



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Monetary policy and economic growth in a more fragmented world

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Isabel Schnabel  
*Member of the Executive Board  
of the ECB*

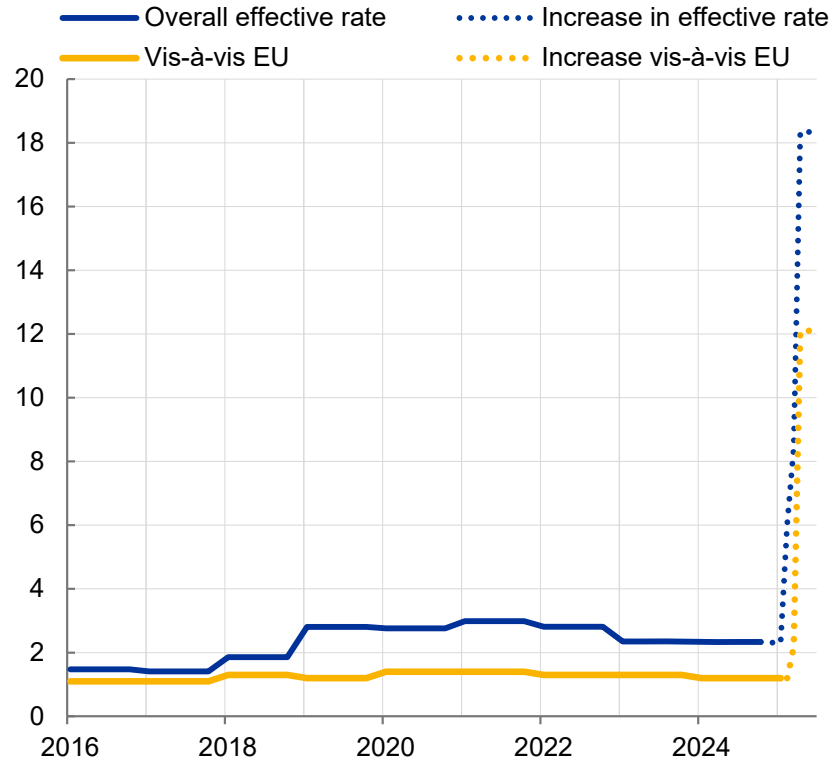


House of the Euro  
Brussels, 12 June 2025

# Tariff conflict is creating bouts of uncertainty in the economy and in financial markets

## US overall effective tariff rate

(percent)

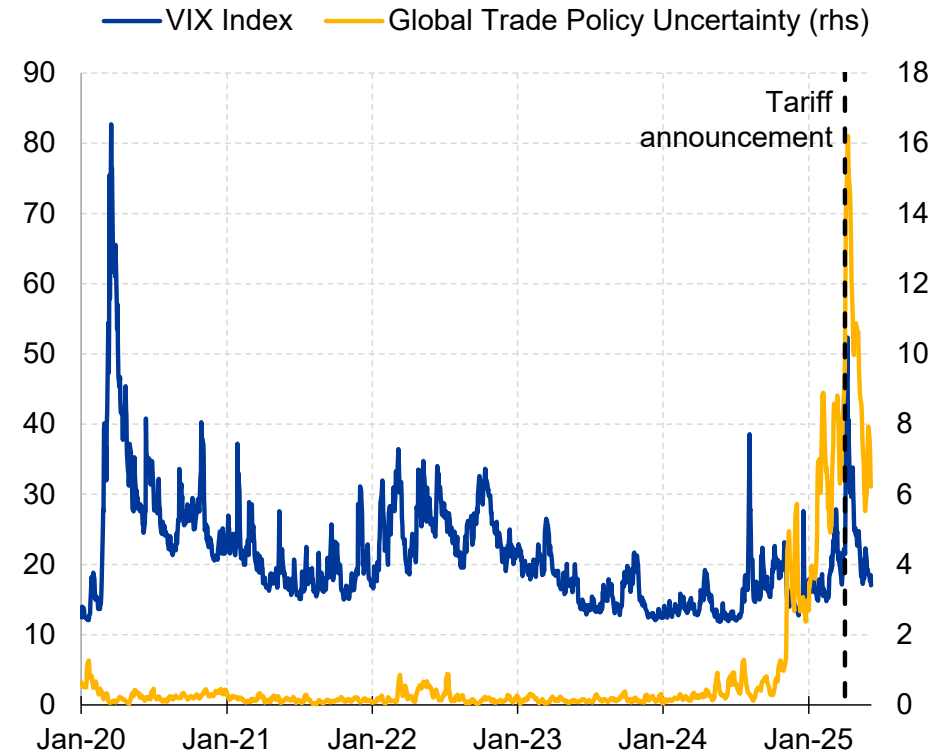


Sources: Haver Analytics, CEPII MACMap-HS6, Fajgelbaum et al. (2024), WITS, CEPII BACI and ECB staff calculations.

Notes: Historical effective tariffs (2016-2024) are calculated using the revenue approach – dividing total nominal custom proceeds by total nominal imports of goods. The increase in effective tariff rates is computed by the weighted average of product-level tariff materialised, using 2023 trade flows. Materialised tariffs include a 10% tariff rate on all goods imports, country-specific tariffs on China, Canada and Mexico, and product-specific tariffs on steel and aluminium (at 50% as of 4.6.2025) as well as car and car parts. Latest observation: 4 June 2025.

## Uncertainty indices

(index)



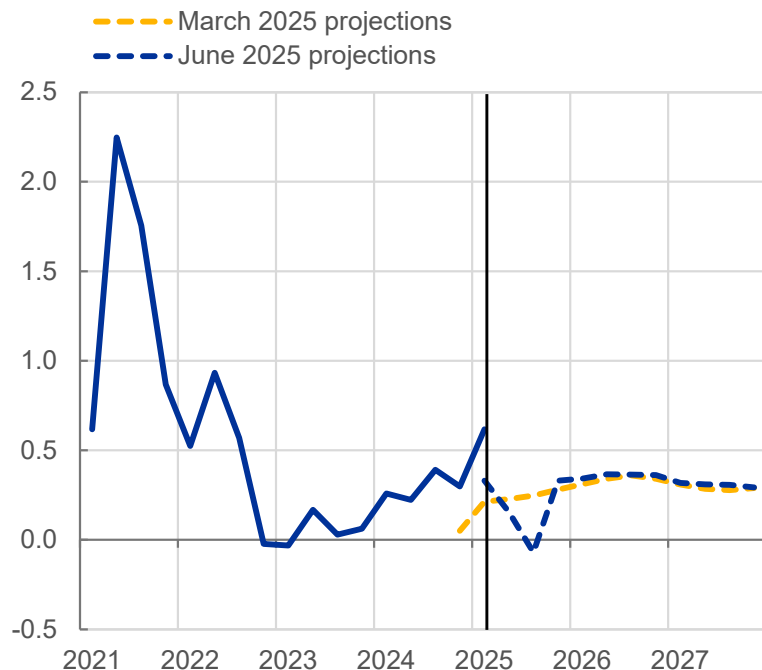
Source: Bloomberg.

Notes: The VIX Index gives an estimate of the expected volatility of the S&P 500 Index. The Global Trade Policy Uncertainty (TPU) captures how unpredictable or unclear trade-related developments are due to government actions, tariffs and geopolitical tensions. Latest observation: 6 June 2025.

# Growth outlook broadly stable despite trade conflict with medium-term inflation near target

## Euro area real GDP growth

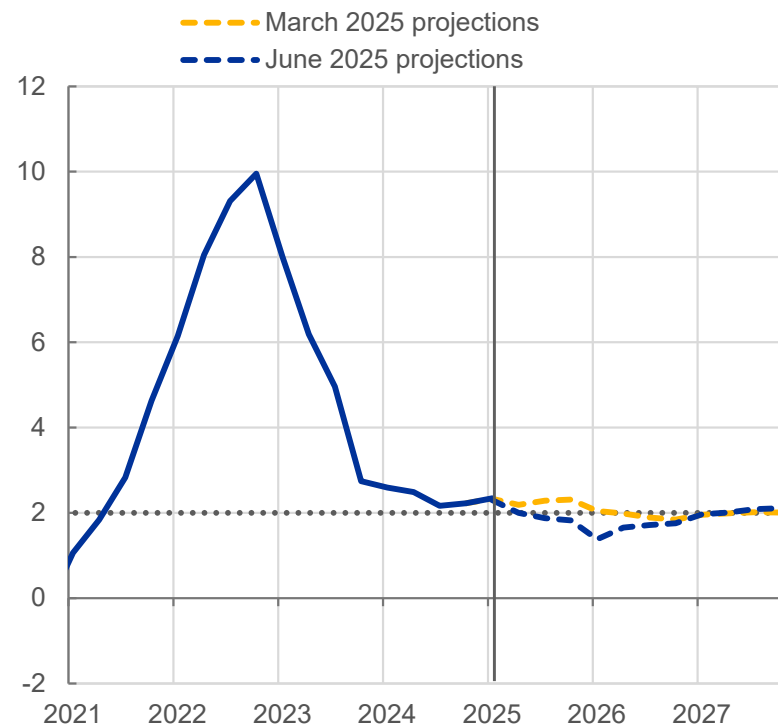
(quarter-on-quarter percentage changes)



Sources: Eurostat and Eurosystem/ECB staff projections (March 2025 and June 2025).  
Notes: The vertical line indicates the start of the June 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 and for June projections the Q1 2025 flash. The latest observations are for the first quarter of 2025 (second estimate).

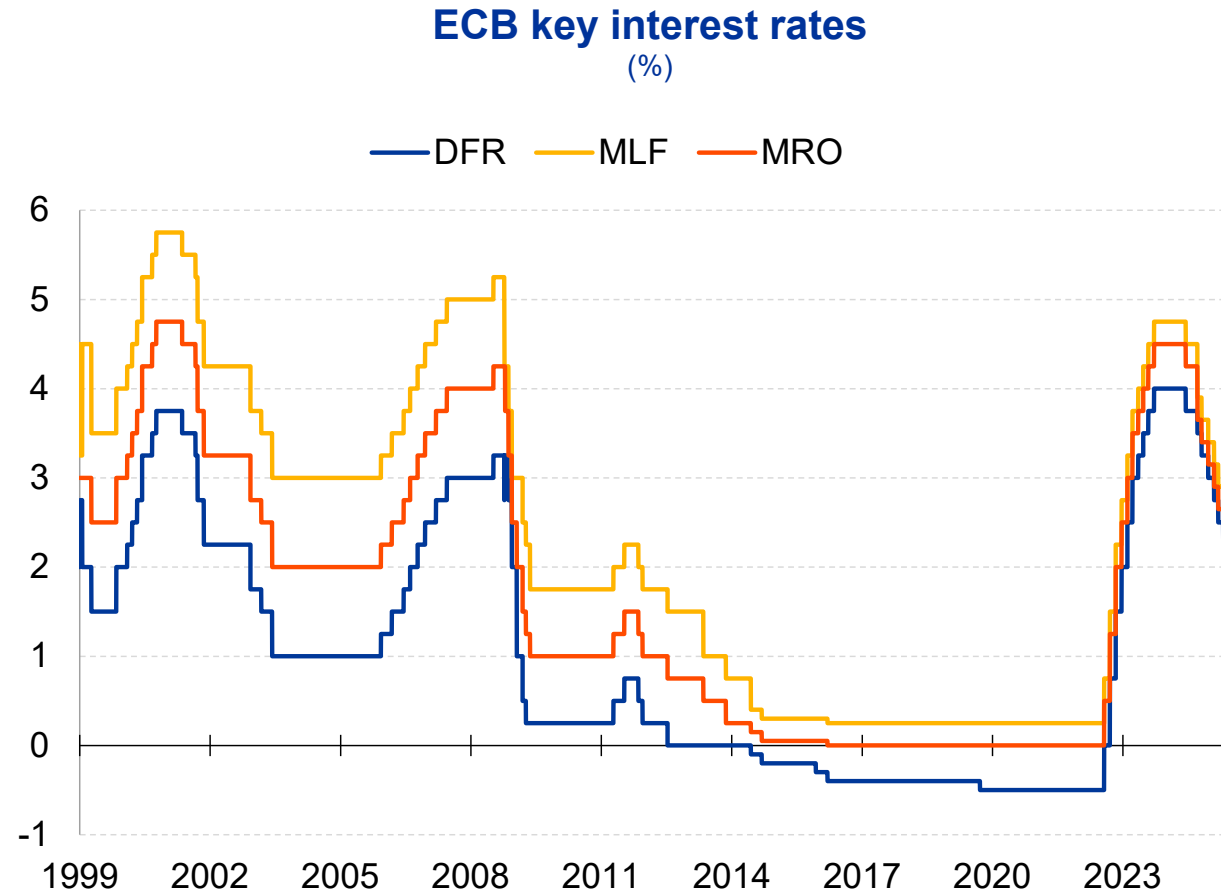
## Euro area HICP inflation

(quarter-on-quarter percentage changes)



Sources: Eurosystem/ECB staff projections (March 2025 and June 2025).  
Notes: The vertical line indicates the start of the June 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 first quarter of 2025.

