ARBUTHNOT BANKING GROUP PLC

PERSPECTIVES

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Record public sector borrowing in FY2020, whilst economic activity continues to recover

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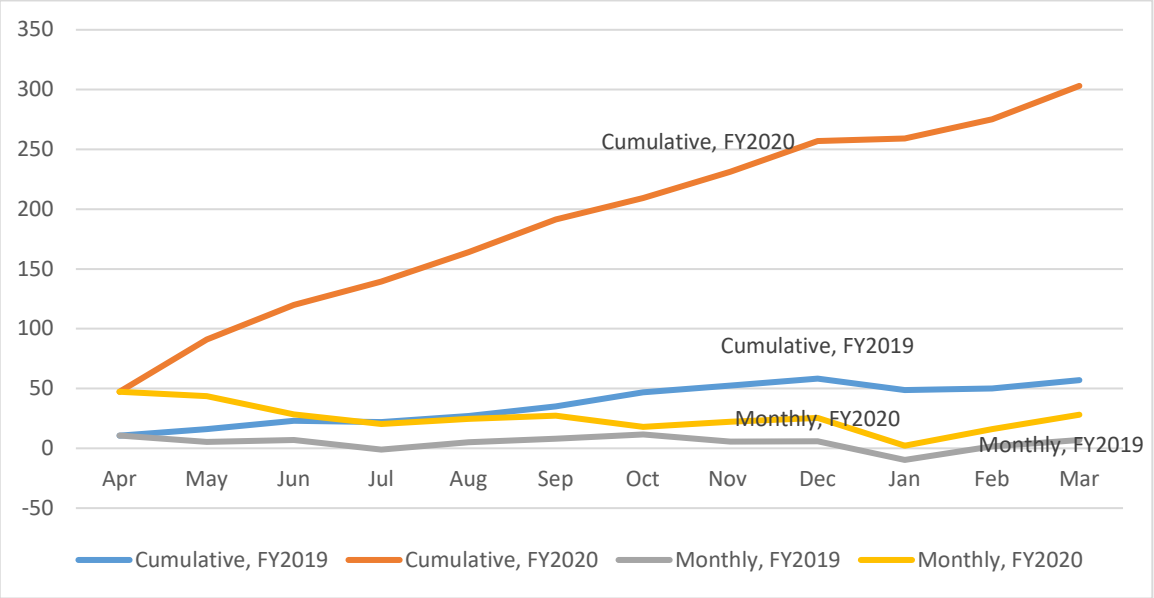
Introduction: total borrowing was over £300bn in FY2020…

There was the usual rush of UK data releases last week. One of key importance related to the first estimates for public sector net borrowing (PSNB-ex, excluding public sector banks) for the full FY2020. The PSNB was £303.1bn in FY2020 compared with £57.1bn in FY2019 (chart 1), and the highest nominal public sector borrowing in any financial year since records began in the FYE March 1947 (FY1946).[1] The PSNB/GDP ratio was 14.5% in FY2020, the highest such ratio since the end of World War Two, when in FYE March 1946 (FY1945) it was 15.2%. Perhaps, more encouragingly, the PSNB in FY2020 is estimated to have been £24.3bn less than the £327.4bn expected by the Office for Budget Responsibility (OBR) in their March 2021 *Economic and Fiscal outlook* on a "like for like basis".[2] The OBR had forecast a total PSNB for FY2020 of £354.6bn in March, but this had included an estimated £27.2bn in write-offs of the business loans under the government's coronavirus schemes, and the ONS does not yet include any estimates for such write-offs.

Concerning the month of March 2021, the ONS estimated that the PSNB was £28.0bn, the highest March figure since current records began in January 1993, compared with £7.0bn in March 2020 (chart 1).

Chart 1 Public sector borrowing (£bn), ONS (cumulative & monthly), FY2019 & FY2020



Source: *ONS*, "Public sector finances: March 2021, 23 April 2021.

Table 1 shows the major changes in the PSNB between FY2019 and FY2020. Public borrowing is overwhelmingly driven by central government net borrowing (CGNB) and the other components of the PSNB (net borrowing by local authorities, public corporations, public sector pensions and the Bank of England) are relatively modest and are omitted from table 1.

The CGNB in FY2020 was £310.0bn, compared with £56.1bn in FY2019, with the increase mainly driven by higher spending, though tax receipts did shrink:

- Total CG receipts were £722.8bn in FY2020, down £34.0bn (4.5%). Within total receipts, tax receipts are estimated to have been £523.6bn in FY2020 (on a national accounts basis), £34.2bn lower than in FY2019, with notable falls in taxes on production such as Value Added Tax (VAT), Business Rates and Fuel Duty.
- CG bodies are estimated to have spent a total of £1,033.2bn in FY2020, an annual increase of £220.2bn (27.1%). £941.7bn of this spending was on day-to-day activities (current expenditure), £203.2bn more than in the FY2019. There were large increases in social assistance payments, procurement spending, pay, transfers to local government and subsidies (including £78.2bn expenditure on Coronavirus job support schemes). Interest payments, however, fell modestly reflecting the lower interest rates payable. There was a significant increase in capital spending; net investment increased to £60.7bn in FY2020.

