

# INTERST RATE ON THE ECB DEPOSIT FACILITY

2026-2027 FORECASTS

**BlackRock.**

# WE EXPECT A SERIES OF RATE CUTS SUMMING UP TO 75BPS BY Q1 2028

Executive Summary | ECB Deposit Facility Rate Forecast

**BlackRock.**

## Three 25bps Rate Cuts Forecast Through 2028

We expect the ECB to **implement a gradual easing cycle with three 25bps rate cuts** in Q1 2026, Q1 2027, and Q1 2028, bringing the deposit facility rate from 2.00% to a terminal rate of 1.25% Q1 2028.

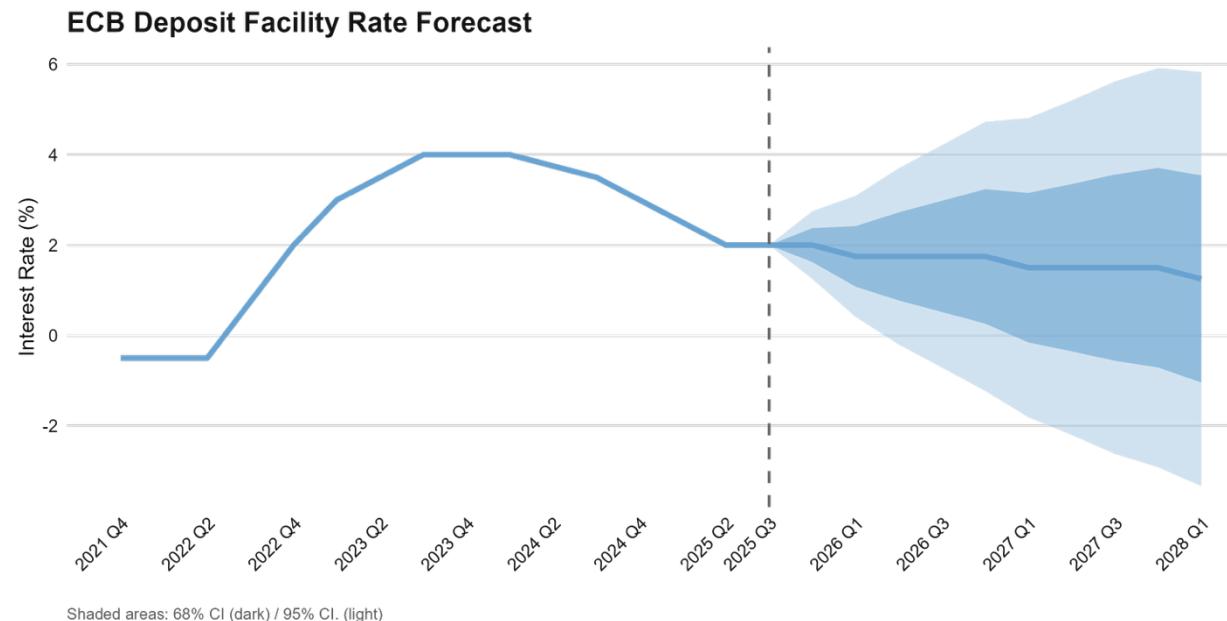
Current Rate  
**2.00%**

October 30, 2025

### Forward Guidance

**Data-Dependent:**  
Based on inflation projections and policy transmission

**No Preset Path:**  
Full discretion, no predetermined trajectory



Q1 2026  
**1.75%**  
First cut as slack emerges

Q1 2027  
**1.50%**  
Negative output gap

Q1 2028  
**1.25%**  
Terminal rate

**Key Drivers:** Persistent inflation close to the 2% target (2.07-2.10%), deteriorating output gap turning negative by Q3 2027, and downside risks from US tariff uncertainty and labor market weakness.

