

The background of the slide is a close-up photograph of a wood surface with a prominent, wavy grain pattern. The wood is dark brown on the left and transitions to a lighter, more weathered greyish-brown on the right, separated by a vertical line.

# 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

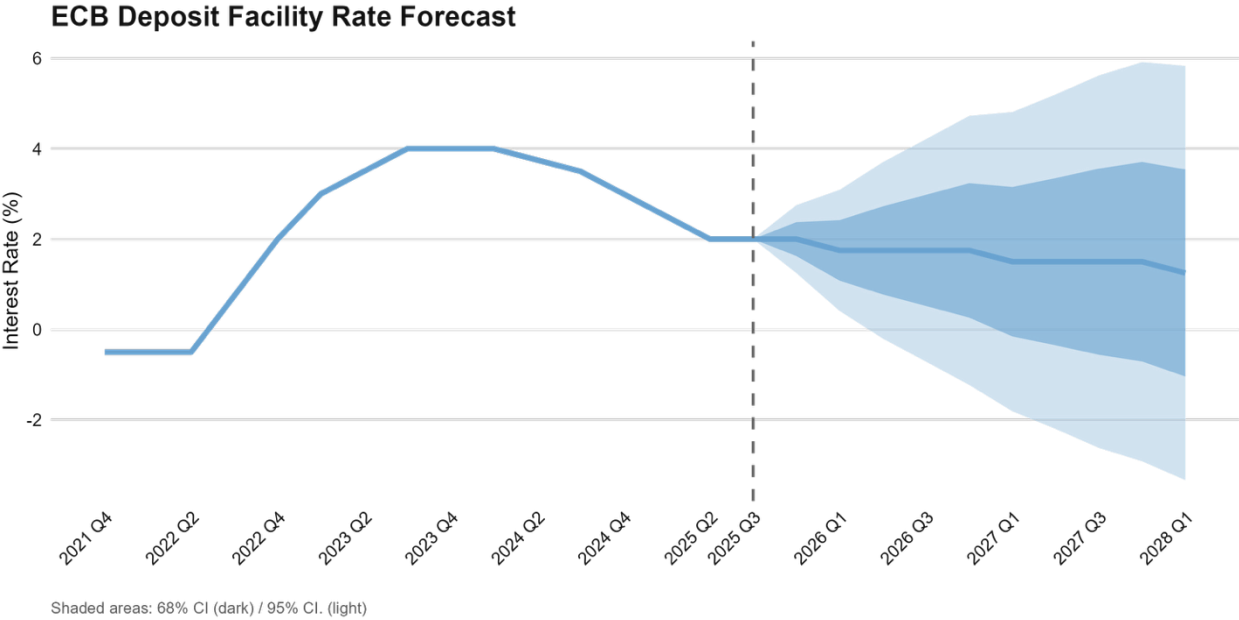
2.00%

