MNI ECB Review: September 2025

Executive Summary

- The ECB left its three key rates unchanged, including the deposit rate at 2.00%, as fully expected.
- The decision statement continued to push data-dependence and a meeting-by-meeting approach.
- Headline and core inflation was revised down 0.1pp in 2027 to 1.9% and 1.8% respectively. That sparked a modest dovish reaction, but the decision statement warned the inflation outlook was broadly unchanged.
- The press conference then sparked a hawkish reaction with growth risks deemed more balanced and the disinflationary process over.
- Policy is still deemed to be in a good place and the ECB won't react to small deviations from inflation target projections.
- The bar to rate cuts appears to have been lifted a little higher. Nevertheless, with inflation projections technically undershooting, we still see near-term risk poised to further cuts rather than an early start to a hiking cycle.
- ECB sources from Bloomberg suggested further shocks are needed to see rate cuts whilst Reuters sources said the debate on a rate cut was not over just yet with October too soon but December eyed.
- ECB-dated OIS points to just 12bp of cumulative cuts out to July 2026.

CONTENTS

MNI View: Bar To Cuts Pushed A Little Higher Again

September 11, 2025 - By Chris Harrison and Emil Lundh

The ECB kept its three key rates unchanged as fully expected and priced, including the deposit rate at 2%. That's the middle of staff estimates for neutral at 1.75-2.25%, having last cut in June for a 200bp easing cycle. It was another unanimous decision. The decision statement saw no material change in guidance, as expected, with attention instead of the new economic forecasts which included a small 0.1pp downward revision to headline and core inflation in 2027. That sparks a modest dovish reaction but as warned at the time, the statement had also caveated this downward revision by noting that "Governing Council's assessment of the inflation outlook is broadly unchanged." We suggested now reading too much into this minor downward revision and indeed, Lagarde noted in the press conference that this was a "big" 1.9% and the projections subsequently showed headline HICP inflation hitting 2.0% in 3Q27 or 4Q27 for core.

The larger impact came earlier in the press conference, with Lagarde noting in the opening statement that the "risks to economic growth have become more balanced" on account of reduced uncertainty stemming from recent trade agreements. They had previously been seen as still tilted to the downside in July, with the July meeting preceding a formal signing of a US-EU trade deal even if it had been touted shortly ahead of that meeting. Whilst this on its own wasn't a major surprise, it was cemented by Lagarde answering the first question by noting that the disinflationary process is over and that policy is still in a good place.

Whilst Lagarde also reiterated that the ECB won't respond to small deviations from its inflation target, we'd also add that with headline inflation seen at 1.7% in 2026 and 1.9% in 2027, or core at 1.9% and 1.8%, near-term risk still feels poised to further cuts rather than an early start to a hiking cycle.

Main Initial ECB Surprise From Lower 2027 Inflation Projection, But Minor

- The main takeaway from the initial ECB information is the downward revision to inflation out in 2027, to 1.9% vs 2.0% for headline and 1.8% vs 1.9% for core.
- There were no surprises in the 2025 and 2026 0.1pp upward revisions to headline inflation and core inflation was indeed unrevised for 2025-26.

- That said, the trimmed down section in the decision statement suggests not reading too much into this minor downward revision in 2027 – a message that we might hear from Lagarde in the press conference: “Inflation is currently at around the 2% medium-term target and the Governing Council’s assessment of the inflation outlook is broadly unchanged.”
- Elsewhere, there weren’t any material changes in guidance as expected – it sticks to a data-dependent and meeting-by-meeting approach whilst not pre-committing to a particular rate path.

Lagarde Summary: Growth Risks More Balanced, Disinflationary Process Over

The main takeaways from ECB President Lagarde’s press conference was that risks to economic growth are perceived to have become more balanced and that the disinflationary process is over. As cautioned following the initial publication of the rate decision statement showing a surprise 0.1pp downward revision to headline and core inflation in 2027, Lagarde was keen to stress the broadly unchanged inflation outlook and no desire for fine tuning policy.

