

ECB announces final rate hike

As they say, never put off till tomorrow what can be done today. And in that vein, the ECB just announced its tenth consecutive policy rate hike since July last year, hiking all interest rates by 25bp. Higher inflation and inflation forecasts look like the main drivers of the hike. The ECB's communication is clear: today was the last hike in the current cycle



The fear of not getting inflation fully under control and the risk of stopping too early must have been a larger concern than the rising recession risk in the eurozone, motivating the European Central Bank to hike interest rates for the tenth consecutive time since last July. After a total of 450bp rate hikes, the ECB's main policy rates are now at a record high.

We will hear more about the considerations and the discussion at the press conference, starting at 2.45pm CET. For now, it clearly looks as if the ECB remains highly concerned about inflation, not only actual inflation but also future inflation as, for example, the newest ECB staff projections show headline inflation coming in at 3.2% in 2024.

If you wonder why the ECB is not taking a step back and waiting until the full impact of the rate hikes so far has unfolded, the answer is very clear: it's all about credibility. The ECB only has one job and this job is to maintain price stability. The eurozone has not seen price stability in almost three years. And even if the inflation surge is mainly due to factors outside of the ECB's direct reach, the Bank simply has to show its determination to stamp it out. That this approach will

eventually push the eurozone economy into a more severe slowdown does not matter to the ECB, at least not for now.

Looking ahead, a further weakening of the economy and more traction in a disinflationary trend will make it very hard to find arguments for yet another rate hike before the end of the year. The remark in the official communication that “based on its current assessment, the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target” shows that today’s rate hike looks like the last.

Today’s hike isn’t only a credibility booster, it will also be the last in the current cycle.

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