

ECB: No Spring break but a study break

After the March action, the ECB took it a bit easier today. The ECB first wants to spend more time in the study room before announcing details of the new TLTROs or even presenting measures to bring relief to the banks



Source: Andrej Klizan

The European Central Bank (ECB) made it a bit harder for its watchers than usual, shifting around text blocs in the introductory statement. In the end, however, the content of the ECB's introductory statement and the ECB's assessment of growth and inflation outlook had remained basically unchanged from the March meeting. The ECB remains on high alert.

The ECB remains on high alert

The main interest was on whether the ECB would give away any new details of the new series of longer-term refinancing operations (TLTRO3), starting in September, and whether the ECB would elaborate more on recent hints that it could provide some relief to the banking sector. Here, the ECB seems to need more time. In fact, the ECB said that the precise terms will be communicated at

“one of our forthcoming” meetings. A slight variation of the “in due course” from the March meeting. Interestingly, as regards relief for the banking sector, the ECB today just confirmed what ECB President Mario Draghi already said during a speech two weeks ago: the ECB will look into this issue. Or in official ECB language “In the context of our regular assessment, we will also consider whether the preservation of the favourable implications of negative interest rates for the economy requires the mitigation of their possible side effects, if any, on bank intermediation”.

As regards the timing of TLTRO details, the press conference left some room for interpretation. While the introductory statement read “upcoming meetings”, Draghi put somewhat more emphasis on the fact that the June meeting would have the next round of staff projections. In any way, there are only three more ECB meetings between now and the start of the new TLTROs. One in June, one in July and one in September. Judging from today's comments, the TLTRO details could in our view very well be presented at the June meeting but mitigating measures, like eg a tiering system, will only be presented as a last resort in case the economy weakens further.

Today's meeting was also the last meeting prepared by ECB Chief Economist Peter Praet. A key figure in the ECB's crisis-fighting of the last years.

Tiering system only as a very last resort?

Looking ahead, in our view, the open questions regarding the TLTRO details are how the ECB will actually shape the so-called built-in incentives, the lending volume and early repayment options. Obviously, a lot will depend on the state of the eurozone economy over the next months, in order to determine how ample or sparse the TLTROs should be. The central issue is whether the ECB will again offer a discount relative to the refi rate to incentivize banks to increase lending and whether this discount would be linked to the discount facility rate or rather as a simple negative spread on the refi rate. The issue of a tiering system or simply mitigating measures is obviously more difficult for the ECB. A negative spread vis-à-vis the refi rate combined with a tiering facility would in our view increase markets' rate cut fantasies.

All in all, today's meeting showed that the ECB is still very hesitant to decide on anything like a tiering system for the deposit facility. Details for the new TLTROs will come, and probably already at the June meeting, but a tiering system currently looks like the very last resort, preparing the grounds for more monetary easing. A scenario the ECB still hopes it can avoid. As a consequence, ECB staff will have to use the Spring break to return to the study desk.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.