Central Banks

The ECB leaves the door open to a pause

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- **After the widely expected 25bp cut today, monetary policy has become “meaningfully less restrictive”, which means the ECB is preparing its landing of interest rates**
- **The usual “data dependency” mantra takes on greater importance now, signaling that upcoming decisions will be particularly sensitive to new economic indicators, especially inflation**
- **As expected, the ECB´s staff revised down activity and up inflation projections, but Lagarde sounded relatively dovish on inflation**
- **The ECB has not incorporated yet any assumptions on either more US tariffs to Europe nor higher defense spending, but surely they will play a role in the discussions in upcoming meetings**

At today’s ECB monetary policy meeting, **the Governing Council decided to cut key interest rates by 25 basis points,** marking the fifth consecutive reduction and the sixth since the easing cycle began, and bringing the total adjustment to 150 basis points so far in this cycle. As a result, the deposit rate was lowered to 2.5%, while the rates for the main refinancing operations and the marginal lending facility were reduced to 2.65% and 2.90%, respectively. **The decision was reached by consensus, with no outright opposition**, although Austrian Governor Robert Holzmann abstained. President Lagarde highlighted that the discussion was more animated than usual, and there was a substantive debate reflecting a thorough assessment of economic conditions, inflation projections, and prevailing risks.

The ECB maintains that **inflation is evolving broadly in line with expectations**. However, with today’s rate cut adding to the previous ones, **the central bank acknowledges that its policy stance is now “meaningfully less restrictive” than before—signaling that they may be nearing the lower bound of this easing cycle**. Against this backdrop, President Lagarde reinforced the familiar **mantra of “data dependency” but with an added weight, suggesting that upcoming decisions will be particularly sensitive to new economic indicators**, especially inflation. The ECB’s next moves remain uncertain, as Lagarde reiterated that further rate cuts will only materialize if incoming data support them. At the same time, she made it clear that **if conditions no longer warrant additional easing, the ECB will not hesitate to hit the pause button**.

The new projections underpinning today’s interest rate cut are in line with what was expected (see table below). The **ECB's staff downgraded the activity outlook** based on weaker than expected incoming data (mainly lower net trade) and persistently high geopolitical uncertainty, which reinforce the risks to the downside. For the first time, **the ECB’s staff incorporated some impact of new tariffs on trade**, but only those between the United States and China, which have some second round effects on the eurozone's exports and investment. Lagarde emphasized the **outstanding level of uncertainty** surrounding the economic outlook, given the continuous and important news on economic policies in the US and Europe. In this respect, there were **many questions during the Q&A on the impact of announcements this week by Brussels on defense spending and the German parties on defense and infrastructure investment**, and the rise in yields that they have triggered. The ECB has not incorporated them in today’s figures, given the lack of details, but they have surely been a key part of the debate and will influence future decisions.

On inflation, the tone tended to be dovish despite upward revisions to headline inflation this year. The main driver was the energy price volatility, which spiked at the beginning of the year, but Lagarde stressed that the cut off date of the forecasts (weeks before the meeting) predates recent falls in energy prices. A further expected euro depreciation also prompted the upward revision, although no specific tariff on EU imports by the United States was assumed. **The balance of risks on inflation remains balanced**, although the boost in defence and infrastructure in Europe and tariff uncertainty from the US may add upward pressure on inflation; however, the latter may also drag on consumer confidence and business investment. **On core inflation, Lagarde expressed her confidence on the disinflation path** that follows the ECB's expectations, with all indicators clearly showing a lower pressure on wages.

On **quantitative tightening, she emphasized that the process has been unfolding smoothly, largely due to the ECB's well-telegraphed approach.** The central bank had already halted reinvestments under the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), alongside the full repayment of TLTRO funds. She stressed that this process was carefully planned and communicated in advance, enabling markets to absorb the adjustments without disruption. Lagarde made it clear that QT is not the ECB's primary monetary policy tool, reaffirming that interest rates remain the key instrument in guiding policy decisions.

