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## Data Insights: ECB and Euro Area Economy Monitor

Thursday, January 30, 2025

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### Today's monetary policy decision: how the language changed from prior meeting

~~12 December 2024~~ 30 January 2025

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 the Governing Council steers the monetary policy stance – is based on its 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. ~~Staff see headline inflation averaging 2.4%.~~ Inflation has continued to develop broadly in 2024, 2.1% in 2025, 1.9% in 2026 and 2.1% in 2027 when the expanded EU Emissions Trading System becomes operational. For inflation excluding energy and food, staff project an average of 2.9% in 2024, 2.3% in 2025 and 1.9% in both 2026 and 2027 this year. Most measures of underlying inflation suggest that inflation will settle at around the ~~Governing Council's 2% medium term~~ target on a sustained basis. Domestic inflation ~~has edged down but~~ 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 partially buffering the impact on inflation.

~~Financing conditions are easing, as the~~ The Governing Council's recent interest rate cuts are gradually ~~making~~ making new borrowing less expensive for firms and households. ~~But they~~ At the same time, financing conditions continue to be tight, also because monetary policy remains restrictive and past interest rate hikes are still transmitting to the ~~outstanding stock of credit~~ stock of credit, with some maturing loans being rolled over at higher rates. The economy is still facing headwinds but rising real incomes and the gradually fading effects of restrictive monetary policy should support a pick-up in demand over time.

~~Staff now expect a slower economic recovery than in the September projections. Although growth picked up in the third quarter of this year, survey indicators suggest it has slowed in the current quarter. Staff see the economy growing by 0.7% in 2024, 1.1% in 2025, 1.4% in 2026 and 1.3% in 2027. The projected recovery rests mainly on rising real incomes – which should allow households to consume more – and firms increasing investment. Over time, the gradually fading effects of restrictive monetary policy should support a pick-up in domestic demand.~~

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, the Governing Council's 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 Governing Council today decided to lower the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be decreased to ~~3.00%~~, ~~3.15~~2.75%, ~~2.90%~~ and ~~3.40~~15% respectively, with effect from ~~18 December 2024~~5 February 2025.

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

The APP ~~portfolio is~~ and PEPP portfolios are 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 will discontinue reinvestments under the PEPP at the end of 2024.~~