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

**BlackRock.**

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

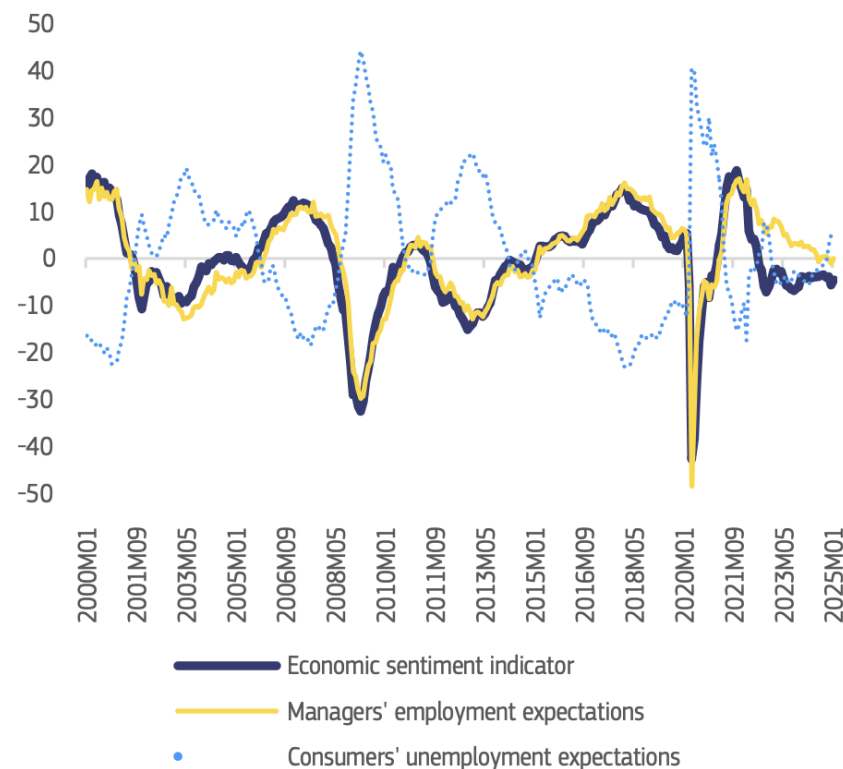
Reduction in hiring intentions and pessimism regarding economic outlook

### 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)



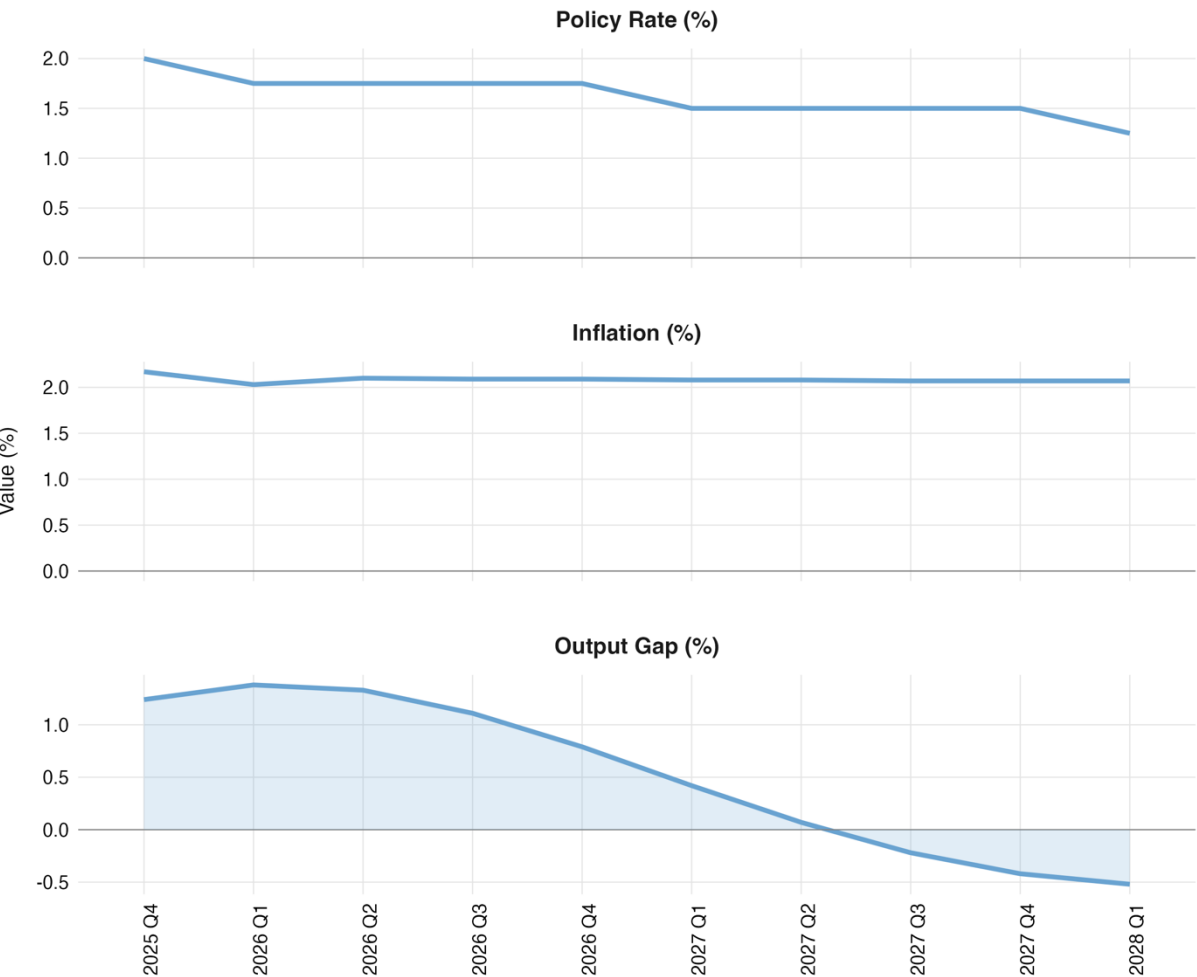
Source: European Commission (2025)

