



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Economic outlook and monetary policy calibration

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Panel discussion at *Sadibaquarantotto*  
organized by *Associazione per lo  
Sviluppo degli Studi di Banca e Borsa*

28 March 2025



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*The views expressed are those of the speaker, and do not necessarily represent those of the ECB's Executive Board or Governing Council*

## Trade policy uncertainty (index)



Source: Caldara et al (2019).

Note: Trade policy uncertainty (TPU) is a text-based indicator that measures the monthly share of articles discussing TPU in seven international newspapers. The latest observation is February 2025.

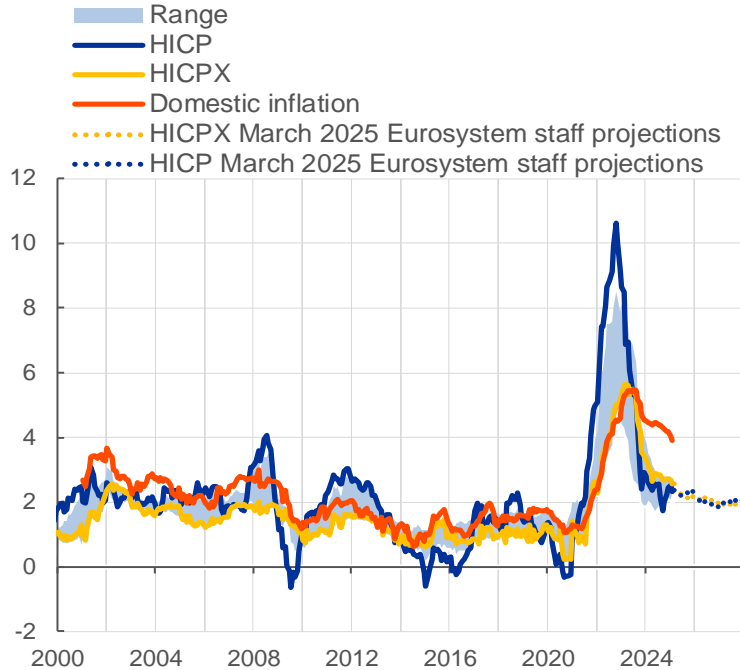
*We are determined to ensure that inflation stabilises sustainably at our two per cent medium-term target. **Especially in current conditions of rising uncertainty, we will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, our interest rate decisions will be based on our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.***

MONETARY POLICY STATEMENT, 6 March 2025

# Inflation outlook and underlying price pressures

## Headline inflation, core inflation and ECB staff projections

(annual percentage changes)

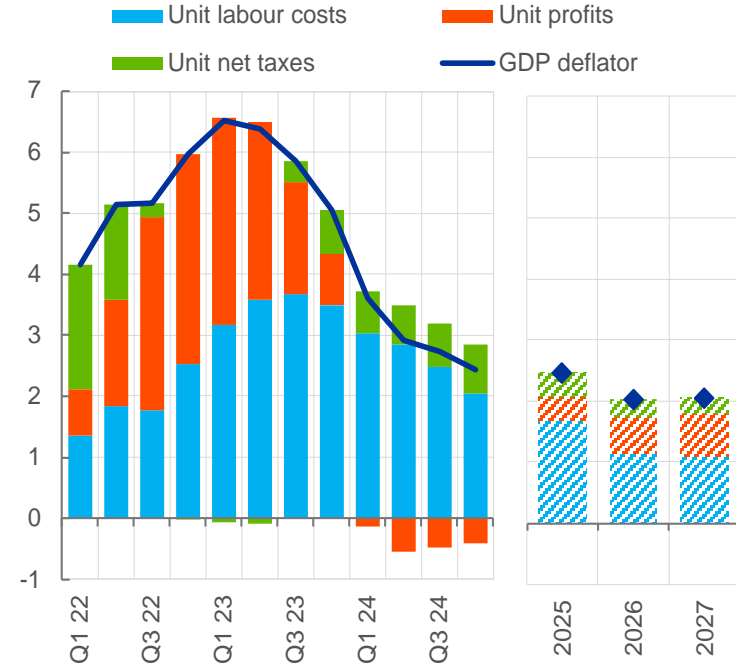


Sources: Eurostat, and December 2024 Eurosystem staff projections.

Notes: Harmonised Index of Consumer Prices (HICP) refers to headline inflation and HICPX to HICP excluding food and energy. Realised HICP and HICPX are at a monthly frequency, and HICP and HICPX projections are at a quarterly frequency. The range is the difference between the highest and the lowest value among a number of measures for underlying inflation, including HICPX, HICP excluding energy, HICP excluding unprocessed food and energy, HICPX inflation excluding travel-related items, clothing and footwear (HICPXX), Supercore, the persistent and common component of inflation (PCCI) as well as PCCI excluding energy. The latest observations are for February 2025.

## GDP deflator

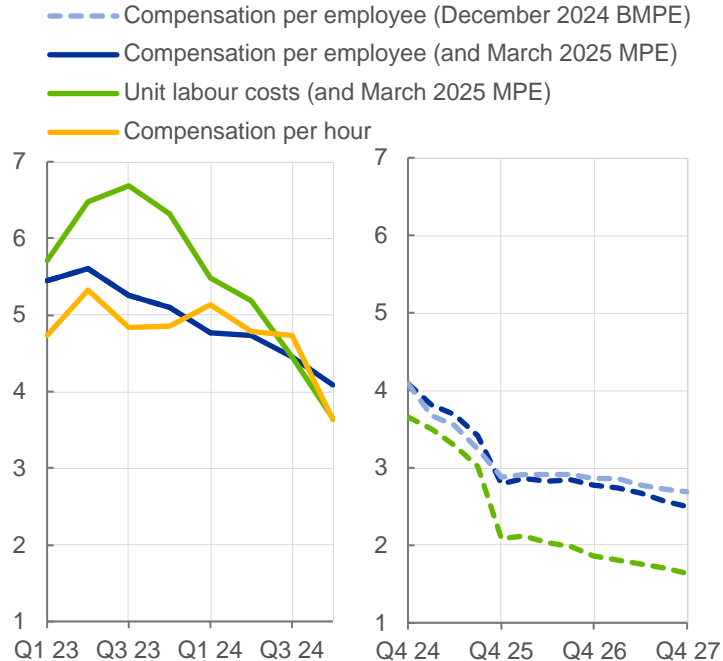
(annual percentage changes and percentage point contributions)



Sources: Eurostat, March 2025 Eurosystem staff projections and ECB calculations.

