CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK

ECB Stance and Framework

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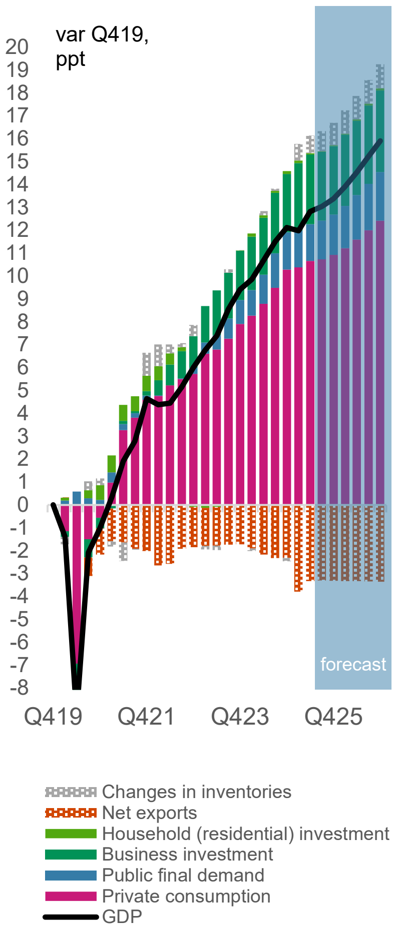
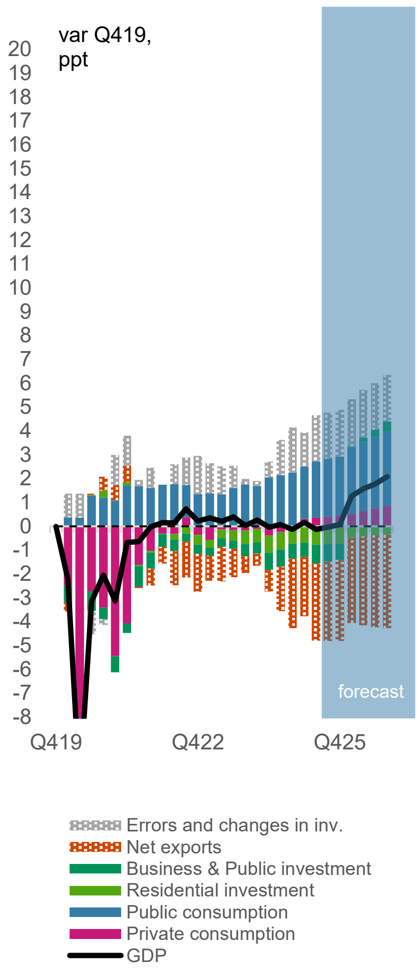
ECB stance

GDP growth: US downside, Europe upside

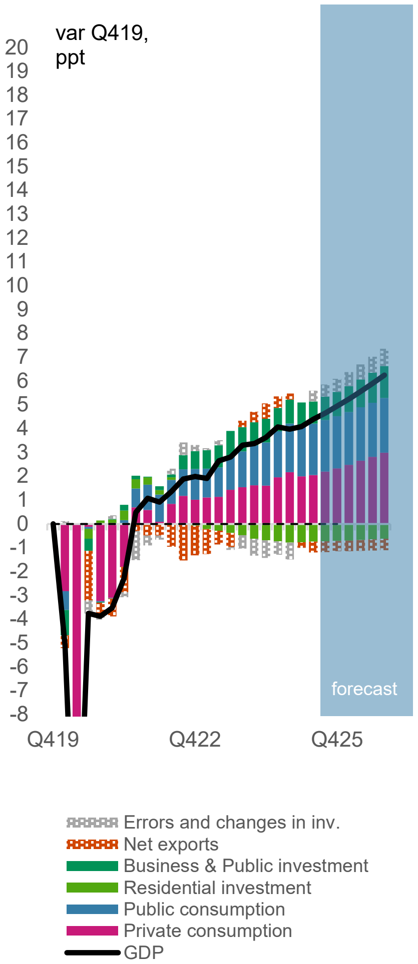
US



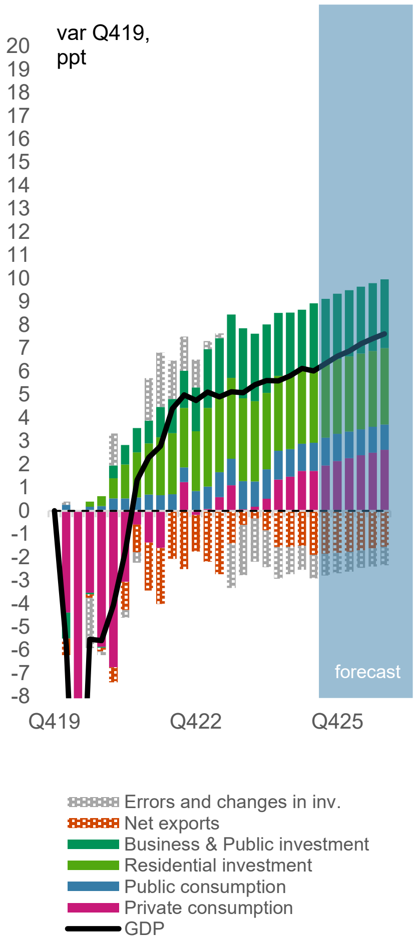
Germany



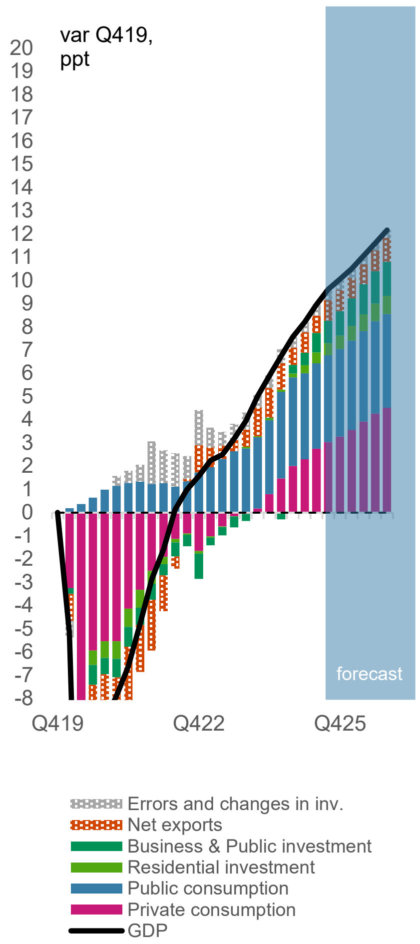
France



Italy



Spain



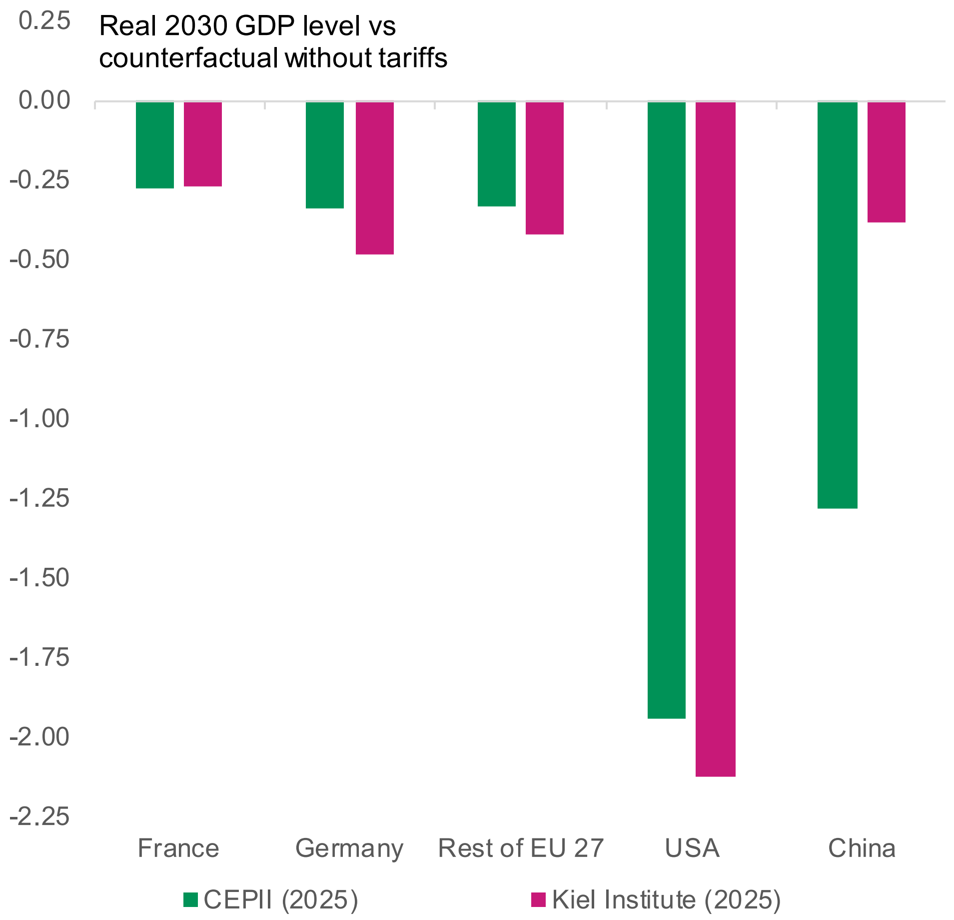
Source all charts: BEA, Eurostat, Refinitiv, Crédit Agricole CIB

NB: in the Eurozone, GDP and GDI (Gross Domestic Income) must be equal. Then, the contribution for "changes in inventories" includes the discrepancy between the two measures.

