

ECONOMIC SURVEY

1. THE EXTERNAL ENVIRONMENT AND THE EURO AREA

In the second quarter of 2025, real GDP rebounded in the United States, whereas it grew at a slower pace in both the United Kingdom and the euro area amid elevated global trade policy uncertainty. The unemployment rate rose marginally in the United States and in the United Kingdom while it remained largely unchanged in the euro area.

Consumer price inflation edged up moderately in the United States, rose further in the United Kingdom and fell modestly in the euro area, mainly reflecting energy price dynamics. In the United States, inflation rose to 2.7% in June from 2.4% in March, while in the United Kingdom, inflation increased to 3.6% in June from 2.6% three months earlier. In contrast, in the euro area, inflation declined to 2.0% in June, compared to 2.2% in March. The Federal Reserve Bank kept interest rates unchanged during the quarter under review, whereas both the Bank of England and the ECB lowered their key interest rates.

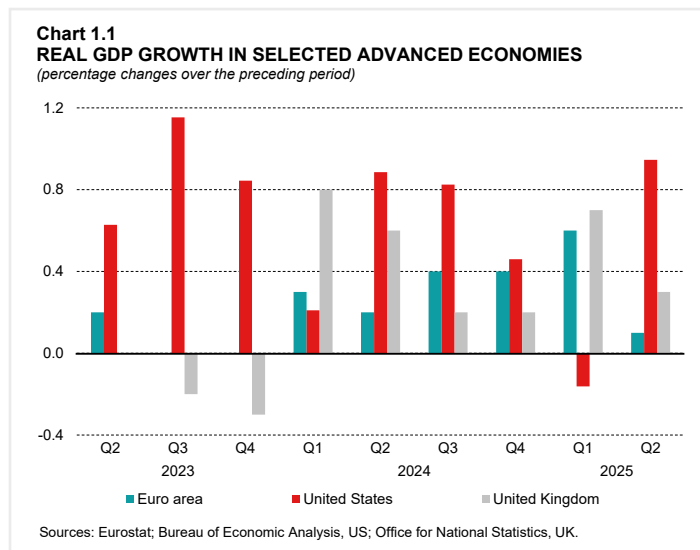
Brent oil and European natural gas prices fell slightly further, amid notable fluctuations, in the review period, mainly reflecting demand and supply dynamics and geopolitical developments.

Key advanced economies

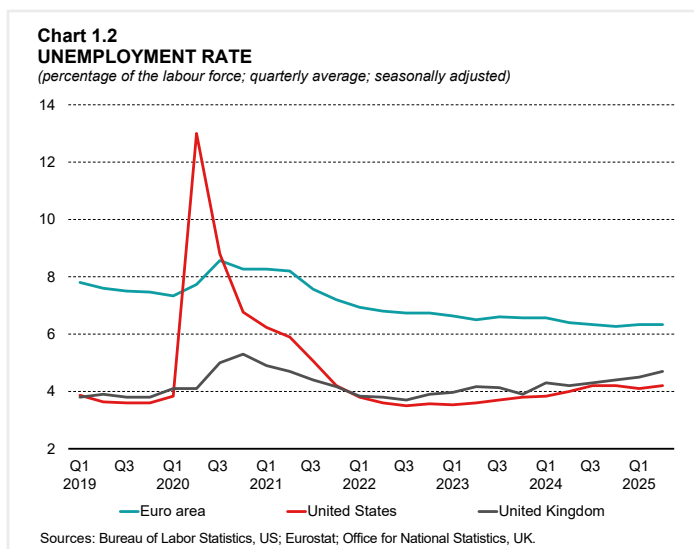
US economic activity rebounds

In the United States, real GDP grew at a quarterly rate of 0.9% in the second quarter, as against a contraction of 0.2% in the preceding quarter (see Chart 1.1). This expansion in economic activity was mainly driven by a marked improvement in net exports. Imports fell notably, after they had risen sharply in the previous quarter reflecting the frontloading of purchases ahead of the coming into force of tariffs implemented by the Trump administration. In turn, the drop in imports outweighed a slight decrease in exports. Personal consumption expenditures rose, as did fixed private investment. The latter reflected an increase in non-residential fixed investment that outweighed a drop in residential investment. On the other hand, mirroring developments in imports, private inventory investment declined notably. Meanwhile, government consumption expenditures remained broadly stable.

Labour market conditions were slightly less benign than in the previous three months. Non-farm payroll data showed that employment grew by 0.2% on average during the review

