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ECB: between Sintra and Jackson Hole

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Monetary policy symposiums are going to become a summer classic. The Jackson Hole Congress, organised by the United States Federal Reserve for the end of August, is a major benchmark. This is not just true for the academic world because of the topics for discussion, but also for the markets, which are eager for clues about the central banks' next moves. The Sintra monetary policy meeting, which was created more recently and is organised by the ECB, is becoming important in its own right. Last month, Draghi's speech was interpreted by the markets as a sign that the stimuli will soon be withdrawn. Actually, Draghi merely confirmed that the European economy is doing well and said that, accordingly, monetary policy should reflect that. Nevertheless, his speech created tremors in the markets, pushing interest rates higher and, above all, driving up the value of the euro, albeit without unleashing any shockwaves in the international markets.

This was the background for the ECB's last monetary policy meeting before the summer recess. It appears that the Central Bank intentionally avoided surprising the markets. The Governing Council did not change the monetary policy and, above all, Draghi gave no new hints on upcoming moves. He did confirm, as expected, that the debate on the exit strategy from the very accommodating monetary conditions that exist today will be held in autumn, but he was ambiguous about which meeting would see new measures taken. It will probably be one held in September, or October at the latest. So the ECB will not exactly be idle over the summer months. In the next few weeks the strategy for withdrawing the asset-purchase programme will be hammered out in Frankfurt. This is the first step towards normalising monetary policy. Let us recall that the reference interest rate in the euro zone is at 0% (the deposit rates are at -0.40%) and, as an additional support measure, the ECB is purchasing assets, mostly public bonds, worth 60 billion euros per month. These measures, combined with injections of liquidity into banks, are contributing to a very accommodating monetary environment.

Consequently, the ECB will be facing a major challenge from autumn onwards: gradually adjusting monetary conditions to reflect the more favourable economic environment and avoiding an overreaction in the markets, and, particularly, sudden shifts in the euro. It is quite probable that the withdrawal of the asset-purchase programme will not begin until January next year, but the ECB will have to announce beforehand how it sees this withdrawal. It is taken for granted that it will be very gradual, that is, the programme will not end from one day to the next. Different options are being considered. The most likely would be to imitate what the Fed did in 2014, that is, to pare down the purchase volume from meeting to meeting until it reaches zero. Another is to adjust the purchases quarterly (which the ECB would call "recalibration" of the programme). Whatever happens, it is certain that the strategy will depend on the economic situation and, particularly, on how inflation evolves. Once this phase ends, the next will be raising interest rates, but that is still quite far into the future.

At the end of summer we will confirm whether we are correct, and whether the ECB is following in the footsteps of the Fed or choosing its own strategy. That is assuming Draghi does not take advantage of his participation in Jackson Hole at the end of August to announce his plans early, as he did four years ago when he let slip his intention to purchase assets.