

## Three takeaways from today's ECB meeting

Christine Lagarde has refrained from giving clear forward guidance. If the eurozone economy does what the European Central Bank forecasts it will do, there will be more rate cuts coming but the risk of delay or even reversal is for real



They did it. As analysed [here](#), the European Central Bank cut interest rates by 25bp, bringing the deposit rate down to 3.75%. This did not come as a surprise and was indeed one of the best-telegraphed moves in monetary policy history, so the main question was whether the ECB would give any forward guidance on what is next. The short answer is 'they didn't'. For the longer answer, continue reading our three takeaways.

### 1 ECB wants to be a forward-looking central bank again

During the period of surging inflation, the ECB very often had to focus on actual data, which contradicted what a central bank should be doing, namely looking ahead. ECB President Lagarde stressed during the press conference that today's decision was indeed driven by increased confidence in "the path ahead", meaning in its own macro projections. Lagarde explicitly mentioned the inflation forecast for the fourth quarter of 2025, which has now consistently been fluctuating between 1.9% and 2.0%. Enough for the ECB to take comfort in the assessment that inflation is under control. More generally, the ECB's latest forecasts show GDP growth is expected

to come in at 0.9% in 2024, 1.4% in 2025 and 1.6% in 2026. Inflation is expected to come in at 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026. For 2024 and 2025, both the growth and inflation forecasts were revised slightly upwards.

Apparently, the forecasts previously debunked and questioned by the ECB itself have suddenly become powerful and influential again. There's nothing wrong with that, and the rate cut decision also marks an attempt to become a real forward-looking central bank again.

## 2 Today's cut doesn't necessarily mark the start of an easing cycle

Today is the first time the ECB has cut rates after a tightening cycle without facing any sort of recession or economic crisis. In fact, if it hadn't been for the very vocal communication since February, the latest macro data could have easily justified another pause at today's meeting. The recent increase in wage growth and inflation as well as the economy gaining some positive momentum would have been strong arguments against the rate cut. Lagarde explicitly said that the ECB was not precommitting to any particular path for rates; clearly refraining from giving any forward guidance. Lagarde's comments during the press conference, pointing to the still-needed level of restriction, high data dependency and the fact that one member of the Governing Council was against today's rate cut decision, all suggest that the ECB has indeed not yet decided on any next steps.

## 3 Risk of 'reversed Trichet moment' still real

Lagarde brought back some memories of former ECB President Jean-Claude Trichet by using Trichet's old technique of simply using the first question during the press conference to make a prepared statement, no matter what the question was. With today's rate cut, there is the risk that more Trichet memories might return. In fact, there's a risk the ECB could experience a "reverse Trichet moment". Back in 2008, the ECB hiked interest rates shortly before the US subprime crisis became a global financial crisis. A mistake. And in 2011, the ECB under Trichet hiked interest rates, assuming the euro crisis was over. Also a mistake. Six months later, new ECB President Mario Draghi came into office and cut interest rates as the eurozone economy was stuck in recession. These fears of a 'reverse Trichet moment' have not disappeared after today's meeting.

## Loosening the brakes

All in all, today's rate cut clearly fulfils all of the requirements for a 'hawkish cut'. The stickiness of inflation has clearly made some ECB members more cautious and reluctant than a few months ago. In an ideal world, in which the eurozone economy does exactly what the ECB macro forecasts expect it to do, namely to grow at potential with inflation slightly below 2%, the ECB will eventually continue with cutting rates. One rate cut in September and another one in December are the most likely outcomes. However, it wouldn't take a lot of negative inflation surprises for the ECB to tread more carefully or even reverse today's cut. With today's decision, the ECB has slightly loosened the monetary policy brakes. With more (inflation) roadblocks ahead, it's clearly far too early to even think about taking the foot off the brakes entirely.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.