

Investor meeting

Francesco Papadia

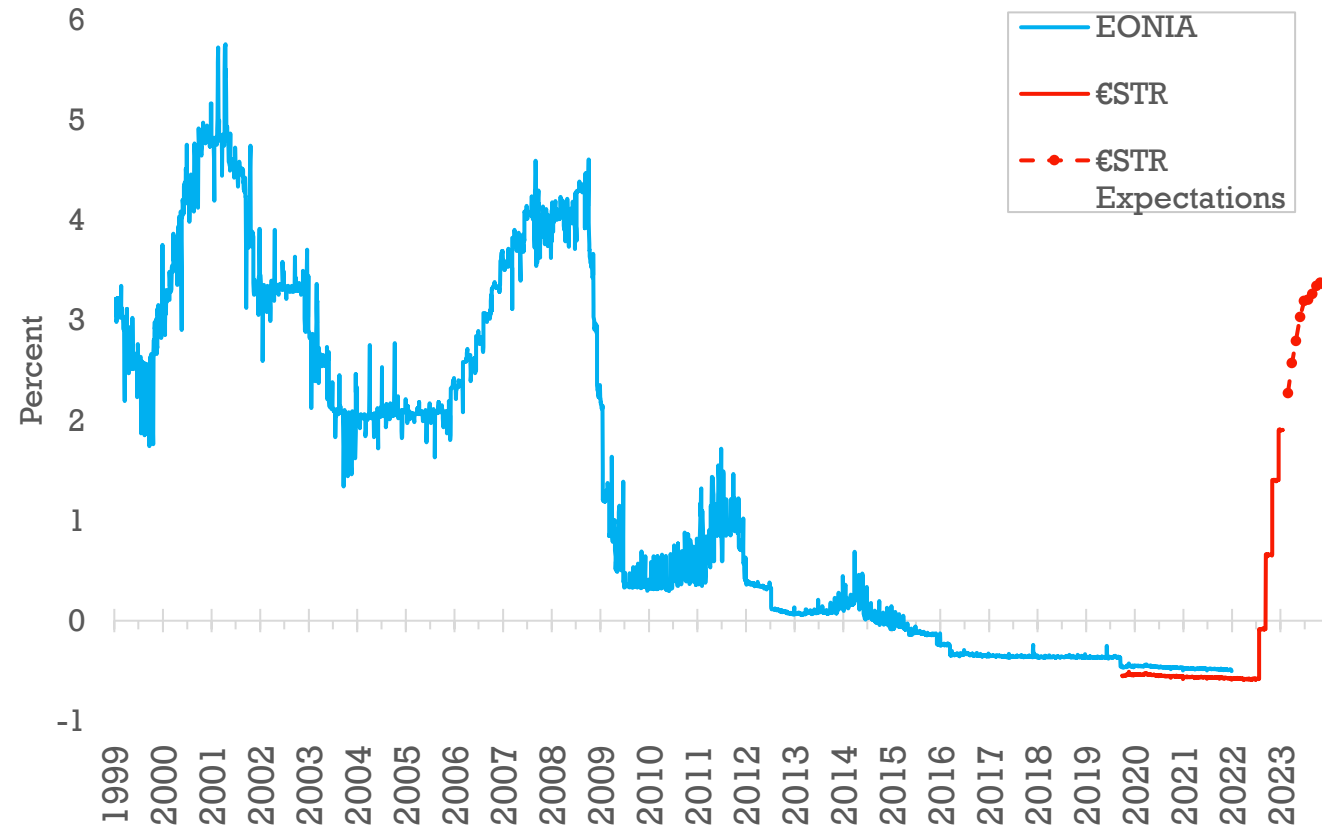
January 26th 2023

My plan

- Most of my 20 minutes I will talk about interest rates,
- I will then move to the closely related issue of inflation,
- Other issues, including QT, Italy and TPI, Economic Activity and Employment can be covered in the question session.

