ECB Preview: October 2020

Contents

Details:

Monetary policy decision: 12:45BST/13:45CET, Thursday 29 October 2020

Press conference: 13:30BST/14:30CET, Thursday 29 October 2020

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):

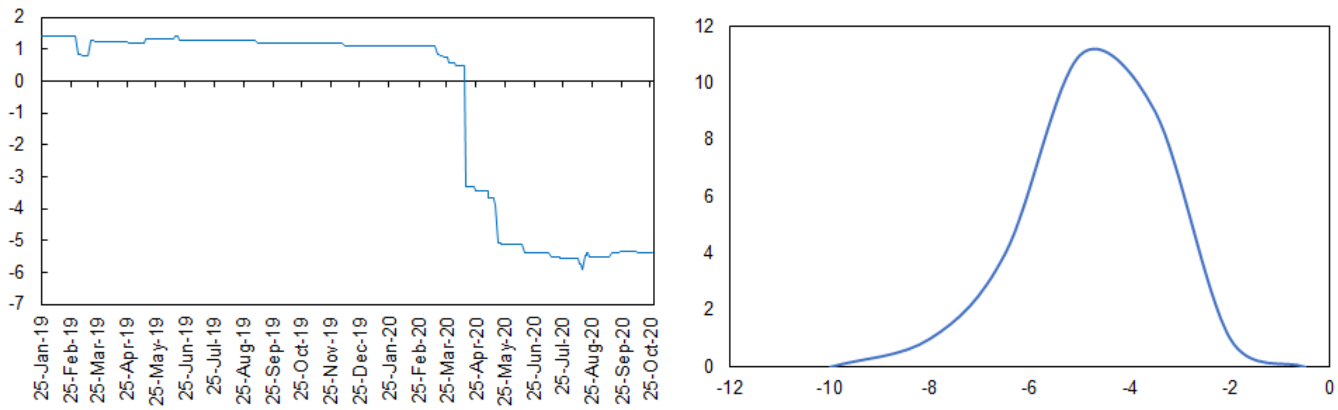
Ahead of Events, Or At Their Mercy?

- The ECB must decide whether to wait until the December meeting to get over the hump of upcoming event risks and ascertain the impact of the recent tightening of social restrictions, or act now to ward off intensifying headwinds to the fragile recovery.
- On balance, the ECB is likely to hold fire for now and instead pave the way for further easing in December when there will be more clarity on economic conditions and risk outcomes. The considerable amount of capacity left in the expanded PEPP envelope further strengthens this baseline scenario.
- Nonetheless, the risk of further policy easing in October is non-negligible The coronavirus crisis is moving faster than policymakers are able to divine the associated economic impacts, elevated uncertainty risks becoming self-fulfilling and the inflation path is under grave threat.

In the absence of fresh macroeconomic forecasts (which will be published in December alongside the new 2023 projections), heightened uncertainty over the economic path, and with a substantial amount of capacity remaining in the expanded PEPP envelope, the ECB is unlikely to materially adjust the monetary policy stance at the October meeting. The market largely expects this week's Governing Council meeting to be an opportunity to take stock of recent economic developments and to pave the way for a fresh round of easing in December.

Aside from the difficulties of getting an accurate read on economic conditions - particularly since the recent rapid tightening of social restrictions will be felt immediately but only show up in the economic data with a lag – the list of risk events that is clouding the economic outlook are considerable. The outcome of the US election, the prospect of a post-Brexit trade deal, the scale and impact of a second coronavirus wave and 2021 budget plans provide plenty for the ECB to chew over, and further suggests that the GC will hold fire until December when there is greater visibility on these issues.

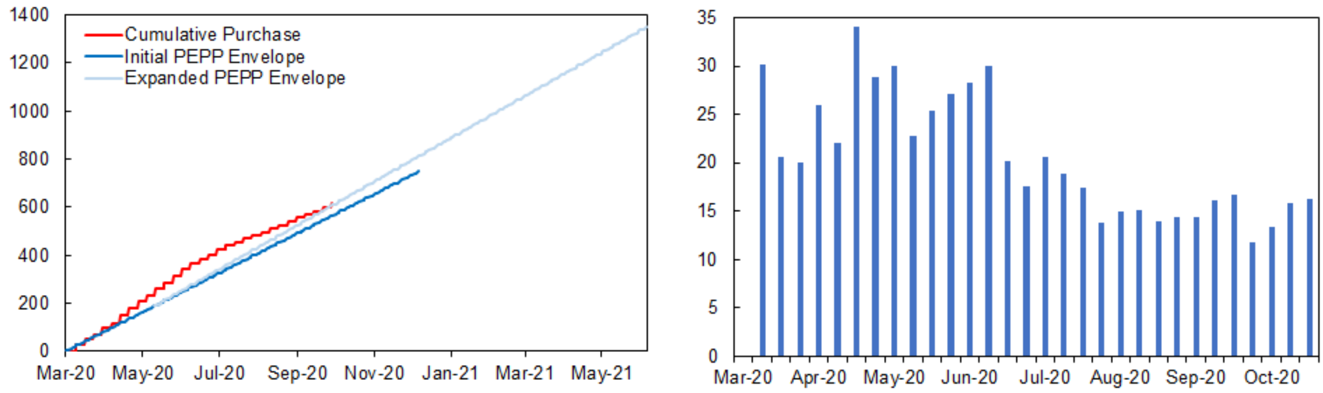
Fig 1. Bloomberg Consensus Eurozone Q4 GDP Forecast, % Y/Y (History, LHS / Distribution, RHS)



Source: MNI/Bloomberg

Nonetheless, there is still a non-negligible risk of policy action at the October meeting. The coronavirus crisis is a fast-moving headwind for the economy and policymakers do not have the luxury of time in assessing its impact on the economy. However, we do know from the experience during the first wave that lockdown measures can paralyse whole industries and have a devasting impact on economic activity. Although policymakers are now opting for more localised restrictions, rather than blanket national shutdowns, any tightening of the pandemic measures will significantly dampen economic activity and undermine the ECB's baseline forecast. The uncertainty itself risks becoming self-fulfilling if the threat of lockdowns further restrains consumer and investment spending. As such, waiting until December before adjusting the policy stance again is not without risk.

Fig 2. PEPP Purchases, EURbn (Cumulative, LHS / Weekly, RHS)

