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Transcript

Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to keep the three key ECB interest rates unchanged. Inflation is currently at our two per cent medium-term target. The incoming information is broadly in line with our previous assessment of the inflation outlook. Domestic price pressures have continued to ease, with wages growing more slowly. Partly reflecting our past interest rate cuts, the economy has so far proven resilient overall in a challenging global environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes.

We are determined to ensure that inflation stabilises at our two per cent target in the medium term. 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 and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

The decisions taken today are set out in a press release available on our website. I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

In the first quarter the economy grew more strongly than expected. This was partly because firms frontloaded exports ahead of expected tariff hikes. But growth was also bolstered by stronger private consumption and investment.



Recent surveys point to an overall modest expansion in both the manufacturing and services sectors. At the same time, higher actual and expected tariffs, the stronger euro and persistent geopolitical uncertainty are making firms more hesitant to invest.

The robust labour market, rising real incomes and solid private sector balance sheets continue to support consumption. Unemployment stood at 6.3 per cent in May, close to its lowest level since the introduction of the euro. Easier financing conditions are underpinning domestic demand, including in the housing market. Over time, higher public investment in defence and infrastructure should also support growth.

More than ever, the Governing Council considers it crucial to urgently strengthen the euro area and its economy in the present geopolitical environment. Fiscal and structural policies should make the economy more productive, competitive and resilient. Governments should prioritise growth-enhancing structural reforms and strategic investment, while ensuring sustainable public finances. It is important to complete the savings and investments union and the banking union, following a clear and ambitious timetable, and to rapidly establish the legislative framework for the potential introduction of a digital euro. The Governing Council welcomes the Eurogroup's commitment to improve the effectiveness, quality and composition of public spending and supports the efforts by European authorities to preserve the mutual benefits of global trade.

Inflation

Annual inflation stood at 2.0 per cent in June, after 1.9 per cent in May. Energy prices went up in June but are still lower than a year ago. Food price inflation eased slightly to 3.1 per cent. Goods inflation edged down to 0.5 per cent in June, whereas services inflation ticked up to 3.3 per cent, from 3.2 per cent in May.

Indicators of underlying inflation are overall consistent with our two per cent medium-term target. Labour costs have continued to moderate. Year-on-year growth in compensation per employee slowed to 3.8 per cent in the first quarter, down from 4.1 per cent in the previous quarter. Combined with stronger productivity growth, this led to slower growth in unit labour costs. Forward-looking indicators, including the ECB's wage tracker and surveys on wage expectations of firms, consumers and professional forecasters, point to a further decline in wage growth.

Short-term consumer inflation expectations declined in both May and June, reversing the uptick observed in previous months. Most measures of longer-term inflation expectations continue to stand at around 2 per cent, supporting the stabilisation of inflation around our target.



Risk assessment

Risks to economic growth remain tilted to the downside. Among the main risks are a further escalation in global trade tensions and associated uncertainties, which could dampen exports and drag down investment and consumption. A deterioration in financial market sentiment could lead to tighter financing conditions and greater risk aversion, and make firms and households less willing to invest and consume. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, remain a major source of uncertainty. By contrast, if trade and geopolitical tensions were resolved swiftly, this could lift sentiment and spur activity. Higher defence and infrastructure spending, together with productivity-enhancing reforms, would add to growth. An improvement in business confidence would also stimulate private investment.

The outlook for inflation is more uncertain than usual, as a result of the volatile global trade policy environment. A stronger euro could bring inflation down further than expected. Moreover, inflation could turn out to be lower if higher tariffs lead to lower demand for euro area exports and induce countries with overcapacity to reroute their exports to the euro area. Trade tensions could lead to greater volatility and risk aversion in financial markets, which would weigh on domestic demand and would thereby also lower inflation. By contrast, inflation could turn out to be higher if a fragmentation of global supply chains pushed up import prices and added to capacity constraints in the domestic economy. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

Market interest rates have increased since our last meeting, especially at longer maturities. At the same time, our past interest rate cuts continue to make corporate borrowing less expensive. The average interest rate on new loans to firms declined to 3.7 per cent in May, from 3.8 per cent in April. The cost of issuing market-based debt also came down, falling to 3.6 per cent in May. While the growth rate of loans to firms moderated to 2.5 per cent in May, corporate bond issuance was stronger, growing at a rate of 3.4 per cent in annual terms.

