



ROSA & ROUBINI
ASSOCIATES

MONETARY AFFAIRS

**REVIEW: ECB is “In a Good Place,”
And Remains in “Wait and Watch” Position**

By

Brunello Rosa and Nato Balavadze



24 July 2025

Brunello Rosa and Nato Balavadze

REVIEW: ECB is “In a Good Place,” And Remains in “Wait and Watch” Position

24 July 2025

Page | 2

Executive Summary

- ✦ **Decision Made:** *The European Central Bank (ECB) remained on hold*, and kept its i) interest rate on the ‘main refinancing operations’ at 2.15%; ii) interest rate on the ‘marginal lending facility’ at 2.40%; and the key iii) ‘deposit facility’ at 2.00%. Future decisions will be taken meeting-by-meeting, following its usual three-pronged approach about its reaction function confirmed. The decision was unanimous.
- ✦ **Policy Discussion:** *The ECB remains in a “wait and watch” mode amid exceptional uncertainty.* Lagarde said inflation at 2% puts the ECB in a good position, with easing wages and solid growth, though Q1 was boosted by exports ahead of U.S. tariffs. She expressed comfort with lower rates and emphasized the focus is now on medium-term trends, not short-term inflation dips.

Lagarde noted it’s too early to guide future rate moves due to ongoing trade uncertainty. While views within the Governing Council differ, the decision to hold rates was unanimous. She didn’t rule out rate hikes, in case the overall impact of the trade war was inflationary, or rate cuts if it was deflationary. A quick resolution of trade tensions would reduce uncertainty and be beneficial for the economy.

Markets now see only a 25% chance of a September cut, interpreting Lagarde’s tone as cautiously optimistic. She downplayed risks of undershooting inflation and highlighted stronger-than-expected growth, suggesting limited room for more cuts. On trade, the ECB is assessing multiple scenarios. Though Trump floated 30% tariffs, reports suggest a possible 15% deal—closer to the ECB’s June baseline.

Key Picture: European Central Bank Key Forecasts – 2024-2027

	Latest reading	2025 ^f		2026 ^f		2027 ^f	
		June Projections	March Projections	June Projections	March Projections	June Projections	March Projections
GDP (<i>real growth, y-o-y</i>)	1.5	0.9	0.9	1.1	1.2	1.3	1.3
Inflation (% <i>y-o-y</i>)	2.0	2.0	2.3	1.6	1.9	2.0	2.0
Core-inflation (% <i>y-o-y</i>)	2.3	2.4	2.2	1.9	2.0	1.9	1.9
Unemployment (% <i>y-o-y</i>)	6.3	6.3	6.3	6.3	6.3	6.0	6.2

Source: ECB ‘Macroeconomic projections’ June and March 2025 Note: Latest readings: 1. GDP for Q4 2024; 2. Unemployment for April 2025; 3. Inflation for June 2025. *Inflation = Harmonized Index of Consumer Prices (HICP).

Analysis

- ✦ **DECISION MADE:** *On July 24, the ECB remained on hold after a series of cuts.* In line with consensus, in a unanimous decision, the European Central Bank (ECB) kept unchanged its main policy rates i.e. its i) interest rate on the 'main refinancing operations' at 2.15%; ii) interest rate on the 'marginal lending facility' at 2.40%; and the key iii) 'deposit facility' at 2.00%.

As expected, the ECB stuck to its usual forward guidance, reaffirming that it will continue to take a data-dependent, meeting-by-meeting approach to bring inflation back to its 2% target over time. In other words, nothing is ruled out. Eurozone money markets have scaled back expectations for a September ECB rate cut, now pricing in roughly 5 basis points of easing, down from 8 basis points earlier in the day.

In terms of *Balance Sheet policies*, the APP and PEPP portfolios are gradually and predictably shrinking, as the Eurosystem has stopped reinvesting principal payments from maturing securities.

- ✦ **POLICY DISCUSSION:** *ECB remains in "wait and watch" situation in "exceptionally uncertain" conditions.* Lagarde says inflation at 2% puts the ECB in a good position. Wage growth is easing as expected, and growth is developing favourably, though Q1 was boosted by export front-loading ahead of U.S. tariffs and some distortions from Ireland. Lagarde acknowledged that the ECB staff projections foresee inflation to dip below target but says they won't overreact to short-term fluctuations, focusing instead on hitting 2% in the medium term.

