

# MONETARY POLICY: WHAT'S NEXT?

TRANSCRIPTION



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# Introduction: An overview of current challenges

## Isabelle Mateos y Lago

**Isabelle Gounin-Lévy:** Welcome, Isabelle Mateos y Lago. You are the Group Chief Economist of BNP Paribas. In your opinion, what are the key areas of concern for central banks in the coming semesters?

**Isabelle Mateos y Lago:** Hello, thanks for having me here. There are really three groups of central banks, just to oversimplify. One group is facing inflation that is above target and, frankly, moving away from target. But at the same time, there's an economy that is weakening. And the main central banks that are in this situation are the Fed, the Bank of England, and the Bank of Japan, with an important difference, which is that the Fed and the Bank of England are running still restrictive monetary policy and are in the process of easing, whereas the Bank of Japan is tightening from a very accommodative stance. Then you have central banks like the ECB, which have basically brought inflation back to target and are running neutral monetary policy, but need to remain alert to downside risks, to growth and inflation, and have the potential to ease more. And you could see the Bank of Canada as also being part of that group. And then you have a group that is fully back to inflation that is too low. In fact, even deflation in the case of the People's Bank of China, and that have to run very accommodative policy. And another central bank in that group is the Swiss Central Bank, which has interest rates back to zero.

**Isabelle Gounin-Lévy:** Apart from the usual business cycle fluctuations, what structural changes do central banks need to take into consideration and how?

**Isabelle Mateos y Lago:** That's a really good question. And unfortunately for them, there's quite a few. The most important one perhaps is population change or workforce change. Until recently, this was primarily driven by demographics, which is a slow-moving variable, fairly predictable. But recently, and particularly in the case of the US, there's been a big change in immigration policy that has led to a very fast and massive reduction in the foreign-born labour force. And so basically, when you have the workforce that contracts, it reduces the growth potential of the economy, which is like the maximum speed at which the economy can grow without overheating. So that's an important thing to consider. Another one is climate change and the energy transition, which is likely to lead to more volatile inflation because there's going to be episodes of scarcity that leads to inflation shooting up. Now, when these things happen fairly rarely, the central banks can ignore these shocks. But when they become more frequent, then it could lead to de-anchoring inflation expectations and central banks may have to react. And then the third one, which unlike the other two, is a more positive one, something



that could be helpful to central banks, is artificial intelligence, which has the potential to increase productivity, increase the growth potential of economies. So, what economists call a positive supply shock. The problem is we don't know when it will materialize, and we don't know how big of a help it will be. The estimates range from a quarter percent of GDP to four percent of GDP boost over the next 10 years. So, it could help, but it would be unwise for central banks to bet on it.

**Isabelle Gounin-Lévy:** Are financial markets being complacent and how should central banks think about exchange rates?

**Isabelle Mateos y Lago:** That's another very good question. It's true that financial market conditions have been fairly supportive of global growth year to date. And frankly, that's been helpful also to central banks. The fact that the dollar has depreciated has helped many central banks loosen monetary policy, which, again, has been helpful to global growth. But as ever, you can have too much of a good thing. And if we were to see, you know, bubbles forming or the dollar depreciate too fast, that could be a problem. So that's definitely something to keep in mind for central banks.

**Isabelle Gounin-Lévy:** Do you think the independence of central banks will be called into question in the future?

**Isabelle Mateos y Lago:** Well, we're already seeing this happening in real time in the United States. I think it's important to remember that there is a very long history of non-independent central banks, both in emerging markets, but also in developed markets. And that's not a happy history. It's a history that leads to high inflation and lower growth. And that's why there is now an overwhelming consensus that having an independent central bank is a good construct for growth and stability. There is a bit of a wrestling match unfolding in the U.S. between the Trump administration and the Federal Reserve. And the outcome of that fight is going to be critically important for the rest of the world. For now, we're not seeing independence being challenged in other regions. But of course, if governments of the same political inclination as the Trump administration were to come into power in the rest of the world, they might be tempted to follow down the same path. So central bank independence is not something we can take for granted anymore, unfortunately.

**Isabelle Gounin-Lévy:** Thank you very much, Isabelle. And let's start with Advanced Economies.

**Isabelle Mateos y Lago:** Thank you.



# Part 1 — Central banks at a crossroads

## Anis Bensaidani

**Isabelle Gounin-Lévy:** Anis Bensaidani, welcome. You're an economist in the Advanced Economies team. So, the loss of independence of central banks is a risk that is currently being discussed in relation to the Fed.

What could be the practical consequences of this?