Credit standards for business loans were broadly unchanged in the second quarter, as reported in our latest bank lending survey for the euro area. While banks' concerns about the economic risks faced by their customers had a tightening impact on credit standards, this was broadly offset by stronger competition among lenders. Meanwhile, firms' demand for credit increased slightly, benefiting from lower interest rates, but they remained cautious because of global uncertainty and trade tensions.



The average interest rate on new mortgages has barely changed since the start of the year and stood at 3.3 per cent in May. Growth in mortgage lending edged up to 2.0 per cent in May, in the context of a strong increase in demand, while credit standards tightened slightly in the second quarter.

Conclusion

The Governing Council today decided to keep the three key ECB interest rates unchanged. We are determined to ensure that inflation stabilises at our two per cent target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. Our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilises sustainably at our medium-term target and to preserve the smooth functioning of monetary policy transmission.

We are now ready to take your questions.

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The first question is on the euro exchange rate. We've heard from your dear colleague, Vice-President Luis de Guindos, in Sintra that anything beyond 1.20 might be complicated. What's your assessment? When does it start to get complicated, and when do the deflationary effects from that higher euro start to worry you? The second question is on tariffs. If we were to get that 15% trade deal with the United States, is that according to your baseline? And would that lift the uncertainties in a way which is good enough for the euro area to grow?

Let me just tell you that in relation to exchange rates, we do not target any exchange rate. Second, we monitor exchange rates indeed because exchange rates matter for our inflation forecast. And I'm here quoting my dear friend and colleague, the Vice-President, who said recently, "we take into account exchange rates to forecast inflation." We are exactly on the same page in terms of our message regarding exchange rates. Your second question had to do with conjecture as to what the outcome will be of ongoing trade negotiations. And I know that there was a newspaper yesterday that sort of hinted that we were at a particular closure. It was a closing in, not a closure, and required very careful reading. We are attentive to where the negotiations are heading. We are not in a negotiating position. We are operating on the



basis of the work that we do to forecast and to anticipate. We have a baseline on which we are basing our decision of today, which is our June baseline, which holds. That baseline is generally confirmed by all the recent data that we have received. But we take things one day at a time. We decide meeting-by-meeting, but we take news one day at a time. And for the moment we are relying on our baseline and relying on the scenario that we have done back in June, which we have published, which you all have had a chance to look at. And that's what it is. But one thing I will add to that is that the sooner this trade uncertainty is resolved – I think we use the word “resolved swiftly” – so the sooner it is resolved, the less uncertainty we will have to deal with, and that would be welcomed by any economic actors, including ourselves.

I've got two questions on your statement. You highlight the resilience of the economy so far. Does this resilience reduce the need to deliver another rate cut in the autumn, even if this was part of the baseline scenario in June? And the other question is on your reaction function. You added that future decisions will also be based on the risks surrounding the inflation outlook. Could you just explain why this addition was necessary?

Thank you for noticing the addition. You're right. I'll start with that one. As you know, we concluded our strategy assessment. We had a strategy review that we concluded in 2021. We had committed to review that strategy on the basis of new economic developments and certainly in view of the process through which we had gone, namely facing those incredible shocks and going full cycle in many ways.

We did that, and as a result of that strategy assessment, it was determined that we had to amplify, enhance and probably give a slightly higher focus to risk assessment. And obviously scenarios, sensitivity analysis are part of that exercise that is conducted on a regular basis – that is published occasionally but conducted on a regular basis. But it is certainly very opportune that this focus on enhanced risk assessment is agreed at a time when we have a higher level of uncertainty. So that's the reason why it is. You have the usual risk assessment section in our monetary policy statement, which focuses on growth and inflation. And we thought it was appropriate, given the enhanced focus that we want to give to the measurement of risk and the assessment of risk, to actually have that element included in the first part of our monetary policy statement. I'm going to repeat myself: we are in a good place. And we are in a good place because inflation is at 2%. But we're not focused on data points. We're looking at all sorts of data. And our target is the medium-term inflation, which is at 2%. So I'm saying that we are in a good place because our projections point to inflation stabilising at target in the medium term. As you will remember, I have often mentioned the importance of wages. Wages are heading in the right direction and are showing this downward trend that we were expecting. The unit profit is continuing to buffer in a little bit of that wage increase, which is the natural result of an element of catching up and adjusting to the development of the economy. And we have seen, and I'm coming now to the specific point of your question, we have seen growth developing in a relatively favourable way. Of course, if you look at the first quarter in particular – we will have the second quarter in a week's time – but if we look at the numbers we have, the first quarter was a surprising 0.6%. Now, of course, because we