ECB and
market: a tug of
war

Fig. 1 Eonia and €STR



Further tightening, up to 4%

Figure 2. Eonia-€str and OECD money market forecasts

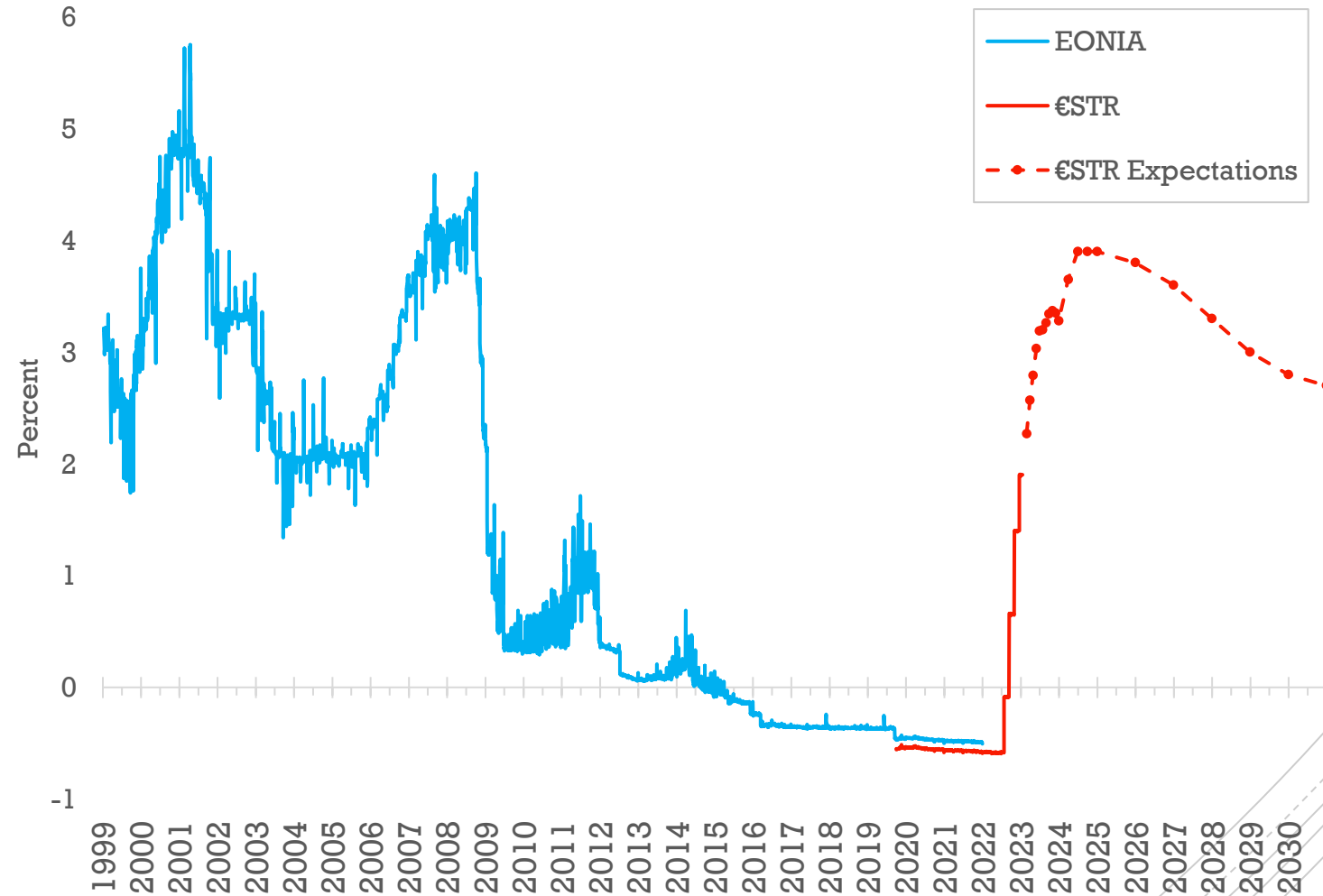
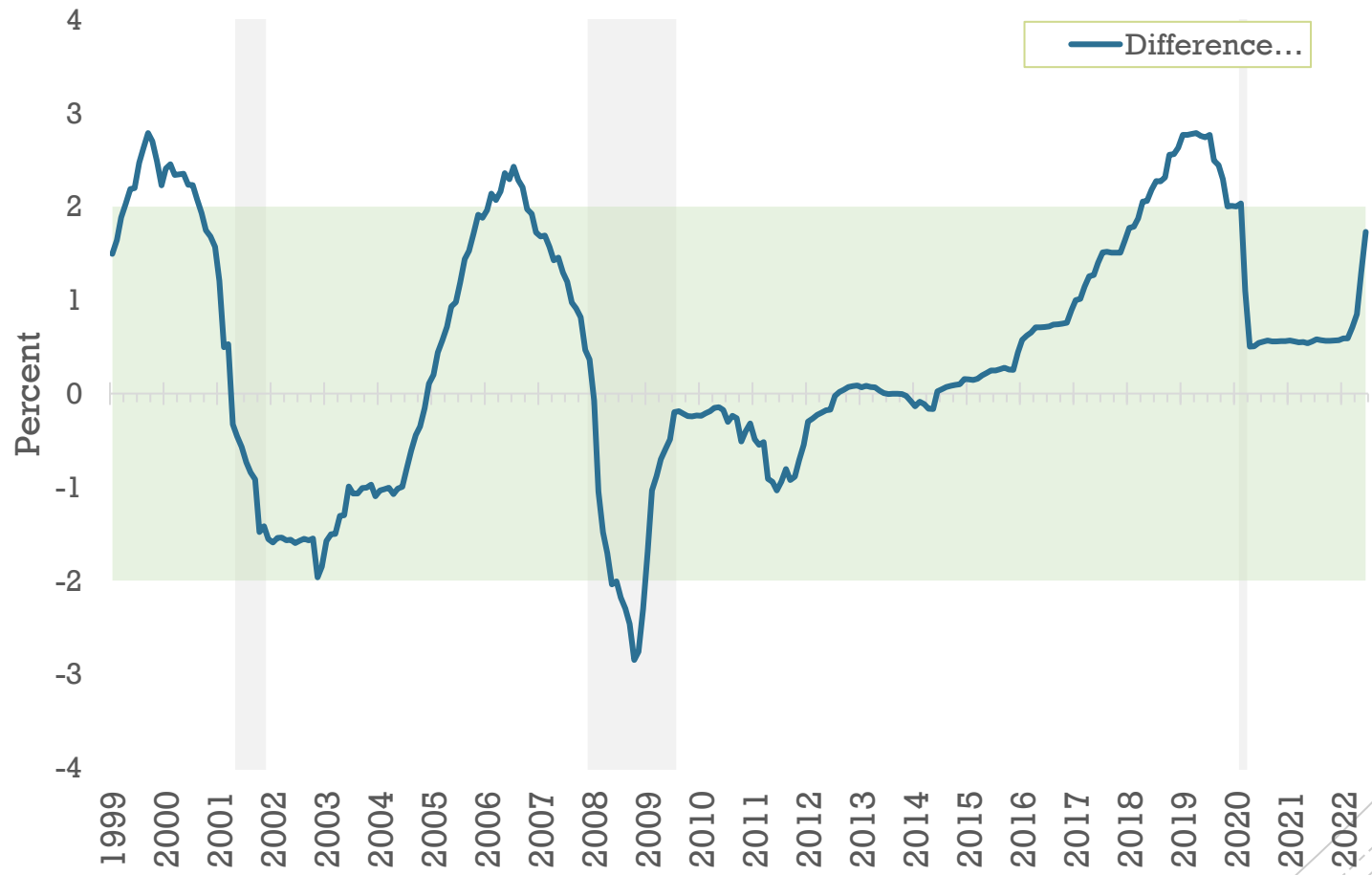


