

# ECB To Raise Rates Further – Apr '07

TOPIC OF THE DAY FROM AIB GLOBAL TREASURY SERVICES

The European Central Bank left interest rates unchanged at its monthly policy meeting today. The decision to leave rates on hold was widely expected. Rates have been raised from 2% in late 2005 to 3.75% by March 2007 in what has been described as a process of normalising the level of official interest rates in the eurozone. . . .

## Highlights from our ECB Watch – Apr '07

- Based on Mr Trichet's comments at the ECB press conference today, it seems clear that rates have not yet peaked in the eurozone. The ECB still regards monetary policy as on the accommodative side and believes that the level of official rates remains moderate. . . .
- ECB officials also believe that the continued strong growth rate of monetary and credit aggregates poses another upside risk to price stability. . . .
- The ECB says that based on current prices for oil, significant base effects should lead to a fall in inflation rates by mid-year. However, these effects will be temporary and inflation is expected to rise again later in the year. Crucially, the ECB believes that over the medium term, the risks to inflation are on the upside. . . .

## Indicators point to continuing strong activity

Real eurozone GDP grew by 2.7% in 2006. The overall impression from recent eurozone economic indicators is that growth remained strong in the opening months of 2007, despite a significant tightening of fiscal policy in Germany, which has dampened consumer spending. Retail sales fell by 0.8% in the eurozone in January, led by a sharp drop in German sales, before rising by a modest 0.3% in February. Encouragingly, though, consumer confidence in the eurozone continued to improve in the first three months of the year. . . .

For the full content of this ECB Watch publication please click below:

<http://www.aibeconomics.com/PDFS/ECB%20Watch%20April%202007.pdf>

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