# Monetary policy cycle is coming to an end as medium-term inflation stabilises at target

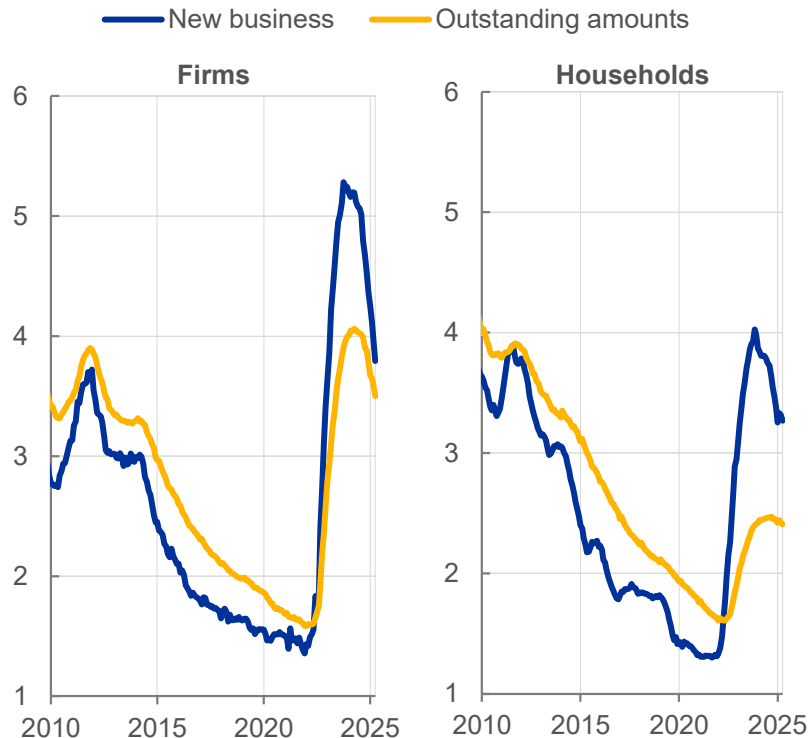


Source: ECB.  
Latest observation: 11 June 2025.

# Monetary easing is transmitted to financing conditions, which are no longer restrictive

## Bank lending rates

(percentages per annum)



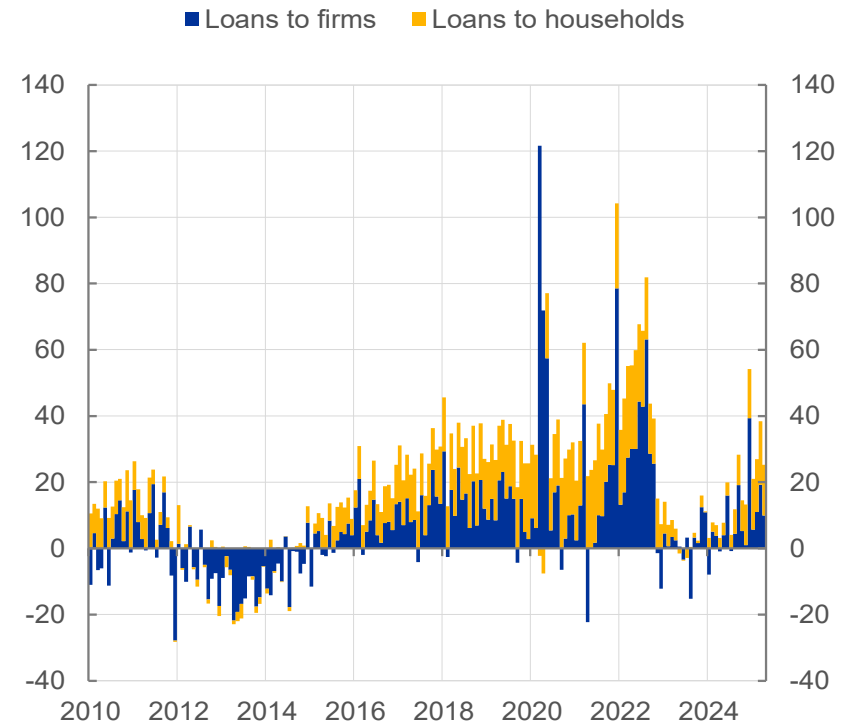
Sources: ECB and ECB calculations.

Notes: The indicator for new business corresponds to the cost of borrowing for firms and for households for house purchases and it is calculated by aggregating short-term and long-term rates using a 24-month moving average of new business volumes.

Latest observation: April 2025.

## Bank loans

(monthly flows in EUR bn)



Source: ECB.

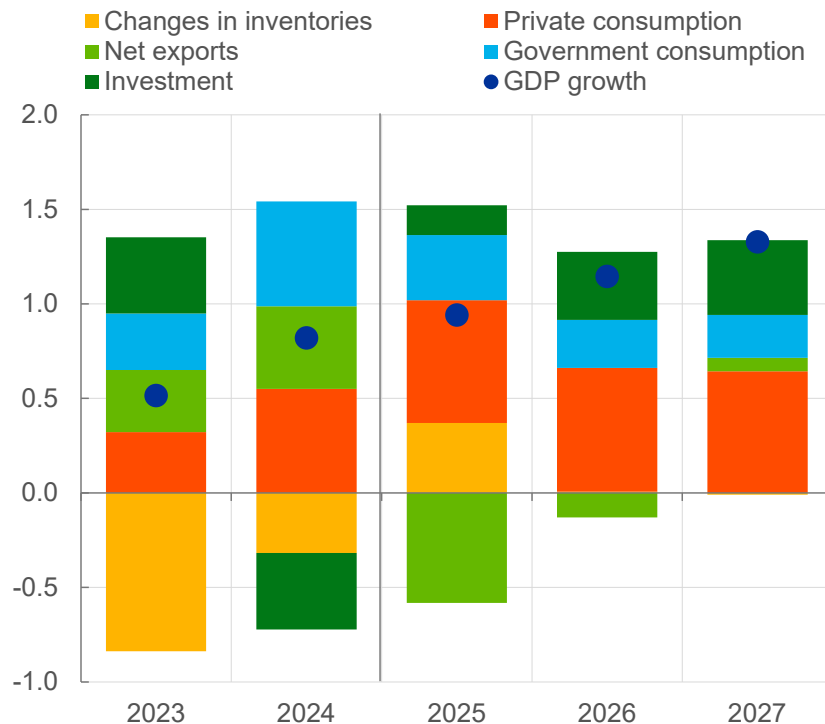
Notes: Loans to households and firms are adjusted for sales and securitisation. Loans to firms are also adjusted for cash pooling.

Latest observation: April 2025.

# Private consumption is supporting growth with manufacturing and construction recovering

## Euro area real GDP growth

(annual percentage changes, percentage point contributions)

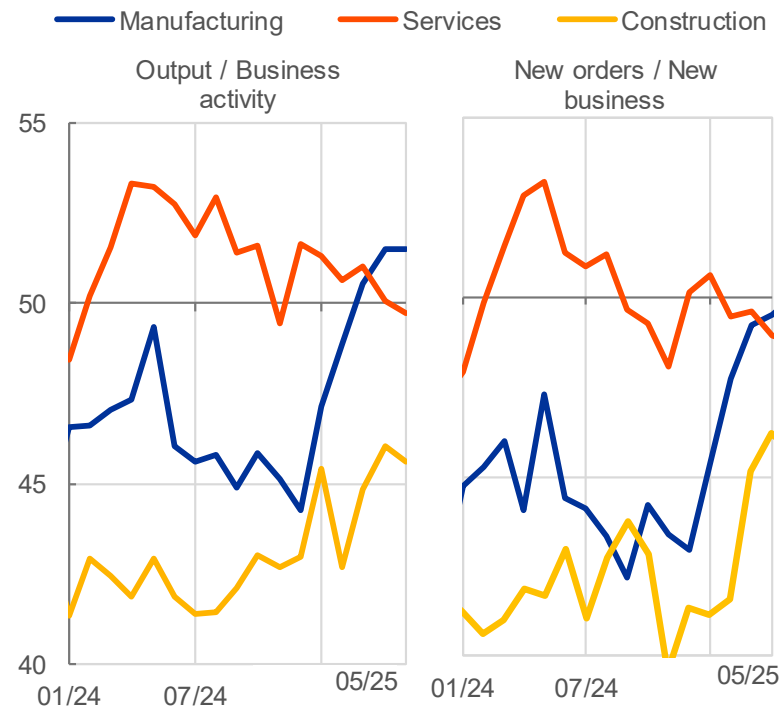


Source: June 2025 projections.

Notes: Historical data may slightly differ from published Eurostat data owing to recent revisions and to differences in the treatment of seasonality of the underlying series.

## Purchasing Managers Indices (PMI)

(diffusion indices)

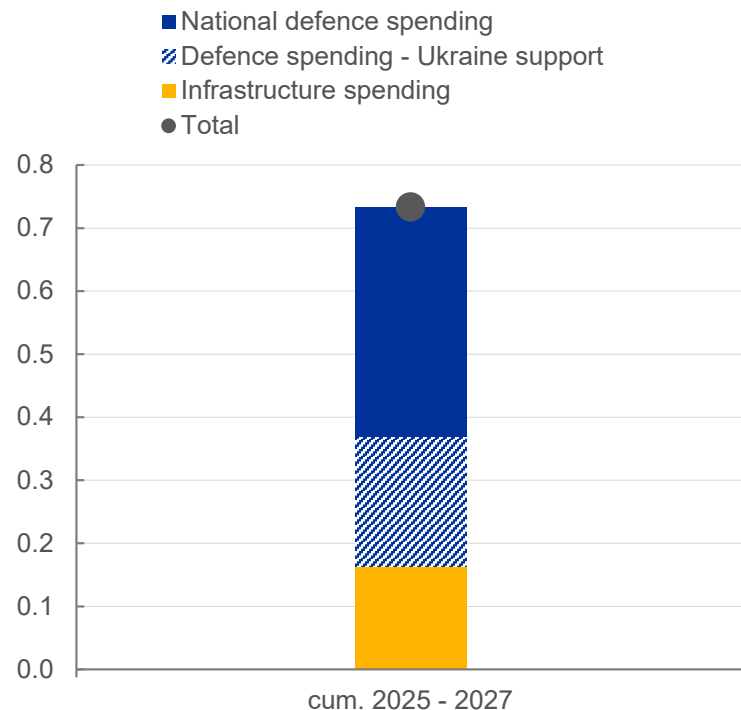


Sources: S&P Global and ECB calculations.

Latest observation: May 2025.

