

Hamburg  
Commercial  
Bank

# ECB Meeting in Charts – no rate hikes in 2022

Putting the ECB-meeting of December 16 into perspective

Economics

December 16, 2021

# Highlights of the ECB meeting on December 16, 2021 (part I)

- The ECB made clear that she will stick to the course of **not hiking interest rates next year**. This was communicated by announcing that the APP purchase program will continue at least until end of 2022 as the forward guidance says in short: rate hikes only after the end of asset purchases. Net purchases under **PEPP** will end soon, but reinvestments will continue and a **reactivation of net purchases** is possible, signaling to the markets that there is **no room to speculate on higher peripheral spreads**.
- The decision of tapering total asset purchases **without a cliff effect** is the result of a combination of ending the PEPP program step by step and a **doubling of the smaller APP** program in Q2 of 2022 which will then decrease over the next quarters of 2022 with the possibility to continue purchases in 2023.
- **PEPP is not dead**: Maturing bonds under the PEPP program will be reinvested until end of 2024, which is a one year prolongation of this measure. Lagarde emphasized that the purchases will be done in a flexible manner in terms of time, asset classes and jurisdictions.
- **PEPP** net asset purchases can be **reactivated** at any time: In **cases of stress**, net asset purchases under the PEPP program could be start again, if this stress is connected to the pandemic.

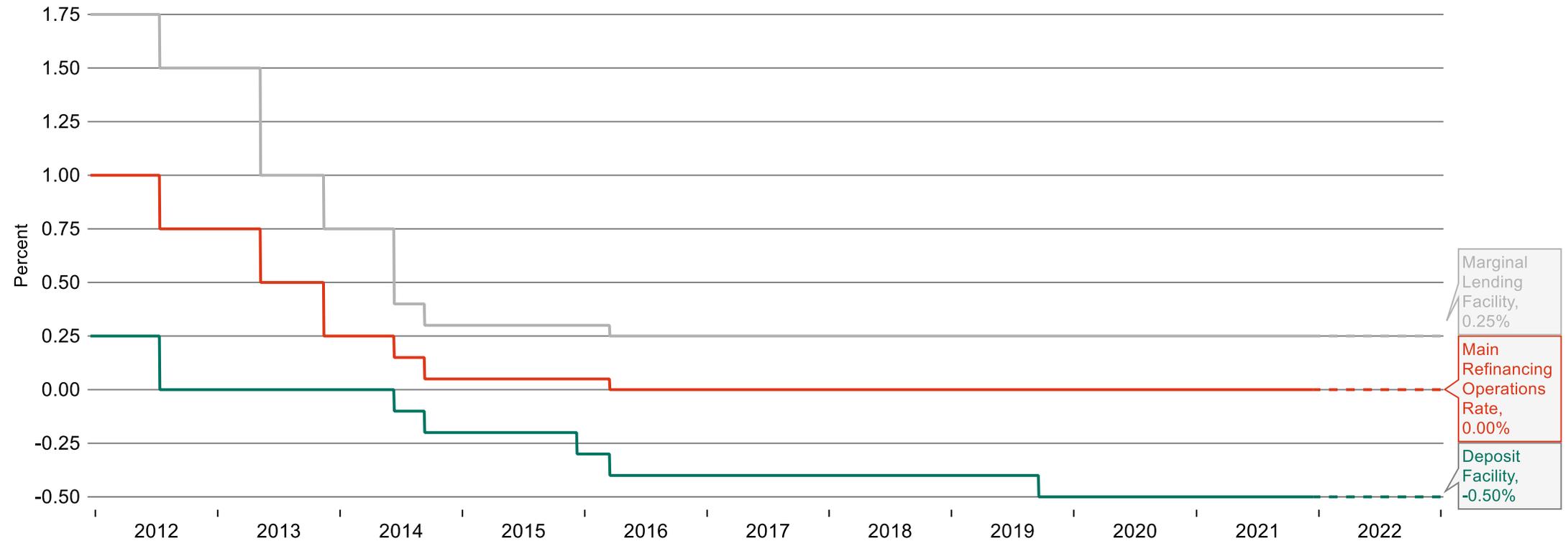
# Highlights of the ECB meeting on December 16, 2021 (part II)

