FOUR CENTRAL BANKS AND JUST AS MANY SHADES OF *STATUS QUO*

Unsurprisingly, the Bank of Japan (BoJ), the U.S. Federal Reserve (Fed), the European Central Bank (ECB), and the Bank of England (BoE) opted to keep their policy rates unchanged at their meetings in April. However, beneath this shared decision lie subtle differences that enable us to categorize each central bank based on how ready they are for a rate hike in the near future. The ECB ranks first, followed closely by the BoJ and the BoE, with the Fed remaining apart. Although the current energy shock is a global phenomenon and of a stagflationary nature (leading to lower growth and higher inflation), the dilemma varies for each central bank. The United States is experiencing higher inflation but it is benefiting from higher growth too, while economic activity is expected to be more adversely affected in other countries. Assuming a gradual normalization of the situation in the Middle East, the reaction function of each central bank suggests that we can expect a 25-basis-point (bp) rate hike in June from the ECB, the BoE, and the BoJ, while the Fed is likely to maintain its current stance (albeit with a low but growing risk of aligning with this trend).

FOUR *STATUS QUO* PERSPECTIVES

Our comparison is based on the following factors: the number of dissenting votes, the tone of the statements and press conferences, the characterization of monetary policy, and the presentation of the economic situation and outlook for each country[1]. It appears that, in our assessment, the ECB exhibits the most hawkish bias—indicating the clearest inclination to raise its policy rates soon in response to the inflationary impact of the ongoing energy shock. Its *status quo* in April (the only unanimous decision among the four central banks) does not mean that a response is not required. The decision was warranted given the lack of sufficient information to act as early as this month, coupled with the fact that the ongoing tightening of credit conditions is already doing part of the job. However, the possibility of a rate hike was discussed at length. President Christine Lagarde refrained from making any explicit pre-commitment and reiterated the ECB's data-dependent, meeting-by-meeting approach. Nevertheless, a clear signal was given in favor of a rate hike in June, barring a sudden change in conditions.

The BoJ stands out from its counterparts with a *status quo* that is difficult to justify given the macroeconomic situation of the country (an economy close to full employment, inflation above 2%, and real interest rates that remain negative). In March, the BoJ appeared poised to raise rates in April. The revision of its forecasts was more hawkish than expected: not only has the inflation outlook been significantly raised, but the BoJ, while also acknowledging downside risks to growth, placed particular emphasis on the need to prevent upside risks to inflation from materializing. Finally, the rewording of its forward guidance suggests that a rate hike could be considered even if the economy were to slow down. The split vote (6 in favor of the *status quo*, 3 in favor of a hike) illustrates this situation. The factor that appears to have influenced the BoJ's decision to postpone a rate hike in April is the lack of government support.

The BoE also appears ready to hike rates, while keeping the *status quo* option open—slightly more so than the ECB. Its April *status quo* was less hawkish than we had expected just before the meeting: we had anticipated a tighter vote (7-2 or even 6-3, but it turned out to be 8-1) and a more explicit reference to a rate hike in June. The central scenario was not only downplayed in favor of alternative scenarios; it was not even explicitly articulated. And of the three alternative scenarios presented, only one embeds significant second-round effects on inflation.

Among the four central banks, the Fed is the least inclined to implement a rate hike. Monetary policy is still deemed well-positioned given the economic outlook and the balance of risks. While its tone has shifted slightly, it has not done so as clearly as we had anticipated. Indeed, it has not explicitly abandoned its dovish bias in favor of a symmetric bias (indicating equal likelihood that the next rate move will be a hike or a cut). However, this symmetric bias effectively emerged in Jerome Powell's remarks, as he described the committee as "close to changing the guidance" and "in a good position to move in either direction." This FOMC meeting was also notable for an unusually high number of dissenting votes (4), pointing in opposite directions[2].

THE SAME SHOCK, BUT TO VARYING DEGREES

Data from all four countries shows signs of weakening growth and rising inflation, albeit to varying degrees. As highlighted by the ECB, the current inflation data was insufficient to warrant a rate hike in April, even as a precautionary measure. Nevertheless, the situation poses challenges for central banks, as their patience is being tested by numerous inflationary signals[3] and the uncertainty surrounding the potential peak of inflation.

Regarding growth, the initial estimates for Q1 2026 for both the United States and the Eurozone (published on 30 April, i.e. after the central banks' meetings) fell short of expectations (0.1% q/q for the Eurozone versus 0.3% according to our forecast; 0.5% q/q for the United States versus 0.7% expected). However, these figures conceal more positive aspects. The Eurozone, in particular, is not starting the year as poorly as it may seem. Q1 growth was dragged down by the sharp contraction in Irish GDP (-2% q/q, contributing a drag of -0.1 percentage points) and by the unexpected stagnation of French GDP. However, Irish growth is notoriously volatile, and the French flat growth is due, for the most part, to exceptional factors[4]. Growth in Germany (0.3%), Spain (0.6%), and Italy (0.2%) has lived up to expectations.

