ECB Preview: July 2021

Contents

Details:

Monetary policy decision: 12:45BST/13:45CET, Thursday 22 July 2021

Press conference: 13:30BST/14:30CET, Thursday 22 July 2021

Expected links:

Monetary Policy Decisions:
https://www.ecb.europa.eu/press/govcdec/mopo/2020/html/index.en.html

Interest Rate Announcements:
https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html

ECB Press Conference Video:
https://www.ecb.europa.eu/press/tvservices/webcast/html/webcast_pc_youtube.en.html

Bloomberg: MEDI <Go>

MNI Point of View (POV):

July Meeting Transformed From Placeholder To Live Event

- The earlier-than-expected publication of the strategy review has transformed the July GC meeting from a placeholder to a live event.
- Any material changes in policy are still likely to be on hold for September (or possibly December), but changes to the forward guidance and additional communication around the strategy review implications could be market moving.
- Clarification of the new buzzwords “forceful” and “persistent”, as well as the extent to which inflation deviations from target will be tolerated, are likely to be a focus during the press conference.

Very little was initially expected from the July GC meeting with the focus instead shifting to September. At the September meeting the GC will have more visibility on the recovery, the staff macroeconomic projections will be updated, most of the EU/Eurozone should have met the 70% inoculation target and the existing PEPP envelope will have, at that point, a little over six months left to run. While major policy innovations still seem unlikely before September (and may even be deferred until December), the July meeting has now taken on considerable prominence following the earlier-than-expected publication of the strategy review. The outcome of the review is set to dominate the press conference and is likely to motivate a slight rewording of the forward guidance.

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We have filtered the most relevant conclusions from the strategy review press conference in the *ECB Communication: The Detail* section, but to summarise briefly:

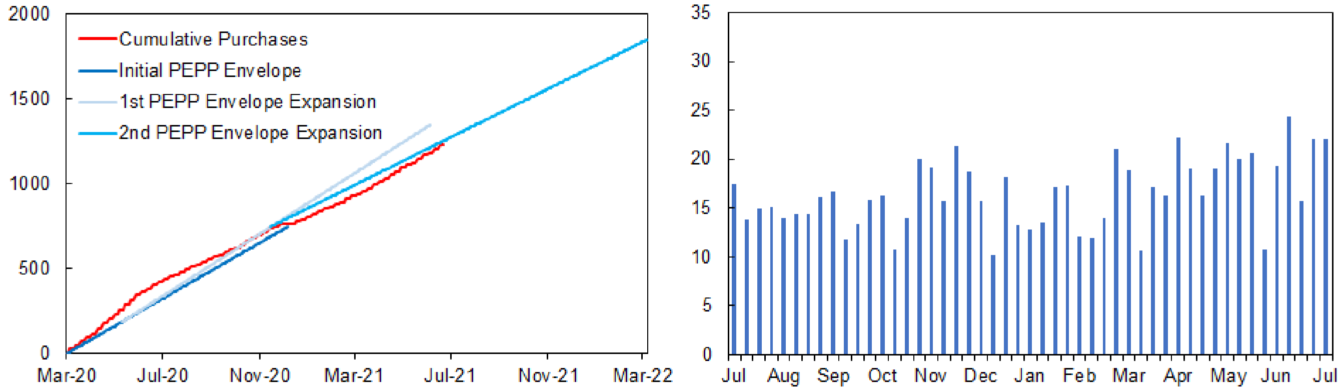
- The ECB has formally adopted a symmetrical inflation target, which will replace the 'below, but close to, 2%" formulation. It is hoped that this will reduce any lingering ambiguity about the ECBs objective and will provide more flexibility in meeting the price stability target.
- As a result, inflation overshooting that is considered to be transitory will be tolerated.
- The ECB has introduced new terminology in the design of monetary policy which can be "forceful" and "persistent" when policy rates are near the effective lower bound and a negative deviation of inflation from target risks becoming entrenched in expectations.
- While policy rates remain the primary tool for setting the monetary policy stance, forward guidance, asset purchases and TLTROs will remain a permanent feature of the ECBs toolkit.
- Following the public consultations, the consumer costs of housing (as opposed to investor cost) will eventually be reflected in the ECBs measure of inflation.
- Finally, in a bid to foster inclusivity, the introductory statement will be replaced with a simplified and streamlined opening statement.

Given that the June monetary policy decision referred to the previous formulation of the price stability target, there should be a slight rewording of the passage referring to the inflation target:

> "The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon…"

This would mark a dovish, but non-market moving, development. Beyond this adjustment, the ECB could emphasise its new buzzwords – "forceful" and "persistent". Having explicitly described PEPP as a 'forceful' policy response during the July 8 press conference for the strategy review, the ECB likely believes that this criterion has already been satisfied during the current crisis. Focus then turns to 'persistence' and, specifically, the length of time in which policy support will be provided.

