Economics | Central Banks

ECB Holds Rates Steady With More Data Needed for Next Cut

- Deposit rate left at 3.75% on Thursday, as economists expected
- Focus is now on possible move at next meeting in September

ECB Leaves Interest Rates Unchanged

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The European Central Bank left interest rates unchanged after last month's landmark cut – giving away little on its plans as investors and economists bet on another move in September.

The deposit rate was kept at 3.75% on Thursday – as all 55 economists in a Bloomberg survey predicted. The ECB reiterated that borrowing costs will remain "sufficiently restrictive for as long as necessary" to ensure inflation returns to 2%.

"The incoming information broadly supports the Governing Council's previous assessment of the medium-term inflation outlook," it said in a statement. "At the same time, domestic price pressures are still high, services inflation is elevated and headline inflation is likely to remain above the target well into next year."

Once again, the ECB said it isn't "pre-committing to a particular rate path," while reiterating its "data-dependent and meeting-by-meeting approach."

The euro held onto earlier losses, trading down 0.1% at $1.093. Money markets continue to lean toward two more rate cuts in 2024.

The ECB is weighing whether euro-zone inflation is cooling sufficiently to allow further monetary loosening. Last month saw a small dip to 2.5% from 2.6%, and while underlying pressures held firm and the advance in services costs again topped 4%, the ECB on Thursday cited "one-off factors" in explaining the move.

Christine Lagarde on July 18. *Photographer: Alex Kraus/Bloomberg*

"Inflation is expected to fluctuate around current levels for the rest of this year, partly owing to energy-related base effects," President Christine Lagarde told journalists in Frankfurt on Thursday. "It is then expected to decline towards our target over the second half of next year, owing to weaker growth in labor costs, the effect of our restrictive monetary policy and the fading impact of the past inflation surge."

In the past, Lagarde has said officials need data to provide more certainty, and that Europe's labor market – which has displayed surprising resilience during two years of economic stagnation – means they can bide their time.

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While policymakers are more guarded this time around, several have in recent weeks tentatively endorsed one or two more cuts. The expectation is that they'll be ready for the first at the next policy meeting in two months.

By then, they'll have fresh economic forecasts and two more inflation readings, as well as figures on the three elements underpinning their view that price growth will retreat to target in late 2025 – wage gains, corporate profit margins and productivity.

There may also be more clarity on the Federal Reserve's intentions, with markets anticipating a first cut in US borrowing costs the week after the ECB's September meeting.

> **What Bloomberg Economics Says...**
> "The tone of the statement doesn't seem any more or less cautious than it did in June. It largely dismissed the acceleration of core and services inflation that occurred in May, but deleted several references to the Governing Council's progress in bringing price increases back to target."
>
> –David Powell, senior euro-area economist. Click here to read full REACT

The ECB's careful approach to unwinding the spate of rate hikes they enacted to tame prices is in line with the recommendations of top global institutions.

The International Monetary Fund warned Tuesday that inflation in many major economies has been receding more slowly than expected, mainly due to sticky services prices – "raising the prospect of higher-for-even-longer interest rates."

The Bank for International Settlements said in June that central banks shouldn't reduce borrowing costs too rapidly, to avoid price growth flaring up again.

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But while inflation is broadly in retreat, there are signs that a rebound in the euro area's 20-member economy, which expanded by 0.3% in the first three months of 2024, is losing steam with rates still elevated. Political turbulence in France and globally isn't helping.

"The incoming information indicates that the euro-area economy grew in the second quarter, but likely at a slower pace than in the first," Lagarde said. "Looking ahead, we expect the recovery to be supported by consumption driven by the strengthening of real incomes, resulting from low inflation and higher nominal wages."

She warned, though, that risks to growth are tilted to the downside.

The ECB's next policy gathering offers an opportunity to better assess the backdrop, as officials receive the latest quarterly projections. Some policymakers would prefer to act only at these meetings, with Lagarde herself hinting at a similar stance.

Economists reckon such an approach will come to pass. In a poll this month, respondents foresaw quarterly cuts until the deposit rate reaches 2.5% in autumn 2025.
— With assistance from Marilen Martin, Christoph Rauwald, Angela Cullen, Laura Alviz, Greg Ritchie, Alexey Anishchuk, Celine Imensek, Alessandra Migliaccio, Chiara Albanese, Jennifer Duggan, William Horobin, James Regan, Bastian Benrath, Harumi Ichikura, Constantine Courcoulas, Joel Rinneby, and Barbara Sladkowska

(Updates with comments from Lagarde starting in seventh paragraph.)