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# ECB MONETARY POLICY STRATEGY REVIEW 2025

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## BOX 1: ECB MONETARY POLICY STRATEGY REVIEW 2025[1]

### Introduction

The monetary policy strategy of the European Central Bank (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

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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 Harmonised Index of Consumer Prices (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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