

Data Insights: ECB and Euro Area Economy Monitor

Thursday, June 5, 2025

Today's monetary policy decision: how the language changed from prior meeting

~~6 March~~ 5 June 2025

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which the Governing Council steers the monetary policy stance – is based on its updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

~~The disinflation process is well on track. Inflation has continued to develop broadly as staff expected, and is currently at around the latest Governing Council's 2% medium-term target. In the baseline of the new Eurosystem staff projections closely align with the previous inflation outlook. Staff now see headline inflation averaging is set to average 2.30% in 2025, 1.96% in 2026 and 2.0% in 2027. The upward revision in headline inflation for 2025 reflects the downward revisions compared with the March projections, by 0.3 percentage points for both 2025 and 2026, mainly reflect lower assumptions for energy prices and a stronger energy price dynamics. For euro. Staff expect inflation excluding energy and food, staff project an to average of 2.2.4% in 2025, 2.0% in 2026 and 1.9% in 2026 and 2027, broadly unchanged since March.~~

~~Staff see real GDP growth averaging 0.9% in 2025, 1.1% in 2026 and 1.3% in 2027. The unrevised growth projection for 2025 reflects a stronger than expected first quarter combined with weaker prospects for the remainder of the year. While the uncertainty surrounding trade policies is expected to weigh on business investment and exports, especially in the short term, rising government investment in defence and infrastructure will increasingly support growth over the medium term. Higher real incomes and a robust labour market will allow households to spend more. Together with more favourable financing conditions, this should make the economy more resilient to global shocks.~~

~~In the context of high uncertainty, staff also assessed some of the mechanisms by which different trade policies could affect growth and inflation under some alternative illustrative scenarios. These scenarios will be published with the staff projections on the ECB's website. Under this scenario analysis, a further escalation of trade tensions over the coming months would result in growth and inflation being below the baseline projections. By contrast, if trade tensions were resolved with a benign outcome, growth and, to a lesser extent, inflation would be higher than in the baseline projections.~~

Most measures of underlying inflation suggest that inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. ~~Domestic inflation remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay. But wage~~ Wage growth is

~~moderating as expected~~ still elevated but continues to moderate visibly, and profits are partially buffering ~~the~~its impact on inflation. ~~The concerns that increased uncertainty and a volatile market response to the trade tensions in April would have a tightening impact on financing conditions have eased.~~

~~Monetary policy is becoming meaningfully less restrictive, as the interest rate cuts are making new borrowing less expensive for firms and households and loan growth is picking up. At the same time, a headwind to the easing of financing conditions comes from past interest rate hikes still transmitting to the stock of credit, and lending remains subdued overall. The economy faces continued challenges and staff have again marked down their growth projections — to 0.9% for 2025, 1.2% for 2026 and 1.3% for 2027. The downward revisions for 2025 and 2026 reflect lower exports and ongoing weakness in investment, in part originating from high trade policy uncertainty as well as broader policy uncertainty. Rising real incomes and the gradually fading effects of past rate hikes remain the key drivers underpinning the expected pick-up in demand over time.~~

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. Especially in current conditions of ~~rising~~exceptional uncertainty, it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. ~~In particular, the~~The Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.

Key ECB interest rates

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be decreased to 2.~~5000~~%, 2.~~6515~~% and 2.~~9040~~% respectively, with effect from ~~12 March~~11 June 2025.

