IN-DEPTH ANALYSIS

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EGOV
ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

MONETARY POLICY

Euro area monetary policy: Quarterly overview, December 2024

Inflation in focus: dynamics, forecasts and expectations

In this issue...

- Headline inflation sits above the ECB's target, while core inflation remains stuck.
- At this stage, the impact of possible tariffs proposed by US President-elect Donald Trump is unclear.
- ECB Financial Stability Review warns of heightened vulnerabilities in euro area sovereign debt markets.
- Fed cuts rates by 25 bps as Powell shows no intention to resign.
- Further rate cuts by the ECB are expected, already in the December Governing Council meeting.
- Next Monetary Dialogue to take place on 4 December 2024.

According to the latest Eurostat flash estimates, the annual headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), is expected to reach 2.3% in November 2024, up from 2.0% in October and 1.7% in September. Core inflation, which excludes energy and food from HICP, is expected to remain stuck at 2.7% in November. The increase in headline inflation is primarily attributed to persistent pressures from services inflation and base effects, particularly due to the decline in energy prices a year ago. **Figure 1 (left)** shows different contributions to headline inflation in the euro area. **Services inflation remains in the focus standing at around 4%**, as it is the component that has been increasing steadily over time. Please refer to the Annex for headline (**Table 3**) and core (**Table 4**) inflation rates in Member States.

Underlying inflation indicators remained largely stable or shown a slight decline in October (Figure 1, right). Domestic inflation (goods and services intended for local consumption with minimal dependence on imports) still remains elevated to strong wage growth. Negotiated wage growth is likely to stay high and volatile for the rest of this year, driven by the impact of one-off payments and the phased implementation of wage adjustments. Labour cost pressure are expected to ease, while profits are helping to partially mitigate the impact of rising wages on inflation.

Economic Governance and EMU Scrutiny Unit (EGOV)
Authors: Maja SABOL, Giacomo LOI, Drazen RAKIC
Directorate-General for Internal Policies
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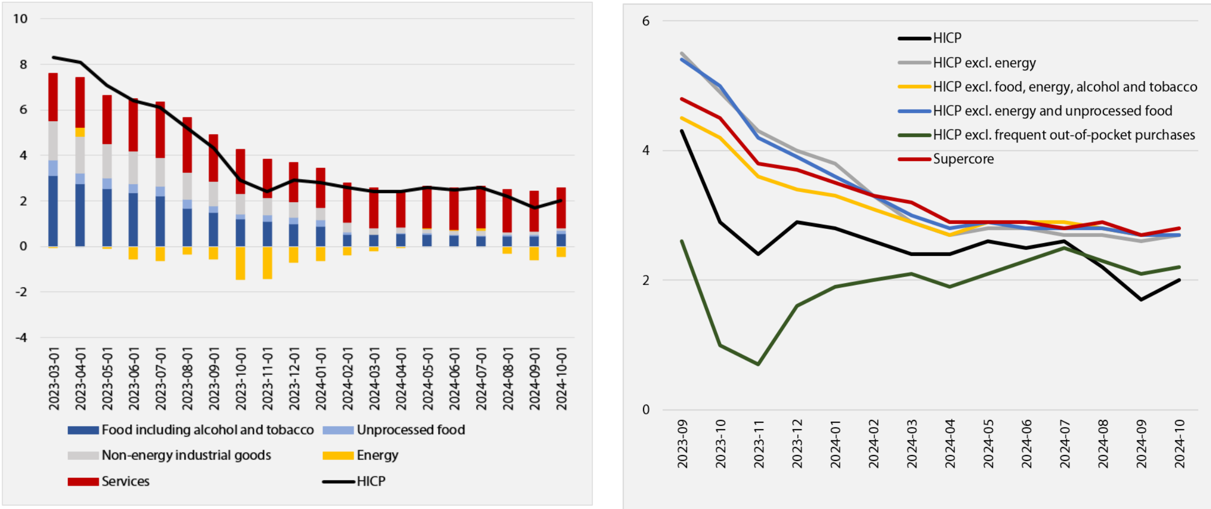
Figure 1: Contributions to HICP inflation in euro area, in percentage points (left) and underlying measures of inflation, in % (right)



Note: Last observation on the left hand side is October 2024. Frequent out-of-pocket purchases represent purchases made by consumers at least once a month, these are transactions that are paid for directly and actively; supercore includes only those items from the HICP inflation measure, excluding energy and food that are considered sensitive to economic slack, as indicated by the output gap.
Source: EGOV elaboration based on Eurostat and ECB Data Portal.

Domestic and services inflation typically lag behind headline inflation, with slower price adjustments compared to other components such as energy, food and goods inflation. As a result, these categories have responded more slowly to recent inflationary shocks, which keeps annual services inflation elevated. In addition, different measures of underlying inflation shown above can offer valuable insights into headline inflation in the future, though their effectiveness in forecasting is still ambiguous. Understanding the scope of these measures goes beyond just analysing the disinflation process, as they can provide broader insights into inflation dynamics as recently presented by Philip Lane.

The disinflation process is expected to gain momentum from easing labour cost pressures and the gradual impact of earlier tightening measures on inflation. However, as recent data show, inflation has risen toward the end of this year and is **likely to increase further due to one-off base effects**, which are not linked to any changes in the monetary policy stance. Inflation could end up higher than expected if wages or profits grow more than forecast. Rising geopolitical tensions could also push up shipping and energy costs, thus disrupting trade, while food prices continue to be affected by climate change. On the other hand, inflation might be lower than expected if monetary policy reduces demand more than initially anticipated or if the global or euro area economy worsens unexpectedly[1].

In a recent interview, ECB executive Board Member Isabel Schnabel remarked that that inflation risks are now more balanced. She stated that there is no significant risk of "*inflation undershoot*" that would require action from the ECB and that inflation is expected to remain near the target over the medium term, indicating the ECB is on track. Furthermore, recent Purchasing Managers' Index (PMI) data which offer insights into pricing trends, show that elevated prices are still filtering through the economy.

