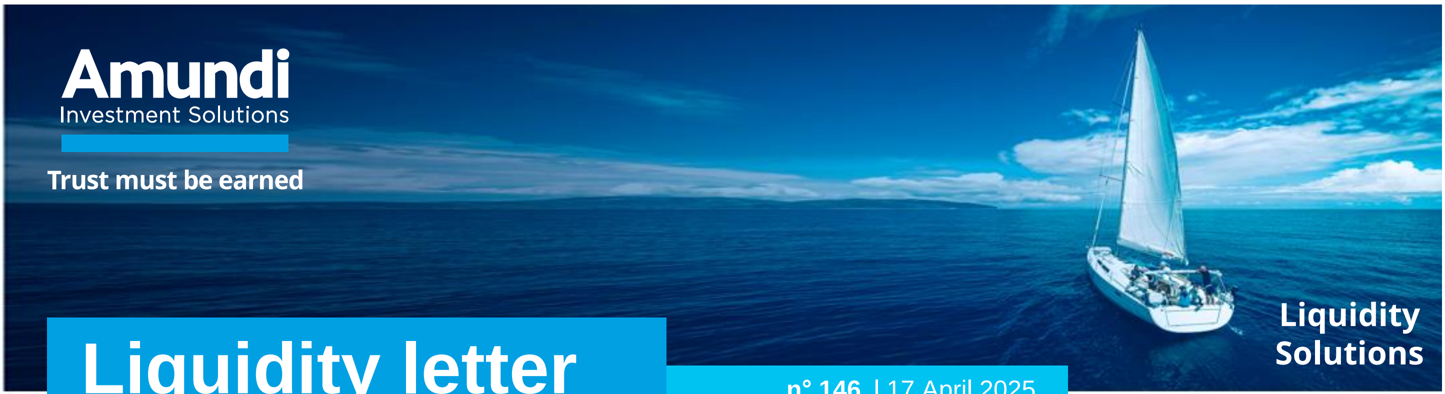



# Liquidity letter

**n° 146** I 17 April 2025

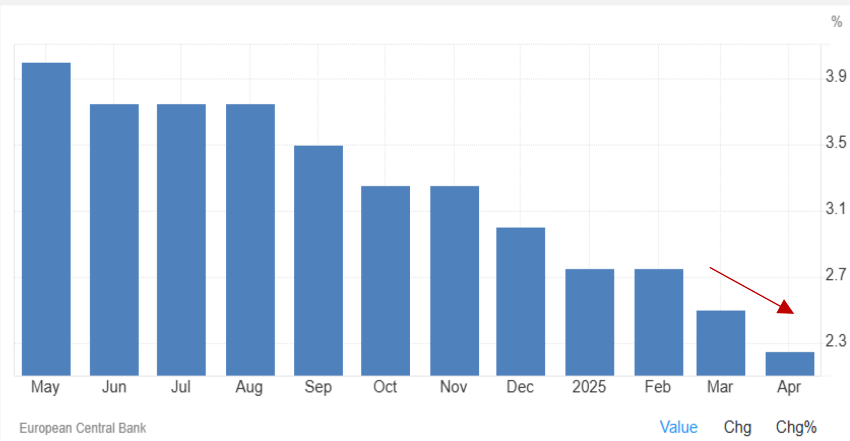
# The seventh in a row

## 25 bp less for the ECB against the risk of recession

### Central bank concerned about US tariffs

- **ECB** cut its key interest rate, the deposit facility, by 25 basis points to 2.25%. This is the seventh cut since June 2024, aimed at supporting the economy in the face of intensifying global trade tensions, particularly those initiated by the Trump administration's tariff policies.
- **Unanimity** The rate cut was unanimously approved by the members of the Governing Council, including those who are traditionally more cautious about monetary policy.
- **Growth** The economic outlook for the euro area has been revised downwards, with growth expected to be 0.9% for 2025, compared to 1.2% previously. This revision reflects the negative effects of trade tensions on exports and investment.
- **Inflation** Headline inflation is projected at 2.3% in 2025, due in particular to higher energy prices. Core inflation, which excludes volatile sectors such as energy and food, is estimated at 2.2%, indicating a stabilisation around the 2% target over the medium term**.**

### Euro Zone Deposit Facility Rates




Source: ECB 17/04/25

The ECB lowered its benchmark deposit facility rate by 25 basis points to 2.25% on 17 April 2025, in line with expectations, pushing it to its lowest level since the beginning of 2023. The interest rate on deposits in the euro area averaged 1.27% between 1999 and 2025, reaching a record high of 4% in September 2023 and a low of -0.50% in September 2019.

## Figure of the week

# 25

This is the rate cut in bps, the seventh in a row, decided by the ECB on Thursday.

## Christine Lagarde

At her press conference on 17 April, **Christine Lagarde** announced a reduction in the ECB's key rate to 2.25%, explaining that "this decision, taken unanimously, aims to support growth in a context of increased trade tensions".
She described the US tariff hikes as a "negative shock to demand", stressing that they are weighing on investment and consumption in the euro zone.

Lagarde warned of "exceptional economic uncertainty" and called for a collective response: "It is essential that Europeans act together to strengthen our economic resilience."
Regarding inflation, she said that it "should stabilise at around 2.3% this year, in line with our objective".

Finally, the ECB President spoke of the need for ambitious structural reforms: "We need targeted investment, innovation and reforms to support productivity and ensure the competitiveness of the euro area."