Global growth drag: quite large shock, especially for the US

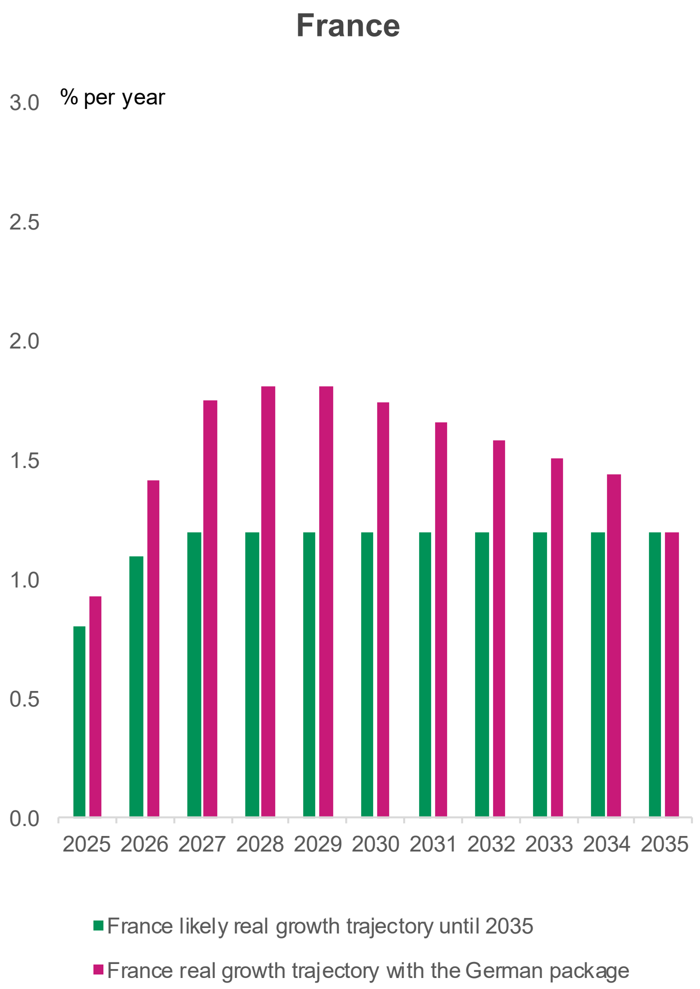
- **US liberation day delivered a massive blow to the rest of the world.** New global tariffs will pushing the average US tariffs rate from c.2% to the 15-20% range, this is roughly 8 to 10 times what happened during the first term of Trump. If maintained, which will be the attention point in the coming weeks, new tariffs are the biggest change in US trade policy since the 1930s.
- **From an economic point of view, again, if permanent, global real GDP growth should take a severe hit of c.100bps in cumulated terms in the coming years** on average, without even mentioning non-linearities that could gain stream given the size of the shock.
- **Fallouts could be even worse in the US (between 100 and 200bps probably)**, where a relatively symmetrical bounce of prices in term of size would likely occur in the short term.
- **The Eurozone is not in a particularly bad place relative to many peers**. Real growth drag over the medium term, even if countermeasures are enacted, should top 50bps at the very most.
- **The German fiscal package will likely offset this total negative growth effect in less than 6 months of deployment at the German level and over less than 2 years at the Eurozone level (and this is a 12 years plan).** We are consequently becoming increasingly positive on Eurozone growth, and now expect the last few years of the decades (2027-28 in particular) to better than average. This shock could however making more acute short term difficulties of the Eurozone before the recovery.

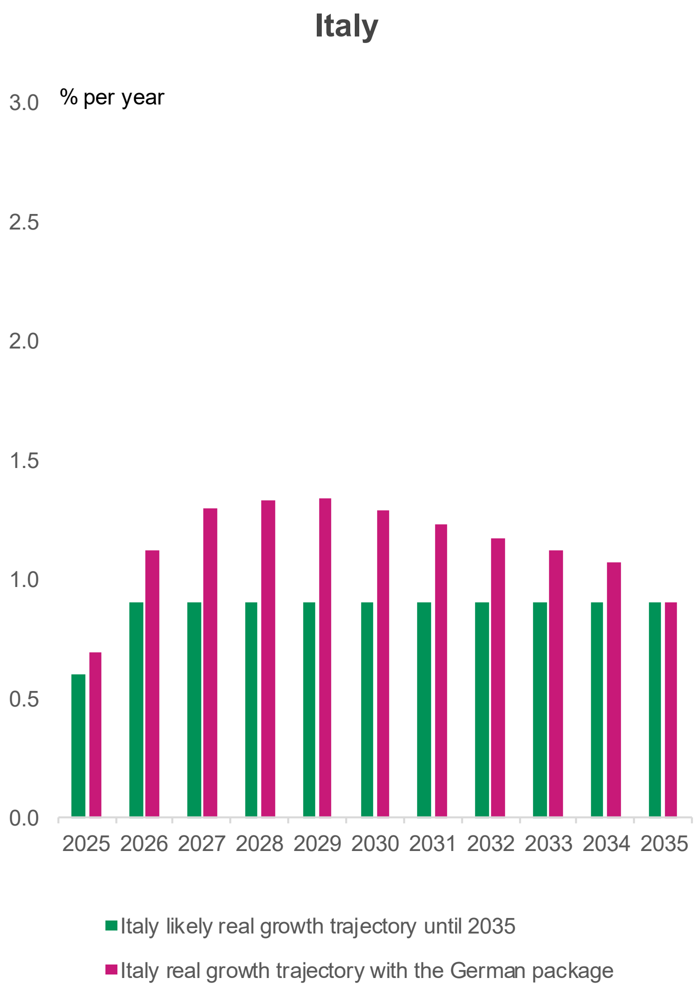
Estimated drag on real GDP level in 2030 resulting from a 25% tariffs with retaliations



Source all charts: MIRAGE-Power Model from CEPII – Bouet et al. (2025), KITE Model from Kiel Institute – Schularick (2025), Crédit Agricole CIB

