



PREVIEW: ECB Policy Decision on 18th December 2025 at 13:15GMT/08:15EST

- Expected to maintain policy conditions and keep the Deposit Rate at 2.00%
- Focus on the new macroeconomic projections, though recent commentary has moderated the focus from the 2028 view.
- Nonetheless, the forecasts will help to inform the discussion around whether the next move is a cut or a hike.

OVERALL:

Expected to maintain policy conditions and keep the Deposit Rate at 2.00%. Developments since October include hotter-than-expected HICP and a soft/uncertain growth outlook. Points that offset each other and factor in favour of policy conditions being maintained at the "good place" the ECB finds itself in; though, to remind, President Lagarde has made clear that this place is not a fixed point. Focus for the meeting will be on the new macroeconomic projections. Heading into December, commentary centered on the first forecast for 2028. However, the October Minutes and remarks from various officials in recent weeks have placed more focus on the 2026 and 2027 views. Overall, the projections are not expected to change the assessment that the ECB is at terminal and on hold for the foreseeable. However, they may inform into the debate as to whether the next move is more likely a cut or a hike. As it stands, c. 7bps of tightening is implied by end-2026 and the often influential Schnabel said she is comfortable with such pricing.

PREVIOUS MEETING:

October's meeting saw policy settings maintained, as expected, with no reaction in European assets to the decision itself. Thereafter, Lagarde made clear that the ECB is in a "good place" for monetary policy but kept optionality open, noting that the place is not a fixed point. Overall, the meeting and presser had no real bearing on expectations for a December move with c. 1bps of easing implied. At the time, the focus point ahead was very much December's macro projections which will include a debut 2028 forecast.

Thereafter, the accompanying minutes added little in terms of considerations for the December meeting. However, it did inform on the forecasts. On the projections and specifically for 2028, it was argued that the "information content of the projections was lower for more distant horizons and monetary policy could have less influence at that horizon" a point that "suggested placing more weight on the nearer-term outlook".

DECEMBER CONSIDERATIONS:

November's HICP came in hotter-than-expected for the headline at 2.2% (exp. & prev. 2.1%), the core (ex-food & energy) remained at the prior rate while services lifted to 3.5% (prev. 3.4%). A series that chimed with the view that the ECB's easing cycle has likely concluded.

The bloc's growth outlook remains soft, weighed on primarily by Germany. The December Flash HCOB PMIs wrote of "warning lights flashing" in German industry, though manufacturing confidence has increased while service sector confidence has diminished. As a reminder, much of the confidence ahead for Germany is tied to expectations around significant fiscal stimulus being delivered. For the EZ, the series concluded that the "runway into the new years seems pretty unstable". On prices, HCOB highlighted that pressures remain noticeable and are being driven in part by wage increases. A further headwind to the growth outlook are ties between the bloc and EU, with the US increasingly critical of Europe. Additionally, ties with China have been knocked by the latest meat related tariffs.

Markets have digested a significant amount of commentary from officials in recent weeks, though much of this has focussed on meetings further out (see below). For December, among the most pertinent was perhaps Kazaks, who said the time is not correct to discuss a rate cut.

Overall, the inflation and growth narratives work to offset each other and point towards no change in December. A view corroborated by the likes of Kazaks. Market pricing also concurs, with just a 1% chance of a cut implied heading into the announcement.

FORECASTS & TERMINAL:

Given the view is unanimous for December's policy settings to be maintained, focus for the meeting will primarily be on the macroeconomic projections and any verbal guidance. As a reminder, market pricing points to the current 2.00% Deposit Rate being the terminal and the next move as more likely to be a hike, with c. 7bps of tightening implied by end-2026.

Macroeconomic projections will take centre stage. On inflation, the HICP Y/Y forecasts are, as of September, at 2.1% for 2025, 1.7% for 2026 and 1.9% for 2027. December's forecasts will for the first time look to 2028, a print that some have suggested could be crucial in determining if the ECB is truly at terminal and by extension if the next move is more likely to be a cut or a hike. On this, recent communication has somewhat downplayed the focus on 2028. Pertinently, the October Minutes suggest that more weight should be on the "nearer-term outlook", while Kazaks specifically said the focus should be on the 2026 and 2027 projections and that the 2028 outlook should not be overinterpreted. Goldman Sachs looks for the headline rates to be maintained for 2025 and 2026, moderating to 1.8% (prev. 1.9%) for 2027 and then 2028 at 2.1%, the hawkish risk to this is a 2028 view of 2.2%.

Overall, while the forecasts and any accompanying language will draw significant focus the projections are unlikely to have a material impact on market pricing over the next few months, but may inform the debate on whether the next move is more likely a cut or hike. On that, ECB's Schnabel recently outlined that she is "comfortable" on bets that the next move will be a hike, though she qualified that she does not expect that any time soon. A qualifier that further lessens the potential market reaction to the new forecasts, with the ECB likely to remain at the current "good place" on rates in the near term.

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