

# **ECB decision in charts**

**Despite data dependency - Next cut likely in December**

**Assessment of the ECB meeting on October 17, 2024**

**Economics**

**October 18, 2024**

# Highlights of the Governing Council meeting on October 17, 2024 (Part I)

The ECB has cut the deposit facility rate by 25 basis points to 3.25% (main refinancing rate down to 3.40%), as widely expected. This has been a unanimous decision.

**ECB has cut interest rates by 25 bp** as expected (and as I forecasted immediately after the last meeting). The deposit facility rate is now at 3,25% (main refinancing rate at 3,40%). The decision was taken unanimous. **Lagarde did not pre-commit** to further rate cuts in December but sounded **rather dovish** in emphasizing that all indicators on activity and inflation were pointing down over the last weeks. Interestingly, Lagarde mentioned **three times the PMI** to support her argument (putting more attention of investors on our index). A 50 bp rate cut was not excluded for December but Lagarde's answer to that question did not provoke hopes for a bigger cut in any significant way. We stick to our view that a further 25 bp rate cut will happen in December. For January, we expect another cut and this may be already the end of the cycle.

# Highlights of the Governing Council meeting on October 17, 2024 (Part II)

**Highlights (quotes are of ECB's President Christine Lagarde):**

**On inflation:** “Domestic inflation is still elevated as wage pressures ... remain strong ... Inflation is expected to rise in the coming months [due to base effects in energy prices]. .... Inflation should then decline to target in the course of the year.”

**Note:** While this part of the ECB statement sounds rather cautious, Lagarde emphasized very much the success in bringing down inflation during the press conference: “we have managed to bring inflation down, not to complete victory but ... brought it down so much [indicating] that our monetary policy is working.” HCOB Economics expect the next inflation forecast in December to be revised downwards.

**On risks:** “The risks to economic growth remain tilted to the downside.”

**Note:** This assessment remained unchanged and makes it more probable that another rate cut will occur in December. It seemed also, that Lagarde saw some downside risks to inflation, after having overestimated the inflation outcome over the last months.

# Highlights of the Governing Council meeting on October 17, 2024 (Part III)

**On the unanimity of the decision:** "... there was a unanimous decision to cut rates by 25 basis points."

**Note:** Our analysis of the speeches of ECB members ahead of the meeting made clear, that around 80% of the members were favoring a rate cut at this meeting. Only Robert Holzmann from Austria and Pierre Wunsch from Belgium seemed to be a bit more reluctant to act this time. It seems that they could be convinced.

**On not pre-committing:** "I did not open the door to anything. ... we will look at the data. ... we will be data dependent. And I would not .... give any other commitment."

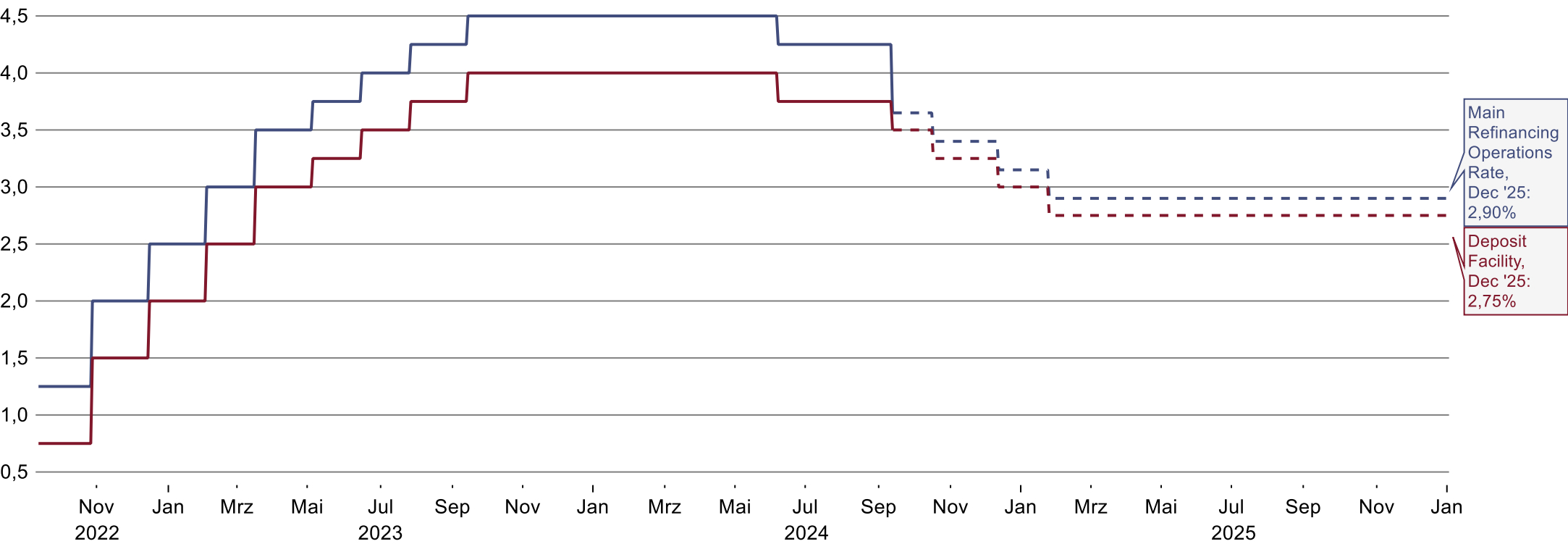
**Note:** Lagarde was very clear on this, thus no decision has been taken for December. This may have to do with the middle east tensions and the temporary spike in oil prices at the beginning of October which reminded the ECB that an oil price shock is possible at any moment. Leaving this aside, it would be surprising not to see another rate cut in December.