- Risks to economic growth have become more balanced, while recent trade agreements have reduced uncertainty. A renewed worsening of trade relations could further dampen exports and drag down investment and consumption.
- If you walk back to June, we had a highly uncertain situation. But a deal has been documented since and a result of that, I think that two things have clearly moved out of our radar screen when it comes to downside risk; i) the risk of European retaliation and ii) broader uncertainty.
- The disinflationary process is over. We continue to be in a good place. Inflation is where we want it to be, at 2/2.1%, and the medium-term outlook on target. The domestic economy is showing resilience, the labour market is solid and risks are more balanced. But when I say that we are in a good place I'm not saying that we're on a pre-determined path.
- I never want to over stretch the general agreement in the room, but we had a unanimous decision by the GC today to leave all three interest rates unchanged.
- When asked about 1.9% inflation forecast for 2027 being below 2% for the second year in a row, Lagarde said it’s a “big” 1.9% and that as clearly indicated, the ECB won’t necessarily react to minimal deviations from target if it’s forecast to remain minimum and not long-lasting.
- The pushing back of fine-tuning was reiterated by saying many Governing Council members don’t want to overengineer policy.
- Regarding her July press conference which markets viewed as hawkish: In my July communication I expressed exactly what was felt by a very large majority of my governors around the table. And I think I've repeatedly said that we continue to be in a good place which does not mean that we are on a pre-determined path.

OIS Price 12bps of ECB Easing Through Jul '26 Following Hawkish Presser

With the dust now settled on the September ECB decision and press conference, ECB-dated OIS are back to pricing 12bps of easing through July 2026, 1bp more hawkish than pre-decision levels. The immediate digestion of the policy statement and macroeconomic projections saw OIS price a dovish extreme of 17bps of cuts over the next 10 months, but the tone of President Lagarde’s press conference saw those moves quickly reversed.

- The Oct-Dec OIS fly has steepened 1.6bps on the session, with a cumulative 4.5bps of cuts now priced through year-end (vs 6bps at yesterday’s close).
- There was a very modest dovish reaction to the latest Reuters sources piece, which pointed to the December decision as the next realistic time to debate another cut, which was faded somewhat after a subsequent Bloomberg piece.
- Expect regular post-meeting ECBspeak to start rolling in from tomorrow, which will help gauge relative positions of Governing Council members – something Lagarde pushed back on disclosing at today’s press conference.
- Euribor futures are +1.0 (U5, bid following this morning’s fix) to -4.0 ticks (back of whites/reds) versus yesterday’s settlement levels. ERZ6 remains above the 98.000 handle for now.

			Pre-press conference			Pre-rate decision		
Meeting Date	ESTR ECB-Dated OIS (%)	Difference Vs. Current Cut-adjusted Effective ESTR Rate (bp)	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
Oct-25	1.918	-0.4	1.914	-0.8	0.3	1.915	-0.7	0.2
Dec-25	1.876	-4.6	1.851	-7.1	2.4	1.865	-5.7	1.1
Feb-26	1.860	-6.2	1.829	-9.3	3.0	1.849	-7.3	1.1
Mar-26	1.818	-10.4	1.779	-14.3	3.9	1.804	-11.8	1.5
Apr-26	1.811	-11.1	1.773	-15.0	3.9	1.800	-12.2	1.1
Jun-26	1.801	-12.1	1.762	-16.0	3.9	1.794	-12.8	0.7
Jul-26	1.801	-12.2	1.760	-16.2	4.1	1.792	-13.0	0.8

Source: MNI/Bloomberg Finance L.P.

