PERSPECTIVES Memo

ECB still “in a good place”

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Key takeaways

- As expected, the ECB Governing Council decided today to leave the ECB's three key interest rates unchanged.
- The ECB staff's inflation projections for 2025 and 2026 were raised slightly, whereas they lowered the rate for 2027.
- In the subsequent press conference, ECB President Lagarde expressed greater confidence than in July, stating that the risks to growth appear now “more balanced” and the “disinflationary process is over”.
- Market reactions were not very pronounced: Yields on short-term Eurozone government bonds rose slightly. Futures markets are pricing in a 50% probability of a further interest rate cut by July 2026.

What happened?

Prior to the meeting no members of the ECB Governing Council gave any suggestion that their decision would differ from that predicted unanimously by economists and the market. Quite the opposite. ECB President Christine Lagarde recently said that the institution sees itself as "well positioned" to anchor inflation sustainably at 2%.

It was therefore to be expected in advance how the ECB’s statement would begin: "The Governing Council today decided to keep the three key ECB interest rates unchanged.“ They emphasised that the Governing Council’s assessment of the inflation outlook is broadly unchanged. The ECB continues to set its monetary policy from meeting to meeting, taking into account current data.

The new ECB staff projections present a picture of inflation similar to that delivered in June. They see headline inflation averaging 2.1% in 2025, 1.7% in 2026 and 1.9% in 2027. The forecasts for 2025 and 2026 were raised slightly, whereas they lowered the forecast for 2027. For core inflation, they expect an average of 2.4% in 2025, 1.9% in 2026 and 1.8% in 2027.

The economy is projected to grow by 1.2% in 2025, revised up from the 0.9% expected in June. The growth projection for 2026 is now slightly lower, at 1.0%, while the projection for 2027 is unchanged at 1.3%.

What does it mean for investors?

Of greater interest was the press conference held by ECB President Christine Lagarde, from which market participants hoped to gain clues about the future path of interest rates. First and foremost, her statement noted that the risks to growth now appear "more balanced“. This was a notable shift from her statement following the July meeting that risks are tilted "to the downside“.

In general, Lagarde placed greater emphasis on the resilience on growth and the potential for forward-looking improvement. Even though the inflation forecast for 2027 was lowered, Lagarde talked of increased confidence in domestic resilience as well as some decline in external uncertainty (compared to the meetings in June and July), leading to a more balanced growth outlook. When a question referred to the inflation forecast for 2026 and 2027 staying below the 2,0% target rate, she said that “minimal deviation from the inflation target will not necessarily justify an (interest rate) movement.

In response to a journalist’s question, she even went so far as to remark “The disinflationary process is over” and repeated that the ECB continues to be in a good place. Unless completely unexpected events drastically change the ECB's perspective, the probability of a key interest rate cut by the end of this year is likely to be low – the interest rate futures markets are pricing in a probability of only 20% via the OIS.

In our baseline scenario, we currently see the possibility of another, presumably final, key interest rate cut within the next twelve months. This is now priced in with a 50% probability in the interest rate futures markets. Because today's ECB decision was anticipated in advance by the markets, it did not trigger any strong market reactions. However, yields, particularly on short-term Eurozone government bonds, rose moderately. The EUR/USD exchange rate was again primarily determined by data from the US and expectations regarding their implications for the monetary policy of the Fed. The euro appreciated to EUR/USD 1.174 following data on the US labour market.

Glossary

2% target/inflation target, in the medium term, the ECB is aiming for an inflation rate of 2%.

Bunds are longer-term bonds issued by the German government.

The **deposit rate** indicates the amount of interest that banks receive when they deposit money with the central bank by the next business day.

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The **Eurozone** is formed of 20 European Union member states that have adopted the euro as their common currency and sole legal tender.

EUR is the currency code for the euro, the currency of the Eurozone.

Inflation describes a sustained increase in an average price.

Key interest rate is the interest rate unilaterally set by a central bank as part of its monetary policy, at which it conducts business with the credit institutions affiliated with it.

Monetary policy is a summary of all economic policy measures that a central bank takes to achieve its objectives.

An **Overnight Index Swap (OIS)** is a financial derivative where two parties exchange a fixed interest rate for a floating interest rate based on an average overnight interest rate, such as a central bank's policy rate or interbank rate.

USD is the currency code for the US Dollar.

Historical performance

Performance	11.9.2020 - 11.9.2021	11.9.2021 - 11.9.2022	11.9.2022 - 11.9.2023	11.9.2023 - 11.9.2024	11.9.2024 - 11.9.2025
10y Bunds	-1,0%	-16,3%	-5,1%	7,3%	-4,5%
2y Bunds	-0,7%	-2,9%	-0,5%	3,3%	0,9%
EURUSD	0,0%	-15,1%	7,0%	2,5%	-1,7%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of September 11, 2025.

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