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

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

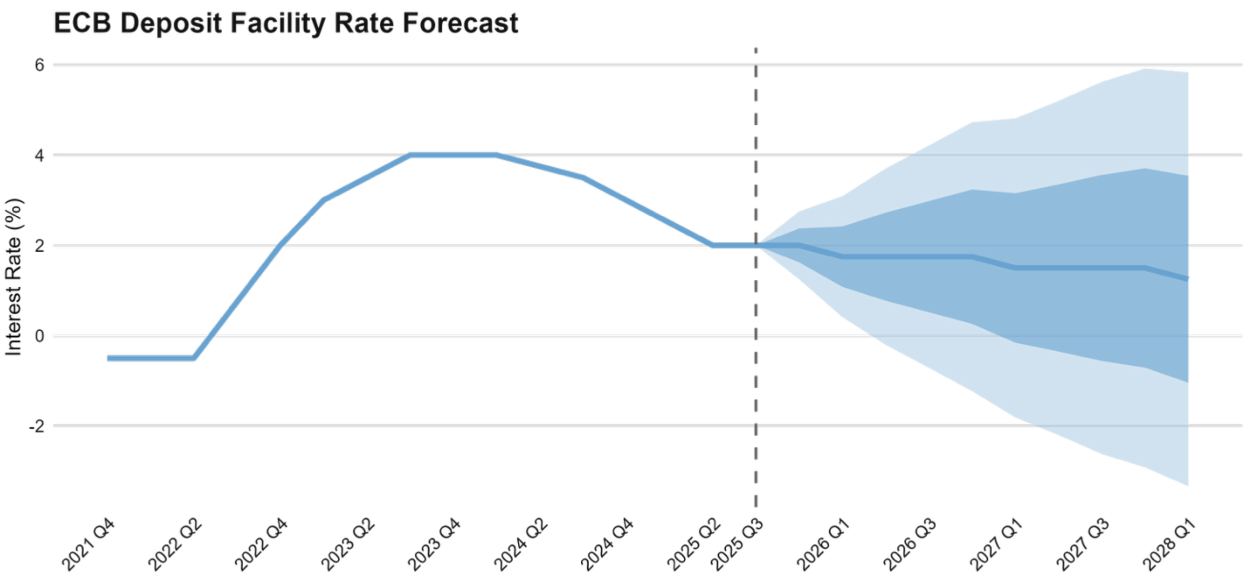
2.00%

October 30, 2025

Forward Guidance

Data-Dependent:
Based on inflation projections and policy transmission

No Preset Path:
Full discretion, no predetermined trajectory



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

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	Cumulative rate cuts
2.00%	**75bps**
October 30, 2025	Until Q1 2028