# Additional defence and infrastructure spending counteract tariff shock on growth

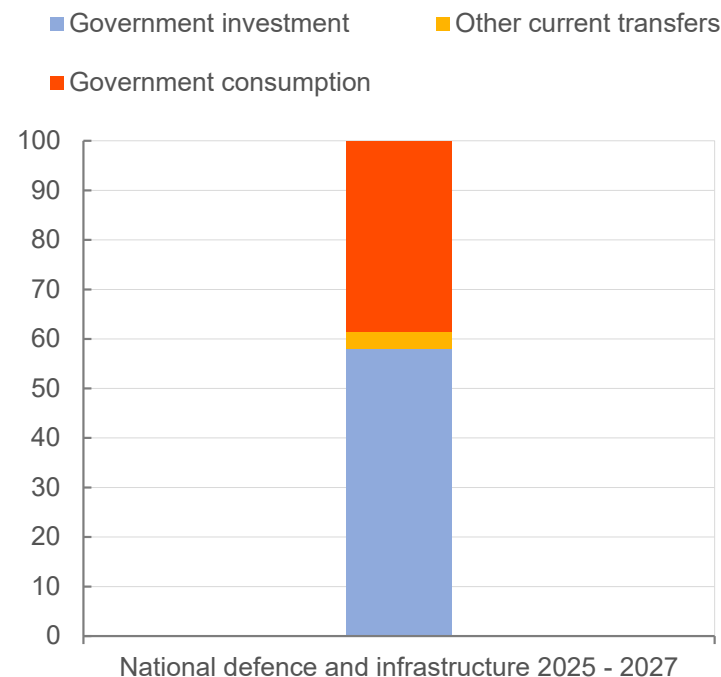
## Projected additional spending on defence and infrastructure (percent of GDP)



Source: June 2025 Eurosystem staff projections.

Notes: The chart depicts the additional euro area spending on defence (in eight EA countries) and (DE) new infrastructure package incorporated in the June baseline since the March 2025 projections. The spending is in cumulative level terms over 2025-27 (ex-ante debt impact).

## Composition of projected additional spending (percent)



Source: June 2025 Eurosystem staff projections.

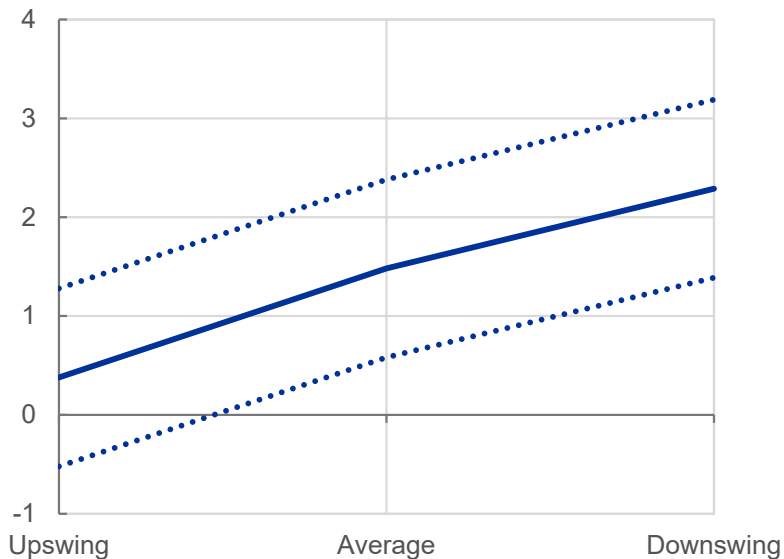
Notes: Defence support to Ukraine excluded.

# Fiscal multipliers may be larger than assumed in the projections

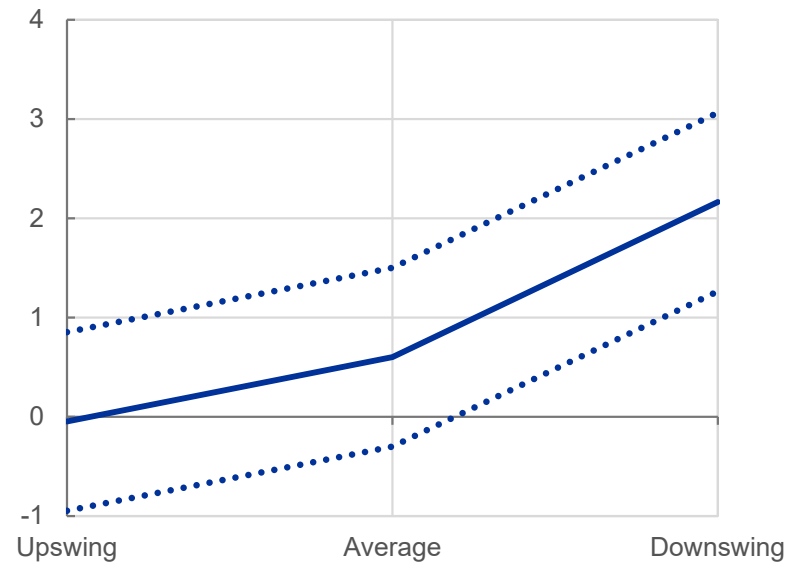
## Fiscal multipliers reported in the empirical literature

(y-axis: fiscal multiplier; x-axis: economic state)

### Public investment



### Military spending



Source: Gechert and Rannenberg (2018).

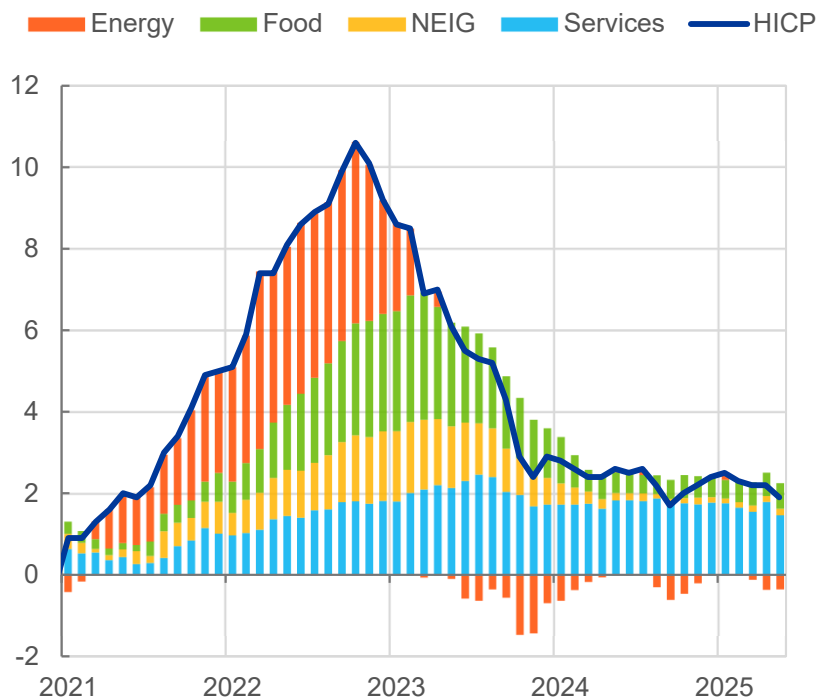
Notes: Upswing refers to an expansionary regime, downswing to a downturn or crisis regime.



# Inflation falls temporarily due to energy prices before returning to target over medium term

## HICP inflation

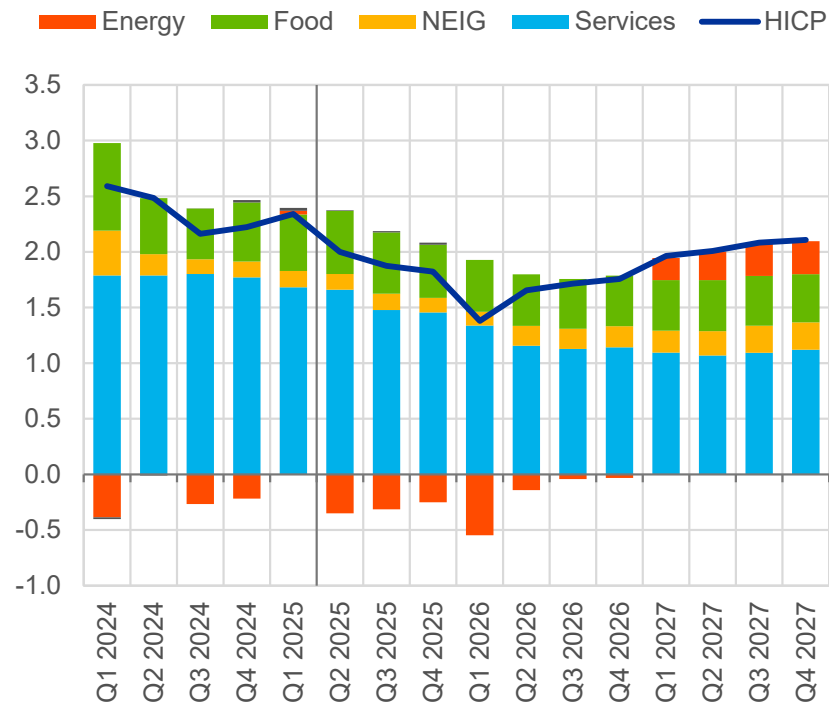
(annual percentage changes and percentage point contributions)



Sources: Eurostat and ECB calculations.  
Latest observation: May 2025 (flash estimate).

## HICP inflation – decomposition into main components

(annual percentage changes and percentage point contributions)

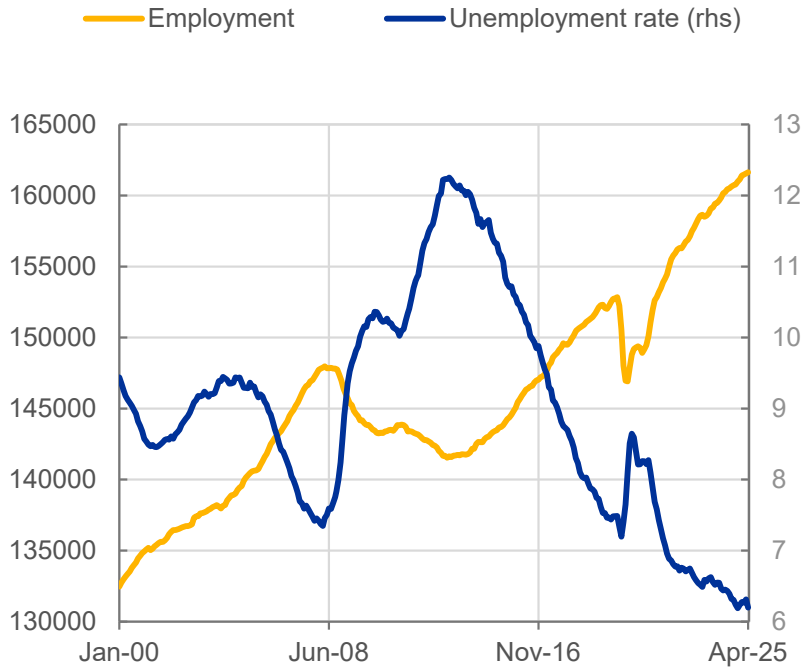


Sources: June 2025 Eurosystem staff projections and ECB calculations.  
Notes: The vertical line indicates the start of the current projection horizon.  
Latest observation: Q1 2025.