# RATE CUTS DRIVEN BY TARIFFS AND LABOR MARKET EXPECTATIONS

Executive Summary | Rationale

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Current Rate

**2.00%**

October 30, 2025

Cumulative rate cuts

**75bps**

Until Q1 2028

## Underlying Rationale

### Downside risk due to US Tariffs

Uncertainty associated with US tariffs may lead to delays in investment, hiring, and spending decisions in addition to the direct effects on exports

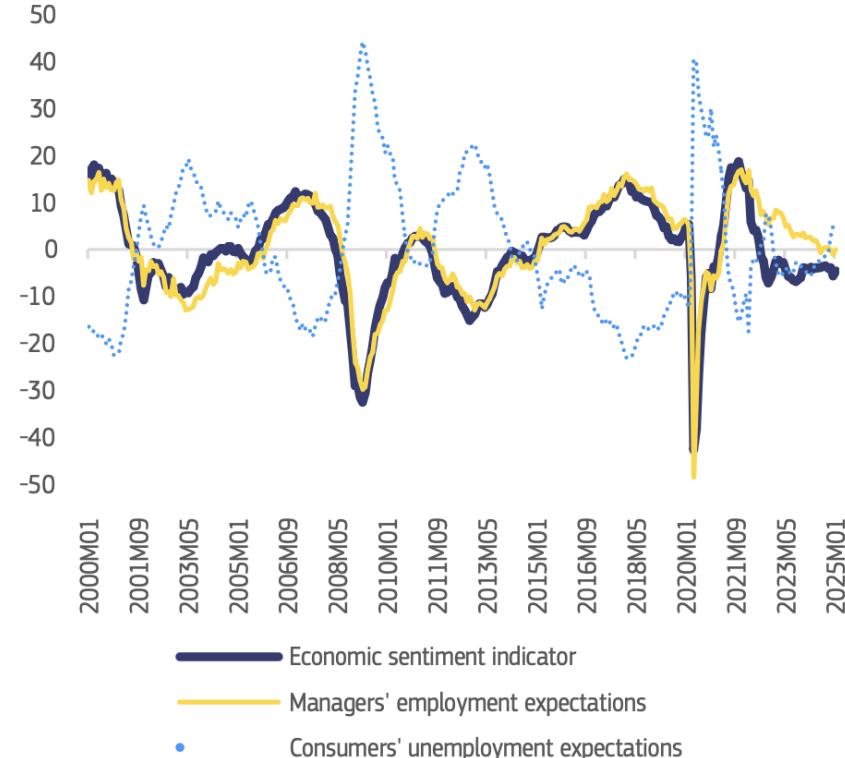
### Weak labor market

Reduction in hiring intentions and pessimism regarding economic outlook

### Monetary policy leeway

Inflation sticking close to target allowing the implementation of accommodative monetary policy

### EU economic sentiment and employment expectations (relative to pre-pandemic average)



Source: European Commission (2025)

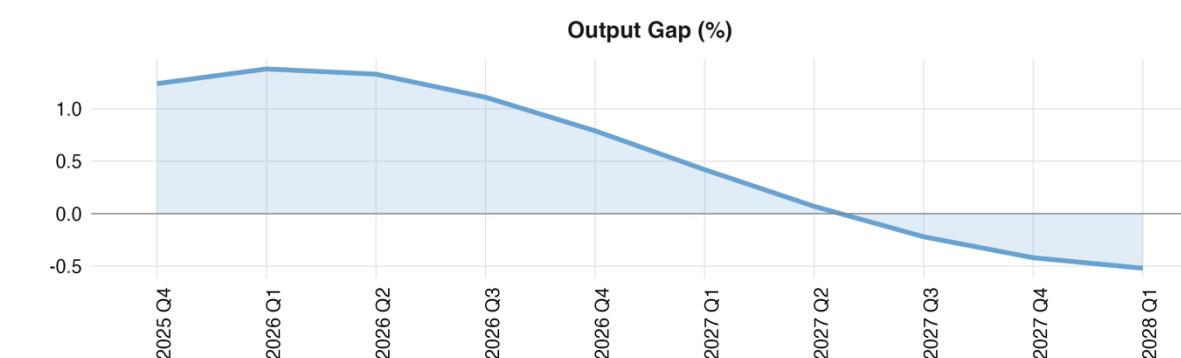
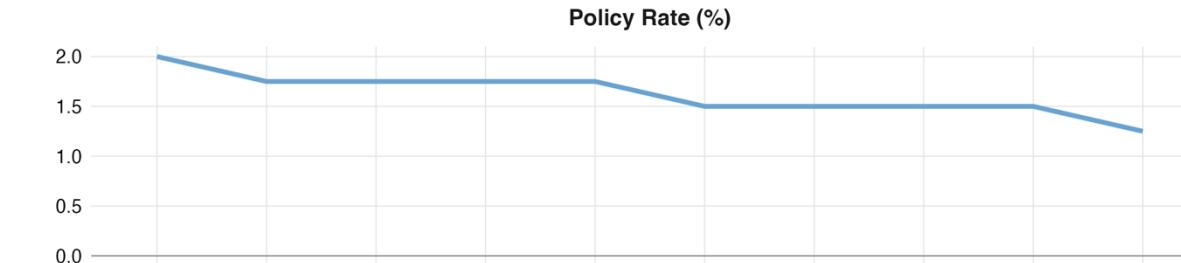
# WE EXPECT THREE CONSECUTIVE 25BPS CUTS (2026, 2027, 2028)