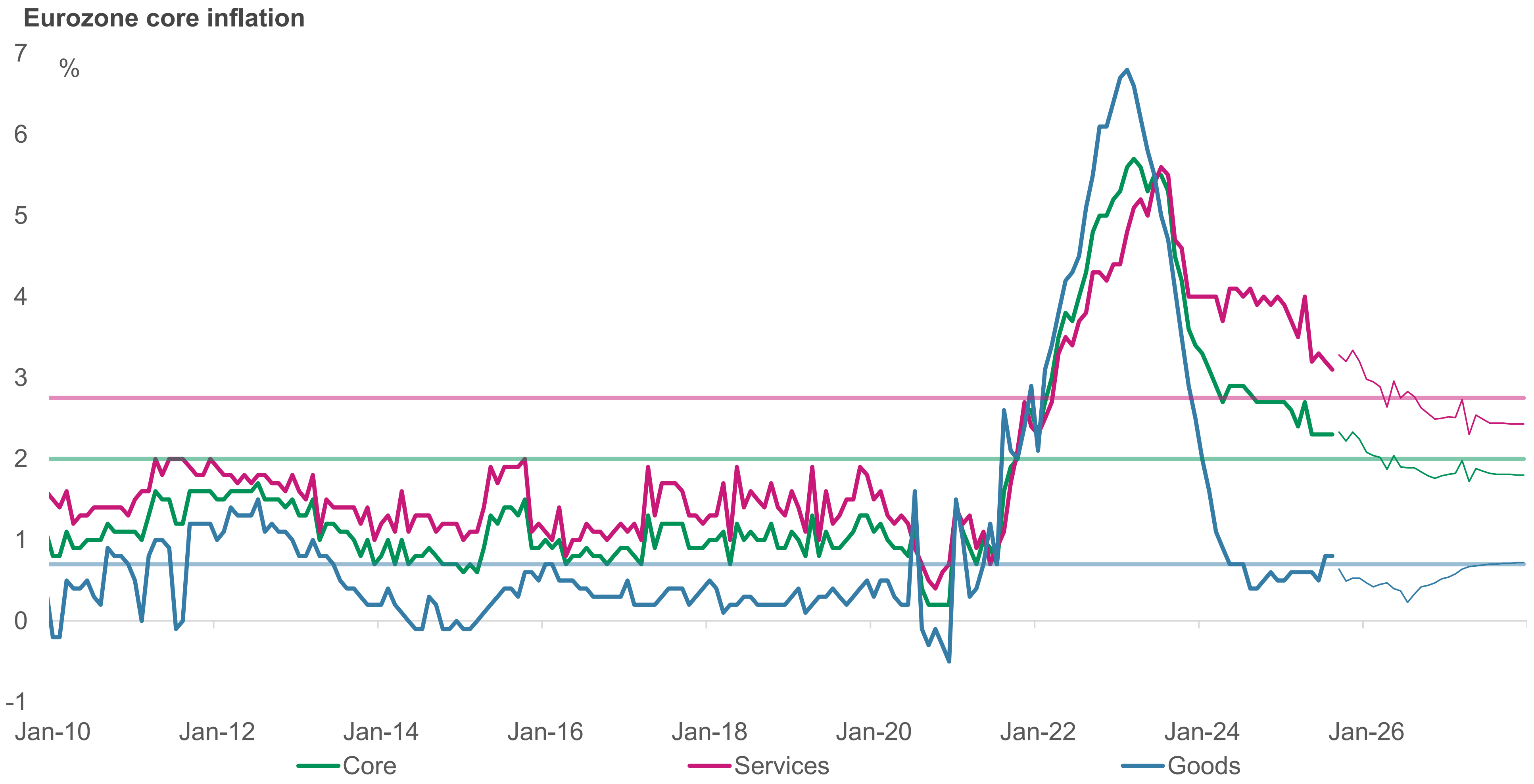
German fiscal package: a Eurozone growth rebound is likely





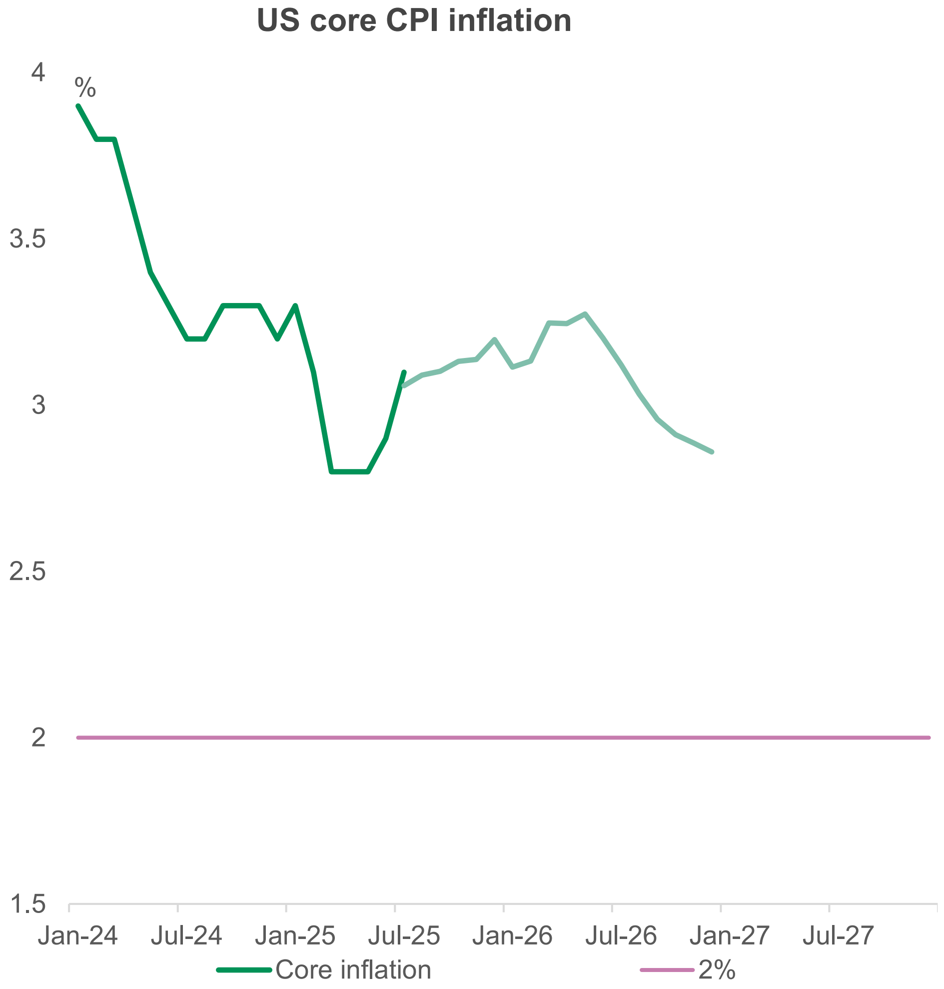
Source all charts: Crédit Agricole CIB

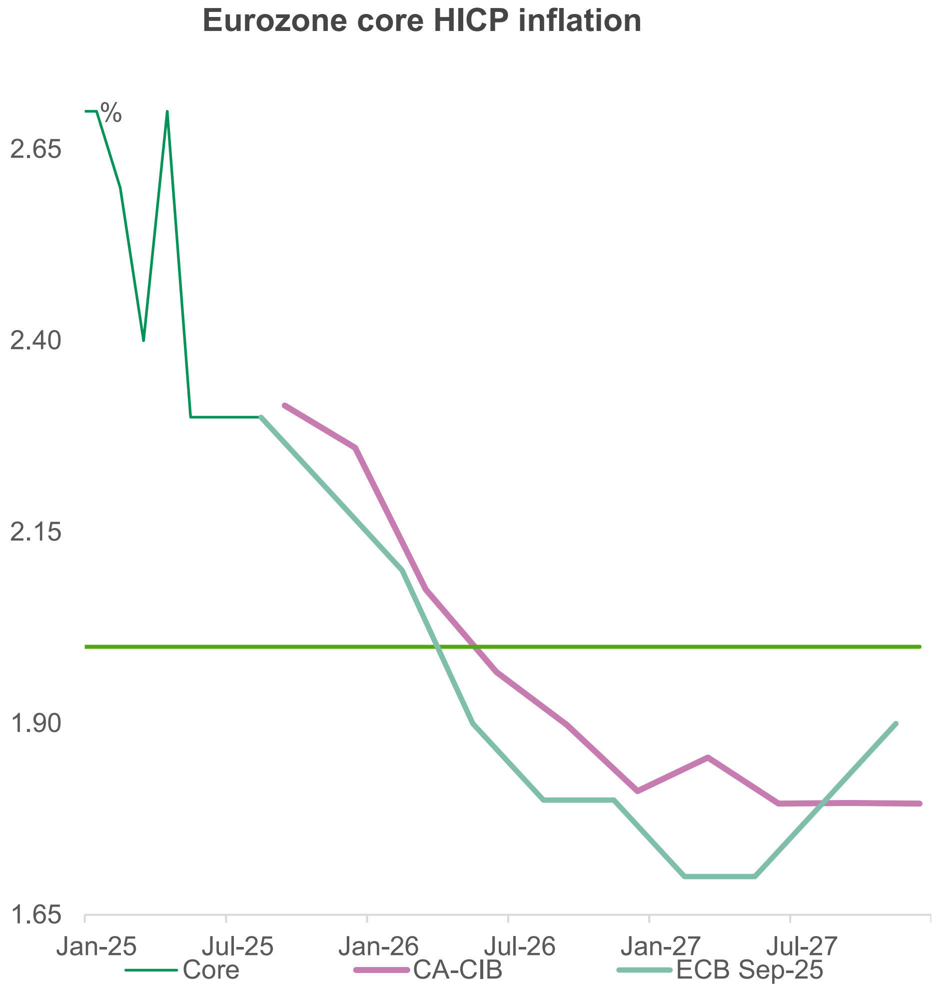
Eurozone core inflation: goods and services



