



EUROPEAN CENTRAL BANK

EUROSYSTEM

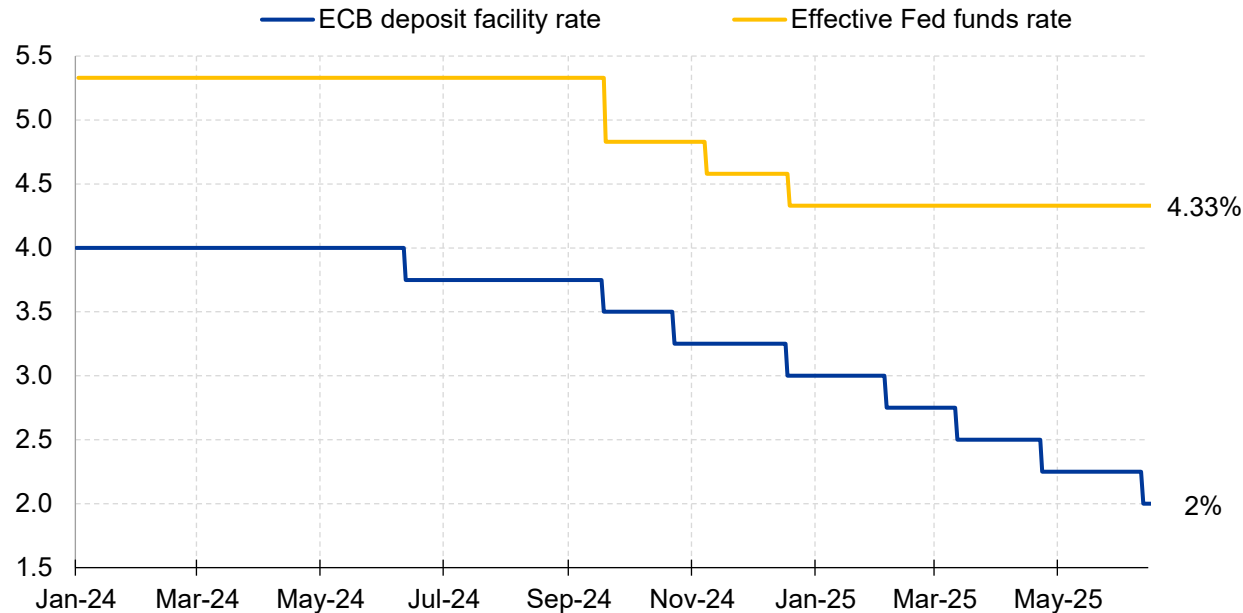
Is inflation still global in a more fragmented world?

7 June 2025

Isabel Schnabel, Member of the Executive Board of the ECB
31st Dubrovnik Economic Conference, Croatia



ECB and Federal Reserve key interest rates (percentages)