Notes: Unit net taxes reflect taxes minus subsidies. When the contribution of subsidies on products is larger than the contribution of indirect taxes, the unit tax contribution turns negative. The latest observations are for Q4 2024.

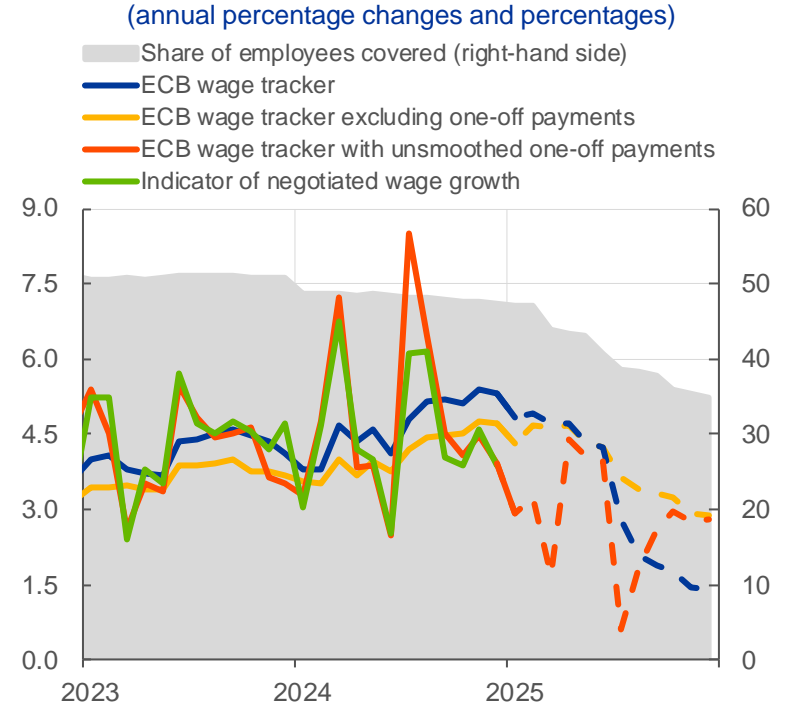
## Labour cost indicators in the euro area and their forecasts (annual percentage changes)



Sources: Eurostat, ECB, December 2024 and March 2025 Eurosystem staff projections and ECB calculations.

Note: The latest observations are for Q4 2024.

## Wage growth in the euro area

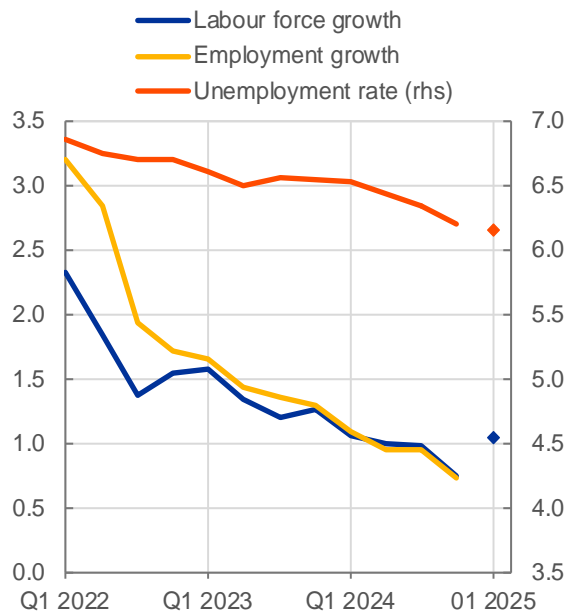


Sources: Wage tracker calculated based on micro data on wage agreements provided by Deutsche Bundesbank, Banco de España, the Dutch employer association (AWVN), Oesterreichische Nationalbank, Bank of Greece, Banca d'Italia, and Banque de France; Eurostat; Projections database.

Notes: The latest observations are for December 2025 for the ECB wage tracker and December 2024 for the ECB indicator of negotiated wage rates.

## Unemployment and the labour force

(lhs : annual percentage change ; rhs : percentage of the labour force)

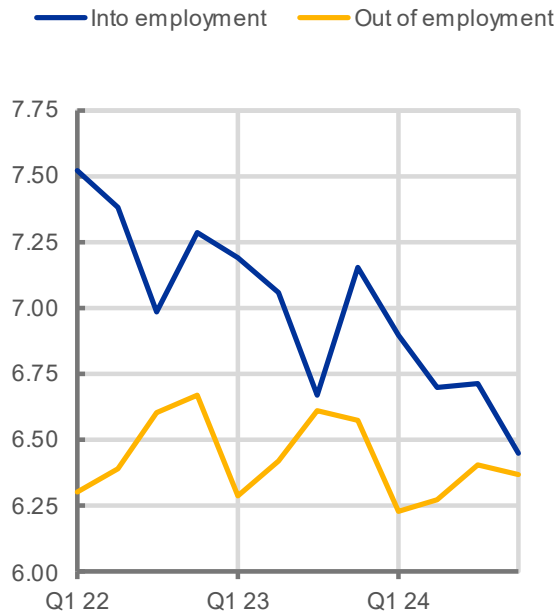


Sources: Eurostat and ECB staff calculations.