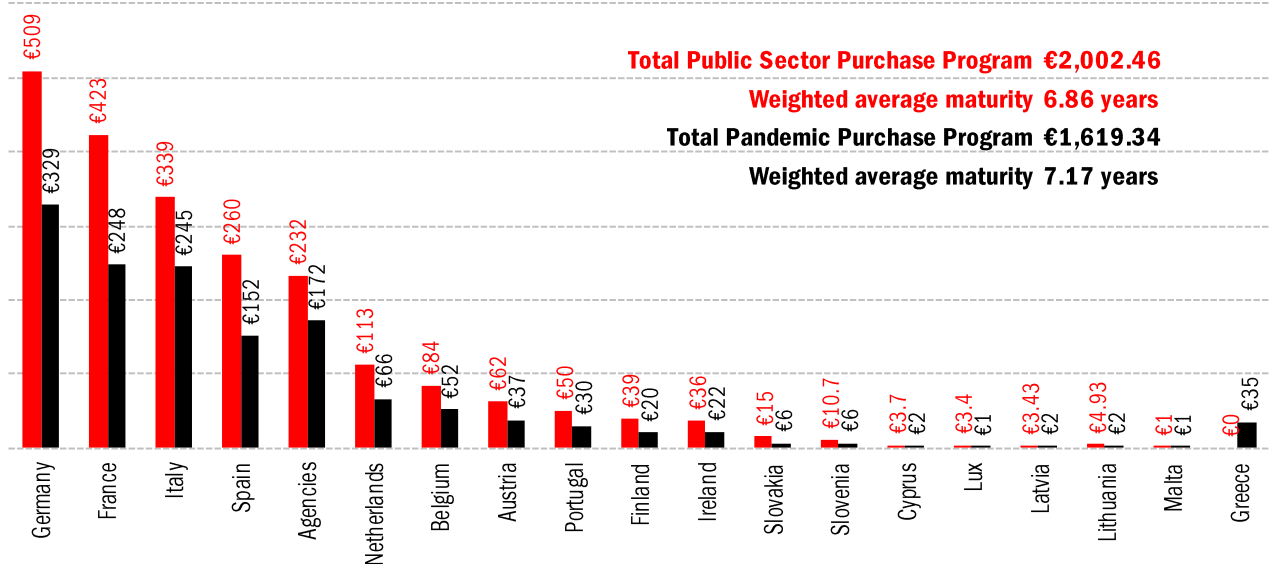
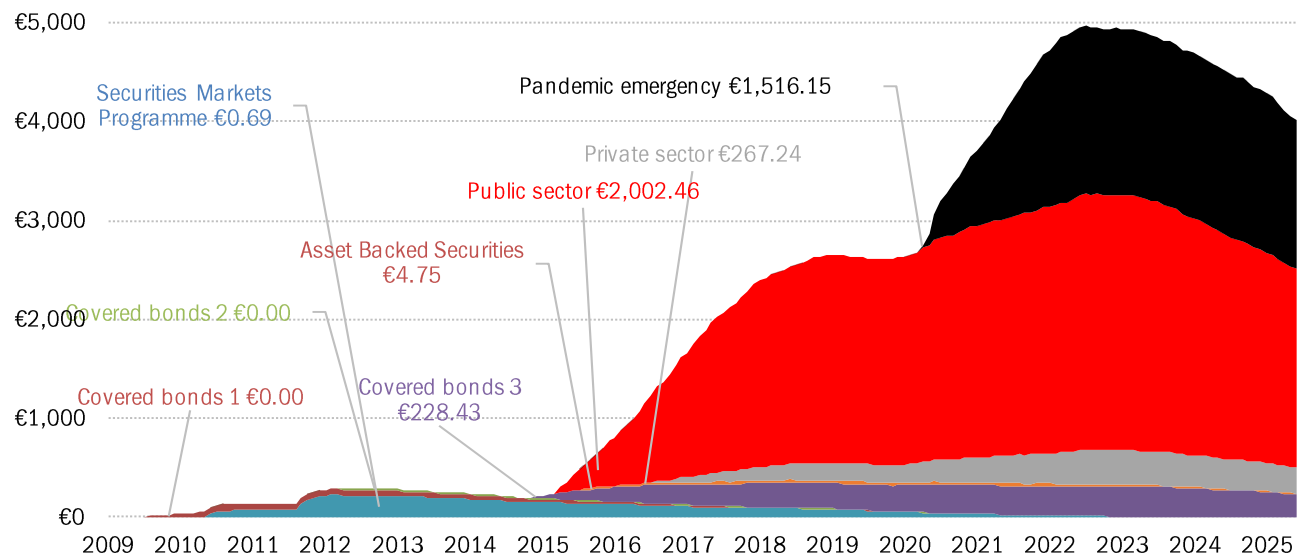
Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)

The APP and PEPP portfolios are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises sustainably at its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

