

ECB Watcher

No rush

HCOB Economics

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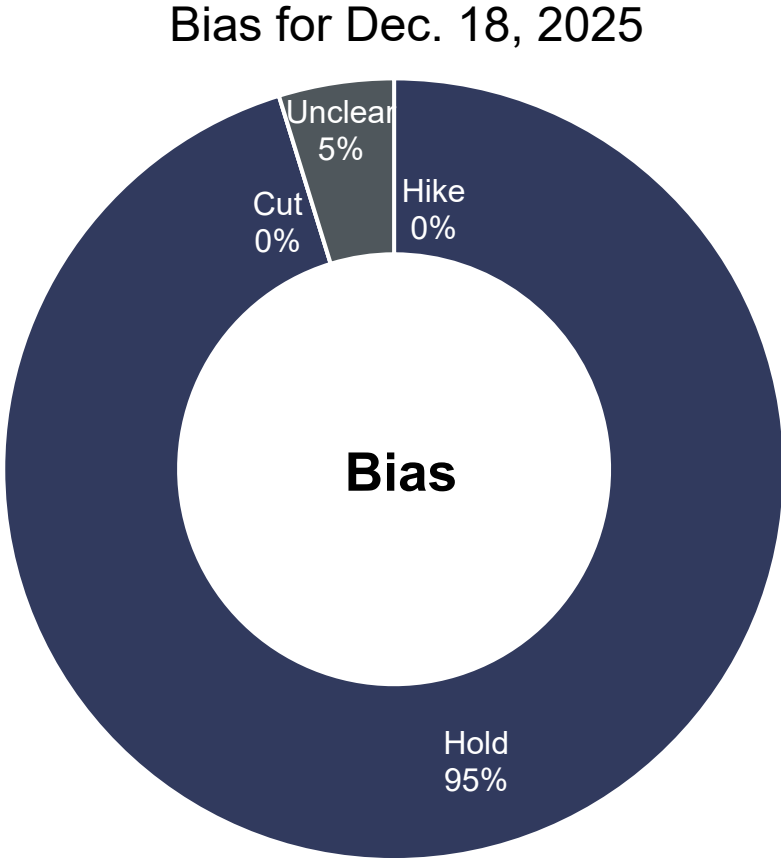
Executive Summary: No rush (I)

- At the upcoming ECB meeting on Thursday, December 18, no change in key interest rates is expected. The ECB Governing Council appears united: 95% of voting members have recently stated that maintaining the current level of interest rates is appropriate. This is based on our analysis of their speeches and interviews.
- Currently, key interest rates in the eurozone stand at 2.00% (deposit facility rate) and 2.15% (main refinancing rate). The ECB is likely to keep this level until the second half of 2026. After that, we expect two moderate rate hikes of 25 basis points each, projected for late 2026 and early 2027.
- Market expectations are similar: the forward path derived from ESTR futures has recently shifted upward, so instead of an unchanged policy, markets now anticipate a rate hike of about 25 basis points by the end of 2027, with this adjustment being driven by rising inflation expectations.
- Our interest rate forecast is also based on an expected increase in inflation in 2026 and 2027. Key drivers include higher fiscal spending – especially on investment and defense in Germany – as well as structural factors such as global trade fragmentation, a persistent labor shortage due to demographics, and rising climate protection costs. As a result, we expect inflation to move away from the 2% target and settle in the range of 2.5% to 3% in the medium term.
- The communication from ECB Governing Council members has remained largely unchanged, and we expect the core message to stay consistent in the coming weeks and months. The tone remains that inflation will stay close to the 2% target in the next quarters, risks to inflation and GDP growth are balanced, and the current interest rate level is appropriate.
- The new macroeconomic projections by ECB experts, to be published during the December meeting, are likely to confirm the Council's wait-and-see stance. We expect slightly upward revisions that still show stable inflation dynamics and subdued economic growth. ECB President Christine Lagarde and Executive Board member Isabel Schnabel have already hinted at an upward adjustment to the current GDP growth forecast.