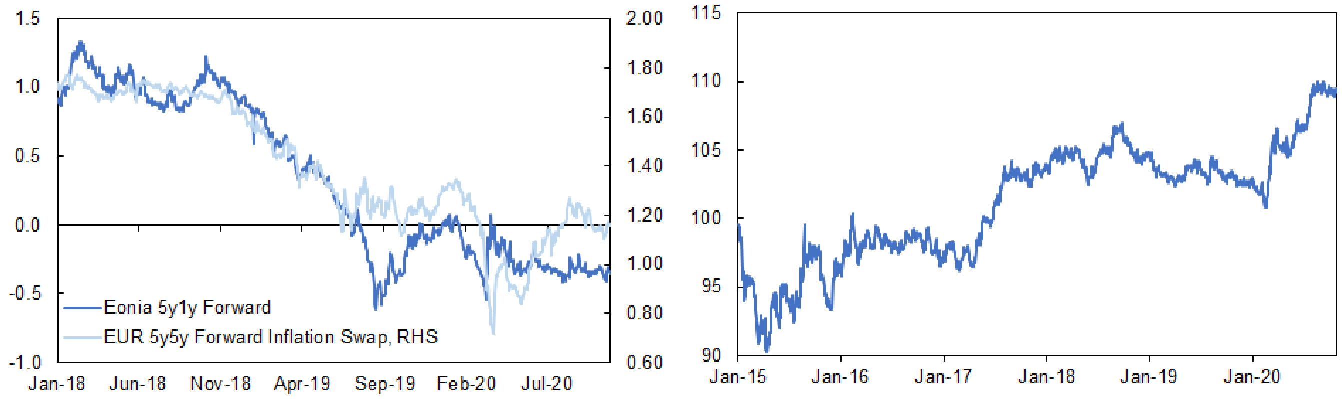


Source: MNI/Bloomberg

The current inflation path is also a serious concern. Although the Governing Council acknowledge that inflation will remain in negative territory in the coming months as a result of the contraction in economic output, the previous decline in energy prices and temporary VAT cuts in Germany, most still expect inflationary pressure to build as the economy rebounds (nonetheless, the official forecast pegs inflation below target over the medium-term). However, the enormous uncertainty around the economic trajectory, the mounting risks to the recovery in the face of tightening social restrictions and the risk of inflation expectations becoming unanchored pose severe risks to the baseline. Some members of the GC, including Lagarde, have pointed to global supply chain restructuring as a possible inflation-positive development. While the services sector has adjusted quickly to the pandemic and the digitalisation shift has accelerated, onshoring production and restructuring industrial supply chains will take much longer.

On the assumption that the ECB remains cautious of further easing just now, a policy shift at the December meeting becomes more likely. The ECB has repeatedly articulated the primacy of the PEPP facility in combating the economic impacts of the pandemic, and this is likely to be the first port of call for a new easing package. A EUR250-500bn expansion to the PEPP envelope, an extension of the purchasing programme until end-2021, an extension of the reinvestment window and additional TLTROs on easier terms, are the most likely policy levers that the ECB would choose to pull. Although further deposit rate cuts remain in the toolkit (internal research at the ECB suggests that policy rates are still some way off the reversal rate), there appears to be little appetite for further cuts just yet.

Fig 3. Eonia 5y1y Forward & EUR5y5y Forward Inflation Swap (RHS) and EUR Effective ER



Source: MNI/Bloomberg

Finally, it should be noted in the context of currency appreciation concerns at the September meeting that the GC has since become more vocal in addressing the issue of euro strength. While the technocratic stalwarts at the ECB continue to stress that the exchange rate is an input to the reaction function and not a policy target, others have more explicitly linked recent weak inflation (in part) to exchange rate developments. It seems more likely that the path of the euro matters more than its trading level (a notion that has been expressed by members of the GC), with sharp sustained appreciation likely to cause the most concern. With that in mind, the loss of momentum in the euro since the summer will provide some relief and significantly lowers the probability of a policy response.

Central Bank Watch - ECB

27 October 2020

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	-0.3	0.3	↓	0.7	↓					-2.02
Core Inflation	% y/y	0.2	0.8	↓	1.0	↓					-1.75
Oil Prices	$	41.0	41.2	↓	22.7	↑					0.30
5y/5y Inflation Swap	%	1.16	1.12	↑	0.96	↑					0.55
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	49.4	54.9	↓	13.6	↑					0.15
Industrial Production	% y/y	-7.2	-20.4	↑	-2.1	↓					0.48
Business Climate Indicator	Index	-1.19	-2.24	↑	-0.24	↓					0.23
Consumer Confidence	Index	-15.5	-15.0	↓	-22.0	↑					0.09
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	13.8	12.6	↑	10.4	↑					1.94
Broad Money (M3)	% y/y	10.4	9.2	↑	7.5	↑					1.08
Loans to Non-Fin Corps	% y/y	6.5	6.5	→	4.9	↑					0.50
Loans to Households	% y/y	3.5	3.2	↑	3.3	↑					0.57
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	3.7	-2.6	↑	2.5	↑					0.65
Unemployment Rate	%	8.1	7.6	↑	7.3	↑					1.50
Labour Costs (Quarterly)	% y/y	4.2	2.4	↑	2.4	↑					1.89
Employment (Quarterly)	% y/y	-3.1	1.1	↓	1.4	↓					-2.41
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market	Index	3089	3234	↓	2787	↑					-0.50
Bund Yield	%	-0.59	-0.45	↓	-0.47	↓					-0.29
10y BTP Spreads	%	129.0	171.2	↓	199.4	↓					1.19
EUR TWI	Index	124.89	122.33	↑	120.83	↑					1.06

Source: MNI, Bloomberg

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Summary of Analyst Views

- Analysts are unanimous in expecting no change in monetary policy at the October GC meeting.
- While some believe that a case could be made for easing now, all expect additional stimulus to be provided in December.
- October will be used as launchpad meeting to pave the way for easing in December.
- Analysts broadly look for a EUR250-500bn expansion of the PEPP envelope and extension of the purchasing period by six months.
- Additional measures that have been touted include an extension of the PEPP reinvestment window and additional TLTROs on favourable terms.
- Further deposit rate cuts now appear off the radar.
- While the appreciation of the euro had become an issue heading into the September, there has been much less focus on the exchange rate this time around.

ABN Amro

- Although the case for further monetary easing is strong, this is likely to come at the December meeting.
- The ECB will likely require additional information before deciding on the shape and size of additional stimulus.
- The October meeting will be used to signal that additional easing will be delivered in December. ABN Amro note that " In the past, the strongest signal has been that officials have been tasked with assessing the design of measures (the Committees being put to work)".

Berenberg

- The ECB will use this week's policy meeting to pave the way for further stimulus in December.
- Although an argument can be made for providing more stimulus now, the ECB will hold off for the time being given the high volume of purchase potential left in the PEPP, the likelihood of some GC members arguing that the ECB has done enough for now, the preference for having updated macroeconomic forecasts before committing to a new easing package, and Christine Lagarde's desire to build consensus among the GC.
- At the December meeting the ECB will likely consider a combination of three possible adjustments: a faster pace of net asset purchases under PEPP, an expansion of the PEPP enveloped by EUR250-500bn and an extension of the PEPP window to end-2021.
- Although a further cut to the deposit rate is unlikely, the ECB could opt to lower the rate on the TLTRO.

Citigroup Global Markets

- The ECB is unlikely to surprise the market at the October meeting by bringing forward a PEPP extension or signalling the possibility of further deposit rate cuts.
- This week's GC meeting will instead focus on highlighting the persistence of ECB stimulus and stressing that additional policy instruments can be used as necessary.
- Additional stimulus is more likely in December.

Credit Suisse

- The ECB will be on hold at the October meeting, but the tone will be very dovish. This will steer markets to expect additional stimulus at the following meeting in December.
- Lagarde will indicate that recent economic data have been disappointing and that risks are tilted to the downside.
- The ECB will continue its APP until the end of the year and expand the PEPP by EUR300bn in December.

Danske

- There will be no new policy measures announced at the October meeting.
- However, the escalation in the coronavirus crisis will prompt the ECB to be relatively dovish in its messaging, which will raise market expectations for further policy easing at the December meeting.
- PEPP will be extended beyond June 2021. Rather than helping to revive inflation, an expansion of PEPP would instead keep funding rates low and allow fiscal policies to support the economic recovery.
- No further liquidity injections beyond the already planned remaining PELTROs and TLTROs are expected.
- The press conference will likely see questions on the uncertainty around December's economic and inflation forecasts, the available policy tools and their effectiveness, as well as the divergence of views with the Governing Council.

