BBVA Research

ECB comfortable at 2%

Carlos Castellano, Maria Martinez, Elena Monterrey

- **ECB keeps rates unchanged in a unanimous decision, with the euro area seen "in a good place"**
- **Growth risks now balanced, with inflation projected below 2% in 2026–27**
- **Lagarde more hawkish than forecasts, declaring disinflation over; cycle seen as ended, with moves only on major data surprises**

At its September meeting, **the ECB decided to keep the three key interest rates unchanged**, leaving the deposit facility at 2%, the main refinancing rate at 2.15% and the marginal lending facility at 2.40%. **The decision was taken unanimously**. Lagarde underlined that the Governing Council continues to see the **euro area as being in "a good place"** while stressing that policy will remain data-dependent and decided meeting by meeting. She also cautioned **against "over-engineering" the debate**, making clear that the ECB should avoid abstract discussions and instead stay focused on reliable data and projections.

On growth, the ECB now sees risks as more balanced compared with the downside bias highlighted previously, a shift that gives a slight hawkish tone to the meeting. Lagarde pointed to the **resilience of the economy**, underlining the strong first quarter, driven not only by frontloading in trade but also by consumption and investment, while downplaying the weaker outcome of the second quarter, which was weaker.

The recent **US–EU trade agreement is for the ECB a key factor reducing the downward risk**, as it reduces uncertainty and includes no retaliation (hence avoiding a trade war), but the ECB also acknowledged that higher US tariffs and lower Chinese export prices weigh on euro area prospects, cutting around 0.7pp from cumulative growth through 2027. Staff projections revised 2025 growth up (a natural move given recent data revisions), trimmed 2026 slightly and left 2027 unchanged (see table), with quarterly growth expected to stabilize around 0.3%, supported by income gains and higher fiscal spending.

On inflation, staff projections showed the **headline rate remaining close to the 2% target** in the near term but **dipping below it in the following two years**, with core inflation following a similar pattern. The softer profile reflects the **stronger euro and easing labour costs**, as well as lower gas and commodity prices that offset somewhat higher oil assumptions. The impact from tariffs on prices is seen as negligible. Still, Lagarde struck a **more hawkish note than the forecasts implied**: she declared the **disinflation phase over** and dismissed the sub-2% outcome in 2027 as only a "marginal" deviation.

The French political turmoil did not go unnoticed during the press conference. Lagarde avoided commenting directly on France (no comments on individual countries), insisting that the ECB looks at risks from a euro area-wide perspective and that governments are bound by the EU fiscal framework. On sovereign spreads, she underlined that **markets remain orderly and liquid**, while reminding that the ECB has the tools to safeguard transmission, though the **TPI was not discussed at this meeting**.

Overall, **today's meeting reinforced the view that the rate cycle has ended**. The Governing Council is not pre-committed to any future path, but **only a major surprise in incoming data or in the economic outlook would prompt further policy action**. Markets remain somewhat more dovish, still pricing the possibility of additional cuts in 2026, yet the ECB's communication raised the bar clearly higher for any such move.

Negative driver Positive driver

Annual. var. (%), unless otherwise indicated	2023	2024	2025 ECB Sep.	2025 ECB Jun.	2026 ECB Sep.	2026 ECB Jun.	2027 ECB Sep.	2027 ECB Jun.
Real GDP	0.5	0.8	**1.2**	0.9	**1.0**	1.1	**1.3**	1.3
HICP	5.4	2.4	**2.1**	2.0	**1.7**	1.6	**1.9**	2.0
HICP excluding energy and food	4.9	2.8	**2.4**	2.4	**1.9**	1.9	**1.8**	1.9
Unit labour costs	6.4	4.7	**2.8**	2.8	**2.2**	2.1	**1.9**	2.0
Compensation per employee	5.4	4.5	**3.4**	3.2	**2.7**	2.8	**2.7**	2.8
Labour productivity	-0.9	-0.2	**0.6**	0.4	**0.5**	0.7	**0.8**	0.8
3-month EURIBOR	3.4	3.6	**2.2**	2.1	**1.9**	1.9	**2.1**	2.2
10-year government bond yields	3.1	2.9	**3.1**	3.1	**3.4**	3.4	**3.6**	3.6
Oil price (in USD/barrel)	83.6	81.2	**69.7**	66.7	**65.1**	62.8	**65.1**	64.2
Natural gas prices (EUR/MWh)	40.6	34.4	**37.3**	38.0	**32.9**	33.2	**29.7**	29.3
USD/EUR exchange rate	1.08	1.08	**1.13**	1.11	**1.16**	1.13	**1.16**	1.13
World real GDP (excl. EZ)	3.7	3.6	**3.3**	3.1	**3.1**	2.9	**3.3**	3.2
Global trade (excl. EZ)	1.3	4.2	**2.8**	3.1	**1.5**	1.7	**3.1**	3.1
Euro area foreign demand	0.8	3.6	**2.8**	2.8	**1.4**	1.7	**3.1**	3.1
World CPI (excl. EZ)	4.8	4.0	**3.2**	3.3	**2.9**	2.8	**2.5**	2.5

