



EUROPEAN CENTRAL BANK

EUROSYSTEM

The monetary policy of the European Central Bank

J. E. Cairnes lecture at the
University of Galway

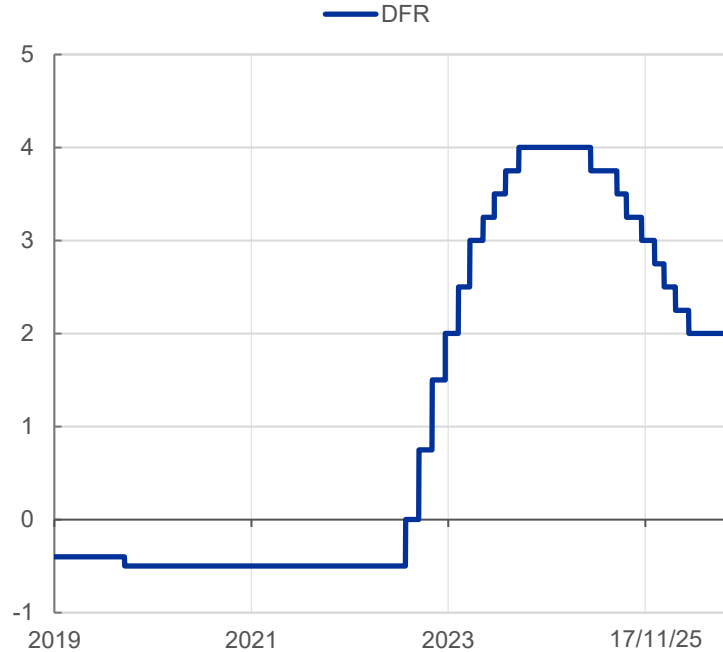
17 November 2025



Philip R. Lane
Member of the Executive Board

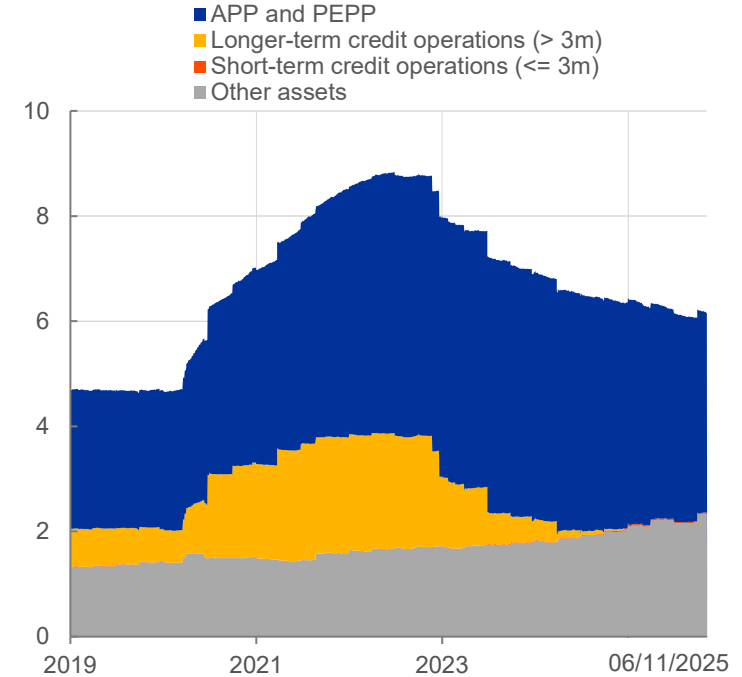
Monetary policy in the euro area

Deposit Facility Rate (percentages per annum)



Source: ECB.

Asset side of the Eurosystem balance sheet (EUR trillion)

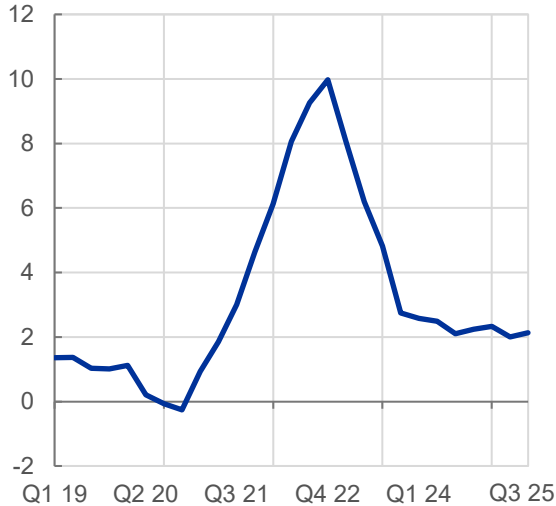


Source: ECB.