Goldman Sachs

- Policy will remain unchanged at the October meeting.
- The deterioration in economic activity and inflation data, coupled with consistently dovish ECB commentary since the September GC meeting, indicates that policy will be eased further at the December meeting.
- The October meeting will be used to pave the way for easing in December. ECB officials are likely to express growing concern over the economic outlook and disparities across countries.
- However, GS is sceptical that ECB officials will pre-commit to more easing in December by tasking committees to prepare policy options, given that the outlook is uncertain.
- As such, the introductory statement is likely to indicate incremental urgency.
- A EUR400bn expansion of the PEPP envelope and an extension to end-2021 are expected at the December meeting. The PEPP reinvestment window will be lengthened alongside additional long-term refinancing operations on favourable terms.
- The bar for a further interest rate cut is high and would require significant further euro appreciation.

HSBC

- The October meeting will be used to manage expectations and pave the way for further policy easing in December.
- PEPP will be extended until end-2021 and expanded by EUR250bn to EUR1.6trn. This is likely to be announce in December when there are new staff macroeconomic forecasts going out to 2023, more clarity on member state fiscal plans for next year and the temporary EUR120bn envelope on top of the APP expires.

ING

- No change in monetary policy is expected for the October GC meeting.
- An increase in the PSPP envelope is expected in December, rather than an increase in the PEPP.

JP Morgan

- No changes are expected to the monetary policy setting at the October meeting.
- At the December meeting PEPP is expected to be expanded by EUR500bn with a further EUR250bn coming in mid-2021.

Morgan Stanley

- Although there is now a stronger case for further easing, the monetary policy setting is expected to remain on hold at the October meeting. The ECB is unlikely to ease just yet given that there will be no new macroeconomic forecasts and there is still ~EUR750bn of PEPP capacity (a year's worth of purchases).
- The ECB is expected to top up PEPP by EUR400bn in December and extend it to end-2021.
- Morgan Stanley also expect an extension to the period of the 50bp TLTRO bonus from June 2021 to end-2021.

- A further rate cut is not expected, but given that the ECB views that the reversal rate is well below the current deposit rate, additional rate cuts remain in the toolkit.

Natixis

- No change in monetary policy is expected at the October meeting.
- The ECB will likely ease again in December with a EUR250bn increase in the PEPP envelope.

Nomura

- Monetary policy will be left unchanged at the October meeting.
- Nomura expects the next policy move to be in March 2021 when the PEPP envelope will be increased by an additional EUR400bn.
- If lockdown measures undermine the economic recovery in the coming months, the ECB could step up the pace of monthly purchases.
- However, the ECB will not feel the need to signal an expansion of PEPP just yet, with the October meeting likely to be slightly less dovish.
- Questions during the press conference are likely to focus on the strength of the euro and the risk of a second coronavirus wave on the core economic forecasts.
- No further cuts to the policy rate are expected and there will be no adjustment to the tiering multiplier. There will be no rate hikes until 2024.
- There will be no further extension of PELTROs beyond the current end-date of December 2020.

Nordea

- Although the case for further monetary policy easing has strengthened recently, the ECB is not expected to ease again until December given that there remains significant capacity left in the existing tools.

Pictet

- No change in monetary policy is expected at the October meeting.
- However, the ECB will need to do more than just 'send a signal' to the markets. In a bid to stay ahead of the curve Lagarde could indicate that the relevant committees are being tasked to look into specific easing measures, the pace of asset purchases could be increased, future policy decisions could be linked to staff projections and TLTRO terms could be eased.
- The ECB will provide additional stimulus in December, which will include a EUR500bn expansion of the PEPP envelope and an extension of the purchasing window to end-2021.

Rabobank

- Interest rates will remain on hold for the foreseeable future.
- EURUSD would need to get closer to 1.20 before the ECB would consider cutting rates.
- The ECB will wait for more of the PEPP envelope to be used up before raising the tiering multiplier.
- No changes to the APP or PEPP are expected just yet. An extension of PEPP to end-2021 alongside a EUR250bn increase in the purchase envelope is expected at the December meeting.

SEB

- The abnormal season pattern in 2020 CPI suggest that inflation will quickly rise in 2021.
- The outlook for Q4 looks vulnerable given the recent loss of economic momentum, with the slowdown in inflation further suggesting that the ECB will introduce further policy support.
- The PEPP is likely to be extended until at least end-2021. Extending the program by a further six months with EUR83bn in purchases would imply a total expansion of EUR500bn to EUR1.85trn. A failure to signal an expansion of PEPP would result in a stronger euro and higher interest rates.

- A more effective way of speeding up the recovery would be to provide more long-term funding for the banking sector on more attractive terms. It is likely that a new series of TLTROs will be introduced at the December meeting at the latest.
- The TLTRO terms could be made more attractive by extending the window when banks are able to reduce the borrowing cost to -1%, which could also be lowered further.
- A further deposit rate cut is not expected for now, but if incoming data show a continued deterioration in economic activity and inflation, SEB are likely to pencil in a rate cut for December or March.

Swedbank

- Since ECB staff will not be providing any revised macroeconomic forecasts at this week's meeting, monetary policy is expected to remain unchanged.
- The December projections are likely to show a downward revision to the growth and inflation forecast.
- The policy response remains unclear. There is no room to cut base rates further and there is sufficient PEPP capacity to run until next October at the current purchase rate.
- The ECB may accelerate its weekly purchases or, more likely, it will look for ways to lengthen and expand its TLTROs.

TD Securities

- Monetary policy will be left unchanged at the October meeting.
- This week's meeting will be used to highlight the risks to the September macroeconoimc forecasts and signal that further QE is forthcoming.
- A further EUR600bn expansion to PEPP is expected in December.

UBS

- No policy changes are expected at the October meeting, but President Lagarde is likely to signal that further easing will come in December.
- At the December meeting PEPP will be extended by six months to end-2021 and the envelope will be raised by EUR500bn.
- Although the policy rate will remain unchanged for the foreseeable future, adjustments to the tiering multiplier are possible.

UniCredit

- The ECB will likely leave policy unchanged at this week's meeting, but will provide a clear signal of upcoming action.
- The second wave of the pandemic has made it a virtual certainty that the ECB will soon provide additional stimulus and most likely at the December meeting.
- A EUR500bn expansion of the PEPP envelope and an extension of the purchase window to end-2021 is expected. The ECB will also extend the favourable terms of TLTRO-III until end-2021.
- UniCredit remains convinced that cutting the deposit rate further is not on the agenda.

ECB Communication: The Detail

ECB communication has picked up markedly since the September Governing Council meeting. This may reflect the release of new data that indicates economic momentum has slowed, the rising risk to the Q4 outlook following the progressive tightening of social restrictions across Europe, and a response to criticism that the ECB had not been sufficiently robust in addressing the issue of recent euro appreciation at the September meeting.

Christine Lagarde was relatively optimistic in September about the strength of the recovery, while warning about intraregional divergences:

> "The recovery has been substantial – but it remains *uneven*, *uncertain* and *incomplete*."

> "The incoming data show a strong recovery, but also one that is uneven, uncertain and incomplete."

Fabio Panetta added un 22 September:

> "The services sector, in which momentum has recently slowed somewhat, is another source of concern."

And on October 17 his warnings became more stark:

> "The second wave of the pandemic in Europe, notably in France, and the resulting new restrictions are adding to the uncertainty and weighing on the recovery. Since the rebound we saw over the summer, the recovery has been uneven, uncertain and incomplete and now risks losing momentum."

> "The current pandemic developments are not positive. On top of the direct impact on spending, uncertainty is likely to increase significantly, with adverse effects on both the economic outlook and the balance of risks."

