

Snap | 17 April 2025

ECB cuts rates by 25bp as disinflationary pressures increase

The ECB just announced that it cut its policy interest rates by 25bp, bringing the deposit rate to 2.25%. We think that more rate cuts will follow



We'll be closely watching this afternoon's press conference to see whether or not ECB President Christine Lagarde opens the door to a more accommodative monetary policy stance

What started last year in June as the European Central Bank's very measured attempt to gradually reduce the level of monetary policy restrictiveness has become a rush towards neutral interest rates, and there's more still to come. With the latest developments, escalating trade tensions, unprecedented policy uncertainty and the strengthening of the euro exchange rate, today's ECB's decision to cut interest rates by 25bp – bringing the deposit rate to 2.25% – came as little surprise.

A 25bp rate cut but risks of falling behind the curve have increased

US tariffs and the never-ending back-and-forth have brought back growth concerns for the eurozone, clearly offsetting previous optimism stemming from the German fiscal policy U-turn, at least in the near term. The strengthening of the euro and the drop in energy prices have added to the disinflationary impact that the current trade tensions will have on the eurozone.

It is not only the bilateral euro-dollar exchange rate that has increased disinflationary concerns, but even more so the trade-weighted exchange rate, which has reached a record high. As a result, the ECB, which looked hesitant to decide between a pause and a next rate cut only a few weeks ago, is now suddenly at risk of falling behind the curve once again.

In fact, during the Mario Draghi era, today's meeting would have probably delivered a 50bp insurance rate cut to support sentiment in markets and the real economy, as well as simply demonstrating the ECB's determination to act. Given the high level of uncertainty currently, 50bp might indeed have been a bridge too far today – but to some extent, today's rate cut decision is also an insurance cut. An insurance cut Lagarde-style. Today's cut won't do any harm; staying on hold would not only have cast doubt about the ECB's willingness to bolster growth but could also lead to a further and unwarranted strengthening of the euro.

We are now looking forward to the press conference starting at 2:45pm CET, and we're curious to hear whether ECB President Christine Lagarde will open the door to a possibly accommodative monetary policy stance or keep the famous cards close to the ECB's chest.

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