



Central bank depository.

Policymakers riff on tariffs.

SEI's View

Monetary policy divergence continued in February, but there are “straws in the wind” suggesting that this theme will end later this year or in 2026. As expected, both the European Central Bank and the Bank of Canada cut their policy rates at their latest meeting while the U.S. Federal Reserve, the Bank of England, and the Bank of Japan kept their benchmark rates steady. The threat of tariffs from the administration of U.S. President Donald Trump (already imposed on countries that export aluminum and steel and on products imported from China) will complicate the conduct of central-bank policy globally. The Trump administration’s perceived pivot away from a full-throated backing of the North Atlantic Treaty Organization (NATO) alliance, however, may be even more consequential in the longer run. It has galvanized Germany to modify its “debt brake,” allowing it to ramp up military spending and address the deterioration in its domestic infrastructure.

U.S. Federal Reserve (Fed)



- As widely anticipated, the Federal Open Market Committee (FOMC) left the federal-funds rate unchanged in a range of 4.25% to 4.50% following its meeting on March 18-19. In an apparent reference to the changes in U.S. trade policy, the FOMC noted in its statement announcing the rate decision that it will “adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals.”
- The Fed’s so-called dot plot of economic projections indicated a median federal-funds rate of 3.9% at the end of 2025, unchanged from its previous estimate issued in December, signaling that the central bank anticipates two federal-funds rate cuts by the end of this year. The Fed estimated that U.S. gross domestic product (GDP) will increase 1.7% in 2025—down from the projected 2.1% annual growth rate in its previous dot plot.
- At a news conference following the Committee meeting on March 19, Fed Chair Jerome Powell acknowledged the uncertainty that the tariffs have created but stated that the central bank is waiting to gauge the impact that the trade policies will have on the economy going forward. He said, “Inflation has started to move up, we think partly in response to tariffs. And there may be a delay in further progress over the course of this year.” Powell also commented that inflation stemming from tariffs likely will be “transitory,” but it may be difficult to determine the level of inflation that is attributable to the tariffs.

European Central Bank (ECB)



- The ECB reduced its benchmark interest rate by 0.25% to 2.75% on March 6—its sixth rate cut over its past seven meetings. The ECB previously implemented rate cuts of 0.25% in June, September, October, and December 2024, and January of this year—the first reductions since September 2019.
- In a news release announcing the rate decision this month, the ECB’s Governing Council commented, “Monetary policy is becoming meaningfully less restrictive,” indicating that the central bank may pause its rate-cutting cycle in the near future. Several European countries have proposed significant increases in defense spending amid uncertainty regarding their alliance with the U.S. due to the Trump administration’s waning support of Ukraine in its conflict with Russia.
- The ECB also reiterated that its monetary policy decisions going forward “will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.”

Bank of England (BOE)



- In an 8-1 vote at its meeting on March 20, the BOE maintained the Bank Rate at 4.50%. One BOE Monetary Policy Committee (MPC) member voted for a 0.25% rate cut.
- In its announcement of the rate decision, the MPC cited its concerns regarding the U.S. tariffs and ongoing military conflicts in Eastern Europe and the Middle East. The central bank noted that “global trade policy uncertainty has intensified, and the United States has made a range of tariff announcements, to which some governments have responded. Other geopolitical uncertainties have also increased and indicators of financial market volatility have risen globally.”
- The MPC also acknowledged that inflation remains sticky despite moderating price and wage pressures, commenting, “Although global energy prices have fallen back recently, they remain higher than last year and [consumer-price index] inflation is still projected to rise to around 3¾% in 2025 Q3. While inflation is expected to fall back thereafter, the Committee will pay close attention to any consequent signs of more lasting inflationary pressures.”

Bank of Japan (BOJ)



- The BOJ maintained its benchmark interest rate at 0.50% at its meeting on March 17-18. The central bank had raised the rate by 0.25% in late January.
- In a statement announcing the rate decision, the BOJ cited the possible economic impact of the Trump administration’s tariffs, commenting that “there remain high uncertainties surrounding Japan’s economic activity and prices, including the evolving situation regarding trade and other policies in each jurisdiction and developments in overseas economic activity and prices under such situation...Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan’s economic activity and prices.”
- During a news conference following the announcement of the rate decision, BOJ Governor Kazuo Ueda also acknowledged the elevated risks of U.S. trade policy. “Over the past month or so, there have been rapid changes in the extent and the speed of U.S. tariffs,” he said. “However, there are elements that we may not know until April, so the level of uncertainty will remain high.”

Bank of Canada (BOC)



- The uncertainty surrounding the Trump administration’s on-again, off-again tariffs on imported goods from Canada led the BOC to cut its policy rate by 0.25% to 2.75% following its March 12 meeting. In total, the central bank has reduced the rate by 2.25 percentage points at its last six meetings.
- In its news release, the BOC commented that “heightened trade tensions and tariffs imposed by the United States will likely slow the pace of economic activity and increase inflationary pressures in Canada. The economic outlook continues to be subject to more-than-usual uncertainty because of the rapidly evolving policy landscape.”
- The central bank also noted that “the pervasive uncertainty created by continuously changing U.S. tariff threats is restraining consumers’ spending intentions and businesses’ plans to hire and invest. Monetary policy cannot offset the impacts of a trade war. What it can and must do is ensure that higher prices do not lead to ongoing inflation.”

Summary Table

Central Bank	Current Rate	Prior Rate	Change	Next Meeting
Fed	4.25%-4.50%	4.25%-4.50%	Unchanged	May 6-7, 2025
ECB	2.50%	2.75%	-0.25%	April 16-17, 2025
BOE	4.50%	4.50%	Unchanged	May 8, 2025
BOJ	0.50%	0.50%	Unchanged	April 30-May 1, 2025
BOC	2.75%	3.00%	-0.25%	April 16, 2025

Sources: Fed, ECB, BOE, BOJ, BOC. As of March 20, 2025.

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