# Labour market remains resilient as wage growth is expected to slow further

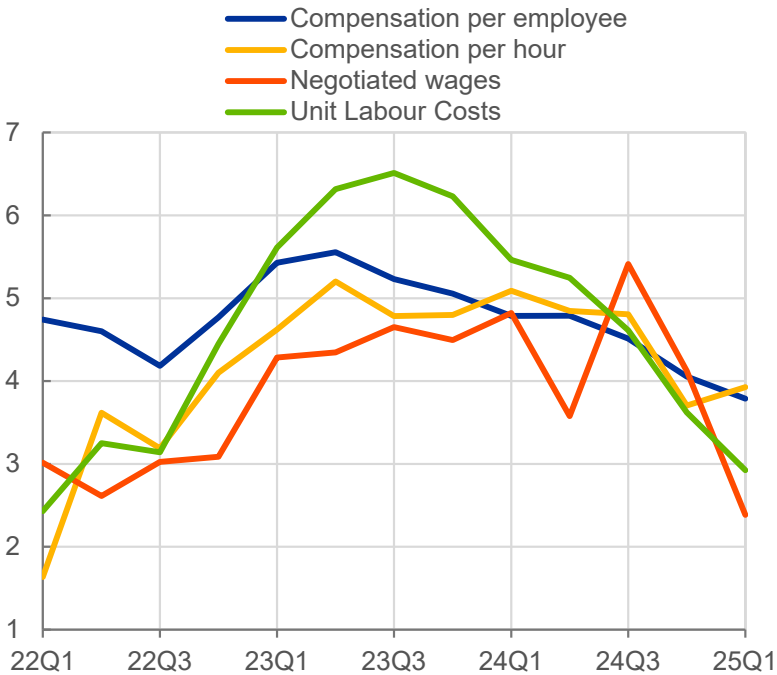
## Employment and unemployment rate

(lhs: thousands of persons; rhs: percentage of the labour force)



## Labour cost indicators

(annual percentage changes)



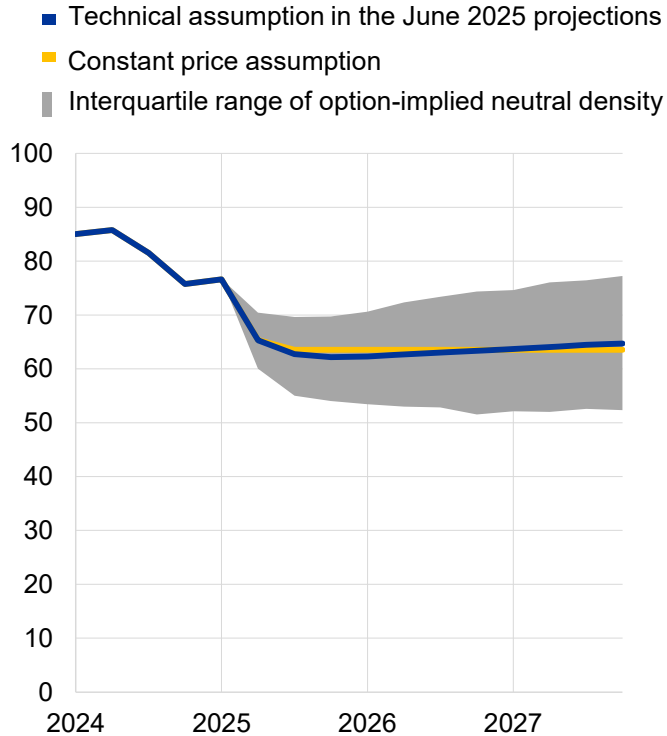
Source: ECB calculations based on Eurostat data.  
Notes: The monthly employment data have been computed manually as the difference between labour force and unemployment.  
Latest observation: April 2025.

Sources: Eurostat and ECB staff calculations.  
Latest observations: 2025 Q1.

# Energy prices and exchange rate drive inflation but could change in either direction

## Alternative paths

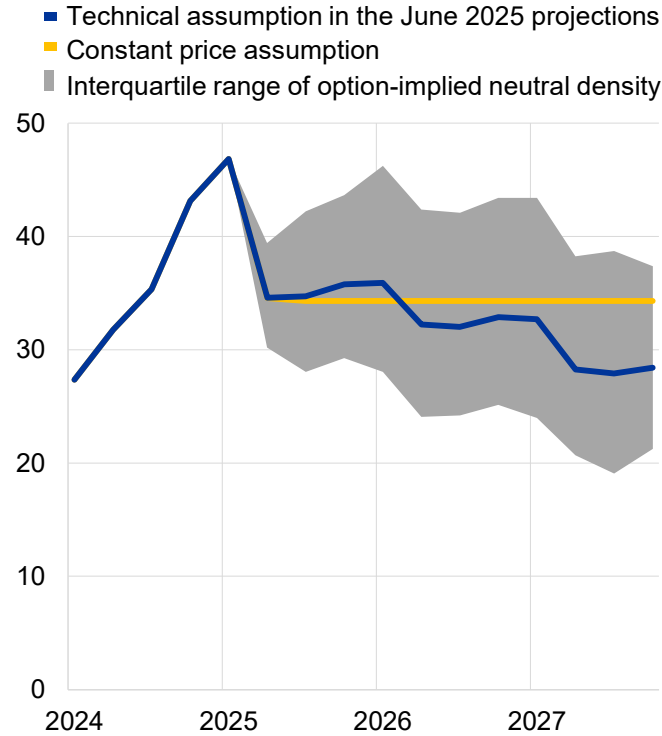
### Oil price assumption (USD/barrel)



Sources: Morningstar and ECB calculations.

Note: The option-implied densities for oil prices are extracted from 14 May 2025 market quotes for options on ICE Brent crude oil with fixed quarterly expiry dates.

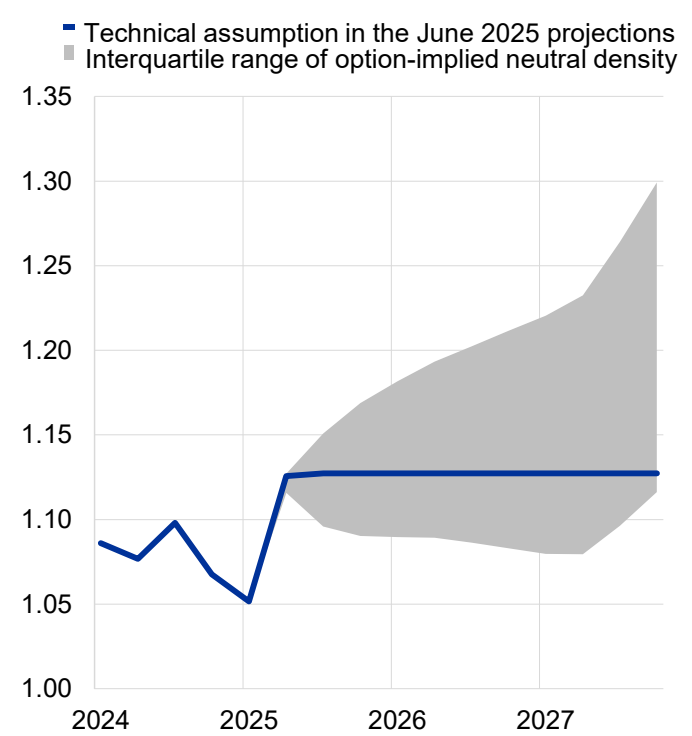
### Gas price assumption (EUR/MWh)



Sources: Morningstar and ECB calculations.

Note: The option-implied densities for gas prices are extracted from 14 May 2025 market quotes for options on Dutch TTF natural gas futures with fixed quarterly expiry dates.

### USD/EUR exchange rate (index, USD/EUR)

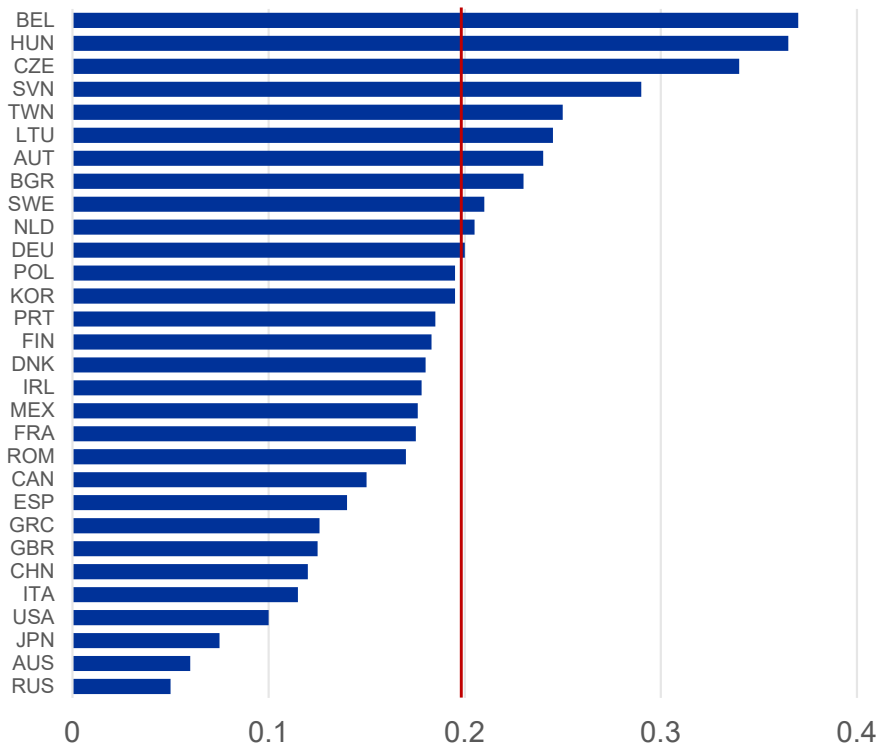


Sources: Bloomberg and ECB calculations.

Notes: An increase implies an appreciation of the euro. The 25th and 75th percentiles refer to the option-implied neutral densities for the USD/EUR exchange rate on 14 May 2025. The macroeconomic impacts are reported as averages of a number of ECB and Eurosystem staff macroeconomic models.

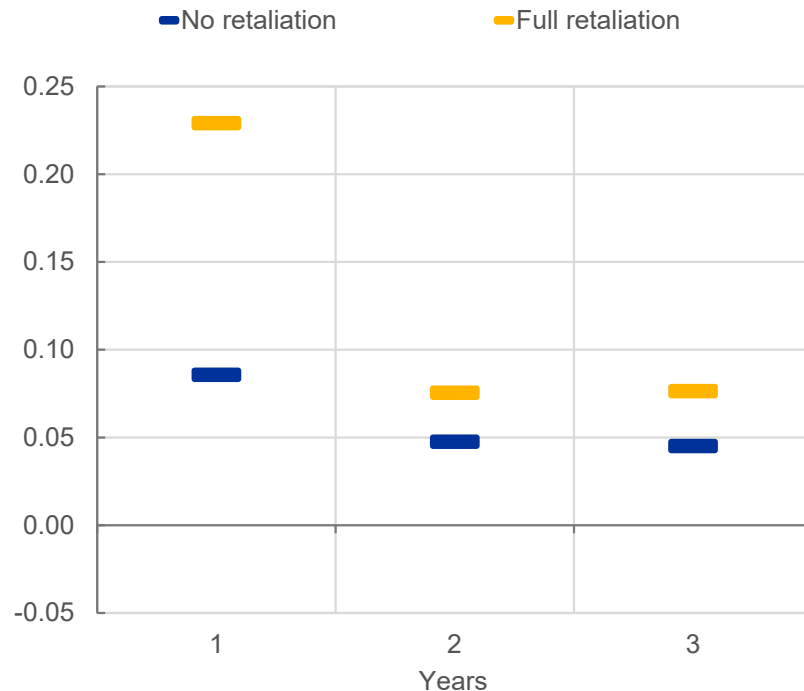
# Tariffs can be amplified through global value chains posing upside risks to inflation

