

## ECB keeps rates and communication unchanged

The European Central Bank keeps its policy rates on hold and doesn't blink on possible upcoming rate cuts



ECB President, Christine Lagarde at a G20 meeting in Brazil last month

No policy action and all focus on communication. This had been the focus of today's ECB meeting already for a while. The just-published policy announcement shows that now is not the time for rate cuts and that at least in its official communication, the ECB resists the temptation to send any new signals regarding upcoming rate reductions.

All policy rates were kept unchanged and the overall tone of the policy statement didn't shift towards more dovishness. In fact, the ECB maintained the stance that rates at current levels "maintained for a sufficiently long duration will make a substantial contribution to this [bringing inflation back to 2%] goal". The ECB's general economic assessment has not changed, but the latest round of staff projections brought the expected downward revision to growth and inflation forecasts.

For this year, ECB staff now expect inflation to come in at 2.3% in 2024, 2.0% in 2025 and 1.9% in 2026, with underlying inflation at 2.1% in 2025 and 2.0% in 2026. As regards growth, ECB staff expects eurozone GDP growth to come in at 0.6% in 2024, 1.5% in 2025 and 1.6% in 2026; still being more optimistic than we are.

While the worsening of the eurozone's economic outlook and further fading away of (headline) inflationary pressures would argue for rather imminent smaller rate cuts to bring some relief, stubborn underlying inflation, particularly services inflation, uncertainty regarding wage developments and the never-ending confidence in an economic rebound in the eurozone still prevent the ECB from cutting rates – at least for now. As long as the ECB is not willing to accept that inflation is only roughly returning to target but instead pushing for an exact landing point of 2%, rate cuts should be on the agenda only at the June meeting. This is when enough data points will be available, either confirming that the inflation beast has really been tamed or pointing to renewed upward pressure on prices.

Only a much more alarmed ECB on the growth outlook could trigger a rate cut already in late April. We will know more about the ECB's future course at the press conference starting at 2.45pm CET.

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