like to look under the hood, 0.6% is partly attributable to Ireland. And then if you look at what was actually driving this growth increase, it's partly frontloading because economic operators anticipated the rising of tariffs and decided to frontload. But it's not just frontloading. It's also increased consumption and increased investment and not only attributable to Ireland, which is often an outlier for all sorts of intellectual property reasons and what have you. So growth is developing mostly in line with, if not a little better than, our expectations. We are looking at development. As I said last time around, we are now confident that the inflationary shock of the past few years is now behind us. And our job now is to look at what's coming and to try to, first of all, wait because there are a lot of elements that will pan out in the next few months and see what impact it will have on our economy.

The first question is about the risk of undershooting the target. Talking to some of your colleagues and reading more economists' notes, it seems to me that there is a greater discussion about undershooting. In your discussion today, was there anything about this? Do you think over the last six weeks the risk of below-target inflation has increased? The other question is about the scenarios you published six weeks ago and especially the more severe outcomes, which seem to suggest that even in case of retaliation, the whole package would be disinflationary. I'm curious: is there consensus in the Governing Council about this, or is there perhaps still a discussion that such a scenario could turn out to be inflationary rather than disinflationary?

Concerning the risk of undershooting, I just want to remind you and colleagues that we are at 2% according to the latest reading, but more importantly because that's what we have to look at. We are at 2%, which is our medium-term target. Is there a risk of undershooting? There is actually a forecast of undershooting in 2026 for all sorts of base effects, reasons and consequences that we are forecasting today. But, as has been mentioned by some of my colleagues in their various speeches, we are not going to be moved away by some minor deviation. And we are looking at the medium-term targets that we have. And we will proceed on the basis of those three elements to determine our monetary policy stance. So that is the result of our strategic assessment, but it's also the approach that we are taking inside the Governing Council. Now, you will always find two or three governors who are very concerned about undershooting. But what I say to you is that undershooting is actually in our projections, in the staff June projections. It's there. But what matters is our medium-term target because this is the objective that we have reaffirmed in our strategy and which is definitely 2%. And when I look at inflation expectations, it is strongly anchored around 2% in the short term but also in the longer term. So that's as far as undershooting is concerned. Now, we have conducted that exercise with our scenario. And, as you know, we have this rosy scenario where everything is at zero and it's perfectly symmetric and reciprocated. We have the baseline, which is at 10%[tariff rate], which is the current rate that the economy is taking in. And we have the 20%, which is the severe scenario. Some of those scenarios have retaliation measures, not all. And I think that as we observe the interesting negotiations and what leaks out in various forms, retaliation is optional, doesn't seem to be a definite element. But the ultimate net result in terms of inflationary forces or disinflationary forces cannot be determined at this point in time. Why is that? Because it's a very complicated set of factors



that we will have to analyse and take into account to determine what the impact will be. We currently have a list of different rates. You have the hypothetical 10% or 15% or X%. We have some sectoral rates as well that apply to either the automotive industry or the steel and aluminium industry. A big question mark on pharmaceutical. And to add to that complexity, you also have the indirect impact on our economy of tariffs that are decided in relation to other countries that will induce some redirecting or rerouting, which itself will have an impact on our economy. For the moment, we assume that this impact will be disinflationary and staff have worked on that. But equally – and this is very difficult to assess for the moment – there will probably be some bottleneck issues as a result of the trade disruption. There will probably be, just as there will be some rerouting and redirecting, there will be some supply chain significant changes. And that will also have an impact on inflation – more likely to be inflationary than disinflationary. So it's not just trade one way and retaliation in response, but it's also the rerouting, the redirecting, the supply chain disruption and the bottlenecks that will all come together to impact prices. Now, the next question you have to ask yourself as well – and that we are asking ourselves and will be asking – is: is that going to be a level effect? Is that going to be an ongoing consequence of a new paradigm? There is a lot of uncertainty out there. We are mindful of all that. We are going to monitor, factor in and model as much as we can. But at this point in time, a conclusion is not, in my view, definite as to which of those forces will prevail.