						1Y (250 sessions)	
Futures	Last	Volume	1d chg	2d chg	1w chg	Low	High
U5	97.975	285,779	1.0	1.0	2.5	97.800	98.290
Z5	98.000	510,421	-2.5	-3.0	-2.0	97.825	98.400
H6	98.045	344,463	-3.5	-4.5	-3.5	97.790	98.420
M6	98.055	376,172	-4.0	-5.5	-4.5	97.740	98.390
U6	98.045	298,048	-4.0	-5.5	-4.5	97.685	98.320
Z6	98.015	250,670	-4.0	-5.5	-3.5	97.645	98.235
H7	97.970	238,012	-3.5	-5.0	-2.5	97.580	98.155
M7	97.925	215,248	-2.5	-4.0	-1.0	97.520	98.120
U7	97.875	144,572	-2.0	-3.5	0.5	97.470	98.090
Z7	97.820	147,862	-2.0	-3.0	1.5	97.425	98.065
H8	97.770	104,807	-1.5	-2.0	2.5	97.385	98.040
M8	97.725	108,653	-1.0	-1.0	3.5	97.350	98.015
U8	97.680	92,054	-1.0	-0.5	4.0	97.315	97.990
Z8	97.635	98,195	-1.0	-0.5	4.5	97.285	97.970
H9	97.595	47,083	-0.5	0.0	5.0	97.255	97.945
M9	97.555	67,425	0.0	0.5	5.5	97.225	97.920

September Macro Projections: 2027 Inflation Revised Down

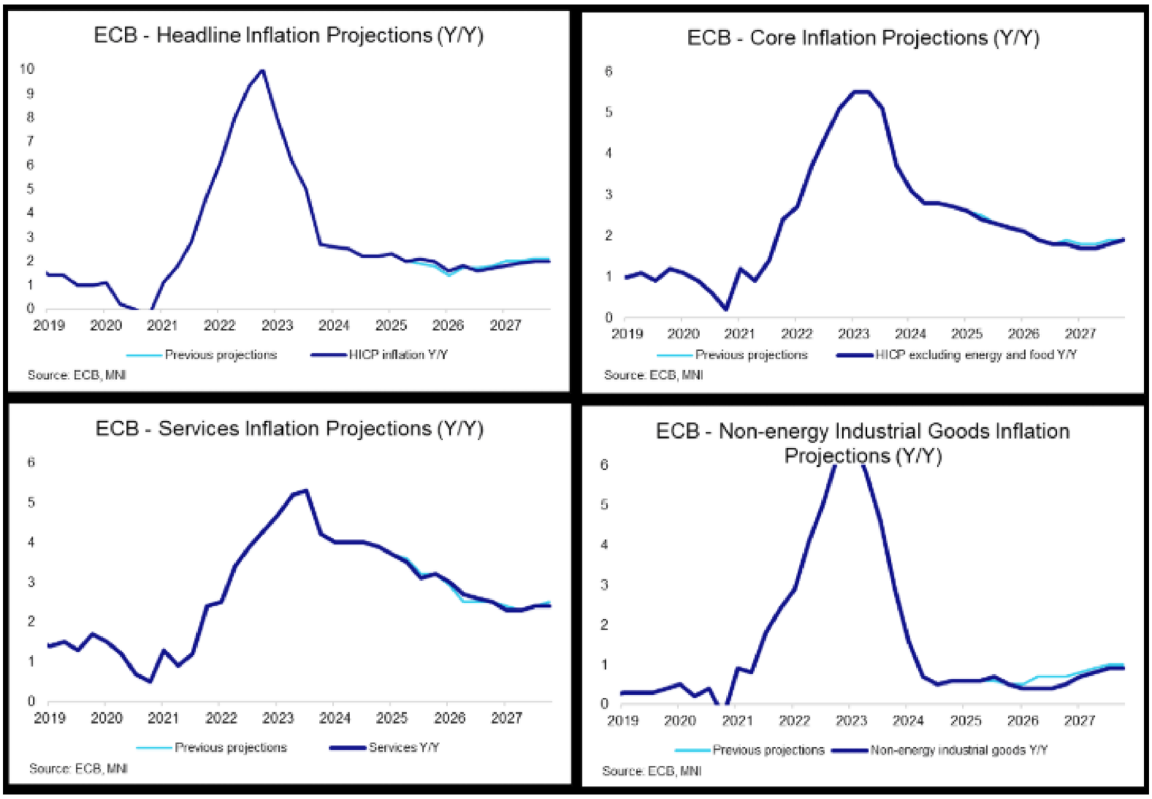
		ECB Jun '25 Projections	ECB Sep '25 Projections (MNI Median)	ECB Sep '25 Projections	Change vs Median
Core Inflation	2025	2.4	2.4	2.4	0.0
	2026	1.9	1.9	1.9	0.0
	2027	1.9	1.9	1.8	-0.1
Headline Inflation	2025	2.0	2.1	2.1	0.0
	2026	1.6	1.7	1.7	0.0
	2027	2.0	2.0	1.9	-0.1
GDP	2025	0.9	1.1	1.2	0.1
	2026	1.1	1.1	1.0	-0.1
	2027	1.3	1.3	1.3	0.0

