

MNI ECB Review: December 2025

Executive Summary

- The ECB left its three key rates unchanged again, including the deposit rate at 2.00%, as fully expected.
- The decision statement offered no surprises, reiterating data-dependence and a meeting-by-meeting approach.
- Instead, the hawkish initial reaction was driven by firmer economic projections, especially core HICP for 2026 and real GDP growth for 2027 and 2028.
- That hawkish reaction was pared by a balance and non-committal press conference from Lagarde.
- Traditional post-meeting ECB sources pieces noted any hike discussion is premature (Bloomberg) along with a more dovish angle that policymakers aren't ready to take a cut off the table (Reuters).
- Highlighting the lack of discussion at this meeting, Reuters sources say it ended exceptionally early just after 0900GMT, especially of note for a projections meeting.
- There appears to be little appetite to move markets away from the current 22% terminal pricing. Capturing rate markets shortly after the press conference had ended, there were a cumulative 2bp of cuts priced to Jun 2026 and 2.5bp of hikes to Dec 2026.

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MNI View: Little Conviction To Shift 2% Terminal Pricing

December 18, 2025 - By Chris Harrison and Emil Lundh

The ECB left rates on hold again as unanimously expected, including the deposit rate at 2% for nicely within the 1.75-2.25% neutral rate range estimated by ECB staff. There was an initially hawkish reaction on the economic projections with headline and core HICP inflation seeing larger than expected upward revisions for 2026 and real GDP growth higher than expected for both 2027 and 2028. The upward revision to 2026 core inflation was because "staff now expect services inflation to decline more slowly", with Lagarde later highlighting stronger-than-expected Q3 compensation per employee. Upward revision to growth projections were "driven especially by domestic demand". The summary paragraph of the decision statement meanwhile was repeated verbatim. However, President Lagarde's balanced and non-committal press conference drove a reversal in ECB implied rates. Overall, it's notable that despite a hawkish set of projections, there is little appetite to move markets away from the current 2% terminal rate pricing. Post-decision ECB sources meanwhile have noted any hike discussion as being premature (Bloomberg) along with a slightly more dovish take that policymakers aren't yet ready to take a cut off the table (Reuters). Interestingly, the Reuters piece noted that there was no appetite for a through discussion at the meeting, which ended exceptionally early just after 0900GMT, chiming with Lagarde's one-way answer when asked if there were any discussions over cutting or hiking today ("no").

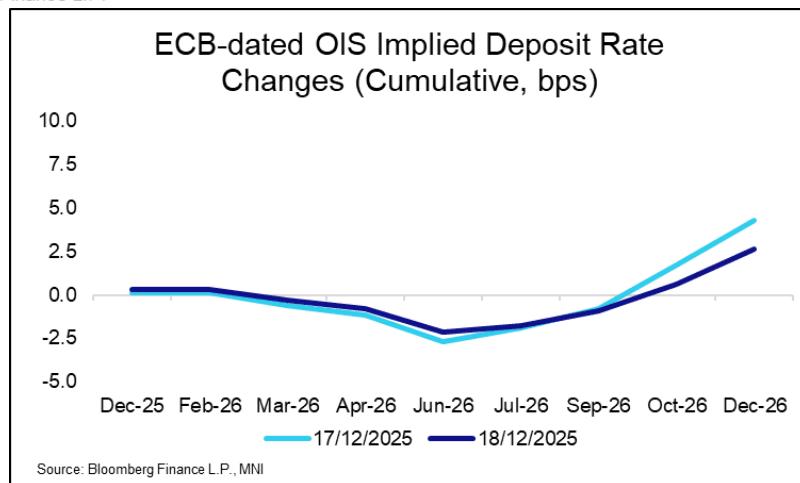
STIR: Balanced Press Conference Helps EUR Front-end Fade Initial Reaction

ECB President Lagarde's balanced and non-committal press conference drove a reversal in ECB implied rates. Overall, it's notable that despite a hawkish set of projections, there is little appetite to move markets away from the current 2% terminal rate pricing.

