ECB rate hike postponed, not cancelled

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The ECB is unlikely to raise its key interest rates for the second time in a row next week. However, another rate hike is likely at the meeting in September. Our revised ChatECB indicator shows that ECB Governing Council members are leaning toward higher interest rates—especially since core inflation is expected to rise in the coming months and households' inflation expectations have increased.

No interest rate hike in July, ...

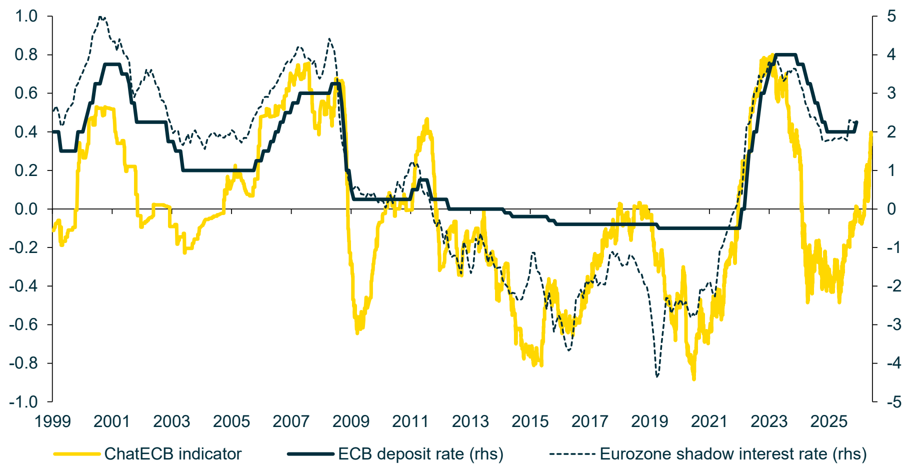
At its meeting next week, the ECB is unlikely to raise interest rates for the second time in a row. That's because the central bankers lack an urgent reason to send such a strong signal. Oil and gas prices are well below the war-induced highs, even though they have recently risen again due to the resurgence of fighting.

... but still likely in the coming months, ...

This raises the question of whether the ECB will raise its key interest rates at all by the end of the year. ECB officials have recently become somewhat more cautious again in their comments regarding the possibility of further monetary tightening. As a result, our revised (**Economic Insight: "ChatECB Model Signals Readiness for a Rate Hike"**) has recently fallen slightly.[1]

Nevertheless, we still forecast a rate hike at the September meeting, when ECB economists will present their new projections. This is because central bank officials continue to monitor the situation "closely," which, in central bank jargon, points to a tendency toward monetary tightening. Furthermore, despite the recent decline, our ChatECB Index, at a value of 0.37, remains at a level at which ECB policymakers have historically tended to raise key interest rates (Chart 2).

Chart 1 - ChatECB Indicator Signals Another Interest Rate Hike
ChatECB Indicator: LLM-based interpretation of speeches by ECB Governing Council members as "dovish" (-1.0) or "hawkish" (+1.0); ECB deposit rate and shadow interest rate for the euro area, in percent



Source: ECB, Krippner, Commerzbank Research

Statements by ECB President Christine Lagarde also point to a fundamental willingness to pursue further monetary tightening. At the **press conference** following the most recent meeting, she once again discussed the three possible scenarios—along with the corresponding monetary policy response—that she had already outlined in her **speech at the "ECB Watchers Conference"**:

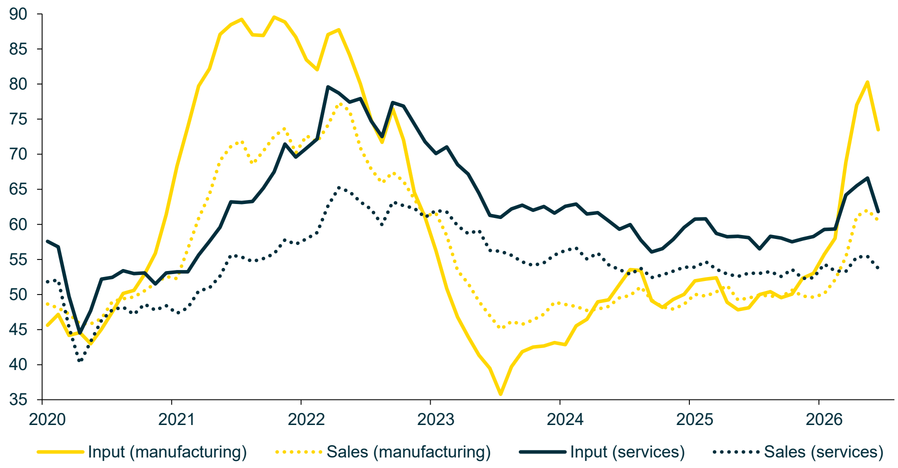
> *"First: If the energy shock is assessed as limited and short-lived, the classic principle of 'see-through' should apply."*
>
> *"Second: If the shock leads to a significant, albeit not overly prolonged, deviation above our target, a moderate policy adjustment could be warranted."*
>
> *"Third: If we expect inflation to deviate significantly and persistently from the target, the response must be correspondingly decisive or sustained."*

President Lagarde made it clear at the last press conference that we are definitely not in the first scenario; otherwise, the ECB would not have raised interest rates. While this is not a signal for mandatory further steps, it leaves enough room for further monetary tightening.

... also because indirect effects are looming ...

One argument in favor of an interest rate hike is that, despite the recent drop in energy prices, noticeable indirect effects are still looming in the coming months. In particular, significantly more companies in the manufacturing sector are reporting that they are raising their selling prices than before the outbreak of the war (Chart 2).

Chart 2 - Companies are feeling the impact of higher input prices and are already passing them on
Purchasing Managers' Index for the Eurozone, Subcomponents for Input Prices and Selling Prices



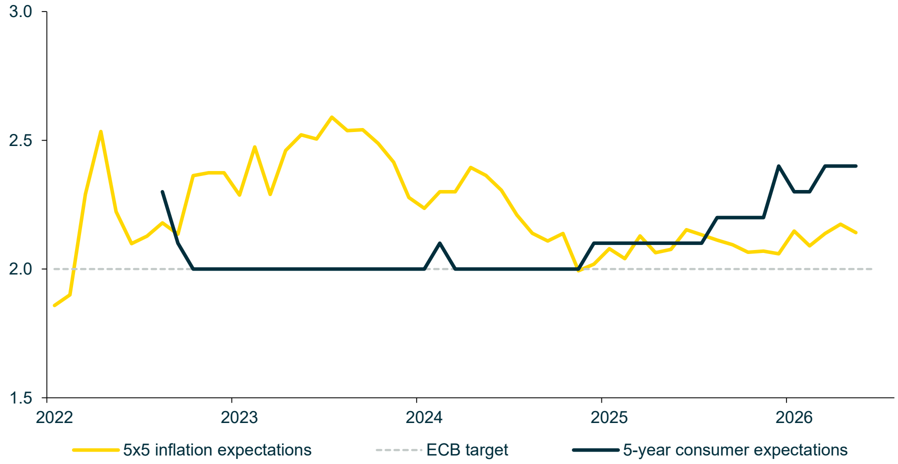
Source: S&P Global, Commerzbank Research

Consequently, despite the downward trend in energy prices, the inflation rate in the euro area is likely to remain just below 3% in the coming months, partly because core inflation—that is, the inflation rate excluding the volatile prices of energy, food, and beverages—is expected to trend upward.

... and inflation expectations have risen

Another important factor is inflation expectations. Although market participants, as measured by inflation swaps for the five-year period beginning in each given year (5x5 inflation expectations), continue to expect inflation to remain close to the ECB's inflation target of 2%. However, the long-term inflation expectations of consumers surveyed by the ECB have increasingly diverged from the ECB's target since early 2025 and most recently stood at 2.4% (Chart 4).

