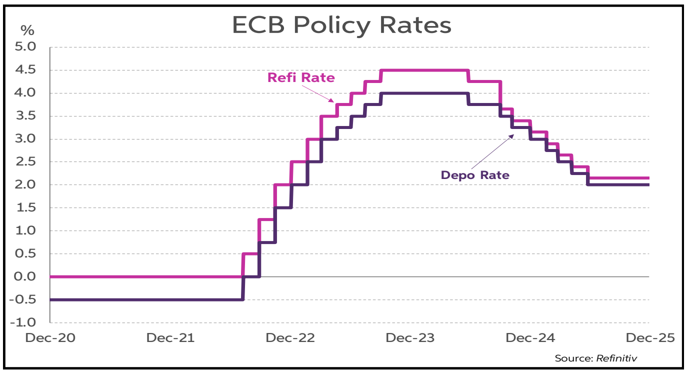
ECB Watch

AIB Treasury Economic Research Unit

18th December 2025

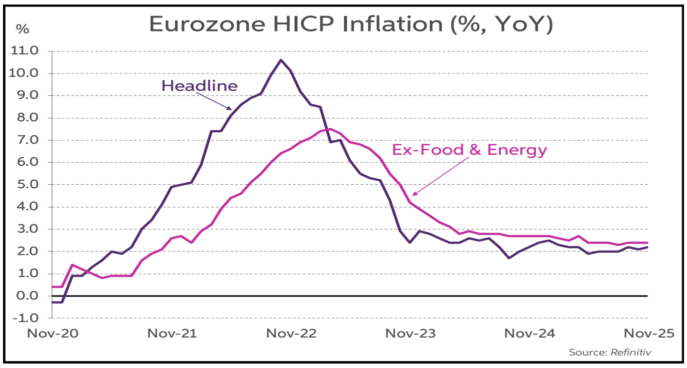
ECB remains on hold, with stronger growth outlook

The December meeting of the ECB's Governing Council saw the central bank leave interest rates on hold. This was the fourth successive meeting that the central bank left its official rates unaltered. The deposit and refi rates were maintained at 2.00% and 2.15%, respectively. The 'unchanged rates' outcome was very much in line with market expectations. The last time the ECB eased policy was at its June meeting when it cut rates by 25bps. In total, the central bank has cut rates by 200bps since it started its easing cycle in June 2024. Today's decision to keep policy on hold had a "unanimous view around the table".



The December meeting statement was similar to its October version. It remained short, and continued to offer little in the way of new guidance. The context of today's decision to keep policy on hold was that the "updated assessment reconfirms that inflation should stabilise at the 2% target in the medium term". The ECB also noted that the growth outlook is "expected to be stronger than in the September projections, driven especially by domestic demand".

An updated detailed assessment on the economic outlook from the ECB was also provided at its December meeting. These forecasts showed an upgrade in the ECB's outlook from the September edition. It is forecasting Eurozone GDP growth of 1.4% (was 1.2% in Sept) for this year. It sees GDP averaging 1.2% in 2026 (was 1.0%) and growth of 1.4% in 2027 (was 1.3%) and 2028. These GDP projections continue to embody a fairly subdued growth outlook for the Eurozone economy. In noting risks to the outlook, the ECB stated that the risks to growth remain balanced, with geopolitical and trade risks offset by potentially stronger internal market dynamics from higher infrastructure and defence spending. President Lagarde also noted strong business investment trends, which may be due to the deployment of AI technology at the firm level.



In terms of its inflation outlook, the ECB now expects stickier inflation in the near term, with headline HICP to average 2.1% (unchanged) this year and 1.9% (was 1.7%) in 2026. For 2027, it sees inflation averaging 1.8% (was 1.9%), and 2% in 2028. These projections suggest that the ECB maintains a benign outlook for inflation. In today's statement it commented that the outlook for inflation continued to be "more uncertain than usual on account of the still volatile international environment ".

President Lagarde's press conference remarks suggest that while the ECB retains a willingness to ease policy again, if required, it is satisfied that its current interest rate settings remain appropriate. As a result, it is not contemplating any near term policy changes. She repeated the ECB's mantra that it will follow a "meeting-by-meeting approach" and remains "data-dependent" in determining its interest rate stance. More explicitly, she stated the "economy has been resilient", underpinned by a "robust labour market". Overall the interests rates remain in "a good place".

Market expectations saw no significant repricing in the aftermath of today's ECB meeting, which is not surprising given the lack of any major new insights from the ECB. The market is still attaching a negligible probability to a further 25bps rate cut by mid-2026. Indeed, commentary of late from Lagarde and other Governing Council members has raised speculation that the next move by the ECB could be a hike. **Our view since the start of the year has been that the deposit rate will settle at 2%.** Today's ECB meeting outcome reinforces our assessment that 2% will remain the trough for the Depo rate throughout 2026.