Source: Analyst previews seen by MNI, ECB

ECB Expects Headline Inflation Back At Target By Q3 2027

Within the subsequently published details, headline inflation is expected to (conveniently) return to the 2% target by Q3 2027, after reaching a low of 1.6% in Q1 and Q3 2026.

- This is probably one reason why Lagarde played down the 2027 undershoot in the press conference.
- The profile for services inflation was revised up a shade while non-energy industrial goods was revised lower through 2026.



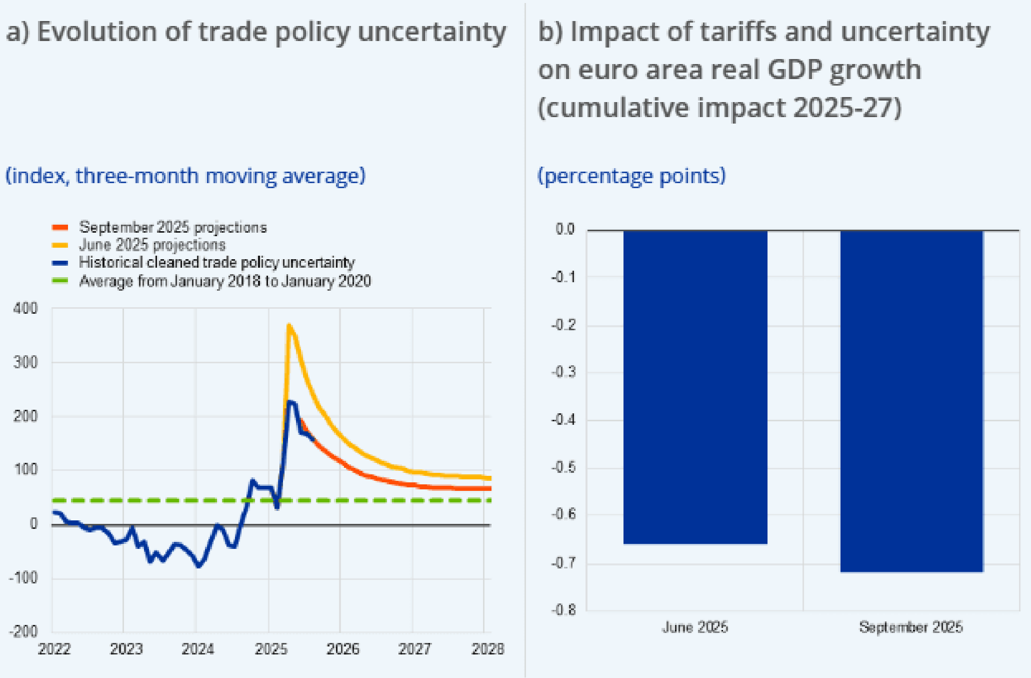
Slightly More Negative GDP Impact From Tariffs/Uncertainty Compared To June

On the impact of the EU-US trade agreement, the ECB note that “The somewhat higher tariff assumptions since June are assessed to imply an additional cumulated impact of -0.1 percentage points compared with the June 2025 projections, concentrated in 2025 and 2026.”