### Refinancing operations

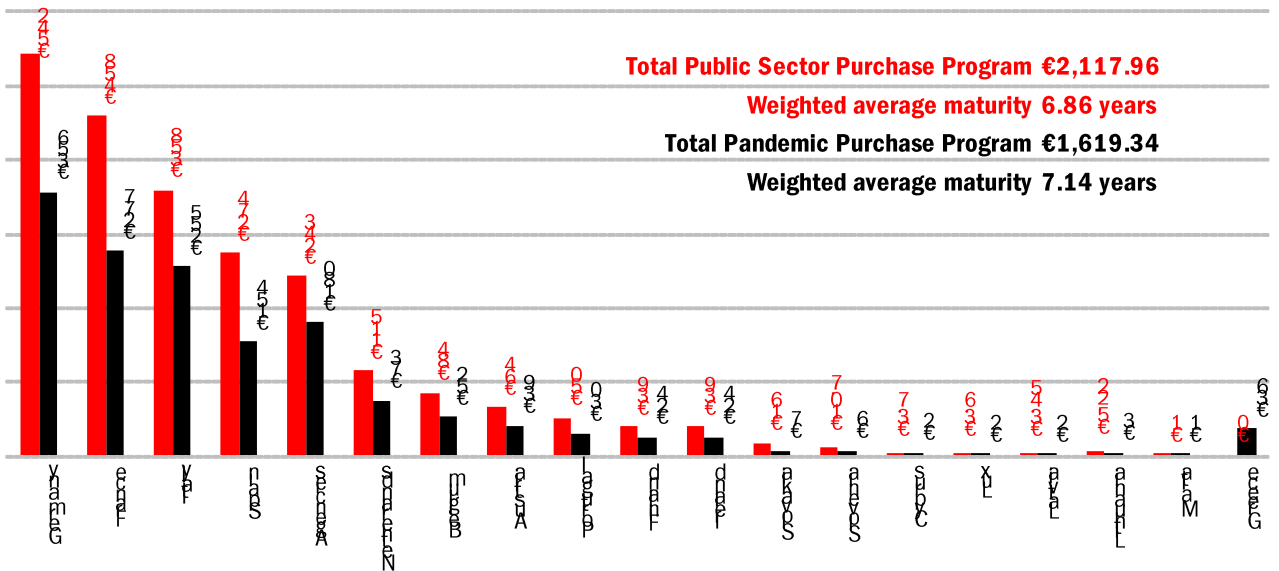
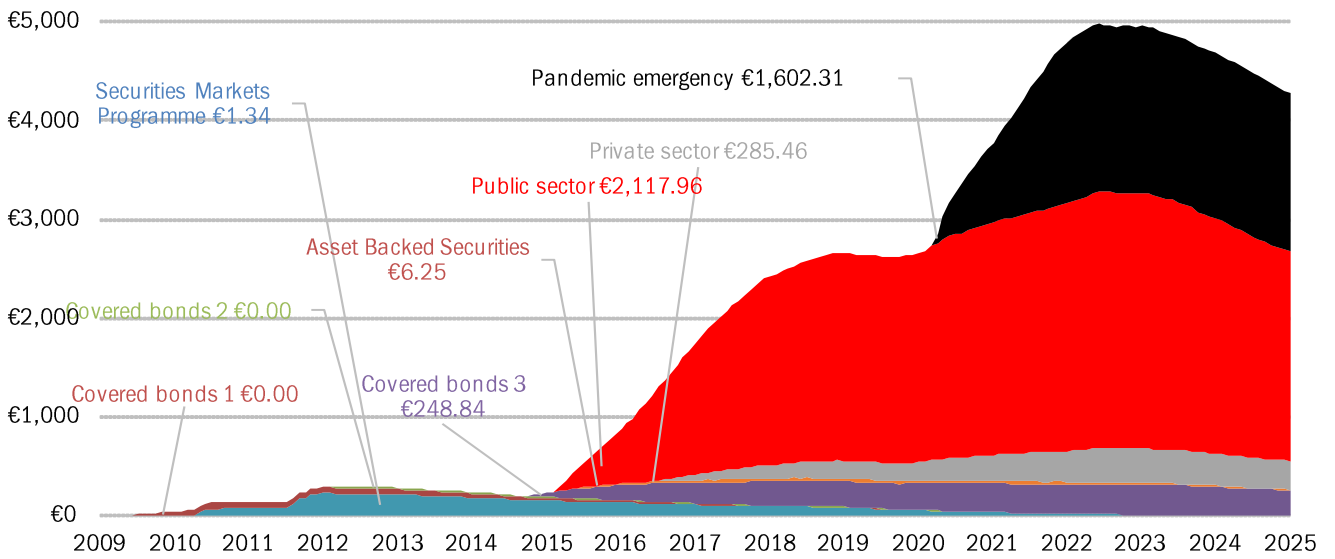
~~Banks will repay~~ On 18 December 2024 banks repaid the remaining amounts borrowed under the targeted longer-term refinancing operations ~~this month, which concludes,~~ thus concluding this part of the balance sheet normalisation process.

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The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises sustainably at 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.

