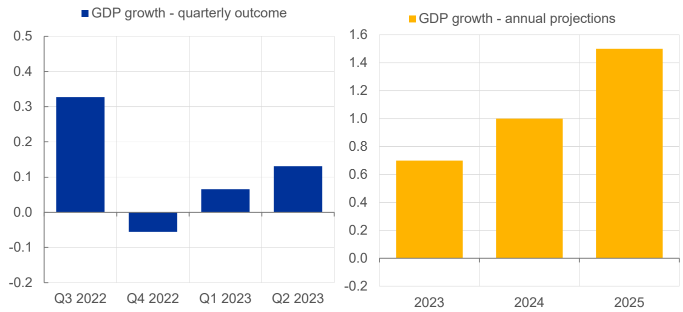
Introductory statement in three charts

ECON hearing with the ECB President on 25 September 2023

Real GDP growth

(quarter-on-quarter percentage changes; annual percentage changes)



Sources: Eurostat and September 2023 ECB staff projections.
Note: The latest observation for real GDP is for the second quarter of 2023.

Economic activity

Euro area real GDP broadly stagnated so far in 2023.

- Lower demand for euro area exports and the impact of tight financing conditions are dampening growth, including through lower private investment and consumption.

Over time, economic momentum will increase, but risks are tilted to the downside.

- Growth is projected at 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025.
- Consumption and real incomes should pick up as wages rise, inflation falls and the labour market remains strong.

Inflation

Headline inflation has come down from its peak, while underlying inflation remains more persistent.

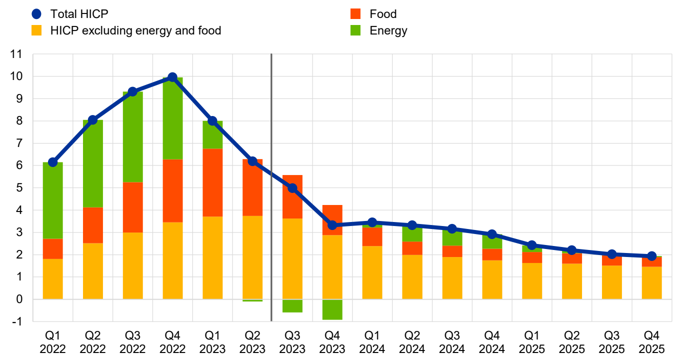
- HICP inflation declined to 5.2% in August from 5.3% in July. Energy inflation ticked up but remains negative, while food inflation has come down but is still high.
- HICP inflation excluding energy and food fell from 5.5% in July to 5.3% in August.

Inflationary pressures are expected to moderate.

- Inflation is projected at 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025.
- Most measures of underlying inflation are coming down, although domestic price pressures remain strong.

Inflation

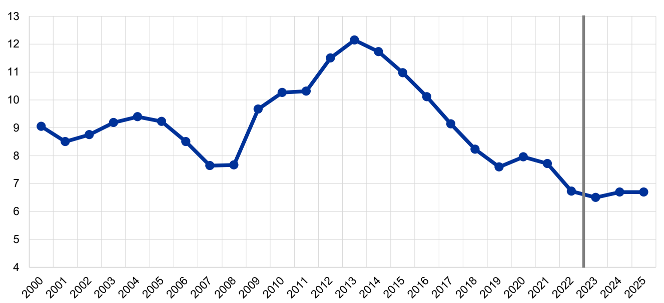
(annual percentage changes, percentage point contributions)



Sources: Eurostat and September 2023 ECB staff projections.
Notes: The latest observation is for the second quarter of 2023. The vertical line indicates the start of the projection horizon.

Unemployment rate

(percentages of labour force)



Sources: Eurostat and September 2023 ECB staff projections.
Note: The vertical line indicates the start of the projection horizon.

Labour market

The labour market has remained resilient so far despite the slowing economy.

- The unemployment rate stayed at its historical low of 6.4% in July. But while employment grew by 0.2% in the second quarter, momentum is slowing amid weaker economic activity.

The labour market is projected to slow down in the coming quarters, but unemployment is forecast to remain at low levels from a historical perspective.

