

# ECB raises rates by unprecedented 75 basis points

The European Central Bank has hiked its key interest rates by an unprecedented 75 basis points, signalling that further rises are likely.

On Thursday afternoon, the bank lifted the deposit rate from zero to 0.75% and the main refinancing rate was lifted to 1.25%, their highest level since 2011.

It comes as the bank battles inflation at a half-century high, and as the bloc heads for a likely winter recession.

In a statement, the ECB said: "Over the next several meetings the Governing Council expects to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations."

The bank has revised its economic forecast, projecting inflation averaging 8.1% this year, 5.5% in 2023, and 2.3% in 2024.

Inflation was initially driven by energy prices – exacerbated by Russia's invasion of Ukraine – but it is also being fuelled by the drought seen in recent months.

The ECB said: "Price pressures have continued to strengthen and broaden across the economy and inflation may rise further in the near term."

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“This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB’s 2% medium-term target.”

The ECB has forecast GDP growth at 3.1% this year – up from the 2.8% projection it made in June, but it cut its 2023 forecast from 2.1% to 0.9%.

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