Table 1 PSNB and main components, FY2019 and FY2020 (£bn)

	FY2019	FY2020	Change
PSNB, of which:	57.1	303.1	246.1
CGNB	56.1	310.0	254.3
CG receipts, of which:	756.8	722.8	-34.0 (-4.5%)
Tax receipts, of which:	557.8	523.6	-34.2 (-6.1%)
• VAT	152.7	138.7	-14.0 (-9.2%)
• Fuel duty	27.6	20.9	-6.7 (-24.2%)
• Business rates	28.9	18.3	-10.6 (-36.6%)
• Stamp duty	12.5	9.5	-3.0 (-24.2%)
• PAYE income tax	165.2	169.5	4.3 (2.6%)
Other receipts+	198.9	199.2	-0.2 (-0.1%)

CG spending, of which:	813.0	1,033.2	220.2 (27.1%)
Current expenditure, of which:	738.6	941.7	203.2 (27.5%)
• Debt interest	48.1	38.8	-9.3 (-19.3%)
• Social assistance	102.9	117.3	14.3 (13.9%)
• Procurement	153.1	201.6	48.5 (31.7%)
• Pay	140.1	154.5	14.4 (10.3%)
• Transfers to local government	114.6	148.1	33.5 (29.2%)
• Subsidies (including CJRS, SEISS)	22.4	117.6	95.1 (424.0%)
Depreciation	30.0	30.8	0.8 (2.7%)
Net investment	44.4	60.7	16.3 (36.8%)

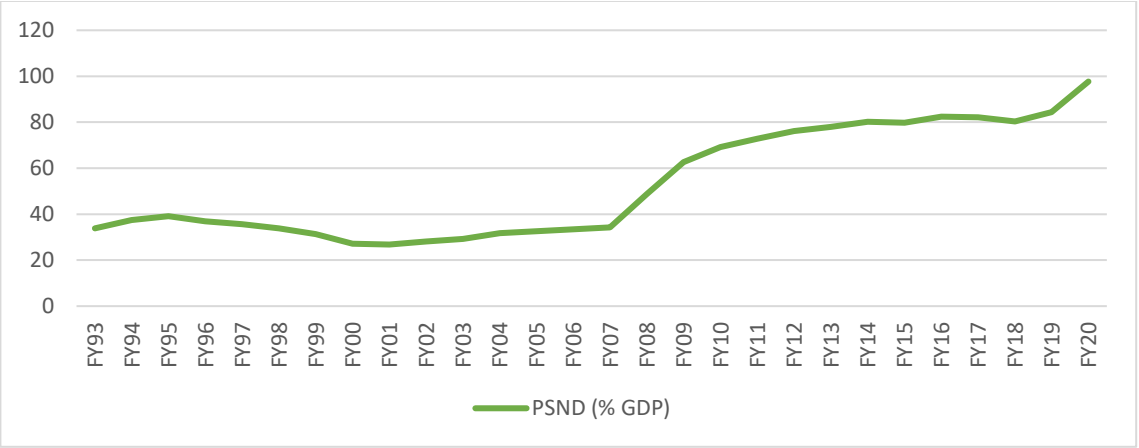
Source: *ONS*, "Public sector finances: March 2021, 23 April 2021. There are rounding errors in the table. +Other receipts = compulsory social contributions + interest & dividends and "other".

…and the public sector net debt/GDP ratio continues to rise

Turning to other fiscal indicators, monthly updates are available for two key metrics: the PSND/GDP ratio and the ratio of debt interest to revenues (DIR).[3]

Concerning the PSND/GDP ratio, the ONS publishes the PSND (excluding public sector banks, but including the Bank of England) to GDP ratio as a matter of course.[4] At end-March 2021 the PSND was £2,141.7bn (97.7% of GDP), maintaining a level not seen since the early 1960s, compared with the end-March 2020 figures of £1,797.7bn (84.4%), see chart 2. The increase in the PSND/GDP ratio reflected the fall in GDP, of course, as well as the steep rise in debt. The debt-interest-to-revenue (DIR) ratio in the rolling 12-months to March 2021 was 2.2%, compared with 3.5% a year earlier, and below the 6.0% level set by the government as a target. This metric is clearly benefiting from the low interest rates regime.

Chart 2 PSND/GDP ratio for FY1993-FY2020, end-March



Source: *ONS*, "Public sector finances: March 2021", 23 April, table PSA1 for PSND/GDP data, underlying data available from FY1997.

Retail sales continued to recover in March…

Retail sales volumes continue to recover in March 2021 with an increase of 5.4% (MOM), to be 7.2% higher YOY.[5] They were, moreover, 1.6% higher than in February 2020, before the impact of the coronavirus pandemic. However, sales actually fell by 5.8% (QOQ) in 2021Q1, with strong declines in both clothing stores and other non-food stores as a result of the tighter lockdown restrictions in place from early January, and were 0.5% down YOY.

Non-food stores provided the largest positive contribution to the monthly growth in March 2021, aided by strong increases in clothing stores and "other" non-food stores. Food stores reported monthly growth of 2.5% in March 2021, with strong growth in specialist food stores (butchers and bakers) probably reflecting the continued closure of the hospitality sector during the Easter period. Automotive fuel retailers also reported strong monthly growth as travel restrictions were eased towards the end of the reporting period.

The proportion spent online decreased to 34.7% in March 2021, down from 36.1% in February 2021, but still well above the 23.1% reported in March 2020.

…as Markit surveys suggest faster UK growth in April

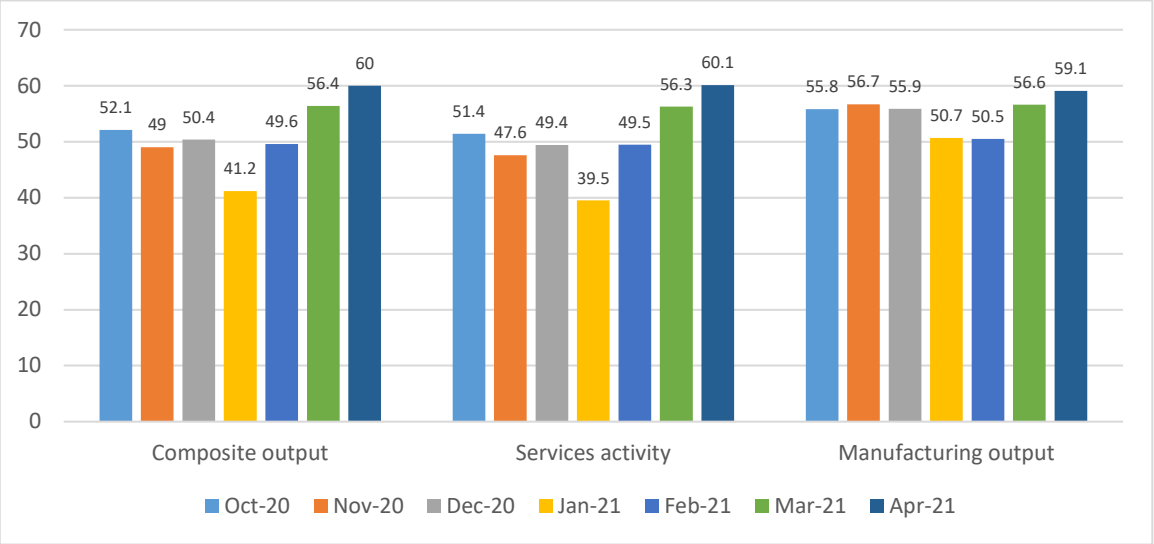
Another indicator of economic activity is provided by the Markit surveys. The Markit/CIPS flash UK Composite Output Index picked up to 60.0 in April, compared with March's 56.4 (final), implying the fastest private sector growth since late-2013 (chart 3).[6] Service activity expanded at the greatest extent since August 2014, while manufacturing production growth accelerated to its fastest for eight months. Survey respondents overwhelmingly attributed higher levels of output to the improving pandemic situation and confidence towards the sustainability of the recovery in the months ahead.