**Forecasts** | ECB interest rate on the deposit facility

**BlackRock.**

## Economic Forecasts 2025-2028

Policy Rate, Inflation, and Output Gap Projections



### EASING TRAJECTORY

Three consecutive 25bps cuts in Q1 of each year  
(2026, 2027, 2028)

### CUMULATIVE REDUCTION

75 basis points over three-year horizon

### TERMINAL RATE

1.25% by Q1 2028, above effective lower bound

**Assessment:** Calibrated response to support economic activity and ensure inflation stabilizes at 2% target

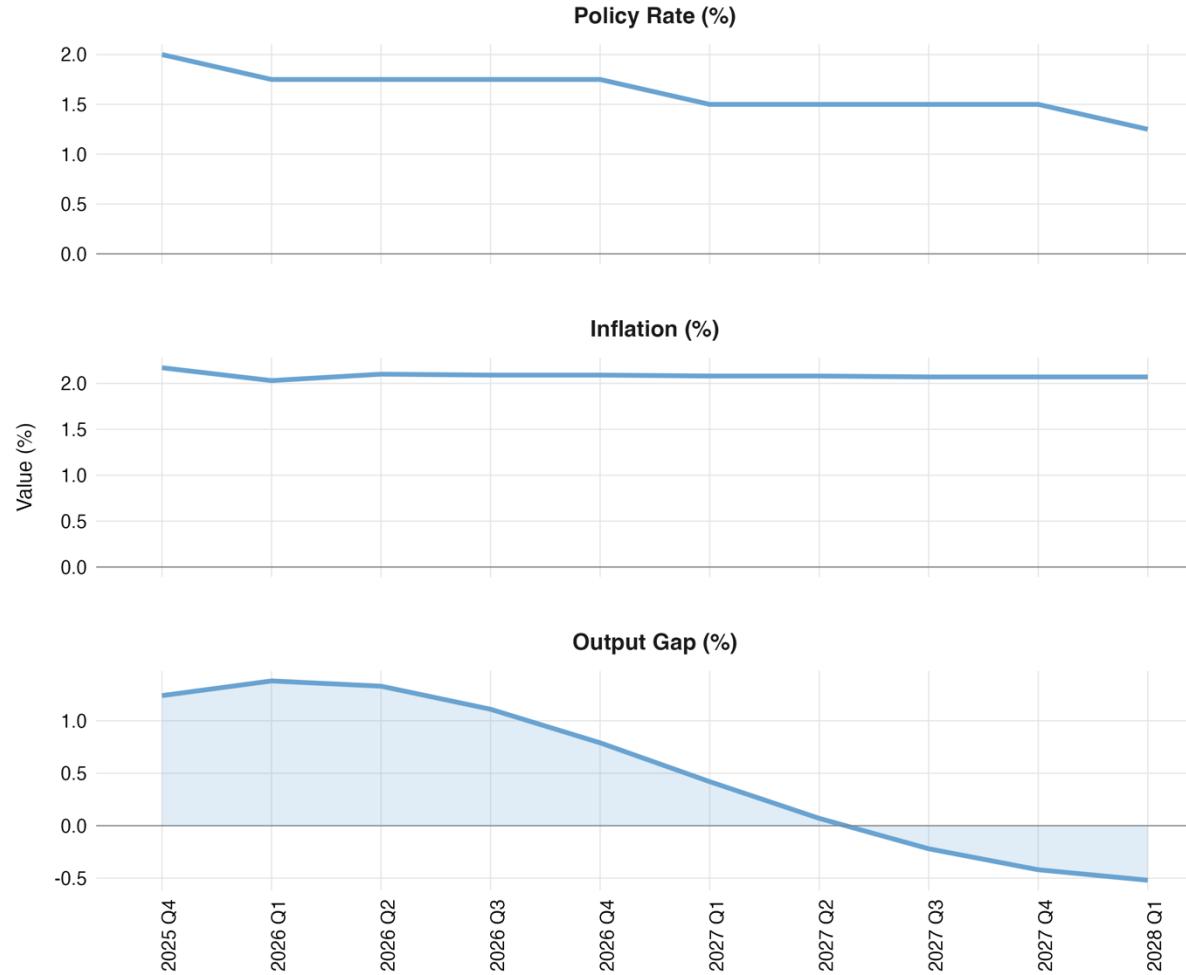
# INFLATION IS EXPECTED TO STAY AROUND TARGET

Forecasts | Euro-zone Inflation Dynamics

