

## ECB keeps rates on hold amid rising stagflationary pressures

The ECB has kept interest rates on hold and stuck to a steady-hand approach, acknowledging increasing stagflationary pressures in the eurozone



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. The policy statement didn't give any hint at the next steps. It looks as if the ECB is in no rush to hike.

The latest data releases in the eurozone have clearly complicated the ECB's life. Slightly weaker-than-expected GDP growth in the first quarter, increasing headline inflation but dropping core inflation in Germany and a Bank Lending Survey pointing to tighter credit standards and weaker loan demand all suggest that stagflationary pressures are increasing.

While there have been many references to 2022 when assessing next steps for the ECB, the experiences 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.

Looking ahead, even though the ECB's primary policy goal is price stability, it's hard to see that it would really want to fight an exogenous supply shock at the cost of worsening an economic downturn. Let's see what ECB President Christine Lagarde has to say at the press conference, starting at 2.45pm CET.

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