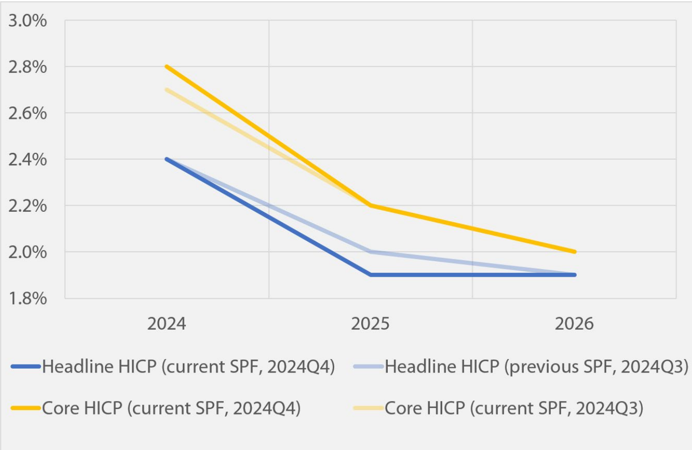
According to the European Commission's 2024 Autumn Forecasts, headline inflation the euro area is expected to halve relative to the 2023 levels of 5.4% to 2.4% in 2024. The disinflationary process, though currently slowing down following a pick-up in energy prices, is forecasted to bring headline inflation

[1] More details available on the ECB website.

to 2.1% in 2025 before falling below target in 2026 at 2.6%. The Commission also notes that there has been a moderation of inflation of non-energy goods in 2024, meaning that the disinflationary contribution from non-energy goods is expected to fade, and most of the contribution to bring down headline inflation will have to come from services inflation which remains elevated and broad-based in annual terms (around 4%). Consequently, core inflation, which in the euro area is now forecasted to be 0.25 percentage points higher for 2024 and 2025 than in the previous Spring forecast.

For a comparison of recent euro area inflation forecasts and more details on the euro area economic outlook please refer to EGOV briefing on the latest EU and euro area economic developments and projections.

Figure 2: SPF inflation expectations



Source: EGOV elaboration based on ECB, SPF 2024Q4.

The latest Survey of Professional Forecasters (SPF) for Q4 2024 reveals minor changes in headline and core inflation expectations. **Figure 2** shows that headline inflation is expected to fall slightly below the 2% target next year, with a small downward revision for 2025. Core inflation expectations for 2024 were marginally increased compared to the previous round, by 0.1 p.p., while remaining at 2.2% and 2% for 2025 and 2026, respectively. Measured uncertainty has decreased, and the balance of risks is now tilted somewhat to the upside. Longer-term inflation expectations (five years ahead) remain anchored at the 2% target.

Monetary policy decisions

European Central Bank

In its last Governing Council meeting on 17 October, the ECB further eased its monetary policy stance by lowering the three key policy rates by 25 basis points (bps). This marks the third consecutive rate cut since the start of the loosening cycle in June, with the key policy rate - the deposit facility rate (DFR) - now standing at 3.25%. Given the ECB's recent assessment of the inflation outlook, underlying inflation dynamics, and the effectiveness of monetary policy transmission, the Governing Council decided with disinflation progressing as expected, it is appropriate to further ease its monetary policy stance. For details on the previous ECB's Governing Council decisions, please refer to the September 2024 EGOV briefing on euro area monetary policy developments.

Although the ECB's communication indicates the potential for further rate cuts, the timing and scale of any future policy rate cuts remain unclear. As in September Governing Council meeting, the ECB stated that it will continue to adjust its policy rates based on incoming data and a meeting-by-meeting approach, without committing to a specific rate path. During the press conference, Lagarde hinted that the decision to cut rates was motivated by the notion that "*disinflationary process is well on track*" and that a recession is not currently anticipated in the euro area based on ECB's forecasts. This may be somewhat puzzling **given that only limited macroeconomic data** was released between the September and October meetings and it **further raises the question of whether the ECB is shifting its strategy to stay ahead of the curve** and aiming to return to neutral rates more quickly.

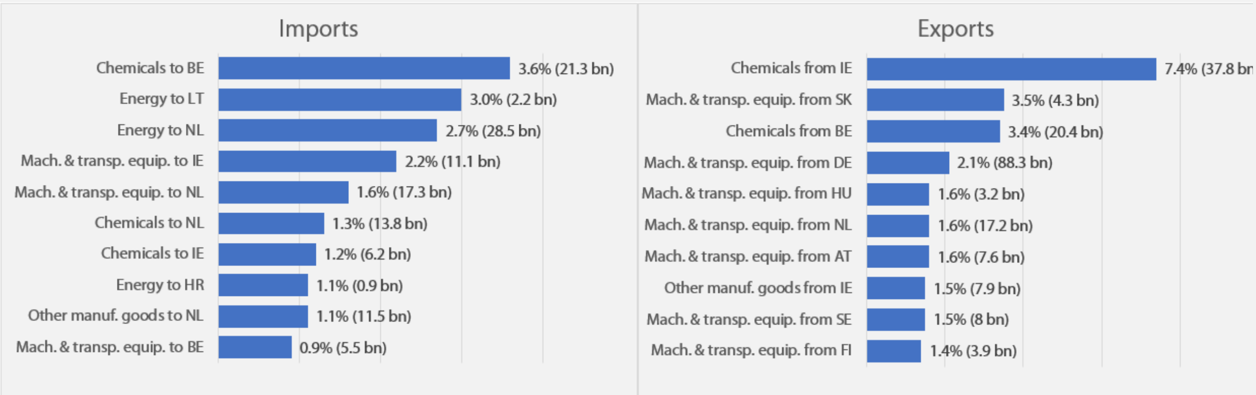
EU-US trade in light of tariffs proposed by US President-elect Donald Trump

The EU-US trade relationship is the largest in the world, with the annual value of trade in goods and services exceeding EUR 1.5 trillion in 2023 (30% of world trade and 43% of world GDP). In the decade since 2013, EU-US trade in goods has more than doubled.

The US has a long-standing trade deficit with the EU. In goods trade, the US is the EU's largest export partner (19.7% of total) and second largest on import (13.8%), after China. On the other side, the EU is the largest trade partner of the US, on both exports and imports. In 2023, the US had a goods trade deficit with the EU amounting to EUR 156 billion - nearly 16% of its overall goods trade deficit. On services trade, however, the US had a large trade surplus with the EU: EUR 104 billion. The **combined US deficit for goods and services trade** is thus more limited at EUR 52 billion - only 7% of the total US trade deficit. The EU and the US are **each other's largest sources of foreign direct investment (FDI)**, with, from the EU's perspective, EUR 2.5 trillion of inward and EUR 2.7 trillion of outward stock in 2022.

