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ECB cuts rates again as growth concerns take over

The European Central Bank's decision to cut interest rates by 25bp shows that policymakers have grown more concerned about the eurozone's growth outlook

European Central Bank building and the Frankfurt skyline

This is not the panic on the streets of London The Smiths sang about, but rather panic on the streets of Frankfurt or better Ljubljana, as the European Central Bank just announced another rate cut by 25bp at its meeting in Slovenia. The deposit interest rate is now at 3.25%, down from 3.5%. The decision to cut rates only five weeks after the last cut and with only very few pieces of economic data since then, suggests that the ECB must have become much more concerned about the eurozone's growth outlook and the risk of inflation undershooting the target. Interestingly, the official language in the ECB's decision was almost unchanged from the September meeting.

We will hear more details from ECB President Christine Lagarde at the press conference starting at 2.45pm CET but today's decision to step up the pace of rate cuts clearly signals a change in how the central bank is looking at the eurozone economy. Back in September, the ECB expected a short-lived softening of the economy in the second half of this year and a subsequent return to potential growth from early 2025 onwards. At the same time, inflation was expected to come down to 2.0% by the end of 2025. Whether the few data points released since then have altered the picture or other factors are at play remains unclear. The fact is that the ECB looks much more concerned about (the lack of) growth and inflation undershooting than five weeks ago and it's hard to see how today's rate cut cannot be seen as a signal that the ECB is now in a hurry to bring interest rates down to a more neutral level.

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