

Snap | 4 May 2023

ECB enters final stage of tightening cycle

The European Central Bank has hiked its policy interest rate by 25bp and seems to have entered the final stage of its current tightening cycle



ECB President Christine Lagarde

The ECB has entered the final stage of its rate hike cycle. As expected, the central bank increased its main policy interest rates by 25bp, bringing the deposit rate to 3.25%. Since July last year, the ECB has hiked interest rates at every single policy meeting, by a total of 375bp. This is by far, the most aggressive monetary policy tightening cycle since the start of the monetary union.

While today's hike is the seventh increase in a row, it is the smallest in the current cycle, suggesting that the ECB has entered the final stage of this tightening cycle. Although recent data has confirmed that underlying inflationary pressure is stickier than expected, weak credit growth and the latest results of the Bank Lending Survey have indicated that the rate hikes so far are leaving clear marks on the economy. And these effects have been stronger and materialised faster than the ECB probably expected. In fact, at current levels and given the lagged impact of monetary policy tightening both in the eurozone and the US, the risk is high that every single additional rate hike from here could turn out to be a policy mistake further down the road.

Today's decision signals that the ECB has entered the final stage of its current tightening cycle. In the current, very complicated macro environment with the lagged impact from previous hikes,

banking turmoil, and subdued growth but still sticky inflation, the ECB will tread more carefully. How far the ECB is willing to go from here might become a bit clearer at the press conference, starting at 2.45pm CET.

Author

Carsten Brzeski

Global Head of Macro

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 <http://www.ing.com>.