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Data Insights: ECB and Euro Area Economy Monitor

Thursday, July 25, 2025

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

~~5 June~~24 July 2025

The Governing Council today decided to ~~lower~~keep 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.~~unchanged. Inflation is currently at ~~around~~ the ~~Governing Council's~~ 2% medium-term target. ~~In the baseline of the new Eurosystem staff projections, headline inflation is set to average 2.0% in 2025, 1.6% in 2026 and 2.0% in 2027.~~ The ~~downward revisions compared~~incoming information is broadly in line with the ~~March projections, by 0.3 percentage points for both 2025 and 2026, mainly reflect lower assumptions for energy prices and a stronger euro. Staff expect inflation excluding energy and food to average 2.4% in 2025 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~~Governing Council's previous assessment of the inflation outlook. Domestic price pressures have continued to ease, 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~~wages growing 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~~ slowly. Partly reflecting the Governing Council's ~~2% medium-term target on a sustained basis. Wage growth is still elevated but continues to moderate visibly, and profits are partially buffering 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~~past interest rate cuts, the economy has so far proven resilient overall in a challenging global environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes.

The Governing Council is determined to ensure that inflation stabilises ~~sustainably~~ at its 2% ~~medium-term~~ target~~.~~ ~~Especially~~ in ~~current conditions of exceptional uncertainty, it~~the medium term. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. ~~The~~In particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as 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~~The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will ~~be decreased to~~remain unchanged at 2.00%, 2.15% and 2.40% respectively~~, with effect from 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.

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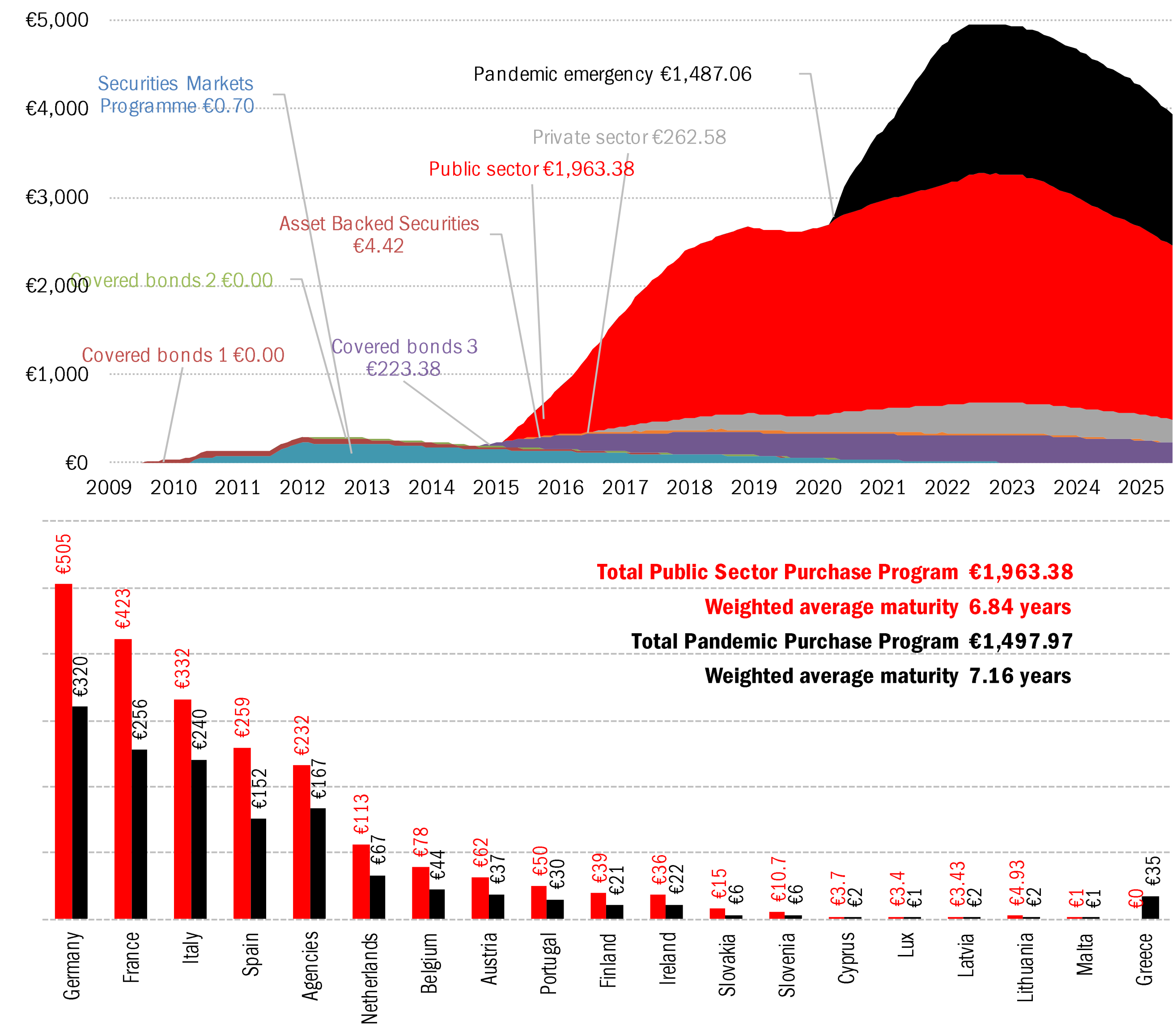
The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises ~~sustainably~~ at its 2% target ~~over~~in the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument 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.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:45 CET today.