- OIS are now back to pricing just below 3bps of hikes through the end of next year, after reaching over 5bps of hikes following the more hawkish-than-expected December macroeconomic projections.
- Lagarde stressed that policy is still in a "good place", and that still-elevated uncertainty calls for a data-dependent and meeting-by-meeting approach.
- There was no endorsement of potential hike speculation, and an admission that "one thing that hasn't changed is uncertainty and that's not a comfortable position" provided a marginally dovish counter.
- Lagarde also said she wouldn't "agonize" over neutral rate discussion, in response to Schnabel's suggestions that increased AI investment and productivity would push up r^* .
- On the risk assessment, there were no remarks around whether the growth outlook was "balanced", "more balanced", or anything in between. Meanwhile, "the outlook for inflation continues to be more uncertain than usual"

| Meeting Date | ESTR ECB-Dated OIS (%) | Difference Vs. Current Cut-adjusted Effective ESTR Rate (bp) | Pre-press conference | | | Pre-decision | | |
|--------------|------------------------|--|------------------------|---|------|---|--|------|
| | | | ESTR ECB-Dated OIS (%) | Difference Vs. Current Effective ESTR Rate (bp) | Diff | Difference Vs. Current Effective ESTR Rate (bp) | Difference Vs. Current Cut-adjusted Effective ESTR Rate (bp) | Diff |
| Feb-26 | 1.935 | 0.3 | 1.938 | 0.6 | -0.3 | 1.934 | 0.2 | 0.1 |
| Mar-26 | 1.929 | -0.3 | 1.936 | 0.4 | -0.7 | 1.926 | -0.6 | 0.3 |
| Apr-26 | 1.924 | -0.8 | 1.934 | 0.2 | -1.0 | 1.920 | -1.2 | 0.4 |
| Jun-26 | 1.911 | -2.1 | 1.922 | -1.0 | -1.1 | 1.907 | -2.5 | 0.4 |
| Jul-26 | 1.914 | -1.8 | 1.929 | -0.3 | -1.5 | 1.910 | -2.2 | 0.4 |
| Sep-26 | 1.923 | -0.9 | 1.941 | 0.9 | -1.8 | 1.918 | -1.4 | 0.5 |
| Oct-26 | 1.938 | 0.6 | 1.961 | 2.9 | -2.3 | 1.936 | 0.4 | 0.2 |
| Dec-26 | 1.959 | 2.7 | 1.986 | 5.4 | -2.7 | 1.955 | 2.3 | 0.3 |

Source: MNI/Bloomberg Finance L.P.



