

ESSENTIALS OF MONETARY POLICY

European Central Bank (ECB)

Rates Raised Another 50 Points Despite the Recent Market Turmoil

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HIGHLIGHTS

- ▶ The European Central Bank (ECB) has decided to raise its key rates by another 50 points. Interest rates on the main refinancing operations, marginal lending facility and deposit facility have been increased to 3.50%, 3.75% and 3.00% respectively.
- ▶ Inflation projections have been downgraded, mainly due to lower energy prices. Inflation is expected to average 5.3% in 2023, 2.9% in 2024 and 2.1% in 2025. Inflation excluding food and energy is expected to average 4.6% in 2023, up from the December projection. It should then return to 2.5% in 2024 and 2.2% in 2025.
- ▶ The economic growth projection for 2023 has been revised upward from 0.5% to 1.0%. The projections are nevertheless slightly more pessimistic for 2024 and 2025, at 1.6%.
- ▶ The new macroeconomic projections presented today were finalized in early March, prior to the emergence of recent financial market tensions. These tensions create additional uncertainty about the baseline inflation and growth scenarios.
- ▶ The Governing Council did not commit itself on the next monetary policy decisions. Decisions will be made based on the assessment of the inflation outlook given the economic and financial data, the underlying inflation dynamics, and the strength of transmission of monetary policy.

COMMENTS

It was not an ideal time to announce an interest rate hike. The tensions that have recently emerged in the financial system add a lot of uncertainty and could have prompted the ECB to be more cautious. Lastly, the still-too-high inflation justified further monetary tightening. Even if energy prices are weaker than anticipated, other factors including wage growth, profit growth,

a more resilient economy, and high inflation expectations, will likely delay the return to the inflation target.

However, the ECB is not turning a blind eye to the recent financial system tensions. These bring a downside risk to the inflation and economic growth projections. The projections released today do not incorporate the effect of these tensions, as they were completed in early March. This makes the future path of interest rates more difficult to predict. Moreover, the ECB has not sent a clear signal on its next decisions. These will depend on upcoming economic and inflation data, as well as market developments.

IMPLICATIONS

If financial tensions ease, the ECB is likely to continue monetary tightening, but if the situation worsens, it may want to take a more cautious approach. That said, it also has several tools at its disposal to support the financial system, while continuing to adjust interest rates in line with its inflation target. For now, we expect two more 25-basis-point increases by the summer.

2023 Schedule of Central Bank Meetings

Date	Central bank	Decision	Rate
January			
13	Bank of Korea	+25 b.p.	3.50
18	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
February			
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia	+25 b.p.	3.35
9	Bank of Sweden	+50 b.p.	3.00
9	Bank of Mexico	+50 b.p.	11.00
21	Reserve Bank of New Zealand	+50 b.p.	4.75
23	Bank of Korea	unchanged	3.50
March			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada	unchanged	4.50
10	Bank of Japan	unchanged	-0.10
16	European Central Bank	+50 b.p.	3.50
22	Bank of Brazil		
22	Federal Reserve		
23	Bank of England		
23	Bank of Norway		
23	Swiss National Bank		
30	Bank of Mexico		
April			
4	Reserve Bank of Australia		
4	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Bank of Sweden		
28	Bank of Japan		
May			
2	Reserve Bank of Australia		
3	Bank of Brazil		
3	Federal Reserve		
4	European Central Bank		
4	Bank of Norway		
11	Bank of England		
18	Bank of Mexico		
23	Reserve Bank of New Zealand		
25	Bank of Korea		
June			
6	Reserve Bank of Australia		
7	Bank of Canada		
14	Federal Reserve		
15	European Central Bank		
16	Bank of Japan		
21	Bank of Brazil		
22	Bank of England		
22	Bank of Norway		
22	Bank of Mexico		
22	Swiss National Bank		
29	Bank of Sweden		

Date	Central bank	Decision	Rate
July			
4	Reserve Bank of Australia		
11	Reserve Bank of New Zealand		
12	Bank of Canada*		
13	Bank of Korea		
26	Federal Reserve		
27	European Central Bank		
28	Bank of Japan		
August			
1	Reserve Bank of Australia		
2	Bank of Brazil		
3	Bank of England		
10	Bank of Mexico		
15	Reserve Bank of New Zealand		
17	Bank of Norway		
24	Bank of Korea		
September			
5	Reserve Bank of Australia		
6	Bank of Canada		
14	European Central Bank		
20	Bank of Brazil		
20	Federal Reserve		
21	Bank of England		
21	Bank of Norway		
21	Swiss National Bank		
22	Bank of Japan		
28	Bank of Mexico		
**	Bank of Sweden		
October			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
19	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
31	Bank of Japan		
November			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
28	Reserve Bank of New Zealand		
30	Bank of Korea		
**	Bank of Sweden		
December			
4	Reserve Bank of Australia		
6	Bank of Canada		
13	Bank of Brazil		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
19	Bank of Japan		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. * Monetary Policy Report published; ** To be determined.