

MNI INTERVIEW: ECB Rates Move Needs Clear Trend Change-Demarco

VALLETTA - The drop in euro area inflation below 2% is mostly driven by energy prices, but underlying inflation remains above 2% and there have been negative surprises in both services and non-energy prices, Central Bank of Malta Governor Alexander Demarco told MNI, adding that the European Central Bank would need to be convinced of a clear change in trend in order to adjust rates.

“We need to understand better what were the main drivers behind [the negative surprises], especially in services,” he said in an interview on Tuesday, noting that risks were relatively balanced for both inflation and growth, with no need to change the monetary stance in the medium term.

“There are some on the upside and some could pull on the other side. And I think the markets also now, sort of, they were factoring in a rate cut, but it's disappeared,” he said.

Despite still being above 2%, underlying inflation appears to be moving in the right direction and wage growth is slowing, he said, adding that there is still a question mark over wage dynamics and that oil prices have risen above baseline assumptions.

“It's like driving into the fog, you know what I mean? You have to go a bit slow, but you can't be distracted too much,” he said, describing conditions for setting ECB monetary policy.

Elevated uncertainty reinforces the need for caution, as one or two months of data moving in a particular direction could reflect only temporary factors or specific events.

“You have to tread cautiously and be sure that maybe this change is something more underlying and fundamental, if there is a change in the projection,” he said.

Asked whether, before adjusting interest rates either up or down, the ECB needs to be confident that there is a need for a new path for rates rather than for just a small adjustment, Demarco answered “yes.” (See [INTERVIEW: Eurozone Risks Tilt To Downside - ECB's Stournaras](#))

CHINA RISK

One risk comes from the effects on prices of growing Chinese competition. The euro area's trade deficit with China increased by 18% in 2025, as Chinese exports to the U.S. declined, Demarco noted.

Chinese products may also be displacing European exports in other markets, raising concerns over competitiveness that go beyond monetary policy and which Demarco

said should be addressed by governments. (See [MNI INTERVIEW: Germany Needs Solid China Strategy - Wambach](#))

“That could bring some downward pressure on prices as well,” he said, adding that the ECB should remain attentive to this development.

UNCERTAINTY

It is still too early to determine whether recent trade tensions related to U.S. ambitions over Greenland will weigh on confidence in Europe, but so far available data remain positive.

“Maybe people also get used to the fact that this geopolitical uncertainty is here to stay,” he said, adding that more data was needed to assess any impact on investors and consumers.

“So far, we’ve got the general data. And, generally, let’s say, it’s been certainly very positive compared to the last two years or so. So, it doesn’t seem to have, you know, jolted investors,” he said, noting that investment continued to grow in 2025 despite elevated uncertainty. (See [MNI INTERVIEW: ECB In Good Place But Not Complacent - Kazaks](#))

Growth is also surprising to the upside, with the European Commission’s sentiment indicator at its highest level since 2022, further pointing to signs of resilience.

However, the ECB cannot draw firm conclusions from any single reading, and uncertainty could still weigh on consumption and investment over time, Demarco said.

“There could be some tendencies where risk could shift a bit to the downside,” he said.

Asked about the exchange rate, he pushed back against concerns over euro strength, saying that equilibrium with the U.S. dollar lies in the range of USD1.20–1.25.

Even if the equilibrium level is exceeded, “it is not that there is a cliff effect or something like that,” he said.