

# Current economic and monetary policy issues

Governor Martin Kocher

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Citi, Washington D.C.

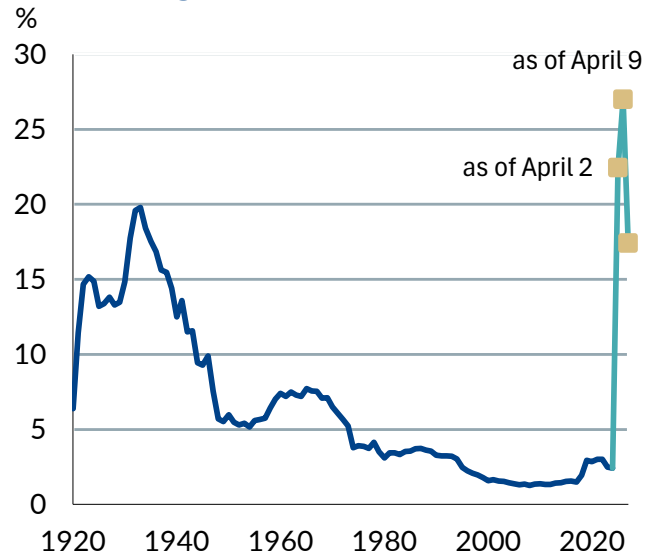
October 16, 2025

# International developments

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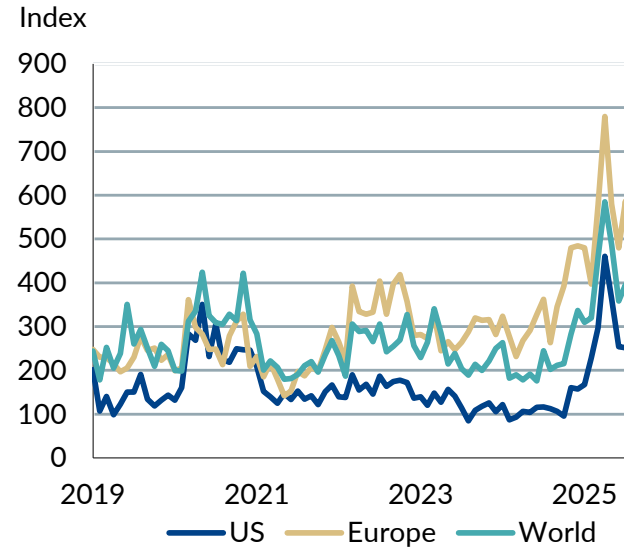
# Global environment: rising trade barriers and lingering uncertainty

### US average effective tariffs



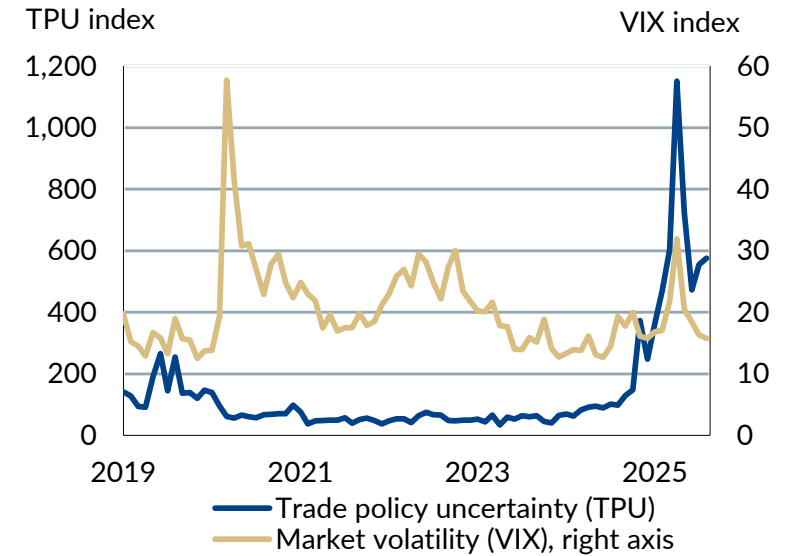
Source: Yale Budget Lab.

### Economic policy uncertainty



Source: Macrobond.

### Trade and market uncertainty



Source: Macrobond.

- US average effective tariffs reflect sharp reversal in trade liberalization
- Economic policy uncertainty declined from its highs in 2025/H1, but remains elevated
- Trade policy uncertainty still elevated, while market volatility has normalized

# Global growth expected to moderate compared to 2024

## Real GDP growth forecast

|                | 2024       | Real GDP growth (%) |            |                      |            |
|----------------|------------|---------------------|------------|----------------------|------------|
|                |            | OECD (Sept 2025)    |            | ECB BMPE (Sept 2025) |            |
|                |            | 2025                | 2026       | 2025                 | 2026       |
| Euro Area      | 0.8        | 1.2                 | 1.0        | 1.2                  | 1.0        |
| United Kingdom | 1.1        | 1.4                 | 1.0        | 1.4                  | 1.3        |
| Japan          | 0.1        | 1.1                 | 0.5        | 0.8                  | 0.6        |
| China          | 5.0        | 4.9                 | 4.4        | 4.7                  | 4.0        |
| United States  | 2.8        | 1.8                 | 1.5        | 1.6                  | 1.6        |
| <b>World*</b>  | <b>3.3</b> | <b>3.2</b>          | <b>2.9</b> | <b>3.3</b>           | <b>3.1</b> |

Source: OECD (Sept 2025), ECB (Sept 2025).

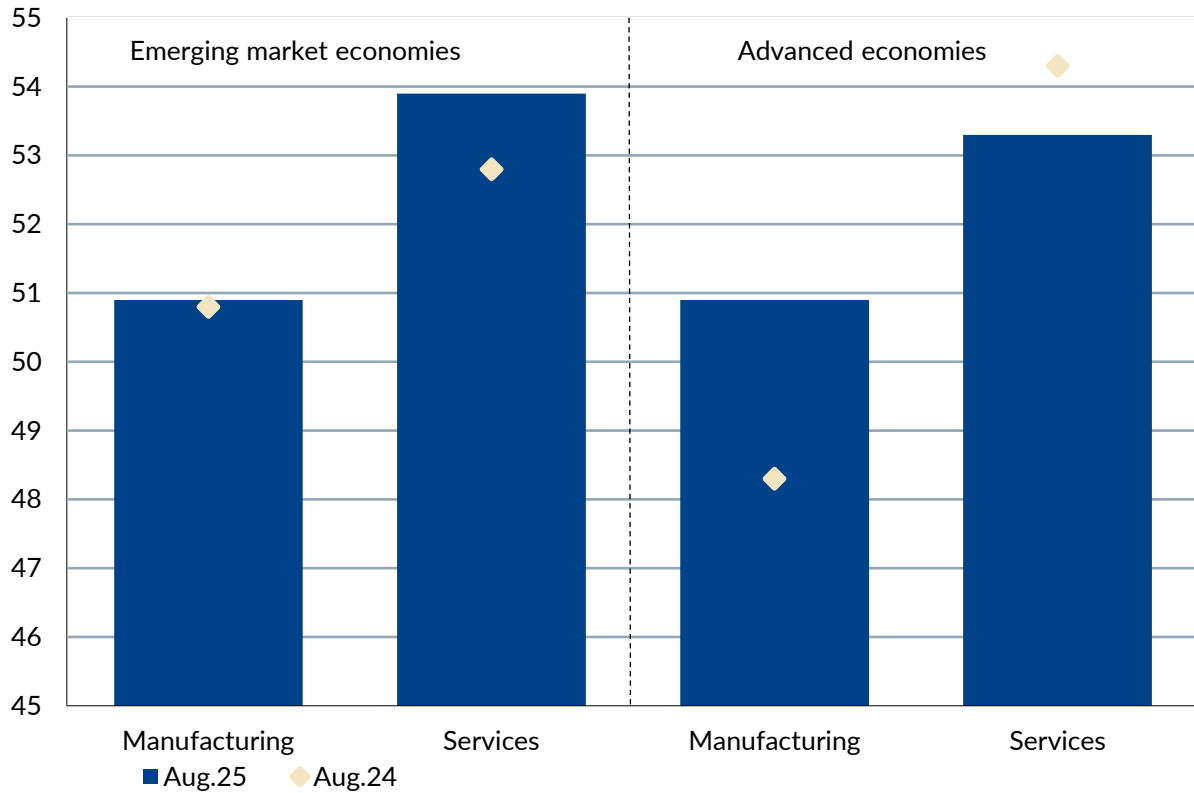
\* ECB World growth excl. EA.

