

Economics | Central Banks

## **Europe Faces Twin Blow If ECB and Fed Don't Cut, Scicluna Warns**

- Maltese official warns about undershooting 2% inflation goal
- ECB may need 50 bps moves if price gains surprise on downside



The European Central Bank. *Photographer: Alex Kraus/Bloomberg*

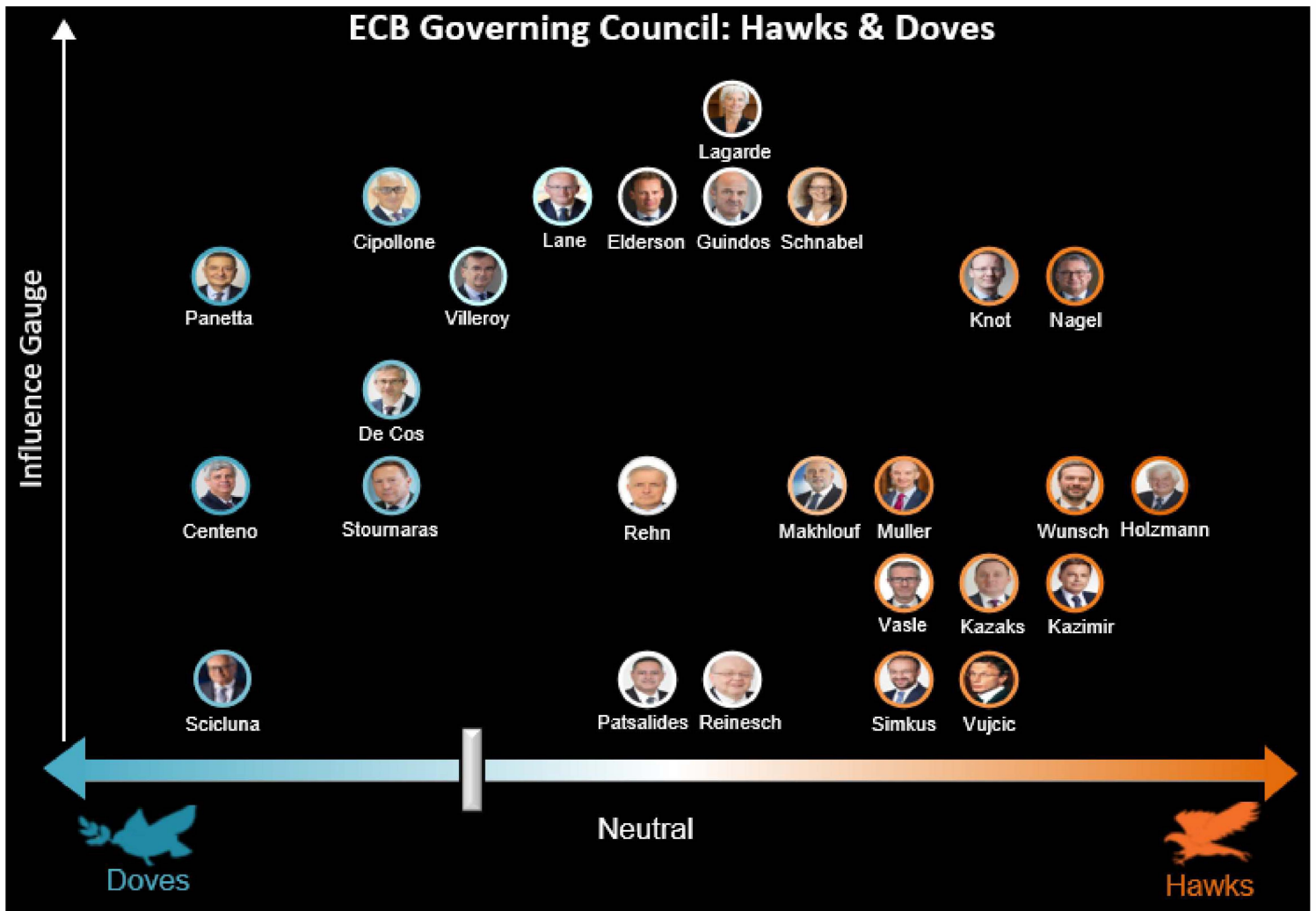
By [Mark Schroers](#)

April 19, 2024 at 9:08 AM GMT

The euro zone’s stuttering economy would face a twin blow should interest rates not be lowered both at home and in the US, according to European Central Bank Governing Council member Edward Scicluna.

“The assumption of a turnaround in the economy and a recovery in the second half is also based on the expectation that our monetary policy becomes less restrictive,” the dovish Maltese central-bank chief said Thursday in an interview.

“If we don’t cut rates, and if a more restrictive monetary-policy stance in the US affects global financing conditions, this would be a double-whammy to the euro area economy,” he said in Washington. “Our monetary policy is very restrictive and is becoming even more restrictive in real terms with inflation going down.”



Source: Bloomberg Economics

While President Christine Lagarde has said Europe is “clearly seeing signs of recovery” after more than a year of near stagnation, output in the 20-nation bloc remains fragile. The prospect of lower borrowing costs offers some hope, but fears of much later action by the Federal Reserve, alongside Middle East tensions, have policymakers on alert.

For the ECB, consumer-price gains have been moderating and are now within sight of the 2% goal, allowing it to pencil in a June reduction in the deposit rate from its 4% record high.

“We shouldn’t declare victory over inflation prematurely,” Scicluna said. “But we also shouldn’t overdo it and again end up in a situation in which inflation is too low and we have problems to get it to 2% again.”

Such an outcome would hark back to the years that followed Europe’s debt crisis, when the danger of deflation taking hold saw the ECB slash rates to below zero and purchase huge quantities of securities through quantitative easing.

Should projections indicate an undershoot of the target is likely, Scicluna said officials shouldn’t hesitate in taking more forceful action.

“If our baseline scenario materializes it might be appropriate to cut rates by 25 basis points in June,” he said. “But if inflation surprises further on the downside and if our projections show only 1.7% or 1.8% inflation in 2025, this might call for 50 basis points. And if that is the case we should go for 50 basis points and don’t delay it.”

– *With assistance from Alexander Weber*