



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Remaining in a good place

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Isabel Schnabel

*Member of the Executive Board  
of the ECB*

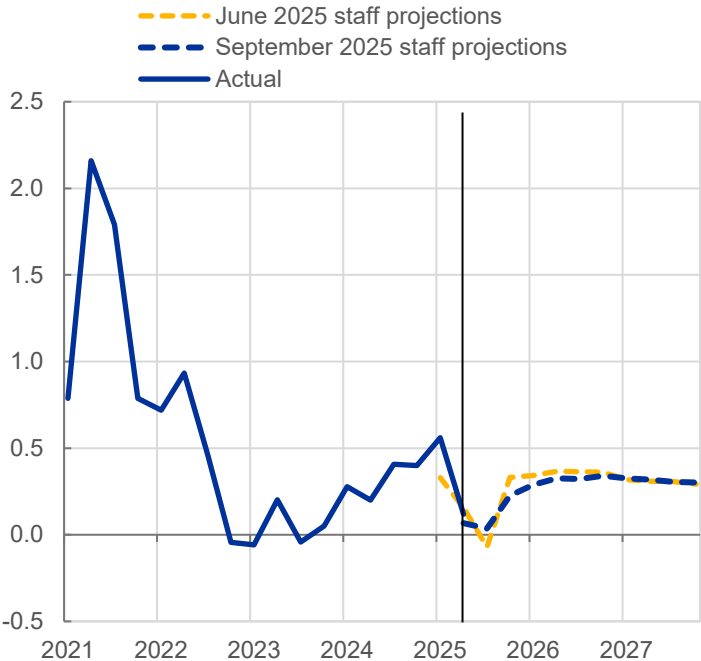


Chief Economists' meeting  
European Investment Bank, Luxembourg, 15 September 2025

# Staff projections confirm medium-term price stability as economy grows close to potential

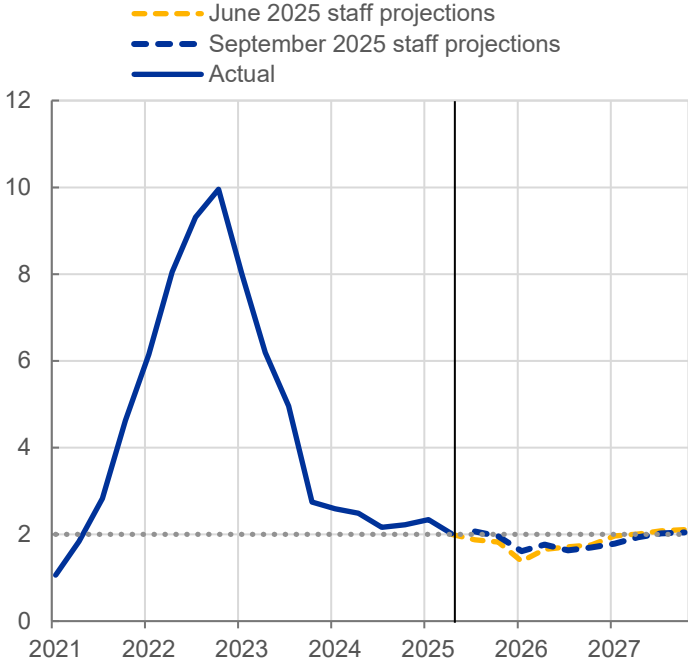
### Euro area real GDP growth

(quarter-on-quarter percentage changes)



### Euro area HICP inflation

(annual percentage changes)



Sources: Eurostat and Eurosystem/ECB staff projections (September, June and March 2025).

Notes: The vertical line indicates the start of the September 2025 projection horizon. The solid line indicates published data, while dashed lines indicate projections. The latest available data for March projections was the Q4 2024 flash, for June projections the Q1 2025 flash, and for September projections the Q2 2025 flash. The latest observations are for the second quarter of 2025 (second estimate).

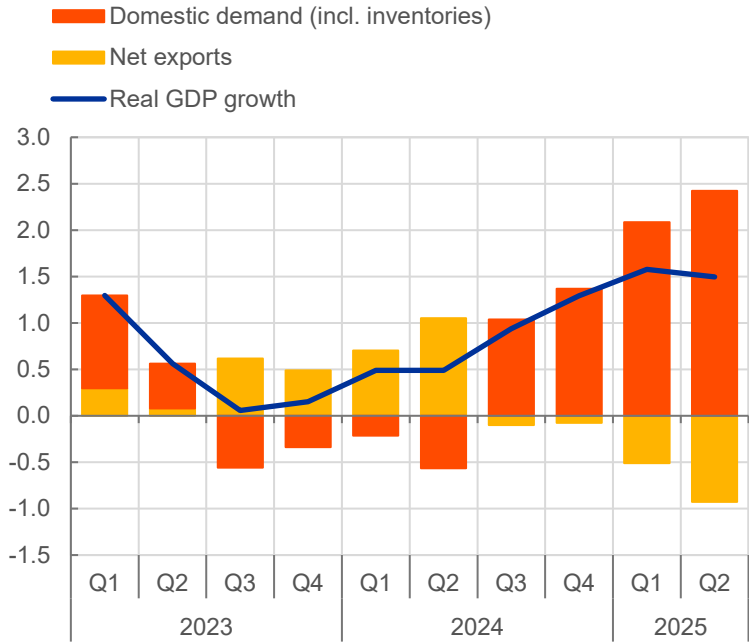
Sources: Eurostat and Eurosystem/ECB staff projections (September, June and March 2025).

Notes: The vertical line indicates the start of the September 2025 projection horizon. The horizontal dotted line indicates the 2% inflation medium-term target. The solid line indicates published data, while dashed lines indicate projections. The latest observation are for the second quarter of 2025.

# Domestic demand has recovered robustly despite challenging global environment

## Real GDP and components

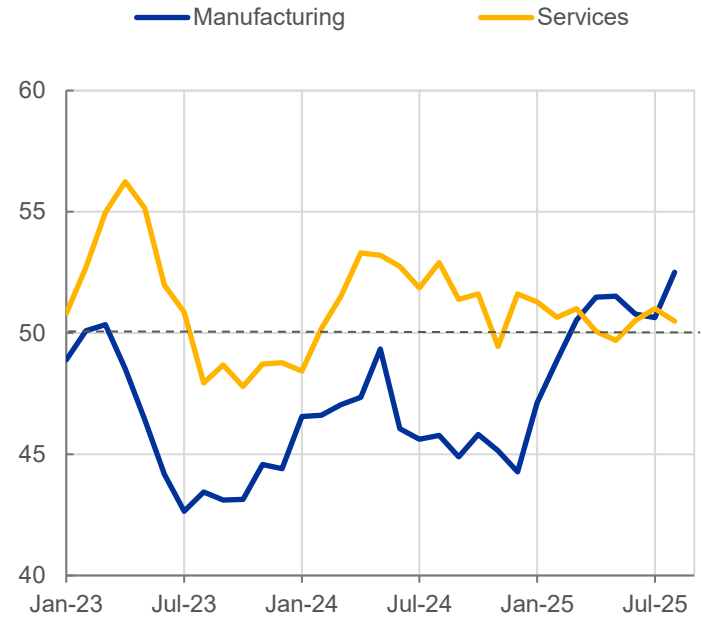
(year-on-year percentage changes; percentage point contributions)



Source: Eurostat.  
Latest observations: 2025Q2.

## Euro area PMIs by sectors

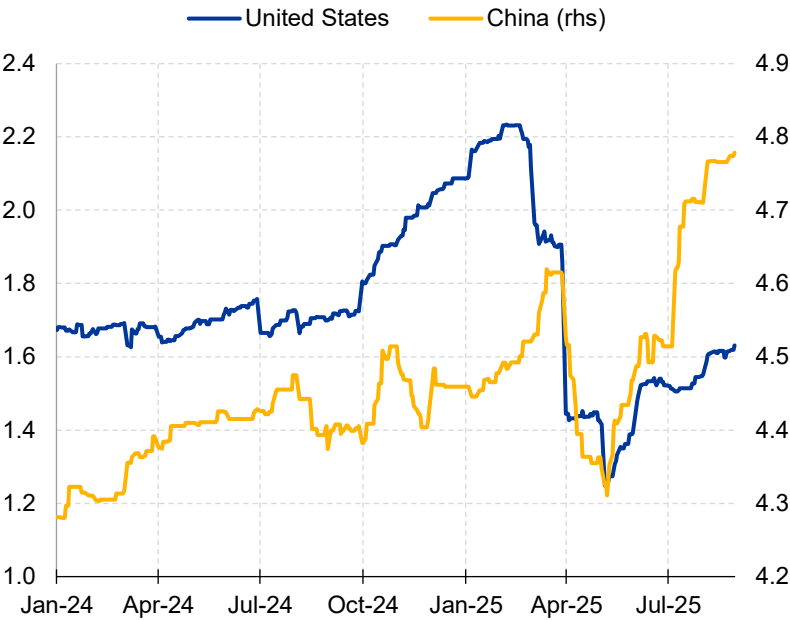
(balances)



Source: S&P Global.  
Latest observation: August 2025.

2025 Consensus growth forecasts

(annual percentage changes)



Source: Continuous Consensus Forecasts (CCF).  
Notes: Chart shows the CCF on a replacement basis (continuous consensus forecasts calculated each business day between monthly survey dates on replacement basis – prior monthly survey panel with subsequent new or revised forecasts replacing old) for gross domestic product in 2025. Latest observation: 05 September 2025 (weekly data).

