



EUROPEAN CENTRAL BANK

EUROSYSTEM

Monetary policy and economic growth in a more fragmented world

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of the ECB*

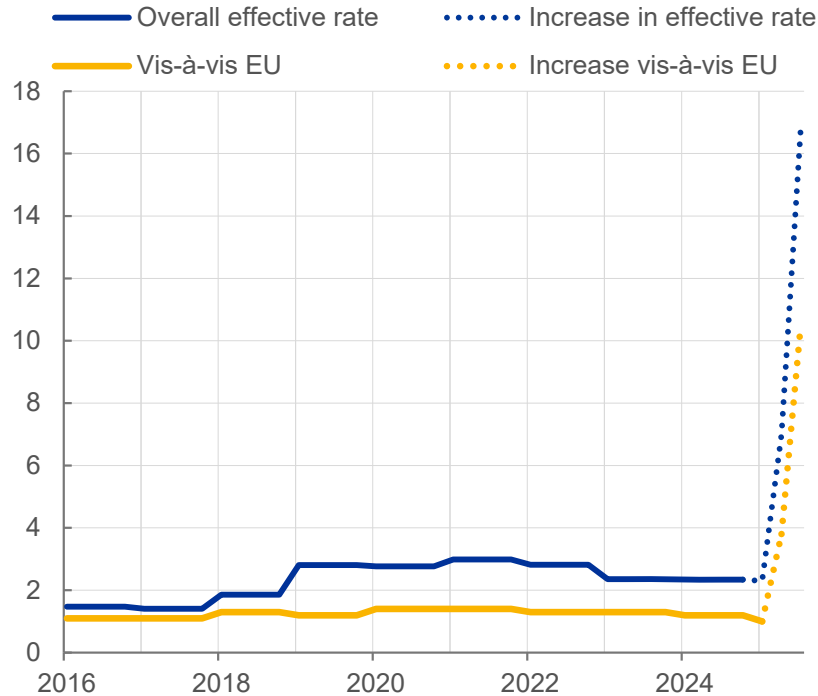


Finanzmarktklausur am Finanzplatz, Wirtschaftsrat
Frankfurt, 26 June 2025

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

US overall effective tariff rate

(percent)

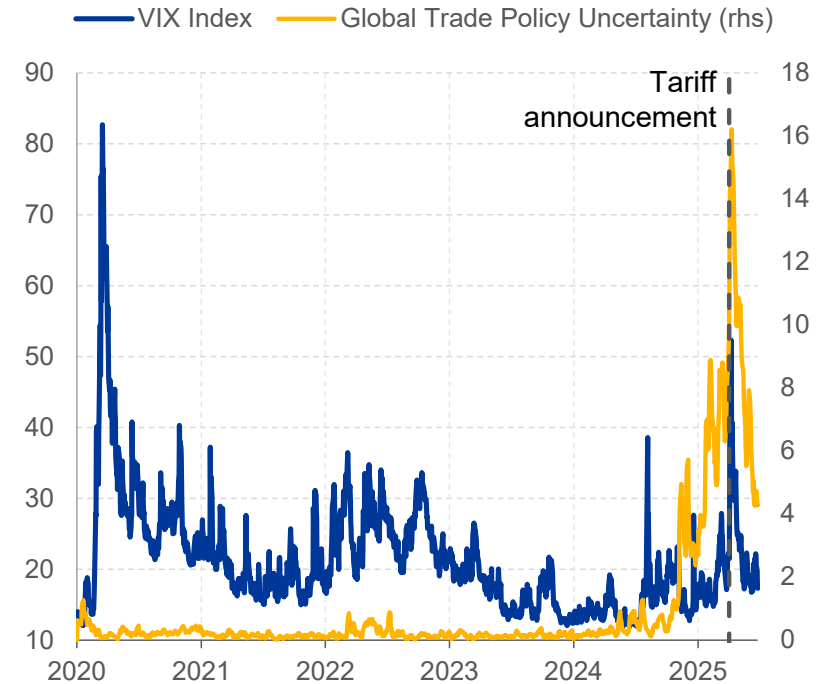


Sources: Haver Analytics, CEPII MacMap-HS6, Fajgelbaum et al. (2024), WITS, CEPII BACI and ECB staff calculations.

Notes: Historical effective tariffs (2016- April 2024) are calculated using the revenue approach – dividing total nominal custom proceeds by total nominal imports of goods. Current effective tariff rates are 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: 24 June 2025.

Uncertainty indices

(index)



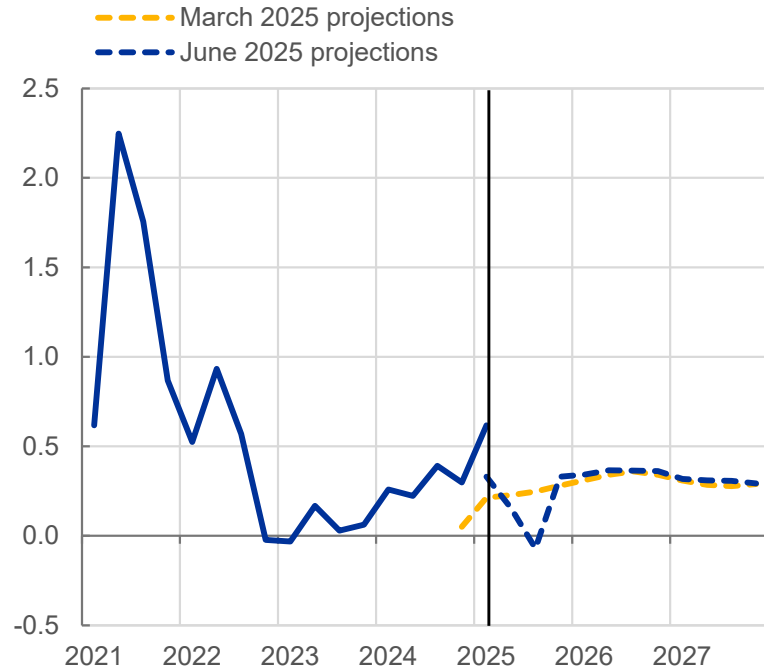
Source: Bloomberg.

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: 24 June 2025.

Growth outlook broadly stable despite trade conflict with medium-term inflation near 2%

Euro area real GDP growth

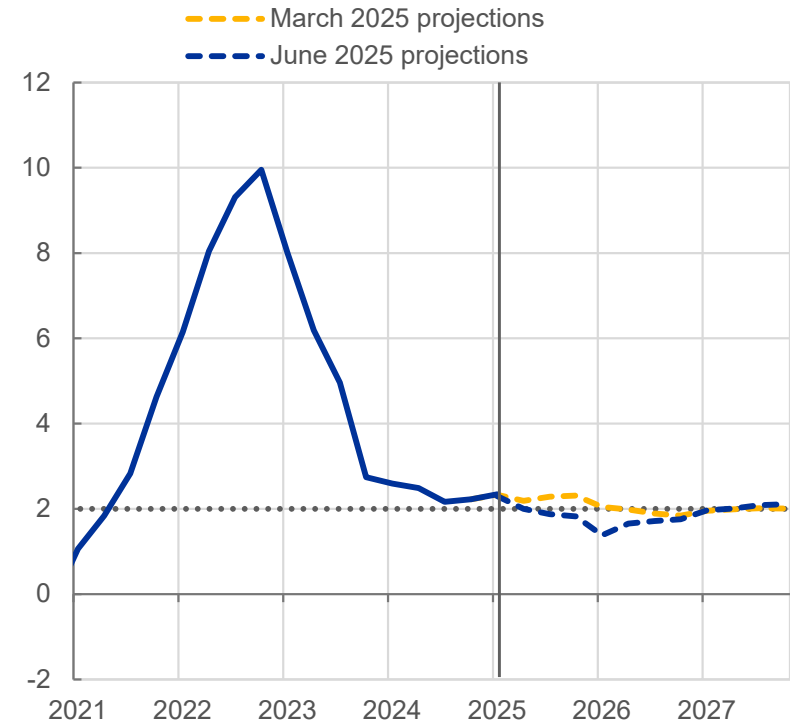
(quarter-on-quarter percentage changes)



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).