Overall, **the ECB's interpretation of inflation data appears somewhat dovish, reinforcing expectations of further easing. We continue to anticipate two additional rate cuts in the upcoming meetings, though the risk of a pause or a slower pace of easing has clearly increased,** particularly given the prospect of higher fiscal spending across Europe. At the same time, this must be weighed against potential downside pressures from possible higher US tariffs on Eurozone exports. However, consensus within the Governing Council is likely to become more difficult by April, **and any upside surprises in inflation data in the meantime could prompt the ECB to hold rates steady.**

TABLE 1: ECB MACROECONOMIC PROJECTIONS

Annual. var. (%), unless otherwise indicated	2023	2024	2025 ECB Mar.	2025 ECB Dec.	2026 ECB Mar.	2026 ECB Dec.	2027 ECB Mar.	2027 ECB Dec.
Real GDP	0.5	0.8	**0.9**	1.1	**1.2**	1.4	**1.3**	1.3
HICP	5.4	2.4	**2.3**	2.1	**1.9**	1.9	**2.0**	2.1
HICP excluding energy and food	4.9	2.8	**2.2**	2.3	**2.0**	1.9	**1.9**	1.9
Unit labour costs	6.3	4.7	**3.0**	2.6	**2.0**	2.0	**1.7**	2.0
Compensation per employee	5.4	4.6	**3.4**	3.3	**2.8**	2.9	**2.6**	2.8
Labour productivity	-0.9	-0.1	**0.4**	0.8	**0.8**	0.9	**0.9**	0.8
3-month EURIBOR	3.4	3.6	**2.2**	2.1	**2.0**	2.0	**2.1**	2.2
10-year government bond yields	3.1	2.9	**2.9**	2.9	**3.0**	3.1	**3.2**	3.2
Oil price (in USD/barrel)	83.7	82.0	**74.7**	71.8	**70.3**	70.1	**68.7**	69.2
Natural gas prices (EUR/MWh)	40.6	34.4	**50.2**	42.9	**40.4**	34.9	**31.7**	29.3
USD/EUR exchange rate	1.08	1.08	**1.04**	1.06	**1.04**	1.06	**1.04**	1.06
World real GDP (excl. EZ)	3.6	3.4	**3.4**	3.5	**3.2**	3.3	**3.2**	3.2
Global trade (excl. EZ)	0.8	4.4	**3.5**	3.6	**3.1**	3.3	**3.2**	3.2
Euro area foreign demand	0.3	3.4	**3.2**	3.5	**3.1**	3.3	**3.1**	3.2
World CPI (excl. EZ)	5.0	4.2	**3.3**	3.2	**2.7**	2.8	**2.5**	2.6

Source: ECB.

PLEASE NOTE: **TRACKING CHANGES IN FOLLOWING STATEMENTS**

in black, wording common to both the current and previous statements, in light grey and crossed, previous wording that was replaced by new wording, in blue and underlined (YES, TRACK CHANGES ARE THERE ON PURPOSE).

1.1. Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB

Frankfurt am Main, ~~30 January~~6 March 2025

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

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

The disinflation process is well on track. Inflation has continued to develop broadly ~~in line with the~~ as staff expected, and the latest projections ~~and is set to return to our two per cent medium-term target~~closely align with the previous inflation outlook. Staff now see headline inflation averaging 2.3 per cent in 2025, 1.9 per cent in ~~the course~~2026 and 2.0 per cent in 2027. The upward revision in headline inflation for 2025 reflects stronger energy price dynamics. For inflation excluding energy and food, staff project an average of ~~this year.~~ 2.2 per cent in 2025, 2.0 per cent in 2026 and 1.9 per cent in 2027.

Most measures of underlying inflation suggest that inflation will settle at around our two per cent medium-term target on a sustained basis. Domestic inflation remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay. But wage growth is moderating as expected, and profits are partially buffering the impact on inflation.

Our ~~recent~~ monetary policy is becoming meaningfully less restrictive, as our interest rate cuts are ~~gradually~~ making new borrowing less expensive for firms and households~~.~~ and loan growth is picking up. At the same time, a headwind to the easing of financing conditions ~~continue to be tight, also because our monetary policy remains restrictive and~~ comes from past interest rate hikes ~~are~~ still transmitting to the stock of credit, ~~with some maturing loans being rolled over at higher rates.~~and lending remains subdued overall. The economy ~~is still facing headwinds but rising~~faces continued challenges and staff have again marked down their growth projections – to 0.9 per cent for 2025, 1.2 per cent for 2026 and 1.3 per cent for 2027. The downward revisions for 2025 and 2026 reflect lower exports and ongoing weakness in investment, in part originating from high trade policy uncertainty as well as broader policy uncertainty. Rising real incomes and the gradually fading effects of ~~restrictive monetary policy should support a~~our past rate hikes remain the key drivers underpinning the expected pick-up in demand over time.

