
Data Insights: ECB and Euro Area Economy Monitor

Thursday, March 6, 2025

Today's monetary policy decision: how the language changed from prior meeting

~~30 January~~ 6 March 2025

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which the Governing Council steers the monetary policy stance – is based on its updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

The disinflation process is well on track. Inflation has continued to develop broadly ~~in line with the as~~ staff ~~expected, and the latest~~ projections ~~and is set to return to the Governing Council's 2% medium-term target~~ closely align with the previous inflation outlook. Staff now see headline inflation averaging 2.3% in 2025, 1.9% ~~in the course~~ 2026 and 2.0% in 2027. The upward revision in headline inflation for 2025 reflects stronger energy price dynamics. For inflation excluding energy and food, staff project an average ~~of this year.~~ 2.2% in 2025, 2.0% in 2026 and 1.9% in 2027.

Most measures of underlying inflation suggest that inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. Domestic inflation remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay. But wage growth is moderating as expected, and profits are partially buffering the impact on inflation.

~~The Governing Council's recent Monetary policy is becoming meaningfully less restrictive, as the~~ interest rate cuts are ~~gradually~~ making new borrowing less expensive for firms and households: and loan growth is picking up. At the same time, ~~a headwind to the easing of~~ financing conditions ~~continue to be tight, also because monetary policy remains restrictive and comes from~~ past interest rate hikes ~~are~~ still transmitting to the stock of credit, ~~with some maturing loans being rolled over at higher rates and lending remains subdued overall~~. The economy ~~is still facing headwinds but rising~~ faces continued challenges and staff have again marked down their growth projections – to 0.9% for 2025, 1.2% for 2026 and 1.3% for 2027. The downward revisions for 2025 and 2026 reflect lower exports and ongoing weakness in investment, in part originating from high trade policy uncertainty as well as broader policy uncertainty. Rising real incomes and the gradually fading effects of ~~restrictive monetary policy should support~~ a past rate hikes remain the key drivers underpinning the expected pick-up in demand over time.

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. [#Especially in current conditions of rising uncertainty, it](#) will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.

Key ECB interest rates

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be decreased to [2.7550%](#), [2.65%](#) and [2.90%](#) ~~and 3.15%~~ respectively, with effect from [5 February](#) ~~12 March~~ 2025.

Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)

The APP and PEPP portfolios are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