Source: ECB, TrendMacro analysis

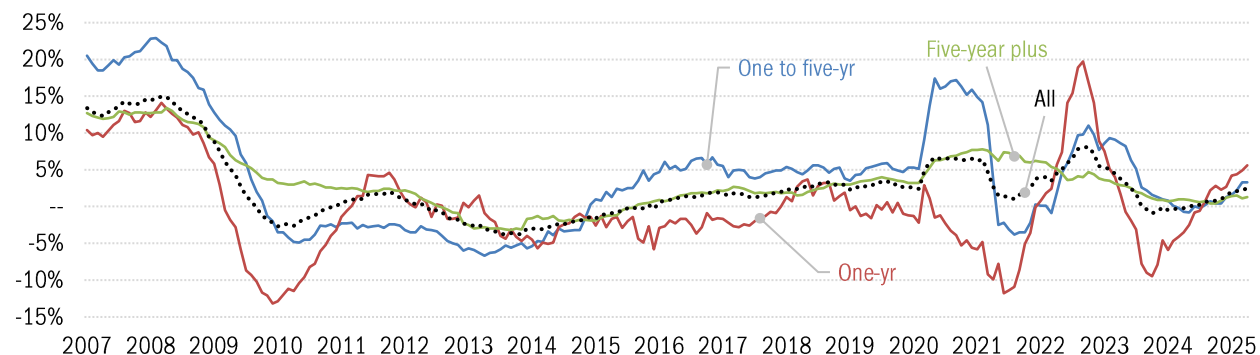
Euro-QE (€ billions)



Source: ECB, TrendMacro calculations

The credit drought: loans to non-financial businesses (YOY growth)

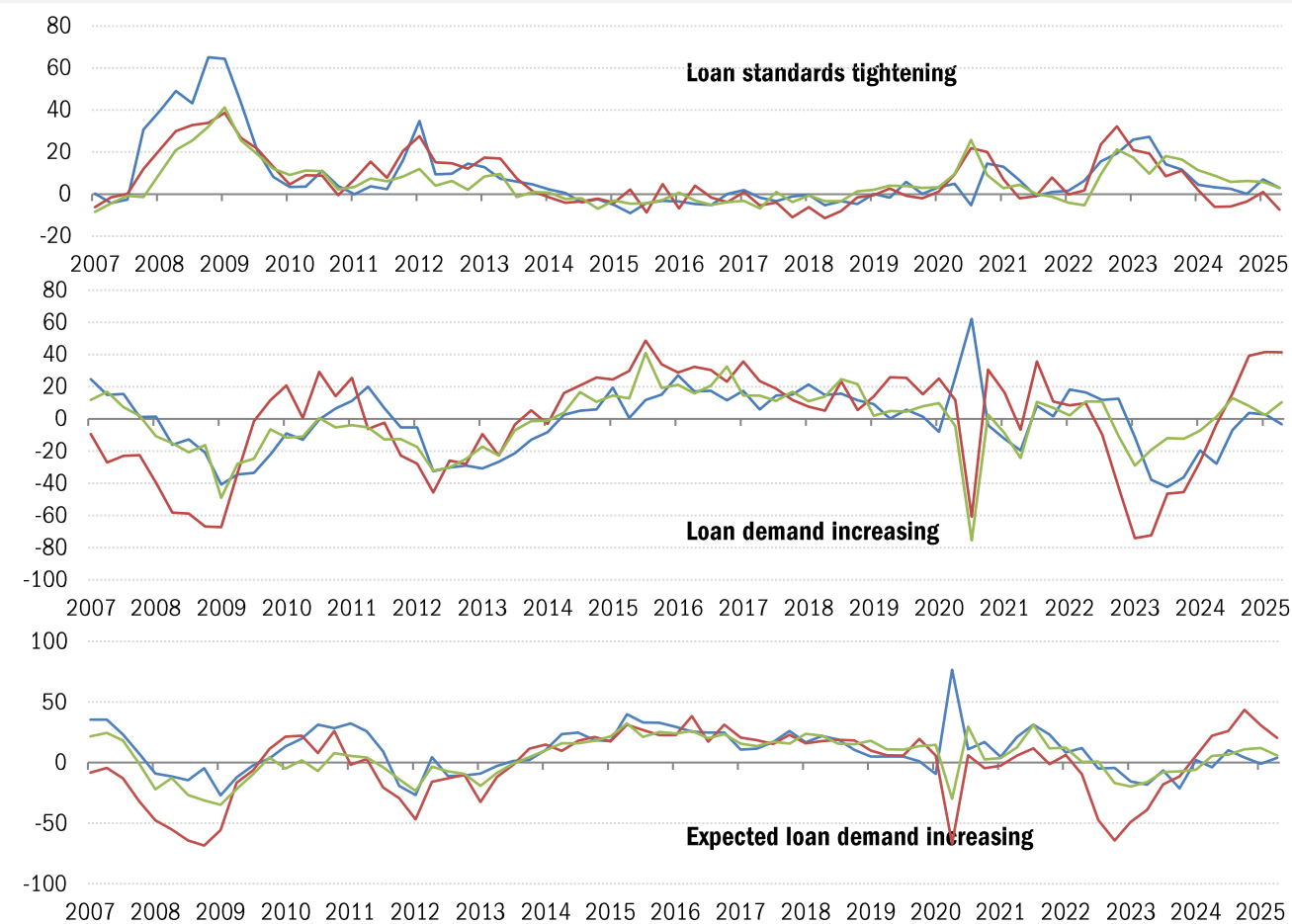
— Loans to 1 year — Loans 1-5 years — Loans 5 years plus ... Total