Figure 3. Eonia and Federal Funds rate

The ECB and the FED



A subtle message

- Lagarde was not univocally hawkish at the latest press conference
- Two avenues of action are open, depending on inflation developments
- But the prevailing message is that more, strong action is needed

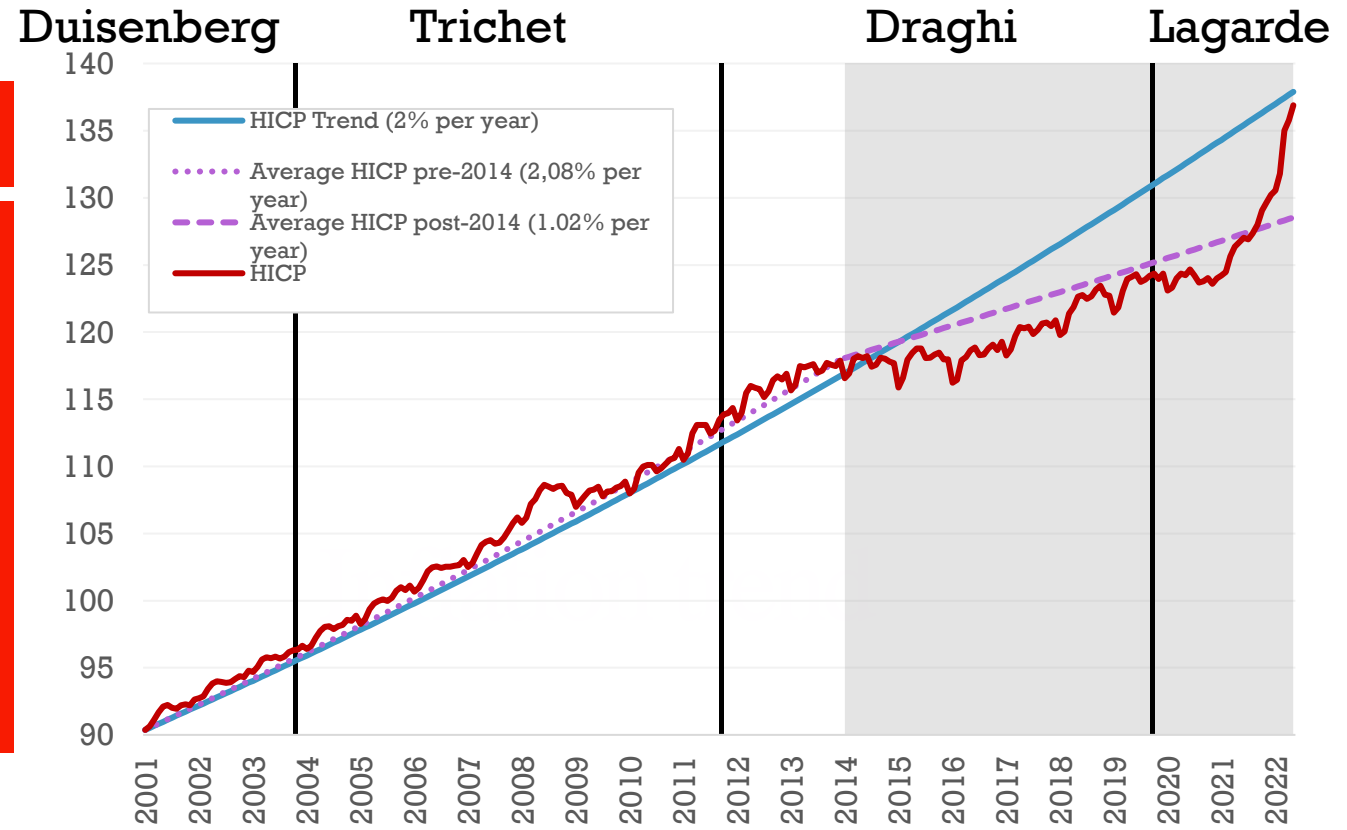
Return to a
2-2 economy?