## 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.

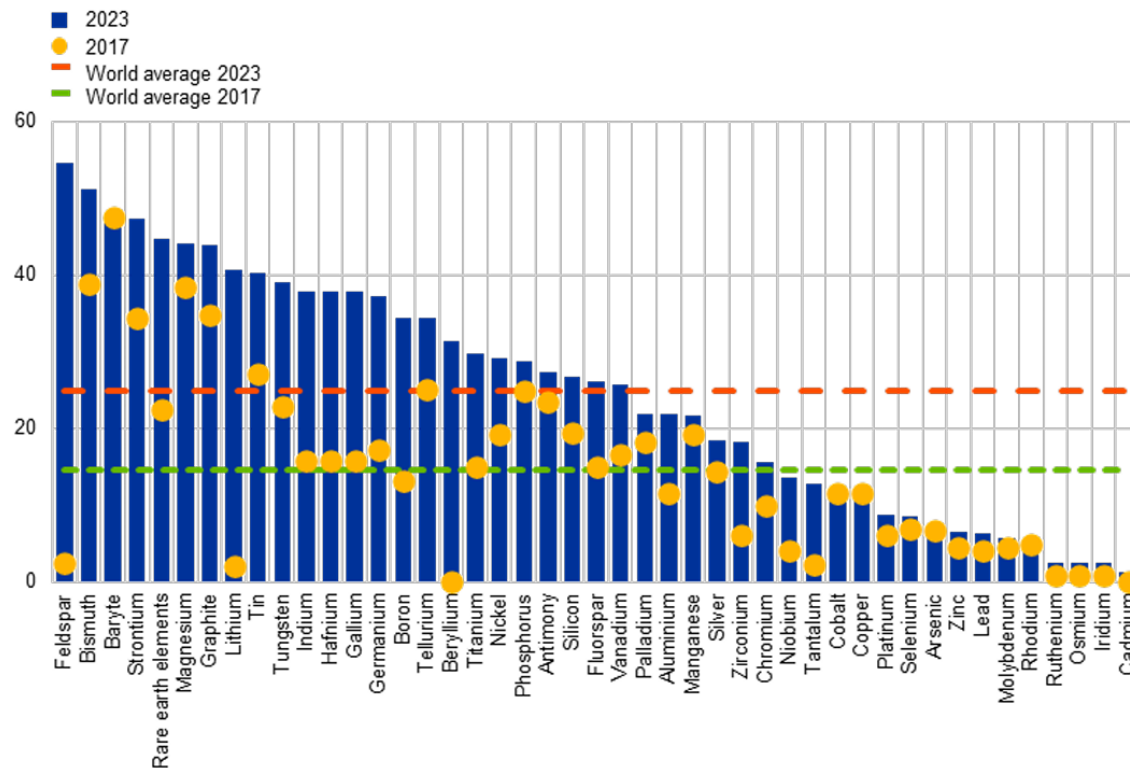
## Impact of trade conflict on euro area HICP inflation (percent deviation from steady state)



Source: Gnecato 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 disrupt global supply chains

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

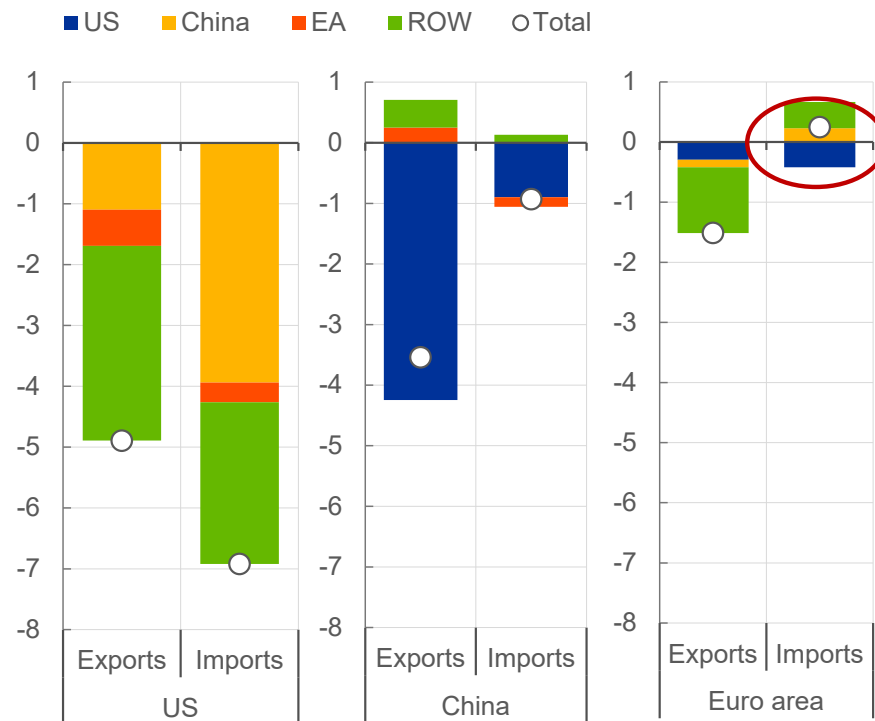


Sources: Javorcik, B. and Schweiger, H. (2024), "Geopolitical Shocks and Inflation: Access to Critical Raw Materials", paper presented at the ECB Forum on Central Banking, Sintra, Portugal.

# Trade diversion from China to the EU is expected to be limited

## Bilateral trade adjustments in response to tariff shock

(cumulated percentage changes until 2027 Q4)



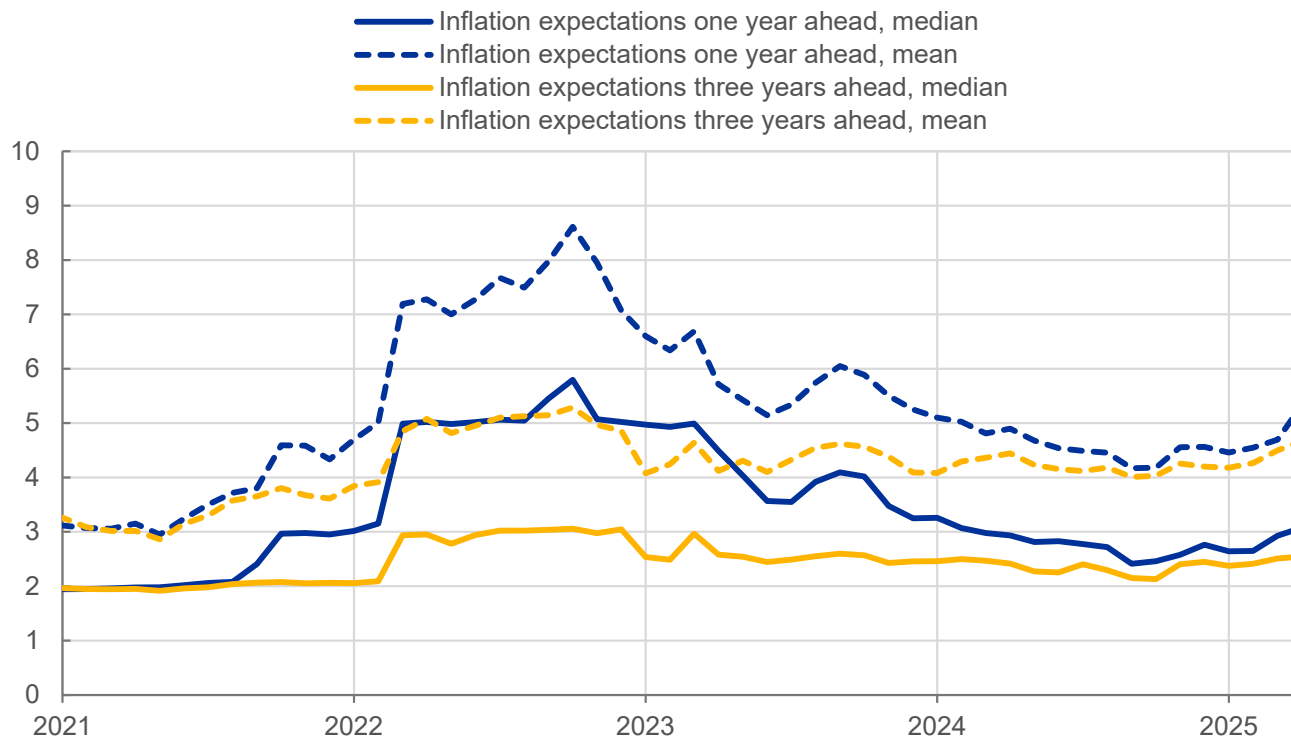
Source: ECB staff calculations.

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

# Inflation expectations remain fragile and need to be monitored

## ECB consumer expectations survey

(annual percentage changes)

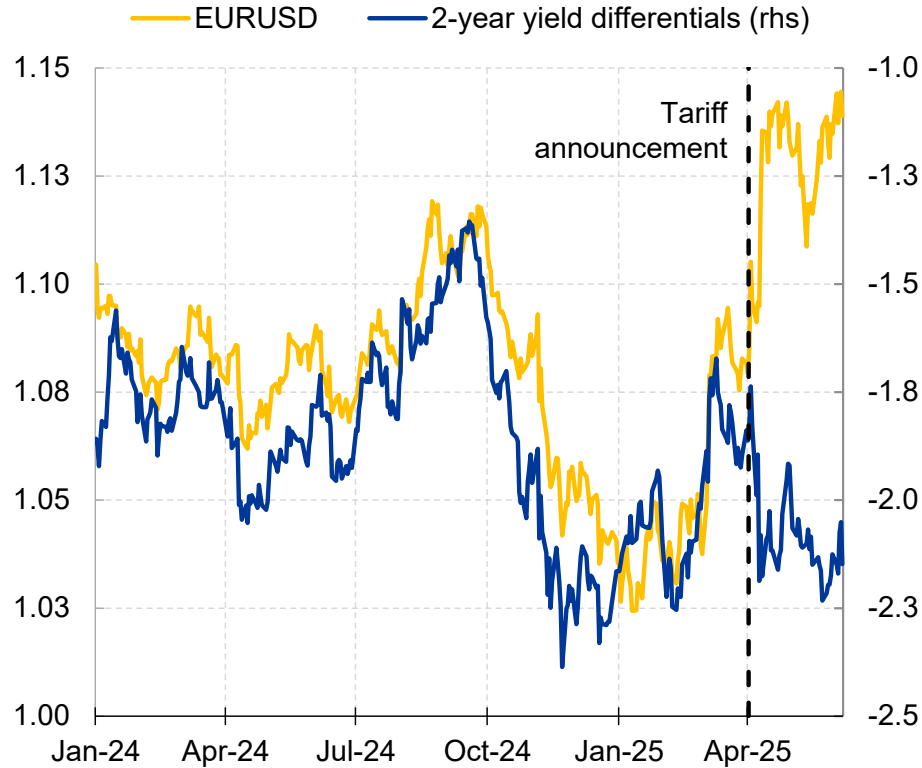


Sources: ECB Consumer Expectations Survey (CES).  
Latest observation: April 2025.

# Strong euro and overperforming equity markets reflect new European growth narrative

## EUR/USD exchange rate and interest rate differential

(LHS: EUR/USD, RHS: percentages)



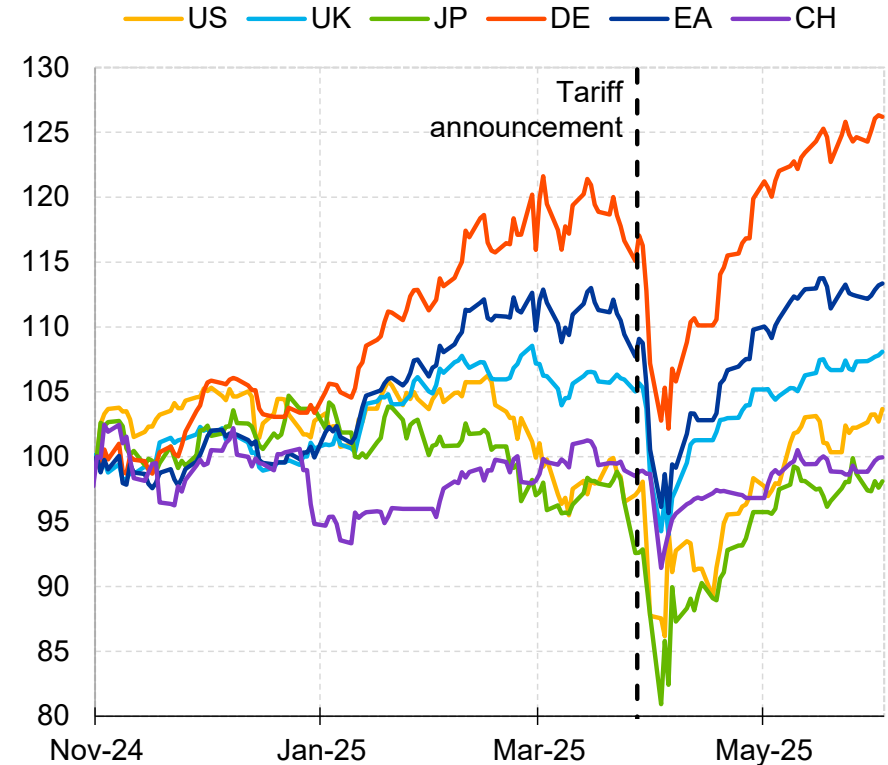
Source: Bloomberg.

