

ECB Watcher

Summer break at the ECB

HCOB Economics
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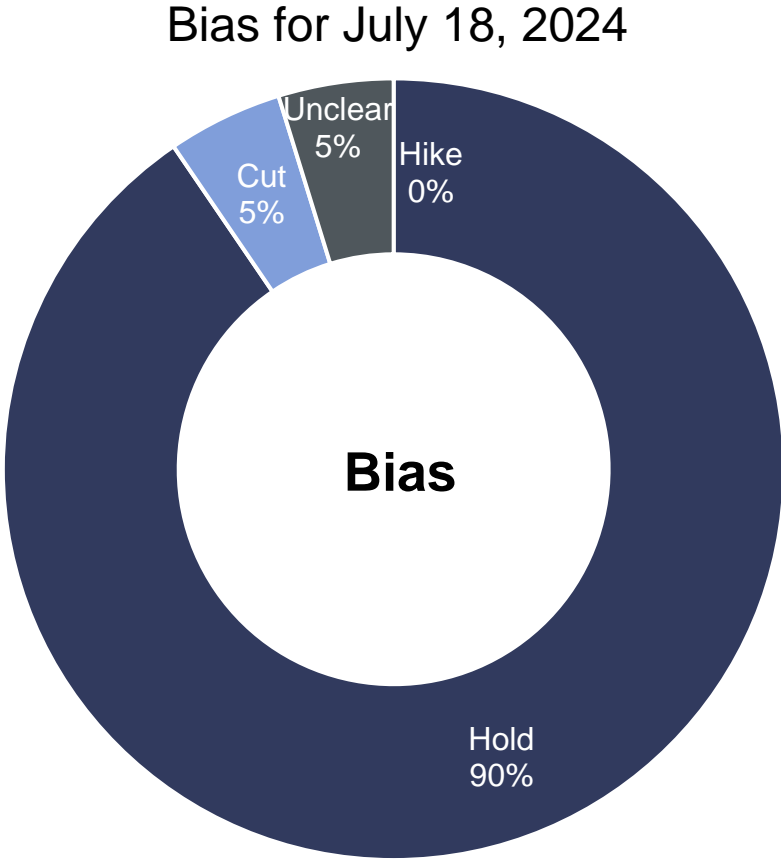
Executive Summary: Summer break at the ECB (I)

- The ECB is expected to keep interest rates constant at its next meeting on July 18. This is almost uniformly evident from the most recent statements by the ECB Governing Council members. Our analysis shows that around 90% of members are in favor of keeping key interest rates unchanged at this meeting. There is currently a consensus among Council members that further rate cuts are likely this year, but the exact timing and number remain unclear.
- The ECB's key interest rates currently stand at 4.25% (main refinancing rate) and 3.75% (deposit rate). Following a pause in interest rates at the upcoming meeting, we forecast that the ECB will not cut interest rates again until September. As we expect the inflation rate to rise again at the end of the year, we do not anticipate any further interest rate cuts this year.
- At 2.5% (headline, YoY) and 2.9% (core, YoY), inflation in the eurozone is still above the target of 2%. Inflation will also remain stubbornly high in July: Our nowcasting model forecasts a value of 2.5% for the overall rate and 2.8% for the core rate.
- At the beginning of July, ECB President Christine Lagarde warned against a premature easing of monetary policy at the ECB symposium in Sintra (Portugal). She explained: "Now, we are still facing several uncertainties regarding future inflation, especially in terms of how the nexus of profits, wages and productivity will evolve and whether the economy will be hit by new supply-side shocks." Lagarde also reiterated expectations of a pause in interest rates this month, stating: "It will take time for us to gather sufficient data to be certain that the risks of above-target inflation have passed."
- The Slovakian representative on the ECB Governing Council, Peter Kažimír, was also in favor of not rushing into monetary policy decisions. He recently said: "We can afford to enjoy the summer without hurrying into the decision." He went on to argue that "by autumn, we'll have a lot of new information and data about the economy's performance, the labour market situation, and economic outlook" and therefore "September will be a pivotal month".

