EUROPEAN CENTRAL BANK

EUROSYSTEM

MONETARY POLICY STATEMENT

Frankfurt am Main, 5 June 2025

PRESS CONFERENCE

Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB

Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

Inflation is currently at around our two per cent medium-term target. In the baseline of the new Eurosystem staff projections, headline inflation is set to average 2.0 per cent in 2025, 1.6 per cent in 2026 and 2.0 per cent in 2027. The downward revisions compared 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 per cent in 2025 and 1.9 per cent in 2026 and 2027, broadly unchanged since March.

Staff see real GDP growth averaging 0.9 per cent in 2025, 1.1 per cent in 2026 and 1.3 per cent in 2027. The unrevised growth projection for 2025 reflects a stronger than expected first quarter combined 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 more. Together with more favourable financing conditions, this should make the economy more resilient to global shocks.

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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 our 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 our two per cent 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.

We are determined to ensure that inflation stabilises sustainably at our two per cent medium-term target. Especially in current conditions of exceptional uncertainty, we will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. Our interest rate decisions will be based on our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

The decisions taken today are set out in a press release available on our website.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

The economy grew by 0.3 per cent in the first quarter of 2025, according to Eurostat's flash estimate. Unemployment, at 6.2 per cent in April, is at its lowest level since the launch of the euro, and employment grew by 0.3 per cent in the first quarter of the year, according to the flash estimate.

In line with the staff projections, survey data point overall to some weaker prospects in the near term. While manufacturing has strengthened, partly because trade has been brought forward in anticipation of higher tariffs, the more domestically oriented services sector is slowing. Higher tariffs and a stronger euro are expected to make it harder for firms to export. High uncertainty is expected to weigh on investment.

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At the same time, several factors are keeping the economy resilient and should support growth over the medium term. A strong labour market, rising real incomes, robust private sector balance sheets and easier financing conditions, in part because of our past interest rate cuts, should all help consumers and firms withstand the fallout from a volatile global environment. Recently announced measures to step up defence and infrastructure investment should also bolster growth.

In the present geopolitical environment, it is even more urgent for fiscal and structural policies to make the euro area economy more productive, competitive and resilient. The European Commission's Competitiveness Compass provides a concrete roadmap for action, and its proposals, including on simplification, should be swiftly adopted. This includes completing the savings and investment union, following a clear and ambitious timetable. It is also important to rapidly establish the legislative framework to prepare the ground for the potential introduction of a digital euro. Governments should ensure sustainable public finances in line with the EU's economic governance framework, while prioritising essential growth-enhancing structural reforms and strategic investment.

Inflation

Annual inflation declined to 1.9 per cent in May, from 2.2 per cent in April, according to Eurostat's flash estimate. Energy price inflation remained at -3.6 per cent. Food price inflation rose to 3.3 per cent, from 3.0 per cent the month before. Goods inflation was unchanged at 0.6 per cent, while services inflation dropped to 3.2 per cent, from 4.0 per cent in April. Services inflation had jumped in April mainly because prices for travel services around the Easter holidays went up by more than expected.

Most indicators of underlying inflation suggest that inflation will stabilise sustainably at our two per cent medium-term target. Labour costs are gradually moderating, as indicated by incoming data on negotiated wages and available country data on compensation per employee. The ECB's wage tracker points to a further easing of negotiated wage growth in 2025, while the staff projections see wage growth falling to below 3 per cent in 2026 and 2027. While lower energy prices and a stronger euro are putting downward pressure on inflation in the near term, inflation is expected to return to target in 2027.

Short-term consumer inflation expectations edged up in April, likely reflecting news about trade tensions. But most measures of longer-term inflation expectations continue to stand at around 2 per cent, which supports the stabilisation of inflation around our target.

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Risk assessment

Risks to economic growth remain tilted to the downside. A further escalation in global trade tensions and associated uncertainties could lower euro area growth by dampening exports and dragging down investment and consumption. A deterioration in financial market sentiment could lead to tighter financing conditions and greater risk aversion, and make firms and households less willing to invest and consume. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, remain a major source of uncertainty. By contrast, if trade and geopolitical tensions were resolved swiftly, this could lift sentiment and spur activity. A further increase in defence and infrastructure spending, together with productivity-enhancing reforms, would also add to growth.

The outlook for euro area inflation is more uncertain than usual, as a result of the volatile global trade policy environment. Falling energy prices and a stronger euro could put further downward pressure on inflation. This could be reinforced if higher tariffs led to lower demand for euro area exports and to countries with overcapacity rerouting their exports to the euro area. Trade tensions could lead to greater volatility and risk aversion in financial markets, which would weigh on domestic demand and would thereby also lower inflation. By contrast, a fragmentation of global supply chains could raise inflation by pushing up import prices and adding to capacity constraints in the domestic economy. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

Risk-free interest rates have remained broadly unchanged since our last meeting. Equity prices have risen, and corporate bond spreads have narrowed, in response to more positive news about global trade policies and the improvement in global risk sentiment.

Our past interest rate cuts continue to make corporate borrowing less expensive. The average interest rate on new loans to firms declined to 3.8 per cent in April, from 3.9 per cent in March. The cost of issuing market-based debt was unchanged at 3.7 per cent. Bank lending to firms continued to strengthen gradually, growing by an annual rate of 2.6 per cent in April after 2.4 per cent in March, while corporate bond issuance was subdued. The average interest rate on new mortgages stayed at 3.3 per cent in April, while growth in mortgage lending increased to 1.9 per cent.

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In line with our monetary policy strategy, the Governing Council thoroughly assessed the links between monetary policy and financial stability. While euro area banks remain resilient, broader financial stability risks remain elevated, in particular owing to highly uncertain and volatile global trade policies. Macroprudential policy remains the first line of defence against the build-up of financial vulnerabilities, enhancing resilience and preserving macroprudential space.

Conclusion

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. We are determined to ensure that inflation stabilises sustainably at our two per cent medium-term target. Especially in current conditions of exceptional uncertainty, we will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. Our interest rate decisions will be based on our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilises sustainably at our medium-term target and to preserve the smooth functioning of monetary policy transmission.

We are now ready to take your questions.

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