Economic Projections

December Projections: 2026 Core and GDP Look Firmer Than Expected

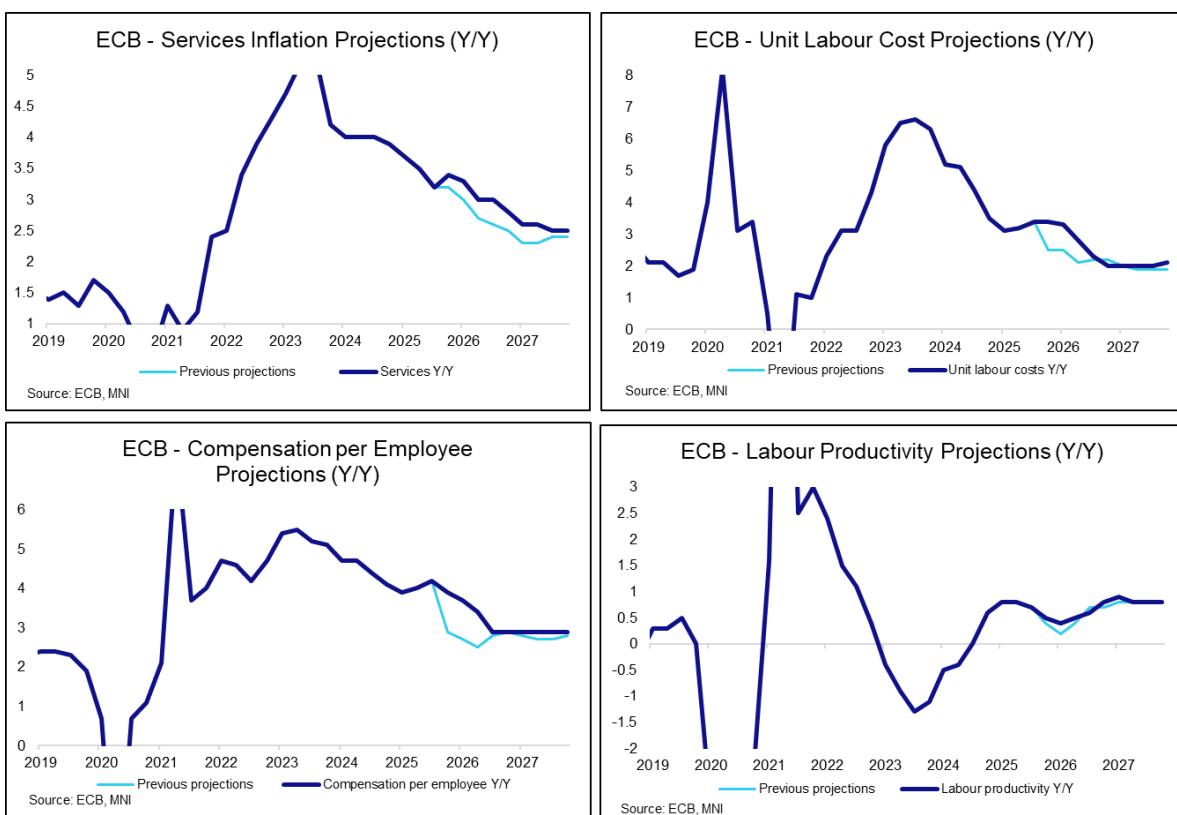
- Headline and core HICP inflation saw larger than expected upward revisions for 2026, whilst real GDP growth was higher than expected for 2027 and 2028.
- The upward revision to 2026 core inflation was because "staff now expect services inflation to decline more slowly". Lagarde in the press conference noted a role from the stronger-than-expected Q3 compensation per employee figure here.
- Upward revision to growth projections were "driven especially by domestic demand"

| | | ECB Sep'25 Projections | ECB Dec '25 Projections (MNI Median) | ECB Dec '25 Projections | Change vs Previous | Change vs Median |
|--------------------|------|------------------------|--------------------------------------|-------------------------|--------------------|------------------|
| Core Inflation | 2025 | 2.4 | 2.4 | 2.4 | ➡ 0.0 | ➡ 0.0 |
| | 2026 | 1.9 | 2.0 | 2.2 | ⬆ 0.3 | ⬆ 0.2 |
| | 2027 | 1.8 | 1.9 | 1.9 | ⬆ 0.1 | ➡ 0.0 |
| | 2028 | - | 2.0 | 2.0 | - | ➡ 0.0 |
| Headline Inflation | 2025 | 2.1 | 2.1 | 2.1 | ➡ 0.0 | ➡ 0.0 |
| | 2026 | 1.7 | 1.7 | 1.9 | ⬆ 0.2 | ⬆ 0.2 |
| | 2027 | 1.9 | 1.8 | 1.8 | ⬇ -0.1 | ➡ 0.0 |
| | 2028 | - | 2.0 | 2.0 | - | ➡ 0.0 |
| GDP | 2025 | 1.2 | 1.4 | 1.4 | ⬆ 0.2 | ➡ 0.0 |
| | 2026 | 1.0 | 1.2 | 1.2 | ⬆ 0.2 | ➡ 0.0 |
| | 2027 | 1.3 | 1.3 | 1.4 | ⬆ 0.1 | ⬆ 0.1 |
| | 2028 | - | 1.3 | 1.4 | - | ⬆ 0.1 |