Notes: The latest observations are for the fourth quarter of 2024 for employment and for January 2025 for unemployment and the labour force (red and blue diamonds).

## Transitions into and out of employment

(millions)

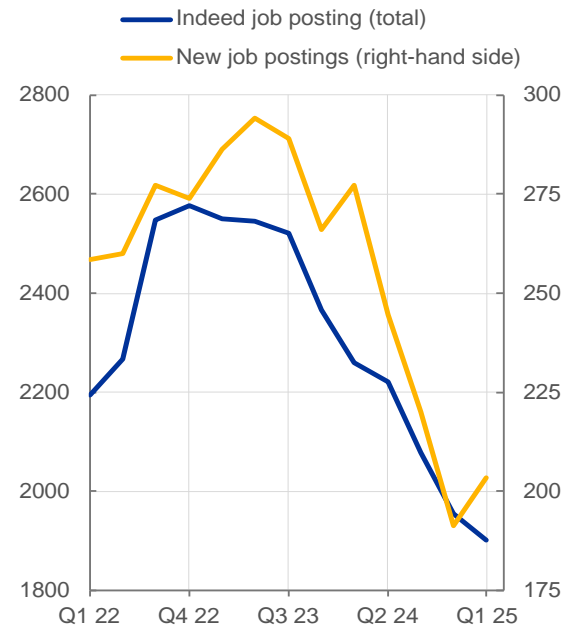


Sources: Eurostat and ECB staff calculations.

Notes: The latest observations are for the fourth quarter of 2024.

## Indeed job postings

(thousands)



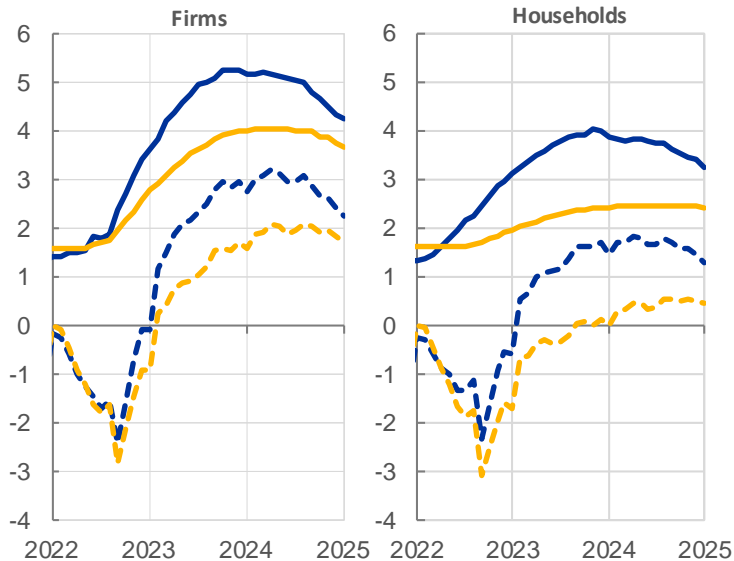
Sources: Indeed and ECB staff calculations.

Notes: The series represent a three-month quarter average, and Q1 2025 has been computed using data up to 14 February 2025.

## Bank lending rates

(percentages per annum)

- Cost of borrowing (new business)
- - - Real cost of borrowing
- Lending rate paid on the stock of loans
- - - Real lending rate paid on the stock of loans



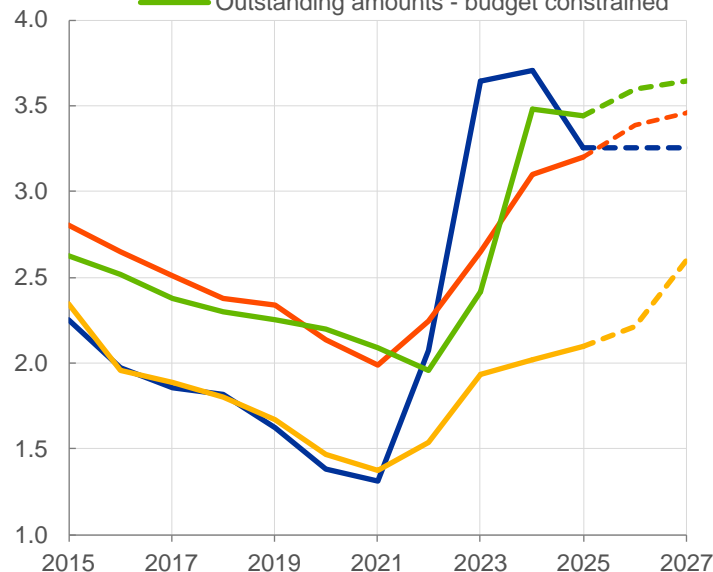
Sources: ECB (MIR), Consensus Economics and ECB calculations.

Notes: The cost of borrowing for firms and for household for house purchase is calculated by aggregating short-term and long-term rates on new business using a 24-month moving average of new business volumes. The real rate is computed as the difference between the nominal rate and the expected 12-month inflation rate. The latest observation is January 2025.

