

ESSENTIALS OF THE MONETARY POLICY

European Central Bank (ECB)

Interest Rate Increases Are Being Postponed until Later Due to Many Sources of Uncertainty

ACCORDING TO THE ECB

- ▶ Interest rates on the main refinancing operations, marginal lending facility and deposit facility remained unchanged at 0.0%, 0.25% and -0.4%, respectively.
- ▶ Key rates should remain at current levels at least until mid-2020.
- ▶ Economic growth should reach 1.2% in 2019, 1.4% in 2020 and 1.4% in 2021.
- ▶ Inflation is expected to reach 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021.
- ▶ Risks to future economic growth continue to be tilted to the downside due to prolonged uncertainty tied to geopolitical factors, a higher protectionist threat and vulnerabilities in emerging countries.

COMMENTS

The ECB upgraded its economic growth forecasts for 2019, as the first quarter proved somewhat stronger than expected. Weaker growth is, however, expected in the coming quarters. For 2020 and 2021, the economic growth forecasts have been downgraded from those released in March.

While the euro zone is not yet directly affected by the U.S. customs tariffs, the impact on its economy is being felt through lower global trade, which is hitting mainly the manufacturing sector. But it's not all doom and gloom. The ECB is pleased with the improvement in the labour market, with the unemployment rate nearing a low not seen since before the 2008–2009 financial crisis. Wages are also on the rise, a favourable factor for future inflation, which should nonetheless remain below the official ECB target in the coming years.

Probably few analysts could still believe that the ECB was going to start raising its interest rates at the beginning of next year. The further six-month delay in the anticipated start to monetary tightening seems entirely normal given the risks involved and the expected developments in the economy and inflation. That said, the ECB could very well have pushed this time frame until the end of next year. In a context where interest rate cuts are increasingly anticipated by the financial markets in the United States and other countries, talk is focusing less on when monetary tightening will start and more on when an easing cycle will begin. In that respect, the ECB is not ruling out cutting interest rates or resuming its asset purchases. However, there appears to be little wiggle room, as pushing interest rates deeper into negative territory could end up doing more harm than good.

IMPLICATIONS

The euro appreciated slightly this morning after the ECB's monetary policy decision and Mario Draghi's press conference. Perhaps the markets are realizing that the ECB might not be able to follow the Federal Reserve as closely in a possible new cycle of monetary easing. What is more, the economic situation would likely have to deteriorate significantly before the ECB intervened with rate cuts or asset purchases, which we do not foresee happening for the time being.

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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 2019 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
9	Bank of Canada*	s.q.	1.75
22	Bank of Japan	s.q.	-0.10
23	Bank of Korea	s.q.	1.75
24	European Central Bank	s.q.	0.00
24	Bank of Norway	s.q.	0.75
30	Federal Reserve	s.q.	2.50
February			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Brazil	s.q.	6.50
7	Bank of England	s.q.	0.75
7	Bank of Mexico	s.q.	8.25
12	Reserve Bank of New Zealand	s.q.	1.75
13	Bank of Sweden	s.q.	-0.25
27	Bank of Korea	s.q.	1.75
March			
4	Reserve Bank of Australia	s.q.	1.50
6	Bank of Canada	s.q.	1.75
7	European Central Bank	s.q.	0.00
14	Bank of Japan	s.q.	-0.10
20	Bank of Brazil	s.q.	6.50
20	Federal Reserve	s.q.	2.50
21	Bank of England	s.q.	0.75
21	Bank of Norway	+25 b.p.	1.00
21	Swiss National Bank	s.q.	-0.75
26	Reserve Bank of New Zealand	s.q.	1.75
28	Bank of Mexico	s.q.	8.25
April			
1	Reserve Bank of Australia	s.q.	1.50
10	European Central Bank	s.q.	0.00
17	Bank of Korea	s.q.	1.75
24	Bank of Canada*	s.q.	1.75
24	Bank of Japan	s.q.	-0.10
25	Bank of Sweden	s.q.	-0.25
May			
1	Federal Reserve	s.q.	2.50
2	Bank of England	s.q.	0.75
7	Reserve Bank of Australia	s.q.	1.50
7	Reserve Bank of New Zealand	-25 b.p.	1.50
8	Bank of Brazil	s.q.	6.50
16	Bank of Mexico	s.q.	8.25
29	Bank of Canada	s.q.	1.75
30	Bank of Korea	s.q.	1.75
June			
4	Reserve Bank of Australia	-25 b.p.	1.25
6	European Central Bank	s.q.	0.00
13	Swiss National Bank		
19	Bank of Brazil		
19	Bank of Japan		
19	Federal Reserve		
20	Bank of England		
20	Bank of Norway		
25	Reserve Bank of New Zealand		
27	Bank of Mexico		

Date	Central banks	Decision	Rate
July			
2	Reserve Bank of Australia		
3	Bank of Sweden		
10	Bank of Canada*		
17	Bank of Korea		
25	European Central Bank		
29	Bank of Japan		
31	Bank of Brazil		
31	Federal Reserve		
August			
1	Bank of England		
6	Reserve Bank of Australia		
6	Reserve Bank of New Zealand		
15	Bank of Mexico		
29	Bank of Korea		
September			
3	Reserve Bank of Australia		
4	Bank of Canada		
5	Bank of Sweden		
12	European Central Bank		
18	Bank of Brazil		
18	Bank of Japan		
18	Federal Reserve		
19	Bank of England		
19	Bank of Norway		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of Mexico		
October			
1	Reserve Bank of Australia		
16	Bank of Korea		
24	European Central Bank		
24	Bank of Sweden		
30	Bank of Brazil		
30	Bank of Canada*		
30	Bank of Japan		
30	Federal Reserve		
November			
5	Reserve Bank of Australia		
7	Bank of England		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
December			
3	Reserve Bank of Australia		
4	Bank of Canada		
11	Bank of Brazil		
11	Federal Reserve		
12	European Central Bank		
12	Swiss National Bank		
18	Bank of Japan		
19	Bank of England		
19	Bank of Norway		
19	Bank of Sweden		
19	Bank of Mexico		

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. * Monetary Policy Report published.