

# ECB Watcher

**ECB is concerned about weakening growth**

HCOB Economics

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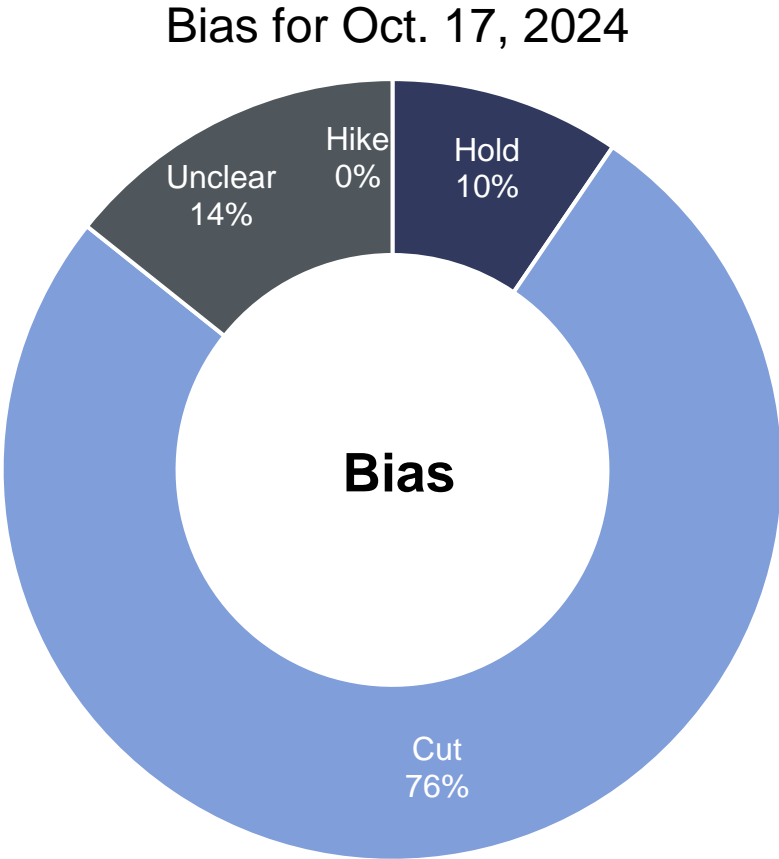
# Executive Summary: ECB is concerned about weakening growth

- On October 17, the next important meeting of the ECB Governing Council is scheduled – and expectations for an interest rate cut have significantly increased. Given the declining inflation and weak economic data in the Eurozone, numerous council members have suggested another cut in key interest rates. According to our analysis, around 76% of voting members support such a measure. Just a few weeks ago, most ECB members had favored the December meeting for the next rate cut.
- It was ECB President Christine Lagarde who prompted the change in the Governing Council's thinking. In a speech to the European Parliament at the end of September, she stated that inflation could temporarily rise in the fourth quarter of this year as the sharp declines in energy prices drop out of the annual rates. Nevertheless, Lagarde said, "the latest developments strengthen our confidence that inflation will return to target in a timely manner," adding that the ECB will take that into account in the "next monetary policy meeting in October."
- Inflation in the Eurozone is currently at 1.8%, which is below the ECB's target of 2%. Additionally, the weak HCOB PMIs, with a value of 49.6 in September (Composite PMI), indicate stagnation in Eurozone growth.
- In a speech at the beginning of October, Executive Board member Isabel Schnabel warned urgently: "The euro area economy is stagnating." She further emphasized that the "headwinds to growth" should not be ignored and that "gradual moderation in the degree of monetary policy restriction will also support growth in those parts of the euro area that have stagnated in recent years." Despite the still high inflation in the services sector and strong wage growth, Schnabel sees an increasing likelihood that inflation could return to the ECB's 2% target in timely manner.
- Especially the doves in the ECB Governing Council, who have long been advocating for interest rate cuts, are likely to see these developments as a confirmation of their position. French central bank chief François Villeroy de Galhau pointed out that the ECB must now also keep an eye on the risk of inflation being too low: "In the last two years our main risk was to overshoot our 2% target. Now we must also pay attention to the opposite risk, of undershooting our objective due to a weak growth and a restrictive monetary policy for too long."

