

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

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