- **World output growth expected to decline** compared to 2024, where global growth stood at 3.3%, but less so than expected before summer
- Q2 surprised on the upside in several major economies (e.g. in the US)
- Indicators for a slowdown in the second half of 2025 compared to the first half:
  - US: weakening labor market
  - China: subdued retail sales and investment
- Risks to the outlook remain tilted to the downside

# Sectoral breakdown: service sector remains active; manufacturing sector still behind

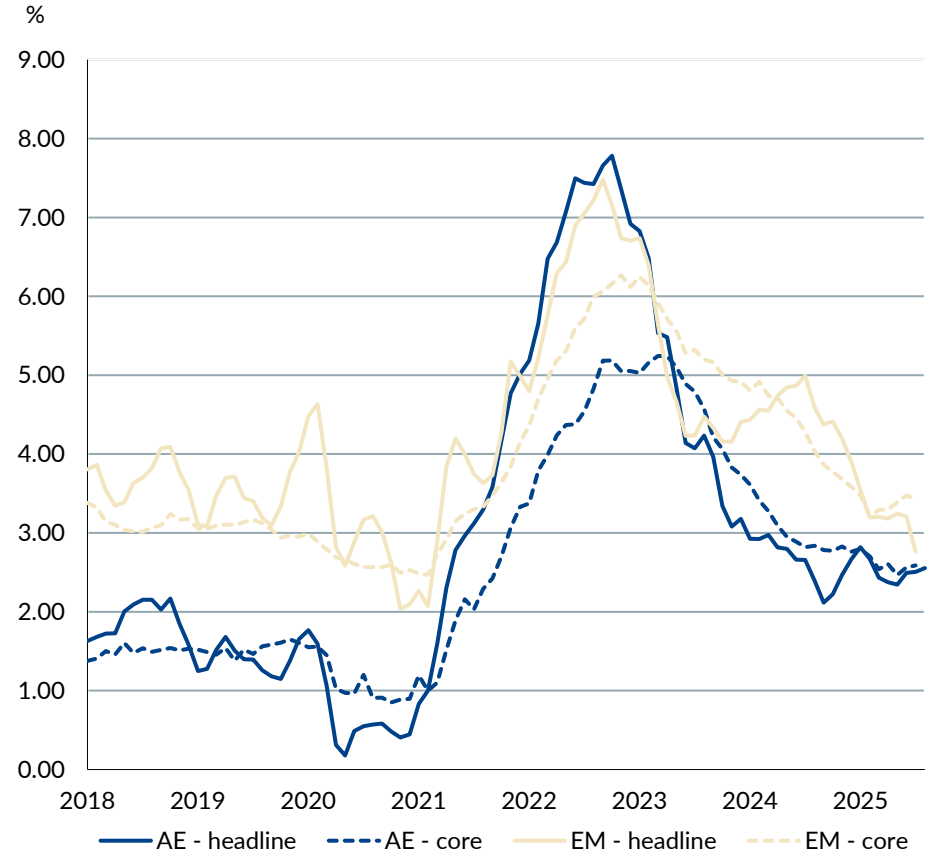
## Purchasing managers index

index: value above [below] 50 indicates sectoral expansion [contraction]

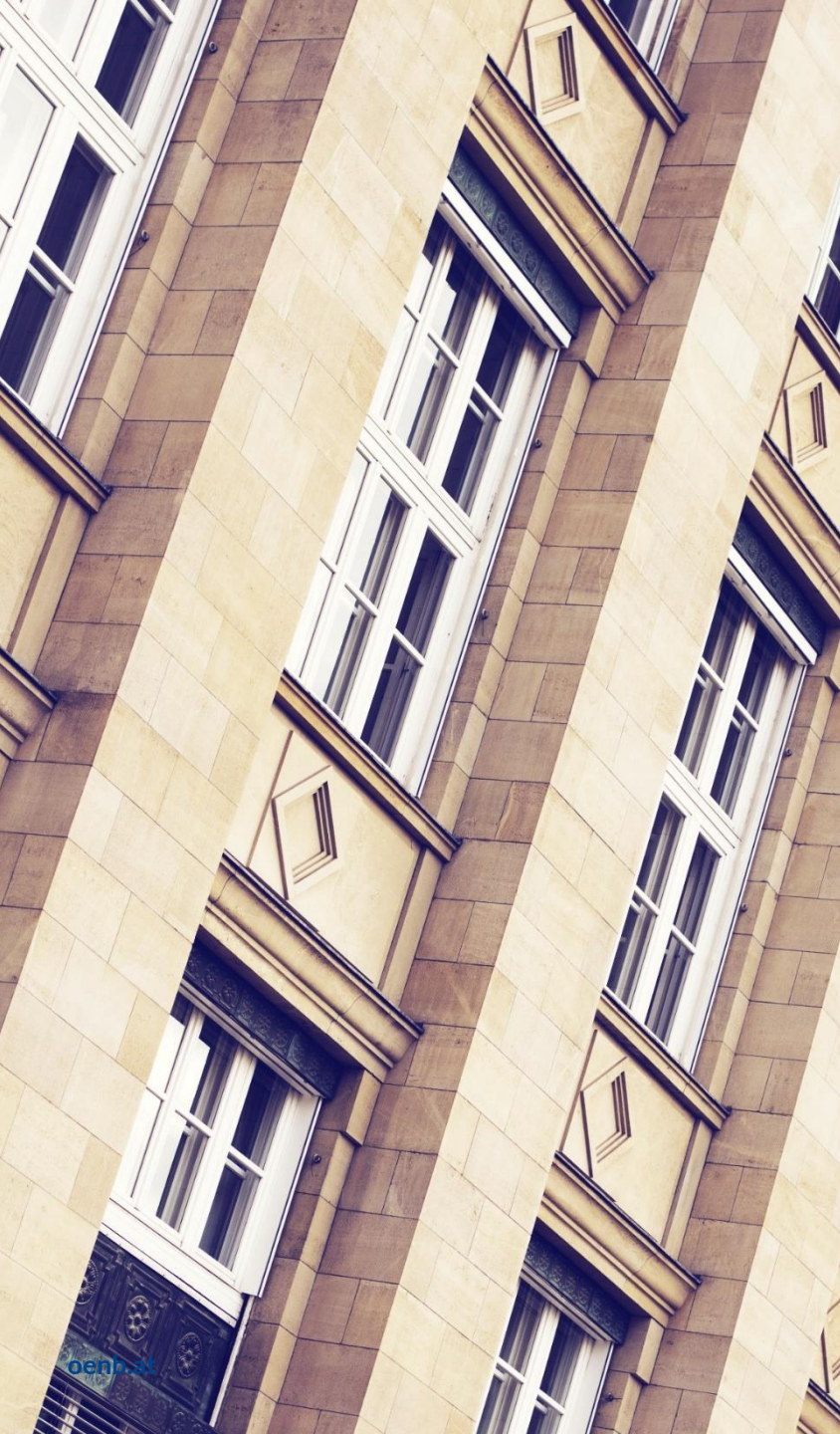


Source: Macrobond.

## Inflation in advanced economies and emerging markets



Source: Macrobond.



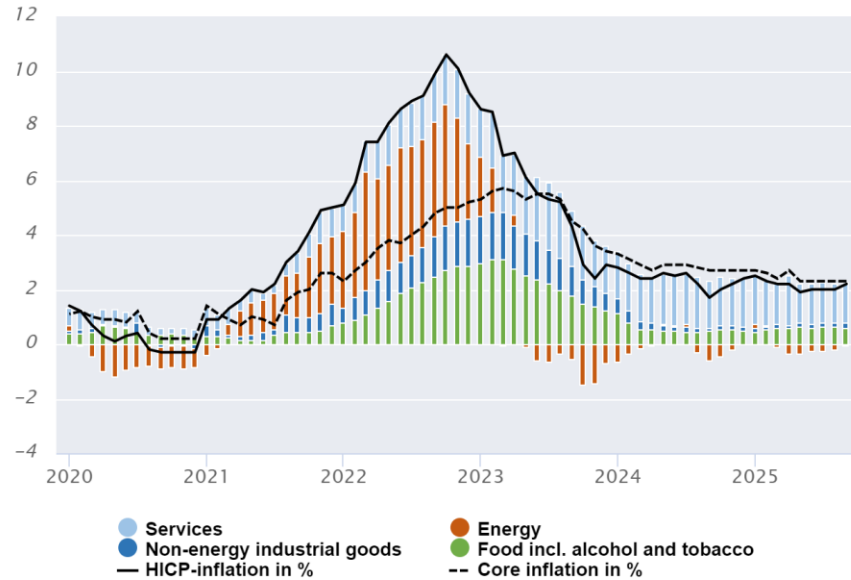
# Economic and monetary policy issues in the euro area

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# Euro area HICP inflation around target in the last half year, core inflation unchanged at 2.3% in the last four months

## HICP Components

Contribution to HICP-inflation in percentage points



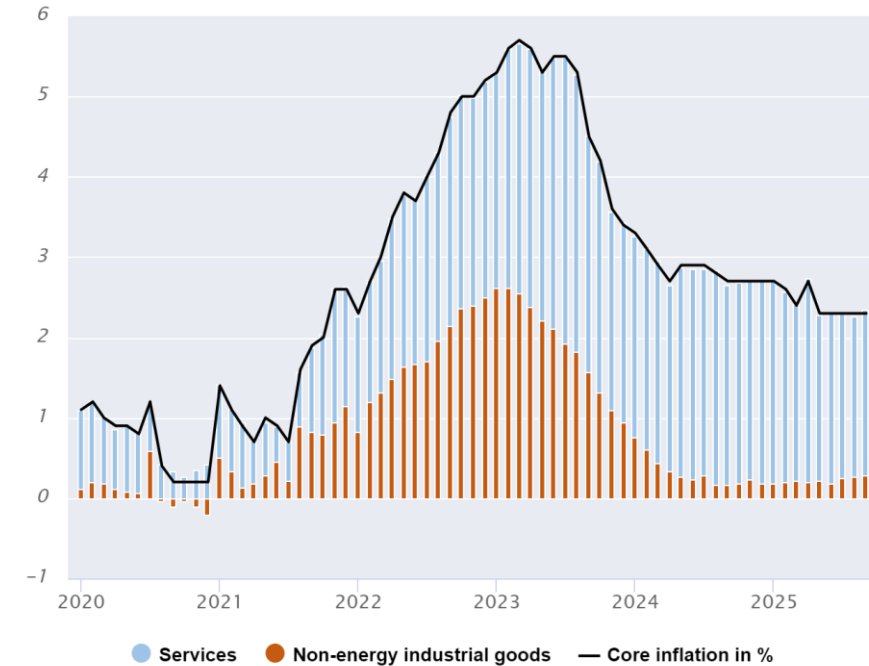
Source: Eurostat. Last observation: 09/2025 (flash estimate). Country: EA

**HICP inflation:** The HICP inflation rate measures the annual rate of change in the prices of consumer goods and services acquired by households.