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- However, some council members were more skeptical about further easing of monetary policy. Pierre Wunsch, the Belgian representative in the ECB Governing Council, questioned the basis for the discussion at the upcoming meeting: “But is there a determining factor that means that we should open the discussion in October? Wunsch particularly warned that a rapid interest rate cut followed by a reversal would be harder to communicate than a gradual adjustment. He also pointed out the risk associated with the currently rising oil prices: “If, at that time, we communicated to the markets an acceleration in the rate cut, we would be taking a risk.”
- Our favorite quote comes from board member Isabel Schnabel: “We cannot ignore the headwinds to growth. With signs of softening labour demand and further progress in disinflation, a sustainable fall of inflation back to our 2% target in a timely manner is becoming more likely, despite still elevated services inflation and strong wage growth.”

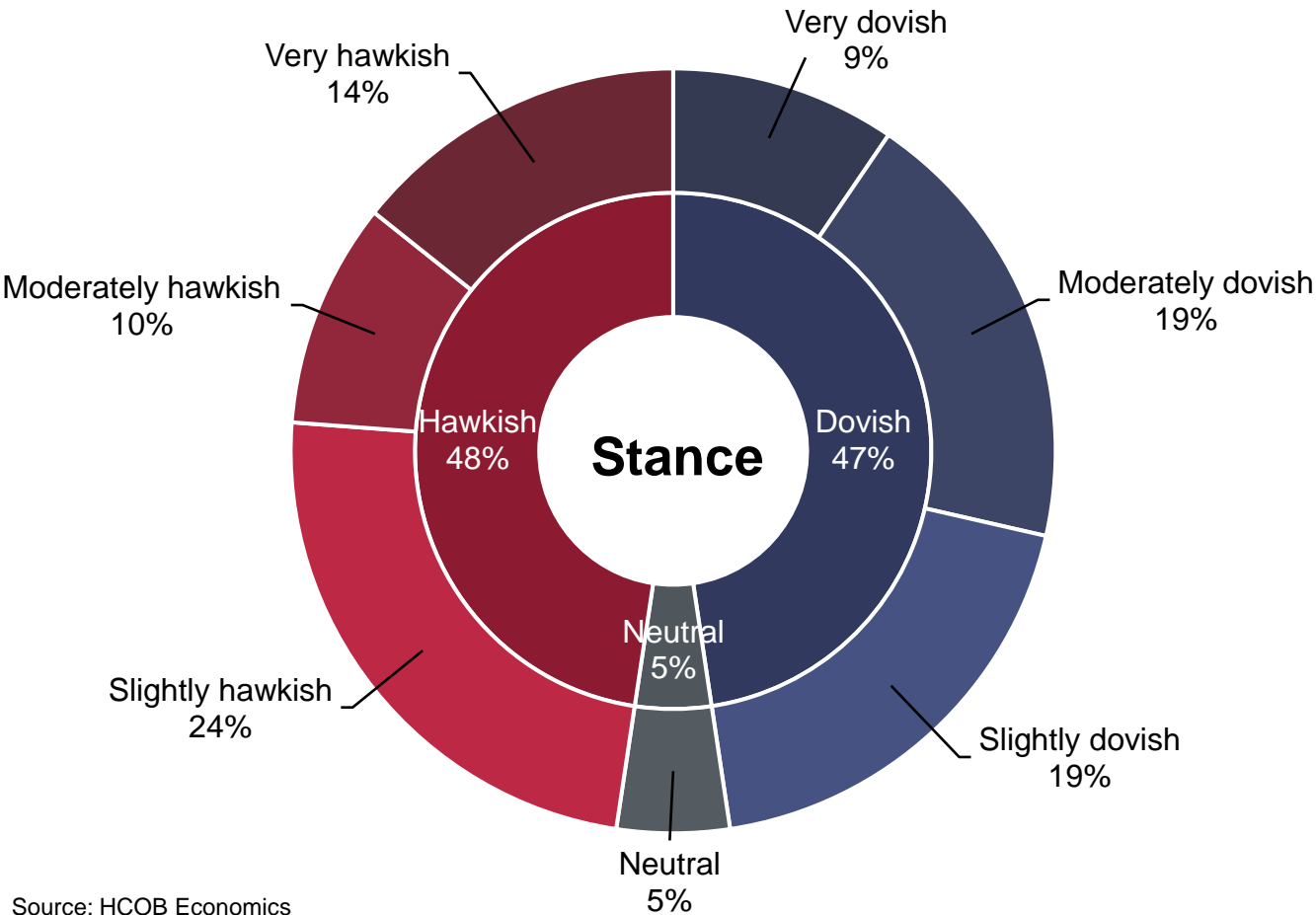
The majority of the ECB Governing Council (with voting rights) is likely to be in favor of lowering key interest rates at the meeting on October 17.



