

## ECB: Summer break

The ECB meeting in short: No sudden end to the PEPP, its emergency purchase programme, and for the rest there was enough uncertainty to keep the window open for further easing



Christine Lagarde,  
pictured in June

Market participants and ECB watchers who had delayed the start of the summer break only not to miss out on today's ECB meeting will have regretted it. It will have been important for the Governing Council to take stock of recent macro developments and the impact of this year's monetary policy decisions but the information content for the outside world was – understandably – very limited.

The ECB acknowledges the rebound of the eurozone economy in May and June, with signs of a recovery in consumption and a rebound in industrial output. Almost needless to say that the ECB still sees as much uncertainty as all other forecasters; be it on the back of subdued labour market conditions, precautionary household savings, dampened investment, weak global growth and the risk of a second wave of lockdown measure. Therefore, there was no reason to change the monetary stance.

During the Q&A session of the press conference, the questions to ECB president Christine Lagarde mainly focused on two areas: the Pandemic Emergency Purchase Programme and the upcoming European Summit on the European Recovery Fund.

- As regards PEPP, Lagarde stressed the dual function of the programme. PEPP was constructed to address fragmentation in bond markets and to ease the overall stance of monetary policy. Flexibility was a crucial feature. This is why the ECB had frontloaded purchases first, slowed them down recently and will continue to do so. Temporary divergences from the capital key were allowed and according to Lagarde, the basic assumption was that the entire size and horizon (until mid-2021) will be used. It would need an unexpected positive surprise to stop the programme earlier.
- As regards fiscal policy and the European Recovery Fund, the introductory statement had reintroduced the need for structural reforms to flank any upcoming move there. While this sounded a little bit like covert support for the Frugal Four, Lagarde's comments during the Q&A session that a "large number of leaders is well aware of the importance of not wasting time" sounded already less understanding. In general, Lagarde hoped for a good and ambitious agreement.
- Last but not least, Lagarde stated that there hadn't been any discussion on changing the multiplier of the tiering facility again and that the strategy review would now start in September and is expected to yield results in the second half of 2021.

We stick to our view that the ECB will wait until the September meeting, if not the late October meeting, before deciding on any next steps. This is when after the initial V-shaped rebound of the eurozone economy, there will be a better picture of the actual recovery. Luckily there won't be any more ECB press conferences which have to bridge the void of not having to say anything.

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