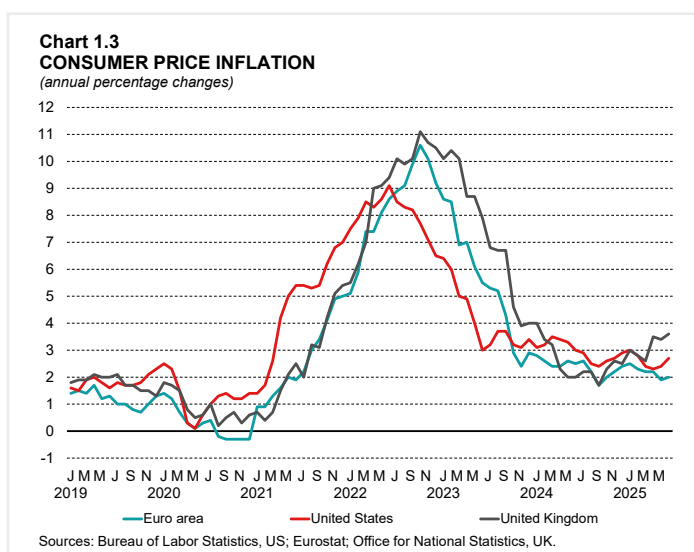


period, compared to 0.3% in the previous quarter. The increase during the second quarter was almost entirely driven by employment in private services. In turn, within private services, employment growth was most pronounced in education and health, followed by leisure and hospitality. By contrast, during the review period, employment in manufacturing fell, as did government employment. The participation rate decreased slightly to average 62.4% during the second quarter, compared to 62.5% during the previous three months. At the same time, the unemployment rate inched up to 4.2% in the quarter under review, from 4.1% recorded in the previous one (see Chart 1.2).

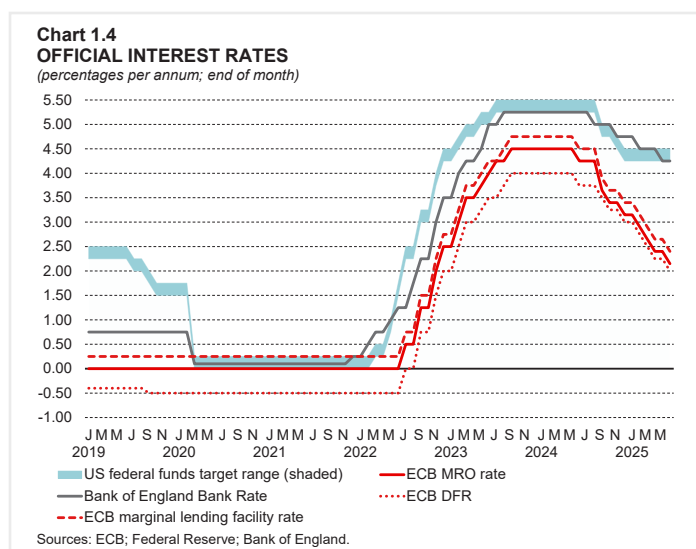


Headline inflation rose in the quarter under review, mainly reflecting a notable increase in energy inflation, a rebound in goods excluding food and energy inflation and a small increase in services inflation. Meanwhile, the annual rate of change of the food and beverages index remained unchanged. Thus, the annual inflation rate based on the consumer price index (CPI) stood at 2.7% in June, compared to 2.4% three months earlier (see Chart 1.3). Annual energy inflation rose to -0.8% in June, from -3.3% in March. The prices of goods, excluding food and energy, rebounded by 0.7% in the year to June, as against a -0.1% decline recorded in the twelve months to March. Services inflation also edged up, rising to 3.8% in June, from 3.7% in March. Meanwhile, food and beverages inflation stood at 2.9% in June, the same as three months before. Finally, underlying inflation, as measured by inflation excluding food and energy, increased to 2.9% in June, from 2.8% three months earlier.

In the review period, the Federal Open Market Committee (FOMC) decided to keep the target range for the federal funds rate unchanged at 4.25% to 4.50% (see Chart 1.4). The FOMC also decided to continue reducing its holdings of Treasury



securities and agency debt and agency mortgage-backed securities at an unaltered pace. The FOMC reaffirmed that it was attentive to the risks to both price stability and employment. On 18 June, the FOMC stated that although uncertainty about the economic outlook had diminished, it remained elevated. The Committee also reiterated its commitment to supporting maximum employment and returning inflation to its 2% objective over the longer run.¹



UK economic growth moderates

Real GDP in the United Kingdom grew by 0.3% in the second quarter, down from 0.7% in the previous three months (see Chart 1.1). Growth was mainly driven by a rebound in government consumption and higher gross fixed capital formation (GFCF), although household consumption expenditure also increased. On the other hand, a decline in inventories and the trade balance deducted from GDP. The latter reflected the fact that lower exports outweighed a slight decrease in imports.

Labour market conditions remained broadly stable. The employment rate rose to 75.3%, on a quarterly-average basis in the second quarter, from 75.0% in the previous three months. However, the unemployment rate continued to rise gradually, averaging 4.7% during the review period, up from 4.5% in the previous quarter (see Chart 1.2).

Consumer price inflation in the United Kingdom rose further during the quarter under review, with the annual inflation rate hitting 3.6% in June, compared to 2.6% three months earlier (see Chart 1.3). This mainly reflected a strong rebound in energy inflation, higher food and alcoholic beverages and tobacco inflation as well as non-energy industrial goods (NEIG) inflation. The annual rate of energy price inflation increased to -0.7% in June, from -8.0% three months before, as an increase in regulated prices took effect in April. Food, alcoholic beverages and tobacco inflation rose to 5.0% in June, from 3.6% three months before, and NEIG inflation rose to 1.8% in June, from 1.1% in March. Meanwhile, services inflation stood at 4.7% in June, unchanged from three months before. Underlying inflationary pressures remained sustained, reflecting rising labour costs, with the annual rate of inflation based on the CPI excluding energy, food, alcohol and tobacco rising to 3.7% in June, from 3.4% three months earlier.

