EUROPEAN CENTRAL BANK

EUROSYSTEM

MONETARY POLICY STATEMENT

Frankfurt am Main, 24 July 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 keep the three key ECB interest rates unchanged. Inflation is currently at our two per cent medium-term target. The incoming information is broadly in line with our previous assessment of the inflation outlook. Domestic price pressures have continued to ease, with wages growing more slowly. Partly reflecting our past interest rate cuts, the economy has so far proven resilient overall in a challenging global environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes.

We are determined to ensure that inflation stabilises at our two per cent target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as 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.

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Economic activity

In the first quarter the economy grew more strongly than expected. This was partly because firms frontloaded exports ahead of expected tariff hikes. But growth was also bolstered by stronger private consumption and investment.

Recent surveys point to an overall modest expansion in both the manufacturing and services sectors. At the same time, higher actual and expected tariffs, the stronger euro and persistent geopolitical uncertainty are making firms more hesitant to invest.

The robust labour market, rising real incomes and solid private sector balance sheets continue to support consumption. Unemployment stood at 6.3 per cent in May, close to its lowest level since the introduction of the euro. Easier financing conditions are underpinning domestic demand, including in the housing market. Over time, higher public investment in defence and infrastructure should also support growth.

More than ever, the Governing Council considers it crucial to urgently strengthen the euro area and its economy in the present geopolitical environment. Fiscal and structural policies should make the economy more productive, competitive and resilient. Governments should prioritise growth-enhancing structural reforms and strategic investment, while ensuring sustainable public finances. It is important to complete the savings and investments union and the banking union, following a clear and ambitious timetable, and to rapidly establish the legislative framework for the potential introduction of a digital euro. The Governing Council welcomes the Eurogroup’s commitment to improve the effectiveness, quality and composition of public spending and supports the efforts by European authorities to preserve the mutual benefits of global trade.

Inflation

Annual inflation stood at 2.0 per cent in June, after 1.9 per cent in May. Energy prices went up in June but are still lower than a year ago. Food price inflation eased slightly to 3.1 per cent. Goods inflation edged down to 0.5 per cent in June, whereas services inflation ticked up to 3.3 per cent, from 3.2 per cent in May.

Indicators of underlying inflation are overall consistent with our two per cent medium-term target. Labour costs have continued to moderate. Year-on-year growth in compensation per employee slowed to 3.8 per cent in the first quarter, down from 4.1 per cent in the previous quarter. Combined with stronger productivity growth, this led to slower growth in unit labour costs. Forward-looking indicators, including the ECB's wage tracker and surveys on wage expectations of firms, consumers and professional forecasters, point to a further decline in wage growth.

Short-term consumer inflation expectations declined in both May and June, reversing the uptick observed in previous months. Most measures of longer-term inflation expectations continue to stand at around 2 per cent, supporting the stabilisation of inflation around our target.

Risk assessment

Risks to economic growth remain tilted to the downside. Among the main risks are a further escalation in global trade tensions and associated uncertainties, which could dampen exports and drag 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. Higher defence and infrastructure spending, together with productivity-enhancing reforms, would add to growth. An improvement in business confidence would also stimulate private investment.

The outlook for inflation is more uncertain than usual, as a result of the volatile global trade policy environment. A stronger euro could bring inflation down further than expected. Moreover, inflation could turn out to be lower if higher tariffs lead to lower demand for euro area exports and induce countries with overcapacity to reroute 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, inflation could turn out to be higher if a fragmentation of global supply chains pushed up import prices and added 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

Market interest rates have increased since our last meeting, especially at longer maturities. At the same time, our past interest rate cuts continue to make corporate borrowing less expensive. The average interest rate on new loans to firms declined to 3.7 per cent in May, from 3.8 per cent in April. The cost of issuing market-based debt also came down, falling to 3.6 per cent in May. While the growth rate of loans to firms moderated to 2.5 per cent in May, corporate bond issuance was stronger, growing at a rate of 3.4 per cent in annual terms.

Credit standards for business loans were broadly unchanged in the second quarter, as reported in our latest bank lending survey for the euro area. While banks' concerns about the economic risks faced by their customers had a tightening impact on credit standards, this was broadly offset by stronger competition among lenders. Meanwhile, firms' demand for credit increased slightly, benefiting from lower interest rates, but they remained cautious because of global uncertainty and trade tensions.

The average interest rate on new mortgages has barely changed since the start of the year and stood at 3.3 per cent in May. Growth in mortgage lending edged up to 2.0 per cent in May, in the context of a strong increase in demand, while credit standards tightened slightly in the second quarter.

Conclusion

The Governing Council today decided to keep the three key ECB interest rates unchanged. We are determined to ensure that inflation stabilises at our two per cent target in the medium term. 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 and the risks surrounding it, in light of the incoming economic and financial data, as well as 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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