

Press Release

CFS survey on “ECB monetary policy”

German financial sector takes a critical view of ECB policy to date. Further increases in key interest rates expected

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Background:

Since the middle of last year, the ECB has raised key interest rates in several increments to current levels of 2.5% for the main refinancing rate, 2.75% for the marginal lending rate and 2% for the deposit rate. Inflation rates have fallen somewhat from their peak values to around 9.6% in the Eurozone in December 2022 and 8.6% in Germany. Against this backdrop, questions arise regarding interest rate expectations for the Eurozone for 2023, and how market participants assess the ECB’s inflation-fighting strategy to date.

More than 70% of the survey respondents do not expect key interest rates in the eurozone to peak until the end of 2023 or even next year. On the other hand, just under 25% of respondents expect key interest rates to peak as early as mid-2023. The panel participants are largely in agreement about how much further key interest rates will rise. Over 70% of respondents believe that the main refinancing rate will rise from the current level of 2.5% to between 3% and 4%. Another 15% of respondents expect it to go even higher. “The survey shows the market’s confidence that the ECB will be successful in fighting inflation. However, there is some uncertainty about how quickly the ECB will raise key interest rates further,” says Professor Volker Brühl, Managing Director of the Center for Financial Studies.

A majority of respondents (60.4%) are critical of the speed at which the ECB had to raise key interest rates last year. Many market participants are of the opinion that the ECB did not react in time, thus allowing high inflation rates to occur in the first place.

“Market participants in the financial center had already warned of the dangers of inflation in mid-2021—and thus in good time—and called on the ECB to act,” Hubertus Väth, Managing Director of Frankfurt Main Finance, recalls previous surveys. “Now the ECB remains behind the curve for a while and must first rebuild credibility in the market. Experience shows that this will backfire, through a higher rise in inflation and ultimately interest rates.”

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The results are based on a quarterly management survey in the German financial sector.

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. The CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, the CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

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