~~Refinancing operations~~

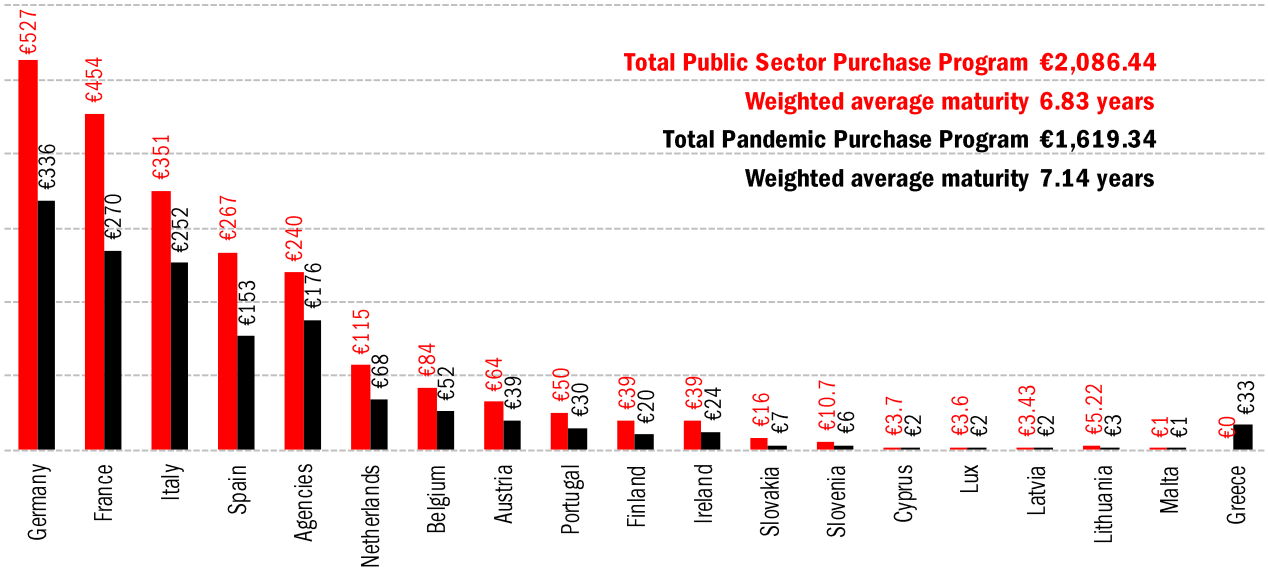
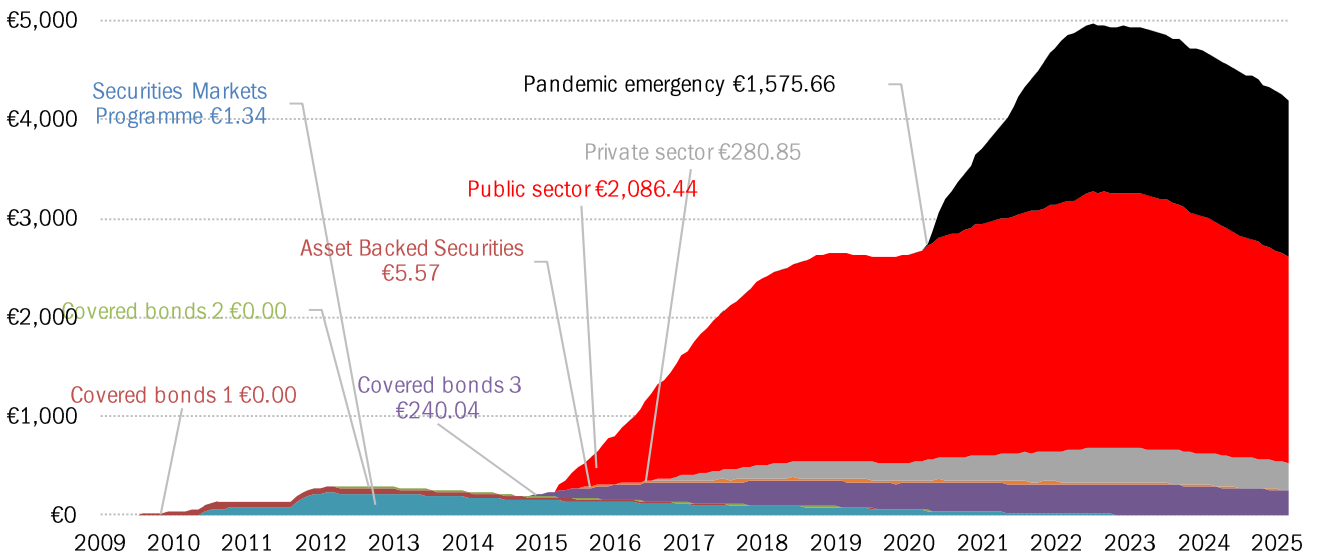
~~On 18 December 2024 banks repaid the remaining amounts borrowed under the targeted longer-term refinancing operations, thus concluding this part of the balance sheet normalisation process.~~

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises sustainably at its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

[The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:45 CET today.](#)