## Mortgage rates across income groups

(percentages per annum)

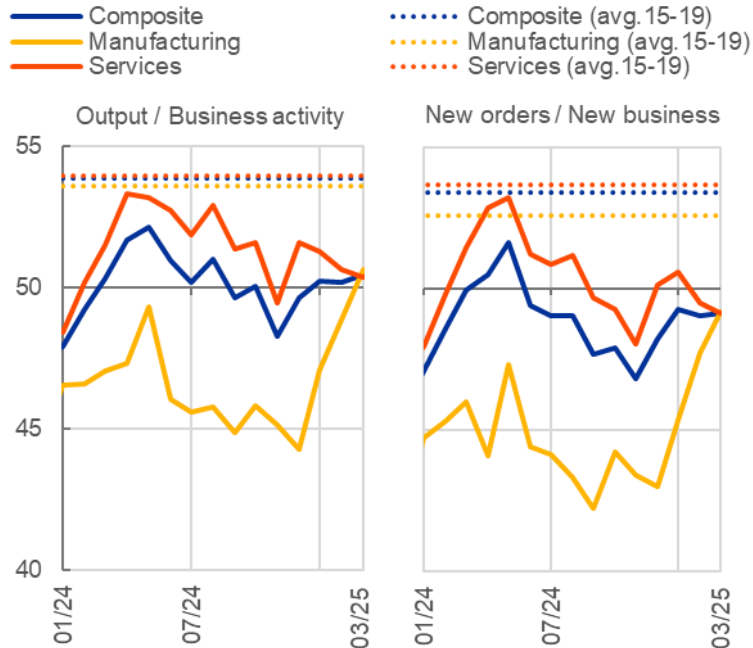
- New business
- Outstanding amounts - top 20%
- Outstanding amounts - bottom 50%
- Outstanding amounts - budget constrained



Sources: ECB (BSI, MIR, CES), ECB projections and ECB calculations.

Note: The chart shows the interest rate paths for new business rates and outstanding amounts across income groups. The interest rate on new business comes from MIR. The other paths are obtained by combining MIR rates data with household level information on income, spending and mortgage type, current rate and residual fixation from the CES. Trajectories are displayed for the top 20% and bottom 50% of the income distribution. Budget constrained households are those who spend over 75% of their income on housing, utilities and food. The dashed lines are obtained by assuming that the rates on new mortgages stay at their January 2025 level until 2027, and then simulating the rates on outstanding amounts for each group based on microsimulations on CES data. Reported rates are annual averages. The latest observation is February 2024 for the CES and January 2025 for MIR and BSI.

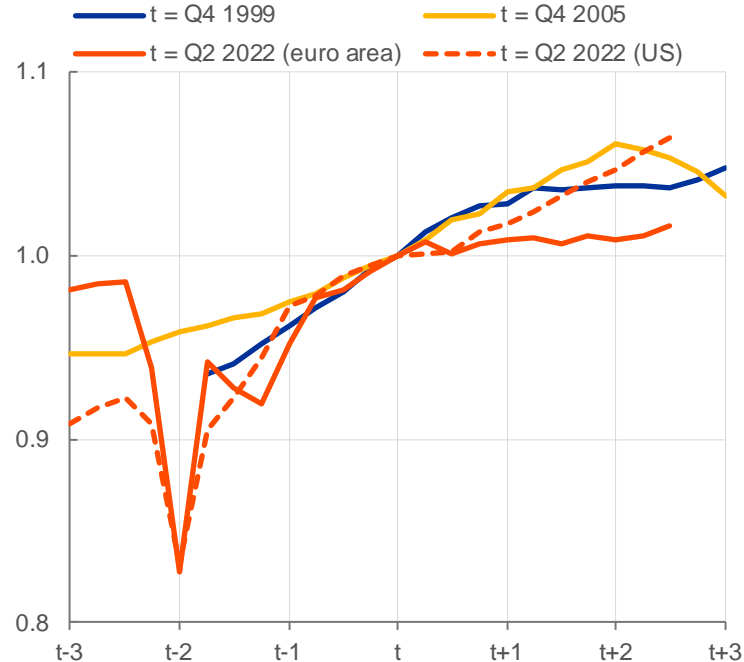
## Composite, manufacturing and services Purchasing Managers' Indices (diffusion index)



Sources: S&P Global and ECB staff calculations.

Notes: Dotted lines refer to 2015-2019 means. "Output" and "new orders" correspond to manufacturing and composite, while "business activity" and "new business" to services. The latest observations are for March 2025.

## Final sales to domestic purchasers (indices)



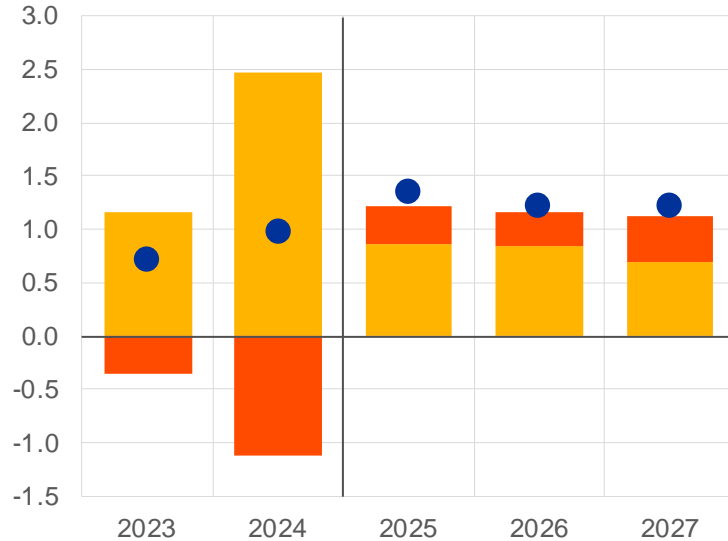
Source: Eurostat and Bureau of Economic Analysis.

Notes: The lines show the ratio of final sales to domestic purchasers compared to the starting point  $t$ . The x axis shows years from  $t$ . Final sales to domestic purchasers is defined as the sum of personal consumption expenditures and gross private fixed investment excluding non-residential construction. The index is normalised  $t=1$ . The latest observations are for Q4 2024.

