



How often will the ECB raise interest rates?

The ECB is expected to raise key interest rates at its meeting next week. Given the protracted conflict in the Persian Gulf and the resulting inflationary risks, another 25-basis-point hike is likely to follow by September at the latest. However, we consider a third hike around the turn of the year—as is currently priced in by the markets—to be unlikely.

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The ECB will raise interest rates next week

The ECB will raise key interest rates next week. There is little doubt about that. Even a monetary policy dove on the ECB Governing Council, such as Greek Central Bank Governor Stournaras, considers an interest rate hike “the most likely outcome” of the June meeting. The Governor of the Bank of Lithuania, Šimkus—whom we also classify as a monetary policy dove—argues that “the ECB should not surprise the markets by failing to act.” Partly because of these statements, both the financial markets and the vast majority of economists surveyed by Bloomberg firmly expect this move. The rise in the eurozone inflation rate to 3.2% reported on Monday, and in particular the surprisingly sharp jump in the core inflation rate to 2.5%, also point to a response from the ECB, especially since it is expected to adjust its projections next week. In addition to somewhat weaker growth for the current year, ECB economists are likely to expect the inflation rate to be higher and to remain above the target for longer than was anticipated in March (Table 1).

Table 1 - ECB to expect moderately higher and more persistent inflation

Commerzbank's assessment on ECB experts' June projections; in parentheses: ECB March projection; growth and inflation rates in percent

	2026	2027	2028
GDP growth	0.7 (0.9)	1.2 (1.3)	1.4 (1.4)
Inflation	2.9 (2.6)	2.1 (2.0)	2.0 (2.1)
Core rate	2.3 (2.3)	2.4 (2.2)	2.1 (2.1)

Source: ECB, Commerzbank Research

Oil prices remain high for the time being, ...

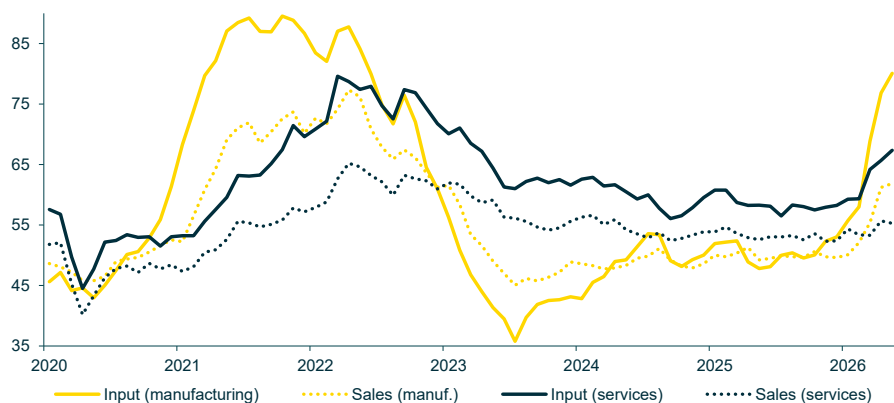
But what lies ahead in the coming months? Will this be the only step, or will others follow? A key factor in this decision will certainly be how the situation in the Persian Gulf unfolds and how that affects energy prices. We expect to see a rollercoaster of good and bad news over the next two months (see also [here](#)). After all, the path toward an agreement between the U.S. and Iran is likely to be bumpy. Even with a framework agreement between the US and Iran, there are likely to be repeated setbacks and isolated military actions. As a result, the oil price is likely to fluctuate around the \$100 mark, because maritime traffic through the Strait of Hormuz will remain at least restricted.

... which threatens to have indirect effects on other goods, ...

In such a scenario, the pressure on the ECB to act would remain high. This is all the more true given that surveys show that companies are passing on their higher energy costs to customers quite quickly. In particular, the trend in the manufacturing sector is strikingly reminiscent of the rise seen a few years ago (Chart 1). Companies in the services sector are also reporting rising costs, and it is likely only a matter of time before they, too, pass on their increased costs to their customers. The longer energy prices remain high, therefore, the greater the risk of indirect effects on the prices of other goods and services.



Chart 1 - Companies are feeling the impact of higher input prices and are already passing them on
Purchasing Managers' Index for the Eurozone, sub-components on input prices and sales prices



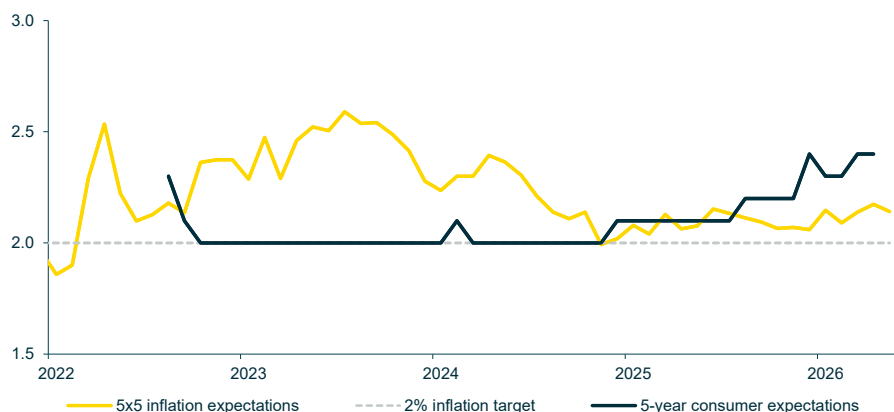
Source: S&P Global, Commerzbank Research