- “The limited impact, which excludes exchange rate effects, relates both to the small changes in the effective tariff rates and to the fact that the increases are relatively smaller than for other competitors trading with the United States”
- On trade policy uncertainty, staff note that “the reduction in uncertainty since the June projections has led to a small upward impact on real GDP growth. “
- “As a result of these two partly offsetting factors, the overall impact of tariffs and uncertainty on GDP growth is projected to be slightly more negative than in the June projections and amounts to -0.7 percentage points cumulated over 2025-27”.
- “As in the June projections, the impact of US tariffs and uncertainty on euro area HICP inflation is seen as very limited, with a cumulated impact over the period 2025-27 of less than 0.2 percentage points.”

Chart B

Staff assumptions on trade policy uncertainty and the impact of tariffs and uncertainty on growth



Sources: Caldara et al., "Does Trade Policy Uncertainty Affect Global Economic Activity?", September 4 2019, and ECB staff calculations.
Notes: In panel a) the figures refer to a "cleaned" measure of trade policy uncertainty (see footnote 5). The latest observation is for July 2025. For panel b), the estimates exclude the impact of tariffs on the technical assumptions (such as the exchange rate).

ECB: September Projection Fiscal Spending Assumptions Seem Conservative

The ECB estimates that "fiscal measures announced in the first half of the year related to defence and infrastructure should provide a limited boost to growth in the medium term amounting to 0.25 percentage points cumulatively over the projection horizon. "

- At first glance, this feels like quite a conservative assumption. Our reading is that the ECB have not made any updates to their fiscal spending assumptions relative to the June projections. That suggests the details of the aggregate German fiscal rollout announced in late-June (which was more front-loaded than analysts had expected at the time) have not been incorporated.
- This may explain the softer-than-expected 2026 GDP projection of 1.0% (vs 1.1% consensus and prior)

From the ECB's write-up:

- "In 2026 the fiscal stance is projected to loosen, mainly on account of higher public investment. This reflects the higher defence and infrastructure spending, particularly in Germany (over 2026-27), incorporated into the baseline as of the June 2025 projections, as well as high NGEU-funded investment growth in Italy, Spain and other countries".
- "In 2027 the tightening of the NGEU-adjusted fiscal stance and discretionary measures primarily reflects lower assumed government spending related to the expiry of the NGEU grant financing and some tightening of non-discretionary factors

- “Compared with the June 2025 projections, the discretionary fiscal policy measures incorporated into the baseline point to only a slight additional fiscal tightening over the projection horizon, particularly in 2026. This tightening in discretionary measures amounts to less than 0.1 percentage points of GDP cumulatively over the projection horizon, which stems mostly from 2026 and is partly reversed in 2027”.

Sep 11 Rate Decision Statement

The Governing Council today decided to keep the three key ECB interest rates unchanged. Inflation is currently at around the 2% medium-term target and the Governing Council’s assessment of the inflation outlook is broadly unchanged.

The new ECB staff projections present a picture of inflation similar to that projected in June. They see headline inflation averaging 2.1% in 2025, 1.7% in 2026 and 1.9% in 2027. For inflation excluding energy and food, 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%.

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.

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

Statement side-by-side comparison (with the usual heavy changes owing to differences in projection/non-projection meetings):

The Governing Council today decided to keep the three key ECB interest rates unchanged. Inflation is currently at around the 2% medium-term target~~. The incoming information is broadly in line with~~ and the Governing Council's ~~previous~~ assessment of the inflation outlook~~. Domestic price pressures have continued to ease, with wages growing more slowly. Partly reflecting the Governing Council's past interest rate cuts, the economy has so far proven resilient overall in a challenging global environment. At the same time, the environment remains exceptionally uncertain, especially because of trade disputes~~ is broadly unchanged.

