

ECB Watcher

Is the easing cycle soon coming to an end?

HCOB Economics

February 27, 2025

Dr. Cyrus de la Rubia / Nils Müller

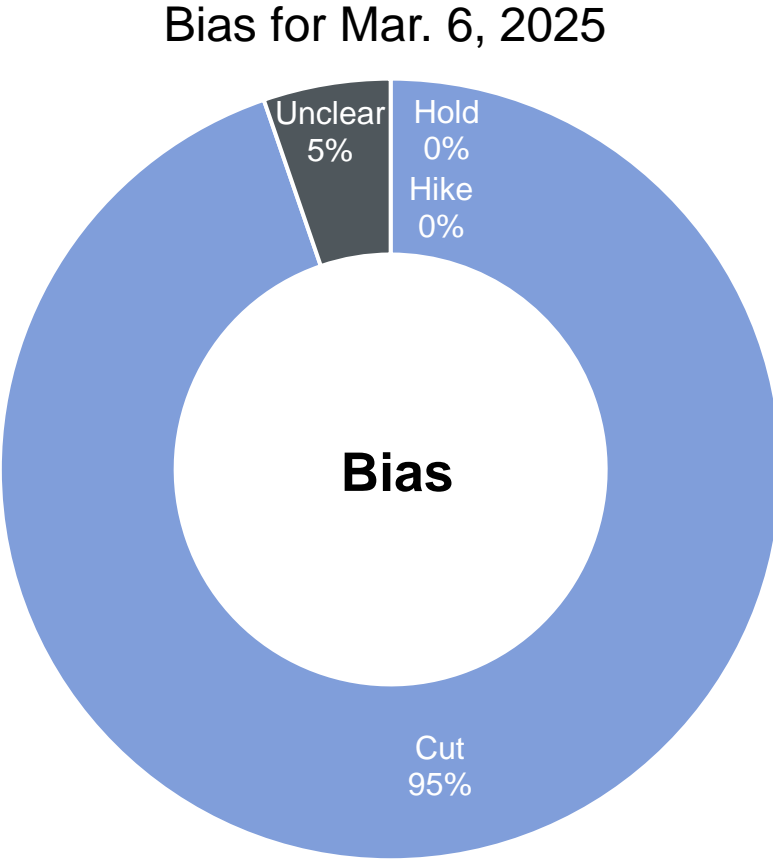
Executive Summary: Is the easing cycle soon coming to an end? (I)

- The next monetary policy meeting of the ECB Governing Council will take place on March 6, 2025, at which another key interest rate cut is very likely. This assessment is based on our systematic analysis of the communication of the ECB Governing Council members. In their most recent speeches and interviews, around 95% of members have more or less explicitly signaled a further easing of monetary policy restrictions. However, some Council members have indicated that a discussion about a pause in interest rates could be initiated soon.
- We expect only two more interest rate cuts of 25 basis points each this year. After the expected rate cut on March 6, there should be another cut by the middle of the year. An interest rate pause in April would be possible. There will probably be no further cuts in the second half of the year and the ECB will maintain the interest rate level of 2.25% until the end of the year.
- We also think it is likely that ECB chief Christine Lagarde could give an indication at next week's press conference as to whether the ECB will soon consider pausing interest rates. However, this will not be binding forward guidance and Lagarde is likely to emphasize that the ECB will stick to its data-driven, meeting-by-meeting approach.
- In an interview with the Financial Times in mid-February, Executive Board member Isabel Schnabel called for the ECB to start discussing a pause in interest rates soon. However, she still appears to be prepared to support an interest rate cut in March but has already set the tone for how the members of the ECB Governing Council should communicate afterwards.
- In the interview, Schnabel also said that the ECB should consider whether to remove the reference in the monetary policy statement that interest rates in the eurozone will remain restrictive at the next meeting. In a further statement this week, she confirmed this view: "It is becoming increasingly unlikely that current financing conditions are materially holding back consumption and investment."
- The ECB also recently published a study on the neutral interest rate, i.e. the theoretical interest rate level that has neither a restrictive nor an expansionary effect on the economy. The study placed this interest rate level in the range of 1.75–2.25%. Not all members of the ECB Governing Council – such as Schnabel – seem to share this assessment and estimate the level of the neutral interest rate to be higher. They argue that it is therefore not possible to say with certainty whether the current interest rate level is still restrictive.