**BlackRock.**

## Economic Forecasts 2025-2028

Policy Rate, Inflation, and Output Gap Projections



**PERSISTENT BUT SLIGHTLY ABOVE TARGET**

7-17bps above ECB target

**STARTING POSITION**

**2.17%**

Q4 2025: 17bps above target

**FORECAST END**

**2.07%**

Q1 2028: 7bps above target

**Assessment:** Sticky inflation justifies gradual easing

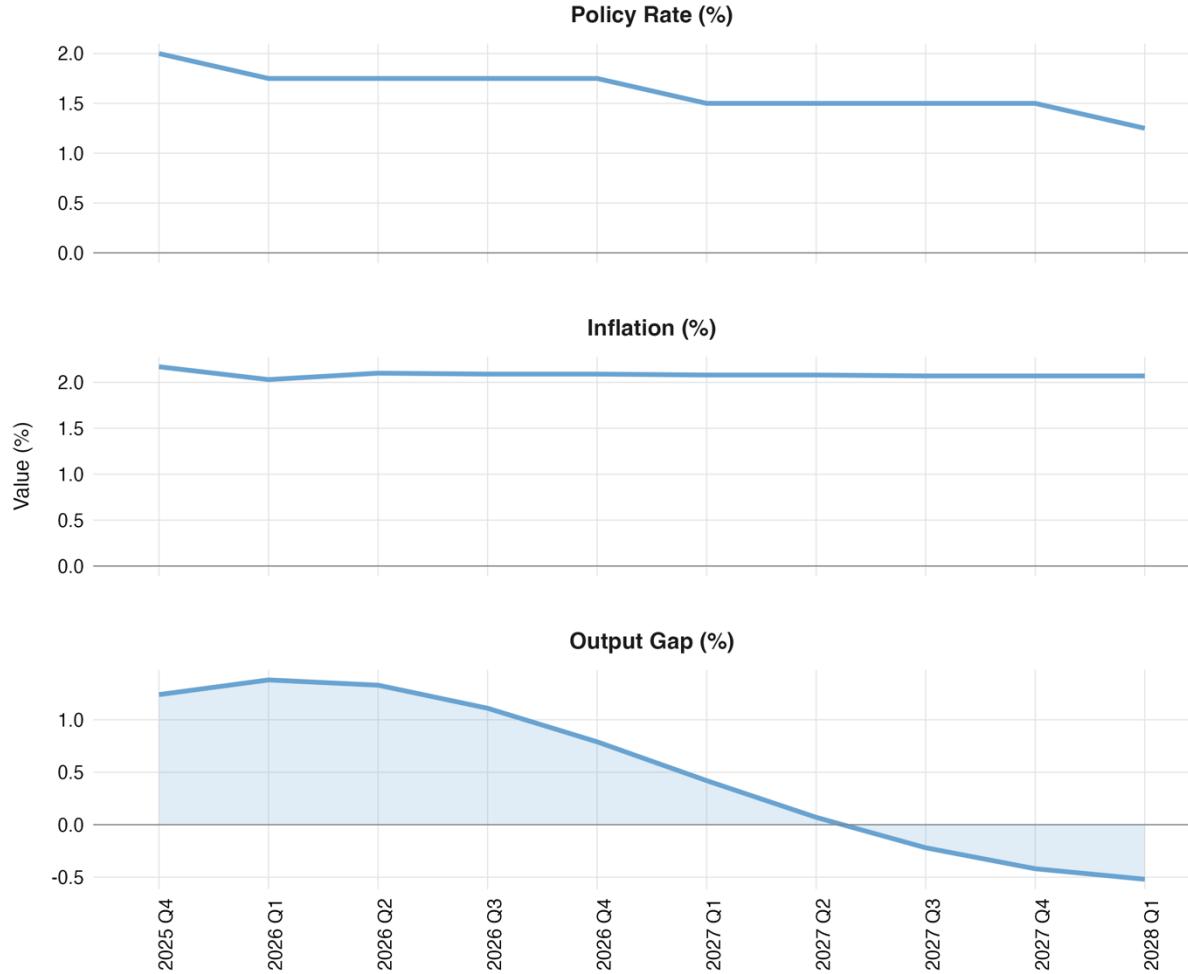
# MODEL PREDICTS A NEGATIVE OUTPUT GAP FROM Q3 2027 ONWARDS

Forecasts | Euro-zone Output Gap

**BlackRock.**

## Economic Forecasts 2025-2028

Policy Rate, Inflation, and Output Gap Projections



### STARTING POSITION

**+1.24%**

Q4 2025: Economy above capacity

### TRANSITION POINT

Gap turns negative in Q3 2027