Source: ECB, Crédit Agricole CIB

Inflation: closer in Eurozone, not there yet in the US

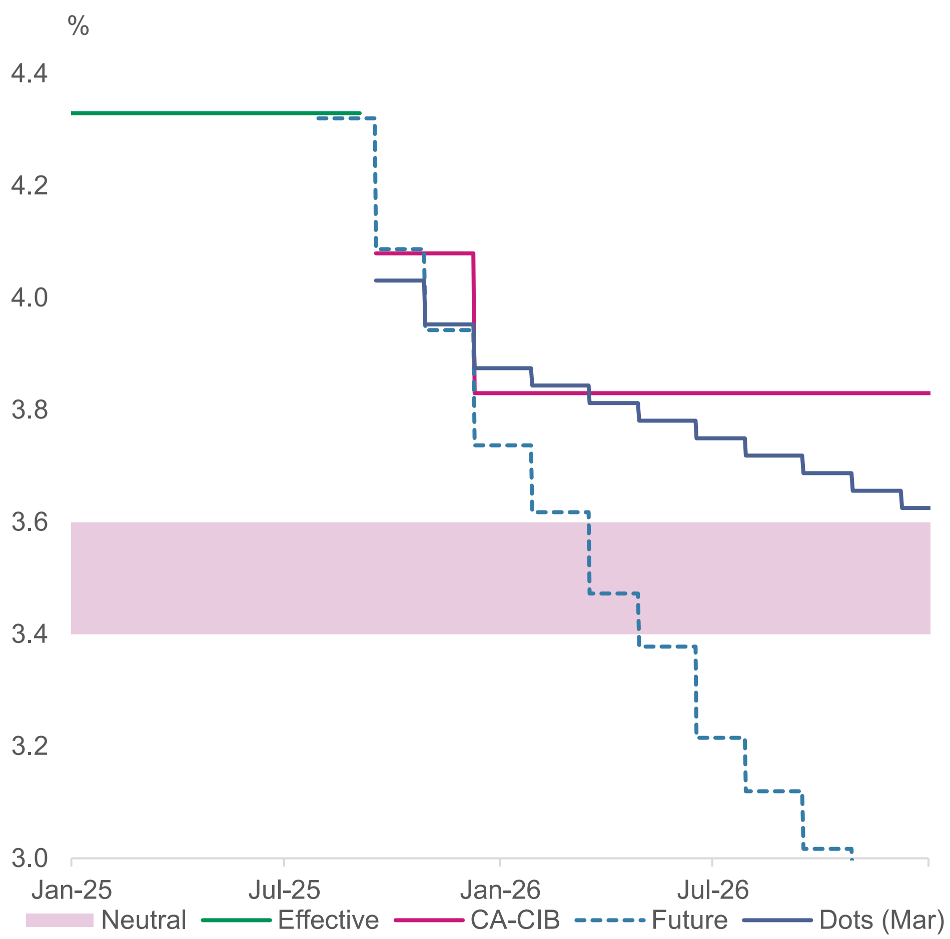




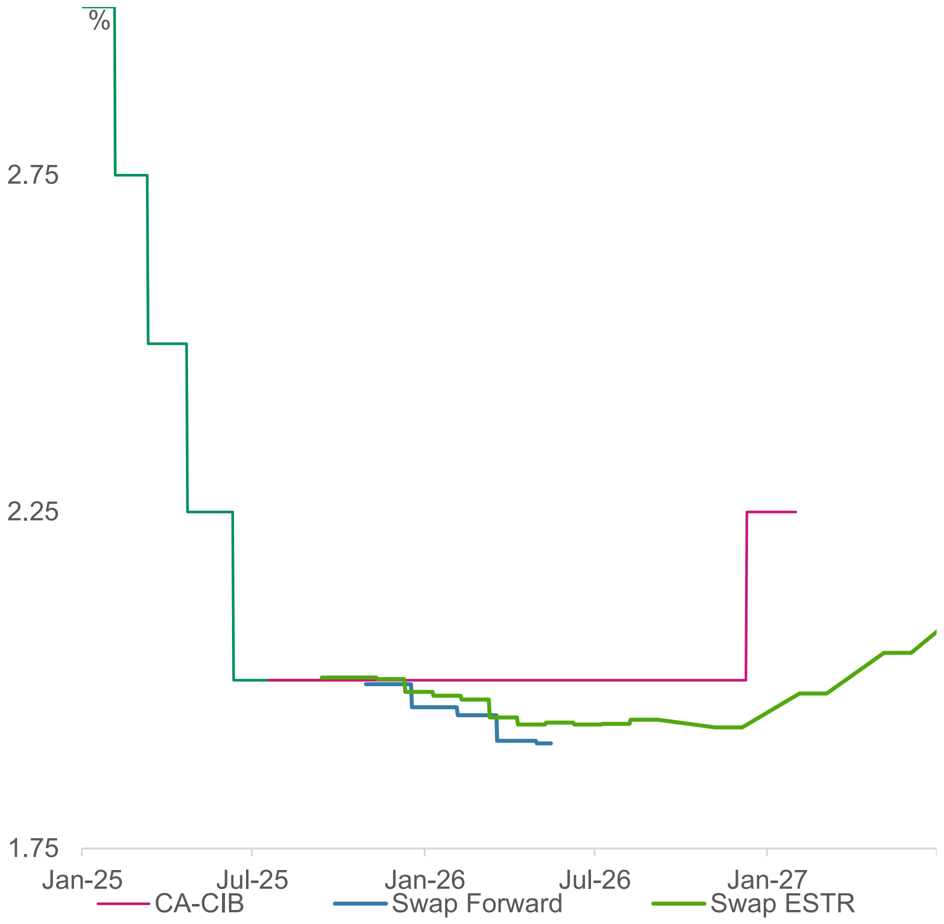
Source: FOMC, ECB, Crédit Agricole CIB

Central bank pricing and forecasts

Fed, our forecasts and the market pricing



ECB, our forecasts and the market pricing



Source: FOMC, ECB, Bloomberg, Crédit Agricole CIB

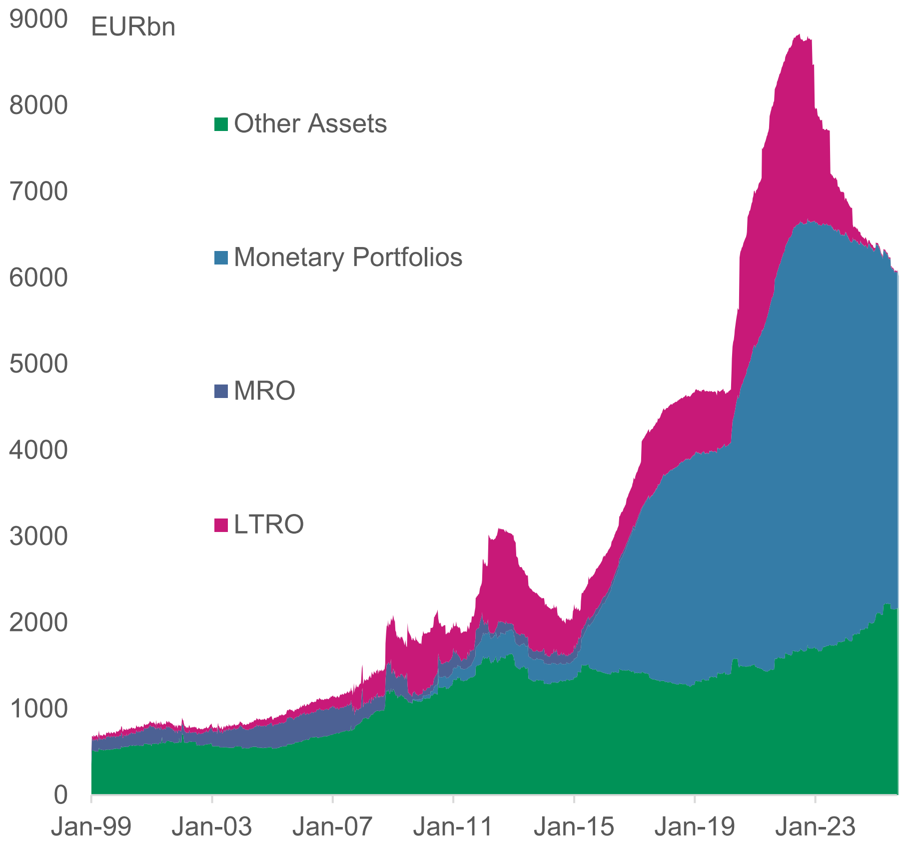
ECB Framework

Past changes in the ECB’s monetary framework

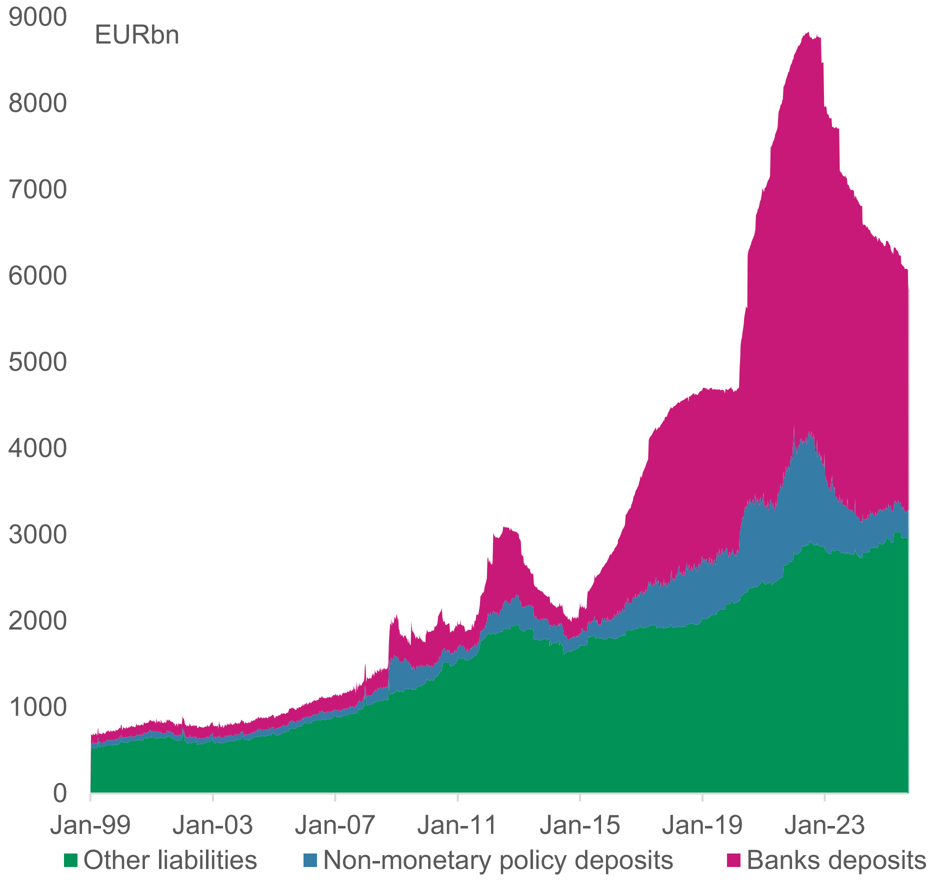
- The Great Financial Crisis and the ‘lowflation’ following the sovereign debt crisis forced the ECB to implement non-standard monetary policy tools – the sovereign debt crisis contributed too, but to a lesser extent.
- These monetary policy tools (non-standard refinancing operations and purchase programmes) increased the ECB’s balance sheet (on the asset side), triggering an increase in bank deposits (on the liabilities side).
- The increase of liquidity changed the ECB’s framework, from a corridor system to a floor system: since 2012, the main guide to short-term rates is no longer the refi rate, but the deposit rate.
- In March 2024, the ECB decided to change its monetary framework.
    - It will continue the reduction of holdings in monetary portfolios
    - It will not implement new TLTROs
    - *Once the Eurosystem balance sheet begins to grow durably again*, it will implement new structural tools (structural refinancing operations and structural portfolios)
- We estimate that this will happen in the second half of 2027.
- In this presentation, we show the different charts related to the new monetary framework and the expected impact on short-term rates.