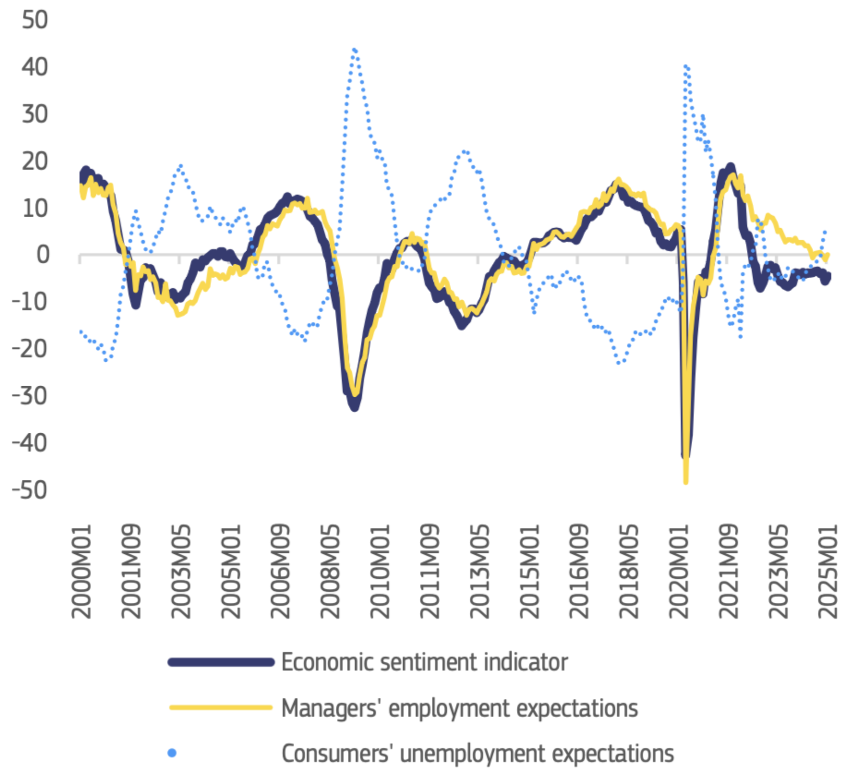
Underlying Rationale

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