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

Forecasts | ECB interest rate on the deposit facility

## 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

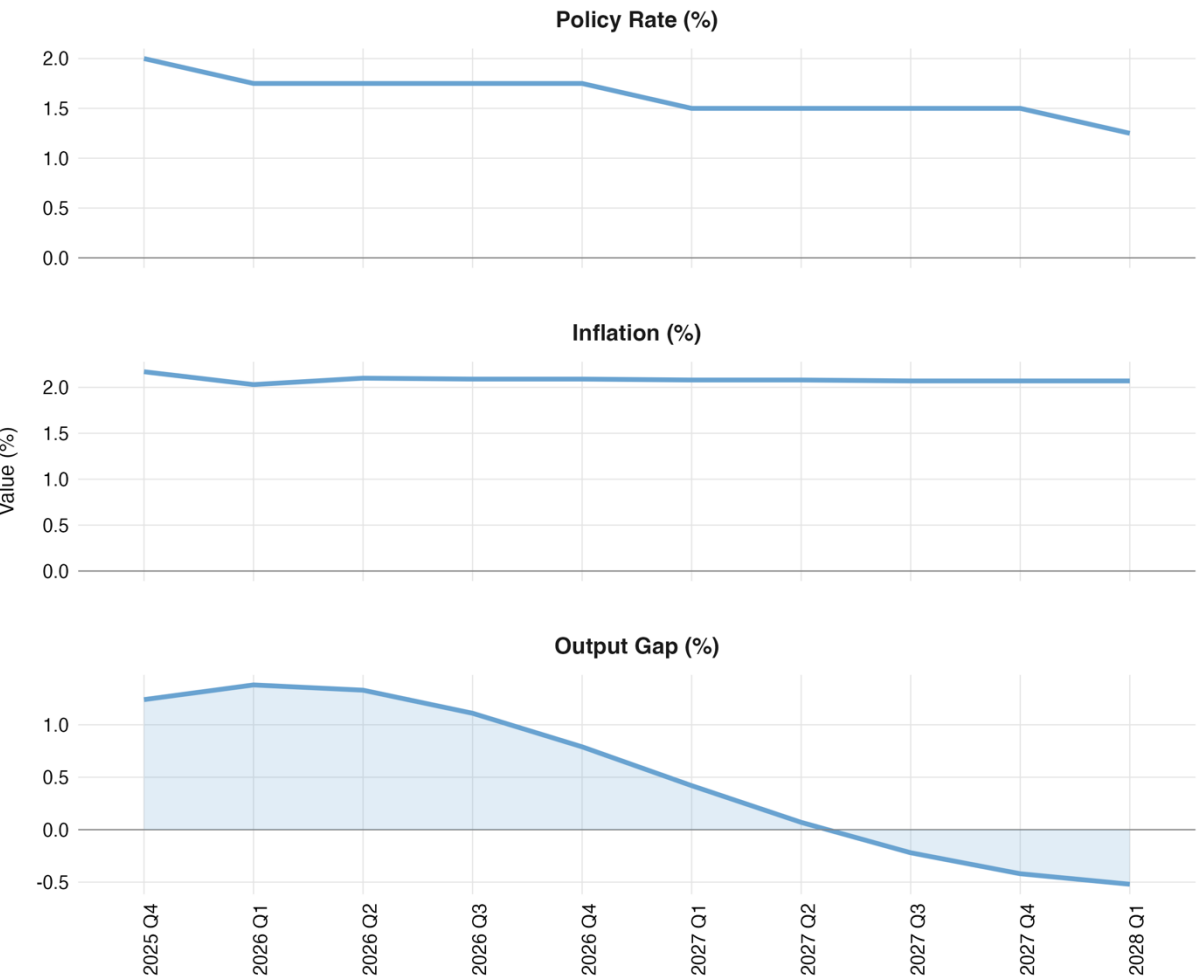
**Assessment:** Calibrated response to support economic activity and ensure inflation stabilizes at 2% target