Notes: Short-term credit operations refer to three-month longer-term refinancing operations (LTROs) and main refinancing operations (MROs); long-term credit operations refer to LTROs with a maturity longer than three months, targeted longer-term refinancing operations (TLTROs) and other lending operations. Other assets and other liabilities cover all other, non-monetary policy components. APP stands for asset purchase programme and PEPP for pandemic emergency purchase programme. The latest observations are for 6 November 2025.

Inflation developments

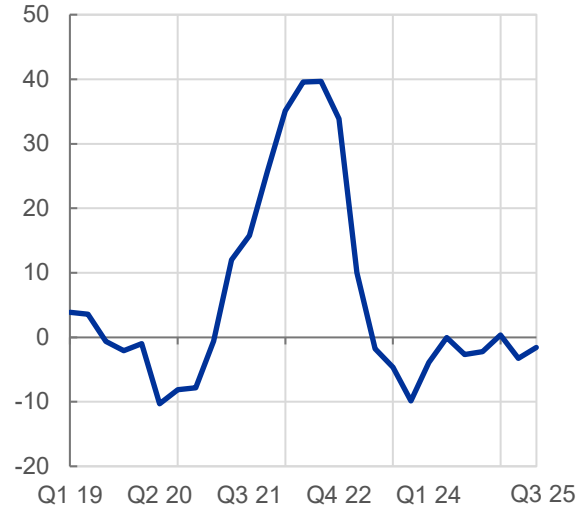
HICP inflation
(annual percentage points)



Sources: Eurostat, September 2025 ECB staff macroeconomic projections and ECB calculations.

Note: The latest observations are for the third quarter of 2025.

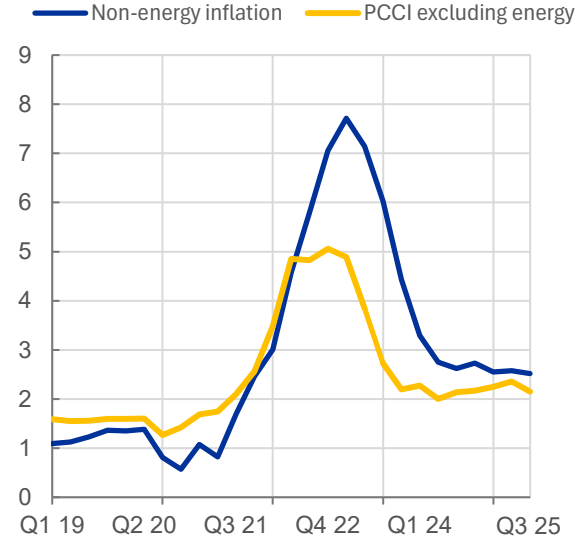
Energy inflation
(annual percentage points)



Sources: Eurostat, September 2025 ECB staff macroeconomic projections and ECB calculations.

Note: The latest observations are for the third quarter of 2025.

Non-energy inflation
(annual percentage points)



Sources: Eurostat, September 2025 ECB staff macroeconomic projections and ECB calculations.

Note: PCCI excluding energy is computed taking the quarterly average of monthly series. The latest observations are for the third quarter of 2025.

Inflation developments and outlook

HICP inflation – annual averages

(annual percentage changes)

	September 2025 projections						
	(annual percentage changes)						
	2021	2022	2023	2024	2025	2026	2027
HICP inflation	2.6	8.4	5.4	2.4	2.1	1.7	1.9
HICP energy inflation	13.0	37.0	-2.0	-2.2	-1.6	-1.1	2.4
HICP excl. energy inflation	1.5	5.1	6.3	2.9	2.5	2.0	1.9

Source: September 2025 ECB staff macroeconomic projections for the euro area.

Notes: The latest observations are for 2024. The cut-off date of the September 2025 ECB staff macroeconomic projections was 15 August 2025.

HICP inflation – Q4 on Q4 profile

(Q4-on-Q4 percentage changes)

	September 2025 projections						
	(Q4-on-Q4 percentage changes)						
	Q4 2021	Q4 2022	Q4 2023	Q4 2024	Q4 2025	Q4 2026	Q4 2027
HICP inflation	4.6	10.0	2.7	2.2	2.0	1.7	2.0
HICP energy inflation	25.7	33.9	-9.8	-2.2	-1.7	0.2	2.9
HICP excl. energy inflation	2.4	7.0	4.4	2.7	2.3	1.8	2.0

Source: September 2025 ECB staff macroeconomic projections for the euro area.

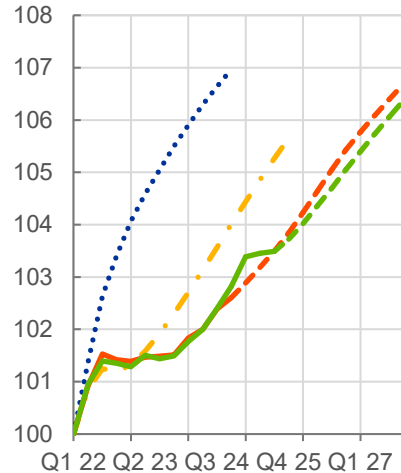
Notes: The latest observations are for the fourth quarter of 2024. The cut-off date of the September 2025 ECB staff macroeconomic projections was 15 August 2025.