Fig 1. ECB PEPP Purchases: Cumulative (LHS) & Weekly (RHS), EURbn



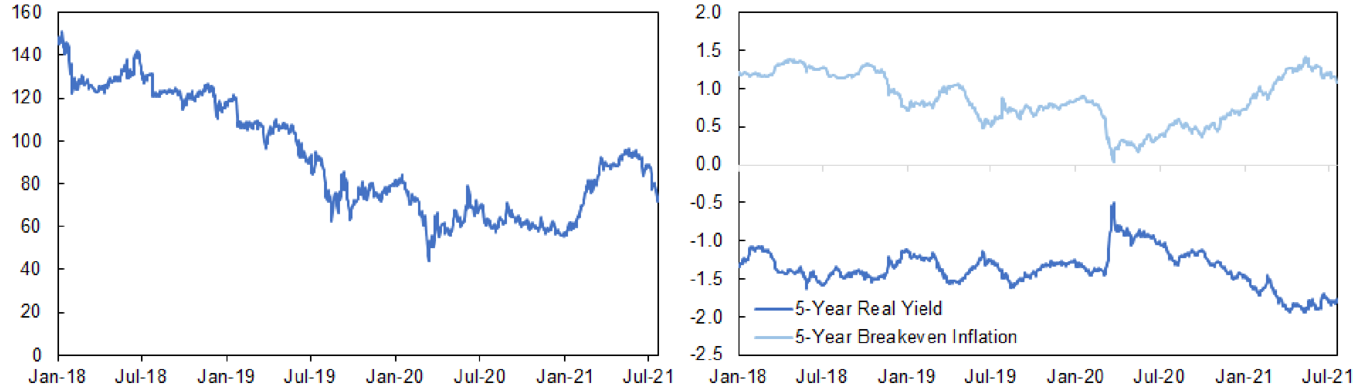
Source: ECB, Bloomberg, MNI

At some point the ECB will need to detail the exit from PEPP (including whether this will be concluded on time, or extended) and if the APP will be scaled up to ensure a smooth transition and avoid cliff-edge effects. It is possible that the ECB provides some indication of this in July in order to press home the point of being 'persistent', but it still feels like a September decision since by that point the GC would have more visibility on economic conditions and potential impacts from the Delta variant, while still providing enough time for markets to adjust to the post-PEPP landscape.

Setting aside the possible implications of the strategy review for the July meeting, very little is expected from the ECB this week given that recent developments in the economy and on the inflation front do not warrant an immediate policy response. Economic activity has rebounded strongly, but the recovery is not fully secured. Concerns are mounting about the impact of the Delta variant, but it is too early to determine whether there will be a material impact on growth. There is very little that the ECB can do at this stage but wait.

It is a similar story for inflation, which has accelerated sharply, but does not necessarily require an immediate response. The GC are still sticking to the script and arguing that the surge reflects transitory factors and that inflation will settle below target over the forecast horizon. Again, given the heightened uncertainty around the economy, the ECB is wary of signalling any intention of withdrawing policy support in the near term. Moreover, there has also been some notable support for the idea of exploiting the recent conducive conditions for inflation to re-anchor expectations following a prolonged period in which the ECB has been fighting lowflation.

Fig 2. Germany 5s30s, bp (LHS) & German 5-Year Inflation Breakeven/Real Yield, % (RHS)



Given the lack of fresh macroeconomic projections, commentary around the economic and inflation outlooks will likely mirror the June meeting i.e. economic activity is rebounding strong but the recovery still requires policy support, while surging inflation will prove transitory. One possible adjustment would be to the language concerning the balance of risks. Given the spread of the Delta variant, which has recently caused some consternation for markets, the balance of risks could be shifting. While arguing that the balance of risks are tilting to the downside would mark a dovish development for the July meeting, it would still seem premature to do so at this juncture given the limited evidence so far the Delta variant could undermine the recovery.

Baseline Scenario: The main policy instruments are left unchanged, but the ECB revises its introductory statement to reflect the new formulation of the inflation target. President Lagarde sticks to the same script regarding the economic recovery and recent inflation surge, while maintaining that the risks to the outlook are balanced. The ECB president refuses to be drawn into providing specific definitions of what constitutes “forceful” and “persistent” with respect to the recently introduced terminology. Purchases under PEPP are maintained at a significantly higher rate through to September.

Dovish Surprise: The forward guidance is adjusted to reflect a commitment to continued policy support even after the pandemic crisis phase ends. President Lagarde provides some indication that either the PEPP envelope is extended beyond March 2022, or that the APP could take over to ensure a smooth transition following the conclusion of PEPP. The balance of risks to the economic outlook are said to have shifted to the downside.

Hawkish Surprise: The ECB stresses the possibility of second-round inflation effects and emphasises the strength of the recovery despite the spread of the Delta variant. The possibility of an extension or expansion of the PEPP envelope is downplayed.

Central Bank Watch - ECB

20 July 2021

MNI ECB Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
HICP	% y/y	1.9	1.3	↑	-0.3	↑					1.66
Core Inflation	% y/y	0.9	0.9	→	0.2	↑					0.24
Oil Prices	$	75.1	63.5	↑	51.8	↑					1.38
5y/5y Inflation Swap	%	1.58	1.54	↑	1.26	↑					1.03
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Eurozone PMI (Comp)	Index	59.5	53.2	↑	49.1	↑					1.16
Industrial Production	% y/y	20.5	-1.8	↑	-0.7	↑					0.82
Business Climate Indicator	Index	1.71	0.30	↑	-0.41	↑					1.43
Consumer Confidence	Index	-3.3	-10.8	↑	-13.8	↑					1.51
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Narrow Money (M1)	% y/y	11.6	16.4	↓	14.5	↓					0.05
Broad Money (M3)	% y/y	8.4	12.3	↓	11.0	↓					-1.54
Loans to Non-Fin Corps	% y/y	1.5	6.3	↓	6.3	↓					-1.81
Loans to Households	% y/y	4.3	3.3	↑	3.6	↑					1.48
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% y/y	9.0	-1.2	↑	-1.3	↑					0.95
Unemployment Rate	%	7.9	8.2	↓	8.2	↓					-2.09
Labour Costs (Quarterly)	% y/y	1.5	4.2	↓	2.4	↓					-1.28
Employment (Quarterly)	% y/y	-1.8	-2.9	↑	1.1	↓					-0.70
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	3956	3919	↑	3553	↑					1.70
Bund Yield	%	-0.42	-0.29	↓	-0.57	↑					0.84
10y BTP Spreads	%	109.8	96.0	↑	111.2	↓					0.75
EUR TWI	Index	123.71	123.28	↑	125.83	↓					-0.98

Source: MNI, Bloomberg

Summary of Analyst Views

- Following the publication of the strategy review, analysts expect to see an adjustment to the forward guidance.
- The ECB could use the July meeting to enforce the message of being “persistent”.
- Analysts believe that an immediate response from the ECB to the Delta variant is not required.
- Most analysts still expect a scaled up APP to take over when PEPP expires.

