

ESSENTIALS OF THE MONETARY POLICY

European Central Bank (ECB)

Several Measures Introduced to Offset the Impact of COVID-19's Second Wave on the Economy

ACCORDING TO THE ECB

- ▶ Interest rates on the main refinancing operations, marginal lending facility and deposit facility remained unchanged at 0.00%, 0.25% and -0.50% respectively.
- ▶ The Pandemic Emergency Purchase Programme (PEPP) received a €500B boost. In total, €1,850B in assets could be purchased through this program, with the minimum horizon shifting from June 2021 to March 2022.
- ▶ Purchases made through the PEPP will be flexible to ensure that financial conditions remain favourable. There is no guarantee that the additional envelope will be used in its entirety, and it could be increased if necessary.
- ▶ Three new long-term refinancing operations were added between June 2021 and December 2021. Furthermore, favourable borrowing conditions for this type of financing were extended by 12 months to June 2022. This includes an interest rate that could go as low as -1.00%.
- ▶ The Pandemic Emergency Longer-term Refinancing Operations (PELTROs) has also been enhanced. Four new operations were added for 2021.
- ▶ Short-term forecasts were revised down. Economic growth should reach -7.3% in 2020, 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023. The risks surrounding the outlook remain tilted to the downside, but have become less pronounced, especially because of vaccines.
- ▶ Inflation is expected to hit 0.2% in 2020, 1.0% in 2021, 1.1% in 2022 and 1.4% in 2023. Forecasts for 2020 and 2022 have been revised down.

COMMENTS

Financial markets may have been encouraged by the arrival of vaccines against COVID-19, but the ECB is highlighting the significant negative impact that the second wave is having on the economy. The fourth quarter of 2020 is expected to post negative growth, and the beginning of 2021 should also prove difficult. The measures announced today will help offset the economic effects of the second wave of COVID-19. Moreover, the ECB remains prudent when it comes to the vaccination campaign, stressing the difficulty in achieving herd immunity and the risk of a resurgence of the virus.

Today's announcements are reducing the gap that exists between the ECB's interventions and those of the Federal Reserve. If most of the ECB's purchases had ended in June, this would have been in stark contrast to what the Americans are expected to do. This may have led to a steep rise in the euro's value. Even if the ECB has no specific target for the euro, it has made a note of its recent increase. This is putting more downward pressure on the ECB's inflation forecast. During the press conference, Christine Lagarde, President of the ECB, said that the evolution of the currency will be closely monitored.

IMPLICATIONS

The ECB is demonstrating a greater commitment to supporting the economy until the pandemic's effects disappear. Its updated forecast also suggests that it will be difficult to raise key rates before 2023. The euro wasn't really affected by today's decisions.

Hendrix Vachon, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Hendrix Vachon, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

Schedule 2020 of Central Bank Meetings

| Date | Central banks | Decision | Rate |
|-----------------|-----------------------------|-----------|-------|
| January | | | |
| 16 | Bank of Korea | s.q. | 1.25 |
| 20 | Bank of Japan | s.q. | -0.10 |
| 22 | Bank of Canada* | s.q. | 1.75 |
| 23 | European Central Bank | s.q. | 0.00 |
| 23 | Bank of Norway | s.q. | 1.50 |
| 29 | Federal Reserve | s.q. | 1.75 |
| 30 | Bank of England | s.q. | 0.75 |
| February | | | |
| 3 | Reserve Bank of Australia | s.q. | 0.75 |
| 5 | Bank of Brazil | -25 b.p. | 4.25 |
| 11 | Reserve Bank of New Zealand | s.q. | 1.00 |
| 12 | Bank of Sweden | s.q. | 0.00 |
| 13 | Bank of Mexico | -25 b.p. | 7.00 |
| 26 | Bank of Korea | s.q. | 1.25 |
| March | | | |
| 2 | Reserve Bank of Australia | -25 b.p. | 0.50 |
| 3 | Federal Reserve | -50 b.p. | 1.25 |
| 4 | Bank of Canada | -50 b.p. | 1.25 |
| 11 | Bank of England | -50 b.p. | 0.25 |
| 12 | European Central Bank | s.q. | 0.00 |
| 13 | Bank of Norway | -50 b.p. | 1.00 |
| 13 | Bank of Canada | -50 b.p. | 0.75 |
| 15 | Reserve Bank of New Zealand | -75 b.p. | 0.25 |
| 15 | Federal Reserve | -100 b.p. | 0.25 |
| 16 | Bank of Korea | -50 b.p. | 0.75 |
| 16 | Bank of Japan | s.q. | -0.10 |
| 18 | Reserve Bank of Australia | -25 b.p. | 0.25 |
| 18 | Bank of Brazil | -50 b.p. | 3.75 |
| 19 | Bank of England | -15 b.p. | 0.10 |
| 19 | Swiss National Bank | s.q. | -0.75 |
| 20 | Bank of Norway | -75 b.p. | 0.25 |
| 20 | Bank of Mexico | -50 b.p. | 6.50 |
| 26 | Bank of England | s.q. | 0.10 |
| 27 | Bank of Canada | -50 b.p. | 0.25 |
| April | | | |
| 7 | Reserve Bank of Australia | s.q. | 0.25 |
| 8 | Bank of Korea | s.q. | 0.75 |
| 15 | Bank of Canada* | s.q. | 0.25 |
| 21 | Bank of Mexico | -50 b.p. | 6.00 |
| 28 | Bank of Sweden | s.q. | 0.00 |
| 28 | Bank of Japan | s.q. | -0.10 |
| 29 | Federal Reserve | s.q. | 0.25 |
| 30 | European Central Bank | s.q. | 0.00 |
| May | | | |
| 5 | Reserve Bank of Australia | s.q. | 0.25 |
| 6 | Bank of Brazil | -75 b.p. | 3.00 |
| 7 | Bank of England | s.q. | 0.10 |
| 7 | Bank of Norway | -25 b.p. | 0.00 |
| 12 | Reserve Bank of New Zealand | s.q. | 0.25 |
| 14 | Bank of Mexico | -50 b.p. | 5.50 |
| 27 | Bank of Korea | -25 b.p. | 0.50 |
| June | | | |
| 2 | Reserve Bank of Australia | s.q. | 0.25 |
| 3 | Bank of Canada | s.q. | 0.25 |
| 4 | European Central Bank | s.q. | 0.00 |
| 10 | Federal Reserve | s.q. | 0.25 |
| 15 | Bank of Japan | s.q. | -0.10 |
| 17 | Bank of Brazil | -75 b.p. | 2.25 |
| 18 | Bank of England | s.q. | 0.10 |
| 18 | Bank of Norway | s.q. | 0.00 |
| 18 | Swiss National Bank | s.q. | -0.75 |
| 23 | Reserve Bank of New Zealand | s.q. | 0.25 |
| 25 | Bank of Mexico | -50 b.p. | 5.00 |