GDP and components across different projection vintages

Real GDP

(index, Q1 2022 = 100)

- December 2021 (pre-invasion of Ukraine, pre-tightening)
- . - June 2023 (pre-loosening)
- December 2024
- September 2025

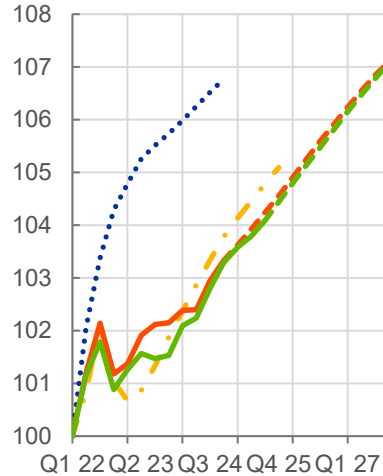


Sources: December 2021, June 2023, December 2024 and September 2025 ECB/Eurosystem staff projections.

Real private consumption

(index, Q1 2022 = 100)

- December 2021 (pre-tightening)
- . - June 2023 (pre-loosening)
- December 2024
- September 2025

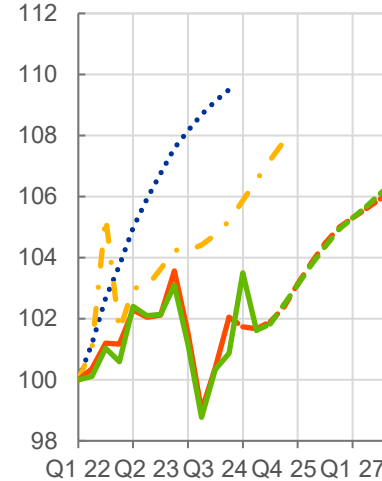


Sources: December 2021, June 2023, December 2024 and September 2025 ECB/Eurosystem staff projections.

Real total investment

(index, Q1 2022 = 100)

- December 2021 (pre tightening)
- . - June 2023 (pre-loosening)
- December 2024
- September 2025

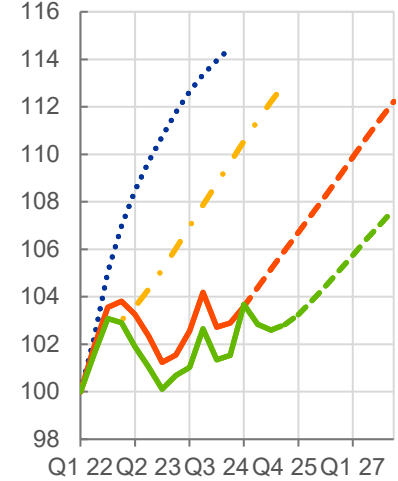


Sources: December 2021, June 2023, December 2024 and September 2025 ECB/Eurosystem staff projections.

Real exports

(index, Q1 2022 = 100)

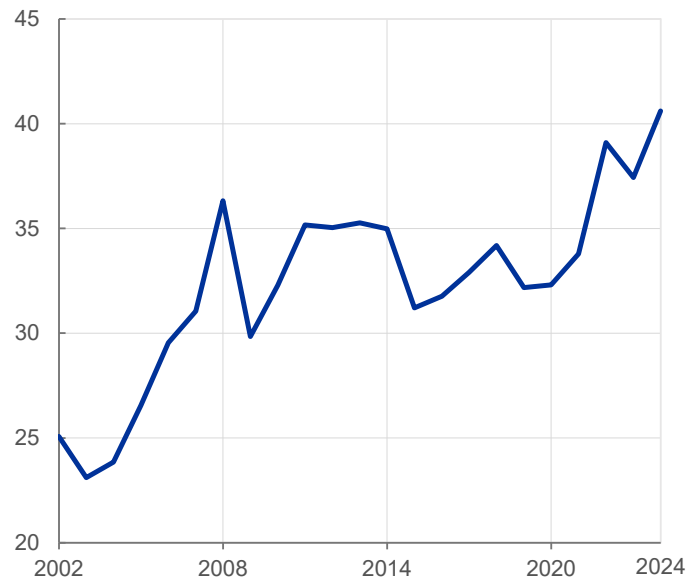
- December 2021 (pre-tightening)
- . - June 2023 (pre-loosening)
- December 2024
- September 2025



Sources: December 2021, June 2023, December 2024 and September 2025 ECB/Eurosystem staff projections.

