

ECB's estimates of neutral interest rates leave plenty of room for further rate cuts

The European Central Bank today released a new research piece on where the neutral interest rate in the eurozone could be. Whether or not the ECB uses this concept and the estimates, there is still plenty of room for further rate cuts



ECB President Christine Lagarde

It doesn't happen very often that market participants are impatiently awaiting the release of an ECB working paper. Today was one of those rare occasions as the ECB released new analysis on the neutral interest rate, which ECB President Christine Lagarde had preannounced at last week's press conference. As anticipated, the analysis did not meet high expectations

The concept of neutral interest rates and the ECB's latest research

The concept of the neutral interest rate uses the theoretical level of interest rates that neither stimulates nor restrains economic activity. It represents a balance between economic growth and inflation, ensuring the economy operates at full employment without overheating or contracting. In theory. The neutral rate is influenced by several factors, including productivity growth, demographic trends, and global savings and investment patterns.

For those hoping for real clarity about what's next for the ECB, the long-awaited working paper will have been a disappointment. In short, [the paper](#) concludes that the neutral interest rate ranges between 1.75% and 3% when using the most recent data between 1.75% and 2.25%.

ECB will continue cutting rates

Are we now any more knowledgeable about how far the ECB will cut interest rates? No. Despite Lagarde raising expectations, other ECB officials have dismissed the concept of neutral interest rates as a useful proxy for the central bank in recent days. Rightly so, as the problem with this concept is that it can change over time, over the cycle and over different economic models. Plus, as so often in economics, it is much easier to identify something ex-post than determine it ex-ante.

With or without today's latest estimates on where a purely theoretical and conceptual neutral interest rate for the eurozone might be, we continue to see the ECB cutting rates to at least 2% by the summer. Let's not forget that if growth continues to disappoint and inflation remains under control, the ECB's next major research focus will need to be on what an accommodative, rather than neutral, monetary policy stance would look like.

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 www.ing.com.