

ESSENTIALS OF THE MONETARY POLICY

European Central Bank (ECB)

The Deposit Rate Is Set Deeper into Negative Territory

ACCORDING TO THE ECB

- ▶ The deposit facility interest rate will be decreased by 10 basis points to -0.50%. Interest rates on the main refinancing operations and the marginal lending facility will remain unchanged at 0.00% and 0.25%, respectively.
- ▶ Part of financial institutions' excess reserves will be exempted from the negative interest rate.
- ▶ Asset-buying will start again on November 1 at the pace of €20B per month.
- ▶ Economic growth is expected to reach 1.1% in 2019, 1.2% in 2020 and 1.4% in 2021.
- ▶ Inflation is expected to reach 1.2% in 2019, 1.0% in 2020 and 1.5% 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 markets.

Another interesting point is that the ECB seems to want to put more pressure on governments to support the economy, either through structural reforms to boost growth over the long term or through economic stimulation plans. However, not all eurozone governments are in a position to heavily intervene, and the ECB is well aware of this.

This tougher stand on government intervention may mean that the ECB is starting to feel that its monetary policy is reaching its limit in terms of effectiveness. We highlighted this issue in a recent [Economic Viewpoint](#). This is also forcing the ECB to reflect on its monetary policy framework, with possible changes coming in the next few years.

IMPLICATIONS

Given today's announcements, European bond yields are expected to remain in negative territory for several years to come. More and more retail rates may also follow suit. That said, there is the risk that in the end these measures will have limited impact on the economy and on inflation, especially if they are not supported by expansionist policies on the part of governments.

COMMENTS

Faced with a slowing economy in the eurozone and an inflation that is now clearly below target, the ECB had no real choice but to ease its monetary policy. The interest rate cut on deposits and renewed asset buying less than a year after they were stopped had largely been anticipated.

What is somewhat more surprising is the length of time the monetary policy may remain in place at the current level or eased even further. Before withdrawing its easing measures, the ECB would like to see the future trend in inflation robustly converge close to its target. This trend should also be observed with core inflation, which excludes changes in food and energy prices. In light of the ECB's inflation forecasts, this means that it may still take years before we see the start of monetary tightening in the eurozone.

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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	s.q.	-0.75
19	Bank of Brazil	s.q.	6.50
19	Bank of Japan	s.q.	-0.10
19	Federal Reserve	s.q.	2.50
20	Bank of England	s.q.	0.75
20	Bank of Norway	+25 b.p.	1.25
25	Reserve Bank of New Zealand	s.q.	1.50
27	Bank of Mexico	s.q.	8.25

Date	Central banks	Decision	Rate
July			
2	Reserve Bank of Australia	-25 b.p.	1.00
3	Bank of Sweden	s.q.	-0.25
10	Bank of Canada*	s.q.	1.75
17	Bank of Korea	-25 b.p.	1.50
25	European Central Bank	s.q.	0.00
29	Bank of Japan	s.q.	-0.10
31	Bank of Brazil	-50 b.p.	6.00
31	Federal Reserve	-25 b.p.	2.25
August			
1	Bank of England	s.q.	0.75
6	Reserve Bank of Australia	s.q.	1.00
6	Reserve Bank of New Zealand	-50 b.p.	1.00
15	Bank of Norway	s.q.	1.25
15	Bank of Mexico	-25 b.p.	8.00
29	Bank of Korea	s.q.	1.50
September			
3	Reserve Bank of Australia	s.q.	1.00
4	Bank of Canada	s.q.	1.75
5	Bank of Sweden	s.q.	-0.25
12	European Central Bank	s.q.	0.00
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		
15	Bank of Korea		
24	European Central Bank		
24	Bank of Norway		
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.