Euro area export similarity with China

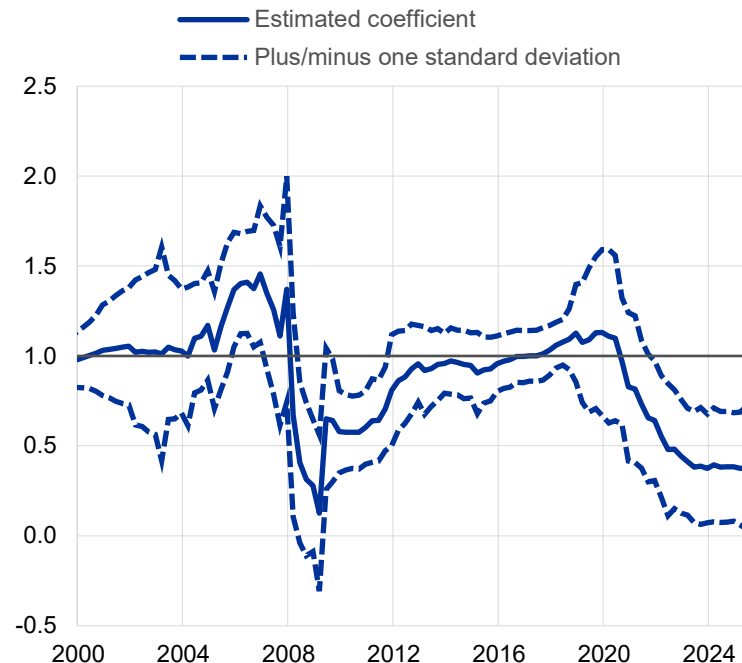
Share of sectors where euro area and China display a high comparative advantage (index)



Sources: UN Trade and Development and ECB staff calculations.

Notes: The chart displays the percentage of sectors with a revealed comparative advantage (RCA) of greater than one in both the euro area and China as a share of the number of sectors in which the euro area has an RCA of greater than one. A total of 259 sectors are considered for each year. Euro area aggregate computed as a weighted average based on export value weights. The latest observations are for 2024.

Long-run elasticity of imports to GDP – rolling window estimate over 40 quarters (coefficient estimates)



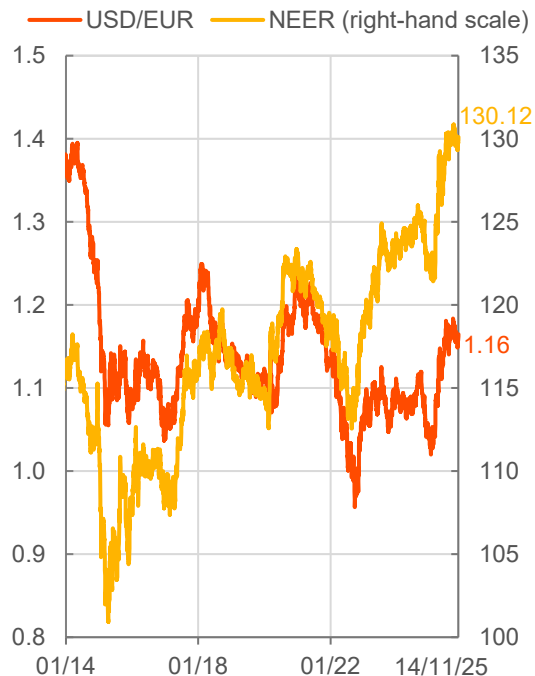
Sources: Al-Haschimi, A., Dvořáková, N., Le Roux, J. and Spital, T. (2025) based on Haver Analytics data and ECB staff calculations.

Notes: Estimates, based on a rolling window over 40 quarters, of the long-run coefficient of an error correction model containing an index of domestic demand. The point estimate reported at date t corresponds to an estimation over the period from $t-40$ to t . The latest observations are for the second quarter of 2025.

Euro: exchange rate patterns

USD/EUR and NEER

(left-hand scale: USD per EUR; right-hand scale: index: 1999 = 100)

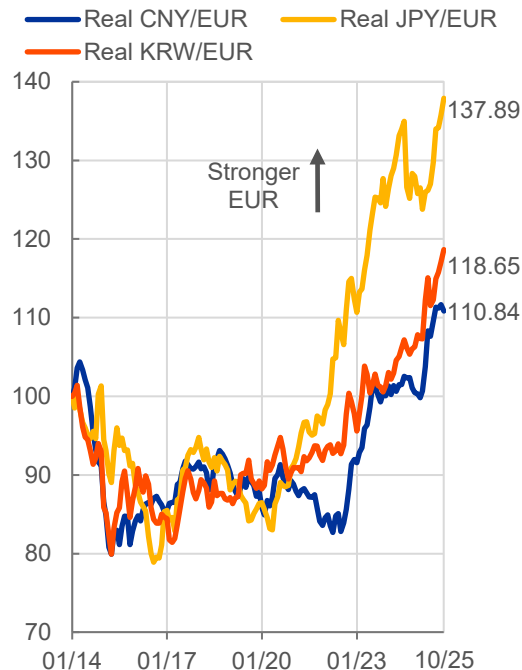


Sources: ECB and ECB staff calculations.