Source: ECB, TrendMacro analysis

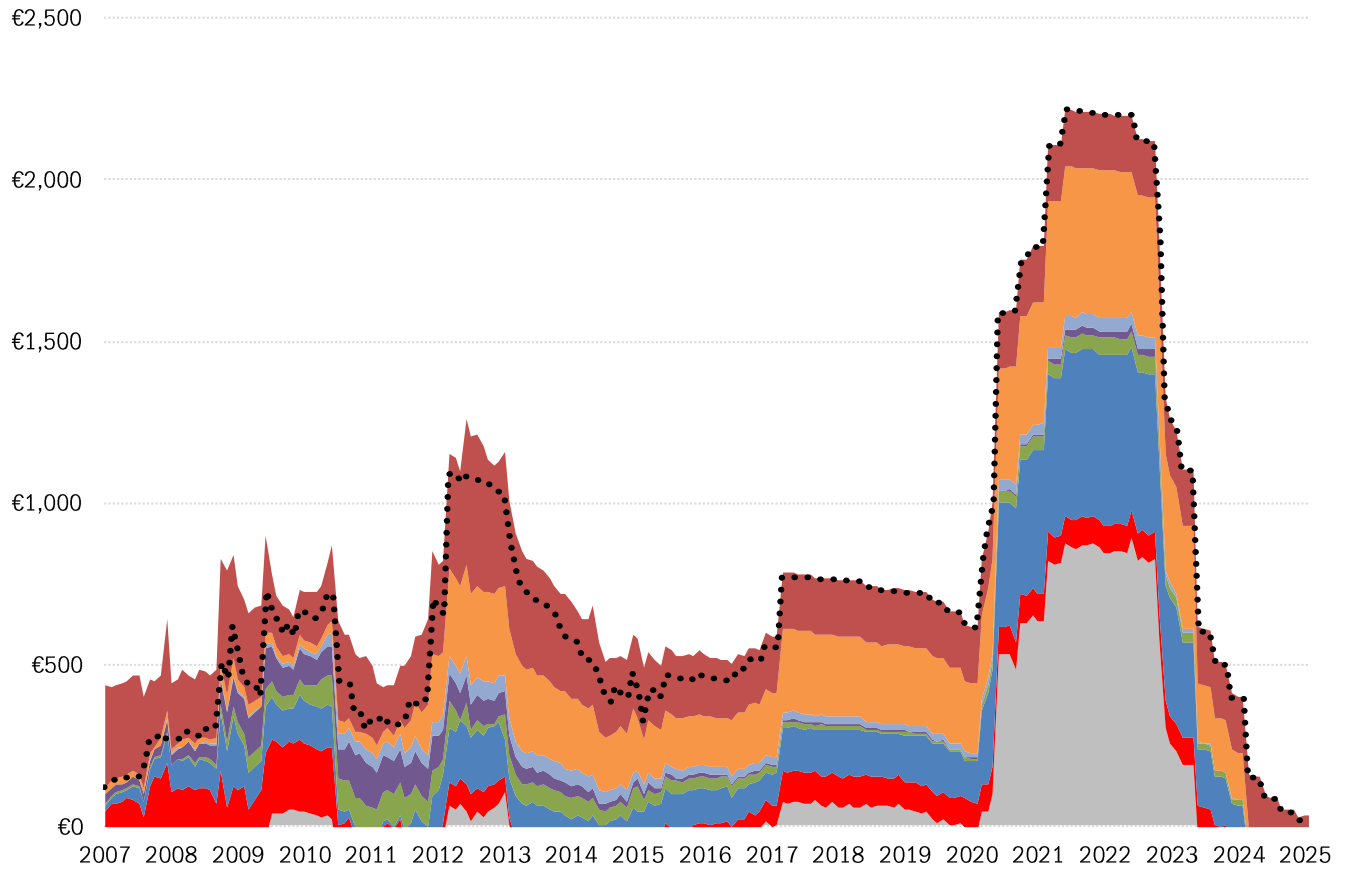
Euro-QE (€ billions)



Source: ECB, TrendMacro calculations

Banking system dependency: borrowing from the ECB (€ billions)

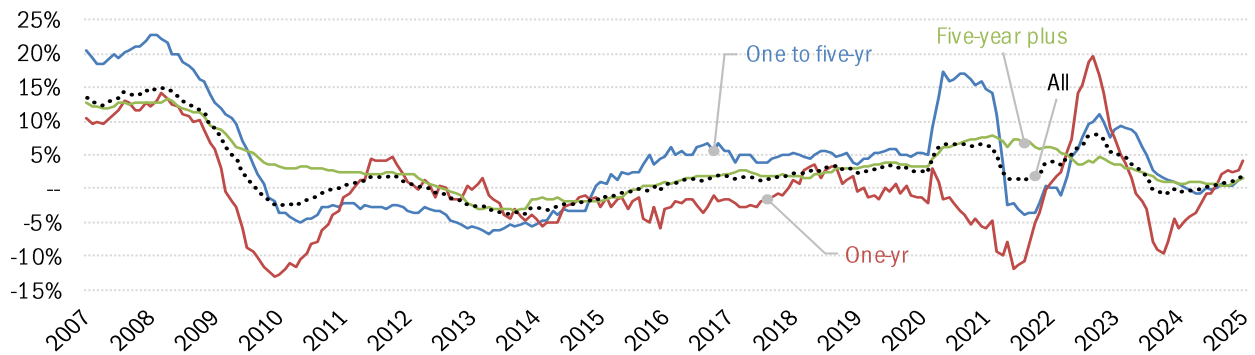
--- Total LTRO Spain Italy Portugal Ireland Greece France Germany Other



