

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.

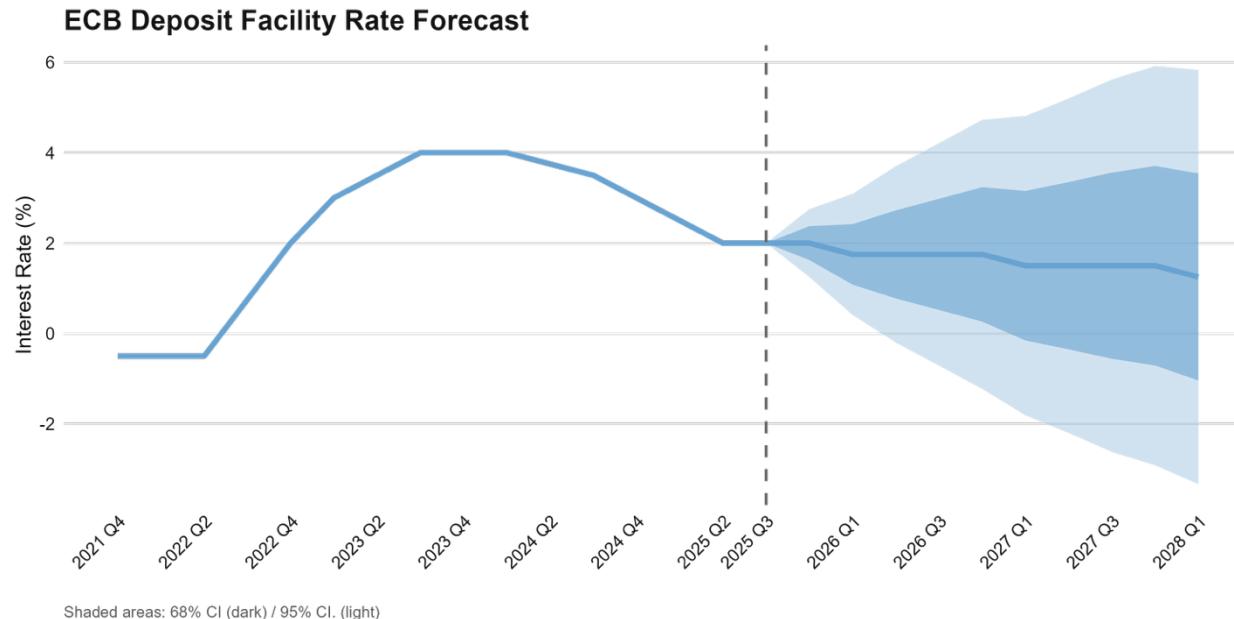
Current Rate
2.00%

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

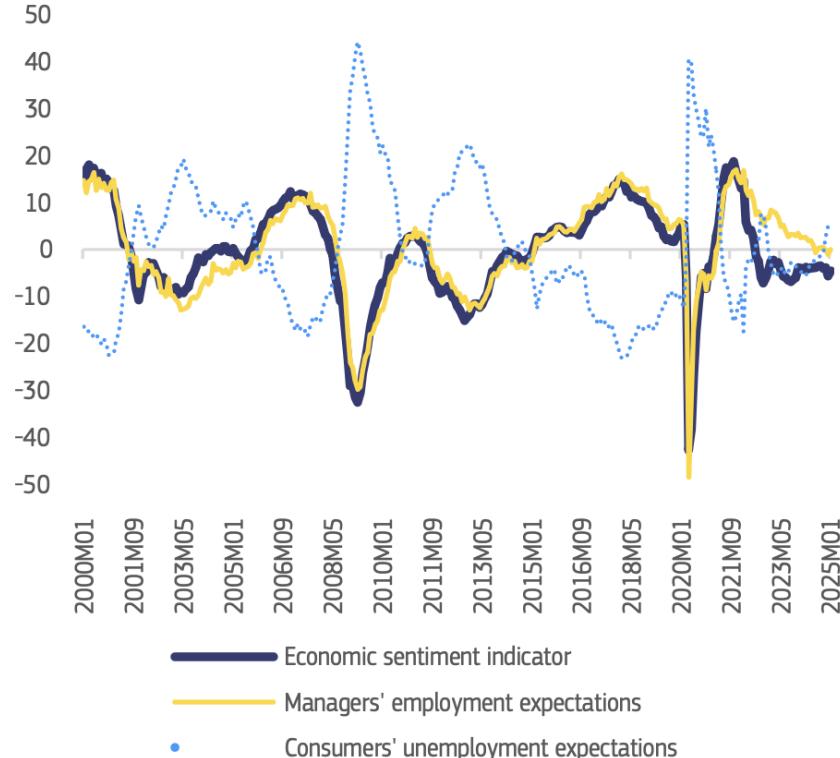
Weak labor market

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)

