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## **MONETARY AFFAIRS**

**REVIEW: ECB Keeps Rates Unchanged,  
and Doesn't Pre-Commit On Future Moves**

**By**

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**11 September 2025**

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### Executive Summary

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- ✧ **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:** *Today's unanimous decision to keep rates unchanged reflects confidence that earlier cuts are still feeding through, while offering no hints on the next steps.* The ECB left rates unchanged for a second meeting (after July), a move widely expected after eight consecutive cuts since last year. Lagarde said the eurozone's "disinflationary process is over" and described the economy as "in a good place," citing a strong labour market, stable inflation, and upgraded growth forecasts. She stressed that policy is not on a predetermined path, with future decisions to be made meeting by meeting. Markets, meanwhile, see only a 20% chance of another cut this year, reflecting the balance between tariff headwinds, a stronger euro, and weak demand on the one hand, and inflation near target on the other.  
Lagarde sidestepped questions on France's political turmoil, which has pushed bond yields higher, but emphasised that euro area sovereign markets remain orderly and that the ECB has tools to act if fragmentation emerges. Analysts note that Europe's challenge is shifting from inflation to political and fiscal risks. Lagarde urged governments to accelerate reforms and strategic investment to strengthen competitiveness and resilience.
- ✧ **Changes To Economic Forecasts:** *ECB staff projections remain broadly unchanged from June.* GDP is forecast at 1.2% in 2025, 1.0% in 2026, and 1.3% in 2027, with inflation at 2.1%, 1.7%, and 1.9% respectively. Core inflation is expected to ease from 2.4% in 2025 to below 2% by 2027. There's a large upward revision in 2025 growth, and a small downward revision to 2026 growth projection. The inflation outlook is marginally revised up in 2025 and 2026 and marginally down in 2027. While tariffs, a stronger euro, and global competition weigh on near-term growth, rising wages, government spending, and easier financing should support the outlook. Long-term inflation expectations stay anchored at 2%, with wage moderation and productivity gains helping to contain pressures. Policymakers stressed the need for reforms, strategic investment, and progress on the banking and savings unions, as well as the digital euro.

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

	Latest reading	2025f		2026f		2027f	
		September Projections	June Projections	September Projections	June Projections	September Projections	June Projections
GDP ( <i>real growth, y-o-y</i> )	1.5	1.2	0.9	1.0	1.1	1.3	1.3
Inflation (% <i>y-o-y</i> )	2.1	2.1	2.0	1.7	1.6	1.9	2.0
Core-inflation (% <i>y-o-y</i> )	2.3	2.4	2.4	1.9	1.9	1.8	1.9
Unemployment (% <i>y-o-y</i> )	6.2	6.4	6.3	6.3	6.3	6.1	6.0

Source: ECB 'Macroeconomic projections' [June](#) and [September](#) 2025 Note: Latest readings: 1. GDP for Q4 2024; 2. Unemployment for July 2025; 3. Inflation for August 2025. \*Inflation = Harmonized Index of Consumer Prices (HICP).

## Analysis

- ✦ **DECISION MADE:** *On September 11, the ECB remained on hold.* In line with consensus, in an 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%.

Markets saw a 99% chance the ECB would keep its deposit rate at 2% for a second meeting, after June’s cut from last year’s 4% peak. The bank gave little guidance on future moves. 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 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. Rates remain the primary tool to conduct monetary policy.

- ✦ **POLICY DISCUSSION:** *Today’s unanimous decision to hold rates signals confidence that past cuts are still working, with no guidance on future moves.* The ECB’s decision came as no surprise to markets, following President Christine earlier signal in July that policymakers had shifted to a “wait-and-watch” stance after eight consecutive rate cuts since last year. Today’s rate hold, the second in a row, was unanimously backed by the Governing Council and widely anticipated by markets. It follows a 200-basis point easing cycle launched in mid-2024, whose effects Lagarde said are still filtering through the economy.

At her post-meeting press conference, Lagarde declared that the eurozone’s “disinflationary process is over” and described the economy as “in a good place,” highlighting a strong labour market, resilient economy, stable inflation, and upgraded growth forecasts for 2025. Inflation, she noted, is now broadly aligned with the ECB’s target, reinforcing the case for holding policy steady. Yet she underlined that the ECB is “not on a predetermined path,” stressing that future decisions will hinge on incoming data.

While speculation is growing that the rate-cutting phase has ended, Lagarde avoided confirming this, reiterating the ECB’s commitment to a meeting-by-meeting, data-dependent approach. Asked if market expectations of no further cuts align with the ECB’s stance, Lagarde replied diplomatically: “Markets do what they have to do, and we do what we have to do.”

Tariffs, a stronger euro, and weak demand could create conditions for further ECB easing. Yet, substantial rate cuts remain unlikely unless inflation undershoots the target persistently or growth deteriorates sharply. Market pricing reflects this balance of risks, with swaps assigning only a 20% chance of a quarter-point cut before year-end, suggesting expectations for policy remain broadly stable.