Referring to the medium-term economic path, Isabel Schnabel indicated on 16 September:

> "We do not see a V-shaped economic development where we return to the pre-crisis path very quickly. Instead, we see a protracted recovery that takes time, and the same is true for the inflation outlook."

Comments on inflation have been similarly downbeat, reflecting the recent slide into negative territory and the ECB's own below-target inflation forecasts. Lagarde stated on 13 September:

> "Though temporary factors distorted the August figure, underlying price pressures have weakened due to subdued demand and significant labour market slack. Near-term price pressures will also remain subdued due to the recent appreciation of the euro exchange rate."

Fabio Panetta addressed the issue of low inflation more emphatically, stating on 15 September:

> "Inflation will remain subdued: over the projection horizon it is expected to stay uncomfortably below our aim."

And again on 22 September:

> "…the macroeconomic situation remains fragile and uncertain and the projected inflation path is still clearly short of our aim."

Speaking on 29 September, Luis de Guindos identified the twin headwinds resulting from the pandemic and structural changes on the supply side:

> "…we are discounting that for the rest of the year the inflation rate will be negative or very close to zero. And there are two forces that are at odds here. On the one hand, the pandemic. On the other hand, supply

> chains will become more regional, and this is something we need to look at carefully because it could offset the drop in demand."

Philip Lane added on 24 September in a Twitter Q&A:

> "Rather than deflation risk, our primary concern is inflation remaining below our aim for an excessive period."

And added on 11 October:

> "..I think it's true to say that we would like to see a stronger momentum in inflation. Meeting by meeting we will have to make that call: where do we think inflation is going? Because if the outlook remains at 1.3 percent, that is far away from our goal."

He previously argued on 6 October:

> "The concept of robust convergence signals that we require a high degree of confidence that the inflation outlook has durably approached the inflation aim, while the condition that convergence should also be evident in realised underlying inflation means that future rate tightening will not run ahead of the hard data in terms of the out-turns for underlying inflation. Given this "double hurdle" set of conditions, our forward guidance represents a strong commitment to keep financial conditions at highly accommodative levels for as long as necessary to lift inflation to our inflation aim in a sustainable fashion."

After many were left disappointed by the ECB's response to recent euro appreciation (Lagarde was expected by some to more forcibly talk down the euro at the September meeting), there has been a flurry of references to the exchange rate across the Governing Council. While some members (notably Lane and Schnabel) continue to stress that the exchange rate is an input to the reaction function rather than a policy target, others have more concretely linked disinflation/deflationary pressure with euro appreciation.

Isabel Schnabel stated on 16 September:

> "We are not targeting the exchange rate. We adjust our policies according to the medium-term inflation outlook. And at the last Governing Council meeting there was still an exceptionally high level of uncertainty. As President Lagarde explained at the press conference, it was the Governing Council's view that more information was needed on how the pandemic evolves, how our measures transmit to the real economy and how persistent exchange rate movements would ultimately prove to be."

Philip Lane addressed the issue of euro appreciation on 11 October, while also indicating that it is not a prime focus:

> "The exchange rate is one issue, but the fact that there's been a significant recovery in the Chinese economy is quite important. The fact that, by and large, the world economy is looking better than it did a few months ago is quite important. The fact that there's been a lot of policy support, not just in the advanced economies but also in the emerging economies, is important. The fact that European manufacturing, by and large, is open, is busy now, is important. So the exchange rate is important but the bigger global issue is the state of global demand, and that has recovered maybe better than expected."

Lane further stressed that it is the trajectory of the exchange rate that matters, rather than the level:

> "Again, it's not the level. What enters the dynamic calculations is the movement in the exchange rate. That's really what matters. And in turn it's the implications of that, not on a month-by-month basis but over the next couple of years. So it's something we're looking at, but there's so much going on in the world right now, it's just one of many factors. And compared with the core issue, which is the pandemic itself, it in no way ranks in the same category as that."

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Speaking on 29 September, Luis de Guindos stressed that there is no hard level at which the ECB would respond specifically to the exchange rate, but the trajectory is important:

> "No, we do not have any concrete level at all. We take into consideration its evolution, and it is included in our models, but we do not have a red line. It's much more a question of the trajectory of the variable."

Following the September meeting, Lagarde has indicated that it will be important to monitor exchange rate developments:

> "…the uncertainty of the current environment requires a very careful assessment of the incoming information, including developments in the exchange rate, with regard to its implications for the medium-term inflation outlook."

Yves Mersch was more vocal on 23 September in linking euro appreciation with the deterioration in inflation:

> "This being said, it is obvious that the recent movement in the exchange rate has had statistical effects on some of our measures of inflation and production. And since we are very committed to price stability, we will certainly monitor the developments."

This sentiment was echoed by Fabio Panetta on 15 September:

> "In light of the current outlook for inflation, we need to remain vigilant and carefully assess incoming information, including exchange rate developments. It is necessary to maintain very favourable liquidity conditions and an ample degree of monetary accommodation for an extended period of time, and in any case for as long as necessary."

And again on 22 September:

> "The appreciation of the euro is one factor that we need to watch closely with regard to its implications for the medium-term inflation outlook, particularly at a time when current and expected inflation rates are both very low. The sustained appreciation in the external value of the euro has brought about an undesirable tightening of financial conditions and has offset some of the monetary accommodation provided by our measures."

Overall the bias of monetary policy lies in the direction of further easing. Fabio Panetta stated on 22 September:

> "If we encounter shocks that compress demand and pose additional threats to price stability, our reaction function is clearly spelled out: a policy response is necessary and forthcoming."
>
> "Faced with such a sizeable downward skew, there is a strong case for our reaction function to be asymmetric, as the risks of a policy overreaction are much smaller than the risks of policy being too slow or too shy to react and the worst-case scenarios materialising."

And further on 17 October:

> "The only way to normalise monetary policy in the future is to forcefully support the economy now."

The ECB continually stresses the primacy of the PEPP tool in tackling the economic impacts of the coronavirus crisis. Fabio Panetta pointed out on 22 September:

> "To give an idea of how our measures have helped, we estimate that the pandemic emergency purchase programme (PEPP) and the additional envelope under the asset purchase programme have reduced the term premium in the average ten-year euro area sovereign yield by between 45 and 80 basis points."

> "By restoring the proper functioning of financial markets, we have removed a major obstacle to expansionary fiscal policies."

For the time being the Governing Council appears comfortable with the current parameters of the programme, not least because a significant amount of capacity remains in the expanded envelope. Luis de Guindos stated on 20 September:

> "For now, the PEPP will run until the middle of next year. It has a total envelope of €1.35 trillion, a substantial amount of which has still not been used. The programme is very flexible; it is serving its purpose and there is still room for manoeuvre."
>
> "For the moment, we believe that the programme is performing well, also from the point of view of pursuing our primary objective – our inflation aim."

Following questions about the longevity of PEPP and the possibility that it could become a more permanent feature of the policy toolkit (an idea that we previously highlighted), some GC members have stressed that it is a temporary measure. Yves Mersch stated on 23 September:

> "The PEPP is an emergency instrument. We have stated that we have disenfranchised ourselves from a certain number of self-imposed constraints in view of the pandemic and in view of its exceptional nature and threat - and that means it must be temporary."
>
> "Now of course you can extend the temporary character, but the pandemic will not last forever. But unconstrained flexibility also increases the risk of arbitrariness. And in order to limit the arbitrariness of institutions, we have the scrutiny of jurisdictions. And we have publicly in the courts promised to jurisdictions what we were doing in order to protect the red lines that have been put into the Treaty, especially the monetary financing prohibition."

