

# ESSENTIALS OF THE MONETARY POLICY

## European Central Bank (ECB)

### The ECB Schedules Liftoff for July

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#### ACCORDING TO THE ECB

- ▶ The asset purchase program (APP) will end on July 1.
- ▶ The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility remain unchanged at 0.00%, 0.25% and -0.50% respectively.
- ▶ The Governing Council intends to start raising interest rates in July with a 25 basis point hike. It expects to lift rates again in September, but the size of the increase will depend on the updated forecasts for inflation and economic growth.
- ▶ Beyond September, the Governing Council anticipates that it will have to continue raising key rates gradually.
- ▶ Inflation projections were revised upward. Inflation is expected to come in at 6.8% in 2022, 3.5% in 2023 and 2.1% in 2024. Excluding energy and food prices, inflation is expected to be 3.3% in 2022, 2.8% in 2023 and 2.4% in 2024.
- ▶ The economic growth forecasts were downgraded. Eurozone real GDP is expected to grow by 2.8% in 2022, then by 2.1% in both 2023 and 2024.

#### COMMENTS

As expected, soaring inflation in the eurozone has forced the ECB to change course. Inflation clocked in at 8.1% in May, significantly higher than it was a few months ago. The picture is less dire if you strip out food and energy, but prices are starting to rise across the economy.

The ECB's tone has shifted from dovish to more hawkish. Today the bank clearly stated its intention to raise interest rates several times by year's end. It's poised to lift rates by 25 basis points at its July meeting, but we could see a 50bp hike in September. The

size of the increase will depend on the ECB's updated inflation and growth forecasts.

During the press conference, ECB President Christine Lagarde was asked about the bank's estimate for the neutral interest rate. She said the Governing Council deliberately avoided discussing the neutral rate, deeming it too difficult to gauge at this point. We therefore don't know how high rates may go. But the neutral rate will likely be lower in the eurozone than in the United States and Canada. Weaker economic growth in the eurozone could also preclude overly aggressive monetary tightening by the ECB.

#### IMPLICATIONS

Before today's meeting, we were expecting three 25bp hikes in the eurozone this year. But with the ECB's decidedly more hawkish tone, a bit more tightening seems likely. Our call is now for four 25bp hikes in the refinancing rate in 2022. We think it will take a more persistent inflation outlook to see a 50-point increase in September. But the deposit rate could be dialed up an additional 25 points to close the gap with the refinancing rate and restore symmetry between the three rates.

# Schedule 2022 of Central Bank Meetings

Date	Central banks	Decision	Rate
<b>January</b>			
13	Bank of Korea	+25 b.p.	1.25
17	Bank of Japan	s.q.	-0.10
20	Bank of Norway	s.q.	0.50
26	Bank of Canada*	s.q.	0.25
26	Federal Reserve	s.q.	0.25
31	Reserve Bank of Australia	s.q.	0.10
<b>February</b>			
2	Bank of Brazil	+150 b.p.	10.75
3	European Central Bank	s.q.	0.00
3	Bank of England	+25 b.p.	0.50
10	Bank of Sweden	s.q.	0.00
10	Bank of Mexico	+50 b.p.	6.00
22	Reserve Bank of New Zealand	+25 b.p.	1.00
23	Bank of Korea	s.q.	1.25
28	Reserve Bank of Australia	s.q.	0.10
<b>March</b>			
2	Bank of Canada	+25 b.p.	0.50
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+100 b.p.	11.75
16	Federal Reserve	+25 b.p.	0.50
17	Bank of England	+25 b.p.	0.75
17	Bank of Japan	s.q.	-0.10
24	Bank of Norway	+25 b.p.	0.75
24	Bank of Mexico	+50 b.p.	6.50
24	Swiss National Bank	s.q.	-0.75
<b>April</b>			
5	Reserve Bank of Australia	s.q.	0.10
12	Reserve Bank of New Zealand	+50 b.p.	1.50
13	Bank of Korea	+25 b.p.	1.50
13	Bank of Canada*	+50 b.p.	1.00
14	European Central Bank	s.q.	0.00
27	Bank of Japan	s.q.	-0.10
28	Bank of Sweden	+25 b.p.	0.25
<b>May</b>			
3	Reserve Bank of Australia	+25 b.p.	0.35
4	Bank of Brazil	+100 b.p.	12.75
4	Federal Reserve	+50 b.p.	1.00
5	Bank of England	+25 b.p.	1.00
5	Bank of Norway	s.q.	0.75
12	Bank of Mexico	+50 b.p.	7.00
24	Reserve Bank of New Zealand	+50 b.p.	2.00
25	Bank of Korea	+25 b.p.	1.75
<b>June</b>			
1	Bank of Canada	+50 b.p.	1.50
7	Reserve Bank of Australia	+50 b.p.	0.85
9	European Central Bank	s.q.	0.00
15	Bank of Brazil		
15	Federal Reserve		
16	Bank of England		
16	Bank of Japan		
16	Swiss National Bank		
23	Bank of Norway		
23	Bank of Mexico		
30	Bank of Sweden		

Date	Central banks	Decision	Rate
<b>July</b>			
5	Reserve Bank of Australia		
12	Reserve Bank of New Zealand		
13	Bank of Korea		
13	Bank of Canada*		
20	Bank of Japan		
21	European Central Bank		
27	Federal Reserve		
<b>August</b>			
2	Reserve Bank of Australia		
3	Bank of Brazil		
4	Bank of England		
11	Bank of Mexico		
16	Reserve Bank of New Zealand		
18	Bank of Norway		
24	Bank of Korea		
<b>September</b>			
6	Reserve Bank of Australia		
7	Bank of Canada		
8	European Central Bank		
15	Bank of England		
20	Bank of Sweden		
21	Bank of Brazil		
21	Bank of Japan		
21	Federal Reserve		
22	Bank of Norway		
22	Swiss National Bank		
29	Bank of Mexico		
<b>October</b>			
3	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
13	Bank of Korea		
26	Bank of Brazil		
26	Bank of Canada*		
27	European Central Bank		
27	Bank of Japan		
31	Reserve Bank of Australia		
<b>November</b>			
2	Federal Reserve		
3	Bank of England		
3	Bank of Norway		
10	Bank of Mexico		
22	Reserve Bank of New Zealand		
23	Bank of Korea		
24	Bank of Sweden		
<b>December</b>			
5	Reserve Bank of Australia		
7	Bank of Brazil		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
15	Bank of England		
15	Bank of Norway		
15	Bank of Mexico		
15	Swiss National Bank		
19	Bank of Japan		

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. \* Monetary Policy Report published.