## Real private consumption growth decomposition

(annual percentage changes, pp contributions)

- Change in household saving ratio (inverted)
- Real disposable income
- Real private consumption



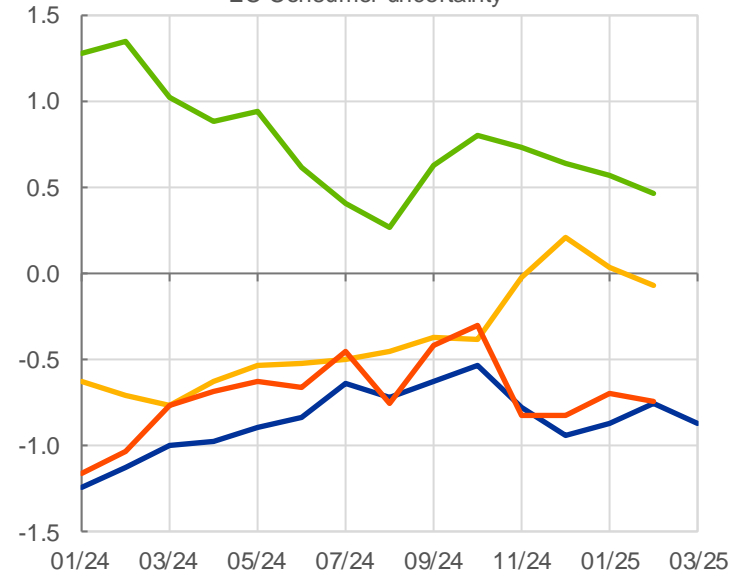
Sources: March 2025 ECB staff projections and ECB calculations.

Note: An increase in the saving ratio implies a negative contribution of savings to consumption growth. Approximation error and statistical discrepancies between the national and sectoral accounts and their different publication schedules result in The minor differences between the figures for private consumption growth and the respective contributions. The latest data is for Q3 2024.

## Consumer expectations indicators

(standardised percentage balances)

- EC Consumer confidence
- EC Unemployment expectations
- EC Financial situation expectations
- EC Consumer uncertainty



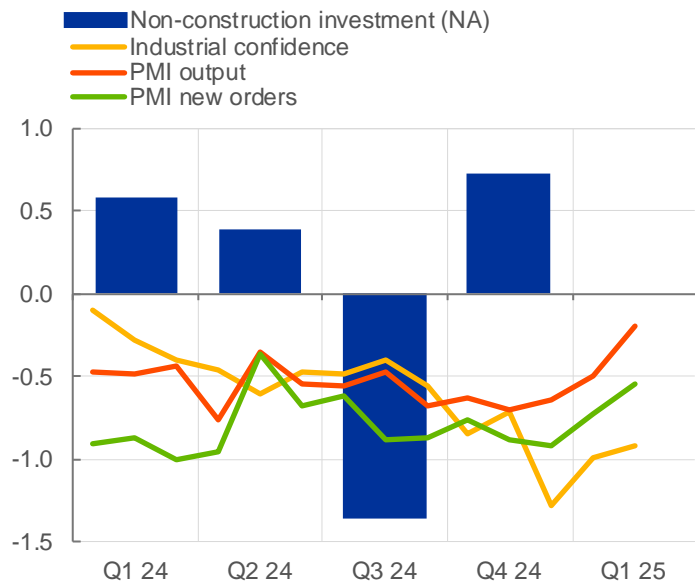
Sources: DG-ECFIN and ECB staff calculations.

Notes: EC stands for "European Commission". Uncertainty is standardised over April 2019-February 2025 with respect to the average of Q4 2021, while all the other series over 1985-2019. Expectations for unemployment and financial situation refer to the next 12 months. The latest observations are for March 2025 for Consumer confidence and for February 2025 otherwise.



## Business investment and capital goods indicators

(quarter-on-quarter percentage changes, standardised surveys)

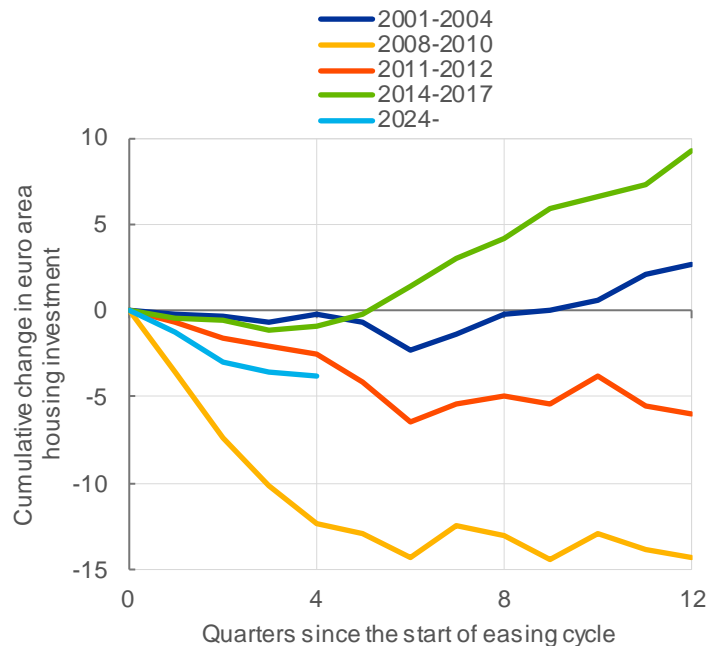


Sources: Eurostat, S&P Global, DG-ECFIN and ECB calculations.

Notes: Non-construction investment excludes Irish IPP. PMIs in deviation from 50, divided by 10. Confidence is standardised over the pre-Covid period (1999-2019). The latest observations are for the fourth quarter of 2024 for investment and February 2025 for industrial confidence and PMIs.

## Housing investment turning points

(cumulative changes)



Sources: Eurostat, ECB and ECB calculations.