Executive Summary: Is the easing cycle soon coming to an end? (II)

- Other ECB representatives were similarly cautious about the ECB's future course of action. Bundesbank President Joachim Nagel, e.g., emphasized that "in view of the latest developments on the inflation front and given the high level of uncertainty, it is wise to take one step at a time in terms of monetary policy." He added that the ECB should not "rush into further interest rate cuts." Gabriel Makhoul, Governor of the Central Bank of Ireland, pointed out that "the disinflation process remains subject to risks" and it is therefore important to "stand ready to react to changes in the outlook, for both inflation and growth."
- The current inflation rate in the eurozone is 2.5% (YoY), which is mainly due to rising energy costs. At the same time, GDP growth stagnated at 0.1% (QoQ) in the fourth quarter of 2024. In addition, the latest tariff threats by US President Donald Trump are causing considerable uncertainty. Trump has announced plans to impose 25% tariffs on cars and other imports from the eurozone, which would put further pressure on the economic situation.
- Yannis Stournaras, the Greek representative on the ECB Governing Council, remained optimistic this week: "I don't think our next meeting is the right time to discuss a pause. It is still too early for that." He also emphasized that the key interest rates "are definitely still in restrictive territory" and that "if the situation continues like this" the ECB "should definitely bring interest rates down further." In his view, "interest rates will reach 2 percent by the autumn of this year," which will then "likely be the terminal rate."
- Our favorite quote comes from the head of the Belgian central bank, Pierre Wunsch: „I'm not pleading for a pause in April but we must not sleepwalk to 2% without thinking about it. Let's keep it open: If the data justify a new cut, we'll cut. If they don't, we might have to pause.“

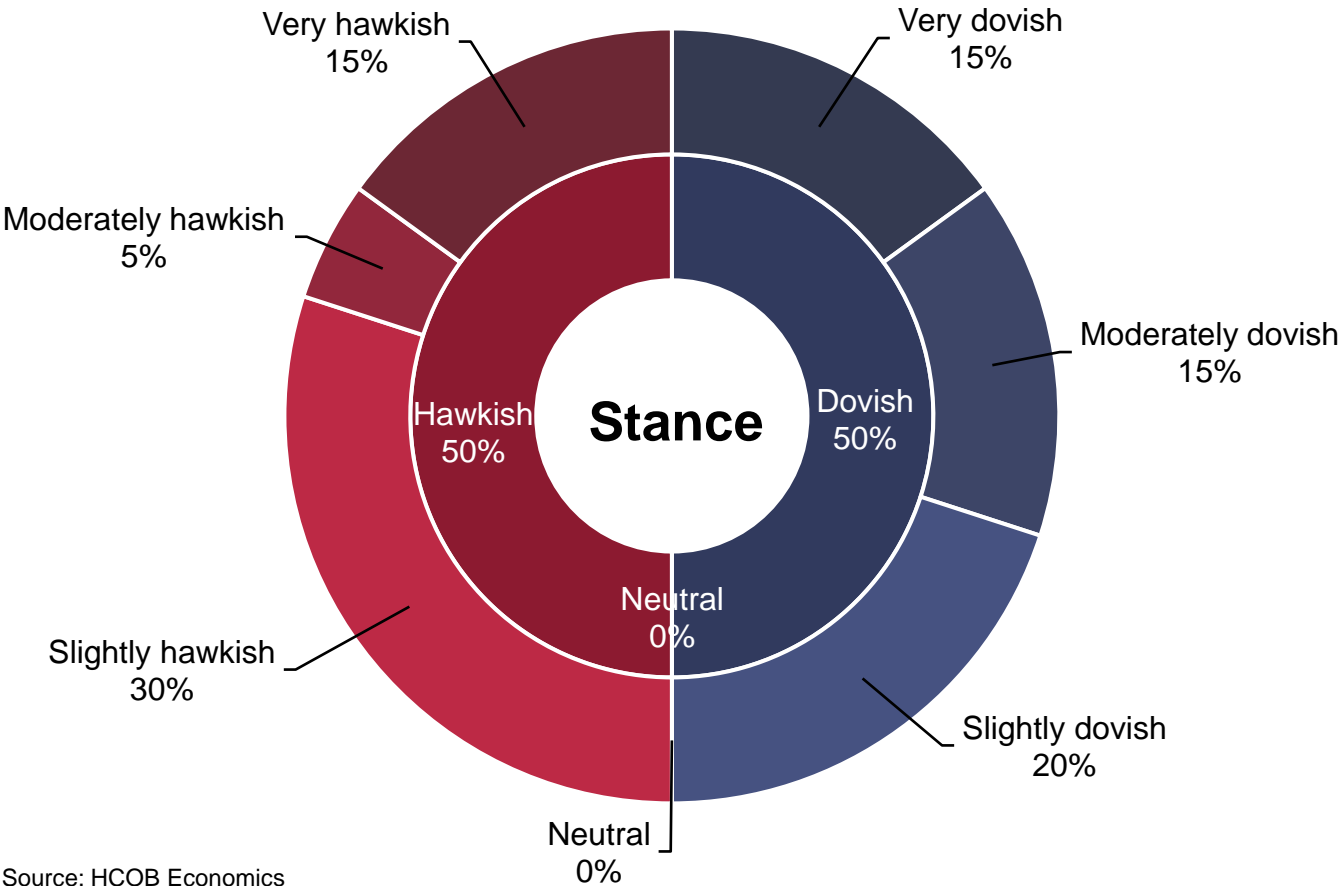
Around 95% of the ECB Governing Council (with voting rights) are likely to support a key interest rate cut at the meeting on March 6.



