Paris, 3 June 2024

EcoBrief

Eurozone: what to expect from this week's ECB meeting?

The ECB's meeting on 6 June, as well as the statement and press conference that will follow, are very much awaited, not because the outcome is uncertain, but because it should mark the start of the ECB's rate-cutting cycle. Some points to note:

1. The expected ECB 25-basis-point policy rate cut is almost a done deal, which rarely happens and deserves to be emphasized. This first cut was well-signaled in the ECB's communication and has been supported by the data on balance. Failure to deliver would undermine the ECB's credibility, which is essential for the proper transmission of monetary policy.

2. Admittedly, Eurostat's flash estimate of Eurozone inflation for May was somewhat higher than expected, negotiated wages' growth was stronger in Q1-2024 than in Q4-2023, and signs of recovery are continuing. But this should not prevent the ECB from making this first expected rate cut.

3. On the other hand, these factors, in particular activity regaining momentum, argue for a gradual easing (no back-to-back cut in July) accompanying the fall in inflation, as advocated by the ECB. We will be attentive in the press conference to any language that is in line with this message, for the ECB to give as much visibility as possible without tying its hands: not to pre-commit but to point to a bias to cut further.

4. We expect 6 rate cuts over this cycle, each 25 bp, that would bring the deposit rate back to the high range of our neutral rate estimate (2.50%). Christine Lagarde could be asked about this neutral rate, but if she answers, it will probably be to stress the difficulty of estimating it and therefore of referring to it. We forecast a quarterly pace of rate cuts, alongside the ECB updated set of economic forecasts (September and December this year and March, June, and September next year).

5. The June forecasts are expected to show only marginal adjustments compared to March (an upward revision of 2024 growth thanks to a more positive than expected Q1; an upward revision of the inflation forecast for 2024 and 2025 due to higher oil prices). We expect that Q3 2025 will still mark the return of inflation to the 2% target. The ECB should continue to consider that the risks to growth are rather tilted on the downside, and that the return of inflation to the target remains conditional on the improvement of the wage-profit-productivity triangle (slower wages growth, compression of profit margins, recovery in productivity gains).

6. The ECB should stress, as usual, that its future decisions will remain data dependent. Will Christine Lagarde go so far as to point out again the ECB's independence from the Fed's actions? If a question were asked about the appropriateness of an ECB rate cut before the Fed (on the grounds that it might weigh on the euro and feed imported inflation), it would be right to answer in the negative[1].

Hélène Baudchon
Deputy chief economist – Head of OECD team
helene.baudchon@bnpparibas.com

1 For more on this, watch Does it matter if the ECB cuts rates before the Fed? No. (https://economic-research.bnpparibas.com/), 23 May 2024