Concerning the component indices:

- The Markit/CIPS flash UK Services Business Activity Index increased to 60.1 in April, compared with March's 56.3. By sub-category, by far the strongest momentum was seen among consumer services, driven by the reopening of some customer-facing parts of the economy in England and Wales. Business services also increased at a strong pace in April, reflecting rising confidence towards the UK economic outlook.
- The Manufacturing Output Index increased to 59.1 in April, from March's 56.6. Production volumes increased to the greatest extent since last August, with particularly strong momentum seen among food and drink manufacturers due to the reopening of hospitality businesses.

Markit noted "…companies are reporting a surge in demand for both goods and services as the economy opens up from lockdowns and the encouraging vaccine roll-out adds to a brighter outlook. Business activity should continue to grow strongly in May and June as virus restrictions are eased further, setting the scene for a bumper second quarter for the economy."

Chart 3 UK Markit/CIPS indices, October 2020-April 2021



Sources: *Markit/CIPS flash UK composite PMI*, "Looser pandemic restrictions result in fastest UK private sector growth since late-2013", 23 April 2021 and earlier releases. The Composite Output Index is a

weighted average of the Manufacturing Output Index and the UK Services Business Activity Index, which are comparable indices.

Labour market data: the unemployment rate unexpectedly dips to 4.9%...

Concerning the latest labour market data, perhaps the most surprising finding was the dip in the unemployment rate in the three months to February (chart 4a).[7-9] Unemployment fell by 50,000 (QOQ) to 1.675mn, despite the fall in employment (see below), even though it was still 311,000 higher YOY. And the unemployment rate (the proportion of the labour force that were unemployed, aged 16+) slipped to 4.9%, 0.1 percentage points lower (QOQ), even though it was 0.9 percentage points up (YOY). Specifically, the single-month and weekly estimates of the unemployment rate suggest that the rate decreased slightly between December 2020 and February 2021.

Part of the explanation for the easing in unemployment, despite the weaker employment numbers, may be provided by the rise in the inactivity rate (and, maybe too, demographic factors pressing down on the size of the labour force). Chart 4b shows the inactivity rate (the proportion of people aged 16-64 who were economically inactive, either employed or unemployed) since the three months to November 2019 ("2019Q4"). This shows that the inactivity rate rose to 20.9% in the three months to February, compared with 20.7% in the previous three months, coinciding with the introduction of further national lockdown measures, and compared with 20.2% a year earlier. Whilst this is not an enormous movement, it is significant.

In particular, the economic inactivity rate for young people (those aged 16 to 24 years) increased by a record 4.1 percentage points on the year, and 1.7 percentage points on the quarter, to a record high of 41.1%. In comparison, over the last three-month period (to February 2021) there was a decrease in the employment rate for young people while the unemployment rate for young people was largely flat. The ONS suggested this was explained by more young people staying in education, and not looking for work, which was supported by the fact that the proportion of young people in full-time education had reached record highs during the pandemic, at around 46%.

Chart 4b also shows that the patterns for women and men have differed significantly in recent quarters. There has been a gradual fall in the economic inactivity rate for women and, moreover, the trend has continued despite the impact of the pandemic. (This fall reflects changes to the State Pension age, resulting in fewer women retiring between the ages of 60 and 65 years, as well as more women in younger age groups participating in the labour market.) In contrast, the economic inactivity rate for men had been relatively flat, though it has increased since the start of the pandemic. In the three months to February 2020, it was 15.9% and this had risen to 17.5% in the three months to February 2021.