Executive Summary: No rush (II)

- Similarly, the position of some dovish national central bank governors has hardly changed: François Villeroy de Galhau (France), Olli Rehn (Finland), Boris Vujčić (Croatia), and Mārtiņš Kazāks (Latvia) still see inflation risks as somewhat tilted downward. They cite lower energy prices, euro appreciation against the US dollar, diversion of Chinese goods to Europe, and the postponement of ETS2 emissions trading as reasons. However, none of them openly advocated for another rate cut.
- In contrast, Isabel Schnabel's recent comments stood out. In a Bloomberg interview in early December, she expressed general satisfaction with the ECB's current monetary stance but hinted that she expects a rate hike as the next step. When asked whether analysts' and markets' expectations of a rate hike were correct, she replied: "I feel quite comfortable with these expectations."
- Beyond monetary policy, another topic currently shaping the ECB is the question of future appointments to the Executive Board. The term of ECB Vice President Luis de Guindos ends in May 2026, and discussions about his successor are already in full swing. The Eurogroup is expected to meet in early 2026 to reach a consensus so that the European Council can make an early decision. The current favorite is Olli Rehn, Governor of the Bank of Finland, who has already signaled his willingness to take the position. Other names being considered include Pablo Hernández de Cos (former Governor of the Bank of Spain), Mário Centeno (former Governor of the Bank of Portugal), Clara Raposo (Deputy Governor of the Bank of Portugal), and Boris Vujčić (Governor of the Croatian National Bank).
- Our favorite quote this time comes from Finnish central bank governor Olli Rehn. When asked about the usefulness of an "insurance cut" – a precautionary rate cut not triggered by acute risks but intended to preempt potential risks – he replied: "We're not in the insurance business – not in December, March or June. So, my response [that our decisions are based on a meeting-by-meeting approach and that we're not committed to any predetermined rate path] would be the same over time."

The members of the ECB Governing Council agree: 95% share the view that the current key interest rate level is appropriate.

