

## ECB: The risky verbal balancing act

The ECB carried out an interesting verbal balancing act, which doesn't come without risk. We think the ECB seems to be concerned about the stronger euro but not too concerned just yet



Christine Lagarde

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As expected, the ECB did not change its monetary policy at today's meeting, however, there were three issues of high interest to financial markets, which ECB president Christine Lagarde addressed during the press conference: the latest staff projections, the ECB's possible answer to the Fed's policy shift towards average inflation targeting and, of course, the central bank's reaction to the stronger euro.

Here are our key takeaways:

- The easiest one was the ECB's reaction to the Fed's policy. Here Lagarde didn't give away anything, pointing to the fact that the review has only just started.
- With regards to the fresh round of macroeconomic projections, the ECB staff revised their 2020 GDP growth projections upwards to -8.0% and kept the 2021 and 2022 projections broadly unchanged at 5% and 3.2% respectively. The ECB still believes in a significant rebound of the eurozone economy but at the same stresses the high level of uncertainty.

- With regards to inflation, the meeting provided remarkable information. The projections for 2020 remained unchanged at 0.3%, while those for 2021 were revised upwards to 1.0% and projections for 2022 remained unchanged too at 1.3%. Interestingly, however, Lagarde emphasised that 2022 projections masked an upward revision of core inflation.
- The key moment of today's press conference was Lagarde's first mentioning of the euro exchange rate as a factor that the ECB will carefully assess in the coming months. Also, Lagarde mentioned that the Governing Council had discussed the strengthening of the euro "extensively" and that the euro was a dampening factor for inflation. At the same time, Lagarde pointed out (again) that the exchange rate was not a target for the ECB but obviously an external factor impacting monetary policy. Interestingly, the ECB did not mention the exchange rate as a dampening factor to growth.

Our feeling is that the ECB today engaged in an interesting, possibly risky, verbal balancing act.

Mentioning the exchange rate in its introductory statement for the first time in more than two years and stressing upward revisions of the (underlying) inflation forecasts could eventually even trigger more euro strengthening.

This means the ECB seems to be concerned about the stronger euro but not too concerned just yet. At least not everyone at the Governing Council.

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