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## Data Insights: ECB and Euro Area Economy Monitor

Thursday, April 11, 2024

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Today's monetary policy decision: how the language changed from prior meeting

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~~7 March~~ 11 April 2024

The Governing Council today decided to keep the three key ECB interest rates unchanged. ~~Since the last Governing Council meeting in January, inflation~~ The incoming information has ~~declined further. It~~ broadly confirmed the Governing Council's previous assessment of ~~the latest ECB staff projections;~~ medium-term inflation outlook. Inflation has continued to fall, led by lower food and goods price inflation ~~has been revised down, in particular for 2024 which mainly reflects a lower contribution from energy prices. Staff now project inflation to average 2.3% in 2024, 2.0% in 2025 and 1.9% in 2026. The projections for inflation excluding energy and food have also been revised down and average 2.6% for 2024, 2.1% for 2025 and 2.0% for 2026. Although most. Most~~ measures of underlying inflation have eased further, domestic price pressures remain high, in part owing to strong growth in wages are easing, wage growth is gradually moderating, and firms are absorbing part of the rise in labour costs in their profits. Financing conditions ~~are~~ remain restrictive and the past interest rate increases continue to weigh on demand, which is helping ~~push down inflation. Staff have revised down their growth projection for 2024 to 0.6%, with economic activity expected to remain subdued in the near term. Thereafter, staff expect the economy to pick up and to grow at 1.5% in 2025 and 1.6% in 2026, supported initially by consumption and later also by investment~~ to push down inflation. But domestic price pressures are strong and are keeping services price inflation high.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. ~~Based on its current assessment, the Governing Council~~ It considers that the key ECB interest rates are at levels that, ~~maintained for a sufficiently long duration, will make~~ are making a substantial contribution to ~~this goal: the ongoing disinflation process.~~ The Governing Council's future decisions will ensure that its policy rates will ~~be set at~~ stay sufficiently restrictive ~~levels~~ for as long as necessary.

~~The~~ If the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission were to further increase its confidence that inflation is converging to the target in a sustained manner, it would be appropriate to reduce the current level of monetary policy restriction. In any event, the Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction. ~~In, and it is not pre-committing to a particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission path.~~

## Key ECB interest rates

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 4.50%, 4.75% and 4.00% respectively.

Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)  
The APP portfolio is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

The Governing Council intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Over the second half of the year, it intends to reduce the PEPP portfolio by €7.5 billion per month on average. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024.

The Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.

## Refinancing operations

As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, the Governing Council will regularly assess how targeted lending operations and their ongoing repayment are contributing to its monetary policy stance.

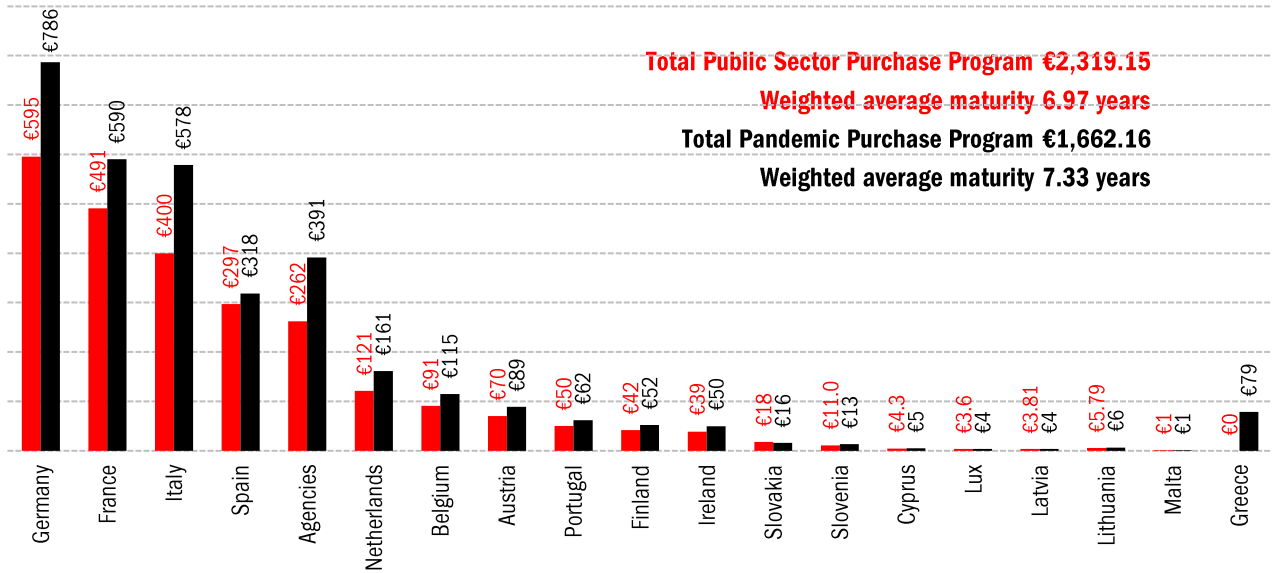
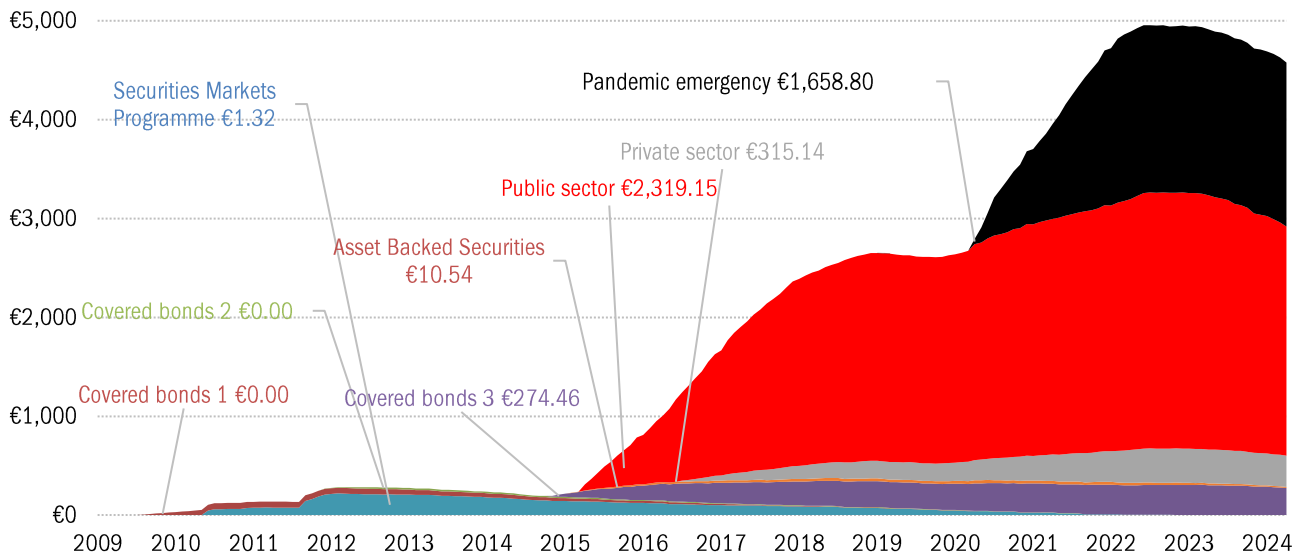
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The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation returns to its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:45 CET today.

Source: ECB, TrendMacro analysis

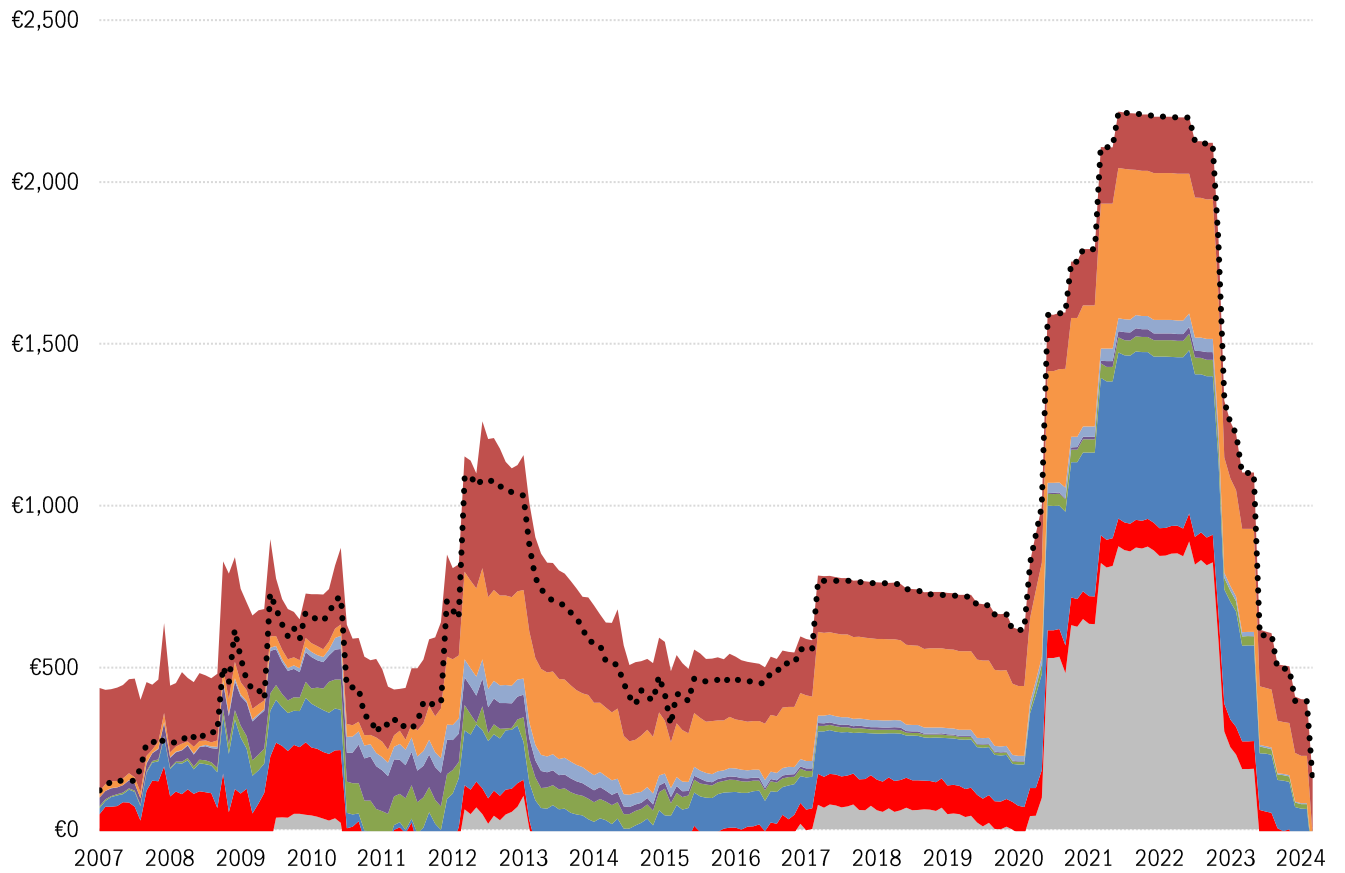
# Euro-QE (€ billions)



Source: ECB, TrendMacro calculations

# Banking system dependency: borrowing from the ECB (€ billions)

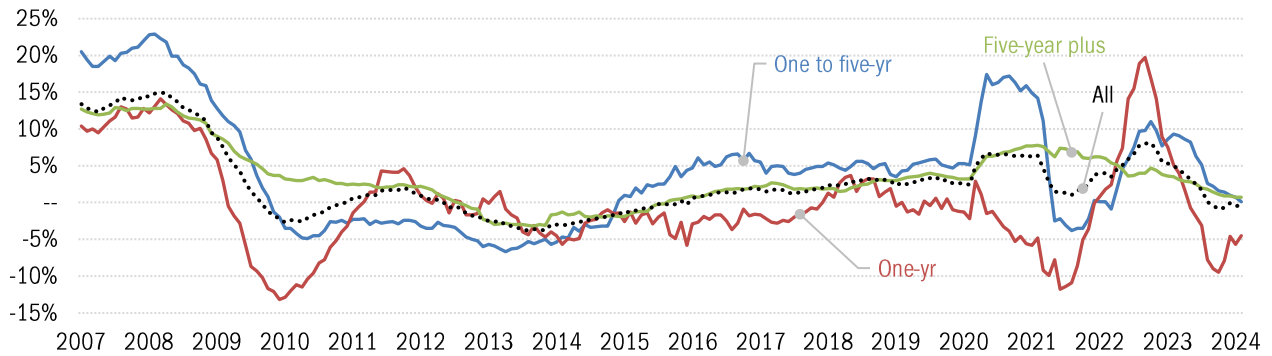
--- Total LTRO Spain Italy Portugal Ireland Greece France Germany Other



Source: ECB, National central banks, TrendMacro calculations

## The credit drought: loans to non-financial businesses (YOY growth)

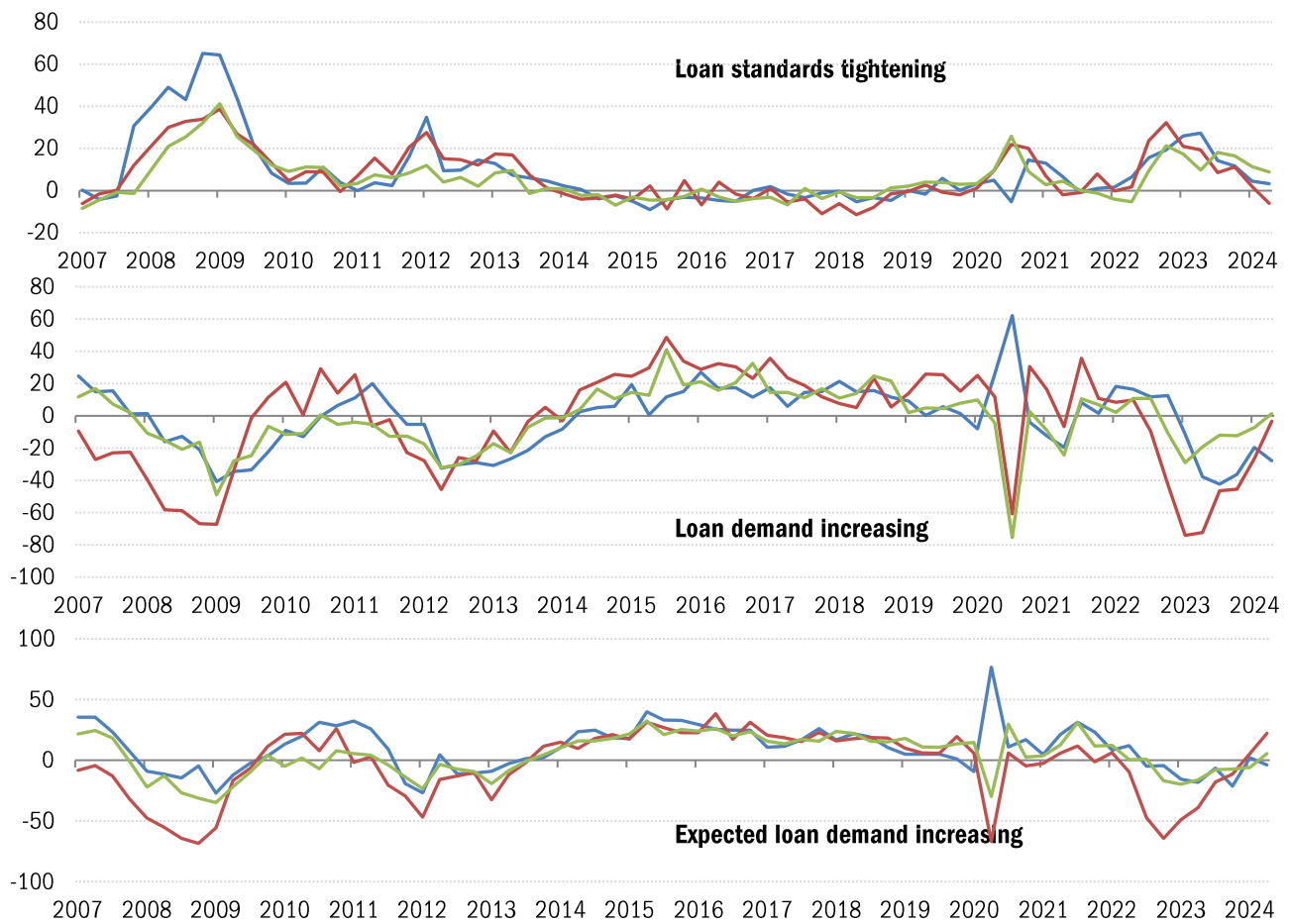
— Loans to 1 year — Loans 1-5 years — Loans 5 years plus ... Total



Source: ECB, TrendMacro calculations

## Supply and demand for lending: ECB Bank Survey

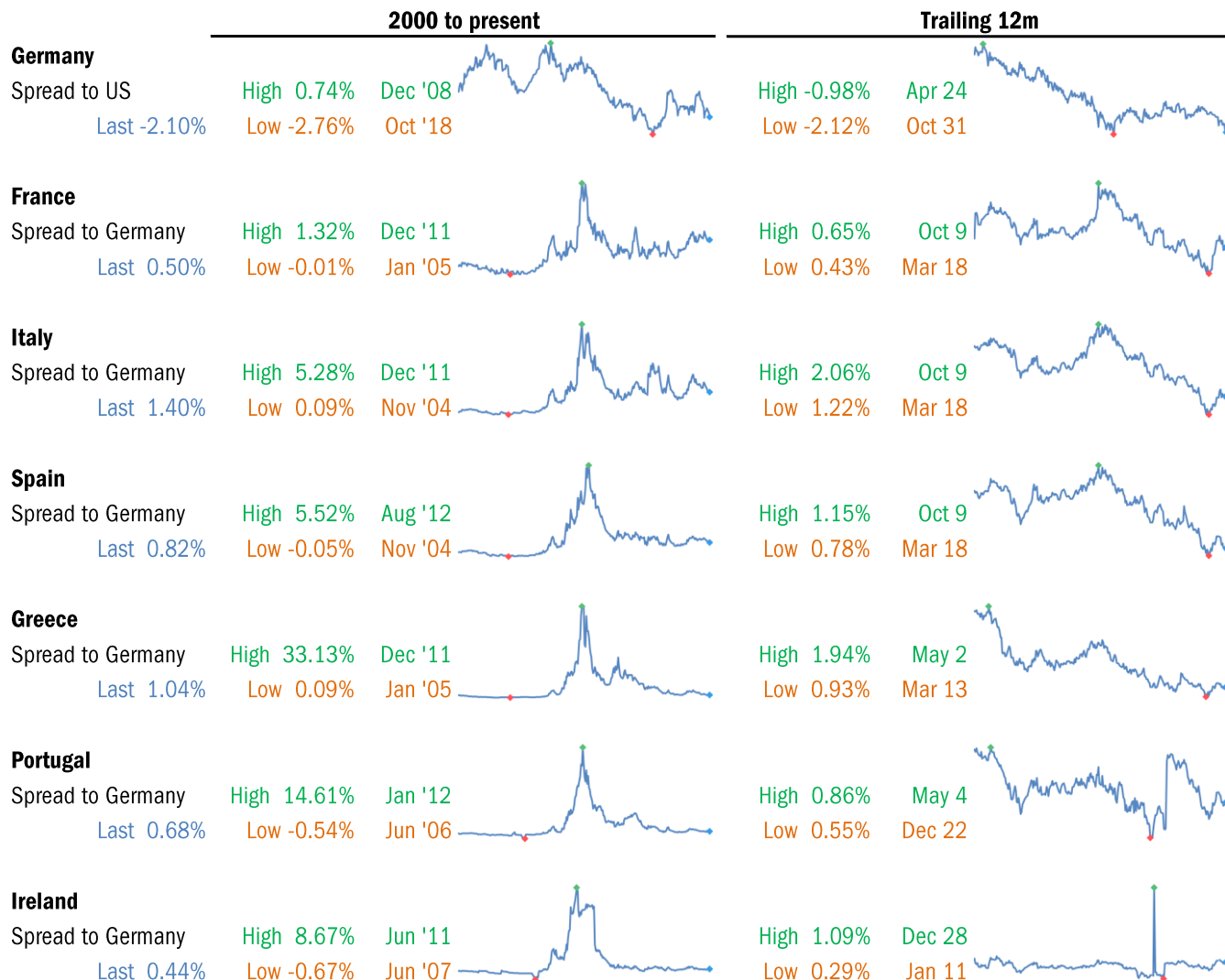
Net number of banks reporting for: — Enterprises — Home mortgage — Consumer



Source: ECB, TrendMacro calculations

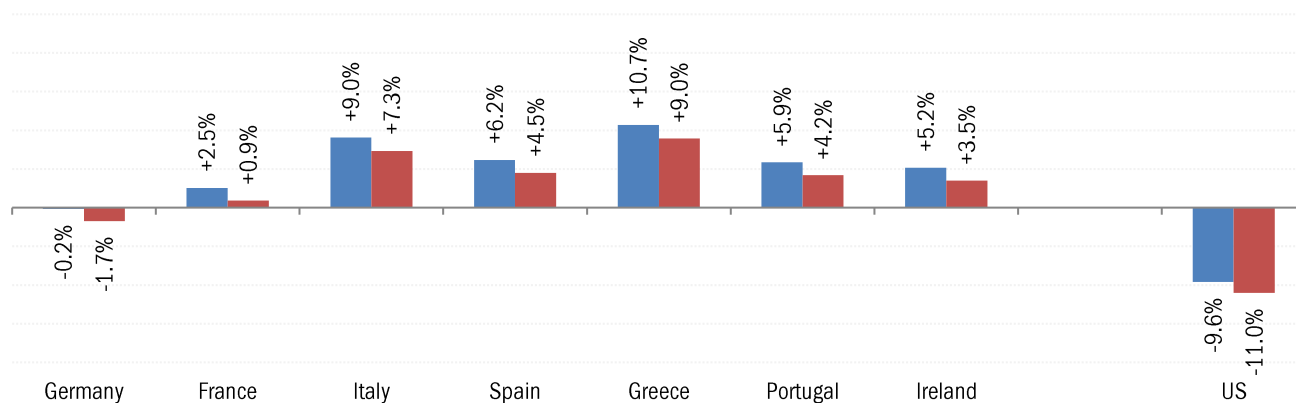
# Sovereign stress monitor: 10-year bond spreads

· High · Low · Last



## 10-year sovereign bond total returns, trailing 12-months

■ EUR ■ USD



Source: Bloomberg, TrendMacro calculations

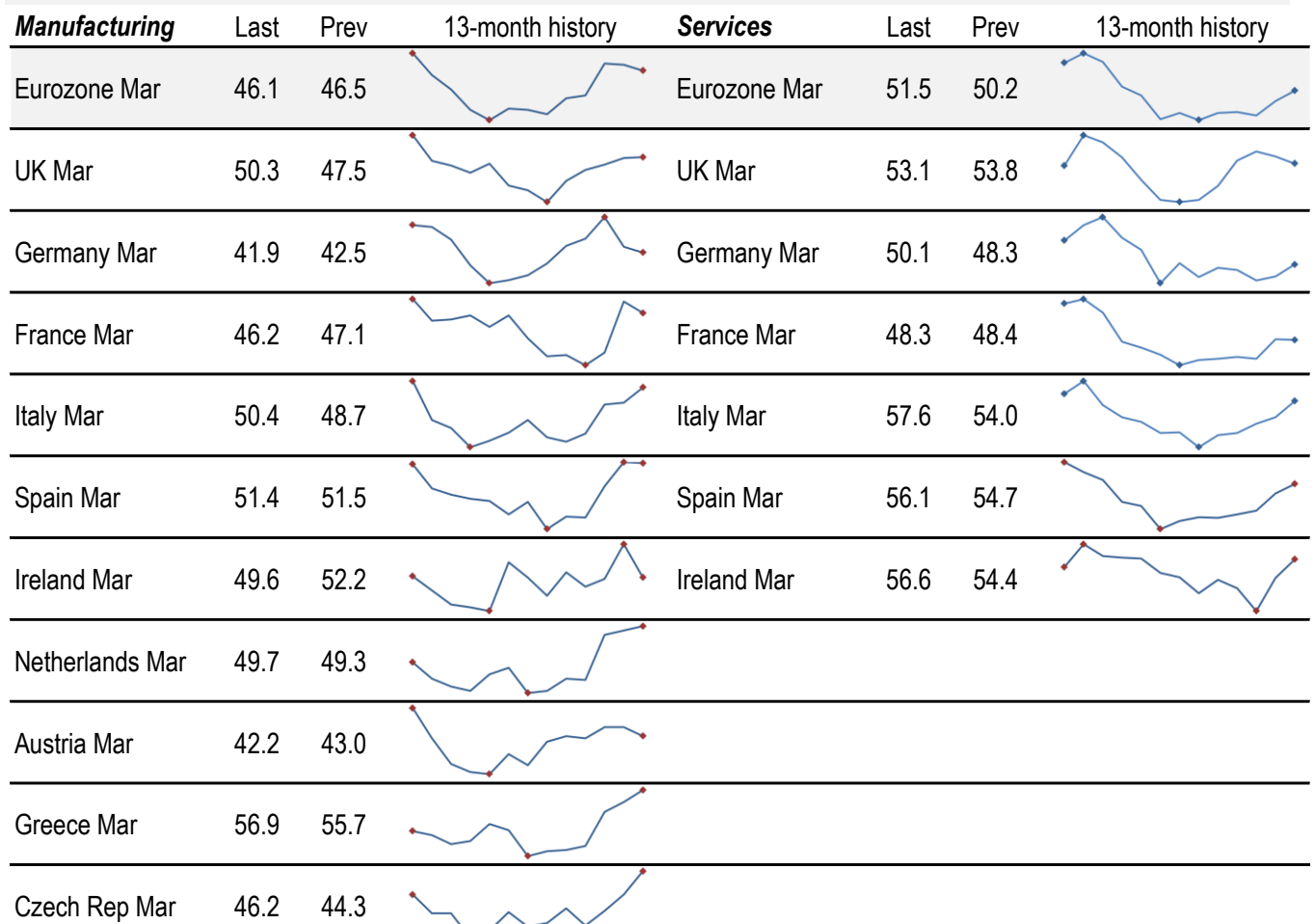
# Labor market in intensive care

ULC: Nominal, quarterly YOY UE: High 12m pulse: monthly ■ improvement or ■ worsening in rate of change



Source: Eurostat, TrendMacro calculations

## Purchasing Manager Indices



Source: Markit, TrendMacro calculations

## Regional currency flight — Euro vs Swiss franc ■ SNB FX reserves

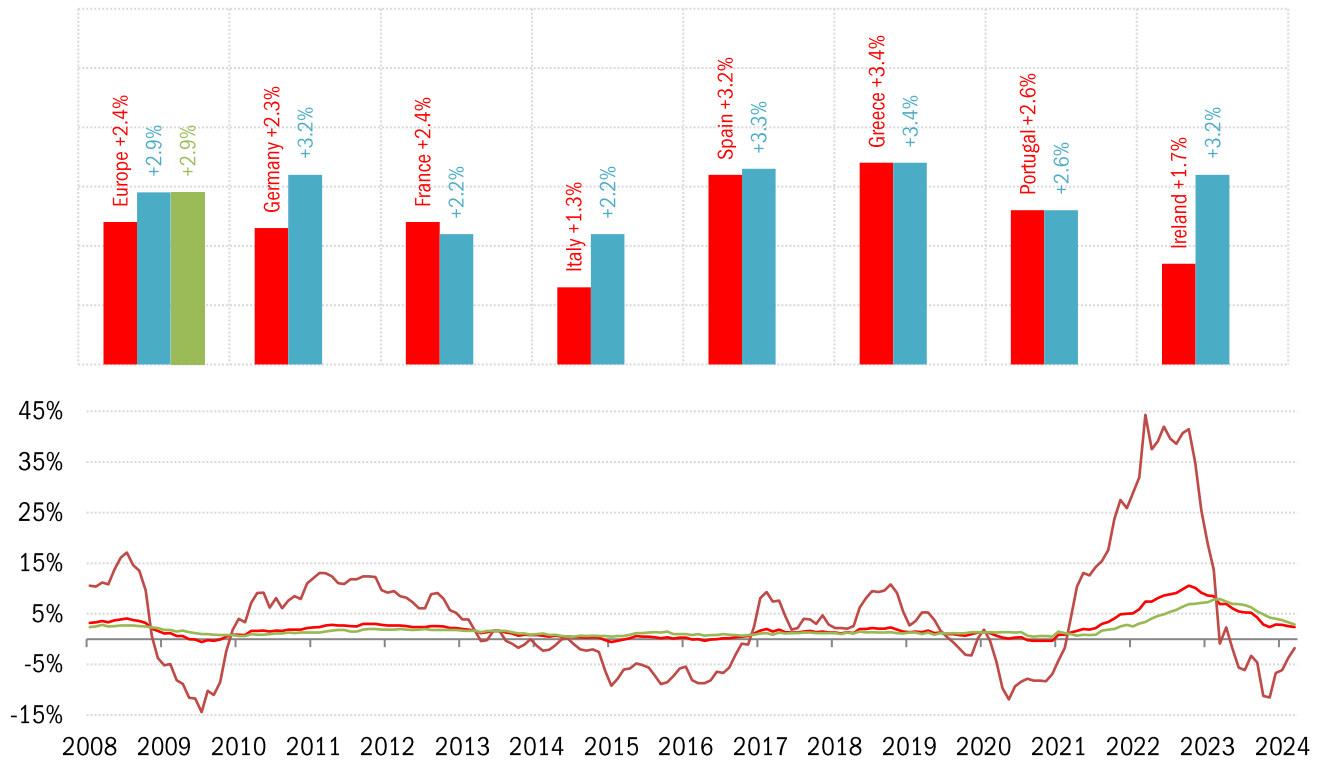


Source: Bloomberg, TrendMacro calculations



## Euro area consumer inflation, year on year

Country: ■ Headline ■ Ex-food and energy ■ Ex-energy    Euro area: — Headline — Energy — Ex-energy



Source: Eurostat, TrendMacro calculations

## Draghi's old dashboard:

### Swap-implied inflation expectations since "Whatever it takes"

— 5-year inflation-swap rate, 5 years forward



Source: Bloomberg, TrendMacro calculations