Chart 4a Unemployment rate (%), quarterly data

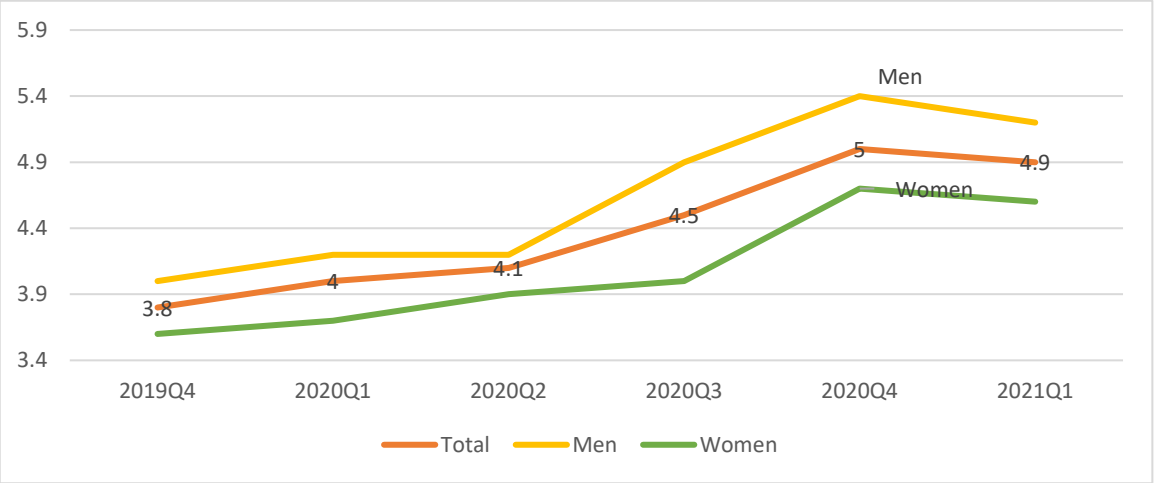
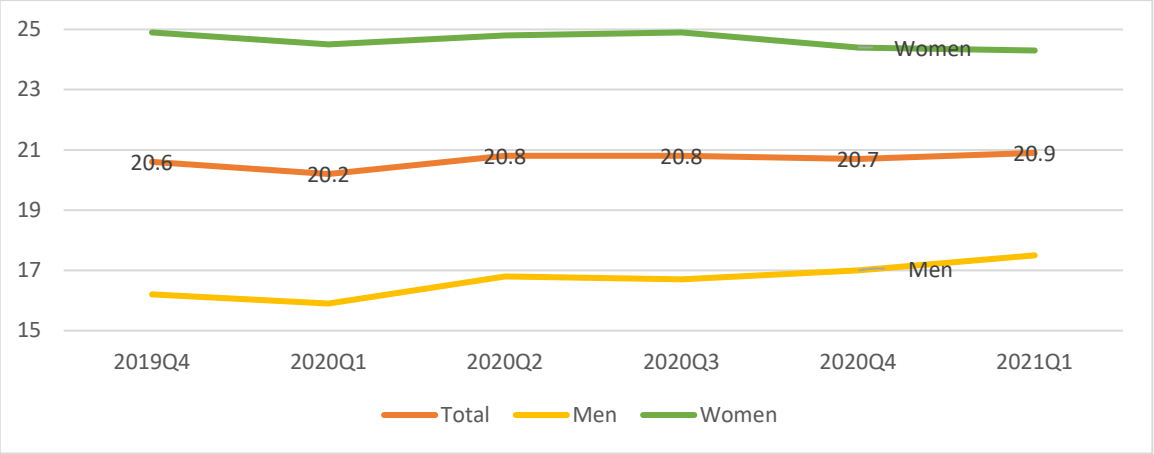


Chart 4b Inactivity rate (%), quarterly data



Source: *ONS*, "Labour market overview: April 2021", 20 April 2021. 2021Q1=3 months to February 2021.

Suffice to say, the LFS unemployment data are still well down on Claimant Count data (DWP), which stood at 2.67mn in March (note the month). The Claimant Count increased slightly (10k, 0.4%) in the month, and was about 1.43mn (114.3%) higher than in March 2020 (1.25mn). The level has been relatively stable since May 2020. The ONS points out that enhancements to Universal Credit (UC), as part of the UK government's response to the coronavirus pandemic, means that an increased number of people became eligible for unemployment-related benefit support, although still employed. Consequently, the data, from the DWP, include both those working with low income or hours as well as those who are not working. The ONS commented they were "…not able to identify the extent to which people who were employed (or unemployed) had affected the numbers". The data include, therefore, both those working with low income or hours and those who are not working.

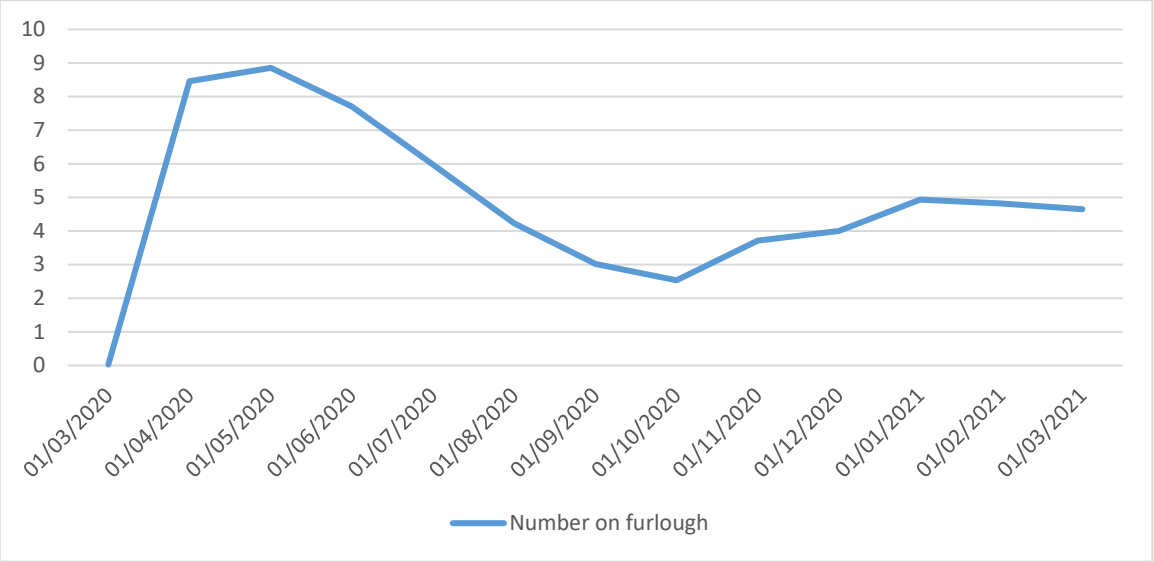
It is noteworthy that the number of redundancies fell by 191,000 (QOQ) in the three-months to February 2021, to 204,000, but they were still 98,000 higher YOY. The redundancy rate was 7.3/1,000, in the three months to February, down from the peak of 14.2/1,000 in the three months to November. (The redundancy rate is the ratio of the redundancy level for the given quarter to the number of employees in the previous quarter, multiplied by 1,000.)