### FORECAST END

**-0.52%**

Q1 2028: Below-potential

**Assessment:** Our model may underestimate slack

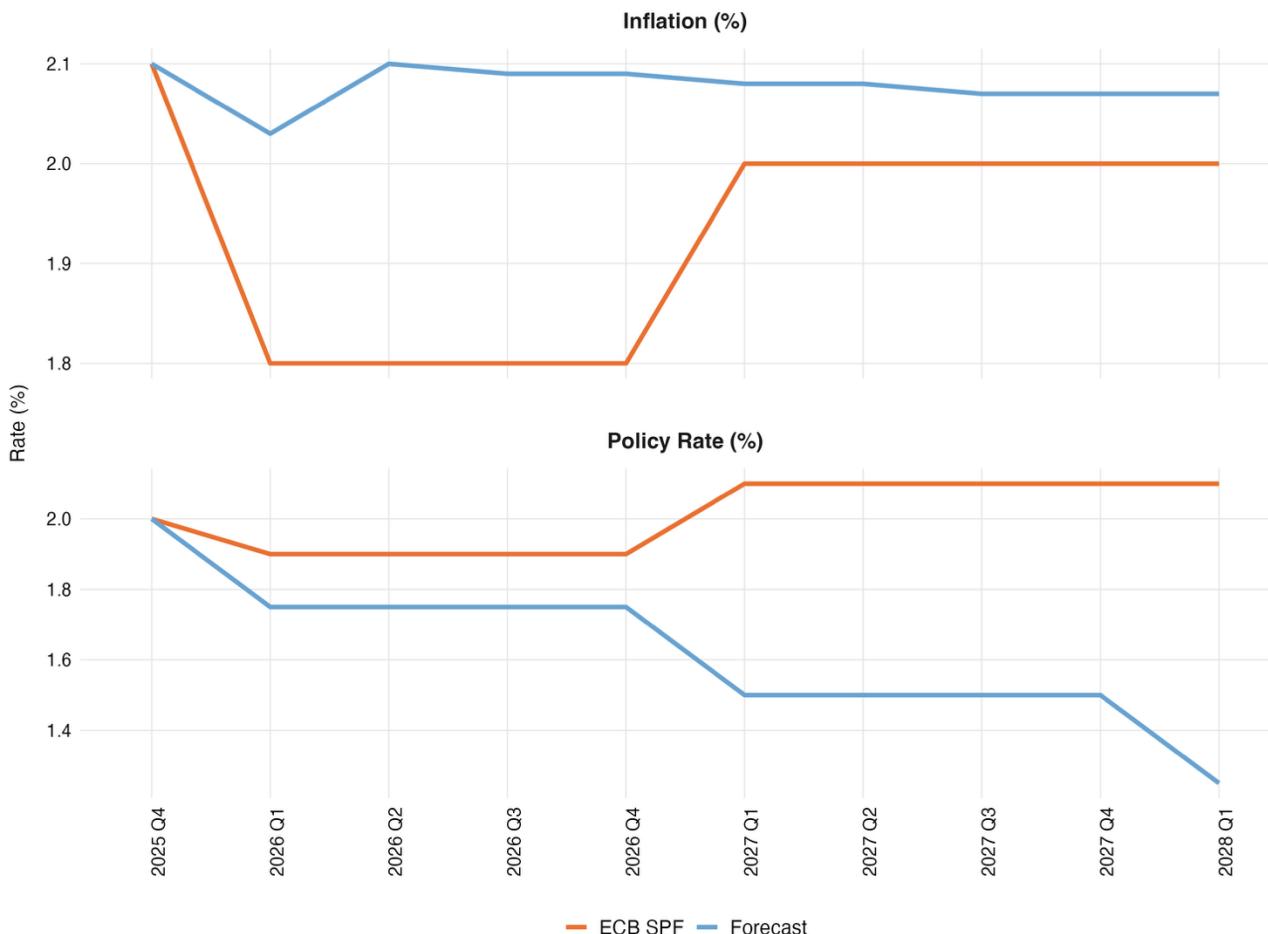
# OUR FORECAST CONTRASTS WITH THE ECB SPF CONSENSUS

Analysis | Comparison with ECB SPF Consensus

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## Inflation & Policy Rate Forecasts Comparison

Our Forecast vs ECB Survey of Professional Forecasters



### OUR FORECAST

Sustained easing to 1.25% by 2028

Persistent weakness requiring prolonged accommodation

### ECB SPF CONSENSUS

Brief cut to 1.90%, then reversal to 2.10%

Resilient economy requiring return to restrictive policy

### INFLATION DIVERGENCE

Our forecast: 2.07-2.10% (persistently above)

SPF: 1.8% in 2026, recovering to 2.0%

**Assessment:** We anticipate wider negative output gap

# OUR UNDERLYING RATIONALE IS THREEFOLD

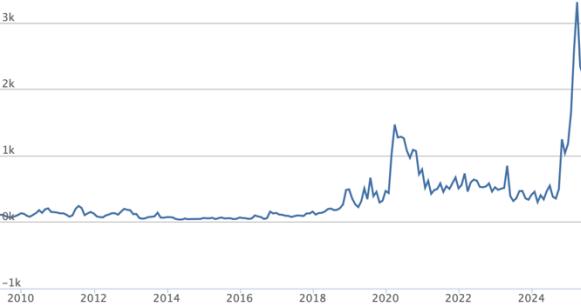
Analysis | Underlying rationale

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## Downside risk due to US Tariffs

Uncertainty associated with US tariffs present a significant downside risk

### Daily Trade Policy Uncertainty (US news-based metric, 7-day average)



Source: Baker et al. (2025)

## Indirect effects

Uncertainty associated with US tariffs may lead to delays in investment, hiring, and spending decisions