We are determined to ensure that inflation stabilises sustainably at our two per cent medium-term target. ~~We~~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.

The decisions taken today are set out in a ~~press release~~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.

1.2. Economic activity

~~The economy stagnated in the fourth quarter, according to Eurostat's preliminary flash estimate. It is set to remain weak in the near term. Surveys indicate that manufacturing continues to contract while services activity is expanding. Consumer confidence is fragile, and households have not yet drawn sufficient encouragement from rising real incomes to significantly increase their spending.~~

~~Nevertheless, the conditions for a recovery remain in place. While~~ The euro area economy likely grew modestly in the fourth quarter of 2024. The first two months of 2025 saw a continuation of many of last year's patterns. Manufacturing is still a drag on growth even if survey indicators are improving. High uncertainty, both at home and abroad, is holding back investment and competitiveness challenges are weighing on exports. At the same time, services are resilient. Moreover, rising household incomes and the robust labour market are supporting a gradual pick-up in consumption, although consumer confidence is still fragile and saving rates are high.

The unemployment rate stayed at its historical low of 6.2 per cent in January, and employment is estimated to have grown by 0.1 per cent in the last quarter of 2024. However, demand for labour ~~market~~ has ~~softened over~~ moderated, and recent ~~months it continues to~~ survey data suggest that employment growth was subdued in the first two months of 2025.

Uncertainty has increased and is likely to weigh on investment and exports by more than previously expected. But growth should be ~~robust, with the unemployment rate staying low, at 6.3 per cent in December. A solid job market and~~ supported by higher incomes ~~should strengthen consumer confidence and allow spending to rise. More affordable credit~~and lower borrowing costs. According to the staff projections, exports should also ~~boost consumption and investment over time. Provided~~ be supported by rising global demand so long as trade tensions do not escalate~~, exports should support the recovery as global demand rises~~ further.

Fiscal and structural policies should make the economy more productive, competitive and resilient. ~~We welcome the~~ The European Commission's Competitiveness Compass~~, which~~ provides a concrete roadmap for action~~. It is crucial to follow up, with further concrete and ambitious structural policies, on Mario Draghi's~~ and its proposals ~~for enhancing European competitiveness and on Enrico Letta's proposals for empowering the Single Market.~~ should be swiftly adopted. Governments should ~~implement their commitments under the~~ ensure sustainable public finances in line with the EU's economic governance framework ~~fully~~ and ~~without delay. This will help bring down budget deficits and debt ratios on a sustained basis, while prioritising~~prioritise essential growth-enhancing structural reforms and strategic investment.

1.3. Inflation

Annual inflation ~~increased to~~ stood at 2.4 per cent in February, after 2.5 per cent in January and 2.4 per cent in December, ~~up from 2.2 per cent in November. As in the previous two months, the~~according to Eurostat's flash estimate. Energy price inflation slowed to 0.2 per cent, following a strong increase ~~was expected and primarily reflected past sharp drops in energy prices falling out of the calculation. Along with a month-on-month increase~~to 1.9 per cent in January, from 0.1 per cent in December~~, this led energy prices slightly higher on an annual basis, after four consecutive declines. Food~~. By contrast, food price inflation ~~edged down~~rose to 2.7 per cent, from 2.3 per cent in January and 2.6 per cent ~~and goods inflation to 0.5 per cent. Services~~in December. Goods inflation ~~edged~~ticked up to 0.6 per cent, while services inflation eased to 3.7 per cent, from 3.9 per cent in January and 4.0 per cent in December.

Most indicators of underlying inflation ~~indicators have been developing in line with~~are pointing to a sustained return of inflation to our two per cent medium-term target. Domestic inflation, which closely tracks services inflation, ~~has remained~~declined in January. But it remains high, as wages and some services prices are still adjusting to the past inflation surge with a substantial delay. At the same time, recent ~~signals~~wage negotiations point to a continued moderation in ~~wage~~labour cost pressures ~~and to the buffering role of profits~~.