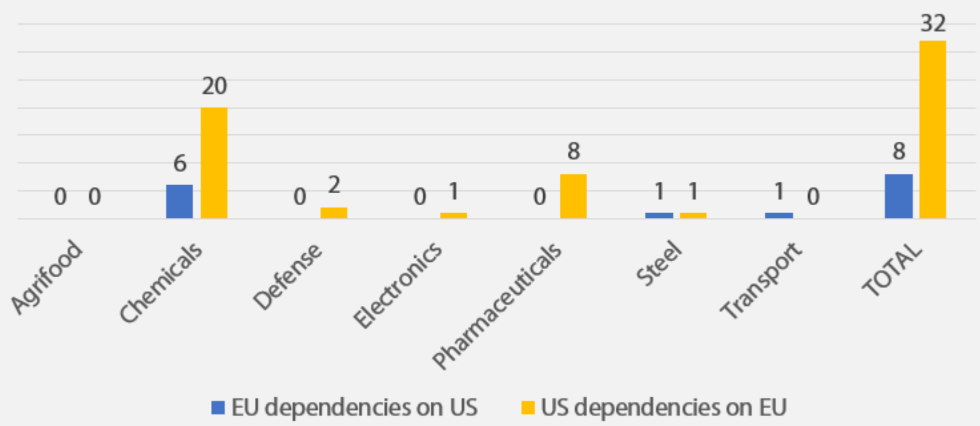
US President-elect Donald Trump has announced sweeping tariffs ranging from 10-20% on imports from all countries except China, for which he plans higher tariffs of 60%. Some recent research has suggested that trade inter-dependencies in strategic products are titled to the EU's advantage, while some EU Member States are more exposed than others, particularly in the chemicals and transport sectors.

Figure 3: Member States' sectors with largest US trade dependencies, % of country's GDP (EUR billion), 2023



Source: ING (2024). "Why the EU still holds a Trump card in the face of rising trade tensions", 27 November.

Figure 4: Strategic trade interdependencies between the EU and the US, by sector, number of products, 2022



Source: ING (2024), based on Lefebvre and Wibaux (2024).

A trade war with the US would bring significant downside risks for the EU, in particular for growth. On inflation, the uncertainty surrounding the design and scope of the tariffs and the possible retaliatory measures, makes it difficult to assess the impact. However, assumptions are already being made about diverging monetary policy paths of the Federal Reserve and the ECB, as well as the impact on the USD/EUR exchange rate (see recent interview by Isabel Schnabel). In an interview with the Financial Times, ECB President Christine Lagarde has suggested that EU policymakers take a co-operative approach with the future Trump Administration on tariffs.

The ECB may be moving away from its data-dependent approach, as recently stated by executive Board Member Philip Lane. He noted that **future monetary policy decisions would need to focus on upcoming risks rather than being backward-looking**, particularly once the central bank is confident that inflation is on track to meet its target of 2%. In a recent FT podcast, Lane stated that after the disinflation process is complete, **monetary policy should adopt a more forward-looking approach** which would involve scanning the horizon for potential new shocks that could either increase or decrease inflationary pressures. On the other hand, Isabel Schnabel underscored the **importance of data-dependent decisions and cautioned against moving too far into accommodative territory**. Furthermore, she indicated a **preferred terminal rate in the range of 2% to 3%,** whereas Philip Lane's remarks suggested that the ECB might move below the neutral interest rate level in 2025.

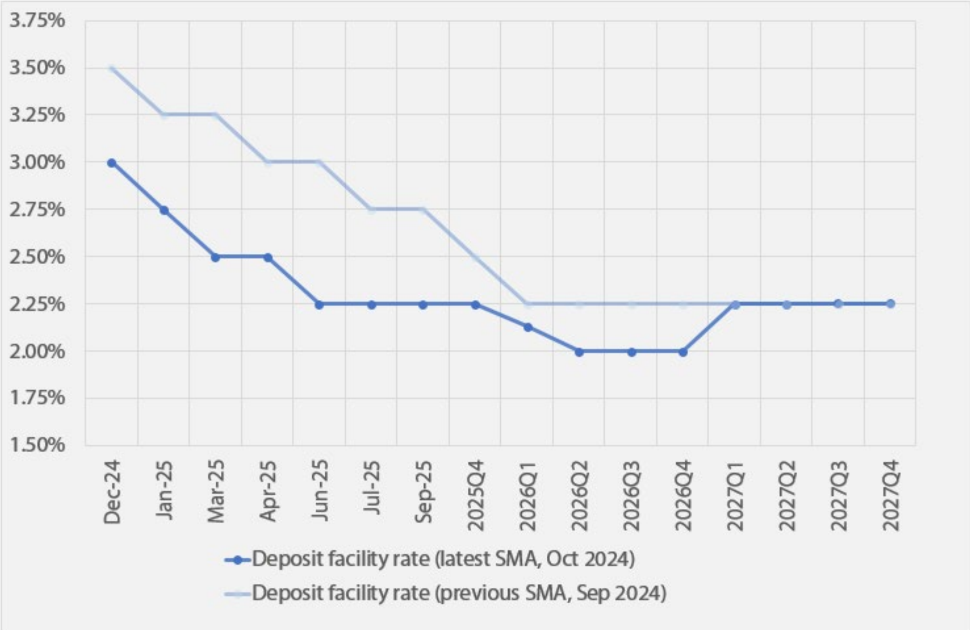
The minutes from the ECB's October meeting reveal a lack of consensus among Governing Council members about the disinflationary path. Even before the election in the US, concerns about slowing euro area growth had become a priority, but not all members were convinced that the disinflationary trend will remain. Despite this scepticism, concerns about growth and having the ability to cut rates were seen as a **prudent risk management measure** ultimately and shaped the decision to lower rates in October. Minutes confirm that **some members initially opposed the rate cut, preferring to wait for more data and a comprehensive assessment** of the medium-term inflation outlook in December. However, they acknowledged the rationale of prudent risk management for acting pre-emptively and ultimately agreed to support the proposal.

In a recent interview, Isabel Schnabel remarked that she would not comment on the upcoming December decision but noted that the ECB should be ready to: *"gradually move toward neutral if the incoming data continue to confirm their [ECB] baseline."* Schnabel emphasised the word **"gradual"** for three key reasons: first, **services inflation remains elevated**; second, the **ECB must remain cautious of potential new shocks**, and third, the ECB is **approaching neutral territory**, though there is considerable uncertainty about where the neutral rate lies. When asked about the possibility of aligning with Fed decisions, Schnabel was reluctant, saying that the **ECB conducts its own monetary analysis focusing on euro area indicators**. While that may be the case, it is also important to recognise that a scenario involving announced US tariffs and other geopolitical tensions could weigh on euro area growth. Moreover, a weakening of the euro to parity with the US dollar could have implications for inflationary pressures.