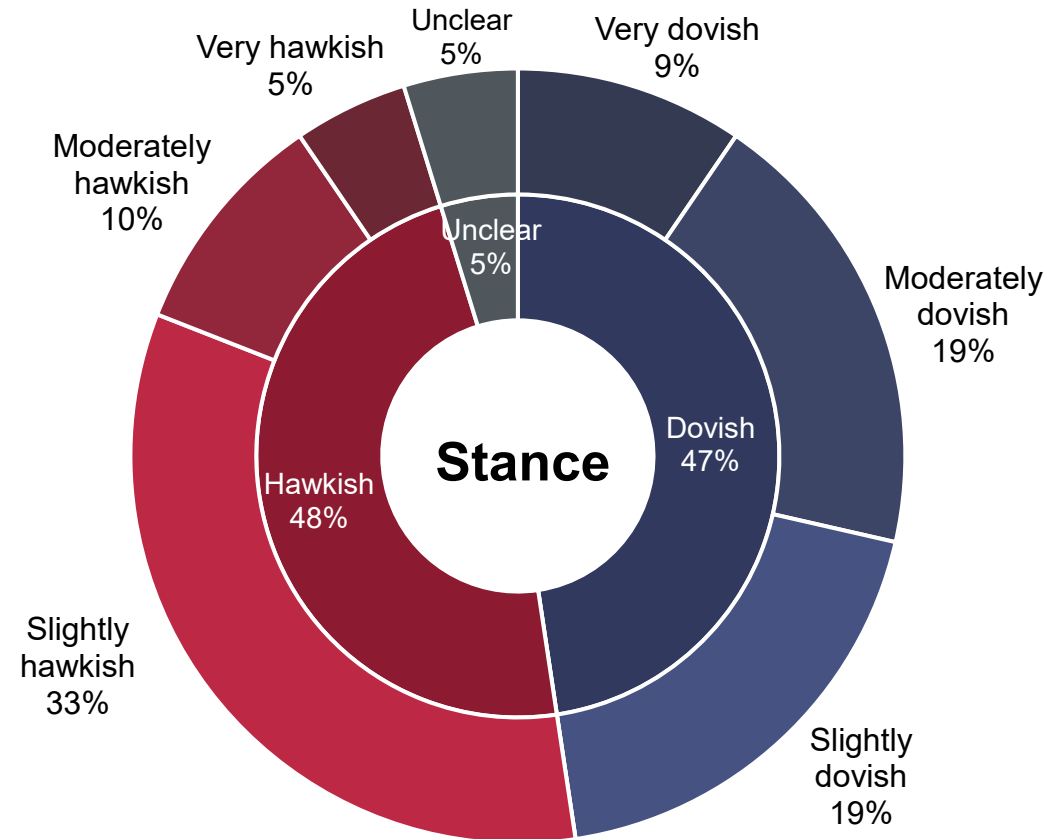


Source: HCOB Economics

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 general stance of the ECB Governing Council is relatively central, with most members taking a slightly hawkish position.

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.

Unclear includes persons whom we cannot assign to any stance due to few or no statements.

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 Governing Council member is based on an subjective qualitative judgement from HCOB Economics. Only members with a voting right are considered in this figure.

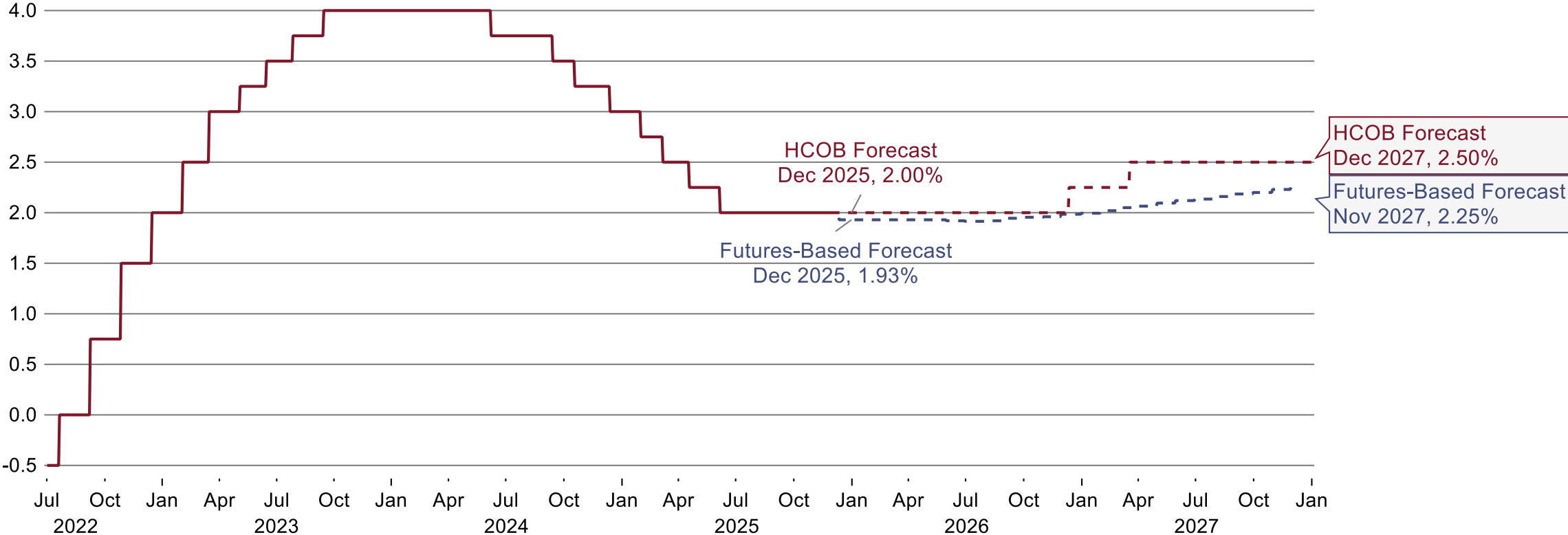
Source: HCOB Economics

Villeroy, Rehn, Vujčić, and Kazāks once again emphasized downside risks for inflation, but still seem to consider the current interest rate level to be appropriate.

