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ECB KEEPING ITS OPTIONS OPEN

Berenberg Macro Flash

No surprises today from the ECB. All key rates and policy measures remain unchanged following the vast expansion the ECB delivered on the 10th of March (see update). Draghi said that rates will need to stay at current levels 'or lower' beyond the specified horizon for QE (March 2017), adding that QE will run until the ECB sees a 'sustained inflation adjustment'. While keeping options open, there was no hint that the ECB will want or need to do more. Draghi stressed that helicopter money was not discussed by the Governing Council but that they had unanimously agreed that the current policy stance was appropriate. This follows the recent dispute between Germany and the ECB on the impact of current policy measures - please see our report 'Germany versus ECB: How dangerous is the dispute?' for more details.

On recent economic developments, the ECB stated that broad financing conditions had improved in the last month and that first quarter GDP was expected to be similar to the final quarter of last year (0.3% qoq). There was cautious optimism for growth and inflation. The Council expects that growth will be moderate but steady, and while inflation could weaken in the coming months it is expected to pick-up in the second half of the year and improve in 2017/18. This was broadly in line with the ECB's March assessment and comes after a modest 0.1 upward revision to 0.0% for March inflation. Persistent global uncertainties, geopolitics and subdued emerging markets mean that risks to the outlook are tilted to the downside and the ECB remains 'ready to act' if needed. Draghi added that Eurozone governments must act more decisively with structural reforms. That would 'speed' up the impact of the ECB's policies. While keeping its options open today, the ECB is clearly waiting to see the impact of last month's policy measures before reassessing the policy stance. Beyond a significant shock to the Eurozone economy, the ECB's current measures will probably be enough to support a sustained recovery in GDP growth and inflation.

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