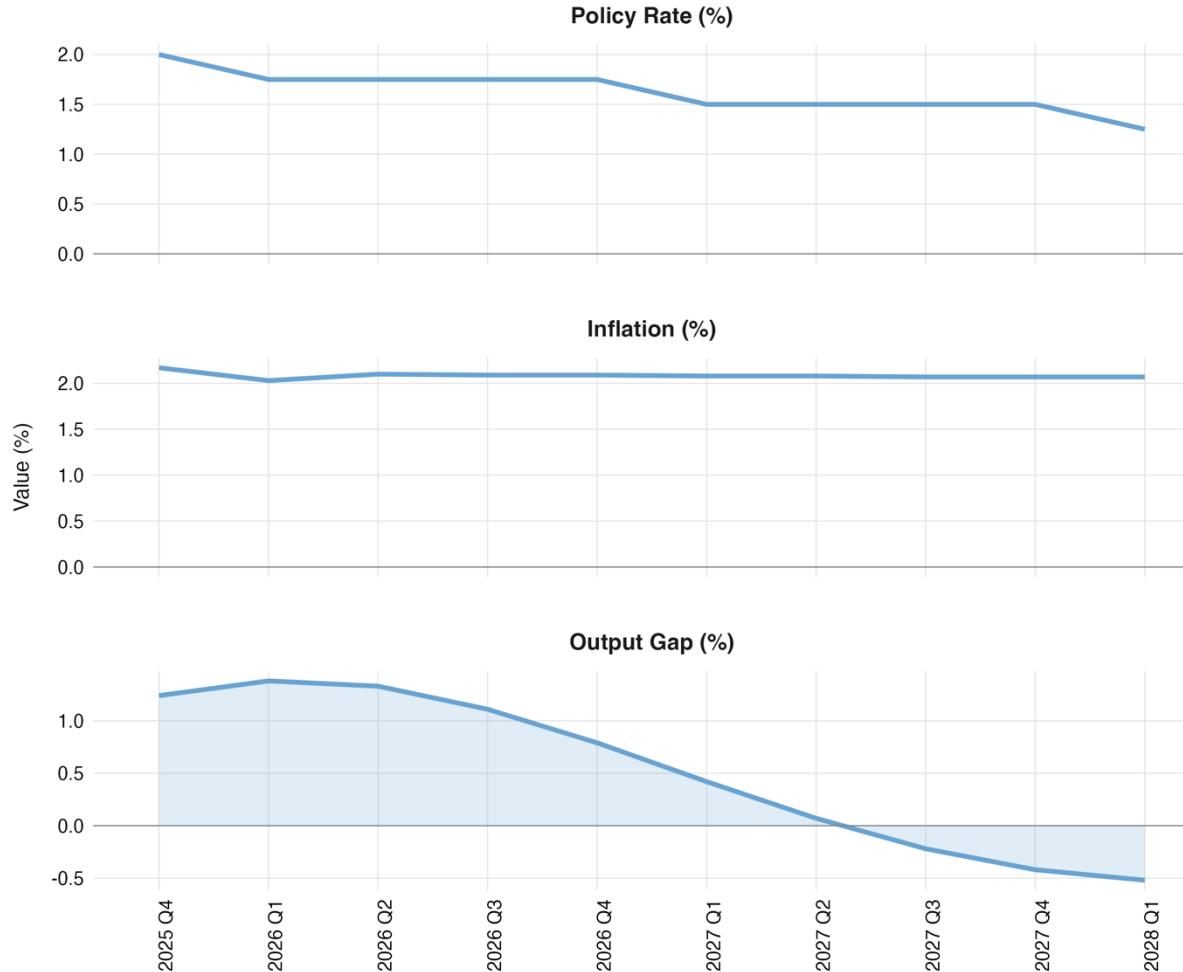
WE EXPECT THREE CONSECUTIVE 25BPS CUTS (2026, 2027, 2028)

