

Snap | 25 January 2024

## No hints on future direction as ECB keeps everything on hold

No changes from the European Central Bank. And the policy statement gives no hints of possible next steps



Keeping tight-lipped about future direction, the ECB's Christine Lagarde.

The European Central Bank just announced its rate decisions and surprise, surprise, all policy interest rates remain on hold. In the press release, the ECB didn't give away any new hints on future policy shifts; it's almost a verbatim copy of the December statement.

Today's meeting is mainly an intermediate one, waiting for the bank's next round of economic forecasts in March. If anything, it could give somewhat more guidance about potential next steps. Financial markets have been pricing in the first rate cuts for April. In the inner logic of the ECB's macro models, these market prices make the need for actual policy rate cuts less urgent. Financing conditions have eased since early December, doing the work actual rate cuts should do: supporting growth but also pushing up inflation risks. Consequently, the more aggressive the market prices future rate cuts, the less needed and likely those cuts will be.

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 seeing a first rate cut not before the summer.

Let's see whether ECB president Christine Lagarde will add even more flavour to the ECB's current inflation assessment and discussions about next steps. Don't forget that at the last meeting in December, the ECB didn't even discuss rate cuts. The press conference will start at 2.45pm CET.

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