# INFLATION IS EXPECTED TO STAY AROUND TARGET

Forecasts | Euro-zone Inflation Dynamics

## 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

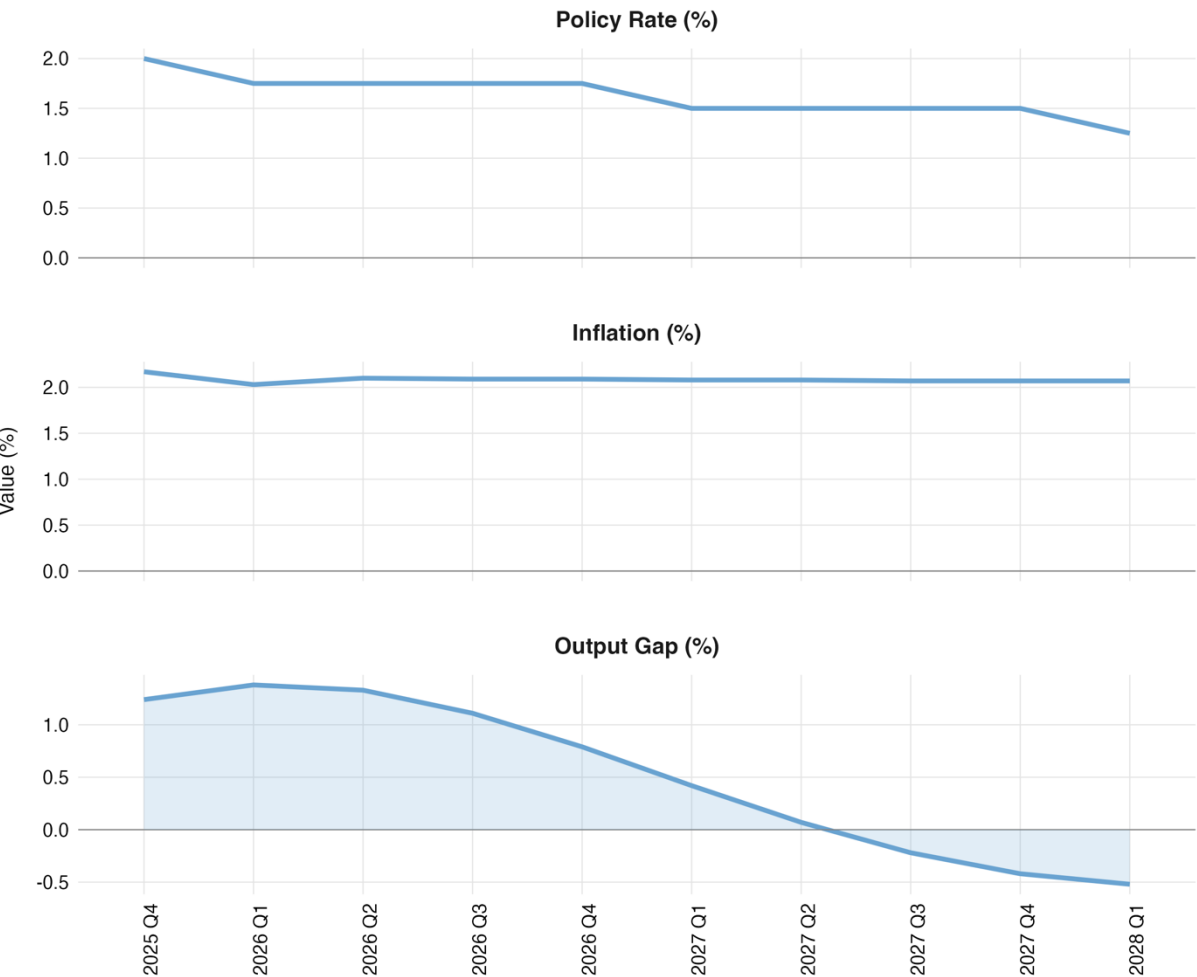
Assessment: Sticky inflation justifies gradual easing