On 7 May, the Bank of England's Monetary Policy Committee (MPC) reduced the Bank Rate by 25 basis points, to 4.25%, citing substantial progress on disinflation. The MPC stated that a gradual and careful approach to the further withdrawal of monetary policy restraint remained appropriate. On 18 June, the MPC kept the Bank Rate unchanged and reaffirmed that it would continue

¹ The FOMC kept the federal funds rate unchanged in July. Subsequently, on 17 September 2025, the FOMC decided to lower the target range for the federal funds rate by 25 basis points to 4.0-4.25%. The Committee noted that while uncertainty about the economic outlook remained elevated, downside risks to employment had risen.

to monitor closely the risks of inflation persistence and what the evidence might reveal about the balance between aggregate supply and demand in the economy (see Chart 1.4).²

The euro area

Economic growth in the euro area slows down

Economic activity in the euro area grew at a slower pace in the second quarter, against a backdrop of high trade policy uncertainty. In real terms, GDP rose by 0.1% on a quarter-on-quarter basis, compared to 0.6% in the previous quarter. Economic growth was entirely driven by domestic demand, while the contribution of net exports turned negative (see Table 1.1). In terms of sectoral value added, growth was underpinned by services, as growth in industry slowed down markedly and activity in construction decreased.

Meanwhile, the European Commission's Economic Sentiment Indicator (ESI) fell on average compared to the previous quarter and remained below the long-term average during the quarter under review. The latest fall reflected lower confidence among consumers, as well as in the services sector and among retailers. In addition, sentiment remained negative in most surveyed sectors.

Domestic demand contributed 0.3 percentage points to GDP growth during the quarter under review. A marked increase in inventories, coupled with higher government consumption and private consumption expenditures, outweighed a decline in GFCF. The latter mainly reflected volatile investment in intellectual property products in Ireland, though investment in construction and transport equipment also fell, offsetting a pick-up in investment in machinery and equipment. Exports fell, as the frontloading of exports to the United States seen in the previous quarter, started to unwind, while imports remained unchanged, resulting in a negative contribution of net exports to GDP growth of 0.2 percentage points.

Table 1.1
CONTRIBUTIONS TO QUARTERLY REAL GDP GROWTH IN THE EURO AREA⁽¹⁾
Percentage points; quarter-on-quarter percentage change

	2023			2024				2025	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	0.2	-0.1	0.0	0.3	0.1	0.3	0.3	0.1	0.1
Government consumption	0.1	0.1	0.2	0.0	0.2	0.2	0.1	0.0	0.1
GFCF	-0.1	0.0	0.2	-0.4	-0.5	0.3	0.1	0.6	-0.4
Changes in inventories ⁽²⁾	0.2	-0.5	-0.4	-0.2	0.3	0.5	-0.2	-0.2	0.5
Exports	-0.5	-0.5	0.3	0.1	0.8	-0.7	0.0	1.1	-0.2
Imports	0.3	0.8	-0.2	0.4	-0.6	-0.2	0.0	-1.0	0.0
GDP	0.2	0.0	0.0	0.3	0.2	0.4	0.4	0.6	0.1

Source: Eurostat.

⁽¹⁾ Data are seasonally and working day adjusted. Figures may not add up due to rounding.

⁽²⁾ Including acquisitions less disposals of valuables.

² On 6 August 2025, the MPC reduced the Bank Rate by 25 basis points, to 4.0%. On 17 September, the MPC kept the Bank Rate unchanged. The Committee also decided to reduce the stock of UK government bond purchases held for monetary policy purposes by GBP 70 billion over the 12-month period starting October 2025, compared to a reduction amounting to GBP 100 billion effected during the previous 12 months.

Labour market remains robust

The labour market in the euro area continued to show resilience. Employment grew at a quarterly rate of 0.1% during this period, compared to 0.2% in the preceding quarter.³ Meanwhile, the seasonally adjusted unemployment rate stood at 6.3% in June, compared to 6.4% in March. It averaged 6.4% in the quarter under review, unchanged from the previous quarter (see Chart 1.2).

Inflation continues to ease

Inflation in the euro area decreased slightly further in the second quarter. The annual rate of inflation based on the HICP stood at 2.0% in June, compared to 2.2% in March (see Chart 1.5). The drop in overall inflation reflected lower energy prices as well as declines in services and NEIG inflation, which outweighed an increase in unprocessed food inflation. Meanwhile, processed food inflation remained unchanged.

Turning to the major HICP components, energy prices dropped

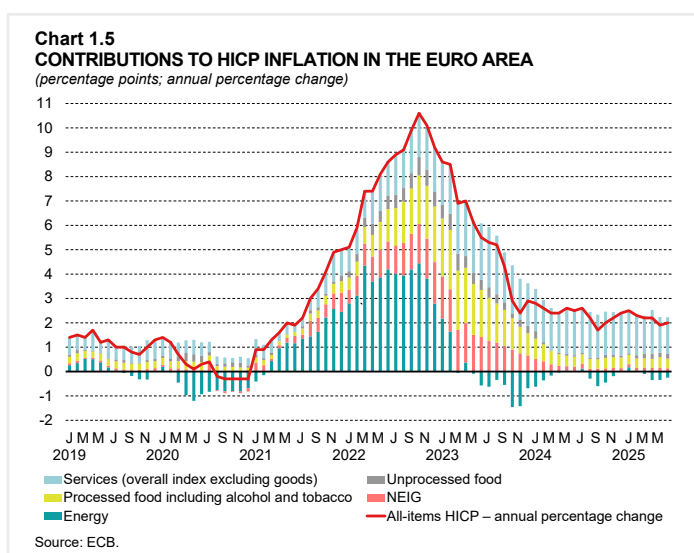
at an annual rate of 2.6% in June, compared to a decline of 1.0% in March. Services inflation eased to an annual rate of 3.3% in June, from 3.5% in March. The annual rate of NEIG inflation slowed to 0.5% in June, down from 0.6% three months earlier. On the other hand, unprocessed food prices increased at an annual rate of 4.6% in June, compared to 4.2% in March, partly reflecting base effects as unprocessed food prices had fallen in June 2024. The annual rate of processed food inflation (including alcohol and tobacco) stood at 2.6% in June, the same as in March.

