

## ECB moves cautiously with normalisation

The European Central Bank just announced how it will reduce QE in the coming months. Net asset purchases will now be brought down to €20bn per month in June rather than in October. In light of the stagflation risk and high uncertainty, this decision gives the central bank maximum flexibility and keeps the option open for a rate hike before year-end



ECB President Christine Lagarde

The European Central Bank has put a very gradual normalisation of monetary policy in place. As just announced, the Bank confirmed the end of its Pandemic Emergency Purchase Programme (PEPP) by the end of March. The ECB also confirmed the previously announced increase in the Asset Purchase Programme (APP) to €40bn per month, from €20bn currently. In May, the APP purchases will be reduced to €30bn and in June to €20bn. Afterwards, net asset purchases will be ended if the data (and the economic situation) will allow for it. Also, the ECB confirmed flexibility in the reinvestments of the PEPP. Interest rates remain unchanged and the option to extend the Targeted Long-Term Refinancing Operations (TLTROs) was kept open.

Compared with the latest adjustments to its monetary policy tools in December, this is a slightly more hawkish outcome. Back in December, the rotation from PEPP to APP would have lasted until October. Today's decision has brought forward the €20bn per month purchases by four months. But compared with the comments at and shortly after the ECB's February meeting, today's

decisions are less hawkish than some market participants had expected. The reason for the change of heart is clear: the war in Ukraine has strongly increased the risk of stagflation in the eurozone. Extremely high energy and commodity prices, potential energy supply disruptions, weaker trade, new supply chain disruptions and a high degree of uncertainty for both companies and consumers have changed the eurozone's economic prospects in only a few days.

All in all, today's decisions are a good compromise, keeping maximum flexibility in a very gradual normalisation of monetary policy. A first rate hike before the end of the year is still possible. We will hear more about the ECB's take on the latest developments and economic implications for the eurozone, including a new set of already outdated staff projections, at 2.30pm CET.

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