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.

In terms of monetary policy stance, the Governing Council is balanced at the meeting on March 6: There are an equal number of “Doves” and “Hawks”.

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.

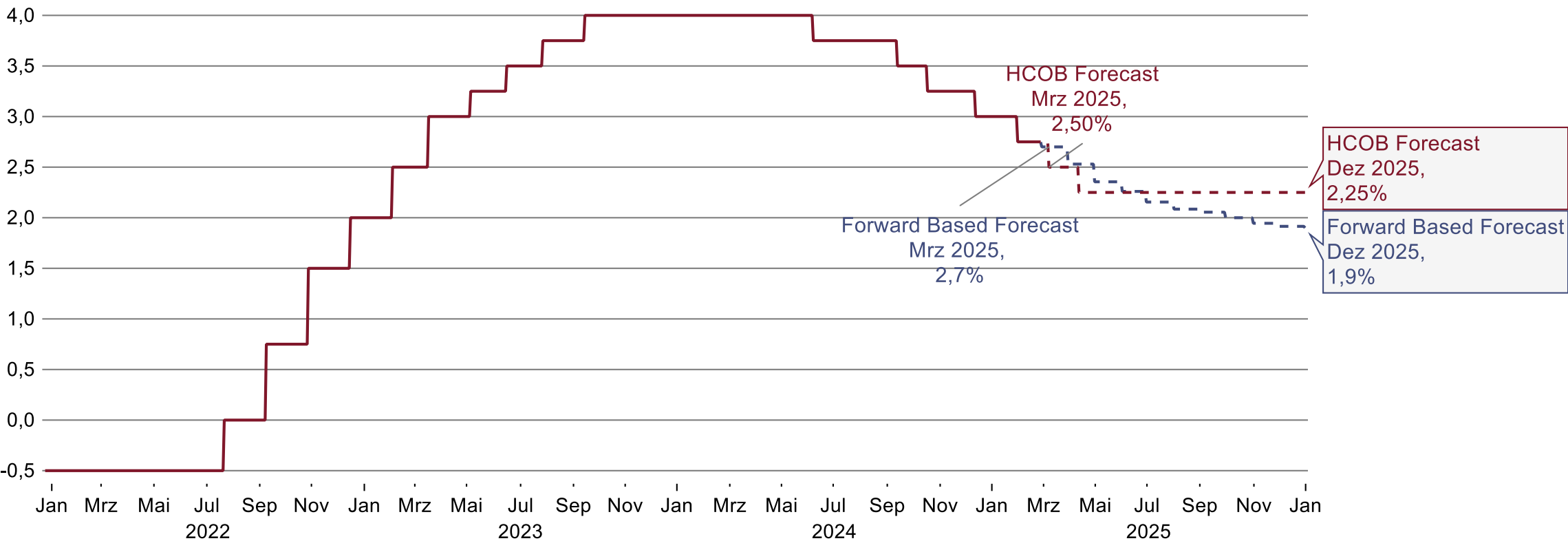
Some members of the Governing Council made it clear in their last speeches that a pause in interest rates could soon be discussed.