Table 1. Macroeconomic projections of different institutions.

	Date of release	Real GDP growth				HICP inflation			
		2022	2023	2024	2025	2022	2023	2024	2025
Eurosystem staff projections	December 2022	3.4	0.5	1.9	1.8	8.4	6.3	3.4	2.3
Consensus Economics	December 2022	3.2	-0.1	1.3	1.6	8.5	6.3	2.2	1.9
OECD	November 2022	3.3	0.5	1.4	-	8.3	6.8	3.4	-
European Commission	November 2022	3.2	0.3	1.5	-	8.5	6.1	2.6	-
Survey of Professional Forecasters	October 2022	3.0	0.1	1.6	-	8.3	5.8	2.4	-
IMF	October 2022	3.1	0.5	1.8	1.9	8.3	5.7	2.7	2.2

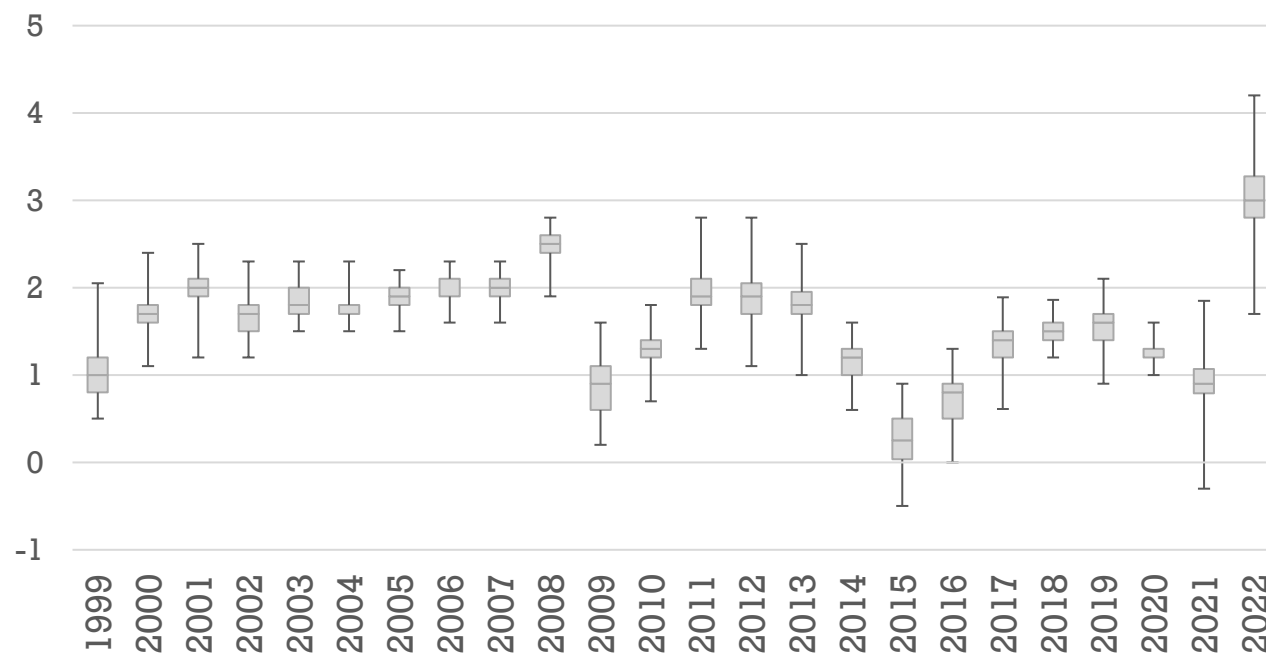
Figure 4. Consumer price level in the euro area under four ECB presidents.⁸

Inflation trend



Inflation
uncertainty

Figure 5. Forecast variance: Survey of Professional Forecasters.