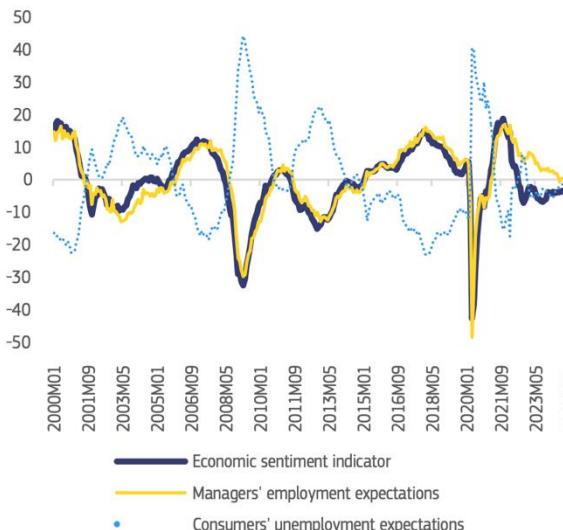
## Direct effects

Higher tariffs could directly impact EU economic activity, especially employment through an increase in export prices

## Weak labor market

Reduction in hiring intentions and pessimism regarding economic outlook

### EU economic sentiment and expectations (relative to pre-pandemic average)



Source: European Commission (2025)

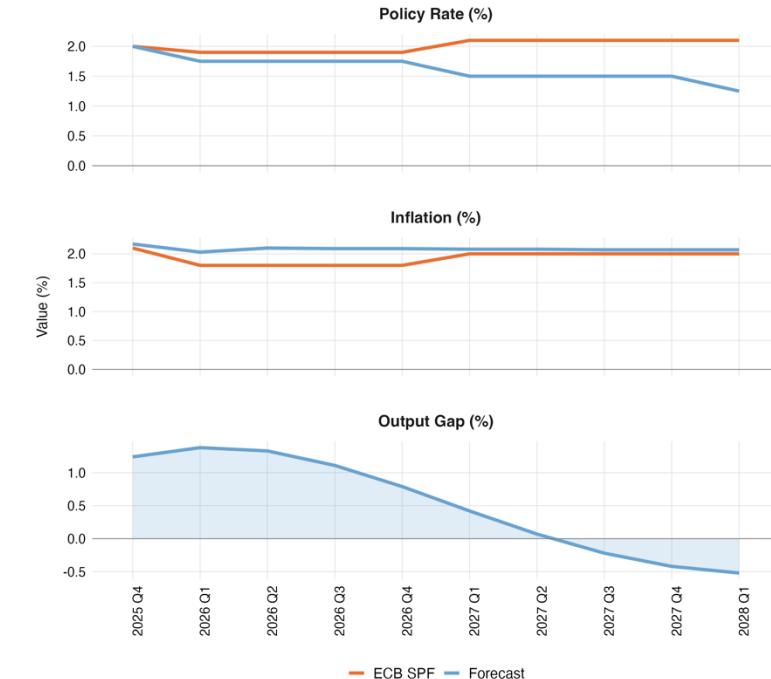
## Downside risk to employment

Recent decline in manufacturing employment unclear whether service sector can fully absorb displaced workers

## Monetary policy leeway

Inflation sticking close to target allowing accommodative monetary policy

### Policy Rate, Inflation, and Output gap Forecasts (Comparison with ECB SPF)



Source: Own Calculations, ECB SPF (2025)

