Macro Note

Eurozone: ECB cuts rates by 25 bps again; tariffs to impact region's growth and prices

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- The European Central Bank (ECB), on Thu (17 Apr), lowered interest rates for the seventh time since Jun 2024. At 25 bps lower, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be at 2.25%, 2.40% and 2.65% respectively.
- Tariff developments in recent weeks have been the focus. It was thus not surprising that the ECB flagged "exceptional uncertainty" amid the current political backdrop. The hit for the European economy will depend on the actual tariff rate the US settles on and the EU's response.
- Assuming impact on economic growth coming from weaker US demand for European exports, we now forecast Eurozone GDP growth of 0.5% in 2025 and 1.0% in 2026, down from 0.9% and 1.2%, respectively. Our inflation forecasts now stand at 2.0% in 2025 and 1.7% in 2026, down from 2.2% and 1.9%, respectively. We now expect three more 25 bps interest rate reductions by the ECB this year, taking the deposit rate to 1.50%.

The European Central Bank (ECB) cut interest rates by 25 bps at its 17 Apr meeting. This is the seventh time since Jun 2025 that the central bank has lowered rates. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be reduced to 2.25%, 2.40% and 2.65% respectively, with effect from 23 Apr.

Of significance was a key sentence in the accompanying press release. The ECB said that "especially in current conditions of exceptional uncertainty, it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance". This comes as little surprise on the back of political uncertainty and escalating trade tensions.

During the press conference, ECB President Christine Lagarde said that the Governing Council had discussed the option of a 50 bps cut, but that the decision to cut by 25 bps was unanimously taken. In addition, Lagarde said that assessing the current level of monetary policy restrictiveness is "meaningless", after the ECB Governing Council removed a line characterizing the level of restrictiveness of monetary policy from its statement.

Trump's tariffs on the European Union (EU) – a timeline

Tariff developments in recent weeks have been the focus. Even though many of the initial duties imposed by the US, as well as retaliation measures, have been put on hold or eased, fears about how they could affect economic growth have been rife.

- **2 Feb** – US President Donald Trump told reporters he planned to impose tariffs on the EU "pretty soon".

- **4 Feb** – EU trade ministers met in Warsaw to discuss Trump's threats.

- **7 Feb** – The EU proposed lowering tariffs on car imports from 10% to closer to the US' 2.5% rate and to increase purchases of American liquefied natural gas and military equipment.

- **10 Feb** – The US announced that it would impose 25% tariffs on imports of steel and aluminium and derivative products. Please refer to: Statement by President von der Leyen on announced US tariffs.

- **25 Feb** – French President Emmanuel Macron met with Trump and encouraged him to concentrate on China instead of initiating a trade war with the EU.

- **12 Mar** – After Trump's global steel and aluminum tariffs took effect 12 Mar, the EU announced a two-phase retaliatory plan targeting EUR26bn in US imports, set to begin 1 Apr.

    - Phase one reinstated tariffs on iconic American products, such as bourbon whiskey, originally imposed during Trump's first term tariffs and suspended in 2023 after negotiations with President Joe Biden. Please refer to: Commission responds to unjustified US steel and aluminium tariffs with countermeasures*.
    - Phase two would impose tariffs on an additional EUR18bn in US industrial and agricultural goods. Trump condemned the EU's planned 50% whiskey tariff and threatened 200% tariffs on EU alcohol in response. The EU postponed retaliation to mid-Apr, and ultimately dropped all alcohol tariffs after lobbying from Ireland, Italy, and France, major exporters of wine and spirits. Please refer to: EU countermeasures on US steel and aluminium tariffs explained.

- **27 Mar** – The US had imposed a 25% tariff on all car imports, significantly affecting Germany, the world's largest automobile exporter. Refer to: Statement by President von der Leyen on the US announcement of car import tariffs.