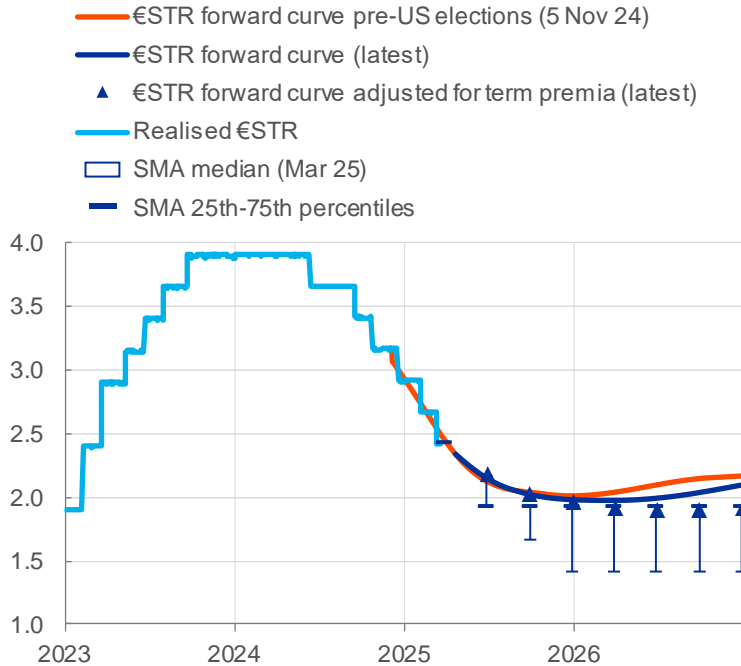
Note: The modified Bry-Boschan algorithm is used to date the turning points in the monetary policy rate (measured as the 3-month EURIBOR).

## March 2025 staff projections: key macroeconomic variables

|                                       | March 2025 projections<br>(annual percentage change)   |         |         |         | vs December 2024 projections<br>(percentage points) |         |         |         |
|---------------------------------------|--|---------|---------|---------|---|---------|---------|---------|
|                                       | 2024   | 2025    | 2026    | 2027    | 2024  | 2025    | 2026    | 2027    |
| HICP                                  | 2.4  | 2.3     | 1.9     | 2.0     | 0.0   | 0.2     | 0.0     | -0.1    |
| HICP excl. energy and food            | 2.8  | 2.2     | 2.0     | 1.9     | -0.1  | -0.1    | 0.1     | 0.0     |
| Compensation per employee             | 4.6  | 3.4     | 2.8     | 2.6     | 0.0   | 0.1     | -0.1    | -0.2    |
| Unit labour costs                     | 4.7  | 3.0     | 2.0     | 1.7     | 0.0   | 0.4     | 0.0     | -0.3    |
| Real GDP                              | 0.8  | 0.9     | 1.2     | 1.3     | 0.1   | -0.2    | -0.2    | 0.0     |
| Private consumption                   | 1.0  | 1.4     | 1.2     | 1.2     | 0.1   | 0.1     | -0.1    | 0.0     |
| Government consumption                | 2.5  | 1.2     | 1.1     | 1.0     | 0.2   | 0.0     | -0.1    | 0.0     |
| Total investment                      | -1.8   | 1.2     | 1.7     | 1.4     | -0.1  | 0.0     | -0.5    | -0.2    |
| Exports contribution to GDP           | 0.9  | 0.8     | 2.3     | 2.7     | -0.1  | -0.8    | -0.7    | -0.3    |
| Unemployment rate (% of labour force) | 6.4  | 6.3     | 6.3     | 6.2     | 0.0   | -0.2    | 0.0     | 0.1     |
|                                       | March 2025 projections<br>(Q4-on-Q4 percentage change) |         |         |         | vs December 2024 projections<br>(percentage points) |         |         |         |
|                                       | Q4 2024  | Q4 2025 | Q4 2026 | Q4 2027 | Q4 2024   | Q4 2025 | Q4 2026 | Q4 2027 |
| HICP                                  | 2.2  | 2.3     | 1.8     | 2.0     | -0.1  | 0.3     | -0.1    | -0.1    |
| HICP excluding energy and food        | 2.7  | 2.1     | 1.9     | 1.9     | -0.1  | 0.0     | 0.0     | 0.0     |
| Compensation per employee             | 4.3  | 2.8     | 2.8     | 2.5     | 0.1   | -0.1    | -0.1    | -0.2    |
| Unit labour costs                     | 4.1  | 2.1     | 1.9     | 1.6     | 0.4   | 0.1     | 0.0     | -0.3    |
| Real GDP                              | 1.0  | 1.0     | 1.4     | 1.2     | -0.1  | -0.2    | -0.1    | 0.0     |
| Private consumption                   | 1.4  | 1.2     | 1.2     | 1.2     | 0.2   | 0.0     | -0.1    | 0.1     |
| Government consumption                | 2.5  | 0.3     | 1.6     | 0.6     | 0.4   | -0.3    | 0.0     | 0.0     |
| Total investment                      | -2.0   | 0.8     | 2.0     | 0.9     | -0.5  | 0.5     | -0.5    | -0.3    |
| Exports contribution to GDP           | 0.5  | 3.0     | 2.0     | 3.0     | -0.8  | 0.0     | -0.9    | 0.1     |
| Unemployment rate (% of labour force) | 6.2  | 6.4     | 6.3     | 6.2     | -0.2  | 0.0     | 0.1     | 0.2     |

Note: Revisions are calculated based on rounded figures.