- **TLTRO III and tiering:** Special conditions applicable under TLTRO III will end by June 2022 (no change in this respect). In addition, “we will assess the appropriate calibration of our two-tier system for reserve remuneration”. Possibly this could bring some alleviation for banks.
- **Greece obtains a quasi guarantee:** Greece, whose government bonds are not eligible under the APP program but under the PEPP, was mentioned explicitly. “PEPP reinvestments can be adjusted (...). This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions (...).
- Asked for the **tighter monetary policy of the US** and other, ECB president Christine Lagarde answered that “it is difficult to compare” these economies due to different fiscal stances, completely different states of the cycle, and that they started from different bases. “We are in different environments”. In doing so, Lagarde underscored her message that there will be no interest rate hikes in 2022.

# Unchanged forward guidance on key interest rates

In short, the forward guidance is that the ECB will leave key rates unchanged or even lower them until it is clear that inflation will reach the 2% target on a sustainable basis. The target may be exceeded temporarily.

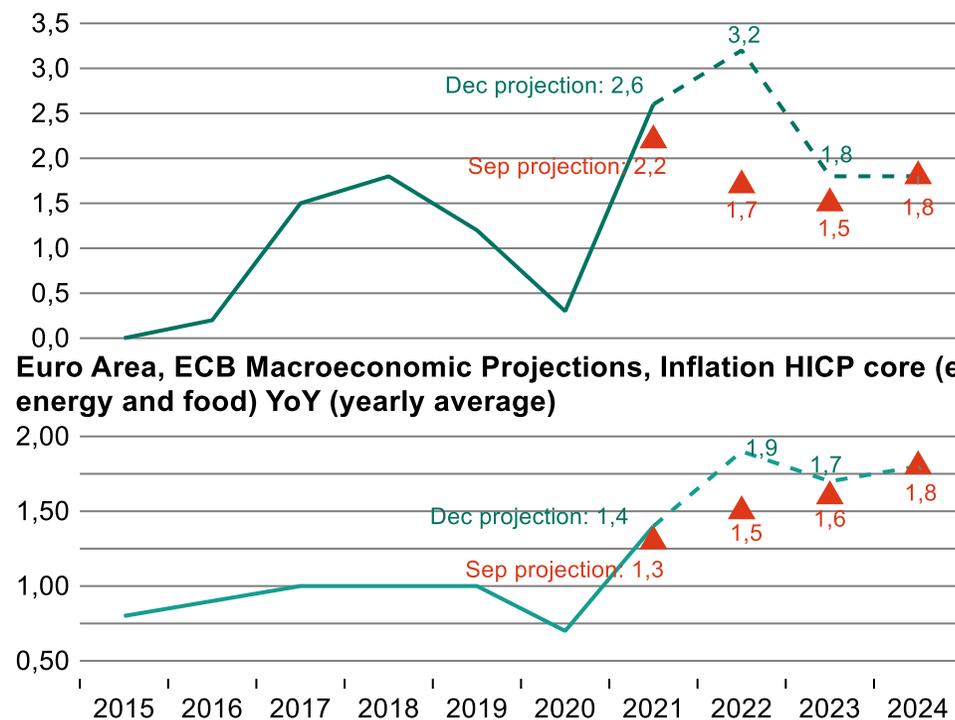
ECB policy rates and our forecast



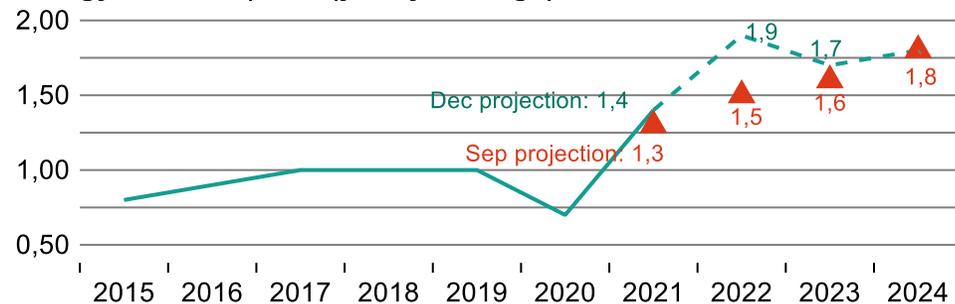
Source: Macrobond, HCOB, ECB (European Central Bank)

# Staff forecasts: Upward revision on inflation, downward revision on growth (2022)

Euro Area, ECB Macroeconomic Projections, Inflation HICP YoY (yearly average)

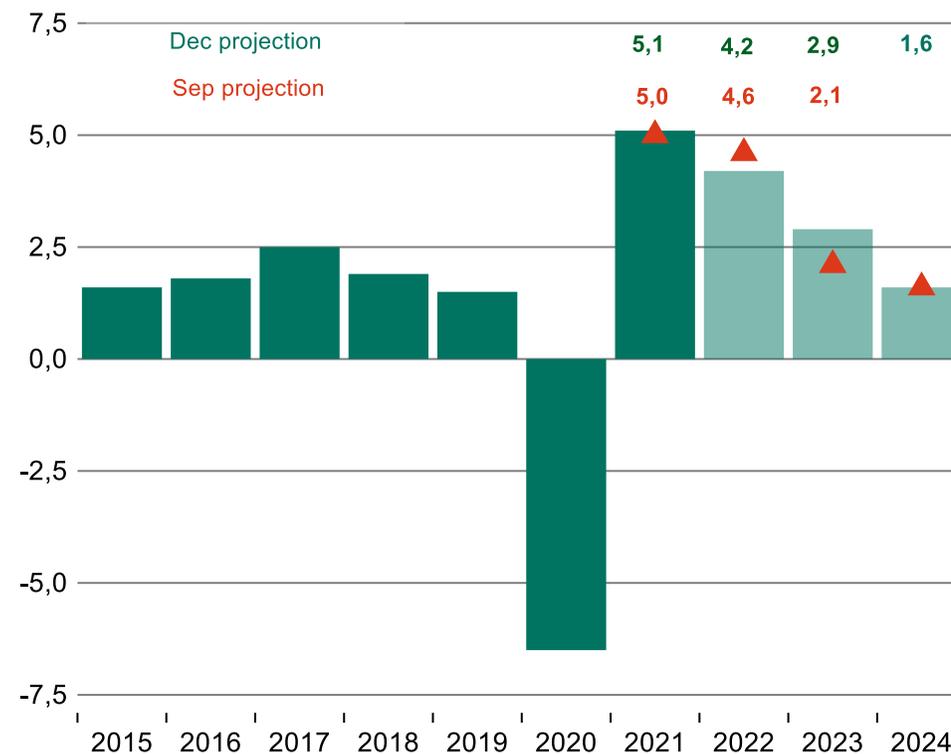


Euro Area, ECB Macroeconomic Projections, Inflation HICP core (ex energy and food) YoY (yearly average)



Source: Macrobond, Hamburg Commercial Bank Economics, ECB (European Central Bank)