ECB Council Member	Position	Voting on Dec. 18, 2025	Bias for Dec. 18, 2025	General stance	Inflation (HICP, YoY, latest)	GDP (share of EZ in %)
Christine Lagarde	ECB President	Yes	Hold	Slightly hawkish	2.2	100
Luis de Guindos	ECB Vice-President	Yes	Hold	Moderately dovish	2.2	100
Isabel Schnabel	ECB Board Member	Yes	Hold	Very hawkish	2.2	100
Piero Cipollone	ECB Board Member	Yes	Hold	Moderately dovish	2.2	100
Philip R. Lane	ECB Board Member	Yes	Hold	Slightly dovish	2.2	100
Frank Elderson	ECB Board Member	Yes	Hold	Slightly hawkish	2.2	100
NCB President of						
Joachim Nagel	Germany	Yes	Hold	Moderately hawkish	2.6	26.4
François Villeroy de Galhau	France	No	Hold	Very dovish	0.8	20.5
Fabio Panetta	Italy	Yes	Hold	Very dovish	1.1	14.9
José Luis Escrivá	Spain	Yes	Hold	Slightly dovish	3.1	11.4
Olaf Sleijpen	The Netherlands	Yes	Hold	Slightly hawkish	2.6	7
Pierre Wunsch	Belgium	Yes	Hold	Slightly hawkish	2.6	3.9
Gabriel Makhlouf	Ireland	Yes	Hold	Slightly hawkish	3.2	3.9
Martin Kocher	Austria	No	Hold	Slightly hawkish	4.1	3
Olli Rehn	Finland	Yes	Hold	Moderately dovish	1.4	1.8
Yannis Stournaras	Greece	Yes	Hold	Very dovish	2.9	1.8
Álvaro Santos Pereira	Portugal	No	Hold	Slightly dovish	2.1	1.8
Peter Kažimír	Slovakia	Yes	Hold	Slightly hawkish	3.8	0.8
Boris Vujčić	Croatia	Yes	Hold	Slightly dovish	4.3	0.5
Gaston Reinesch	Luxembourg	Yes	Unclear	Unclear	3.6	0.5
Vacant	Slovenia	No	Unclear	Unclear	2.4	0.4
Gediminas Šimkus	Lithuania	Yes	Hold	Moderately dovish	3.6	0.4
Christodoulos Patsalides	Cyprus	Yes	Hold	Slightly dovish	0.2	0.3
Mārtiņš Kazāks	Latvia	Yes	Hold	Slightly hawkish	3.8	0.2
Madis Müller	Estonia	Yes	Hold	Moderately hawkish	4.7	0.2
Edward Scicluna	Malta	No	Hold	Slightly dovish	2.4	0.1

Interest rate forecast by HCOB Economics: We expect the next step to be a rate hike in the second half of 2026.