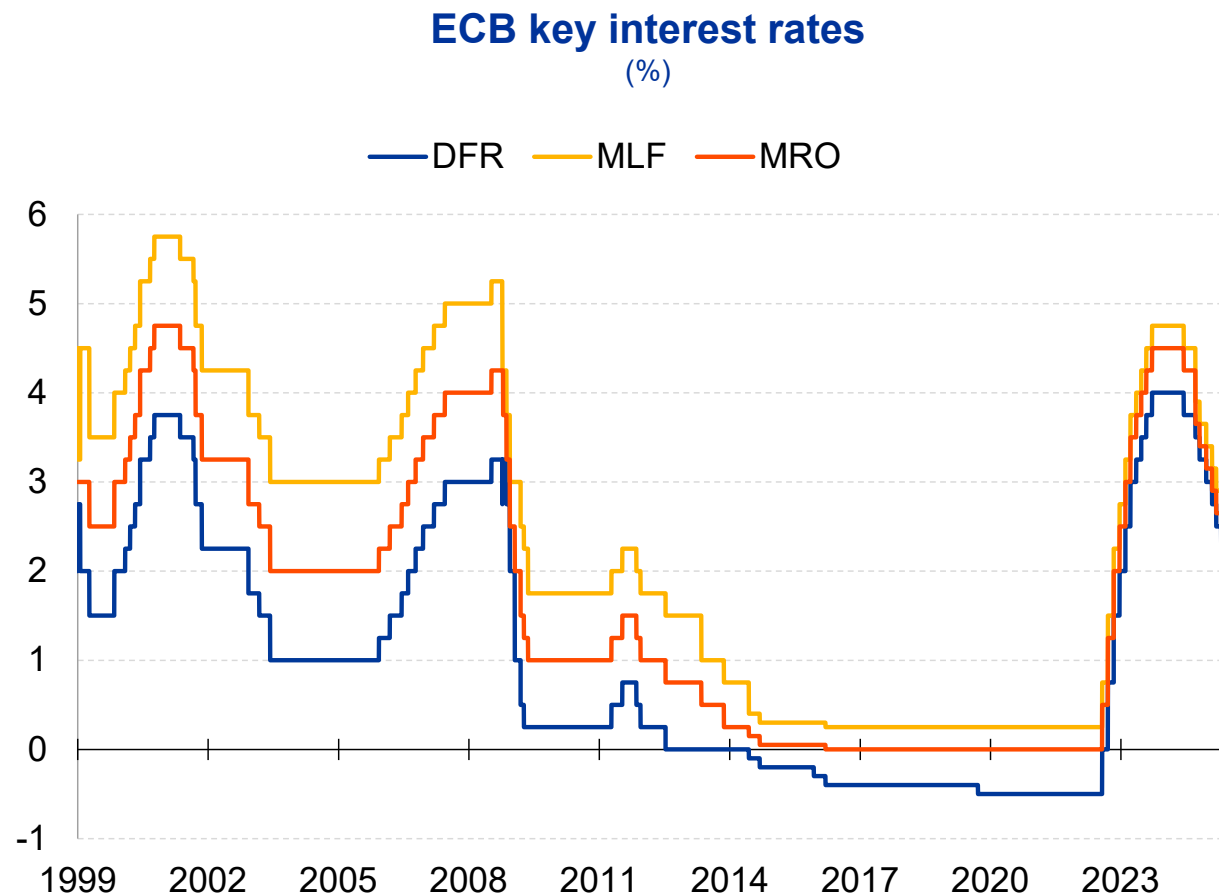
Euro area HICP inflation

(annual 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

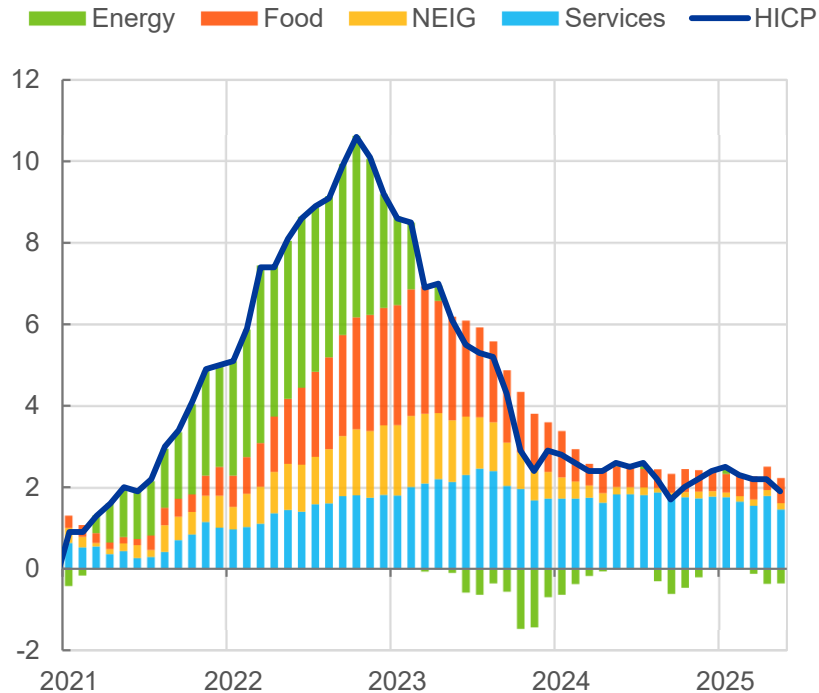


Source: ECB.
Latest observation: 24 June 2025.

Inflation projected to fall temporarily before returning to target over medium term

HICP inflation

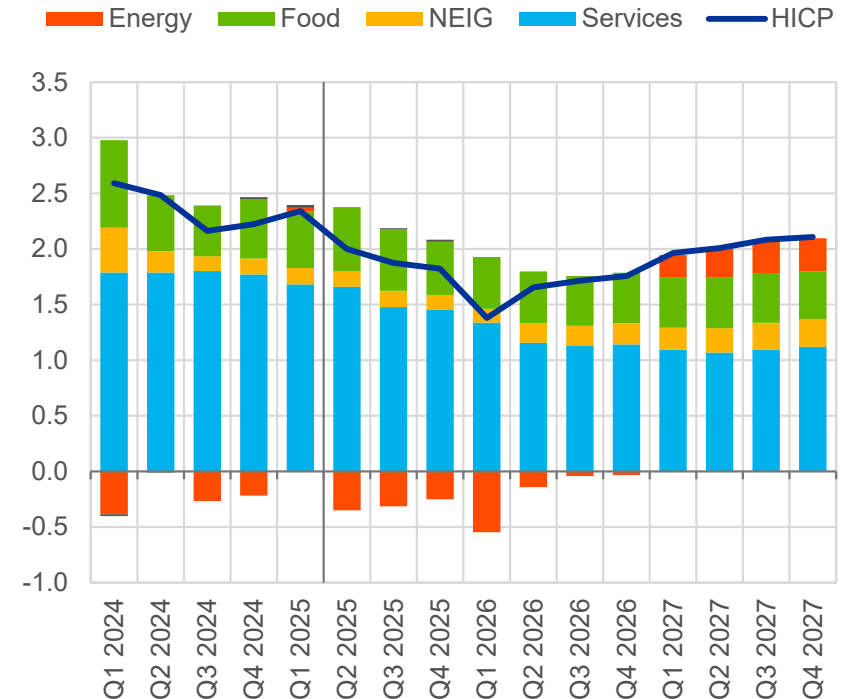
(annual percentage changes and percentage point contributions)



Sources: Eurostat and ECB calculations.
Latest observation: May 2025.

