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Economic Briefing

ECB Meeting – we no longer forecast a rate cut

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At today's press conference ECB President Christine Lagarde tempered expectations of a final rate cut in September. The widely anticipated drop in the inflation rate below the 2% mark is temporary. Lagarde even did not rule out discussions about necessary rate hikes in the future. Accordingly, we are revising our forecasts and no longer expect a final cut of the ECB deposit rate to 1.75% at the September meeting.

It was a foregone conclusion that the ECB would not cut its interest rates again today. Most had also expected an unchanged tone by ECB President Lagarde regarding future monetary policy. In fact, Lagarde repeated the statement that the ECB is "in a good place" with regard to the significantly fallen inflation. Additionally, she emphasized the ECB's wait-and-see stance, just as she did last time. However, Lagarde ultimately dampened the expectation of another, final interest rate cut in September through two statements:

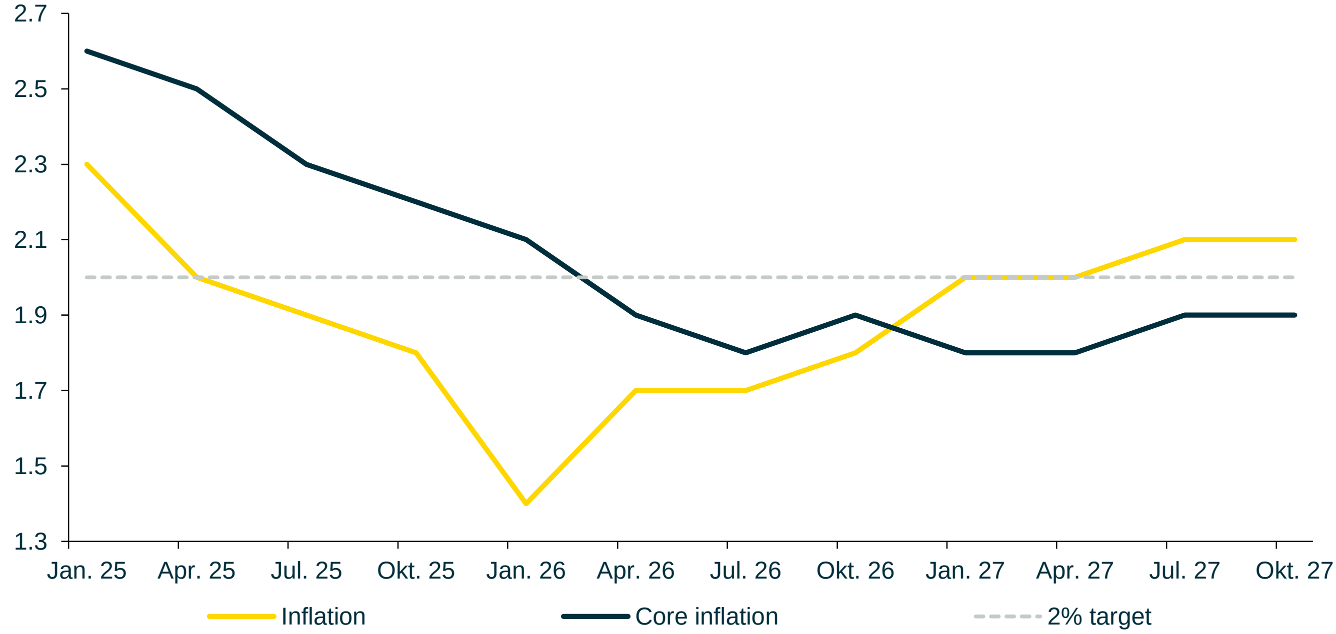
- Lagarde downplayed that inflation will soon fall below the 2% mark. She stated that this is merely due to base effects and had already been forecast by the ECB (Chart 1). The ECB would not be influenced by such "minor deviations", even if "two or three" Council members saw it differently. This was a surprisingly clear rebuff to the doves on the ECB Council.

- In response to a journalist's question, Lagarde even did not rule out a possible future discussion about higher key interest rates. She could have answered evasively, saying that such a question is not currently relevant.

All in all, Lagarde's statements now make it seem more likely that the ECB will not cut its key interest rates again at the next meeting in September. We are revising our forecast and now expect an unchanged deposit rate of 2.0% for the rest of this year and for 2026.

Chart 1 - ECB forecasts a temporary inflation undershooting

Inflation and core inflation according to the ECB's projection of June 2025, in per cent



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