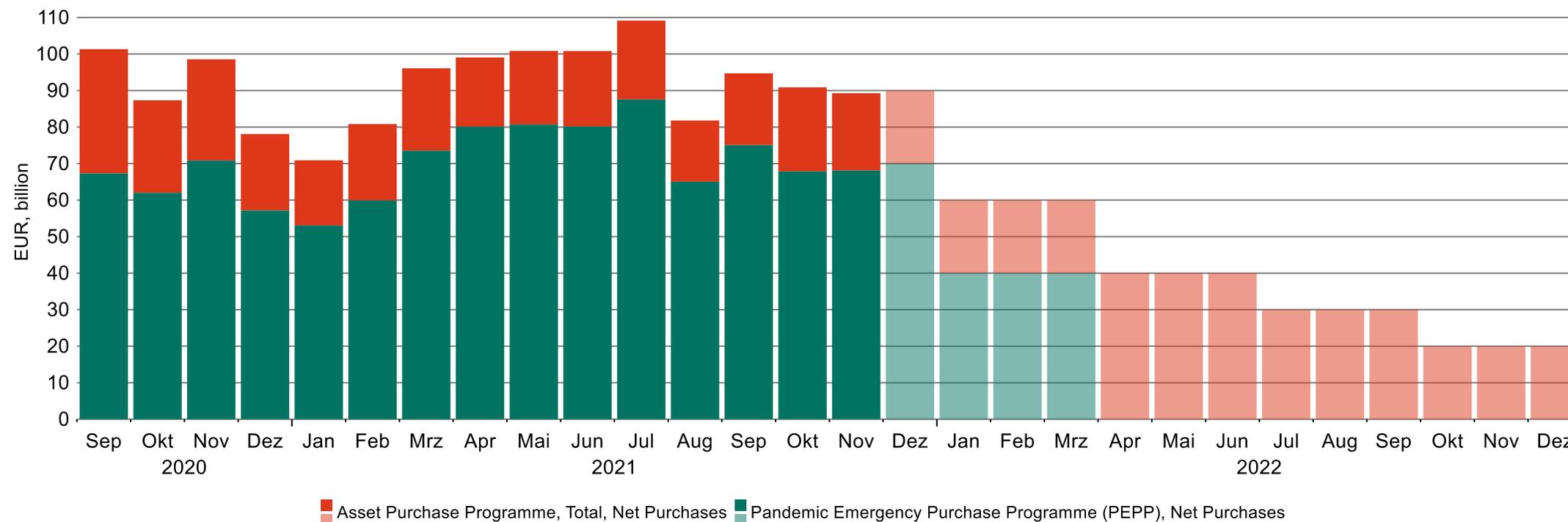
Euro area staff projections, GDP



Source: Macrobond, Hamburg Commercial Bank Economics, ECB

# PEPP and APP: PEPP net purchases will end in March 2022, but reinvestments will continue until end 2024. APP will help to smooth tapering of total purchases. No defined end to APP.

