

## ECB keeps rates and communication unchanged, discussion of rate cuts premature

European Central Bank President Christine Lagarde stressed during the press conference that any discussion on rate cuts was still premature



ECB President Christine Lagarde

At today's meeting, the European Central Bank kept everything unchanged: both policy rates and communication. The press release with the policy announcements is almost a verbatim copy of the December statement. The ECB only dropped two phrases that could be interpreted as opening the door to rate cuts very softly: the December comments on domestic price pressure being elevated, and the temporary pick-up in inflation. The fact that these two phrases were dropped, however, could also simply be linked to the fact that there are no new forecasts. And during the press conference, ECB President Lagarde mentioned that observers shouldn't pay too much attention to subtle changes in the text. Admittedly, we don't know what to do with this comment, bearing in mind that central bankers are normally known for weighing every single word and comma in their communication.

Also during the press conference, Lagarde stressed that the Governing Council had concluded that

any discussion on rate cuts was currently premature. She repeated the importance of wage developments in the coming months for the next ECB steps, pointing to some indicators that already show some slowing in wage growth. While this could be seen as a very tentative shift towards more dovishness, Lagarde also emphasised the need for inflation to be on a sustainable downward trend.

Asked whether she would repeat her statement from last week in Davos that rate cuts by the summer were likely, Lagarde replied that she always stood by what she had said. Even though we today learned that we shouldn't pay too much attention to every single word, we do remember that Lagarde said in November last year that the ECB wouldn't cut rates in the next couple of quarters. Combining these two comments would imply that a first rate cut could not come in June but only in July at the earliest. However, past experience has shown that the ECB president is not necessarily the best ECB forecaster.

## We stick to our call of a June cut

Looking ahead, today's meeting once again stressed that the ECB is in no position to start cutting rates soon. In any case, even if actual growth continues to turn out weaker than the ECB had expected every single quarter, as long as the eurozone remains in de facto stagnation mode and doesn't slide into a more severe recession, and as long as the ECB continues to predict a return to potential growth rates one or two quarters later, there is no reason for the ECB to react to more sluggish growth with imminent rate cuts. Also, the job of bringing inflation back to target is not done yet. In the coming months, inflation developments will be determined by two opposing trends: more disinflation and potentially even deflation as a result of weaker demand, but also new inflationary pressures due to less favourable base effects, new inflationary pressure as a result of the tensions in the Suez Canal as well as government interventions in some countries, above all Germany. As long as actual inflation remains closer to 3% than 2%, the ECB will not look into possible rate cuts. It would require a severe recession or a sharp drop in longer-term inflation forecasts to clearly below 2% to see a rate cut in the coming months. We continue to believe that a first rate cut will not come before June.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).