Euro area exports to the United States

(annual percentage changes; 12-month cumulative sum)

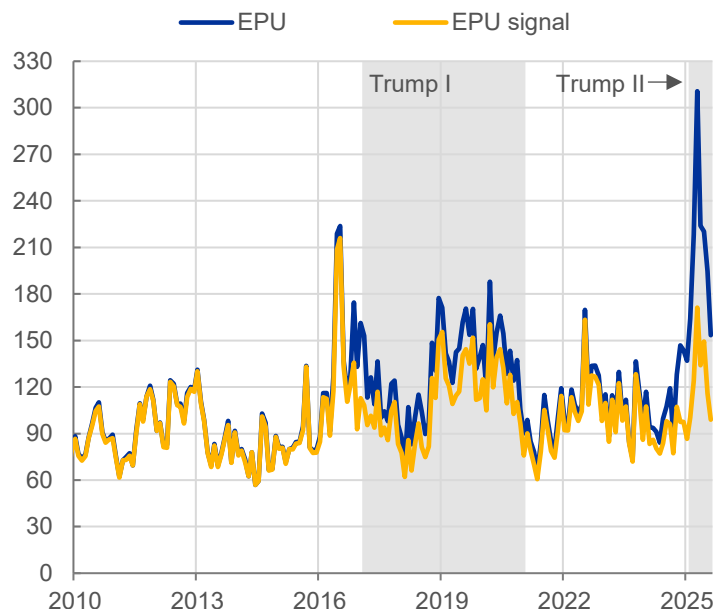


Source: Eurostat and ECB staff calculations.  
Latest observation: June 2025

# Impact of uncertainty on investment may be overstated

## Economic policy uncertainty (EPU): signal and noise

(indices)

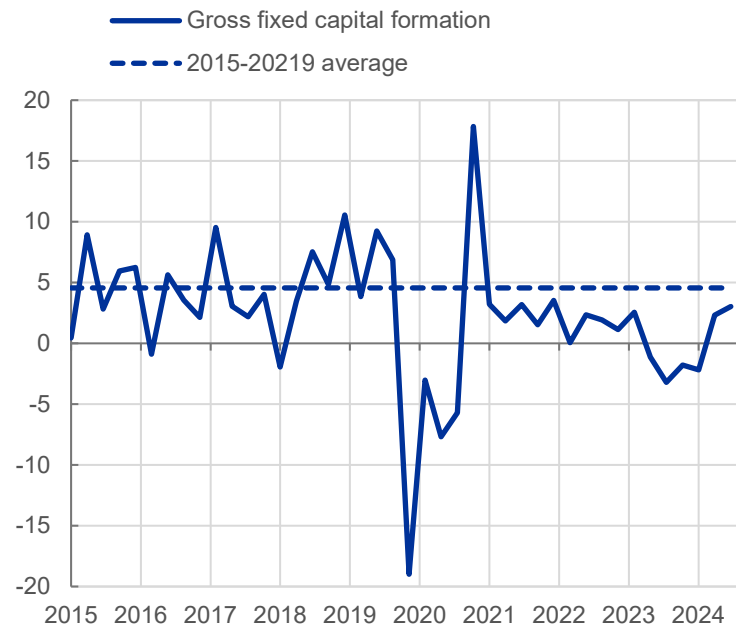


Sources: Bloomberg, Financial Times and ECB calculations.

Notes: The EPU is computed based on the methodology of Baker, Bloom, and Davis (2016) on Financial Times newspaper articles. The EPU signal cleans the EPU for noise from newspaper articles that mention the US President Donald Trump and at least one word from a set of "low credibility" keywords (e.g. unrealistic, impossible, U-turn, retreat, contradict). The Signal component is the difference between EPU and EPU Noise. The EPU is standardised to have an average of 100 over the sample period.

Latest observation: August 2025.

## Gross fixed capital formation (year-on-year growth)



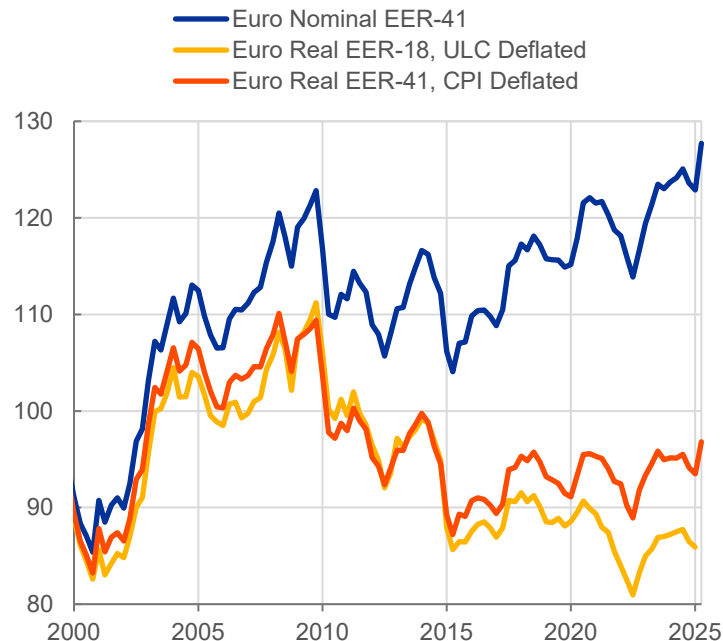
Source: Eurostat and ECB staff calculations.

The latest observations are for the second quarter of 2025.

# Real effective exchange rate and relative tariffs matter for price competitiveness

## Euro area real and nominal effective exchange rate

(Q1-99=100)



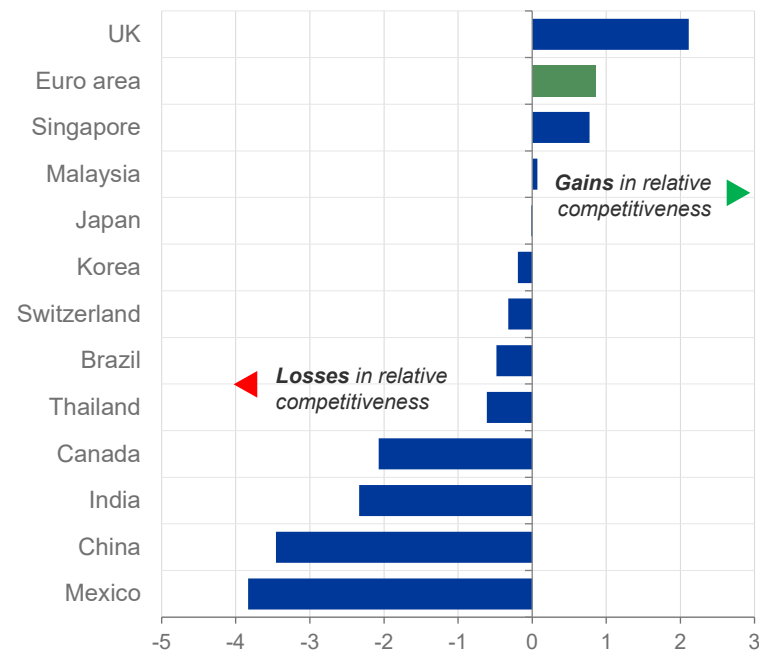
Source: European Central Bank.

Notes: The series are not seasonally adjusted. The nominal and CPI-deflated series are against 41 trading partners. The unit labour cost (ULC) deflated series is against 18 trading partners

Latest observation: Q2 2025.

## Relative competitiveness in US market

(weighted tariff rates on goods and services, percentage)

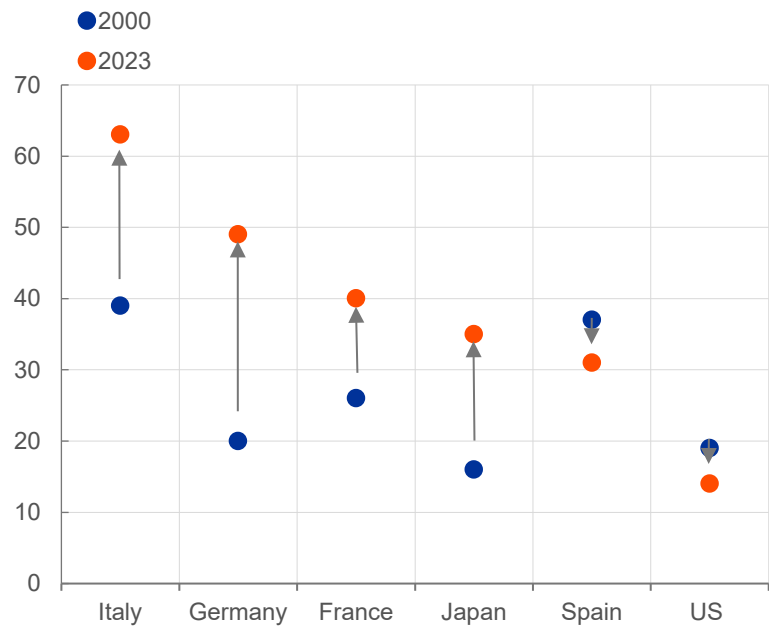


Sources: Conteduca and Mancini (2025), CEPII, BACI, and ECB staff calculations..

Notes: For each country on the y-axis, "relative competitiveness" is the difference between the mechanical impact of US tariffs on that country's foreign competitors' prices in third markets, and the mechanical impact of US tariffs on a country's own export prices. Positive values mean that US tariffs raise the export prices of foreign competitors by more than they raise the export prices of the country, accounting for shares of the US in each country exports. Only countries with market shares above 1% in US imports are displayed.