Notes: The 2-year yield differential shows the difference between the yield of the 2-year German and US government bonds.

Latest observation: 6 June 2025.

## Equity performance since US election

(index: 5 Nov 2024 = 100)



Sources: Bloomberg, ECB calculations.

Notes: US: S&P500, UK: FTSE 100, JP: Nikkei 225, DE: DAX, EA: Eurostoxx and CH: Swiss Market Index.

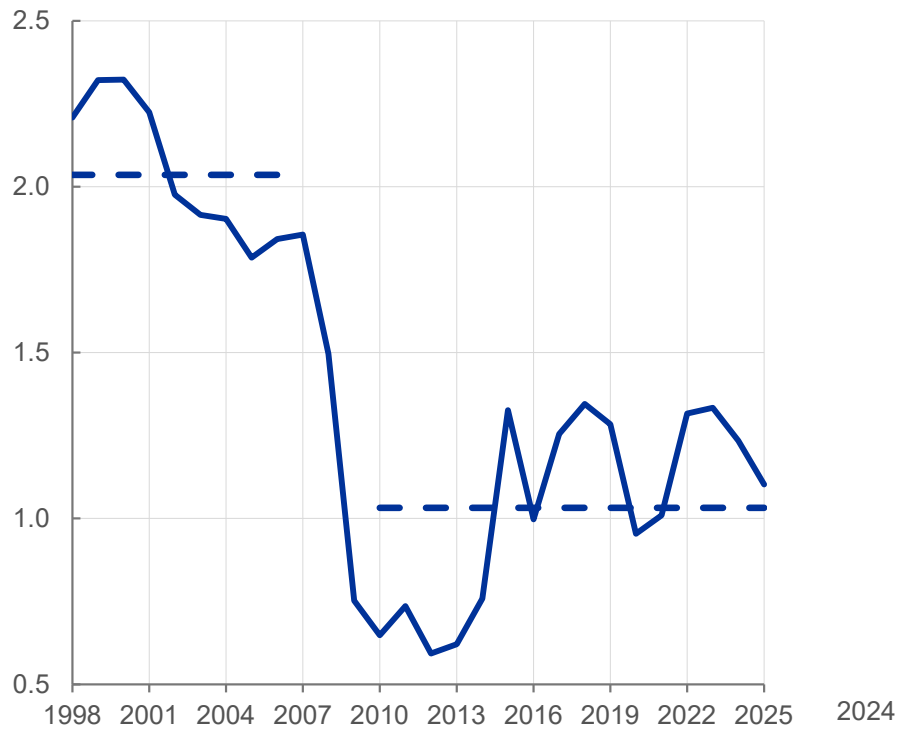
Latest observation: 6 June 2025.



# Potential growth fell after global financial crisis, partly due to underinvestment

## Potential GDP growth in the euro area

(annual percentage change)

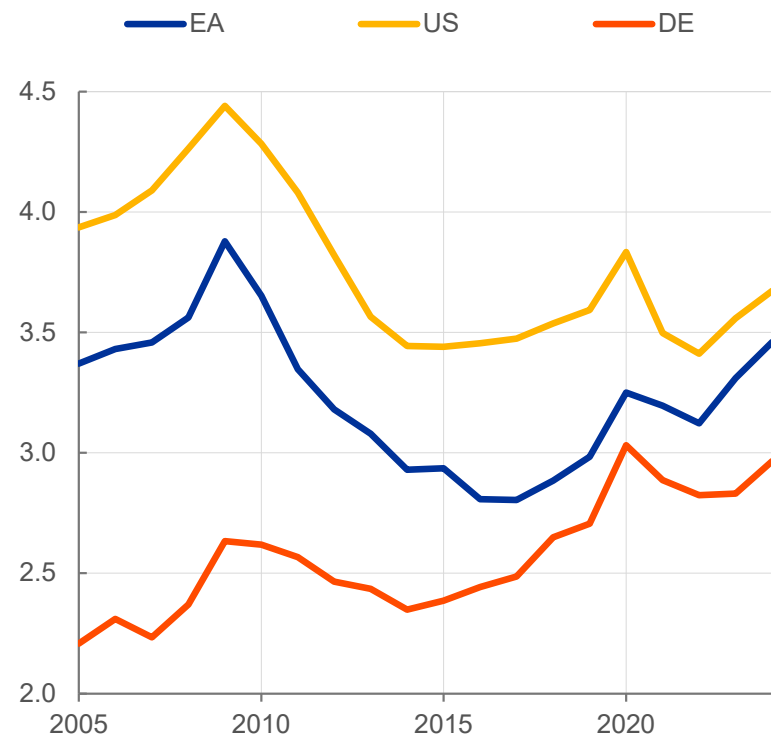


Source: European Commission's Spring Forecast (May 2025).

Notes: This euro area series excludes Croatia. The solid line represents the annual percentage change, the first dashed line represents the average annual growth from 1998 to 2007, and the second dashed line represents the average annual growth from 2010 to 2025. Latest observation: 2025.

## Public investment

(share of GDP)

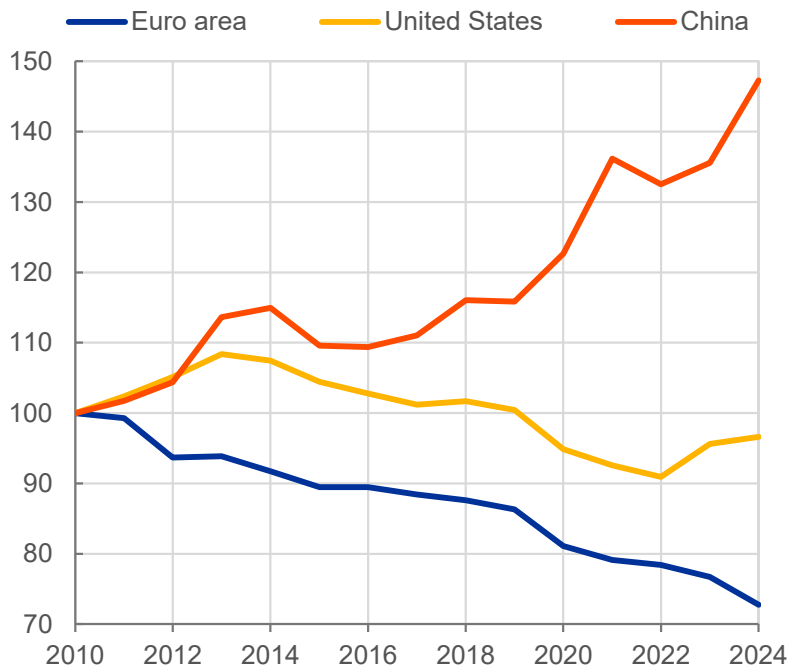


Sources: European Commission (AMECO) and ECB staff calculations.  
Latest observations: 2024.

# Euro area export market shares have declined steadily with China as main competitor

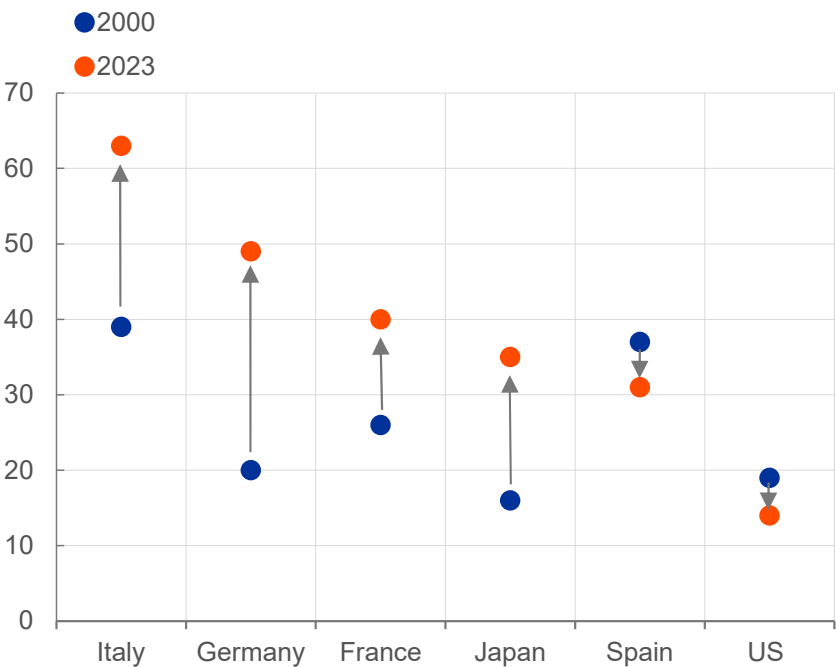
## Global export market shares of non-energy goods volumes

(index: 2010 = 100)



Sources: CPB, TDM and ECB staff calculations.  
Notes: Long-run trends in export market shares in volume terms should be interpreted with caution. Euro area export volumes and world import volumes are not fully consistent, as each statistical office employs specific methodologies for deflating and outlier cleaning. These methodologies may differ in terms of outlier detection and replacement and quality adjustment. Based on this, the volumes (excluding energy) series used to compute the export market shares shown in the chart are calculated by taking CPB (CPB Netherlands Bureau for Economic Policy Analysis) volumes (in 2005 chain linked billion euros) and subtracting the share of energy exports. This share of energy exports is based on TDM (Trade Data Monitor) values and includes HS2 sectors 25, 26, 27, 97, 98, 99. Latest observation: 2024.

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

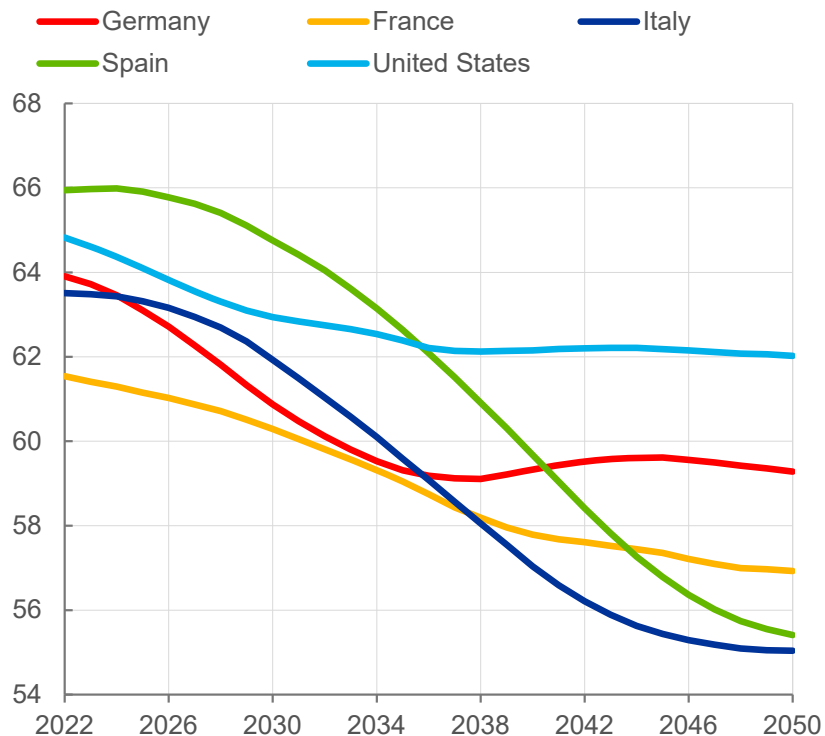


Sources: UNCTAD and ECB staff calculations.  
Notes: The chart shows comparative advantage, referring to the revealed comparative advantage indicator, measuring the ratio between the share of country's exports in a particular product category in its total exports, and the same share for the world as 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.

