

# ESSENTIALS OF MONETARY POLICY

## European Central Bank (ECB)

### The ECB Raises Rates Another 25 Basis Points, and There's Still More to Come

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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 4.00%, 4.25% and 3.50% respectively.
- ▶ The bank also upgraded its inflation forecasts. Headline inflation is now expected to average 5.4% in 2023, 3.0% in 2024 and 2.2% in 2025. In addition, the ECB now sees inflation excluding energy and food reaching 5.1% in 2023, before it declines to 3.0% in 2024 and 2.3% in 2025.
- ▶ ECB staff slightly lowered their economic growth projections from 1.0% to 0.9% in 2023 and from 1.6% to 1.5% in 2024. The forecast for 2025 remains unchanged at 1.6%.
- ▶ The Governing Council will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, its interest rate decisions will continue to be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

#### COMMENTS

Today's decision was widely expected. We were most interested in what the ECB telegraphed for its upcoming meetings and how much it adjusted its forecasts. In this regard, May's improved inflation print wasn't enough to bring down expectations. ECB staff revised up their projections, especially for inflation excluding food and energy. In March, ECB forecasters expected it to average 4.6% in 2023, but this was increased to 5.1% in today's update. Meanwhile, 2024's projection increased from 2.5% in March to 3.0% today.

At the press conference, President Christine Lagarde reiterated that inflation remains too high, highlighting pressures from the services sector and wage increases. High corporate profits in sectors where demand remains strong are also a concern. In terms of upcoming monetary policy decisions, she made it fairly clear that monetary tightening isn't over, and we can expect another hike in July.

However, the ECB remains rather optimistic about the economy, and it won't be surprising if growth ends up being weaker than expected in 2023 and 2024. Germany is already in recession and other eurozone countries are likely to follow in the coming quarters. As a result, we believe that inflation could fall faster than the ECB is projecting.

#### IMPLICATIONS

Based on today's update, monetary tightening certainly isn't over. We were already pricing in another hike in July, and it now seems less likely the ECB will stop there. Any future hikes will depend on economic and inflationary trends over the coming months.

# 2023 Schedule of Central Bank Meetings

Date	Central bank	Decision	Rate
<b>January</b>			
13	Bank of Korea	+25 b.p.	3.50
18	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
23	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
10	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
12	Bank of Canada*	unchanged	4.50
13	Bank of Korea	unchanged	3.50
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
25	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
16	Bank of Japan		
21	Bank of Brazil		
22	Bank of England		
22	Bank of Norway		
22	Bank of Mexico		
22	Swiss National Bank		
29	Bank of Sweden		

Date	Central bank	Decision	Rate
<b>July</b>			
4	Reserve Bank of Australia		
11	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Federal Reserve		
27	European Central Bank		
28	Bank of Japan		
<b>August</b>			
1	Reserve Bank of Australia		
2	Bank of Brazil		
3	Bank of England		
10	Bank of Mexico		
15	Reserve Bank of New Zealand		
17	Bank of Norway		
24	Bank of Korea		
<b>September</b>			
5	Reserve Bank of Australia		
6	Bank of Canada		
14	European Central Bank		
20	Bank of Brazil		
20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Swiss National Bank		
22	Bank of Japan		
28	Bank of Mexico		
**	Bank of Sweden		
<b>October</b>			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
19	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
31	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		
28	Reserve Bank of New Zealand		
30	Bank of Korea		
**	Bank of Sweden		
<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		
19	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.