

ECB: smooth on phasing-out non-conventional measures and friendly on Greece

In today's meeting, the ECB:

- **announced the next steps of its smooth phasing-out of non-conventional measures**, giving visibility through the end of the 12-month LTRO in July, by deciding that MRO will be still conducted at fixed Refi rate with full allotment up to 12 October;
- **was very slightly more optimistic on the ongoing economic recovery**, but this has no implication for future key rate path, as inflation is to remain subdued;
- Reiterated yesterday's **confidence that the new measures announced by the Greek government made the Greek adjustment program now credible**, and should be seen as such by all parties including financial markets.

Gradual phasing-out of non-standard operational measures

The measures decided by the governing council are in line with our expectations, providing visibility until **October 2010** (and therefore through the end of the €442bn of the first 1-year LTRO due on July 1st), **while gradually reducing the maturity of the exceptional liquidity proposed to banks:**

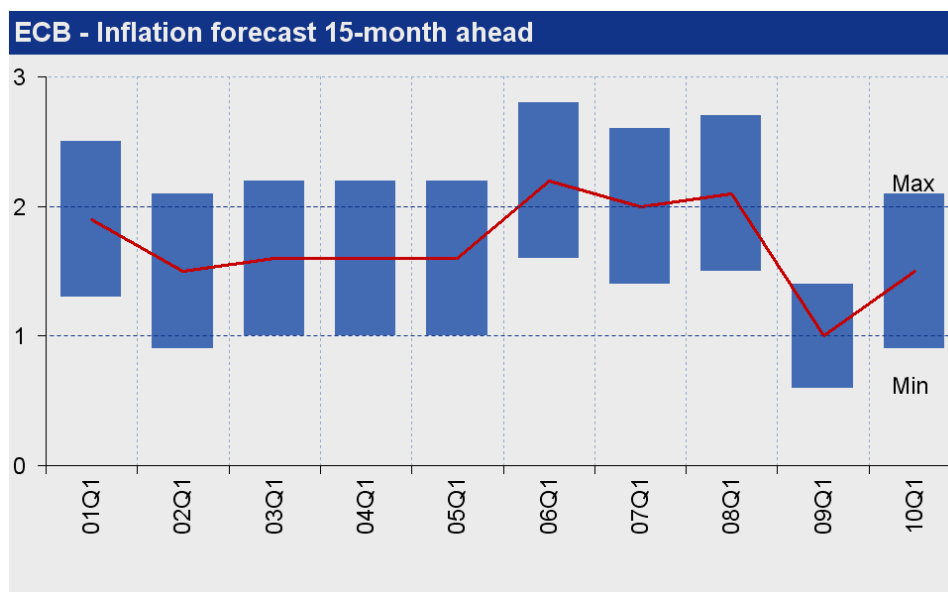
1. **Main refinancing operations** (1 week, MRO) and special term refinancing operations (1 maintenance period, i.e. about one month) will be **still conducted at fixed Refi rate with full allotment** "as long as necessary and at least until 12 October 2010".
2. From 28 April 2010, **the ECB will return to variable rate tender procedures for 3-month longer-term refinancing operations** LTRO. However, the allotment amount will be big enough to avoid stress. An indicative amount will be pre-announced 2 or 3 weeks in advance.
3. **The last 6-month LTRO** (31 March 2010) **will be conducted at the average minimum bid rate of the MROs during the life of the operation** (as was the case for the last 12-months LTRO).
4. A special 6-day fine-tuning operation will be conducted on July 1st **to make the bridge between the end of the 12-month operation and the next full allotted 1-month operation.**

In conclusion, we expect the normalisation to be very smooth. Trichet said that he does not expect EONIA to rise towards the Refi rate "in the short term".

No signs of hike in key rates

The ECB sounded slightly more optimistic on the economic outlook, but remained cautious, and the wording of the statement is very similar to the previous one (4 February):

- Current rates remain “appropriate”; inflation is expected to remain “subdued”.
- **“Economic recovery is on track”** which is a bit stronger than last month’s “economic activity continued to expand”. But uncertainties still prevail.
- **The ECB staff revised its growth forecast for 2011 from 1.2% to 1.5%** on the back of “notably stronger growth worldwide”. Low capacity utilisation still weighs on private demand.
- The staff made a **very slight upward revision of its inflation forecast for 2011, from 1.4% to 1.5%**; this is still a very low forecast by historical standards.



The ECB appreciates the Greek additional measures

- J. C. Trichet read again the announcement that the ECB made yesterday on Greece: **this is a very positive statement**, in which the ECB “welcomes” the “convincing” new measures, because they are “permanent” and expenditures oriented. The ECB “appreciates” that the government committed to swiftly implement the measures.
- **All in all, the ECB stated that the Greek plan is now credible, and should be seen as such by the markets.**
- Greece leaving the euro zone is still an “absurd hypothesis”.
- **An IMF bailout is unwelcome**, because any financial conditionality should be defined by European bodies, linked to the Stability pact.
- Trichet declined to answer to any question related to the non-eligibility of the Greek sovereign bonds in 2011 if Moody’s were to downgrade Greece to BBB.