# Euro area economies are likely to face structural labour scarcity due to ageing societies

## Working-age population projections

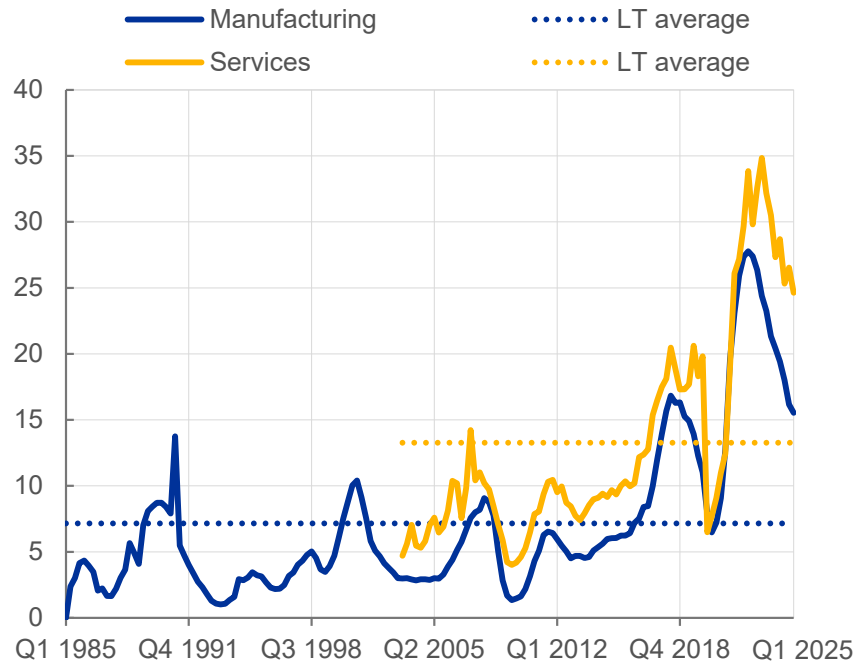
(as % of total population)



Sources: European Commission Europop 2023 and US Census Bureau.  
Notes: Baseline scenario. Projections start in 2022.

## Labour as factor limiting business

(survey replies, percentage balances)



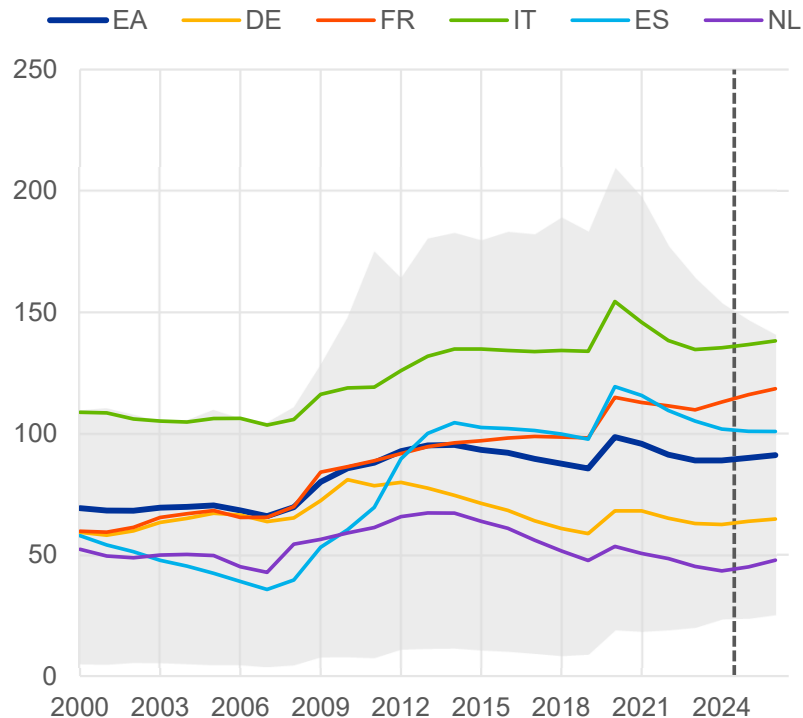
Sources: European Commission and ECB staff calculations.  
Latest observation: 2025 Q1.

The long-term (LT) average for the manufacturing sector is calculated on data between 1985 Q1 and 2025 Q1. The LT average for the services sector is calculated on data between 2003 Q3 and 2025 Q1.

# High public debt levels and higher interest rates require growth-enhancing fiscal policies

## Government debt in the euro area

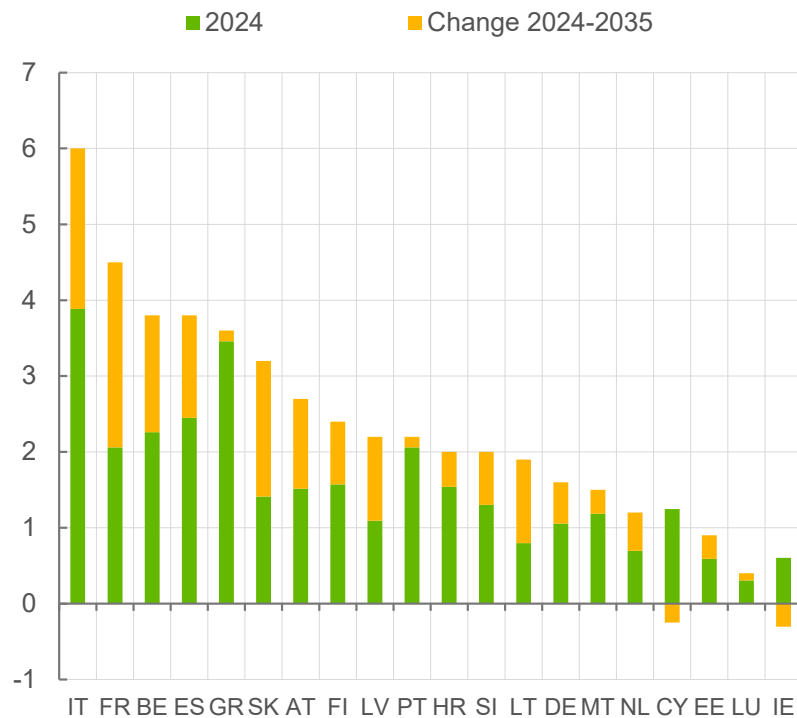
(percent of GDP)



Source: European Commission. Notes: The range shows the minimum and maximum of all euro area countries. The dashed line indicates the beginning of the projection horizon, projections are based on the European Commission 2025 Spring forecast. Government debt is defined as in ESA 2010. The borrowing on the markets to finance the RRF grants and loans is considered as debt of the EU. The RRF loans to Member States are recorded as Member States' debt towards the EU. Latest observation: 2026 (projection).

## Government interest expenditures

(percent of GDP)

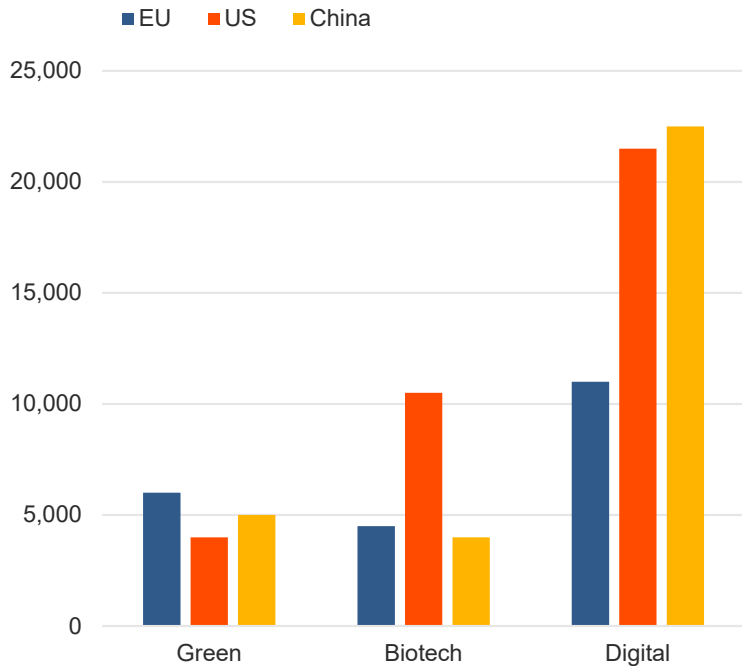


ECB staff calculations, European Commission, Debt Sustainability Monitor (DSM) 2024. Notes: The DSM 2024 is based on the Commission's Autumn 2024 Forecast. The 2024 value reflects actual data. The change in interest payments for 2024-35 as per DSM 2024 baseline scenario (no-fiscal-policy change, which keeps the structural primary fiscal position before costs of ageing unchanged at the 2025 level). The chart does not include the recently announced fiscal packages.

# Innovation is the main way to foster potential growth, which requires risk capital

## Patents by technology domain

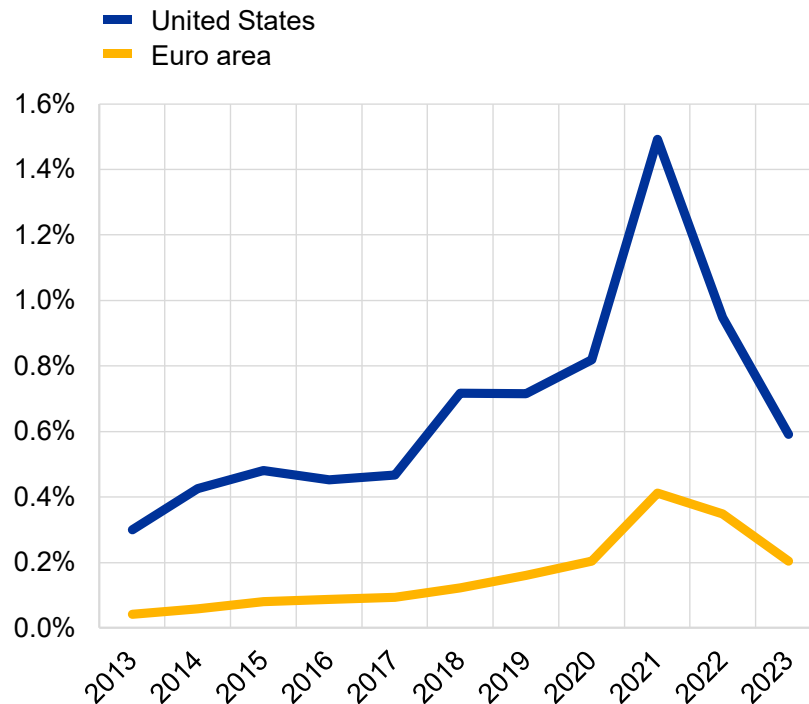
(number of patents issued in 2020)



Sources: EU Industrial R&D Investment Scoreboard and Patstat.

## Venture capital investment

(percent of nominal GDP)

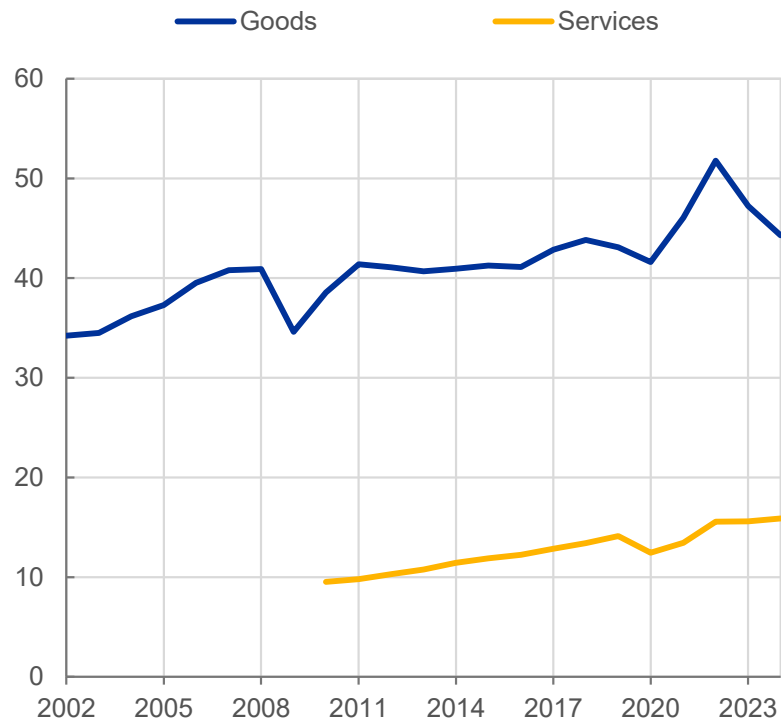


Source: ECB calculations on Pitchbook data.

