

## ECB moves closer to June hike

While the European Central Bank kept interest rates on hold at today's meeting, ECB president Christine Lagarde's comments at the press conference suggest that a June hike has come closer



At today's press conference, ECB president Lagarde made a hawkish shift with a rate-hike bias

As stagflationary pressures in the eurozone increase, the ECB has decided to keep interest rates on hold. In its policy statement, the ECB acknowledged rising inflationary pressures but also more downward risks to growth. ECB president Christine Lagarde's comments during the press conference stressed the intensified risks for both growth and inflation. Lagarde stressed that the current state of the eurozone economy had moved away from the March base case scenario, but she refused to indicate where the ECB saw the eurozone economy compared with the alternative scenarios from March.

The most remarkable comments during the press conference were the mentioning of a debate on a rate hike at today's meeting. While Lagarde stressed that the decision to keep rates on hold today had been taken unanimously, the mention of a rate hike debate clearly suggests that the ECB has moved closer to a rate hike at the June meeting.

All of this means that unless there is a quick end to the war in the Middle East, headline inflation continues to increase and knock-on effects on transportation, food prices and other parts of the supply chain continue, the ECB is clearly moving towards a rate hike in June.

## Moving closer to June hike

The motivation or justification for such a rate hike was not entirely clear today. Unfortunately, no journalist actually asked why the ECB, or at least some ECB members, actually saw the need for a rate hike. In fact, while there have been many references to 2022 when assessing next steps for the ECB, the experience of 2011 might be a better starting point. Back in 2011, the ECB hiked interest rates – admittedly from slightly lower levels than currently – to tackle rising inflationary pressures. Only to find out that these rate hikes pushed the eurozone economy further into stagnation. As the ECB had underestimated the adverse effects of the sovereign debt crisis, the 2011 rate hikes were reversed quickly. Underestimating the adverse impact of a shock and focusing too much on rising inflation as a result of higher energy prices? The ECB has been there.

All in all, the main take-away from today's ECB meeting can probably be described as another hawkish shift, introducing a clear hiking bias to its wait-and-see stance. It's still hard to see that the ECB would really want to fight an exogenous supply shock at the cost of worsening an economic downturn. However, a rate hike, be it symbolic or even a policy mistake, at the June meeting has clearly become more likely today.

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