ECB Council Member	Position	Voting on Mar. 6, 2025	Bias for Mar. 6, 2025	General stance	Neutral rate*	Inflation (HICP, YoY, latest)	GDP (share of EZ in %)
Christine Lagarde	ECB President	Yes	Cut	Slightly hawkish	1.75 - 2.5	2,5	100
Luis de Guindos	ECB Vice-President	Yes	Cut	Moderately dovish	Unclear	2,5	100
Isabel Schnabel	ECB Board Member	Yes	Cut	Moderately hawkish	1.5 - 3.0	2,5	100
Piero Cipollone	ECB Board Member	Yes	Cut	Very dovish	Unclear	2,5	100
Philip R. Lane	ECB Board Member	Yes	Cut	Slightly dovish	2.0	2,5	100
Frank Elderson	ECB Board Member	Yes	Cut	Slightly hawkish	Unclear	2,5	100
NCB Official of							
Joachim Nagel	Germany	Yes	Cut	Very hawkish	2.0 - 3.0	2,8	26,8
François Villeroy de Galhau	France	Yes	Cut	Moderately dovish	2.0	1,8	20,5
Fabio Panetta	Italy	No	Cut	Very dovish	Unclear	1,7	15
José Luis Escrivá	Spain	Yes	Cut	Slightly dovish	Unclear	2,9	11,4
Klaas Knot	The Netherlands	Yes	Cut	Slightly hawkish	2.0 - 2.5	3	7,1
Pierre Wunsch	Belgium	Yes	Cut	Very hawkish	1.75 - 3	4,4	3,9
Gabriel Makhlouf	Ireland	Yes	Cut	Slightly hawkish	2.0 - 2.75	1,7	3,3
Robert Holzmann	Austria	Yes	Unclear	Very hawkish	2.5 - 3.0	3,4	3
Olli Rehn	Finland	Yes	Cut	Slightly dovish	2.2 - 2.8	1,7	1,8
Yannis Stournaras	Greece	Yes	Cut	Very dovish	2.0	3,1	1,8
Mário Centeno	Portugal	Yes	Cut	Very dovish	2.0	2,7	1,8
Peter Kažimír	Slovakia	Yes	Cut	Slightly hawkish	2.0 - 3.0	4,2	0,8
Boris Vujčić	Croatia	Yes	Cut	Slightly dovish	2.0 - 2.75	5	0,5
Gaston Reinesch	Luxembourg	No	Cut	Neutral	Unclear	2,4	0,5
Position currently vacant	Slovenia	No	Unclear	Neutral	Unclear	2,3	0,4
Gediminas Šimkus	Lithuania	No	Cut	Slightly dovish	2.0	3,4	0,4
Christodoulos Patsalides	Cyprus	Yes	Cut	Moderately dovish	1.5 - 3.0	2,9	0,2
Mārtiņš Kazāks	Latvia	No	Cut	Moderately hawkish	Unclear	3,1	0,2
Madis Müller	Estonia	Yes	Cut	Slightly hawkish	2.0 - 2.75	3,8	0,2
Alexander Demarco	Malta	No	Cut	Slightly dovish	Unclear	1,8	0,1

*This is the neutral interest rate (R star) estimated by the Governing Council members. R star is the key interest rate that has neither an expansionary nor a restrictive effect on the economy. A recent publication by the ECB suggests an estimate of 1.75 – 2.25% for R star. Not all members of the ECB Governing Council seem to support this assessment and estimate the neutral interest rate level to be higher.

Interest rate forecast from HCOB Economics: We expect another interest rate cut in March. However, the ECB could pause in April.

