

Short Note ECB

ECB monetary policy decision

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ECB meets market expectations

As announced after the October meeting, the ECB decided on a series of monetary easing measures at the meeting that ended today. A series of hints since then had made it pretty clear what to expect and thus there were no major surprises today.

The following measures were adopted:

The PEPP purchase program was extended by nine months until at least March 2022. The framework for purchases was increased by EUR 500 billion to 1,850 billion. As in the past, President Lagarde emphasized the flexibility of the program, not only in terms of the distribution of purchases among security classes and issuers, but also in terms of volume. It is just as possible not to fully utilize the set framework as it is to increase it if necessary. Redemptions from the portfolio will now be reinvested one year longer until the end of 2023.

TLTRO III will be extended by three additional operations in June, September and December 2021. The period during which the minimum achievable interest rate of -1% can be reached is extended by one year to June 2022. In general, the interest rate will be 50 basis points below the average of the main refinancing rate (0%) during the period. However, banks that keep their outstanding loan volumes at least constant (evaluation period 1 October 2020 - 31 December 2021) will receive ECB funds at 50 basis points below the deposit rate (-0.5%), i.e. at -1%. These changes also apply to funding from previous TLTRO III operations. Furthermore, the maximum funding volume was increased from 50% to 55% of the percentage of eligible loans.

Lower collateral requirements for ECB liquidity drawdowns decided in April 2020 have been extended until June 2022.

Four more PELTROs will be held during 2021 to address short-term liquidity needs.

There were no changes in the APP purchase program, which will continue with EUR 20 billion per month. Furthermore, the repos and swap lines with other central banks remain unchanged. Finally, open market operations at fixed interest rates and full allotment will continue as long as necessary. There were also no changes in the 2-tier system of deposits with the ECB.

All these measures are designed to preserve the favorable financing conditions. There was no quantitative definition (yield target) of what constitutes favorable financing conditions. Indirectly, however, one could conclude from Lagard's statements that this would probably be assessed depending on the economic situation. In a weak economy, lower interest rates would be favorable than in a strong economy. On the other hand,

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Note: Past performance is not necessarily indicative of future results.

Lagarde explicitly emphasized that these favorable financing conditions should remain guaranteed, from loans to different borrowers to yields in all segments of the bond market.

The market reaction to today's Governing Council decisions was weak. We still expect yields on medium and longer maturities of German benchmark Bunds to rise slightly in the course of 2021 due to the economic recovery.

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