

Florence press conference confirms ECB remains comfortable in its 'good place'

The ECB keeps rates on hold, celebrates stronger growth and looks determined to stay in its current 'good place' for as long as possible



ECB President Christine Lagarde at today's meeting in Florence, Italy

Even a change of scenery has done nothing to change the European Central Bank's current wait-and-see stance. Florence, where the ECB met today for its only annual meeting outside of Frankfurt, is apparently also this 'good place', the central bank's well-known pseudonym for comfortably keeping interest rates on hold. ECB President Christine Lagarde even called it a 'magnificent' place – Florence, that is, not rates.

The comments at the press conference confirmed once again that the ECB has no intention to leave its 'good place' any time soon.

Highlights from the press conference

We had feared a rather uneventful press conference. What should we say? We hate to be right... Anyhow, here are a few interesting remarks made by Lagarde:

On the **ECB's risk assessment**, the introductory statement had the most remarkable change compared with September. Last month, the ECB had still talked about risks to the growth outlook

that had become “more balanced”; today, it refrained from qualifying any balance of risk. Instead, the central bank had a somewhat more extensive list of upside and downside risks to the growth outlook. Lagarde even said that some of the downside risks had abated. When asked whether this was a sign of an upcoming shift in the balance of risk, the ECB's President pointed out that it had already narrowed the risks at the September meeting. Funnily enough, back at the September meeting, there had been no mention of a narrowing of risks.

Supply chain disruptions. Lagarde referred to a discussion on potential supply chain bottlenecks that could still arise as a result of the latest tensions between China and the EU on microchips and rare earths in general.

Risks to inflation. As in the past, the ECB didn't provide an assessment of the balance of risks to inflation. However, during the press conference, Lagarde mentioned different positions, views and analyses regarding inflation within the Governing Council. These differing views do exist, despite a unanimous decision to keep rates on hold today. A particular concern remains service inflation, which the ECB has often labelled as being too high.

Comfortably staying in its 'good place'

Looking ahead, today's meeting has done nothing to change the view that the bar for yet another rate cut from the ECB is high. In fact, the Bank currently feels very comfortable in its 'good place'. With the ECB's own growth forecasts indicating that the eurozone economy will grow by slightly more than 1% each year and inflation will settle down to 2% over the next few years, there is indeed very little reason to change its monetary policy stance.

At the same time, there are still valid dovish arguments that could force the central bank to cut again at the December meeting. Just think of the delayed adverse impact of US tariffs, the stronger euro exchange rate, French politics or a delay in Germany's fiscal stimulus. If any of these downside risks materialise, we can expect the ECB to engage in one or two more rate cuts.

On this point, it remains important to note that the current ECB inflation forecast for 2027 includes a 0.2ppt impact from the introduction of the ETS2 system. Needless to say, any delay in the implementation could have implications for the ECB as it would increase the risk of inflation undershooting. Even if Lagarde tried to downplay this issue during the press conference.

In any case, even if the ECB seems to rest more comfortably on its laurels than before, the December staff projections will be crucial and could still invade its good place. If the 2028 inflation forecasts come in sub-1.7%, the likelihood of yet another rate cut would increase.

More generally speaking, Lagarde didn't give away any hints at what's next for the ECB. Maybe the strongest message came from the colours of the President's scarf, which – at least to us – resembled the French flag. For the rest, today's meeting was another illustration that the ECB has no intention whatsoever of leaving its 'good place' any time soon.

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