... especially since inflation expectations have risen

From the ECB's perspective, one risk factor that could argue in favor of further interest rate hikes is the rise in inflation expectations. While long-term market expectations remain close to the ECB's inflation target, according to an ECB survey, consumers now expect inflation to reach 2.4% in five years (Chart 2). While this is not too far above the ECB's 2% target, it is noteworthy for two reasons: First, consumer expectations for 2023 were exactly at the inflation target despite an annual average inflation rate of 5½%. Second, these expectations have been trending slightly upward since 2025 and are gradually moving away from the ECB's target. Low- to middle-income groups, in particular, appear to be gradually losing confidence in the ECB. ECB Governing Council member Schnabel also expressed concern about long-term inflation expectations earlier this week at a Bank of Korea conference in Seoul, noting that, in her view, "the risk of inflation expectations becoming unanchored is rising." This could lead to a sharper rise in wages, and companies would likely pass these higher costs on to their customers as well. This risk is unlikely to diminish as long as energy prices remain high.

Chart 2 - Consumers' long-term inflation expectations drifting upwards

Consumer expectations on inflation in five years according to the ECB's consumer expectations survey, market expectations of what inflation will be in five years for the following five years - so-called 5x5 inflation expectations, in per cent



Source: ECB, Bloomberg, Commerzbank-Research

Another rate hike is likely, ...

Given these inflation risks, we expect the rate hike next week to be followed by another one. It cannot be ruled out that the ECB will act as early as July. However, a move in September seems more likely to us, especially since the ECB's economists will present their autumn projections and provide a new overall assessment of the situation at that time. Although the situation in the Persian Gulf will have eased by then in our scenario, the ECB is likely to want to send a signal that it is addressing inflation risks, given increasing spillover effects and higher inflation expectations.

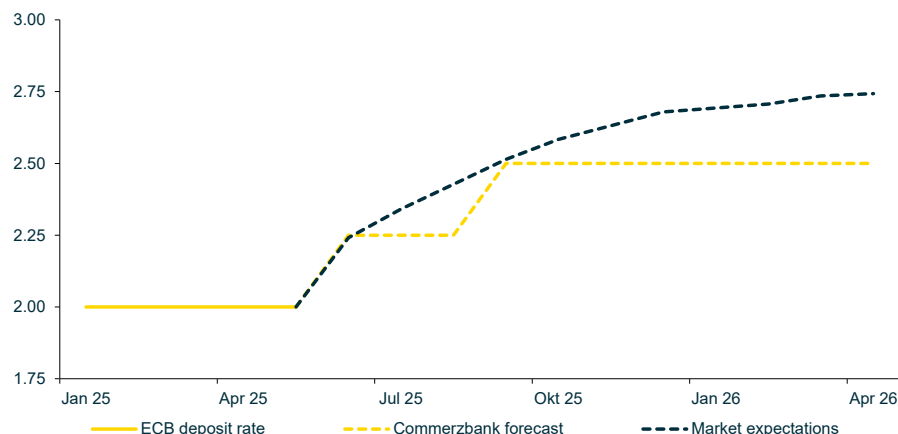
... but that should be the end of it

Unlike the futures markets, which expect a total of nearly three rate hikes by early 2027, we anticipate that the second rate hike will be the last for the time being (Chart 3). This is because energy prices are likely to have fallen further by the turn of the year, thereby reducing the risks of persistent spillover effects.



Chart 3 - Markets expecting three rate hikes

ECB deposit rate, Commerzbank forecast and market expectations derived from futures markets, in per cent



Source: Bloomberg, Commerzbank Research

Comments made by ECB Chief Economist Lane during an [interview](#) last week also point in this direction, in which he outlined three scenarios. His second scenario corresponds exactly to the situation we currently find ourselves in, which would require a “limited” response from the ECB, but not a “full tightening cycle”:

“First, if the energy supply shock is small and temporary, we can look through it. Second, if it is persistent but medium-sized, some interest rate response may be appropriate but it would be limited and not a full tightening cycle. Third, if the shock becomes large and broadens out in a non-linear way, then a stronger monetary policy response would be needed.”

If the situation in the Persian Gulf continues to ease, the balance between fighting inflation and the resulting negative economic consequences is likely to look different by the turn of the year—when a decision on a third rate hike would likely be on the table—than it did in the fall, especially since, after two rate hikes, the deposit rate would stand at 2.5%—at the upper end of the range in which the ECB views the “natural interest rate.” The monetary policy doves on the ECB Governing Council, in particular, are likely to shy away from further interest rate hikes, especially since the weaker economy is, in their view, an argument for lower inflationary pressure in the medium term. At the end of last week, ECB Vice President de Guindos pointed out that “monetary policymakers cannot afford to ignore such effects.”

In addition, many Council members are likely aware of the impact a higher interest rate would have on highly indebted eurozone countries. Researchers at the Mannheim-based ZEW examined this relationship in a recently published [study](#) based on an analysis of several thousand speeches using a large language model (LLM). The study shows that, at the very least, central bank governors’ communication shifts away from the primary inflation target toward other topics such as financial stability or sovereign bond markets when the public debt ratio rises in their home country.



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