The ECB's balance sheet

Asset side of the Eurosystem balance sheet



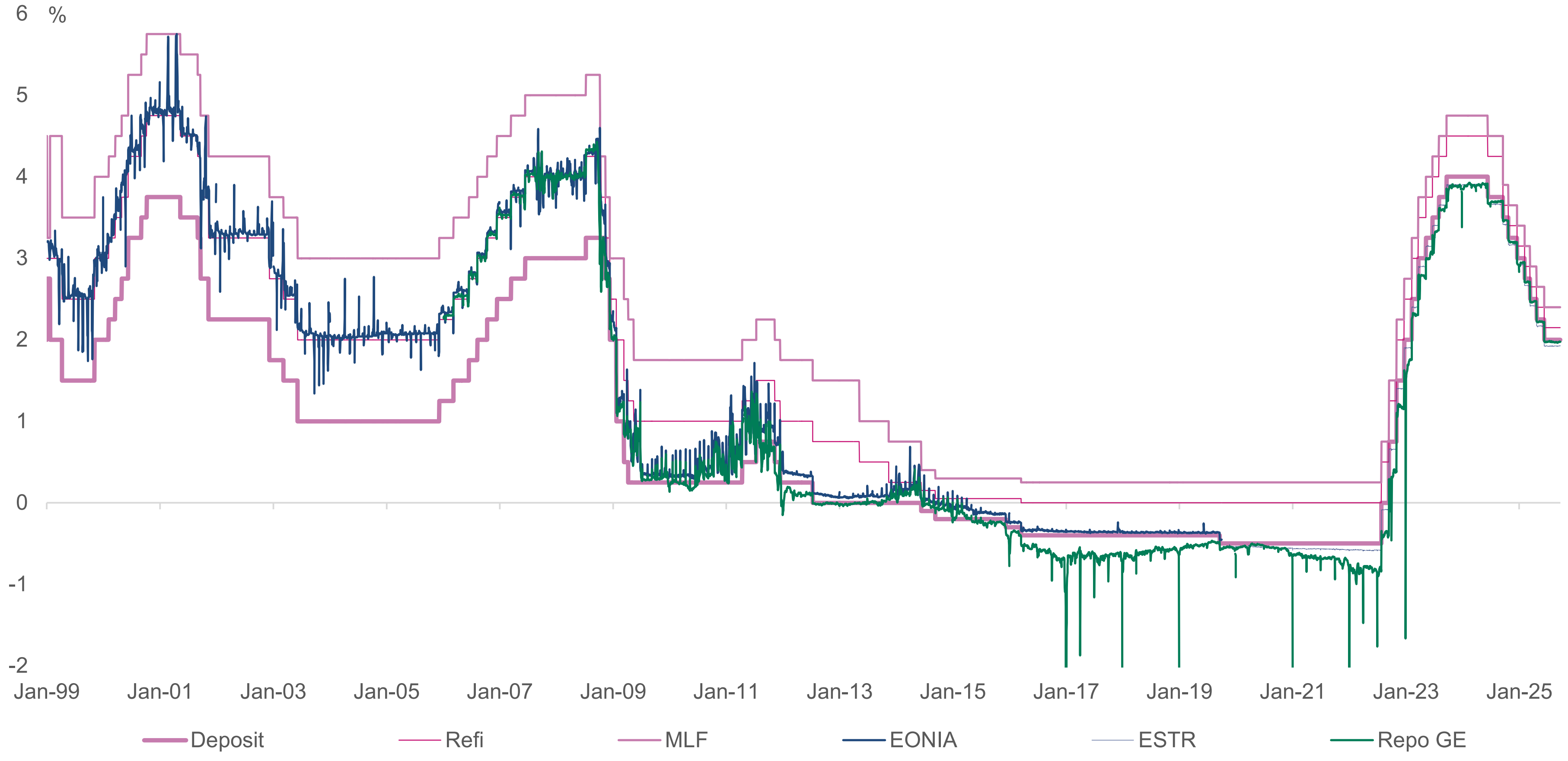
Liabilities side



Source: ECB, Crédit Agricole CIB

ECB’s rates and short-term rates

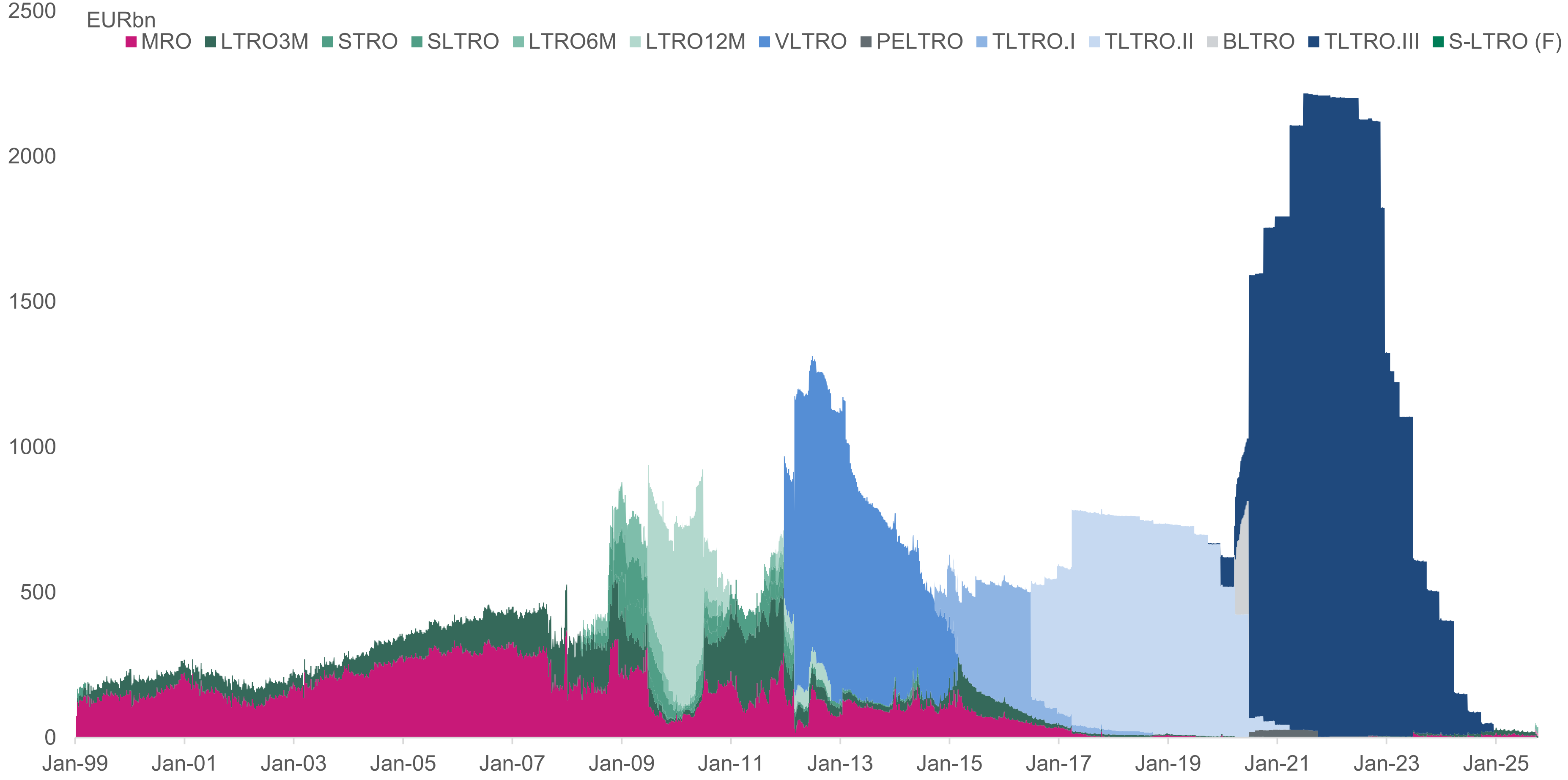
ECB’s main rates and short-term rates



Source: ECB, Bloomberg, Crédit Agricole CIB

The end of non-standard refinancing operations

