

ECB officially ends its long era of unconventional monetary policy

The European Central Bank has just announced it is stopping net asset purchases by the end of the month and pre-announced two rate hikes of 25bp each in July and September. The door for 50bp in September is set wide open



ECB President, Christine Lagarde and President of De Nederlandsche Bank, Klaas Knot in Amsterdam

The ECB definitely pre-commits. In its just-announced policy decisions, the European Central Bank has not only made the upcoming 2.30 pm CET press conference less interesting but also laid out a clear path for the normalisation of monetary policy in the eurozone. The only open question is actually why the ECB hasn't already hiked interest rates today but intends to wait for lift-off until the next meeting on 21 July.

The ECB's press release also includes the latest staff projections, showing that inflation is now expected to come in at 6.8% in 2022, 3.5% in 2023, and 2.1% in 2024. GDP growth is expected to come in at 2.8% in 2022, 2.1% in 2023, and 2.1% in 2024. Stagflation is the word in the eurozone.

What did the ECB decide?

- Net asset purchases will end as of 1 July.

- Reinvestments of the Pandemic Emergency Purchase Programme will continue at least until the end of 2024 and will remain the main instrument against a widening of yield spreads.
- The policy rate remains unchanged, but the ECB announced it 'intends' to hike rates by 25bp in July and 25bp in September.
- The door for a rate hike of 50bp in September is wide open as the statement says, *"If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting."*

Door open for 50bp in September

With inflation running red hot but at the same time the eurozone economy slowing down and facing stagnation or even recession, the ECB's window to normalise monetary policy has been narrowing almost by the day. Today's decision shows it's managed to find a compromise between the doves and the hawks. A 50bp rate hike in July seemed to be fended off by opening the door for 50bp in September. The era of net asset purchases will come to an end in three weeks, and the era of negative interest rates will come to an end before the autumn. Simply put, the ECB just announced the end of a long era of unconventional monetary policy. Whether this will also be the start of a new era of continuously rising interest rates, however, is still far from certain.

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