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

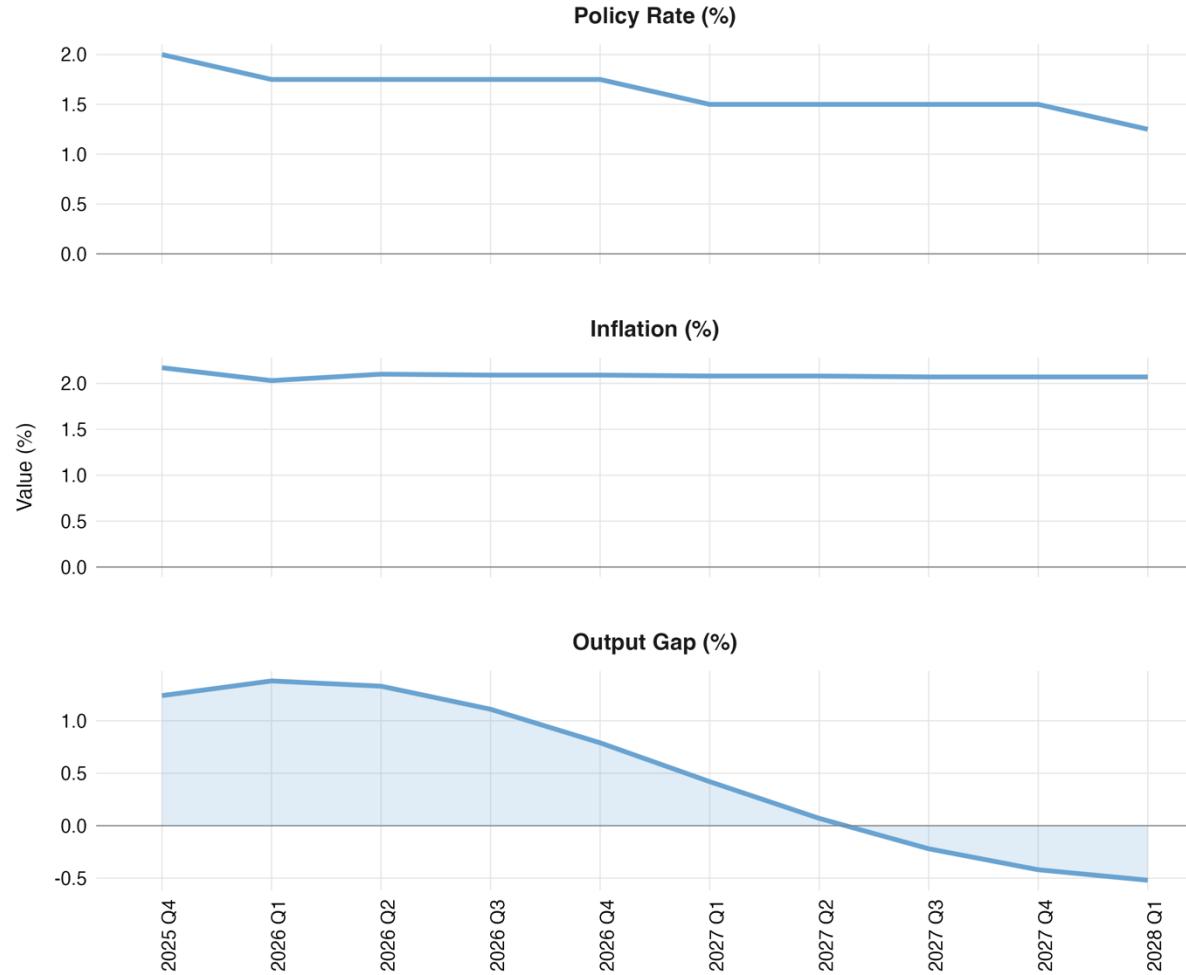
INFLATION IS EXPECTED TO STAY AROUND TARGET

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