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

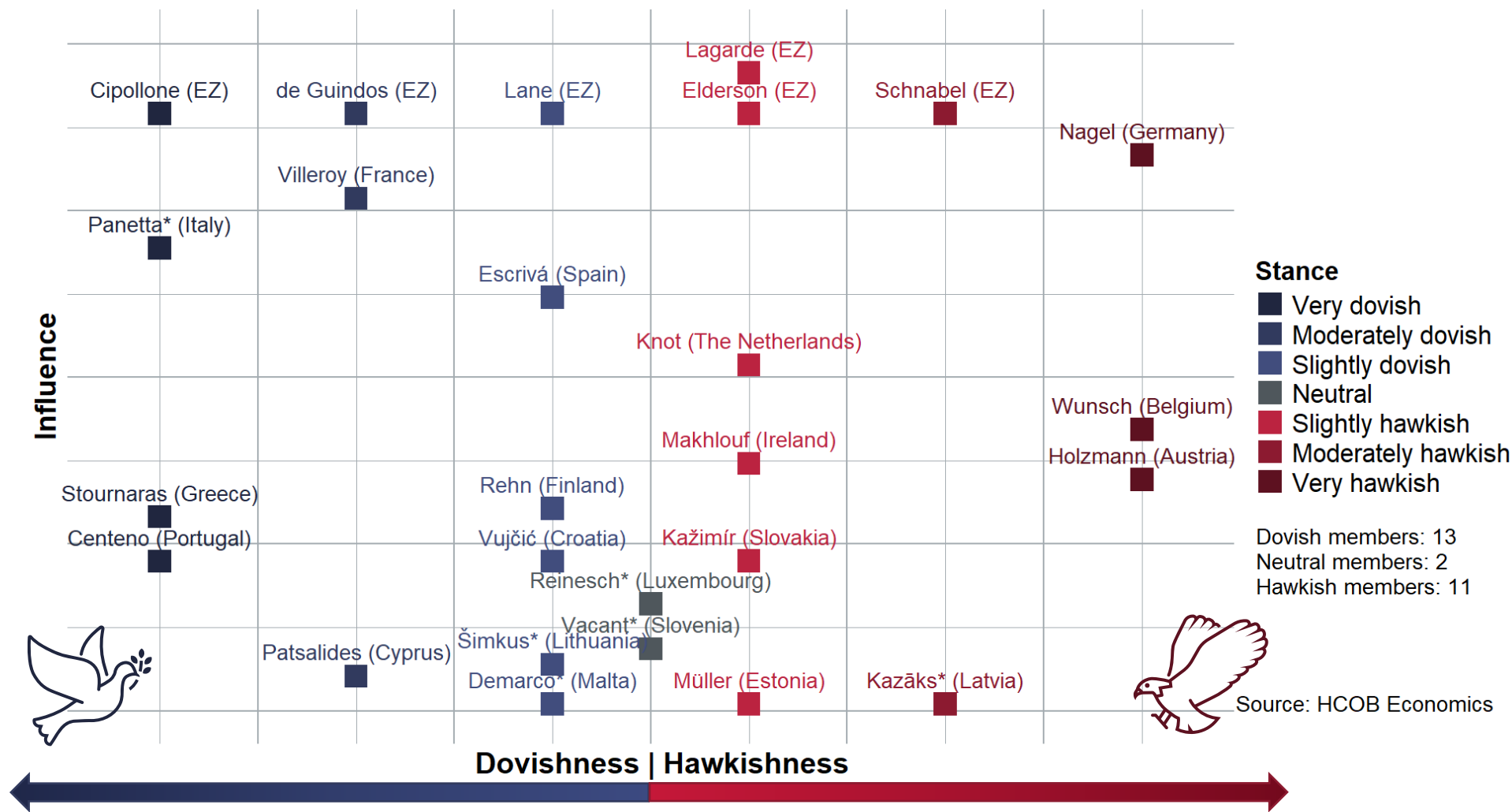


Source: Macrobond, HCOB Economics

Appendix

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

Influence and stance: In total, we classify 13 members as “dovish”, 11 as “hawkish” and two as “neutral”.



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 meeting on January 30, 2025 (I)

- **Christine Lagarde (ECB President):** “Inflation is set to return to our 2% medium-term target in the course of this year, with risks on both the upside and the downside.”
- **Luis de Guindos (ECB Vice-President):** “Now that we see inflation approaching our 2% target, we have been reducing the restriction of our monetary policy. How much lower rates will go depends on the data confirming that inflation is converging towards our target in a sustainable manner.”
- **Isabel Schnabel (ECB Board Member):** “I don’t know what’s going to happen in the next meetings, so let’s see. But we need to start that discussion [whether the ECB should pause its easing].”
- **Piero Cipollone (ECB Board Member):** “I don’t want to seem elusive, but the uncertainty is so high that anything can happen. We all agree there is still room for adjusting rates downwards. But we need to be extremely careful.”
- **Philip R. Lane (ECB Board Member):** “Balancing these considerations [that inflation might take longer than expected to reach the target but also that a too-cautious path could result in below-target inflation] suggest a middle path is appropriate [and] policymakers should deliver the monetary stance that is appropriate to the situation.”
- **Frank Elderson (ECB Board Member):** “We do not give any forward guidance. [...] When the time comes and we look back, we will be able to see.”