Source: ECB, TrendMacro analysis

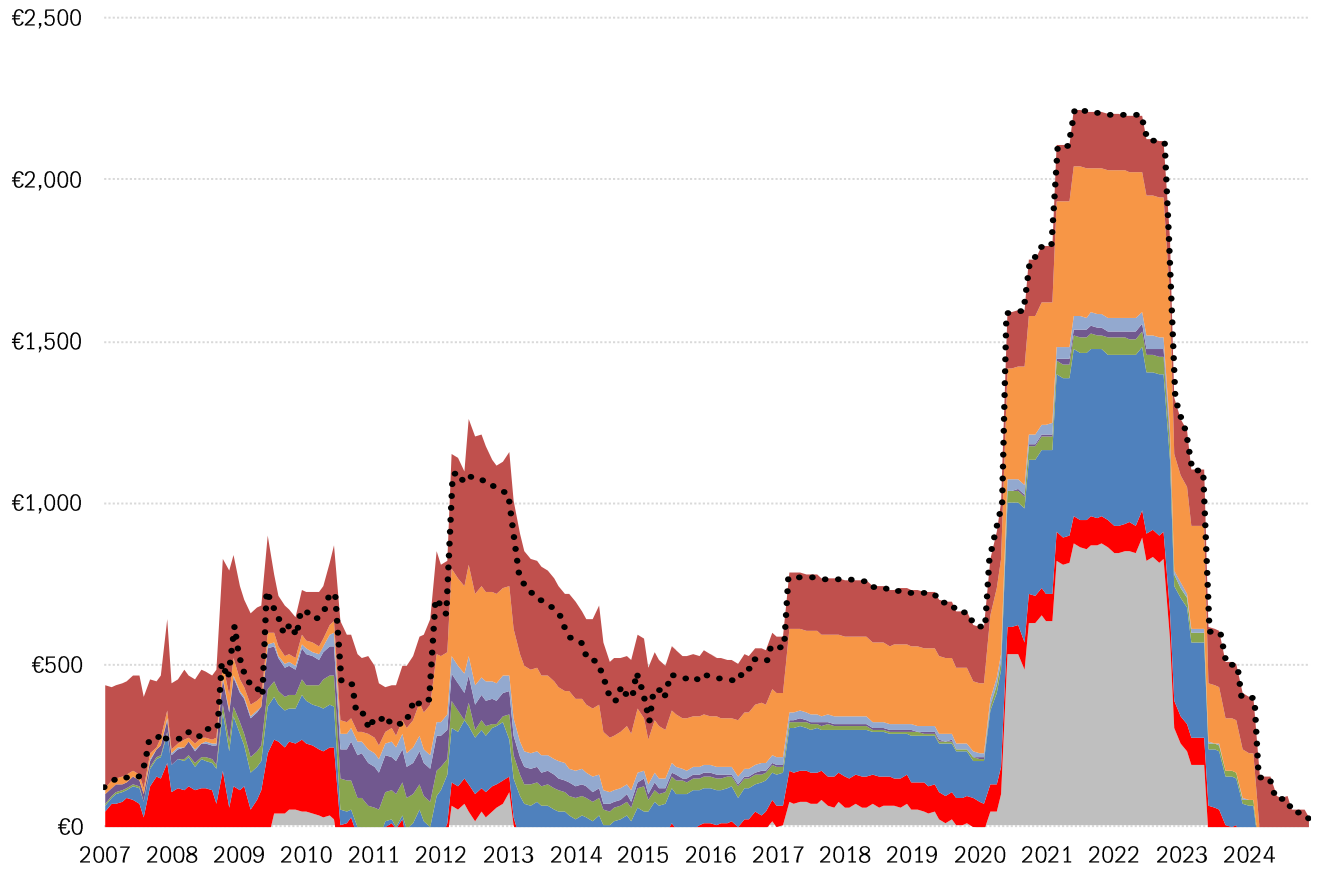
# Euro-QE (€ billions)



