

# ESSENTIALS OF MONETARY POLICY

## European Central Bank (ECB)

### The ECB Raises Rates Another 25 Basis Points, and a Long Pause Now Seems Likely

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#### ACCORDING TO THE ECB

- ▶ The European Central Bank (ECB) decided to raise its key interest rates by another 25 basis points. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 4.50%, 4.75% and 4.00% respectively.
- ▶ Headline inflation is now expected to average 5.6% in 2023 and 3.2% in 2024, both 0.2 percentage points higher than June's forecast. However, the ECB now sees inflation declining more sharply in 2025 to 2.1%, compared to the previous forecast of 2.2%.
- ▶ The ECB slightly revised down the projected path for inflation excluding energy and food but doesn't expect a return to the 2% target before 2025.
- ▶ ECB staff lowered their economic growth projections from 0.9% to 0.7% in 2023, from 1.5% to 1.0% in 2024 and from 1.6% to 1.5% in 2025.
- ▶ 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.

#### COMMENTS

Forecasters were split over the outcome of this meeting. There were arguments for a pause, but also for another hike, which is what we expected. It seems that the ECB's Governing Council was divided on this decision as well. At the press conference, President Christine Lagarde mentioned that some members

would have preferred the status quo. That said, what's interesting about today's decision is that a pause now seems the most likely scenario for future meetings and the focus will probably turn to how long this pause will last.

The ECB is still concerned about sticky inflation. Energy or food prices could rebound and uncertainty about wages and earnings remains, both of which could keep inflationary pressure high. That said, the economy has clearly slowed, and it won't take much more for it to tip into a recession. Lower than expected demand—which is our forecast—would probably bring down inflation more quickly than anticipated.

Furthermore, our economic growth and inflation forecasts for the eurozone are slightly more pessimistic than those published today by the ECB. We're anticipating real GDP growth of 0.5% in 2023 and 0.7% in 2024. Like the US and Canada, we don't think the eurozone will be able to avoid a short recession.

#### IMPLICATIONS

The ECB hasn't officially closed the door on further interest rate hikes. However, it is well understood that no more hikes will be needed if the economy slows as expected, or more quickly, in the coming months. This anticipated pause along with continued robust US economic data has impacted the value of the euro, which dipped below US\$1.07 this morning.

# 2023 Schedule of Central Bank Meetings

	Central bank	Decision	Rate
<b>January</b>			
12	Bank of Korea	+25 b.p.	3.50
17	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
<b>February</b>			
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia	+25 b.p.	3.35
9	Bank of Sweden	+50 b.p.	3.00
9	Bank of Mexico	+50 b.p.	11.00
21	Reserve Bank of New Zealand	+50 b.p.	4.75
22	Bank of Korea	unchanged	3.50
<b>March</b>			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada	unchanged	4.50
9	Bank of Japan	unchanged	-0.10
16	European Central Bank	+50 b.p.	3.50
22	Bank of Brazil	unchanged	13.75
22	Federal Reserve	+25 b.p.	5.00
23	Bank of England	+25 b.p.	4.25
23	Bank of Norway	+25 b.p.	3.00
23	Swiss National Bank	+50 b.p.	1.50
30	Bank of Mexico	+25 b.p.	11.25
<b>April</b>			
4	Reserve Bank of Australia	unchanged	3.60
4	Reserve Bank of New Zealand	+50 b.p.	5.25
10	Bank of Korea	unchanged	3.50
12	Bank of Canada*	unchanged	4.50
26	Bank of Sweden	+50 b.p.	3.50
28	Bank of Japan	unchanged	-0.10
<b>May</b>			
2	Reserve Bank of Australia	+25 b.p.	3.85
3	Bank of Brazil	unchanged	13.75
3	Federal Reserve	+25 b.p.	5.25
4	European Central Bank	+25 b.p.	3.75
4	Bank of Norway	+25 b.p.	3.25
11	Bank of England	+25 b.p.	4.50
18	Bank of Mexico	unchanged	11.25
23	Reserve Bank of New Zealand	+25 b.p.	5.50
24	Bank of Korea	unchanged	3.50
<b>June</b>			
6	Reserve Bank of Australia	+25 b.p.	4.10
7	Bank of Canada	+25 b.p.	4.75
14	Federal Reserve	unchanged	5.25
15	European Central Bank	+25 b.p.	4.00
15	Bank of Japan	unchanged	-0.10
21	Bank of Brazil	unchanged	13.75
22	Bank of England	+50 b.p.	5.00
22	Bank of Norway	+50 b.p.	3.75
22	Bank of Mexico	unchanged	11.25
22	Swiss National Bank	+25 b.p.	1.75
29	Bank of Sweden	+25 b.p.	3.75

	Central bank	Decision	Rate
<b>July</b>			
4	Reserve Bank of Australia	unchanged	4.10
11	Reserve Bank of New Zealand	unchanged	5.50
12	Bank of Korea	unchanged	3.50
12	Bank of Canada*	+25 b.p.	5.00
26	Federal Reserve	+25 b.p.	5.50
27	European Central Bank	+25 b.p.	4.25
27	Bank of Japan	unchanged	-0.10
<b>August</b>			
1	Reserve Bank of Australia	unchanged	4.10
2	Bank of Brazil	-50 b.p.	13.25
3	Bank of England	+25 b.p.	5.25
10	Bank of Mexico	unchanged	11.25
15	Reserve Bank of New Zealand	unchanged	5.50
17	Bank of Norway	+25 b.p.	4.00
23	Bank of Korea	unchanged	3.50
<b>September</b>			
5	Reserve Bank of Australia	unchanged	4.10
6	Bank of Canada	unchanged	5.00
14	European Central Bank	+25 b.p.	4.50
20	Bank of Brazil		
20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Bank of Sweden		
21	Bank of Japan		
21	Swiss National Bank		
28	Bank of Mexico		
<b>October</b>			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
18	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
30	Bank of Japan		
<b>November</b>			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
23	Bank of Sweden		
28	Reserve Bank of New Zealand		
29	Bank of Korea		
<b>December</b>			
4	Reserve Bank of Australia		
6	Bank of Canada		
13	Bank of Brazil		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
18	Bank of Japan		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. \* Monetary Policy Report published; \*\* To be determined.