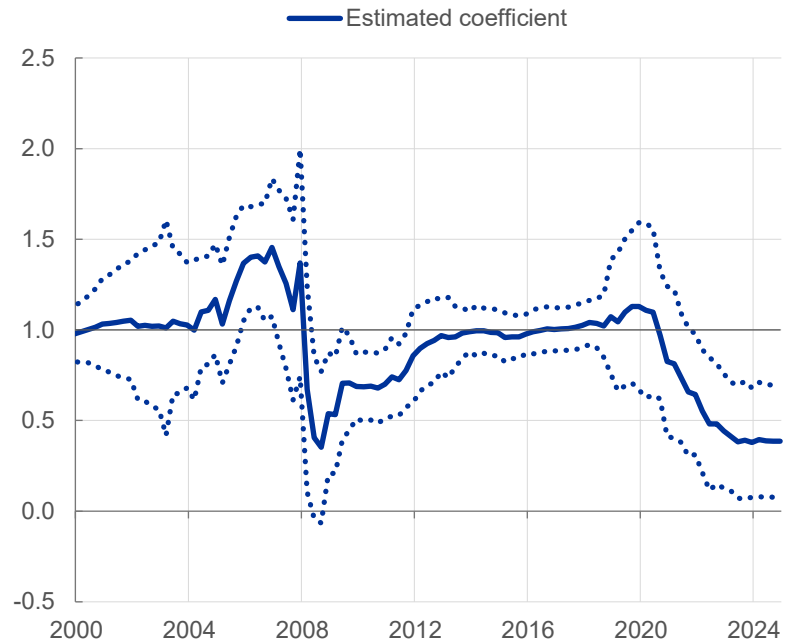
# Second China shock requires rebalancing of the economy towards domestic demand

## Number of product categories with comparative advantage of both China and another country



Sources: UNCTAD and ECB staff calculations.  
Notes: The chart shows comparative advantage, referring to the revealed comparative advantage indicator, measuring the ratio between the share of country's exports in a particular product category in its total exports, and the same share for the world as a whole. A country has comparative advantage if the value of this ratio is above 1. For instance, if Italy and China both specialise in the same specific product category, they are likely to directly compete for exports.  
Latest observation: 2023.

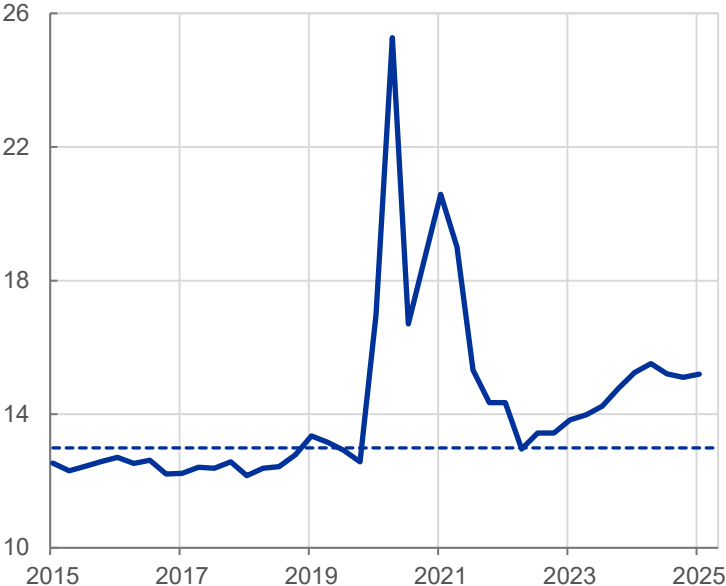
## China: long-run import elasticity (coefficient estimates)



Sources: Haver and ECB staff calculations.  
Notes: Coefficient estimates based on rolling window over 40 quarters of an error-correction model containing an index of domestic demand. Short-run and long-run dynamics are estimated in one step as in Ericsson and McKinnon (2002). Dotted lines represented plus / minus one standard deviation.

# Saving rate normalisation and strong balance sheets should underpin consumption

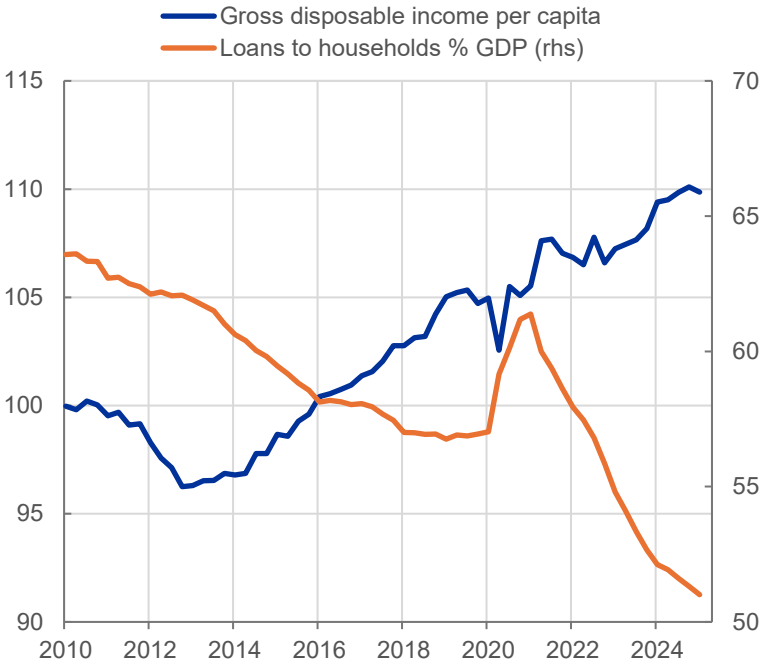
## Saving ratio in the euro area (% of gross disposable income)



Sources: Eurostat and Haver Analytics.  
Note: Defined as household gross saving rate. Dashed line refers to the pre-pandemic average.  
Latest observation: 2025Q1.

## Real gross disposable income per capita and loans to households

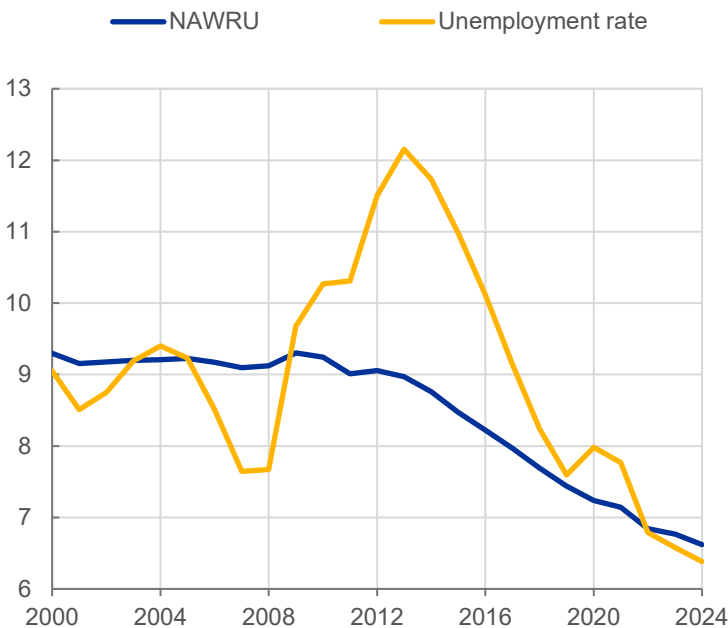
(lhs: index: 2010=100; rhs: % annual GDP)



Sources: ECB (QSA), Eurostat and ECB staff calculations.  
Latest observation: 2025 Q1.



Non-accelerating wage rate of unemployment (NAWRU) and unemployment rate (percentages)



Source: European Commission and ECB staff calculation.

Vacancy-to-unemployment ratio (ratio)

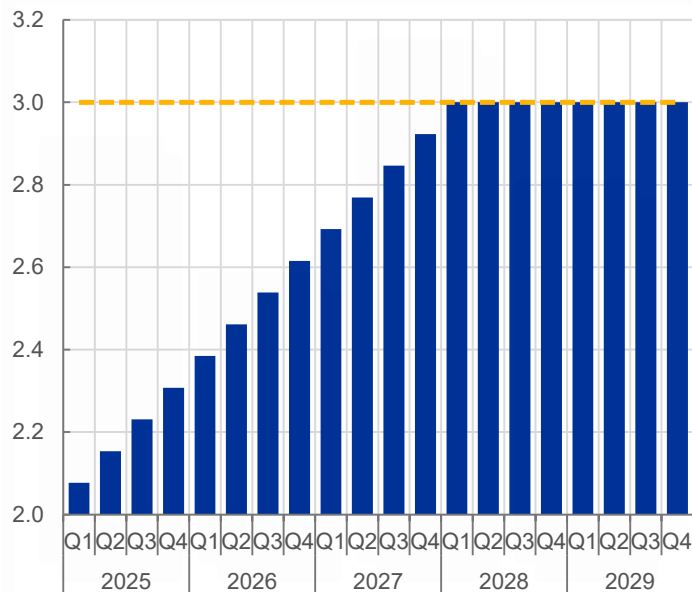


Source: Eurostat and ECB staff calculations.  
Notes: The vacancy to unemployment ratio is computed as number of vacancies over the number of unemployed.