Source: ECB, TrendMacro calculations

# Banking system dependency: borrowing from the ECB (€ billions)

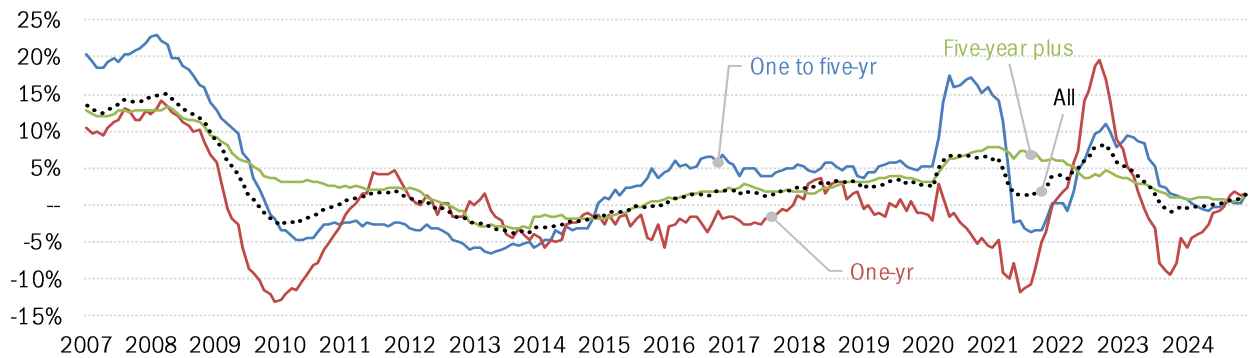
--- Total LTRO Spain Italy Portugal Ireland Greece France Germany Other



Source: ECB, National central banks, TrendMacro calculations

## The credit drought: loans to non-financial businesses (YOY growth)

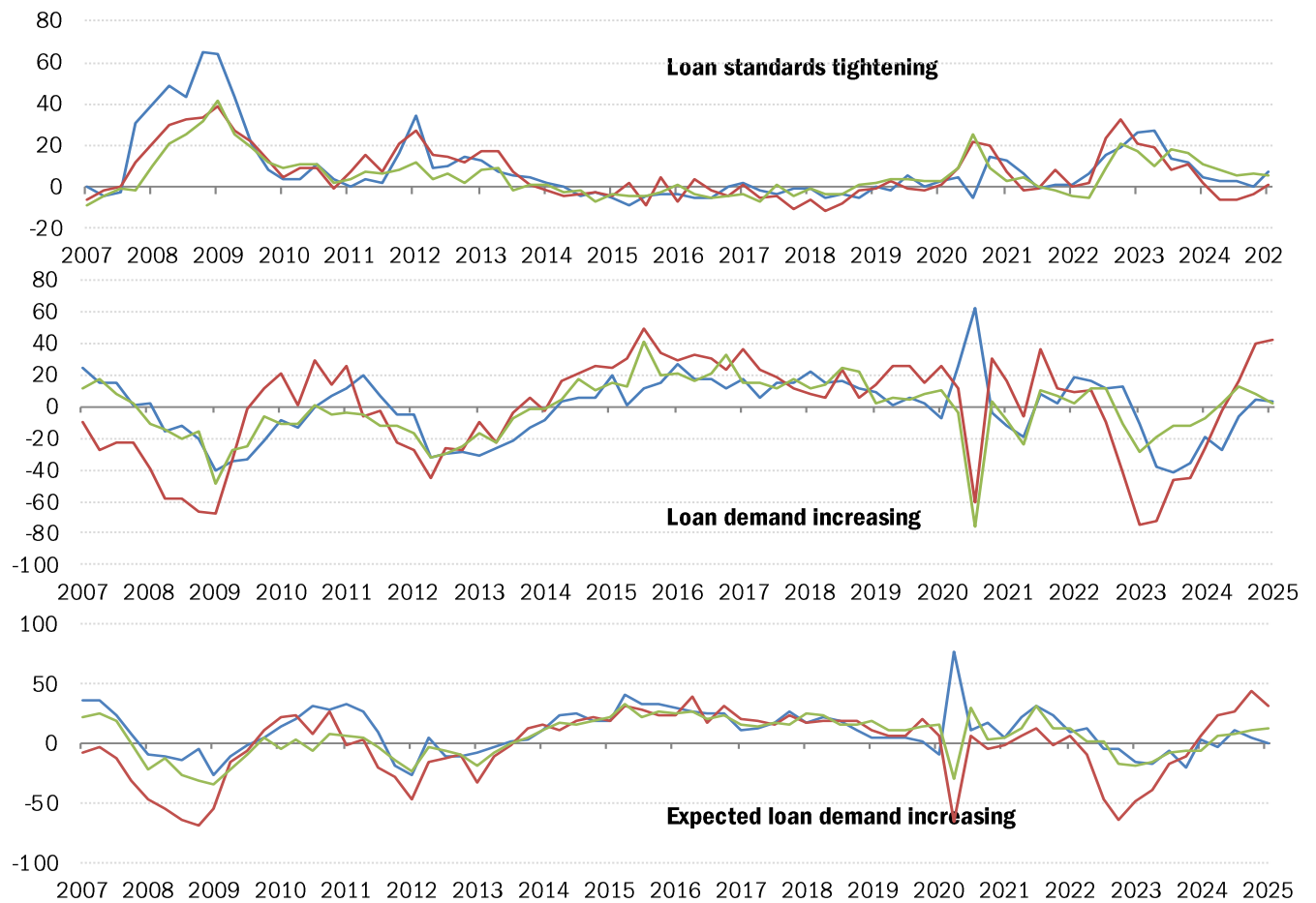
— Loans to 1 year — Loans 1-5 years — Loans 5 years plus ... Total



