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## MACRO NEWS

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### ECB FLASH: NO NEWS IS GOOD NEWS

#### Berenberg Macro View

The Eurozone remains on track for a solid rebound from the Covid-19 recession from May onwards, supported by an aggressive monetary policy and an adequate fiscal stimulus. The outlook has not changed materially since early March. Robust foreign demand seems to be roughly offsetting the temporary drag from a delayed easing of restrictions as parts of the Eurozone grapple with a new wave of the pandemic. The European Central Bank (ECB) thus made no relevant changes to its monetary policy statement today, leaving its very accommodative policy stance unchanged and providing no additional guidance about future asset purchases. Instead, the ECB noted that “the incoming information confirmed the joint assessment of financing conditions and the inflation outlook” which had prompted the ECB to raise its pace of bond buying under its highly flexible Pandemic Emergency Purchase Programme (PEPP) in March.

In modest tweaks to the introductory statement to the press conference, the ECB emphasised the uncertainty about the pandemic and vaccination that is clouding the near-term outlook while maintaining its forecast of a “firm rebound in economic activity in the course of 2021”. Referring to recent gains in sentiment indicators, the ECB noted signs of bottoming out even in the services sector that point to a resumption of growth in Q2. In similarly two-pronged message, the ECB observed that financing conditions have remained broadly stable since it stepped up its asset purchases in March while warning that “risks to wider financing conditions remain”.

The ECB also finetuned other parts of its statement, for example pointing to “still weak” instead of “weak” demand, thereby hinting more clearly at a likely improvement in the future. None of these tweaks indicates any shift in the bank’s overall outlook, in our view. Summarising it all, ECB President Christine Lagarde explained in the press conference that the ECB has not changed its assessment of risks.

#### SEE YOU IN JUNE

At its next meeting on 10 June, the ECB and markets will have a much better idea of the severity of the current wave of the pandemic as well as the vaccination progress. Upon presenting new staff projections for growth and inflation in June, we expect the ECB to:

- leave its growth forecasts largely unchanged at 4.0% for 2021 and 4.1% for 2022, modestly below our own calls of 4.2% and 4.5%, respectively,
- raise its forecast for inflation from 1.5% for 2021 and 1.2% for 2022 closer to our calls of 2.0% and 1.6%, respectively, but emphasise that it will continue to look through the special factors behind the temporary inflation hump,
- leave its policy-relevant inflation call for the end of its projection horizon in 2023 unchanged at 1.4%,
- signal that it will gradually return to the slower pre-March pace of bond buying under its PEPP programme from July onwards if markets stay calm,
- emphasise that – within the flexible PEPP – it could adjust the pace and structure of its purchases to counter any unwarranted tightening of financing conditions,



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- provide no further clue on the potential scaling back of asset purchases in late 2021 and 2022.

Beyond that, we look for the ECB to announce in December 2021 that it will gradually phase out its PEPP emergency programme on schedule after March 2022 but raise its monthly bond buying under the standard Asset Purchase Programme (APP) from €20bn to €30bn per month from April 2022 onwards. If the economy recovers as robustly as we expect and underlying inflation drifts up in response, the ECB will likely end asset purchases around mid-2023 and start raising rates modestly in late 2023. We do not expect the results of the ECB's strategy review, which the bank wants to present this autumn, to affect the overall policy outlook in a meaningful way. It may have an impact on the precise composition of asset purchases though, for instance on the extent and the way in which the ECB gives them a green tilt.

### **THE TAPERING DEBATE TO COME**

If the economy recovers from the Covid-19 recession and underlying inflation picks up gradually, the ECB will eventually have to address the question as to when and how it should scale back its asset purchases in the future. Because the ECB buys bonds mostly under its ultra-flexible PEPP programme, this need not present any significant problem for the ECB for at least the next six months. The main purpose of the PEPP programme is not to inject a certain amount of liquidity. Instead, PEPP is meant to secure the transmission of the ECB's aggressive monetary stimulus to the real economy through favourable financing conditions. Lagarde repeatedly emphasised this today. If the ECB can achieve this purpose with fewer purchases, fine. Unlike in the case of the US "taper tantrum" of 2013, such re-sizing of this particular emergency purchase programme would not signal a genuine policy shift to come shortly. According to Lagarde, the ECB today did not discuss any phasing out of its PEPP purchases as that would be "premature".

### **SYMPATHY FOR ANNALENA**

In a little aside, Lagarde responded with a few sympathetic comments about Annalena Baerbock (40), whom the German Greens nominated on Monday as their candidate to succeed Angela Merkel as German chancellor after the 26 September election. Lagarde noted that having been an athlete in earlier times could be useful for Baerbock in the political arena and that "white hair" is not a necessary prerequisite for the job. Lagarde added that Merkel has acted as a "role model" for women to enter politics. Of course, we would not interpret this in any way as Lagarde taking sides in Germany's political contest to come.



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