Underlying inflationary pressures eased during the review period. Thus, one prominent measure of underlying inflation, the annual rate of HICP inflation excluding energy and food prices, stood at 2.3% in June, down from 2.4% in March.

Real GDP expected to pick up, inflation around target

According to the ECB staff macroeconomic projections for the euro area, published in September 2025, this year real GDP is expected to grow by 1.2%. Economic growth is then projected to ease slightly to 1.0% in 2026, before it rebounds to 1.3% in 2027 (see Table 1.2).

ECB staff envisage economic activity to stagnate in the third quarter 2025 owing to the further unwinding of the frontloading of exports, as well as higher tariffs. However, economic activity is expected to recover in the fourth quarter, supported by lower uncertainty. In the medium term, economic recovery is expected to strengthen. Increasing disposable income, easing inflation and a slightly lower household saving rate will likely underpin growth in private consumption. Meanwhile,



³ Employment data refer to the national accounts, total employment domestic concept. Data are seasonally and calendar adjusted.

Table 1.2**MACROECONOMIC PROJECTIONS FOR THE EURO AREA⁽¹⁾***Annual percentage changes*

	2024	2025	2026	2027
GDP	0.8	1.2	1.0	1.3
Private consumption	1.1	1.3	1.3	1.3
Government consumption	2.3	1.6	1.1	1.1
GFCF	-2.1	2.1	1.7	1.8
Exports	0.7	1.3	1.1	2.5
Imports	-0.2	2.8	2.0	2.7
HICP	2.4	2.1	1.7	1.9
HICP excluding energy and food	2.8	2.4	1.9	1.8

Source: ECB.

⁽¹⁾ ECB staff macroeconomic projections for the euro area, September 2025.

declining uncertainty, increased defence and infrastructure spending, the deployment of Next Generation EU (NGEU) funds and improving demand conditions should strengthen investment. Nevertheless, weakness in foreign demand, persistent challenges in euro area competitiveness, higher tariffs and a stronger euro are likely to dampen the euro area's export performance.

Compared to the June 2025 projections, real GDP growth was revised upwards by 0.3 percentage points for 2025, it was revised downwards by 0.1 percentage points for 2026 and was kept unchanged for 2027. The upward revision to the projection for 2025 reflected revisions to historical data, the significantly better than expected outcome for the first quarter of 2025 and the latest indicators. By contrast, higher tariffs, weaker foreign demand and a weakening of price competitiveness in the context of the stronger euro resulted in a downward revision to the growth outlook for 2026.

Compared to the June 2025 projections, the latest projections were conditioned on higher oil prices, lower gas and non-energy commodity prices, and a stronger euro exchange rate. By contrast, the assumptions for interest rates remained largely unaltered.

Turning to the outlook for prices, the ECB staff foresee headline HICP inflation to decline to an average of 2.1% in 2025 from 2.4% in 2024, and to ease further to 1.7% in 2026, before edging up to 1.9% in 2027. Headline inflation is expected to stay close to the ECB's 2.0% target for the remainder of 2025 and to move below that level and remain there throughout 2026. The lower rate for headline inflation in 2026 reflects lower core inflation, especially in services, and lower food inflation together with slightly negative energy inflation. The increase in headline inflation in 2027 reflects an upward impact from energy inflation coming from climate change transition-related fiscal measures, in particular the introduction of a new Emissions Trading System (ETS2). Compared to the June 2025 projections, the outlook for headline HICP inflation was revised upwards by 0.1 percentage points for both 2025 and 2026, and was revised downwards by 0.1 percentage points for 2027. The upward revision for 2025 reflects higher rates of energy and food inflation, largely due to higher than expected outcomes and more elevated oil and electricity price assumptions, alongside lagged impacts from past increases in international food commodity prices. For 2026, energy inflation is also slightly higher due to a measure affecting electricity prices in Germany. The downward impact of a stronger euro on underlying inflation coupled with slightly lower energy inflation led to a lower headline inflation projection for 2027.

HICP inflation excluding energy and food is expected to decline to an average of 2.4% in 2025 from 2.8% in 2024, and ease further to 1.9% and 1.8% in 2026 and 2027, respectively, as the effects of past large shocks on services inflation continue to fade. NEIG inflation is expected to be brought down by the appreciation of the euro, before picking up slightly in 2027 towards its historical average.

Compared to the June 2025 projections, the outlook for underlying inflation expectations was kept unchanged for both 2025 and 2026 but it was revised downwards by 0.1 percentage points for 2027. The latter mainly reflected the impact of a stronger euro.