Source: ECB, TrendMacro calculations

## Supply and demand for lending: ECB Bank Survey

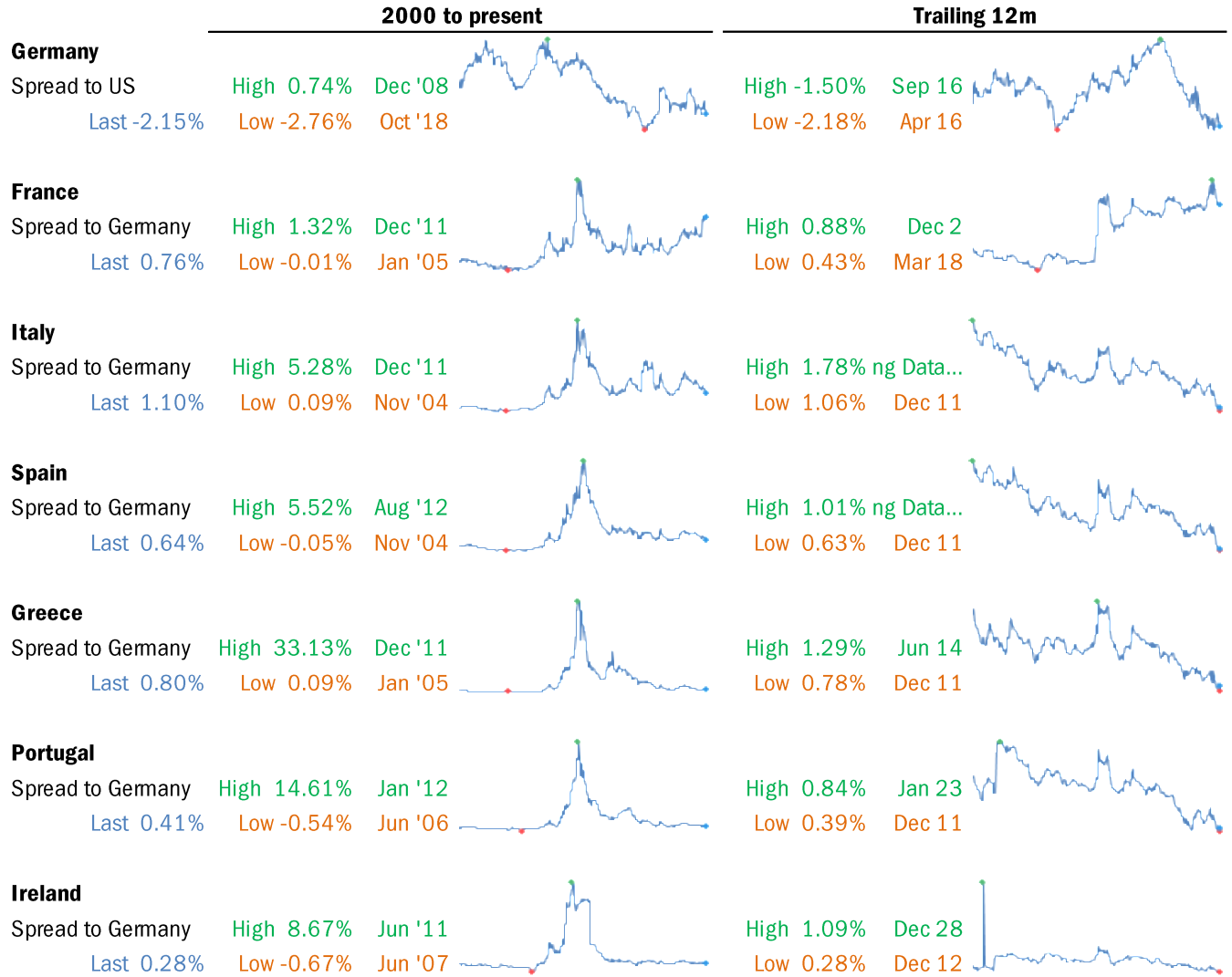
Net number of banks reporting for: — Enterprises — Home mortgage — Consumer