Source: ECB, TrendMacro calculations

Supply and demand for lending: ECB Bank Survey

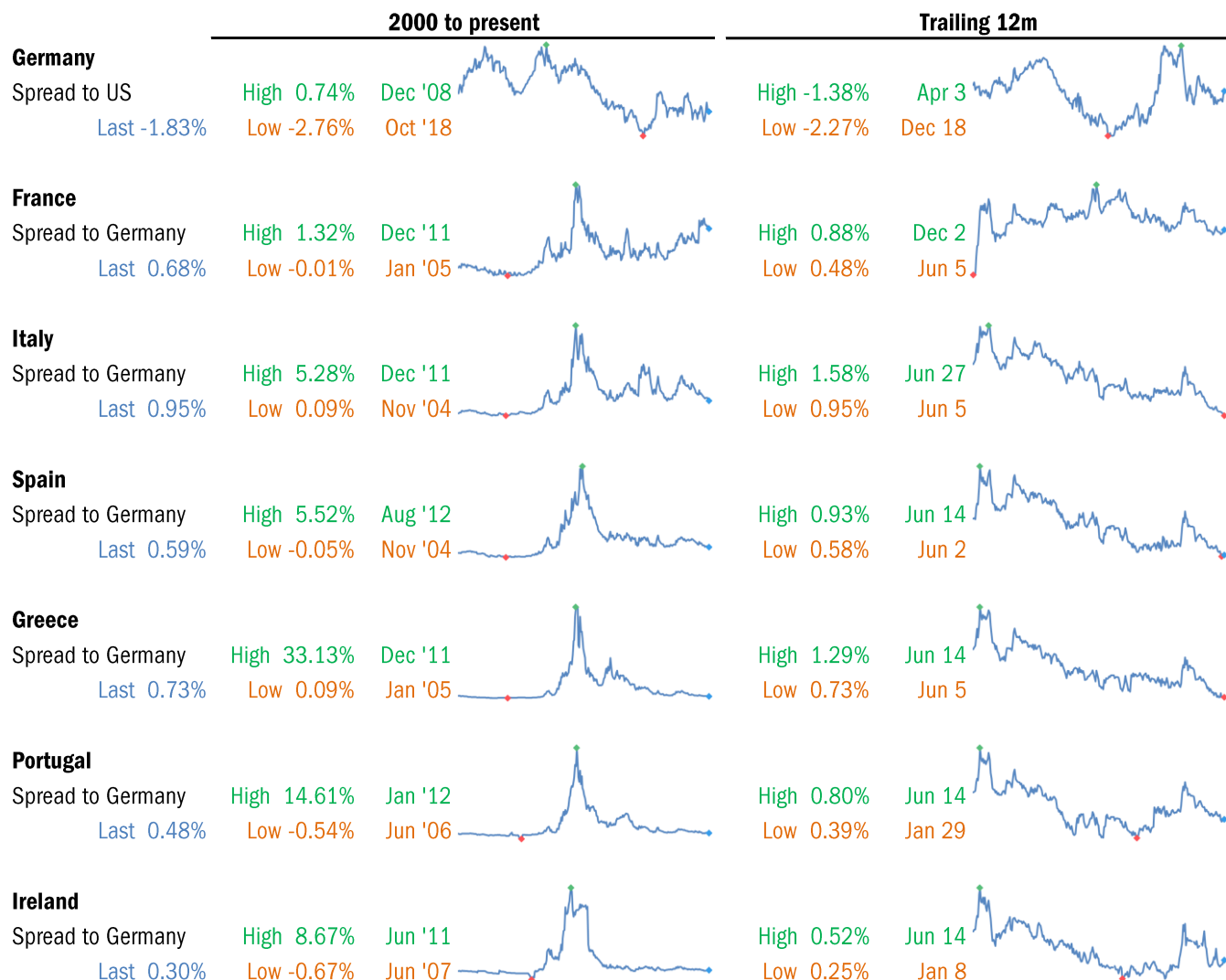
Net number of banks reporting for: — Enterprises — Home mortgage — Consumer