The ECB staff projections embed revised assumptions about US tariffs and trade policy uncertainty. The effective tariff rate for euro area exports of goods to the United States was assumed to be 13.1%, up from 10.2% in the previous projections. Meanwhile, the overall US effective tariff rate on goods imports from all trading partners increased to 21.0%, from 16.8% in the June projections. Trade policy uncertainty declined faster than expected in the previous projections, mainly on account of the announcement of trade deals in July. Nonetheless, trade policy uncertainty remained high by historical standards.

Higher US tariffs and trade policy uncertainty are expected to lower GDP growth in the euro area by 0.7 percentage points cumulatively over the period 2025-2027. On the other hand, the impact of US tariffs and uncertainty on euro area HICP inflation was seen as very limited, with a cumulated impact over the years 2025-27 of less than 0.2 percentage points.

ECB cuts interest rates further

On 17 April and 5 June 2025, the Governing Council decided to lower the three key ECB interest rates by 25 bps on each occasion. Accordingly, the interest rates on the deposit facility (DFR), the main refinancing operations (MROs) and the marginal lending facility were cut to 2.00%, 2.15% and 2.40%, respectively. The Governing Council restated that most measures of underlying inflation suggested that inflation would settle at around the ECB's 2% medium-term target on a sustained basis. At both the April and the June meetings, the Governing Council stated that especially in current conditions of exceptional uncertainty, it would follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance, reaffirming that it was not pre-committing to a particular rate path. The Governing Council also reiterated its determination to ensure that inflation stabilised sustainably around its medium-term target.⁴

Money market rates decline further

Money market interest rates in the euro area continued to fall during the review period, reflecting the reductions in official interest rates. Hence, the euro short-term rate (€STR) averaged 2.01% in June, compared to 2.50% in March, as it responded to the reductions in official interest rates in April and in June (see Chart 1.6).⁵ The three-month euro interbank offered rate (EURIBOR) also decreased, averaging 1.98% in June, as against 2.44% three months earlier. The 12-month EURIBOR averaged 2.08% in June, compared to 2.40% in March.⁶ The 12-month EURIBOR thus

⁴ On 24 July and on 11 September, the Governing Council kept the three key ECB interest rates unchanged. Inflation was currently at around the ECB's 2% medium-term target and the Governing Council's assessment of the inflation outlook remained broadly unchanged.

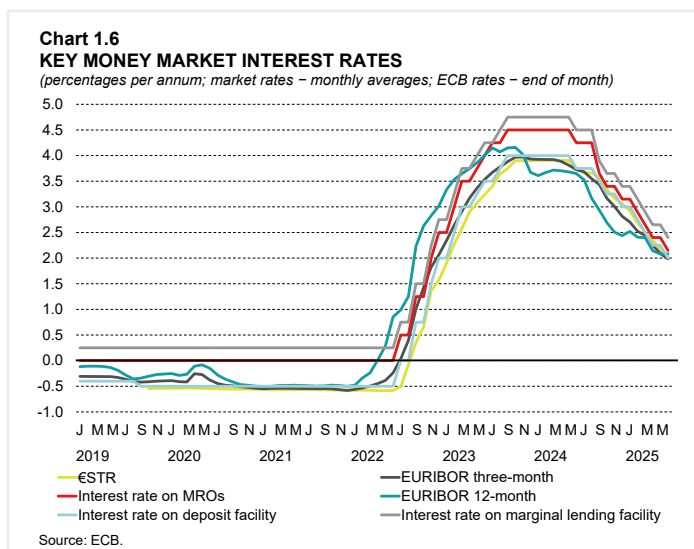
⁵ The €STR is a reference rate based on money market data collected by the Eurosystem, reflecting the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. The €STR is published on each T2 business day based on transactions conducted and settled on the previous T2 business day.

⁶ The EURIBOR is an interest rate benchmark indicating the average rate at which principal European banks lend unsecured funds on the interbank market in euro for a given period.

stood slightly above the DFR, indicating that market players did not expect much further easing in key policy rates. This was the first time since November 2023 that the 12-month EURIBOR had exceeded the DFR.

Euro area government bond yields fall

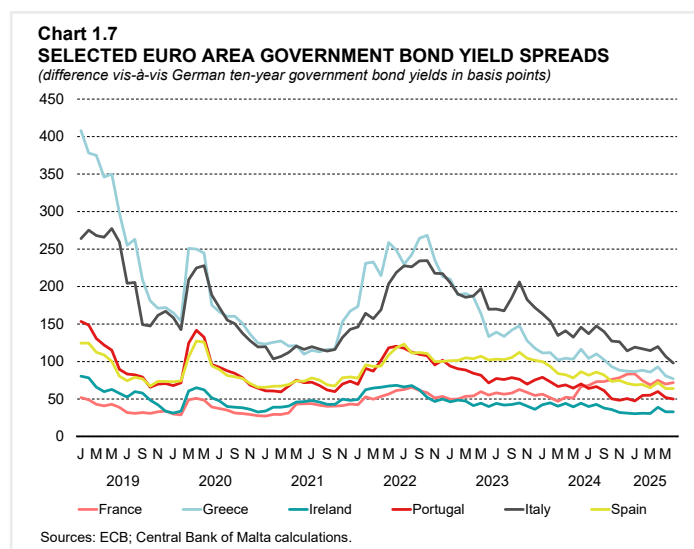
The euro area ten-year benchmark government bond yield fell during the second quarter. This yield was 3.08% at end-June, compared to 3.31% three months earlier.