Christine Lagarde acknowledged that it's too early to offer a clearer outlook on future rate moves due to ongoing trade uncertainty. "We'll have to wait and see," she said, before noting Europe's summer break. Addressing recent remarks from a Isable Schnabel about a "high bar" for more rate cuts, Lagarde confirmed that while opinions vary within the Governing Council, the decision to hold rates steady was unanimous. Asked whether rates could even rise, she said a swift resolution of trade tensions would reduce uncertainty and could change the outlook, if the overall effect of the deal (including the impact on supply chains) was inflationary rather than deflationary.

Meanwhile, traders dialled back expectations for a September ECB rate cut, pricing in just a 25% chance, as Lagarde struck a cautiously optimistic tone, saying the ECB is "in a good place" as inflation is projected to stabilize around the 2% target in the medium term. Markets interpreted her comments as a sign that another round of rate cuts next year is unlikely. Lagarde downplayed the risk of inflation undershooting in 2026 and pointed to stronger-than-expected growth. But her comments could be mostly about small, technical adjustments rather than big policy shifts.

On trade, the ECB remains cautious. ECB is assessing various retaliation scenarios, but the overall impact remains uncertain, with trade tensions likely inflationary, though supply bottlenecks could also play a role. While Trump has floated 30% tariffs on EU goods, recent reports suggest a deal with 15% tariffs is more likely, closer to the ECB's June baseline. Still, with nothing confirmed, Lagarde offered no specifics. She emphasized that, while reports of a deal remain speculative, she stresses the importance of resolving trade uncertainty soon, noting it would benefit all economic actors.

- ✦ **ECONOMIC ASSESSMENT:** *Thanks to earlier rate cuts, the economy has shown resilience despite a challenging global backdrop. However, uncertainty remains high, particularly due to ongoing trade tensions.* Eurozone growth surprised to the upside in Q1, growing by 0.6%, partly due to preemptive export activity ahead of tariff hikes and distortions from Ireland, but also supported by strong consumption and investment. Real GDP growth is forecast at 0.9% in 2025. 2025 outlook combines a strong Q1 with weaker expected growth ahead. A trade tensions, a stronger euro, and geopolitical uncertainty are weighing on business investment.

Surveys now suggest modest expansion across manufacturing and services. In June, Private sector activity marked the strongest expansion in three months. The labour market remains strong, with unemployment

at 6.3%, supporting consumption. Easier financial conditions are boosting domestic demand, and public investment in defence and infrastructure should aid future growth. The ECB urges structural reforms, fiscal responsibility, and rapid progress on the banking union and digital euro.

Headline inflation rose slightly to 2.0% y-o-y in June. Energy prices increased month-on-month but remain lower year-on-year. Core inflation is broadly aligned with the ECB's 2% target, with services inflation at 3.3% y-o-y. Wage growth is easing, and forward-looking indicators point to further moderation. Short-term consumer expectations have declined, while long-term inflation expectations remain anchored around 2%.

Downside risks to growth include escalating trade tensions, tighter financial conditions, and ongoing geopolitical conflicts. Conversely, resolution of these tensions and higher public investment could lift sentiment and growth. Inflation risks are mixed: stronger euro and weaker export demand could reduce inflation, while supply chain disruptions, climate shocks, and higher public spending could push it up.

✦ **OUR TAKE: *ECB on Hold for Now***. For now the ECB is on hold, and will not move until the trade deal between the EU and the US is finalized, with all its ramifications understood. If the Fed were to cut rates in September, the ECB may be forced to cut as well to prevent further EUR appreciation versus the USD. But six weeks is a very long time in this environment and the ECB will likely decide only on 11 September, when the next meeting is due.

✦ **MARKET REACTION AND IMPLICATIONS: *Markets reacted calmly to the ECB's widely expected decision***. The euro posted slight losses. *In the bond market*, the 2y German Schatz yield edged up by 5 bps to 1.90%. The 10y German Bund yield rose by 3 bps to 2.70%. In the EZ periphery, Italy's 10y BTP yield increased by 5 bps to 3.57%. As for now, the 10y BTP-Bund spread stands at 87 points. *In the currency space*, the euro stays lower as ECB holds rates steady. The euro was down 0.2% against the U.S. dollar and now trades around 1.176. *In the equity space*, European stocks waver. The pan-European Stoxx 600 was up 0.2%, trimming earlier gains from Thursday's session. Stoxx 50 fell by 0.5% to around 5,344.



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718. **Analyst Certification:** We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships. I also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

www.rosa-roubini.com