# Fiscal expansion could measurably support economic growth

## Counterfactual path of the increase in government expenditure

(percentage of GDP)

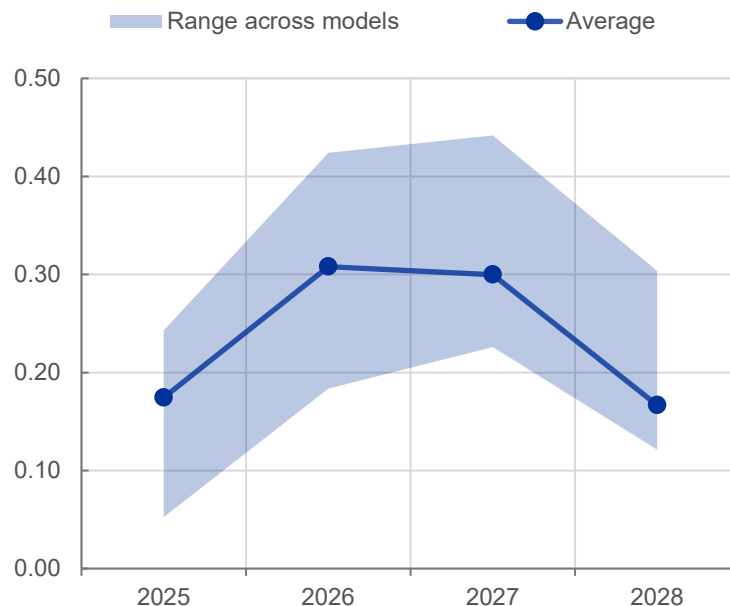


Sources: ECB staff computations.

Note: Assumed government expenditure path for model simulations illustrating an increase in defence-related spending.

## Impact of increase in government expenditure to 3% of GDP on economic growth

(percentage point deviation from baseline)

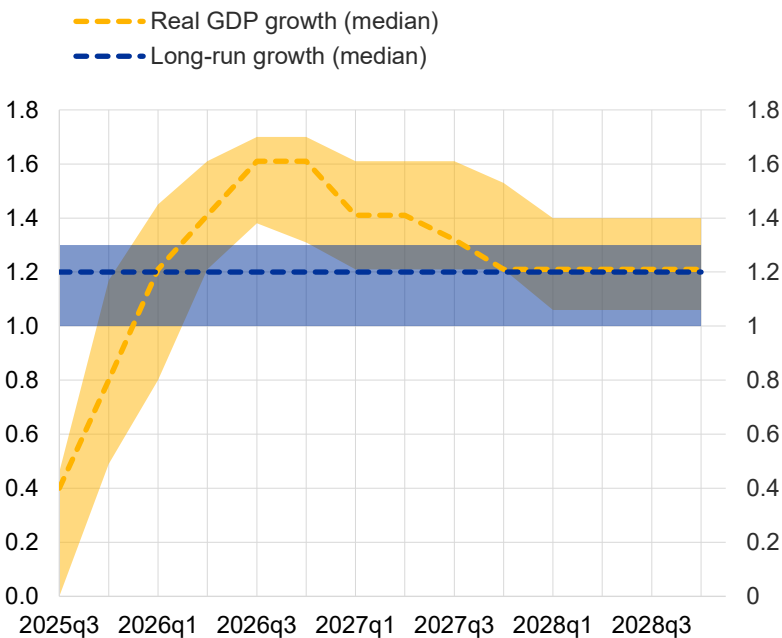


Sources: ECB staff computations.

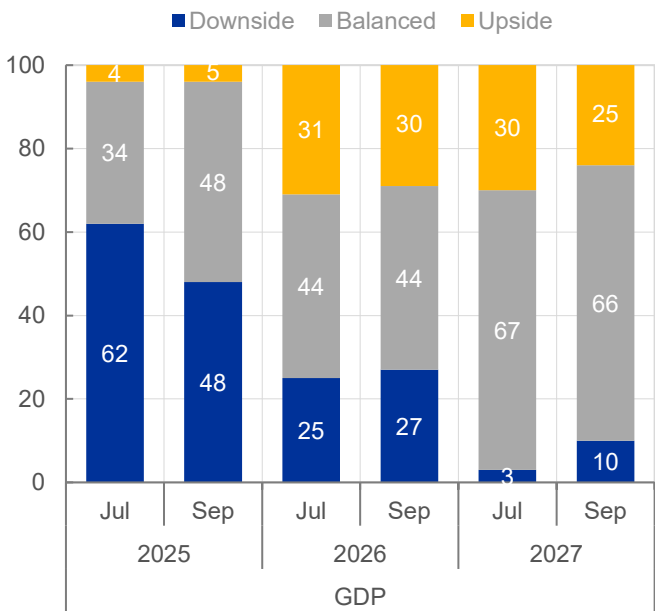
Note: Model simulations using ECB-(RE)BASE, ECB-MC, HANK and the regional extension of NAWM-E. The shock is an increase in government consumption spending as shown on the LHS chart. Monetary policy is assumed to be active, but the exchange rate and financial spreads are not. The semi-structural models (RE)BASE and MC assume full deficit-financing (no tax-financing) of the fiscal expansion. The range is computed by using minimum and maximum values across all models.

Survey of Monetary Analysts (SMA)

Real GDP and potential growth rate  
(annual percentage changes)



Balance of risk surrounding the euro area  
growth outlook  
(percentage of respondents)

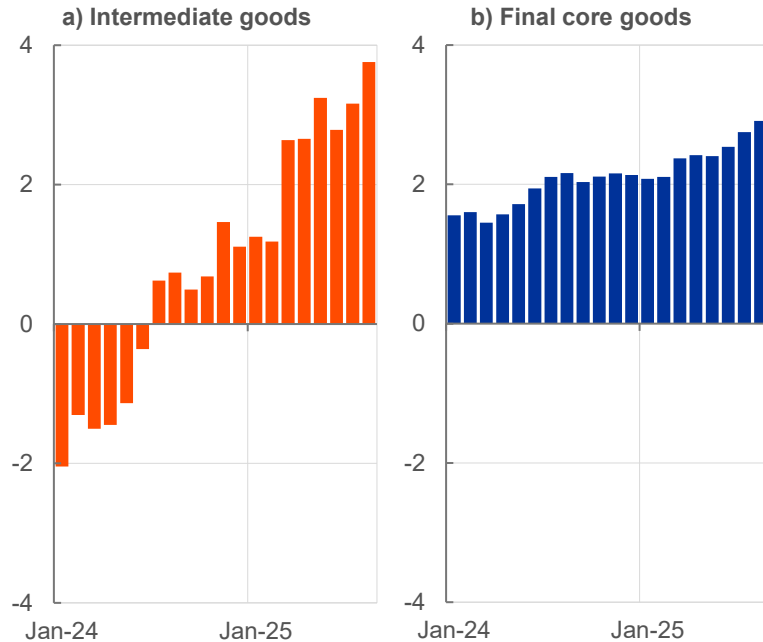


Source: September 2025 Survey of Monetary Analysts.  
Note: Shaded areas are the corresponding 25<sup>th</sup> to 75<sup>th</sup> percentile ranges.  
Last observation: 2028q4.

Source: September 2025 Survey of Monetary Analysts.  
Note: Percentages may not add up to 100 due to rounding.

# Tariffs are gradually raising underlying inflation in the United States

## US: PPI inflation (annual percentage changes)

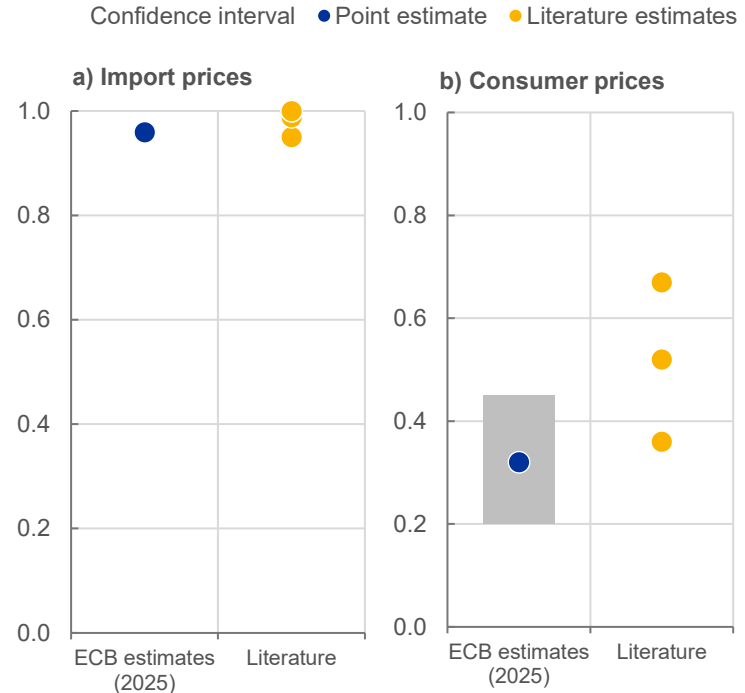


Source: Bureau of Labor Statistics and ECB staff calculations.

Notes: “*Final core goods*” are goods excluding food and energy. “*Intermediate goods*” are materials and components for manufacturing.

Latest observation: August 2025.

## US: Pass-through of tariffs to prices (coefficient estimates)

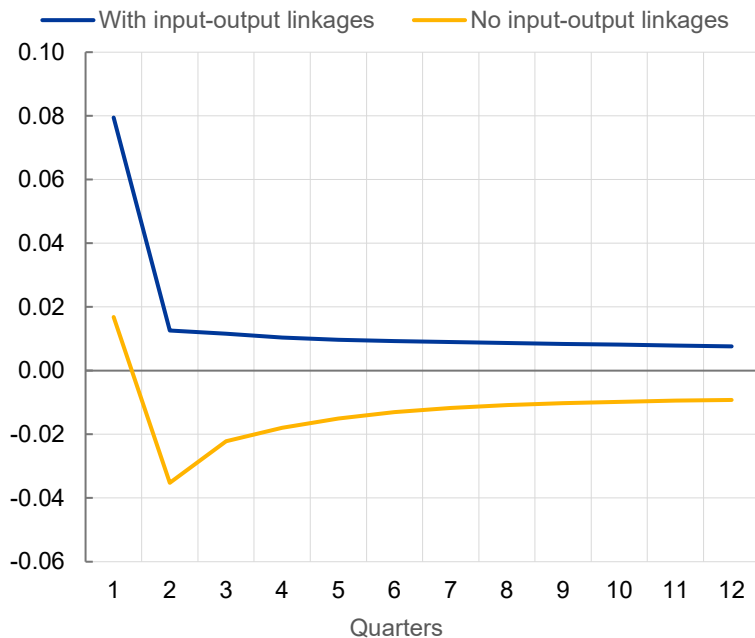


Sources: TDM, BEA, and ECB staff calculations.

