

Snap | 27 July 2023

The ECB switches off autopilot

While the policy announcement earlier today left the door wide open for another rate hike in September, ECB President Christine Lagarde stressed during her press conference that anything was possible, including a pause



ECB President Christine Lagarde

The ECB has hiked its main [policy interest rate by 25bp](#). The deposit interest rate is now at 3.75%. What is more interesting, though, is that the accompanying policy statement kept the door for further rate hikes open and did not strike a more cautious tone.

The ECB also announced that the remuneration of minimum reserves will be reduced to zero.

During the subsequent press conference, however, ECB President Christine Lagarde was adamant not to pre-announce anything for September, leaving the door not only open for a rate hike but also for a pause.

Hike, pause or stop? It's all possible in September

After the June pre-announcement, it was hard for the ECB not to hike interest rates today. The central bank has been too explicit that the risk of stopping rate hikes prematurely is much higher than going too far. However, the recent batch of negative data from the eurozone, ie. weak PMIs and a weak Ifo index, another drop in demand for new bank loans, tighter lending standards and weak loan growth must have had a terrifying impact on sentiment in the EuroTower, even if this

was not reflected in the policy statement.

In fact, the ECB is again running the risk of being behind the curve. This time not by being too benign on inflation but rather by being too optimistic and too benign on the economic impact of its own policy measures.

During the press conference, Lagarde emphasised the weaker economic outlook for the eurozone economy in the near term but remained optimistic that growth would rebound in the medium term. Inflation, according to Lagarde, was set to come down further but would remain above target for an extended period of time. Whether it was this macro-economic assessment or something else remains unclear, but Lagarde stated over and over again that all options were on the table for September.

She refused to repeat previous terms like “more ground to cover” and “we are not done, yet”, and the statement heard in the lead-up to today’s meeting was that stopping rate hikes too early was riskier than hiking too far. Lagarde said, “The September meeting will be deliberately data-dependent”. A somehow unfortunate term. Every single central bank meeting of any central bank should always be data-dependent. Let’s hope the ECB will drop this description and instead say that “all options are on the table”, even if for the time being Lagarde has explicitly excluded a rate cut.

One more hike but not necessarily in September

It took Lagarde many words to put forward a simple message: the ECB has officially switched off the autopilot. Whether this means that rates will no longer be hiked is unclear. The mention of inflation coming down but staying above target “for an extended period” does not sound as if the ECB is yet willing to stop hiking rates. On the other hand, the worsening macro outlook seems to have scared off some ECB members, making a pause in September a possibility.

We think that the ECB is not yet done with hiking rates but a pause has become fashionable amongst central banks, which had been ahead of the ECB in their hiking cycles. In fact, the ECB’s own growth and inflation projection in September will have to see a significant downward revision in order to stop the central bank from hiking rates at least once more after today.

Author

Carsten Brzeski

Global Head of Macro

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>.