Source: ECB, National central banks, TrendMacro calculations

The credit drought: loans to non-financial businesses (YOY growth)

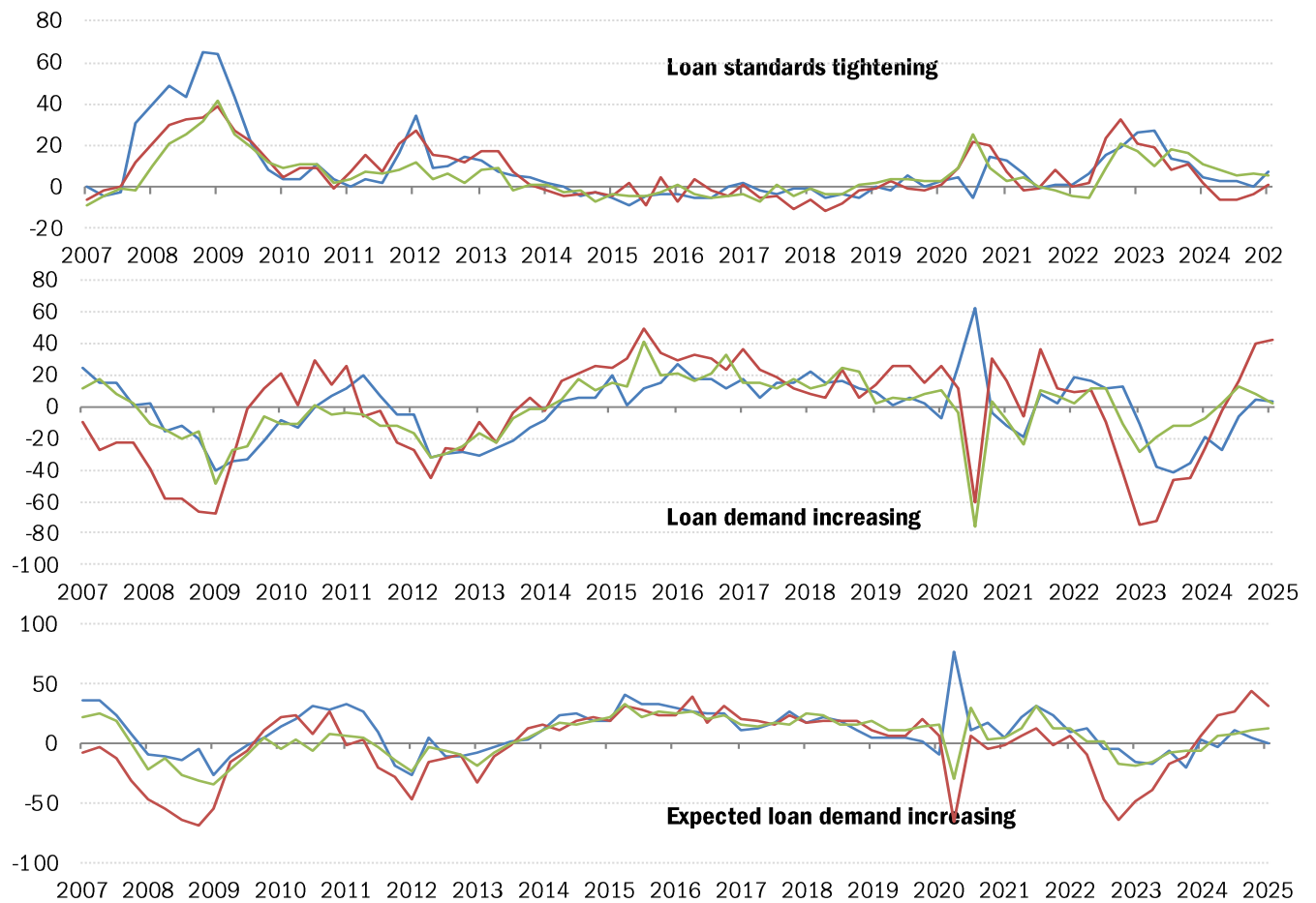
— Loans to 1 year — Loans 1-5 years — Loans 5 years plus ... Total



