

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 Povaszai-Römhild, CEFA, CESGA
Elena Statelov, CIIA

Note: Information on past performance is not a reliable indicator of future performance.

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 Jelic +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navrátil (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 Dascau (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 Homak +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, CIAA® (Corporate Bonds) +43 (0)5 0100 19641
Gerard Walek, CFA® (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning EBKuchen +43 (0)5 0100 19634
Daniel Lion, CIAA® (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, CIAA® (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 Pevalak, 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, CIAA® +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 Frieberthäuser +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 Klasi +49 (0)30 8105800 5521
Christoph 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
Sarlota Šípulová +421 2 4862 5619
Monika Šméliková +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 Cszimadia +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 Nemeč +43 (0)50100 83011

Business Support
Bettina Mahoric +43 (0)50100 86441

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as general information pursuant to Art. 36 (2) delegated Regulation (EU) 2017/565 as no direct buying incentives were included in this publication, which is of information character. This publication provides only other information without making any comment, value judgement or suggestion on its relevance to decisions which an investor may make and is therefore also no recommendation. Thus this publication does not constitute investment research pursuant to Art. 36 (1) delegated Regulation (EU) 2017/565. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation for a transaction in any financial instrument or connected financial instruments, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a financial or connected financial instrument in a trading strategy. Information provided in this publication is based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and does not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of a financial or connected financial instrument is not indicative for future results. No assurance can be given that any financial instrument or connected financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of financial instruments incl. connected financial instruments. Erste Group, principals or employees may have a long or short position or may transact in financial instrument(s) incl. connected financial instruments referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in financial instruments, connected financial instruments or companies resp. issuers discussed herein and may also perform or seek to perform investment services for those companies resp. issuers. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing restrictions.

Erste Group is not registered or certified as a credit agency in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation). Any assessment of the issuers creditworthiness does not represent a credit rating pursuant to the Credit Rating Agencies Regulation. Interpretations and analysis of the current or future development of credit ratings are based upon existing credit rating documents only and shall not be considered as a credit rating itself.

© Erste Group Bank AG 2024. All rights reserved.

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