)



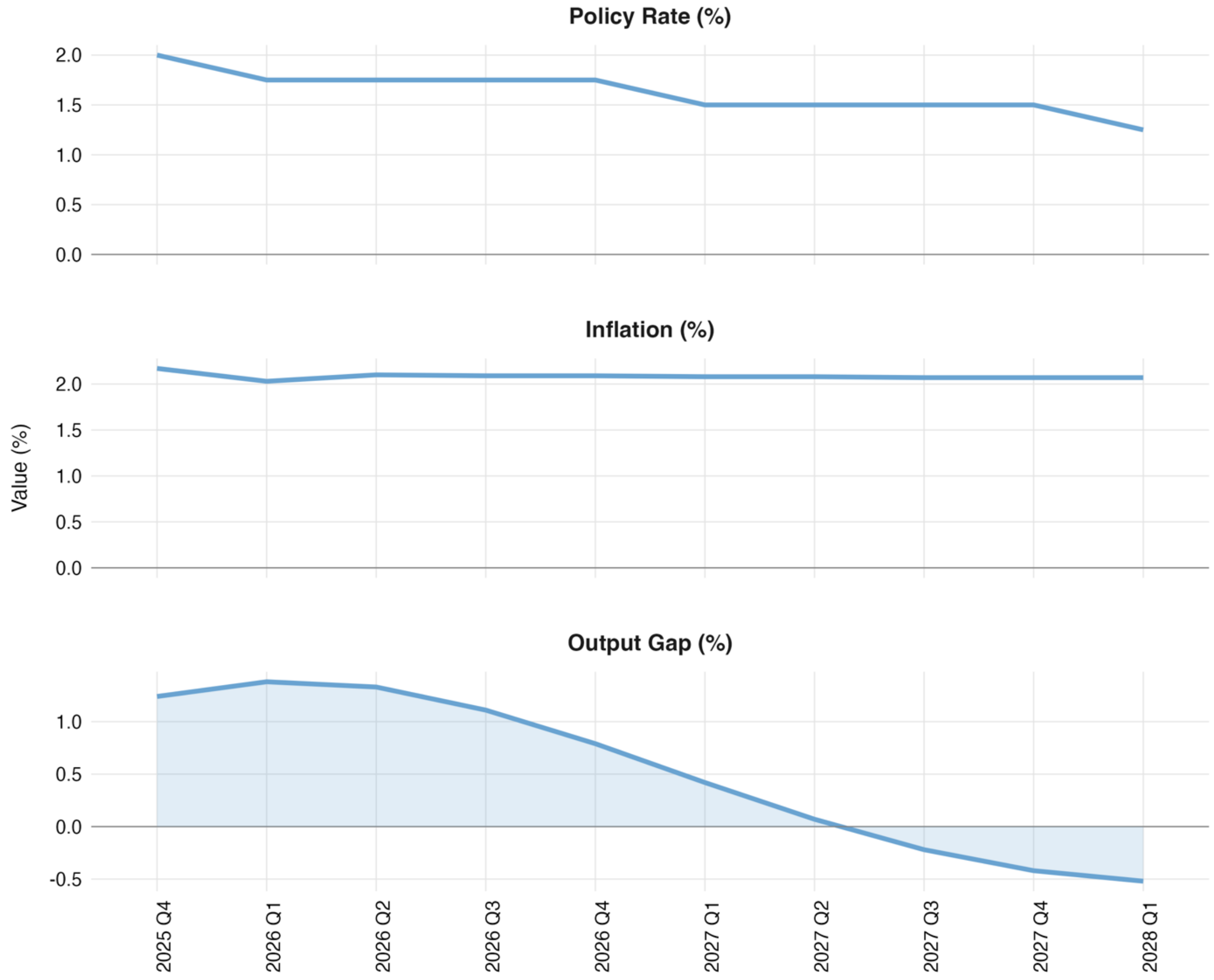
Source: European Commission (2025)