Source: ECB, TrendMacro analysis

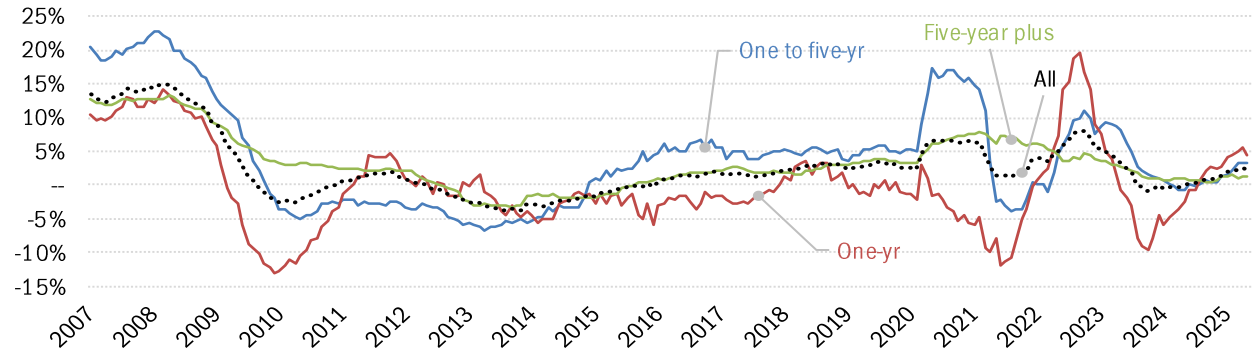
Euro-QE (€ billions)