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 Governing Council is now balanced in terms of the proportion of “hawks” and “doves”. However, the balance is slowly shifting towards the more “dovish” stance.

Doves and Hawks in the ECB Governing Council



Source: HCOB Economics

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

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

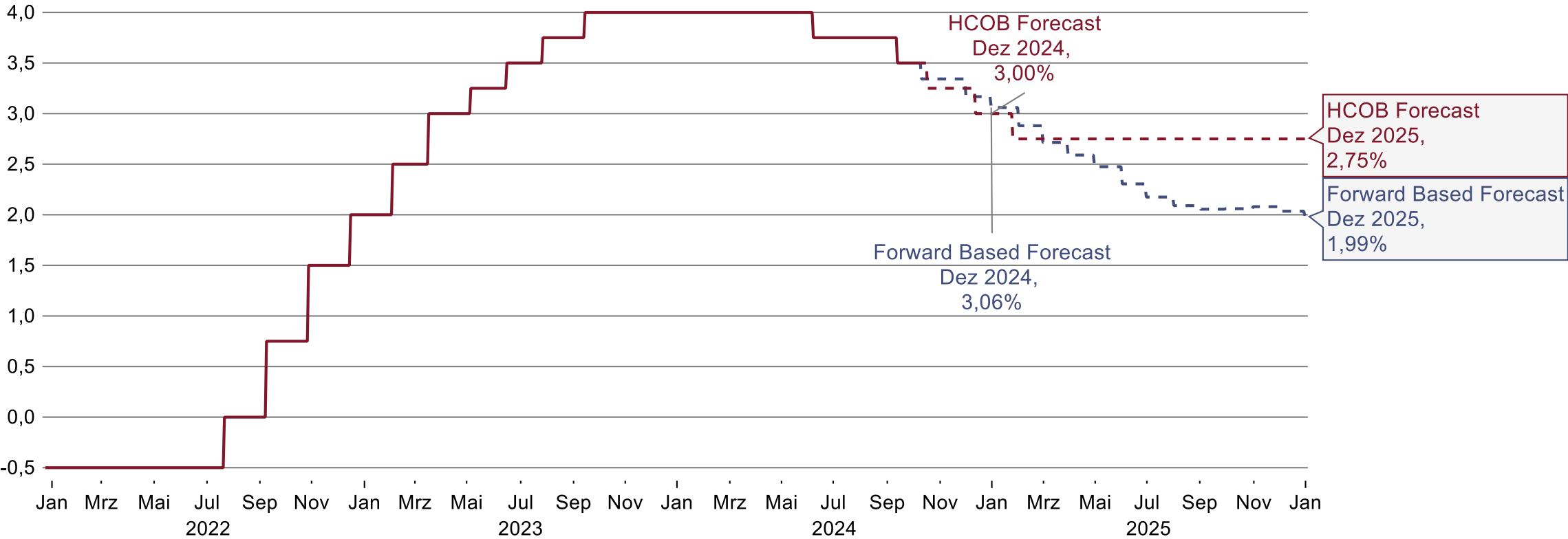
Note: With “stance” we mean a member’s general stance, which is rather static and likely not to change that much from meeting to meeting. The categorization of each ECB Governing Council member is based on an subjective qualitative judgement from HCOB Economics. Only members with a voting right are considered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

# Overview of the ECB Governing Council: Some members were ambiguous about a decision in October and warned against the recent rise in oil prices.

