

EUROPEAN CENTRAL BANK

A last big push?

ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

- The interest rate on the deposit facility will be decreased by 10 basis points to -0.40%. The interest rates on its main refinancing operations and marginal lending facility will both be decreased by 5 basis points to 0.00% and 0.25% respectively.
- The volume of asset purchases will be expanded by €20B a month to a total of €80B per month. The purchasing program is still slated to end in March 2017.
- The array of securities purchased has been broadened to include investment grade corporate bonds. However, bonds issued by banking institutions are excluded.
- A new lending program for financial institutions will launch in June 2016, called targeted longer-term refinancing operations II (TLTRO II). The program will unfold in four tranches, each with a maturity of four years. The interest rates charged on these loans could be as low as the deposit facility rate. To benefit from this rate, however, institutions will have to use the new liquidity to increase their loan volume.
- The economic growth outlooks have been trimmed, with the forecast for 2016 dropping from 1.7% to 1.4%, and from 1.9% to 1.7% for 2017. Growth of 1.8% is expected for 2018.
- The inflation outlook has also been downgraded. Forecast inflation goes from 1.0% to 0.1% for 2016 and 1.6% to 1.3% for 2017. Inflation of 1.6% is expected for 2018.

COMMENTS

Expectations for this meeting were high and the ECB clearly wanted to deliver the goods by announcing a string of measures. In December, although several measures had been announced, the markets were quite unhappy with the fact that the pace of securities purchases did not accelerate. The additional measures announced today will expand the ECB's balance sheet by another €240B by March 2017. The ECB also took a big step in deciding to purchase corporate bonds.

ECB surprised forecasters by cutting the rates on refinancing operations and the lending facility. The rates

remain asymmetrical, with asymmetry even increasing: the cut to the deposit rate was bigger than the cuts to the other two rates. At the press conference, Mario Draghi stated that the ECB did not expect announcing further interest rate cuts as of this point.

Many expected the ECB to adjust its action to consider the fact that a number of financial institutions are being penalized by negative interest rates. However, it would have been difficult for the ECB to keep its rates steady without disappointing the markets. The new lending program announced today (TLTRO II) should still inject some life into the banking sector, as it will be an important source of low-cost financing. The interest rate applied to this financing will range from 0.0% to -0.4%, depending on how much the volume of loans extended by banking institutions increases.

Implications: This series of new measures was well received by the markets, but enthusiasm cooled when Mario Draghi signalled the end of interest rate cuts. This could therefore be the ECB's last big effort to try to boost inflation and economic growth in the euro zone. If further measures prove necessary, the ECB will essentially have to rely on its securities purchasing program. Discussions of other tools, such as direct money creation, could also intensify if the situation does not improve enough over the next few quarters. Here, we can at least expect that a gradual rise in oil prices will make a positive contribution to inflation.

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Schedule 2016 of Central Bank meetings

	<u>Decision</u>	<u>Rate</u>		<u>Decision</u>	<u>Rate</u>
JANUARY			JULY		
13	Bank of Korea	s.q.	1.50	5	Reserve Bank of Australia
14	Bank of England	s.q.	0.50	6	Bank of Sweden
20	Bank of Brazil	s.q.	14.25	13	Bank of Canada
20	Bank of Canada	s.q.	0.50	13-14	Bank of Korea
21	European Central Bank	s.q.	0.05	14	Bank of England
27	Federal Reserve	s.q.	0.50	20	Bank of Brazil
28	Reserve Bank of New Zealand	s.q.	2.50	21	European Central Bank
28-29	Bank of Japan	---	---	27	Federal Reserve
FEBRUARY			AUGUST		
1	Reserve Bank of Australia	s.q.	2.00	2	Reserve Bank of Australia
4	Bank of England	s.q.	0.50	4	Bank of England
4	Bank of Mexico	s.q.	3.25	10-11	Bank of Korea
11	Bank of Sweden	-15 b.p.	-0.50	10-11	Reserve Bank of New Zealand
15	Bank of Korea	s.q.	1.50	11	Bank of Mexico
29	Reserve Bank of Australia	s.q.	2.00	31	Bank of Brazil
MARCH			SEPTEMBER		
2	Bank of Brazil	s.q.	14.25	6	Reserve Bank of Australia
9	Bank of Korea	s.q.	1.50	7	Bank of Sweden
9	Reserve Bank of New Zealand	-25 b.p.	2.25	7	Bank of Canada
9	Bank of Canada	s.q.	0.50	8	European Central Bank
10	European Central Bank	-5 b.p.	0.00	8-9	Bank of Korea
14-15	Bank of Japan			15	Bank of England
16	Federal Reserve			15	Swiss National Bank
17	Bank of England			20-21	Bank of Japan
17	Bank of Norway			21	Federal Reserve
17	Swiss National Bank			21-22	Reserve Bank of New Zealand
18	Bank of Mexico			22	Bank of Norway
APRIL			OCTOBER		
5	Reserve Bank of Australia			3	Reserve Bank of Australia
13	Bank of Canada			12-13	Bank of Korea
14	Bank of England			13	Bank of England
18-19	Bank of Korea			19	Bank of Brazil
21	European Central Bank			19	Bank of Canada
21	Bank of Sweden			20	European Central Bank
27	Bank of Brazil			27	Bank of Norway
27	Federal Reserve			27	Bank of Sweden
27-28	Reserve Bank of New Zealand			31	Reserve Bank of Australia
27-28	Bank of Japan			31-1	Bank of Japan
MAY			NOVEMBER		
3	Reserve Bank of Australia			2	Federal Reserve
5	Bank of Mexico			3	Bank of England
12	Bank of England			9-10	Bank of Korea
12	Bank of Norway			10-11	Reserve Bank of New Zealand
12-13	Bank of Korea			17	Bank of Mexico
25	Bank of Canada			30	Bank of Brazil
JUNE			DECEMBER		
2	European Central Bank			5	Reserve Bank of Australia
7	Reserve Bank of Australia			7	Bank of Canada
8	Bank of Brazil			8	European Central Bank
8-9	Bank of Korea			14	Federal Reserve
8-9	Reserve Bank of New Zealand			14-15	Bank of Korea
15	Federal Reserve			15	Bank of England
15-16	Bank of Japan			15	Bank of Norway
16	Bank of England			15	Bank of Mexico
16	Swiss National Bank			15	Swiss National Bank
23	Bank of Norway			19-20	Bank of Japan
30	Bank of Mexico			21	Bank of Sweden

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.