…as the furlough scheme continues to support the labour market

Suffice to say the labour market continues to be cushioned by the Coronavirus Job Retention Scheme (CJRS, the furlough scheme), which was extended to September 2021 in the March 2021 Budget. Employees will continue to receive 80% of their current salary for hours not worked. Note that there will be an employer contribution towards the cost of unworked hours of 10% in July, 20% in August and 20% in September.[10]

The scheme continues to support employment, restraining redundancies and unemployment rises. Therefore, the labour market, though it has weakened overall in recent months, remains deceptively strong. As of end-February 2021, there were still 4.65 million on furlough (chart 5).[11] Doubtless the demand for labour will improve as lockdown restrictions continue to be lifted (assuming they are basically lifted in accordance with the PM's roadmap), but the big question will be how many of the 4.65 million furloughed workers will be retained once the CRJS ends.

Chart 5 Number of furlough (millions), 1st of month



Source: *HM Government*, "HMRC coronavirus (COVID-19) statistics", data tables, updated 25 March 2021. Based on claims made by 15 March 2021. Note 1/3/21=28/2/21.

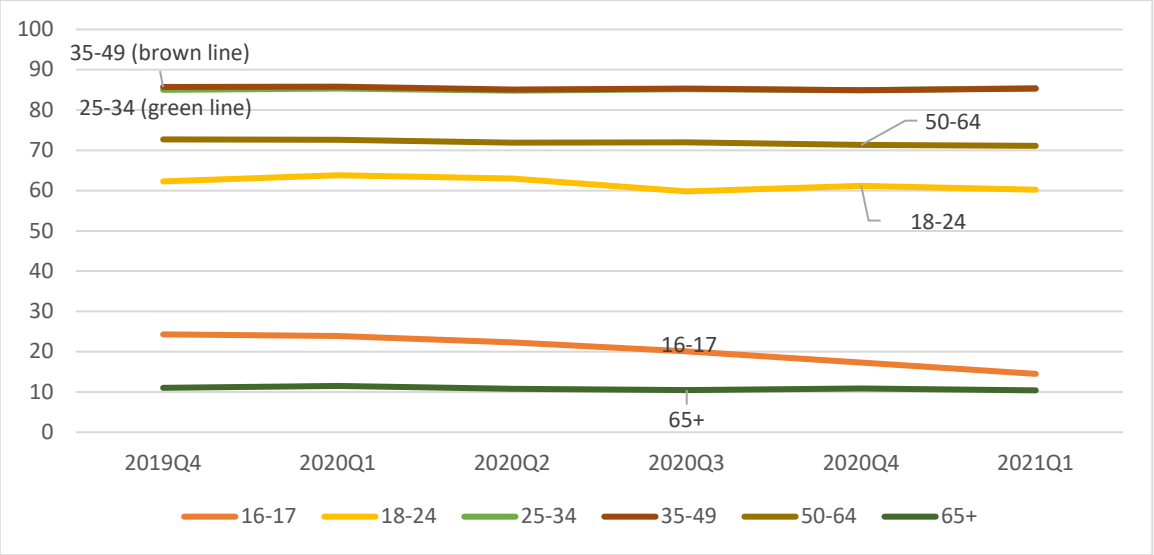
Employment weakens…

There are two main sources of employment data. Firstly, early estimates from Pay As You Earn Real Time Information (PAYE RTI, HMRC data) indicated that there was a fall of 56,000 pay-rolled employees (0.2%, MOM) in March 2021, to 28.2mn. The annual decline was 813,000 (2.8%, YOY). Of the 813,000 decrease, 355,000 can be attributed to employees working in the accommodation and food service activities sector, 223,000 can be attributed to employees living in London, and 436,000 (53.7%) were under 25 years.[12-13]

Secondly, employment (as estimated from the Labour Force Survey) fell by 73,000 (QOQ) to 32.43mn in the three months to February. The YOY fall was 643,000, with the larger falls seen at the start of the coronavirus pandemic.[14] In addition, whilst the proportion of people temporarily away from work had fallen since its peak in April (nearly 28% in the final week of April), it had still not dropped below 10%. Moreover, it increased in November and December 2020 as a result of further national lockdowns and remained elevated and averaged around 15% in the first two months of 2021.

The LFS data confirmed that the weakening labour market has hit young people especially hard, see chart 6. The employment rate in the three months to February 2021 for 16-17 year-olds was 14.5% compared with 23.9% a year earlier (a dramatic drop), whilst the equivalent numbers for 18-24 year olds were 60.2% and 63.8% (a significant drop). The employment rates for the age groups 25-34 and 35-49 were little changed. There were relatively modest falls for the 50-64 age group (from 72.6% to 71.1%) and the 65+ group (from 11.5% to 10.6%).

Chart 6 Employment rate (%), by age group, quarterly data, 2019Q4-2021Q1



Source: *ONS*, "Employment in the UK: April 2021", 20 April 2021, including database. 2021Q1=3 months to February 2021. The employment rate = the proportion of people aged 16-64 who were in work.

…and hours dip and the vacancies recovery stalls…

Two other indicators demonstrated the hit to the labour market of the third lockdown.[15] Concerning hours worked in the three months to February, total actual weekly hours worked were 959.9mn, 20.1mn hours down (QOQ), with the reintroduction of many coronavirus restrictions curbing activity, and 92.3mn hours down (YOY). Average actual weekly hours were 29.6 hours, 0.6 hours lower (QOQ), and 2.2 hours down (YOY).

Secondly, UK vacancies rose by just 17k (QOQ) in the three months to March, to 607k, and they were still 178k down YOY. The vacancies recovery has tended to stall in recent months. All industries have seen an annual fall in number of vacancies since the start of the pandemic except for four (construction; public administration and defence and compulsory social security; electricity and gas et al; and water and sewerage et al). Particularly large falls in vacancies have been seen in the following industries: arts, entertainment and recreation (down 79% (YOY)), accommodation and food services (down 70% (YOY)), and wholesale and retail trade including motor vehicles and motorcycles (down 42% (YOY)).