Notes: Nominal effective exchange rate denoted in euro for 41 trading partners (NEER 41). The latest observations are for 14 November 2025.

Real EUR vs CNY, JPY and KRW

(CNY per EUR, JPY per EUR and KRW per EUR)

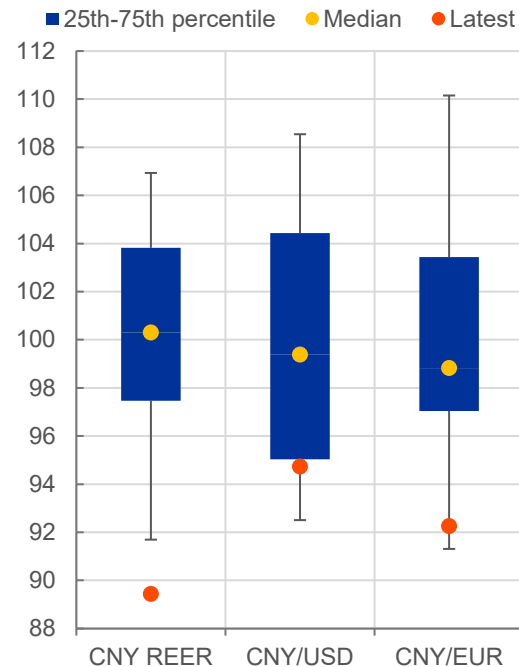


Sources: ECB and ECB staff calculations.

Notes: Real CNY/EUR, real JPY/EUR and real KRW/EUR refer to consumer price index (CPI)-deflated bilateral exchange rates, such that an increase denotes an appreciation of the euro. The latest observations are for October 2025.

Chinese renminbi ranges since 2014

(index: average since 2014 = 100)



Sources: ECB and ECB staff calculations.

Notes: Range and average calculated from 2014 to present. Average since 2014 normalised to 100. Rates are quoted such that lower means weaker. CNY real effective exchange rate (REER) is calculated using CPI. The latest observations are for October 2025 for the REER and 14 November for bilateral exchange rates.

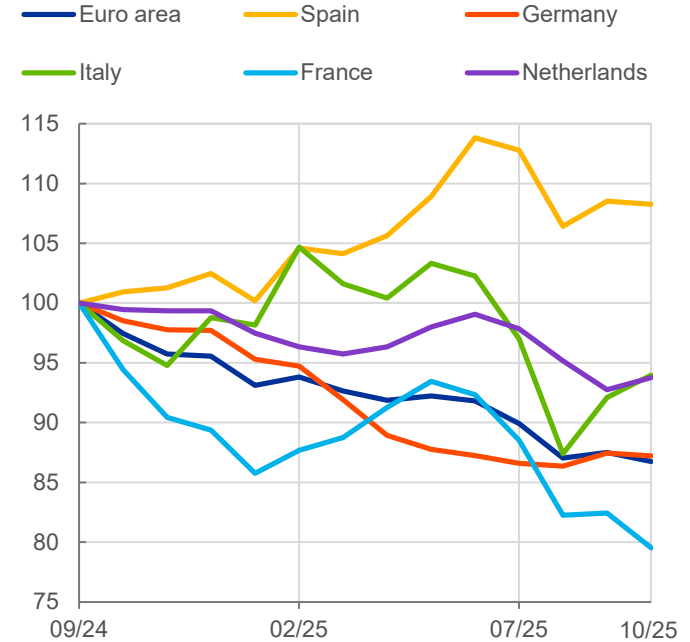
Unemployment rate (percentage)



Source: Eurostat.

Notes: The latest observations are for the third quarter of 2025. The red dot represents the projection data point for the fourth quarter of 2025.

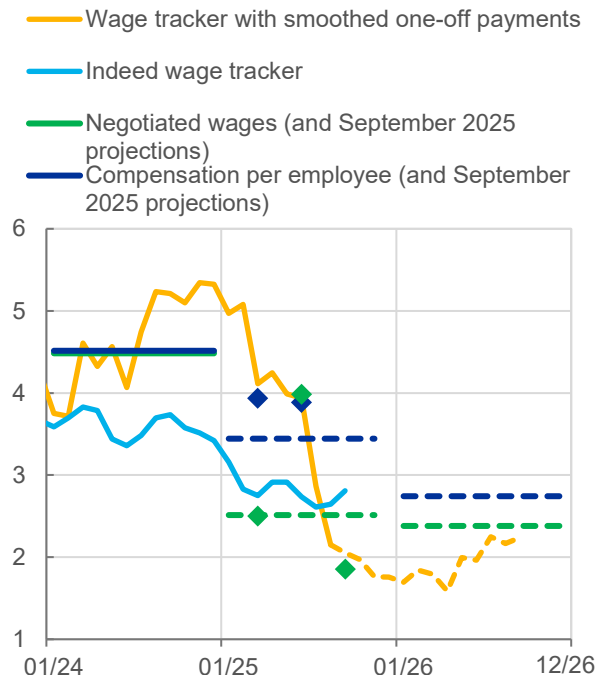
Indeed job postings (index: September 2024 = 100)



