

Snap | 30 January 2025

## The ECB cuts rates as its voyage to neutrality continues

The European Central Bank has cut interest rates again by 25bp and looks set to continue the current rate cut cycle



For now, it looks as if the ECB's journey to neutrality will continue and more rate cuts will follow. We'll wait to hear more from President Christine Lagarde in today's press conference at 2:45pm CET

Even without having it fully telegraphed in recent weeks, today's ECB decision to cut policy interest rates by 25bp is no surprise. Despite somewhat stickier headline inflation, the [sluggishness of the eurozone economy](#) as well as the ECB's strong conviction that inflation will return to target were strong arguments for today's rate cut. The ECB's press statement was almost a verbatim copy of the December statement in the key paragraphs. So, judging from the policy statement, there are no changes to forward guidance. The ECB sticks to its meeting-by-meeting approach.

However, at 2.75%, the deposit interest rate is still restrictive – too restrictive for the eurozone economy's current weak state. The recent surge in bond yields has also worsened financial conditions in the eurozone. Even if some argue that monetary policy can do very little to solve structural issues, political instability and uncertainty in many countries will force the ECB to continue doing the heavy lifting.

Also, as long as the current inflationary pressure is anticipated to diminish over the year, the Bank is likely to overlook the present inflation resurgence. While the experience of being slow to address rising inflation will deter the ECB from adopting ultra-low rates, the desire to stay ahead of the curve remains a compelling reason to return interest rates to neutral as swiftly as possible. Let's wait for ECB President Christine Lagarde's comments at the press conference, starting at 2:45pm CET, but for now it looks as if the ECB's journey to neutrality will continue and more rate cuts will

follow.

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