…whilst annual earnings growth "strengthens"

Annual growth in employee earnings continued to "strengthen" in the three months to February, but the ONS pointed out that the growth was partly driven by compositional effects of a fall in the number and proportion of lower-paid employee jobs. The ONS estimated that the net impact of recent job losses is to increase the estimate of average pay by approximately 1.9% and, consequently, the "underlying wage growth" was around 2.5% for total and regular pay.[16]

The observed, unadjusted data for the three months to February showed the annual average increase in total pay (including bonuses) rising to 4.5% (in nominal terms) and 3.7% (in real terms (inflation adjusted)). The equivalent data for regular pay (excluding bonuses) were 4.4% and 3.6% higher.

In the three months to February 2021, average pay growth for the public sector was 5.2% for total and regular pay, whereas for the private sector was 4.3% for total pay and 4.1% for regular pay. The large increase in public sector pay growth was mainly accounted for by a strong growth in the Health and Social Work industry (5.6%) but growth was also seen in Education (4.5%) and Public Administration (2.5%). Turning to the private sector, the finance and business services sector saw the highest estimated growth in total pay, at 6.3%. All broad sectors saw positive growth, although wholesaling, retailing, hotels and restaurants (2.4%), construction (2.7%) and manufacturing (1.8%) had lower growth than the other sectors. Within these sectors some industry groups saw negative pay growth, for example, accommodation and food service activities (negative 6.1%).

Consumer prices inflation increased in March…

The Consumer Prices Index (CPI) YOY rate increased to 0.7% in March, compared with February's 0.4%, whilst the CPIH inflation rate increased to 1.0% (YOY) in March, compared with February's 0.7% (YOY).[17] The largest upward contribution to the CPIH 12-month inflation rate came from transport, reflecting higher fuel prices. This upward movement was partially offset by falls in the price of food. Rising prices for motor fuels and clothing resulted in the largest upward contributions to the change in the CPIH 12-month inflation rate between February and March 2021.

The YOY inflation rates for goods and services in March were +0.1% (-0.5% in February) and 1.6% (unchanged) respectively. The core rate inflation (excluding energy, food, alcoholic beverages & tobacco) rose to 1.3% (1.1% in February).

Moreover, inflation rates are widely expected to pick up further in coming months. The MPC's last minutes (March) reported that Bank staff expected CPI inflation to return to around the 2% target in "the spring", mainly reflecting higher energy price inflation, as the effects of earlier falls in oil prices drop out of the annual comparison (base effects) as well as more recent increases in energy prices.[18] They noted that the announcements in Budget 2021 (March 2021) on the extension of the VAT reduction for hospitality, holiday accommodation and attractions, and the freezing of some duties, constituted small downside news for the short-term inflation outlook, but these were more than offset by energy price developments since the Bank's February *Inflation Report*. Significantly, however, the MPC expected that these developments would have few direct implications for inflation over the medium term. In other words, the minutes seemed to be relatively relaxed about the future path of inflation.

…whilst producer prices inflation rose further in March…

Both output producer prices (goods leaving the factory gate) and input producer prices (materials and fuels used in the manufacturing process) inflation picked up further in March, suggesting a build-up of cost pressures in the "pipeline".[19] This was despite a strengthening currency. The sterling effective exchange rate index (ERI) firmed 1.4% (MOM) in March and was 6.4% higher YOY.

Output producer prices inflation rose to 1.9% (YOY) in March, up from 0.9% (YOY) in February. Transport equipment, and metals and non-metallic minerals provided the largest upward contributions to the annual rate of output inflation. Even though petroleum products provided the largest downward contribution to the annual rate of output inflation, this can be expected to be reversed in coming months. The inflation rate for the input PPI rose to 5.9% (YOY) in March, up from 3.3% (YOY) in February. Of the 10 product groups, six provided positive contributions to the input annual rate. The largest upward contribution came from metals and non-metallic minerals, followed by crude oil. Crude oil prices rose by 10.0% (MOM) in March and were 55.1% higher YOY (see discussion of oil prices below).

…and the housing market picked up further in February (ONS)

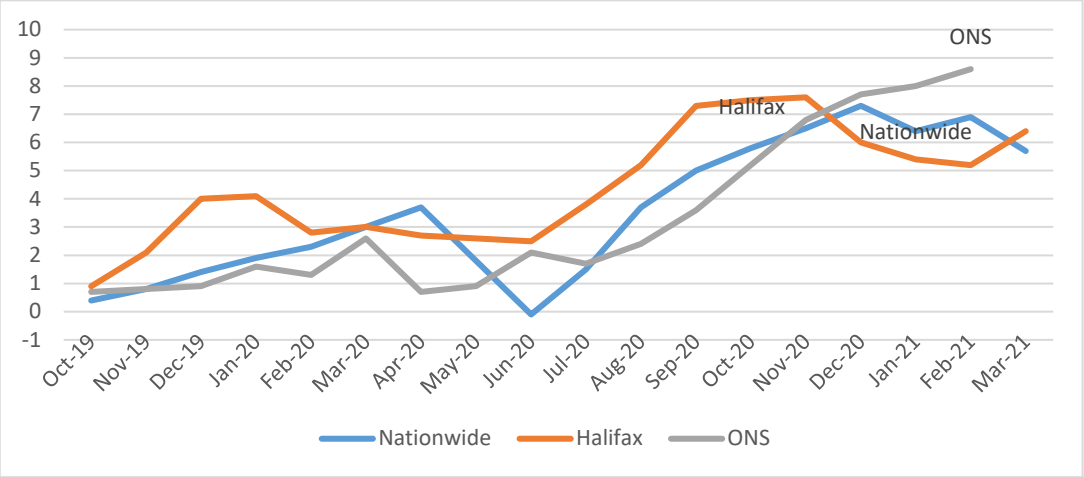
According to official ONS data, UK average house prices in rose 8.6% (YOY), the highest annual growth rate the UK had seen since October 2014, up from 8.0% in January (chart 7).[20] The ONS commented "…recent price increases may reflect a range of factors including some possible changes in housing preferences and a response to the changes made to property transaction taxes across the nations. The pandemic may have caused house buyers to reassess their housing preferences. In our UK HPI data, we have seen the average price of detached properties increase by 9.1% (YOY) in February 2021, in comparison with flats and maisonettes increasing by 6.7% over the same period." Prices were flat (MOM) on a non-seasonally adjusted basis in February, whilst they rose by 0.5% (MOM) on a seasonally adjusted basis.