Source: ECB, TrendMacro calculations

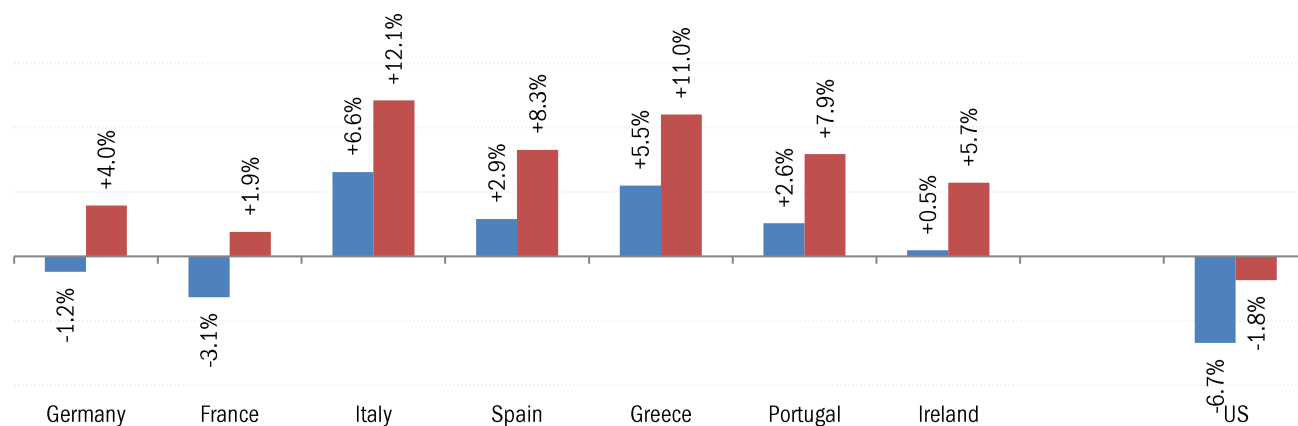
Sovereign stress monitor: 10-year bond spreads

· High · Low · Last



10-year sovereign bond total returns, trailing 12-months

■ EUR ■ USD



Source: Bloomberg, TrendMacro calculations











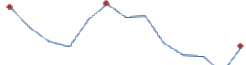









Labor market in intensive care

ULC: Nominal, quarterly YOY UE: High 12m pulse: monthly ■ improvement or ■ worsening in rate of change



Source: Eurostat, TrendMacro calculations

Purchasing Manager Indices

Manufacturing	Last	Prev	13-month history	Services	Last	Prev	13-month history
Eurozone May	49.4	49.0		Eurozone May	49.7	50.1	
UK May	46.4	45.4		UK May	50.9	49.0	
Germany May	48.3	48.4		Germany May	47.1	49.0	
France May	49.8	48.7		France May	48.9	47.3	
Italy May	49.2	49.3		Italy May	53.2	52.9	
Spain May	50.5	48.1		Spain May	51.3	53.4	
Ireland May	52.6	53.0		Ireland May	54.7	52.8	
Sweden May	53.6	54.2		Sweden May	50.8	48.7	
Netherlands May	49.0	49.2					
Austria May	48.4	46.6					
Greece May	53.2	53.2					
Czech Rep May	48.0	48.9					

