BBVA Research

ECB holds steady

Carlos Castellano, Maria Martinez

- **The ECB kept interest rates unchanged, as expected, and signaled increased confidence in its current monetary policy stance**
- **The balance of risks to growth has improved, while inflation risks remain broadly unchanged**
- **The ECB advanced to the next phase of the digital euro project**

The ECB kept all key interest rates unchanged today, leaving the deposit facility at 2.00%, the main refinancing operations rate at 2.15%, and the marginal lending facility at 2.40%. This was the third consecutive meeting without a change in rates. President Lagarde reiterated **that the ECB's current stance is appropriate,** though not necessarily fixed, adding that the institution **"will do whatever is needed to make sure that we stay in a good place**." In the Q&A, she also emphasized **that the decision was taken with full unanimity** among Governing Council members, despite a range of views during the discussion.

On **growth, Lagarde sounded relatively upbeat following today's Q3 data for the euro area** (0.2% QoQ), which came in slightly above expectations and was mainly driven by investment, including a pickup in digital activity. She highlighted that firms are stepping up efforts to modernize their IT infrastructure and integrate artificial intelligence, while the labour market remains robust and public investment continues to support activity. Manufacturing, however, remains weak amid higher tariffs, persistent uncertainty, and a stronger euro. As a novelty, **the ECB dropped its previous reference to growth risks being "more balanced," instead noting that downside risks have eased,** supported by progress in the EU-US trade deal, the ceasefire in the Middle East, and advances in US-China negotiations.

On inflation, there were no major changes to the balance of risk. The Governing Council discussed the potential impact of supply chain disruptions, particularly concerning critical raw materials that could push prices higher, although today's partial trade agreement between China and the US reduces this risk. The ECB also noted that services inflation has picked up slightly, while wage growth is easing and expected to moderate further, with improving productivity helping to contain cost pressures**. Lagarde reiterated that the inflation outlook remains uncertain, with both upward and downward risks still present.**

Lagarde also addressed the ECB's strategic digital agenda, announcing that **the Governing Council has decided to move to the next stage of the digital euro project**. This phase focuses on ensuring technical readiness for a potential future issuance. The initiative aims to reinforce Europe's digital sovereignty and modernize the role of central bank money in an increasingly digital economy.

Overall, the tone of today's meeting was moderately more positive than in September. **While inflation risks remain broadly balanced, the ECB appeared relatively more relaxed about the growth outlook, even as it acknowledged the high degree of international uncertainty.** The current **2% depo rate is seen as appropriate** in this context, and **unless incoming data materially change the outlook, the ECB seems poised to maintain its stance well into next year.** Our baseline remains for rates to stay on hold through 2026.

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, 11 September~~Florence, 30 October 2025

Good afternoon, the Vice-President and I welcome you to our press conference. I would like to thank Governor Panetta for his kind hospitality and express our special gratitude to his staff for the excellent organisation of today's meeting of the Governing Council.

The Governing Council today decided to keep the three key ECB interest rates unchanged. Inflation ~~is currently at around~~remains close to our two per cent medium-term target and our assessment of the inflation outlook is broadly unchanged. The economy has continued to grow despite the challenging global environment. The robust labour market, solid private sector balance sheets and our past interest rate cuts remain important sources of resilience. However, the outlook is still uncertain, owing particularly to ongoing global trade disputes and geopolitical tensions.

~~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

The economy grew by 0.~~7~~2 per cent in ~~cumulative terms over~~ the ~~first half~~ third quarter of the year, ~~on account of~~ according to Eurostat's preliminary flash estimate published today. The services sector continued to grow, boosted by strong tourism and, especially, by a pick-up in digital services. According to surveys, the ~~resilience in~~ pick-up reflects the fact that many firms have stepped up efforts to modernise their IT infrastructures and integrate artificial intelligence into their operations. Meanwhile, manufacturing was held back by higher tariffs, still-heightened uncertainty and a stronger euro.

The divergence between domestic and external demand~~. The quarterly pattern showed stronger growth in the first quarter and weaker growth~~ is likely to persist in the ~~second quarter, partly reflecting an initial~~near term. The economy should benefit from consumers spending more as real incomes rise. Unemployment, at 6.3 per cent in September, remains close to its historical low, even though demand for labour has cooled. Households continue to save an unusually large proportion of their incomes, which should give them greater margin to increase spending further. Substantial government expenditure on infrastructure and defence, as well as our past interest rate cuts, should underpin investment.

By contrast, the global environment is likely to remain a drag. Goods exports declined from March to August, reversing the earlier frontloading of international trade ahead of ~~expected~~recent tariff increases~~ and then a reversal of that effect~~. New export orders in manufacturing point to further declines. The full impact of higher tariffs on euro area exports and manufacturing investment will only become visible over time.

