
INFLATION, CLIMATE, JARGON: ECB LAUNCHES MAJOR REVIEW

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The European Central Banks new president Christine Lagarde has announced that the Frankfurt-based institute will soon undertake a strategic review, its first since 2003.

Here is how the ECBs strategy has developed over the years and what has prompted the decision to reassess it.

The ECBs overriding mandate is to ensure price stability.

In 2003, its main decision-making body, the governing council, defined that goal as an inflation rate of just below, but close to two percent, a level that would encourage investment and employment, while warding off deflation.

Nevertheless, inflation has remained stubbornly low at around one percent, a phenomenon that has left many economists around the world scratching their heads.

Different theories have been put forward as to a possible explanation, from the rise of the casual gig economy or the suppression of workers earnings through globalisation, to political shocks, such as trade tensions and Brexit.

Inflation, climate in focus

There have been increasing calls for the central bank to rethink the inflation target and the issue is certain to feature highly on the ECBs review, which is expected to take many months.

At the same time, the ECB is under pressure to do more to tackle climate change and wealthier countries like Germany see the review as a chance to call into question the ECBs ultra-expansive policy.

They have long argued that the banks record-low \square and even negative \square interest rates, as well as its massive quantitative easing bond-buying programme, are detrimental to savers and help accentuate asset price bubbles.

Lagarde pledges to continue with Draghis loose monetary stance

Christine Lagarde promised on Wednesday (4 September) to respond with agility to the looming

financial and economic turbulences once she becomes the president of the European Central Bank in November, while confirming that the current loose monetary stance will continue for a long period of time.

The review will be an ideal opportunity for Christine Lagarde to reflect on the unconventional crisis measures adopted over the past decade, Pictet Wealth Management strategist Frederik Ducrozet said.

The aim should be not to reset monetary policy, but give it a new launching point for the coming eight years of her mandate, he said.

A change in the definition of the inflation target to around 2%, instead of just below, would be desirable and plausible, if only to make forecasts simpler and more credible, Ducrozet said.

Meanwhile, environmentalists are lobbying the ECB intensively to green both its own operations and its investments in the wider economy through its bond-buying scheme.

Lagarde acknowledged last week that the ECB's mandate is not climate change, but said climate risks could be built into its economic forecasting and other aspects of its work, such as banking supervision, without compromising the price stability target.

Clearer communication

Until now, ECB meetings have been shrouded in more secrecy than those of other central banks, with an account published only weeks later that neither names participants, nor reveals the voting record of individual governing council members.

We think the bank may move to a more transparent and systematic process of voting on major policy decisions, said Capital Economics analyst Andrew Kenningham.

The debate has been given fresh urgency following the decision by the ECB's governing council in September to restart a bond-buying scheme, which led to a rare public row where dissenters aired their grievances in the media.

Lagarde has also vowed to bring the ECB closer to the public by ditching some of the bank's seemingly impenetrable jargon, where a single word can move markets, but remain incomprehensible to outsiders.

Lagarde has said she wants to dust off the bank's language to help citizens understand what the ECB is for.