# MODEL PREDICTS A NEGATIVE OUTPUT GAP FROM Q3 2027 ONWARDS

Forecasts | Euro-zone Output Gap

## 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

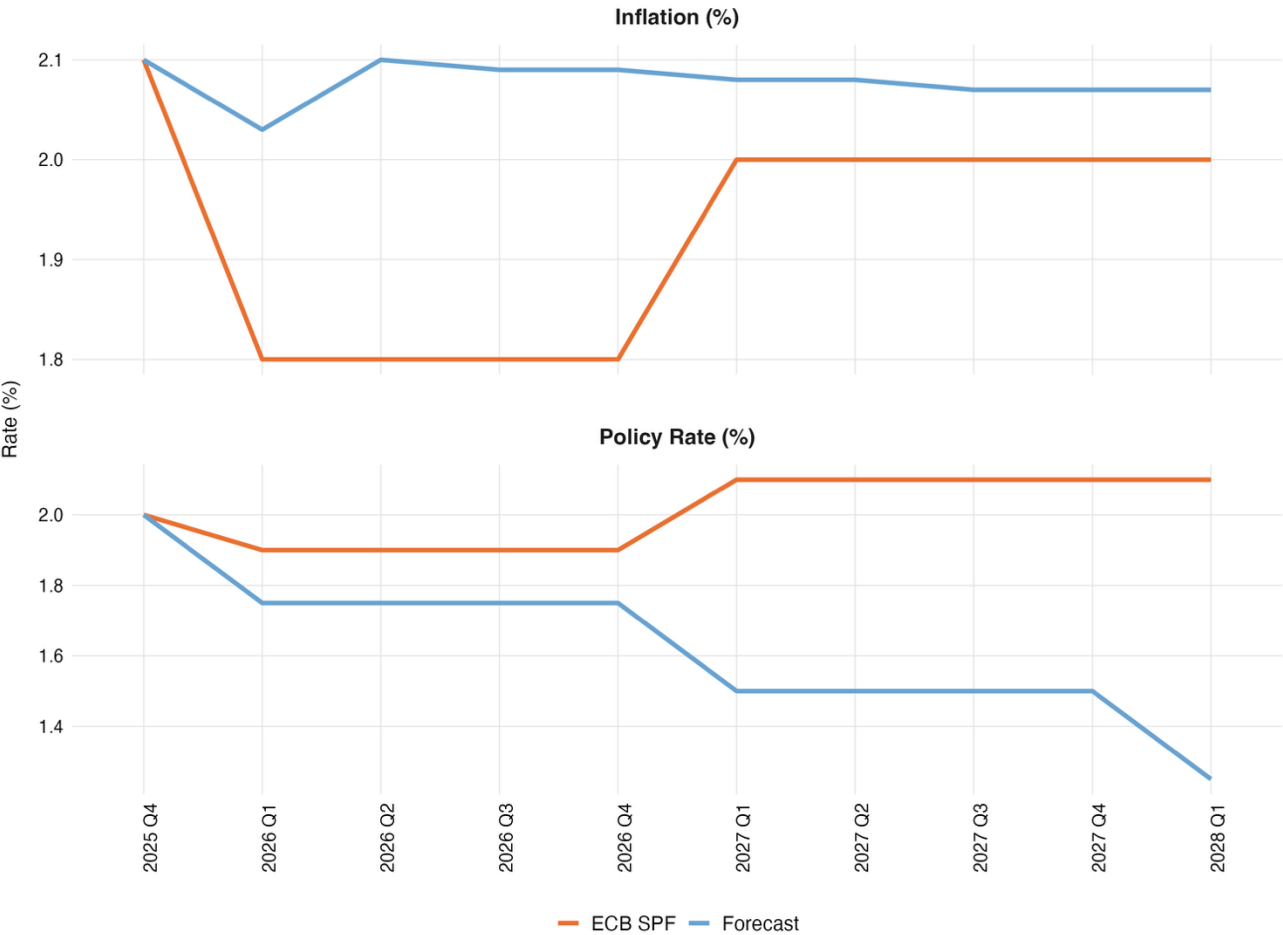
**Assessment:** Our model may underestimate slack