Source: ECB, TrendMacro calculations

Supply and demand for lending: ECB Bank Survey

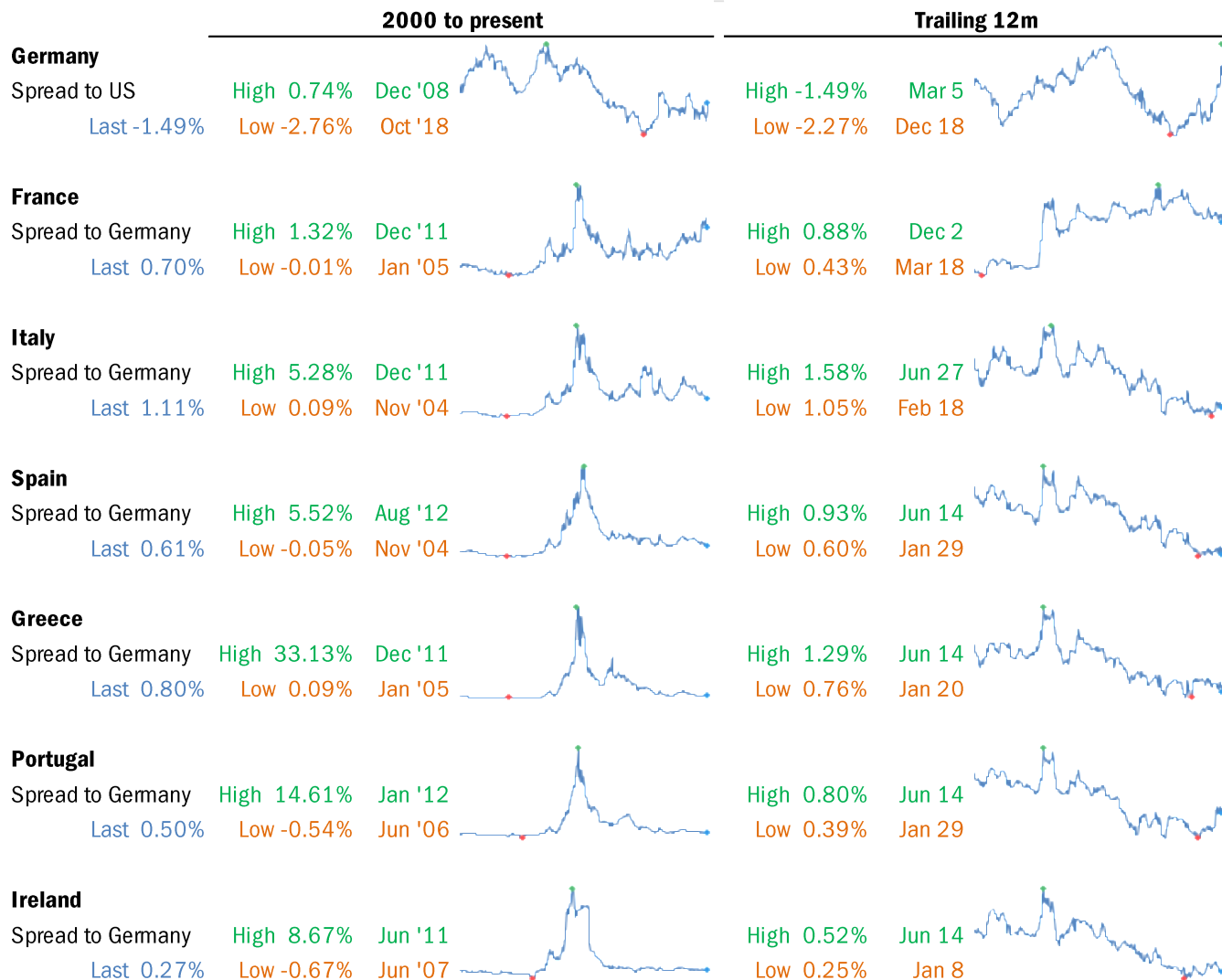
Net number of banks reporting for: — Enterprises — Home mortgage — Consumer