Source: ECB, TrendMacro calculations

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

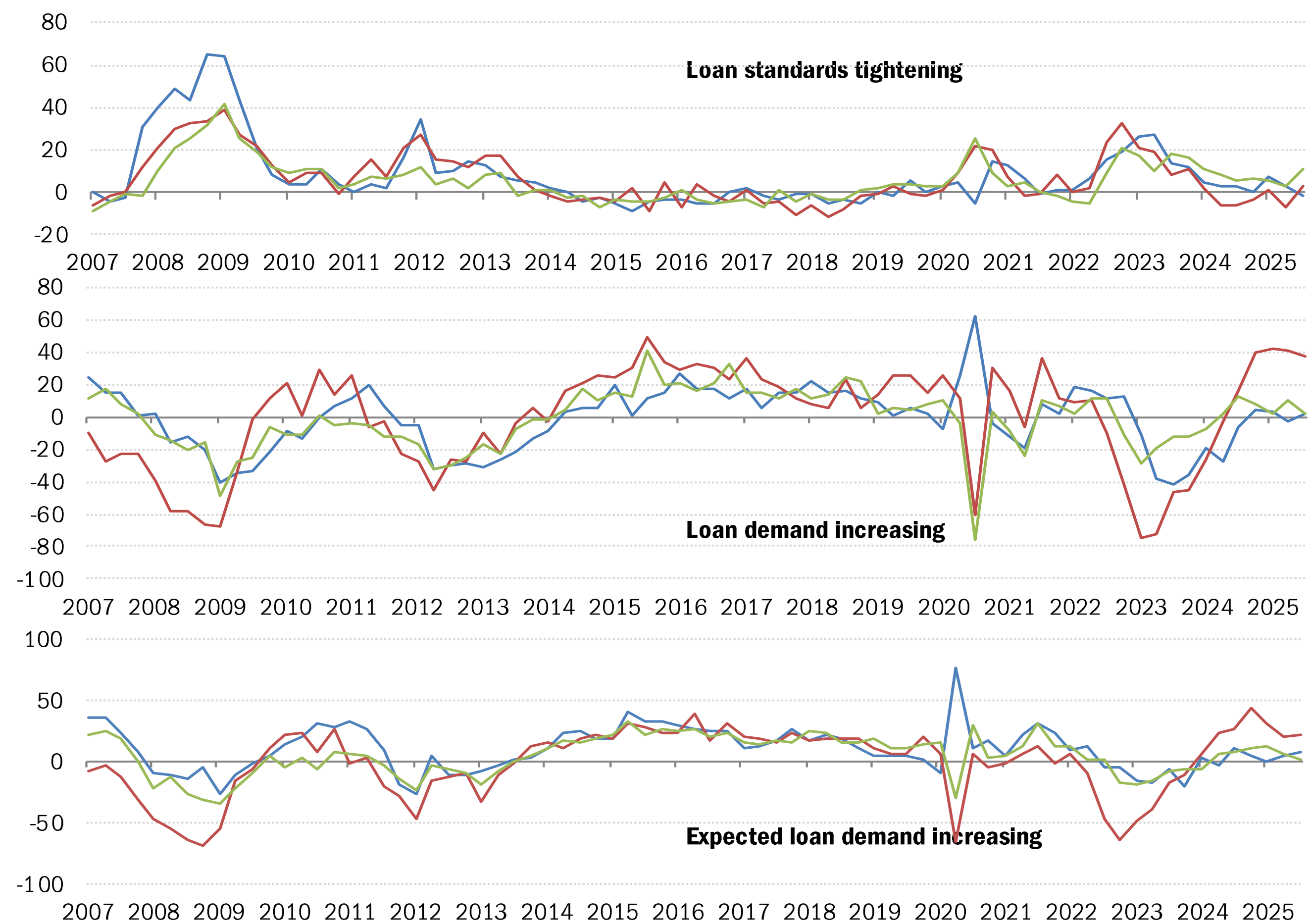
Loans to 1 year — Loans 1-5 years — Loans 5 years plus ··· Total



Source: ECB, TrendMacro calculations

Supply and demand for lending: ECB Bank Survey

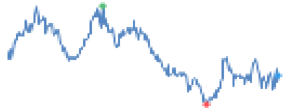
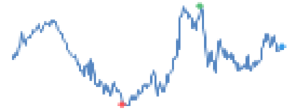
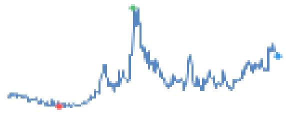
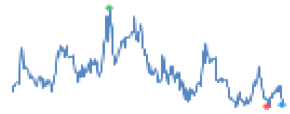
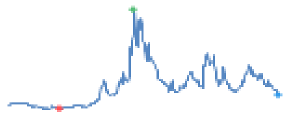
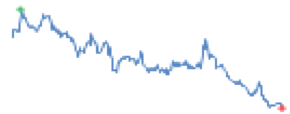
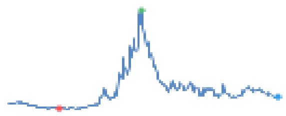
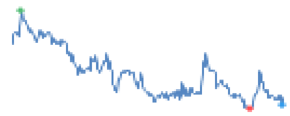
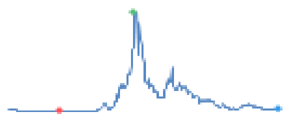
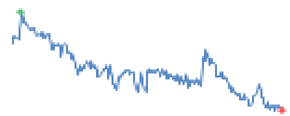
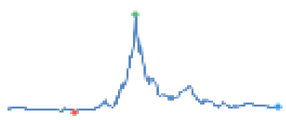
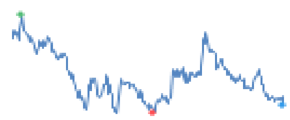
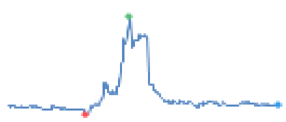
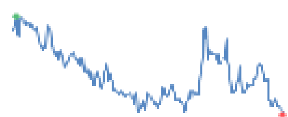
Net number of banks reporting for: — Enterprises — Home mortgage — Consumer