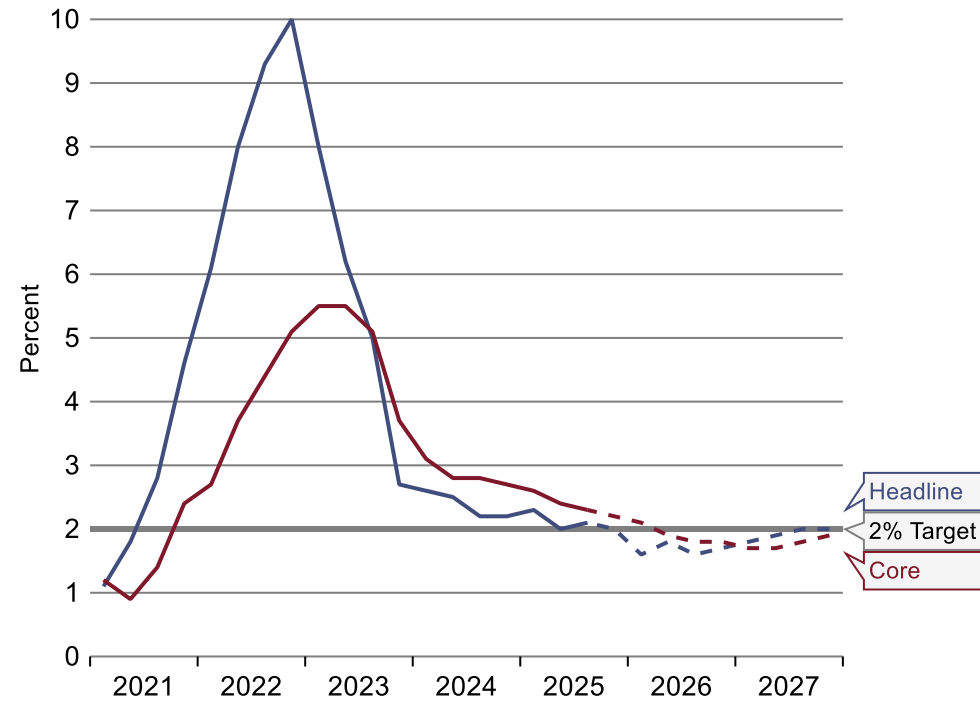
ECB Deposit Facility Rate Forecast of HCOB Economics and Forecast based on ESTR Futures



Source: Macrobond, HCOB Economics

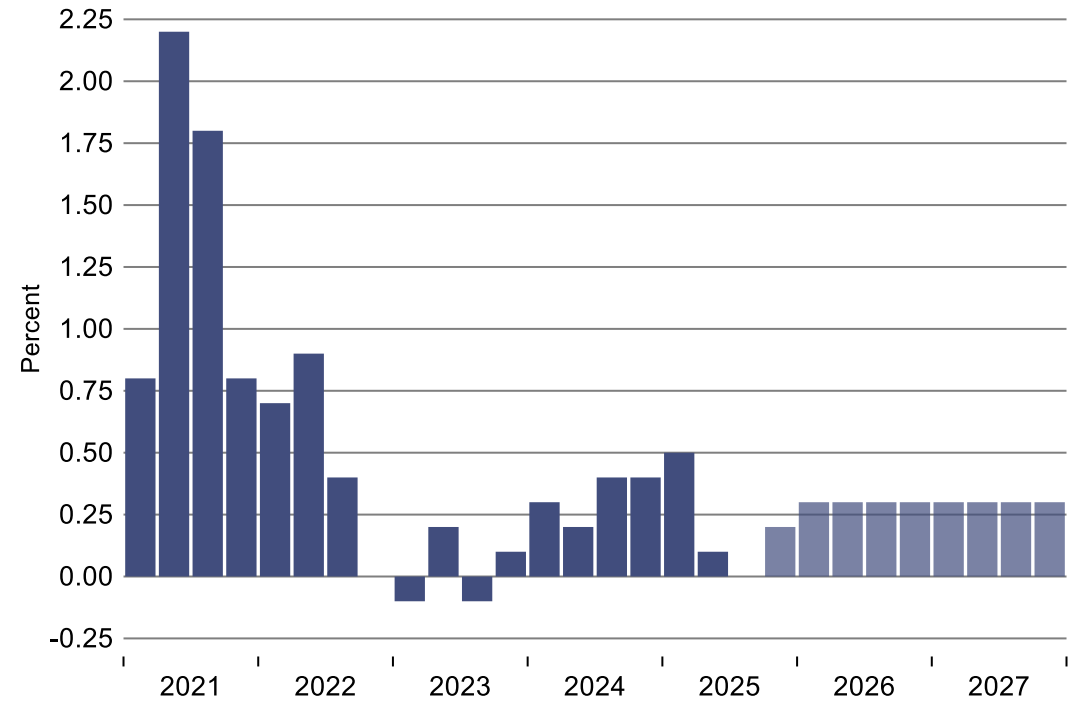
ECB projections from September: ECB President Lagarde expects an upward revision to the GDP growth forecast in the December projections.

