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ECB pauses, shifts to watchful waiting

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- **ECB keeps interest rates unchanged, as widely expected, after seven consecutive cuts**
- **Relatively hawkish on macro, highlighting solid Q1 growth and tariff-related inflation risks, while downplaying the expected 2026 inflation undershoot**
- **Well positioned to wait and see; now markets see a lower probability of a further cut this year**

Today's ECB policy decision adhered to broader expectations of maintaining the status quo on interest rates. After seven consecutive 25bp cuts and a total reduction of 200bp since June 2024, the decision to leave the three **key rates unchanged** came as no surprise. The deposit facility, main refinancing operations, and marginal lending facility remain at 2.00%, 2.15%, and 2.40%, respectively. **The decision was unanimous among Governing Council members.**
Regarding the **outlook for the coming months,** President Lagarde refrained from offering any guidance on the ECB's next steps and reiterated that **decisions will continue to be taken on a data-dependent, meeting-by-meeting basis, with particular attention to the inflation outlook and surrounding risks.** She repeated that the **central bank is currently in a "good place,"** as projections continue to show inflation converging towards the 2% target over the medium term. In this context, she noted that the ECB is **"well positioned to wait and see"** how economic and inflation dynamics unfold.

On the **euro,** President Lagarde reiterated that the ECB does not target any specific exchange rate. However, she emphasized that the exchange rate is closely monitored, as it has implications for the inflation outlook. In doing so, she echoed recent comments by Vice President de Guindos—who had described 1.20 as a key reference point—underlining that both are "on the same page" in **recognizing the relevance of the exchange rate in the ECB's forecasting framework.**

The ECB adopted a relatively hawkish tone in its macro assessment, particularly on growth. Lagarde highlighted that the strong **Q1 data was not only driven by front-loaded exports** but also supported by private consumption and investment, even though both remained moderate. She noted that the labour market remains robust, with unemployment close to historic lows, helping sustain domestic demand. She also pointed to higher public investment in defence and infrastructure as an additional source of growth going forward. While the overall tone was cautious, she said that **risks to growth remain tilted to the downside**, mainly due to trade tensions and geopolitical risks.

On inflation, Lagarde acknowledged the ongoing moderation in wage growth but emphasized that **inflation risks remain uncertain**. In particular, she warned that potential supply-side disruptions stemming from tariffs could push inflation higher. Short-term inflation expectations declined in recent months, while long-term expectations remain anchored around the 2 percent target. During the Q&A, **she downplayed the risk of inflation undershooting the target**, despite the fact that two or three Governing Council members expressed such concerns, and explained that the projected dip in 2026 is mostly due to base effects. She also stressed that **the ECB would not overreact** to such small deviations.

Following the ECB meeting, **markets revised down their expectations for further rate cuts this year.** The probability of a cut in September fell to 27% from 42% before the meeting, and the likelihood of any cut before year-end dropped to 70%, down from 90% earlier in the day. As a result, the euro, which had weakened earlier on the back of strong U.S. labor market data, rebounded, while German 2-year bond yields rose by 6 basis points.

On balance, President Lagarde successfully steered market expectations away from a fully priced-in additional rate cut this cycle—to a terminal deposit rate of 1.75%—towards a more cautious stance, consistent with the “wait and see” message she reiterated throughout the press conference. **Future moves will remain contingent on incoming data and global developments**, particularly the outcome of ongoing **trade discussions,** which for now appear **likely to conclude not too negatively for Europe.** If that scenario materializes and **no significant negative surprises emerge on inflation, activity, or the euro,** the relatively hawkish tone observed today—somewhat unexpectedly—suggests that **the ECB may already be at the end of its easing cycle.**

PLEASE NOTE: **TRACKING CHANGES IN FOLLOWING STATEMENTS**

in grey, wording common to both the current and previous statements, in light grey and crossed, previous wording that was replaced by new wording, in blue and underlined (YES, TRACK CHANGES ARE THERE ON PURPOSE).

Christine Lagarde, President of the ECB,

Luis de Guindos, Vice-President of the ECB

Frankfurt am Main, ~~5 June~~24 July 2025

Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to ~~lower~~keep the three key ECB interest rates ~~by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.~~

unchanged. Inflation is currently at ~~around~~ our two per cent medium-term target. ~~In the baseline of the new Eurosystem staff projections, headline inflation is set to average 2.0 per cent in 2025, 1.6 per cent in 2026 and 2.0 per cent in 2027.~~ The ~~downward revisions compared with the March projections, by 0.3 percentage points for both 2025 and 2026, mainly reflect lower assumptions for energy prices and a stronger euro. Staff expect inflation excluding energy and food to average 2.4 per cent in 2025 and 1.9 per cent in 2026 and 2027,~~ incoming information is broadly ~~unchanged since March.~~

~~Staff see real GDP growth averaging 0.9 per cent in 2025, 1.1 per cent in 2026 and 1.3 per cent in 2027. The unrevised growth projection for 2025 reflects a stronger than expected first quarter combined~~in line with our previous assessment of the inflation outlook. Domestic price pressures have continued to ease, with ~~weaker prospects for the remainder of the year. While the uncertainty surrounding trade policies is expected to weigh on business investment and exports, especially in the short term, rising government investment in defence and infrastructure will increasingly support growth over the medium term. Higher real incomes and a robust labour market will allow households to spend~~wages growing more~~. Together with more favourable financing conditions, this should make~~ slowly. Partly reflecting our past interest rate cuts, the economy ~~more~~has so far proven resilient ~~to~~overall in a challenging global ~~shocks~~environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes.