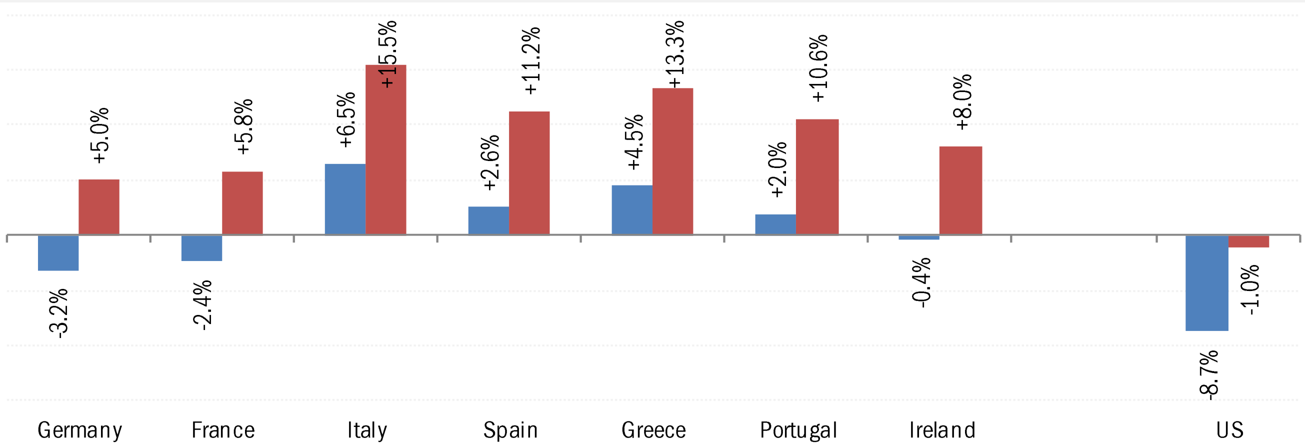
Source: ECB, TrendMacro calculations

Sovereign stress monitor: 10-year bond spreads

· High · Low · Last

	2000 to present			Trailing 12m		
Germany Spread to US Last -1.74%	High 0.74% Low -2.76%	Dec '08 Oct '18		High -1.38% Low -2.27%	Apr 3 Dec 18	
France Spread to Germany Last 0.66%	High 1.32% Low -0.01%	Dec '11 Jan '05		High 0.88% Low 0.66%	Dec 2 Jul 2	
Italy Spread to Germany Last 0.82%	High 5.28% Low 0.09%	Dec '11 Nov '04		High 1.49% Low 0.82%	Aug 5 Jul 23	
Spain Spread to Germany Last 0.59%	High 5.52% Low -0.05%	Aug '12 Nov '04		High 0.90% Low 0.58%	Aug 5 Jun 10	
Greece Spread to Germany Last 0.67%	High 33.13% Low 0.09%	Dec '11 Jan '05		High 1.16% Low 0.67%	Aug 5 Jul 23	
Portugal Spread to Germany Last 0.41%	High 14.61% Low -0.54%	Jan '12 Jun '06		High 0.70% Low 0.39%	Aug 5 Jan 29	
Ireland Spread to Germany Last 0.24%	High 8.67% Low -0.67%	Jun '11 Jun '07		High 0.43% Low 0.24%	Jul 29 Jul 23	