Source: Analyst previews seen by MNI, ECB

Dec Projections: Upward Revision To Compensation Also Driven By Min Wages

- The ECB notes that "for 2026, the upward revision to headline inflation is driven primarily by stronger than expected outcomes for energy, services and non-energy industrial goods inflation"...."meanwhile, the downward revision for 2027 is largely attributable to the expected postponement of the ETS2 scheme, although this is partially offset by stronger services inflation, in line with upward revisions to labour cost projections".
- President Lagarde highlighted that stronger wage pressures were the primary driver of the services inflation revisions. From the write-up: "Compared with the September 2025 projections, growth in compensation per employee has been revised up across the entire projection period – by 0.6 percentage points for 2025, 0.5 percentage points for 2026 and 0.2 percentage points for 2027. In part, this is due to the stronger than expected wage growth in the second and third quarters of 2025. However, the revisions also reflect new information on minimum wage increases and a higher expected impact of minimum wages on aggregate wages compared with the September 2025 projections."
- The upward revision to compensation per employee growth filters into the unit labour cost projection.

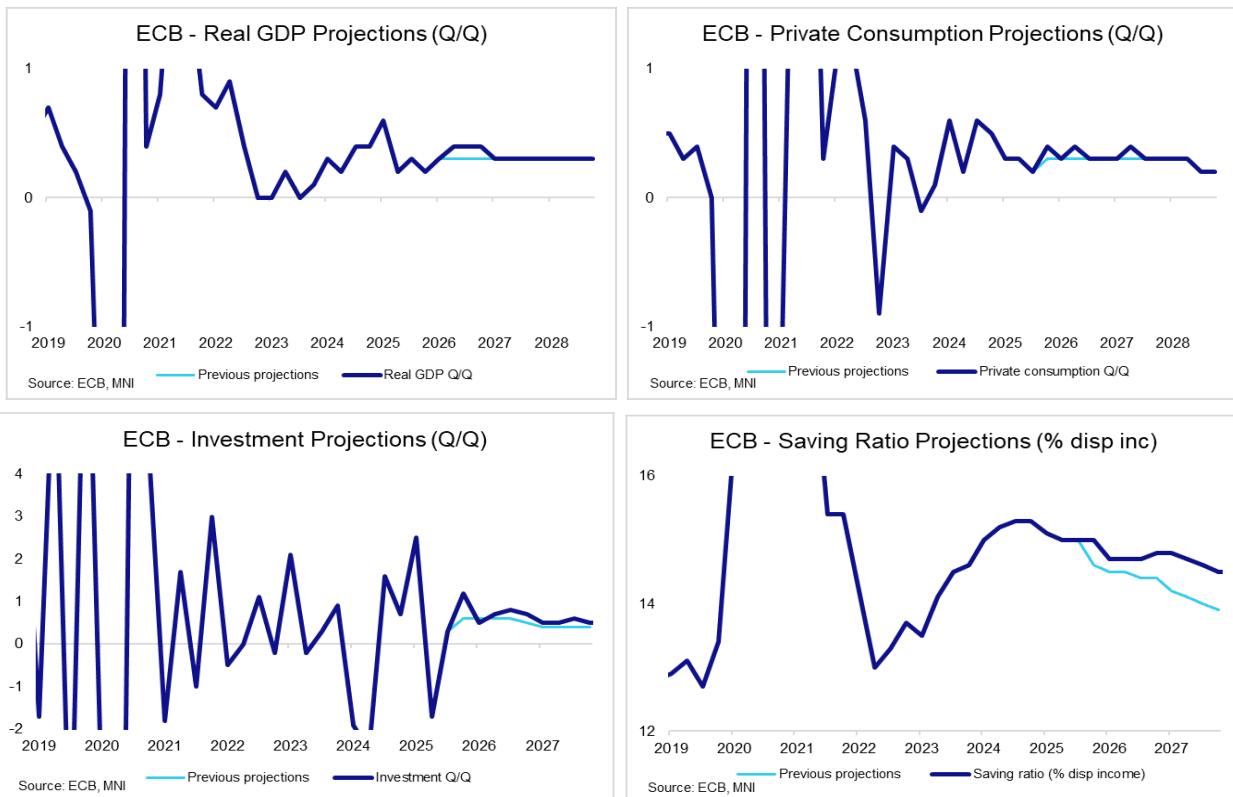


December Projections: "GDP ex-Ireland" A New Series To Monitor

On growth, the ECB projects Eurozone GDP at 0.2% Q/Q in Q4 '25, 0.3% in Q1 '26 and 0.4% for the remainder of 2026. It's notable that the projections table in the write-up now includes forecast for "Real GDP with modified domestic demand for Ireland" to account for distortions.

