

Minutes of ECB's June meeting reveal dissenting views on rate cuts

The minutes of the European Central Bank's June meeting show that not all members agreed on its recent rate cut decision



The eurozone's wage growth drop is firming up expectations of a 25bp cut from the ECB next month

It looks as if we were not the only ones believing that the European Central Bank's rate cut decision in June was mainly driven by earlier pre-commitments and the idea that a cut was possible but not urgent. At least, this is what the just-released minutes of the ECB's June meeting suggest. The minutes also make it very clear that last month's rate cut was not necessarily a start of a series of rate cuts.

Here are some of the highlights from the minutes:

Not everyone believes in a strong recovery scenario. "Some doubts were raised about whether the recovery would take place as expected, since this depended on a pick-up in private consumption for which there was no convincing evidence as yet in the data. It was also noted that the staff projections entailed an upward revision to the saving ratio. In addition, the concern was raised that, in the presence of both domestic political and geopolitical uncertainties, the saving ratio could go even higher than expected. If this were to happen, consumption could be curtailed for longer."

Wage growth remains key. "Turning to domestic price pressures, wages were still rising strongly, making up for the past inflation surge, and were now the main determinant of inflation persistence." Also, "it was reiterated that wages were a key element in the assessment of the

inflation outlook.”

Growing confidence in the ECB's own forecasts. While a few months ago, some members of the central bank's Governing Council – including ECB President Christine Lagarde – had been very critical on the staff projections, there now seems to be a growing confidence in the quality of these forecasts. This was illustrated in the statement that “at the same time, diminishing projection errors were seen to give grounds for renewing confidence in the projections.”

Dissenting views. While the majority agreed with the proposal to cut interest rates by 25bp as a result of inflation expected to be at 2% in 2026 and some room to lower rates while keeping the monetary policy stance still restrictive, some ECB members did not agree.

The minutes state that some members “viewed risks to the inflation outlook as being tilted to the upside, partly because downside risks to inflation had diminished since the last meeting owing to the ongoing economic recovery but also owing to heightened geopolitical risks. It was argued that a small undershooting of inflation would be much less costly than a continued overshooting, especially as the anchoring of inflation expectations should not be taken as given.”

More importantly, these dissenting members said that “cutting interest rates was not fully in line with the principle of data-dependence, and that there was a case for keeping interest rates unchanged at the current meeting.”

No rate action at the July meeting, possibly in September

Looking ahead, the only thing that is clear about the future path for the ECB is that it's complicated. Earlier market speculations have already been buried – like, for example, the idea of a back-to-back rate cut in June and July, or an automatic pilot with a series of rate cuts. The minutes of the June meeting indicate that the balance between data dependency and reputational risks has become more delicate, particularly given the dissenting views at last month's meeting.

The ECB won't have any interest in making the June cut look like a policy mistake over the coming weeks, which would be a strong non-economic argument in favour of another rate cut at the September meeting. At the same time, however, the weakening economic momentum and stubbornly high domestic inflation is not a combination to cheer for. It is clear that the July meeting will probably be a non-event without any new rate action or rate guidance.

The next big debate will be at the September meeting. ECB watchers can lean back and enjoy the summer. You might spot ECB policymakers with a huge pile of data sheets over the coming months, preparing their cases for or against rate cuts in September.

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