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ECB holds policy steady



The

European Central Bank on Thursday announced a continuation of its ultra-accommodative monetary policy.

The €1.35

trillion pandemic emergency purchase program (PEPP) will run at least through the end of June 2021 and the ECB will reinvest maturing PEPP bonds at least through end 2022, thereby maintaining the flood of liquidity that has calmed markets and kept borrowing costs low.

In terms of rates:

- The main refinancing rate was held at 0.00%
- The marginal lending facility
 rate was held at 0.25% (applied to short-term loans to commercial banks)
- The deposit facility rate was held at -0.5% (applicable to commercial bank deposits left in the ECB vault, to encourage lending)

Prior to the meeting, commentators were unsure as to whether the ECB would act to loosen policy further in the face of disappointing inflation and a strengthening euro. The most recent eurozone CPI print came in at a deflationary -0.2%, while the core reading fell to 0.4%, its lowest level since the formation of the single currency in 1999. The ECB targets 2%. At the same time, the euro looks to be on steroids, gaining strength by the day: Since the beginning of July, it has gained 5% against the US dollar (or 10% since March this year). A stronger euro can hamper eurozone exports and the Chair, Christine Lagarde said the ECB will "carefully assess incoming information, including developments in the exchange rate, with regard to its implications for the medium-term inflation outlook", while repeatedly stressing that the ECB doesn't target a particular exchange rate.

The ECB struck a slightly more optimistic

tone regarding the economic outlook, with Lagarde stating that incoming economic data has shown a "strong rebound" in the eurozone economy, even if activity levels are nowhere near pre-pandemic levels. The central bank revised up its forecast for real GDP growth in 2020 to -8.0% from -8.7%, predicted back in June. Thereafter, it expects growth of 5% in 2021, and 3.2% in 2022.

Despite

the upgrade, Lagarde warned that uncertainty is still at large with the trajectory of the economy "highly dependent" on how the pandemic develops. The bank "continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner".

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