euro area.

Would concern about second-round effects alone justify another move in September, or would you need to see evidence that they are, in fact, materialising?

And my second question is about the market-implied rate path. You often point to the rate path embedded in the staff projections. How important is the market-implied path for policy decisions?

If it was just a matter of concern, we would have hiked. Because whenever there is a shock of that nature, we have to be concerned about direct, indirect, and second-round effects. So we are concerned. Which leads us to being very attentive, looking and sort of checking any possible emerging sign that second-round effects are not only in the making but in the coming, and more so than what we have in the baseline. We are not at that stage where we are seeing those emerging signs of second-round effects.

Additionally, by the way, we have inflation expectations, beyond the short-term ones, that are broadly anchored at our medium-term target, which is also important.

The rate path implied, that is market determined, is something that we factor into our work, because obviously we take certain market conditions, at a cut-off date, and that includes, of course, the market implied rate trajectory.

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I just want to take this opportunity to congratulate the Central Bank of Bosnia and Herzegovina as well as the Central Bank of Montenegro on their successful launch earlier this week of a platform for the settlement of instant payments, which uses the technology of TIPS, the Eurosystem’s fast payment system.

We don't often talk about that because it's a monetary policy-focused press conference, but this is important.

I'm looking forward to a similar launch in Albania, Kosovo and North Macedonia, which are expected to join in November, bringing all countries participating in the initiative onto the platform.

And I would like, on this occasion, to thank Banca d'Italia for the key role that it has played on this initiative, on behalf of the whole Eurosystem, by developing a clone of TIPS for the countries of the Western Balkans, which except for Serbia are now all going to be included in November within our TIPS platform.

We should expect some further development in relation to interlinking fast payment systems, but that's for a later date.

And I know that some of you are going to stay a little longer, maybe writing the articles and news, because we will soon be disclosing the set of proposed new banknotes, the new euros, that will have a different face, a different back, and that will be in the pockets of European citizens when the project is completed, after hopefully they have participated in the survey.