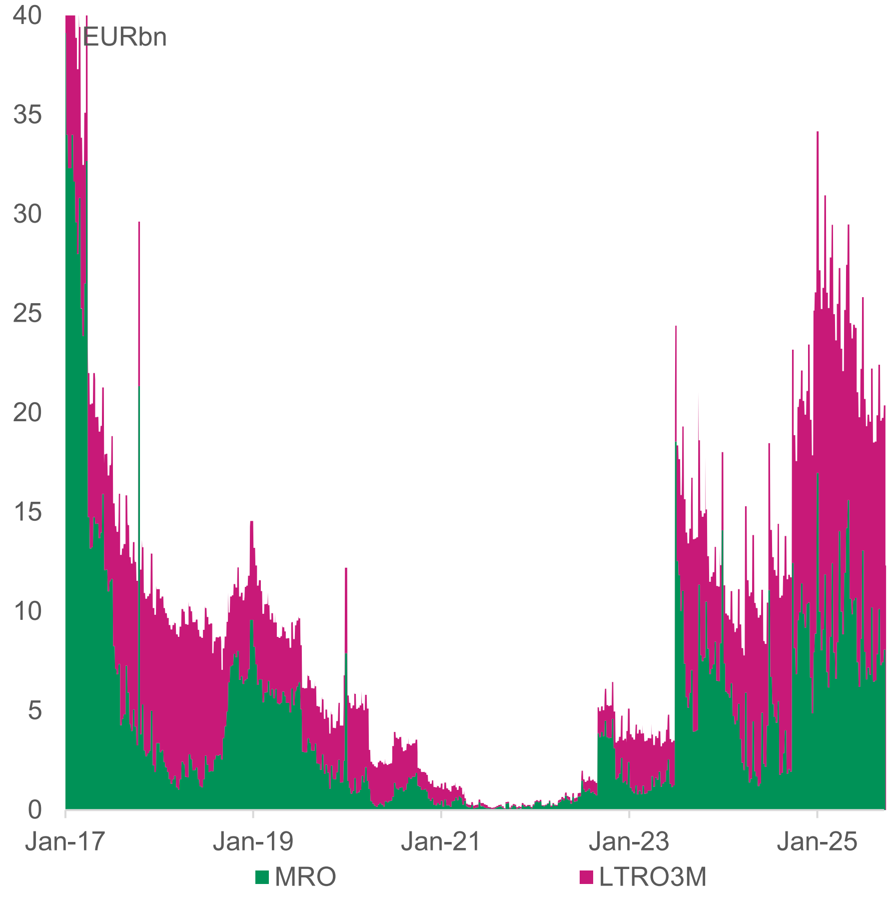
History of refinancing operations



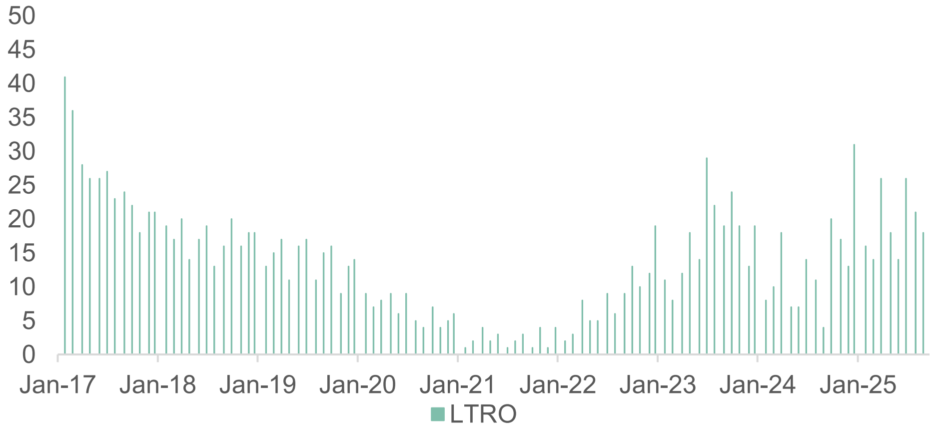
Source: ECB, Crédit Agricole CIB

Standard refinancing operations – the only new source of liquidity

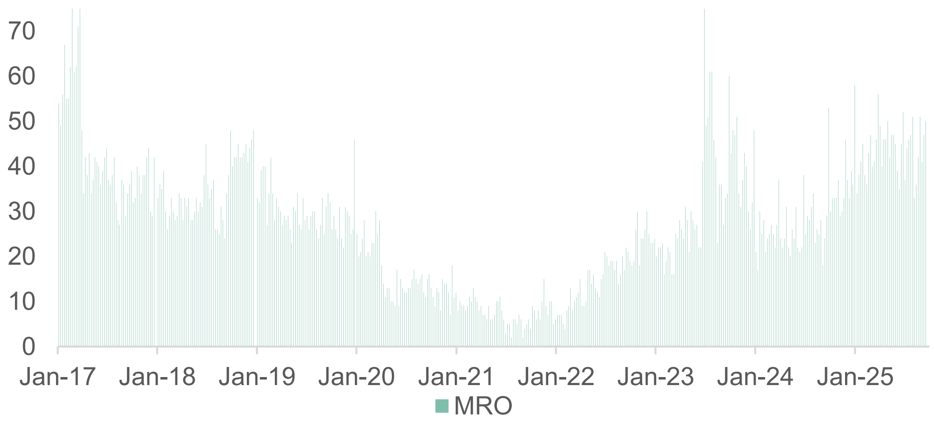
MRO and LTRO outstanding amounts



Number of bidders: LTRO



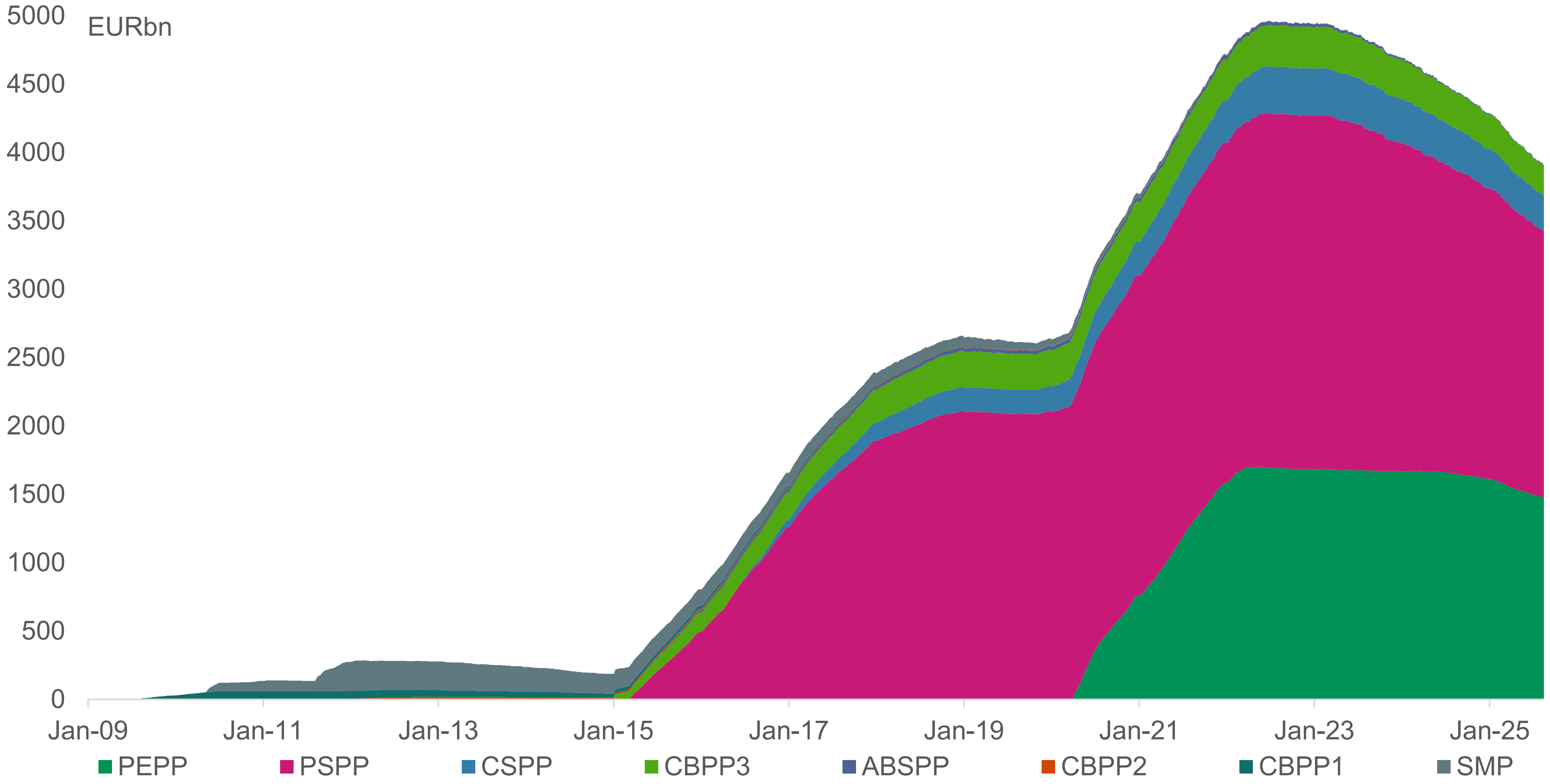