Notes: Based on Jan. 2024 to June 2025 data. Panel a) panel estimates on HS6-level products as in Amiti et al. (2019); literature refers to Amiti et al. (2019; 2020), Fajgelbaum et al. (2020), Cavallo et al. (2021). Panel b) panel regression estimates; literature refers to Minton and Somale (2025) and Peng (2025a; 2025b).

## Impact of production networks on inflation response to tariff shocks

(p.p. deviations)

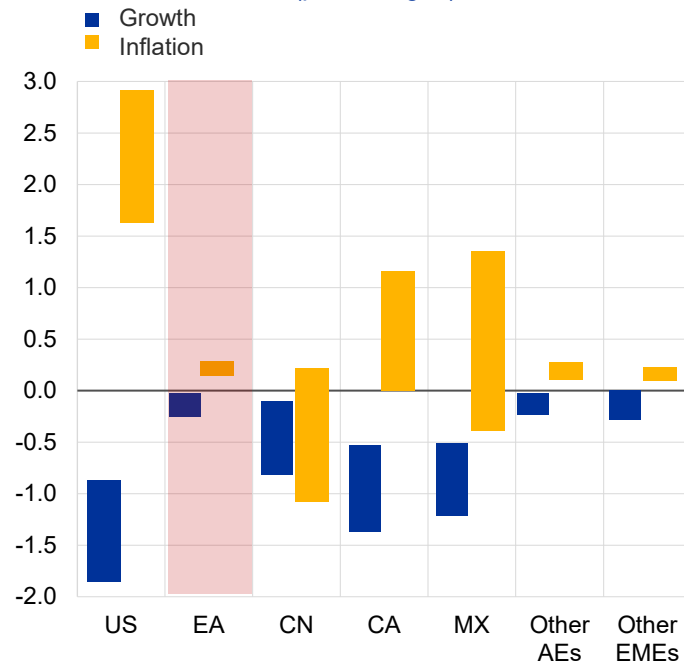


Source: ECB staff calculations, based on Gnecato, Montes-Galdón and Stamato (2025).

Notes: The chart shows the impulse response of euro area HICP inflation to a 10% increase in US tariffs on EU imports under two scenarios: 1) baseline response from the model (blue line) and 2) response when international production networks are deactivated, so there are no imports of intermediate inputs in the euro area.

## Impact of tariffs on growth and inflation across tariff scenarios

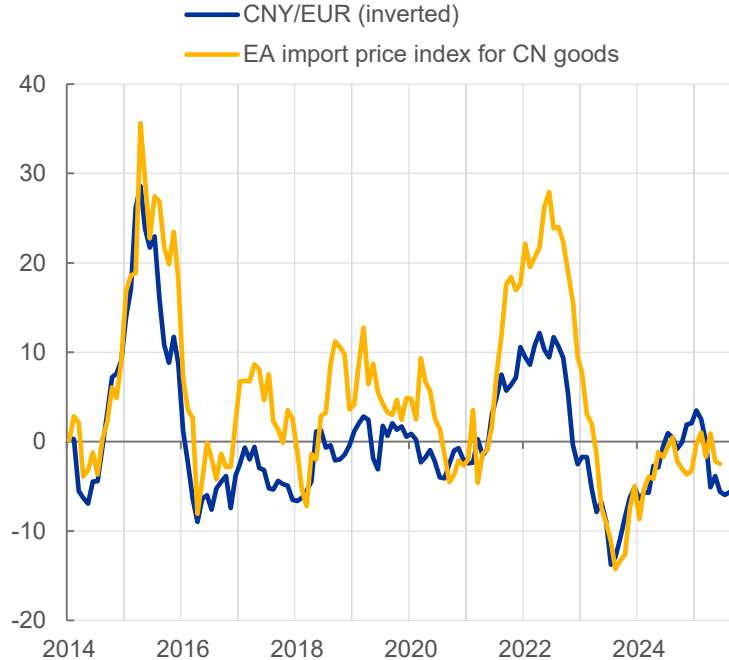
(percentages)



Source: Kohlscheen, Rungcharoenkitkul, Xia, Zampolli, *Macroeconomic impact of tariffs and policy uncertainty*, BIS Bulletin No 110, 12 August 2025.

# China's excess supply and euro appreciation have limited impact on import prices so far

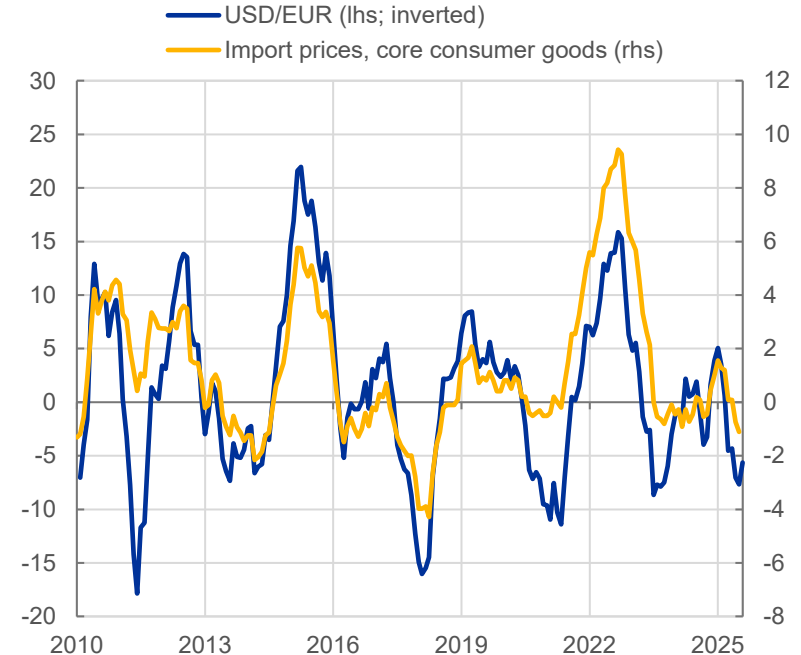
## Import prices from China and EUR/CNY (annual percentage changes)



Source: Eurostat and ECB calculations.

Notes: Latest observation: June 2025 for import prices, August 2025 for the exchange rate.

## Import prices of core consumer goods and EUR/USD (annual percentage changes)



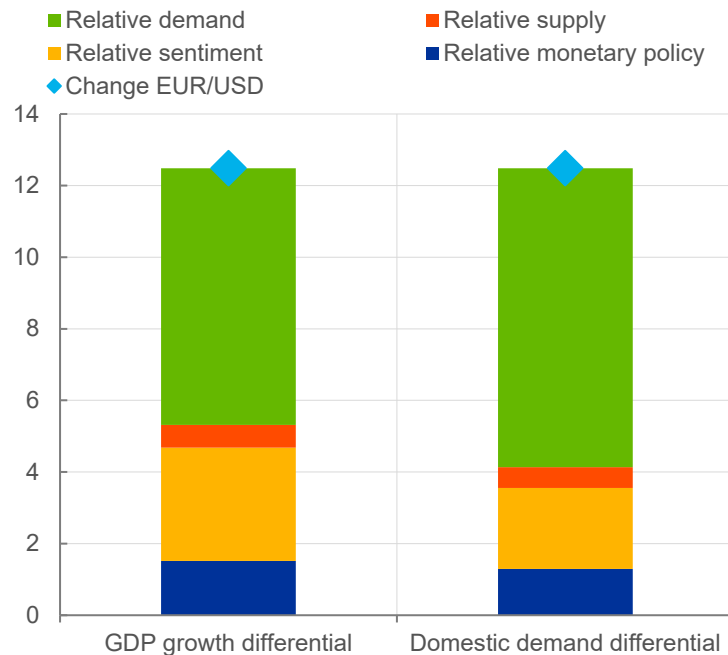
Source: Eurostat and ECB calculations.

Notes: Latest observation: July 2025 for import prices and August 2025 for the exchange rate.

# Appreciation largely reflects positive demand shock, limiting exchange rate pass-through

## Model-based decomposition of drivers of EUR/USD in 2025

(log changes)



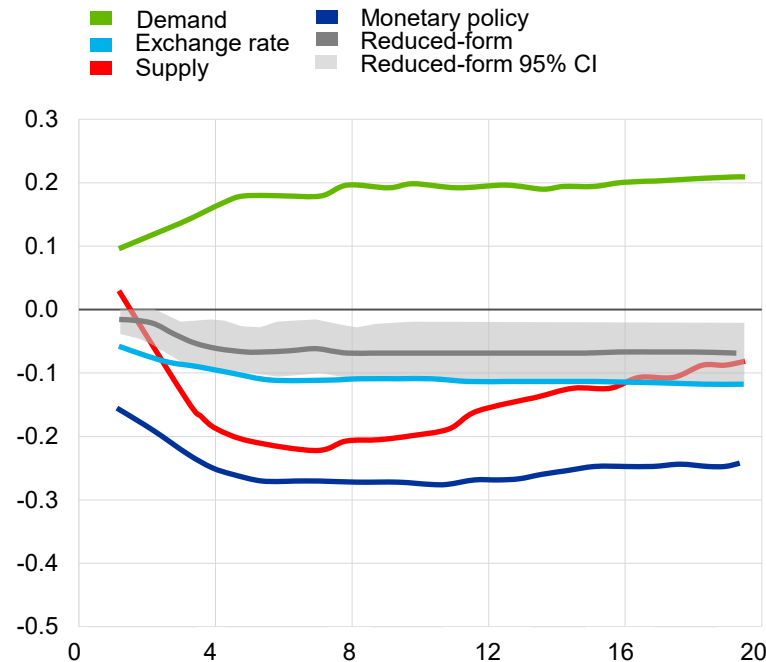
Sources: Haver and ECB staff calculations.