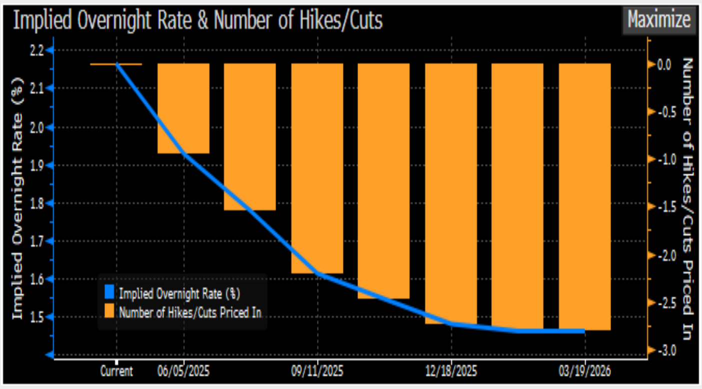
## Trump: Powell's firing can't happen fast enough

President **Trump** said that the firing of Fed Chairman **Jerome Powell** could not happen fast enough, arguing that the US central bank should have already cut interest rates this year, and that it should in any case do so now.
Trump, derisively dubbed the Fed chair he appointed in his first term "Too late," wrote in a post on the Truth Social platform that "Powell's firing can't happen fast enough!"
The White House did not immediately respond to a request for comment.
A Fed spokesman declined to comment.
Powell's term as chair runs until May 2026, while his term as governor runs until February 2028.
Trump's comments come a day after Powell, speaking in Chicago, reiterated that the Fed was in no rush to cut rates and instead expected greater clarity on the economy.

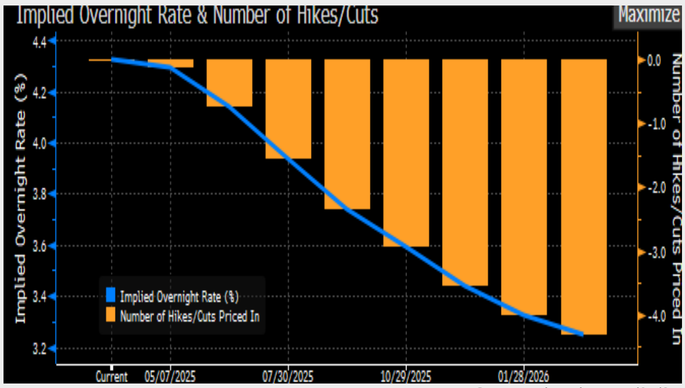
The president's ability to remove senior officials from agencies long considered independent of the White House has been on the rise in recent months, after the administration removed senior officials from the Federal Trade Commission, the National Labor Relations Board and the Merit Systems Protection Board.

> *I can confirm that the decision to lower the rates by 25 bp was taken unanimously*
>
> *Christine Lagarde, President of the ECB*

**ECB**




**FED**




Source: Bloomberg 17/04/25

Following the **ECB**'s decision, expected by experts, to cut rates by 25 bps, bringing the deposit facility rate to 2.25%, market expectations are still for at least two cuts by the end of 2025.

The probability of a third cut is estimated at 68% in the first quarter of 2026.Although Christine Lagarde, President of the ECB, did not wish to give more indications on the central bank's target terminal rate, markets believe that it should be around 1.50%.

On the Federal **Reserve** side, with the next monetary policy meeting taking place on May 7, markets expect at least four rate cuts by March 2026. However, the first rate cut is not expected to take place at the next meeting but rather at the one on June 18.

These new rate cuts would follow a period of several months of pause, justified by the persistence of inflation first and then by the decisions on tariffs, which led to a very cautious approach by the members of the US central bank.


Jerome Powell, Chariman Federal Reserve

### FED'S OBJECTIVES ON EMPLOYMENT AND INFLATION ARE UNDER THREAT

Trump's tariffs are likely to jeopardize the Fed's goals of controlling prices and unemployment, Chairman Powell has warned.
"The Trump administration is implementing significant policy changes and trade in particular is now the focus.
The effects of these changes are likely to take us further away from our goals."
While Fed members would seek to balance their goals of keeping inflation close to 2% and maximizing employment, they should remember that "without price stability, we cannot get long periods of strong labor market conditions." adding that the same will likely be true for economic effects, which will include higher inflation and slower growth.

## The Bank of Canada is not moving its rates

On Wednesday, the Bank of Canada (BoC) announced its decision to keep the key interest rate at 2.75%, in line with consensus expectations.

The move comes after a series of seven consecutive rate cuts, the most recent of which was a 25bp cut in March, from 3.00% at the current rate.
Bank of Canada Governor **Tiff Macklem** said the Canadian economy is ending 2024 on a strong footing, with inflation close to the 2% target since last summer. Aggressive rate cuts since the spring have boosted household spending and economic growth, giving the economy renewed strength.
However, the recent protectionist shift in U.S. trade policy and its erratic implementation have increased uncertainty, disrupted financial markets, and dampened global growth expectations, leading to higher inflation expectations.
The unpredictable trajectory of U.S. trade policy and the potential impact of a trade war on Canada are considerable concerns.

Tiff Macklem, Governor Bank of Canada

***According to Governor Macklem, monetary policy cannot eliminate trade uncertainties or counteract the effects of a trade war. The role of the central bank is to promote Canadians' confidence in price stability.***

### Topicality

NEWS

- **United Kingdom** | Inflation falls at the end of March to 2.6% (it was expected to be 2.7%)
- **China** | Inflation remains stable at the end of the year. March, compared to the previous month (5.4%)

### Agenda

- **23 April** I Publication of the manufacturing and services PMIs for France
- **23 March** I Publication of PMIs Manufacturer and services for Germany



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