**Core inflation:** The core inflation rate is the price change of goods and services excluding food and energy.

## Core inflation components

Contribution to Core inflation in percentage points



Source: Eurostat. Last observation: 09/2025 (flash estimate).

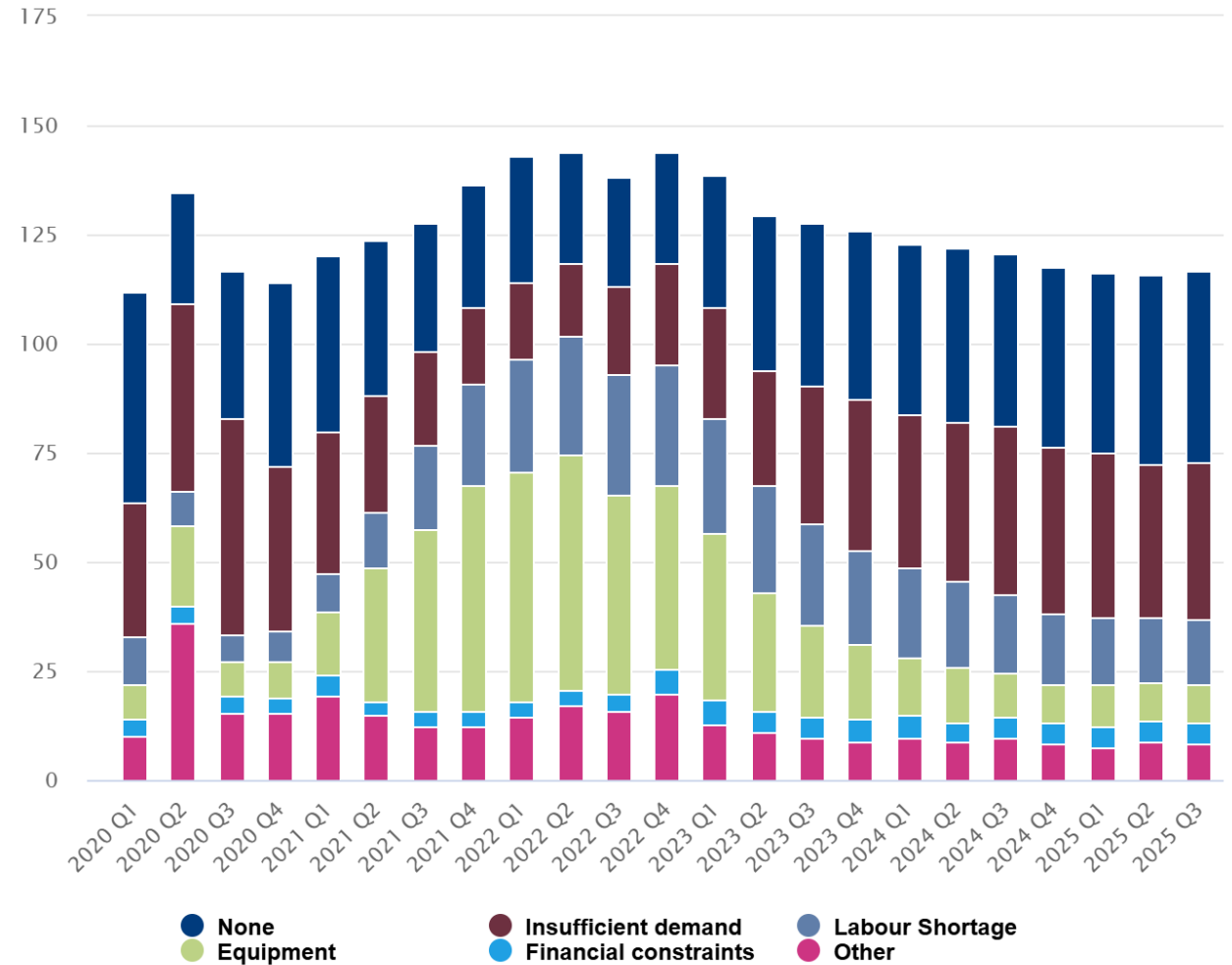
- **HICP inflation** is close to target at **2.2%** in September
- Uptick in HICP inflation in September due to volatile energy prices

- **Services inflation** is still elevated at **3.2%**, but gradual decline has continued
- **Non-energy industrial goods inflation** stays at **0.8%**, slightly above the rates before June

# Survey of industry does not indicate increase in supply constraints amid trade war

- Reported **supply constraints** on equipment have not increased amid trade war
- **Labour shortage** at pre-covid levels
- Increase in **insufficient demand** since 2022Q2 halted this year
- **Financial constraints** are not widely reported as a factor limiting production

## Factors limiting production - Industry

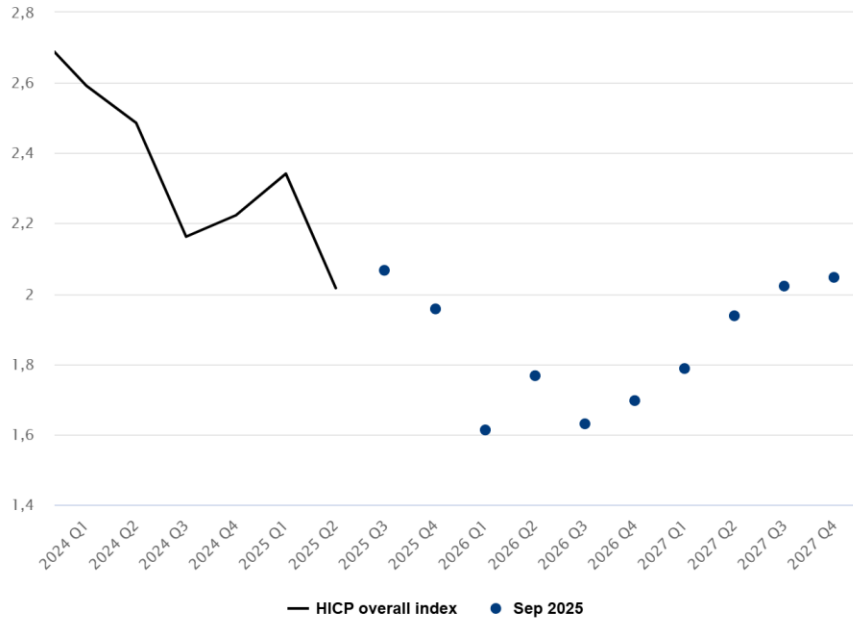


Source: Business survey of the European Commission (EC)

# HICP inflation expected to slightly undershoot in 2026

## HICP overall index and (B)MPE projections for the Euro Area

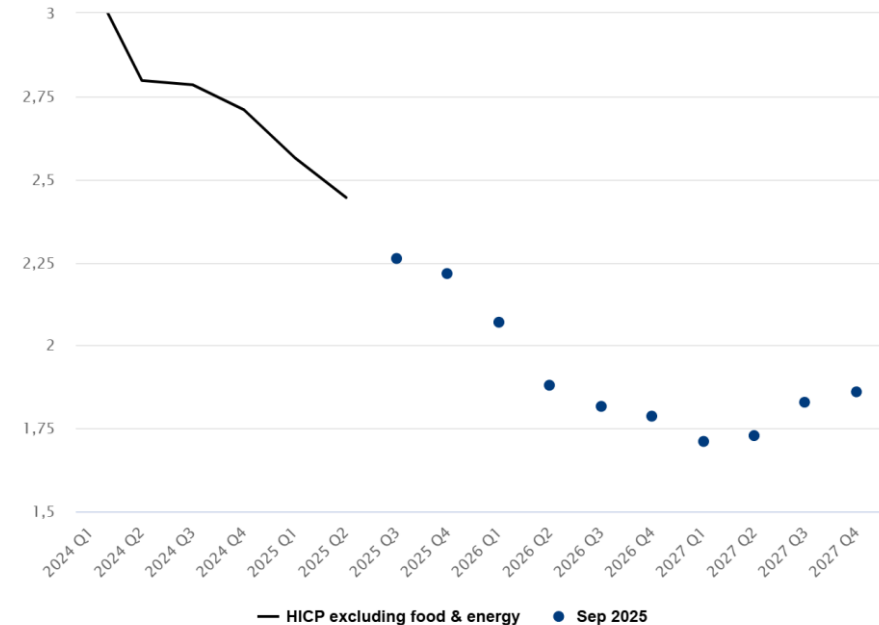
Annual growth rate, quarterly data



Source: Eurosystem staff Broad Macroeconomic Projection Exercise (BMPE)