The new ECB staff projections present a picture of inflation similar to that projected in June. They see headline inflation averaging 2.1% in 2025, 1.7% in 2026 and 1.9% in 2027. For inflation excluding energy and food, 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%.

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

Growth risks have become more balanced

"Risks to economic growth have become more balanced. While recent trade agreements have reduced uncertainty, a renewed worsening of trade relations could further dampen exports and drag down investment and consumption. A deterioration in financial market sentiment could lead to tighter financing conditions, greater risk aversion and weaker growth. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, remain a major source of uncertainty. By contrast, higher than expected defence and infrastructure spending, together with productivity-enhancing reforms, would add to growth. An improvement in business confidence could stimulate private investment. Sentiment could also be lifted and activity spurred if geopolitical tensions diminished, or if the remaining trade disputes were resolved faster than expected."

"The outlook for inflation remains more uncertain than usual, as a result of the still volatile global trade policy environment. A stronger euro could bring inflation down further than expected. Moreover, inflation could turn out to be lower if higher tariffs lead to lower demand for euro area exports and induce countries with overcapacity to further increase their exports to the euro area. Trade tensions could lead to greater volatility and risk aversion in financial markets, which would weigh on domestic demand and would thereby also lower inflation. By contrast, inflation could turn out to be higher if a fragmentation of global supply chains pushed up import prices and added to capacity constraints in the domestic economy. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate crisis 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 with the disinflationary process over
- Won't characterize direction of travel
- Today's decision was unanimous
- Clearly lower uncertainty than in June
- Won't react to small downward deviations from 2% inflation target
- Unsurprisingly no comment on French political risk developments

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 (Sep 12).

ECB Still In A Good Place, Today's Decision Was Unanimous

Q: Economists believe the ECB's easing cycle is over. Would you say they're right and does everyone on the GC agree? Secondly, you mentioned a bunch of inflation risks, are they balanced?

A: The disinflationary process is over. I'm referring to the causes for inflation that we've experienced in the last few quarters. Are we still in a good place? We continue to be in a good place. Inflation is where we want it to be, 2/2.1%, medium term outlook on target. The domestic economy is showing resilience, the labor market is solid and risks are more balanced. But when I say that we are in a good place I'm not saying that we're on a pre-determined path.

We will take stock meeting by meeting, to look at the data, all the data, the outlook, the projections, the many data that we receive in order to make sure that we stay in a good place.

- Does everybody agree with that? You know, I never want to over stretch the general agreement in the room, but we had a unanimous decision by the GC today to leave all three interest rates unchanged.
- And we discussed, of course, the projections, we discussed the risk. But I think that what I have just formulated for you is something that was agreed unanimously around the table.

<u>Clearly Lower Uncertainty Since June</u>

Q: So why do you think risks are more balanced now, given the uncertainty we still see elsewhere in the world?

A: You have to go back to where we were back in June. And if you walk back to June, we had a highly uncertain situation. But a deal has been documented since. And as a result of that, I think that two things have clearly moved out of our radar screen when it comes to downside risk:

- The first one is the risk of European retaliation that was factored into our June projection, and that was considered as one of the risk in a trade war, as we had it at the time, in terms of fear.
- The second thing is the uncertainty. So what we call, you know, trade uncertainty that has clearly diminished, and we can see that in the instruments that we use to measure uncertainty, it has not gone back yet to where it was pre covid. It's not the sort of normal level, and maybe there will not be a normal level. That's something that we really have to consider and take into account for future determination.
- It could well be that there was a reset in uncertainty around the world because of the trade situation, because of the geopolitical environment in which we operate, but the trade uncertainty has abated since June, when we had our last projection. So that's really what is at the root of this more balanced indication.