Bank of America

- The ECB is expected to change the forward guidance to signal that monetary accommodation will be more persistent under the new strategy.
- No further clarity is expected on PEPP tapering, or the potential increase in APP when PEPP ends. An announcement on these policy adjustments may need to wait until December.
- The ECB is expected to signal that accommodation will be more ‘persistent’ rather than more forceful.
- Given the spread of the Delta variant, it is possible that the balance of risks could be tilted to the downside, although this a close call.
- PEPP is still expected to end in March 2022 unless the Delta variant ends up having a material impact on economic activity.
- The APP is expected to run at EUR40-50bn/month for 12 months after PEPP ends, with potentially a further 12 months of purchases at half that rate thereafter. Moreover, the APP is expected to inherit some of the flexibility of PEPP.

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Barclays

- The ECB will use the July GC meeting to begin translating the new strategy into action, with the focus being on communication.
- No changes to the very accommodative ECB policy stance are expected at the July meeting.
- Policy rates will be kept at current levels, the APP will continue at EUR20bn/month and net purchases under PEPP will be maintained at a significantly higher pace in Q3.
- The key message of the revised forward guidance will be ‘loose for longer’. A more flexible framework with tolerance for moderate and temporary inflation overshoots allows the ECB to be persistent and patient.

Commerzbank

- The July GC meeting has now taken on more prominence given that it is the first meeting to follow the announced outcomes of the strategy review. Moreover, President Lagarde indicated in an interview that the July meeting is “important”.
- According to President Lagarde, considerable changes will be required to bring the forward guidance in line with the new strategy. Moreover, the term ‘persistence’ is likely to feature prominently.
- Commerzbank has previously argued that the currently agreed volume of PEPP will not be the end of the line and that recent comments from Lagarde indicate that PEPP will be transitioned into a new format. Moreover, Commerzbank argue that the programme will be continued under a new label, but with largely the same features.
- Regardless of whether or not there is a policy decision this week, the press conference will signal that an end to the ECB’s bond purchases is far from in sight.

Danske

- No material change in monetary policy is expected at the July meeting.
- The ECB will recognise the improvement in the economic data and progress on vaccinations, while highlighting the fragility of the recovery given the spread of the Delta variant.
- Given that the strategic review maintained the explicit target variable of HICP at 2%, and with no new policy tools introduced, Danske does not believe that the review will affect the probability of the ECB meeting the inflation objective.
- The ECB will shift to a new simpler ‘narrative based’ monetary policy statement which could risk larger than normal market moves as the market adjusts to the new format.

Goldman Sachs

- The ECB will operationalise the new monetary policy strategy by updating the forward guidance at this week’s meeting.
- The ECB will stress that current economic conditions require especially persistent monetary support, which may result in a transitory inflation overshoot.
- While GS believes that eventually PEPP will be used to manage a transition back o the APP, further details on the outlook for QE after March 2022 are unlikely just yet.
- While the GC will acknowledge Covid-related risks, overall risk formulation will remain ‘balanced’.

ING

- Far from being just a placeholder before the September meeting, the July meeting should provide more clarity around how the ECB will implement its new strategy.
- ING does not expect any change to the forward guidance on rates. However, it could prepare its own operation twist, allowing the end of PEPP to coincide with an increase in the APP, with the latter being more closely linked to the inflation target.
- The ECB could also clarify at this week’s meeting how it will judge when the coronavirus crisis is over.

JP Morgan

- Comments from ECB policymakers suggest that the GC will only begin to discuss what the new strategy means for policy at the July meeting. However, President Lagarde has only suggested that forward guidance will be updated for now.
- With respect to the forward guidance on rates, JPM expect the ECB to replace "sufficiently close" [to, but below, 2%] with "very close". This would allow President Lagarde to signal a higher likelihood that a late lift-off will lead to inflation running above target at some point.
- No change in the main PEPP parameters is expected.
- The ECB could provide more clarity on how much upside pressure is expected from housing costs over the medium term, the likelihood of a successor to PEPP and additional TLTROs being needed.

Morgan Stanley

- The July GC meeting will be relatively uneventful with a dovish shift in forward guidance, reflecting the outcome of the strategy review, being the main policy adjustment. The ECB will also indicate that it will ensure a smooth handover from the emergency pandemic response to the post-pandemic stance.
- The shift to a symmetric 2% inflation target in the strategy review is largely a codification of current practice with a modest, but dovish, implication for the current monetary policy stance.
- Upside risks to inflation and downside risks to growth could lead to a widening rift between the hawks and the doves.
- Reflecting this division and given the spread of the Delta variant, Morgan Stanley expects agreement in the autumn to wind up PEPP on the current timetable (placating the hawks) alongside more flexible APP thereafter (placating the doves).