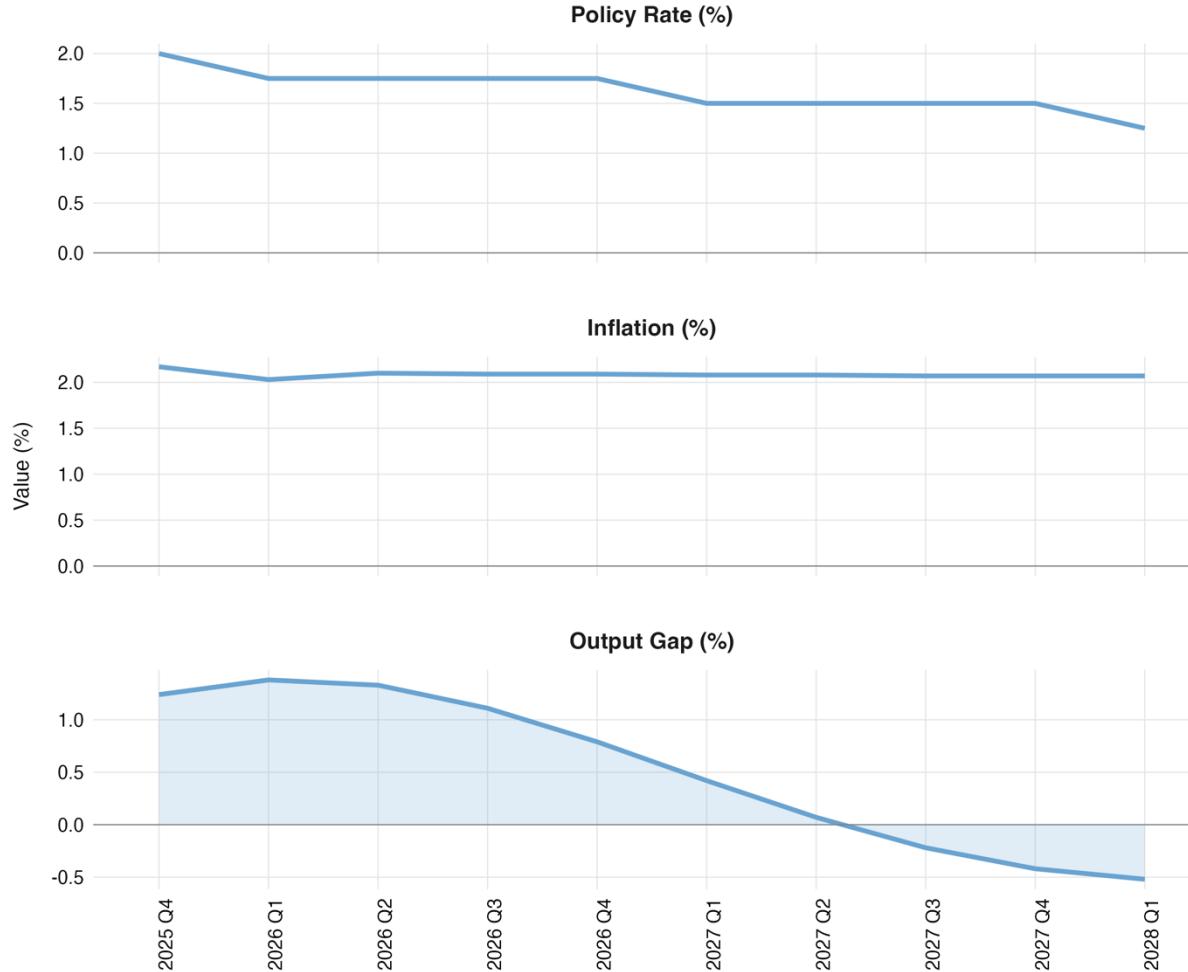
MODEL PREDICTS A NEGATIVE OUTPUT GAP FROM Q3 2027 ONWARDS

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

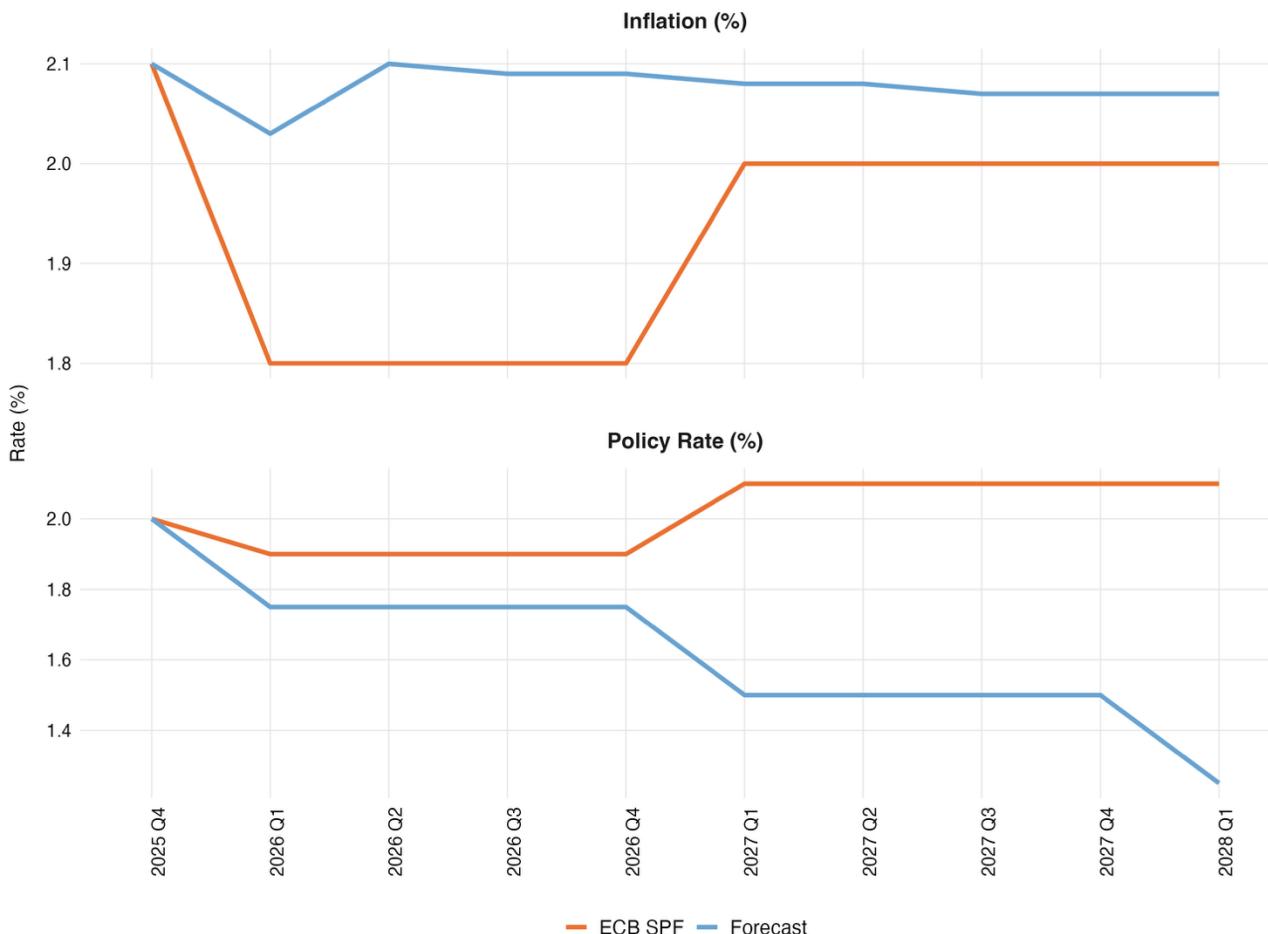
OUR FORECAST CONTRASTS WITH THE ECB SPF CONSENSUS

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

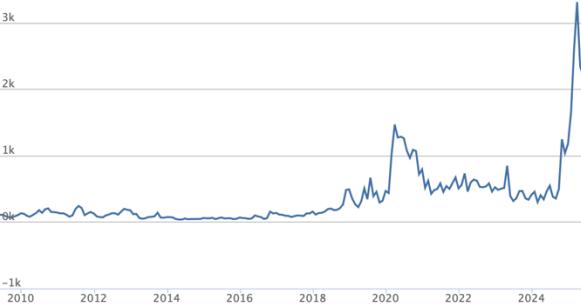
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Downside risk due to US Tariffs