Number of bidders: MRO



Source: ECB, Crédit Agricole CIB

The end of purchase programmes

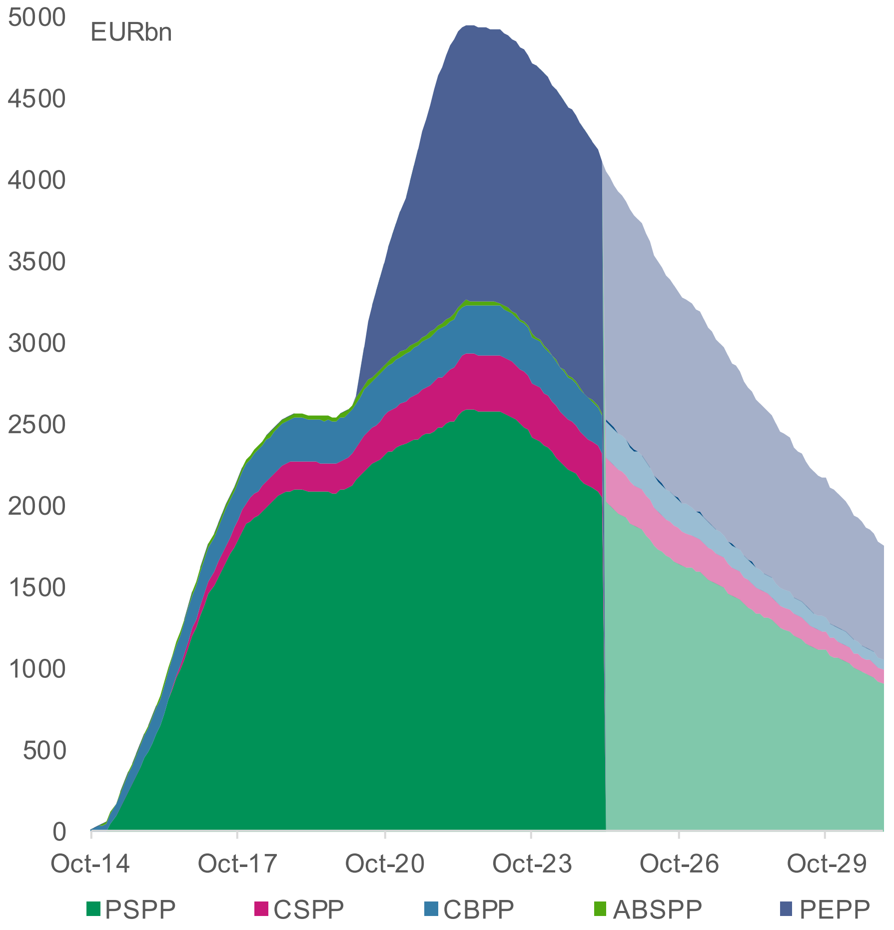
Monetary portfolios



Source: ECB, Crédit Agricole CIB

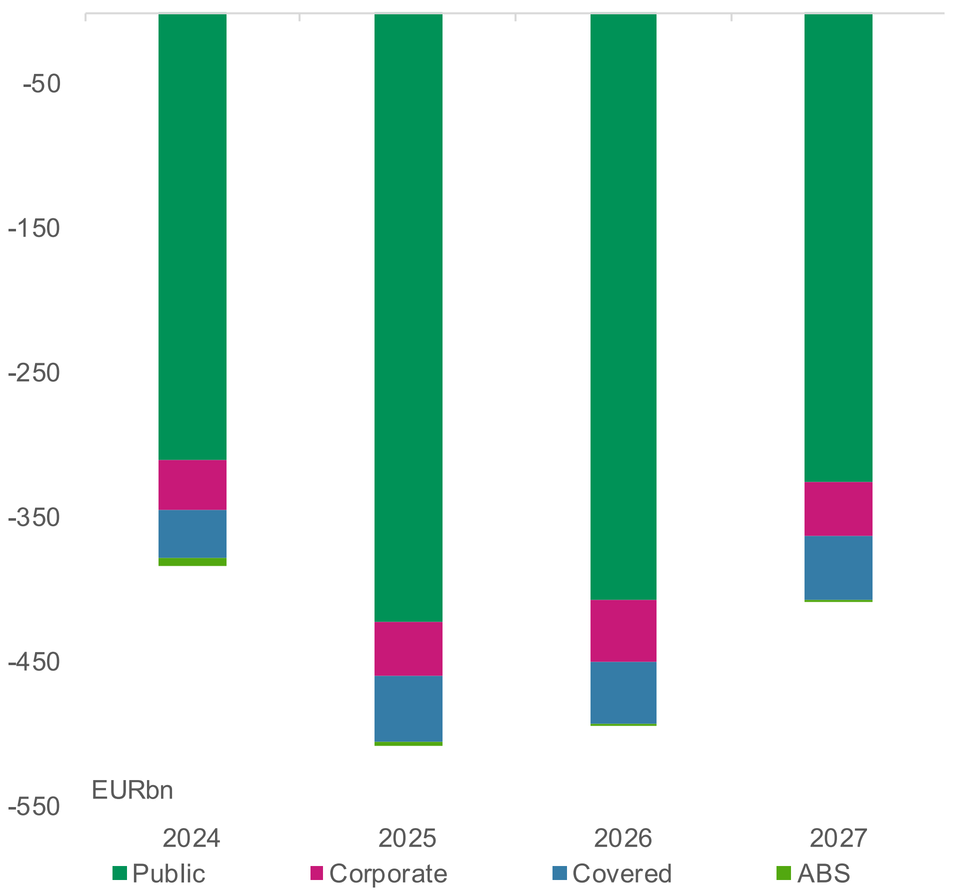
ECB's balance sheet: beware of QT

Monetary portfolios



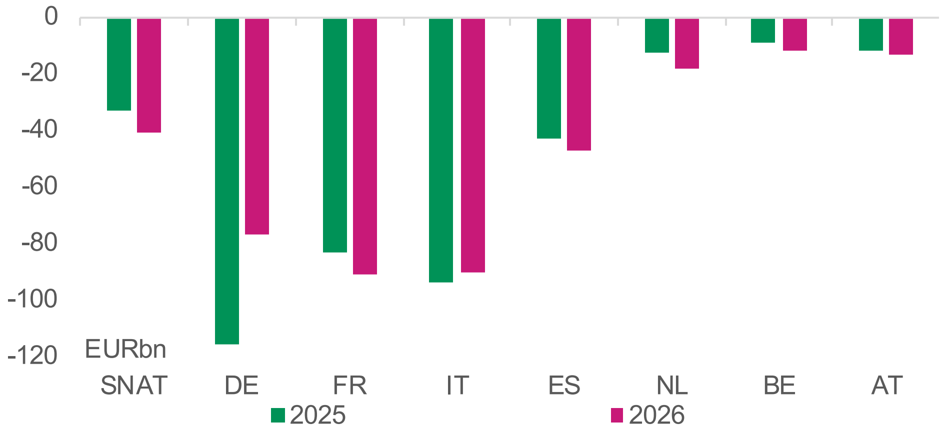
Source: ECB, Crédit Agricole CIB

