Christine Lagarde: IMFC statement

Statement by Ms Christine Lagarde, President of the European Central Bank, at the fifty-first meeting of the International Monetary and Financial Committee, IMF Spring Meetings, Washington DC, 25 April 2025.

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Introduction

Since our meeting last October, the global economic order has changed. While the international community has benefited from an increase in trade and a reduction in barriers over many decades, the escalation of trade tensions and the imposition of tariffs have created strong headwinds for the global economy. The rise in trade policy uncertainty is unprecedented and is weighing on investment. Global growth is expected to continue at a moderate pace, but downside risks have intensified. Trade protectionism and fragmentation could hamper the smooth functioning of global value chains and negatively affect global trade dynamics, which have been a key engine of global growth and shared prosperity in recent decades.

Global inflation is projected to gradually decline amid easing labour markets in advanced economies and the impact of past monetary policy tightening. However, the ongoing escalation of trade tensions complicates the inflation outlook. Tariffs can trigger fluctuations in exchange rates, affect import prices and disrupt supply chains, and the impact on inflation is uncertain. Geopolitical tensions continue to present two-sided inflation risks as regards energy markets, confidence and investment.

In April, the Governing Council lowered the three key ECB interest rates by another 25 basis points. This decision was based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. The disinflation process in the euro area is well on track.

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. Especially in current conditions of exceptional uncertainty, we will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. We are not pre-committing to a particular rate path. Especially when the size and distribution of shocks are highly uncertain, we cannot provide certainty by committing to a particular rate path. Instead, we can provide framework guidance, giving clarity about our reaction function, explaining how the euro area is likely to be affected by different states of the world and clarifying what kind of data we consider when making our monetary policy decisions.

Economic activity

Euro area real GDP grew by 0.9% in 2024. Incoming data point to moderate growth in the first quarter of 2025, as foreseen in our March projections, but the outlook remains clouded by exceptional uncertainty. Euro area exporters face new barriers to trade.

These disruptions, coupled with tensions in financial markets and ongoing geopolitical uncertainty, are weighing on business investment and consumers are expected to become more cautious about the future, holding back spending.

At the same time, the euro area economy has been building up resilience against global shocks. In the medium-term, the strong labour market, higher real incomes and the impact of our monetary policy should underpin spending. Furthermore, important recent policy initiatives at national and EU levels aimed at increasing defence spending and infrastructure investment will likely have a positive impact on activity and further strengthen long-term growth.

The labour market remains resilient. Employment continued to expand in the fourth quarter of 2024, albeit at a more modest pace, and the unemployment rate declined to a historical low of 6.1% in February. Ongoing labour force growth continues to be supported by migration flows. Labour productivity is expected to improve as labour hoarding eases and profit margins moderate.

In the present geopolitical environment, it is even more urgent for fiscal and structural policies to make the euro area economy more productive, competitive and resilient. To address common challenges effectively, Europe needs to act as one. This requires us to work together towards greater economic integration and to attract talent and investment, especially in innovative and strategically important sectors. It also includes fostering green investment and the decarbonisation of the EU economy, which serve as a catalyst for growth and resilience. The European Commission's Competitiveness Compass provides a concrete roadmap for action, and its proposals, including on simplification, should be swiftly adopted. This includes completing the savings and investment union, following a clear and ambitious timetable, which should help savers benefit from more opportunities to invest and improve firms' access to finance, especially risk capital. It is also important to rapidly establish the legislative framework to prepare the ground for the potential introduction of a digital euro. 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.

Downside risks to economic growth have increased. The major escalation in global trade tensions and associated uncertainties will likely lower euro area growth by dampening exports and may also drag down investment and consumption. Deteriorating financial market sentiment could lead to tighter financing conditions and increase risk aversion, making firms and households less willing to invest and consume. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, also remain a major source of uncertainty. At the same time, an increase in defence and infrastructure spending will likely add to growth.

Inflation

The disinflation process is well on track and inflation has continued to develop as staff expected. Annual inflation stood at 2.2% in March 2025. Headline inflation resumed its downward trend in February 2025 due to lower energy inflation and lower core inflation, while services inflation also eased markedly after hovering around 4% since November 2023.