Notes: Decompositions are based on a quarterly EA-US model. The difference between the two estimates relates to the measure used to proxy relative demand. Different measures are used for robustness in an environment in which net exports are highly volatile.

Latest observation: July 2025 (reporting lag).

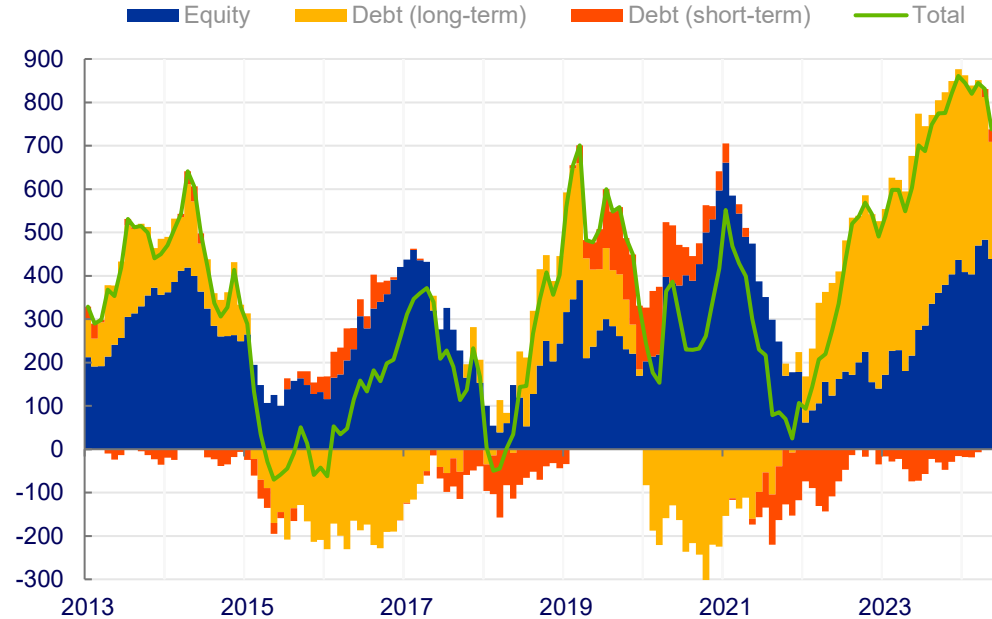
## Exchange rate pass-through to consumer prices

(percentages)



Source: Forbes, Hjortsoe, Nenova, *The shocks matter: Improving our estimates of exchange rate pass-through*, Journal of International Economics, Volume 114, September 2018, pp. 255-275.

## Euro area balance of payments liabilities (12-months moving sums)

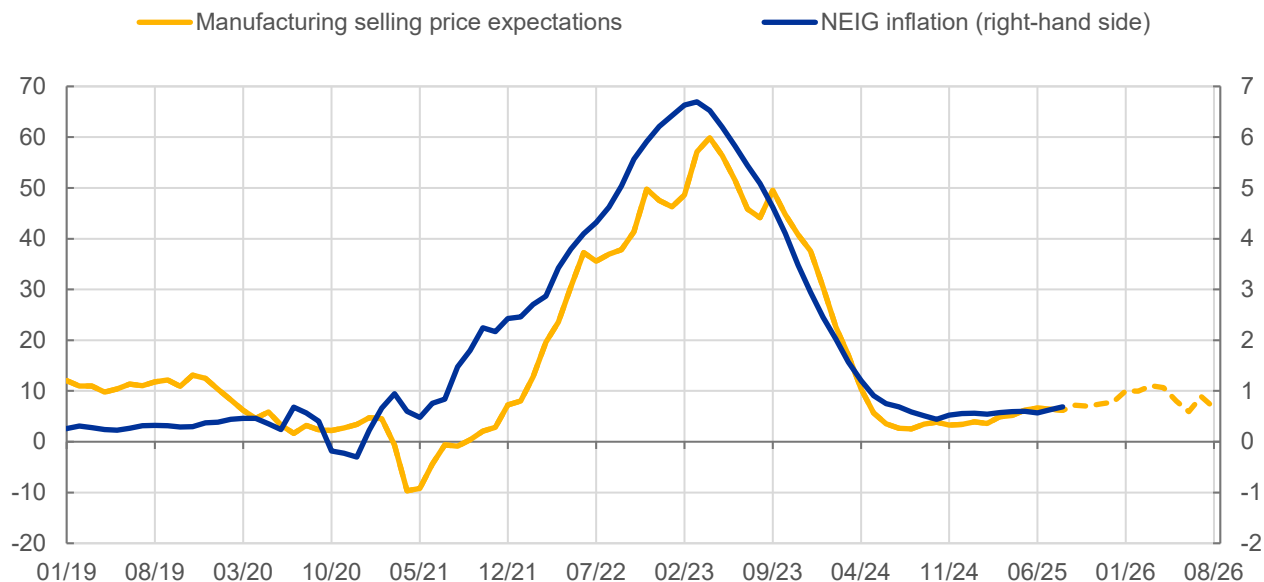


Source: European Central Bank (Balance of payments).  
Latest observation: June 2025.



## Non-energy industrial goods inflation (NEIG) and manufacturing selling price expectations

(three-month moving average; response balances)

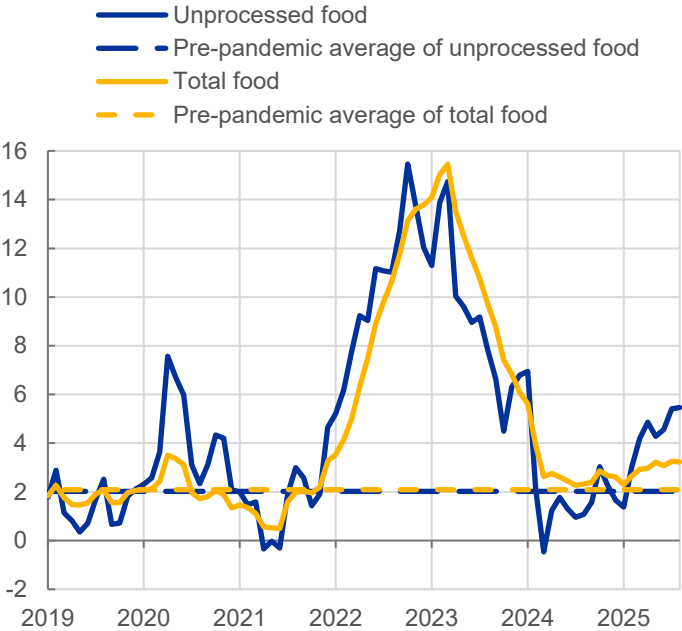


Source: Eurostat, European Commission and ECB staff calculations. Notes: Selling price expectations are expressed as percentage balance and the series is shifted forward by 12 months. NEIG inflation series shows the three-month moving average of the year-on-year growth rate of NEIG prices. Latest observation: August 2025.

# Food price inflation is re-accelerating, posing risks to consumer inflation expectations

## Unprocessed and total food inflation

(annual percentage changes)



## Consumers' opinion on price trends

(percentage balances)



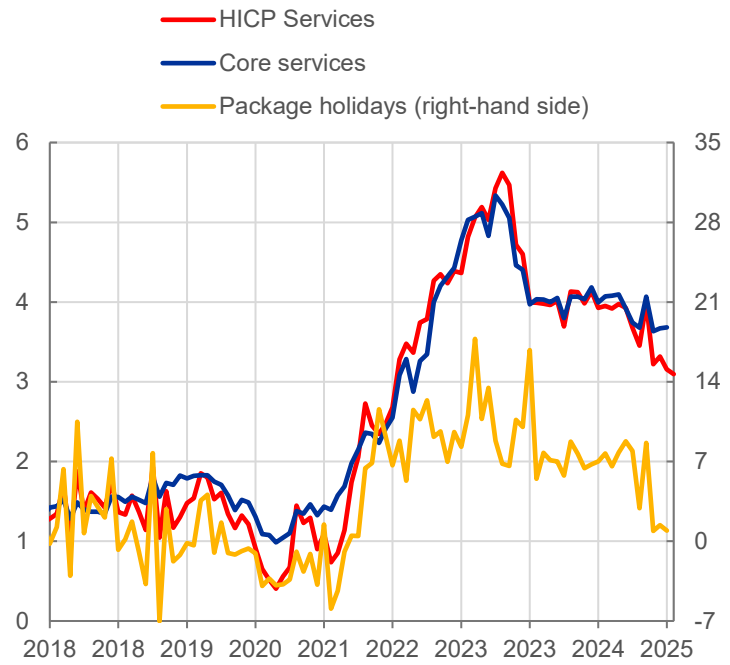
Source: Eurostat and ECB calculations  
Notes: The pre-pandemic average is calculated over the period 1997–2019.  
Latest observation: August 2025 (flash estimate).