My overall sense about inflation

- Fully recovering the 2.0 objective will be hard
- The ECB is right in warning that this could mean monetary policy remaining tight for quite some time.
- This is consistent with my conclusion that interest rates will have to reach 4% and may be a little further to fully regain price stability
- But huge uncertainty

Figure 6. Euro-dollar exchange rate.

What about the exchange rate?

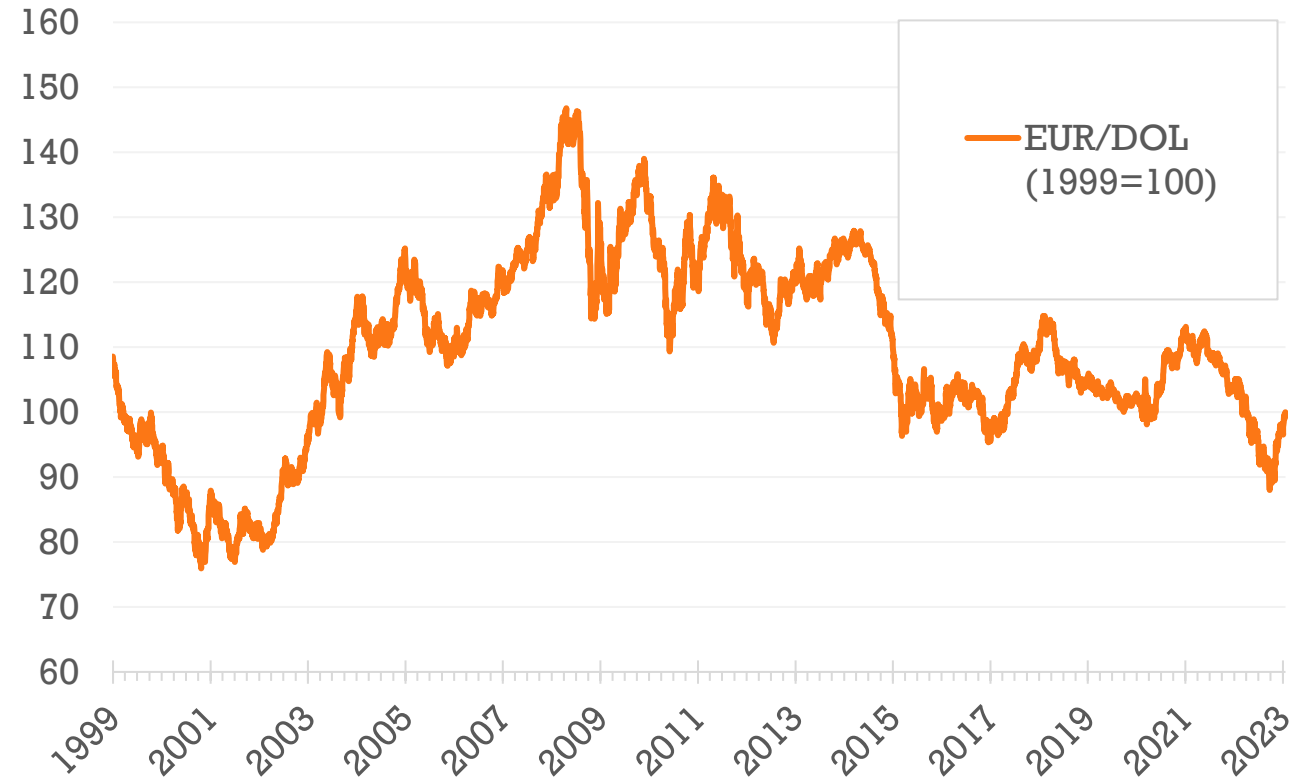


Figure 7. Dollar effective exchange rate.

More \$ strength

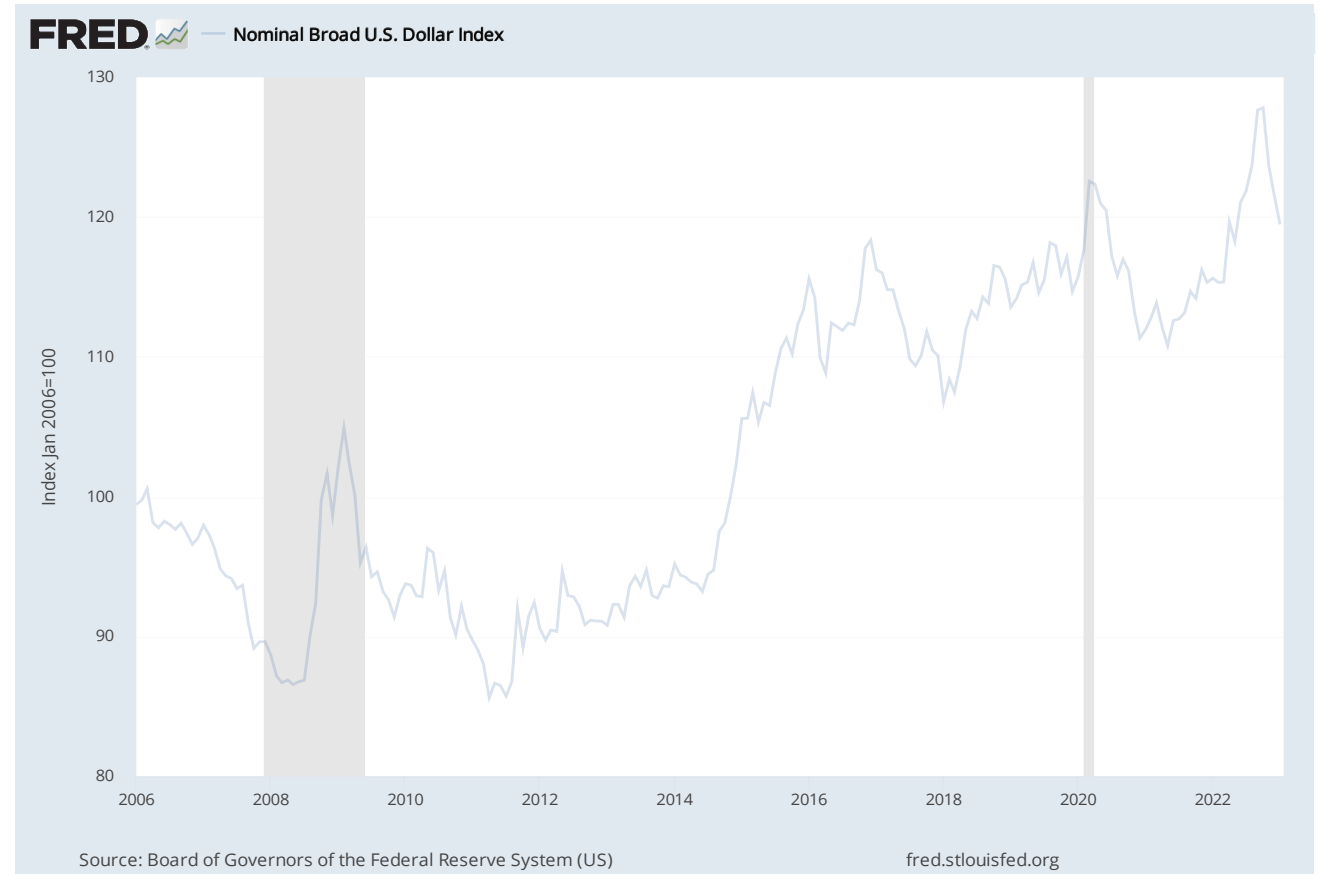
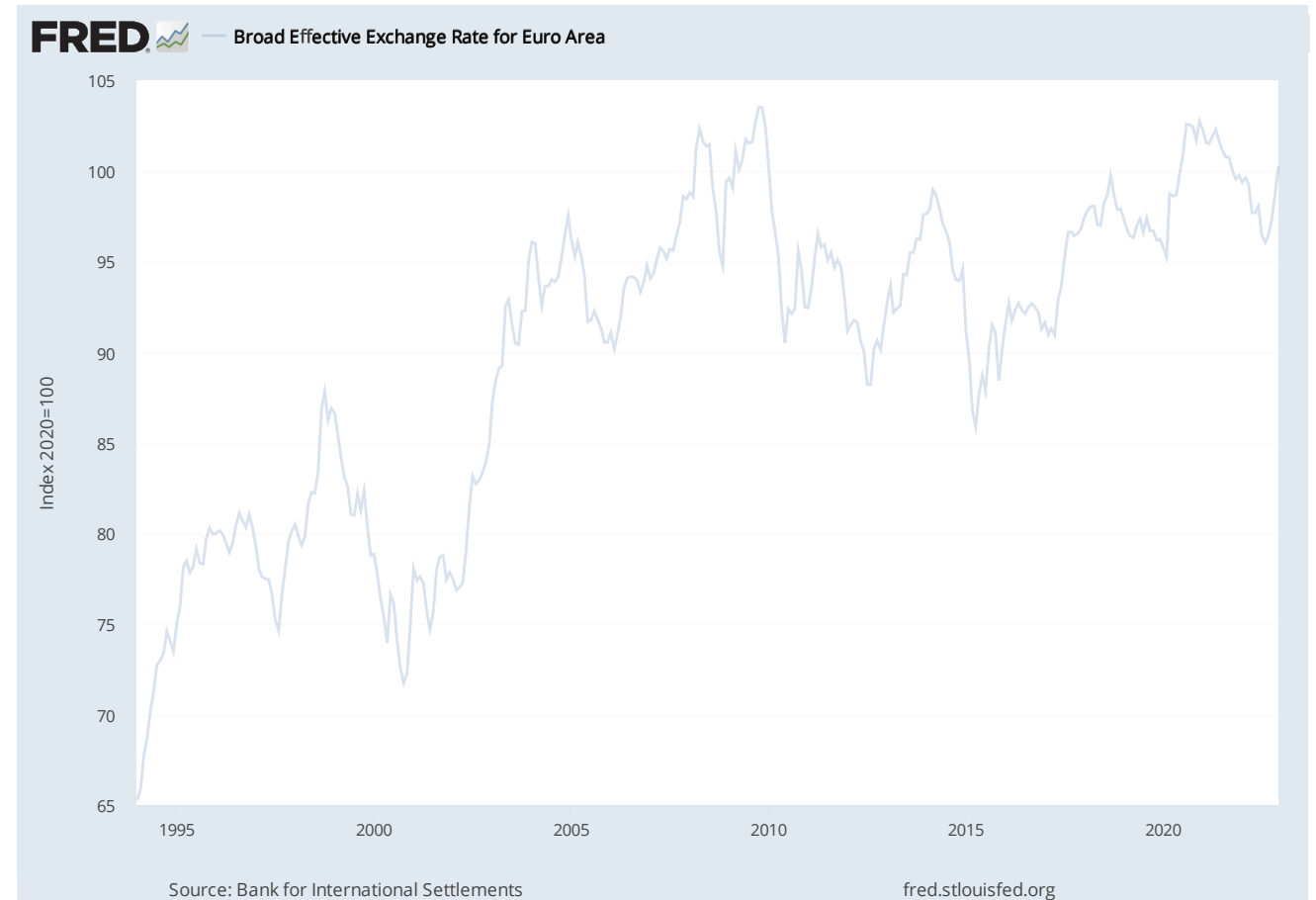


Figure 8. Euro effective exchange rate.

than €
weakness



In conclusion

- I see the difficulty of regaining price stability,
- And the need for the ECB to further tighten monetary policy significantly,
- While admitting that there is a lot of uncertainty and that any expectation can be held only with weak confidence.

My coordinates

- Bruegel web site:

<https://www.bruegel.org>

- My Blog:

<http://moneymatters-monetarypolicy.blogspot.com>

- My Tweet:

[@FrancescoPapad1](#)

Italy and TPI