Lagarde avoided commenting on the collapse of France’s government and its debt crisis, which pushed 10-year bond yields to nearly 0.8 percentage points above German Bunds — close to eurozone debt-crisis highs. Lagarde stressed that euro area bond markets remain orderly and liquid. She said bond markets remain orderly and that ECB tools, including the unused Transmission Protection Instrument (TPI), provide flexibility if needed. Analysts warned that Europe’s main challenge is shifting from inflation to political and fiscal risks. She urged governments to pursue structural reforms and strategic investment to boost competitiveness.

- ✦ **CHANGES TO ECONOMIC FORECASTS:** *ECB staff projections are little changed from June.* Despite eurozone inflation near target and a new EU-U.S. trade deal, global uncertainty clouds the outlook.

The new US-EU trade deal raises tariffs but reduces policy uncertainty. Over the medium term, growth will be supported by rising real wages and jobs, higher infrastructure and defence spending (notably in Germany), easier financing conditions, and stronger foreign demand from 2027. GDP is projected at 1.2% in 2025, 1.0% in 2026, and 1.3% in 2027. Compared with June, growth was revised up for 2025 (+0.3pp) on stronger data, but trimmed for 2026 (-0.1pp) due to a stronger euro and weaker demand.

The risks to the economic outlook are now “more balanced” – signalling a neutral stance ahead. Trade agreements have reduced uncertainty, but renewed tensions could hurt exports, investment, and

consumption. Geopolitical conflicts in Ukraine and the Middle East remain major risks, while stronger defence and infrastructure spending, reforms, or improved sentiment could lift growth.

Inflation is forecast to average 2.1% in 2025, 1.7% in 2026, and 1.9% in 2027. The inflation outlook is marginally revised up in 2025 and 2026 and marginally down in 2027. Core inflation is seen at 2.4% in 2025, easing to 1.9% in 2026 and 1.8% in 2027. ECB staff project food and core inflation to ease gradually through 2027, though energy inflation will rise with ETS 2. Inflation risks are mixed. A stronger euro or weaker external demand could push inflation lower, while supply chain fragmentation, higher defence spending, or climate shocks could drive it higher.

Long-term expectations remain anchored around 2%. Lagarde indicated that easing wage pressures, together with productivity gains, should help keep inflation anchored in the years ahead. Headwinds from tariffs, a stronger euro, and global competition will weigh on growth this year but should ease in 2026.

Policymakers stress the need to strengthen euro area competitiveness, advance reforms, invest strategically, and complete key projects such as the banking and savings unions and preparations for a digital euro.

- ✦ **ECONOMIC ASSESSMENT:** *Growth was stronger in Q1, then weakened in Q2 as trade front-loading ahead of tariffs reversed.* The economy grew 0.7% in the first half of 2025, driven by resilient domestic demand. The growth slowed to just 0.1% q-o-q in Q2 2025, down from 0.6% in Q1, as fading tariff front-loading and U.S. trade uncertainty hit demand. Germany led the downturn, with GDP contracting 0.3% on weaker exports, slumping factory orders, and falling investment. Italy also shrank, while France (+0.3%) and Spain (+0.7%) offset some weakness.

Inflation edged up to 2.1% in August, near the ECB's target, driven by food prices and less drag from energy. Core inflation stayed at 2.3%, with services cooling slightly. Analysts expect further easing as wage growth and global prices weaken. Wage growth slowed to 3.9% in Q2 and is expected to moderate further, containing price pressures alongside productivity gains.

The HCOB Composite PMI rose to 51.0, its highest in a year but still signaling sluggish growth. Services slowed, manufacturing posted its fastest output gain in 3.5 years, and employment hit a 14-month high. Price pressures picked up, complicating the ECB's rate outlook.

On the transmission mechanism, past rate cuts continue to ease financing: corporate loan rates fell to 3.5% in July, bond issuance costs held at 3.5%, and mortgage rates stayed at 3.3%. Corporate lending grew 2.8% and bond issuance 4.1%, while mortgage lending accelerated to 2.4%.

- ✦ **OUR TAKE:** *ECB Unlikely to Move Anytime Soon – Now all Eyes on the Fed.* The ECB is in a good place, so the bar to move is pretty high. All eyes are on the Fed. If the Fed cuts rates aggressively, the ECB may need to react by resume its easing cycle, to prevent excessive EUR appreciation. But we consider this to be a risk scenario rather than our baseline. A couple of cuts by the Fed this year should not induce the ECB to cut rates before year-end.

- ✦ **MARKET REACTION AND IMPLICATIONS:** *As the decision was widely expected, stock markets and the euro currency did not react much after the ECB decided not to change interest rates.* The euro posted slight losses. *In the bond market,* the 2y German Schatz yield edged up by 4 bps and now trades around 1.99%. The 10y German Bund yield also rose by 4 bps but then fell and now trades around 2.65%. In the EZ periphery, Italy's 10y BTP yield declined by 5 bps to 3.47% after reaching 3.52% after the decision was announced. As for now, the 10y BTP-Bund spread stands at 87 points. *In the currency space,* the euro rose 0.41% to \$1.1741 as weak US data pressured the dollar and Lagarde noted eurozone growth risks were now "more balanced." *In the equity space,* The STOXX 600 rose 0.5% and the EURO STOXX 50 gained 0.49% after the ECB held rates. Investors continued to bet further support may be required.



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