

July 21, 2022

ECB ends the era of negative interest rates in one hawkish swoop



- ECB raises its 3 key interest rates by 50 basis points
- 'Anti-fragmentation' tool called TPI approved

Today, the European Central Bank (ECB) ended the era of negative interest rates in the Eurozone in one hawkish swoop, raising key rates by half a percentage point — its first increase since 2011 and twice the magnitude expected by markets.

- The deposit rate will rise from -0.5% to zero

- The main refinancing operations rate will rise from zero to 0.5%
- The marginal lending facility will increase from 0.25% to 0.75%

The governing council said that it “judged that it is appropriate to take a larger first step on its policy rate normalisation path than signalled at its previous meeting” because of an “updated assessment of inflation risks” and the approval of a new anti-fragmentation tool designed to ensure the effective transmission of monetary policy across the bloc. Eurozone inflation rose to a record-high of 8.6% in June on the back of soaring energy and food prices.

The ECB probably felt it had to act quickly while the window of opportunity was still open.

The new policy tool, the **Transmission Protection Instrument**, is designed to “counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area,” the bank said. All Eurozone countries are eligible but must meet four criteria, including compliance with the EU fiscal framework.

Looking ahead, the ECB indicated that rates would rise again at future meetings, adding: “The frontloading today of the exit from negative interest rates allows the governing council to make a transition to a meeting-by-meeting approach to interest rate decisions.”

With regard to its balance sheet, the ECB said it would continue reinvesting, in full, the principal payments from maturing securities purchased under the Asset Purchase Program (APP) for as long as necessary to maintain ample liquidity conditions. With regard to the Pandemic Emergency Purchase Program (PEPP), the ECB intends to reinvest the principal payments from maturing securities until at least the end of 2024.

Government bond yields shot higher, as investors adjusted to the bigger-than-expected rate hike. Italian bond yields are also pressured upwards by the resignation of Prime Minister Mario Draghi. A glint of good news is that Russia has, for now, resumed the flow of natural gas to Germany after maintenance on the Nord Stream I pipeline.

The currency failed to appreciate despite the bold move in hiking rates.

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeliness of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of-date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch | L-2953 Luxembourg | RCS Luxembourg B-6307 | Tel. +352 4590 6699 | www.bil.com.