HICP inflation – decomposition into main components

(annual percentage changes and percentage point contributions)

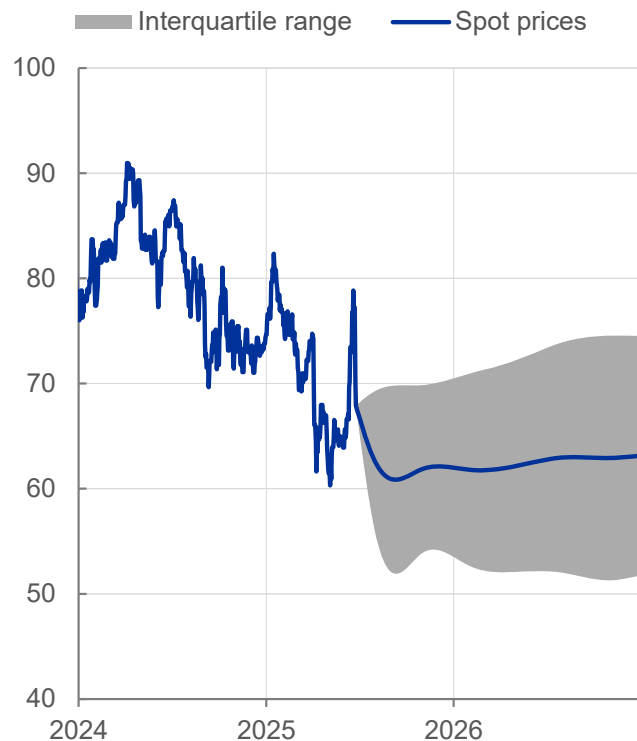


Sources: June 2025 Eurosystem staff projections and ECB calculations.
Notes: The vertical line indicates the start of the current projection horizon.
Latest observation: Q1 2025.

Energy prices and exchange rate drive inflation but can quickly change in either direction

Oil prices

(USD/barrel)



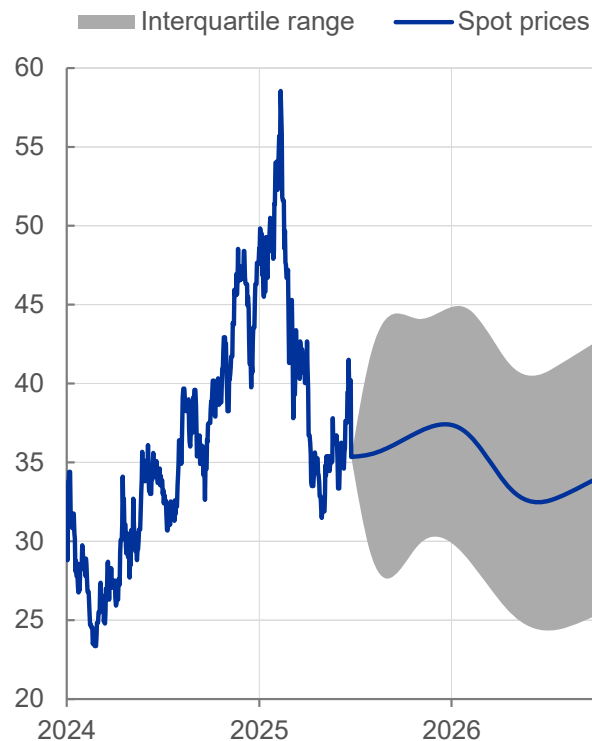
Sources: Morningstar and ECB calculations.

Notes: Interquartile range is based on percentiles calculated from option implied densities. The values for the densities are interpolated to daily frequency from quarterly frequency using a cubic spline interpolation.

Latest observation: 24 June 2025.

Gas prices

(EUR/MWh)



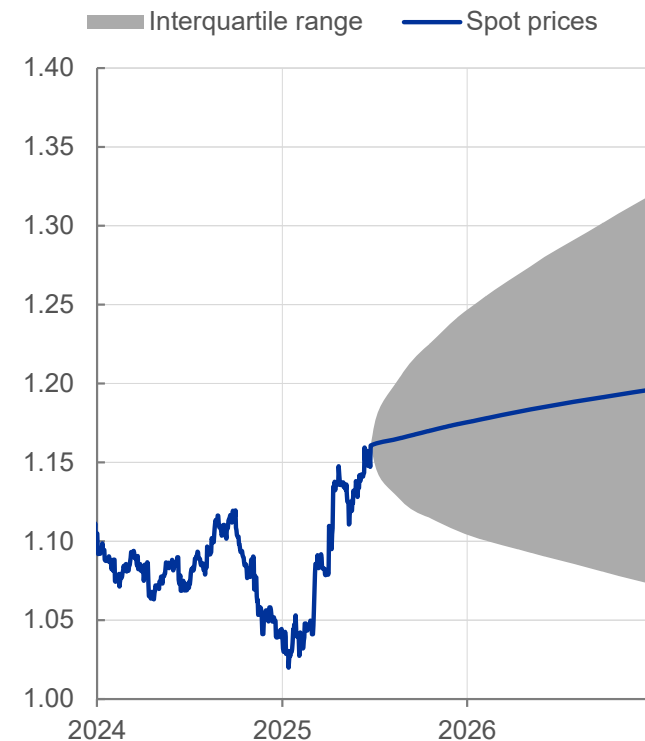
Sources: Morningstar and ECB calculations.

Notes: Interquartile range is based on percentiles calculated from option implied densities. The values for the densities are interpolated to daily frequency from quarterly frequency using a cubic spline interpolation.

Latest observation: 24 June 2025.