- The write-up notes that "The somewhat lower trade policy uncertainty, stronger foreign demand and lower energy commodity prices have led to the upward revision to the growth outlook for 2026".
- Regarding components, the ECB writes that " the largest upward revisions for 2025-27 relate to investment and, in particular, stronger business investment over the whole horizon and more dynamic government investment in 2027, as well as stronger government consumption in 2025-26. "
- GDP is expected at 0.3% in 2027 and 2028: "Marginally stronger quarterly dynamics and a larger carry-over effect from the stronger growth momentum in 2026 together entail a small upward revision to the outlook for 2027"
- Consumption is expected to be supported by increases in real disposable income. As ever, the ECB expects the savings ratio to decline over time. However, the write-up adds that the savings ratio is likely to remain elevated

over time due to economic uncertainty (unchanged vs September) and “potential Ricardian effects in countries with announced fiscal stimulus” (a new addition relative to September).



[Decision statement follows overleaf]

Dec 18 Rate Decision Statement

Very little changed beyond the new economic forecasts

30 October/18 December 2025

The Governing Council today decided to keep the three key ECB interest rates unchanged. Inflation remains close to the 2% medium-term target and the Governing Council's its updated assessment of the reconfirms that inflation outlook is broadly unchanged, should stabilise at the 2% target in the medium term.

The economy has continued to grow despite the challenging global environment. The robust labour market, solid private sector balance sheets, new Eurosystem staff projections show headline inflation averaging 2.1% in 2025, 1.9% in 2026, 1.8% in 2027 and 2.0% in 2028. For inflation excluding energy and the Governing Council's past interest rate cuts, food, staff project an average of 2.4% in 2025, 2.2% in 2026, 1.9% in 2027 and 2.0% in 2028. Inflation has been revised up for 2026, mainly because staff now expect services inflation to decline more slowly. Economic growth is expected to be stronger than in the September projections, driven especially by domestic demand. Growth has been revised up to 1.4% in 2025, 1.2% in 2026 and 1.4% in 2027 and is expected to remain important sources of resilience. However, the outlook is still uncertain, owing particularly to ongoing global trade disputes and geopolitical tensions at 1.4% in 2028.

The Governing Council is determined to ensure that inflation stabilises at its 2% target in the medium term. 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 and the risks surrounding it, in light of the incoming economic and financial data, as well as 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 interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will remain unchanged at 2.00%, 2.15% and 2.40% respectively.

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.

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises at its 2% target in 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.

Monetary Policy Statement Highlights

Cautious to net out change in growth risks, inflation risks broadly repeated

While trade tensions have eased, the still volatile international environment could disrupt supply chains, dampen exports, and weigh on consumption and investment. A deterioration in global financial market sentiment could lead to tighter financing conditions, greater risk aversion and weaker growth. Geopolitical tensions, in particular Russia's unjustified war against Ukraine, remain a major source of uncertainty. By contrast, planned defence and infrastructure spending, together with productivity-enhancing reforms, may drive up growth by more than expected. An improvement in confidence could stimulate private spending.

The outlook for inflation continues to be more uncertain than usual on account of the still volatile international environment. Inflation could turn out to be lower if the rise in US tariffs reduces demand for euro area exports and if countries with overcapacity increase their exports to the euro area. Moreover, a stronger euro could bring inflation down further than expected. An increase in volatility and risk aversion in financial markets could weigh on demand and thereby also lower inflation. By contrast, inflation could turn out to be higher if more fragmented global supply chains pushed up import prices, curtailed the supply of critical raw materials and added to capacity constraints in the euro area economy. A slower reduction in wage pressures could delay the decline in services inflation. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate and nature crises more broadly, could drive up food prices by more than expected.