Source: ECB, TrendMacro calculations

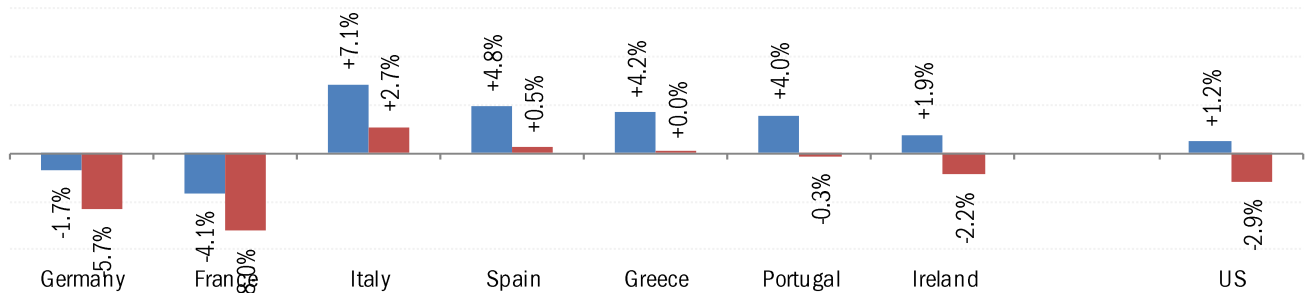
# Sovereign stress monitor: 10-year bond spreads

· High · Low · Last



## 10-year sovereign bond total returns, trailing 12-months

■ EUR ■ USD



Source: Bloomberg, TrendMacro calculations

# Labor market in intensive care

ULC: Nominal, quarterly YOY UE: High 12m pulse: monthly ■ improvement or ■ worsening in rate of change



Source: Eurostat, TrendMacro calculations

## Purchasing Manager Indices

<b>Manufacturing</b>				<b>Services</b>			
	Last	Prev	13-month history		Last	Prev	13-month history
Eurozone Jan	46.1	45.1		Eurozone Jan	51.4	51.6	
UK Jan	48.2	47.0		UK Jan	51.2	51.1	
Germany Jan	44.1	42.5		Germany Jan	52.5	51.2	
France Jan	45.3	41.9		France Jan	48.9	49.3	
Italy Dec	46.2	44.5		Italy Dec	51.2	52.2	
Spain Dec	53.3	53.1		Spain Dec	57.3	53.1	
Ireland Dec	49.1	49.9		Ireland Dec	57.1	58.3	
Netherlands Dec	48.6	46.6					
Austria Jan	45.7	43.3					
Greece Dec	53.2	50.9					
Czech Rep Dec	44.8	46.0					