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



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 Jun	49.5	49.4		Eurozone Jun	50.5	49.7	
UK Jun	47.7	46.4		UK Jun	52.8	50.9	
Germany Jun	49.0	48.3		Germany Jun	49.7	47.1	
France Jun	48.1	49.8		France Jun	49.6	48.9	
Italy Jun	48.4	49.2		Italy Jun	52.1	53.2	
Spain Jun	51.4	50.5		Spain Jun	51.9	51.3	
Ireland Jun	53.7	52.6		Ireland Jun	51.5	54.7	
Sweden Jun	51.9	53.1		Sweden Jun	54.6	50.9	
Netherlands Jun	51.2	49.0					
Austria Jun	47.0	48.4					
Greece Jun	53.1	53.2					
Czech Rep Jun	50.2	48.0					

Source: Markit, TrendMacro calculations

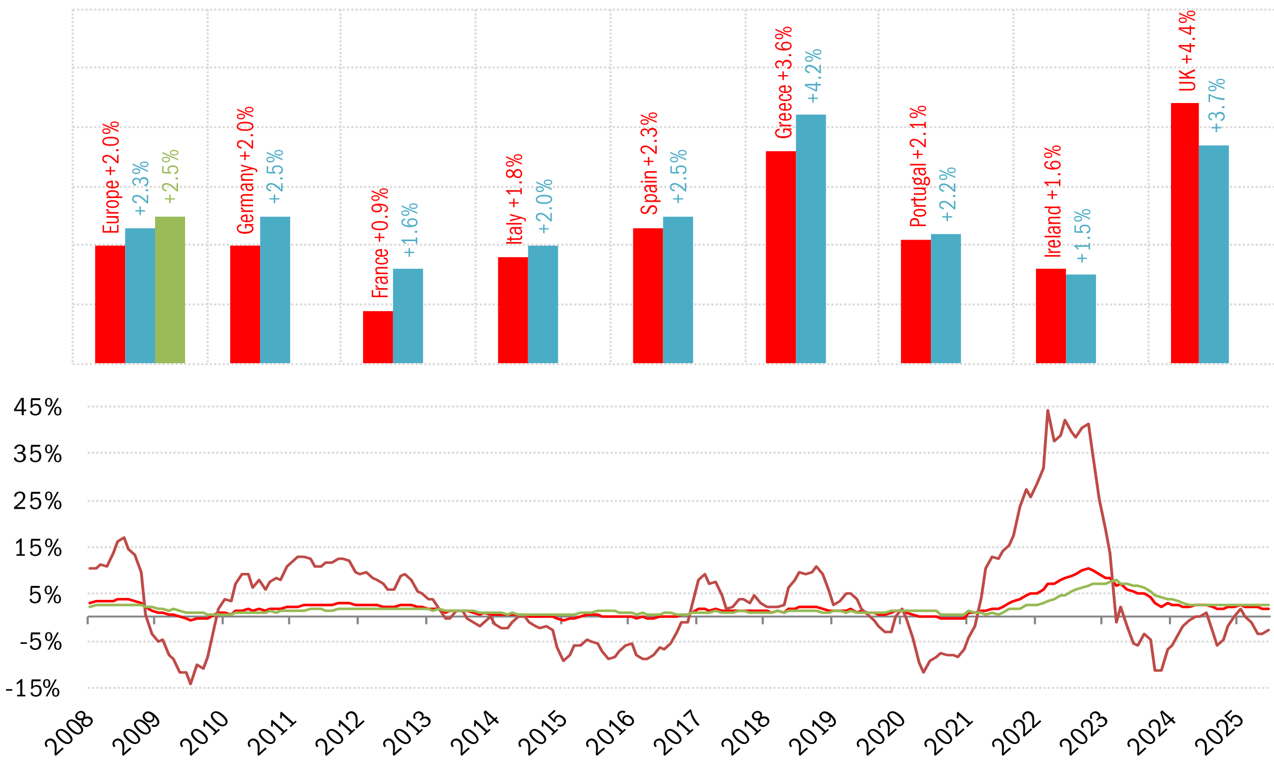
Regional currency flight

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