

ECB cuts rates, takes backseat to fiscal shifts

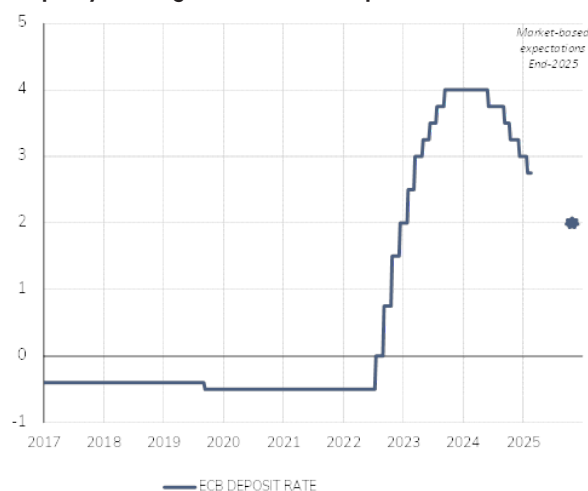


Image source: iStock/niphon

Today's ECB decision in a nutshell:

- ▶ ECB rates are cut by 25bp as expected, and EUR Deposit rate down to 2.50%.
- ▶ According to the ECB, "Monetary policy is becoming meaningfully less restrictive", confirming previous comments by ECB members that the ECB is getting close to the neutral rate, and that the "normalisation part" of the monetary policy is nearing an end.
- ▶ As such, the rate cut cycle may soon end in the Eurozone, with just two additional rate cuts now priced in for the remaining of 2025.
- ▶ Downward revisions in GDP growth forecasts for 2025 and 2026, due to lower exports and ongoing weakness in investment caused by high trade policy uncertainty and broader policy uncertainty.
- ▶ Based on ECB President Lagarde's declaration during the press conference, the most recent developments in German and EU fiscal policy and defence spendings. have not yet been included in the ECB's forecast, as they are still work in progress.
- ▶ President Lagarde mentioned that defence and infrastructure spendings "could be inflationary" and "could add to growth", which would, in effect, reduce prospects of more ECB policy easing. The ECB's President stated the obvious by saying that risk and uncertainty are "all over".
- ▶ Today's decision on rates was widely expected and doesn't materially change the big picture.
- ▶ In the past fifteen years, the ECB had been in the frontline whenever a crisis arose in Europe, as fiscal policy was constrained by European budget rules.
- ▶ Since Tuesday, this has reversed. **The ECB now finds itself in the backseat: the ongoing fiscal policy developments in Germany and at the EU level are clearly dominating and radically changing the economic outlook of the Eurozone.**

- ▶ Today's meeting was too soon for the ECB to incorporate in its analysis the fiscal policy shifts in Germany and in the EU. The central bank will assess their potential impact on its monetary policy in the coming weeks and months.
- ▶ **With such a large fiscal boost unleashed in Europe, growth and inflation risks are now tilted to the upside.**
- ▶ **As such, the risk has now shifted to the ECB possibly ending its rate cut cycle earlier than expected. Fiscal policy is taking dominance in Europe too.**



Source: Bloomberg, Syz Bank

March 2025 ECB staff macroeconomic projections					
	2023	2024	2025	2026	2027
HICP	5,4	2,4	2,3	1,9	2,0
Change compared to December projections	0,0	0,0	0,2	0,0	-0,1
HICP "core"	4,9	2,9	2,2	2,0	1,9
Change compared to December projections	0,0	0,0	-0,1	0,1	0,0
Real GDP	0,6	0,7	0,9	1,2	1,3
Change compared to December projections	0,0	0,0	-0,2	-0,2	0,0

For further information

Banque Syz SA

Quai des Bergues 1
CH-1201 Geneva
T. +41 58 799 10 00
syzgroup.com

Adrien Pichoud

Chief Economist
adrien.pichoud@syzgroup.com

This marketing document has been issued by Bank Syz Ltd. It is not intended for distribution to, publication, provision or use by individuals or legal entities that are citizens of or reside in a state, country or jurisdiction in which applicable laws and regulations prohibit its distribution, publication, provision or use. It is not directed to any person or entity to whom it would be illegal to send such marketing material.

This document is intended for informational purposes only and should not be construed as an offer, solicitation or recommendation for the subscription, purchase, sale or safekeeping of any security or financial instrument or for the engagement in any other transaction, as the provision of any investment advice or service, or as a contractual document. Nothing in this document constitutes an investment, legal, tax or accounting advice or a representation that any investment or strategy is suitable or appropriate for an investor's particular and individual circumstances, nor does it constitute a personalized investment advice for any investor.

This document reflects the information, opinions and comments of Bank Syz Ltd. as of the date of its publication, which are subject to change without notice. The opinions and comments of the authors in this document reflect their current views and may not coincide with those of other Syz Group entities or third parties, which may have reached different conclusions. The market valuations, terms and calculations contained herein are estimates only. The information provided comes from sources deemed reliable, but Bank Syz Ltd. does not guarantee its completeness, accuracy, reliability and actuality. Past performance gives no indication of nor guarantees current or future results. Bank Syz Ltd. accepts no liability for any loss arising from the use of this document.