

Four Central Banks on “Active Hold”

The central banks of the world’s leading advanced economies met this week, and all decided to leave their policy rates unchanged despite significantly higher inflation prints and outlooks. In the words of Bank of England (BoE) Governor Andrew Bailey, these were “active holds”. They are not fully hawkish yet, but the hawks have made their dissent heard while still in the minority. But they are no longer in a pure passive “wait-and-see” mode. We expect hikes to come through in June, at least for the BoE, BoJ and ECB.

FOMC: One step closer to a two-sided stance. The FOMC has decided to hold the Fed Funds target range steady at 3.5% - 3.75%. The committee views its stance as “well-positioned” given the current outlook and balance of risks, including a softened labour market, an inflation now depicted as “elevated” (vs. “somewhat elevated” previously), and solid economic growth. That provides it with leeway to wait to see in the data the actual effects of the shocks (including the energy shock) before potentially taking action. Importantly, the vote featured an unusually high number of dissents (four, which is unseen since 1992), on opposite sides: Governor Miran favored a rate cut (-25bp), while three regional Fed presidents opposed, maintaining the “easing bias” in the statement. That said, although the shift from an easing bias to a two-sided outlook has not been formalized, it has emerged *de facto* throughout Chair Powell’s remarks. Indeed, he described the committee as “close to changing the guidance” and “in a good place to move in either direction”. This, [alongside our growth and inflation outlook](#), strengthens our call of a steady policy rate through end-2027, with growing tail-risk of a hike as next move. Finally, Powell confirmed that he would retain his seat on the Board of Governors “for an indefinite period of time” [after handing over the Chair position to Kevin Warsh next month](#). Whilst he linked this to the Department of Justice’s investigations against him and the Fed not yet being “well and truly over with transparency and finality”, this has the effect of forcing Governor Miran—by far the most dovish FOMC member—to step down from the Board of Governors in order to allow Kevin Warsh to take over as Chair. Following the meeting, markets nearly priced out any cut in 2026 and see a small probability of a hike in 2027.

ECB: Well positioned to wait for less insufficient information. Unlike at the other central banks, the decision to hold the main policy rate (at 2%) was unanimous; however, President Lagarde revealed that the option of a hike at today’s meeting was discussed at length, suggesting there were vocal hawks in Frankfurt too. While no new scenarios were released, President Lagarde conceded that things were “certainly moving away from the baseline”, with now “intensified” downside risks to growth and upside risks to inflation. But she stressed that financial conditions have already tightened, that the ECB is not seeing evidence of second-round effects yet, and that longer-term inflation expectations remain well-anchored. All in all, the ECB left the door wide open to a June rate hike, but restated its “data-dependent, meeting-by-meeting, and no pre-commitment to any rate path” approach. We expect the ECB to hike by 25bp in June and by another 25bp later in the year, consistent with market pricing and unchanged from before the meeting.

BoE: Keeping options open. The Bank of England kept its policy rate unchanged at 3.75% with the chief economist dissenting in favor of a 25bp hike. Rather than a central forecast, the BoE offered three scenarios centered on a more dovish outcome than the ECB’s and many private-sector ones. In the first, there are no second-round effects to energy-induced inflation, owing to relatively weak demand constraining the ability of firms to increase prices to preserve margins and the ability of workers to obtain higher wages. In the second, there are some, owing to a slightly greater persistence of the shock, but the “headroom” created by markets moving from pricing multiple rate cuts pre-war to pricing multiple hikes means rate hikes may, in fact, not be forthcoming. In the third, the shock is more persistent and second round effects larger, and inflation exceeds 6%. In this scenario, a policy response would be unavoidable, said Deputy Governor Lombardelli. But overall, interest rate hikes are not a given, stressed Governor Bailey, whereas markets are pricing-in two to three hikes by 2026 year-end.

BoJ: Rate hikes unavoidable but postponed. The Bank of Japan kept its policy rate unchanged at 0.75%, with three dissents favoring a rate hike. For now, the central bank adopts a “look-through” approach to the energy shock, waiting to gauge the impact on activity before further adjusting the degree of monetary accommodation. Though expected, the decision still seems at odds with the BoJ’s own updated outlook and risks, which include GDP growth roughly in line with potential, coupled with a persisting inflation overshoot in FY2026. The postponement of the rate hike might be related to a lack of government support, whilst the government has strongly signaled its reluctance to rate hikes through dovish board appointments (Asada since April, Sato to join in July). Governor Ueda did not provide any guidance for the timing of future adjustments, but the path for the policy rate remains unchanged: we expect a June hike (+25pb – 65% chance according to markets) and a 2.0% terminal rate by end-2027. However, the more rate hikes are delayed, the greater the risk that more tightening will be needed. The JPY had weakened following the meeting, as the USD/JPY exceeded 160 on 29 April, before strengthening significantly below 157 on 30 April amid a “final warning” from the Ministry of Finance regarding FX market intervention, which was reportedly carried out.

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