Press Conference Q&A (from MNI real-time coverage rather than official transcript)

Highlights:

- ECB policy still in a good place but that doesn't mean the ECB is static
- Lagarde didn't endorse Schnabel's view on rate hikes
- There was no discussion on rate cuts or hikes today, nor any discussion on r^*
- Wage growth has surprised the ECB to the upside
- No favoured candidates for next president but the executive board term law should be looked at again
- Digital euro proceedings are now in the hands of the EC and European Parliament

The following is from MNI real-time coverage of the ECB press conference Q&A, not an official transcript. For the monetary policy statement on the economic activity, inflation and the risk assessment, see the link [here](#), which should include the official transcript from tomorrow (Dec 19).

Policy Still In A Good Place But That Doesn't Mean The ECB Is Static

Q: Are we still in a good place? Is the next move likely up or down?

A: We reconfirmed that we are in a good place, which doesn't mean that we're static. There was a unanimous decision today concerning the rates but there was also a unanimous view that all optionabilities should remain on the table - we'll stick to a meeting-by-meeting data dependent approach.

Q: Are the fairly large revisions to economic growth simply resilience to uncertainty or should we be rethinking our assessment of the growth profile? Windfall of AI boom, resilience to adapting to new reality? Fundamental or one-off improvement?

A: Looking at the drivers, investment has surprised us to the upside, including both large corporates and SMEs. It's largely attributable to the development of AI, across a range of facets. That is something that we can already analyse and we'll be able to be able to go deeper in February to determine whether it's a long-lasting characteristic. The contribution of exports was a surprise to us, with an input from higher chemical exports out of Ireland, citing weight loss drugs. That's something we'll be attentive to.

Lagarde Not Endorsing Schnabel Hike View, No Discussion Today On Cuts Or Hikes

Q: Do you agree with the view presented by colleague Isabel Schnabel around the need for rate hikes?

A: Certain things have changed and others haven't. When looking at activity, we have upgraded our projections across the period. We have also increased out 2026 inflation projection.

- One thing that hasn't changed is uncertainty and that's not a comfortable position. We are all attentive to uncertainty and how it pans out, whether it's geopolitics, international trade and countries with overcapacity in particular, around the borders of Europe.
- Repeats that unanimous decision on need to consider all optionailities. We do not have a set path for our rates going forward.

Q: Was there any discussion today about cuts or hikes? A: No

Wages Have Surprised Us To The Upside

Q: How concerned are you about service inflation overall? Could this be a nasty surprise?

A: Thank you for focusing on services inflation, it's clearly one domain that we'll be attentive going forward. You're right that it has increased from 3.2% in Sept to 3.4% and then 3.5% so there is a trend that we look at carefully. A lot of that is related to the study of wages, which have surprised to the upside, citing compensation of employees at 4%.

- Wages having increased more than anticipated and are linked to most service activities. We have wages slightly below 3% at end-2026, be it the wage tracker (incorporating collective bargaining agreements) or the surveys/corporate telephone survey. We believe this compensation of employee should decline in the course of 2026 but we're attentive.
- While a lot of the catch-up has taken place, we were still surprised between the last projections.
- We are humble and look at as many details, including vacancies, PMI numbers, but that's where we are. We really debated this quite a bit and staff are working hard to get to the bottom of it. Services covers a wide range of activities and some of those sub-sectors are labour intensive whilst others are less so. We have to balance out those expected increases.

Lagarde Won't Agonize On The Issue Of R*, Wasn't Discussed This Meeting

Q: Do you agree with Schnabel that AI investment may have increased the neutral rate?

A: I won't agonise over the neutral rate - there is too much uncertainty, too many risks and too many shocks that are still at play. As I said, it's not observable and whilst it's a good debate, it's not one that has caught the attention of the GC and was certainly not discussed this meeting.

ECB Looks Carefully At The Exchange Rate, But Doesn't Target It

Q: The euro nominal effective rate is at record levels, has it been discussed by Governing Council? How do you balance a stronger exchange rate which is good for lower inflation vs competition with China?

A: We do not target the exchange rate. It's in the risk section of our statement. It's something we look at carefully, how currencies are positioned around the world. We pay attention to the position against the RMB as one of those.