~~In the context of high uncertainty, staff also assessed some of the mechanisms by which different trade policies could affect growth and inflation under some alternative illustrative scenarios. These scenarios will be published with the staff projections on our website. Under this scenario analysis, a further escalation of trade tensions over the coming months would result in growth and inflation being below the baseline projections. By contrast, if trade tensions were resolved with a benign outcome, growth and, to a lesser extent, inflation would be higher than in the baseline projections.~~

~~Most measures of underlying inflation suggest that inflation will settle at around our two per cent medium-term target on a sustained basis. Wage growth is still elevated but continues to moderate visibly, and profits are partially buffering its impact on inflation. The concerns that increased uncertainty and a volatile market response to the trade tensions in April would have a tightening impact on financing conditions have eased.~~

We are determined to ensure that inflation stabilises ~~sustainably~~ at our two per cent ~~medium-term~~ target~~. Especially~~ in ~~current conditions of exceptional uncertainty, we~~the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. ~~Our~~In particular, our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

The decisions taken today are set out in a ~~press release~~press release available on our website.
I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

~~The economy grew by 0.3 per cent in~~ In the first quarter ~~of 2025, according to Eurostat's flash estimate. Unemployment, at 6.2 per cent in April, is at its lowest level since the launch of the euro, and employment grew by 0.3 per cent in the first quarter of the year, according to the flash estimate.~~

~~In line with the staff projections, survey data point overall to some weaker prospects in the near term. While manufacturing has strengthened, partly because trade has been brought forward in anticipation of higher tariffs, the~~ the economy grew more ~~domestically oriented services sector is slowing. Higher tariffs and a stronger euro are~~ strongly than expected ~~to make it harder for~~. This was partly because firms ~~to export. High uncertainty is~~ frontloaded exports ahead of expected ~~to weigh on~~tariff hikes. But growth was also bolstered by stronger private consumption and investment.

Recent surveys point to an overall modest expansion in both the manufacturing and services sectors. At the same time, ~~several factors are keeping the economy resilient~~higher actual and ~~should support growth over the medium term. A strong~~ expected tariffs, the stronger euro and persistent geopolitical uncertainty are making firms more hesitant to invest.

The robust labour market, rising real incomes~~, robust~~ and solid private sector balance sheets ~~and easier~~continue to support consumption. Unemployment stood at 6.3 per cent in May, close to its lowest level since the introduction of the euro. Easier financing conditions~~, in part because of our past interest rate cuts, should all help consumers and firms withstand the fallout from a volatile global environment. Recently announced measures to step up~~ are underpinning domestic demand, including in the housing market. Over time, higher public investment in defence and infrastructure ~~investment~~ should also ~~bolster~~support growth.

~~In~~More than ever, the Governing Council considers it crucial to urgently strengthen the euro area and its economy in the present geopolitical environment~~, it is even more urgent for fiscal~~. Fiscal and structural policies ~~to~~should make the ~~euro area~~ economy more productive, competitive and resilient. ~~The European Commission's Competitiveness Compass provides a concrete roadmap for action, and its proposals, including on simplification, should be swiftly adopted. This includes completing the savings and investment union, following a clear and ambitious timetable. It is also important to rapidly establish the legislative framework to prepare the ground for the potential introduction of a digital euro.~~ Governments should ~~ensure sustainable public finances in line with the EU's economic governance framework, while prioritising essential~~prioritise growth-enhancing structural reforms and strategic investment, while ensuring sustainable public finances. It is important to complete the savings and investments union and the banking union, following a clear and ambitious timetable, and to rapidly establish the legislative framework for the potential introduction of a digital euro. The Governing Council welcomes the Eurogroup's commitment to improve the effectiveness, quality and composition of public spending and supports the efforts by European authorities to preserve the mutual benefits of global trade.

Inflation

Annual inflation ~~declined to~~ stood at 2.0 per cent in June, after 1.9 per cent in May~~, from 2.2 per cent in April, according to Eurostat's flash estimate.~~. Energy ~~price inflation remained at −3.6 per cent.~~ prices went up in June but are still lower than a year ago. Food price inflation ~~rose~~eased slightly to 3.~~3~~1 per cent~~, from 3.0 per cent the month before~~. Goods inflation ~~was unchanged at~~ edged down to 0.~~6~~5 per cent~~, while~~ in June, whereas services inflation ~~dropped to 3.2 per cent, from 4.0 per cent in April.~~

~~Services inflation had jumped in April mainly because prices for travel services around the Easter holidays went up by more than expected~~ticked up to 3.3 per cent, from 3.2 per cent in May.

