

ECB firms up its normalisation path

No big changes but a somewhat stronger commitment to ending net asset purchases over the summer. This is the main message from the just-announced policy decision. At 2.30 pm CET, we will hear more from President Christine Lagarde



ECB President, Christine Lagarde

In its just-announced policy decisions from today's meeting, the European Central Bank confirmed and somewhat strengthened the normalisation path for monetary policy in the coming months. The pace of the reduction of net asset purchases remains unchanged at 40bn euro per month in April, 30bn euro in May and 20bn euro in June, but the announcement to end net asset purchases in the third quarter was slightly firmer than at the last meeting. In fact, 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.

For the rest, there were no changes. Interest rates remain unchanged, and there was no new hint at the future path of rates. 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 ECB stressed that the reinvestments of the Pandemic Emergency Purchase Programme could be used to tackle market fragmentation.

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.

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