

July 22, 2021

# ECB: Persistently Accommodative



*The European Central Bank (ECB) pledges to keep interest rates at record low levels for even longer, saying it will persist with ultra-loose stimulus until it has solid evidence it can sustainably hit its new inflation target.*

All eyes were on Thursday's ECB meeting in Frankfurt in order to gauge the implications of its recently-completed policy review on near-term monetary policy. With Christine Lagarde at the helm, the ECB has adopted a new "simple, solid and symmetric" inflation target of 2%<sup>[1]</sup>, giving it more flexibility to keep policy accommodative as the eurozone emerges from its deepest recession since World War II.

This gave way to dovish messaging at its monetary policy committee, with the central bank underlining "its commitment to maintain a persistently accommodative monetary policy stance to meet its inflation target", even if this means withstanding a temporary overshoot above 2%. Though the ECB has ran with record-low interest rates and bought trillions of euros worth of bonds, eurozone inflation has been stubbornly low, averaging only 1.2% since the great financial

crisis. Though it has been rising on the back of the economic reopening, tallying in at 1.9% in June, the ECB expects it to subside to 1.5% next year and 1.4% in 2023.

As it pursues durable price pressures, the ECB said:

- Key interest rates will “remain at their present or lower levels,” until eurozone inflation is “sufficiently advanced to be consistent with . . . stabilizing at 2% over the medium term”.
- The Pandemic Emergency Purchase Program (PEPP), worth some €1.85 trillion, will continue until at least the end of March 2022 and, in any case, until the ECB judges that the coronavirus crisis phase is over.
- Its regular asset purchase program which runs at €20bn a month will continue “for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates”.

The PEPP was launched in March 2020 at the height of the pandemic and global lockdowns. In fire-fighting mode, the ECB removed many of the overarching constraints that its purchase programs are normally subject to. Since then, it has purchased almost all new issues of eurozone government bonds meaning it now owns around 42% of all sovereign debt in the bloc. Hawkish members of the ECB governing council purport that since the health crisis appears to be drawing to a close as the vaccine rollout ensues, the ECB should give up crisis-era powers and revert back to its traditional modality. However, as of now, the doves have prevailed, arguing that the more-contagious Delta variant is already resulting in renewed restrictions in certain member states, posing a threat to the recovery.

With financial markets not pricing any rate change for at least three years, the impact of today's meeting is currently quite limited.

For investors, the message is that the ECB is set to continue being a whale in the European bond market. Outsized bond-buying programs keep yields artificially suppressed, boosting the relative attractiveness of risk assets like equities. Indeed, after the ECB meeting, European stocks rose for a third day and eurozone government bond yields retreated slightly.

[1] <https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in210713~ff13aa537f.en.html>

## Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeliness of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of-date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch | L-2953 Luxembourg | RCS Luxembourg B-6307 | Tel. +352 4590 6699 | [www.bil.com](http://www.bil.com).