

ECB cuts interest rates by 25bp

The European Central Bank cuts rates by 25bp but avoids giving any forward guidance on further reductions



ECB President, Christine Lagarde

They did it. The European Central Bank just announced the probably best telegraphed start of an easing cycle ever. As expected, the ECB cut interest rates by 25bp, bringing the deposit rate down to 3.75%.

Today's decision is unique in many ways. Not only is it one of the very few times that the ECB makes a turn on monetary policy before the Fed, it is also the first time the ECB starts cutting 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, 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. In fact, it seems as if the ECB cut rates not so much because it had to, but simply because it could.

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What the rate cut does show is change within the ECB itself: the Bank has regained confidence in its own forecasting skills and takes enough comfort from the benign inflation forecast from the second half of 2025 onwards to justify cutting rates. It's like Asterix and his magic potion. In this regard, it is remarkable that the newest ECB projections show a slight upward revision to the 2025 inflation forecasts to 2.2%.

All of a sudden, the forecasts debunked and questioned by the ECB itself over the past few years have 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. Better perhaps than an uncertain institution preoccupied with backwards-looking data. But it's also risky as sticky inflation and ongoing wage pressures could easily prove the ECB's forecasts wrong again soon.

We think that sticky inflation will limit the room for additional rate cuts and the ECB's statement also doesn't give away any hints at the future path of the ECB. But let's here from ECB president Christine Lagarde at the press conference, starting at 2.45pm CET, how open the door for future rate cuts already is or whether the ECB will refrain from giving any forward guidance.

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