

ECB much more confident

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As expected, the ECB cut its policy rates by 25 basis points today. Otherwise, the ECB appears much more confident that it will achieve its inflation target of 2% on a sustainable basis. We continue to expect the ECB to lower its deposit rate to 2% by the summer. Comments by Lagarde suggest that the ECB will cut rates at its next meeting by 25 and not 50 basis points.

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The ECB today voted unanimously to cut its rates by just 25 basis points, although President Christine Lagarde said there had been discussion about a 50 basis point move. A small move had been expected after some doves from the ECB Governing Council had spoken out in favor of a steady rate cut policy. Moreover, the futures markets had recently only priced in 25 basis points and the ECB does not like to surprise the markets. A cut of 25 basis points instead of 50 basis points is in any case more appropriate, as wages have recently risen by more than 4%, which is far too high in view of the 2% inflation target (Chart 2).

Compared to the last meeting in October, it was noticeable that the ECB was much more confident that inflation would settle at the 2% target in the medium term. Firstly, this is supported by its updated inflation projections, which are de facto at 2% for both 2026 and 2027 (Chart 1). The forecast for 2027 is at 2.1% only because there will be changes in CO2 certificate trading that will temporarily increase consumer prices somewhat. Secondly, in its **statement** the ECB said for the first time that inflation will “stabilize” at 2% on a sustained basis.

The ECB deposit rate is likely to fall to 2%, ...

The ECB is likely to cut its deposit rate by 25 basis points at each of the upcoming meetings until it reaches 2% in the summer. An argument in favor of rate cuts is that core inflation should gradually fall towards 2% after the turn of the year. Firstly, this is due to the weak economy, which limits the pricing power of companies. Secondly, the fall in oil prices is likely to feed through to core inflation via transportation services, for example.

The ECB will probably cut its interest rates again by 25 and not 50 basis points at its next meeting at the end of January. This is suggested by Lagarde’s answer to a journalist’s question: “A lot will be clarified in the next few months, not the next few weeks.”

... even if there are considerable long-term inflation risks

We continue to see significant long-term inflation risks due to the demographically induced shortage of labour in North America, China and Europe, due to de-globalization and de-carbonization. However, the ECB Governing Council, which is dominated by



doves, is more likely to focus on developments in 2025, especially as highly indebted countries benefit from lower interest rates.

Chart 1 - ECB lowers forecasts across the board

ECB experts' December projections; in parentheses: ECB September projection; growth and inflation rates in percent

	2024	2025	2026	2027
GDP growth	0.7 (0.8)	1.1 (1.3)	1.4 (1.5)	1.3
Inflation	2.4 (2.5)	2.1 (2.2)	1.9 (1.9)	2.1
Core rate	2.9 (2.9)	2.3 (2.3)	1.9 (2.0)	1.9

Source: ECB, Commerzbank Research

Chart 2 - Strong wage increases

ECB negotiated wages indicator and experimental ECB Wage Tracker (including one-off payments), percentage change on the year



Source: ECB, Commerzbank Research



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