Data from the October 2024 ECB bank lending survey (BLS) show positive improvements in the credit environment characterised by an overall easing of credit standards and increase in credit demand. Notably, for the first time after over two years of tightening, credit standards for corporate loans are unchanged in the third quarter of 2024. Credit standards are further easing for mortgages whereas some tightening is recorded for consumer loans. Additionally, demand for housing and corporate loans loans is also rebounding. Composite cost of borrowing for both households (**Table 5**) and non-financial corporations (**Table 6**) across euro area countries is displayed in Annex.

According to the ECB's most recent Survey of Monetary Analysts (SMA) of October, one further 25 bps interest rate cut is expected in December and then three more in 2025. The median response suggests a faster interest rate cut cycle than in the previous month's survey, arriving to 2.25% already in June next year (compared to September survey, when it was expected in the fourth quarter). SMA respondents expect the DFR to fall to 2% in 2026 and rise to 2.25% in 2027. **Figure 5** shows the expected path of the DFR and the expected size of Eurosystem's bond holdings. The cut-off date for the survey was 2 October 2024.

Figure 5: Market expectations, deposit facility rate, SMA median response



Source: EGOV elaboration based on ECB SMA, September and October 2024.

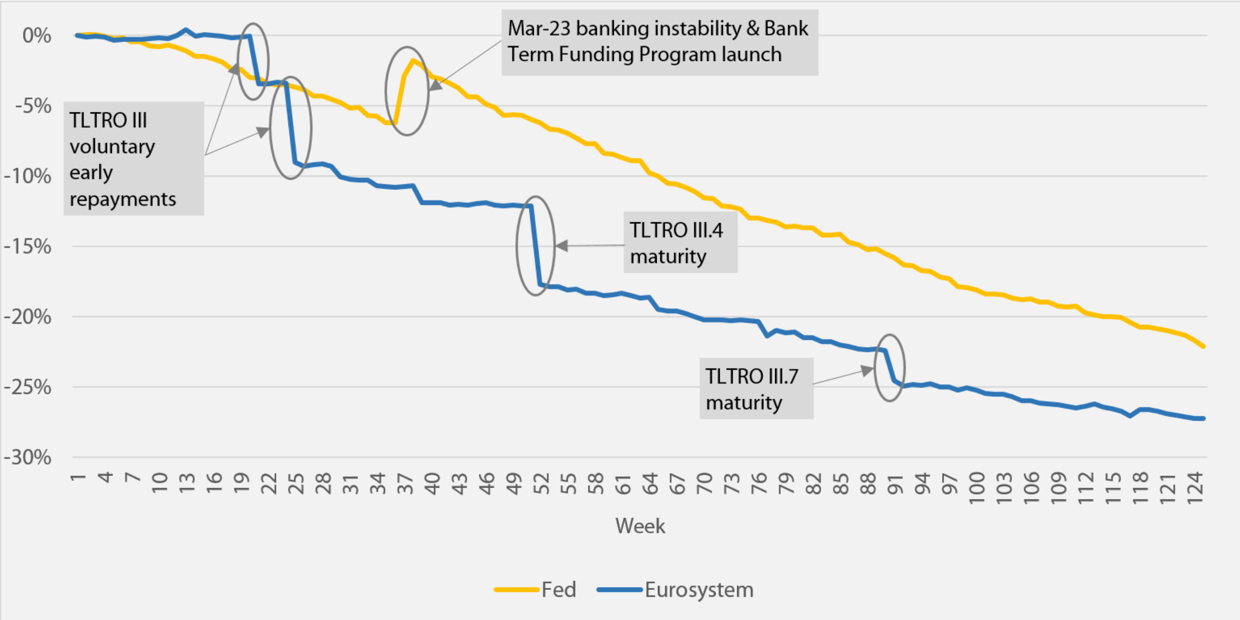
Balance sheet policies

The Eurosystem's balance sheet has been reduced by more than a quarter since the start of the tightening in July 2022. Compared with the Federal Reserve, the Eurosystem's reduction was more significant in relative terms (**Figure 6**), despite the faster monthly pace of the Fed's quantitative tightening (QT) - currently USD 60 billion/month. The faster reduction of Eurosystem's balance sheet is due to TLTRO III repayments, with more than EUR 2.3 trillion repaid by euro area banks so far. Going forward, TLTRO III will not play a significant role in the further reduction of the balance sheet, with only one remaining operation maturing on in December, and an outstanding amount of EUR 29.2 billion.

Since July 2023, the ECB is continuing with QT through a gradual unwinding of its asset purchase programme (APP) holdings, by stopping reinvestments of maturing assets and letting them "run off" the Eurosystem's balance sheet. This means that principal repayments are no longer reinvested and the stock of assets held by the Eurosystem is reduced at a pace that depends on the monthly amount of redemptions. As of October 2024, asset holdings under the APP amount to EUR 2.7 billion (83% from the peak in June 2022), with the largest amount of holdings under the public sector purchase programme (PSPP) - close to EUR 2.2 billion. Looking forward, in the period between November 2024 and July 2026, the average monthly reduction will be EUR 29 billion, with large variations from EUR 12 billion in December 2025 to EUR 51 billion in April 2026.

From July 2024, the Pandemic Emergency Purchase Programme (PEPP) is also included in the QT operation. Since then, reinvestments are reduced by EUR 7.5 billion on average per month, and from January 2025 reinvestments will be discontinued altogether. PEPP reinvestments, therefore, will continue to act as a *"first line of defence against fragmentation"*, only until the end of 2024. After that, the ECB will rely on the Transmission Protection Instrument (TPI) and the Outright Monetary Transactions (OMT) to deal with fragmentation risks.

Figure 6: Eurosystem and Federal Reserve, balance sheet reduction by week since July 2022, in %



Source: EGOV elaboration based on ECB and Federal Reserve.

Note: Week 124 refers to week of 11 - 15 November 2024.

