Governor's message on…the ECB interest rate cut

This is a transcript of text in the video titled "Governor's message on…the ECB interest rate cut".

Why did the European Central Bank decide to cut interest rates?

My colleagues and I at the ECB made the decision to lower the key ECB interest rates by 0.25 percentage points.

Based on our latest assessment of the inflation outlook, we judged it was appropriate to moderate the degree of monetary policy restriction.

And this comes after nine months of holding rates steady.

So, what are we basing this cut on?

Well, since the Governing Council meeting in September 2023, the inflation outlook has improved markedly.

Headline inflation has fallen by more than 2.5 percentage points, while underlying inflation has also eased.

And it is this sustained easing of price pressures that has given us the bandwidth to cut interest rates now.

What does the interest rate cut mean for households and businesses?

Most importantly, for households and the economy in general, the rate cut is a sign that we are increasingly confident about winning the fight against inflation.

Persistently high inflation damages the financial resilience of households, businesses and the economy as a whole.

Of course, the path towards our 2% target will be bumpy, but this cut indicates that we are increasingly confident that we are over the worst of the recent inflationary episode.

So this is positive news for households and the wider economy.

In terms of what it means for the one third of Irish households who are borrowers, this will vary depending on the mortgage product.

If you are on a tracker mortgage, you will see an immediate change, with the interest rate cut meaning lower monthly mortgage repayments.

If you are on a variable rate mortgage, or are considering a fixed rate mortgage, the change will depend on the pricing decisions of your lender.

The extent and timing of reductions in mortgage rates will not be uniform across the different lenders or mortgage products. At the end of the day, we operate in a market economy and they are commercial decisions for the lenders.

Nevertheless, as we did when rates were rising, we will be squarely focused on monitoring the transmission of lower interest rates to the broader economy and I encourage all borrowers – or those who are thinking of taking out a loan – to shop around and take advantage of switching if more competitive offers are available.

What is the outlook for interest rates?

We take the fight against inflation extremely seriously and are determined to ensure that inflation returns to our 2% medium-term target in a timely manner.

We will keep interest rates sufficiently restrictive for as long as necessary to achieve this aim.

We will continue to follow a data-dependent and meeting-by-meeting approach when determining the appropriate level of interest rates.

The June projections see headline inflation in the euro area averaging 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026.

And they give us increased confidence that we will reach our 2% medium-term target.

As such, there is a strong likelihood we are entering a new phase in our monetary policy decision-making.

However, it's important to say that we are not pre-committing to a particular rate path at this point. But I should also say that I do not expect interest rates to go back to the exceptionally low levels that they were before the recent inflationary episode.

Restoring price stability and hitting our 2% inflation target remains our primary objective.

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