Danske Bank

30 October 2025

ECB Review

Abated downside growth risks

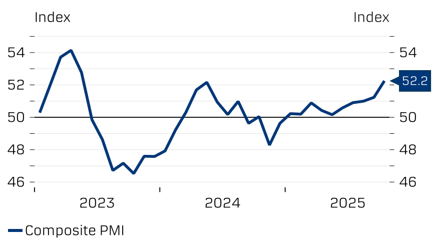
- **ECB decided to leave its key policy rates unchanged with the deposit facility rate at 2.00% as expected by markets and consensus.**
- **Lagarde highlighted that some downside risk factors to growth have abated since the last meeting and stressed the symmetry of the 2% inflation target. Otherwise, she gave limited new information, which resulted in no market reaction.**
- **We continue to expect no policy rate changes from the ECB in 2025 or 2026.**

As fully expected by both analysts and markets, the ECB decided to keep its key policy rates unchanged at today's meeting, leaving the deposit rate at 2.00%. The monetary policy statement was short and mentioned that the inflation outlook is broadly unchanged with no guidance as expected. ECB repeated that the "data-dependent" and "meeting-by-meeting approach" was appropriate to determine the monetary policy stance. The economic assessment by Lagarde during the press conference was as expected, mostly descriptive, with very limited new information. Lagarde noted that Q3 growth was higher than expected and said that "*I would not complain too much about growth at this point*".

The most interesting comment during the press conference was that Lagarde said that a number of downside growth risks have abated since the last meeting. She particularly highlighted the US-EU trade deal, cease fire in Gaza, and today's de-escalation by US and China in that regard. This makes the economic outlook less uncertain although there are still numerous risks. Lagarde underlined that in addition to the ECB's reaction function (inflation outlook, the dynamic of underlying inflation, and the strength of monetary policy transmission) the Governing Council is also incorporating risks and scenario analysis following the 2025 strategy review. Hence, the changes to the risk picture are important, which is likely why she focused on the mitigation of some downside risks to growth. **In terms of inflation, Lagarde did not provide much new information.** However, she highlighted the symmetry of the medium-term inflation objective at 2%, which we see as an argument for defending holding the policy rate unchanged despite inflation projections showing inflation below 2%.

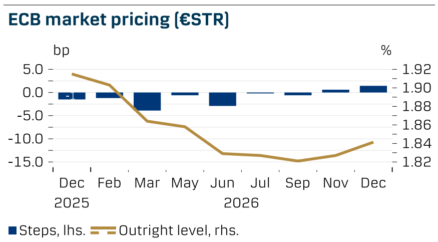
We maintain our call that the ECB will not make any policy rate changes in 2025 or 2026. The most recent growth data has come in better than expected with GDP growing 0.2% q/q in the third quarter of the year and the October composite PMI rising to the highest level since May 2023. Flash inflation rates from the first euro area countries in October were also slightly higher than expected in Germany and Spain suggesting euro area headline inflation held steady at 2.2% y/y (cons. 2.1%). We still expect base effects on energy inflation to pull HICP inflation below target next year, especially in Q1. However, with growth at the same time holding up it gives the ECB more room to keep rates unchanged, which we still see a clear majority of GC members favouring, also given upside risks from fiscal policy. At the same time, medium-term inflation expectations are anchored closely to 2%. **Prior to the meeting markets were pricing in 1 bp worth of cuts in December 2025 and 7bp in 2026, which was also the case following the meeting.**

Chart 1. Growth is holding up



Source: S&P global, Macrobond

Chart 2. Markets price in a total of 8 bp worth of cuts before 2027



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None

Date of first publication

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