



Euro Zone / Zone Euro

ECB: acting strongly!

At its June meeting, the ECB unveiled a package of measures aiming at boosting demand, credit and eventually increasing inflation and inflation expectations. Key policy rates have been lowered, targeted refinancing operations will be conducted and the sterilisation of the SMP halted. The ECB claims that it might do more if needed.

- Cutting the *refi* rate to a new historical low, putting a negative rate on the deposit facility, new special and targeted liquidity operations; stopping the sterilisation of the SMP, continuing conducting refinancing operations at fixed rate full allotment until the end of 2016, ongoing preparatory work for outright purchase in the ABS market (all details might be found on the ECB web site at <http://www.ecb.europa.eu/press/pr/date/2014/html/index.en.html> & <http://www.ecb.europa.eu/press/pressconf/2014/html/index.en.html>) This is the package adopted by the Council in June. Those measures are clearly welcomed; the ECB claims that it is ready to embark on further actions such as a broader purchase of assets if needed.
- The ECB is particularly uncomfortable with the current low level of inflation (revised downwards) , which, if protracted for several months might risk detaching inflation expectations, increasing the risk of deflation and making it harder for States and the private sector to manage their debt ratios. Today's package is devoted to counter those risks, stimulating demand, credit and eventually inflation and inflation expectations.
- The package might be divided in three parts: the first one aims at making the ECB monetary policy stance easier. The *refi* rate was lowered by 10 bp to 0.15%, its new historical low. Approaching the zero lower bound further cuts in the *refi* rate alone would have had a very marginal impact on the economy, although not nil as there are many banks, mainly in peripheral countries, still highly addicted to the ECB liquidity. Therefore, the ECB decided to cut by 10 bp to -0.10% the interest rate on the deposit facility. Reducing the *de facto* lower bound for the Eonia, the ECB wants to produce a larger impact on market rates.
- Over the past two months the Eonia was traded on average at around 0.25%, that is in line with the previous value of the *refi* rate. The Eonia is likely to be traded lower, yet anticipating how much lower is rather complicated as different forces play in opposite directions. Notice that the Eonia, theoretically might become negative as well.
- As there is no incentive to keep liquidity in the deposit facility or in

La BCE frappe fort

A l'issue de la réunion du 5 juin, la Banque centrale européenne (BCE) a annoncé tout un ensemble de mesures destinées à soutenir la demande et le crédit en zone euro. Les taux directeurs sont abaissés, celui appliqué à la facilité de dépôt devenant négatif ; de nouveaux prêts à long terme ciblant le crédit au secteur privé (hors logement) vont être accordés ; le programme pour les marchés de titres (SMP) cesse d'être stérilisé.

the current accounts that banks held with the ECB (the excess reserves will be subject to the a penalty rate of -0.10%), banks might reduce their liquidity held at the ECB. This might push higher the Eonia. On the contrary the halt of the sterilisation of the SMP (around EUR 150bn) might add some liquidity and work in the opposite direction. In addition some credit institutions, in their costs-benefit analysis, might prefer to keep some liquidity at the ECB to meet their new regulatory requirements under Basel III. Taking all these elements together we think that the Eonia might be traded close to zero, remaining, however in positive territory. The cut of the interest rate on the marginal lending facility by 35bp to 0.4% is also extremely important. As this is the *de facto* upper bound of the Eonia, this cut might limit its the volatility, an element able to tighten monetary conditions. Policy rates have probably reached their lower bound.

- The second part of the Package aims at making it sure the easier monetary policy will be transmitted to the economy. For this reason the ECB decided to conduct a series of targeted Longer Term Refinancing Operations aiming at supporting credit to households and non-financial corporations. A number of features of these TLTRO will monitor that liquidity will be used to finance the real economy and not used, as it has been the case for the special 3-y LTROs to buy sovereign securities. The very low cost of these operations (interest rates equal to the *refi* plus a spread of 10 bp fixed in advance), the duration (4 years) and how they are targeted (see again previous links) could make them extremely useful to enhance credit.
- The last part of the package shows that the ECB will do more and might do more if needed. The ECB might announce soon an outright purchase package for buying ABS securities. This action could ease the fragmentation in financial markets as those countries which use more extensively ABS are peripheral countries. Lastly the ECB stressed that it could do more if needed. But for the time being it is likely to first assess the impact of this set of actions on the economy.