Philip Lane indicated on 11 October:

> "…it's also clear that the PEPP is a temporary measure. If the monetary conditions allow it, these portfolios will be rolled off. This is fundamental to protecting our independence."

With a possible hint of when he expects PEPP could expire:

> "We still think that the pandemic will be mostly a temporary shock. We do think that the impact of the pandemic on GDP will be mostly gone by 2022. So there's maybe an 18-month horizon compared to now."

Although the idea of further cuts to the deposit rate seems to have fallen out of fashion as the ECB's pandemic-fighting measures have dominated the toolkit, the prospect of additional cuts has not be entirely dismissed. Isabel Schnabel argued on 12 October:

> "…ever-lower interest rates are needed to stimulate growth and investment. This is because monetary policy is only providing stimulus if the short-term policy rate – adjusted for inflation – is below the equilibrium rate. Current estimates suggest that the real short-term policy rate in the euro area needs to be negative for monetary policy to put upward pressure on prices."

While Philip Lane commented on 11 October:

> "The value of a rate cut is still there and we look at it all the time. It's perpetually looked at. We reject the idea that we are at the lower bound. We think, overall, a rate cut would still be working the way other rate cuts have worked. The economics of a rate cut remain. We think the rate cuts up to now, including last September's, have worked in the way intended; they pass through into lower lending rates, into more credit

volumes and so on. In terms of effectiveness, we think the asset purchases have a bigger impact on the yield curve now. But the option of going lower remains part of our policy guidance."

Beyond the immediate economic outlook and implications for monetary policy, the GC has been repeatedly warning of structural shifts ranging from pandemic-induced capital reallocation and supply chain relocation, to the impact of climate change on price stability. Christine Lagarde noted on 13 September:

> "Emphasis on greater resilience in supply chains may encourage a return of some production from overseas. In the opposite direction, physical lockdowns have vastly increased awareness of the ability of technology to facilitate the provision of services from a distance."

And again on 21 September:

> "Everybody needs to be ready for the profound changes currently sweeping our economies and our societies."

Referring to the pandemic, Isabel Schnabel warned on 18 September:

> "In the long run, the key objective should be to prevent permanent scarring effects due to a structural entrenchment of inequalities emerging in the context of the crisis."

Luis de Guindos highlighted the risk of intraregional divergences arising from the pandemic:

> "Those countries set to struggle for longer with the aftermath of the pandemic shock will likely suffer from deeper and longer-lasting scars. All this risks prolonging and even entrenching structural heterogeneity within the euro area."

This sentiment was further supported by comments from Fabio Panetta on 17 October:

> "Moreover, there is a risk that a slow recovery will exacerbate divergences across sectors and countries: the longer it takes to return to pre-crisis levels, the greater the impact on divergence and inequality. The European fiscal policy response mitigates this risk, but it cannot eliminate it. We need to quickly return to growth."

ECB Inter-Meeting Communication

Date	Time (UK)	ECB Member	Location	Event/Topic
11/09/2020	07:50	Francois Villeroy	Berlin	Speech at Eurofi Financial Forum
11/09/2020	09:00	Jens Weidmann François Villeroy de Galhau		Participation in Banking and Pauments in the Digital World Virtual autumn conference.
11/09/2020	09:50	Isabel Schnabel	Berlin	Speech at the Centre for European Reform and the Eurofi Financial Forum on "Is the current ECB monetary policy doing more harm than good and what are the alternatives?" https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200911~ea32bd8bb3.en.html
11/09/2020	10:30	Christine Lagarde		Speech at Eurogroup press conference

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11/09/2020	10:45	Yves Mersch	Berlin	Introductory statement at the Eurofi Financial Forum in Berlin https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200911_1~0f5e648887.en.html
11/09/2020	10:45	Robert Holzmann	Berlin	Speech at Eurofi Financial Forum
11/09/2020	13:00	Philip Lane		Participation in online panel discussion at Dublin Economics Workshop organised by the Dublin Chamber of Commerce.
11/09/2020	13:30	Isabel Schnabel		Participation in Webinar
13/09/2020		Christine Lagarde		Participation in the session “Economic, financial and monetary impact of COVID-19 pandemic, and post-crisis options for policies and tools” https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200913~18360b36e5.en.html
14/09/2020	13:00	Gabriel Makhlouf		Participation in Webinar https://www.iiea.com/past-events/webinar-covid-19-and-the-future-of-monetary-policy/
14/09/2020	14:30	Philip Lane		Participation in SUERF's Chief Economists webinar.
15/09/2020	08:15	Fabio Panetta	Athens	Speech at the 24th Economist Roundtable with the Government of Greece https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200915~1fd7e01e3d.en.html
16/09/2020		Isabel Schnabel		Interview with Agence France-Presse (AFP) https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200916~ce1ace1eb3.en.html
16/09/2020	10:30	Pablo Hernandez de Cos	Madrid	Attendance at the Confederacion Espanola de Organizacinoes Empresariales (CEOE) General Meeting.
16/09/2020	12:00	Philip Lane		Participation in online panel discussion on the "Global Economic Impact of COVID and Perspectives for Ireland", organised by the Department of Foreign Affairs and Trade. https://www.dfa.ie/livestream/homs2020/daytwo/
16/09/2020	16:00	Robert Holzmann		Participation in virtual roundtable about economic recovery measures hosted by OMFIF.
17/09/2020	09:00	Olli Rehn		Bank of Finland briefing on the international economy and monetary policy.
17/09/2020	09:00	Luis de Guindos		Participation in the online event "Conversaciones de Contingencia" organised by the Asociacion para el Progreso de Direccion.
17/09/2020	14:00	Madis Muller	Tallinn	Speech on Monetary Policy in Tallinn
18/09/2020		Christine Lagarde		Interview with Challenges https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200918~36e1a70c5d.en.html
18/09/2020	10:15	Pablo Hernandez de Cos		Participation in roundtable on monetary policy measures during the COVID crisis.

18/09/2020	10:15	Luis de Guindos		Participation in online panel discussion at the even Foro Empresarial Mirando a Europa organised by Foment del Treball.
18/09/2020	15:00	Isabel Schnabel		Speech at the panel discussion “Verteilung der Lasten der Pandemie” (“Sharing the burden of the pandemic”), Deutscher Juristentag 2020 https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200918~8aaf49cd79.en.html
20/09/2020		Luis de Guindos		Interview with La Razón https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200920~bd638d4e13.en.html
21/09/2020	13:20	Christine Lagarde		Introductory remarks by Christine Lagarde, President of the ECB, at the Franco-German Parliamentary Assembly, 21 September 2020 https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200921~5a30d9013b.en.html
21/09/2020	15:00	Robert Holzmann	Vienna	Chairing the OeNB0Suerf Workshop on "25 Years of EU Northern Enlargement"
22/09/2020	09:00	Francois Villeroy	Paris	Speech at an event on payments security
22/09/2020	13:00	Fabio Panetta		Speech at the meeting of the ECB Money Market Contact Group https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200922~d158475fe0.en.html
22/09/2020	15:00	Philip Lane		Chairing panel on "Productivity, Trade and Financial Flows in the Face of a Pandemic: A European Perspective" for the ECB/CompNet online event.
23/09/2020		Yves Mersch		Interview with Bloomberg https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200923~f7b5fd1a9f.en.html
23/09/2020	11:00	Pablo Hernandez de Cos		Participation in the online panel "Acelerar la accion: Analisis de los aspectors ESG (ambiental, social y de buen gobierno) desde la experiencia empresarial" organised by Foretica
24/09/2020	14:00	Philip Lane		Q&A on Twitter https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in200924~1b1474c3d6.en.html
25/09/2020	08:00	Francois Villeroy		Speech at OMFIF conference
25/09/2020	09:45	Pablo Hernandez de Cos		Closing speech for the seminar "Navigating the Digitalisation Transformation", organised by OMFIF and Banque de France.
28/09/2020	10:45	Isabel Schnabel		Speech at the Annual Meeting 2020 of the Verein für Socialpolitik https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200928~97c7e2ba27.en.html
28/09/2020	14:30	Isabel Schnabel	Frankfurt	Speech at the European Sustainable Finance Summit

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				https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200928_1~268b0b672f.en.html
28/09/2020	14:45	Christine Lagarde		Introductory statement at the ECON Committee of the European Parliament (by videoconference) https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200928_2~7869b4af93.en.html
30/09/2020	07:50	Madis Muller		Speech on the outlook for Estonia and the Eurozone
30/09/2020	08:30	Christine Lagarde		Speech at the "ECB and Its Watchers XXI" conference https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200930~169abb1202.en.html
30/09/2020	09:00	Peter Kazimir	Bratislava	Presentation of macroeconomic forecasts for Slovakia
30/09/2020	09:30	Olli Rehn		Participation in parliament hearing
30/09/2020	15:00	Philip Lane		Speech at ECB Watchers Conference
01/10/2020		Luis de Guindos		Interview with Market News International https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201001~8f474254ad.en.html
01/10/2020	08:00	Pablo Hernandez de Cos		Participation in the conference "El papel de la politica monetaria frente a la crisis del Covid-19"
01/10/2020	16:45	Philip Lane		Presentation at the CEBRA/CEPR/Sveriges Riksbank conference on "Exchange rates and monetary policy" https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201001~86406644f1.en.pdf?3dca5afcdc7a63d6208fd27b25564588
02/10/2020	09:20	Robert Holzmann	Rovinj	Speech on "Monetary Policy and Financial Stability Amid Covid-19"
02/10/2020	11:00	Luis de Guindos		Keynote speech "La Respuesta de Europa"
02/10/2020	16:00	Pablo Hernandez de Cos		Participation in the roundtable "Retos economicos de Latinoamerica" for the La Toja 2020 Forum
05/10/2020	13:00	Jens Weidmann		Speec at the Frankfurt School of Finance and Management: "The Pandemic Response: Building a Resilient and Inclusive Recovery"
05/10/2020	17:00	Robert Holzmann	Vienna	Lecture on Monetary Policy in Vienna
06/10/2020	09:35	Christine Lagarde		Conversation for the WSJ's online CEO Council Summit
06/10/2020	10:00	Pablo Hernandez de Cos		Testimony before the Parliamentary Commission for Economic Affairs and Digital Transformation
06/10/2020	14:00	Christine Lagarde		Participation in panel discussion organised by the Bridge Forum Dialogue.
06/10/2020	14:30	Ignazio Visco		Speech for an online event organised by Il Sole 24 Ore.

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06/10/2020	16:30	Philip Lane		Speech at the 62nd NABE Annual Meeting “Global Reset? Economics, Business, and Policy in the Pandemic” https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201006~e1d38a1ccc.en.html
07/10/2020		Christine Lagarde		Written interview with Harvard International Review https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201007~46f4adb5a1.en.html
07/10/2020	13:10	Christine Lagarde	Paris	Speech at Paris Europlace Conference
07/10/2020	17:30	Francois Villeroy	Paris	Speech at Paris Europlace Conference
08/10/2020	08:25	Isabel Schnabel		Panel discussion with the BoE's Andrew Bailey at the Single Resolution Board's annual conference
08/10/2020	09:00	Luis de Guindos		Participation in online event "Entrevista Conversaciones 2020" organised by El Economista"
08/10/2020	09:20	Pablo Hernandez de Cos		Keynote speech and panel discussion participation for the Single Resolution Board's annual conference
08/10/2020	09:20	Pablo Hernandez de Cos		Participation in the online session "Resolution Planning Under the Banking Package: Continuity and Innovation" for the SRB Conference 2020.
08/10/2020	11:15	Yves Mersch		Keynote speech at the Conference “The Werner Report, 50 Years on”, organised by the Luxembourg Centre for Contemporary and Digital History in cooperation with EUI Florence https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201008~cd8a007730.en.html
10/10/2020		Isabel Schnabel		The ECB’s independence in times of mounting public debt https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201010~438af28894.en.html
11/10/2020		Philip Lane		Interview with Wall Street Journal
12/10/2020	08:00	Francois Villeroy	Paris	Speech at Fintech conference
12/10/2020	09:45	Isabel Schnabel		Speech at the Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201012~167b6b14de.en.html
12/10/2020	12:00	Christine Lagarde		IMF Governor Talk
12/10/2020	16:00	Luis de Guindos		Participation in the online 2020 Institute of International Finance (IFF) Annual Membership Meeting
12/10/2020	17:45	Fabio Panetta		Introductory statement at the ECON Committee of the European Parliament

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			https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201012_1~1d14637163.en.html
13/10/2020	09:00	Klaas Knot	Speech at a semi-annual national bank press conference
13/10/2020	16:00	Pablo Hernandez de Cos	Participation in the Reinventing Bretton Woods digital session: "Macroeconomic Policy in Transition - Perspectives from Advanced and Emerging Countries".
14/10/2020	09:00	Christine Lagarde	Speech for the 16th biennial Global Roundtable organised by the United Nations Environment Programme Finance Initiative (UNEP FI).
14/10/2020	12:00	Yves Mersch	Participation in webinar hosted by the Institute of International and European Affairs (IIEA)
14/10/2020	13:00	Philip Lane	Presentation at the SUERF online conference on "How to spend it? How to pay it back? EU and US Perspectives" https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201014~3a2f87fb27.en.pdf?40913e1871ca26a8fdbda426c7037e4a
14/10/2020	15:00	Francois Villeroy	Speech at Online Conference
14/10/2020	15:15	Pablo Hernandez de Cos	Participation in online discussion
15/10/2020	17:00	Christine Lagarde	Statement at the forty-second meeting of the International Monetary and Financial Committee https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201015~1cb2135e70.en.html
17/10/2020		Fabio Panetta	Interview with Kathimerini https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201017~bf95ed5b54.en.html
18/10/2020	14:05	Christine Lagarde	Contributionduring the session “Rebuilding and Sustaining Growth” https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201018~03cc2e7ce5.en.html
19/10/2020		Christine Lagarde	Interview with Le Monde https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201019~45f5cf8040.en.html
19/10/2020	08:15	Luis de Guindos	Opening speech at the "XI Financial Forum" organised by Expansion
19/10/2020	12:15	Pablo Hernandez de Cos	Keynote speech: "Covid-19 and Banking Supervision: Where Do We Go From Here?" at the 21st International Conference of Banking Supervisors organised by the Bank of Canada and the Office of the Superintendent of Financial Institutions.
19/10/2020	12:30	Yves Mersch	Introductory remarks at the MNI Connect Roundtable

				https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201019~20fac0cd9c.en.html
19/10/2020	13:30	Christine Lagarde		Speech at the congress of the Regions de France
19/10/2020	13:40	Philip Lane		Welcome remarks at the ECB conference on monetary policy: "Bridging Science and Practice"
19/10/2020	13:45	Christine Lagarde		Opening remarks at the ECB conference on monetary policy: "Bridging Science and Practice" https://www.ecb.europa.eu/pub/conferences/html/20201019_conferenceonmonetarypolicy.en.html
20/10/2020	12:50	Pablo Hernandez de Cos	Madrid	Speech in Madrid
21/10/2020	08:30	Christine Lagarde		Participation in ECB Listens Event
21/10/2020	11:00	Luis de Guindos		Participation in webinar organised by Pontevedra's Entrepreneurs Confederation and University of Vigo Faculty of Economic and Business Sciences (FEBS)
21/10/2020	14:55	Philip Lane		Presentation at the 1st Joint Workshop of Bank of England, Banque de France, IMF and OECD: "International flows and the pandemic: evidence from the euro area" https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201021~06b8592cbc.en.pdf?e7c98826f9e9d062857063f1937d307f
21/10/2020	17:00	Luis de Guindos		Remarks on the occasion of the award of the Bernácer Prize to Professor Loukas Karabarbounis https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201021_1~b8eb7ecd1d.en.html
22/10/2020	08:00	Fabio Panetta		Keynote speech "On the Edge of a New Frontier: European Payments in the Digital Age" at the ECB Conference “A new horizon for pan-European payments and digital euro” https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201021~06b8592cbc.en.pdf?e7c98826f9e9d062857063f1937d307f
23/10/2020	13:45	Francois Villeroy		Speech for online event
26/10/2020	10:00	Pablo Hernandez de Cos		Participation in the forum III Foro Banca: Presente y futuro del Sistema Financiero, organised by elEconomista
27/10/2020	15:00	Pablo Hernandez de Cos		Participation in the I Foro Economico Internacional Expansion: "Construyendo un Ecosistema Centrado en Las Personas"
28/10/2020	11:15	Pablo Hernandez de Cos		Participation in the online "ESBG Retail Banking Conference 2020: Coping With Crisis Thanks To Deep Local Roots"

MNI Policy Team

MNI SOURCES: EU Covid Loans Snub A Headache For ECB **23 October 2020**

The decision by some eurozone countries to snub European Covid emergency loans in favour of their own borrowing backed up by the European Central Bank's pandemic emergency purchase programme could put unwelcome pressure on the ECB to extend monetary easing, eurosystem and Brussels sources told MNI.

Moves by Italy, Spain and Portugal to hold off from tapping EUR360 billion in loans made available by the EU's Recovery and Resilience Fund, which will also provide EUR 390 billion in grants, are stoking tensions between hawks and doves on the ECB's Governing Council, sources said. Some officials in Brussels said the PEPP might have to be extended until the end of next year.

One national central bank source called the unwillingness of some countries to take advantage of cheap EU funding "appalling."

"The problem is that those sources of funding are much easier to be linked to structural and productivity improvements, and this is what we need," the official added. "Many countries whose economies are in need of support have not been using these resources."

"Well, come on, people. If your economy is doing so badly, use the money that you are given."

Another source noted that countries were more open to accepting the grant component of the RRF.

"If I was the Commission I wouldn't allow them to just access the grants and avoid loans because of the conditionality – but obviously that's up to the Commission," the source said.

PEPP TALK

But other national central bank officials were more sanguine, noting that the PEPP had been designed to lower borrowing costs. One said the loan element of the European Union was "never convincing".

The success of the Commission's bond issue for its SURE unemployment aid programme on Tuesday might yet change states' calculation on the loans, with Budget Commissioner Johannes Hahn saying Wednesday that he has had indications that some member states might be shifting on the topic.

ECB policymakers are also increasingly concerned about the differing impact of Covid and the varying speeds of recovery among the different eurozone members, as well as rising nonperforming loans at banks, officials said

MNI SOURCES: EU Officials Fear '21 Fiscal Stance Near Neutral **23 October 2020**

By David Thomas

An unwieldy and complex application process for grants under the EU's Recovery and Resilience Fund may combine with what early plans indicate will be "close to neutral" fiscal stances by member states in 2021 to leave the bloc's Covid-damaged economy weaker than hoped for next year, EU officials fear.

One source close to the National Recovery Plan process said the Commission-designed procedure for grant application had become a bureaucratic "nightmare" for member states.

"That is the issue… they are asking for a lot of reforms in addition to the investments they make with the grants," said one source with knowledge of proceedings. "The process should have been more streamlined."

Preliminary NRPs are due to be submitted for EU vetting in early 2021 and final versions by April. But a first review by EU officials of member states' Draft Budgetary Plans for 2021 suggests they may prove too neutral for a fiscal year in which the eurozone must struggle through the aftermath of Covid-19 and also forge a basis for longer-term recovery.

FISCAL STANCE CLOSE TO NEUTRAL

"Fiscal policy - as the sum of national efforts - in 2021 looks close to neutral. That would not be enough, if the recovery is petering out and if the [EU Covid emergency funds] only start disbursements later in the year," an official said.

In its Summer Forecasts in July, the European Commission said it expected the eurozone economy to grow by 6.1% in 2021 after contracting by 8.7% in 2020.

But the mood has darkened. One source close to talks said a neutral stance for fiscal policy would leave states overly dependent on the RRF, which will not have an economic impact until H2 2021 at the earliest, meaning that the complications of the grant process could seriously stymie recovery.

"Obviously national budgets can respond in terms of automatic stabilisers, but there is no scope there for discretionary fiscal action from national governments," said another source.

Irish Finance Minister and Eurogroup President Paschal Donohoe called at the body's last meeting for national fiscal policies to remain "flexible and agile" in light of recent disappointing economic developments.

LONGER-TERM WORRIES

More concerning yet is the outlook beyond 2021 and the prospect of the deactivation of the General Escape Clause from the EU's fiscal rules sometime in 2022, potentially further constraining national fiscal stimulus efforts.

Adding further to this worrying outlook is the continuing reluctance of many states to take advantage of loans which are available under the RRF, or to access the soft loan window at the European Stability Mechanism's Pandemic Credit Line.

One source said member states did not trust Brussels' encouragement to increase national spending and worry conditionality will kick in with a vengeance in coming years:

"You're telling us to spend whatever this year, but you'll come get us next year".

All this has many believing that the ECB will need to extend the lifetime of its PEPP programme from mid-2021 until at least the end of next year.

MNI SOURCES: Boosts To APP, PEPP On ECB Radar; Need Disputed **16 October 2020**

The European Central Bank could top up its pre-Covid quantitative easing plan as early as its next policy meeting and could also expand its Pandemic Emergency Purchase Programme in the coming months, but not all policymakers agree on the need for immediate additional easing or on the best mechanism to provide it, ECB sources said.

While some officials want to see more data before plumping for more stimulus this year, there are growing fears of possible delays to the implementation of the European Union's EUR750 billion Covid recovery plan and a gathering consensus that the ECB's older QE arrangements under its Asset Purchase Programme should be made more flexible once the PEPP is phased out.

Several officials said extra stimulus would be best delivered in the short term by expanding the APP, whose additional EUR120 billion envelope is due to expire at the end of the year.

Asked whether the PEPP, subject to fewer restrictions on its bond buying than the APP, might be increased in December, one replied: "My guess would be more in the direction of increasing APP. PEPP has an emergency envelope, and if you do not have any emergency to tackle … from a legal point of view it would be tricky to increase PEPP."

MORE DEBT TO BUY

Increased debt issuance as governments respond to the Covid-19 pandemic means the APP's limits on purchases of individual countries' bonds would not be a problem, the source said.

"PEPP should be temporary and should be linked so some kind of market disturbances," the official said. "My bet would be to prolong and maybe increase APP, and leave PEPP as it is. Or maybe in some variation to transfer part of PEPP to APP and in addition increase APP. But I do not expect PEPP to increase, or even to be prolonged."

If APP is increased, the "strongest argument" might be for keeping monthly purchases at their current level, with a fresh EUR120 billion envelope, the source said.

"It's not worth decreasing it, and there are no arguments to increase it. Maybe some prolongation, but we are still a long way from June," the source said, referring to the PEPP's scheduled end point.

Another official agreed, saying an additional EUR20 billion a month could be assigned to the APP until mid-year. The PEPP's full envelope of EUR1.35 trillion is also likely to be used, the official said, and, given the tightening of credit conditions across the eurozone the facility will probably be extended in Q4 or Q1, increasing in size to EUR1.75 trillion. Another official said it might make sense to extend the PEPP until the conclusion of the ECB's Strategy Review in September 2021.

OCTOBER MEETING

A eurosystem source said an announcement was possible at the ECB's Oct. 29 meeting.

"It makes sense that some members of the council would welcome an increase in APP because this might show a way how to - I wouldn't say make PEPP permanent, but to go in this direction," the source said, adding: "I think they also see it would be quite difficult to get an increase in PEPP in October."

ECB Vice President Luis de Guindos told MNI in an interview published Oct. 1 that more easing could come by the end of the year, but other officials agreed the October meeting would come too soon for additional easing.

De Guindos said the ECB still had plenty of monetary "ammunition", but one official told MNI the vice president's remark were meant to signal that any easing was more likely in December than in October. A PEPP increase, even in December, is "not a done deal yet," the official said.

"The [hawks versus doves) discussion will go on for some time," the official said, adding that the ECB's most influential voice was now that of Chief Economist Philip Lane. Disagreeing with those calling for an APP expansion, the official said it might still be easier to boost PEPP, despite potential legal problems.

"WAIT-AND-SEE" MAJORITY

One ECB source said there might be some pressure on the ECB in October to indicate a December PEPP expansion, though another spoke of "a wait-and-see majority" in the Governing Council.

"I don't expect anything soon. If something will be proposed or decided in December depends very much on the developments over the forthcoming weeks," the official said.

Another was also unsure stimulus was imminent.

"It's been four weeks since we published the last set of projections. I don't see a huge amount of evidence to say we've got to make a change."

Nonetheless the official agreed that the APP should be made more like the PEPP.

"I think one of the lessons of the pandemic is that flexibility matters," the official said. "Whether we would roll over some of the amounts into APP, that just depends on what's happening to the economy, what are our projections, what are the fundamentals. That's a separate question. But I would like that flexibility to be available as a matter of standard."

An ECB spokesperson declined to comment to MNI.

MNI EXCLUSIVE: EU Officials See Covid Fund Payments On Time **13 October 2020**

By David Thomas

European Union officials remain confident that agreement can be reached soon on their EUR750 billion Covid-19 rescue package, they told MNI, dismissing reports that European Parliament demands for disbursements to be made conditional on adherence to the rule of law could mean no funds are disbursed until the end of 2021.

"The aim remains to definitely get the RRF up and running ASAP," one official said, referring to the Recovery and Reconstruction Fund agreed by member states at a crunch summit in July. Calls in the parliament for conditions which could block payments to countries such as Hungary and Poland could be dealt with and approval obtained by the end of the month, the official said.

"There is no doubt, some countries are taking all elements of the package hostage in order to get what they want," one source said. "On the other hand, everyone realises it's an emergency."

Spanish newspaper El Pais cited sources on Monday saying that funds from the EU's Next Generation recovery and transition programme may not be available before the end of next year, well after the current schedule for 10% of the money to be front-loaded from early 2021 and for money to be committed to national recovery plan projects by the summer. But officials said the plan was still for payments to be made according to the original timeline.

In the event of a delay to the RRF / Next Generation programme, or more importantly, should the Covid-19 pandemic prompt further economic disruption, there is no scope for the extension of any existing emergency EU aid, such as the SURE unemployment support scheme, officials said. Countries' own spending, facilitated by European Central Bank bond buying, would be the "only alternative" to further prop up their economies, one EU source said.

"SURE is an emergency measure but who really needs that at current yields?" the official said, adding that countries had more room for additional fiscal spending thanks to the waiver on tough rules on debt included in the eurozone's Stability and Growth Pact, which "is not going to be reinstated for a long time."

NATIONAL FISCAL EFFORTS KEY

The European Central Bank's EUR1.35 trillion Pandemic Emergency Purchase Programme is keeping government borrowing costs at low levels, officials noted. ECB Executive Board member Isabel Schnabel said earlier this week that governments should not worry about their indebtedness for now.

Officials also noted that national fiscal efforts would in any case have a far greater impact than that provided by the EU's Recovery Fund, whose fiscal stimulus of EUR360 billion in loans and EUR312.5 billion in grants will be divided between 27 countries over several years.

But with the virus still seemingly raging across Europe, officials say they will continue to review and monitor how support measures are working out.

"The aim is regularly to take stock of the situation and how the measures are being implemented. A (Eurogroup) discussion could be expected at the next meeting (Nov. 3)," a source said

MNI SOURCES: EU Aims For Quick ESM Deal As NPL Fears Mount **12 October 2020**

European finance ministers are aiming to clinch an agreement to unblock a stalled overhaul of the EU's bailout fund by as early as the end of November, as fears rise over a EUR300 billion surge in nonperforming loans once pandemic payment moratoria are lifted, EU sources told MNI.

Nearly 10% of bank loans in the eurozone are in moratoria, and some 20-25% of these could end in default, officials said, adding that it was urgent to approve the overhaul of the European Stability Mechanism in order to install a planned backstop to the Single Resolution Board which deals with failing lenders. EU bad loans, which stood at EUR529 billion in Q4, or 3.1% of total loans, have so far been contained during the Covid crisis by national-level public guarantees and moratoria, but officials fear the total will quickly rise once these emergency measures are lifted.

"The NPL problem is still there – maybe becoming bigger," one senior EU official said, "this is precisely why Banking Union is becoming more important."

The ESM revamp has been blocked in the Italian parliament by opposition and government lawmakers who say it would expose the country to a loss of economic sovereignty in case it needed assistance.

COMPROMISE DEAL

But officials are hopeful of a compromise deal at the Nov. 30 Eurogroup meeting of eurozone finance ministers. Italy and other countries will be offered an early introduction of the backstop, while in return so-called "frugal" member states such as Austria, Finland and Netherlands are likely to want to see further commitments to address NPLs in weaker banking systems, the officials said.

The number of EU loans moving from IFRS 9 Stage One to Stage Two, which indicates a significant increase in credit risk, is a warning of what is to come, officials said, but they added no big wave of insolvencies will come until next spring

"It's not existential, but it's not pretty," said a source, with another adding that "Credit risk monitoring in the banks is showing red lights."

European Banking Authority moratoria criteria were already tightened in September.

"Public guarantees remain in place, but still the change has consequences on the amount of capital and how much capital is needed for new loans," one source said. "What do we do when all these support measures (for the banks) end?"

On the positive side, progress is being made on crisis management and on improving coordination between EU bank resolution rules, national state aid and the Single Resolution Board.

Another source added that in the event of a 'generalised' banking sector crisis, the ECB could be expected to launch emergency liquidity operations, so containing the risk of a toxic feedback loop between banks and the wider economy