Source: Indeed.

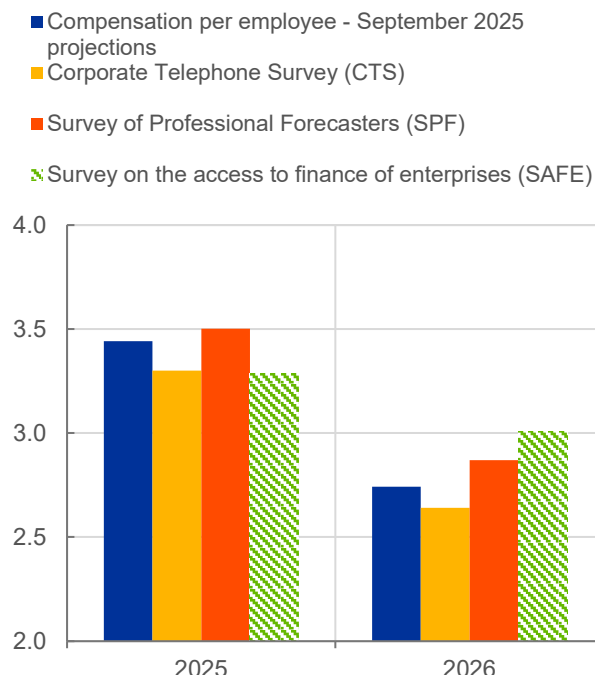
Note: The latest observations are for October 2025.

ECB wage tracker and CPE growth (annual percentage changes)



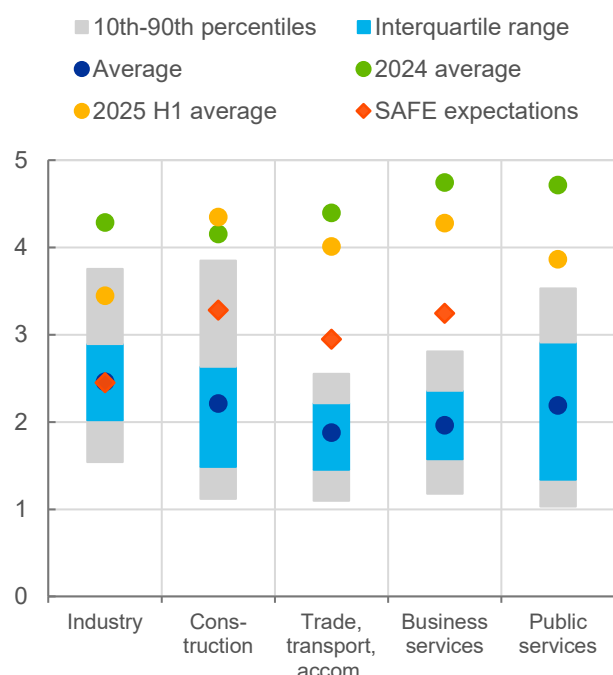
Sources: ECB wage tracker, Eurostat, September 2025 ECB staff macroeconomic projections and Indeed.
Notes: Diamonds represent the quarterly series of negotiated wages and compensation per employee growth. Dashed lines represent annual projections. The latest observations are for the third quarter of 2025 for negotiated wages and compensation per employee, September 2025 for Indeed and September 2026 for the ECB wage tracker.

Wage growth expectations (annual percentage changes)



Sources: September 2025 ECB staff macroeconomic projections (MPE), SPF, CTS and SAFE. Notes: The SAFE survey asks about 12-month-ahead wage growth. The value for 2025 from SAFE data corresponds to the response in the fourth quarter of 2024, and the value for 2026 corresponds to responses in the third quarter of 2025. The latest observations are for the third quarter of 2025 for SAFE, fourth quarter of 2025 for the SPF and October 2025 for the CTS.