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

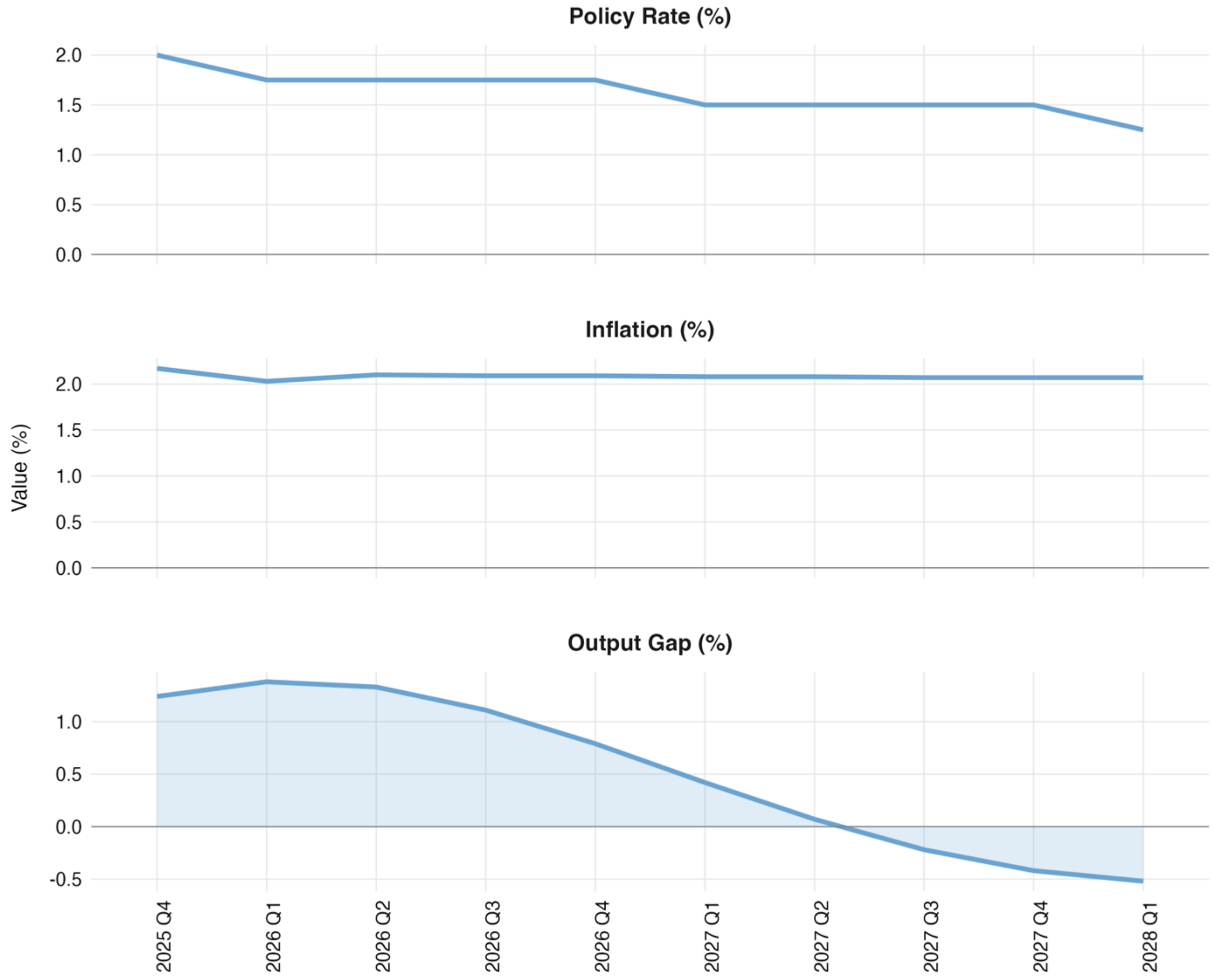
INFLATION IS EXPECTED TO STAY AROUND TARGET

Forecasts | Euro-zone Inflation Dynamics

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

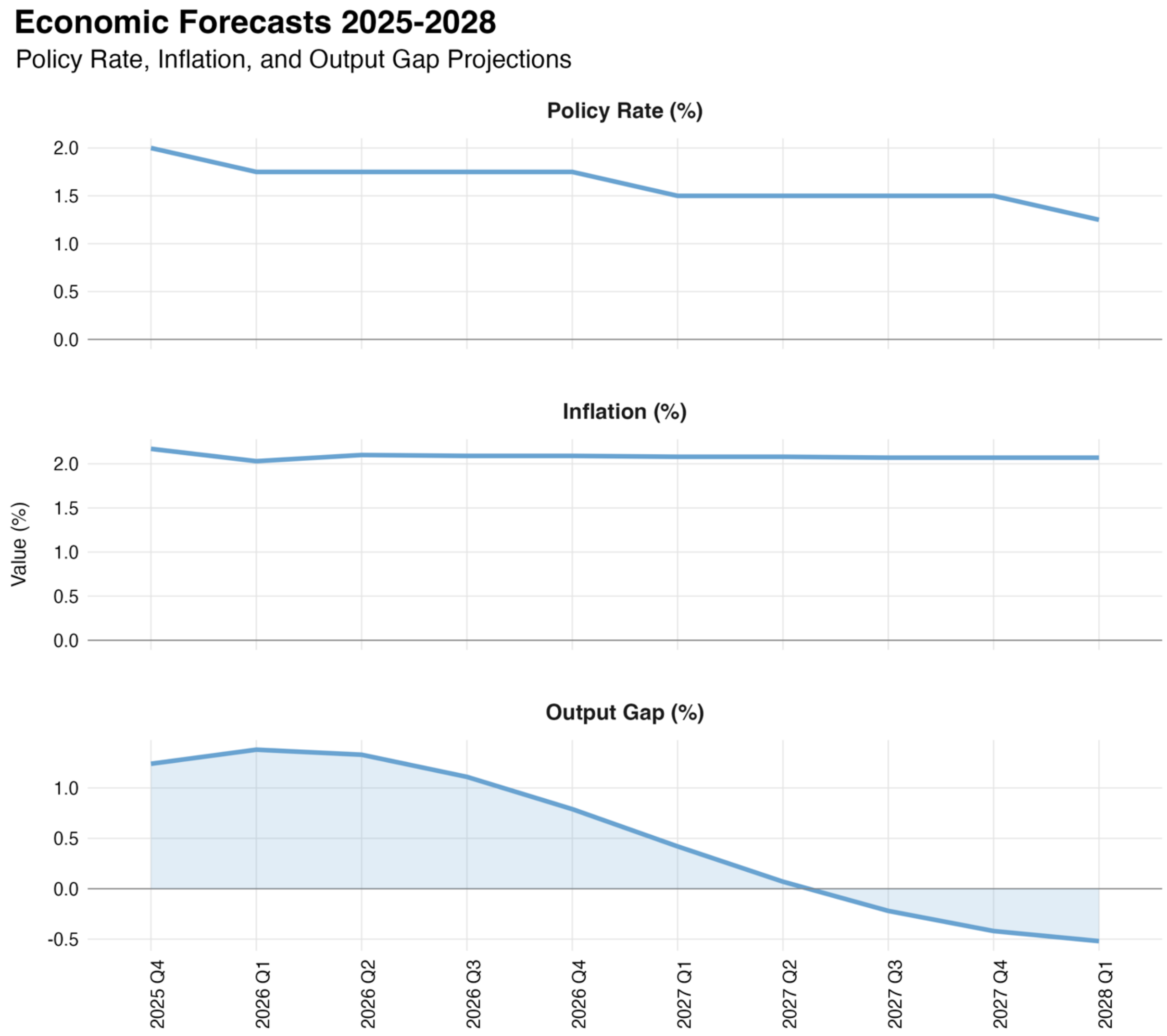
2.07%