## HICP excluding food & energy and (B)MPE projections for the Euro Area

Annual growth rate, quarterly data



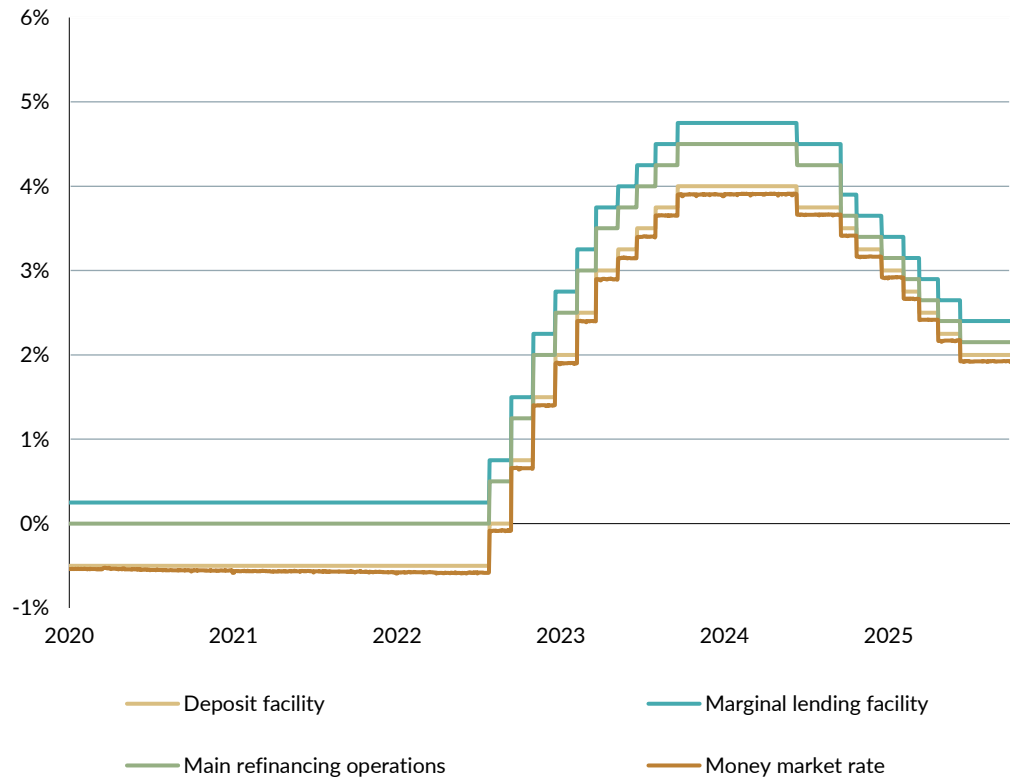
Source: Eurosystem staff Broad Macroeconomic Projection Exercise (BMPE)

- **HICP inflation** to hover around 2% for rest of 2025, expected to **undershoot in 2026**
- HICP inflation to be **below target in 2027** as well (both with and without ETS2)

- core inflation expected to ease further due to services inflation
- wages expected to continue to decline gradually amid tight labor market, supporting the ease in services inflation

# Eurosysteem reduced key policy rates in eight steps since June 2024

Key ECB interest rates, and money market rate

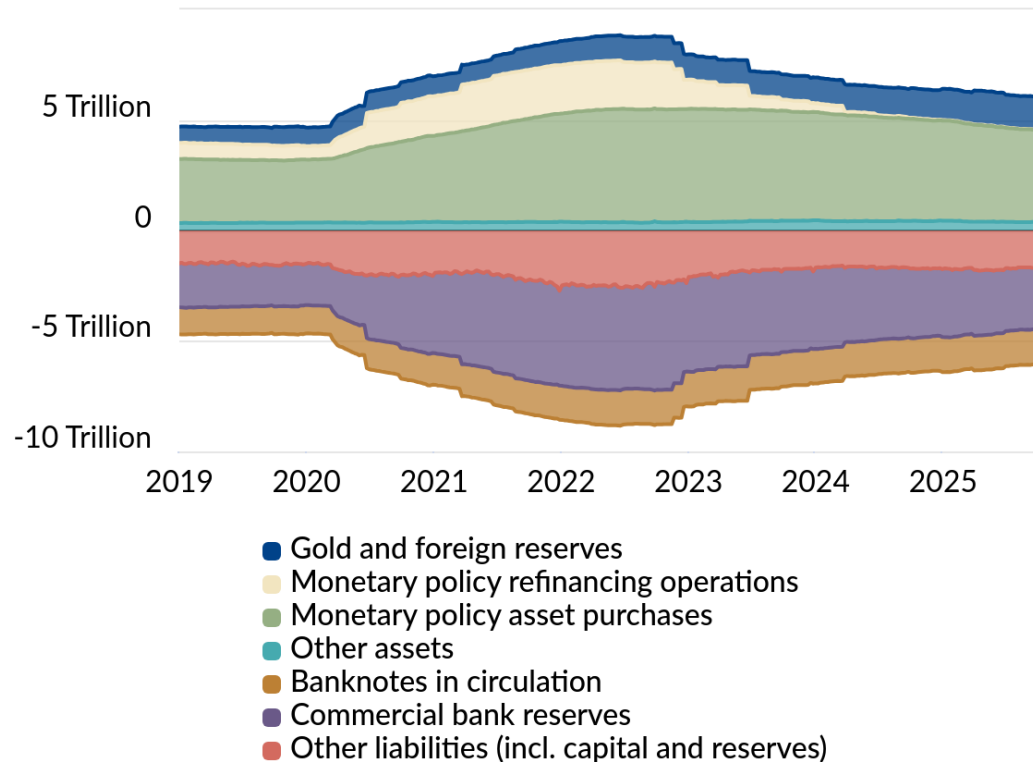


Quelle: ECB SDW (public).

- In September 2025, the ECB Governing Council decided to keep the three key ECB interest rates unchanged
- Since June 2024, the deposit facility rate was reduced by a total of 200 basis points, thereby halving the rate since the peak of the last rate hiking cycle
- Money market interest rates remain slightly below the deposit facility rate, which has stood at 2.00% since June 11, 2025
- The ECB Governing Council will continue to follow a meeting-by-meeting and data-dependent approach to determining the appropriate monetary policy stance

# QT proceeds and reduces bank reserves at the central bank

Consolidated financial statement of the Eurosystem  
Assets vs. Liabilities

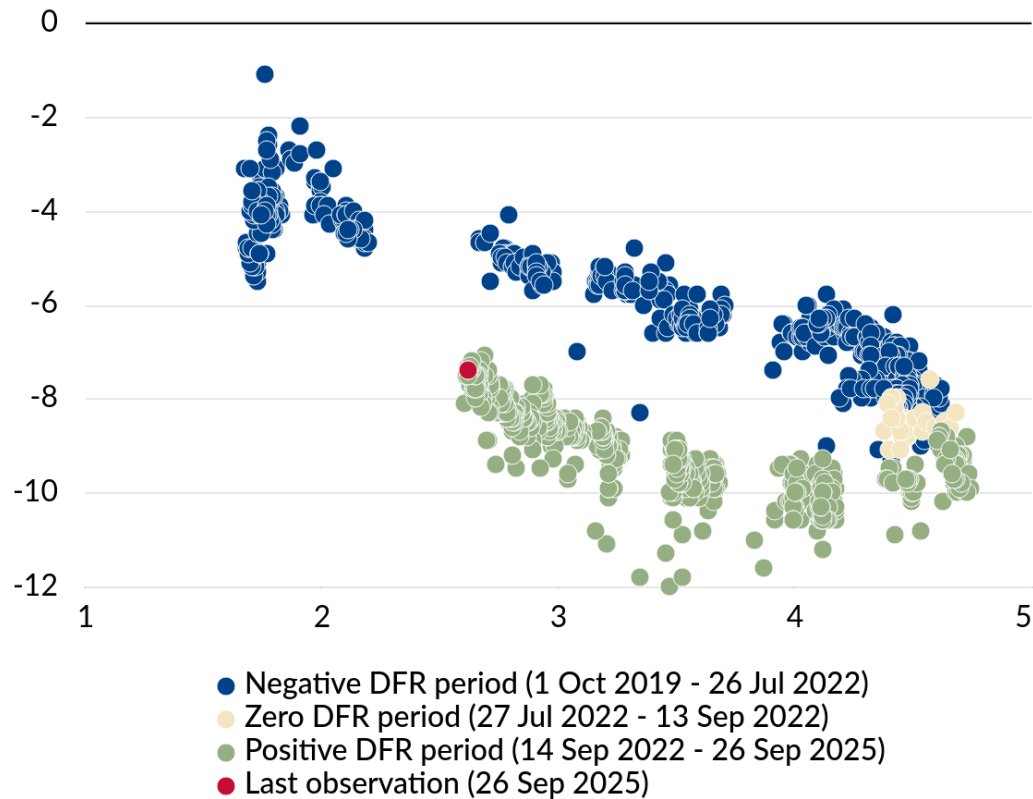


Source: ECB SDW (public).  
Latest historical observation: 2025-09-26

- The consolidated balance sheet of the Eurosystem peaked at €8.8 trillion in mid-2022
- By end of 2024, long-term loans to banks (TLTRO III) totaling around €2 trillion have been fully repaid
- APP and PEPP portfolios continue to decline at a predictable pace. The portfolios are expected to decrease by €0.9 trillion by end-2027 and reach a combined level of €3 trillion
- On the liability side the balance sheet reduction mainly results in a decline in banks' central bank reserves

