

## ECB update

### Rates have peaked, cuts on the horizon

- All key interest rates increased by another 25 basis points, to record high levels
- We maintain our forecast that this was the last rate increase in the current hiking cycle

As we have expected, today the Governing Council has delivered a dovish hike – all key ECB interest rates were increased by another 25 basis points, to the record highs. The Governing Council now thinks that the key interest rates have reached sufficiently high levels and that, “maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target”. How long?

In line with our expectations the ECB staff have lowered economic growth projections, to 1.0% in 2024 (we forecast an even more modest growth of 0.6% with more pronounced downside risks). Contrary to our expectation, however, the ECB has revised upwards its inflation forecasts for 2024 – it now expects headline inflation at 3.2% (mainly due to higher energy prices) and core inflation at 2.9%. We forecast that core inflation will decline more rapidly and will be around 0.5% lower than expected by the ECB.

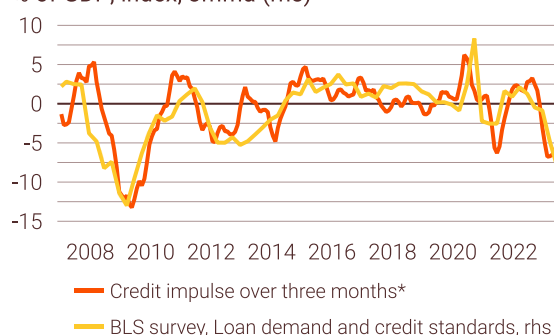
Monetary policy will become increasingly more restrictive through two channels – real rates will continue climbing rapidly as inflation recedes, while credit conditions will be restrictive and credit impulse will remain negative. PMIs and leading indicators point to continued weakness in demand which will significantly reduce business pricing power and may even lead to shrinking profit margins, which will accelerate disinflation process. Thus, we maintain our forecast that the ECB will start cutting rates as soon as April 2024, sooner than currently expected by the markets.

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#### Euro area: financial conditions and lending

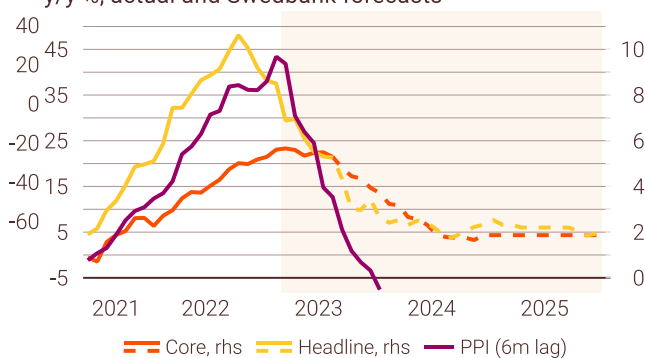
% of GDP; index, 3mma (rhs)



Sources: Swedbank Research & Macrobond  
\*change in the flow of credit

#### Euro area producer and consumer prices

y/y %, actual and Swedbank forecasts



Sources: Swedbank Research & Macrobond

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