# OUR FORECAST CONTRASTS WITH THE ECB SPF CONSENSUS

Analysis | Comparison with ECB SPF Consensus

## 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

# SPF CONSENSUS MAY UNDERESTIMATE EFFECTS OF US TARIFFS

Analysis | Rationale for divergence

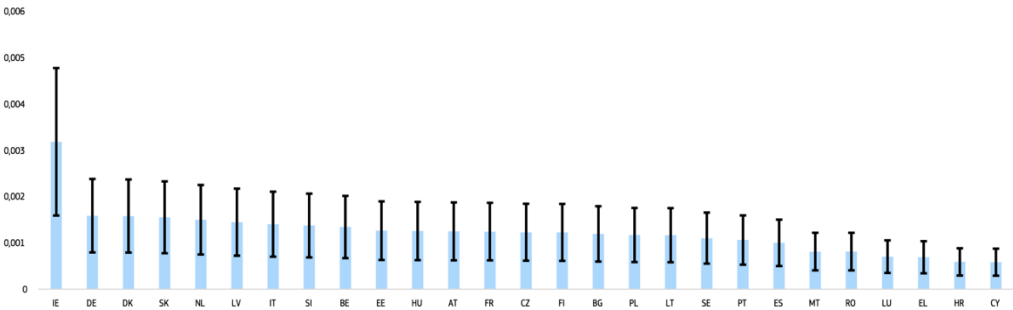
### Indirect effects

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

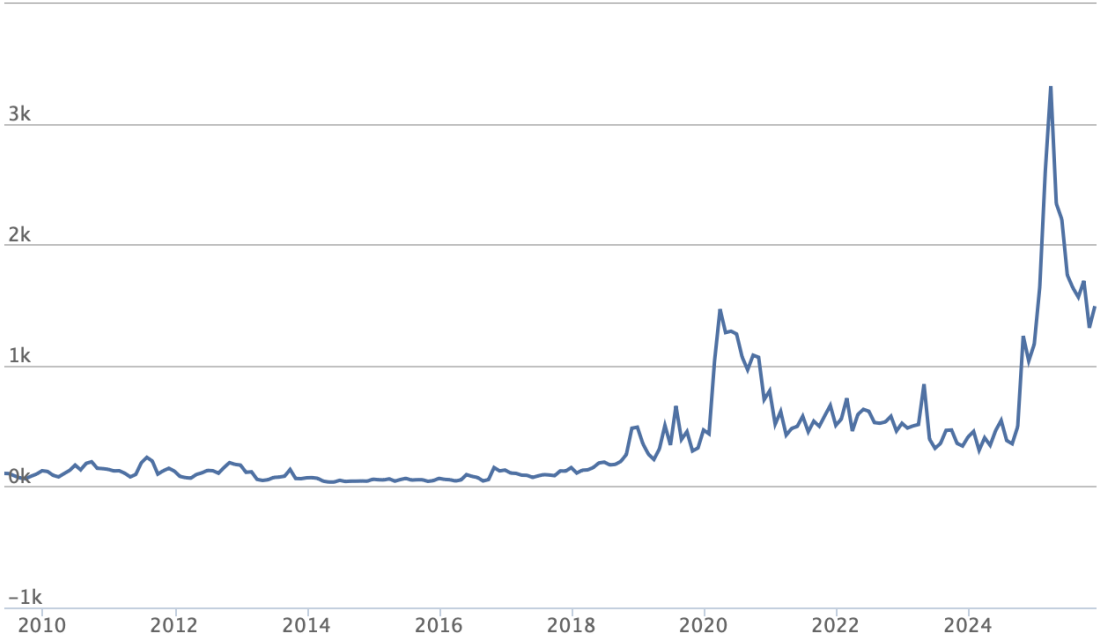
**Expected employment decline due to US tariffs by country**  
(Lower and upper range refers to 0.1% and 0.3% respectively)



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