- **2 Apr (Liberation Day)** – US President Donald Trump announced a 20% tariff on all EU imports, effective 9 Apr, as part of his "reciprocal tariff" policy. Refer to: Statement by President von der Leyen on the announcement of universal tariffs by the US.

- **7 Apr** – The EU proposed a "zero-for-zero" tariff agreement to the Trump administration in response to Washington's imposition of 20% import duties. Recall that a similar deal had nearly been reached during negotiations over the proposed Transatlantic Trade and Investment Partnership, which Trump halted during his first term. At that time, the EU's average tariff on non-agricultural goods stood at 1.6%.

- **9 Apr** – EU Member States have voted in favour of the European Commission's proposal to introduce trade countermeasures against the United States. Refer to: Commission proposal to impose trade countermeasures against US obtains necessary support from EU Member States

- **10 Apr** – Trump's announcement of a 90-day pause on full implementation of some of these tariffs has reduced the rate on most products from the EU to around 10%. Tariffs on steel, aluminium and vehicles remain in place. Please refer to: Statement by President von der Leyen on US tariffs.

- **14 Apr** – The EU adopted two implementing acts: one that adopts the EU countermeasures, and another act that immediately suspends them. Please refer to: EU pauses countermeasures against US tariffs to allow space for negotiations.

- **17 Apr** – Trump and Italian Prime Minister Giorgia Meloni have expressed optimism about a possible US-EU tariffs deal as the two leaders met at the White House. Meloni has cast herself as the only European who can de-escalate Trump's trade war, and she has highlighted their conservative common ground, declaring that she wants to "make the West great again".

Eurozone economy faces headwinds

The economic impact on the EU is still not clear. Before the recent trade tensions, the average US tariff rate on imports from the EU was about 1.47%, while on EU imports from the US, it stood around 1.35%. Based on 2023 trade volumes, full implementation of Trump's tariffs could potentially raise the average tariff rate on imports from the EU to 15.2%. Most of this comes from the 20% "reciprocal tariff" on most products (9.7ppts of an increase of 13.7ppts), while tariffs on steel and aluminium (1.4ppts) and vehicles (2.6ppts) contribute relatively little.

The hit for the European economy will depend on the actual tariff rate the US settles on and the EU's response. We estimate that the effective tariff rate increase on US imports from the EU is around 9ppts, now that Trump has paused the higher-rate reciprocal tariffs on the EU. This number could rise if pharmaceuticals and chemicals are hit.

Nonetheless, we have revised lower our GDP forecasts for the Eurozone, assuming impact on economic growth coming from weaker US demand for European exports. We now forecast Eurozone GDP growth of 0.5% in 2025 and 1.0% in 2026, down from 0.9% and 1.2%, respectively. The prior baseline had taken into account the effects of a fiscal policy-induced boost to German growth and a modest drag from trade policy uncertainty.

ECB embraces for more rate cuts

The disinflationary consequences of weaker demand and cheaper imports looking for new destinations will strengthen the case for further monetary easing by the ECB. Our inflation forecasts for the Eurozone now stand at 2.0% in 2025 and 1.7% in 2026, down from 2.2% and 1.9%, respectively.

The ECB now appears open to further interest rate cuts ahead. We think it could move rates back below neutral. Hence, following the latest 25 bps rate cut last week (17 Apr), we now expect three more reductions of the same size this year, taking the deposit rate to 1.50%. We previously expected it to settle at 2.00%. In light of current conditions of rising uncertainty globally and domestically, we will update accordingly as we stick to a data-dependent and meeting-by-meeting approach.

Our Forecast

%	As of 21 Apr	2Q25	3Q25	4Q25	1Q26
EUR Main Refinancing Rate	2.40	2.15	1.90	1.65	1.65
EUR Marginal Lending Facility Rate	2.60	2.40	2.15	1.90	1.90
EUR Deposit Facility Rate	2.25	2.00	1.75	1.50	1.50

Source: Global Economics & Markets Research

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