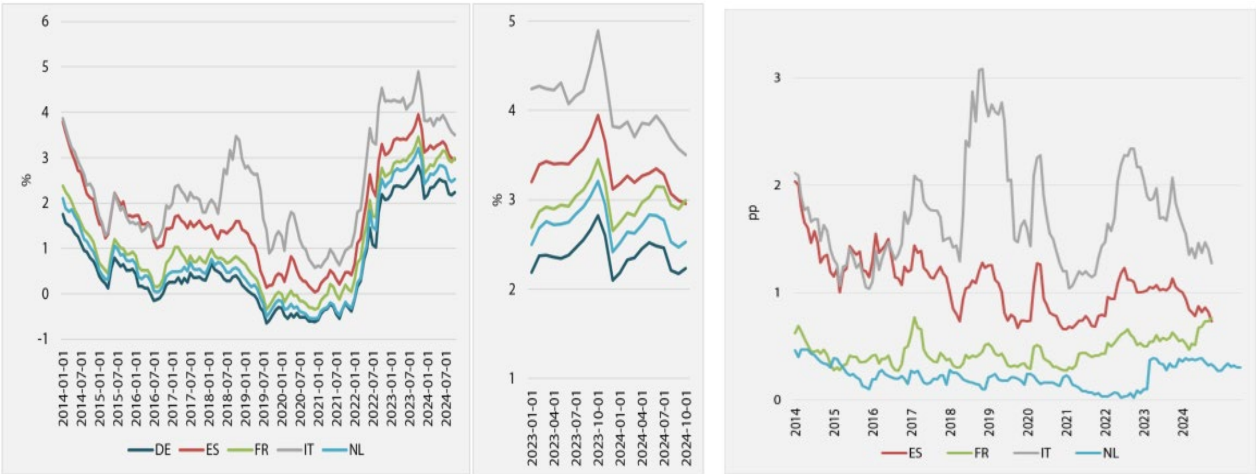
Main findings from the Financial Stability Review (November 2024)

In the [November edition of Financial Stability Review (ECB)](), the ECB warns of **elevated financial stability vulnerabilities in a volatile environment**. First, it notes that **high valuations and risk concentration leave financial markets vulnerable to adverse dynamics**, which could be amplified further by the role of non-banks (NBFIs) due to their liquidity and leverage vulnerabilities. In addition, **credit risk concerns in specific parts of the corporate and household sectors** may lead to asset quality headwinds for banks and non-banks if downside risks to growth materialise. For further details on challenges arising from increasing vulnerabilities in euro area financial sector please refer to our ESRB paper here.

This edition of the FSR emphasises rising risks to financial markets, with a heightened focus on fiscal risks and debt sustainability compared to previous editions. Accordingly, we also centre our analysis on these emerging fiscal vulnerabilities. **Sovereign vulnerabilities are increasing in light of heightened policy and geopolitical uncertainty**, weak fiscal fundamentals and a sluggish growth trend. Although aggregate debt-to-GDP ratios have recently decreased, **fiscal challenges remain in several euro area countries,** and especially in those with weak fiscal fundamentals and poor historical compliance with EU fiscal rules. The ECB notes that **sovereign spreads have widened** for some high-debt euro area countries due to **increased policy uncertainty** and **market concerns** about the impact on debt sustainability (**Figure 7**). In addition, despite accommodative ECB's monetary policy and expected reduction in borrowing costs, it is expected for **interest payments to increase in the medium-term**. The full overview of sovereign bond yields in euro area countries is displayed in Annex in **Table 7.**

In its FSR, ECB has highlighted that **policy uncertainty surrounding fiscal consolidation under the new economic governance framework**, along with risks of fiscal slippage, could trigger further repricing of sovereign risks in some countries. Overall, the **FSR strikes a more negative tone relative to the Commission** when discussing fiscal vulnerabilities. In its 2024 Autumn Forecasts, the Commission has instead noted positive developments in terms of public deficits while noting some marginal increase in euro area public debt levels by 2026 in light of, first, fading contribution from inflation in the form of higher nominal growth and, second, higher debt servicing burdens off the back of rising interest rates. The Commission also highlights how sovereign bond yields have been falling since the start of the loosening cycle in the spring. In our [EGOV briefing](#) from July 2024, we have dedicated a **section on fiscal challenges for monetary policy which can have notable implications for the conduct of monetary policy.** The

Figure 7: Sovereign borrowing costs, in % (left) and spreads vis-a-vis Germany, in pp (right)



Note: On left hand side 10-year government bond yields are shown. Monthly data from January 2014 to October 2024 is shown.
Source: EGOV elaboration based on data from [Eurostat](#).

French sovereign debt market has been particularly exposed to volatility following the unexpected French election in June. Further instability following the vote on the government budget may prompt a sell-off of bond holdings and push the spread vis-a-vis Germany. For further details on relevant EU fiscal developments, please refer to the [EGOV briefing](#) in advance of the Economic Dialogue with Commissioner Dombrovskis on 5 December 2024.

Federal Reserve's recent decisions

During its last meeting on 7 November 2024, the Federal Open Market Committee (FOMC) of the US Federal Reserve (Fed) unanimously [decided to cut](#) its target range for the federal funds rate by a quarter of a point to a range of 4.5% and 4.75% (down from between 4.75% and 5%). This is the second consecutive interest rate cut since the Fed started loosening its rates in September (prior to that it had kept the rate unchanged five times).

The Fed is easing the aggressiveness of its easing opting for a milder 0.25 bps cut rather than the half a point approach adopted in September. In this way, the magnitude of the cut has reverted to the preferred gradual approach used by the Fed for its cuts during the pandemic. The decision seems motivated by a continued growth of the US economy and a general easing of labour market conditions. Inflation remains somewhat high. Fed Chair Jerome Powell indicated in the press conference that "*We continue to be confident that, with an appropriate recalibration of our policy stance, strength in the economy and the labor market can be maintained, with inflation moving sustainably down to 2 percent*". Headline inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), sits at 2.7%. The Fed relies instead on the Personal Consumption Expenditure (PCE) Price Index, which was 2.1% in September 2024 (latest reading at the time of decision). While headline inflation is moving closer to target, core inflation remains "*somewhat elevated*" around 2.7% (PCE). Longer-term inflation seem however well-anchored.

The Fed did not provide guidance on future rate cuts maintaining a data-dependent approach. A further 25 bps cut is however expected in the December meeting, the last one under the current Biden administration. The debate is now therefore shifting towards how quickly the neutral level should be reached and whether it would be appropriate to slow the pace of rate reduction.