Eurozone HICP Inflation and ECB Macroeconomic Projections, YoY, September 2025



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

Eurozone Real GDP Growth and ECB Macroeconomic Projections, QoQ, September 2025



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

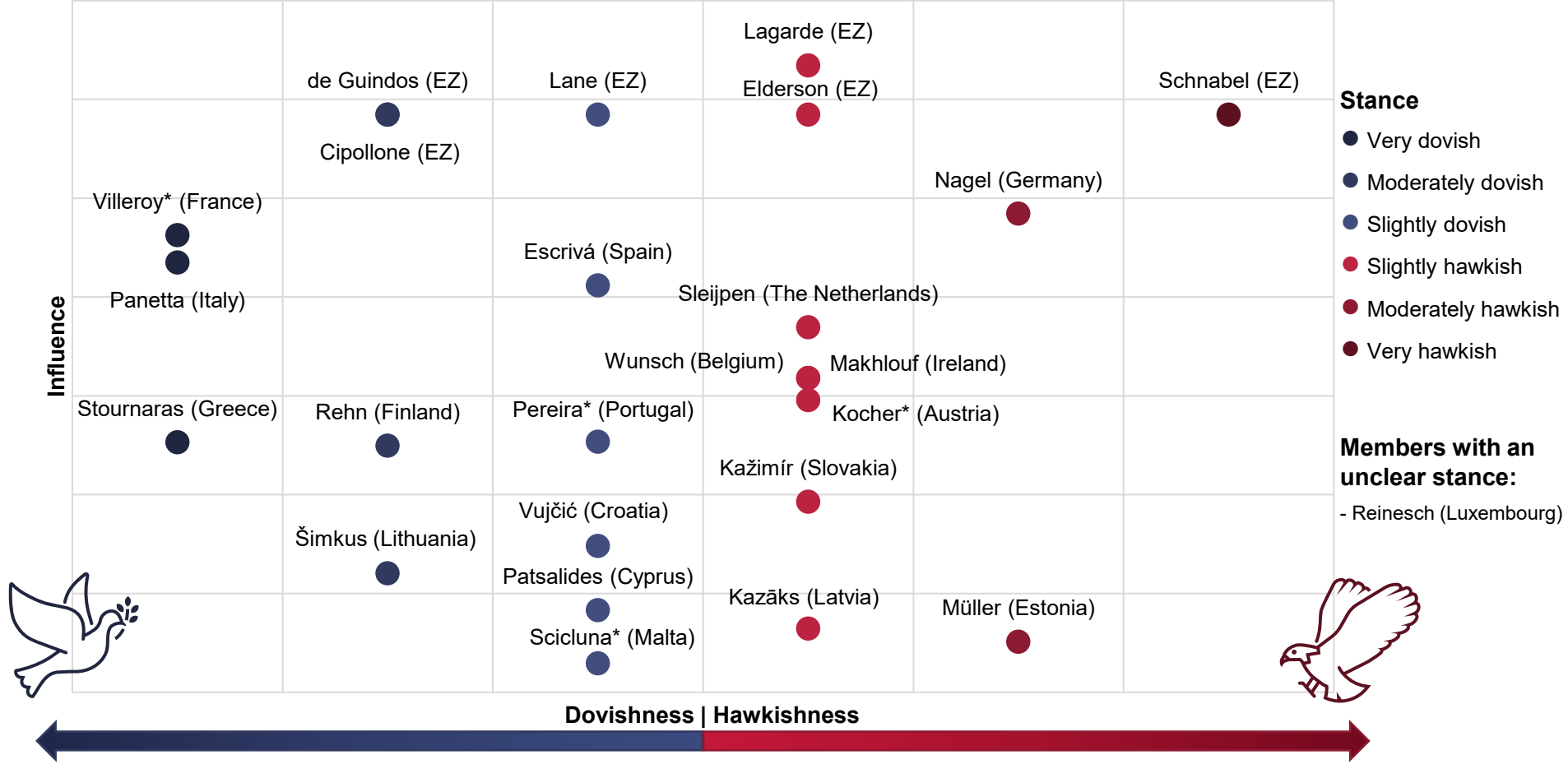
Appendix

- **Reshuffling in the ECB Governing Council:**
- **Influence and stance**
- **“One person, one quote”**

Reshuffling in the ECB Governing Council: Next year, Dimitar Radev will represent Bulgaria on the ECB Governing Council. We classify him as a moderate hawk.

Current representative	Country / Position	Stance	End of Term	Succession Status
Boštjan Vasle	Slovenia	—	08.01.2025	No successor has been appointed yet. Primož Dolenc (<i>hawkish</i>) is acting as interim governor without voting rights on the ECB Governing Council.
Peter Kažimír	Slovakia	Hawkish	01.06.2025	No successor appointed yet. Remains in office with full voting rights. Reappointment unlikely.
Edward Scicluna	Malta	Dovish	31.12.2025	No successor has been appointed yet. Alexander Demarco (<i>dovish</i>), Deputy Governor of the Central Bank of Malta, is considered the most likely candidate.
—	Bulgaria	—	—	Dimitar Radev (<i>hawkish</i>), Governor of the Bulgarian National Bank, will become a new member of the ECB Governing Council when Bulgaria joins the euro on January 1, 2026.
