CREDIT MARKETS SPECIAL | FINANCIALS & COVERED BONDS | EUROZONE

ECB provides itself with more flexibility

Analyst:
Heiko Langer
heiko.langer@erstegroup.com

Adjustment of the monetary policy framework

The ECB has completed the review of the operational framework for implementing monetary policy announced at the end of 2022 and publicized a number of changes, but also the retention of some parameters. The ECB is thus preparing for the time after the current surplus liquidity has been reduced, which should be the case in a few years' time. The decision to continue to steer the monetary policy stance via the deposit rate remains unchanged. The ECB assumes that short-term money market rates will evolve close to the deposit rate. In this context, it was also announced that the gap between the main refinancing rate and the deposit rate would be reduced from the current 50bp to 15bp as of 18 September 2024. The ECB hopes that this will increase the banks' participation in the weekly tenders and ultimately bring the money market rates closer to the deposit rate. The interest rate for the marginal lending facility will be brought closer to the deposit rate to the same extent and will therefore retain its current gap of 25bp to the main refinancing rate.

The ECB placed a major focus on providing liquidity via a wide range of instruments. This includes short-term main refinancing operations and longer-term refinancing operations with a three-month term. Both facilities continue to be conducted through fixed rate tenders with full allotment. A future expansion of the range of instruments is planned via structural longer-term refinancing transactions and a structural securities portfolio. Both instruments are to be an integral part of the ECB's toolbox for covering the structural liquidity requirements of the banking sector. The aim is to avoid any interference with the monetary policy course by the aforementioned instruments. Details on the design of the new instruments (e.g. term of the refinancing transactions and composition of the securities portfolio) are not yet known. An introduction before 2026 seems unlikely. The current reduction of the APP and PEPP securities portfolios is to be continued.

Banks are likely to have been relieved by the decision to leave the minimum reserve ratio at 1%. This allows banks to continue to invest their surplus liquidity at the current deposit rate of 4%. By contrast, the interest rate on the minimum reserve has been 0% since September 2023. In the run-up to today's decision, there were speculations that the ECB would raise the minimum reserve rate to at least 2%. Since the interest rate turnaround, the central banks' interest expenses have risen due to the higher deposit rates. Interest income from the mostly fixed-interest securities purchased, on the other hand, has remained virtually unchanged. An increase in the minimum reserve ratio would have reduced the central banks' interest costs. At the same time, this would have placed a greater burden on the profitability of smaller banks in particular with a larger share of deposits in refinancing.

Major Markets & Credit Research
Gudrun Egger, CEFA (Head)

Sub-Sovereigns & Agencies
Ralf Burchert, CEFA

Financials & Covered Bonds
Heiko Langer
Carmen Riefler-Kowarsch

Corporate Bonds
Peter Kaufmann, CFA
Bernadett Povazsai-Römhild, CEFA, CESGA
Elena Statelov, CIIA

In our view, the adjustments announced by the ECB show the central bank's efforts to create additional flexibility in the provision of liquidity during the balance sheet contraction phase and beyond. The combination of retaining individual modalities that proved their worth during the crisis and expanding the existing range of instruments shows the intention to protect the banking sector from unwanted side effects during the current adjustment phase. This seems sensible to us in view of the weak economic environment and the resulting expected increase in risk costs for banks. The extent to which the expansion of the "structural instruments" will have an impact on the bond markets is not yet foreseeable due to a lack of details and the medium-term implementation date.

