

EUROPEAN CENTRAL BANK

Purchases of sovereign bonds will start in March

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

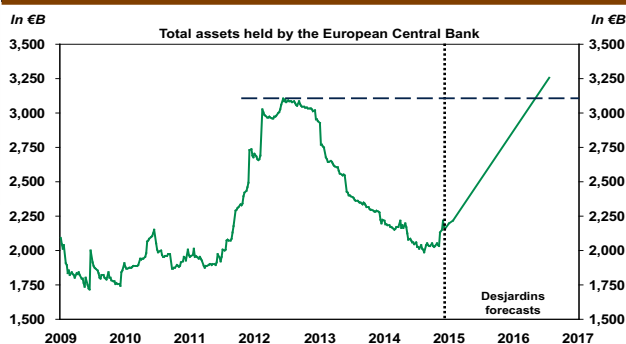
- The interest rates on the main refinancing operations, marginal lending facility and deposit facility will hold steady at 0.05%, 0.30% and -0.20% respectively.
- The securities purchase program has been enhanced and will incorporate sovereign bonds starting in March. The total monthly value of securities purchases will reach €60B. Only investment-grade sovereign bonds will be eligible. The distribution of purchases will be proportional to a country's participation in the ECB's capital key.
- The purchases will conclude at the end of September 2016 or when inflation is back on a sustainable path toward the target.
- National central banks will make the purchases. Twenty percent of the securities purchased will be subject to a risk-sharing plan.
- The interest rate on future targeted longer-term refinancing operations (TLTROs) will be equal to the Eurosystem's main refinancing operations; this will close the 10 basis-point gap.
- The risks on the euro zone's economy continue to be tilted to the downside, but have lessened with today's decisions.

COMMENTS

Expectations were running high for the ECB to finally announce sovereign bond purchases. Overall, the securities purchases will see the ECB inflate its balance sheet by €1,100B by September 2016, bringing it just above the peak reached in 2012. This increase does not include a likely additional contribution from TLTROs, which could enjoy greater popularity driven by a more attractive financing rate.

The fact that the ECB announced risk sharing with national central banks is good news. This aspect was not fully expected. Without risk sharing, it would have been more difficult to narrow the gaps in credit conditions across the euro zone. However, not all euro zone bonds will be purchased. Bonds from Greece were not rated high enough, and will not be included, at least in the short term.

The European Central Bank's balance sheet will surpass its 2012 peak



Sources: European Central Bank and Desjardins, Economic Studies

Implications: Today's announcement is intended to kick-start Euroland's economy and raise inflation. The impact on sovereign bond yields and on the euro could still be limited in the coming months. Knowing that expectations before today's meeting were very high, several financial variables had already incorporated the effect of a sovereign bond purchase program. Yet, this will help consolidate recent movement—a positive outlook for the euro zone. Lastly, as the ECB indicates, governments should also contribute to the recovery effort, particularly through structural reform to grow employment and productivity.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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Schedule 2015 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>
JANUARY			JULY		
8	Bank of England	s.q.	0.50	1	Bank of Sweden
14	Bank of Korea	s.q.	2.00	7	Reserve Bank of Australia
15	Swiss National Bank	-50 b.p.	-0.75	9	Bank of England
20-21	Bank of Japan	---	---	9	Bank of Korea
21	Bank of Brazil	+50 b.p.	12.25	15	Bank of Canada
21	Bank of Canada	-25 b.p.	0.75	16	European Central Bank
22	European Central Bank	s.q.	0.05	23	Reserve Bank of New Zealand
28	Federal Reserve			23	Bank of Mexico
29	Reserve Bank of New Zealand			29	Bank of Brazil
29	Bank of Mexico			29	Federal Reserve
FEBRUARY			* Bank of Japan		
3	Reserve Bank of Australia			AUGUST	
5	Bank of England			6	Bank of England
11	Bank of Sweden			4	Reserve Bank of Australia
17	Bank of Korea			13	Bank of Korea
17-18	Bank of Japan			*	Bank of Japan
MARCH			SEPTEMBER		
3	Reserve Bank of Australia			1	Reserve Bank of Australia
4	Bank of Brazil			2	Bank of Brazil
4	Bank of Canada			3	European Central Bank
5	European Central Bank			3	Bank of Mexico
5	Bank of England			9	Bank of Canada
12	Bank of Korea			10	Bank of England
12	Reserve Bank of New Zealand			10	Reserve Bank of New Zealand
16-17	Bank of Japan			11	Bank of Korea
18	Federal Reserve			17	Swiss National Bank
19	Bank of Norway			17	Federal Reserve
19	Swiss National Bank			24	Bank of Norway
26	Bank of Mexico			*	Bank of Japan
APRIL			* Bank of Sweden		
7	Reserve Bank of Australia			OCTOBER	
7-8	Bank of Japan			6	Reserve Bank of Australia
9	Bank of England			8	Bank of England
9	Bank of Korea			15	Bank of Korea
15	European Central Bank			15	Bank of Mexico
15	Bank of Canada			21	Bank of Brazil
28	Bank of Sweden			21	Bank of Canada
29	Bank of Brazil			22	European Central Bank
29	Federal Reserve			28	Federal Reserve
30	Reserve Bank of New Zealand			29	Reserve Bank of New Zealand
30	Bank of Japan			*	Bank of Japan
30	Bank of Mexico			*	Bank of Japan
MAY			* Bank of Sweden		
5	Reserve Bank of Australia			NOVEMBER	
7	Bank of Norway			3	Reserve Bank of Australia
11	Bank of England			5	Bank of England
15	Bank of Korea			5	Bank of Norway
21-22	Bank of Japan			12	Bank of Korea
27	Bank of Canada			25	Bank of Brazil
JUNE			* Bank of Japan		
2	Reserve Bank of Australia			DECEMBER	
3	European Central Bank			1	Reserve Bank of Australia
3	Bank of Brazil			2	Bank of Canada
4	Bank of England			3	European Central Bank
4	Bank of Mexico			3	Bank of Mexico
11	Bank of Korea			10	Bank of England
11	Reserve Bank of New Zealand			10	Bank of Korea
17	Federal Reserve			10	Reserve Bank of New Zealand
18	Bank of Norway			10	Swiss National Bank
18	Swiss National Bank			16	Federal Reserve
18-19	Bank of Japan			17	Bank of Norway

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * To be determined.