Individual sovereign bond yields generally fell in the euro area, reflecting sustained demand for European government bonds. In turn, this partly reflected a deterioration in investor risk sentiment amid heightened geopolitical tensions due to US tariff announcements and developments in the Middle East as well as concerns regarding US debt sustainability. The latter was underscored by Moody’s cutting the US sovereign credit rating to Aa1 from Aaa on 19 May, which reinforced a sell-off in US Treasuries.

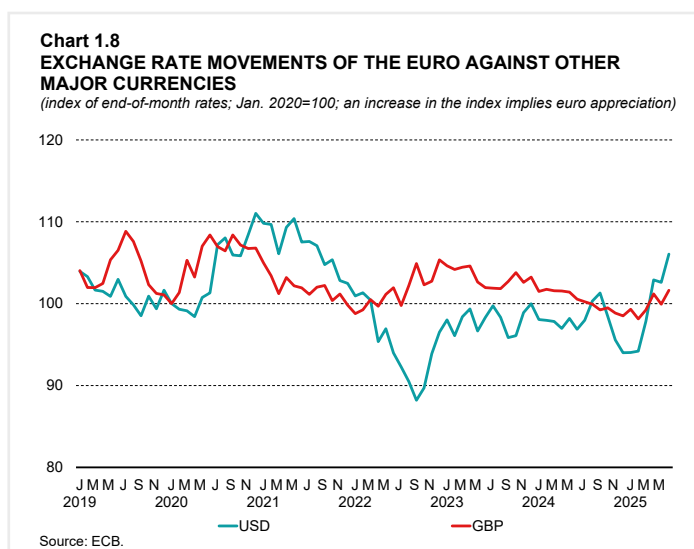
In Germany, ten-year sovereign bond yields declined during the quarter, standing at 2.52% at end-June, down by 22 basis points when compared to end-March. In Italy, the ten-year bond yield fell by 39 basis points, to 3.50%, while in Greece and Portugal yields decreased by 31 basis points, to 3.29%, and 27 basis points, to 3.02%, respectively. Yields fell by 23 basis points, to 3.16%, and by 20 basis points, to 2.85%, in Spain and Ireland, respectively. In France, yields fell by 19 basis points, to 3.24%. Yields decreased to various degrees in almost all the other euro area jurisdictions.

As a result, spreads against the ten-year German bond widened for many other euro area jurisdictions, including France. By contrast, the spreads in other euro area countries – including Italy, Greece and Portugal narrowed. The spread also declined marginally in Spain (see Chart 1.7).



The euro strengthens further against the US dollar and in nominal effective terms

The euro appreciated by 8.4% against the US dollar, extending the gains it registered in the previous quarter as the US unit fell across the board. This mainly occurred on the back of intensifying investor concerns regarding the US dollar's role as a safe haven amid high policy uncertainty (see Chart 1.8). The euro also rose further versus the British pound, gaining 2.4% over the quarter, as the latter was adversely affected by uncertainty about the country's



fiscal policy. The euro rebounded notably against the Japanese yen, likely reflecting Japan's domestic growth headwinds and a lack of progress in the country's trade negotiations with the United States. Meanwhile, the euro also rose against most other major currencies, including the Hong Kong dollar, the Chinese renminbi, the Australian and Singapore dollars and the Canadian dollar. It also strengthened against the currencies of most other non-euro area EU member states, including the Polish zloty and the Romanian leu. Overall, the nominal effective exchange rate (EER) of the euro against the EER-18 group of countries rose by 4.0% in the three months to end-June 2025, reinforcing strongly the gains it recorded in the previous quarter.⁷

By contrast, the single currency depreciated against the Swiss franc and fell slightly versus the Czech koruna and the Korean won.

Commodities

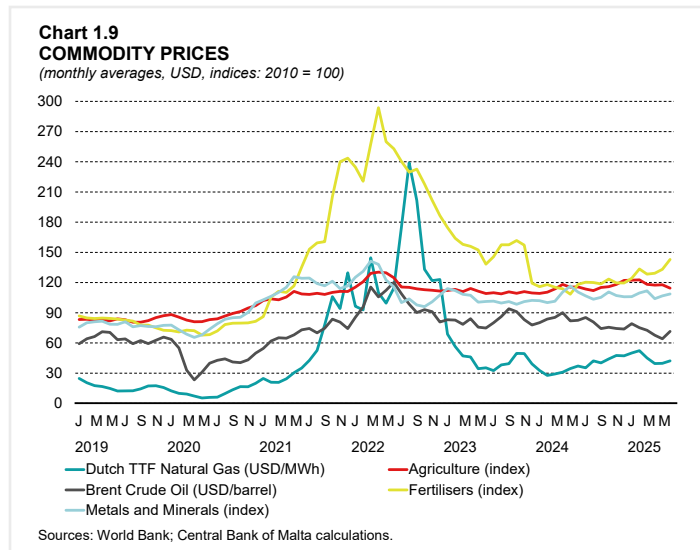
Oil and natural gas prices continue to ease