As Donald Trump is set to return to the White House, questions are emerging both on the continuation of the loosening cycle and on central bank independence. Expectations for a protectionist agenda and more lenient corporate tax regimes under Trump fuel the prospects for higher price pressures and slower growth. Powell clearly ruled out embedding such expectations in future monetary policy decisions "*We don't guess, we don't speculate, and we don't assume*". On central bank independence, President-elected Trump has shown interest in meddling with monetary policy decision-making, claiming that the President should at least be able to comment on decisions by the central banks.

Powell has indicated that he has no intention to resign before the end of its mandate in May 2026. The current Chair of the Fed was originally appointed in his role by President Trump himself, yet their relationship has been rocky with Trump calling Powell "clueless" and, more recently during the campaign, warning not to cut interest rates before the presidential elections. During the summer, Trump showed openness to keep Powell as Chair as long as he would be "doing the right thing", yet Powell has indicated

Table 1: Major monetary policy decisions and developments in other jurisdictions

Central bank	Last meeting	Headline inflation	Policy rate	Change in policy rate	Exchange rate / EUR
ECB	17/10/2024	2.3%	3.25%	**↓ 25 bps**	/
Bank of Canada	23/10/2024	2.0%	3.75%	**↓ 50 bps**	1.4796 CAD ↑
Federal Reserve	6-7/1/2024	2.3%	4.5%-4.75%	**↓ 25 bps**	1.0562 USD ↑
Bank of England	7/11/2024	2.3%	4.75%	**↓ 25 bps**	0.8321 GBP ↓
Bank of Japan	30-31/10/2024	2.3%	0.25%	**=**	158.64 JPY ↓

Notes: Last update for EUR exchange rates (EUR 1 = ...) was on 2 December 2024 at 11:31. For headline inflation figures, we use HICP (ECB) in November 2024 (est.), total CPI (Canada) in October 2024, CPI in October 2024 (UK), PCE in October 2024 (Federal Reserve) and CPI in October 2024 (Japan). Policy interest rates are the Deposit Facility Rate (DFR) for the ECB, the target for the overnight rate for the Bank of Canada, the federal funds rate for the Federal Reserve, the Bank rate for the Bank of England and the uncollateralised overnight call rate for the Bank of Japan.
Sources: ECB, Euro foreign exchange reference rates, Bank of England, Bank of Canada, Federal Reserve, Bank of Japan, e-Stat.

Monetary Dialogue of 4 December 2024

The second Monetary Dialogue with ECB President Christine Lagarde of the 10th legislative term will take place on 4 December 2024.

For this occasion, the ECON Committee has selected two topics for external expertise:

1. **Quarterly assessment of the ECB's monetary policy stance**
2. **The new economic governance framework: Implications for monetary policy**

The first topic intends to take stock of the decisions undertaken by the Governing Council in its meeting(s) since the previous Dialogue of 30 September 2024. In this context, experts were asked to review the current monetary policy stance - both in terms of interest rate and balance sheet developments - evolution of inflation outlook, other central banks' decisions, as well as other specific challenges ECB may encounter going forward. The topic anticipates a stronger focus of the ECON Committee on reviewing more systemically the latest ECB decisions and monetary policy stance by means of its Monetary Dialogues.

The second topic investigates the implications of the new economic governance framework for the conduct of monetary policy in the euro area. The revised Stability and Growth Pact, which came into effect in April 2024, introduced several changes to the framework for multilateral surveillance and coordination of economic policies among EU Member States. In this context, experts were asked to provide their views on understanding how the new economic governance rules interact with monetary policy and have broader implications for monetary-fiscal nexus.

On 20 November 2024 the ECON Committee held a preparatory meeting with selected experts (Ignazio Angeloni, Roel Beetsma, Zsolt Darvas and Isabella Weber) to discuss their papers. Please refer to **Table 2** for a full overview of external expertise provided ahead of this Monetary Dialogue in December 2024.

Table 2: External expertise provided ahead of December 2024 Monetary Dialogue

Quarterly assessment of the ECB's monetary policy stance		
Authors	**Title**	**Abstract**
I. Angeloni	Assessing the ECB's monetary policy stance by comparing tightening cycle	In this paper, the ECB **monetary policy stance is assessed by comparing the recent tightening cycle (2022-today) with the two preceding ones**, which took place in 2000-2001 and in 2006-2008. Interest rates, quantitative indicators and monetary conditions indices (MCIs) are used for this purpose. The main finding is that **at the peak of the latest tightening cycle, the ECB monetary policy stance was no more restrictive than it was at the peak of the two preceding ones**; actually, probably less. This contrasts with the fact that in the more recent case inflation was higher and more persistent than in the two earlier episodes.
S. Tenreyro	Quarterly assessment of the ECB's monetary policy stance	The paper seeks to **assess the current monetary policy stance of the European Central Bank (ECB)**. To do so, it analyses **factors driving the inflation dynamics** in the euro area (EA) and their potential persistence, drawing comparisons with the inflation drivers and policy response in the United States (US). Given the prominent role played by the energy-price increase in EA inflation and the differential exposure of EA Member States, the paper **analyses the country-level inflation dynamics in response to the energy shock**. Finally, the paper discusses the **ECB's strategy and communication**, and the interpretation drawn by financial markets, before taking stock on the stance of monetary policy

The new economic governance framework: Implications for monetary policy		
Authors	**Title**	**Abstract**
R. Beetsma	The new economic governance framework: Implications for monetary policy	**Credible ECB monetary policy** requires that the **revised EU economic governance framework be tightly enforced from its start**. Net primary expenditures as key control variable allow predictable monetary policy focused on stabilisation. However, **widespread debt reduction pushing spending growth below potential GDP growth may prompt more accommodative ECB policy**. Moreover, potentially cumulating changes in public spending-to-GDP ratios need close monitoring. Finally, the criteria for TPI may increase pressure to be lenient on enforcement of the fiscal rules.
Z. Darvas, P. Hernandez de Cos, J. Zettelmeyer	The new economic governance framework: Implications for monetary policy	This paper studies **the implications for the European Central Bank (ECB) of the new EU fiscal framework, focusing on five aspects** where monetary and fiscal policies intersect: (1) fiscal dominance over monetary policy; (2) fiscal drag created by the new framework; (3) moral hazard created by very low interest rates; (4) the effectiveness of the ECB's Transmission Protection Instrument (TPI), and (5) the impact of the new framework on green public investment

