

Snap | 8 September 2022

## The ECB confirms its hawkish stance; prepare for yet more rate hikes

The ECB President, Christine Lagarde has confirmed the Bank's hawkish stance and has prepared markets for more hikes to come. We still think the European Central Bank is too optimistic about growth but have changed our call; we now expect it to hike rates by another 75bp before the end of the year



ECB President, Christine Lagarde, at Thursday's news conference

The ECB news conference just confirmed the message that was already clear from the policy decisions: the European Central Bank is fully determined to hike interest rates aggressively. Earlier, [it announced](#) a 75 basis point rate rise, the largest hike since the start of monetary union. It's given up on inflation targeting and its main aim now seems to be restoring its inflation-fighting credibility. It is still hard to see how the ECB can bring down inflation that is mainly driven by supply side factors, other than 'hoping' for a recession that suppresses demand.

During the press conference, President Christine Lagarde said the ECB still intends to hike interest rates several times in the coming months but didn't say where it sees the level of the neutral interest rate.

## *We still think the ECB is too optimistic about the economic outlook*

---

We still think it's being too optimistic about the economic outlook. The ECB's baseline scenario is +0.9% GDP growth in 2023 which is much more optimistic than our own forecast. Only in its downside risk scenario do we see GDP growth coming in at -0.9% but this scenario assumes a full end to Russia's rationing of oil and gas in the eurozone. Interestingly, in its baseline scenario, the ECB expects inflation to still come down to 2.3% in 2024 and actually to reach 2.2% from the second quarter of 2024. Admittedly, there is currently very little belief among ECB members in the reliability of these long-term projections. However, the very hawkish tone today doesn't really match these inflation projections.

Taking today's decision and Lagarde's comments at the news conference at face value, we have to change our ECB call. For the time being, there are no more doves. The Bank is clearly determined to bring interest rates to their neutral level, and this level is clearly at the upper end of the common range of between 1% and 2%. If it were up to the hawks, they would probably like to hike by another 100bp before next spring. However, we think that at some point in the coming months, the ECB will have to acknowledge that its growth expectations are too positive. In our view, the ECB will only be able to hike rates by a total of 75bp by the end of the year. This could be another 75bp at the October meeting or 50bp in October and a last-minute 25bp hike at the December meeting.

For now, the doves have clearly left the ECB nest. However, we don't think that they have left that nest for good and they will be back, somewhat earlier than the migrating birds which return to Europe after the winter.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto: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 [www.ing.com](http://www.ing.com).