# Flash Economics

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# Is the Eurozone's monetary policy truly expansionary?

If we look at the short-term interest rate (the deposit rate at the ECB), we can see that it is currently lower than the nominal growth rate of the Eurozone (2% compared to 1.2% for expected growth in 2025 and 2.4% for expected core inflation). Therefore, one could conclude that the Eurozone's monetary policy is expansionary.

However, we also observe that the 10-year interest rate on government debt in the Eurozone (3.17%) is close to the nominal growth rate, and the 10-year rate is above the nominal growth rate in France and Italy. Furthermore, the ECB continues to rapidly reduce the size of its balance sheet (it is still pursuing Quantitative Tightening).

Overall, the Eurozone's monetary policy is therefore rather neutral, or even slightly restrictive.

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## One could believe that the Eurozone's monetary policy is expansionary

**The short-term interest rate** (the deposit rate of the ECB) **is currently 2%, while the Eurozone's nominal growth rate is 3.6%** (1.2% for expected growth in 2025, 2.4% for expected core inflation in 2025), as shown in **Charts 1A/B/C**.

Chart 1A
Euro zone: European Central Bank deposit rate (as %)

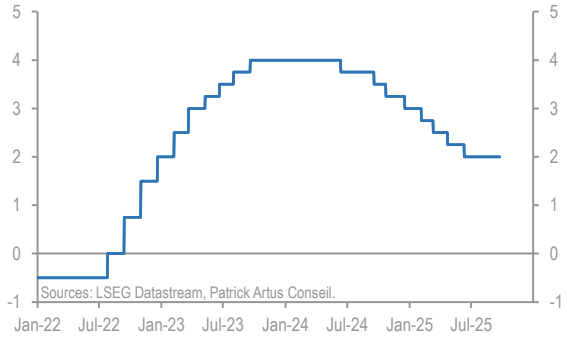



Chart 1B
Euro zone: Core inflation
(HICP excl. energy and unprocessed food, Y/Y as %)

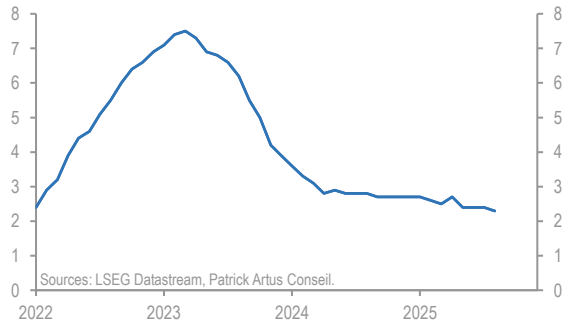
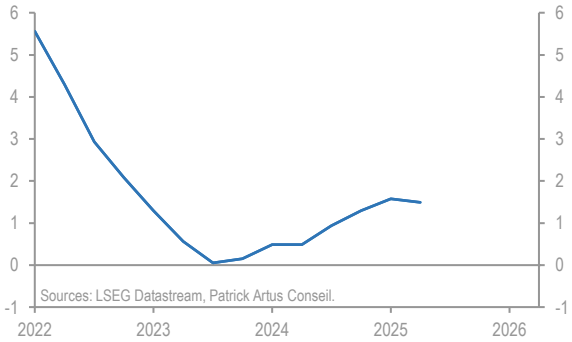



Chart 1C
Euro zone: Real GDP growth (Y/Y as %)




One could therefore believe that monetary policy is expansionary, **with the short-term interest rate being significantly lower than nominal growth (by -1.6 percentage points)**.

## However, the other characteristics of the monetary policy are rather restrictive

1. First, consider the level of **long-term interest rates** and their comparison with **nominal growth**.

When adding GDP growth in the first half of 2025 (annualized, 0% in Germany; 0.8% in France; 0.4% in Italy; 2.6% in Spain) to the core inflation rate for the year ending August 2025 (2.7% in Germany; 1.2% in France; 2.1% in Italy; 2.4% in Spain), we arrive at **the following estimate for long-term nominal growth on an annual basis**:

- 2.7% in Germany
- 2.0% in France
- 2.5% in Italy
- 5% in Spain

**The 10-year interest rate on government debt** is:

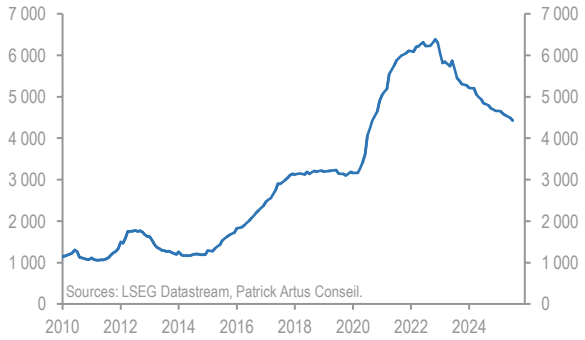
- 2.8% in Germany
- 3.6% in France
- 3.6% in Italy
- 3.3% in Spain

**We can see that in France and Italy, the long-term interest rate is significantly higher than nominal growth, it is equal to nominal growth in Germany, and only in Spain is it lower**.

**In two of the four largest Eurozone countries, the level of long-term interest rates corresponds to a restrictive monetary policy**.

2. **The ECB continues to rapidly reduce the size of its balance sheet** (it is pursuing a Quantitative Tightening policy, as shown in **Chart 2**). The ECB's research estimates that a reduction of €1 trillion in its balance sheet leads to an increase in the long-term interest rate in the Eurozone by 35 basis points.

**Chart 2**
**Euro zone: Monetary base (EUR bn)**




**The ECB's liquidity policy (money creation) is therefore restrictive**.

## Summary: What is the overall orientation of the Eurozone's monetary policy?

The short-term interest rate policy is expansionary. The level of long-term interest rates corresponds to a restrictive monetary policy for France and Italy, neutral for Germany, and expansionary for Spain. The liquidity policy (money creation) is restrictive.

**Overall, the ECB's monetary policy is neutral, or even slightly restrictive**.

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