**On the restrictiveness and on the neutral interest rate:** "... there is no question ... that we are currently restrictive"

**Note:** Asked for the level of the neutral interest rate (which is the interest rate at which monetary policy is neither expansionary nor restrictive) Lagarde was not keen to tie herself down to a value. Instead, she pointed out that monetary policy is clearly restrictive at the moment meaning that there is still room for cutting interest rates. Some ECB member are more open with respect to the neutral interest rate and see it at between 2 and 2.5%.

# HCOB interest rate forecast: We expect interest rates to be cut by 25 basis points in both December and January .

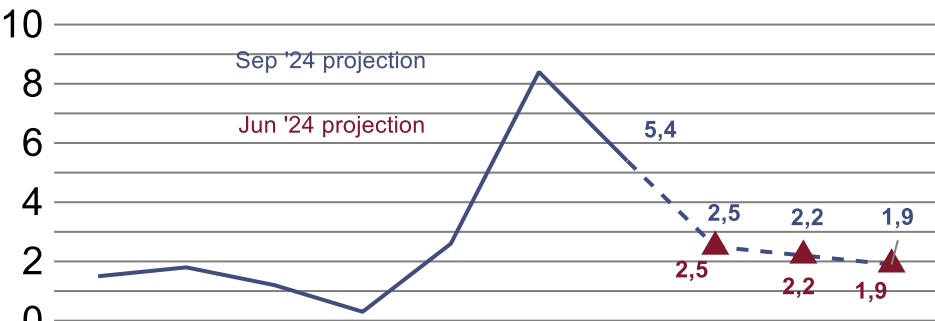
ECB policy rates and forecasts of HCOB Economics