Executive Summary: Summer break at the ECB (II)

- However, there are also a few Council members who even see two further interest rate cuts this year. These include central bank governors Klaas Knot from the Netherlands, Olli Rehn from Finland and Yannis Stournaras from Greece. Knot said at the beginning of July: “I am perfectly fine with our policy stance and with current market expectations of future rate cuts. [...] As long as we are above 3%, we are still restrictive.” The financial markets are currently pricing in two more rate cuts this year, namely in September and December.
- ECB Vice-President Luis de Guindos and Belgian central bank chief Pierre Wunsch argued that the best time to cut interest rates would be at Governing Council meetings when new projections from the ECB staff were available. However, some members, including chief economist Philip Lane, Portugal’s Mário Centeno and Croatia’s Boris Vujčić, emphasized that they would also leave meetings without new projections open as an option for interest rate changes.
- Our favorite quote comes from Slovakian central bank president Peter Kažimír: “We can afford to enjoy the summer without hurrying into the decision. [...] By autumn, we’ll have a lot of new information and data about the economy’s performance, the labour market situation, and economic outlook. [...] September will be a pivotal month.”

The majority of the ECB Governing Council (with voting rights) is likely to be in favor of keeping key interest rates constant at the meeting on July 18.

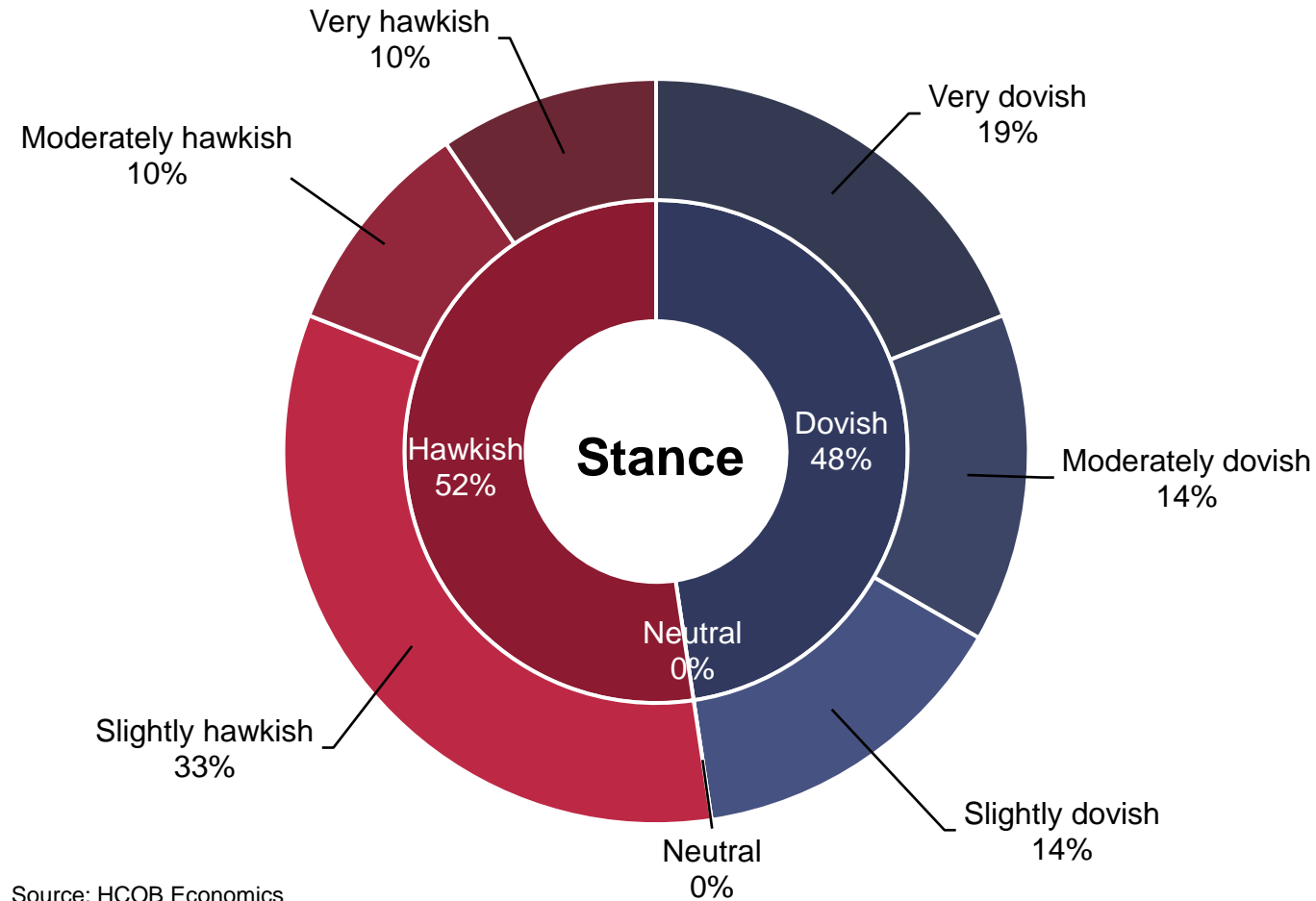


Source: HCOB Economics

Note: We take the following into account when assessing a Governing Council member's bias: Statements since the last Governing Council meeting, previous statements, general stance, group dynamics, and the current economic situation of the eurozone and the respective country that the member represents. Only members with a voting right are considered.

The emphasis is shifting more towards members with a 'dovish' basic orientation. 'Hawks' are now only marginally in the majority.

Doves and Hawks in the ECB Governing Council



Definition of „dovish“: certain tolerance when exceeding the inflation target.

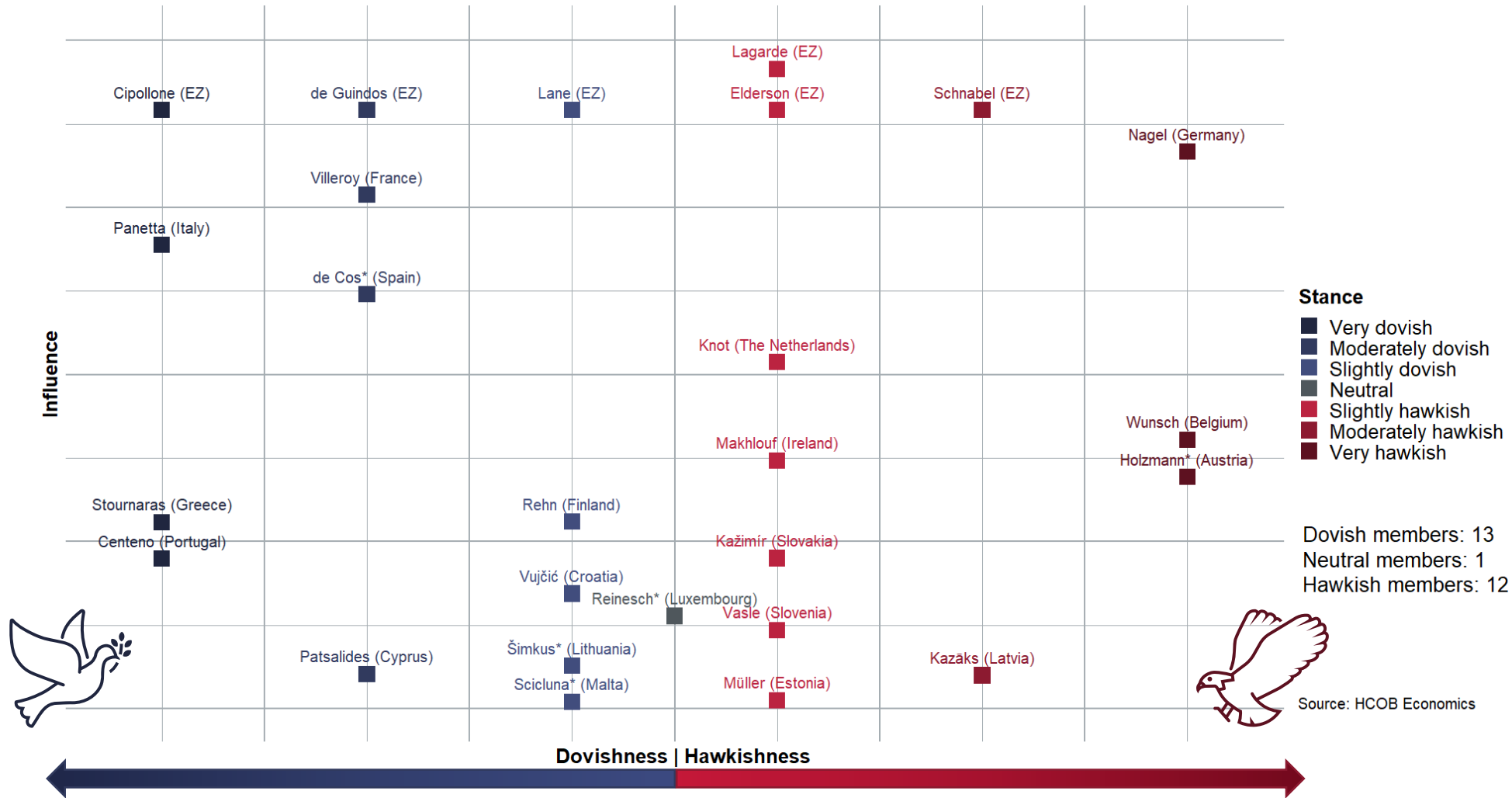
Definition of „hawkish“: very limited tolerance when exceeding the inflation target.