# WE EXPECT A SERIES OF RATE CUTS SUMMING UP TO 75BPS BY Q1 2028

Conclusion | ECB Deposit Facility Rate Forecast

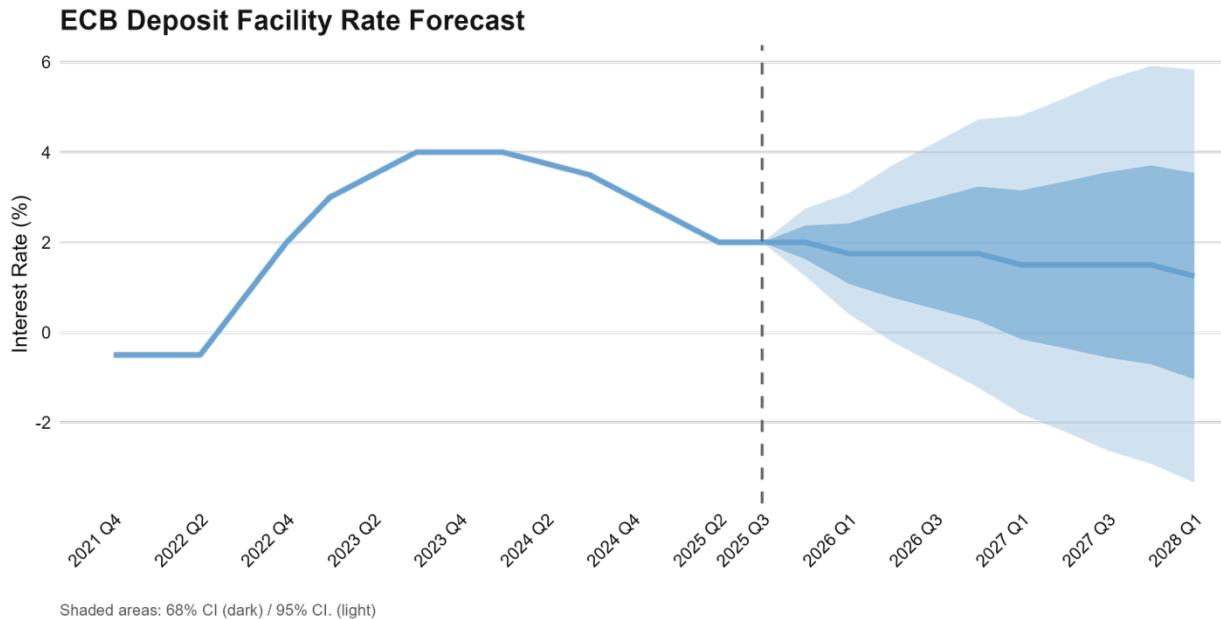
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**Three 25bps cuts through 2028** in response to moderating inflation and deteriorating output gap

**Q1 2026  
1.75%**  
First cut as slack emerges

**Q1 2027  
1.50%**  
Negative output gap

**Q1 2028  
1.25%**  
Terminal rate



**Divergence with Consensus:** we expect a wider output gap driven by uncertainty associated with US tariffs

## Underlying Rationale

### Downside risk due to US Tariffs

Uncertainty associated with US tariffs may lead to delays in investment, hiring, and spending decisions in addition to the direct effects on exports

### Weak labor market

Reduction in hiring intentions and pessimism regarding economic outlook

### Monetary policy leeway

Inflation sticking close to target allowing the implementation of accommodative monetary policy



THANK YOU  
ANY QUESTIONS?

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# SPF CONSENSUS MAY UNDERSTIMATE EFFECTS OF US TARIFFS

APPENDIX | Rationale for divergence

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## Indirect effects

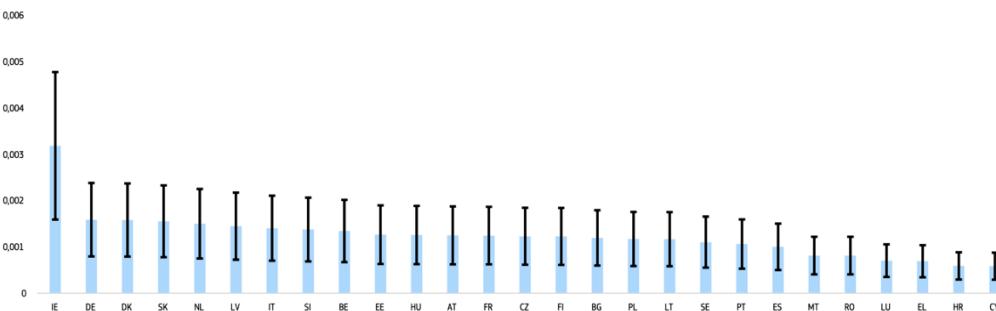
Uncertainty associated with US tariffs may lead to delays in investment, hiring, and spending decisions

## Direct effects

Higher tariffs could directly impact EU economic activity, especially employment through an increase in export prices

## Expected employment decline due to US tariffs by country

(Lower and upper range refers to 0.1% and 0.3% respectively)



Source: European Commission (2025)

## Daily Trade Policy Uncertainty

(US news-based metric, 7-day moving average)



Source: Baker et al. (2025)

**Assessment:** The assumed reduction in exports to the US is expected to have a significant impact on some sectors and tariffs may put additional pressure on an already weakening labor market