Lagarde Doesn't Have Any Favoured Candidates For President

Q: Do you think it would be good for Germany to have an ECB president after twenty-five years? What do you think about Schnabel and Nagel?

A: I don't have a favourite candidate. There are plenty of good ones and Isabel is one of them. I find it very satisfactory that so many people want to have my job. I'll have nothing to say about the nationality, the decision will be made outside this beautiful institution.

Executive Board Term Law Needs To Be Looked At Again

Q: On the ECB Presidency succession. One of the sitting members of the board has shown interest. Is this within the law/spirit of the rule?

A: In the past it was determined that it was not possible but I think the matter needs to be looked at again in order to ascertain, you know, what is, possible, what is not possible, what are the conditions? And it's not for me to pass a judgement on that. I think it needs to be cleared so that everyone knows where to stand.

Over To The EC and European Parliament On Digital Euro, Extremely Attentive On Stablecoins

When asked on the progress of the digital euro adoption:

A: "It's now for the European Council, and certainly later on, for the European Parliament, to identify whether the commission proposal is satisfactory, how it can be transformed into a piece of legislation or amended. Our ambition is not to be role models. Our ambition is to make sure that in the digital age, there is a currency that is the anchor of stability for the financial system. For the moment, that anchor is central bank money, which essentially has material form. It's the bank notes that you have a new wallet. But in the digital age, it has to be a digital expression of that sovereignty and a digital anchor for the purpose of the financial system that we have. So that's what we're pursuing, in addition to making sure that it is user friendly, not costly, fast, efficient, private that is that it can work online, offline, I mean I could go on and on.

When asked on the threats from stablecoins:

A: We're lucky to have MiCAR. Our view is that an instrument that is in compliance with that, has the right 1:1 guarantee for users for example, might have a business case. My concern is where you have multi-issuance currencies as it exposes the reserves and the redemption mechanism in Europe to other currencies under which the stablecoin is issued. It could be a threat to MiCAR. We have to be extremely attentive.

Lagarde Won't Support Mechanism That Includes Monetary Financing

Q: Are you confident in a solution for Ukraine reparation? The ECB earlier this month said we cannot provide a backstop to use the frozen Russian assets to finance Ukraine as it would likely breach the treaty prohibiting monetary financing but does that need to be relooked?

A: There is work going on but again it's not our remit. Given the importance of the matter and what's at stake, I'm fully confident they will find a solution. It might be in the European way, going in circles and time consuming with speculation whether it will work, but I'm confident they will find a solution. The leaders will decide. It's not for the central bank to encourage or support a mechanism under which we'll be called upon and scheduled to breach the Article 123 of this treaty. You cannot expect me to validate ex ante a mechanism under which there would be monetary financing.

Media Post-ECB Sources Pieces

Hike Discussion In Premature – Bloomberg Sources

- "European Central Bank officials expect the cycle of interest-rate cuts to most likely be finished based on the latest outlook for growth and inflation, according to people familiar with the debate"
- "Unless there's another major shock, the deposit rate should be able to stay at 2% following eight reductions from a peak of 4%, the people said, asking not to be identified because the discussions are private. Any talk of rate increases was seen as premature, however."
- "One policymaker cautioned that further easing is possible should inflation undershoot the target for several months."
- Doesn't seem like much too surprising in here - markets have already removed rate cut premium over the past few weeks, and President Lagarde's balanced and non-committal press conference suggested that she wanted to push back on the need for a hike debate. That said, ERZ6 fell about one tick following the story's release.

Policymakers Not Yet Ready to Take Cut Off Table - Reuters Sources

- ECB sources tell Reuters that ECB policymakers "expect to keep interest rates steady next year but they are not yet ready to take a rate cut off the table because the outlook is too uncertain".
- The article also notes that "Sources with direct knowledge of the discussion said there was no appetite at Thursday's meeting, which ended exceptionally early just after 0900 GMT, to declare the end of policy easing because uncertainty remains high."
- Headlines are infitting with broad market expectations for no change to policy rates next year, but do add some more weight to Lagarde's comments in the press conference earlier today, in which she said that she could not provide rates guidance given the degree of uncertainty in the Eurozone economy.