Note: With “stance” we mean a member’s general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each ECB Governing Council member is based on an subjective qualitative judgement from HCOB Economics. Only members with a voting right are considered in this figure.

Overview of the ECB Governing Council: Centeno could support a further rate cut at the July meeting.

ECB Council Member	Position	Voting on July 18, 2024	Bias for July 18, 2024	General stance	Inflation (HICP, YoY, latest)	GDP (share of EZ in %)
Christine Lagarde	ECB President	Yes	Hold	Slightly hawkish	2,5	100
Luis de Guindos	ECB Vice-President	Yes	Hold	Moderately dovish	2,5	100
Isabel Schnabel	ECB Board Member	Yes	Hold	Moderately hawkish	2,5	100
Piero Cipollone	ECB Board Member	Yes	Hold	Very dovish	2,5	100
Philip R. Lane	ECB Board Member	Yes	Hold	Slightly dovish	2,5	100
Frank Elderson	ECB Board Member	Yes	Unclear	Slightly hawkish	2,5	100
NCB Official of						
Joachim Nagel	Germany	Yes	Hold	Very hawkish	2,5	26,9
François Villeroy de Galhau	France	Yes	Hold	Moderately dovish	2,7	20,8
Fabio Panetta	Italy	Yes	Hold	Very dovish	0,8	15,2
Pablo Hernández de Cos	Spain	No	Unclear	Moderately dovish	3,5	11,1
Klaas Knot	The Netherlands	Yes	Hold	Slightly hawkish	3,4	6,9
Pierre Wunsch	Belgium	Yes	Hold	Very hawkish	5,5	4
Gabriel Makhoul	Ireland	Yes	Hold	Slightly hawkish	1,5	3,3
Robert Holzmann	Austria	No	Hold	Very hawkish	3,2	3,1
Olli Rehn	Finland	Yes	Hold	Slightly dovish	0,6	1,8
Yannis Stournaras	Greece	Yes	Hold	Very dovish	2,4	1,8
Mário Centeno	Portugal	Yes	Cut	Very dovish	3,1	1,8
Peter Kažimír	Slovakia	Yes	Hold	Slightly hawkish	2,4	0,8
Boris Vujčić	Croatia	Yes	Hold	Slightly dovish	3,4	0,5
Gaston Reinesch	Luxembourg	No	Unclear	Neutral	2,8	0,5
Boštjan Vasle	Slovenia	Yes	Hold	Slightly hawkish	1,6	0,4
Gediminas Šimkus	Lithuania	No	Hold	Slightly dovish	1	0,4
Christodoulos Patsalides	Cyprus	Yes	Hold	Moderately dovish	3,1	0,2
Mārtiņš Kazāks	Latvia	Yes	Hold	Moderately hawkish	1,4	0,2
Madis Müller	Estonia	Yes	Hold	Slightly hawkish	2,8	0,2
Edward Scicluna	Malta	No	Unclear	Slightly dovish	2,1	0,1