Source: European Commission.  
Notes: Consumer price expectations series are seasonally adjusted. Percentage balance equals percent of respondents reporting an increase minus the percent of respondents reporting a decrease.  
Latest observation: August 2025.

# Core services inflation remains firm amid elevated selling price expectations

## Services inflation

(annual percentage changes)



## Services selling price expectations over next three months

(percentage balances)



Source: Eurostat and ECB calculations.

Notes: Core services includes the following categories: housing, transport and recreation, personal care excluding package holidays and accommodations and miscellaneous.

Latest observation: August 2025 (flash estimate) for HICP services and July 2025 for the rest.

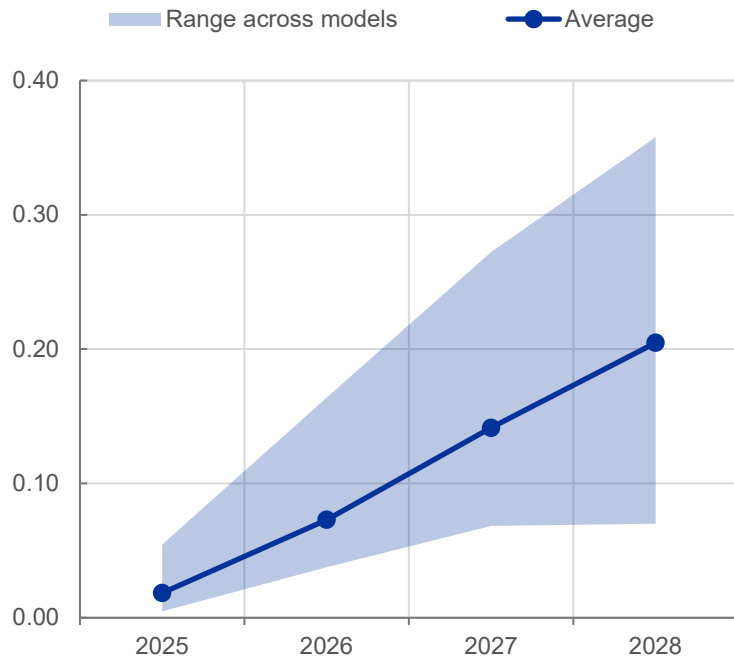
Source: Eurostat.

Latest observation: August 2025.

# Fiscal expansion may slow down domestic disinflation

## Impact of increase in government expenditure to 3% of GDP on HICP inflation

(percentage point deviation from baseline)

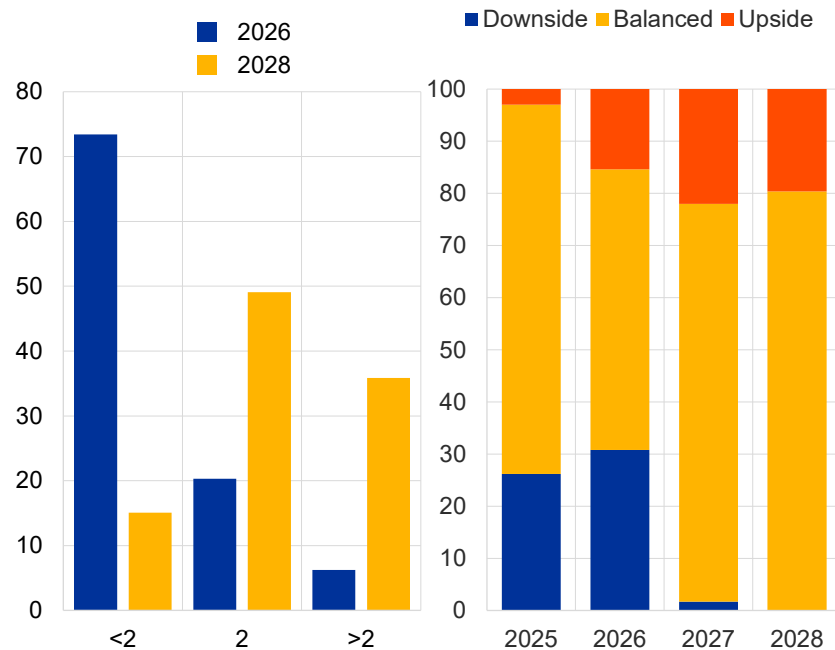


Sources: ECB staff computations

Note: Model simulations using ECB-(RE)BASE, ECB-MC, HANK and the regional extension of NAWM-E. The shock is an increase in government consumption spending as shown on the LHS chart of slide 9. Monetary policy is assumed to be active, but the exchange rate and financial spreads are not. The semi-structural models (RE)BASE and MC assume full deficit-financing (no tax-financing) of the fiscal expansion. The range is computed by using minimum and maximum values across all models.

## Survey of Monetary Analysts: HICP inflation and balance of risks

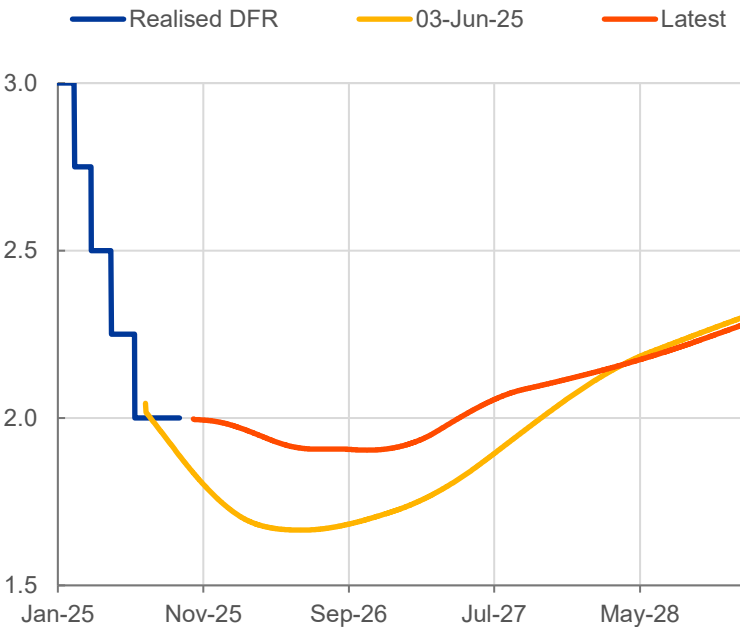
(annual percentage changes)



Source: September 2025 Survey of Monetary Analysts.

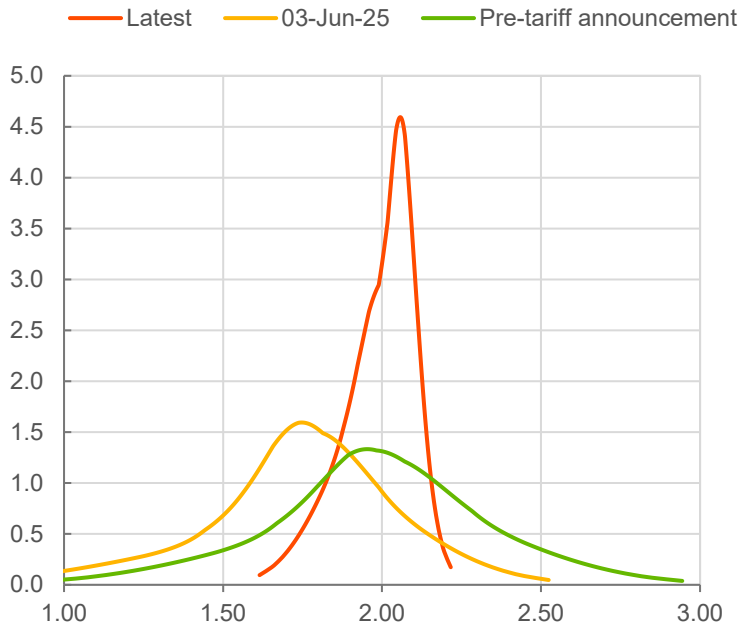
# Growing conviction in financial markets that interest rates are in a “good place”

**Realised and implied DFR rate**  
(percentages)



Sources: Bloomberg and ECB calculations.  
Notes: The curve of 3 June foresaw the lowest terminal rate when excluding the immediate volatile post- April 2 period.  
Latest observation: 11 September 2025.