“One person, one quote”: quotes made since the last meeting on January 30, 2025 (II)

- **Joachim Nagel (NCB Official of Germany):** “Incoming data suggest that we are likely to reach our medium-term target of 2 % over the course of this year. This would allow us on the Governing Council to lower the key interest rates further.”
- **François Villeroy de Galhau (NCB Official of France):** “With such a ‘disinflationary slowdown’, the direction of the travel is clear: our monetary policy will go from restrictive towards neutral, and should support a gradual recovery while ensuring inflation is at our target.”
- **Fabio Panetta (NCB Official of Italy):** “[Threats for price developments come from energy markets but] overall, the available indicators seem to suggest that the predominant risk remains inflation falling below 2% over the medium term.”
- **José Luis Escrivá (NCB Official of Spain):** “No, I am not saying that [we should pause interest rate cuts]. I am saying that we must be cautious.”
- **Klaas Knot (NCB Official of the Netherlands):** “But when we are back at 2% inflation, that [monetary policy inhibiting economic activity] is no longer necessary, so gradually we are taking our foot off the brake, and trying to aim for the moment when we have recovered 2%.”
- **Pierre Wunsch (NCB Official of Belgium):** “I’m not pleading for a pause in April but we must not sleepwalk to 2% without thinking about it. Let’s keep it open: If the data justify a new cut, we’ll cut. If they don’t, we might have to pause.”

“One person, one quote”: quotes made since the last meeting on January 30, 2025 (III)

- **Gabriel Makhlouf (NCB Official of Ireland):** “[...] the disinflation process remains subject to risks [...]. We must stand ready to react to changes in the outlook, for both inflation and growth [e.g.] services inflation and wage growth could be more persistent than anticipated.”
- **Robert Holzmann (NCB Official of Austria):** “[I will go into that meeting] with an open mind, as always. There is some probability that we’ll cut [in March]; there is some probability that we won’t. But definitely, a decision in favour of another cut gets harder and harder, both now and beyond March.”
- **Olli Rehn (NCB Official of Finland):** “The last thing we need is a new trade war between allies but we need to take proportionate policy measures.”
- **Yannis Stournaras (NCB Official of Greece):** “[...] the easing interest rate path on which we have embarked should support activity.”
- **Mário Centeno (NCB Official of Portugal):** “[It is] pretty clear that we need to keep the trajectory of interest rates going down. [... The ECB’s key rate needs to reach 2%] sooner rather than later.”
- **Peter Kažimír (NCB Official of Slovakia):** “Inflation continues to cool toward our target. [...] However, I’m still waiting for unyielding confirmation that inflation remains on a downward course [...] Updated forecasts combined with incoming data about service inflation and wage development will help us navigate what will happen in April and beyond.”

“One person, one quote”: quotes made since the last meeting on January 30, 2025 (IV)

- **Boris Vujčić (NCB Official of Croatia):** “The market is pricing three more rate cuts this year. Given information we have today and the fact that inflation is developing along our projections, those expectations are not unreasonable.”
- **Gediminas Šimkus (NCB Official of Lithuania):** “We are not able to be precise about the pace and the path of rate cuts, but it’s clear that we are moving interest rates downwards, and I don’t see any good reason not to do another rate cut in March. We’ll see about April and June.”
- **Mārtiņš Kazāks (NCB Official of Latvia):** “Tariffs are used not only for the economy, but for political reasons also. If there is any response, then definitely we don’t need to escalate.”
- **Madis Müller (NCB Official of Estonia):** “It is quite realistic that, already by the middle of this year, [inflation] will be very close to the 2% target set by the central bank. [...] As the economic situation is still rather poor, it is also justified to cut interest rates again.”
- **The following ECB Governing Council members made no public statement since the last Governing Council meeting:**
 - Position currently vacant (NCB Official of Slovenia)
 - Gaston Reinesch (NCB Official of Luxembourg)
 - Christodoulos Patsalides (NCB Official of Cyprus)
 - Alexander Demarco (NCB Official of Malta)