Influence and stance: We have now assigned Rehn, Vujčić and Šimkus to the ‘dovish’ camp (previously ‘slightly hawkish’).

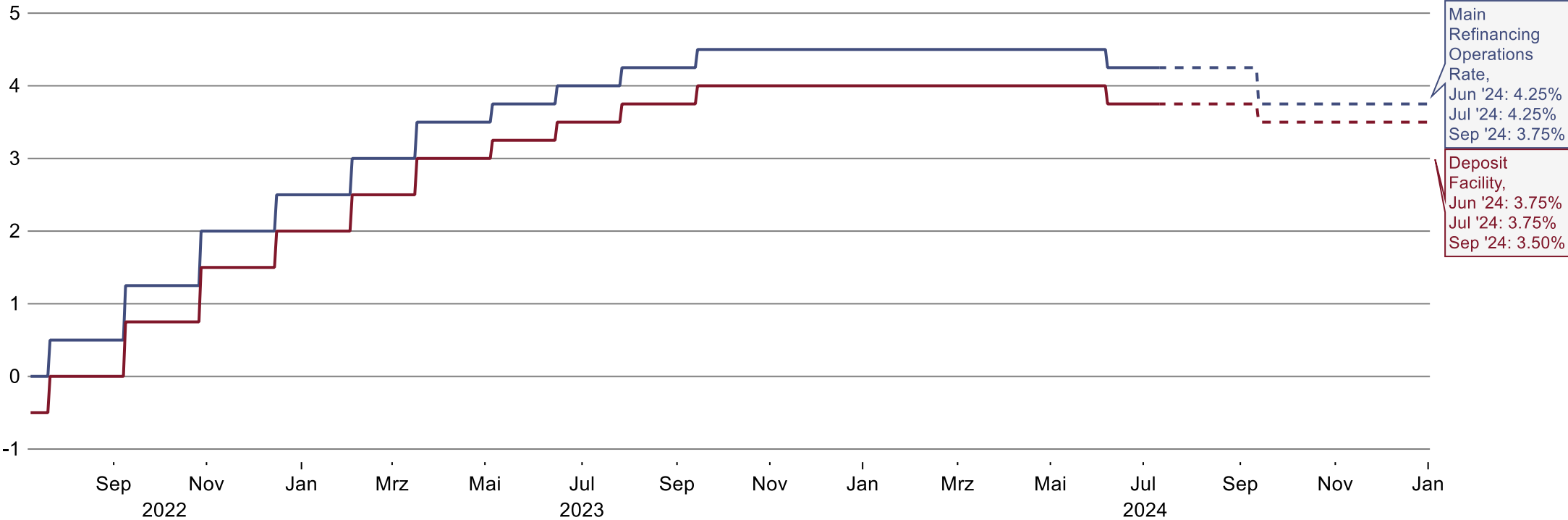


Note 1: Influence gauge is based on share of eurozone GDP. Governing Council members with no voting rights for the next meeting are marked with a superscript star.

Note 2: With “stance” we mean a member’s general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each ECB Governing Council member is based on an subjective qualitative judgement from HCOB Economics.

Interest rate forecast from HCOB Economics: We expect interest rates to remain constant in July 2024 and only be lowered again in September.

