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ECB: FURTHER EASING THROUGH THE BACKDOOR

Berenberg Macro Flash

The ECB kept both its asset purchase programmes and main policy rates unchanged, but decided to provide further easing through the backdoor in two ways: 1) It lowered its effective lending rate of its targeted long-term refinancing operations (TLTROs III) from 25bps to 50bps below the current deposit rate, that is from -0.75% to -1%. 2) It announced a new facility, non-targeted pandemic emergency longer-term refinancing operations (PELTROs), consisting of seven additional operations starting in May with an interest rate 25bps below the main refinancing rate of 0%, that is -0.25%.

Liquidity measures: Both measures help to accommodate surging liquidity needs as the ECB's own bank lending survey published this week showed. The measures also support banks' profitability. The recent rise in the Euribor-OIS spread, pointing to some stress and some fragmentation in the Eurozone banking system, probably triggered the ECB to do so. Such support for banks, and their clients, is also much less controversial than a commitment to purchase bank bonds. While the ECB may decide on such a move if bank lending came to a standstill, the hurdles remain high.

Dual rates – a powerful tool: After the decision to introduce a tiering system for the penalty on bank deposits at the ECB in September 2019 and a 25bp cut to the effective lending rate on TLTRO III already in March, this is the ECB's third step to drive a wedge between deposit rates and lending rates. While the very favourable terms will apply only for operations outstanding between June 2020 and June 2021, this wedge between deposit and lending rates seems to develop ever more into a powerful ECB policy tool in unprecedented times. In return, the traditional main policy rates (the main refinancing rate and the deposit rate) are becoming less important.

Time to wait: The ECB reaffirmed the size of its Pandemic Emergency Purchase Programme (PEPP, €750bn) and its other asset purchase programmes (€20bn per month and an additional envelope of €120bn this year). In the Eurozone's worst recession ever, the ECB will almost certainly have to scale up its asset purchases this year. The bank had no need to do so today already. Its economic number-crunching left brain half probably suggested the ECB it can afford to wait, while its political intuitive-thinking right brain half likely encouraged the ECB it should indeed wait and not take finance ministers fully off the hook at this stage.



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