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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 TLRTOs 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