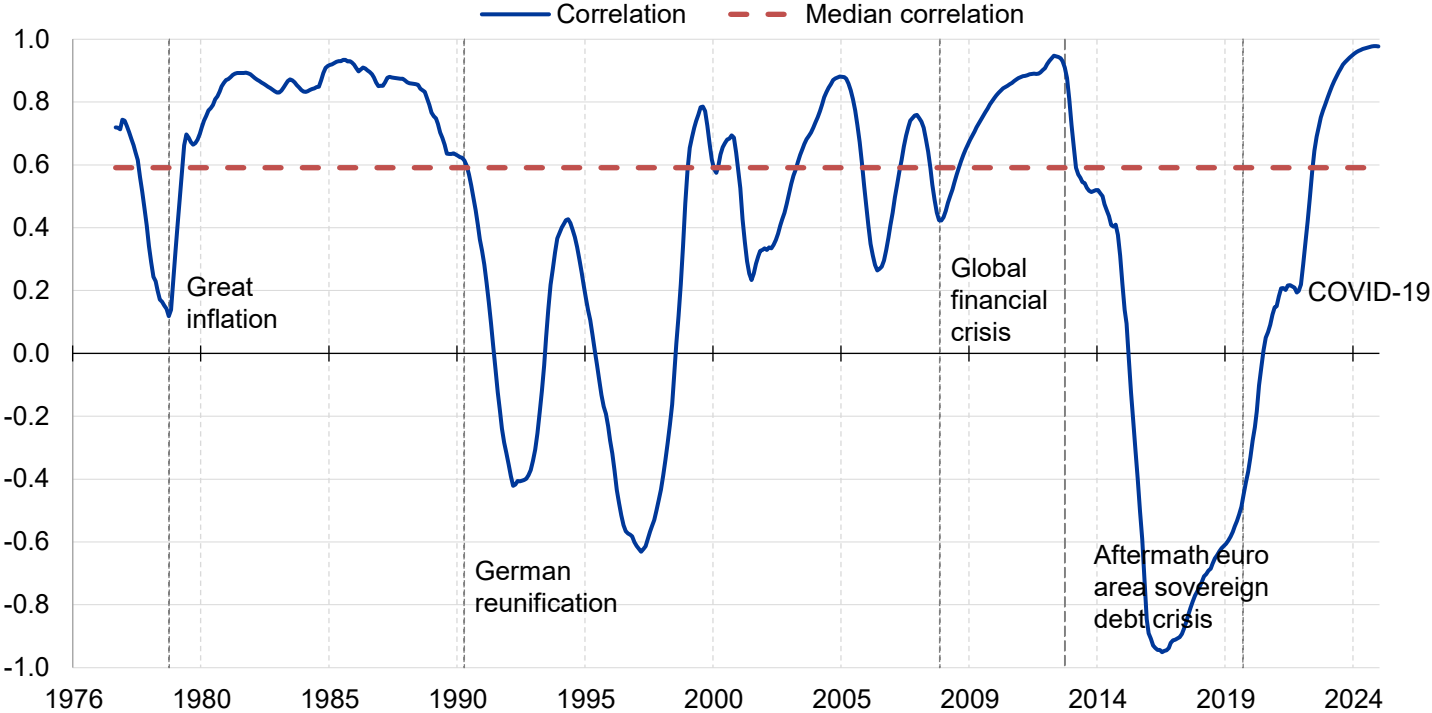
Sources: BBG, SDW, ECB calculations.

Notes: ECB deposit facility rate at 2% is effective as of 12 June 2025.

Latest observation: 6 June 2025.

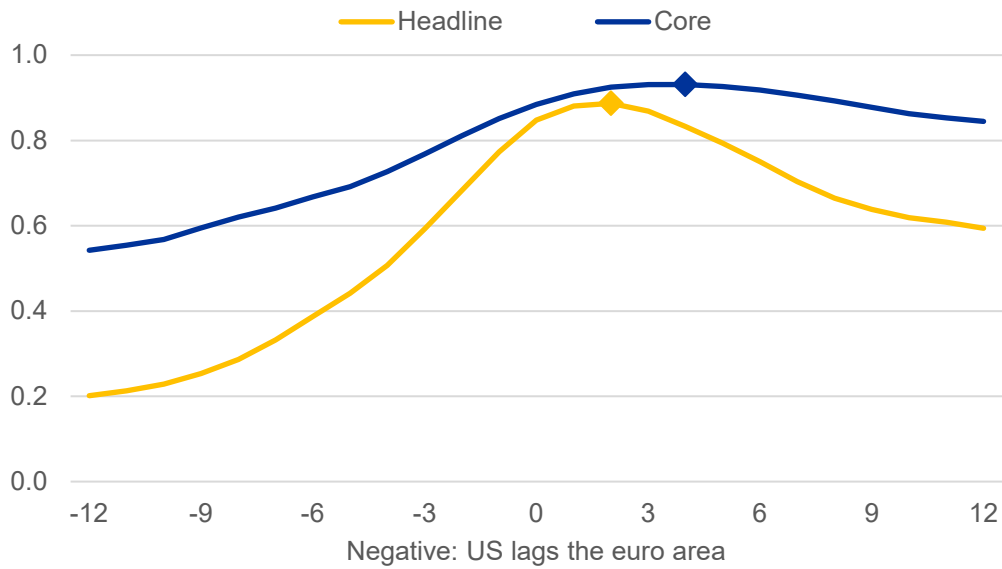
Global interest rates strongly correlated except for periods with large idiosyncratic shocks

Five-year correlation of German and US one-year bond yield
(correlation coefficient, moving five-year windows)



Sources: Bundesbank, FRED.
Latest observation: April 2025.