Most measures of underlying inflation suggest that inflation will settle at around our medium-term target on a sustained basis. Domestic inflation has declined since the end of last year as the pressure from labour costs eased. Recent wage negotiations point to a continued moderation in labour cost pressures supporting the disinflation process.

Looking ahead, inflation is expected to hover around our two per cent target. Growing global trade disruptions are adding uncertainty to the outlook for euro area inflation. Falling global energy prices and a stronger euro could dampen inflation. This effect can be amplified by weaker demand for euro area exports owing to higher tariffs, and a re-routing of exports into the euro area from countries with overcapacity. Adverse financial market reactions to trade tensions could weigh on domestic demand and thereby also lower inflation. By contrast, a fragmentation of global supply chains could raise import prices and hence inflation. A boost in defence and infrastructure spending, along with extreme weather and the broader climate crisis, could also raise inflation over the medium term.

Financial stability, euro area banking sector and non-bank financial intermediation

Despite very sharp movements in the global financial markets, the euro area financial sector has remained resilient. Headwinds from international trade and macro-financial challenges have become more acute and their impact on the economy at large, including on the financial sector, is still to be determined, especially in countries with more export-oriented economies. However, after regulatory reform and years of strong supervision, the euro area banking sector is facing this uncertain environment with robust capital and liquidity positions.

Although the euro area's non-bank financial intermediation (NBFI) sector has not shown significant signs of stress this year, liquidity vulnerabilities remain elevated. Coupled with pockets of high leverage, this could amplify potential market-wide stress, and the sector may face challenges from rising market volatility and geopolitical uncertainty.

To ensure the overall economy can continue functioning during periods of intense stress, a resilient financial sector capable of absorbing shocks is crucial. Therefore, in addition to continuing with strong banking supervision, macroprudential requirements must be maintained and the Basel framework implemented. Moreover, the resilience of the NBFI sector should be significantly strengthened in line with Financial Stability Board recommendations. This means enhancing the macroprudential policy framework for non-banks, ideally in an internationally coordinated way.

Despite the recent increase in crypto-asset market capitalisation, risks to euro area financial stability appear limited at this stage, although data gaps make it impossible to conduct a full assessment of every contagion channel, especially those related to non-banks. However, if the current trends of crypto-asset growth and interconnectedness with the financial system continue, crypto-assets will eventually pose a risk to financial stability. At the same time, global implementation of regulatory frameworks for crypto-assets remains fragmented. To mitigate risks, the G20's crypto-asset roadmap must be implemented globally. By implementing the Markets in Crypto-Assets Regulation (MiCA), the EU has taken an important step. However, continued vigilance will be crucial to adapt to market developments.

In addition, launching a digital euro would ensure that citizens and merchants could continue to benefit from the co-existence of private and public money in a digitalised world, thus enhancing our resilience and sovereignty in retail payments. By offering a secure and universally accepted digital payment option, the digital euro would reduce our dependence on foreign providers.

International cooperation

In view of the current uncertain geopolitical and macroeconomic environment in a highly interconnected world, international cooperation remains essential. As platforms for cooperation, our multilateral institutions and fora are pivotal in helping us address our shared concerns as we strive to promote macroeconomic and financial stability. A well-functioning global financial safety net with a strong International Monetary Fund at its centre continues to be crucial for preventing and managing crises. It is our duty to ensure that our multilateral institutions remain effective in dealing with current and upcoming challenges.

In the field of payment systems, the Eurosystem is committed to advancing cooperation with its partners. The TARGET Instant Payment Settlement (TIPS) service can now settle instant payments in Danish kroner in addition to euro and Swedish kronor. The feasibility of establishing technical links with other fast payment systems for seamless, fast and transparent cross-border payments is being explored. The Eurosystem is also committed to the financial integration of the Western Balkans, where the Banca d'Italia, as a TIPS service provider, is working to develop an instant, multi-currency payment system based on TIPS software.