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FOCUS NOTES

April ECB meeting: Implementation of expanded APP to support recovery and bring inflation close to 2.0%

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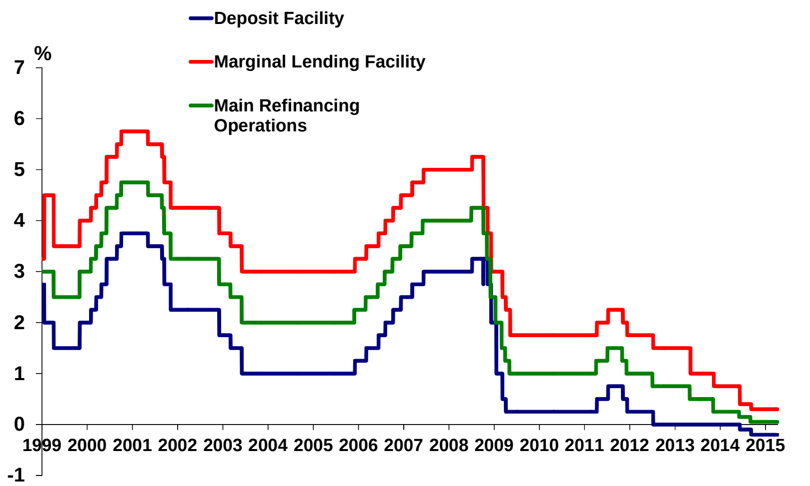
At its regular monetary policy meeting on Wednesday 15 April, the ECB Governing Council decided to keep the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.05%, 0.30% and -0.20% respectively, as expected (Figure 1). At a press conference that followed the conclusion of the meeting, President Mario Draghi reiterated that the ECB intends to run its expanded APP until the end of September 2016, as scheduled, or until it witnesses "a sustained adjustment" in the path of inflation consistent with its aim of achieving inflation rates below, but close to, 2.0% over the medium term.[1] Meanwhile, Mario Draghi highlighted that "the implementation of the asset purchase program is proceeding smoothly, with the ECB fulfilling its purchase target in the first month of the program. Specifically, since March 9, when the ECB started buying euro-denominated public sector securities as part of its expanded APP, it has purchased €60bn in assets, with the main bulk comprising of sovereign bonds (€47.4bn), and the remainder of covered bonds and asset-backed securities.[2]

Figure 1: Key ECB interest rates



Source: European Central Bank

[1] https://www.ecb.europa.eu/press/pressconf/2015/html/is150415.en.html

[2] https://www.ecb.europa.eu/mopo/liq/html/index.en.html#portfolios

Furthermore, Mario Draghi said that the recent monetary policy measures have proved effective so far, given that financial market and credit conditions have eased considerably over the past months. Real corporate interest-rate spreads between EMU periphery sovereign bonds vs. their German counterparts have narrowed, while the ECB's expanded asset purchase program (APP) seems to have had a positive impact on euro area lending conditions. In the April 2015 quarterly ECB Bank Lending Survey (BLS) released yesterday,[3] euro area banks reported a further net easing of credit standards, and especially of credit terms and conditions. Meanwhile, the BLS contained for the first time ad hoc questions related to the impact of the ECB's APP on banks. Euro area banks highlighted that they have used the additional liquidity related to the APP over the past six months, in particular for granting loans, and they intend to continue doing so in the following months.

The ECB President acknowledged an improvement in euro area economic activity since the end of 2014, emphasizing, though, that any discussion about an earlier-than-planned tapering of the program is premature. While remaining on the downside, the risks surrounding the euro area's economic outlook are gradually rebalancing due to the expansionary monetary policy, lower oil prices and the euro's depreciation. On the inflation front, the increase in euro area annual HICP inflation to -0.1% in March 2015 from -0.3% in February was largely driven by higher oil prices over the last couple of months. Looking ahead, annual HICP inflation is expected to remain at current low levels in the following months before it starts to increase gradually later this year and to pick up further during 2016 and 2017, on the back of the favorable impact of the ECB's monetary policy measures on aggregate demand, the impact of lower euro exchange rate and expectations for somewhat higher oil prices in the coming years.

[3] https://www.ecb.europa.eu/stats/pdf/blssurvey_201504.pdf?c836ae8d17a08741a7e0b10bc34374e8

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