

## ECB update

### First cut is the sweetest

- The ECB has delivered a widely expected 25bp cut; still sees inflation falling to 2%
- We see two more cuts this year – in September and December

The Governing Council decided today to cut the three key ECB interest rates by 25 basis points. The cut was widely expected by analysts and long awaited by debtors. The monetary policy decision press release was balanced, highlighting a large progress achieved in lowering inflation, but provided little forward guidance - the ECB will remain data-dependent and follow meeting-by-meeting approach to determine the appropriate monetary policy stance.

The ECB staff updated its macroeconomic projections and now expects GDP to grow by 0.9% in 2024, 0.3 pp higher than forecasted in March. Both core and headline inflation forecasts were revised upwards by 0.2pp for this year. The forecasts for 2025 and 2026 are largely unchanged and suggest that, despite a few recent hiccups, the ECB remains confident in its ability to achieve and maintain inflation close to the 2% target.

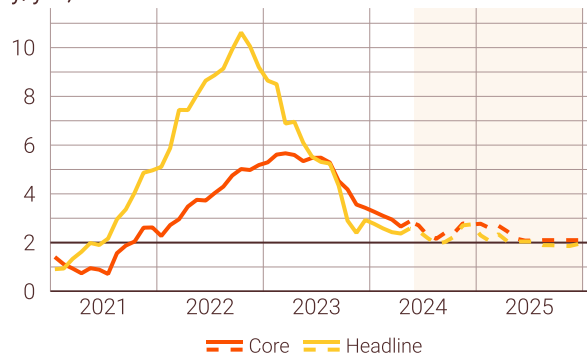
In the light of somewhat stronger GDP growth and elevated inflation of services we think that the ECB will proceed with cuts at a slightly slower pace than previously expected. We now forecast another cut in September and one more in December, resulting in a deposit interest rate at 3.25% at the end of 2024. The risks to this forecast are balanced – there could be both more and fewer cuts. This year has demonstrated how quickly market expectations can move in either direction. Cooling US growth, further declines in oil price and/or normalization in shipping costs could lead to more confidence in disinflation process and dovish central banks. On the other hand, rebounding consumption, hot labour markets and sticky services inflation could make further interest cuts less likely. In a medium term, we still expect well behaved inflation and interest rates to fall towards neutral rate of interest (however elusive that is) – close to 2%.

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#### Euro area headline and core inflation

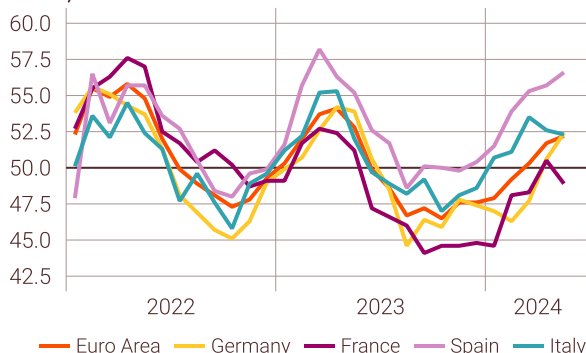
y/y %; outcome and Swedbank forecast



Sources: Swedbank Research & Macrobond

#### Euro area composite PMI

Index, sa



Sources: Swedbank Research & Macrobond

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