1 *See*, for a summary of the decisions, Four Central Banks on "Active Hold", April 30, 2026.
2 Governor Miran voted in favor of a rate cut (-25bp), while three regional Fed presidents opposed maintaining the "dovish bias" in the statement.
3 *See*, for a monthly tracking of these trends, Inflation Tracker - April 2026, April 28, 2026.
4 *See*: France: one-off factors largely account for zero growth in Q1, April 30, 2026.

On the other hand, confidence surveys in the Eurozone for April conveyed, unsurprisingly, a negative signal[5]. Additionally, inflation continues to escalate (3% year-on-year for the headline figure according to Eurostat's flash estimate). Consumer inflation expectations for the upcoming year have also risen significantly, along with inflationary pressures on input and output prices. However—and this is an important and positive point—this has not yet spread to core inflation, which edged down slightly in April (-0.1 percentage points, to 2.2% y/y).

Economic news from the United States is more favorable in terms of growth (still bolstered by the AI boom) but not on the inflation front (with both headline and core figures up in March—the latest available data—for the Consumer Price Index as well as the PCE deflator). Jerome Powell also expressed optimism when describing the growth figures ("really solid") and the labor market situation ("pretty good"), marking a significant change from earlier concerns about the labour market and the risk of a sudden and sharp deterioration. On the other hand, there are emerging concerns about the stability of long-term inflation expectations, given that inflation has exceeded 2% for the sixth consecutive year and, in addition to the energy shock, is being fueled by higher tariffs and robust growth.

This robust growth, combined with the United States' position as a net exporter of hydrocarbons, means that it is less exposed to a stagflation-type scenario than the Eurozone, the United Kingdom, and Japan. Among these four major economies, the United States experiences the least significant adjustments in our forecasts (downward revision of growth forecasts of-0.3 percentage points to 2.4% in 2026 in annual average terms and upward revision of inflation forecasts of +0.5 percentage points to 3.3%) . In contrast, the United Kingdom faces the highest inflation rate (close to 4% annualy in 2026) and one of the lowest growth rates (0.7%). Japan is expected to have even lower real GDP growth (0.5%) but also the lowest inflation (close to but below 3%). The Eurozone finds itself in a middle ground, with growth expected to be relatively low (1%) yet still positive, and inflation kept in check (3.1%).

FOUR *STATUS QUOS* IN APRIL; THREE (PLUS ONE?) RATE HIKES IN JUNE?

While rate hikes in April were deemed premature, the four central banks could take action at their upcoming meetings in June. Between now and June, our base case scenario assumes a gradual normalization of the situation in the Middle East, with oil prices projected to average USD 110 per barrel in Q2 (before a decline to around USD 85/b by year-end). By June, the window of opportunity to look through the inflationary impact of the energy shock will likely have closed, and this impact should be sufficiently clear to justify a response. This is our scenario for the ECB, the BoE and the BoJ. For the Fed, we anticipate another *status quo* while identifying a low but growing risk that it will also proceed with a rate hike.

As for the ECB, a rate hike in June appears to be the default option. The inflation data available at that time (including possible early signs of second-round effects on core inflation) should support such a move, unless, in the meantime, energy prices fall sharply and consistently. If, on the contrary, they rise further, we expect the debate to shift towards the magnitude of the hike. Even in the event of a sharp drop in energy prices, the justification for a rate hike would not disappear entirely, given the persistence of the energy shock and the lengthy period required for the oil flows situation to return to normal.

As for the BoE, rate cuts are no longer on the table. Admittedly, its communication in April was cautious enough to retain full flexibility in an uncertain environment, allowing for more time to monitor developments. However, since we expect second-round effects to be more significant and/or occur more rapidly than the BoE anticipates, we think the central bank will have to raise its bank rate in June.

For the BoJ, which is already in a hiking cycle, gradually normalizing its monetary policy from very low interest rates, the question is when its next rate hike will take place. We believe it will be in June. Its "active hold" in April, the general tone of its forecasts, and the fact that it is already "behind the curve" (in our view) point in this direction. However, if the primary reason for postponing the hike in April was the difficulty in securing government support, the same risk looms over upcoming meetings.

According to our baseline scenario, the Fed would stand apart from its counterparts with a *status quo* in June, as downside risks to employment balance out upside risks to inflation. However, setting aside the fact that this will be the first FOMC meeting chaired by Kevin Warsh and focusing solely on the economic conditions prevailing at that time, a rate hike in June is a tail risk that cannot be ignored. We believe that such a move would be triggered by a combination of the unemployment rate approaching 4% (a level likely to fuel a wage-price spiral) and an increase in households' 5-year inflation expectations similar to that observed in the first months of 2025 (+1.4 percentage points between December 2024 and the peak of 4.4% in April 2025, the month of Liberation Day). As a reminder, the U.S. unemployment rate was 4.3% in March 2026 (a low, with two decimal places, since July 2025), and 5-year household inflation expectations stood at 3.5% in April 2026 according to the University of Michigan survey (up 0.3 percentage points since December 2025).

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5 See our dashboard on page 7 in this issue of Ecoweek.