My first question is on tariffs and interest rates in the sense that the Federal Reserve would have cut interest rates if it weren't for tariffs. And Chair Powell said in Sintra “we went on hold for tariffs”. Can you explain how far the ECB today is on hold because of tariffs? And my second question again has to do with the United States because Donald Trump called the signing into law of the GENIUS Act on US dollar-pegged payment stablecoins a giant step to cement American dominance of global finance, and the greatest revolution in financial technology, saying that it secures the dollar's status. But on monetary policy, there is a concern that the growth of stablecoins for trillions would have an impact on short-term rates in the United States because of how much T-bills are going to be used as a peg to the stablecoins. So there is a big debate on the impact of this on monetary policy and on central banks. I wonder if you can say if you share these concerns about these innovations in monetary policy tools.

I think it's a good expression that my colleague and friend and esteemed central banker has used to refer to being on hold. We ourselves at the ECB have left our rates unchanged, and you could argue that we are on hold. We are in this wait-and-watch situation, and any monetary policy decision will for the future be decided on the basis of data, will be decided meeting-by-meeting, is not predetermined by any particular path. And I think that the jury is out as to how quickly the uncertainty will be cleared under present circumstances. A large part of that uncertainty is itself caused by trade and tariffs, as well as non-tariff barriers by the way. It's tariff barriers and non-tariff barriers, which obviously matter. That has an impact. The uncertainty in and of itself is also playing a role in relation to the level of risk that we see. So it's trade-related, caused by tariffs and non-tariff fears or expectations – depending on how you look at it – and it's the overall uncertainty about the outcome, which obviously



induces different behaviour on the part of consumers and investors. On the GENIUS Act, the first point I would make is that having a legal framework helps understand what the risks, benefits and prospects are for these instruments. Second, I think that it's a little bit early in the process to really have a clear and good understanding of what the consequences will be. Third, we have to be focused on what we do here at home in Europe. We have to make sure that we are strong in terms of currency issuance and protection. We are the curator of the euro and we are ultimately focused on that. Of course, we are mindful of what's happening elsewhere and what the dangers could be. But we have to make sure that at home we take all the necessary measures to protect and preserve our currency. And in that respect, we are very decisively focused on developing the digital euro and doing everything that we can to be on time and prepared to make this digital form of sovereign money available in the shortest possible time. Which doesn't mean that it's going to be tomorrow, rest assured. Cash will always be there, and banks will be part of the game and will be an intermediary in the process. But our duty is to make sure that as Europeans' preferences evolve over the course of time, the digital euro is a possible reality.

I have two short questions. One is on this interview Isabel Schnabel gave a few weeks ago, when she said that the bar for further rate cuts is very high. Do you share that view or do you have a different view on that? And my second question refers to views expressed by analysts saying that if the trade tensions will be resolved quickly, the question could relatively soon become when the next rate hike will happen rather than the next rate cut in the euro area. Do you think that's a relevant framework at the moment or is this not relevant from your point of view?

Each and every Executive Board member and each and every governor has their preference and their views. And I think it is the beauty of this institution to allow for diversity of viewpoints and allow for the expression of those viewpoints. My job as President of the ECB is to harness all the views of the Governing Council members and, on the basis of our staff work, projections and proposals, to elicit as large a majority view as is possible. That's my job. So what I can tell you as far as today is concerned is that the decision to keep interest rates unchanged was a unanimous decision. I can also tell you that the risk assessment, which is nicely spelt out in the monetary policy statement, was broadly shared by members of the Governing Council. As to the future path, I think it's also widely shared by members of the Governing Council that we have to work on the basis of the data as they come in, that we have to decide meeting-by-meeting and that to predetermine a path or preset the level or the material and significant development that would trigger one thing or the other is prospective and not part of the job that I do. I think my response is clear enough. If trade tensions are resolved in short order, it will clear some of the uncertainty that we have weighing on the decision-making of consumers, investors and enterprises. And it will of course help us as well anticipate and model what the outcome of those tariffs will be. Could it lead to different movements? The future will tell. Our work will tell. I would not exclude anything for sure.



