

The ECB is moving to normalisation at a snail's pace

The press conference after today's meeting confirmed our view that the European Central Bank is on its way to concluding net asset purchases over the summer and ending the era of negative interest rates before the end of the year



ECB President, Christine Lagarde, gave a press conference by video link after Thursday's meeting

Here are the facts

Some observers have been arguing that the ECB is clearly lagging behind many other major central banks when it comes to monetary policy normalisation. Today's press conference, however, showed that there is one part of central banking at which the ECB is clearly ahead of the curve: due to her Covid infection, ECB president Christine Lagarde gave the press conference live from home. As for other aspects of central banking, the bank cemented its path to normalisation over the summer.

Here are the facts: the pace of reducing net asset purchases remains unchanged at €40bn per month in April, €30bn in May and €20bn in June. However, the announcement to end net asset purchases in the third quarter was slightly firmer than at the last meeting. It is still conditional on the inflation forecasts in June, but it looks as if it would now require a severe recession or a sharp drop in headline inflation forecasts for the ECB not to stop net asset purchases over the summer.

During the Q&A session, Lagarde said that net asset purchases could end in any month of the third quarter. Lagarde also once again stressed the principle of sequencing, i.e. first ending net asset purchase before interest rates could be increased. Lagarde confirmed that rates could be increased “some time after” the end of net asset purchases, clarifying that “some time after” could range from one week to several months.

Lagarde avoided mentioning stagflation

To probably tackle the recent debate on how the ECB could deal with widening bonds spreads and rumours about a new asset purchase programme, the bank stressed that the reinvestments of the Pandemic Emergency Purchase Programme could be used to tackle market fragmentation.

The economic background for today's meeting was the well-expected weakening of economic activity and higher inflation. In fact, the ECB was very clear in calling upside risks to the inflation outlook as “significantly increased” and downside risks to the growth outlook as substantially higher. Lagarde avoided calling this 'stagflation', but we think that if it walks like stagflation, talks like stagflation... you get the picture.

Gradual normalisation will continue

Excitement ahead of today's ECB meeting was high. Would the ECB join the crowd of other major (and smaller) central banks and engage in faster policy normalisation or even hike rates? Or would eurozone monetary policy be subject to 'Japanification', continuing with a very cautious and gradual approach?

Here's the answer: Europe is different and the ECB is different. Instead of any panic reaction, the ECB continues with its very gradual normalisation, which in our view is bringing an end to net asset purchases over the summer and an end to the era of negative interest rates before the end of the year. It will now take an unprecedented eight weeks until the next ECB meeting (six weeks is normal).

A lot can happen until this June meeting. But with another round of macro projections in June and remembering that in these times of high uncertainty the ECB will always try to link crucial decisions to new macro projections, we expect the ECB to stop net asset purchases in July and start hiking interest rates in September. The ECB will definitely not get ahead of the central banks' pack any time soon in terms of policy normalisation. It will be normalisation at a snail's pace.

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