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

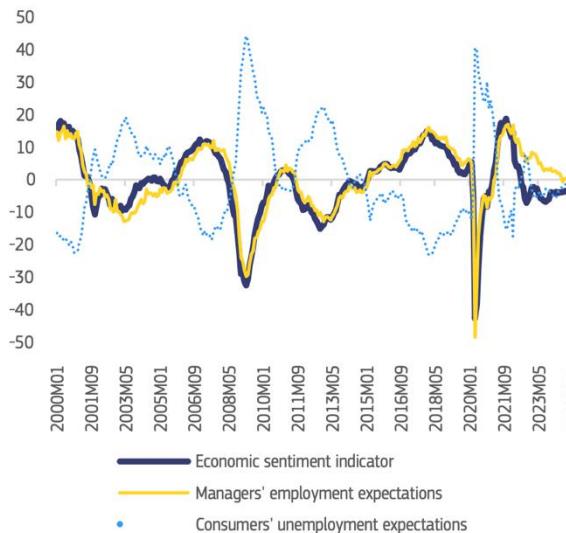
Higher tariffs could directly impact EU economic activity, especially employment through an increase in export prices

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

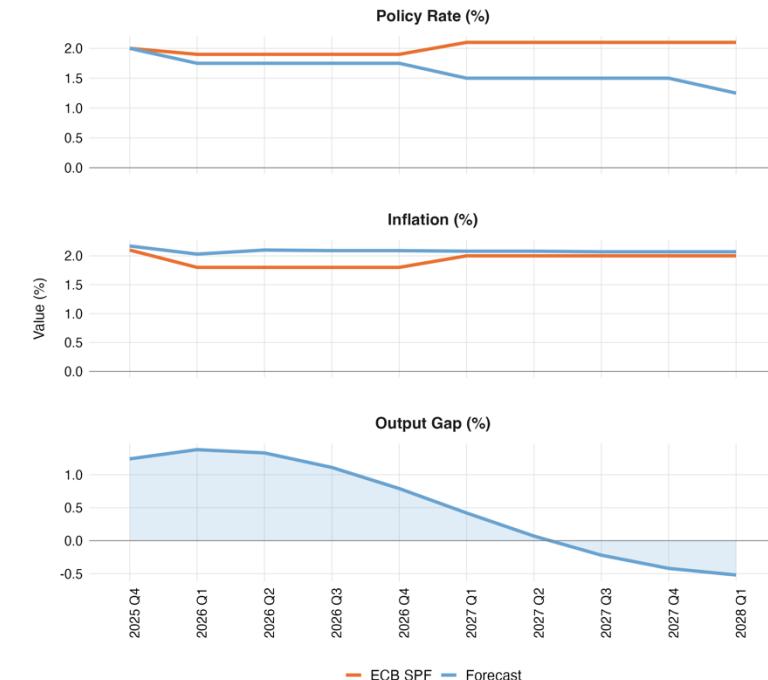
Economic pessimism and restructuring in key sectors due to AI implementation are associated with reduction in hiring intentions

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

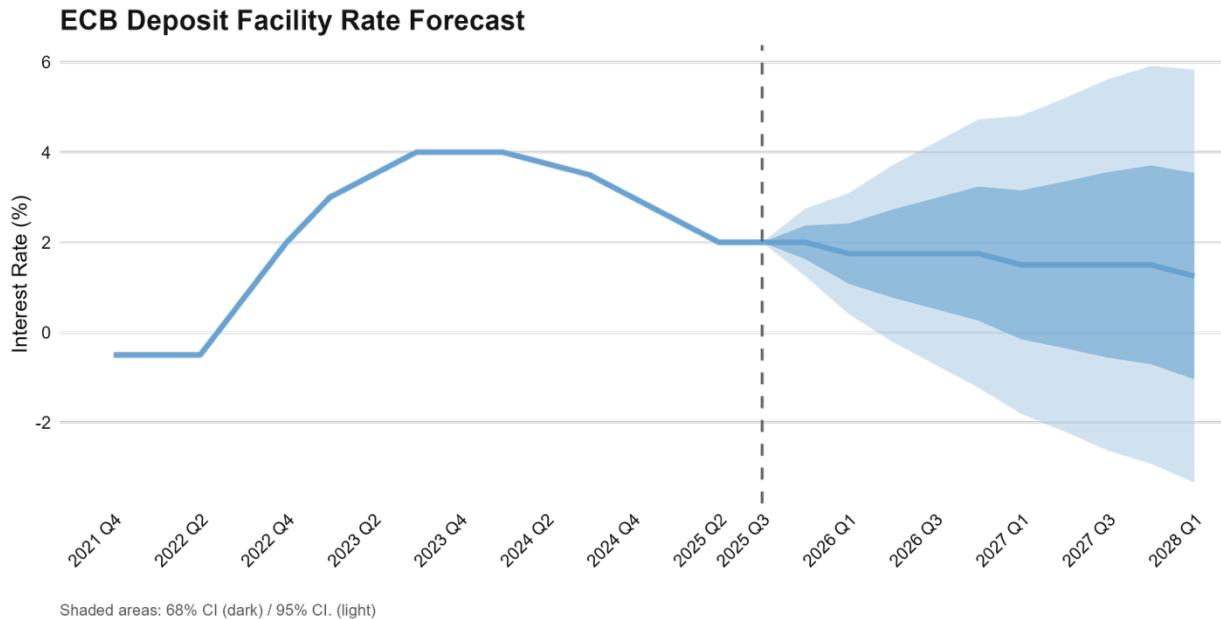
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Three 25bps cuts through 2028 in response to moderating inflation and deteriorating output gap

