

Macro Note

Eurozone: ECB Pledges Low Rates For Longer At First Monetary Policy Decision Post-Strategy Review

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Lee Sue Ann

Economist

Lee.SueAnn@UOBgroup.com

What was supposed to be a non-event July monetary policy meeting at the European Central Bank (ECB), turned into a key focus point of the week following the release of its strategic review, where the Governing Council agreed a symmetric inflation target of two per cent over the medium term. As expected, the ECB, on Thursday (22 July), revised its forward guidance on rates, taking a more dovish stance.

According to the [press release](#), *in support of its symmetric two per cent inflation target and in line with its monetary policy strategy, the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at two per cent over the medium term. This may also imply a transitory period in which inflation is moderately above target.*

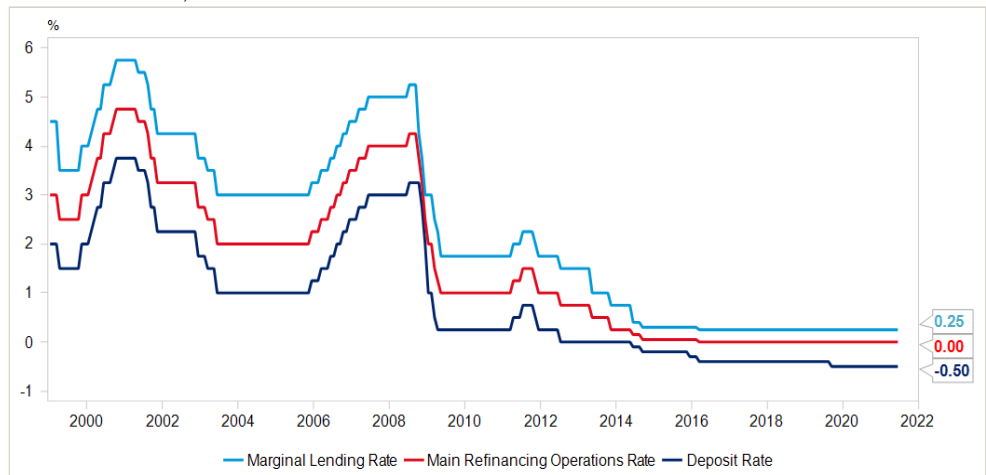
The Governing Council also confirmed its other measures to support its price stability mandate, namely the level of the key interest rates, its purchases under the asset purchase programme (APP), its reinvestment policies and its longer-term refinancing operations. Specifically:

- The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.
- Net purchases under the Asset Purchase programme (APP) will continue at a monthly pace of EUR20bn. The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.
- The Governing Council will continue to conduct net asset purchases under the Pandemic Emergency Purchase Programme (PEPP) with a total envelope of EUR1,850bn until at least the end of March 2022 and, in any case, until it judges that the coronavirus crisis phase is over.
- The Governing Council will continue to provide ample liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks, supporting bank lending to firms and households.

The latest decision reinforces our view that the ECB will have to remain highly accommodative for some time due to subdued economic activity held back by services, and the longer-term challenges related to the COVID-19 pandemic. While not a discussion at this juncture, the ECB's dovish bias would suggest that the total reduction of the monthly purchases in 2022 will be less than previously expected, pushing out any speculation on tapering.

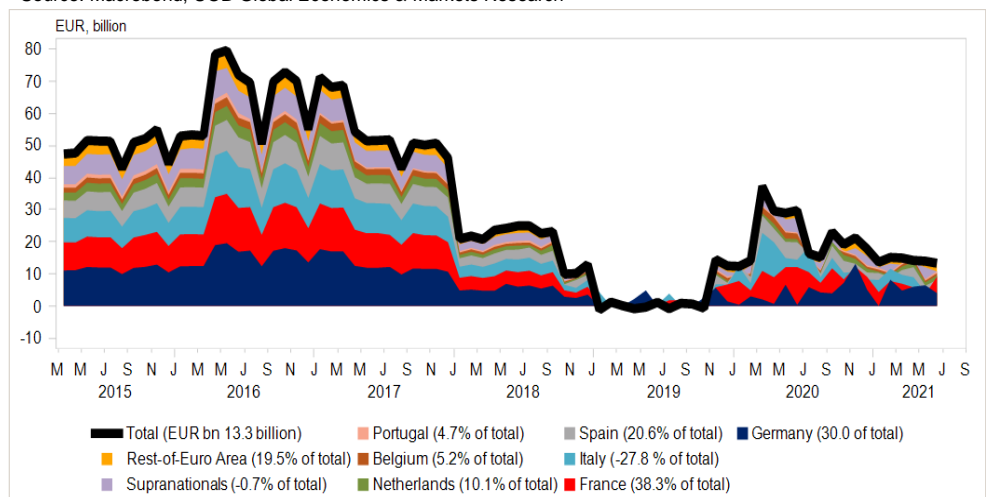
ECB's Policy Rates

Source: Macrobond, UOB Global Economics & Markets Research



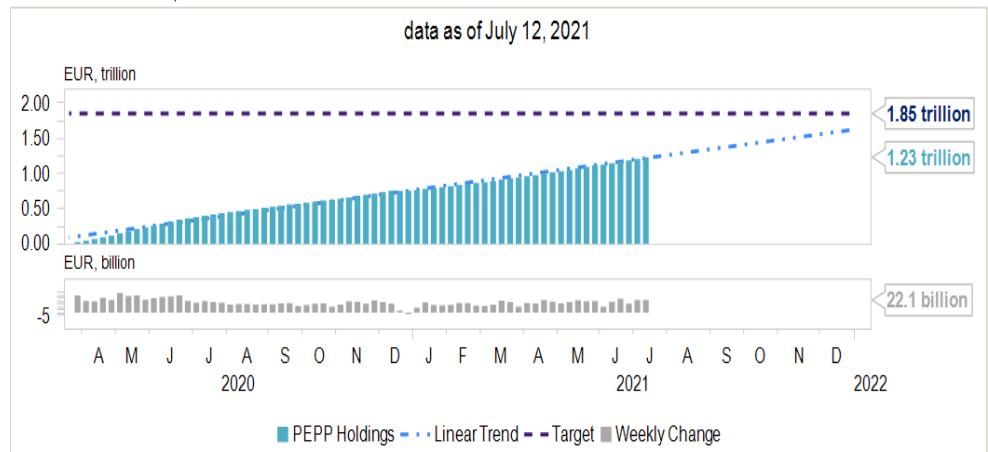
ECB's Net Purchases (in EUR bn, per month)

Source: Macrobond, UOB Global Economics & Markets Research



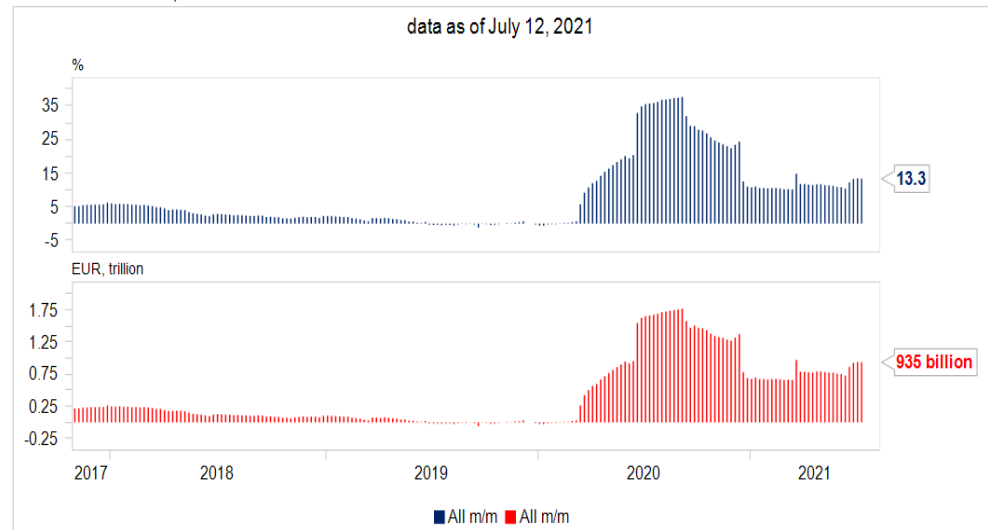
ECB's Pandemic Emergency Purchase Programme (PEPP)

Source: Macrobond, UOB Global Economics & Markets Research



ECB's Asset Growth

Source: Macrobond, UOB Global Economics & Markets Research



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