**3-month Euribor implied densities**  
(density)



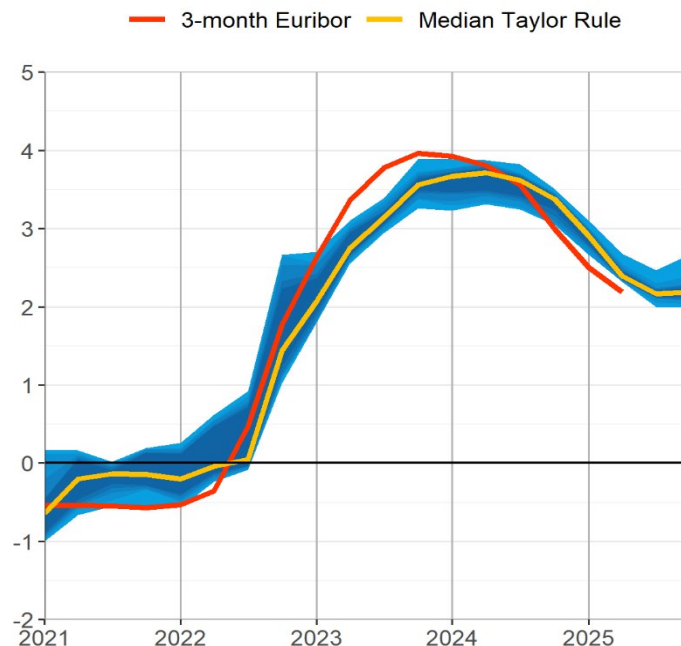
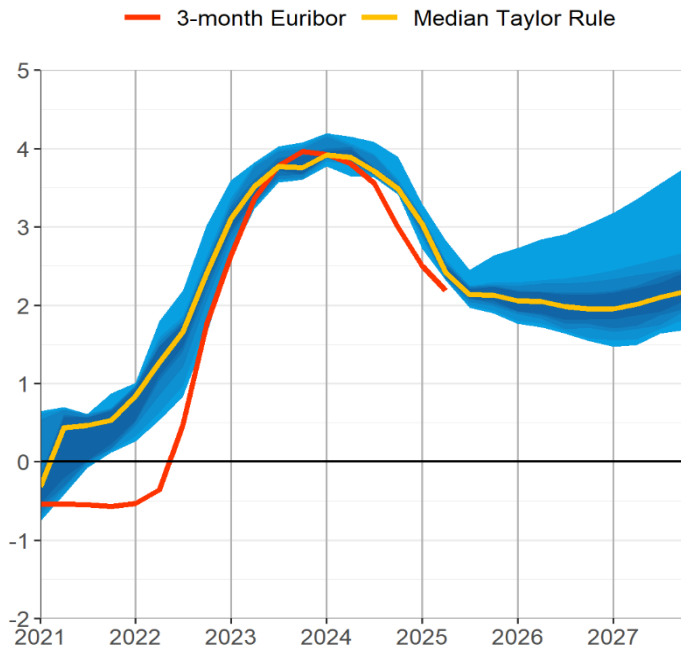
Sources: ICE, ECB calculations.  
Notes: Implied densities of 3-month EURIBOR in 6-month time. Pre-tariff announcement refers to 2 April 2025. The curve of 3 June foresaw the lowest terminal rate when excluding the immediate volatile post- April 2 period.  
Latest observation: 11 September 2025.

# Simple Taylor rules prescribe steady-hand policy, with risks skewed to the upside

## Taylor Rule predictions for short-term interest rates

Based on actual inflation

Based on 2-year ahead inflation forecast



Source: ECB staff calculations.

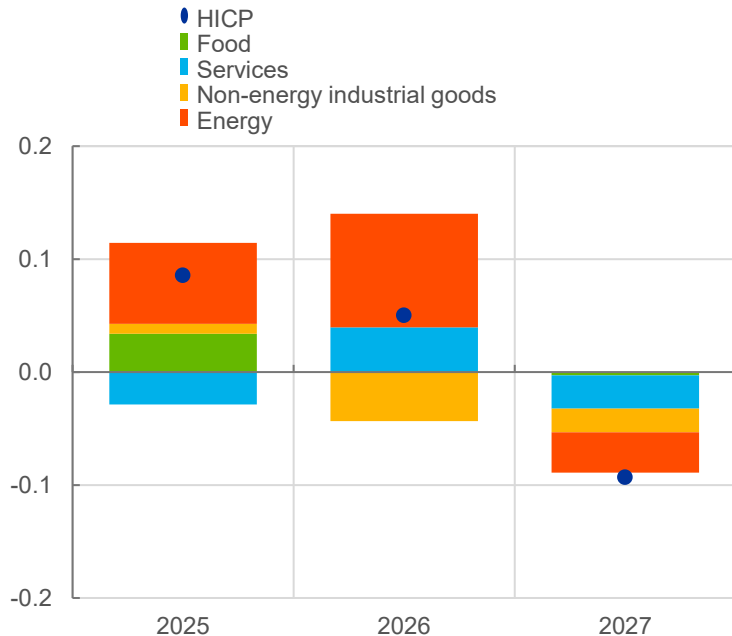
Notes: The graphs shows predictions of the 3-month EURIBOR based on a variety of Taylor rules using different output gap and natural rate estimates. Forecasts based on the ECB staff September 2025 macroeconomic projections.

Latest observation: 2025 Q2

# Monetary policy should focus on underlying inflation over the medium term

## Revisions to the inflation projection compared with the June 2025 projections

(percentage points)



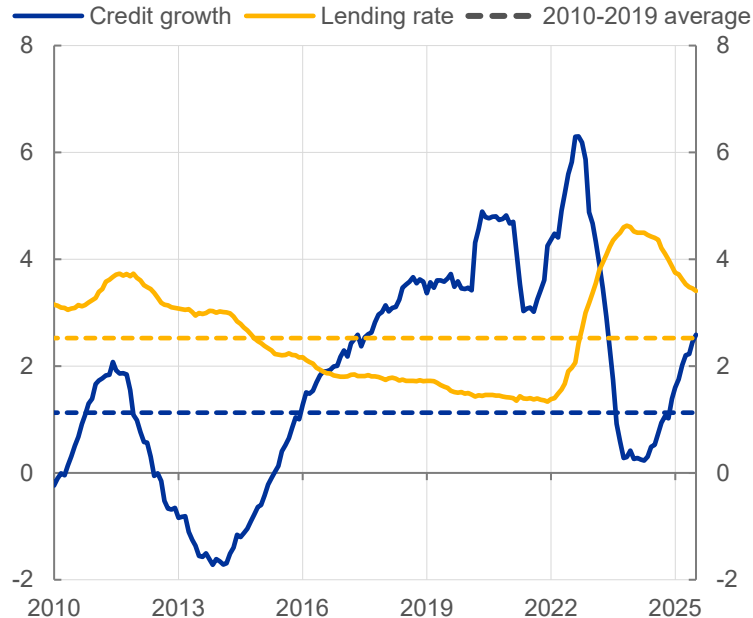
Sources: ECB staff projections.

Note: The revisions are calculated based on unrounded figures.

Latest observation: The cut off-date for the technical assumptions was 15 August 2025. The macroeconomic projections for the euro area and global economy were finalized on 28 August 2025.

## Lending rates and credit growth for non-financial private sector

(percentages per annum for lending rate; annual percentage changes for credit growth)

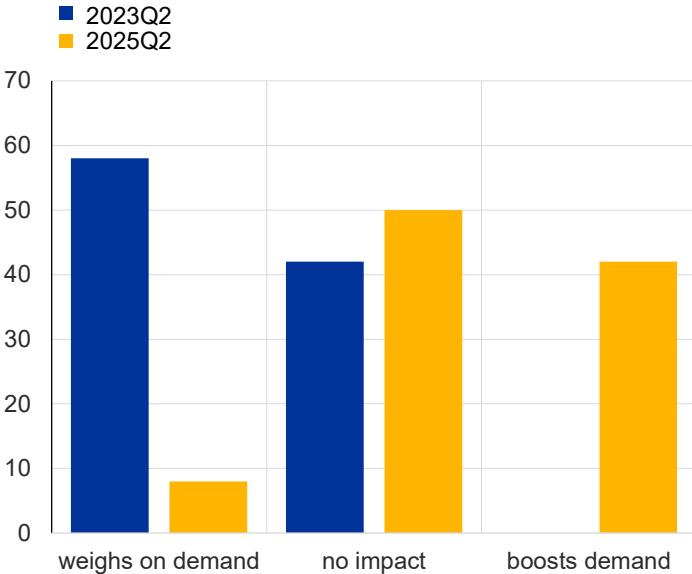
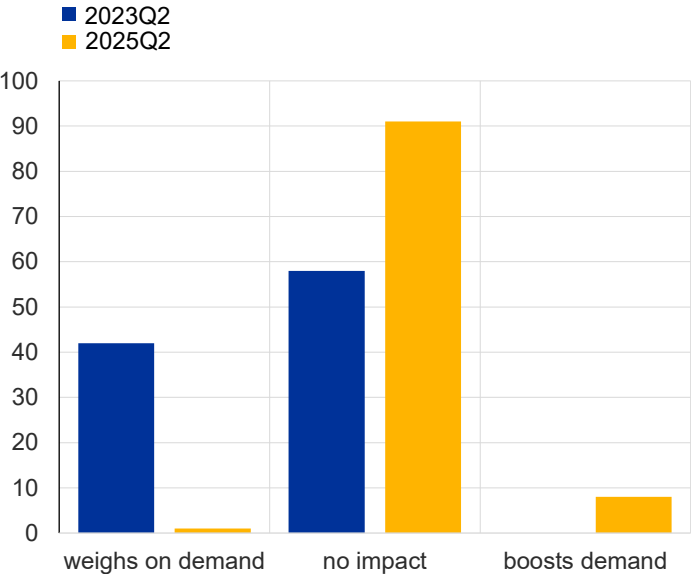


Sources: ECB (BSI, MIR) and ECB calculations. Notes: Lending rates correspond to the total cost of borrowing indicator for the non-financial private sector, which is a weighted average between the total cost of borrowing indicator for firms and for households for house purchase with their corresponding outstanding amounts. The indicator for the total cost of borrowing for firms and for households for house purchase is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes. Credit growth relates to bank loans to firms and households, which are adjusted for sales, securitisation and cash pooling. Latest observation: July 2025.

Impact of level of interest rates on loans demand  
(percentages)

Firms

Households



Source: ECB Bank Lending Survey.



- ❑ Interest rates are in a good place as inflation stabilises around our 2% target and the economy remains resilient at full employment
- ❑ Healthy balance sheets, lower uncertainty and fiscal expansion underpin domestic demand, counteracting a decline in net exports
- ❑ So far little evidence of China dumping exports, while the pass-through of a stronger exchange rate is likely to be limited
- ❑ Upside risks to inflation dominate, with tariffs, services inflation, food inflation and fiscal policy as potential drivers
- ❑ Monetary policy should keep a steady hand, tolerating moderate deviations from target

**Thank you very much for your attention!**