# QT increases interest rates relative to key policy rates

Relationship between excess reserves and the €STR-DFR spread  
 x-axis: excess reserves (EUR trillion); y-axis: €STR-DFR spread (basis points)



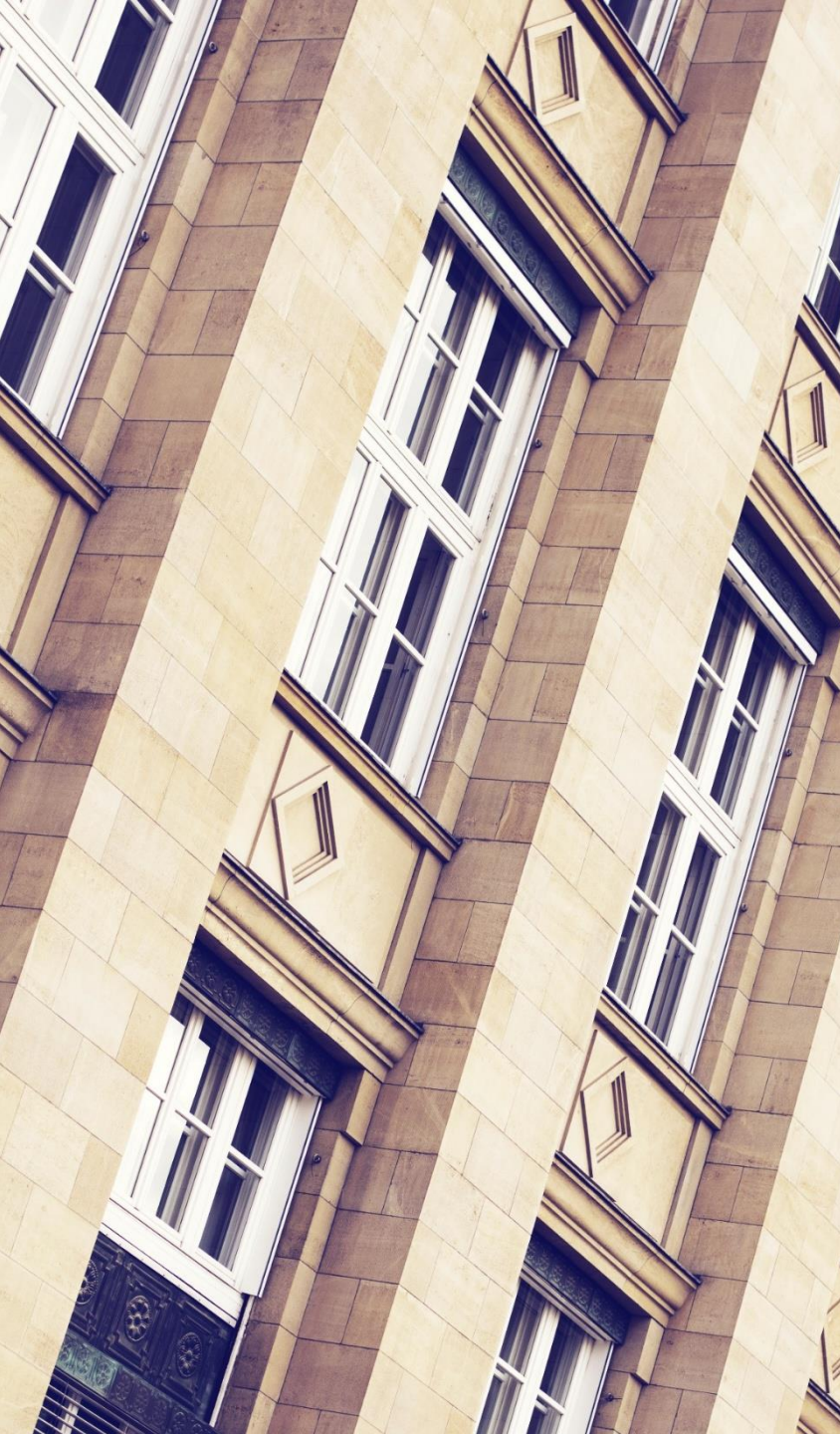
Source: ECB SDW (public).

- Asymmetry
  - €STR-DFR spread reacts less strongly to the reduction in excess reserves than in the build-up. Relationship still exists, but seems weaker
- Possible explanations
  - End of the two-tier system in the remuneration of excess reserves starting in September 2022: increased supply of reserves in money market
  - Banks' market power vis-à-vis non-bank financial intermediaries in positive interest rate environment
- Looking ahead
  - Excess reserves will decline further and so will the €STR-DFR spread

## ECB Strategy Review 2025

- The symmetric 2% inflation target remains in place
- Not only persistent undershooting of the inflation target requires strong monetary policy responses (conclusion of the 2020/21 strategy review), but also persistent overshooting of 2% (new)
- Ongoing structural shifts in the economy and changes in the international financial system suggest that the inflation environment will remain uncertain, with potentially larger deviations from the target in both directions
- The key interest rates remain the ECB's most important monetary policy tool. To respond flexibly to future shocks, all other instruments will also remain part of its toolkit
- The next assessment is intended to be in 2030





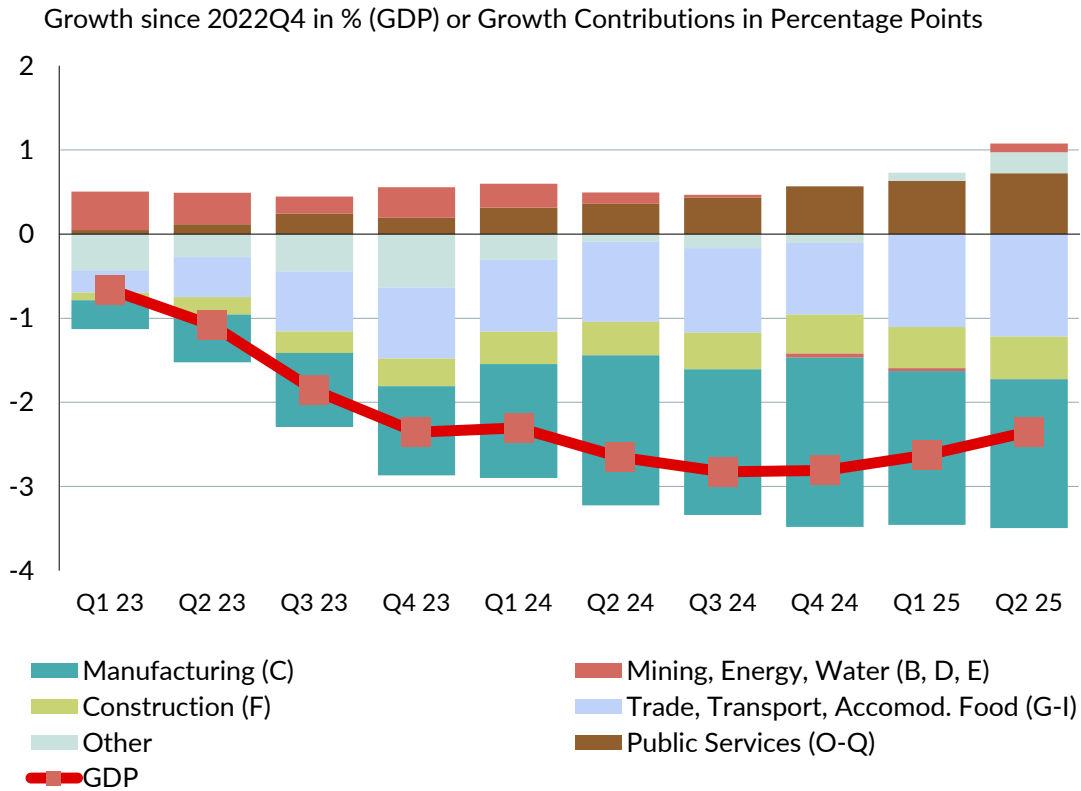
## Recent developments in Austria

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# Reasons for weak growth performance:

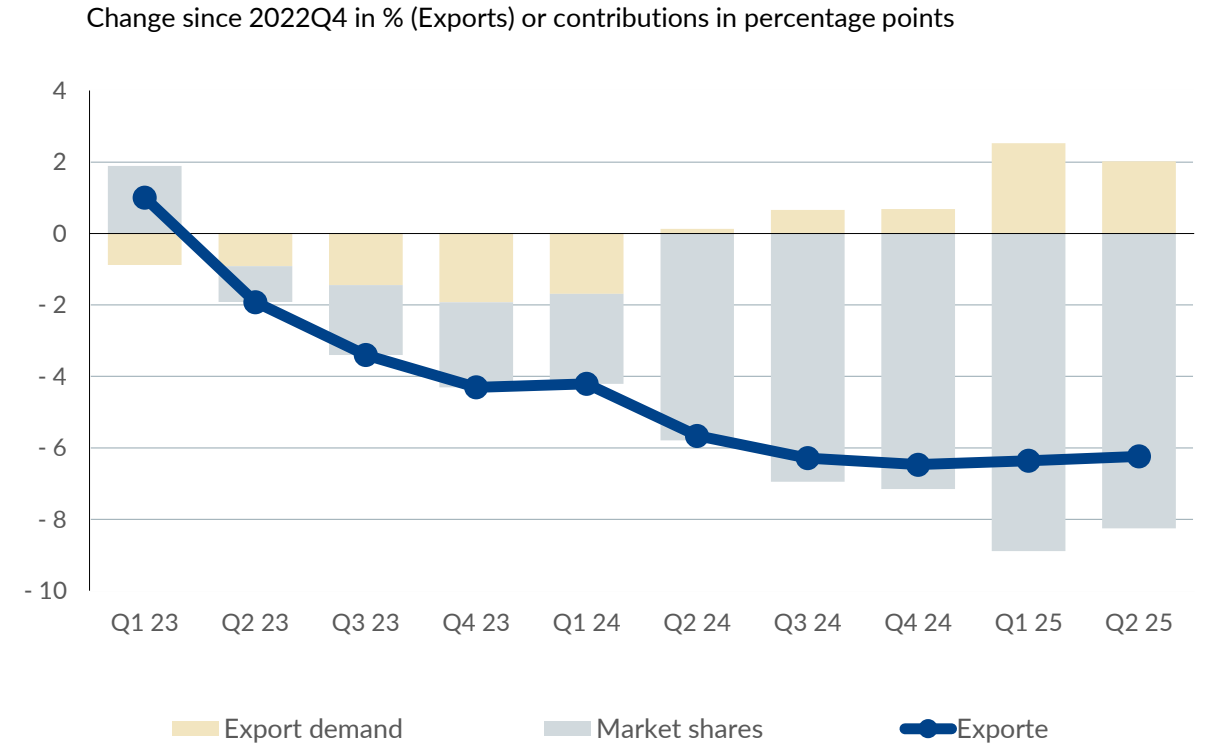
## 1. Industrial recession reflected in export decline

### Real GDP and Contributions of Economic Sectors



Source: Statistik Austria.

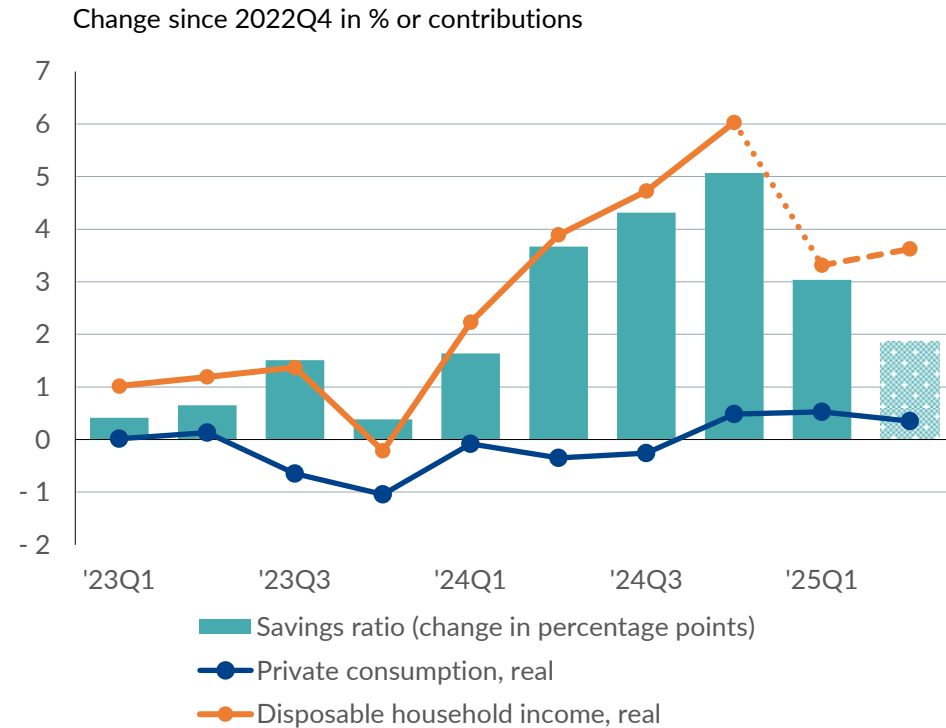
### Exports and market shares



Source: Statistik Austria.

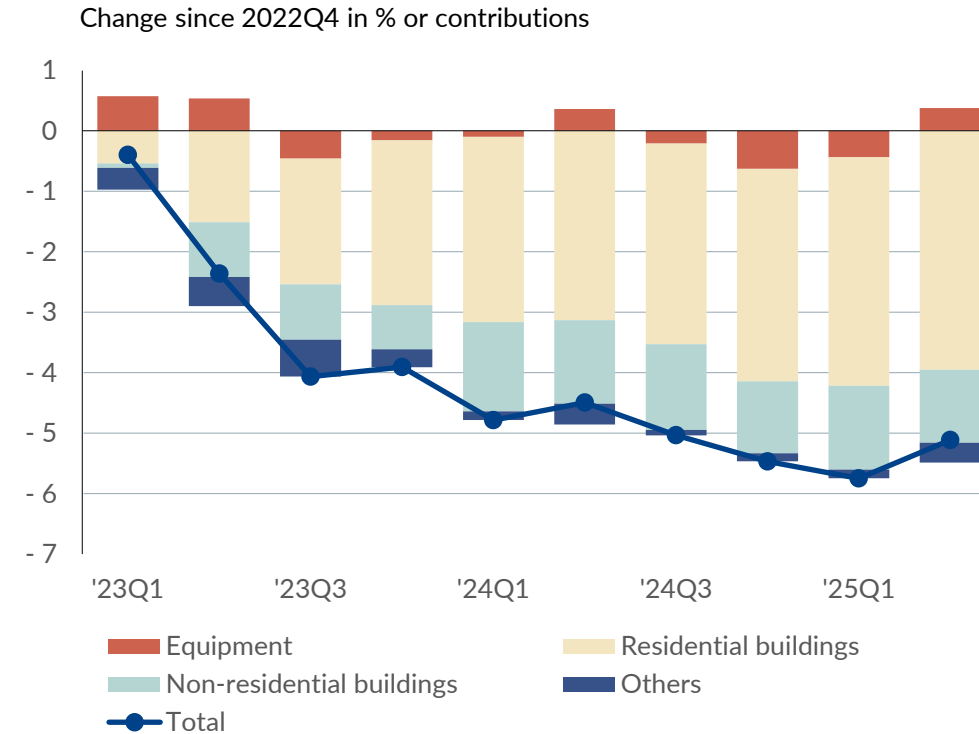
## 2. Increased savings rate and 3. End of housing construction boom burden domestic demand

### Private consumption



Source: Statistics Austria.

### Investments

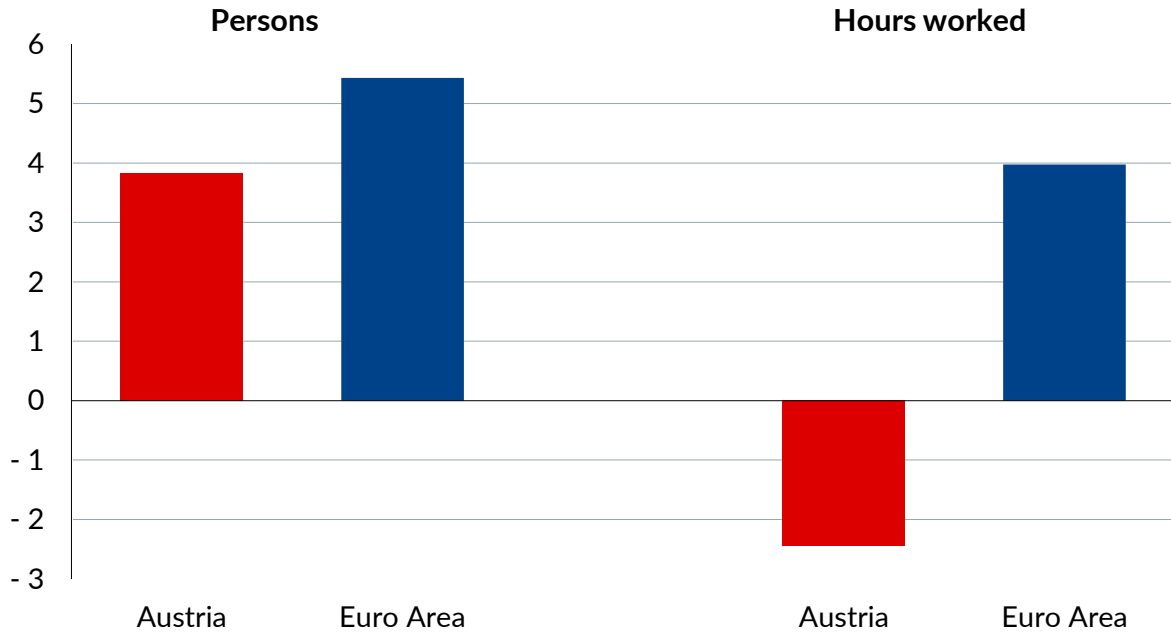


Source: Statistics Austria.

