

## The ECB's taper autopilot is still on

The European Central Bank delivers the first step towards exiting QE; the autopilot's still on and forward guidance on rates remains in place



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### When you know you're doing an immaculate job

When does a central banker know that he (or she) has done an immaculate job? When QE is brought to an end and financial markets could hardly care less. According to this definition, the ECB should be extremely satisfied with the outcome of today's meeting. The ECB decided to reduce the monthly net asset purchases to 15bn euro, from currently 30bn euro, starting in October. All other parameters of the ECB's monetary policy stance were left unchanged: interest rates, the wording of an anticipated end of QE by year-end and the forward guidance on rates (*"expect interest rates to remain at their present levels at least through the summer of 2019..."*).

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*The ECB doesn't see any reason to change the balance of risks to the growth outlook*

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Today's decision does not come as a surprise. Not only had it de facto been announced since the June meeting but also has the macroeconomic situation hardly changed. According to the

latest ECB staff projections, the Eurozone recovery remains intact. ECB president Mario Draghi even pointed to the fact that the Eurozone has already been growing above potential for some time. And even though the GDP growth forecasts for 2018 and 2019 were slightly revised downwards (2.0%, 1.8% and 1.7% for 2018, 2019 and 2020, from 2.1%, 1.9% and 1.7% in the June projections), the ECB doesn't see any reason to change the balance of risks to the growth outlook. The inflation outlook remained entirely unchanged with 1.7% annual inflation in every year until 2020.

## Stand and deliver

The only subtle change in the ECB's macro assessment could be found in the wording on downside risks. Two changes: emerging markets were a new explicit downside risk and uncertainty related to global factors (protectionism, financial market volatility and emerging markets) had "*gained more prominence*" from "*remain prominent*" at the last meeting. We wouldn't read too much into these changes but rather see them as evidence the ECB is very well aware of what is happening and feels the duty to flag all possible risks.

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### *The ECB now only has to deliver*

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Looking ahead, the ECB looks set to stick to the current autopilot. The advantage of this – set in place at the June meeting – is that every step until the end of the year has already been sketched. The ECB now only has to deliver. There is no need for new hints or premature announcements. Unless there's a huge accident in growth or inflation, the ECB will simply do what it has been anticipating. The next step should be the announcement of the end of net asset purchases at the December meeting. This might not be a very exciting but highly effective strategy.

## Enjoy your flight

Even though Draghi repeatedly remarked that QE has become a permanent part of the ECB's toolbox, it is obvious that the ECB is determined to return at least the net asset purchases into this toolbox as quickly as possible (the reinvestments will stay on for longer). Smaller risks will not stop the ECB. In our view, the ECB will use the policy rate to respond to any unexpected events, be it a growth slowdown or core inflation stubbornly sticking at around 1% and not accelerating. Any of these could easily delay a first rate hike farther than the end of the summer 2019. However, this is obviously still very hypothetical.

For now, and until the end of 2018, the ECB will happily stay on taper autopilot.

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