USD/EUR exchange rate

(index, USD/EUR)

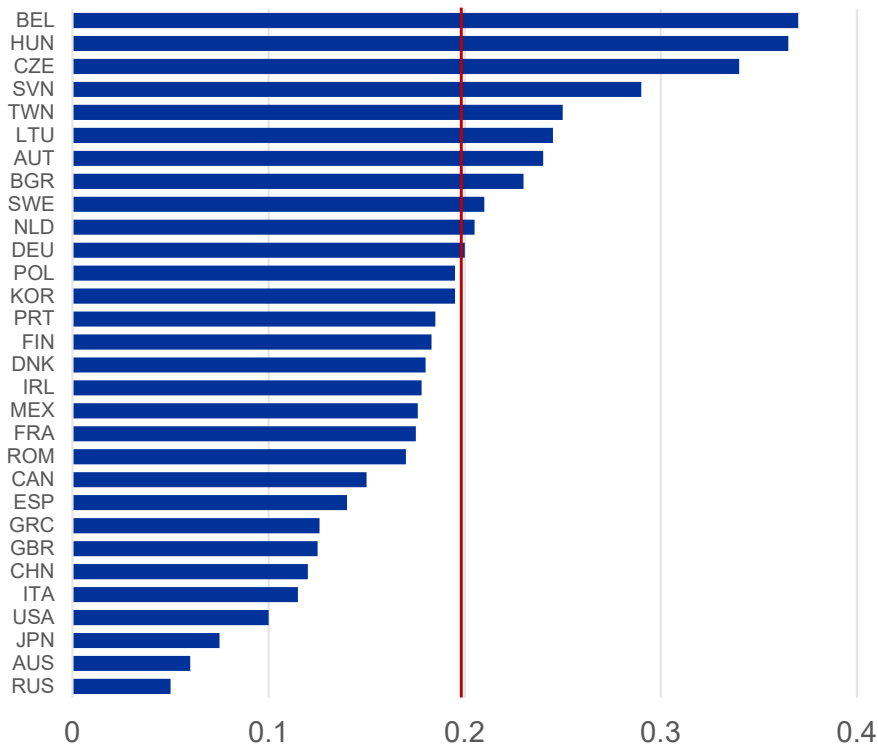


Sources: Bloomberg and ECB calculations.

Notes: Interquartile range is based on percentiles calculated from option implied densities. The values for the densities are interpolated to daily frequency from options expiring at different frequencies using a cubic spline interpolation. Latest observation: 24 June 2025.

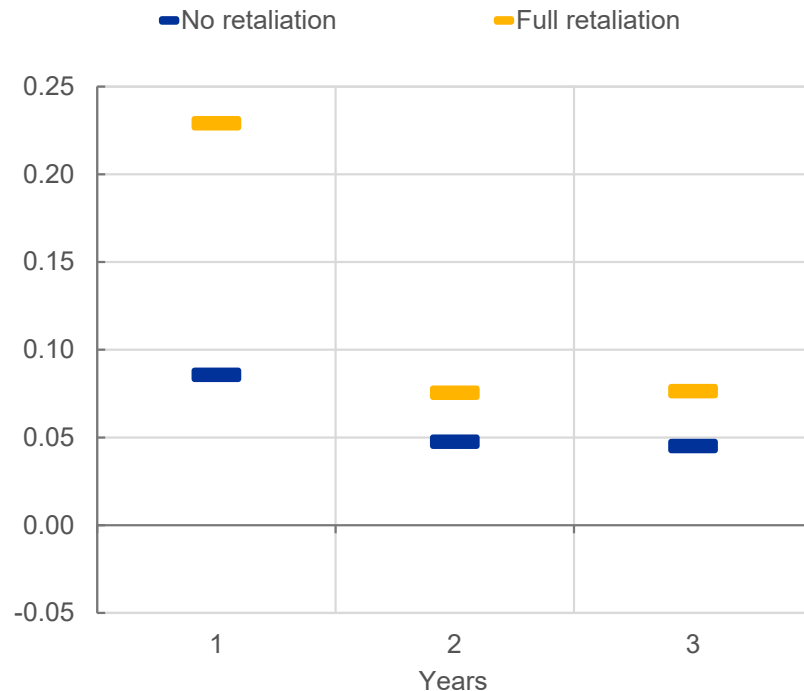
Tariffs can be amplified through global value chains posing upside risks to inflation

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.

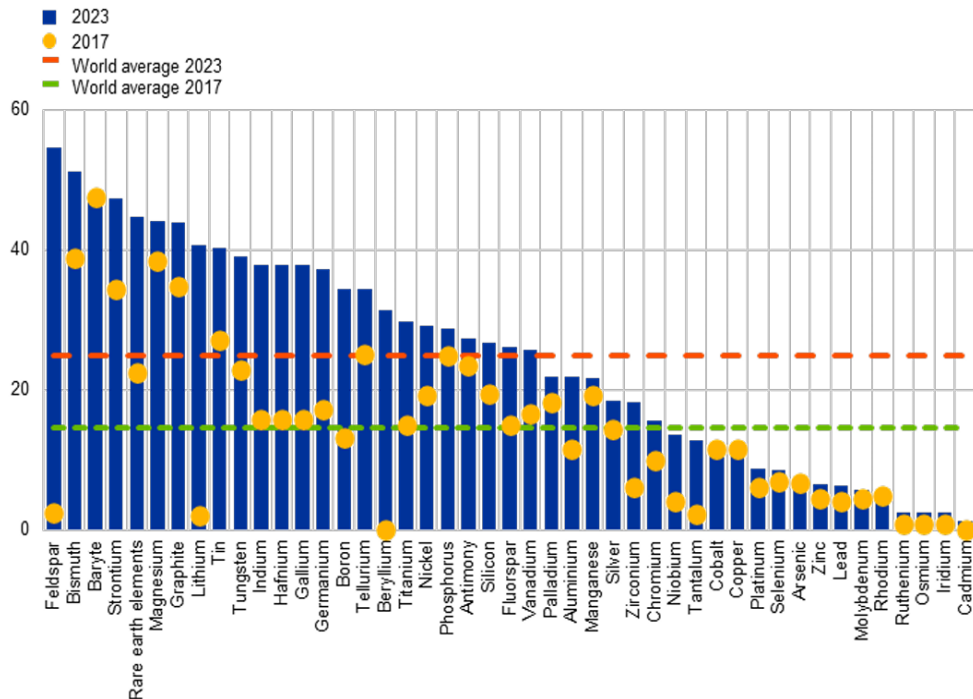
Impact of trade conflict on euro area HICP inflation (percent deviation from steady state)



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.

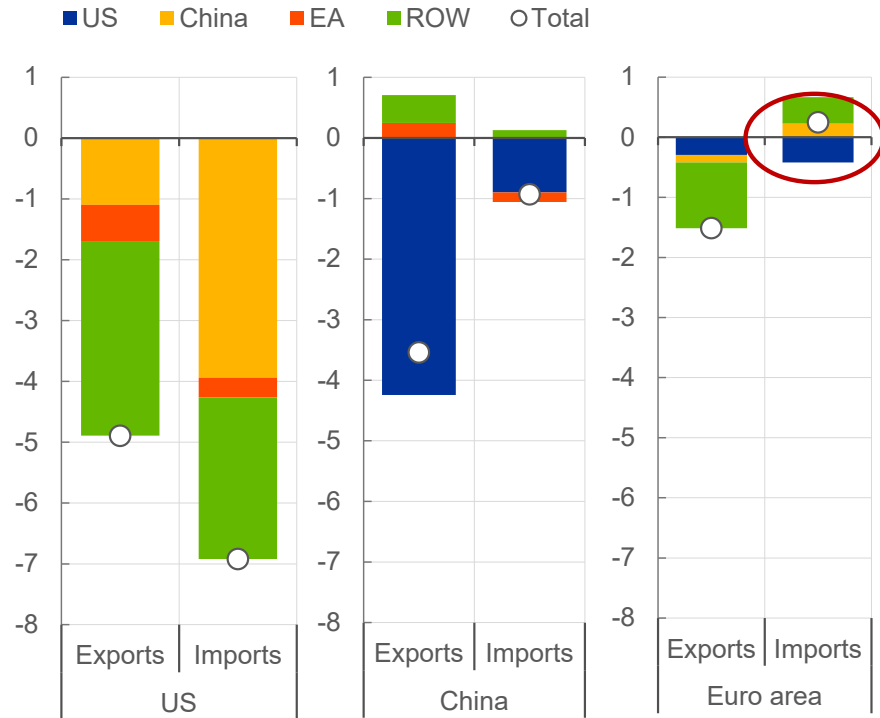
Risk of supply chain disruptions, but limited trade diversion from China to the EU

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.