# Labor market: Decreasing Work Volume amid high Tariff Wage Increases

## Employment growth from 2019 to 2025Q2

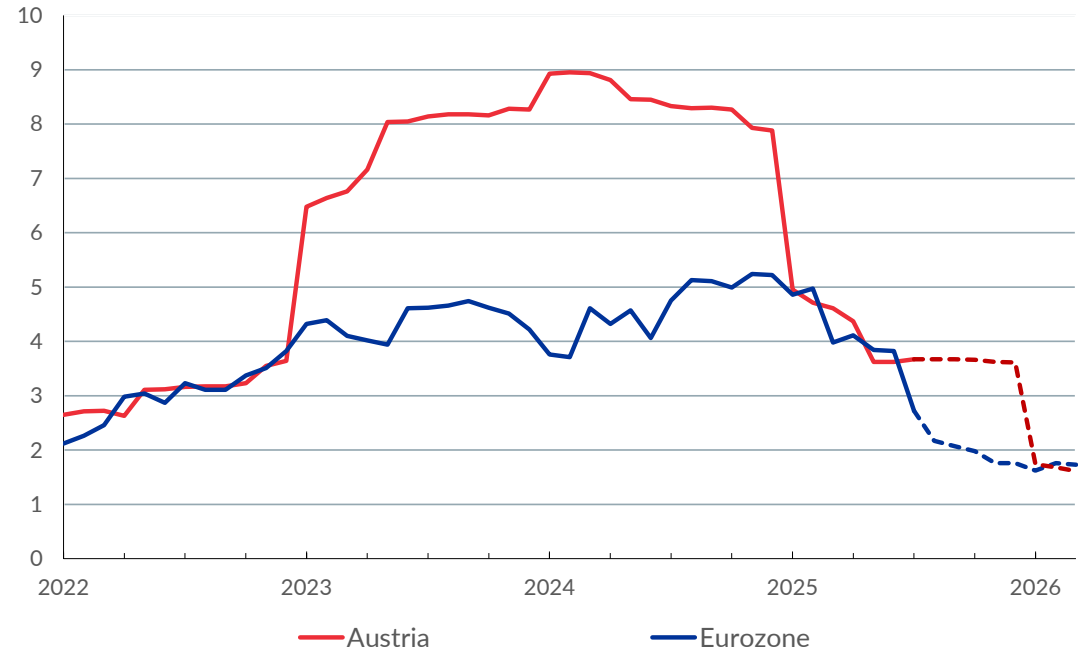
Change 2025Q2 relative to 2019 average in %



Source: Eurostat.

## Collectively bargained wages and salaries and wage tracker

Year-on-year change in %



Source: Eurosystem. Dashed lines: Forward-looking Wage Tracker. As of: Sep. 3, 2025.

# Main projection results for Austria: Modest growth amid persistent inflation

## GDP growth

- Modest recovery

## Labor market

- “Only” a slight increase in the unemployment rate

## Inflation

- Upward revision by ½ percentage point

## Forecast risks are downward

- Trade policy uncertainty
- Fiscal consolidation measures
- Continued high inflation dampens consumer sentiment

## OeNB June 2025 outlook for Austria – main results

|  | September 2025 |      |      | Revisions since June 2025 |      |      |
|--|----------------|------|------|---------------------------|------|------|
|  | 2025           | 2026 | 2027 | 2025                      | 2026 | 2027 |
| <b>Annual change in %</b>                  |                |      |      |                           |      |      |
| Gross domestic product (real)              | 0,3            | 0,8  | 1,1  | 0,1                       | -0,1 | -0,0 |
| Harmonised Index of Consumer Prices (HICP) | 3,5            | 2,4  | 2,3  | 0,5                       | 0,6  | 0,2  |
| Unemployment rate (national definition)(%) | 7,4            | 7,4  | 7,2  | 0,0                       | 0,0  | 0,0  |

Source: OeNB June 2025 outlook.

## Forecast of other institutions

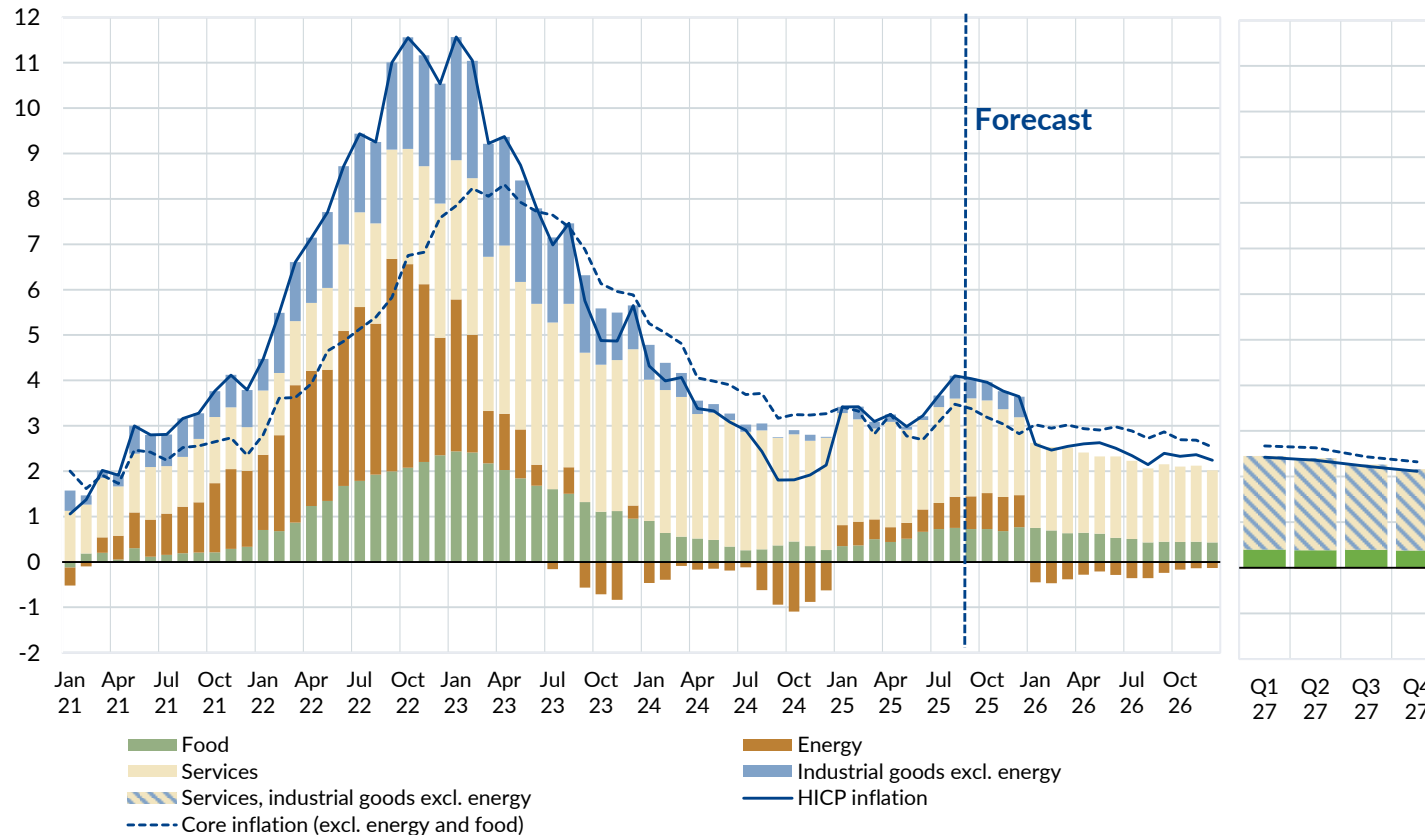
| Institution | Published | GDP  |      | HICP-Inflation |      |
|-------------|-----------|------|------|----------------|------|
|             |           | 2025 | 2026 | 2025           | 2026 |
| OeNB        | 10/2025   | 0,3  | 0,8  | 3,5            | 2,4  |
| WIFO        | 06/2025   | 0,0  | 1,2  | 2,9            | 2,2  |
| IHS         | 06/2025   | 0,1  | 1,0  | 3,0            | 1,9  |
| OECD        | 06/2025   | -0,3 | 1,0  | 3,0            | 1,9  |
| EC          | 05/2025   | -0,3 | 1,0  | 2,9            | 2,1  |
| IMF         | 04/2025   | -0,3 | 0,8  | 3,2            | 1,7  |

Source: EC, IHS, IMF, OECD, OeNB, WIFO.

