

<https://blog.en.erste-am.com/2017/05/02/ecb-takes-another-tiny-step/>

## ECB takes another tiny step

Gerhard Winzer



© (c) iStock

Economic growth in the Eurozone has embarked on a clear upward trend. At the same time, the fear of falling wages and prices has disappeared for now. The worries over a possible break-up of the European Union have also eased. Against this backdrop, the ECB President Draghi issued a slightly more optimistic growth forecast yet again on 27 April at the press conference of the European Central Bank. This is another tiny step indicating a possible reduction of the monetary support in the medium term.

### **Solid economy**

Numerous economic indicators suggest a further acceleration of real economic growth in the Eurozone. As an example, the business climate index published by the European Commission hit the highest value in six years in April. After +2% in Q4 2016, economic growth could speed up to +2.3% in Q1 and +2.5% in Q2. While the ECB still sees a certain degree of downside risks in its forecasts, they have decreased due to the solid cyclical development. This means that upside and downside risks are moving towards equilibrium. Also, the risks are of an external nature.

### **Revision of forward guidance**

The ECB has thus slightly changed its forward guidance for the assessment of the future monetary policy. In a next step, the ECB will probably call the economic risks balanced. However, the importance of the assessment of inflation trumps that of the assessment of economic growth.

### **Four inflation criteria**

Mr. Draghi uses four criteria to assess whether the currently excessively low inflation is in tune with the goal of price stability (i.e. an inflation rate of slightly below 2%).

- Sustainable: the acceleration of inflation in the past months has been driven by the temporary increase in prices of energy and food
- Self-supporting: inflation has to remain on target also without monetary support.
- Total perspective: the inflation target applies to the Eurozone as a whole and not to every individual country.
- Medium-term: the inflation target is set for the medium term and not for a year-on-year perspective.

None of these criteria have seen an improvement lately. In March, the underlying inflation (i.e. core inflation) was at a low 0.7% year-on-year. At least the deflation risk has fallen, which is also the main reason for the reduction of the bond purchase programme from EUR 80bn per month to EUR 60bn in April.

## Conclusion

The solid economic development, the low inflation, and the monetary policy, which is very supportive to the economy, are positive for risky asset classes.

Also, the reduction in tail risks for deflation and the break-up of the European Union (presidential election in France) are two important hurdles that have now been cleared. The ECB has slightly adjusted its forward guidance. While this has no immediate bearing on the capital market, the sum of many tiny steps will ultimately translate into one significant overall change.

Our most likely scenario: step-by-step, open-ended reduction of the bond purchase programme (“further reduction from x to y, until [month / year], or beyond that if needed”).

## Legal disclaimer

This document is an advertisement. All data is sourced from ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Erste Asset Management GmbH and ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. unless indicated otherwise. Our languages of communication are German and English.

The prospectus for UCITS (including any amendments) is published in Amtsblatt zur Wiener Zeitung in accordance with the provisions of the InvFG 2011 in the currently amended version. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Erste Asset Management GmbH and for ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. pursuant to the provisions of the AIFMG in connection with the InvFG 2011 and regarding ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. published in Amtsblatt zur Wiener Zeitung or at the web site [www.erste-am.com](http://www.erste-am.com) or [www.ersteimmobilien.at](http://www.ersteimmobilien.at).

The fund prospectus, Information for Investors pursuant to § 21 AIFMG and the key investor document/KID can be viewed in their latest versions at the web site [www.erste-am.com](http://www.erste-am.com) or [www.ersteimmobilien.at](http://www.ersteimmobilien.at) or obtained in their latest versions free of charge from the domicile of the management company and the domicile of the custodian bank. The exact date of the most recent publication of the fund prospectus, the languages in which the key investor document/KID is available, and any additional locations where the documents can be obtained can be viewed on the web site [www.erste-am.com](http://www.erste-am.com) or [www.ersteimmobilien.at](http://www.ersteimmobilien.at).

This document serves as additional information for our investors and is based on the knowledge of the staff responsible for preparing it at the time of preparation. Our analyses and conclusions are general in nature and do not take into account the individual needs of our investors in terms of earnings, taxation and risk appetite. Past performance is not a reliable indicator of the future performance of a fund.



## Gerhard Winzer

Gerhard Winzer has worked at Erste Asset Management since March 2008. Up until March 2009, he was Senior Fund Manager in Fixed Income Asset Allocation; he has been Head Economist since April 2009.

He holds a degree from a polytechnical college and studied economics and business at Vienna University with a special focus on financial markets. He holds a CFA charter and participated from 2001 to 2003 in the doctoral programme for finance at the Center for Central European Financial Markets in Vienna.

From July 1997 to June 2007, he worked in research at CAIB, Bank Austria Creditanstalt, and UniCredit Markets & Investment Banking. His last position was as Executive Director for Fixed Income / FX Research and Strategy. He was responsible for research on asset allocation at Raiffeisen Zentralbank (RZB) in Vienna from July 2007 to February 2008.