

## ECB hikes rates by 50bp

The European Central Bank (ECB) continues to fight inflation and has announced a rate hike of 50bp. Price stability concerns clearly trump any financial stability worries – at least for the time being



European Central Bank President Christine Lagarde at today's press conference

With the latest financial market developments, there were doubts about whether the ECB would continue its hiking cycle today. But it has. With the latest inflation projections forecasting both core and headline inflation close to 2% in 2025, the ECB could easily present some dovishness during the Q&A session, hinting at a slowdown in the pace and size of further rate hikes.

Since the financial crisis in 2007 and 2008, financial markets have gotten used to the idea that central banks will always play the lender of last resort. In a European context, be it a financial crisis, a euro crisis or a pandemic, the ECB has always been there to help. "Whatever it takes", if needed. However, the big difference between the last 15 years and now is that there is a severe inflation problem. The ECB cannot simply return to its role of firefighter as it has to fight inflation. The fact that balancing between financial stability and price stability can be quite a conflict of interest for the ECB has already been clear since European bank supervision, in the wake of the euro crisis, was moved to the ECB.

What markets and central bankers are currently experiencing is actually what undergraduate students learn at college in their first year of studying economics: monetary policy has an impact on the economy. It shouldn't be a surprise to anyone that the most aggressive monetary policy tightening since the start of the eurozone in 1999 has and will have adverse effects. The last few

days have been a good reminder to the ECB that the next steps in fighting inflation will be much harder than the steps taken so far. The first phase of exiting the so-called unconventional measures (negative interest rates and bond purchases) went relatively smoothly, but now that interest rates are in restrictive territory, every additional rate hike increases the risk of breaking something. As a result, we expect the ECB to turn more dovish today and in the coming weeks, probably hinting at a slowdown in the pace and size of any further rate hikes.

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