

Fiscal Takes the Lead as ECB Cuts Rates

Transcript

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So the ECB cut interest rates by 25 basis points to 2.5% at their March meeting. But this was a much more important monetary policy meeting for the ECB than normal, because it happened literally in the days where we saw one of the biggest announcements around increased fiscal spending in Germany and at the EU level. And just to underscore how important this is, for as long as I've been covering the Euro area, it's really been the central bank that has been leading on policy in Europe with fiscal taking a backseat.

What we're witnessing now is a complete role reversal with fiscal policy in the driving seat going forward. So what does this mean for the ECB from here? Well, first of all, we heard from President Lagarde at the press conference today that uncertainty is what she called phenomenal. It's all around us. We have renewed trade wars. We have an ongoing war in Ukraine.

We have seismic shift in policy. What this means for the ECB is they need to keep their options open with regards to where rates are going next. But having said that, they've cut a 150 basis points since last summer, putting them pretty close to what they think is the top end of neutral. And of course, more fiscal spending means other things equal higher interest rates.

So the bottom line for us is we think the ECB are pretty much done when it comes to cutting interest rates for now. We could see one more cut of around 25 basis points, perhaps later in the summer, ending the year at 2.25%.