**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

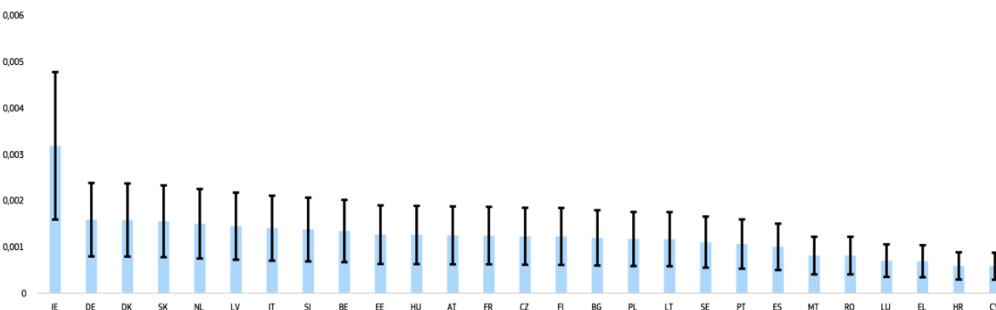
Uncertainty associated with US tariffs may lead to delays in investment, hiring, and spending decisions

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

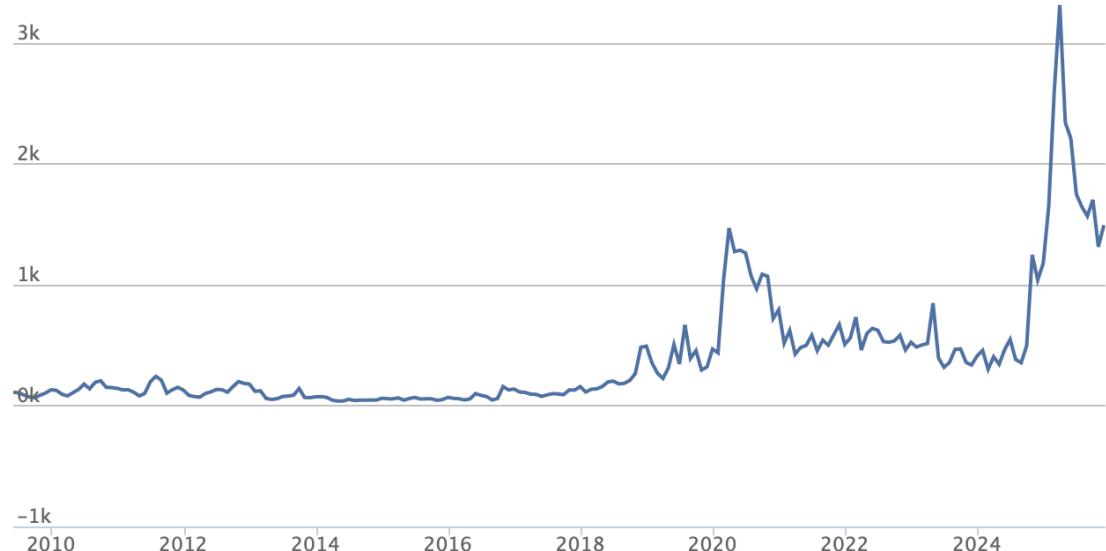
(Lower and upper range refers to 0.1% and 0.3% respectively)



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