

Interview Klaas Knot met Bloomberg

De volledige quotes van het interview met Klaas Knot, gehouden op 30 augustus 2021 door Carolyn Look en Marton Eder.

ECONOMIC OUTLOOK

"Almost all incoming news has surprised on the upside. Both in terms of high-frequency activity indicators, but also in terms of the latest inflation data. I haven't had an opportunity to see what the models will generate, but I would expect that our projections will be revised upward slightly in September. That reflects also my general mood on the economic outlook: it's still quite robust."

"Every quarter since the pandemic started, the realized GDP data has been better than our projection. That illustrates that from the early days, we have tended to overestimate the economic impact of the pandemic, and to underestimate the capacity of our economy to adjust."

INFLATION

"It's still too early to talk about credible signs of second round effects. But I do think that the stars are much better aligned than they have been for a long time for the return of inflation back to 2%. The reason is a combination of three factors. We have now a combination of an initial inflation shock in the form of supply disruptions, an unprecedented amount of monetary accommodation and an equally unprecedented amount of fiscal policy support."

"We'll need some time for this to pan out. Most European workers will only feel the hit to their purchasing power in the second half of this year. That means that any second round effect through wages is still ahead of us. Inflation will go up in the second half of the year, workers will take a hit on their purchasing power. So I do think that there's a credible perspective on somewhat higher wage claims and related second round effects."

"I still believe that most of the factors behind the current run-up of inflation are transitory, but if only 10% or 20% of it proved more permanent, that would of course help close the gap between the 1-1.5% percent inflation equilibrium that we've been trapped in for almost seven, eight years now and our 2% symmetric target."

ECB POLICY

"The next step is that we have to think about the end of PEPP. PEPP has a clearly delineated objective -- repairing the damage that the coronavirus has inflicted on the inflation outlook. That is something that you can objectively observe when you look at the outlook pre-corona and you compare it to the outlook today. I would say that this goal is within reach. It'll likely be reached somewhere

between now and March 2022, which is the date until which the PEPP will at least run."

"We should reckon with the possibility that PEPP will have to be terminated in March 2022, once the objective of repairing the damage to the inflation outlook has been accomplished."

"Between now and March, there are still different decision points. And I can understand that next week we may want to maintain some optionality, also to see how the delta variant will play out. I would expect a decision that should not be incompatible with terminating the PEPP in March 2022. That would imply a reduction in the purchase pace and that reduction can be done because financing conditions have been extremely favorable."

"We've recently seen lower real yields than perhaps ever before. So there's no issue with the favorability of financing conditions. And that should allow us to reduce the purchase pace next week, to a level that's at least compatible with a termination of PEPP in March 2022, without pre-committing to anything."

"We do want to avoid cliff edge effects and if you want to avoid cliff effects, of course you have to start winding down sufficiently early in order not to drop off."

On whether he'd be in favor of extending PEPP to spend the full amount: "That, for me, is not a goal in and of itself. Part of the forward guidance on PEPP has been that there is no inherent need to spend the full envelope. If the full envelope is not spent in full, that's well within the forward guidance on PEPP that we've been giving since December last year."

FLEXIBILITY

"The pandemic program's flexibility was particularly useful in the dark days of March 2020, when there was significant market turbulence. But if you effectively look how PEPP has been run since earlier this year, there's been no use of flexibility. There's been roughly 80 billion euros a month and it's been spent according to the capital key. It's useful to have flexibility when you have a policy in place with which you want to affect bond market liquidity, but stability has been restored a long time ago. I wouldn't overplay the importance of the flexibility in the current context anymore."

On whether to include Greece in APP: "In the corporate program, even if you don't include certain corporates themselves, you lift up the whole market. That also goes for Greece in the sovereign space."

On transferring flexibility from PEPP to APP: "We have to be very careful with that. Both programs have been conceived under completely different conditions, and therefore the proportionality assessment that has been made at the start of these two programs has also been completely different. Some of the flexibility that characterized PEPP would go against some of the safeguards that have been built into the APP."

"As long as PEPP is still running - which is at least until March 2022 - APP will also be running at 20 billion a month. So there is no urgent need to do anything

about its forward guidance. In the July meeting there was some concern that changing the forward guidance on rates and saying completely nothing on the APP would automatically be misunderstood as pushing out the APP horizon in parallel to pushing out expectations of the liftoff. And that would have been a misconception. But I think by now it has been clarified that this kind of automatic link should not be assumed. We still have time until at least March 2022 to think about what the new role of APP would be in the post-PEPP world with reinforced forward guidance on rates themselves."

US TAPERING

If anything, the fact that the US is ready to taper shows the strength of the US economy, and that has positive spillovers. On financial conditions the US taper decision is dollar positive, which is also positive for us in our efforts to counter the inflation undershoot.

TLTROS/TIERING

"It has certainly been a useful tool, but it's a two-edged sword. It is very useful in terms of making sure that the flow of credit through the banking system continues, particularly for SMEs. At the same time, it has a serious distortive effect on market functioning."

"This 50 basis point pandemic subsidy will have to go at the moment that we declare that the economic impact of the pandemic has been repaired. There is no need to decide now whether we can have additional TLTROs on pre-Corona terms. There are still a few TLTROs in the pipeline. I think there is still enough bank funding out there. Sometime next year we will have to come back to the question.

On linking tiering multiplier to excess liquidity: "It has not been discussed, but I find it an interesting suggestion because what tiering does is directly exempting bank reserves from the damage that our asset purchases would otherwise inflict on bank profitability. I find this a more compelling method than offering compensation through the TLTRO, which serves a different purpose."

"Handing out subsidies to banks in normal times is fiscal policy. That's a government task. So if we are effective by conducting quasi-fiscal policy through our balance sheet, that's not how the division of labor between monetary and fiscal policy was intended to be. If there's a perceived need to continue to subsidize the banking sector, fine with me, but that's up to fiscal policy."

FISCAL POLICY

"Fiscal policy support has been absolutely key, but of course fiscal policy cannot accumulate debts indefinitely."... "At some point, fiscal policy will have to retreat and the emphasis will have to fall again on debt sustainability and consolidating public finances."

"At some point the economy should be able to stand on its own feet again, and if you look at our projections for the output gap, it probably closes sometime next year. If output gaps are closed again, then I think the economy should stand on its own feet and it should be able to carry on without public support."

OWNER-OCCUPIED HOUSING

"I think it's very important that we get this owner-occupied housing issue right. Because this is really creating a inflation perception gap between the ECB and our population, at least in the Netherlands. If I'm trying to explain to Dutch people that inflation is low, they will say "what are you talking about? My housing costs are going through the roof". So I think it's important that we close this gap"

"It should not be the case that the timing of the implementation would actually have an impact on monetary policy. We should take this into account in our decisions as quickly as possible. When we assess the inflation outlook, we take a wide array of different indicators into account. We should from now on also take indicators into account that incorporate owner occupied housing."