Bilateral trade adjustments in response to tariff shock (cumulated percentage changes until 2027 Q4)



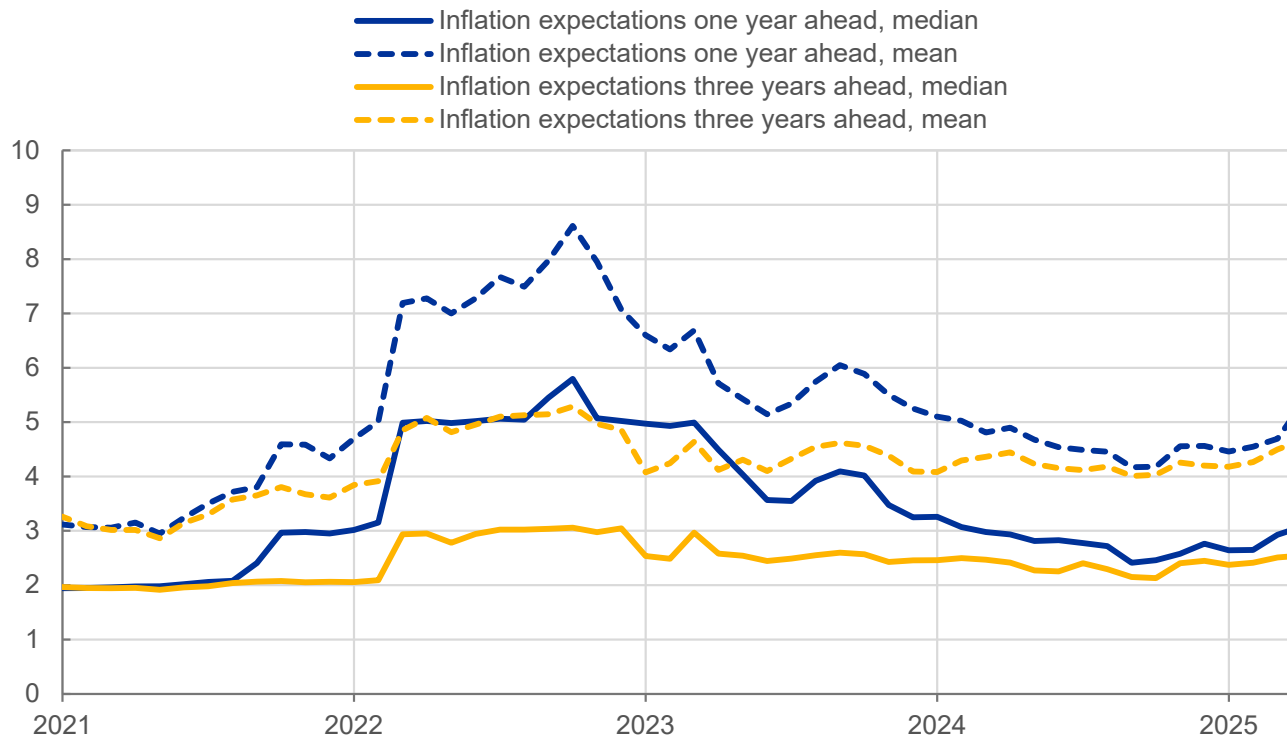
Source: ECB staff calculations.

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.

Stronger euro and overperforming equity markets reflect new European growth narrative

USD/EUR exchange rate and interest rate differential

(LHS: USD/EUR, RHS: percentages)



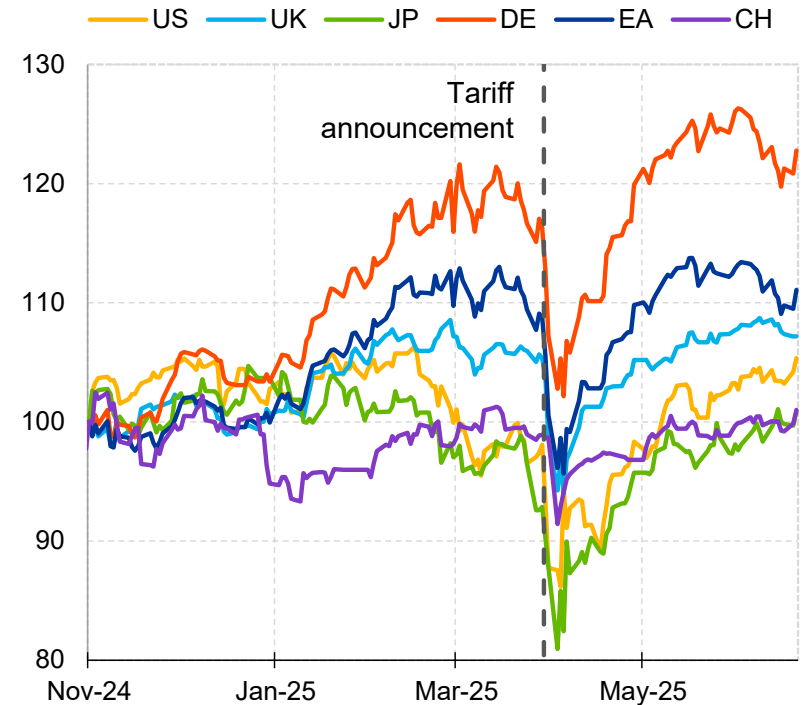
Source: Bloomberg.

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

Latest observation: 24 June 2025.

Equity performance since US election

(index: 5 Nov 2024 = 100)



Sources: Bloomberg, ECB calculations.

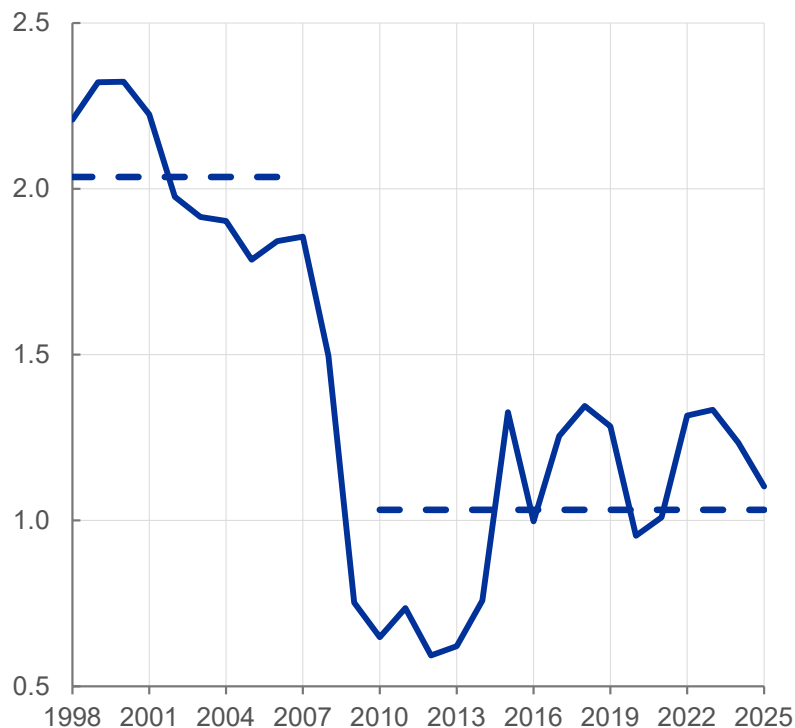
Notes: US: S&P500, UK: FTSE 100, JP: Nikkei 225, DE: DAX, EA: Eurostoxx and CH: Swiss Market Index.