**Anis Bensaidani:** Well, History has taught us that the independence of central banks has improved the conduct of monetary policy. In the late 1970s, it allowed Chair Paul Volcker to sharply raise interest rates to curb inflation.

When politicians exert pressure to reduce interest rates without justification, whether it be to boost the economy or to reduce their fiscal interest burden, the risk of sustained inflation increases. As a result, both households and markets expect increases. As a result, both households and markets expect higher inflation. Then the former are inclined to reduce their consumption, while the latter push long-term yields higher. Today, these are two risks that the United States must avoid.

**Isabelle Gounin-Lévy:** In the meantime, it should be remembered that the Federal Reserve is pursuing two objectives, namely ensuring price stability and maximum employment.

**Anis Bensaidani:** Yes, and the two sides of this dual mandate currently raise questions with different implications in terms of monetary policy. On the one hand, inflation has been overshooting the 2% year on year target for 55 months. Moreover, we forecast a moderate increase until mid-2026, driven by the pass-through of tariffs, which suggests a restrictive bias. But at the same time, the labour market is weakening markedly, illustrated by low payroll growth. And these developments imply that the employment component of the dual mandate should be prioritized in short-term decisions. This is why we forecast that the Fed will cut rates three times by year-end, 25 bps each, one per meeting.

**Isabelle Gounin-Lévy:** That's for the Federal Reserve. Conversely, the European Central Bank now seems to be moving towards maintaining the status quo. Why is that?

**Anis Bensaidani:** First, we must give credit where credit is due. The ECB has pursued a monetary easing cycle, halving its deposit rate from 4% to 2% in less than a year. The ECB was able to undertake such a policy because the previous tightening cycle delivered in terms of reducing the inflationary pressures, as illustrated by the fact that the CPI returned to the 2% target. Nevertheless, it must be noted that European growth shows signs of resilience, while the inflation rate appears to be firmly anchored at the target. With the prospect of a German growth recovery, which is likely to have a knock-on effect on the rest of the Eurozone, the wait-and-see approach prevails. The unemployment rate has reached historic lows in the Eurozone, and the ECB is currently following a cautious

approach until it is certain that this recovery will not lead to renewed inflationary pressures.

**Isabelle Gounin-Lévy:** Thank you, Anis.

**Anis Bensaidani:** Thank you, Isabelle.

**Isabelle Gounin-Lévy:** We are now going to see what is the impact of these monetary policies on banks lending rates.



## Part 2 — Credit costs in the euro area expected to stabilize in the wake of market rates

### Thomas Humblot

**Isabelle Gounin-Lévy:** Thomas Humblot, welcome.

**Thomas Humblot:** Hello, Isabelle.

**Isabelle Gounin-Lévy:** You are an economist in the Banking Economics team. Credit costs in the Euro area are expected to stabilise in the wake of market threats. How are bank lending rates to households evolving in the Eurozone?

**Thomas Humblot:** Regarding households, fixed-rate loans account for around three quarters of new loans for house purchases in the Eurozone. And as a result, their average rate is largely influenced by the 10-year swap rate. And this 10-year swap rate is a good indicator of the cost of long-term bank funding and depends on inflation expectations and long-term policy rates. It peaked in autumn 2023, then fell with disinflation and the downward revision of the ECB's key interest rate expectations. Since spring 2024, it has been ranging between 2.3% and 2.6%. These developments have been reflected with a slight lag in the average rate of housing loans, and after peaking at 4.06% in November 2023, it fell sharply until February 2025 to 3.33%, and then stabilised around that level, standing at precisely 3.28% in July 2025, according to the latest figures published by the ECB.

**Isabelle Gounin-Lévy:** And what about consumer loan rates?

**Thomas Humblot:** Consumer loan rates for their part are more dependent on intermediate maturity market interest rates, and they fell slightly from around 8% in January 2024 to 7.46% in July 2025, but much less sharply than market rates. And this is because they incorporate a risk premium that remains relatively high in an uncertain economic environment.

**Isabelle Gounin-Lévy:** And what about loans to businesses?

**Thomas Humblot:** In July 2025, loans to non-financial corporations with a reference rate of three months or less accounted for about 60% of new lending and as much as 80% if the maturity is extended to one year. And as a result, business loans are on average more dependent on short-term market rates than on long-term rates. And in this perspective, after peaking at 5.78% in November 2023, they fell until July 2025 to 3.52%.

**Isabelle Gounin-Lévy:** How do you see the cost of credit for households and businesses evolving over the coming quarters?