ECB Council Member	Position	Voting on Oct. 17, 2024	Bias for Oct. 17, 2024	General stance	Inflation (HICP, YoY, latest)	GDP (share of EZ in %)
Christine Lagarde	ECB President	Yes	Cut	Slightly hawkish	1,8	100
Luis de Guindos	ECB Vice-President	Yes	Cut	Moderately dovish	1,8	100
Isabel Schnabel	ECB Board Member	Yes	Cut	Moderately hawkish	1,8	100
Piero Cipollone	ECB Board Member	Yes	Cut	Very dovish	1,8	100
Philip R. Lane	ECB Board Member	Yes	Cut	Slightly dovish	1,8	100
Frank Elderson	ECB Board Member	Yes	Cut	Slightly hawkish	1,8	100
<b>NCB Official of</b>						
Joachim Nagel	Germany	Yes	Cut	Very hawkish	1,8	27,2
François Villeroy de Galhau	France	Yes	Cut	Moderately dovish	1,5	20,6
Fabio Panetta	Italy	No	Cut	Very dovish	0,8	15,2
José Luis Escrivá	Spain	Yes	Cut	Moderately dovish	1,7	11,3
Klaas Knot	The Netherlands	Yes	Cut	Slightly hawkish	3,3	7,1
Pierre Wunsch	Belgium	Yes	Hold	Very hawkish	4,5	3,9
Gabriel Makhlouf	Ireland	Yes	Unclear	Slightly hawkish	0,2	3,2
Robert Holzmann	Austria	Yes	Hold	Very hawkish	1,8	3
Olli Rehn	Finland	No	Cut	Slightly dovish	0,8	1,8
Yannis Stournaras	Greece	Yes	Cut	Very dovish	3	1,8
Mário Centeno	Portugal	No	Cut	Very dovish	2,6	1,8
Peter Kažimír	Slovakia	No	Unclear	Slightly hawkish	2,9	0,8
Boris Vujčić	Croatia	Yes	Cut	Slightly dovish	3	0,5
Gaston Reinesch	Luxembourg	Yes	Unclear	Neutral	0,8	0,5
Boštjan Vasle	Slovenia	No	Cut	Slightly hawkish	0,7	0,4
Gediminas Šimkus	Lithuania	Yes	Cut	Slightly dovish	0,4	0,4
Christodoulos Patsalides	Cyprus	Yes	Cut	Moderately dovish	1,9	0,2
Mārtiņš Kazāks	Latvia	Yes	Cut	Moderately hawkish	1,6	0,2
Madis Müller	Estonia	Yes	Unclear	Slightly hawkish	3,2	0,2
Alexander Demarco	Malta	Yes	Cut	Slightly dovish	2,1	0,1

# Interest rate forecast from HCOB Economics: We expect two more interest rate cuts this year, each by 25 bp, in October and December.

ECB Deposit Facility Rate Forecast of HCOB Economics and Forecast based on ESTR Futures



