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Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

ECB: On hold, diminished risks save for those relating.

Surprising none, the ECB Council kept policy on hold for a second successive month, retaining the high-profile refi rate at 1.00% and the possibly more meaningful deposit rate at 0.25%.

Still averse to bond buying!

More notable was the continued suggestion from President Draghi that the ECB was not about to step up its bond purchases, also noting that if the ECB were to sell any of its Greek bonds at a loss that would be tantamount to monetary financing. Otherwise, President Draghi refused to be drawn on what the ECB may do in regard to its holdings of Greek bonds, albeit it implicitly being the case that the central bank may be willing (and legally able) to exchange them without making a loss if that may help the Greek debt position: more will be learned at the Eurogroup meeting later today.

Less downbeat on the economy

However the thrust of the latest ECB statement had two (possibly conflicting) themes. Most prominent was the pointer to the downside economic risks having diminished: they were no longer described as being substantial. In addition, the tentative signs of stabilization in economic activity (albeit at low levels) were made more prominent in the statement, albeit from a Q4 GDP backdrop that was acknowledged as being very weak. Instrumental in this was the (understandable) assessment that financial market stresses had diminished (in response to recent monetary policy actions).

More worries about credit risks?

At the same time, there was clearer acknowledgement of the risks emanating from the monetary backdrop: the overall description of the monetary backdrop was downgraded to one of being subdued while tighter bank lending conditions were highlighted, the latter very much necessitating the need for close scrutiny of forthcoming credit developments.

Steady as she goes

This juxtaposition, in which inflation risks remain broadly balanced, very much points to conventional policy remaining on hold in coming months. As for unconventional policy, more will be forthcoming with another 3-year LTRO due at the end of the month to be supplemented by specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in Eurozone credit operations for seven national central banks, they being the peripheral countries as well as France and Austria. All of which implies that from an unconventional policy stance, the ECB wants to wait and see, with the hope being that recent and forthcoming measures will help restore the flow of credit.

Applying common policy tool more difficult?

Even so, there is a tacit admission from the ECB that, in response to the increasing signs of credit supply problems in some countries, it is now having to resort to more country-specific measures, via the easing in collateral requirements. In other words, the ECB is admitting that credit conditions are becoming more and more geographically divergent within the Eurozone, in turn, making the provision of a common policy lever all the more problematic. This, indeed, is a very worrisome admission from a central bank which has always underscored the importance of one policy for the whole of its members.