Gediminas Šimkus	Lithuania	Dovish	30.03.2026	No successor has been appointed yet.
Luis de Guindos	Vice President	Dovish	31.05.2026	The Eurogroup is expected to reach a consensus in early 2026 so that the European Council can decide on the appointment in good time. Olli Rehn (<i>dovish</i>), Governor of the Bank of Finland, has already expressed interest in the position and is considered the favorite. Other candidates include Pablo Hernández de Cos (<i>dovish</i>), former Governor of the Bank of Spain, Mário Centeno (<i>dovish</i>), former Governor of the Bank of Portugal, Clara Raposo (<i>dovish</i>), Deputy Governor of the Bank of Portugal, and Boris Vujčić (<i>dovish</i>), Governor of the Croatian National Bank.
Madis Müller	Estonia	Hawkish	06.06.2026	Ülo Kaasik (<i>hawkish</i>), Deputy Governor of the Bank of Estonia, was appointed as his successor.
Yannis Stournaras	Greece	Dovish	26.06.2026	No successor has been appointed yet. There is speculation that his term of office may be extended.
Gabriel Makhlouf	Ireland	Hawkish	31.08.2026	No successor has been appointed yet.

Influence and stance: We consider Schnabel to be the only member of the Council who is very hawkish.



Note 1: Influence gauge is based on share of eurozone GDP. Governing Council members with no voting right 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 a subjective qualitative judgement from HCOB Economics.