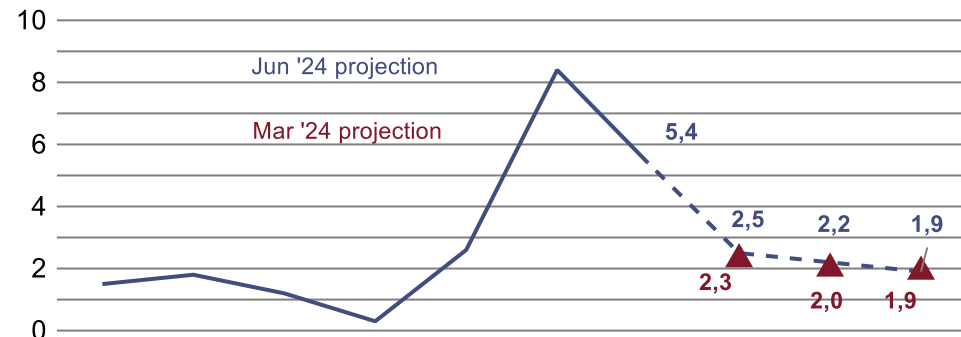
ECB policy rates and forecasts of HCOB Economics



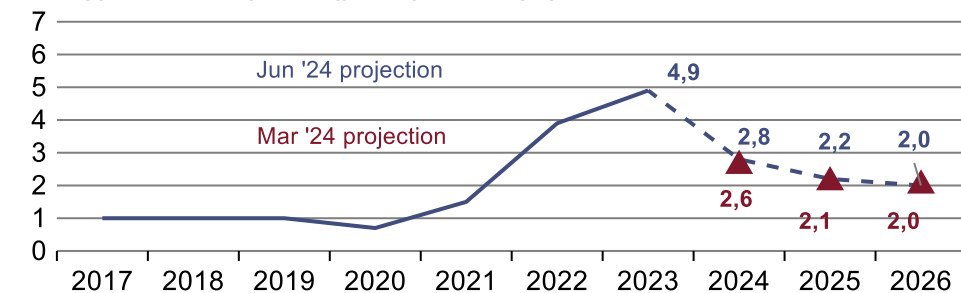
Source: Macrobond, HCOB Economics. *The difference between the Main Refinancing Rat (MRF) and the Deposit Facility Rate (DFR) will be reduced from 0.5 pp to 0.25 pp by September. This is considered in the September forecast.

ECB macroeconomic projections of March 2024 compared to the projections of June 2024.

Euro Area, ECB Macroeconomic Projections, Inflation HICP YoY (yearly average)