The inflation rates for the UK's four countries in February were: England (8.7% YOY), Wales (8.4% YOY), Scotland (8.0% YOY), and Northern Ireland (5.3% (2020Q4, YOY)). In England, there was, as always, a significant range across the nine regions, ranging from 11.9% in the North West to 4.6% in London.[21]

The ONS noted that changes to Stamp Duty Land Tax (SDLT) were last made in the March 2021 Budget. In England and Northern Ireland, the tax holiday was extended until 30 June 2021 after which the threshold will decrease to £250,000 (from £500,000) until 30 September 2021. From 1 October 2021, the Stamp Duty thresholds will revert back to what they were before 8 July 2020. Different thresholds have applied in Scotland and Wales. The UK House Price Index (HPI) is based on completed housing transactions. Typically, a house purchase can take six to eight weeks to reach completion.

The picture of a firm housing market was broadly supported by the Halifax recently.[22] The Halifax reported that house prices jumped by 1.1% (MOM) in March and were 6.5% higher YOY, as Government support measures and the extended stamp duty holiday bolstered the housing market. The YOY increase in February had been 5.2%. The Halifax commented "…the extended stamp duty holiday has put another spring in the step of home movers, whilst for those saving hard to buy their first home, the new mortgage guarantee scheme provides an alternative route on to the property ladder". In contrast the Nationwide had reported that house prices had fallen by 0.2% (MOM) in March on a seasonally adjusted basis, "ahead of the original end of the stamp duty holiday", to be 5.7% higher (YOY), after February's YOY rise of 6.9%.[23] The disparate findings suggest timing differences in reporting between the Halifax and the Nationwide.

Chart 7 House prices, annual inflation rate (%), October 2019-March 2021



Sources: (i) *Nationwide*, "UK annual house price growth slows in March as North West sees strongest growth in 2021Q1", 31 March 2021; (ii) *Halifax,* "Average house price hits new record high as market picks up momentum in March". 9 April 2021; (iii) *ONS*, "UK house prices index: February 2021", 21 April 2021.

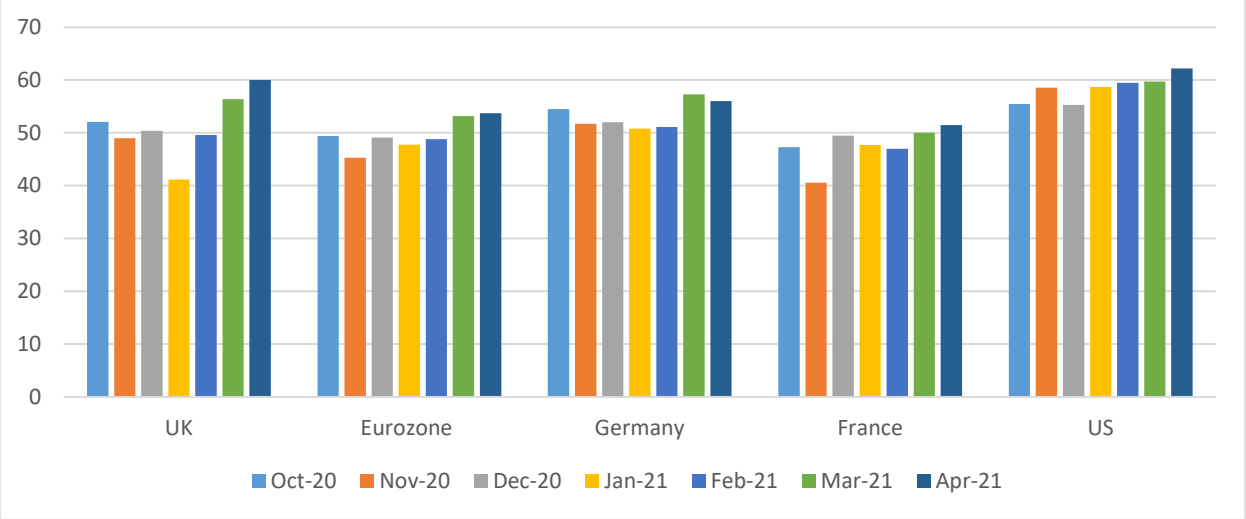
Markit survey for the Eurozone and another strong US performance

Markit's latest flash indices have also been released for the Eurozone and the US.

They suggested a modest improvement in the Eurozone in April, with the Composite Output Index rising to 53.7 in the month, after March's 53.2.[24] A record expansion of manufacturing output was accompanied by a return to growth in the service sector for the first time since last August. However, services continued to lag behind manufacturing, principally reflecting further efforts to contain the spread of Covid-19 in many member states. Within the Eurozone, the German recovery remains notably stronger than that of France, though growth slightly moderated in Germany in April. Germany's Composite Output Index slipped to 56.0 in April after March's 57.3. Services activity stalled and the upturn in manufacturing was partly held back by supply shortages.[25] The French Index improved to 51.7 in April after March's 50.0. A fresh increase in services activity outweighed a slight slowdown in manufacturing growth.[26]

Meanwhile, US private sector companies registered a further increase in business activity in April, as the Composite Output Index firmed to 62.2 after March's 59.7.[27] Businesses registered a survey record expansion of output during April, as looser Covid-19 restrictions and strong client demand boosted business activity. A steep upturn in manufacturing production occurred despite unprecedented supply chain disruptions, while services activity growth hit a new high. Markit commented "…the US economy is enjoying a strong start to the second quarter, firing on all cylinders as loosening virus restrictions, an impressive vaccine roll-out, a brighter outlook and stimulus measures all helped boost demand".

Chart 8 Markit PMI Composite Output Index, selected countries, for October 2020-April 2021



Sources include: (i) *Markit, Flash Eurozone PMI*, "Eurozone expansion gathers pace as manufacturing enjoys record boom", 23 April 2021; (ii) *Markit, Flash US PMI*, "Private sector output growth reaches fresh series high, but supply chain disruption continues to hamper goods production", 23 April 2021.