- The unemployment rate is expected to increase slightly to 6.7% in 2024 and 2025.

WANT TO KNOW MORE?

- **Monetary Policy Statement, ECB Press Conference, 14 September 2023**
- **ECB staff macroeconomic projections for the euro area, 14 September 2023**

Topic 1: Fiscal-monetary policy mix

Fiscal policy has helped to contain inflation by supporting households and firms.

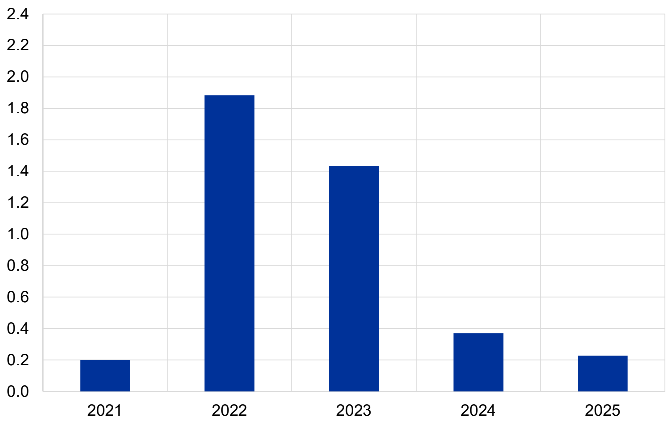
- Inflation-compensatory fiscal policies had a direct negative impact on inflation in 2022-23. This also helped to avoid second-round effects.
- As the energy crisis fades, governments should continue to roll back the related support measures. This is essential to avoid driving up medium-term inflationary pressures, which would otherwise call for an even stronger monetary policy response.

Fiscal policies should be designed to make the economy more productive and to gradually bring down high public debt.

- Policies to enhance the euro area's supply capacity can help reduce price pressures in the medium term.
- Agreement on the reform of the EU's fiscal framework should be reached by the end of the year.

Inflation-related fiscal support measures

(levels in percentages of GDP)



Source: September 2023 ECB staff projections.
Notes: Inflation-related support measures comprise all compensatory fiscal measures to alleviate the burden of high inflation. The bulk of these measures pertains to energy prices, but other relevant measures are also included (e.g. related to food prices).

Topic 2: Excess liquidity in the euro area

Excess liquidity refers to deposits that banks hold with the Eurosystem in excess of the minimum reserve requirements.

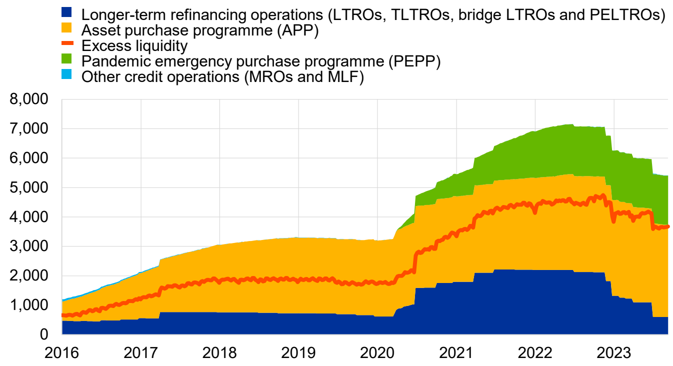
Excess liquidity peaked in autumn 2022 and has fallen by more than €1 trillion since. It currently stands at €3.6 trillion.

- The recent decline is mainly due to:
  - TLTRO III repayments
  - Reduction of the asset purchase programme portfolio as a result of the end of reinvestments of maturing securities

The ongoing review of the operational framework will determine the adequate size and composition of the Eurosystem's balance sheet.

Excess liquidity and selected Eurosystem assets

(EUR billions)



Source: ECB.
Note: The latest observation is for 8 September 2023.

WANT TO KNOW MORE?

- **ECB Opinion on a proposal for economic governance reform in the Union, 5 July 2023**
- **What is excess liquidity and why does it matter?, ECB Explainer, 28 December 2017**