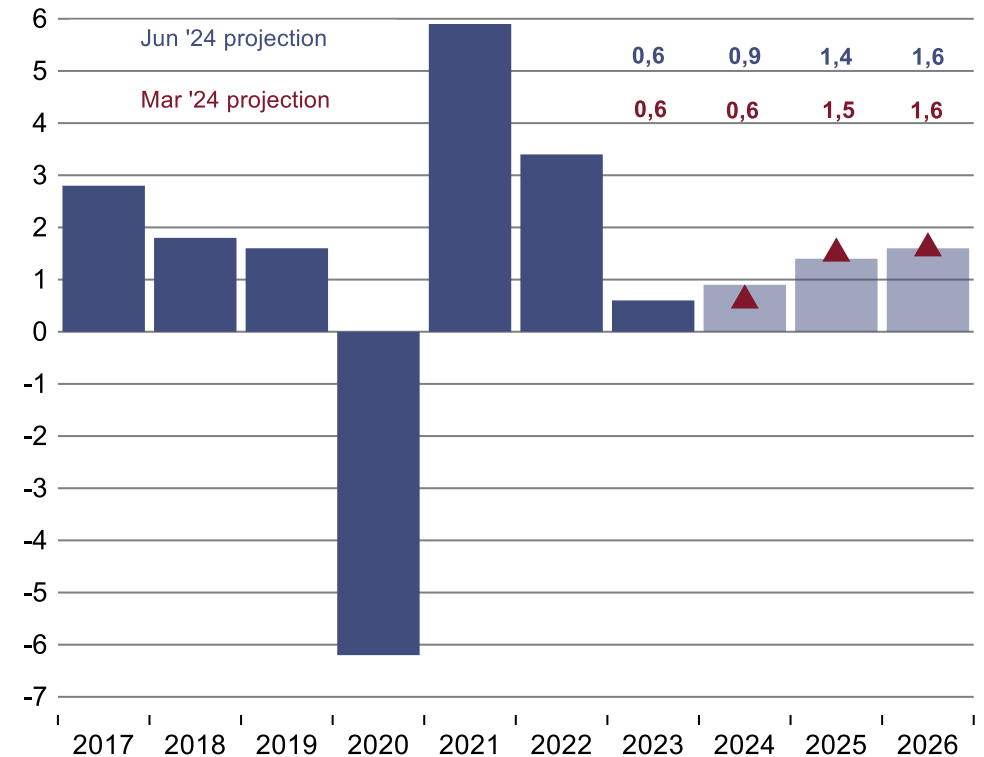


Euro Area, ECB Macroeconomic Projections, Inflation HICP core (ex energy and food) YoY (yearly average)



Source: Macrobond, HCOB Economics, ECB (European Central Bank)

Euro Area Staff Projections, GDP



Source: Macrobond, HCOB Economics, ECB (European Central Bank)

Appendix

- 'One person, one quote'

‘One person, one quote’: Quotes made since the last Council Meeting on June 6, 2024 (I)

- **Christine Lagarde (ECB President):** “Now, we are still facing several uncertainties regarding future inflation, especially in terms of how the nexus of profits, wages and productivity will evolve and whether the economy will be hit by new supply-side shocks. And it will take time for us to gather sufficient data to be certain that the risks of above-target inflation have passed.”
- **Luis de Guindos (ECB Vice-President):** “Best time to make rate decisions is together with updated projections. The projections are updated every three months. We’ll have new ones in September. Those are the most significant and interesting moments from the point of view of monetary policy.”
- **Isabel Schnabel (ECB Board Member):** “We therefore remain vigilant and have not yet committed ourselves to a fixed interest rate path, but remain fact-based and make our decisions accordingly.”
- **Philip R. Lane (ECB Board Member):** “In a world of uncertainty, one way to deal with uncertainty is a little bit of waiting; wait and make sure you’re not taking a step you’re going to regret.”
- **Joachim Nagel (NCB Official of Germany):** “One thing is beyond dispute for me: we need to remain cautious. You see, future economic and price developments are still fraught with uncertainty. To use a metaphor, I wouldn’t say we’re at the summit of a mountain from which the only way is down. Rather, it’s better to say we’re on a crest where we still need to find the right point for the further descent.”

‘One person, one quote’: Quotes made since the last Council Meeting on June 6, 2024 (II)

- **François Villeroy de Galhau (NCB Official of France):** “Data are inherently noisy and there is a risk of overreacting to volatile news, especially until the end of this year: so ‘data-driven’ in the current inflation environment does not mean ‘flash-driven’.”
- **Fabio Panetta (NCB Official of Italy):** “We must keep adjusting policy rates to complete the process and smoothly reach our 2 per cent inflation target in a scenario where our expectations turn out to be broadly correct. But we also need to be prudent, and stand ready to adjust our policy in response to shocks that may create upside or downside risks to the current outlook.”
- **Klaas Knot (NCB Official of the Netherlands):** “I don’t see a case for another rate cut in July. The next meeting that will truly be open again will be in September. [...] I am perfectly fine with our policy stance and with current market expectations of future rate cuts. [...] As long as we are above 3%, we are still restrictive. And that will be the case for the foreseeable future, beyond which I cannot make meaningful statements.”
- **Pierre Wunsch (NCB Official of Belgium):** “If we have no major negative surprises, then based on our forecasts, I would say there is room for a second cut. [...] There is probably a premium in waiting for a meeting with new forecasts that confirm the picture but I would not make that a condition. [...] To continue with cuts, I would need to have some more comfort that we really are going down from 2.5% inflation to something which is closer to 2%.”
- **Gabriel Makhoul (NCB Official of Ireland):** “I am comfortable with expectations of another cut [this year]. I think two cuts today, at the beginning of July, is probably going a little bit too far. I’m not saying I’d rule it out.”