Latest observation: 24 June 2025.

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

Potential GDP growth in the euro area

(annual percentage change)

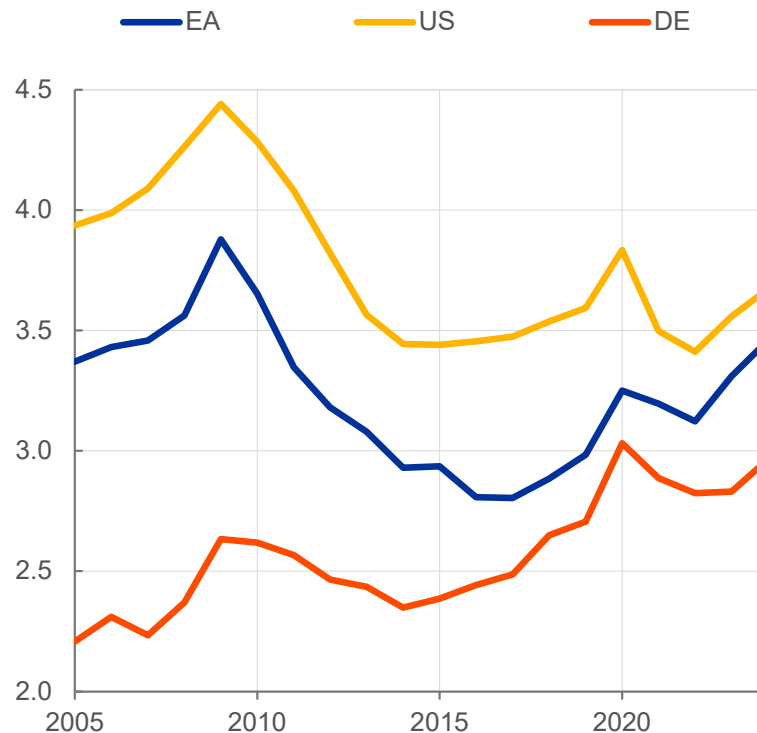


Source: European Commission's Spring Forecast (May 2025).

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)

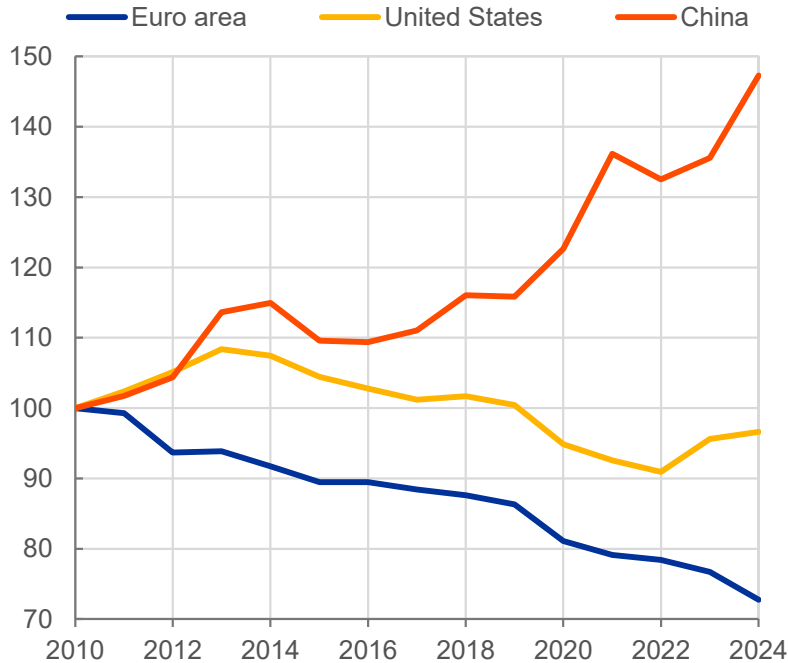


Sources: European Commission (AMECO) and ECB staff calculations.
Latest observations: 2024.

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

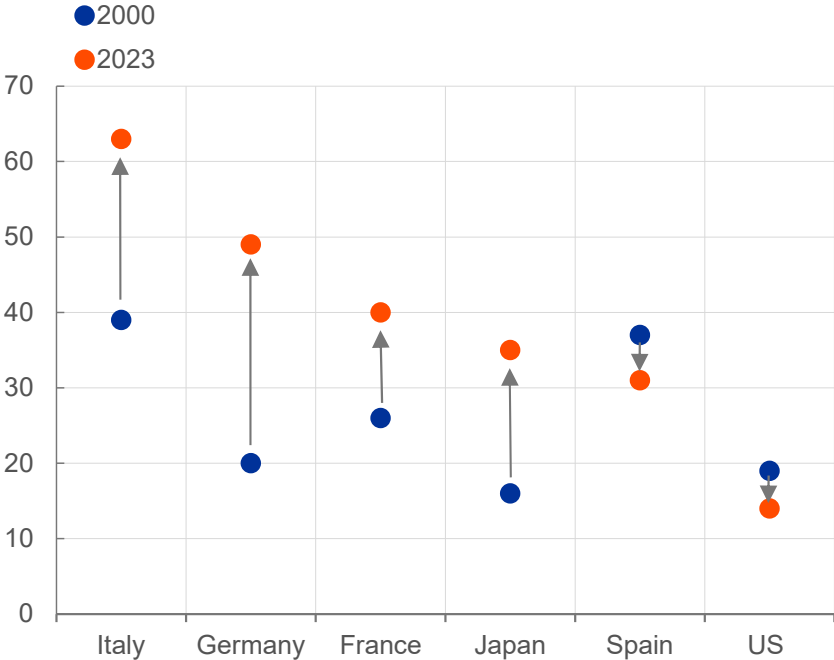
Global export market shares of non-energy goods volumes

(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

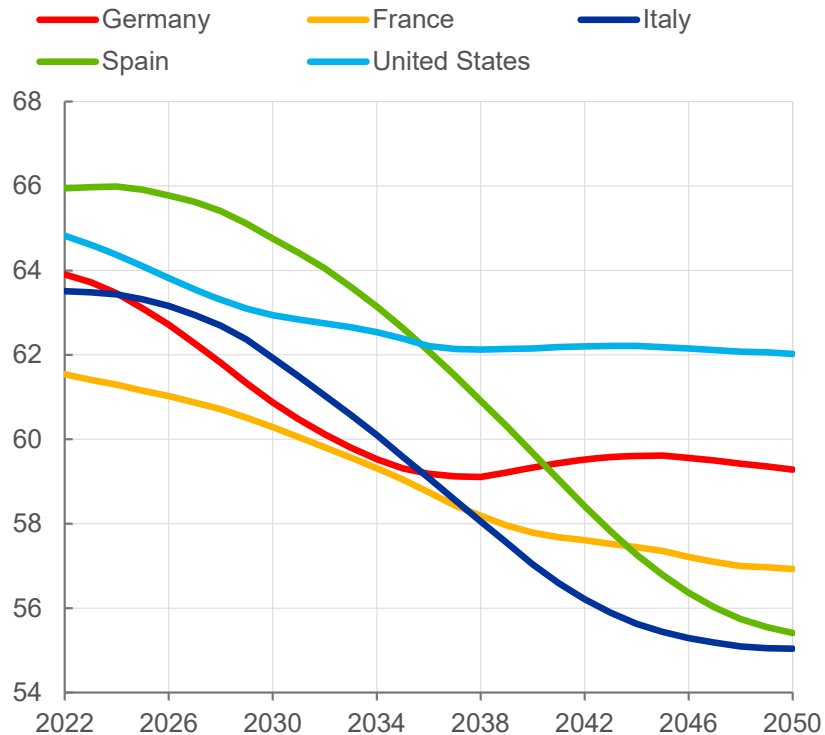


Sources: UNCTAD and ECB staff calculations.
Notes: The chart shows comparative advantage, referring to the revealed comparative advantage indicator, measuring the ratio between the share of country's exports in a particular product category in its total exports, and the same share for the world as a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