Correlation of inflation in the United States and euro area between 1979 and 2024 (correlation coefficient)

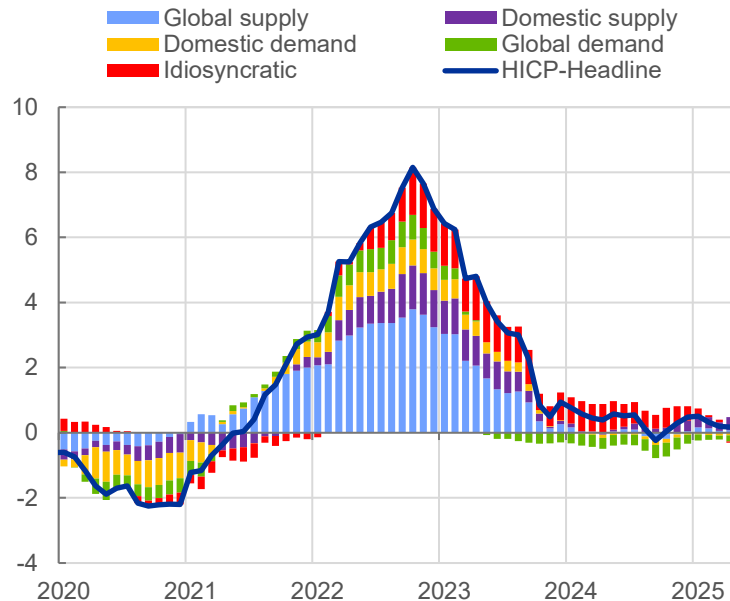


Source: ECB calculations.
Notes: Vertical axis: correlation of headline (blue) and core (orange) at different leads and lags. Horizontal axis: negative values indicate that the US lags the euro area and vice versa, in quarters. The diamonds indicate the maximum values. Sample 1979-2024, quarterly data.

Tariff conflict may dampen domestic inflation through global demand

Supply and demand drivers of inflation dynamics

(percentage points and percentage point contributions in deviations from the mean implied by the model and initial conditions)



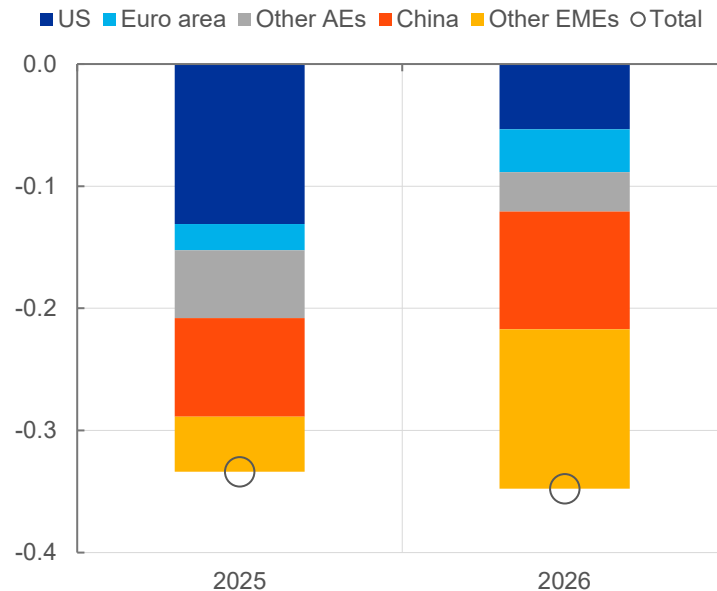
Source: Eurostat, ECB, Eurosystem and ECB staff calculations.

Notes: Historical decomposition based on a large BVAR model accounting for a rich set of inflation drivers, identified with zero and sign restrictions, see Banbura, M., Bobeica, E. and Martínez Hernández, C. (2024) "What drives core inflation? The role of supply shocks", ECB Working Paper No. 2875. The chart shows the deviations of HICP inflation from the mean implied by the model. The latest observation is for April 2025.