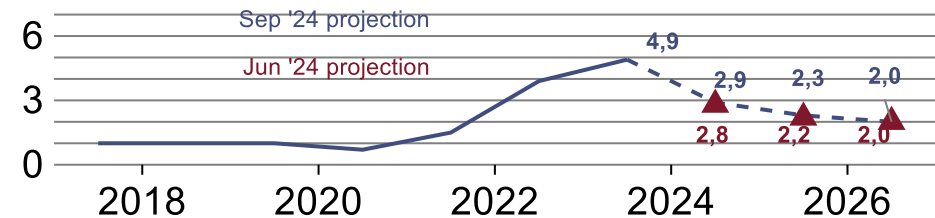
Source: Macrobond, HCOB Economics

# ECB experts' projections from September: New ECB staff projections will be presented at the December meeting.

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

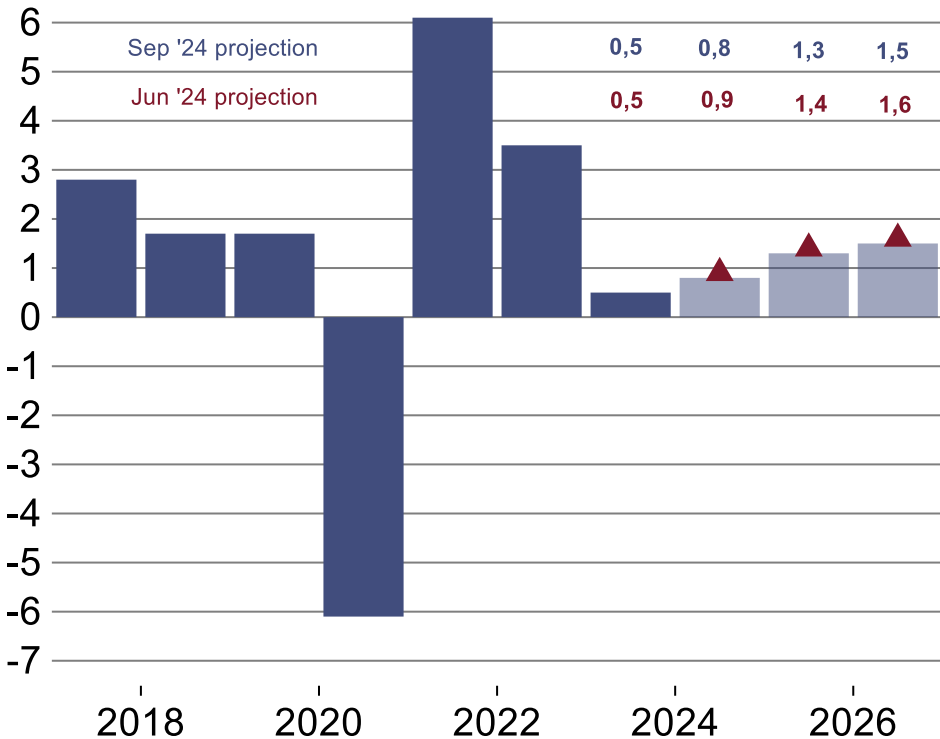


Euro Area, ECB Macroeconomic Projections, Inflation HICP core (ex energy and food) YoY (yearly average)