Chart 3 - Are inflation expectations still anchored?
ECB survey on consumer expectations of inflation five years from now and market expectations of inflation five years from now for the following five years, in percent



Source: Bloomberg, ECB, Commerzbank Research

Rising consumer inflation expectations have the potential to drive up wage demands in the upcoming wage negotiations. While the ECB Wage Tracker points to moderate wage increases in the coming months, there are likely to be more collective bargaining rounds starting in July, which could be influenced by higher inflation expectations.

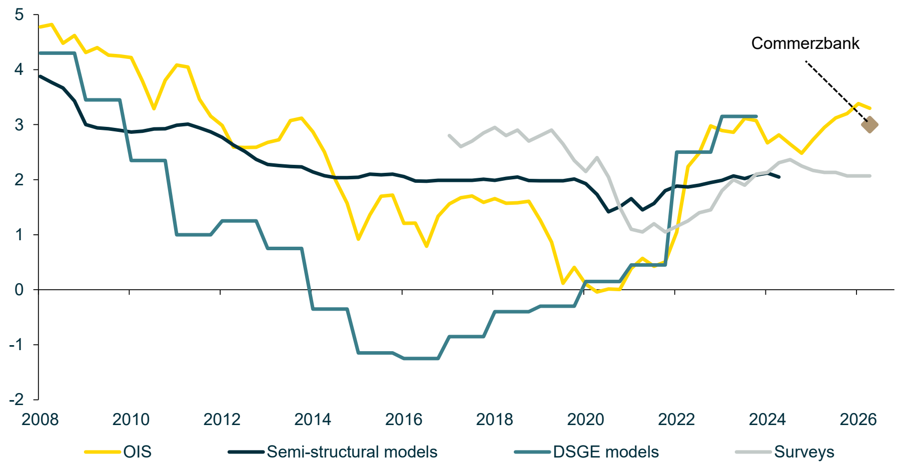
A precautionary move in September, ...

Both the emerging indirect effects from the pass-through of higher energy costs and the higher inflation expectations have the potential to turn a temporarily higher inflation rate into a more persistent phenomenon. In this regard, another interest rate hike would likely make sense from the ECB's perspective to send a clear signal to consumers. Furthermore, a second interest rate hike by the ECB is widely expected. Failing to meet this expectation in the foreseeable future—and instead disappointing it—would also send the wrong signal in terms of shaping expectations.

… especially since interest rates would still not be restrictive

We also expect another rate hike because the deposit rate, at 2.50%, would still be in the range of the neutral rate and thus likely not yet restrictive. Just recently, Chief Economist Lane placed the upper limit of the neutral rate at 2.5%. According to our tally based on comments, most other ECB Governing Council members also estimate the neutral interest rate to be between 2% and 2.5%. Surveys of economists, futures markets, and ECB models even suggest that the upper limit could be 3%, which is also in line with our assessment (Chart 5). In this respect, the current deposit rate is at a level where it does not have a dampening effect on inflation. Consequently, the interest rate would need to be raised even further.

Chart 4 - The neutral interest rate is likely between 2% and 3%
Neutral interest rate based on the median of the ECB's semi-structural and DSGE models, the median of various surveys, derived from overnight index swaps, and Commerzbank's estimate, in percent



Source: ECB, Bloomberg, Consensus Economics, Commerzbank-Research

[1] For this indicator, we have compiled nearly 9,000 speeches, interviews, and comments from all members of the ECB Governing Council and use artificial intelligence (AI) to interpret them based on their monetary policy tone. We summarize the results of the individual speeches in an aggregated index, which has already demonstrated good leading indicators in many phases, precisely because it captures even subtle nuances in monetary policy communication. For more details, see here. (back to text)

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