<u>Lagarde Doesn't Characterise Direction Of Travel</u>

Q: Is there is still a direction of travel for policy?

A: I'm not going to characterize the whole direction of travel. I think all of that is swept away by the principles that we have agreed, which is to be data dependent, to decide meeting by meeting, to not have a predetermined path, and to really look at inflation outlook, meaning baseline plus risks associated underlying inflation and strength of transmission. This is our mechanism. This is our framework. This is how we try to think and to anticipate our monetary policy stance going forward, to continue to be in a good place.

<u>Won't React To Small Downward Deviations From 2% Target</u>

Q: You said that inflation is projected to be a target over the medium term, yet the projection for 2027 is at 1.9 so below two for the second year in a row. So where does below target start?

A: We have projections for 25, 26 & 27. 25 and 26 have increased by 0.1pp. So 26 our projection is not 2.1 and we've increased it by 0.1 in 26 we are now at 1.7. So in 2027 we are at 1.9 and that's first of all, it's a big 1.9 I assume, to add, but it's really on account of the exchange rate impact with the lag effect that it usually has, and this is factored into our projections. We have indicated very clearly in our strategy that minimal deviation will not necessarily, if they remain minimal and not long-lasting, will not necessarily justify any particular movement.

<u>Pushes Back On Need To Fine Tune Policy</u>

Q: It felt to many that until June the burden of proof was on the data to be strong enough to hold but now it seems to be needed to justify a cut. Is that fair?

A: There were many governors around the table who after a good discussion on the inflation outlook, the underlying inflation, the strength of transmission and the risks, there was a good discussion on risks. After all that many said, look, let us not over engineer.

Lagarde Doesn't Settle On Upside Or Downside Inflation Risk

Q: Last week, Isabel Schnabel, again, explained in detail why she sees the balance of risk to the upside. You said you didn't discuss so much about the topic today. But can you tell us, did more governors today share Isabel Schnabel view compared to July? Could you share some brief insights with us?

A: We have now agreed on the strategy review and that one of the changes that we have all agreed is to discuss around the baseline the risks. We had a good discussion of risks for both growth and inflation. We do not ever settle on risk to inflation as to whether it is to the upside to the downside.

We mention a number of factors that constitutes risk to the upside and risk to the downside. And this is all sort of highly technical and subtle, because depending on where you are and where you want to be, those risks to the internet, to inflation, to the downside or to the upside are either good or bad. [...] I'm sure that you will hear people say, well, it's more balanced, but bit to the downside. Yeah, of course... but risks are going to arise. Some of them will be new. Challenges will be new.

Q: In July, your communication was interpreted as more hawkish. Were you surprised by that?

A: I'm not a hawk or a dove. I'm an owl. In my July communication I expressed exactly what was felt by a very large majority of my governors around the table. And I think I've repeatedly said that we continue to be in a good place which does not mean that we are on a pre-determined path.

Lagarde Provides More Colour On Downside GDP Risks

Q: How far is this economic resilience one of the reasons for holding rates unchanged?

A: You're right to refer to the resilience of the Euro Area economy. 0.7% cumulative growth in 1H25 is quite indicative of that. Now, some would argue, oh no, you had a big front loading in the first quarter and a big payback in the second. And I would submit that this is not actually the case. There was front loading, but the unexpectedly high number that you we had during Q1 was partly front loading, but was also partly investment and consumption. And if you look at Q2, which is higher than we had anticipated, if you take out Ireland, we tend to take out Ireland, [...]the contribution of consumption and investment to growth was 0.2%, so a good first half. We know that there are headwinds, and they will continue to be headwinds to growth, but I remind you that we have revised upward our growth projection for the whole of 25 from 0.9 to 1.2%.