Source: ECB

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, ~~24 July~~11 September 2025

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

The Governing Council today decided to keep the three key ECB interest rates unchanged. Inflation is currently at around our two per cent medium-term target~~. The incoming information is broadly in line with~~ and our ~~previous~~ assessment of the inflation outlook~~. Domestic price pressures have continued to ease, with wages growing more slowly. Partly reflecting our past interest rate cuts, the economy has so far proven resilient overall in a challenging global environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes~~ is broadly unchanged.

The new ECB staff projections present a picture of inflation similar to that projected in June. They see headline inflation averaging 2.1 per cent in 2025, 1.7 per cent in 2026 and 1.9 per cent in 2027. For inflation excluding energy and food, they expect an average of 2.4 per cent in 2025, 1.9 per cent in 2026 and 1.8 per cent in 2027. The economy is projected to grow by 1.2 per cent in 2025, revised up from the 0.9 per cent expected in June. The growth projection for 2026 is now slightly lower, at 1.0 per cent, while the projection for 2027 is unchanged at 1.3 per cent.

We are determined to ensure that inflation stabilises at our two per cent target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. 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

~~In the first quarter the economy grew more strongly than expected. This was partly because firms frontloaded exports ahead of expected 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, higher actual and expected tariffs, the stronger euro and persistent geopolitical uncertainty are making firms more hesitant to invest.~~

~~The robust labour market, rising real incomes and solid private sector balance sheets 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 are underpinning domestic demand, including in the housing market. Over time, higher public investment in defence and infrastructure should also support growth.~~

~~More than ever, the~~The economy grew by 0.7 per cent in cumulative terms over the first half of the year, on account of the resilience in domestic demand. The quarterly pattern showed stronger growth in the first quarter and weaker growth in the second quarter, partly reflecting an initial frontloading of international trade ahead of expected tariff increases and then a reversal of that effect.

Survey indicators suggest that both manufacturing and services continue to grow, signalling some positive underlying momentum in the economy. Even if demand for labour is softening, the labour market remains a source of strength, with the unemployment rate at 6.2 per cent in July. Over time, this should boost consumer spending, especially if, as foreseen in the staff projections, people save less of their income. Consumer spending and investment should benefit from our past interest rate cuts feeding through to financing conditions. Investment should also be underpinned by substantial government spending on infrastructure and defence.

Higher tariffs, a stronger euro and increased global competition are expected to hold growth back for the rest of the year. However, the effect of these headwinds on growth should fade next year. While recent trade agreements have reduced uncertainty somewhat, the overall impact of the change in the global policy environment will only become clear over time.

The Governing Council considers it crucial to urgently strengthen the euro area and its economy in the present geopolitical environment. Fiscal and structural policies should make the economy more productive, competitive and resilient. One year on from the release of Mario Draghi's report on the future of European competitiveness, it remains essential to follow up on its recommendations with further concrete action and to accelerate implementation, in line with the European Commission's roadmap. Governments should prioritise growth-enhancing structural reforms and strategic investment, while ensuring sustainable public finances. It is ~~important~~critical to complete the savings and investments union and the banking union, ~~following a clear and~~to an 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 ~~stood at 2.~~remains close to our target, edging up to 2.1 per cent in August from 2.0 per cent in ~~June, after 1.9 per cent in May.~~July. Energy ~~prices went up in June but are still lower than a year ago. Food~~ price inflation ~~eased slightly to 3.1 per cent. Goods~~was -1.9 per cent, after -2.4 per cent in July, while food price inflation declined to 3.2 per cent from 3.3 per cent. Inflation excluding energy and food stayed constant at 2.3 per cent. Services inflation edged down to ~~0.5~~3.1 per cent, from 3.2 per cent in ~~June, whereas services~~July, while goods inflation ~~ticked up to 3.3~~was unchanged at 0.8 per cent~~, from 3.2 per cent in May~~.