# Single market offers large opportunities, but internal trade barriers are holding back growth

## Intra-EU trade in goods and services

(annual, in percent of GDP)



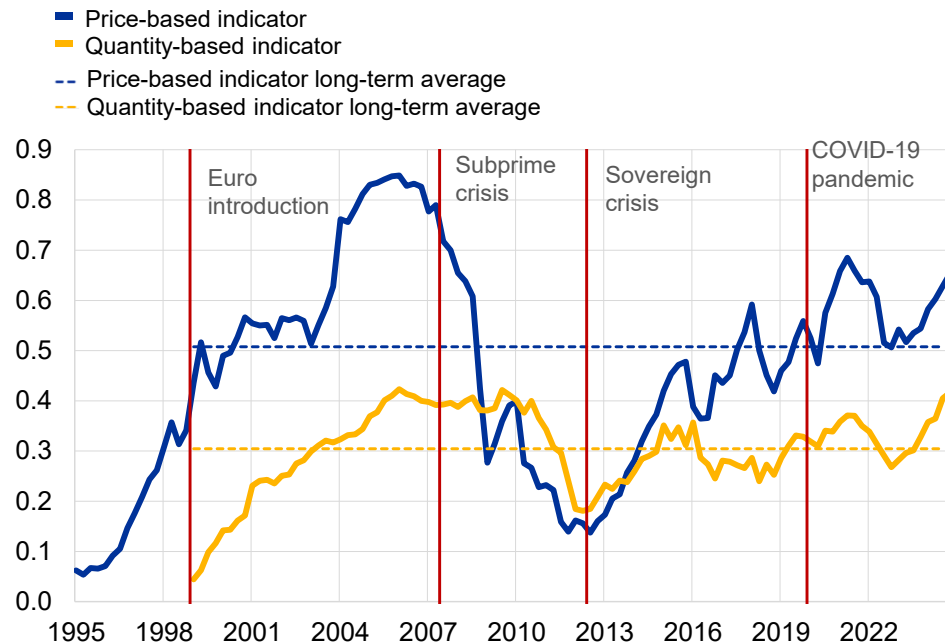
Sources: Eurostat and ECB staff calculations.

Notes: Intra-EU trade is obtained by summing intra-exports and imports as a ratio of GDP, measured in euros.

Latest observation: 2024.

## Price- and quantity-based indicators of financial integration in the euro area

(index)

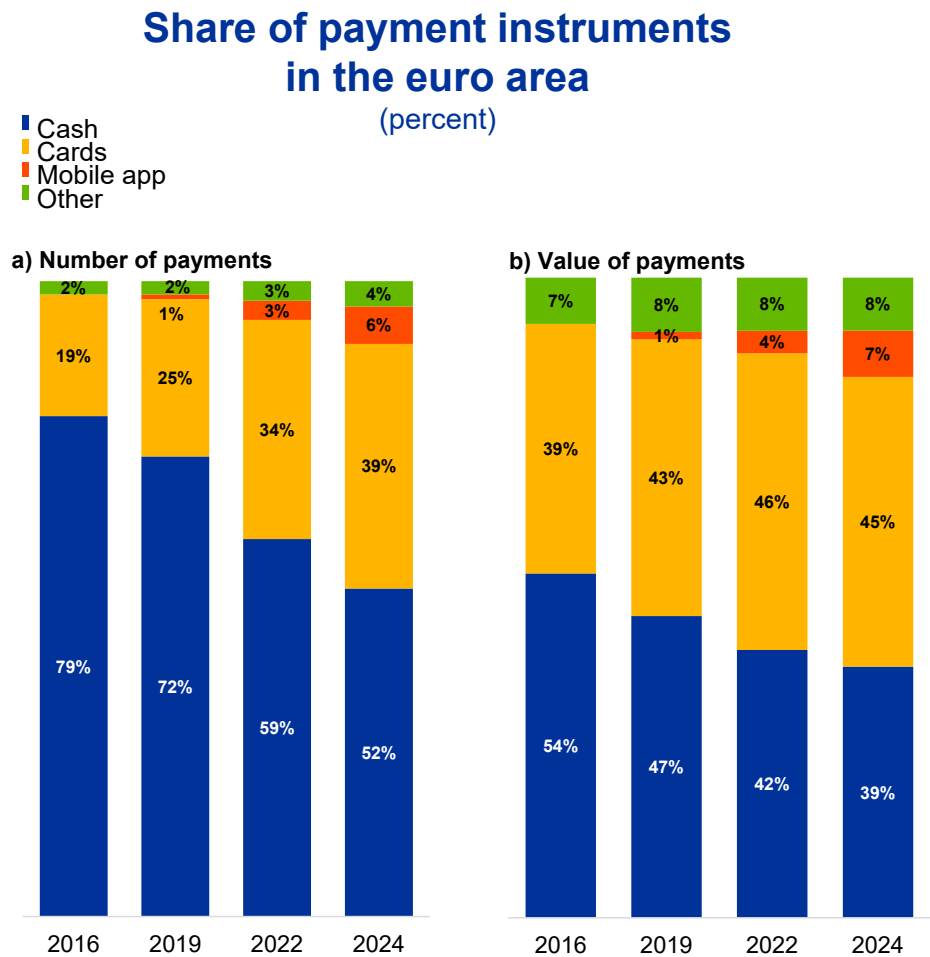


Source: ECB staff calculations.

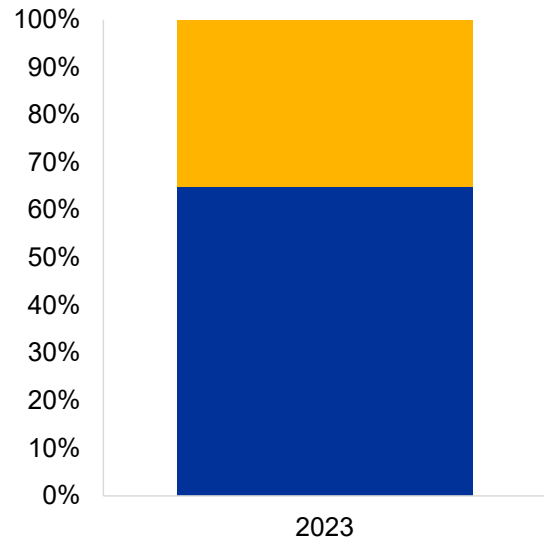
Notes: The price-based composite indicator aggregates ten indicators for money, bond, equity and retail banking markets; the quantity-based composite indicator aggregates five indicators for the same market segments except retail banking. The indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal greater financial integration.

Latest observation: December 2024.

# Digital euro can preserve sovereignty, as payments are dominated by foreign providers



Source: ECB payment statistics.  
Notes: Share of payment instruments used at the POS, euro area, 2016-24  
Latest observation: 2024.

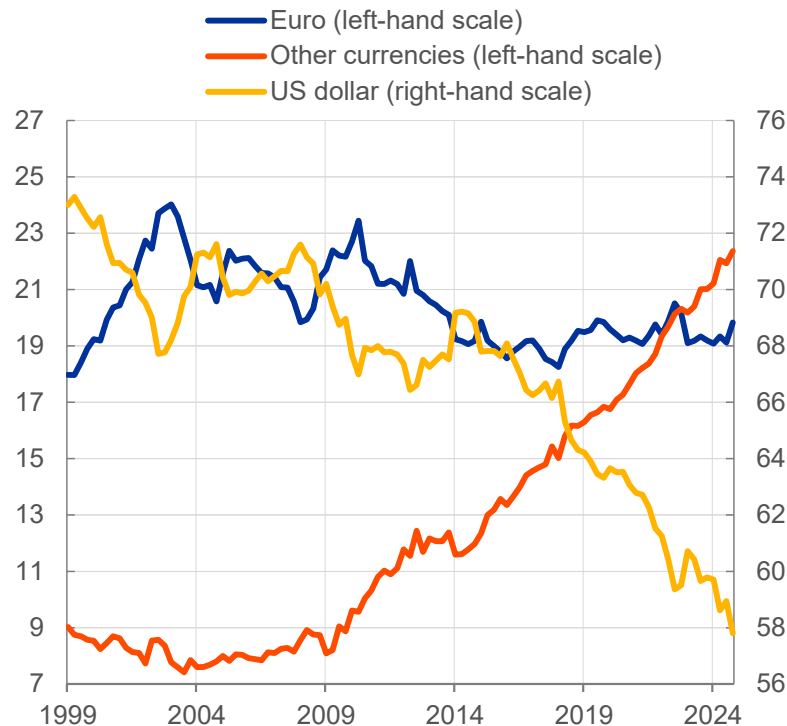


Source: ECB payment statistics.  
Latest observation: 2023.

# The euro's international role remains strong and could be strengthened further

## Share in global foreign exchange reserves

(percentages; at constant Q4 2024 exchange rates)



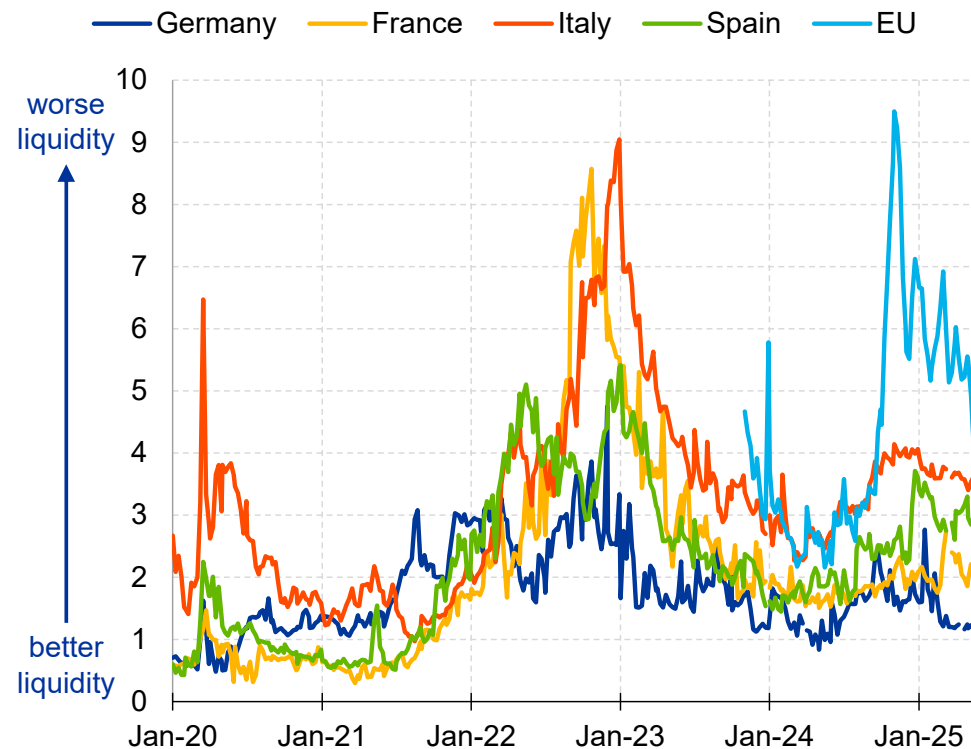
Sources: IMF and ECB staff calculations.

Other currencies include Pound sterling, Swiss franc, Japanese yen, Australian dollar, Canadian dollar, Chinese renminbi.

Latest observation: Q4 2024.

## Liquidity in sovereign bond markets

(basis points)



Source: ECB calculations.

Notes: Spline spreads show the differences in interest rates or yields across maturities by using smooth curves. Higher values indicate worse liquidity. Data is calculated as weekly average.

Latest observation: 1 June 2025.





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