Contacts

Group Research

Head of Group Research	
Friedrich Mostböck, CEFA®, CESGA®	+43 (0)5 0100 11902
CEE Macro/Fixed Income Research	
Head: Juraj Kotian (Macro/FI)	+43 (0)5 0100 17357
Katarzyna Rzentarzewska (Fixed income)	+43 (0)5 0100 17356
Jakub Cery (Fixed income)	+43 (0)5 0100 17384
Croatia/Serbia	
Alen Kovac (Head)	+385 72 37 1383
Mate Jelić	+385 72 37 1443
Ivana Rogic	+385 72 37 2419
Czech Republic	
David Navratil (Head)	+420 956 765 439
Jiri Polansky	+420 956 765 192
Michal Skorepa	+420 956 765 172
Hungary	
Orsolya Nyeste	+361 268 4428
János Nagy	+361 272 5115
Romania	
Ciprian Dascalu (Head)	+40 3735 10108
Eugen Sinca	+40 3735 10435
Dorina Ilasco	+40 3735 10436
Vlad Nicolae Ionita	+40 7867 15618
Slovakia	
Maria Valachyova (Head)	+421 2 4862 4185
Matej Hornak	+421 902 213 591
Major Markets & Credit Research	
Head: Gudrun Egger, CEFA®	+43 (0)5 0100 11909
Ralf Burchert, CEFA® (Sub-Sovereigns & Agencies)	+43 (0)5 0100 16314
Hans Engel (Global Equities)	+43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst)	+43 (0)5 0100 11957
Peter Kaufmann, CFA® (Corporate Bonds)	+43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds)	+43 (0)5 0100 85509
Stephan Lingnau (Global Equities)	+43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Financials & Covered Bonds)	+43 (0)5 0100 19632
Rainer Singer (Euro, US)	+43 (0)5 0100 17331
Bernadett Povazsai-Römhild, CEFA®, CESGA® (Corporate Bonds)	+43 (0)5 0100 17203
Elena Statelov, CIIA® (Corporate Bonds)	+43 (0)5 0100 19641
Gerald Walek, CFA® (Euro, CHF)	+43 (0)5 0100 16360
CEE Equity Research	
Head: Henning Eßkuchen	+43 (0)5 0100 19634
Daniel Lion, CIIA® (Technology, Ind. Goods&Services)	+43 (0)5 0100 17420
Michael Marschallinger, CFA®	+43 (0)5 0100 17906
Nora Nagy (Telecom)	+43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA® (Real Estate)	+43 (0)5 0100 11523
Thomas Unger, CFA® (Banks, Insurance)	+43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma)	+43 (0)5 0100 17343
Martina Valenta, MBA	+43 (0)5 0100 11913
Croatia/Serbia	
Mladen Dodig (Head)	+381 11 22 09178
Boris Pevalek, CFA®	+385 99 237 2201
Marko Plastic	+385 99 237 5191
Matej Pretkovic	+385 99 237 7519
Bruno Barbic	+385 99 237 1041
Davor Spoljar, CFA®	+385 72 37 2825
Magdalena Basic	+385 99 237 1407
Czech Republic	
Petr Bartek (Head, Utilities)	+420 956 765 227
Jan Safranek	+420 956 765 218
Hungary	
József Miró (Head)	+361 235 5131
András Nagy	+361 235 5132
Tamás Pletser, CFA® (Oil & Gas)	+361 235 5135
Poland	
Cezary Bernatek (Head)	+48 22 257 5751
Piotr Bogusz	+48 22 257 5755
Łukasz Jańczak	+48 22 257 5754
Krzysztof Kawa, CIIA®	+48 22 257 5752
Jakub Szkopek	+48 22 257 5753
Romania	
Caius Rapanu	+40 3735 10441