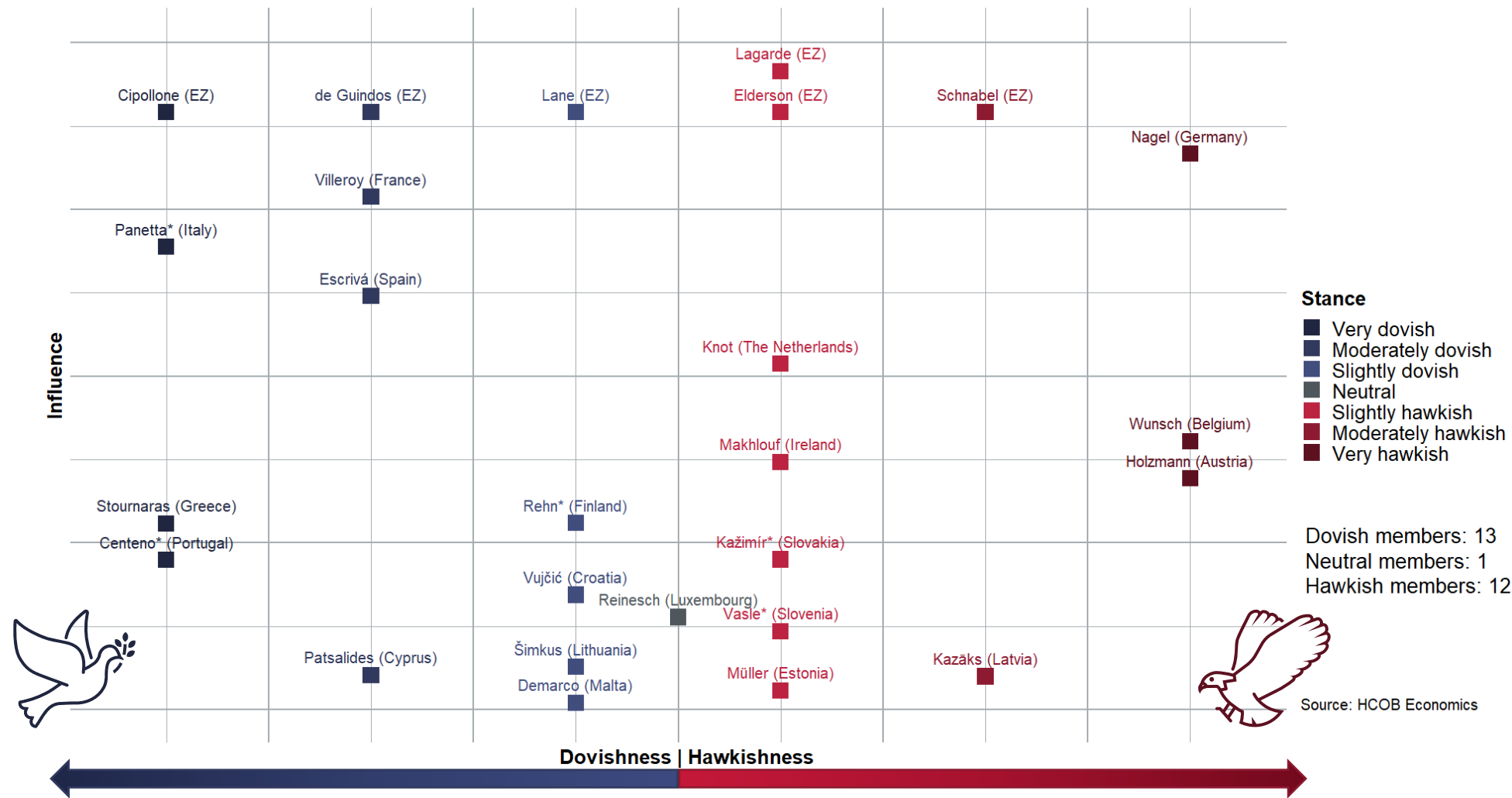
Source: Macrobond, HCOB Economics

# Appendix

- **Influence and stance**
- **“One person, one quote”**



# Influence and stance: We have now classified the new council members Escrivá and Demarco as “moderately dovish” and “slightly dovish”.



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.

## “One person, one quote” : Quotes made since the last Governing Council meeting on Sep. 12, 2024 (I)

- **Christine Lagarde (ECB President):** “Looking ahead, inflation might temporarily increase in the fourth quarter of this year as previous sharp falls in energy prices drop out of the annual rates, but the latest developments strengthen our confidence that inflation will return to target in a timely manner. We will take that into account in our next monetary policy meeting in October.”
- **Luis de Guindos (ECB Vice-President):** “We expect the recovery to strengthen over time, as rising real incomes and the gradually fading effects of restrictive monetary policy should support consumption and investment.”
- **Isabel Schnabel (ECB Board Member):** “We cannot ignore the headwinds to growth. With signs of softening labour demand and further progress in disinflation, a sustainable fall of inflation back to our 2% target in a timely manner is becoming more likely, despite still elevated services inflation and strong wage growth.”
- **Piero Cipollone (ECB Board Member):** “We could get a growth that is a little bit slower than what we were thinking. [...] And also numbers we are seeing, the first numbers from inflation seem to be pointing to the fact that inflation is decelerating faster, faster than we expected.”
- **Philip R. Lane (ECB Board Member):** “Looking ahead, a gradual approach to dialing back restrictiveness will be appropriate if the incoming data are in line with the baseline projection. At the same time, we should retain optionality about the speed of adjustment.”
- **Frank Elderson (ECB Board Member):** “A number of recent indicators suggest that downside risks to economic growth are already materialising, so we will need to carefully assess whether this has any implications for our inflation outlook.”