BMPE global growth forecast revisions:

June 2025 vs December 2024

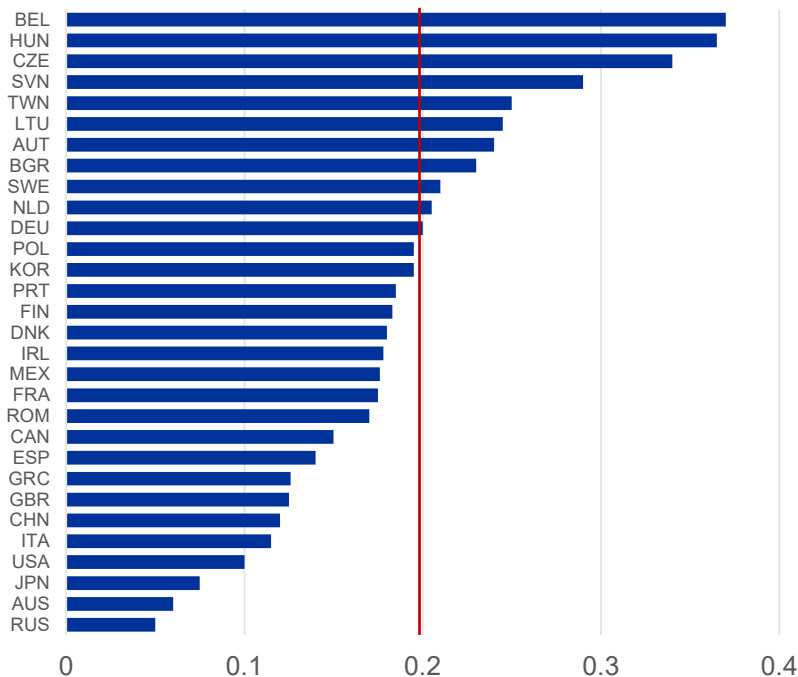
(percentage points)



Source: June 2025 and December 2024 staff projections.

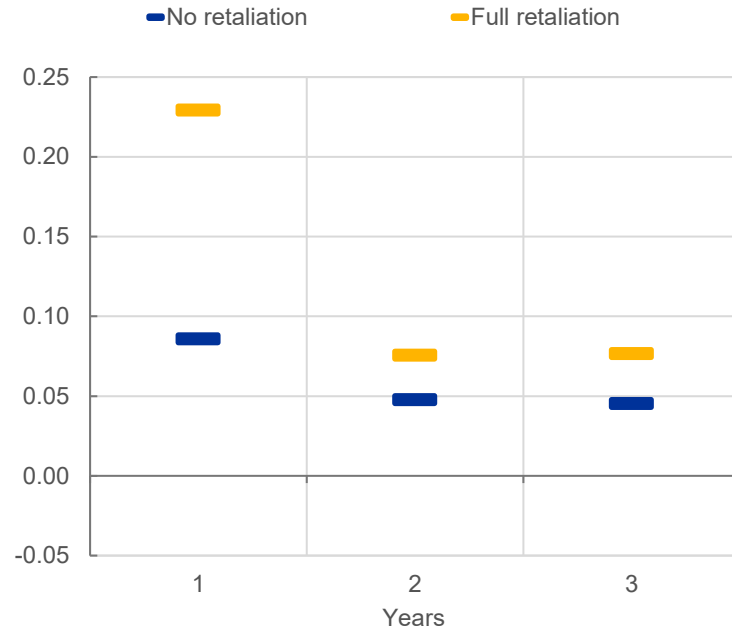
Global value chains amplify the impact of tariff-induced cost-push shocks on inflation

Impact of 1% PPI shock in every other country on domestic PPI (percentage points)



Source: Auer, R., Levchenko, A. and Sauré, P. (2019), „International Inflation Spillovers through Input Linkages Available”, *The Review of Economics and Statistics*, Vol. 101 (3), pp. 507–521.