~~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~~stresses the urgent need to strengthen the euro area and its economy in the present geopolitical environment~~.~~, and we welcome EU leaders reaffirming this ambition at last week's Euro Summit. 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~~boost productivity, competitiveness~~, it remains~~ and resilience. It is essential to ~~follow up on its recommendations with further concrete action and to accelerate implementation, in line with~~implement the European Commission's competitiveness roadmap swiftly. Governments should prioritise growth-enhancing structural reforms and strategic investment, while ensuring sustainable public finances. It is ~~critical~~also vital to ~~complete~~foster further capital market integration by completing the savings and investments union and the banking union~~,~~ to an ambitious timetable, and to rapidly ~~establish~~adopt the ~~legislative framework for~~regulation on the ~~potential introduction~~establishment of a digital euro.

The Governing Council is committed to making retail and wholesale central bank money fit for the digital age. In this vein, the Governing Council today decided to move to the next stage of the digital euro project. This will ensure technical readiness for potential issuance and support Europe's digital sovereignty once the legislation has been adopted. The details of this decision are available in a separate press release.

Inflation

Annual inflation ~~remains close to our target, edging up~~ increased to 2.~~1~~2 per cent in ~~August~~September, from 2.0 per cent in ~~July.~~August. This was mainly because energy prices fell by less than before. Energy price inflation was -~~1.9 per cent, after -2.~~0.4 per cent in ~~July, while~~September, up from -2.0 per cent in August. Meanwhile, food price inflation ~~declined~~eased to 3.~~2~~0 per cent in September, from 3.~~3~~2 per cent in August. Inflation excluding energy and food ~~stayed constant at~~rose to 2.~~3~~4 per cent~~. Services~~, from 2.3 per cent in August, as services inflation ~~edged down~~ ticked up from 3.1 per cent to 3.~~1 per cent, from 3.~~2 per cent~~ in July~~, while goods inflation was again unchanged at 0.8 per cent.

Indicators of underlying inflation remain consistent with our two per cent medium-term target. ~~Year-on-year~~ While firms' profits are recovering, labour costs are set to moderate further owing to rising productivity and an easing in wage growth~~ in compensation per employee was 3.9 per cent in the second quarter, down from 4.0 per cent in the~~

~~previous quarter and 4.8 per cent in the second quarter of last year.~~. Forward-looking indicators, ~~including~~such as the ECB's wage tracker and surveys on wage expectations, ~~suggest that~~point to slower 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~~over the remainder of the year and the first half of 2026.

~~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~~The EU-US trade deal reached over the summer, the recently announced ceasefire in the Middle East and today's announcement of progress in the US-China trade negotiations have mitigated some of the downside risks to economic growth ~~have become more balanced. While recent trade agreements have reduced uncertainty, a renewed worsening of trade relations~~. At the same time, the still volatile global trade environment could disrupt supply chains, further dampen exports ~~and drag down investment~~, and weigh on consumption and investment. A deterioration in financial market sentiment could lead to tighter financing conditions, greater risk aversion and weaker growth. Geopolitical tensions, ~~such as~~in particular Russia's unjustified war against Ukraine ~~and the tragic conflict in the Middle East~~, remain a major source of uncertainty. By contrast, higher than expected defence and infrastructure spending, together with productivity-enhancing reforms, would add to growth. An improvement in business confidence could stimulate private investment. Sentiment could also be lifted and activity spurred if the remaining geopolitical tensions diminished, or if the remaining trade disputes were resolved faster than expected.

The outlook for inflation ~~remains~~continues to be more uncertain than usual~~, as a result~~ on account 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 further increase their exports to the euro area. ~~Trade tensions could lead to greater~~An increase in volatility and risk aversion in financial markets~~, which would~~ could 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, curtailed the supply of critical raw materials 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 and nature crisis more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

Since our last meeting ~~short-term~~, market rates have ~~increased, while longer-term rates have~~ remained broadly unchanged. ~~However, our~~Our past interest rate cuts have continued to ~~lower corporate borrowing costs in July. The average interest rate on new loans to~~reduce bank lending rates for firms ~~moved down to~~, which averaged 3.5 per cent in ~~July, from 3.6 per cent in June. The~~ August. Meanwhile, the cost of issuing market-based debt ~~was unchanged,~~remained at 3.5 per cent~~. Loans~~ in August, as the longer-term yields on which such debt is priced have been relatively stable.

The annual growth rate of bank lending to firms ~~grew by~~edged down to 2.~~8~~9 per cent~~, slightly more strongly than~~ in September, from 3.0 per cent in ~~June, while~~August. At the ~~growth of~~same time, corporate bond issuance ~~rose~~slowed to ~~4.1~~3.3 per cent ~~from 3.4 per cent.~~ on a yearly basis. According to our latest bank lending survey for the euro area, credit standards for business loans tightened moderately in the third quarter, as banks became more concerned about the risks faced by their customers. Firms' demand for credit picked up slightly.

The average interest rate on new mortgages ~~was again unchanged~~has barely changed since the start of the year and stood at 3.3 per cent in ~~July, while growth~~August. Growth in mortgage lending ~~picked~~ticked up to 2.~~4~~6 per cent in September, from 2.5 per cent~~, from 2.2 per cent~~ in August, on the back of a further increase in demand and unchanged credit standards in the third quarter.

Growth in broad money – as measured by M3 – slowed to 2.8 per cent in September, down from 2.9 per cent in August and an average of 3.8 per cent over the first half of the year.

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