

Economics | Central Banks

Scicluna Says ECB Can Cope With Downside Risks and Rate on Hold



Edward Scicluna *Photographer: Anindito Mukherjee/Bloomberg*

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September 20, 2025 at 2:09 PM GMT+2

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The European Central Bank’s interest rates are “fine where they are,” even when considering downside risks to the economy and an inflation forecast slightly below the 2% target in 2027, Governing Council member Edward Scicluna said.

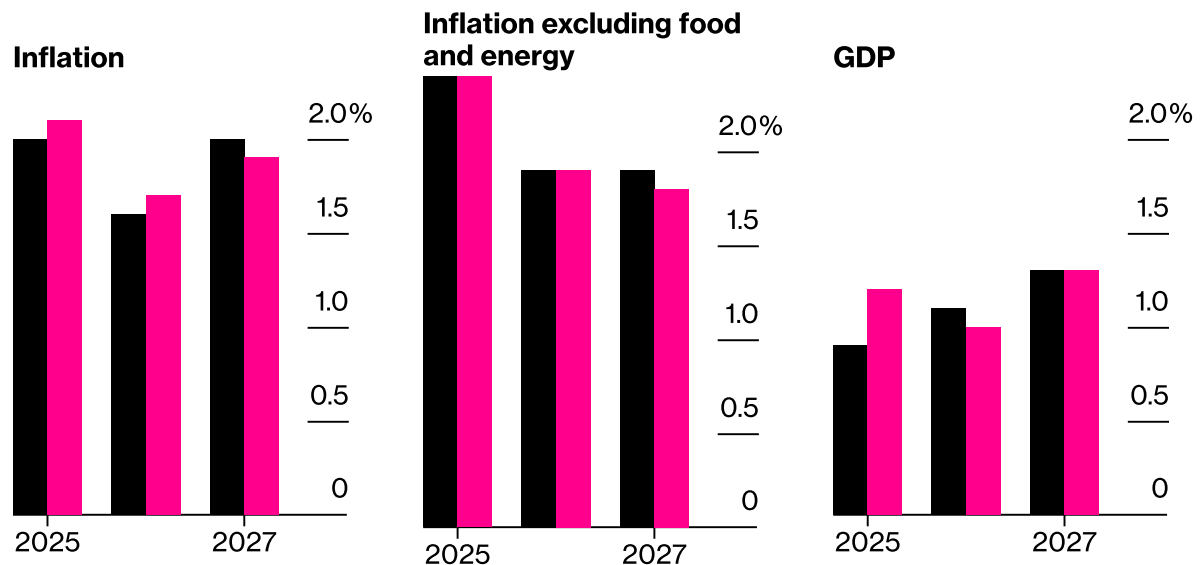
Policymakers will keep a careful eye on trade tensions and the euro exchange rate, but will also take into account the region’s resilience so far

and an increase in fiscal spending to come, Scicluna said in an interview in Copenhagen, where he attended a meeting of European finance chiefs.

“If things were to stay the way they are right now, you could say that rates are fine where they are,” said Scicluna, who recently resumed his duties as Maltese central-bank chief. “Rates are neutral from what we can see.”

ECB's New Inflation and Growth Forecasts

■ June forecast ■ September forecast



Source: ECB

Note: 2027 forecasts are first predictions from ECB

The ECB kept its deposit rate at 2% this month, opting against extending an easing cycle that’s already included eight cuts. Neither economists nor traders anticipate another move, though some of Scicluna’s colleagues are signaling that they haven’t fully given up on the idea.

Lithuania’s Gediminas Simkus said in a separate interview that the ECB should ensure inflation and economic growth don’t disappoint by lowering rates again in December, in what he described as a “risk-management” approach. It’s hard to conceive a scenario in which price pressures won’t undershoot the 2% target in the medium term, he said.

The ECB’s latest projections show consumer prices rising 1.9% in 2027, the latest year for which forecasts are available. Scicluna dismissed concerns that inflation was on a more serious downward trend.

“It’s impossible to be precisely at 2% all the time, so a projection for 1.9% inflation in 2027 isn’t a reason for concern,” he said. “We currently don’t see inflation trending down from there. It may be one of the risks, but we’ll have to wait and see.”

The Maltese also signaled that he wasn’t particularly concerned about softer economic growth.

“A lot of my colleagues talked about downside risks at the last meeting,” he said. “They exist but they’re not appearing strong enough to take the economy down.”

He cited trade and the euro exchange rate as concerns but also highlighted upside risks.

“We have a resilient economy, which has coped rather well with all the turbulence we’ve experienced,” he said. “Wages are rising – but not as much to be of concern – and fiscal expenditure will be huge. So I would argue risks are balanced.”

That means policymakers will “continue monitoring and watching closely” all economic developments, Scicluna said. “Whether there’ll be another cut in October or December, or not at all, we didn’t talk about that.”
