

ESSENTIALS OF THE MONETARY POLICY

European Central Bank (ECB)

No Rate Cut, but Measures to Avoid a Liquidity Crisis

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.
- ▶ A €120B envelope aimed mostly at private-sector bonds has been added to the asset purchase program for 2020. In all, this should increase the average monthly rate for asset purchases to just over €30B.
- ▶ New long-term refinancing operations will be carried out to quickly increase liquidity in the euro zone's financial system.
- ▶ Interest payable on long-term refinancing operations will be lowered by up to 25 basis points below the ECB's deposit rate between June 2020 and June 2021.
- ▶ Regulatory requirements for capital and liquidities have eased temporarily.
- ▶ Economic growth should reach 0.8% in 2020, 1.3% in 2021 and 1.4% in 2022. The risks surrounding growth outlook are clearly on the downside.
- ▶ Inflation is expected to reach 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022.

should help limit the recent increase in credit spreads and help businesses to finance themselves.

The absence of an interest rate cut is also likely the result of much less room to manoeuvre compared to that of other central banks. A negative interest rate policy has been in effect in the euro zone for nearly six years. Several experts are questioning the effectiveness of maintaining such low rates for such a long period of time. It isn't easy to accurately estimate how low a central bank's key rates can go, but this point may be near in the euro zone.

IMPLICATIONS

Some people may be disappointed that the ECB didn't announce an interest rate cut today. Yet the measures taken should still help the European financial system and reduce the risk of a liquidity crisis that could considerably worsen the economic situation. The door remains open to other actions. If the current crisis worsens, the ECB could increase its asset purchases. Interest rate reductions are still possible, although they will without a doubt be limited because of the narrow wiggle room available.

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COMMENTS

After the Federal Reserve and the Bank of Canada last week, and the Bank of England yesterday, the ECB has now announced measures to respond to the turmoil associated with the coronavirus pandemic. Contrary to what was announced elsewhere, the ECB chose not to reduce its key rates. However, it did announce a series of measures that should help the euro zone's financial system. In fact, financial institutions will be able to benefit from the ECB's increased financing and more favourable conditions. They will also be under less pressure to achieve their regulatory capital and liquidity requirements. The additional asset purchases mostly targeting private-sector bonds

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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 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
27	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
12	European Central Bank	s.q.	0.00
18	Bank of Brazil		
18	Federal Reserve		
19	Bank of Norway		
19	Bank of Japan		
19	Swiss National Bank		
24	Reserve Bank of New Zealand		
26	Bank of England		
26	Bank of Mexico		
April			
7	Reserve Bank of Australia		
9	Bank of Korea		
15	Bank of Canada*		
28	Bank of Sweden		
28	Bank of Japan		
29	Federal Reserve		
30	European Central Bank		
May			
5	Reserve Bank of Australia		
6	Bank of Brazil		
7	Bank of England		
7	Bank of Norway		
12	Reserve Bank of New Zealand		
14	Bank of Mexico		
28	Bank of Korea		
June			
2	Reserve Bank of Australia		
3	Bank of Canada		
4	European Central Bank		
10	Federal Reserve		
16	Bank of Japan		
17	Bank of Brazil		
18	Bank of England		
18	Bank of Norway		
18	Swiss National Bank		
23	Reserve Bank of New Zealand		
25	Bank of Mexico		

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

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.