EUROZONE : WHAT CAN WE EXPECT FROM THE ECB'S 16 DECEMBER MEETING?

The ECB's meeting on 16 December is highly anticipated, primarily for the central bank's new growth and inflation forecasts. When it comes to growth, the ECB's September forecast was for annual average growth of 5% in 2021, 4.6% in 2022 and 2.1% in 2023. It could leave its 2021 forecast unchanged, with the positive figures for Q3 offset by a less positive view of Q4, due to the effect of supply constraints, inflationary pressures and a resurgence of the pandemic. Growth in 2022 will be weakened by the same factors. The scale of the forecast downward revision will indicate the level of the ECB's concerns. It will also be interesting to see whether any growth 'lost' in 2022 will be shifted, in part at least, into a higher forecast for 2023.

Turning to inflation, there is little doubt as to the direction of changes to the ECB's forecasts for 2021 and 2022: recent developments mean they can only be upwards. Inflation is continuing to soar (4.9% y/y according to November's flash estimate) and is becoming more deeply rooted (core inflation of 2.6%). In its September forecasts, the ECB predicted average annual inflation of 2.2% in 2021, 1.7% in 2022 and 1.5% in 2023. Christine Lagarde recently suggested it was likely that inflation peaked in November, but the forecasts will nonetheless have to be raised. What will attract attention will be the scale of the revision and the assessment of the balance of risks, and these will tell us to what extent the ECB changed its view regarding the transitory nature of the inflation surge and moved to match the position at the Fed (which no longer describes US inflation as transitory). The forecast for 2023 will provide further information. An unchanged figure will send a strong signal confirming that the ECB believes that the spike in inflation is transitory. We believe that an upward revision, on a limited scale, is more likely. With the ECB's forecasting period extending to 2024, it will also be interesting to see to what extent that year is expected to bear residual traces of inflation.

In terms of monetary policy decisions, we are expecting the ECB to confirm, or in any event send a strong signal for, the ending of the PEPP at the currently planned time, that is to say March 2022. Perhaps even more importantly, attention will focus on details of how the ECB expects the APP to pick up the running (size of monthly purchases, flexibility). The emergence of the new Omicron variant nevertheless makes it possible that some or all of these announcements will be held back to the following meeting on 3 February 2022. Beyond that, the ECB is unlikely to make any commitments, pleading caution and consistency in the face of considerable uncertainty, which has increased still further recently, whilst stating that it is ready to act in any circumstances, that is to say either hardening or softening its stance as conditions demand.

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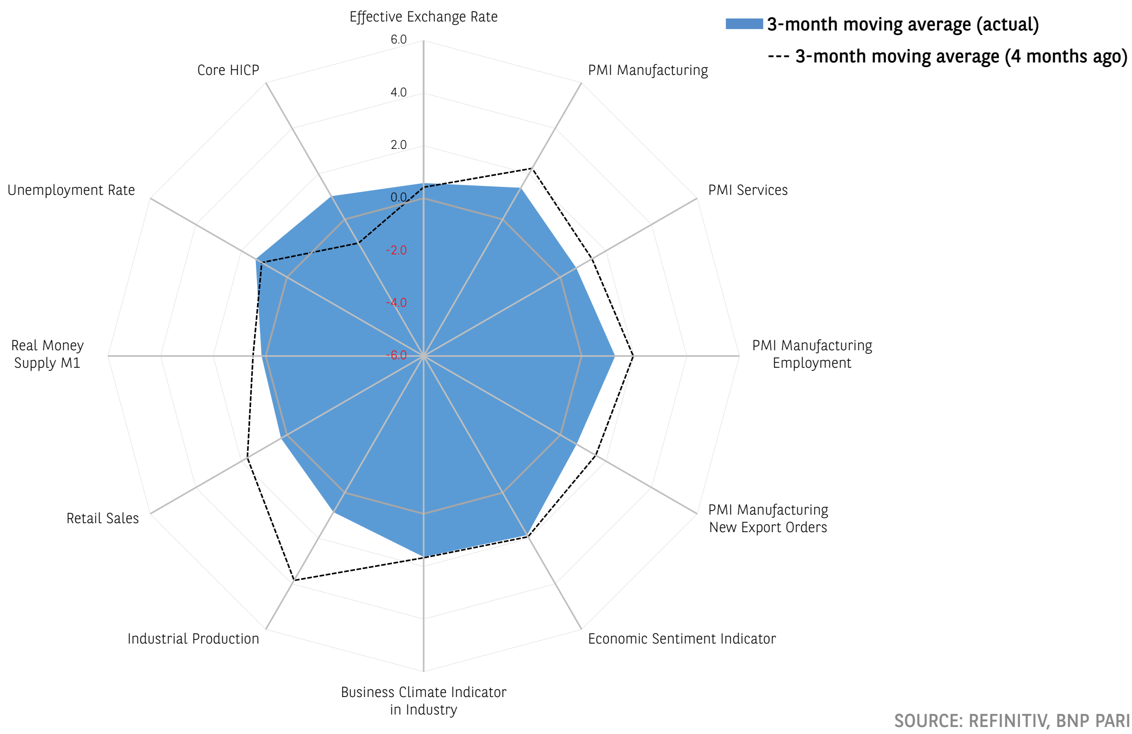

SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.