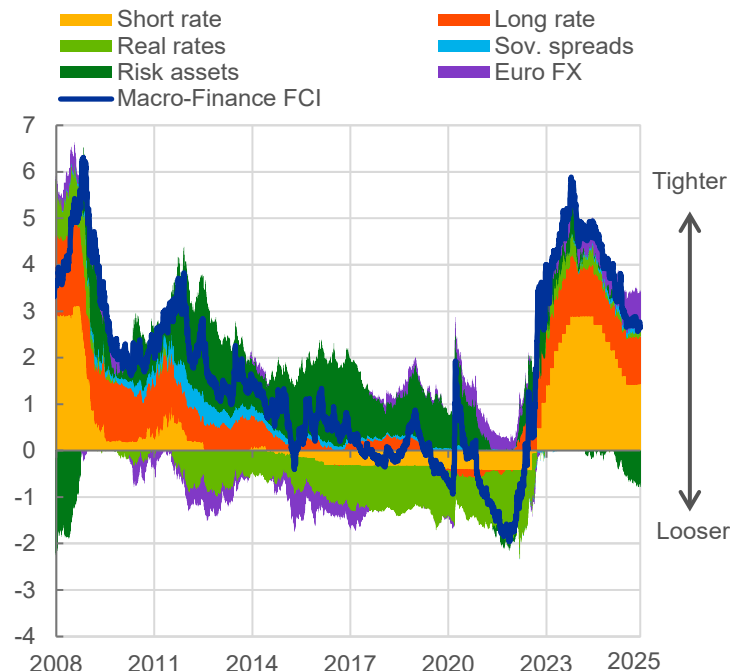
Sectoral wage growth outcomes versus pre-pandemic patterns and expectations (annual percentage changes)



Sources: Eurostat and SAFE. Notes: The SAFE survey asks about 12-month-ahead wage growth. Public services is not included in SAFE. The 10th-90th percentiles, interquartile range and average are based on the year-on-year growth rates from 1999 to 2019. The latest observations are for the second quarter of 2025 for wage growth data and third quarter of 2025 for SAFE data.

A new “Macro-Finance Financial Conditions Index”

(percentages)

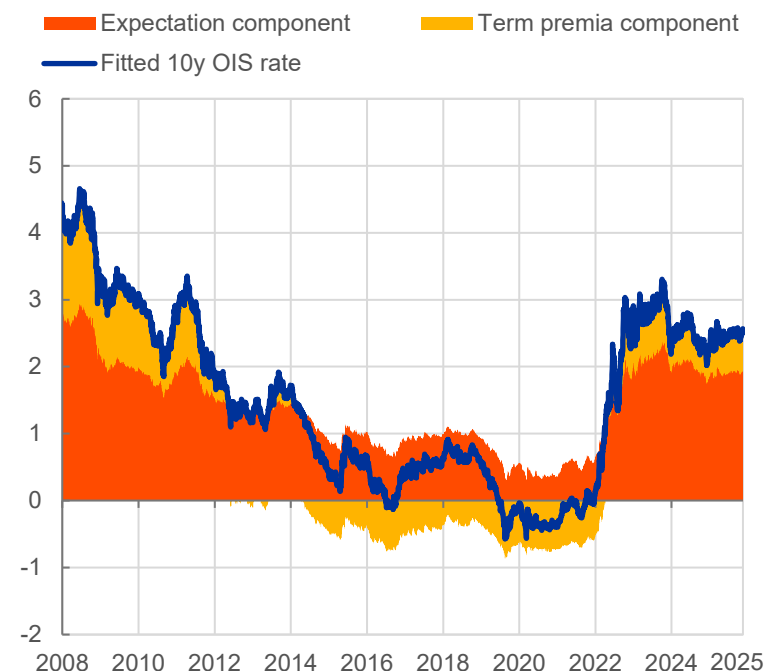


Source: Bletzinger T., Martorana, G. and Mistak, J. (forthcoming).

Notes: The chart shows the Macro-Finance FCI and its decomposition, with contributions estimated in a macro-finance model (Bletzinger, T. et al., forthcoming). The “Short rate” refers to the €STR, the “Long rate” to the ten-year nominal OIS rate, “Real rates” to the one-year real OIS rate in one year’s time and the five-year real OIS rate, “Sovereign spreads” to the two- and ten-year euro area GDP-weighted sovereign bond spreads over OIS rates, “Risk assets” to investment-grade corporate bond spreads and the CAPE ratio, and “Euro FX” to the NEER of the euro. The latest observations are for 14 November 2025.