NatWest

- NatWest stresses that July is a 'live' meeting and expects changes to forward guidance, with 'persistence' being the new watchword.
- The earlier than expected publication of the strategy review could reflect the ECB's attempt to differentiate itself from the Fed, which could start to reduce policy accommodation later this year. It could also reflect the ECB's desire to take the opportunity to re-anchor inflation expectations higher.
- Having already made clear that the ECB's pandemic policy response has been 'forceful', the forward guidance may now be adjusted to reflect the 'persistence' of policy support.
- The new forward guidance could indicate a longer period for QE, indicating an inflation overshoot is likely and would be allowed, or that higher inflation prospects could need to be visible in underlying inflation dynamics before a fundamental reassessment of the medium-term outlook is made.
- Ultimately, NatWest expects the PEPP envelope to be used in full with purchases continuing until March 2022. PEPP will then be transitioned into a new more 'persistent' tool which will have similar features to the PEPP but under a different name.
- It is possible that the PEPP reinvestment period could be extended beyond end-2023, or left open-ended.
- The maturity of the TLTROs and the due-rate period could also be extended.

Natixis

- The ECB's new strategy implies more patience but not necessarily immediate additional easing measures.
- As such, the forward guidance is expected to be adjusted at the July meeting and will imply a higher threshold for inflation dynamics before the ECB starts to tighten policy.

Nordea

- While the ECB's introductory statements have explicitly referenced the symmetric inflation target since July 2019, President Lagarde believes that the formalisation of this framework in the strategy review is meaningful because it removes ambiguity, it was unanimously agreed upon and the commitment will be clearly communicated.

- As a result, there could be a dovish tilt at the July meeting as the ECB tries to build credibility around the new strategy.
- This could take the form of adjusting forward guidance on rates or PEPP.

Rabobank

- The new strategic framework should not lead to immediate changes to the monetary policy stance.
- However, the ECB could slightly adjust the forward guidance with respect to policy rates to indicate its willingness to persist with its monetary accommodation.
- Any potential indication of a transition phase after PEPP ends would mark a dovish risk.
- Rabobank believes that by end-2021 the ECB will likely announce how PEPP will transition after March, which could involve a shift towards a higher APP.

SEB

- The focus at the July GC meeting will be the recently release strategy review.
- The forward guidance will be redefined to reflect the new symmetric inflation target and will stress that the ECB stands read to be 'forceful or persistent' when rates are close to the effective lower bound to prevent negative deviations of inflation from target becoming entrenched in expectations.
- The ECB will state that asset purchases and TLTROs will be in the ECBs policy toolkit in the future, implying that they should no longer be regarded as 'unconventional'.
- The current significantly higher pace of PEPP purchases will be maintained until September and the ECB will reiterate that it is committed to preventing a premature tightening of financial conditions.
- SEB expects the ECB to extend net purchases under PEPP by three months to mid-2022 with the extension announced in September and by the latest December.
- The ECB has repeatedly emphasised the temporary nature of PEPP and so may instead consider introducing a new, flexible post-pandemic programme to secure financial conditions.

Société Générale

- Although Société Générale sees limits to further easing at this week's meeting, there is scope for dovish changes to the forward guidance to demonstrate the need for persistence.
- Given the recent surge in economic activity and inflation data alongside uncertainty over the impact of the Delta variant, the ECB is likely to remain patient on the policy front for now.
- The key message could be that there is no rush to signal tighter policy, even at the September/October meetings.
- Société Générale only expects to have a better understanding of the end of the crisis phase of the pandemic later this year. As a result, the key decisions on PEPP may only come at that point.
- PEPP is expected to end in March 2022, or slightly later, and will transition into a scaled up APP in Q222.

Swedbank

- While the new Covid variants pose risks to the economic outlook, Swedbank does not believe this warrants any policy action with no change expected to monetary policy at the July meeting.
- The meeting is likely to be focused on changes to the forward guidance and communication given the recent conclusion of the strategy review.
- The press conference is likely to revolve around explanations of how to interpret the strategy update and the new format of communication.

TD Securities

- Having initially expected the July GC meeting to be relatively quiet ahead of the more important September meeting, the earlier than expected release of the strategic review suggests that at this week's meeting the ECB could decide on a chance in language, with even more substantial policy changes in September.
- Specifically, TD Securities sees scope for some adjustments to the communication around rates, the APP and the willingness to act, with the language around PEPP likely to be little changed.
- The market reaction to any minor adjustments is likely to be minimal, but markets could react more to what the ECB hints is likely to come at the September meeting.
- While TD Securities have previously argued that the APP would be stepped up in 2022 when the PEPP ends, there is now a risk that this occurs sooner given the earlier release of the strategy review.
- It is possible that the ECB announces in September a decision to taper PEPP gradually into March 2022 while simultaneously increasing the pace of APP purchases to around EUR50bn/month from October/November instead of waiting until 2022.

UBS

- The ECB will stick to the dovish message from the June meeting and will be in 'wait and see' mode over the summer before taking a fresh assessment in September based on new macroeconomic projections.
- With respect to the strategy review, UBS note that the ECB has not clarified what it means by 'transitory' and 'moderate' deviations from the symmetric inflation target. This could come up in the press conference.
- In addition, by stressing the primacy of interest rates in setting monetary policy, the ECB is effectively endorsing negative rates.
- Looking forward, UBS expects the ECB to announce at the December meeting that the PEPP will not be extended beyond March 2022. In preparation of this, the ECB is likely to tighten the communication over the late summer and autumn. However, the ECB could be forced to extend PEPP by 3-6 months in the event that the Delta variant triggers fresh mobility restrictions.
- The ECB will also announce in December that the APP will be scaled up to ensure ongoing stimulus. This could take the form of increased monthly purchases, or purchasing envelopes.

ECB Communication: The Detail

While July was previously seen as a placeholder meeting ahead of a more significant decision meeting in September, the early release of the strategy review has altered this perception. As such, the press conference will likely be dominated by the outcomes of the review – particularly the reformulation of the price stability objective and the new language that has been introduced.