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

**BlackRock.**

Conclusion | ECB Deposit Facility Rate Forecast

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%**

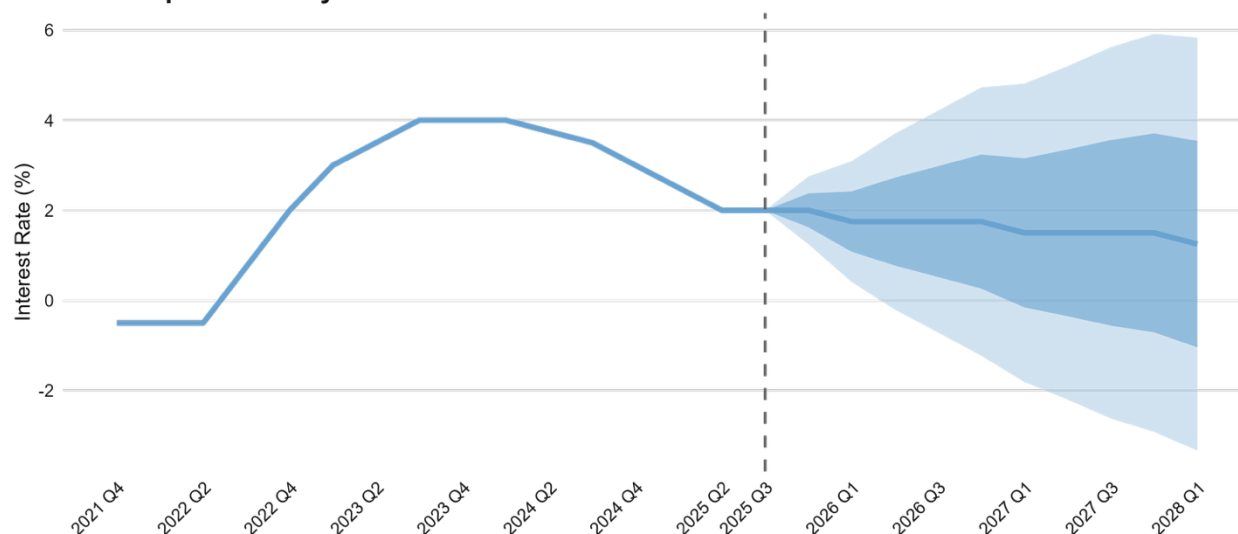
Negative output gap

Q1 2028

**1.25%**

Terminal rate

ECB Deposit Facility Rate Forecast



Shaded areas: 68% CI (dark) / 95% CI. (light)

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

## Underlying Rationale

### Downside risk due to US Tariffs

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### 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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