Contact: egov@ep.europa.eu

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ANNEXES

Table 3: Headline HICP inflation rates by euro area Member State, yoy %

	Sep-23	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
BE	0,7	3,8	4,9	4,9	5,4	5,4	4,3	4,3	4,5	5,0
DE	4,3	2,3	2,4	2,8	2,5	2,6	2,0	1,8	2,4	2,4
EE	3,9	4,1	3,1	3,1	2,8	3,5	3,4	3,2	4,5	3,8
IE	5,0	1,7	1,6	2,0	1,5	1,5	1,1	0,0	0,1	0,5
EL	2,4	3,4	3,2	2,4	2,5	3,0	3,2	3,1	3,1	3,0
ES	3,3	3,3	3,4	3,8	3,6	2,9	2,4	1,7	1,8	2,4
FR	5,7	2,4	2,4	2,6	2,5	2,7	2,2	1,4	1,6	1,7
HR	7,4	4,9	4,7	4,3	3,5	3,3	3,0	3,1	3,6	4,0
IT	5,6	1,2	0,9	0,8	0,9	1,6	1,2	0,7	1,0	1,6
CY	4,3	1,6	2,1	3,0	3,0	2,4	2,2	1,6	1,6	2,4
LV	3,6	1,0	1,1	0,0	1,5	0,8	0,9	1,6	2,1	2,3
LT	4,1	0,4	0,4	0,9	1,0	1,1	0,8	0,4	0,1	1,1
LU	3,4	3,2	3,0	3,2	2,8	2,7	1,7	0,8	0,9	1,1
MT	4,9	2,7	2,4	2,3	2,2	2,3	2,4	2,1	2,4	2,3
NL	-0,3	3,1	2,6	2,7	3,4	3,5	3,3	3,3	3,3	3,8
AT	5,8	4,1	3,4	3,3	3,1	2,9	2,4	1,8	1,8	2,0
PT	4,8	2,6	2,3	3,8	3,1	2,7	1,8	2,6	2,6	2,7
SI	7,1	3,4	3,0	2,5	1,6	1,4	1,1	0,7	0,0	1,6
SK	9,0	2,7	2,4	2,6	2,4	3,0	3,2	2,9	3,5	3,6
FI	3,0	0,6	0,6	0,4	0,5	0,5	1,1	1,0	1,5	1,9
EA	4,3	2,4	2,4	2,6	2,5	2,6	2,2	1,7	2,0	2,3

Source: ECB Data Portal.

Table 4: Core HICP inflation rates by euro area Member State, yoy %

	Sep-23	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
BE	5,6	3,8	3,4	3,1	3,2	3,3	3,1	3,0	2,9	3,0
DE	4,8	3,2	2,9	3,5	3,3	3,3	3,0	3,0	3,3	3,1
EE	6,6	4,9	5,7	5,1	4,9	4,9	4,9	4,8	6,4	
IE	4,0	2,8	2,3	2,5	2,2	2,4	2,3	1,6	1,6	
EL	4,2	3,4	3,1	2,8	3,4	3,8	3,7	3,6	4,3	4,5
ES	3,9	3,1	2,7	3,0	3,0	2,8	2,8	2,7	2,5	
FR	3,6	2,2	2,3	2,3	2,5	2,3	2,6	2,1	2,1	2,2
HR	7,3	5,4	5,2	4,9	4,4	4,3	4,4	4,8	4,5	4,3
IT	4,1	2,2	2,2	2,2	2,1	2,4	2,3	1,8	1,9	2,0
CY	3,5	2,5	1,8	3,0	2,4	2,5	2,7	2,9	2,9	3,0
LV	7,2	3,8	3,4	3,1	4,1	3,4	3,9	4,0	3,6	
LT	8,2	3,8	3,5	3,3	3,3	2,9	2,8	2,6	2,2	
LU	3,8	3,4	2,4	2,5	2,5	2,0	2,5	2,4	1,9	
MT	4,2	2,2	1,8	1,9	2,0	2,1	2,3	1,9	2,2	2,3
NL	5,1	3,1	2,3	2,5	3,1	3,4	3,5	3,6	3,3	3,7
AT	6,9	4,8	4,1	4,0	3,9	3,7	3,7	3,2	3,2	3,2
PT	5,1	3,2	2,4	3,5	2,5	2,2	1,8	3,1	2,8	
SI	6,6	4,0	3,3	3,0	2,7	2,5	2,2	2,4	2,1	
SK	8,2	3,9	3,6	3,7	3,6	4,4	4,5	4,3	4,3	4,3
FI	3,6	2,1	1,7	1,5	1,8	1,7	2,0	2,4	2,3	2,6
EA	4,5	2,9	2,7	2,9	2,9	2,9	2,8	2,7	2,7	2,7

Source: ECB Data Portal.

Table 5: Composite cost of borrowing, households for house purchase,%

	Sep-23	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
BE	3,8	3,5	3,4	3,5	3,5	3,4	3,4	3,4
DE	4,1	3,9	3,9	4,0	4,0	4,0	3,9	3,8
EE	6,0	5,8	5,8	5,7	5,7	5,6	5,5	5,2
IE	4,2	4,2	4,2	4,0	4,0	4,0	4,0	3,9
EL	4,3	4,3	4,3	4,2	4,2	3,9	3,9	3,9
ES	4,0	3,6	3,6	3,6	3,5	3,4	3,5	3,3
FR	3,4	3,5	3,5	3,5	3,4	3,4	3,4	3,3
HR	3,5	3,7	3,7	3,7	3,7	3,7	3,7	3,7
IT	4,3	4,1	4,0	4,0	3,9	3,6	3,8	3,6
CY	4,5	4,6	4,5	4,4	4,4	4,4	4,6	4,4
LV	5,9	5,8	5,8	5,7	5,6	5,6	5,4	5,2
LT	5,8	5,7	5,6	5,5	5,4	5,4	5,2	5,0
LU	4,3	4,2	4,2	4,2	4,2	4,0	4,0	3,9
MT	2,1	2,1	2,1	2,1	2,1	2,3	2,0	2,0
NL	4,0	3,8	3,9	3,8	3,9	3,9	3,9	3,9
AT	3,9	4,2	4,1	4,2	4,2	4,2	4,1	4,0
PT	4,5	4,3	4,2	4,2	4,1	4,0	3,9	3,7
SI	4,1	3,9	3,8	3,8	3,7	3,6	3,5	3,5
SK	3,9	4,2	4,1	4,2	4,2	4,2	4,2	4,1
FI	4,4	4,2	4,2	4,2	4,2	4,1	3,9	3,7
EA	3,9	3,8	3,8	3,8	3,8	3,8	3,7	3,6

Source: ECB Data Portal.