| Date | Central banks | Decision | Rate |
|------------------|-----------------------------|----------|-------|
| July | | | |
| 1 | Bank of Sweden | s.q. | 0.00 |
| 7 | Reserve Bank of Australia | s.q. | 0.25 |
| 14 | Bank of Japan | s.q. | -0.10 |
| 15 | Bank of Korea | s.q. | 0.50 |
| 15 | Bank of Canada* | s.q. | 0.25 |
| 16 | European Central Bank | s.q. | 0.00 |
| 29 | Federal Reserve | s.q. | 0.25 |
| August | | | |
| 4 | Reserve Bank of Australia | s.q. | 0.25 |
| 5 | Bank of Brazil | -25 b.p. | 2.00 |
| 6 | Bank of England | s.q. | 0.10 |
| 11 | Reserve Bank of New Zealand | s.q. | 0.25 |
| 13 | Bank of Mexico | -50 b.p. | 4.50 |
| 20 | Bank of Norway | s.q. | 0.00 |
| 26 | Bank of Korea | s.q. | 0.50 |
| September | | | |
| 1 | Reserve Bank of Australia | s.q. | 0.25 |
| 9 | Bank of Canada | s.q. | 0.25 |
| 10 | European Central Bank | s.q. | 0.00 |
| 16 | Bank of Brazil | s.q. | 2.00 |
| 16 | Bank of Japan | s.q. | -0.10 |
| 16 | Federal Reserve | s.q. | 0.25 |
| 17 | Bank of England | s.q. | 0.10 |
| 22 | Reserve Bank of New Zealand | s.q. | 0.25 |
| 22 | Bank of Sweden | s.q. | 0.00 |
| 24 | Bank of Norway | s.q. | 0.00 |
| 24 | Bank of Mexico | -25 b.p. | 4.25 |
| 24 | Swiss National Bank | s.q. | -0.75 |
| October | | | |
| 5 | Reserve Bank of Australia | s.q. | 0.25 |
| 13 | Bank of Korea | s.q. | 0.50 |
| 28 | Bank of Brazil | s.q. | 2.00 |
| 28 | Bank of Canada* | s.q. | 0.25 |
| 28 | Bank of Japan | s.q. | -0.10 |
| 29 | European Central Bank | s.q. | 0.00 |
| November | | | |
| 2 | Reserve Bank of Australia | -15 b.p. | 0.10 |
| 5 | Bank of England | s.q. | 0.10 |
| 5 | Bank of Norway | s.q. | 0.00 |
| 5 | Federal Reserve | s.q. | 0.25 |
| 10 | Reserve Bank of New Zealand | s.q. | 0.25 |
| 12 | Bank of Mexico | s.q. | 4.25 |
| 25 | Bank of Korea | s.q. | 0.50 |
| 26 | Bank of Sweden | s.q. | 0.00 |
| 30 | Reserve Bank of Australia | s.q. | 0.10 |
| December | | | |
| 9 | Bank of Brazil | s.q. | 2.00 |
| 9 | Bank of Canada | s.q. | 0.25 |
| 10 | European Central Bank | s.q. | 0.00 |
| 16 | Federal Reserve | s.q. | 0.25 |
| 17 | Bank of England | s.q. | 0.10 |
| 17 | Bank of Norway | s.q. | 0.00 |
| 17 | Bank of Japan | s.q. | -0.10 |
| 17 | Bank of Mexico | s.q. | 4.25 |
| 17 | Swiss National Bank | s.q. | -0.75 |

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.