Decomposition of 10-year EA OIS rate into expectations and term premium

(percentages per annum)

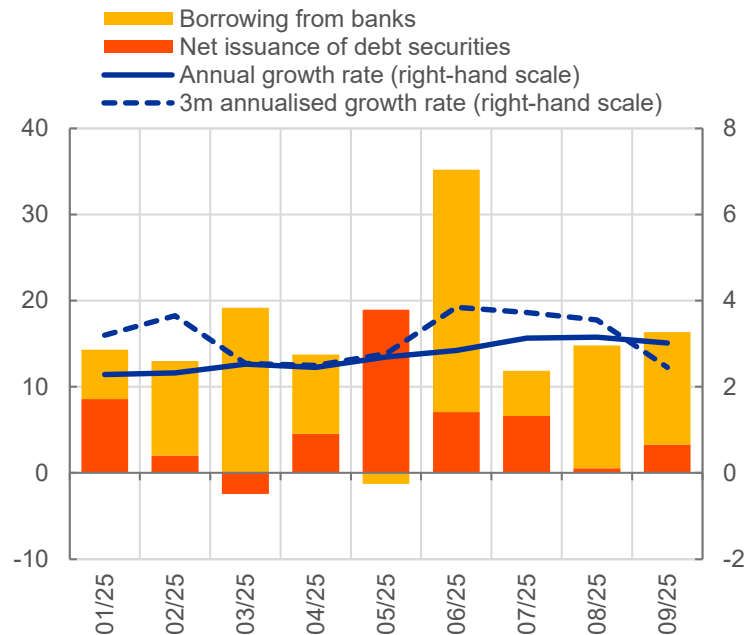


Sources: LSEG, Bloomberg and ECB calculations.

Notes: The decomposition of the 10-year OIS spot rate into expected rates and term premia is based on two affine term structure models, with and without survey information on rate expectations (both variations of Joslin, Singleton and Zhu (2011)), and a lower bound term structure model following Geiger and Schupp (2018) incorporating survey information on rate expectations. The latest observations are for 14 November 2025.

Net debt financing flows of euro area firms

(left-hand scale: monthly flows in EUR billions, right-hand scale: annual percentage changes)

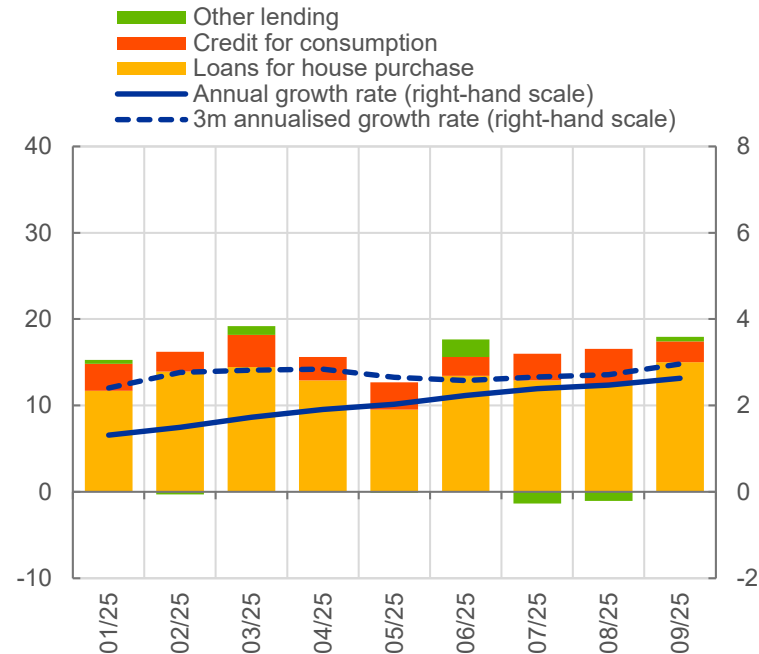


Sources: ECB (BSI, CSEC) and ECB calculations.

Notes: The seasonal adjustment for "Net issuance of debt securities" is not official, whereas the seasonal adjustment for "Borrowing from banks" is official. In addition, "Borrowing from banks" is also adjusted for sales, securitisation, and cash pooling. The latest observations are for September 2025.

Bank loans to households by purpose

(left-hand scale: monthly flows in EUR billions, right-hand scale: annual percentage changes)



Sources: ECB (BSI) and ECB calculations.

Notes: Bank loans are seasonally adjusted and adjusted for sales and securitisation. The latest observations are for September 2025.

- Draghi and Letta reports: there is much scope to boost the aggregate growth rate of the European economy, including by deepening the Single Market
- Faster growth implies an increase in asset supply: needs a matching increase in asset demand
- Rising public debt also boosts asset supply: needs an additional increase in asset demand
- Boost household asset demand; boost foreign investor demand for European assets
- Savings and investments union; banking union; EU-level bond supply; international role of the euro: in combination with pro-growth economic reforms

- Sustainable improvement in economic performance
- Stronger wealth accumulation by European households
- Greater resilience to country-level shocks
- Greater resilience to external shocks

- Encouraging retail participation (SIAs; financial literacy)
- Developing supplementary pensions (auto enrolment; IORP Directive; PEPP Regulation)
- Market integration and supervision
- Promoting equity investment by institutional investors; EuVECA Regulation
- Banking sector
- [28th Regime]