Source: ECB, TrendMacro calculations

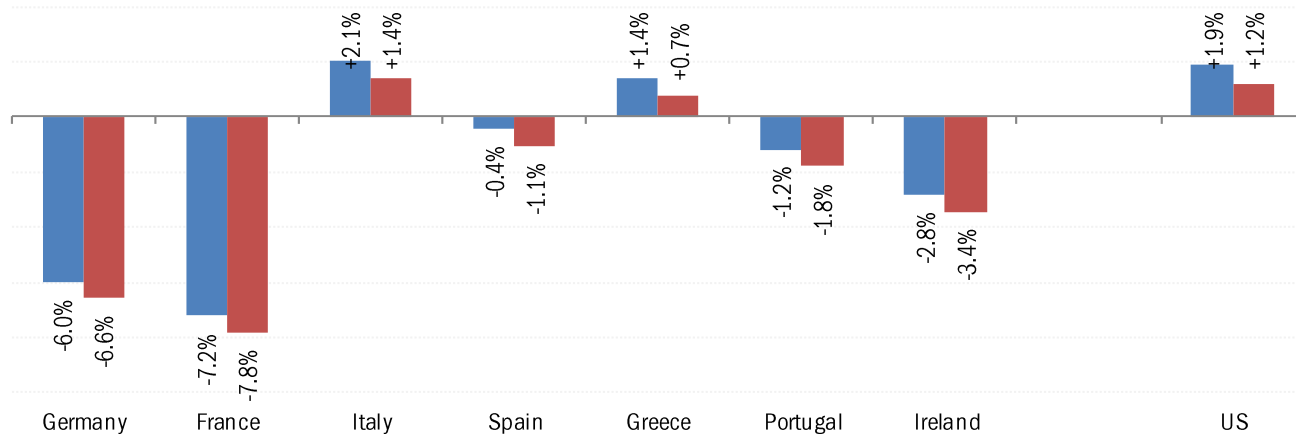
Sovereign stress monitor: 10-year bond spreads