Contact

Editing and shipment

Economics

Dr. Cyrus de la Rubia

Chief Economist

Tel: +49 160 90180792

cyrus.delarubia@hcob-bank.com

Dr. Tariq Chaudhry

Economist

Tel: +49 171 9159096

tariq.chaudhry@hcob-bank.com

Jonas Feldhusen

Junior Economist

Tel: +49 151 22942945

jonas.feldhusen@hcob-bank.com

Christian Eggers

Senior FX Trader

Tel: +49 171 8493460

christian.eggers@hcob-bank.com

Norman Liebke

Economist

Tel: +49 171 5466753

norman.liebke@hcob-bank.com

Nils Müller

Junior Economist

Tel: +49 171 3534492

nils.mueller@hcob-bank.com

Editorial deadline for this issue: February 28, 2025

You can find the glossary for our publications on the Hamburg Commercial Bank's website at: http://www.hcob-bank.de/publikationen_glossar

Gerhart-Hauptmann-Platz 50

20095 Hamburg

Phone 040-3333-0

Further contact persons

Capital Market Sales

Fritz Bedbur

Tel: +49 151 14651131

Boris Gettkowski

Tel: +49 175 2281619

Christoph Matthews

Tel: +49 160 97222509

Syndicate & Credit Solutions

Tim Boltzen

Tel: +49 151 15244845

Disclaimer

- The market information contained in this presentation is for informational purposes only.
- It can not substitute own market research or separate legal-, tax- and financial advice and information. This information is a marketing communication by the meaning of Section 63 Paragraph 6 German Securities Trading Act [“Wertpapierhandelsgesetz”, “WpHG”] and Article 24 Paragraph 3 of the Directive 65/2014/EU. This information does not contain 'information recommending or suggesting in investment strategy' or 'investment recommendations' (“investment research”) by the meaning of Section 2 Paragraph 9 Point 5 WpHG or Article 3 Paragraph 1 Point 34 and Point 35 of the Regulation (EU) No. 596/2014. Therefore, this information is not prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. This presentation does not constitute an offer to buy or sell certain assets.
- Hamburg Commercial Bank AG points out that the herein published market information is only meant for investors with own economical experience, who are able to evaluate the risks and chances of the herein discussed market / markets and who are themselves able to conduct research through a variety of sources. The statements and data contained in this presentation are based on either thorough research by Hamburg Commercial Bank AG or on sources that are considered reliable but cannot be verified. Hamburg Commercial Bank AG regards the sources used as reliable but can not assess their reliability with absolute certainty. Single pieces of information could only be assessed regarding their plausibility; an assessment regarding their accuracy has not been made. Furthermore, this presentation contains estimates and predictions based upon numerous assumptions and subjective evaluations made by Hamburg Commercial Bank AG as well as outside sources. This information is only meant to provide non-binding perceptions of markets and products as of the time this presentation was issued. Hamburg Commercial Bank AG and its respective employees thoroughly conducted work on this presentation but can not guarantee completeness, actuality and accuracy of the provided information and predictions.
- This document may only be distributed in compliance with the legal regulations in the respective countries and persons obtaining possession of this document should inform themselves about and comply with the applicable local regulations.
- This document does not contain all material information needed for economic decisions and the information and predictions provided can vary from those made by other sources / market participants. Hamburg Commercial Bank AG as well as their organizational bodies and employees can not be held responsible for losses resulting from the use of this presentation, its contents or for losses which in any way are connected to this presentation.
- Hamburg Commercial Bank AG points out that it is not allowed to disseminate this presentation or any of its contents. Damages to Hamburg Commercial Bank AG resulting from the unauthorised dissemination of this presentation or any of its contents have to be compensated for by the disseminator. The disseminator has to keep Hamburg Commercial Bank AG free from all claims arising from the unauthorised dissemination of this presentation or any of its contents and all legal cost in connection with those claims. This particularly applies to a dissemination of this presentation to U.S. Persons or persons situated in United Kingdom.