The ECB’s Strategic Review in 2020 may (slightly) change the inflation target

The global map shows the inflation targets of developed and emerging markets. In emerging economies central banks tend to have higher inflation targets than the central banks in their developed counterparts. The difference generally arises from their stronger inflation rates partly due to lower productivity in tradeable goods production in emerging markets. This key feature is likely to persist as the catch-up process of many emerging markets will continue for some time.

Since May 2003 the ECB has been adhering to its inflation target of ‘below but close to 2%’. While some central banks have an inflation target range with a lower bound of 1%, the ECB has the lowest inflation target on average. Moreover, the ECB’s non-symmetric target is something of an anomaly amongst developed countries, which have overwhelmingly symmetric targets. The ECB will hold a strategic review during the current year. Ex-President Draghi already hinted that the inflation target might be reconsidered. It is expected that the ECB will also look more closely into the side effects of the ultra-loose monetary policy which may also be helpful in healing the divisions in the governing council. With regard to actual policy we still see the risks clearly skewed towards further easing. Hence, it would be no big surprise if the ECB adjusted its current target and joined the FED, BoE and BoJ in setting a symmetric target.
The ECB’s Strategic Review in 2020 may (slightly) change the inflation target of 2%. But the implementation of a new target may even take until 2021 as the review is expected to conclude rather towards the end of 2020.

Literature: