

ECOWEEK

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ECB : confidence, persistence, prudence

■ The ECB's communication maintains a certain ambiguity over the direction of monetary policy ■ This permits to avoid too abrupt a transition from easing to normalisation

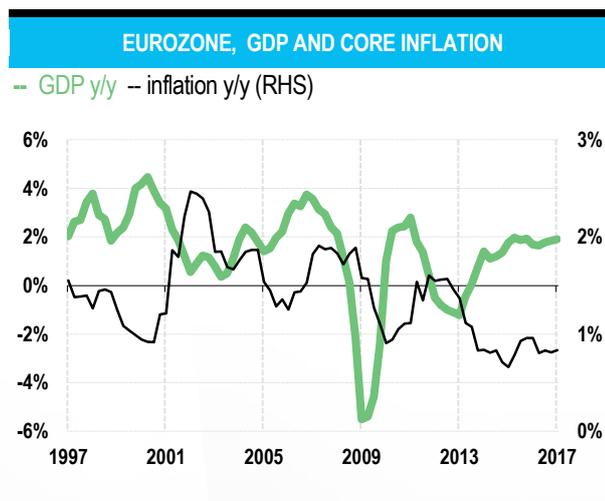
The ECB communication is an increasingly challenging exercise. On one side the central bank is more and more confident about the solidity of the recovery: it has recently upgraded its GDP projections as well as its risk assessment on the growth outlook. But, on the other side, the central bank remains very cautious when it comes to inflation developments, still subdued despite the improving cyclical outlook.

The speech pronounced this week by Mario Draghi at the ECB forum on Central Banking perfectly illustrates this balancing act and the difficulties it entails. The President of the ECB has shown strong confidence about the monetary policy efficiency: the decline in interest rates has triggered a solid economic growth, deflationary pressures have been replaced by reflationary forces. In this context, the ECB stands ready to accompany the recovery that is to say to increase interest rates in line with the pick-up in inflation in order to maintain a constant policy stance.

The confidence expressed by Draghi in his speech has been interpreted by the markets as a sign of an imminent monetary tightening. The euro surged against the dollar. Yet, the speech also underlined the need for the ECB to be persistent and prudent given, in particular, the uncertainties surrounding the real extent of labour market underutilization. In other words, inflation should gradually pick up but it could take more time than currently forecast.

Such a communication maintains a certain ambiguity over the direction of monetary policy. Still, this stance comes with an advantage: the positive effect of avoiding too abrupt a transition from a resolutely accommodating ECB (as has been the case since mid-2014) and an ECB equally resolutely committed to the path to normalisation (which would seem premature).

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Source: Eurostat

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