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



STARTING POSITION

+1.24%

Q4 2025: Economy above capacity

TRANSITION POINT

Gap turns negative in Q3 2027

FORECAST END

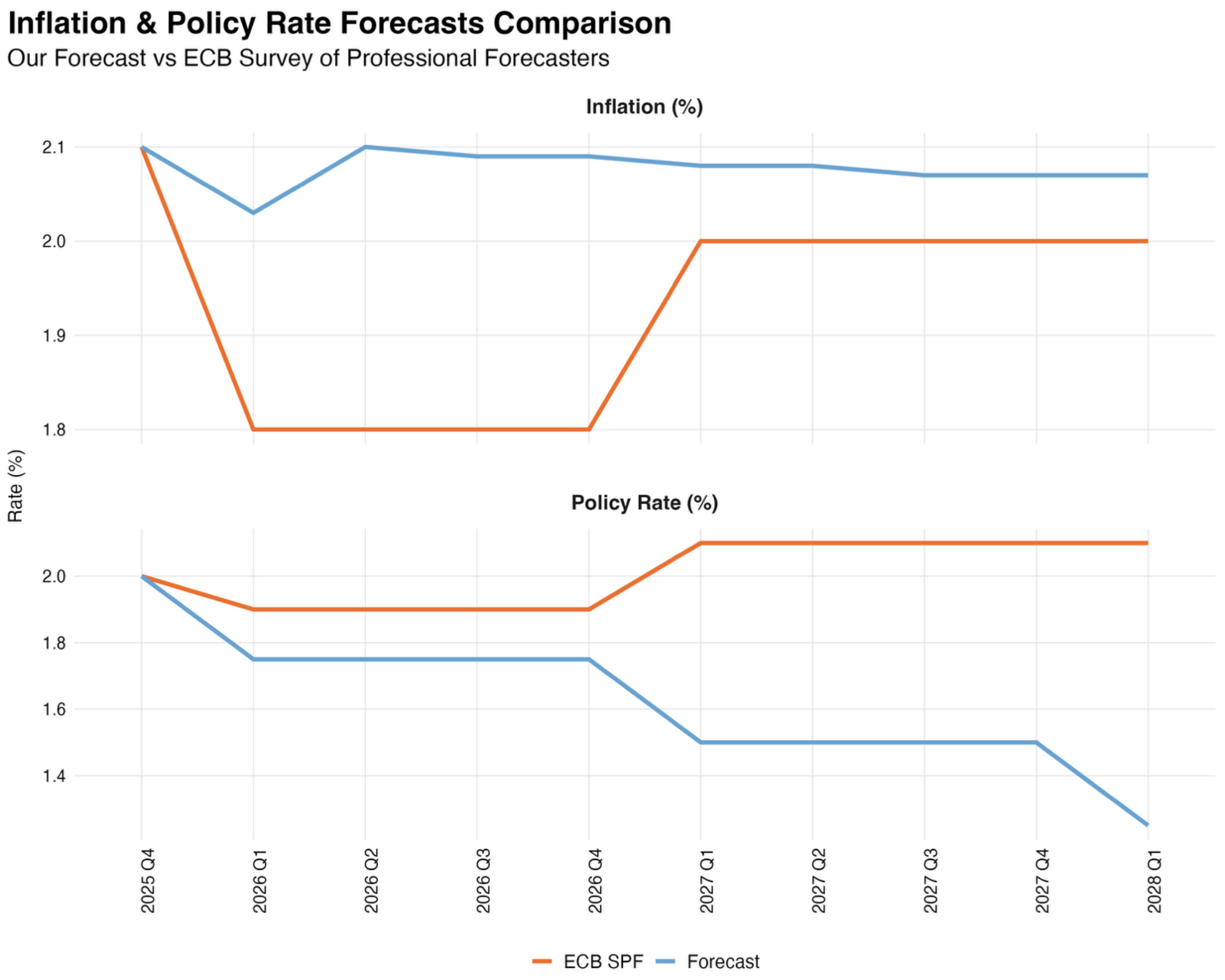
-0.52%

Q1 2028: Below-potential

Assessment: Our model may underestimate slack

