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# **MONETARY AFFAIRS**

**Preview: ECB To Remain on Hold in December,  
Amid Lower Appetite For More Easing**

**By**

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**15 December 2025**

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### Preview: ECB To Remain on Hold in December, Amid Lower Appetite For More Easing

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#### Executive Summary

- ✦ **Expected Decision:** *We expect the ECB to remain on hold in December.* In line with consensus, at the September Governing Council (GC) meeting, we expect the European Central Bank (ECB) to keep 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%. The ECB is expected to maintain its data-dependent, meeting-by-meeting approach, reaffirming its three-pronged reaction function.
- ✦ **Policy Discussion:** *Geopolitical developments, including Ukraine talks, and the ongoing ECB board reshuffle are unlikely to affect policy in the near term.* Policymakers are widely expected to hold rates at 2% for a fourth meeting, supported by stronger-than-expected 0.3% growth in Q3 and inflation that remains sticky. New ECB forecasts are likely to show inflation returning close to the 2% target by 2028, reinforcing the view that any near-term deviation from target is temporary. Recent comments from ECB officials have led investors to price out further rate cuts and assign a rising probability to a hike by late 2026, even though consensus remains that rates will stay on hold for now. Lagarde has reiterated that monetary policy is in a “good place,” a view shared by markets, and pushed back against calls for looser policy, arguing that lower rates would not address Europe’s structural barriers to growth. While markets have increased bets on a future rate rise amid resilient growth and inflation running at 2.2% in November, Lagarde has signalled no imminent policy shift, with rates expected to remain unchanged at the December 18 meeting. Medium-term inflation pressures and uncertainty around fiscal policy suggest the ECB is unlikely to turn decisively dovish.
- ✦ **Changes to Economic Forecasts:** *The ECB is likely to strike a more optimistic tone next week.* Growth has held up better than expected despite trade headwinds, with Q3 GDP up 0.2%, prompting President Lagarde to signal a possible further upgrade after September’s rise in the 2025 forecast to 1.2%. New projections are also expected to show inflation returning close to 2% by 2028, supporting the view that recent deviations are temporary. With officials showing little appetite for further cuts and growing comfort with market pricing of a future hike, the easing cycle appears over, a shift mirrored in rising global bond yields.

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

	Latest reading	2025 <sup>f</sup>		2026 <sup>f</sup>		2027 <sup>f</sup>	
		September Projections	June Projections	September Projections	June Projections	September Projections	June Projections
GDP ( <i>real growth, y-o-y</i> )	1.4	1.2	0.9	1.0	1.1	1.3	1.3
Inflation (% <i>y-o-y</i> )	2.2	2.1	2.0	1.7	1.6	1.9	2.0
Core-inflation (% <i>y-o-y</i> )	2.4	2.4	2.4	1.9	1.9	1.8	1.9
Unemployment (% <i>y-o-y</i> )	6.4	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 Q3 2025; 2. Unemployment for October 2025; 3. Inflation for November 2025. \*Inflation = Harmonized Index of Consumer Prices (HICP).

## Analysis

- ✦ **EXPECTED DECISION:** *We expect, in line with consensus, the ECB to remain on hold in December.* At the Governing Council (GC) meeting on December 18th, we expect the European Central Bank (ECB) to keep 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%.

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In terms of *forward guidance*, the ECB will stress that it remains data-dependent and the decisions will be still taken meeting-by-meeting, with its usual three-pronged approach about its reaction function confirmed. Looking ahead, the ECB is expected adopt a cautious, data-dependent approach. While in our view the likelihood of a rate cut remaining higher than current market expectations if the Fed continues cutting rate, ECB officials have expressed reduced interested in adopting more easing.

In terms of *Balance Sheet policies*, the GC has decided to move forward with the normalization of the balance sheet. GC confirmed that it will reduce the Eurosystem’s holdings of securities under the PEPP. As of December 2024, the ECB has stopped re-investing the PEPP proceedings. The process for reducing PEPP holdings will generally follow the same approach as the APP.