~~We expect~~ The assumption of higher energy price inflation led staff to ~~fluctuate around its current level in~~revise up the ~~near term. It should then settle sustainably at around the two per cent medium-term target. Easing~~headline inflation projection for 2025. At the same time, staff expect core inflation to continue slowing, as labour cost pressures ease further and the ~~continuing impact of our~~ past monetary policy tightening continues to weigh on ~~consumer~~ prices ~~should help this process. While market-based indicators of inflation compensation have largely reversed the declines observed in the autumn, most~~. Most measures of longer-term inflation expectations continue to stand at around 2 per cent. All of these factors will support the sustainable return of inflation to our target.

1.4. Risk assessment

The risks to economic growth remain tilted to the downside. ~~Greater friction~~An escalation in ~~global~~ trade ~~could weigh on~~tensions would lower euro area growth by dampening exports and weakening the global economy. ~~Lower confidence could prevent consumption and~~Ongoing uncertainty about global trade policies could drag investment ~~from recovering as fast as expected. This could be amplified by geopolitical risks~~down. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, ~~which could disrupt energy supplies and further weigh on global trade.~~ remain a major source of uncertainty as well. Growth could ~~also~~ be lower if the lagged effects of monetary policy tightening last longer than expected. ~~It~~At the same time, growth could be higher if easier financing conditions and falling inflation allow domestic consumption and investment to rebound faster. An increase in defence and infrastructure spending could also add to growth.
Increasing friction in global trade is adding more uncertainty ~~Inflation could turn out higher if wages or profits increase by more than expected.~~ ~~Upside risks~~ to ~~inflation also stem from~~ the ~~heightened geopolitical~~ outlook for euro area inflation. A general escalation in trade tensions could see the euro depreciate and import costs rise, which ~~could push~~would put upward pressure on inflation. At the same time, lower demand for euro area exports as a result of higher tariffs and a re-routing of exports into the euro area from countries with overcapacity would put downward pressure on inflation. Geopolitical tensions create two-sided inflation risks as regards energy ~~prices and freight costs higher in the near term and disrupt global trade. Moreover, extreme~~markets, consumer confidence and business investment. Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected. Inflation could turn out higher if wages or profits increase by more than expected. ~~By contrast, inflation may~~A boost in defence and infrastructure spending could also raise inflation through its effect on aggregate demand. But inflation might surprise on the downside if ~~low confidence and concerns about geopolitical events prevent consumption and investment from recovering as fast as expected, if~~ monetary policy dampens demand by more than expected~~, or if the economic environment in the rest of the world worsens unexpectedly. Greater friction in global trade would make the euro area inflation outlook more uncertain~~.

1.5. Financial and monetary conditions

Market interest rates in the euro area decreased after our January meeting but have risen ~~since our December meeting, partly mirroring higher rates~~over recent days in ~~global financial markets. While financing conditions remain tight, our~~response to a revised outlook for fiscal policy. Our interest rate cuts are gradually making it less expensive for firms and households to borrow and loan growth is picking up. At the same time, a headwind to the easing of financing conditions comes from past interest rate hikes still transmitting to the stock of credit, and lending remains subdued overall.

The average interest rate on new loans to firms declined to 4.~~5~~2 per cent in ~~November, while the~~ January, from 4.4 per cent in December. By contrast, firms' cost of issuing market-based debt ~~remained at~~rose to 3.~~6 per cent. The~~7 per cent, 0.2 percentage points above its December level. Over the same period, the average interest rate on new mortgages ~~edged down~~declined to 3.~~5~~3 per cent, from 3.4 per cent.

Growth in bank lending to firms rose to ~~1.5 per cent in December, up from 1~~2.0 per cent in ~~November, amid a strong~~January, up from 1.7 per cent in December, on the back of a moderate monthly flow~~.~~ of new loans. Growth in debt securities issued by firms ~~moderated~~rose to 3.~~2~~4 per cent in annual terms. Mortgage lending continued to rise gradually but remained muted overall, with an annual growth rate of 1.~~1~~3 per cent.

~~Credit standards for business loans tightened again in the fourth quarter of 2024, having broadly stabilised over the previous four quarters, as reported in our latest bank lending survey. The renewed tightening mainly reflected banks becoming more concerned about the risks faced by their customers and less willing to take on risks themselves. Demand for loans by firms increased slightly in the fourth quarter but remained weak overall. Credit standards for mortgages were broadly unchanged, after three quarters of easing, while the demand for mortgages again increased strongly, mainly because of more attractive interest rates.~~

1.6. Conclusion

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. We are determined to ensure that inflation stabilises sustainably at our two per cent medium-term target. ~~We~~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.

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.

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