OUR FORECAST CONTRASTS WITH THE ECB SPF CONSENSUS

Analysis | Comparison with ECB SPF Consensus



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 UNDERSTIMATE EFFECTS OF US TARIFFS

Analysis | Rationale for divergence

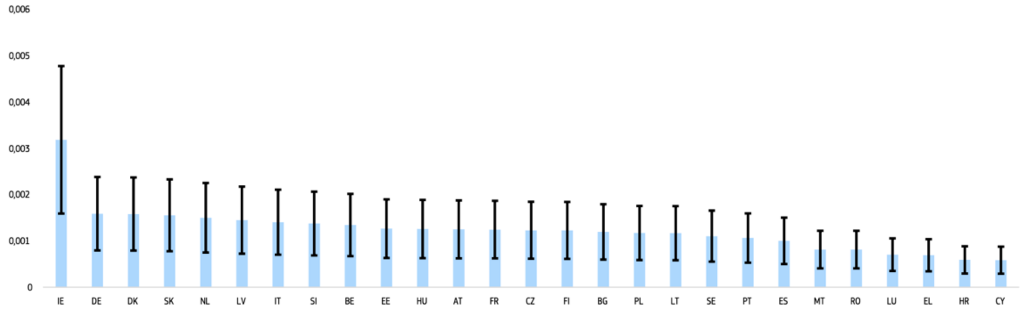
BlackRock.