“One person, one quote”: Quotes made since the October meeting (I)

- **Christine Lagarde (ECB President):** “We expect inflation to stay around our 2% target in the coming months. Risks to the outlook continue to be two-sided, while uncertainty remains higher than usual owing to volatile global trade policies.”
- **Luis de Guindos (ECB Vice-President):** “But let me say it again: provided the circumstances don’t change, the current level of interest rates is appropriate.”
- **Isabel Schnabel (ECB Board Member):** “The distribution of inflation risks has shifted to the upside, and accordingly, both markets and survey participants expect that the next rate move is going to be a hike, albeit not anytime soon. [...] I’m rather comfortable with those expectations.”
- **Piero Cipollone (ECB Board Member):** “So for the time being – as the President has said several times – we are in a good place. And we stand ready to react to any shock.”
- **Philip R. Lane (ECB Board Member):** “It is straightforward that small inflation deviations that are not expected to persist do not call for a monetary policy response.”
- **Frank Elderson (ECB Board Member):** “The current level is appropriate, but we will continue to be data-dependent and will decide one meeting at a time.”

“One person, one quote”: Quotes made since the October meeting (II)

- **Joachim Nagel (NCB Official of Germany):** “Our goal is an inflation rate of 2% in the medium term. We have practically achieved this, and the inflation rate will continue to fluctuate around this value in the near future.”
- **François Villeroy de Galhau (NCB Official of France):** “We are, as President Christine Lagarde has observed, ‘in a good place’. But a good position is not a comfortable one nor a fixed one [...]. The downside risks on the inflation outlook remain at least as significant as the upside risks, and we would not tolerate a lasting undershooting of our inflation target.”
- **Olaf Sleijpen (NCB Official of the Netherlands):** “Are we still in a good place? Yes, I think we’re still in a good place.”
- **Gabriel Makhoul (NCB Official of Ireland):** “I’m comfortable with where we are right now. I’ll need to see pretty compelling evidence to move.”
- **Martin Kocher (NCB Official of Austria):** “I am of the view that slight deviations above or below the 2% target should not trigger action, because we cannot and do not want to pursue this kind of monetary policy micromanagement.”
- **Olli Rehn (NCB Official of Finland):** “The strengthening of the euro this year is still passing through, and the growth outlook is still relatively subdued. [...] So, downside risks [to inflation] dominate slightly for the moment, but there are also upside risks.”

“One person, one quote”: Quotes made since the October meeting (III)

- **Yannis Stournaras (NCB Official of Greece):** “If a drop in interest rates is not going to change the situation, then why I should I do it?”
- **Álvaro Santos Pereira (NCB Official of Portugal):** “[The ECB is in a] good position [with the deposit facility rate at 2%. Nonetheless, it is] also important to maintain room for maneuver in interest rates in case new shocks occur.”
- **Peter Kažimír (NCB Official of Slovakia):** “I see no reason to move in the coming months. Definitely not in December, then we’ll see.”
- **Boris Vujčić (NCB Official of Croatia):** “We should not try to micromanage inflation. If we don't see persistent pressure for inflation to come up or down, we should not change interest rates. Doing too much would just create unnecessary volatility. As I said, for the time being we are in a good place.”
- **Gediminas Šimkus (NCB Official of Lithuania):** “The key interest rate, in principle, corresponds to the entire current economic situation and helps to achieve the inflation target.”
- **Mārtiņš Kazāks (NCB Official of Latvia):** “The only thing I can very clearly say is that currently available data do not, in my view, warrant a strong discussion on changing the policy rates. [The current] 2% is appropriate for the situation.”
- **Madis Müller (NCB Official of Estonia):** “[Monetary policy is] now in the place where it’s consistent with the economic cycle and outlook for the inflation.”

“One person, one quote”: Quotes made since the October meeting (IV)

- **Edward Scicluna (NCB Official of Malta):** “If we’re close to the 2% target, why mess up? If it ain’t broke, don’t fix it.”
- **The following members of the Governing Council of the ECB have not made any relevant public statements on monetary policy since the last meeting:**
 - Fabio Panetta (NCB Official of Italy)
 - José Luis Escrivá (NCB Official of Spain)
 - Pierre Wunsch (NCB Official of Belgium)
 - Position currently vacant (NCB Official of Slovenia)
 - Christodoulos Patsalides (NCB Official of Cyprus)
 - Gaston Reinesch (NCB Official of Luxembourg)

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