- ✦ **POLICY DISCUSSION:** *Geopolitical developments, including Ukraine talks, are unlikely to alter policy near term, while an ongoing ECB board reshuffle is not expected to materially affect the policy stance.* Policymakers are expected to hold rates at 2% for a fourth meeting, reinforced by stronger-than-expected 0.3% Q3 growth and stickier inflation. New forecasts are likely to show inflation returning close to the 2% target by 2028, supporting the ECB’s view that any near-term undershoot would be temporary. Recent comments from officials have pushed investors to price out further cuts and assign a rising probability to a hike by late 2026, though consensus remains that rates will stay on hold for now.

Lagarde reiterated that monetary policy is in a “good place,” signalling no near-term rate changes, a view shared by markets as inflation stays near the 2% target. She pushed back against calls for looser policy, arguing that lower rates would not address structural barriers to trade and capital flows within the EU, though she said it was worth debating potential changes to the EU Treaty. While markets have increased bets on a rate rise next year amid persistent inflation and resilient growth, Lagarde signalled no imminent policy shift, with rates expected to remain at 2% on December 18. Inflation rose to 2.2% in November, above target for a third month.

Lagarde pushed back against calls to broaden the ECB’s mandate to prioritise growth, arguing that looser monetary policy would not fix Europe’s structural barriers. She said the ECB’s price-stability mandate remains clear, though she described treaty changes as an “interesting” debate. Separately, she suggested joint eurozone debt could be considered to fund future defence spending, calling it her personal view.

Recent comments from officials have pushed investors to price out further cuts and assign a rising probability to a hike by late 2026, though consensus remains that rates will stay on hold for now. Medium-term pressures should keep the ECB from turning too dovish, with fiscal policy a key uncertainty. Investors are increasingly betting that eurozone rates could rise in 2026, even as the US Federal Reserve is expected to keep cutting, a divergence that could further strengthen the EUR vs the USD. Swap markets now imply the ECB is more likely to hike than cut next year, while the Fed is priced for at least two further cuts.

- ✦ **EXPECTED CHANGES TO ECONOMIC FORECASTS:** *The ECB’s forecasts next week are likely to present a more upbeat growth outlook.* The eurozone economy is showing resilience to trade tensions and operating close to potential, raising the likelihood that the ECB will upgrade its growth forecasts next week, President Christine Lagarde said. Despite concerns over U.S. tariffs, a stronger euro and competition from China, outcomes have been more benign, supported by solid sentiment and employment data. The ECB last raised its 2025 growth forecast to 1.2% in September, the first upward revision since early 2024, and

Lagarde suggested another upgrade could follow in December. The eurozone economy expanded 0.2% in Q3, beating expectations, supported by investment in digital services.

New forecasts are likely to show inflation returning close to the 2% target by 2028, supporting the ECB's view that any near-term undershoot would be temporary. ECB officials signalled little appetite for further cuts, with some even comfortable with market pricing of a future hike, reinforcing expectations that easing is over. Global bond yields have risen in tandem, as investors reassess the end of rate-cut cycles worldwide.

- ✦ **ECONOMIC ANALYSIS:** *Revised figures point to modest momentum in Q2 2025, while full-year 2024 growth of 1.0% in the EU and 0.9% in the eurozone underscores a slow but steady recovery.* In Q3 2025, EU GDP rose by 0.3% q-o-q and eurozone GDP by 0.2%, pointing to a gradual recovery. Annual growth eased slightly to 1.5% in the EU and 1.3% in the eurozone but remained positive overall. Quarterly growth was strongest in Sweden (+1.1%), Portugal (+0.8%) and the Czech Republic (+0.7%), while Lithuania, Ireland and Finland recorded small declines. Among major economies, France (+0.5%) and Spain (+0.6%) expanded, Germany stabilized after a prior contraction, and Italy was flat. Revised data show modest momentum in Q2 2025, and full-year 2024 growth reached 1.0% in the EU and 0.9% in the eurozone, reinforcing the picture of a slow but steady recovery.

Headline inflation edged up from 2.1% to 2.2% in November, while core inflation held at 2.4%, keeping eurozone inflation within 0.2pp of the 2% target. The rise mainly reflected a smaller drag from energy prices. Food inflation was unchanged at 2.3%, while services inflation, the largest core component, ticked up from 3.4% to 3.5%. Despite weak growth, easing wage pressures and lower import prices, firms — especially in services — expect faster price increases ahead.