‘One person, one quote’: Quotes made since the last Council Meeting on June 6, 2024 (III)

- **Robert Holzmann (NCB Official of Austria):** “If the original assumption of three rate cuts were to materialize, and the Federal Reserve didn’t respond, it would certainly have an impact on the exchange rate, and with it inflation.”
- **Olli Rehn (NCB Official of Finland):** “If you look at market data, it implies that there would be two more rate cuts so that we would end up at 3.25% by the end of this year and, with the terminal rate – somewhere around 2.25%, 2.50%. [...] In my view, they are reasonable expectations.”
- **Yannis Stournaras (NCB Official of Greece):** “These data [on inflation] strengthen the case for further cuts a little bit. [...] For the moment, two more rate cuts this year seems reasonable and consistent with our forecasts. We’re in highly restrictive territory and will continue to be even if we have two more cuts this year.”
- **Mário Centeno (NCB Official of Portugal):** “I don’t think it’s appropriate to commit, for example, to not doing anything in July. We still have a few weeks of information coming before our July meeting. There’s a lot of things going on in the world as we speak. Excluding specific actions beforehand is not consistent with our approach. So, let’s leave all options open to July. And naturally that goes for September, too – let’s not tie our hands with anything except those two words I mentioned from the monetary policy statement, prudence and confidence.”
- **Peter Kažimír (NCB Official of Slovakia):** “We can afford to enjoy the summer without hurrying into the decision. [...] By autumn, we’ll have a lot of new information and data about the economy’s performance, the labour market situation, and economic outlook. [...] September will be a pivotal month.”

‘One person, one quote’: Quotes made since the last Council Meeting on June 6, 2024 (IV)

- **Boris Vujčić (NCB Official of Croatia):** “Any prolongation of the inflation conversion toward the medium-term target weakens the case for an interest rate cut, and vice versa. [...] July is always an option, but more data will be available in September. Everything is open at the meeting – a pause or a cut. I don’t want to show any signals of what we want to do before we see more data.”
- **Boštjan Vasle (NCB Official of Slovenia):** “If everything will evolve as expected, we can continue to lower interest rates this year. But I wouldn’t want to tie this to any date — it’s linked to the data we’ll receive. [...] Upcoming monetary-policy decisions should make sure that they do not lead to a monetary-policy stance that is structurally too loose over the medium-term.”
- **Gediminas Šimkus (NCB Official of Lithuania):** “Expectations for two more cuts this year are in line with my own thinking, if data evolve as expected. [...] Our monetary policy is still very restrictive. I’m sure that everything above 3% is still restrictive territory. So we have some room for maneuver. [...] I think the case for a July cut has gone.”
- **Christodoulos Patsalides (NCB Official of Cyprus):** “Domestic price pressures in the euro area remain strong, the pace of wage growth is elevated, and inflation is likely to remain above target for much next year as well.”
- **Mārtiņš Kazāks (NCB Official of Latvia):** “We are easing. But of course, we will do it in a way that it is data-dependent. Let’s see what happens with the economy. There is, in my view, no need to rush.”

‘One person, one quote’: Quotes made since the last Council Meeting on June 6, 2024 (V)

- **Madis Müller (NCB Official of Estonia):** “If the actual outcome ends up being close to our latest projections, then we most likely can further reduce the level of policy restrictiveness this year. [...] When exactly and how much remains to be seen. [...] Our policy is still restrictive, and it probably will be for some time to come, even if we lower rates somewhat going forward. It’s most likely that at the end of the year we will still be in restrictive territory.”
- **The following ECB Governing Council members made no public statement since the last Governing Council meeting:**
 - Frank Elderson (ECB Board Member)
 - Piero Cipollone (ECB Board Member)
 - Pablo Hernández de Cos (NCB Official of Spain)
 - Gaston Reinesch (NCB Official of Luxembourg)
 - Edward Scicluna (NCB Official of Malta)

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