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## ECB: COME BACK IN JUNE

### Berenberg Macro Flash

**Wait and see:** The Governing Council did not shift either its policy outlook or its assessment of economic developments in any significant way today. At the margin, the ECB sounded modestly dovish in discussing the outlook for inflation, partly because it projects a further temporary decline in inflation in coming months. In addition, ECB president Draghi again emphasised that the ECB has “plenty of instruments” at its disposal if the situation were to require a further monetary easing.

**On hold:** The ECB re-affirmed that rates will be on hold this year and that it will offer new quarterly rounds of long-term liquidity injections (TLTROs) from September onwards. Draghi pointed out that the ECB will shed more light on the pricing details of the new round of TLTROs in “one of the forthcoming meetings”. He also confirmed for the first time in the introductory statement that the ECB would look at mitigating “possible side effects, if any, on bank intermediation” from negative interest rates without explicitly mentioning a two-tier system.

**Economic assessment unchanged:** Having slashed its 2019 growth forecast significantly in early March, the ECB largely reiterated its March message that the Eurozone economy suffers from a “slower growth momentum” which will likely extend into the current year. The ECB stressed that, while country-specific factors were fading, global headwinds continued to weigh on the Eurozone expansion. The risks remain tilted to the downside to the ECB’s call of a rebound in growth in H2 2019.

While the ECB expects headline inflation to decline on the basis of current futures prices for oil, the ECB still bets on the pass-through from stronger wage gains to higher inflation to become visible later this year.

**Policy outlook remains unchanged:** After today’s ECB meeting, we do not see a reason to change our [policy outlook](#). Regarding the new round of TLTROs and a potential move towards a two-tiered system for bank reserves, in particular, we stick to the following:

- Beyond announcing prices for the new round of TLTROs probably in June or July, the ECB will try to hear the economic grass growing across the Eurozone as the data comes in over the next couple of months.
- The ECB will reserve the move to a tiered system for bank reserves and its signalling effect of low(er) rates for longer for weaker economic and/or credit conditions.
- The discussion about a tiered system for bank reserves could gain further traction during the summer. That the ECB is studying it intensely suggests that the probability for such a move may be above 50%. However, the ECB may well conclude that no such tiering is needed if the economy rebounds soon and the negative deposit rate is not seen as hampering the ability of banks to extend credit to the real economy.



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## MACRO NEWS

According to Draghi, the ECB today did not discuss details of either TLTRO pricing or ways to mitigate the impact of its negative deposit rate on banks. Instead, it “started a process” of analysing these issues ahead of potential decisions in June or July.

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