But there will be headwinds, and that is reflected in the slight adjustment that we made for 2026 we revised growth for 2026 down by 0.1 and we left 2027 unchanged.
There will be a positive contribution from real disposable income that people have and will continue to have, from a very strong labor market. We project labor market to have a 6.1% unemployment rate, for instance, we also believe that the savings that are still very high at about 15% are likely. This is not a given, but there is a likelihood that those savings decline and will therefore help with additional consumption.
That will add to significant investment and public investment, in particular on the part of those countries that want to increase their military spending, increase their infrastructure spending. The recovery and resilience fund continues to be disbursed until the end of 2026 and the military expenses will pick up.
There are downside risks, as I said. You know, there will be headwinds, no question about that. And you can include in that, you know, more trepidation in trade, the strength of the exchange rate and what have you. And this is factored into our projections, by the way.

No Comment On French PolRisk

Q: In France we've seen that the political situation has driven bond yields quite high. So how concerned you are?

A: I'm not going to comment on individual countries. I avoid that because we are the ECB, we are not narrowing our judgment on a particular country, but, you know, I would say that I'm confident that the policy makers, that those who make decisions, will take it to heart in that period of uncertainty, to reduce uncertainty as much as possible.

There is also a set of rules, that is the fiscal governance, the fiscal framework that is the internal rules of the European countries and the member states have to adhere to it. And I'm sure that all governments, wherever located. will want to operate on that basis.

EGB Markets Are Functioning Smoothly With Good Liquidity

Q: Do you consider that QT significantly contributes to the monetary policy stance, and to what extent does it reinforce tighter financial condition or not?

A: We have increased rates from -0.5% to 4%, the most efficient and primary tool that we use for monetary policy stance is the interest rates, as you will have seen, and we have cut interest rates by 200bps over the last 12 months or so. We are not reinvesting and are on a runoff mode which is proceeding smoothly. We had telegraphed it very carefully. It was anticipated. It was predictable. And I think that everyone who cares about those issues knows exactly how this proceeds and what very limited impact it has. That's a result solution that we have made, that we have explained very clearly to markets, and it proceeds accordingly.

Q: Do you consider that a widening in of certain spreads of Germany will pose a serious threat to the transmission of monetary policy, and in such a case, could this trigger the use of the TPI?

A: We are always monitoring financial market developments, as I said, as well, euro area sovereign bond markets are orderly and are functioning smoothly with good liquidity. If you observe the spreads, they have considerably tightened over the course of the last two years, and the spreads relative to bonds have a rather limited width between the other member states, relative to the German bond.

Media Post-ECB Sources Pieces

Reuters Sources Suggest Next Rate Cut Discussion Likely In Dec

The Reuters sources piece (link) landed first with a modestly dovish take that saw Euribor futures lift off lows:

- "European Central Bank policymakers see their December meeting as the most realistic time frame to debate whether an another interest rate cut is needed to buffer the euro zone economy from the impact of U.S. tariffs, three sources told Reuters".
- […] "But sources on the ECB's Governing Council said the debate on a rate cut was not over just yet, although policymakers probably won't have enough information by their next meeting in October 29 to make a proper assessment."

In broad strokes it seemed to echo MNI's pre-meeting sources piece: "The European Central Bank is trying to determine whether it has reached the bottom of its easing cycle, but could still cut the deposit rate in the coming months if data shows a return of economic weakness or suggests a greater-than-expected inflation undershoot, Eurosystem sources told MNI."

Bloomberg Sources Offer A Slightly More Hawkish Take Than Reuters

Bloomberg sources suggested a slightly higher bar to rate cuts than the Reuters piece, appearing more in keeping with Lagarde’s rhetoric from today’s press conference. ERZ6 saw a minor downtick but held off earlier lows with help from that Reuters report.

- "European Central Bank policymakers are convinced that no further interest-rate cuts are needed to deliver 2% inflation, despite new economic projections pointing to an undershoot over the next two years, according to people familiar with their thinking.
- While a reduction at October’s meeting can be virtually ruled out, December will be an opportunity to reassess as fresh quarterly forecasts will include 2028, the people said."
- See the full Bloomberg report here.