~~Most indicators~~Indicators of underlying inflation ~~suggest that inflation will stabilise sustainably at~~are overall consistent with our two per cent medium-term target. Labour costs ~~are gradually moderating, as indicated by incoming data~~ have continued to moderate. Year-on~~ negotiated wages and available country data on~~ -year growth in compensation per employee~~. The~~ slowed to 3.8 per cent in the first quarter, down from 4.1 per cent in the previous quarter. Combined with stronger productivity growth, this led to slower growth in unit labour costs. Forward-looking indicators, including the ECB's wage tracker ~~points~~and surveys on wage expectations of firms, consumers and professional forecasters, point to a further ~~easing of negotiated wage growth in 2025, while the staff projections see~~decline in wage growth~~ falling to below 3 per cent in 2026 and 2027. While lower energy prices and a stronger euro are putting downward pressure on inflation in the near term, inflation is expected to return to target in 2027~~.

Short-term consumer inflation expectations ~~edged up in April, likely reflecting news about trade tensions. But most~~declined in both May and June, reversing the uptick observed in previous months. Most measures of longer-term inflation expectations continue to stand at around 2 per cent, ~~which supports~~supporting the stabilisation of inflation around our target.

Risk assessment

Risks to economic growth remain tilted to the downside. ~~A~~Among the main risks are a further escalation in global trade tensions and associated uncertainties, which could ~~lower euro area growth by dampening~~dampen exports and ~~dragging~~drag down investment and consumption. A deterioration in financial market sentiment could lead to tighter financing conditions and greater risk aversion, and make firms and households less willing to invest and consume. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, remain a major source of uncertainty. By contrast, if trade and geopolitical tensions were resolved swiftly, this could lift sentiment and spur activity. ~~A further increase in~~Higher defence and infrastructure spending, together with productivity-enhancing reforms, would ~~also~~ add to growth. An improvement in business confidence would also stimulate private investment.

The outlook for~~ euro area~~ inflation is more uncertain than usual, as a result of the volatile global trade policy environment. ~~Falling energy prices and a~~A stronger euro could ~~put further downward pressure on~~bring inflation~~. This~~ down further than expected. Moreover, inflation could turn out to be ~~reinforced~~lower if higher tariffs ~~led~~lead to lower demand for euro area exports and ~~to~~induce countries with overcapacity ~~rerouting~~to reroute their exports to the euro area. Trade tensions could lead to greater volatility and risk aversion in financial markets, which would weigh on domestic demand and would thereby also lower inflation. By contrast, inflation could turn out to be higher if a fragmentation of global supply chains ~~could raise inflation by pushing~~pushed up import prices and ~~adding~~added to capacity constraints in the domestic economy. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

~~Risk-free~~Market interest rates have ~~remained broadly unchanged~~increased since our last meeting~~. Equity prices have risen, and corporate bond spreads have narrowed, in response to more positive news about global trade policies and~~, especially at longer maturities. At the ~~improvement in global risk sentiment.~~

~~Our~~same time, our past interest rate cuts continue to make corporate borrowing less expensive. The average interest rate on new loans to firms declined to 3.7 per cent in May, from 3.8 per cent in April~~, from 3.9 per cent in March.~~. The cost of issuing market-based debt ~~was unchanged at~~ also came down, falling to 3.~~7 per cent. Bank lending to firms continued to strengthen gradually, growing by an annual rate of 2.~~6 per cent in ~~April after~~May. While the growth rate of loans to firms moderated to 2.~~4~~5 per cent in ~~March, while~~May, corporate bond issuance was ~~subdued. The average interest~~stronger, growing at a rate ~~on new mortgages stayed at~~of 3.~~3~~4 per cent in ~~April, while growth in mortgage lending increased to 1.9 per cent~~annual terms.

~~In line with our monetary policy strategy, the Governing Council thoroughly assessed the links between monetary policy and financial stability. While euro area banks remain resilient, broader financial stability risks remain elevated, in particular owing to highly uncertain and volatile global trade policies. Macroprudential policy remains the first line of defence against the build-up of financial vulnerabilities, enhancing resilience and preserving macroprudential space.~~

Credit standards for business loans were broadly unchanged in the second quarter, as reported in our latest bank lending survey for the euro area. While banks' concerns about the economic risks faced by their customers had a tightening impact on credit standards, this was broadly offset by stronger competition among lenders. Meanwhile, firms' demand for credit increased slightly, benefiting from lower interest rates, but they remained cautious because of global uncertainty and trade tensions.

The average interest rate on new mortgages has barely changed since the start of the year and stood at 3.3 per cent in May. Growth in mortgage lending edged up to 2.0 per cent in May, in the context of a strong increase in demand, while credit standards tightened slightly in the second quarter.

Conclusion

The Governing Council today decided to ~~lower~~keep the three key ECB interest rates ~~by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.~~unchanged. We are determined to ensure that inflation stabilises ~~sustainably~~ at our two per cent ~~medium-term~~ target~~. Especially~~ in ~~current conditions of exceptional uncertainty, we~~the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. Our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilises sustainably at our medium-term target and to preserve the smooth functioning of monetary policy transmission.

DISCLAIMER