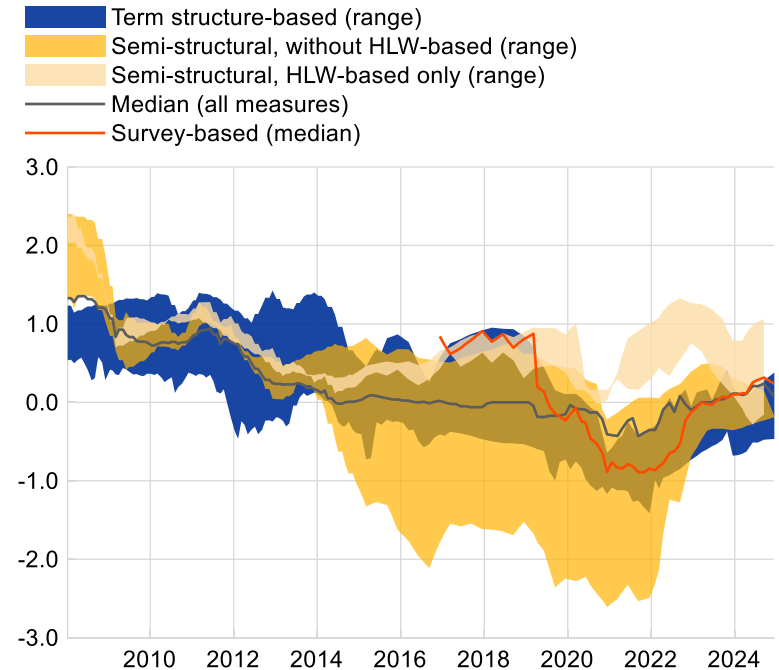
## Expectations of the policy rate path (percentages per annum)



Sources: LSEG, SMA, and ECB calculations.

Notes: The DFR expectations from SMA are adjusted for the current €STR vs. DFR spread. Estimates are based on two affine term structure models, with and without survey information on rate expectations (both variations of Joslin, Singleton and Zhu (2011)), and a lower bound term structure model following Geiger and Schupp (2018) incorporating survey information on rate expectations. The latest observations are for 20 March 2025.

## Real natural rates of interest in the euro area (percentages per annum)

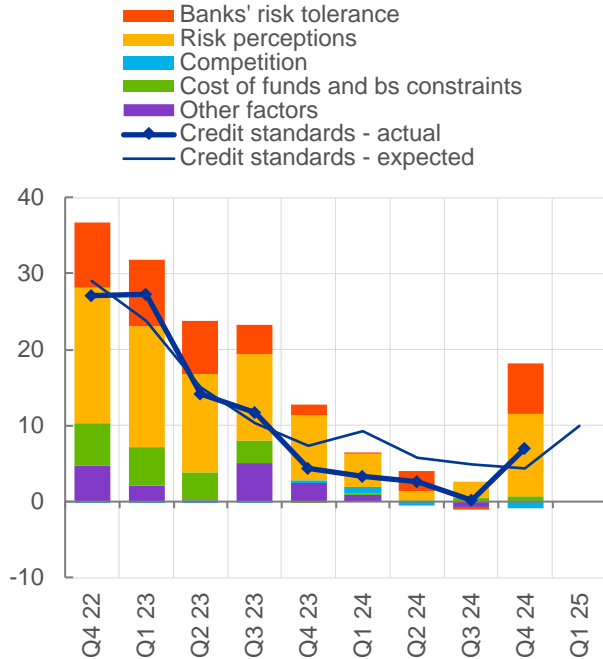


Sources: ECB Economic Bulletin, Issue 1/2025

Notes: Estimates displayed for survey-based, term structure-based, semi-structural measures based on Holston et al. (2023) and other semi-structural measures are derived from the same measures referred to in the Box 8 entitled Brand, Lisack, Mazelis: "Natural rate estimates for the euro area: insights, uncertainties and shortcomings", Economic Bulletin, Issue 1, ECB, 2025.

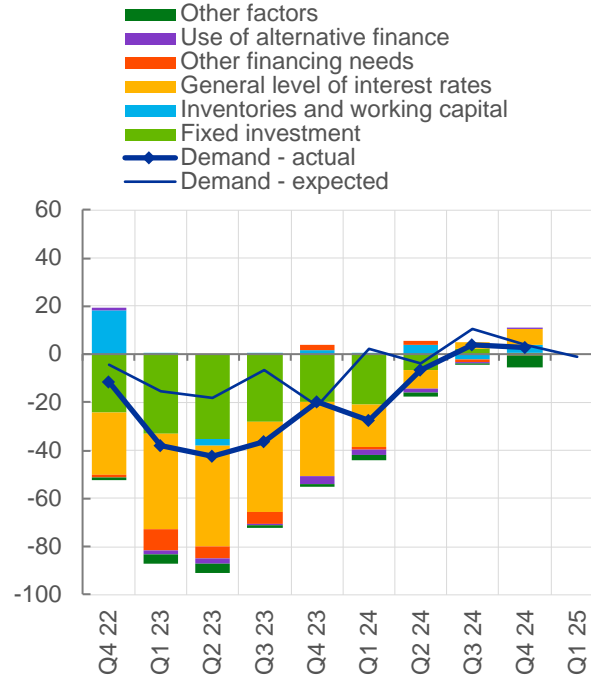
**Thank you**

## Changes in credit standards for loans to firms (net percentages)



Source: ECB (BLS).  
 Notes: "Other factors" refer to further factors which were mentioned by banks as having contributed to changes in credit standards. The latest observations are for Q4 2024 for backward-looking series and Q1 2025 for forward-looking series.