Indicators of underlying inflation ~~are overall~~remain consistent with our two per cent medium-term target.~~ Labour costs have continued to moderate.~~ Year-on-year growth in compensation per employee ~~slowed to~~was 3.~~8~~9 per cent in the ~~first~~second quarter, down from 4.~~1~~0 per cent in the previous quarter~~. Combined with stronger productivity growth, this led to slower growth in unit labour costs.~~ and 4.8 per cent in the second quarter of last year. Forward-looking indicators, including the ECB’s wage tracker and surveys on wage expectations~~ of firms, consumers and professional forecasters, point to a further decline in ~~, suggest that wage growth will moderate further. Along with productivity gains, this will help keep a lid on domestic price pressures, even as profits recover from low levels.

~~Short-term consumer inflation expectations declined in both May and June, reversing the uptick observed in previous months. ~~Looking ahead, the staff projections see food inflation dropping from 2.9 per cent in 2025 to 2.3 per cent in 2026 and 2027. Energy price inflation is expected to remain volatile, but rise over the projection horizon, in part because of the start of the EU Emissions Trading System 2 in 2027. Inflation excluding energy and food is expected to fall from 2.4 per cent in 2025 to 1.9 per cent in 2026 and 1.8 per cent in 2027, owing to the stronger euro and declining labour cost pressures.

Most measures of longer-term inflation expectations continue to stand at around 2 per cent, supporting the stabilisation of inflation around our target.

Risk assessment

Risks to economic growth ~~remain tilted to the downside. Among the main risks are a further escalation in global trade tensions and associated uncertainties, which could~~have become more balanced. While recent trade agreements have reduced uncertainty, a renewed worsening of trade relations could further dampen exports and 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~~ and weaker growth. 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. Higher~~By contrast, higher than expected defence and infrastructure spending, together with productivity-enhancing reforms, would add to growth. An improvement in business confidence ~~would also stimulate private investment~~could stimulate private investment. Sentiment could also be lifted and activity spurred if geopolitical tensions diminished, or if the remaining trade disputes were resolved faster than expected.

The outlook for inflation ~~is~~remains more uncertain than usual, as a result of the still volatile global trade policy environment. A stronger euro could bring inflation down further than expected. Moreover, inflation could turn out to be lower if higher tariffs lead to lower demand for euro area exports and induce countries with overcapacity to ~~reroute~~further increase 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 pushed up import prices and 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

~~Market interest~~Since our last meeting short-term market rates have increased~~ since our last meeting, especially at ~~, while longer~~ maturities. At the same time~~-term rates have remained broadly unchanged. However, our past interest rate cuts ~~continue~~continued to ~~make~~lower corporate borrowing ~~less expensive.~~costs in July. The average interest rate on new loans to firms ~~declined~~moved down to 3.~~7~~5 per cent in ~~May~~July, from 3.~~8~~6 per cent in ~~April~~June. The cost of issuing market-based debt ~~also came down, falling to 3.6 per cent in May. While~~was unchanged, at 3.5 per cent. Loans to firms grew by 2.8 per cent, slightly more strongly than in June, while the growth ~~rate ~~of ~~loans to firms moderated to 2.5 per cent in May, ~~corporate bond issuance ~~was stronger, growing at a rate of ~~rose to 4.1 per cent from 3.4 per cent~~ in annual terms.~~

~~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~~was again unchanged at 3.3 per cent in ~~May. Growth~~July, while growth in mortgage lending ~~edged~~picked 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~~4 per cent, from 2.2 per cent.

Conclusion

The Governing Council today decided to keep the three key ECB interest rates unchanged. We are determined to ensure that inflation stabilises at our two per cent target in 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

The present document does not constitute an “Investment Recommendation”, as defined in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (“MAR”). In particular, this document does not constitute “Investment Research” nor “Marketing Material”, for the purposes of article 36 of the Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (MIFID II).

Readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data or opinions regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.