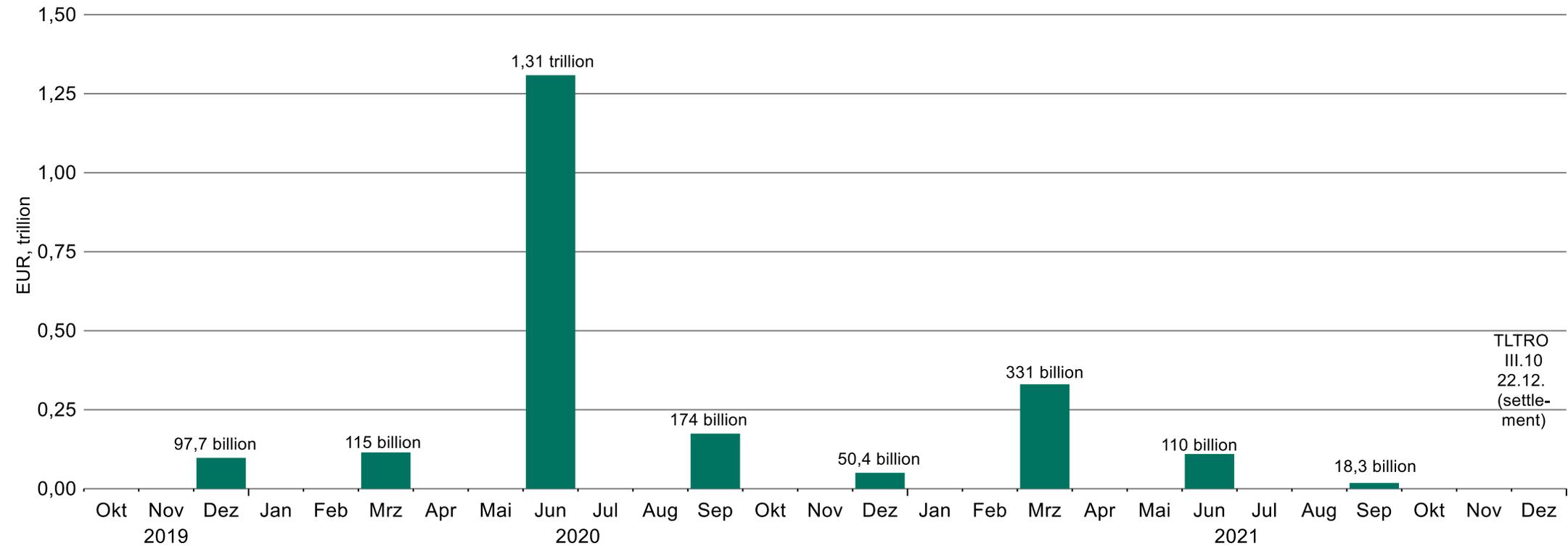
Pandemic Emergency Purchase Programme (PEPP) and Asset Purchase Program (APP), Net Purchases by the ECB, EUR, including an estimate of the purchases in 2022 based on announcements made by Lagarde on December 16, 2021



Source: Macrobond, HCOB, ECB (European Central Bank)

# TLTRO III: No new announcements were made with respect to TLTRO III. Demand has gone down significantly over the last quarters.

Euro Area, ECB Open Market Operations, Targeted Longer-Term Refinancing Operations, TLTRO III, Outstanding, EUR



Source: Macrobond, Hamburg Commercial Bank Economics, ECB (European Central Bank)

TLTRO III.10 22.12. (settlement)

# Monetary policy instruments at a glance

- **Key Interest Rates:**
  - Main refinancing rate: 0.00 %.
  - Interest rate on the deposit facility: -0.5%.
  - Forward guidance (short form): The ECB will leave key interest rates unchanged or even lower them until it is clear that inflation will reach the 2% target on a sustainable basis.
  - „We will assess the appropriate calibration of our two-tier systems for reserve remuneration“
- **APP** (Asset purchase programme)
  - Net purchases: In principal €20 billion/month but this changes in Q2 2022 to €40 billion/month and in Q3 to €30 billion/month
  - Forward Guidance (short form): APP will be terminated shortly before the ECB starts to raise key interest rates.
- **PEPP** (Pandemic Emergency Purchase Programme) will end in March 2022
  - Envelope: €1,850 billion, of which €1,570 billion has already been used.
  - Monthly purchases will be lower in Q1 2022 than in the previous quarter.
  - Reinvestment of PEPP assets until end of 2024. Reinvestments can be done flexible between time, asset classes and jurisdictions.
  - PEPP net asset purchases could be reactivated if there is stress in the markets connected with the pandemic (directly and indirectly)
- **TLTRO** (Targeted Long Term Refinancing Operations)
  - TLTRO III: The last TLTRO III operation will take place in December 2021.
  - Special conditions applicable under TLTRO III will end in June 2022

# Links to the documents of the ECB meeting

Main Page:

<https://www.ecb.int>

New Staff projections

[https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202112\\_eurosystemstaff~32e481d712.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202112_eurosystemstaff~32e481d712.en.pdf)

Press Release:

<https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.mp211216~1b6d3a1fd8.en.html>

Monetary Policy Statement

<https://www.ecb.europa.eu/press/pressconf/2021/html/ecb.is211216~9abaace28e.en.html>

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