President Lagarde explained the new formulation of the inflation objective on July 8:

> "This specific quantitative target is clear and easy to communicate, and provides a strong anchor for inflation expectations, which is essential to maintain price stability. It replaces the previous double-key formulation of below, but close to, two per cent, which was widely seen as too elaborate and occasionally giving rise to misperceptions about the Governing Council's aspirations. The new formulation removes any possible ambiguity and resolutely conveys that two per cent is not a ceiling. The Governing Council's commitment to the two per cent target is symmetric. Symmetry means that the Governing Council considers negative and positive deviations of inflation from the target to be equally undesirable."

And stressed how policy would respond near the effective lower bound:

> "Episodes in which the policy rate is constrained at the lower bound are often associated with disinflationary pressure. Addressing this requires especially forceful or persistent monetary policy measures to avoid negative deviations from the inflation target becoming entrenched."

Having introduced a multitude of terms in recent meetings ("upstream", "downstream", "multi-faceted", "favourable financing conditions" etc), the terms "forceful" and "persistent" have become the new watchwords, which Lagarde further elaborated on:

> "…in the face of large adverse shocks, the ECB's policy response will, as appropriate and grounded in a careful proportionality analysis, include especially forceful monetary policy measures. In addition, closer to the effective lower bound, it may also call for a more persistent use of its monetary policy instruments. This may also imply a transitory period in which inflation is moderately above target."

While the primacy of interest rates in setting monetary policy (in general) was affirmed, it was also made clear that unconventional tools introduced following the global financial crisis, are here to stay:

> "We have also carefully reviewed the appropriateness of the instruments in our monetary policy toolkit. It is clear that the set of ECB policy rates – the rate on our main refinancing operations, the deposit facility rate and the marginal lending rate – will remain our primary instrument."

> "Forward guidance, asset purchases and longer-term refinancing operations over the past decade have helped mitigate the limitations generated by the lower bound and will remain an integral part of the ECB's toolkit, to be used as appropriate."

Beyond the formulation of the price stability objective, other important developments include the incorporation of housing costs to measure broader inflation:

> "The Governing Council has therefore recommended a roadmap for the inclusion of owner-occupied housing in the HICP, while recognising that this is a multi-year project to be led by Eurostat. During the transition period, the main reference index for monetary policy will remain the current HICP, but initial estimates of owner-occupied housing costs will play a supplementary role alongside our set of broader inflation measures and will help us assess the contribution of housing costs to inflation."

And, presenting an interesting challenge for the July meeting (in particular), the ECB has decided to switch to a more simplified opening statement in a bid to foster more inclusivity:

> "..a new, more narrative-based, and more concise monetary policy statement will replace the introductory statement at our monetary policy press conferences."

During the Q&A, Lagarde further stressed the importance of being "forceful" and "persistent":

> "…we recognise that the effective lower bound constitutes a constraint."

> "…it requires an especially forceful or persistent reaction in order to avoid that negative deviation from the target risks entrenching inflation expectations. In case of an adverse shock in that situation, more forceful and especially forceful reaction will be needed. Closer to the effective lower bound, those actions might be more persistent."

The ECB president also provided an example of what has constitute 'foreful':

> "To give you an example of a forceful monetary policy reaction, I would say, in my relatively limited history as President of the ECB, I would submit that the PEPP that we built and further developed in the course of 2020 was definitely a forceful reaction with a twofold approach, of course, but certainly a forceful reaction in order to maintain price stability as much as was possible under the incredible circumstances that we faced."

Lagarde also stressed that the inclusion of housing costs would reflect the consumer cost of housing, rather than the investment cost:

> "..what was decided by the Governing Council was to account for the consumer cost of the owner-occupied house. So, it has nothing to do with the investment cost that an owner incurs; it has to do with the consumer cost that the owner of a house actually incurs."

The differentiation with the Fed's average inflation targeting approach was also made clear:

> "Are we doing average inflation targeting like the Fed? The answer is no, very squarely, because there are multiple ways to respond to this effective lower bound constraint. Ours is the one that I have described; which is to accept this especially forceful reaction, or persistent reaction, depending on how close we are to the lower bound. It is perfect recognition that this may imply temporary deviation, a temporary period in which inflation is moderately above our target. I cannot be clearer than that."

With respect to the new format of the introductory statement, Lagarde stated:

> "I'll tell you something that will be different on 22 July, which I think is the day of our press conference. Based on what we have agreed in our strategy review, the introductory statement that I will read to you and that you will receive, will be shorter, crisper and probably more to the point and with less jargon than what you were used to. So I'm just cautioning many of you, because you might be disappointed not to see the usual series of paragraphs and be able to do the compare-line-by-line, because we are determined to improve on our communication and to make it probably more plain English, shorter and easier to understand, including by the experts that you are around this call."

Outside of the strategy review, GC members have been relatively upbeat about the economy, while continuing to downplay the recent acceleration in inflation. On the economic front, President Lagarde stated on June 21:

> "The outlook for the economy is indeed brightening as the pandemic situation improves, the vaccination campaigns progress, and confidence begins to rise. We expect economic activity to accelerate as of this quarter amid support from fiscal and monetary stimulus and a vigorous bounce-back of services activity in particular"

> "Soft data also signal strong momentum in global activity, led by the rebound in advanced economies where vaccination rates have picked up. Additional fiscal support, most notably the US fiscal stimulus package, is also supporting the recovery. These developments boost foreign demand and so have positive spill-over effects on the euro area."

> "The risks surrounding the growth outlook have become broadly balanced."

Although, these comments came before concerns about the spreading Delta variant rocked markets this week.

On inflation, GC members seem to broadly agree that the recent surge will prove transitory, with President Lagarde arguing on June 21:

> "Turning to price developments, euro area annual inflation has picked up over recent months, largely owing to temporary factors, including strong increases in energy price inflation. Headline inflation is likely to increase further towards the autumn, reflecting mainly the reversal of the temporary VAT reduction in Germany, before declining at the start of next year as temporary factors fade out."