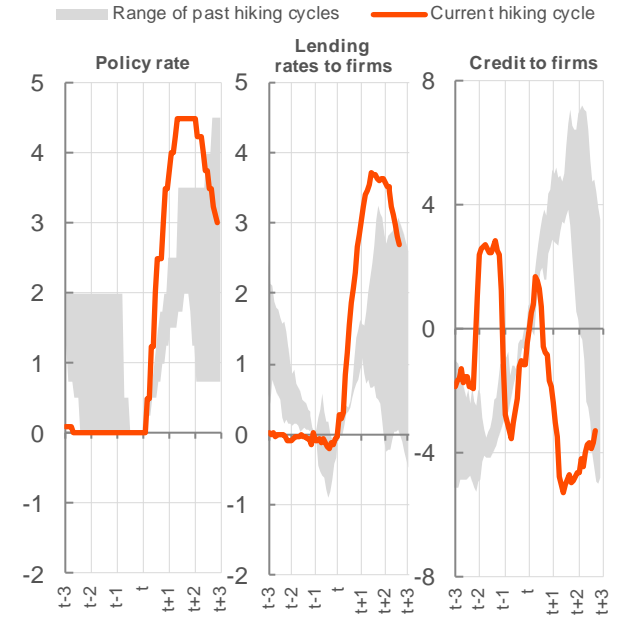
## Changes in demand for loans to firms (net percentages)



Source: ECB (BLS).  
 Notes: "Other financing needs" is the average of "M&A and corporate restructuring" and "debt refinancing/restructuring and renegotiation". "Use of alternative finance" is the average of "internal financing", "loans from other banks", "loans from non-banks", "issuance/redemption of debt securities" and "issuance/redemption of equity". The latest observations are for Q4 2024 for backward-looking series and Q1 2025 for forward-looking series.

## Monetary policy transmission across hiking cycles

(x-axis: years; y-axis: cumulative changes in p.p. for rates, credit growth in deviation from the start of the cycle (t) in p.p. for credit to firms)

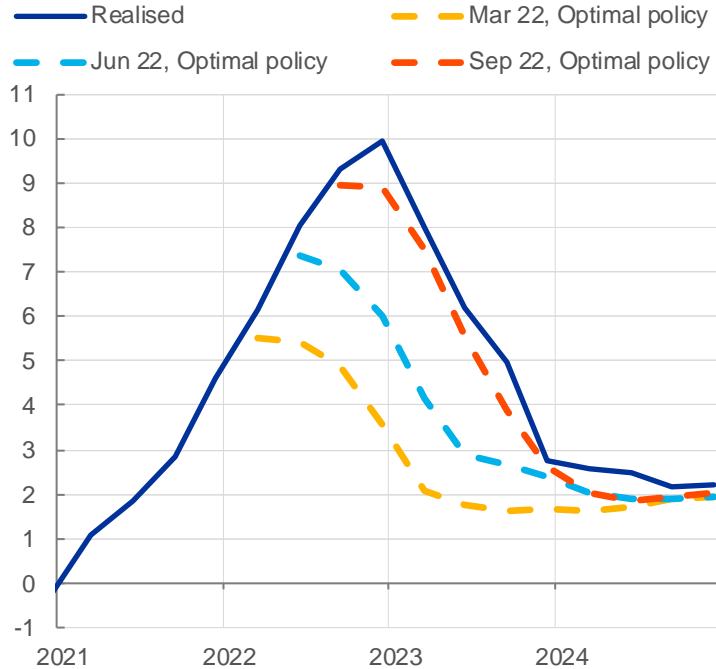


Sources: ECB (BSI, CSEC, MIR) and ECB calculations.  
 Notes: The ECB relevant policy rate is the Lombard rate up to December 1998, the MRO up to May 2014 and the DFR thereafter. Credit to firms is the sum of bank loans and debt securities. Lending rates refer only to bank loans. Hiking cycles are those starting in: June 1988, October 1999, November 2005 and May 2022. Latest observations are for January 2025.

# Optimal policy in real time

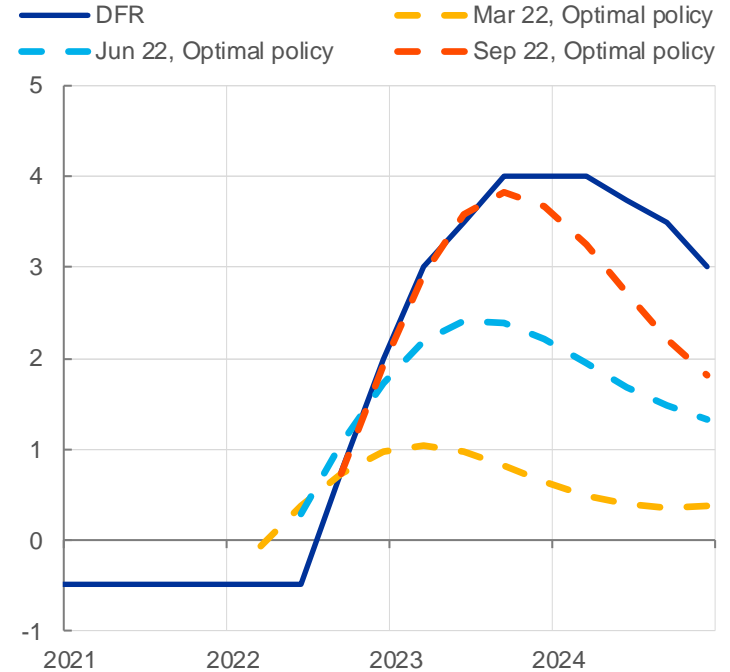
## Inflation

(annual percent changes)



## Interest rate

(percentages per annum)



Source: ECB calculations based on the MMR model (Mazelis, Motto, Ristinieni (2023)) as documented in the Handbook on Inflation (Coenen, Mazelis, Motto, Ristinieni, Smets, Warne, Wouters (forthcoming))  
Notes: The solid blue line denotes historical data. The dashed lines are optimal policy counterfactuals computed in real time, conditional on March 2022 MPE, June 2022 BMPE and September 2022 MPE.