ECONOMIC RESEARCH

The NewsLine

March 2, 2017

} MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

EUROZONE

2% inflation only temporary, but ECB should switch course

Claudia Broyer
Phone +49.69.24431-3667
claudia.broyer@allianz.com
Allianz SE
https://www.allianz.com/economic-research/en

Allianz Research
https://twitter.com/AllianzResearch

Although the current pickup in inflation is caused by special effects, we think higher inflation rates in the eurozone are here to stay. The debate about "tapering" or "recalibration" should be delayed no longer. An early hike in the deposit rate into less negative territory would be desirable.

According to today's flash estimate for February, inflation in the eurozone has risen to 2.0%. In January none of the eurozone member states still had inflation below zero. Energy and food are the key drivers. Core inflation (stripping out energy and unprocessed foodstuffs) was unchanged at 0.9% year-on-year. In our view the headline rate has now peaked, with the year-on-year figure likely to come in somewhat lower from May onwards. However, with our forecast of 1.7% eurozone inflation both this year and next, we think that the ECB's objective has been practically reached – in any event there is no longer any reason to stick with the present monetary policy course that was geared to tackling deflation.

At next Thursday's ECB press conference the current 1.3% projection for eurozone inflation this year will be jacked up appreciably. At the same time, the ECB should build into its communication the flexibility to rein in its bond purchases more quickly than currently planned if need be. Regardless of uncertainties related to the European election calendar, the discussion about "tapering" or "recalibration" should not be delayed any longer (not least given the lead time for implementation). In addition, an early hike of the deposit rate into less negative territory would send an important signal to the banks. In our opinion, such a move would not conflict with statements by ECB representatives to end QE before there was any question of rate hikes. In a first step the main policy rate could remain at zero and even a "technical hike" to

lift the deposit rate up to zero would not constitute the start of a rate-hiking cycle.

These assessments are, as always, subject to the disclaimer provided below.

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. About 85 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2015, around 142,000 employees in over 70 countries achieved total revenues of 125.2 billion euros and an operating profit of 10.7 billion euros. Benefits for our customers reached 107.4 billion euros.
This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.
Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.