

# ECB lifts interest rates again as euro economy slows

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The European Central Bank (ECB) has lifted its interest rate to a record high, raising it by 25 basis points at the meeting of its governing council in Frankfurt yesterday, despite data which show the euro zone is teetering on the brink of a recession.

In what has been characterised as a “knife edge” decision, the governing council decided by majority to raise its base rate to 3.75 percent. This was the 10th consecutive increase since it began rate hikes last year as officials revised down their estimates of growth in the euro area.

In her press conference, ECB president Christine Lagarde described the economy as slow and sluggish, with estimates by officials putting growth at only 0.7 percent for 2023, 1.0 percent in 2024, and rising to just 1.5 percent in 2025. The German economy, the largest in the euro area, is expected to contract as manufacturing continues to fall.

“The economy is likely to remain subdued in the coming months,” Lagarde said. “It broadly stagnated over the first half of the year, and recent indicators suggest it has also been weak in the third quarter. Lower demand for the euro area’s exports and the impact of tightening financing conditions are dampening growth, including through residential and business investment.”

That is, the growth slowdown is partly a product of the developing slump in the global economy but has also been engineered by the ECB in its so-called fight against inflation.

Like all central banks around the world, the ECB maintains that its rate increases are aimed at bringing down prices. But the real agenda is to ensure that under conditions of what is continually characterised as a “tight” labour market, the working class does not break out of the wages straitjacket to which it has been

confined by the trade union bureaucracies.

The official level of inflation in the euro zone has halved over the past year, down from 10.6 percent to 5.3 percent. But the inflation in food prices, which has a major impact on working class households, is still at 10 percent and could go higher in coming months if there are shortages in supplies.

There have been claims by some economists and analysts that the ECB is coming to the end of its rate tightening cycle. That may be the case, at least for the present, in so far as the size of any increases is concerned. But Lagarde made clear there would be no letup in the downward pressure exerted by the central bank on the economy.

She said that on current assessments it considered that rates have reached levels that if maintained for a “sufficiently long duration” would make a substantial contribution to bringing inflation down to the target of around 2 percent.

“Our future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as is necessary,” she said.

Lagarde remarked that the labour market remained “resilient,” despite the slowing economy, with the unemployment rate remaining at a “historical low” of 6.4 percent in July. While not directly expressing it, she is clearly hopeful that situation will change.

Lagarde stated: “While employment grew by 0.2 percent in the second quarter, momentum is slowing. The services sector, which has been a major driver of employment growth since mid-2022, is now also creating fewer jobs.”

In an editorial on what it called the ECB’s rate rise dilemma, published on the eve of its latest meeting, the *Financial Times* focused on what is the key issue for the financial establishment—wages and the push by the

working class to recoup cuts in living standards.

“With the labour market still tight,” it said, “annual pay growth is adding to price pressures, particularly in services.”

The editorial recalled the remarks of Lagarde at the Jackson Hole conclave of central bankers last month in which she insisted that “the fight against inflation is not yet won.”

While it was not the central focus of her remarks, Lagarde made clear that the ECB wants cuts in government spending which both directly and indirectly will hit workers’ living standards.

She said that as the “energy crisis fades” governments should continue to roll back related support measures as this was “essential to avoid driving medium-term inflationary pressures, which would otherwise call for an even stronger monetarily policy response.”

This is an example of how the so-called “fight against inflation” is used to cover up the essential class agenda of the central banks—the attack on wages.

Rolling back subsidies means that working class families will have to spend more of their income on energy and power. Increased spending on these necessities leaves less income available for spending in other areas, thereby lowering demand and producing a slowdown in these industries and services and exerting a downward pressure on wages.

The same agenda was revealed in the call by the ECB for fiscal policies, that is government spending, to “make our economy more productive and to gradually bring down high public debt.”

The more government social services are reduced, the more working-class families must provide for themselves in these areas and the less they have to spend on other goods and services, thereby adding to the economic slowdown and increasing unemployment which the ECB and other central banks regard as their key weapon in suppressing wage demands.

The reduction in public debt is becoming a key issue for central banks and governments around the world with the International Monetary Fund publishing data this week showing that after a decline in the growth of public debt in 2022 it was on the rise again.

It said policymakers would have to be “unwavering over the next few years in their commitment of preserving debt sustainability.” They had to take

“urgent steps to help reduce debt vulnerabilities and reverse long-term debt trends.”

As Lagarde alluded to, this means cuts in government services as living standards are hit by rising inflation and interest rate hikes aimed at reducing real wages by increasing unemployment.



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