

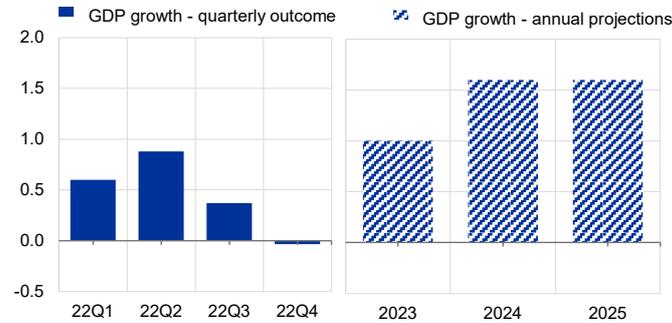


# Introductory statement in three charts

ECON hearing with the ECB President on 20 March 2023

## Real GDP growth

(left panel: quarter-on-quarter percentage changes; right panel: annual percentage changes)



Sources: Eurostat, March 2023 ECB Staff Macroeconomic Projections and ECB calculations.

## Economic activity

**Euro area real GDP stagnated in the fourth quarter of 2022, avoiding the previously expected contraction.**

- High inflation, prevailing uncertainties and tighter financing conditions dented private consumption and investment.

**The economy is projected to recover, with risks tilted to the downside.**

- Growth is projected at 1% in 2023 and at 1.6% in both 2024 and 2025.
- Downside risks to growth are elevated financial market tensions, the war in Ukraine and a global slowdown.

## Inflation

**Headline inflation declined further owing to lower energy prices, but core inflation continued to increase.**

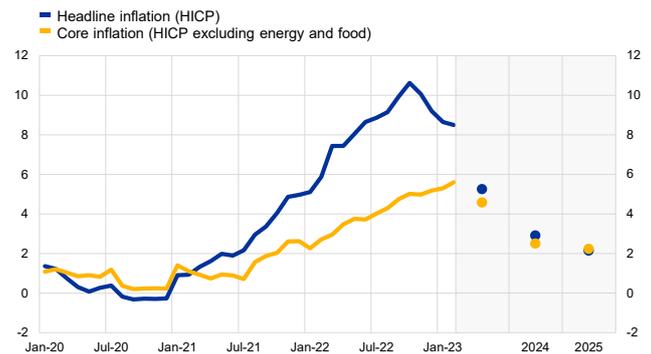
- Overall, price pressures remain elevated and broad-based across sectors as earlier input cost surges are still feeding through.

**Headline inflation is projected to decrease further, with both upside and downside risks to the outlook.**

- Core inflation and food inflation are projected to moderate only gradually as elevated pipeline pressures will still persist in the near term.
- Effects of energy price declines and monetary policy tightening will take time to spread through the economy.

## Headline and core inflation developments

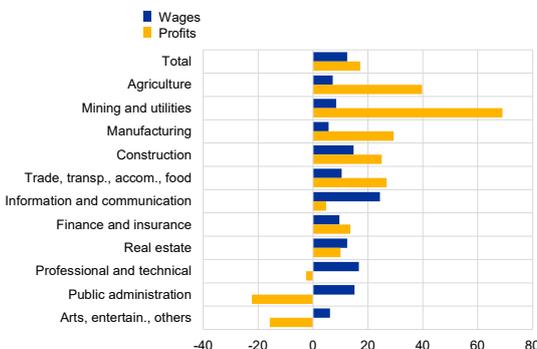
(annual percentage changes)



Sources: March 2023 ECB staff macroeconomic projections and Eurostat. Note: The latest observations are for February 2023 (flash).

## Sectoral wage and profit developments

(percentage changes since Q4 2019)



Sources: Eurostat and ECB calculations. Notes: Wages refer to compensation of employees and profits refer to gross operating surplus. Income for self-employed people is included in wages. Latest observations are for Q4 2022.

## Wage and profit margin developments

**Wage growth has been rising.**

- Wages are growing faster, supported by robust labour markets, with some catch-up to high inflation becoming the main theme in wage negotiations. Recent wage agreements point to further strengthening in 2023.

**Profit margins remain elevated, making a noticeable contribution to domestic cost pressures.**

- Growth in unit profits increased, bolstered by constrained supply and resurgent demand in many sectors.
- Strong developments in unit profits are visible across most sectors.

## WANT TO KNOW MORE?

- [ECB Staff Macroeconomic Projections March 2023](#)



## Topic 1: Balance sheet normalisation

### The Eurosystem balance sheet expanded rapidly after the pandemic.

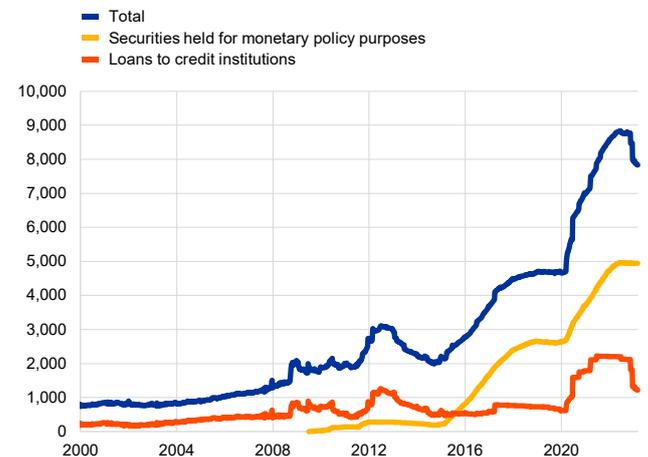
- The increase mainly reflected the deployment of asset purchases and targeted refinancing operations to achieve our mandate in a low-inflation environment.

### Our balance sheet normalisation is under way.

- After peaking in mid-2022, the balance sheet started to decline, mainly due to early repayments of targeted longer-term refinancing operations (TLTROs).
- The asset purchase programme portfolio will decline at a measured and predictable pace of €15 billion per month on average from March until the end of June 2023. The subsequent pace will be determined over time.

### Eurosystem balance sheet

(EUR billions)



Source: ECB  
Note: The latest observations are for 3 March 2023.

## Topic 2: One year into the war in Ukraine

### Russia's invasion of Ukraine caused a significant shock to the global economy, especially to energy and food markets – squeezing supply and pushing up prices to unprecedented levels.

- The shock added to inflationary pressures that had been building up during the post-pandemic recovery.
- Energy inflation was by far the most significant driver of inflation in 2022, while food inflation has made the largest contribution more recently.

### But the euro area economy has been more resilient to the effects of the war than initially feared.

- European pipeline gas imports from Russia have decreased by roughly 80%. At the same time, joint European efforts to replace Russian energy supplies, effective gas savings measures, and an unusually warm winter have all helped bring down gas and energy prices below pre-invasion levels.

### EU natural gas prices and pipeline flows from Russia to the EU

(left-hand scale: million cubic meters per day; right-hand scale: EUR/MWh)



Sources: Bloomberg, Refinitiv and ECB staff calculations.  
Notes: The natural gas price shows the one month ahead Dutch Title Transfer Facility future. The latest observations are for 10 March 2023.

### WANT TO KNOW MORE?

- [Global risks to the EU natural gas market](#), ECB Economic Bulletin, Issue 1/2023