Source: Markit, TrendMacro calculations

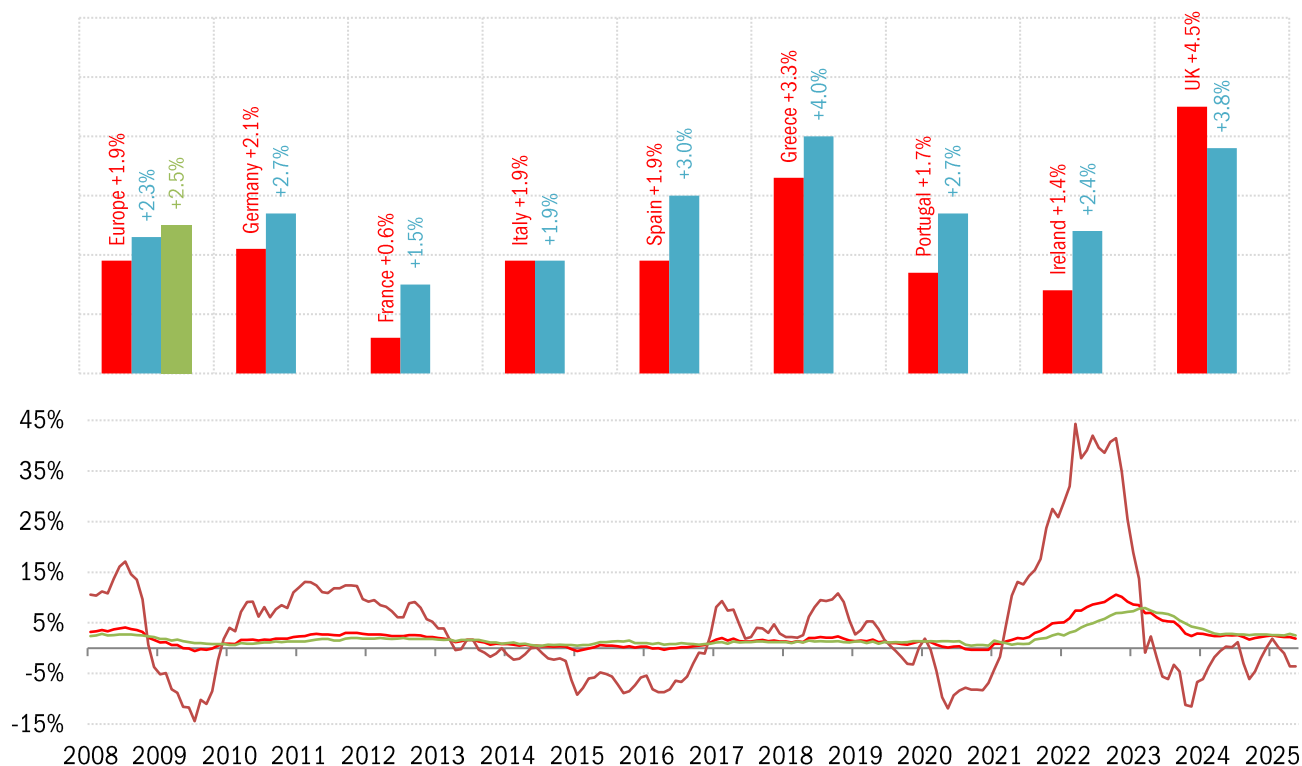
Regional currency flight — Euro vs Swiss franc ■ SNB FX reserves



Source: Bloomberg, TrendMacro calculations

Euro area consumer inflation, year on year

Country: ■ Headline ■ Ex-food and energy ■ Ex-energy Euro area: — Headline — Energy — Ex-energy



Source: Eurostat, TrendMacro calculations

Draghi's old dashboard:

Swap-implied inflation expectations since "Whatever it takes"

— 5-year inflation-swap rate, 5 years forward



Source: Bloomberg, TrendMacro calculations