Table 6: Composite cost of borrowing, non-financial corporations, %

	Sep-23	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
BE	5,2	5,3	5,2	5,2	5,1	5,0	5,0	4,8
DE	5,3	5,4	5,4	5,3	5,3	5,3	5,3	5,0
EE	6,9	7,2	6,8	6,9	6,4	6,9	6,4	6,7
IE	6,2	6,4	6,4	5,8	5,6	6,3	5,7	4,4
EL	6,1	6,3	6,0	5,5	5,6	5,8	5,7	5,5
ES	4,9	5,0	5,0	5,0	4,9	4,8	4,8	4,6
FR	4,6	4,8	4,8	4,5	4,7	4,7	4,6	4,5
HR	4,8	5,1	5,1	5,2	5,2	5,0	4,8	4,8
IT	5,4	5,4	5,4	5,4	5,3	5,3	5,2	5,0
CY	5,6	5,7	5,7	5,7	5,5	5,5	5,3	5,2
LV	6,2	6,9	6,7	6,8	6,3	6,4	5,8	6,2
LT	6,5	6,4	6,3	6,5	6,3	6,4	6,2	5,9
LU	4,0	4,3	4,0	4,0	4,4	4,5	4,4	4,4
MT	4,0	4,8	4,9	5,3	4,6	4,6	5,1	5,3
NL	4,3	4,5	4,4	4,3	4,4	4,4	4,3	4,2
AT	5,0	5,1	5,2	5,0	4,9	5,0	4,8	4,7
PT	5,7	5,7	5,7	5,4	5,4	5,2	5,3	5,1
SI	5,2	5,2	5,5	5,5	5,3	4,9	5,0	5,1
SK	5,8	6,2	6,2	5,8	5,8	5,7	5,6	5,3
FI	5,3	5,4	5,4	5,4	5,1	5,2	5,0	4,7
EA	5,1	5,2	5,2	5,1	5,1	5,1	5,0	4,8

Source: ECB Data Portal.

Table 7: 10 year government bond yields, %

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
BE	2,8	3,0	3,0	3,1	3,0	3,1	3,1	3,2	3,3	3,5	3,2	2,7	2,8	3,0	2,9	3,0	3,1	3,1	3,1	2,8	2,8	2,8
DE	2,2	2,4	2,4	2,4	2,3	2,4	2,5	2,6	2,7	2,8	2,6	2,1	2,2	2,3	2,4	2,5	2,5	2,5	2,5	2,2	2,2	2,2
EE	3,8	3,8	4,0	3,9	3,9	3,9	4,1	4,2	4,3	4,1	3,7	3,2	3,3	3,5	3,5	3,6	3,7	3,8	3,8	3,6	3,4	3,4
IE	2,7	2,9	2,9	2,8	2,8	2,8	2,9	3,0	3,1	3,3	3,0	2,5	2,6	2,8	2,8	2,9	2,9	2,9	2,9	2,6	2,6	2,6
EL	4,3	4,3	4,3	4,2	4,0	3,7	3,9	3,9	4,1	4,3	3,9	3,3	3,3	3,5	3,4	3,5	3,6	3,7	3,5	3,3	3,2	3,2
ES	3,2	3,4	3,4	3,4	3,4	3,4	3,5	3,6	3,7	4,0	3,7	3,1	3,2	3,3	3,2	3,3	3,3	3,4	3,3	3,1	3,0	3,0
FR	2,7	2,9	2,9	2,9	2,9	2,9	3,0	3,1	3,2	3,5	3,2	2,7	2,7	2,9	2,8	3,0	3,0	3,2	3,1	2,9	2,9	3,0
HR	3,7	3,8	3,9	3,7	3,7	3,7	3,7	3,9	4,0	4,2	3,9	3,4	3,3	3,3	3,3	3,3	3,4	3,4	3,4	3,4	3,3	3,3
IT	4,2	4,3	4,2	4,2	4,3	4,1	4,2	4,2	4,5	4,9	4,4	3,8	3,8	3,9	3,7	3,9	3,8	3,9	3,8	3,7	3,6	3,5
CY	4,2	4,1	4,2	4,0	4,0	3,8	3,7	3,8	4,0	4,1	3,8	3,2	3,3	3,3	3,2	3,3	3,3	3,3	3,2	3,0	2,9	2,9
LV	3,7	3,7	3,9	3,9	3,8	3,8	3,8	3,9	3,9	4,1	4,0	3,5	3,4	3,4	3,4	3,5	3,4	3,4	3,4	3,2	3,1	3,1
LT	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9
LU	2,7	2,9	3,0	3,0	3,0	3,0	3,0	3,1	3,2	3,3	3,0	2,5	2,6	2,8	2,8	2,9	2,9	2,9	2,9	2,7	2,6	2,7
MT	3,6	3,6	3,6	3,6	3,6	3,7	3,8	3,8	3,9	4,2	3,9	3,3	3,4	3,5	3,4	3,5	3,5	3,6	3,5	3,4	3,2	3,2
NL	2,5	2,7	2,8	2,7	2,7	2,8	2,8	2,9	3,0	3,2	3,0	2,4	2,5	2,6	2,6	2,7	2,8	2,8	2,8	2,5	2,5	2,5
AT	2,8	3,0	3,1	3,0	3,0	3,1	3,1	3,2	3,3	3,5	3,2	2,7	2,8	2,9	2,9	3,0	3,0	3,0	3,0	2,8	2,7	2,7
PT	3,1	3,3	3,3	3,2	3,2	3,1	3,2	3,3	3,5	3,6	3,3	2,9	3,0	3,1	3,0	3,1	3,2	3,2	3,1	2,9	2,8	2,7
SI	3,3	3,4	3,5	3,3	3,2	3,4	3,4	3,5	3,5	3,7	3,5	3,3	3,1	3,2	3,2	3,2	3,2	3,3	3,2	3,0	2,9	3,0
SK	3,3	3,4	3,6	3,7	3,6	3,6	3,7	3,8	3,9	4,1	3,9	3,3	3,4	3,5	3,5	3,7	3,7	3,7	3,6	3,4	3,4	3,3
FI	2,8	2,9	3,0	3,0	3,0	3,0	3,1	3,2	3,3	3,5	3,2	2,7	2,8	2,9	2,9	2,9	3,0	3,1	3,0	2,8	2,7	2,8

Note: Colour gradient scale ranges from minimum (blue) to maximum (red), with white representing the mid-point (50th percentile).
Source: Eurostat.