# Drivers of inflation: Services Food only contributes marginally...

## Contributions of components to HICP inflation

Inflation in %; inflation contributions of components in percentage points



**Services remain** the most important driver of inflation (determined by wage developments)

**Energy prices** determine changes in inflation rates

- 2025: Energy inflation temporarily strong due to expiry of fiscal measures
  - › Decline in energy prices during the year (not shown in figure)
- 2026: Energy inflation declines due to base effect

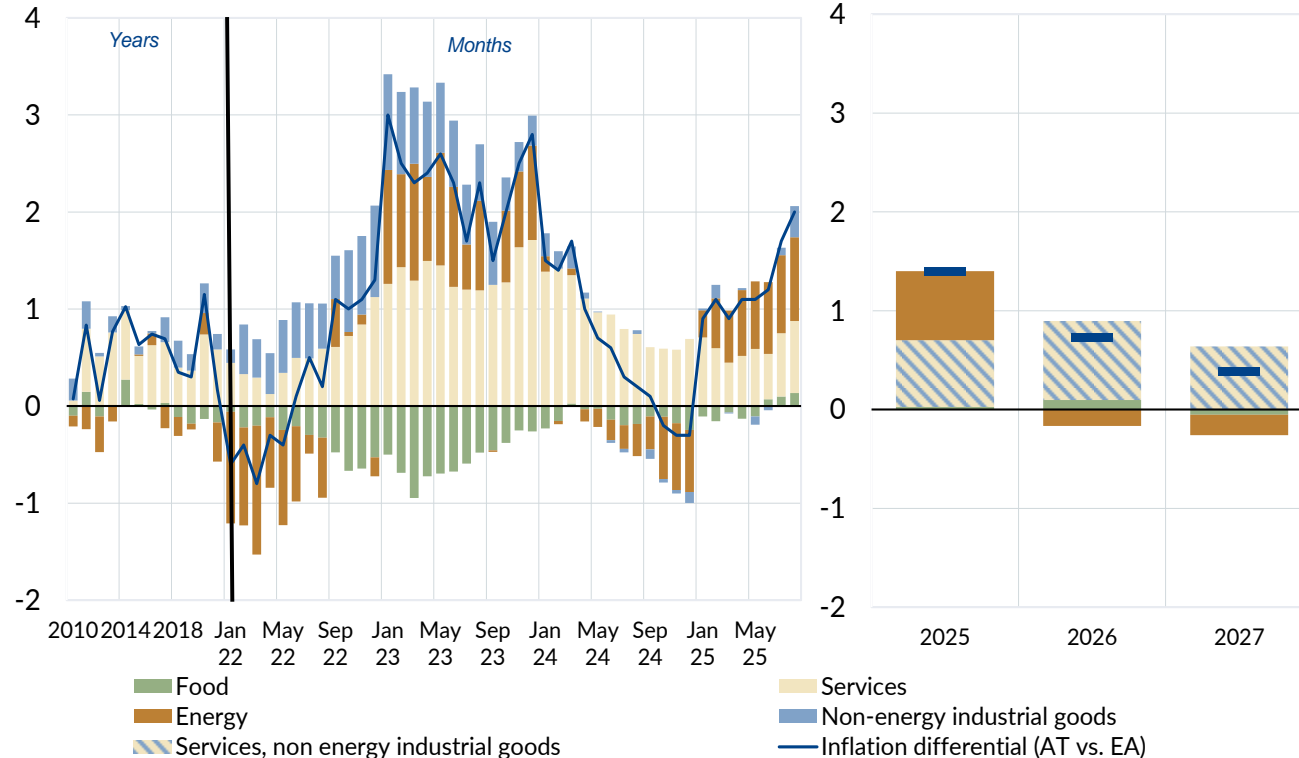
**Food** makes only a **minor** contribution to inflation

# Inflation difference between Austria and the euro area: determined by services and energy

## Inflation differential: Austria - Euro Area

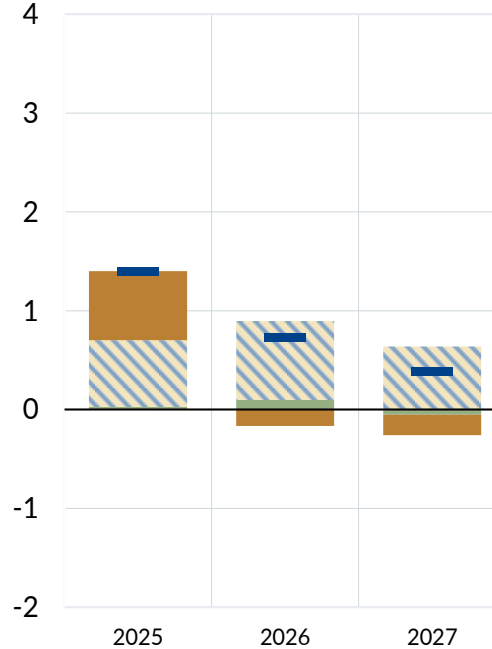
Contributions in percentage points

August 2025: 2.0 percentage points



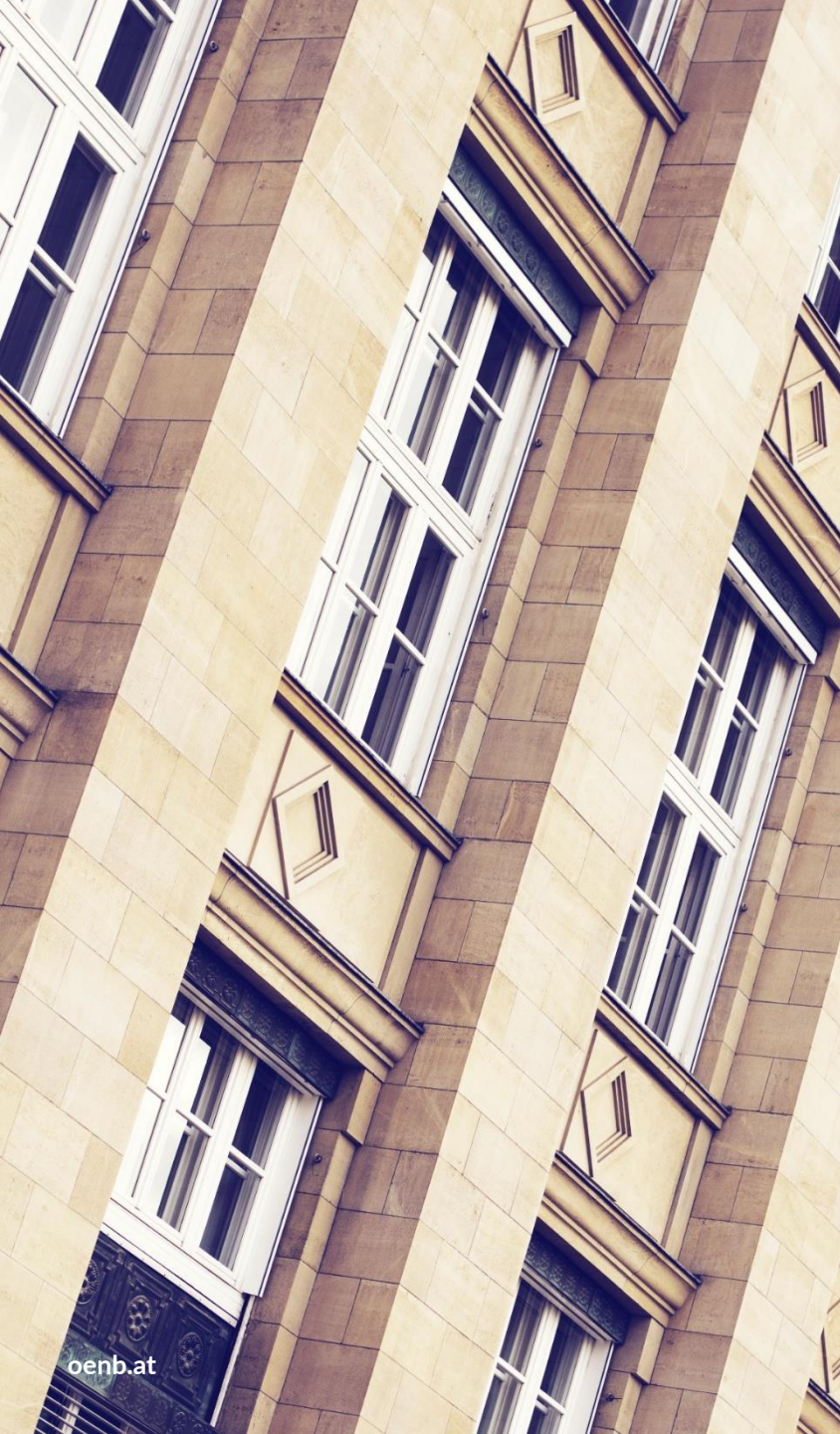
Source: OeNB, Eurosystem, Eurostat.

## June 2025 forecast



## Inflation higher than in the euro area







- Consistently since 2009
- **Due to higher service inflation**
- **Energy inflation explains fluctuations**
  - Difference in energy inflation large and volatile since 2022
    - Fiscal measures
      - › different in size and timing
    - CO2 pricing
      - › already introduced in Austria
- **Food inflation had a slightly dampening effect**



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# Thank you for your attention!

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