

Snap | 24 July 2025

No panic in 'the good place' as ECB keeps rates on hold

The ECB has kept its policy interest rates on hold and is waiting for the final showdown in US-EU trade negotiations



As long as core and services inflation remain above 2% and the fiscal stimulus story in Germany and the rest of the eurozone remains intact, we see very little reason for the European Central Bank to leave its 'good place'

After seven consecutive 25bp rate cuts and a total of 200bp rate cuts since September 2023, the European Central Bank kept its policy interest rates on hold at today's meeting.

Shortly after the June meeting, the stronger euro exchange rate had given rise to a continuation of the current rate cut cycle in July. Not only did the euro's appreciation come to an end, but the repeatedly postponed showdown in the US-EU trade negotiations also offered another reason to stay put today and keep the powder dry. As ECB President Christine Lagarde had already stated at the last meeting in June: with a deposit rate of 2%, headline inflation at 2% and an inflation outlook that fulfills the old 'below but close to 2%', the ECB can simply wait for who is holding the better trade cards and whether actual inflation will really behave as predicted.

Even though we can't see the ECB making the same mistake twice by naming any inflation undershooting as transitory, chances are low that the central bank will react to the recent strengthening of the euro. As long as the stronger euro appears to be driven by fundamentals (though more policy than economic fundamentals), the ECB will simply stand on the sidelines. And as long as core and services inflation remain above 2% and the fiscal stimulus story in Germany and the rest of the eurozone remains intact, there is very little reason for it to leave its 'good

place'. Still, with two more weaker inflation prints and hard macro data weaker than soft data over the summer, we can still see one final rate cut at the September meeting.

Let's wait for the ECB press conference, starting at 2:45pm CET, to see whether Lagarde wants to give any hints at what will be next – or instead intends to kick off the summer break as quickly as possible.

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