

Snap | 26 August 2021

## Tapering is just not on the ECB menu card...yet

The latest ECB minutes confirm that at least in July, the only thing on the ECB's mind was the new forward guidance and not tapering. The summer of 2021 is clearly the summer of doves



According to the just-released minutes, the ECB had a very intense debate at the July meeting on implementing the new strategy.

A broad majority seemed to have been determined to demonstrate that the central bank was serious about the new strategy and stressed new forward guidance on interest rates. But in our view, the most important takeaways include:

- The ECB seems to believe in reducing “the risk of possible side effects since it should help to shorten the time spent at very low-interest rates and, all else being equal, lower the required volume of asset purchases”. In our view, this was not how financial markets interpreted the new strategy and the July meeting announcements, as they resulted in a further delay of the expected first rate hike.
- As a reminder, the ECB’s new forward guidance consists of three elements: first, inflation has to be at 2% “well in advance of the end of the projection horizon”, which in our view means inflation reaching 2% at the end of the forecast horizon will no longer be sufficient; second, inflation should be sustainably at 2%; and third, not only headline inflation, but also underlying inflation needs to be zooming in to 2%.
- At least some ECB members seem to think that there is a trade-off between forward guidance and asset purchases as illustrated in the sentence “it was remarked that forward guidance on interest rates, if credible, should reduce the extent to which other instruments needed to be deployed.” For the rest, there was hardly any discussion on tapering or a rotation out of the PEPP purchases into more APP purchases.
- Regarding inflation, the ECB seems to stick to its rather benign view of inflation being driven by a series of one-off factors without any second-round effects in sight. The latter seems to be extracted from the fact that wage settlements so far had been very moderate. However, looking at the recent wage negotiations in Germany, the ECB might soon have to rethink its take or at least would have to allow for a first round of the so-called second-round effects as several trade unions have clearly increased the demands.

## **This summer has marked a further dovish shift by the ECB**

What started with the presentation of the new strategy and slightly higher inflation target led to a very dovish press conference after the July meeting and has recently been marked by very dovish statements by Philip Lane and Isabel Schnabel.

The bottom line so far has clearly been that while the Fed is currently investigating when and how to start tapering, the ECB sees in no rush at all to alter its course.

For eurozone monetary policy, the summer of 2021 is clearly the summer of doves.

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