Source: Markit, TrendMacro calculations

## Regional currency flight — Euro vs Swiss franc ■ SNB FX reserves

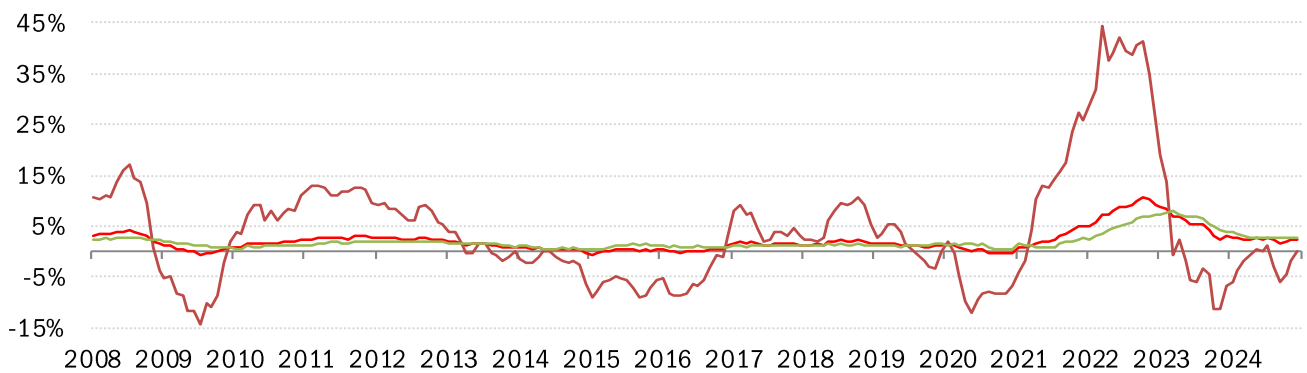
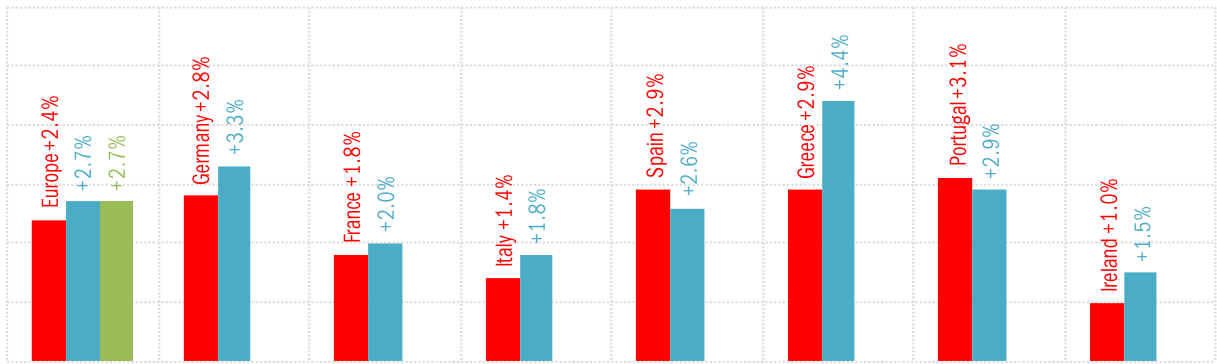


Source: Bloomberg, TrendMacro calculations



## Euro area consumer inflation, year on year

Country: ■ Headline ■ Ex-food and energy ■ Ex-energy    Euro area: — Headline — Energy — Ex-energy



Source: Eurostat, TrendMacro calculations

## Draghi's old dashboard:

### Swap-implied inflation expectations since "Whatever it takes"

— 5-year inflation-swap rate, 5 years forward



Source: Bloomberg, TrendMacro calculations