

ECB Watch: Unanimous rate cut

Although not yet signalled in September, today was still no surprise: the ECB decided to lower key rates by 25 basis points, and did so unanimously. Confidence in the disinflation trend has increased since September and economic risks are further dampening the inflation outlook. Nevertheless, the ECB does not expect a recession. Financing conditions are considered to be restrictive, which indirectly suggests further rate cuts down the road, even though the ECB is keeping a low profile on this.

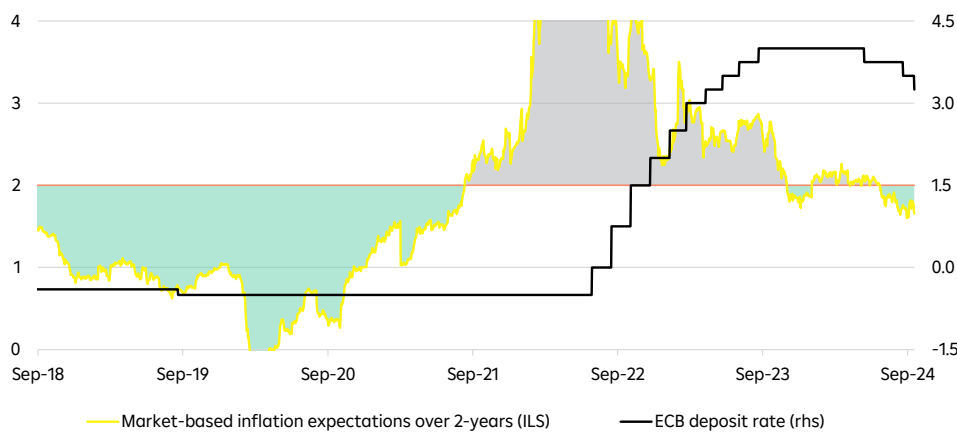
Is the ECB's monetary policy already too restrictive? **1**

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Is the ECB's monetary policy already too restrictive?



Source: LSEG, ICAP, RBI/Raiffeisen Research

Just five weeks after the last interest rate cut in mid-September, the Governing Council decided today to lower key interest rates again. **All three key interest rates were lowered by 25 basis points.** The deposit rate is at 3.25% and the main refinancing rate at 3.4% (effective from October 23). As a reminder, the corridor between these two ECB interest rates was narrowed from 50 to 15 basis points in September.

Analysts had expected a rate cut and the financial market had priced it. Just a few weeks ago, however, the picture was different when the ECB held out the prospect of the next rate cut only in December. But the latest inflation and economic data releases have changed the picture, and our view as well. And this was confirmed today. The **monetary policy decision cited two main reasons for the decision** to lower rates earlier than expected. **First**, "recent inflation data show that the disinflation process is well on track." **Second**, "the inflation outlook [...] has also been affected by the recent negative surprises to indicators of economic activity." The inflation outlook has thus improved since the September meeting and the confidence of the ECB Governing Council members that the

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inflation target will be achieved in a timely manner has increased. "Inflation is expected to rise in the coming months before declining towards the target in the course of next year."

The ECB's note that **financing conditions** continue to be assessed as **restrictive** is also interesting. This means that further interest rate cuts are on the horizon until a neutral (in line with the 2% inflation target) key rate level is reached. The ECB does not comment on where such a neutral level is. The press conference clearly focused on today's meeting and the unanimous decision to cut interest rates by 25 basis points. President Lagarde was careful not to make any commitments. Decisions are made on a meeting-by-meeting and data-driven basis. As can be seen from the monetary policy decision, key interest rates will remain restrictive as long as it is not ensured that inflation will return to the medium-term inflation target of 2% in a timely and sustainable manner. A rough guide for the neutral interest rate level is a range between 2 and 2.5%. From today's perspective, there should be no reason not to cut interest rates again in December.

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
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
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
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
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
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