



October 8, 2009



## EUROPEAN CENTRAL BANK

### European key rates stay at their low

#### ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- The Governing Council has decided to keep the key rate at 1.00%.
- The latest information supports the Council's view that the euro zone economy is stabilizing and should begin a gradual recovery. However, uncertainty remains high.
- Although annual inflation was still slightly negative in September, it is expected to turn positive again in the months ahead and to remain at moderately positive rates in the medium term.
- Monetary analysis confirms the assessment of low inflationary pressures over the medium term.

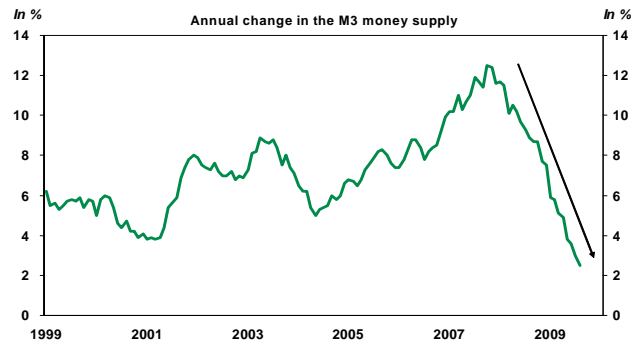
#### COMMENTS

Not surprisingly, the ECB decided to keep its monetary policy unchanged this morning. For its part, the Bank of England also opted for the status quo. The ECB's growth and inflation scenarios appear to be pretty much the same as at the last meeting. In the Council's view, the euro zone economy is stabilizing following the sharp drop in output at the end of 2008 and in the first quarter of 2009. The rebound in exports, along with the macroeconomic stimuli and measures to place the financial system back on track should sustain growth. Moreover, the inventory cycle is expected to contribute positively to economic activity in the second half of the year. However, uncertainty remains high and factors such as high unemployment could slow the recovery. In the medium term, ongoing balance sheet correction in the financial and the non-financial sectors could affect growth.

Price developments will continue to reflect ongoing sluggish demand in the euro zone and elsewhere. This should keep inflation low, but positive. The ongoing deceleration in annual M3 growth and private sector loans confirm the assessment of low inflationary pressures over the medium term.

The Council stressed the importance of implementing ambitious but realistic measures to ensure the sustainability of the euro zone's public finances. In this regard, measures

#### Money supply growth has slowed sharply in the euro zone



Sources: European Central Bank and Desjardins, Economic Studies

should focus on controlling public spending. While remaining cautious on the question of the euro, President Trichet reiterated the importance of a policy for a strong U.S. dollar and even went so far as to say that the ECB had no strategy to promote international use of the euro.

**Implications:** The outlook for the economy and inflation in the euro zone has not changed very much. We still think the key rate should remain at 1.00% until at least the middle of next year in order to support the recovery, which is shaping up to be modest. If nothing is done, the deterioration of the fiscal balance could become a bigger problem for the ECB in the quarters ahead and cause tensions inside the euro zone.

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**EXCERPT FROM THE EUROPEAN CENTRAL BANK PRESS RELEASE**


“[...] On the basis of its regular economic and monetary analyses, the Governing Council decided to leave the key ECB interest rates unchanged. The current rates remain appropriate. The incoming information and analyses since our last meeting in early September have confirmed our previous assessment. While annual HICP inflation was still slightly negative in September, according to Eurostat's flash estimate, it is expected to turn positive again in the coming months and to remain at moderately positive rates over the policy-relevant horizon. At the same time, the latest information further supports our view that the euro area economy is stabilising and is expected to recover at a gradual pace. However, uncertainty remains high. As regards medium to longer-term inflation expectations, they remain firmly anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term. The outcome of the monetary analysis confirms the assessment of low inflationary pressure over the medium term, as money and credit expansion continues to moderate. Against this background, we expect price stability to be maintained over the medium term, thereby supporting the purchasing power of euro area households.

[...] Overall, the recovery is expected to remain rather uneven. It will be supported in the short term by a number of temporary factors but is likely to be affected over the medium term by the process of ongoing balance sheet correction in the financial and the non-financial sector of the economy, both inside and outside the euro area [...].”

**Table 1  
Schedule and key rates**

Date	Central Bank	Decision	Rate
<b>July 2008</b>			
21	Bank of Canada	s.q.	0.25
22	Bank of Brazil	-50 b.p.	8.75
29	Reserve Bank of New Zealand	s.q.	2.50
<b>August 2008</b>			
4	Reserve Bank of Australia	s.q.	3.00
6	European Central Bank	s.q.	1.00
6	Bank of England	s.q.	0.50
10	Bank of Japan	s.q.	0.10
12	Bank of Norway	s.q.	1.25
12	Federal Reserve	s.q.	0.00 / 0.25
21	Bank of Mexico	s.q.	4.50
<b>September 2008</b>			
1	Reserve Bank of Australia	s.q.	3.00
2	Bank of Brazil	s.q.	8.75
3	European Central Bank	s.q.	1.00
3	Bank of Sweden	s.q.	0.25
9	Reserve Bank of New Zealand	s.q.	2.50
10	Bank of England	s.q.	0.50
10	Bank of Canada	s.q.	0.25
16	Bank of Japan	s.q.	0.10
17	Swiss National Bank	s.q.	0.25
18	Bank of Mexico	s.q.	4.50
23	Bank of Norway	s.q.	1.25
23	Federal Reserve	s.q.	0.00 / 0.25
<b>October 2008</b>			
5	Reserve Bank of Australia	+25 b.p.	3.25
8	European Central Bank	s.q.	1.00
8	Bank of England	s.q.	0.50

s.q.: status quo; b.p. : basis points  
Source: Desjardins, Economic Studies

**Table 2  
Coming soon**

Date	Central Bank
<b>October 2009</b>	
13	Bank of Japan
16	Bank of Mexico
20	Bank of Canada
21	Bank of Brazil
22	Bank of Norway
28	Reserve Bank of New Zealand
28	Bank of Japan
29	Bank of Sweden
<b>November 2009</b>	
2	Reserve Bank of Australia
4	Federal Reserve
5	European Central Bank
5	Bank of England
19	Bank of Japan
27	Bank of Mexico
30	Reserve Bank of Australia
<b>December 2009</b>	
3	European Central Bank
8	Bank of Canada
9	Reserve Bank of New Zealand
9	Bank of Brazil
10	Bank of England
10	Swiss National Bank
16	Bank of Norway
16	Bank of Sweden
16	Federal Reserve
6	Reserve Bank of Australia
<b>January 2010</b>	
7	Bank of England

Source: Desjardins, Economic Studies