EU: update

There are two items of note: the latest ECB meeting and developments in relation to the EU's recovery fund.

Firstly, we note that the Governing Council of the European Central Bank agreed at its 11 March meeting to step up the pace of pandemic emergency purchase programme (PEPP) bond buying.[28-29] At the 22 April meeting the ECB left this very accommodative monetary policy unchanged.

Specifically, the decisions in April were:[30-31]

- The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility were unchanged at 0.00%, 0.25% and -0.50% respectively. These key interest rates were expected to remain at their present, or lower, levels until the inflation outlook is

seen to "…robustly converge to a level sufficiently close to, but below, 2% within the projection horizon".

- Net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850bn will continue until at least the end of March 2022 and, in any case, until the ECB "…judges that the coronavirus crisis phase is over". Moreover, the Governing Council "…expects purchases under the PEPP over the current quarter to continue to be conducted at a significantly higher pace than during the first months of the year". The principal payments from maturing securities purchased under the PEPP will be reinvested until at least the end of 2023.
- Net purchases under the asset purchase programme (APP) would continue at a monthly pace of €20bn. The ECB also intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates.
- The ECB will continue to provide ample liquidity through its refinancing operations. In particular, the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III) has registered a high take-up of funds. The funding obtained through TLTRO III "…plays a crucial role in supporting bank lending to firms and households".

There were no revised economic forecasts for the ECB's April meeting. The next set of forecasts will be in June (10 June 2021).

Secondly, there was a further development relating to EU's Next Generation EU (NGEU) COVID-recovery fund (including the key Recovery and Resilience Facility). By way of background, the European Council brokered agreement on 21 July 2020 for both the Budget for 2021-27 and the €750bn NGEU programme (comprising €390bn of grants and €360bn of low-interest loans). In July 2020 the European Council stated that "…for NGEU the Commission shall be empowered…to borrow funds on the capital markets on behalf of the Union up to the amount of €750bn (2018 prices). The Union shall use the funds borrowed on the capital markets for the sole purpose of addressing the consequences of the COVID-19 crisis. The funds borrowed may be used for loans up to an amount of €360bn (2018 prices) and for expenditure up to an amount of €390bn (2018 prices).[32]

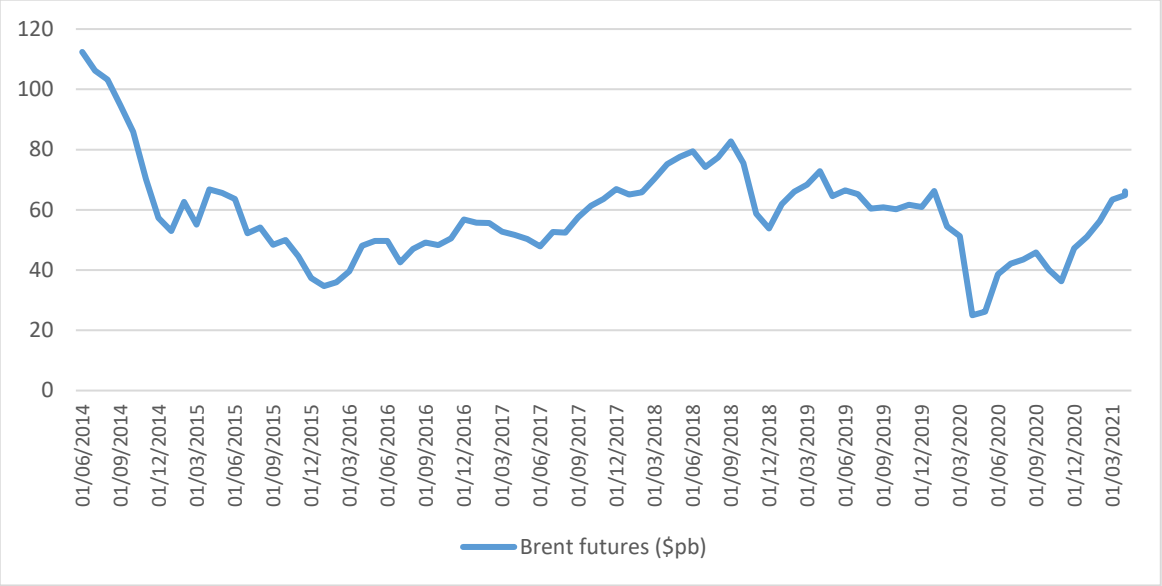
Germany's ratification of the EU's recovery fund was delayed by the German Federal Constitutional Court on 26 March 2021 when it announced that German President Frank-Walter Steinmeier could not sign off legislation ratifying the NGEU recovery fund on behalf of Germany whilst it was looking into a legal challenges against the debt-financed programmes.[33-35] However, the court dismissed the challenges on 21 April 2021, allowing Germany to conclude the legislative steps necessary before the disbursements can take place later this year.[36] It was, however, reported at the time that, "as of last week", Austria, Germany, Estonia, Finland, Hungary, Ireland, Lithuania, the Netherlands, Poland and Romania had yet to finish national proceedings before the European Commission was actually able to tap the markets.[37]

Oil prices: update

In January we discussed the part-recovery in oil prices, specifically after Saudi Arabia had unilaterally agreed in January to cut production in February and March.[38] This decision, along with the rest of the OPEC+ coalition's agreement to keep overall production almost flat for these months, aimed to suppress supply in the face of the then renewed concerns over the Covid-19 pandemic. Oil prices firmed further in February, on economic recovery expectations, and firmed further in March after OPEC+ agreed (in early March) to leave production levels unchanged in April.[39]

Prices have maintained a reasonably firm tone so far in April, following the April OPEC+ meeting (1 April 2021), which agreed to maintain production curbs until May (chart 9).[40-41] Oil prices are now above pre-pandemic levels.

Chart 9 Brent oil futures, $ per barrel ($pb), monthly prices (1st of month, or nearest), 1 June 2014-1 April 2021, and 23 April 2021



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