Isabel Schnabel mirrored this sentiment on July 3:

> "In particular, vanishing base effects from both energy price inflation and past policy measures, such as last year's value-added tax cut in Germany, will lead to a quasi-mechanical decline in inflation next year.In addition, shortages of intermediate goods and shipping disruptions are expected to ease over time as supply catches up with demand."

> "In other words, it is reasonable to assume that, in the medium term, inflation will converge back to levels more in line with the predictions of standard Phillips curves that model inflation primarily as a function of

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domestic slack and inflation expectations – the latter ultimately determining whether transitory shocks become ingrained in the inflation process in the long run."

Reflecting on the difficulties of forecast inflation and the need to be assured that intensifying inflationary pressure is fundamental and not fleeting, Schnabel noted:

"Years of repeated overprediction of the future path of inflation require that higher inflation prospects need to visibly migrate into the baseline scenario, and be reflected in actual underlying inflation dynamics, in line with our forward guidance, before they warrant a more fundamental reassessment of the medium-term inflation outlook."

And stressed the need for patience:

"Such patience may lead to inflation outcomes being moderately above our aim for a temporary period of time. This will be a necessary and proportionate requirement to set the conditions to escape low inflation."

While playing down the recent surge in inflation, GC members are alert to the risk of sound-round effects, as confirmed by Luis de Guindos on June 21:

"..we are attentive to incoming information to assess whether the temporary increase in inflation gives rise to second round effects that could translate into a more permanent development."

Philip Lane also indicated on June 17 that second-round effects were being considered, but that the likelihood was still low:

"So the narrative of this second-round dynamic, of course we look at it, we monitor it, but you actually have to see it converted into wage decisions and pricing decisions, and we don't see it so far. The economics of it is that we know it's going to take a long time for the labour market to fully recover, and without that full recovery, the bargaining strength to compensate for rising prices, without that dynamic it's very hard to sustain that narrative."

This sentiment was mirrored by Fabio Panetta on June 28:

"Euro area inflation will rise this year. But this will be a temporary increase, largely driven by base effects on energy and food products and the unwinding of previous VAT cuts in Germany. Temporary supply disruptions and some catch-up effects in services prices will also add to inflation in the coming months. We do not see, however, convincing signs that this upward movement will translate into a sustained inflationary process. The risk of second-round effects remains limited, as the conditions for them to emerge are not yet in place."

"So we do not seem to be on track to "run the economy hot."

However, Panetta also believes that there is now an opportunity to re-anchor inflation expectations given the strength of the economic rebound and coordination of monetary and fiscal policies:

"We cannot waste the opportunity of having, for the first time in more than a decade, a combination of expansionary monetary and fiscal policies."

> "The challenge we now face is to take advantage of the global upswing and lift demand up to and beyond current potential, thereby re-anchoring expected medium-term inflation at levels consistent with our target of 2%. But on our current policy trajectory, the likelihood that demand in the euro area will be strong enough to test the supply constraints of the economy – beyond short-term bottlenecks – does not look as high as in the United States."
>
> "We must be clear that, in order to re-anchor inflation expectations, our policy horizon cannot extend far into the future. If we are seen as determined to achieve 2% without undue delay and have a clear plan to do so by enabling monetary-fiscal interactions, rising inflation expectations will make our task easier. But if we are seen to be lacking determination, expectations will be less responsive and the "bang for our buck" will be considerably lower: we will end up spending more, not less, and we may not exit the liquidity trap."

Finally, on the issue of tapering, many GC members are still erring on the side of caution. President Lagarde argued on June 14:

> "You don't remove the crutches from a patient unless and until the muscles have started rebuilding sufficiently so that the patient can walk on his or her own two legs. The same applies to the economy. We are at a turning point where, bearing in mind alternative variants, we are on that recovery path, heading firmly towards a return to the pre-COVID-19 level."
>
> "According to our latest projections, we see the euro area economy being back to the pre-COVID-19 level during the first quarter of 2022. That said, I am not suggesting that the pandemic emergency purchase programme (PEPP) is going to stop on 31 March. We have plenty of flexibility, but in terms of economic outlook we are heading in the right direction."

Similarly, Fabio Panetta stated on June 28:

> "…the current phase of monetary-fiscal cooperation in various parts of the globe is giving us an opportunity to escape from the persistent "liquidity trap" that is affecting advanced economies – a situation characterised by weak inflation and nominal interest rates in the neighbourhood of their lower bound, but insufficiently low to stimulate aggregate demand."
>
> If we are to succeed in escaping that trap and sustainably reflating the economy, there needs to be the confidence that combined policy support will not be withdrawn prematurely."

ECB Inter-Meeting Communication

Date	Time (UK)	Speaker	Event/Topic
23/04/2021	15:35	Christine Lagarde	Participation in the Bloomberg Climate Panel "A Global Tipping Point: The Power of Global Capital Markets In The Fight Against Climate Change")
26/04/2021	13:00	Fabio Panetta	Opening speech for the online conference "Spillovers in a Post-Pandemic Low-For-Long World" organised by the BIS, BoE, ECB and IMF.
26/04/2021		Fabio Panetta	"Monetary autonomy in a globalised world" Welcome address by Fabio Panetta, Member of the Executive Board of the ECB, at the joint BIS, BoE, ECB and IMF conference on "Spillovers in a "post-pandemic, low-for-long" world" https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210426~0ac9c74462.en.html

Business Address – MNI Market News, 5th Floor, 69 Leadenhall Street, London, EC3M 2DB

26/04/2021	14:00	Philip Lane	"Maximising the user value of statistics: lessons from globalisation and the pandemic" Speech by Philip R. Lane, Member of the Executive Board of the ECB, at the European Statistical Forum (virtual) https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210426_1~b81fd0ff15.en.html
27/04/2021	11:00	Pablo Hernandez de Cos	Speech at the conferrence "Estabilidad financiera y politica macroprudencial: objetivos, herramientas y desafios".
27/04/2021	16:00	Pablo Hernandez de Cos	Presentation on the prospects for the Spanish economy
28/04/2021	12:00	Olli Rehn	Participation in webinar on Europe's industrial, technological and digital sovereignty
28/04/2021	13:00	Mário Centeno	Speech at an IIEA webinar "Monetary Policy in Transition"
28/04/2021	13:45	Isabel Schnabel	Interview on Twitter with Isabel Schnabel, Member of the Executive Board of the ECB, conducted and published on 28 April 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210428~86bcc373d1.en.html
28/04/2021	15:00	Christine Lagarde	Discussion for the online Global Leaders Series of the Aspen Security Forum
29/04/2021	08:30	Luis de Guindos	Participation in webinar organised by the Arcano Group
29/04/2021	10:00	Frank Elderson	"All the way to zero: guiding banks towards a carbon-neutral Europe" Keynote speech by Frank Elderson, Vice-Chair of the Supervisory Board and Member of the Executive Board of the ECB, at the conference on "The Role of Banks in Greening Our Economies" organised by the European Bank for Reconstruction and Development and Hrvatska narodna banka https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210429~3f8606edca.en.html
29/04/2021	12:30	Jens Weidmann	Speech "Will Covid-19 Increase Economic Inequality?"
29/04/2021	14:00	Robert Holzmann	Participation in panel discussion organised by the Austrian central bank
29/04/2021		Philip Lane	"Interview with Dagens Industri TV". Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Gabriel Mellqvist on 29 April 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210429~d2c4a56fb6.en.html
03/05/2021		Luis de Guindos	"Interview with La Repubblica". Interview with Luis de Guindos, conducted by Tonia Mastrobuoni on 27 April 2021 https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210503~e92f2b65ef.en.html
04/05/2021	09:00	François Villeroy de Galhau	Speech at EIB event
05/05/2021	13:30	Boštjan Vasle	Bank of Slovenia press conference
05/05/2021	14:00	Philip Lane	"The ECB strategy review and current challenges for monetary policy". Speech by Philip R. Lane, Member of the Executive Board of the ECB, at the OMFIF virtual panel

			https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210505~01af2bde18.en.pdf?cdfa982d828b1cef6ad365b2413d3747
06/05/2021	11:30	Luis de Guindos	Participation in an online Q&A for the EY Insights Economics Forum
06/05/2021	12:15	Christine Lagarde	Speech on Corporate Sustainability
06/05/2021	14:15	Isabel Schnabel	Speech at the 2nd DIW Women's Finance Summit The Future of Financial Services: Digitization, Sustainability and Post-Pandemic Growth Models
06/05/2021		Christine Lagarde	" Towards a green capital markets union for Europe". Speech by Christine Lagarde, President of the ECB, at the European Commission's high-level conference on the proposal for a Corporate Sustainability Reporting Directive, 6 May 2021 https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210506~4ec98730ee.en.html
07/05/2021	11:00	Christine Lagarde	Speech at a State of the Union 2021 event.
08/05/2021		Frank Elderson	Interview with Het Financieele Dagblad. Interview with Frank Elderson, Member of the Executive Board of the ECB, conducted by Annemiek Leclaire https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210508~3a5a70c305.en.html
10/05/2021		Philip Lane	Interview with Le Monde. Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Eric Albert and Marie Charrel https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210510~39494f0b27.en.html
11/05/2021	16:30	Klaas Knot	Participation in webinar
11/05/2021	17:00	Pablo Hernandez de Cos	Participation in online discussion
12/05/2021	10:05	Mário Centeno	Speech "How to Guarantee Economic Recovery in a Post-Pandemic Europe" at a conference organised by the Portuguese telecommunications association APDC.
13/05/2021	11:00	Mário Centeno	Attending a presentation of the Bank of Portugal's 2020 annual report
18/05/2021	09:00	François Villeroy de Galhau	Speech for an online event
18/05/2021	15:00	Christine Lagarde	Participation in the Generation Euro Students' Awards 2021 with Q&A
19/05/2021	07:00	Fabio Panetta	"At the edge of tomorrow: preparing the future of European retail payments". Introductory remarks by Fabio Panetta, Member of the Executive Board of the ECB, at the 14th Payment Forum of Suomen Pankki – Finlands Bank, Helsinki, 19 May 2021 https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210519~6a4523d953.en.html
19/05/2021	15:30	Pablo Hernandez de Cos	Testimony before the Spanish Parliamentary Commission for Economic Affairs and Digital Transformation.

