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ECB: New owl on the block

The first ECB press conference with new ECB President Christine Lagarde gave financial markets lots of food for thought. No policy changes in the near future. Learning how to read Christine Lagarde, however, will take a longer while



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The policy-relevant messages

Quickly on the facts: the ECB today left interest rates, QE purchases and forward guidance unchanged. In its macro-economic assessment, the most remarkable change was a slightly positive tilt to the downside risks to growth. The “risks surrounding the euro area growth outlook...remain tilted to the downside” received the addition “but have become somewhat less pronounced”. This slight change was probably the result of what the ECB called “incoming economic data and survey information, while remaining weak overall, point to some stabilisation in the slowdown of economic growth”. To be clear, the ECB staff projections do not point to improvement in the eurozone economy. In fact, the growth forecast for 2020 was revised downwards somewhat to 1.1% (from 1.2%) and left unchanged at 1.4% in 2021 and 2022. At the same time, the ECB staff projections also brought very little change to the inflation forecasts. For 2020, the ECB staff expects inflation to come in at 1.1% (from 1.0%), 1.4% (from 1.5%) in 2021 and 1.6% in 2022. Interestingly, the introductory statement had a slight language change, mentioning

"some indications of a mild increase" in measures of underlying inflation. During the Q&A session, Lagarde added that the 2022 inflation forecast actually masked a slight upward trend throughout the year, ending the year at 1.7%. In the Draghi era, these forecasts and the small communication changes would have argued for a no-policy-change for the next months to come. What it will mean in the Lagarde era remains unclear.

Also, Lagarde made a de facto announcement on the strategic review, not an official announcement. According to her, the review will start in the course of January, needs to be comprehensive, will include consultations with European Parliament, civil societies and academics and will also address technological and climate changes as well as inequality. Contrary to the 2003 review, according to Lagarde the new review should also look at the "effectiveness and appropriateness" of all instruments.

How to read Lagarde

The style and communication of Lagarde were the subject of much speculation in the run-up to today's meeting. Lagarde took this bull by the horns immediately and started the Q&A session with a long speech about how she had her own style and warned against making comparisons with Mario Draghi and over-interpreting her words. She also said that she might not know everything and would admit if this was the case.

After these personal words, the traditional Q&A session started. In all honesty, it is, in our view, still hard to identify what Lagarde actually stands for. Just some highlights:

- Lagarde wants to be as consensual as possible. "I am neither a dove nor a hawk, I see myself as an owl. An owl with wisdom".
- On inflation. An inflation rate of 1.7% at the end of 2022 was pointing in the right direction but it's not enough to be satisfied. At the same time, Lagarde said that the eurozone economy was getting close to potential in the medium term, which eventually could argue against a very accommodative monetary stance.
- Adverse effects. The ECB was "very aware" of side effects of negative rates.
- On country-specific developments. "I will not comment on countries" when asked about France but Lagarde gave answers to a question on Greece.
- On unconventional measures and adverse effects, Lagarde remarked that she "won't revisit past policy decisions", while at the same time she said that the "effectiveness and appropriateness" of past measures will be examined in the strategic review.

A new monetary owl on the block

All in all this was a very entertaining press conference with a self-proclaimed monetary policy owl. As regards the short-term outlook for monetary policy, further easing seems to be off the table, at least with the current macro projections, and wait-and-see looks the way forward. For ECB watchers and financial market participants, however, learning how to read Christine Lagarde will take some time. Today, at least we had the impression that it was not always clear whether Lagarde spoke on behalf of herself or on behalf of – at least the majority of – the ECB's Governing Council.

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