ECB Macroeconomic Forecasts for the Euro Area

(%)	2024	2025	2026	2027
HICP	2.4	2.1	1.9	1.8
Real GDP	0.9	1.4	1.2	1.4

Forecasts are mid-point of a range and based on the assumption that Brent crude oil prices will average $69.2 in 2025, $62.5 in 2026, and $62.6 in 2027. *Source ECB, December 2025*

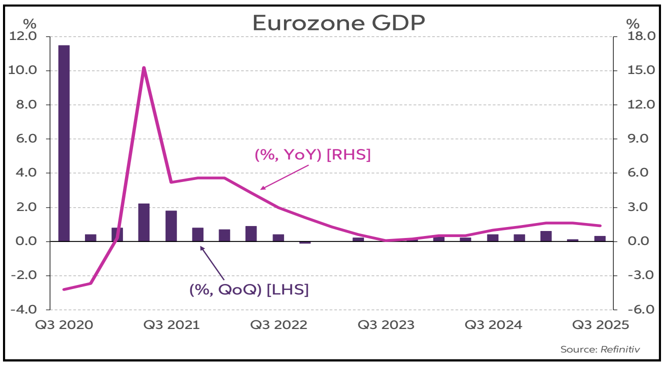
David McNamara
Chief Economist
david.g.mcnamara@aib.ie

John Fahey
Senior Economist
john.j.fahey@aib.ie

Daniel Noonan
Economist
daniel.x.noonan@aib.ie

Moderate growth expected in the Eurozone

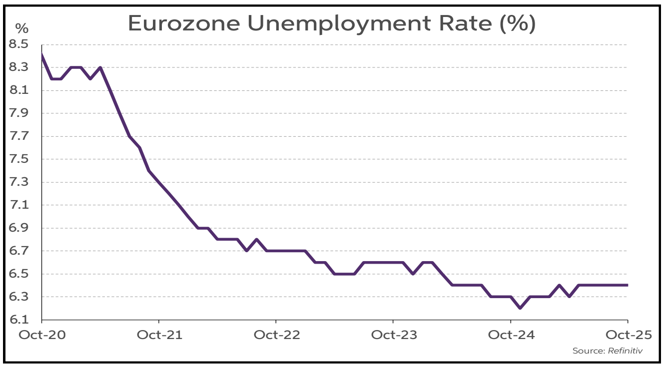
The Eurozone economy gathered some momentum at the start of the year, with GDP rising by 0.6% q/q in Q1, which was the fastest pace of growth since Q2 2022. However, growth slowed sharply to just 0.1% q/q in Q2 of this year, as the tariff front-running of exports unwound. Furthermore, the economy expanded by a modest 0.3% q/q in Q3. Overall, the Eurozone economy expanded by 1.5% y/y in the first three quarters of the year. **The underlying breakdown for the third quarter indicates that consumption expanded by 0.2% q/q.** Meanwhile, government expenditure jumped by 0.7% q/q in Q3. Both components contributed 0.1 percentage points (p.p.) each to growth. An increase in fixed investment added a further 0.2 p.p. to the total. Imports (+1.3%) outpaced exports (+0.7%) though, resulting in net trade knocking 0.2 p.p. from GDP. However, this was slightly offset by a rise in inventories, which boosted output by 0.1 p.p. in the quarter.



Meantime, the limited data available for the fourth quarter have been mixed. Retail sales stagnated in October, having broadly flat-lined in the three months prior as well. Elsewhere, industrial production rose by a solid 0.8% in October, meaning production was 2.0% higher on an annual basis in the month. However, the survey data suggests the manufacturing sector may have run out of steam as Q4 progressed. The manufacturing PMI moved back into contractionary territory in November and December, and averaged 49.6 in Q4, down from 50.1 in Q3. In contrast, the services PMI has stayed in expansion mode throughout the quarter, and averaged 53.1, up from 50.9 in Q3. At the same time, sentiment in the consumer, industrial and services sectors, has continued to broadly improve in the first two months of Q4.

Regarding the labour market, conditions remain solid. Employment expanded for a eighteenth successive quarter in Q3, up by 0.1% q/q and by 0.2% y/y. It means that the number of people at work has risen by 5.4% since the end of Q4 2019. Meanwhile, the unemployment rate printed at 6.4% in October for a sixth successive month, just a touch above the all-time low of 6.2% recorded last winter. Despite tight conditions though, wage growth has cooled somewhat. Wages in the Eurozone rose by 3.0% y/y in Q3, down from 3.8% y/y in Q2, and from 4.5% y/y a year earlier. Furthermore, the Indeed wage tracker - a more frequent measure of wage pressures - indicates that wages rose by just 2.6% y/y on average in the three months to November, down from 3.5% y/y during the same period in 2024.

On the inflation front, a gradual downtrend emerged in the first half of this year. The headline rate stood at 2.5% in January, but it declined in the opening months of the year, falling to a low of 1.9% in May before edging higher to 2.0% between June and August. More recently, it rose to 2.2% in September, before printing at 2.1% in October and November. The month-on-month change in prices has remained low, between –0.3% to +0.2% per month since February. Meantime, underlying inflation, which had been quite sticky, stuck between 2.6-2.9% since April '24, has printed at either 2.3% or 2.4% between May-November. Looking ahead, the ECB expects inflation to average 2.1% this year, 1.9% in 2026, and 1.8% in 2027. Core inflation is forecast to be 2.4% this year, 2.2% in 2026, before falling to 1.9% in 27.



In summary, the Eurozone economy registered an uptick in growth at the start of 2025, albeit growth has since moderated. Meanwhile, significant downside risks, such as the political turmoil in France and the changing tariff regime with the US appear, to have subsided for now at least. At the same time, the labour market remains in good shape. Meanwhile, disinflation and rate cuts in the first half of the year should support real incomes and consumer spending in the coming quarters. Higher fiscal spending in Germany, as well as higher defence spending at the EU level could also boost growth, starting in 2026. For now though, moderate rates of growth are expected to remain the norm in the Eurozone. The ECB sees GDP expanding by 1.4% this year and by 1.2% next year, before accelerating again to 1.4% in 2027 and 2028.

AIB, 10 Molesworth Street, Dublin 2 Tel: 353-1-6600311 https://aib.ie/investorrelations/economic-research-unit