Structural challenges due to ageing societies and rising public debt

Working-age population projections

(as % of total population)

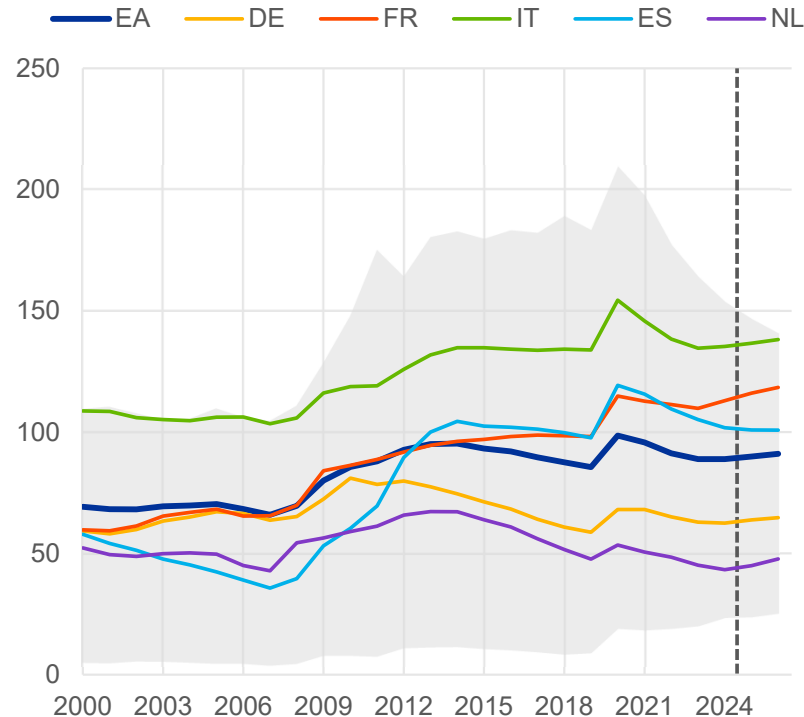


Sources: European Commission Europop 2023 and US Census Bureau.

Notes: Baseline scenario. Projections start in 2022.

Government debt in the euro area

(percent of GDP)

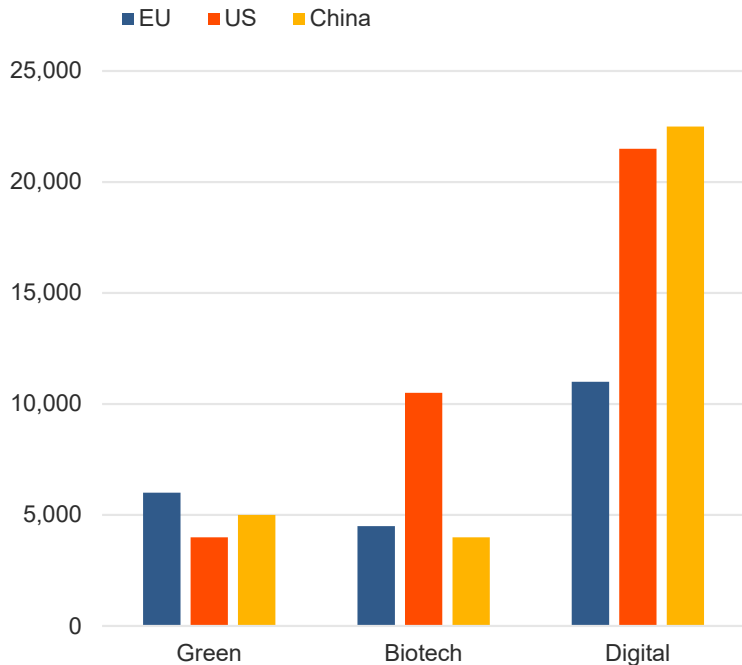


Source: European Commission. Notes: The range shows the minimum and maximum of all euro area countries. The dashed line indicates the beginning of the projection horizon, projections are based on the European Commission 2025 Spring forecast. Government debt is defined as in ESA 2010. The borrowing on 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).

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

Patents by technology domain

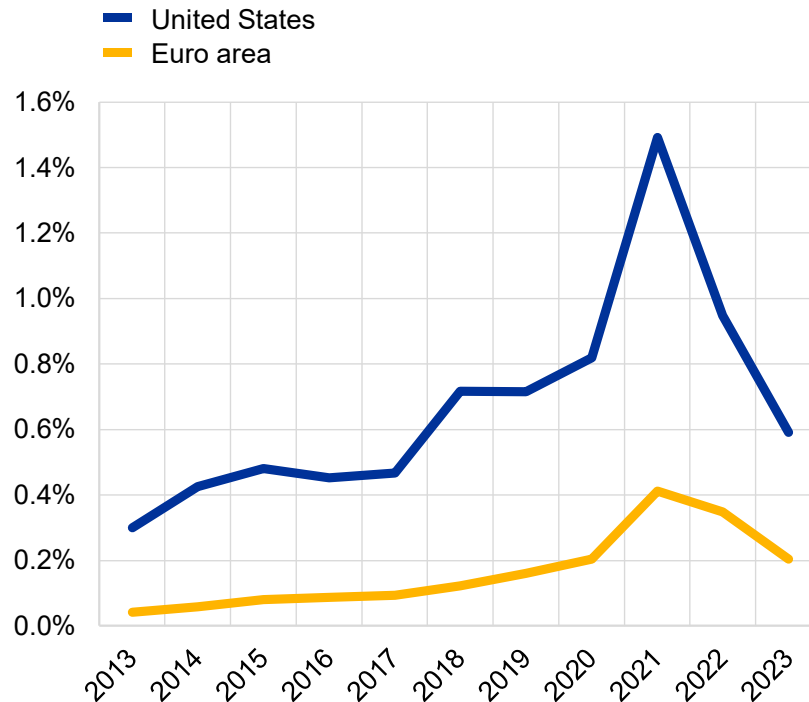
(number of patents issued in 2020)