We are now less than a year from the time when reserves are expected to slip from excess to ample. Are you happy that banks are in a position to deal with the reduced reserves? And is the ECB happy that all the tools are in place for any early signs of stress in the interbank market?

I suppose you're talking about liquidity and the volume of liquidity. First of all, there is still plenty of liquidity in the system. The volume has reduced over the course of time and it has reduced as a result of the reimbursement of TLTRO, which is now completed. It has reduced as a result of the discontinuation of reinvestment under the APP first, and under the PEPP second. But despite that and the fact that our balance sheet reduces on a monthly basis regularly and predictably, the volume of liquidity in the system is still north of €2 trillion. So to talk about limited liquidity in the system, I think, is not the appropriate characterisation. There is still plenty of liquidity. Added to which, there is probably more liquidity in the system than we had anticipated because there has been less demand for banknotes. And that has an impact. And there are other technical reasons caused by the fact that governments eventually moved their own reserves away from the central bank to put them to better use somewhere else, which has, as a result, increased the volume of liquidity out there. But liquidity abounds.

The first question: the EPP lawmaker Fernando Navarrete, the Parliament appointment for the digital euro, told Politico in an interview this week that the digital euro is a nuclear threat to force banks to act. Do you agree with the statement? And the second one is on the strategy review. Some analysts say that the bar for QE is now higher. Do you agree with this? And do you think it will have any influence on next year's assessment of the operational framework?

The latter question I'm not going to address actually because you are jumping ahead. We have a review of the operational framework that will come in due course in 2026. We'll take those matters as they come. The operational framework has been approved months ago. Let us just see how things work, draw conclusions from that and then we shall see when we reassess in due course and in due time, that is in 2026. On your first question, I have a pretty simple understanding of what the digital euro is. And for me this is the digital expression of cash. We all have cash. Well, most of you, I suppose. I do. I like cash, whether it takes the form of coins or banknotes. This is cash and this is central bank money, if you will. It's sovereign money. But as technologies evolve over the course of time and as the preference for payment evolves as a result, we need to respond to the demand of our European compatriots. And I see the digital euro as the digital expression of cash. It's like digital cash. You can argue at the margin that in terms of absolute privacy, we're not exactly on the same page. You could argue that the cost of cash is higher. But in essence, that's what it is. So to argue that digital cash is a nuclear bomb, I think, is a little bit over the top. We're not holding nuclear bombs in our pockets, as far as I know.



What do you think of market expectations calling for another cut, independent of when it is, especially given that the June projections already incorporate one more cut?

Markets do what they have to do, and we do what we have to do. So what I said earlier is still valid. We are in a good place. We are well-positioned to deal with turbulent waters and to deal with the risks that will develop over the course of the next few months. And I'm here referring particularly but not only to the risks related to tariffs, but you can include geopolitical risks as well. You can include a vast uncertainty which might partly clear as a result of whatever tariff certainty we receive. So we are well-positioned. We are in a good place. We have essentially closed that disinflationary cycle that we battled over the last months and which has led us to move from 400 basis points to 200 basis points with eight cuts in a matter of nine meetings. So we are in a good place now to hold and to watch how these risks develop over the course of the next few months. And we will have a new projection in September. And later on, we will reassess at each monetary policy meeting. We do projections and we publish them on a quarterly basis, but we do that on a regular basis. And we will continue to do that in September, in October, in December and on and on. And it's on the basis of that work that the Governing Council will decide what is the appropriate monetary policy stance. I cannot tell you much more than that because it's been repeated twice in the Monetary Policy Statement. I've tried to avoid repeating it too much, but our collective determination is (1) keep inflation at our 2% medium-term target, (2) operate on a meeting-by-meeting basis, and (3) be data-dependent – and there will be plenty of that in the coming months – and not have any kind of predetermined rate path. Some people would like it. I understand that markets would like to have more anticipation of that possible rate path. No, that is not possible under the current circumstances. But as I said, we are well-positioned to wait-and-see.