Meanwhile, eurozone unemployment remained at 6.4% in October, above expectations. An estimated 13.35 million people were unemployed in the EU, including 11.03 million in the euro area. Compared with October 2024, unemployment increased by 517,000 in the EU and 308,000 in the eurozone. Month on month, EU unemployment rose by 32,000, while it fell by 13,000 in the euro area. Malta recorded the lowest jobless rate (3.1%) and Spain the highest (10.5%). Outside the EU, unemployment rose to 4.0% in Iceland and 4.7% in Norway.

- ✦ **MARKET IMPLICATIONS:** *Recently European bond yields have risen sharply despite stable inflation, as a surge in Japanese yields has triggered a global bond sell-off and broader market repricing.* To put things into context, *In the bond market*, Since the last meeting on October 30 and as of December 15 the yields on a: i) 10y German bund increased by 20 bps to around 2.84% (+48 bps y-t-d); and ii) 2y German bund rose by 16 bps to 2.15% (+7 bps y-t-d). In the periphery of the Eurozone, the 10y Italian bonds edged up by 3 bps to 3.52% since the last meeting. The gap between Germany and Italy's 10Y yields is at around 68 bps. *In the currency space*, the euro climbed amid broad dollar weakness and firmer rhetoric from ECB officials. Since last meeting in October and as of December 15, EUR/USD increased by 1.6% to around 1.16 (+6.4% y-t-d). *In the equity space*, European shares edged higher on Monday as investors returned to risk assets ahead of a busy week of central bank decisions and delayed US data. The Eurostoxx 50 rose by 1.0% since the last meeting in October to 5760,50 as of December 15 (+17.1% y-t-d).

✦ **MACROECONOMIC ANALYSIS (APPENDIX):** *The Eurozone GDP grew with stronger investment and government spending driving growth.* In Q3-2025, the eurozone GDP advanced by 0.3% q-o-q (c: 0.2%; p: 0.1%). The upgrade reflected a rebound in fixed investment (+0.9% after a 1.7% drop in Q2) and stronger government spending (+0.7% vs 0.4%). Inventories added 0.1pp to GDP. Household consumption slowed to 0.2% from 0.3%, while net exports subtracted 0.2pp as imports jumped 1.3% and export growth eased to 0.7%. On an annual basis, GDP advanced by 1.4% (c: 1.4%; p: 1.6%). Among the largest economies in the bloc, German economy stalled q-o-q (c: 0.0%; p: -0.2%). France's GDP advanced by 0.5% q-o-q (c: 0.5%; p: 0.3%). Italian economy advanced marginally by 0.1% q-o-q (c: 0.0%; p: -0.1%).

*Leading business indicators reflect the strongest expansion since May 2023.* In November, the HCOB Eurozone Composite PMI rose to 52.8 (c: 52.4; p: 52.5). Services PMI increased to 53.6 (c: 53.1; p: 53.0). Manufacturing PMI declined to 49.6 (c: 49.7; p: 50.0).

*Eurozone unemployment remains the same.* In October, unemployment rate remained unchanged at 6.4% (c: 6.3%). The number of unemployed decreased by 13K to 11.03mn. Amongst the largest Euro Area economies: i) the unemployment in fell to 6.0% (p: 6.1%) in October; ii) the unemployment rate rose to 7.7% (c: 7.6%) in Q3 in France; and iii) in Germany the seasonally adjusted jobless rate held steady at 6.3% (p: 6.3%) in November. The 'youth unemployment rate' – measuring job-seekers under 25 years old – stood at 14.8% in October. Wages and salaries in the EZ rose by 3.7% y-o-y (p: 3.5%) in Q2-2025 as expected.

*The uptick in inflation largely reflecting a smaller drag from energy prices.* In November: i) headline inflation rose to 2.2% y-o-y (c: 2.1%; p: 2.1%); and ii) core inflation – which excludes food and energy prices – stood at 2.4% y-o-y (c: 2.5%; p: 2.4%). In Germany, annual CPI inflation remained at 2.3% y-o-y (c: 2.3%; p: 2.3%). In France, the inflation rate stood at 0.9% y-o-y (c: 0.9%; p: 0.9%). In Italy prices inflation was at 1.2% (p: 1.2%).



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