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

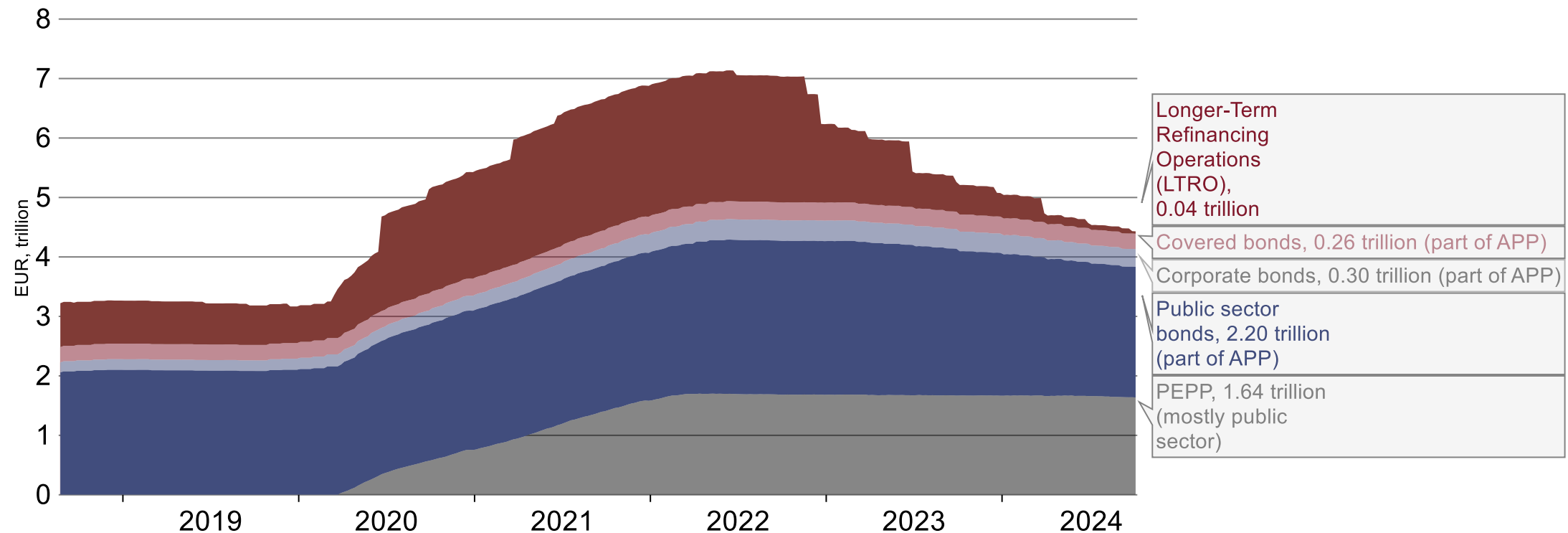
Euro Area Staff Projections, GDP



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

# "Quantitative Tightening": Tapering of PEPP started in July 2024.

Balance sheet of the ECB, total assets, (ex gold and fx), in trillion Euro



Source: Macrobond, HCOB Economics, ECB

# Monetary policy instruments at a glance

- **Key interest rates (with effect from October 17, 2024)**
  - Main refinancing rate: 3.40%
  - Interest rate for the deposit facility: 3.25%
- **APP (Asset Purchase Program)**
  - Since July 2023, maturities have no longer been reinvested, meaning that the portfolio is now shrinking by an average of EUR 25 billion per month.
- **PEPP (Pandemic Emergency Purchase Program) was already terminated on a net basis in March 2022.**
  - Budget: EUR 1.85 trillion, of which EUR 1.70 trillion were used.
  - Resolution of 14.12.2024: Complete reinvestment of PEPP assets by June 2024. From July to December the ECB will reduce the PEPP portfolio by EUR 7.5 billion per month on average. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024.
- **TLTRO (Targeted Longer-Term Refinancing Operations)**
  - TLTRO III: Old programs expired this year
- **Transmission protection instrument (TPI)**
  - According to the ECB, this program can be activated in the event of „unwarranted, disorderly market dynamics“ that pose a „serious threat to the transmission of monetary policy“.
  - Activation means that bonds from certain eurozone countries can be purchased without a fixed volume limit.
  - The ECB has formulated conditions under which the TPI can be used (including compliance with EU fiscal rules).



# Voting rights (rotation procedure among the central bank governors)

| Position                  | ECB Council Member          | 12.09.2024 | 17.10.2024 | 12.12.2024 | 30.01.2025 | 06.03.2025 | 17.04.2025 | 05.06.2025 | 24.07.2025 | 11.09.2025 | 30.10.2025 | 18.12.2025 |
|---------------------------|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| President of the ECB      | Christine Lagarde           | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Vice-President of the ECB | Luis de Guindos             | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Member of the Exec. Board | Frank Elderson              | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Member of the Exec. Board | Philip R. Lane              | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Member of the Exec. Board | Piero Cipollone             | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Member of the Exec. Board | Isabel Schnabel             | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| <b>NCB Governors of</b>   |                             |            |            |            |            |            |            |            |            |            |            |            |
| Belgium                   | Pierre Wunsch               | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✗          | ✗          | ✓          | ✓          | ✓          |
| Germany                   | Joachim Nagel               | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          |
| Estonia                   | Madis Müller                | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          |
| Ireland                   | Gabriel Makhlouf            | ✓          | ✓          | ✗          | ✗          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          |
| Greece                    | Yannis Stournaras           | ✓          | ✓          | ✗          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          |
| Spain                     | José Luis Escrivá           | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          |
| France                    | François Villeroy de Galhau | ✗          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✗          |
| Croatia                   | Boris Vujčić                | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          |
| Italy                     | Fabio Panetta               | ✓          | ✗          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✓          | ✓          |
| Cyprus                    | Christodoulos Patsalides    | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✗          | ✓          |
| Latvia                    | Mārtiņš Kazāks              | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✗          | ✗          | ✓          |
| Lithuania                 | Gediminas Šimkus            | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          |
| Luxembourg                | Gaston Reinesch             | ✓          | ✓          | ✓          | ✓          | ✗          | ✗          | ✓          | ✓          | ✓          | ✗          | ✓          |
| Malta                     | Alexander Demarco*          | ✗          | ✓          | ✓          | ✓          | ✗          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          |
| Netherlands               | Klaas Knot                  | ✓          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✗          | ✓          | ✓          |
| Austria                   | Robert Holzmann             | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          |
| Portugal                  | Mário Centeno               | ✗          | ✗          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          |
| Slovenia                  | Boštjan Vasle               | ✗          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✗          |
| Slovakia                  | Peter Kažimír               | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          |
| Finland                   | Olli Rehn                   | ✓          | ✗          | ✓          | ✓          | ✓          | ✓          | ✗          | ✗          | ✓          | ✓          | ✓          |

\*Temporarily steps in for Edward Scicluna

# Links to the documents from the ECB meeting on October 17, 2024

Main page:

[European Central Bank \(europa.eu\)](https://www.europa.eu)

Further links to the current session:

[Combined monetary policy decisions and statement \(europa.eu\)](https://www.europa.eu)

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The glossary of our publications can be found on the Hamburg Commercial Bank website at [http://www.hcob-bank.de/publikationen\\_glossar](http://www.hcob-bank.de/publikationen_glossar)

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