

## Dovish ECB President's comments signal potential for further monetary policy easing ahead

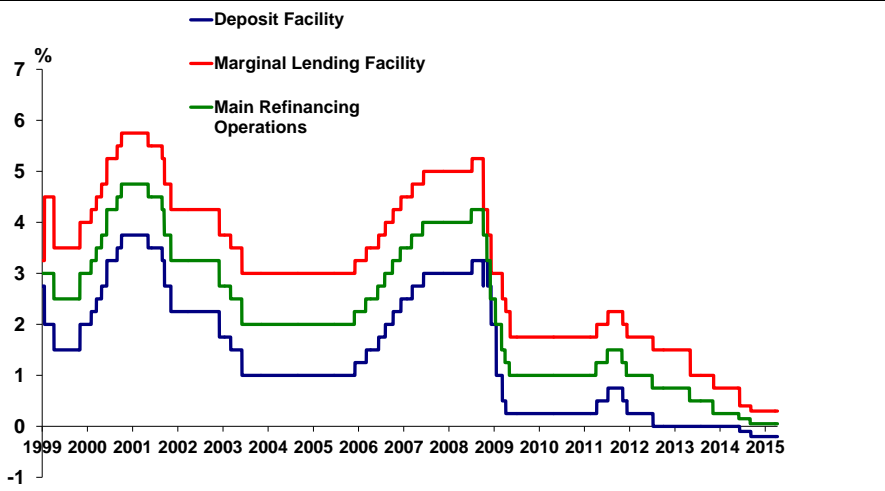
Olga Kosma  
 Economic Analyst  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

- At its regular monetary policy meeting on Thursday 3 September, the ECB Governing Council decided to keep the interest rate on the main refinancing operations as well as 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). Additionally, the Central Bank increased the issue share limit it can purchase under QE from 25% to 33%, and revised downwards both growth and inflation projections for 2015-17. In more detail, real GDP growth was marked down by 0.1pps in 2015 (to 1.4%) and by 0.2pps both in 2016 and 2017 (to 1.7% and 1.8%, respectively). In the same context, the average inflation forecast was lowered by 0.2pps in 2015 to 0.1%, by 0.4pps to 1.1% in 2016 and by 0.1pps to 1.7% in 2017. The said revisions mainly reflected a weaker external environment in light of emerging market woes and, particularly, China-related jitters.
- At a press conference that followed the conclusion of the meeting, President Mario Draghi highlighted that risks on the inflation outlook are now tilted to the downside in the short-term, as opposed to the recent ECB's rhetoric that characterized risks on inflation as "balanced". He added that a slight increase in headline inflation towards the end of the year is expected due to favorable base effects associated with the fall in oil prices in 2014. Nevertheless, President Draghi noted that in the medium-term inflation should be supported by the expected euro area economic recovery. The President also highlighted that the Governing Council will closely monitor the external environment and financial markets conditions in order to assess whether their effect on euro area price stability would be more lasting, and decide for a possible adjustment in the terms of the QE program including the size, composition and duration.
- As regards to potential reintroduction of a Greek collateral waiver, i.e. the reacceptance of bonds issued or guaranteed by the Hellenic Republic as eligible collateral in its regular liquidity provision operations, the ECB President stressed that a key precondition is that Greece complies with the financial assistance program and demonstrates strong program execution and ownership.
- In the wake of scaled back inflation expectations (Figure 2) and the ECB's downward revisions on growth and inflation, we stick to our view that further monetary policy easing ahead seems to be on the cards, most likely by extending its asset purchase program beyond September 2016. Nevertheless, an announcement for a potential expansion of the QE program is not expected to come before year-end, so that the ECB has enough time to better ascertain the impact of the recent financial market volatility and the spillovers from emerging markets onto the euro area economy.

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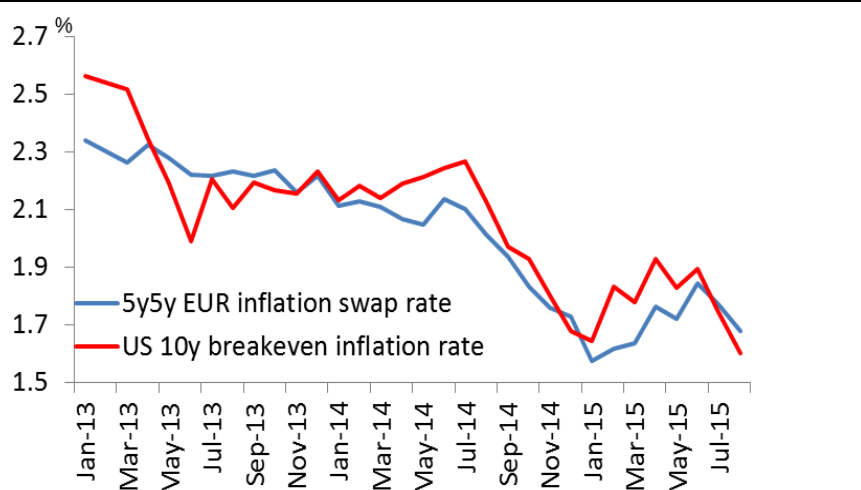
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Figure 1: Key ECB interest rates



Source: European Central Bank

Figure 2: Renewed easing of inflation expectations in the euro area and the US



Source: Eurostat, Bloomberg, Eurobank Economic Analysis and Financial Markets Research

## Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: Group Chief Economist  
pmonokroussos@eurobank.gr, + 30 210 37 18 903

### Research Team

**Anna Dimitriadou:** Economic Analyst  
andimitriadou@eurobank.gr, + 30 210 37 18 793

**Ioannis Gkionis:** Research Economist  
igkionis@eurobank.gr + 30 210 33 71 225

**Stylianos Gogos:** Economic Analyst  
sgogos@eurobank.gr + 30 210 33 71 226

**Olga Kosma:** Economic Analyst  
okosma@eurobank.gr + 30 210 33 71 227

**Arkadia Konstantopoulou:** Research Assistant  
arkonstantopoulou@eurobank.gr + 30 210 33 71 224

**Paraskevi Petropoulou:** G10 Markets Analyst  
ppetropoulou@eurobank.gr, + 30 210 37 18 991

**Galatia Phoka:** Research Economist  
gphoka@eurobank.gr, + 30 210 37 18 922

**Theodoros Stamatiou:** Senior Economist  
tstamatiou@eurobank.gr, + 30 210 33 71 228

### Global Markets Sales

**Nikos Laios:** Head of Treasury Sales  
nlaios@eurobank.gr, + 30 210 37 18 910

**Alexandra Papatthasiou:** Head of Institutional Sales  
apapatthasiou@eurobank.gr, + 30 210 37 18 996

**John Seimenis:** Head of Corporate Sales  
yseimenis@eurobank.gr, + 30 210 37 18 909

**Achilleas Stogioglou:** Head of Private Banking Sales  
astogioglou@eurobank.gr, + 30 210 37 18 904

**George Petrogiannis:** Head of Shipping Sales  
gpetrogiannis@eurobank.gr, + 30 210 37 18 915

**Vassilis Gioulbaxiotis:** Head Global Markets International  
vgioulbaxiotis@eurobank.gr, + 30 210 3 718 995

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankGlobalMarketsResearch@eurobank.gr](mailto:EurobankGlobalMarketsResearch@eurobank.gr)

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