## “One person, one quote” : Quotes made since the last Governing Council meeting on Sep. 12, 2024 (II)

- **Joachim Nagel (NCB Official of Germany):** “I am certainly open to considering whether we could possibly make another interest rate cut. [...] The inflation trend is one of the good news stories. We are clearly approaching our target of 2%.”
- **François Villeroy de Galhau (NCB Official of France):** “Yes, [we will] quite probably [cut in October]. [...] In the last two years our main risk was to overshoot our 2% target. [...] Now we must also pay attention to the opposite risk, of undershooting our objective due to a weak growth and a restrictive monetary policy for too long.”
- **José Luis Escrivá (NCB Official of Spain):** “The last mile could be harder to walk, but be we are already at the last yard.”
- **Klaas Knot (NCB Official of the Netherlands):** “I would expect us to continue to gradually reduce interest rates in the coming time, also in the first half of 2025. [...] I don’t expect rates to return to the extremely low levels we saw before the pandemic. They will likely end up on a somewhat more natural level. I don’t know where exactly, but somewhere starting with a 2.”
- **Pierre Wunsch (NCB Official of Belgium):** “But is there a determining factor that means that we should open the discussion in October? I would really like to see the analysis that the central bank staff makes of it. [...] If we lower rates too quickly and then have to go back in the other direction, it is more complicated to communicate than if we are a little too slow and have to, at some point, accelerate.”
- **Gabriel Makhlouf (NCB Official of Ireland):** “We are not pre-committing to a particular rate path.”

## “One person, one quote” : Quotes made since the last Governing Council meeting on Sep. 12, 2024 (III)

- **Robert Holzmann (NCB Official of Austria):** “Inflation is on the right track. But it has not been defeated. [...] I thought the last interest rate cut was right, but that is no reason to assume that further interest rate cuts will automatically follow.”
- **Olli Rehn (NCB Official of Finland):** “Slowing inflation means more reasons to justify October rate cut in my view. [...] Recent weakening in growth outlook also tips the scale in the direction of October.”
- **Yannis Stournaras (NCB Official of Greece):** “Even if we have one cut of 25 basis points now and another one in December, we will be back to just 3 per cent — still in highly restrictive territory. [...] If inflation continues the downward path towards the 2 per cent target, why not cut in every meeting?”
- **Mário Centeno (NCB Official of Portugal):** “The current state of the euro area economy, along with the prevailing price and labor market conditions, necessitates a response from the ECB: a reduction in interest rates.”
- **Peter Kažimír (NCB Official of Slovakia):** “It’s considered a done deal in the media that rates should be lowered. [...] But I have to say I’m not completely convinced that we should make decisions based on one good number. [...] I can’t rule out that we might go for a rate cut next week.”
- **Gaston Reinesch (NCB Official of Luxembourg):** “[If the ECB’s projections materialise] then, but only then, one can assume that – let’s say in the next 13 months – it will come to a whole series of additional cuts.”

## “One person, one quote” : Quotes made since the last Governing Council meeting on Sep. 12, 2024 (IV)

- **Boštjan Vasle (NCB Official of Slovenia):** “Even if the ECB happens to decide to lower rates next week, that wouldn’t automatically mean another cut is coming in December. [But nonetheless, a cut in October] is an option.”
- **Gediminas Šimkus (NCB Official of Lithuania):** “Inflation is calming down and its trajectory suggests that further rate cuts must happen. [...] Rates will continue declining, but the speed of cuts will depend on data.”
- **Mārtiņš Kazāks (NCB Official of Latvia):** “We will discuss and decide when we meet next time, and will get more information until then, but recent data clearly point in the direction of a cut.”
- **Madis Müller (NCB Official of Estonia):** “It’s too early to express a clear position on the interest rate decision in October. [But I am not] ruling out another interest-rate cut [in October].”
- **Christodoulos Patsalides (NCB Official of Cyprus):** “There seems to be room for a rate cut. But we should discuss all new data as usual.”
- **The following ECB Governing Council members made no public statement since the last Governing Council meeting:**
  - Fabio Panetta (NCB Official of Italy)
  - Boris Vujčić (NCB Official of Croatia)
  - Alexander Demarco (NCB Official of Malta)

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