**Thomas Humblot:** In our scenario, key interest rates are expected to stabilize at their current levels until at least autumn 2026. The moderate rise in some 10-year sovereign rates that we anticipate masks relative stability in key interest rate expectations and in the 10-year swap rate. Such moderate increase also stems from an assumption of widening swap spread, which measures the difference between sovereign rates and the swap rate. And in this perspective, credit conditions for households and for businesses are expected to remain fairly close to their current levels during the next few quarters, based on these underlying assumptions.

**Isabelle Gounin-Lévy:** Thank you, Thomas.

**Thomas Humblot:** You're welcome, Isabelle.

**Isabelle Gounin-Lévy:** Let's now talk about Emerging Economies.



## Part 3 — Emerging Economies: between resilience and monetary vigilance

### Salim Hammad

Isabelle Gounin-Lévy: Salim Hammad, welcome.

Salim Hammad: Thank you.

Isabelle Gounin-Lévy: You're an economist in the Emerging Economies team. In this complicated context for Advanced Economies, Emerging Economies have fared relatively well since the beginning of the year. Export performance has been solid and domestic demand has also supported economic activity. But can you tell us what role has monetary policy played in that performance?

Salim Hammad: Well, yes, you're absolutely right. Emerging markets have performed better than anticipated at the start of the year. On the external front, exports of goods have held up relatively well in the face of the tariff shocks, especially in China, ASEAN countries, as well as northern Asia. And also on the domestic front, we've seen internal demand support or drive growth, and that dynamic has been supported by monetary policy. And in fact, since the start of this year, in two-thirds of the largest emerging markets that we monitor, we've seen central banks cut rates, and that monetary easing has been relatively broad, based across regions, with even in some economies, cuts that have been significant, namely in countries such as India, Indonesia, Egypt, and Mexico. And this has helped to fuel the acceleration of credit growth. And in some parts, in particular in Central Europe and Latin America, that has been more poignant. On the other hand, in China, we have a different story there, because both lenders and borrowers have been extremely cautious, and so bank lending growth has actually slowed down. Elsewhere, in other Economies, such as Vietnam, as well as Romania, central banks have actually kept rates unchanged, partly because of persistent pressures on these countries' currencies. And a notable exception here is Brazil, where monetary authorities have actually tightened policy further over the first half of this year, due to persistent inflation above the 3% target of the central bank, and because of unanchored inflation expectation due to fiscal concerns. And in that country, policy rates have reached 15%, which is a historical high in 25 years. The good news, though, is that both inflation and credit have been edging back in recent months, albeit at a slow pace.

Isabelle Gounin-Lévy: Monetary easing across emerging markets has been supported by several factors. What are they?

Salim Hammad: Well, first, the wave of monetary easing reflected the disinflationary trend of last year, which persisted in 2025. And that's been true in Asia, in Latin America, as well as Turkey. On the other hand, in Central Europe, inflation has proven more sticky, with the exception of Poland. The external environment, however, has also helped to support disinflation and monetary easing in emerging markets. We've seen, for instance, global oil prices decline. We've also seen higher imports of cheaper Chinese goods, and



external financial conditions have been favourable. And that has taken the form of increased capital inflows, lower risk premia, and more importantly, a weaker US dollar. And so, as a result, most emerging market currencies have appreciated against the US dollar in 2025. Central European currencies, meanwhile, have actually also either stabilized or appreciated against the euro. And so, the bottom line is that these favourable exchange rate movements ultimately gave central banks more room to cut interest rates.

**Isabelle Gounin-Lévy:** What are your expectations regarding the course of monetary policy in emerging markets? And what are the main points to watch?

**Salim Hammad:** Well, the first point to keep in mind is that monetary easing will continue in the short-term in emerging markets. Central banks will continue to support economic activity and try to offset the negative impact of the tariff shock. The number of central banks that will cut rates is likely also to go up. Brazil might be easing its cycle in the first quarter of next year, for instance. But overall, however, monetary easing is likely to be more measured. One of the reasons behind that is because of the pace of this inflation, which will slow down, limiting the room for further rate cuts, and also because of inflation proving more sticky in some regions of the world, including Central Europe, India, as well as Mexico. Meanwhile, international financial conditions should remain favourable for monetary easing. The interest rate differential with the US should remain wide, and expectations point to a continued softening of the US dollar. However, there are some risks to that scenario. There are, of course, geopolitics, US trade, fiscal, and monetary policy that could affect investor sentiment, and at a more country-level, idiosyncratic risks in the form of macroeconomic fragilities and political risks. And in that respect, some countries in Latin America tend to stand out. And both these risks could eventually materialize into increased capital outflows from the region and translate ultimately into more frequent episodes of downward pressure on emerging market currencies.

**Isabelle Gounin-Lévy:** Thank you very much, Salim.

**Salim Hammad:** You're welcome.