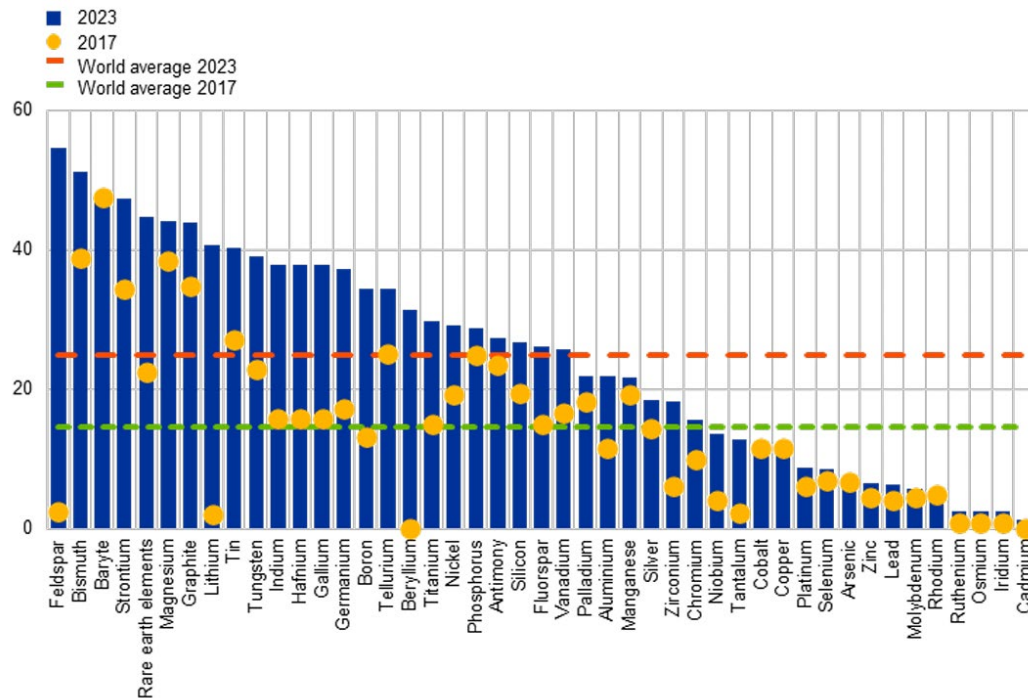
Impact of trade conflict on euro area HICP inflation (percent deviation from steady state)



Source: Gnocato et al. (2025), "Tariffs across the supply chain". Notes: Simulations based on a 2-country (EU-RoW) DSGE model with production networks and trade linkages. The impulse responses show the average yearly effects of a persistent 3 p.p. tariff increase on EU exports, which corresponds to a 20 p.p. increase in export tariffs to the US, as the share of total EU exports going to the US is 15%. Two scenarios are considered: 1) no retaliation by the EU; 2) full retaliation by the EU, i.e. a 3 p.p. tariff increase on imported intermediate and final goods.

Weaponisation of raw materials can have global inflationary effects

Critical raw materials subject to export restrictions (% of exports)