Clemente DE LUCIA
clemente.delucia@bnpparibas.com





ECONOMIC RESEARCH DEPARTMENT

• **Jean-Philippe COTIS** +33.(0)1.55.77.47.31 jean-philippe.cotis@bnpparibas.com
Chief Economist

OECD COUNTRIES

• **Jean-Luc PROUTAT** +33.(0)1.58.16.73.32 jean-luc.proutat@bnpparibas.com
Head

• **Alexandra ESTIOT** +33.(0)1.58.16.81.69 alexandra.estiot@bnpparibas.com
Deputy Head – Globalisation, United States, Canada

• **Hélène BAUDCHON** +33.(0)1.58.16.03.63 helene.baudchon@bnpparibas.com
France, Belgium, Luxembourg

• **Frédérique CERISIER** +33.(0)1.43.16.95.52 frederique.cerisier@bnpparibas.com
Public finance – European institutions

• **Clemente De LUCIA** +33.(0)1.42.98.27.62 clemente.delucia@bnpparibas.com
Euro zone, Italy - Monetary issues - Economic modeling

• **Thibault MERCIER** +33.(0)1.57.43.02.91 thibault.mercier@bnpparibas.com
Spain, Portugal, Greece, Ireland

• **Caroline NEWHOUSE** +33.(0)1.43.16.95.50 caroline.newhouse@bnpparibas.com
Germany, Austria -Supervision of publications

• **Catherine STEPHAN** +33.(0)1.55.77.71.89 catherine.stephan@bnpparibas.com
United Kingdom, Switzerland, Nordic Countries – Labour market

• **Raymond VAN DER PUTTEN** +33.(0)1.42.98.53.99 raymond.vanderputten@bnpparibas.com
Japan, Australia, Netherlands - Environment – Pensions

• **Caroline WURTZ** +33 (0)1.42.98.07.28 caroline.wurtz@bnpparibas.com
European questions

• **Tarik RHARRAB** +33.(0)1.43.16.95.56 tarik.rharrab@bnpparibas.com
Statistics

BANKING ECONOMICS

• **Laurent QUIGNON** +33.(0)1.42.98.56.54 laurent.quignon@bnpparibas.com
Head

• **Delphine CAVALIER** +33.(0)1.43.16.95.41 delphine.cavalier@bnpparibas.com

• **Céline CHOLET** +33.(0)1.43.16.95.54 celine.choulet@bnpparibas.com

• **Laurent NAHMIAS** +33.(0)1.42.98.44.24 laurent.nahmias@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

• **François FAURE** +33.(0)1 42 98 79 82 francois.faure@bnpparibas.com
Head

• **Christine PELTIER** +33.(0)1.42.98.56.27 christine.peltier@bnpparibas.com
Deputy Head - Methodology, China, Vietnam

• **Stéphane ALBY** +33.(0)1.42.98.02.04 stephane.alby@bnpparibas.com
Africa, French-speaking countries

• **Sylvain BELLEFONTAINE** +33.(0)1.42.98.26.77 sylvain.bellefontaine@bnpparibas.com
Latin America - Methodology, Turkey

• **Pascal DEVAUX** +33.(0)1.43.16.95.51 pascal.devaux@bnpparibas.com
Middle East – Scoring

• **Hélène DROUOT** +33.(0)1.42.98.33.00 helene.drouot@bnpparibas.com
Asia

• **Jean-Loïc GUIEZE** +33.(0)1.42.98.43.86 jeanloic.guieze@bnpparibas.com
Africa, English and Portuguese speaking countries

• **Valentin LETHIELLEUX** +33 (0)1.42.98.48.45 valentin.letthielleux@bnpparibas.com
Latin America

• **Johanna MELKA** +33.(0)1.58.16.05.84 johanna.melka@bnpparibas.com
Asia – Capital Flows

• **Ekaterina MOLODOVA** +33.(0)1.42.98.48.45 ekaterina.molodova@bnpparibas.com
Russia and other CIS countries

• **Alexandre VINCENT** +33.(0)1.43.16.95.44 alexandre.vincent@bnpparibas.com
Central and Eastern Europe

• **Alexandra WENTZINGER** +33 (0)1 55 77 80 60 alexandra.wentzinger@bnpparibas.com
Africa, Brazil

• **Michel BERNARDINI** +33.(0)1.42.98.05.71 michel.bernardini@bnpparibas.com
Public Relations Officer





OUR PUBLICATIONS



CONJONCTURE

Structural or in the news flow, two issues analysed in depth



EMERGING

Analyses and forecasts for a selection of emerging economies



PERSPECTIVES

Analyses and forecasts for the main countries, emerging or developed



ECOFASH

Data releases, major economic events. Our detailed views...



ECOWEEK

Weekly economic news and much more...



ECOTV

In this monthly webTV, our economists make sense of economic news



ECOTV WEEK

What is the main event this week? The answer is in your two minutes of economy

You can read and watch our analyses on Eco news, our iPad and Android application



<http://economic-research.bnpparibas.com>

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report is solely prepared for professional clients. It is not intended for retail clients and should not be passed on to any such persons. This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA, incorporated in France with Limited Liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF) whose head office is 16, Boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. - Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Autorité de Contrôle Prudentiel and it is authorised and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer to US major institutional investors only. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2013). All rights reserved.

