

MNI Interview 1 - ECB Set To End PEPP In March -Belgium's Wunsch

MNI Market News – David Thomas

The eurozone economy should be strong enough for the European Central Bank to end its EUR1.85 trillion Pandemic Emergency Purchase Programme on schedule in March, National Bank of Belgium Governor [Pierre Wunsch](#) told MNI, adding that the ECB should use its other tools to ensure monetary policy remains supportive.

While a final decision on whether to end PEPP will depend on continued positive economic data and on the ECB's December projections, growth and inflation are going in the right direction, ECB Governing Council Member Wunsch said in an interview.

"If I can extrapolate, to some extent, the good news we have had, then the logical conclusion would be that the emergency phase of the crisis is over and that we would stop the PEPP," he said, noting that the discussion on the matter has still to take place within the Governing Council.

While ending PEPP will mean a fall in ECB bond purchases, the central bank has a "rich instrumentarium", including its Asset Purchase Programme and cheap loans to banks via its Targeted Longer-Term Refinancing Operations, he noted.

Calendar-based elements

"The normal thing would be to fall back on the instruments we had before PEPP, which is the APP, rate policy, TLTRO and others, and recalibrate these instruments to allow for a smooth transition, and for monetary policy to remain supportive. That should be enough," Wunsch said. "In case the APP would be recalibrated, I would be more inclined to inject some calendar-based elements, where we say that possible add-ons remain for at least so long instead of open-ended add-ons."

While monetary policy will remain easy for the time being, the ECB should be clear that this stance will not remain in place indefinitely, he said,

"Monetary policy is going to remain supportive as long we are not at our (inflation) objective," he said. But, he noted: "We have ideal conditions for inflation to converge with our 2% target."

While pointing to the ECB's ability to respond flexibly to crisis, Wunsch said he would not be in favour of more formal coordination between the central bank and fiscal authorities.

Market rate expectations

"We have been able to deal with this crisis without any formal coordination, and it allowed us to be very flexible in what we do. We are independent and entering into discussions on formal coordination, I am not a big fan of that," he said, though he noted that it was inevitable that some degree of conditionality still had to be taken into account when the ECB decided on targeted policy actions, as foreseen under its Outright Monetary Transactions programme.

"You still want some discussion somewhere on the fiscal position of different sovereigns," he said. "There is always this discussion as to whether we stick with the rule or be flexible with the rules."

Markets are currently fully pricing in a 10-basis point rate increase by the ECB by the end of 2022. Wunsch said it was appropriate that investors adjust their expectations when the inflation outlook changes.

"I see it as positive that from time to time that the markets pay attention because, otherwise you trade on habits and then suddenly you have a big shock and markets are taken by surprise, which can more easily turn into a financial crisis," he said.

MNI Interview 2 - ECB Risking Wrong Inflation Message-Wunsch

MNI Market News – David Thomas

The European Central Bank should be careful not to over-emphasise the temporary nature of the recent surge in consumer prices, lest it create the impression that it does not want inflation to return to target, National Bank of Belgium Governor and ECB Governing Council Member [Pierre Wunsch](#) told MNI.

"I am little bit concerned about our communications - we have stressed so much that it is temporary that it could create the feeling that we don't actually want to push inflation back to 2%," he said in an interview.

"I do buy the argument that what we see today has a large temporary component. The big question is whether a succession of those shocks, combined with quite a tight labour market, might lead at some point to some second-round effects."

For the moment, patience is required until the outlook for the recovery and inflation become more certain.

"It's not like we have any signs - except directionally - that there are going to be strong second-round effects," he said, although he mentioned anecdotal evidence of emerging pay pressures.

"People are paying more to get the people they want, and to some extent, we would want that, because we want inflation to go to 2%."

Inflation expectations

While inflation expectations remain contained below the ECB's 2% target, extremely supportive monetary policy could eventually drive a sustained increase in the rate of price growth, he said.

"I don't mean this year or next year, but in the coming years and over our projection horizon, plus one or two years. You have a combination of factors that should contribute positively to inflation: we have a recovery of the economy, which is much stronger [than expected], you have supply constraints, you have energy prices going up, you have pent-up demand, you have NextGenerationEU, and you have the climate challenge," he said.

Wunsch confirmed he dissented from the ECB's new forward guidance in July, which committed it to keep rates at present or lower levels until it sees inflation reaching 2% well

ahead of the end of its projection horizon and durably for the rest of the projection horizon. The ECB also wants to be confident that underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term.

"The forward guidance implies rates stay at present, negative, levels for several years if inflation does not pick up," he said, "as the cost benefit analysis of very easy monetary policy can evolve over time, I think that is an element we should have accounted for in our formulation."

ooooo