· High · Low · Last



10-year sovereign bond total returns, trailing 12-months

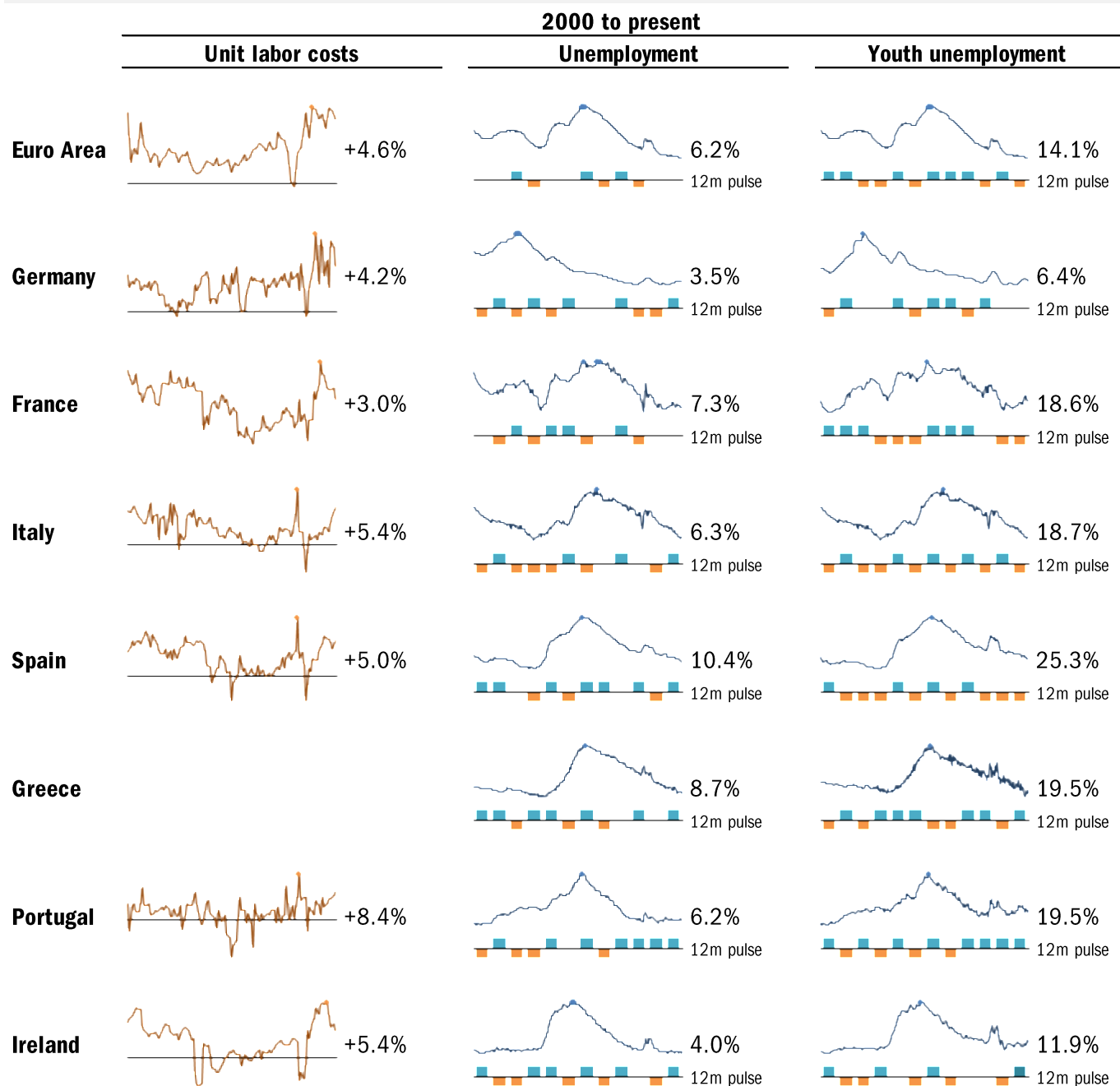
■ EUR ■ USD



Source: Bloomberg, TrendMacro calculations

Labor market in intensive care

ULC: Nominal, quarterly YOY UE: High 12m pulse: monthly ■ improvement or ■ worsening in rate of change



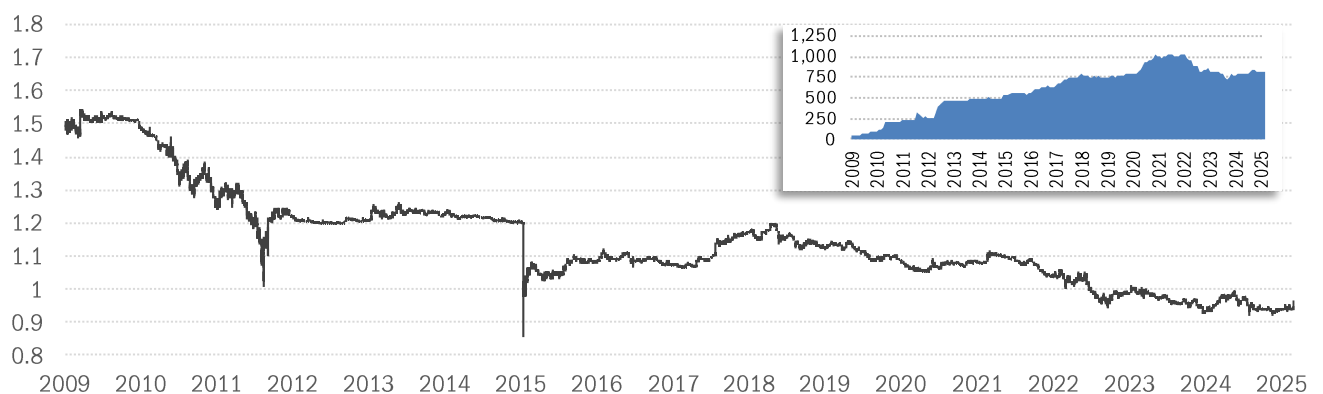
Source: Eurostat, TrendMacro calculations