19/05/2021	16:50	Philip Lane	Conference participation https://dublinclimatedialogues.com
20/05/2021	10:00	Philip Lane	Webinar discussion on the European and global economy
20/05/2021	12:50	Christine Lagarde	Participation in conference on Gender, Money and Finance hosted by the Austrian National Bank
20/05/2021	15:45	François Villeroy de Galhau	Speech at La Tribune conference
21/05/2021	12:00	Christine Lagarde	Press conference following Eurogroup meeting
25/05/2021	14:00	François Villeroy de Galhau	Speech at Danske Bank event
25/05/2021		Philip Lane	The ECB strategy review. Presentation by Philip R. Lane, Member of the Executive Board of the ECB, at the Peterson Institute for International Economics https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210525~5ffef091e8.en.pdf?f048794572a20114b85143a200123eae
26/05/2021	10:00	François Villeroy de Galhau	Speech at the Finance Committee of the French National Assembly
26/05/2021		Fabio Panetta	Interview with Nikkei. Interview with Fabio Panetta, Member of the Executive Board of the ECB, conducted by Jun Ishikawa https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210526~99707ed7f5.en.html
27/05/2021	09:00	Pablo Hernandez de Cos	Discussion with students at the Universidad Internacional de Andalucia
27/05/2021	10:45	Luis de Guindos	"Climate change and financial integration". Keynote speech by Luis de Guindos, Vice-President of the ECB, at the joint ECB and European Commission conference on “European Financial Integration and Stability” https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210527~6500964615.en.html
27/05/2021	13:00	Jens Weidmann	Speech to mark the 70th anniversary of the German Economic Institute
27/05/2021	14:00	Isabel Schnabel	"Societal responsibility and central bank independence". Keynote speech by Isabel Schnabel, Member of the Executive Board of the ECB, at the “VIII. New Paradigm Workshop”, organised by the Forum New Economy https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210527_1~ae50e2be97.en.html
27/05/2021	16:00	Isabel Schnabel	Discussion at the Global Solutions Summit/Forum New Economy
28/05/2021	08:00	François Villeroy de Galhau	Speech during a presentation of the annual report of the banking supervisor ACPR
28/05/2021		Isabel Schnabel	Interview with Reuters. Interview with Isabel Schnabel, Member of the Executive Board of the ECB, conducted by Balazs Koranyi, Frank Siebelt and Francesco Canepa https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210528~6cb78adce7.en.html
31/05/2021	09:30	Ignazio Visco	Annual speech in Rome
02/06/2021	11:15		Speech at Green Swan climate conference

		François Villeroy de Galhau	https://www.bis.org/events/green_swan_2021/overview.htm
02/06/2021	16:45	Jens Weidmann	Speech at Green Swan climate conference
02/06/2021	18:10	Christine Lagarde	"Learning the right lessons from the past". Speech by Christine Lagarde, President of the ECB, on the occasion of the awarding of the Prix Turgot 2021, Paris https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210602~41661afb3a.en.html
03/06/2021		Frank Elderson	"The embrace of the horizon: Forcefully moving with the changing tide for climate action in financial sector policies", Speech by Frank Elderson, Chair of the Central Banks and Supervisors Network for Greening the Financial System, Member of the Executive Board and Vice-Chair of the Supervisory Board of the ECB, at The Green Swan Conference – Coordinating finance on climate https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210603~2da57607e2.en.html
04/06/2021	08:00	Pablo Hernandez de Cos	Speech at Green Swan climate conference
04/06/2021	12:00	Christine Lagarde	Speech at Green Swan climate conference
06/06/2021	14:30	Ignazio Visco	Participation in webcast.

MNI Policy Team

MNI INTERVIEW: "Medium-Term" Has Flexible Meaning-ECB's Kazaks

By Luke Heighton

MNI (Frankfurt) - The European Central Bank's existing policy toolkit will be sufficient to meet its newly-reformed objective for 2% inflation in the medium term, so long as the economy does not deteriorate, Bank of Latvia Governor Martins Kazaks told MNI, adding that the interpretation of medium-term will also depend on conditions.

"If the recovery does not play any ugly tricks, and then we take a look at the current baseline outlook, there is no need to ponder about [other] instruments. The current set of instruments is sufficient," Kazaks said in an interview. "But we are not out of the tunnel yet."

Whether the ECB spends all of the EUR1.85 trillion envelope of its Pandemic Emergency Purchase Programme is also state-dependent, he said.

"If the economy allows, we may use less of it. If things take a turn for the worse, we may increase the volumes and spend more than that. In due time, when we are confident enough where the economy stands and where it goes, then we will inform the markets. We don't want to be jumpy and create unnecessary volatility."

The ECB will also be flexible in its view of the period over which the new symmetrical inflation objective, which allows for a transitory period during which prices increase at a rate moderately above target, will have been met.

"The medium term is not set in stone," Kazaks said. "It's not two years, it's not three years, but it is state-dependent."

NOT FOLLOWING THE FED

Nor does the strategy, unlike the Federal Reserve's, aim to make up for past inflation undershoots, he added.

"It's forward-looking, in that we want to have inflation at 2% over the medium term in the future, not backward-looking in that we failed to have 2% last year so we have to make up for it," Kazaks said.

In last week's unanimous approval of the new strategy framework, governors agreed to take "forceful or persistent" monetary policy measures to avoid inflation undershoots taking root.

Acting forcefully means doing so immediately and on a large scale to calm the markets, Kazaks explained, also noting the importance of the proportionality of any action, something which the ECB has emphasised in line with rulings by Germany's Constitutional Court.

"If it is not sufficient, and you're forced to stay intervening for longer then, it is about persistent intervention. But decisions always come with proportionality assessment. Persistence does not mean the same instruments are used – the set of instruments can be changed when appropriate if their efficacy decreases or they become too costly in terms of their impact on the economy," Kazaks said.

Inflation expectations will be crucial.

"If inflation is somewhat above the target but that during the previous episode inflation expectations have slipped lower and we see a risk of them de-anchoring, then we may accept inflation moderately above the target somewhat longer than otherwise in order to push inflation expectations closer to 2%," he said.

"But when inflation expectations are aligned with the target, we may act much quicker, because there is no risk of expectations de-anchoring. And this is all due to the risks from the effective lower bound."

As shown in the Covid-19 crisis, the ECB is prepared to create new instruments and to act flexibly within its mandate to reach its objective, Kazaks said, although a mix of instruments may prove more effective than an over-reliance on stand-alone tools. The ECB will also consider using existing instruments that have not been used for a long time if necessary and appropriate, he added