Oil prices fell further throughout April and early May, mainly reflecting weak demand and increasing supply, as OPEC+ signalled plans to boost production in July. This added to existing oversupply concerns after a surge in global inventories. Signs of slowing economic growth in China and renewed anxiety regarding a potential trade war between the US and China further depressed prices. However, oil prices rebounded throughout the rest of May and most of June, as concerns over a trade war and energy tariffs subsided, while the escalating conflict in the Middle East fuelled supply concerns. Overall, the price of Brent crude oil averaged USD 71.5 per barrel in June, 1.5% lower than the level prevailing three months earlier. Meanwhile, the price of European natural gas continued to fall until late April as a milder-than-expected winter in major consuming regions led to weaker heating demand. Subsequently, however, unseasonably hot weather in Asia and parts of North America supported demand while supply disruptions further tightened markets. Geopolitical tensions, particularly instability in the Middle East affected

⁷ The EER-18 is based on the weighted averages of the euro exchange rate against the currencies of Australia, Bulgaria, Canada, China, Czech Republic, Denmark, Hong Kong, Hungary, Japan, Norway, Poland, Romania, Singapore, South Korea, Sweden, Switzerland, the United Kingdom and the United States.

shipping routes, added upward price pressure throughout May and June. Against this background, the average price of Dutch TTF natural gas stood at USD 42.2 per megawatt hour in June, from just below USD 40 in May, but 6.6% lower than in March (see Chart 1.9).

World Bank data show that non-energy commodity prices fell by 2.5% during the quarter under review as lower prices for agricultural products and for metals and minerals outweighed higher prices for fertilizers. Meanwhile, prices of precious metals were up by 12.0%, supported by safe-haven flows.



BOX 1: ECB MONETARY POLICY STRATEGY REVIEW 2025¹

Introduction

The [monetary policy strategy](#) of the ECB lays down a coherent analytical framework that guides the Governing Council as it takes monetary policy decisions, including the operationalisation of the primary objective of price stability, the consideration that may be given to other objectives as well as the toolkit, indicators and intermediate targets. It also provides a framework that guides communication about monetary policy with the public.

This strategy takes as given the ECB's price stability mandate conferred upon it by the Treaty on the European Union and the [Treaty on the Functioning of the European Union](#), and as provided in the [Protocol on the Statute of the European System of Central Banks and of the ECB](#).

The ECB adopted its initial monetary policy strategy in October 1998, four months after it was established, and the strategy was first reviewed in May 2003. The monetary policy strategy was subsequently reviewed in July 2021. At that time, the Governing Council decided that the appropriateness of its monetary policy strategy would be assessed periodically. These regular assessments help in keeping the ECB's monetary policy strategy in line with evolving circumstances in the euro area and possibly beyond so that it continues to fulfil its mandate effectively and efficiently.

The latest assessment of the ECB's monetary policy strategy was concluded on 30 June 2025. As a result, the monetary policy strategy review then in place was updated in the context of significant structural changes within the euro area and the world economy that occurred during the last four years, which could exert a lasting impact on the inflation environment in the euro area.

The [previous strategy review](#) took place against the background of low inflation, subdued economic growth and downward pressure on equilibrium real interest rates. This narrowed the scope for the ECB and other major central banks to rely entirely on changes in policy interest rates to achieve their objectives.

By contrast, the [updated monetary policy strategy review](#) was formulated against a backdrop of structural shifts that have rendered inflation more uncertain and volatile, as well as a series of shocks that pushed inflation in the euro area up to record levels. Structural shifts relate to significant geopolitical developments and economic fragmentation, increasing use of artificial intelligence (AI), demographic change and the threat to environmental sustainability.

As a result, deviations of actual inflation from the ECB's 2% symmetrical inflation target are likely to become more frequent than they were in the past and inflation volatility is likely to

¹ Prepared by Mr Silvio Vella, Senior Economist, and reviewed by Mr John Caruana, Head, Monetary Policy and Eurosystem Relations Department, and by Mr Alexander Demarco, Deputy Governor, Monetary Policy. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta. Any remaining errors are the sole responsibility of the author. This box is based on information available until 30 July 2025.

increase, which makes it harder to conduct monetary policy.² Accordingly, a robust monetary policy strategy has to cater for this increasingly uncertain inflation environment to allow the Governing Council to meet the price stability objective. It is important to ensure that inflation expectations do not become de-anchored and inflation deviations from the target do not become entrenched.³

Monetary policy strategy statement, 2025 – comparison with the 2021 statement

In the updated monetary policy strategy statement, the Governing Council reaffirms that the HICP remains the appropriate measure for assessing the achievement of the price stability objective. The Governing Council reiterates that the inclusion in the HICP of the costs related to owner-occupied housing better represents the inflation rate that is relevant to households. Thus, the Council states that it takes into account inflation measures that include estimates of the cost of owner-occupied housing as helpful cross-checks in its wider set of supplementary inflation indicators.

The Governing Council again underlines the benefit of having a positive inflation buffer, as this provides room for interest rate cuts in the event of significant disinflationary shocks. In turn, this helps avoid deflation. In the new monetary policy strategy assessment, the Council adds that intersectoral adjustment within the euro area, downward nominal rigidities and measurement bias also warrant an inflation buffer. The monetary policy strategy takes into consideration the massive change between goods prices and services prices that was observed over the last five years.