Purchasing Manager Indices

Manufacturing				Services			
	Last	Prev	13-month history		Last	Prev	13-month history
Eurozone Feb	47.6	46.6		Eurozone Feb	50.6	51.3	
UK Feb	46.9	48.3		UK Feb	51.0	50.8	
Germany Feb	46.5	45.0		Germany Feb	51.1	52.5	
France Feb	45.8	45.0		France Feb	45.3	48.2	
Italy Feb	47.4	46.3		Italy Feb	54.6	54.3	
Spain Feb	49.7	50.9		Spain Feb	56.2	54.9	
Ireland Feb	51.9	51.3		Ireland Feb	53.2	53.4	
Netherlands Feb	50.0	48.4					
Austria Feb	46.7	45.7					
Greece Feb	52.6	52.8					
Czech Rep Feb	47.7	46.6					

Source: Markit, TrendMacro calculations

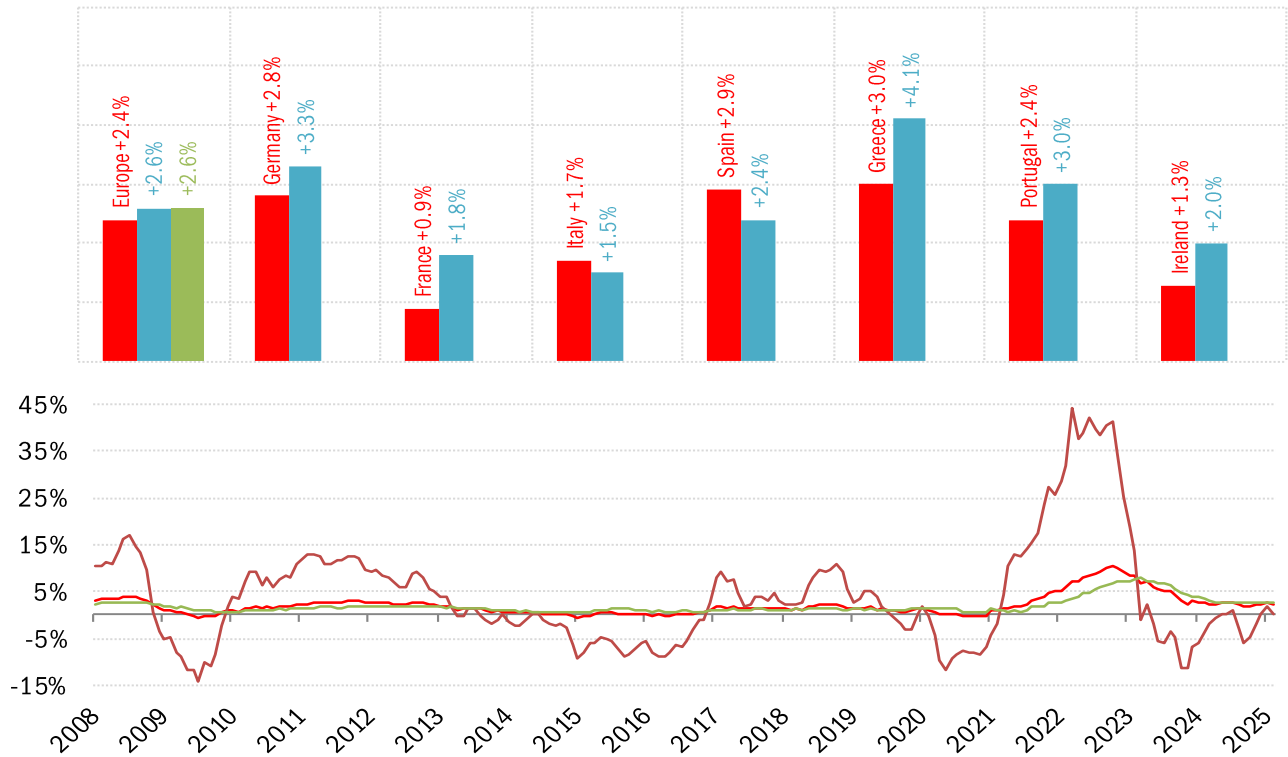
Regional currency flight — Euro vs Swiss franc ■ SNB FX reserves



Source: Bloomberg, TrendMacro calculations

Euro area consumer inflation, year on year

Country: ■ Headline ■ Ex-food and energy ■ Ex-energy Euro area: — Headline — Energy — Ex-energy



Source: Eurostat, TrendMacro calculations

Draghi's old dashboard:

Swap-implied inflation expectations since "Whatever it takes"

— 5-year inflation-swap rate, 5 years forward



Source: Bloomberg, TrendMacro calculations