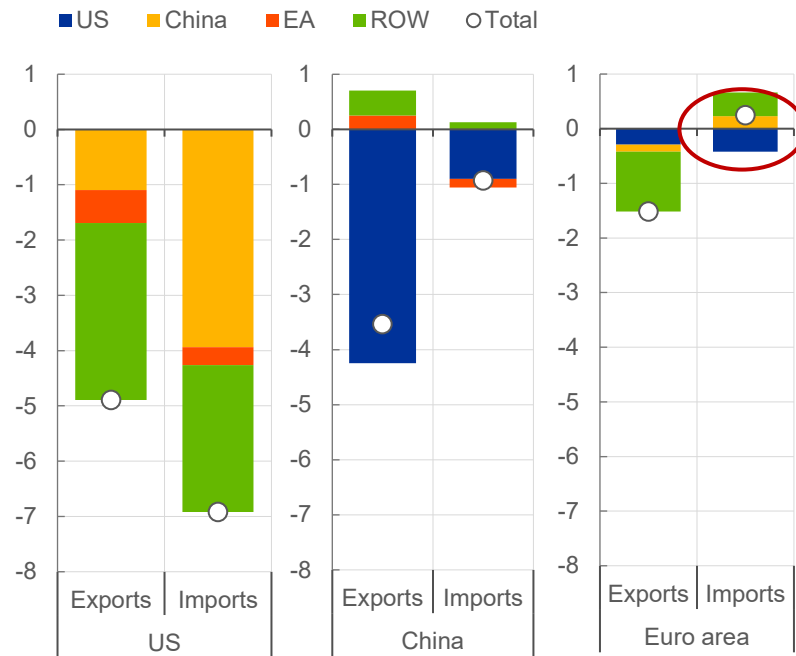


Source: Javorcik, B. and Schweiger, H. (2024), "Geopolitical Shocks and Inflation: Access to Critical Raw Materials", paper presented at the ECB Forum on Central Banking, Sintra, Portugal.

Trade diversion from China to the EU unlikely to strengthen inflation divergence

Bilateral trade adjustments in response to tariff shock

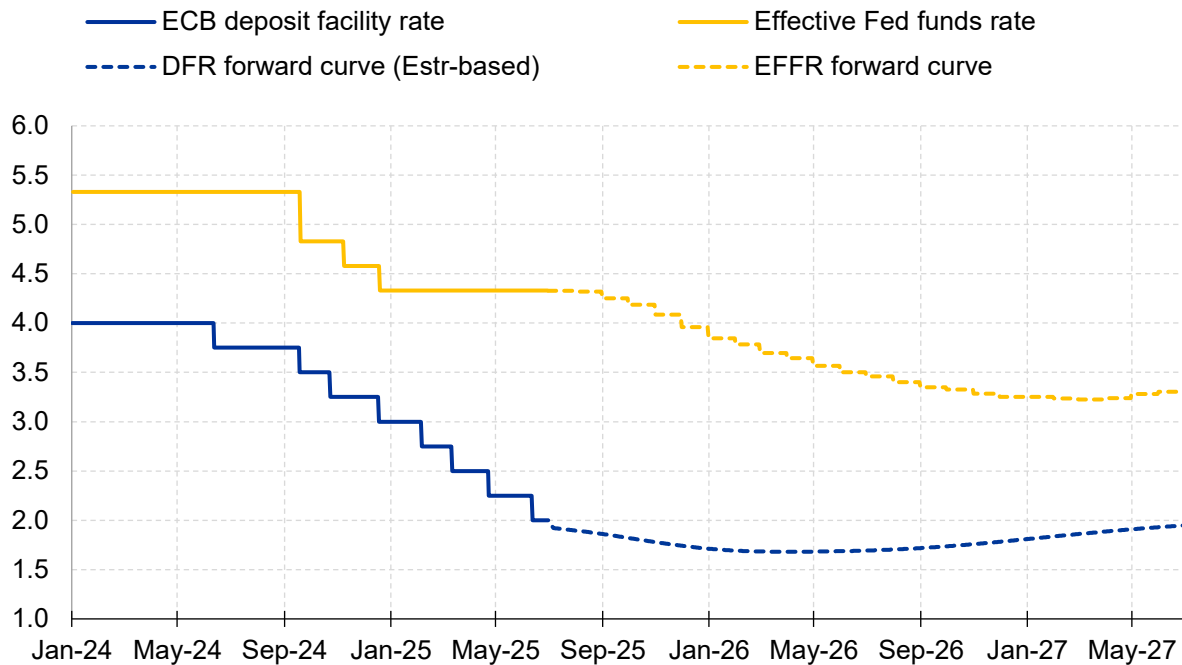
(cumulated percentage changes until 2027 Q4)



Sources: ECB staff calculations.

Notes: Based on the June BMPE baseline tariff scenario and trade policy uncertainty assumptions. Simulations are conducted with constant euro area monetary policy.

ECB and Federal Reserve key interest rates



Sources: SDW, BBG, ECB calculations.

Notes: ECB deposit facility rate at 2% is effective as of 12 June 2025.

Forward curves are computed using contracts available as of 5 June 2025.

Latest observation: 6 June 2025.

Thank you very much for your attention!