The updated monetary policy strategy continues to consider that price stability is best maintained by having a symmetric 2% inflation target over the medium term. Any positive or negative deviations from the target are equally undesirable. This target provides a clear anchor for inflation expectations, which is essential for maintaining price stability. Whereas the 2021 statement emphasised the importance of taking into account the implications of the effective lower bound in the context of persistent disinflation, the new statement stresses the importance of properly forceful or persistent monetary policy action in response to large, sustained deviations of inflation from the target in either direction.

The 2025 statement reaffirms the medium-term orientation of the monetary policy strategy. This allows for inevitable short-term deviations of inflation from the target as well as lags and uncertainty in the transmission of monetary policy to the economy and to inflation. The flexibility of the medium-term orientation takes into account that the appropriate monetary policy response to a deviation of inflation from the target is context-specific and depends on the origin, magnitude and persistence of the deviation. Without prejudice to price stability, in its monetary policy decisions the Governing Council caters for other considerations relevant to the conduct of monetary policy.

² [The ECB's monetary policy strategy statement](#), ECB, 2025.

³ See footnote 2.

The new statement reiterates that the set of ECB policy interest rates constitutes the primary monetary policy instrument in the Eurosystem. The Governing Council reaffirms that it may also employ other instruments to steer the monetary policy stance when the policy rates are close to the lower bound. Such other instruments may also be used to preserve the smooth functioning of monetary policy transmission. These instruments include longer-term refinancing operations, asset purchases, negative interest rates and forward guidance. Near the effective lower bound, it may be advisable to use a mix of instruments, rather than to use a single instrument intensively. In pursuit of its price stability objective, the Governing Council would also consider new policy instruments if necessary. The Governing Council will consider the choice, design and implementation of instruments that would be employed. Hence, the Council would be able to avoid rigidity and respond nimbly to new shocks. Moreover, once such instruments are employed, the implementation process would be reviewed regularly so that it would be adjusted as required. In considering the choice of instruments, the design and the implementation, a comprehensive proportionality assessment would be conducted.

According to the updated monetary policy strategy statement, the Governing Council will continue to base its monetary policy decisions on an integrated assessment of all relevant factors, built on two interdependent analyses, namely the economic analysis as well as the monetary and financial analysis. The former focusses on real and nominal economic developments. The latter examines monetary and financial indicators with an emphasis on the operation of the monetary transmission mechanism and the possible risks to medium-term price stability from financial imbalances and monetary factors. The 2025 statement also refers to the importance of risks and uncertainty surrounding the central projections. Given the increased uncertainty, greater weight will be given to scenario and sensitivity analysis. Besides recognising that financial stability is a precondition for price stability, the new statement adds that the resilience of the financial sector is a necessary condition to prevent a potential conflict between price and financial stability. In this light, the Governing Council systematically assesses the interactions between monetary policy and financial stability at regular intervals.

The new statement recalls the notable implications of climate change for price stability. The Governing Council reaffirms its commitment to ensuring that the Eurosystem fully takes into account the implications of climate change for monetary policy and central banking. Alongside climate change, the new strategy statement also requires the Eurosystem to consider the implications of nature degradation.

The 2025 statement underlines the importance of clear communication of monetary policy decisions, as in the 2021 statement. The ECB's communication of its monetary policy takes place through the monetary policy statement, the press conference, the Economic Bulletin and the monetary policy account. Additionally, the ECB publishes versions of monetary policy communication aimed towards the wider public to ensure widespread understanding of and trust in the actions of the ECB. The Governing Council states that it would continue to adapt its approach in response to the evolving communication landscape.

Conclusion

The monetary policy strategy review concluded this year puts the ECB's monetary policy framework in a more appropriate position to fulfil the ECB's price stability objective efficiently in the context of the ongoing structural shifts. While the key tenets of the previous strategy were retained, important refinements were effected, reflecting the experience gained over the last years and the need for enhanced flexibility in times of elevated uncertainty.

For example, it is now emphasised that both positive and negative deviations from the inflation target are equally undesirable and can be countered by appropriately forceful or persistent monetary policy action.

The established set of ECB policy rates continues to be the primary monetary policy instrument in the Eurosystem while other instruments may also be employed. The updated strategy reiterates the importance of proportionality assessments and side effects, but also emphasizes the need for an agile response.

The Governing Council will continue to base its monetary policy decisions on an integrated assessment of all relevant variables. The updated strategy allots greater weight to scenario and sensitivity analysis in light of elevated risks and uncertainty.

The updated strategy statement underscores the effect of climate change on price stability, as was done in the previous version. Additionally, it points to the need to also consider the impact of nature degradation on the economy.

The updated statement reaffirms the ECB's resolve to communicating its monetary policy decisions to the public, using various media channels.

Through this update of its monetary policy strategy, the ECB remains prepared to take the appropriate measures to fulfil its mandate. In times of heightened uncertainty, as the world is experiencing, the ECB assures economic agents of its commitment to price stability. In a [Press Conference](#) on 30 June 2025, ECB President Christine Lagarde stated that “the new environment gives many reasons to worry, but one thing they [euro area citizens] do not need to worry about is our commitment to price stability”.

The next periodic assessment of the ECB's monetary policy strategy is scheduled for 2030.

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