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

Venture capital investment

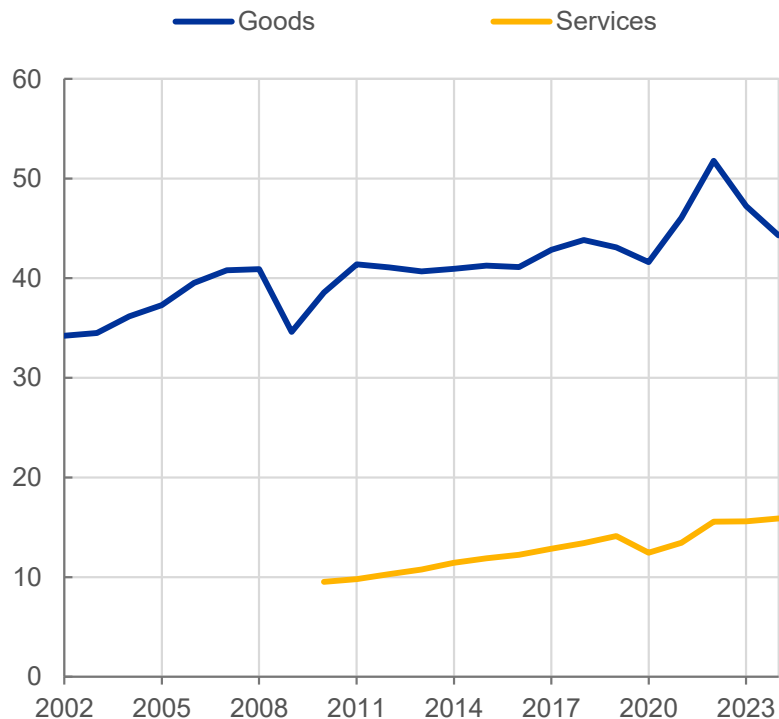
(percent of nominal GDP)



Source: ECB calculations on Pitchbook data.

Intra-EU trade in goods and services

(annual, in percent of GDP)



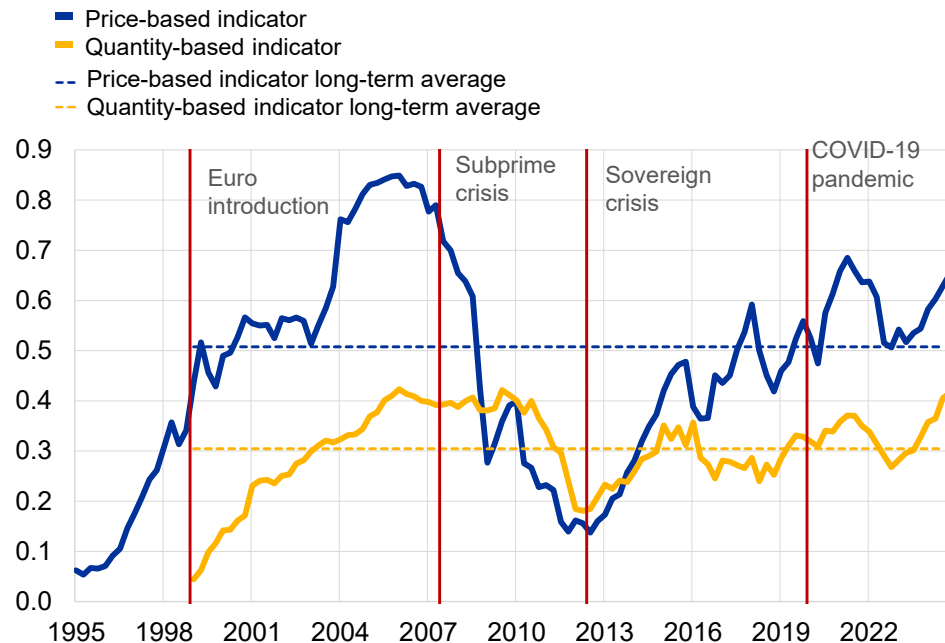
Sources: Eurostat and ECB staff calculations.

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.

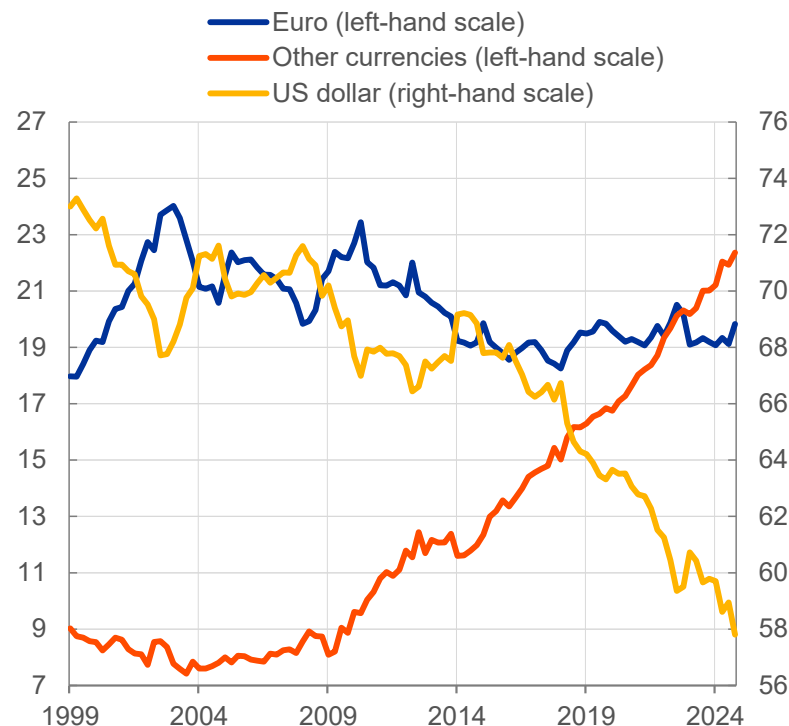
Notes: The price-based composite indicator aggregates ten indicators for money, bond, equity and retail banking markets; the quantity-based composite indicator aggregates five indicators for the same market segments except retail banking. The indicators are bounded between zero (full fragmentation) and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

Latest observation: December 2024.

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)



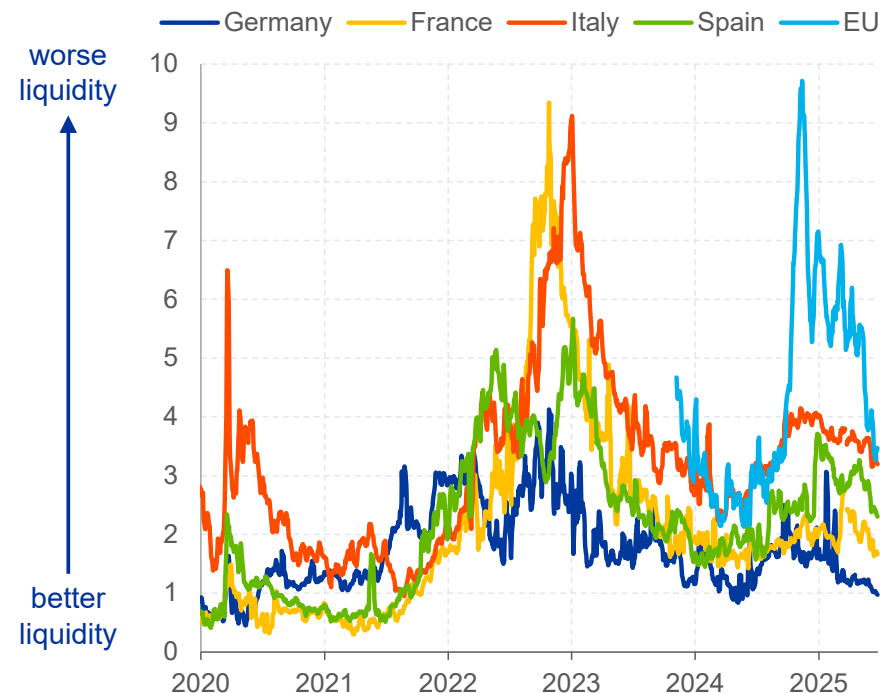
Sources: IMF and ECB staff calculations.

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: 23 June 2025.

Thank you very much for your attention!