

## ECB: The shifting debate

The just-released minutes of the ECB's April meeting did not provide any hard evidence on its next steps. Still, we expect the debate on tapering to grow louder over the summer



The ECB's inflation forecasts, in particular, suggest the current neutral stance on policy is the right one

At the press conference after the ECB's April meeting, President Christine Lagarde said that there had not been any discussion on tapering. And, indeed, the just-released minutes did not show, or at least did not report any such discussion. Instead, the ECB's discussion seems to have been focused on the macro assessment. Here are the most interesting phrases from the minutes, in our view:

- First mention of risks to the economic outlook tilted to the upside. "Against this background, it was generally felt that risks to activity had become more balanced over the medium-term horizon, with a view also being expressed that they were now marginally tilted to the upside."
- Emphasis on divergence. We have mentioned the unequal recovery of the eurozone endlessly. Now, the ECB is also paying attention to it. "While in some countries activity was expected to return to pre-pandemic levels by the end of 2021, in others – especially those in which the services sector had been most affected – it was expected still to be below the pre-pandemic level at the end of 2022."
- The role of the consumer. Interestingly, there had been a longer debate on the role of the consumer in the upcoming economic recovery, with the full range of possible outcomes discussed; from a more muted and gradual reduction in savings to a more dynamic unwinding of forced savings.

## Discussion on tapering avoided in April but this will not last

With still almost four weeks to go until the next ECB meeting, it is far too early to predict the outcome of this meeting. Comments by ECB officials since the last meeting have remained rather subdued. If anything, the comments from some more hawkish members of the Governing Council were a good reminder that the discussion on the next policy steps could come earlier and might be more controversial than broadly expected.

In fact, fast-forwarding to the June meeting, the ECB could be confronted with a more complicated new reality. Some thoughts: don't pay too much attention to the new staff projections as there won't be any hard data for the second quarter available at the cut-off date for these forecasts. Instead, hard data for April will come in days before the ECB meeting, probably providing a better macro picture than the projections. Also, with the fast acceleration of the vaccination rollout, some 50% of the eurozone population could have had already one jab when the ECB meets again, making a continuation of the front-loading of asset purchases harder to justify.

Consequently, the ECB June meeting could already see an end to the front-loading. The current discussion in financial markets on higher inflation and possible tapering will also reach the ECB. Not necessarily at the June meeting but at the latest, at the September meeting. An extension of the Pandemic Emergency Purchase Programme beyond March 2022 looks increasingly unlikely with the current vaccination and economic backdrop, unless the ECB wants to walk down the very controversial road of calling the pandemic over only when the economy has returned to its pre-crisis level. In any case, the ECB will want to avoid any abrupt end to net asset purchases and will therefore engage in its own twist: gradually ending asset purchases under the PEPP while increasing them under the old Asset Purchase Programme.

In short, the ECB was able to avoid any tapering discussion at the April meeting but the discussion will come. As difficult as it will be, we expect the ECB to try to exit from unconventional measures before the end of the year.

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