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

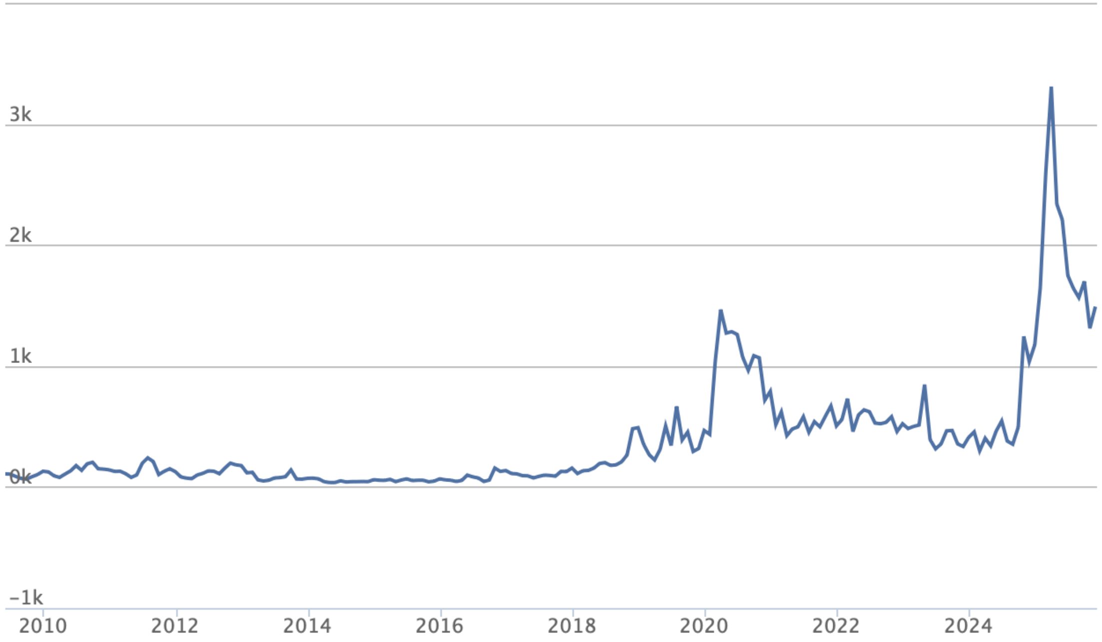
(Lower and upper range refers to 0.1% and 0.3% respectively)



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 weaking labor market

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

Executive Summary | ECB Deposit Facility Rate Forecast

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

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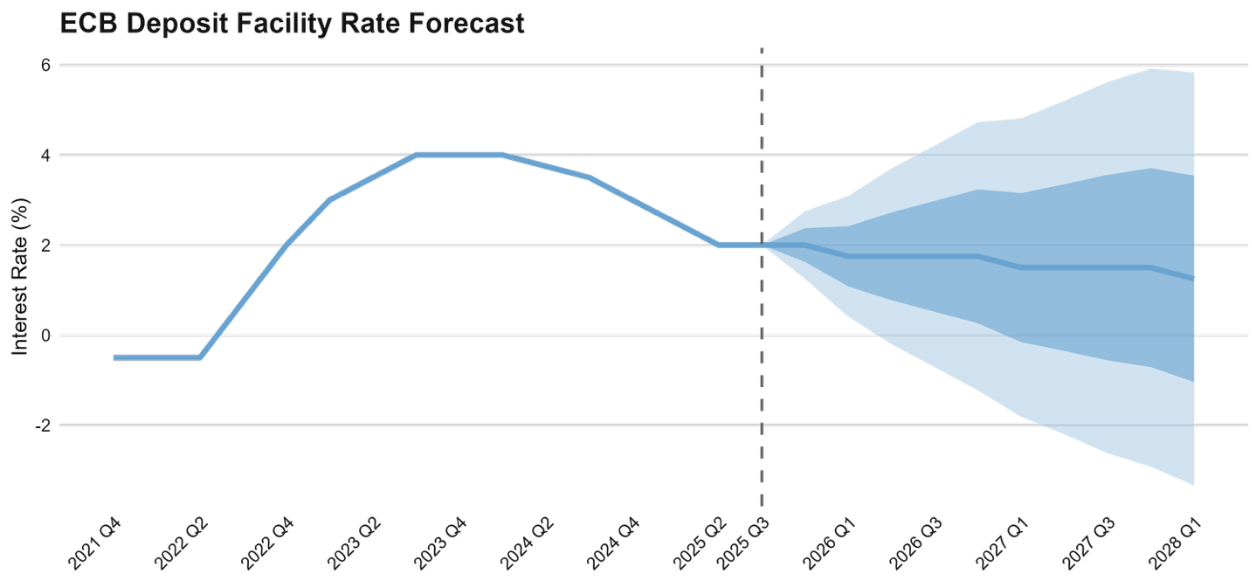

Shaded areas: 68% CI (dark) / 95% CI. (light)

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

Underlying Rationale

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