Group Markets

Head of Group Markets	
Oswald Huber	+43 (0)5 0100 84901
Group Markets Retail and Agency Business	
Head: Christian Reiss	+43 (0)5 0100 84012
Markets Retail Sales AT	
Head: Markus Kaller	+43 (0)5 0100 84239
Group Markets Execution	
Head: Kurt Gerhold	+43 (0)5 0100 84232
Retail & Sparkassen Sales	
Head: Uwe Kolar	+43 (0)5 0100 83214
Markets Retail Sales CZ	
Head: Roman Choc	+420 956 765 374
Markets Retail Sales HUN	
Head: Peter Kishazi	+36 1 23 55 853
GM Retail Products &Business Development	
Head: Martin Langer	+43 (0)50100 11313
Corporate Treasury Product Distribution AT	
Head: Martina Kranzl-Carvell	+43 (0)5 0100 84147
Group Securities Markets	
Head: Thomas Einramhof	+43 (0)50100 84432
Institutional Distribution Core	
Head: Jürgen Niemeier	+49 (0)30 8105800 5503
Institutional Distribution DACH+	
Head: Marc Friebertshäuser	+49 (0)711 810400 5540
Bernd Bollhof	+49 (0)30 8105800 5525
Andreas Goll	+49 (0)711 810400 5561
Mathias Gindele	+49 (0)711 810400 5562
Ulrich Inhofner	+43 (0)5 0100 85544
Sven Kienzle	+49 (0)711 810400 5541
Rene Klasen	+49 (0)30 8105800 5521
Christopher Lampe-Traupe	+49 (0)30 8105800 5523
Danijel Popovic	+49 1704144713
Michael Schmotz	+43 (0)5 0100 85542
Christoph Ungerböck	+43 (0)5 0100 85558
Klaus Vosseler	+49 (0)711 810400 5560
Slovakia	
Šarlota Šipulová	+421 2 4862 5619
Monika Směliková	+421 2 4862 5629
Institutional Distribution CEE & Insti AM CZ	
Head: Antun Burić	+385 (0)7237 2439
Jaromir Malak	+43 (0)5 0100 84254
Czech Republic	
Head: Ondrej Čech	+420 2 2499 5577
Milan Bartoš	+420 2 2499 5562
Jan Porvich	+420 2 2499 5566
Pavel Zdichynec	+420 2 2499 5590
Institutional Asset Management Czech Republic	
Head: Petr Holeček	+420 956 765 453
Petra Maděrová	+420 956 765 178
Martin Peřina	+420 956 765 106
David Petráček	+420 956 765 809
Blanka Weinerová	+420 956 765 317
Petr Valenta	+420 956 765 140
Croatia	
Head: Antun Burić	+385 (0)7237 2439
Zvonimir Tukač	+385 (0)7237 1787
Natalija Zujic	+385 (0)7237 1638
Hungary	
Head: Peter Csizmadia	+36 1 237 8211
Gábor Bálint	+36 1 237 8205
Gergő Szabo	+36 1 237 8209
Romania	
Head: Octavian Florin Munteanu	+40 746128914
Group Institutional Equity Sales	
Head: Michal Řízek	+420 224 995 537
Werner Fürst	+43 (0)50100 83121
Viktoria Kubalcova	+43 (0)5 0100 83124
Thomas Schneidhofer	+43 (0)5 0100 83120
Oliver Schuster	+43 (0)5 0100 83119
Czech Republic	
Head: Michal Řízek	+420 224 995 537
Jiří Fereš	+420 224 995 554
Martin Havlan	+420 224 995 551
Pavel Krabička	+420 224 995 411
Poland	
Head: Jacek Jakub Langer	+48 22 257 5711
Tomasz Galanciak	+48 22 257 5715
Wojciech Wysocki	+48 22 257 5714
Przemyslaw Nowosad	+48 22 257 5712
Maciej Senderek	+48 22 257 5713
Croatia	
Matija Tkalicanac	+385 72 37 21 14
Hungary	
Nandori Levente	+ 36 1 23 55 141
Krisztian Kandik	+ 36 1 23 55 162
Balasz Zankay	+ 36 1 23 55 156
Romania	
Valerian Ionescu	+40 3735 16541
Group Fixed Income Securities Markets	
Head: Goran Hoblaj	+43 (0)50100 84403
Fixed Income Flow Sales	
Head: Gorjan Hoblaj	+43 (0)5 0100 84403
Margit Hraschek	+43 (0)5 0100 84117
Christian Kienesberger	+43 (0)5 0100 84323
Ciprian Mitu	+43 (0)5 0100 85612
Bernd Thaler	+43 (0)5 0100 84119
Zsuzsanna Toth	+36 1 237 8209
Poland	
Pawel Kielek	+48 22 538 6223
Michal Jarmakowicz	+43 50100 85611
Fixed Income Flow Trading	
Head: Gorjan Hoblaj	+43 (0)5 0100 84403
Group Fixed Income Securities Trading	
Head: Goran Hoblaj	+43 (0)50100 84403
Group Equity Trading & Structuring	
Head: Ronald Nemec	+43 (0)50100 83011
Business Support	
Bettina Mahoric	+43 (0)50100 86441

Disclaimer

Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com