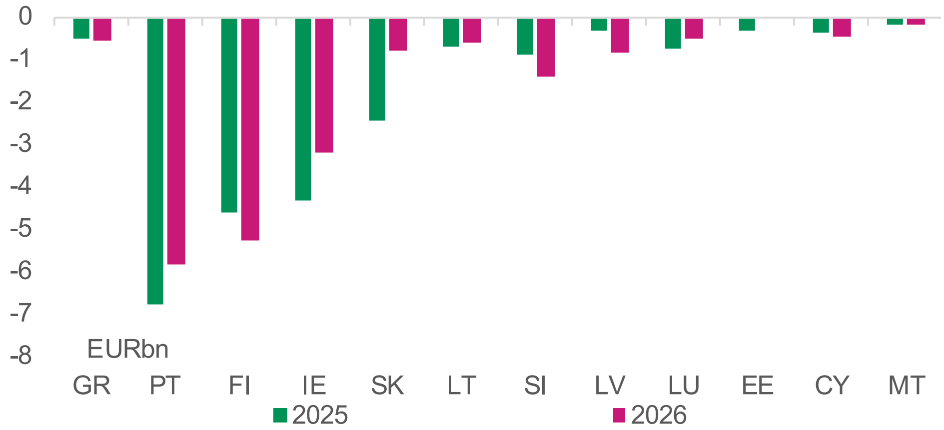
QT: the ECB will give back EUR500bn of bonds in 2025 and 2026



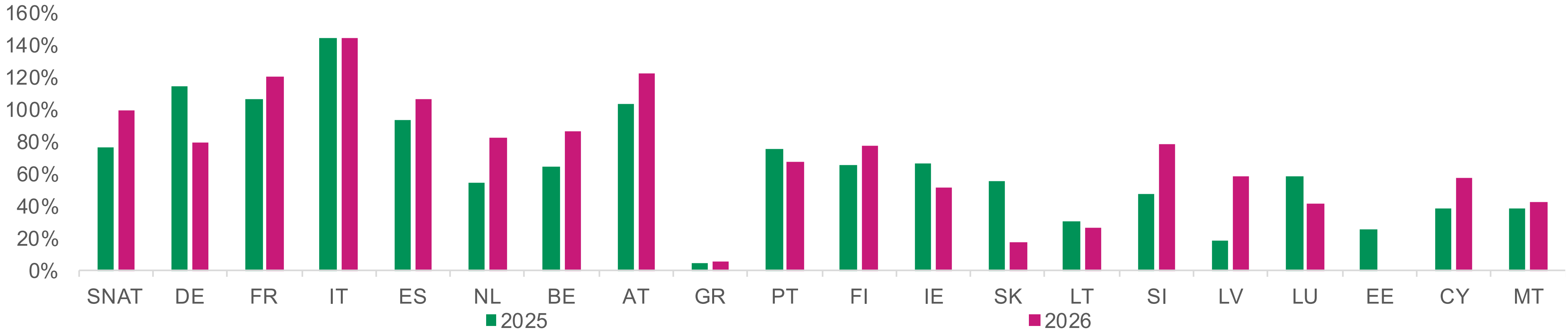
QT: a country view

Reduction of ECB holdings by country





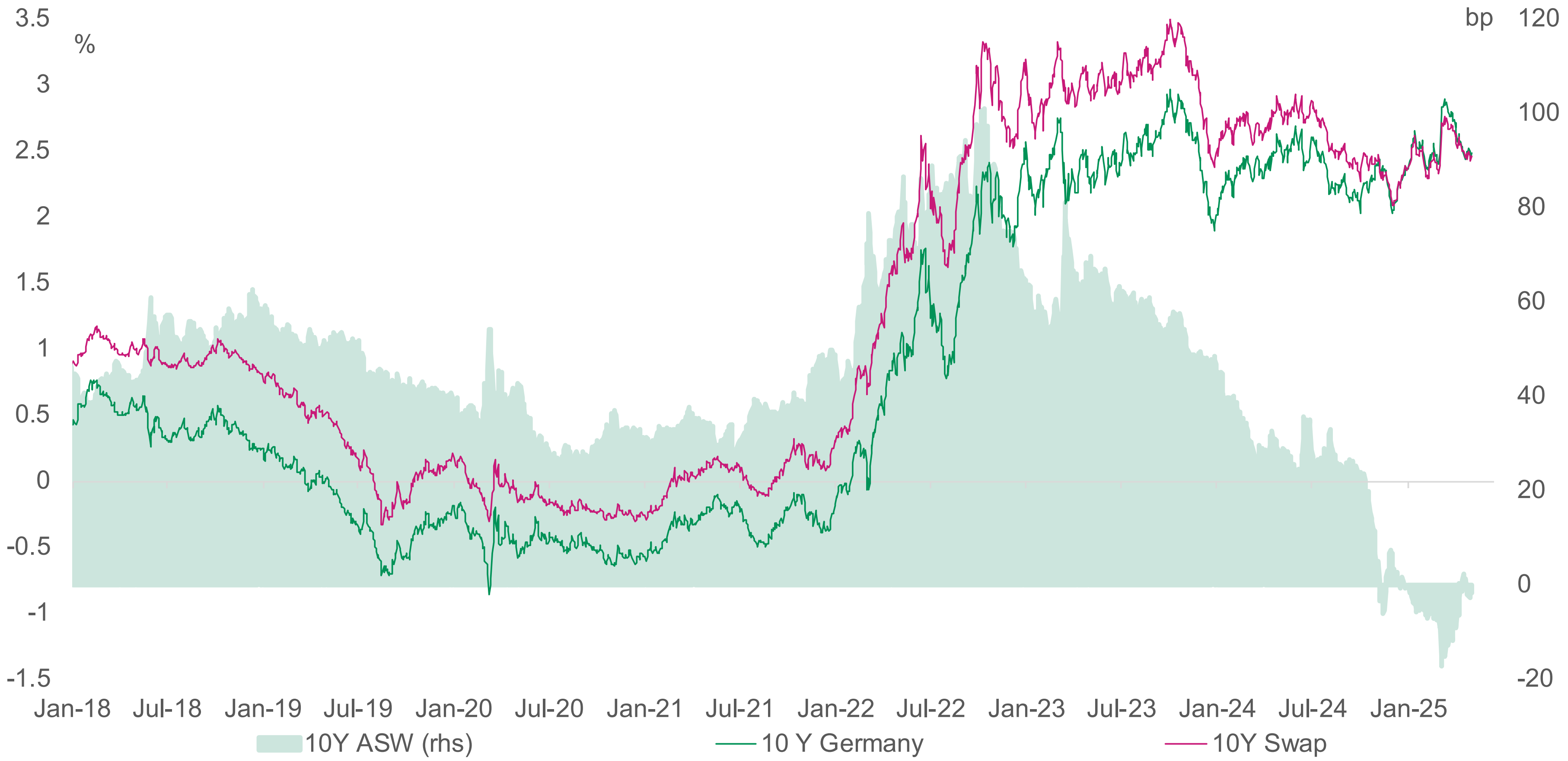
Deviation from the capital key of redemptions



Source: ECB, Crédit Agricole CIB

Downward pressure on asset-swap spreads

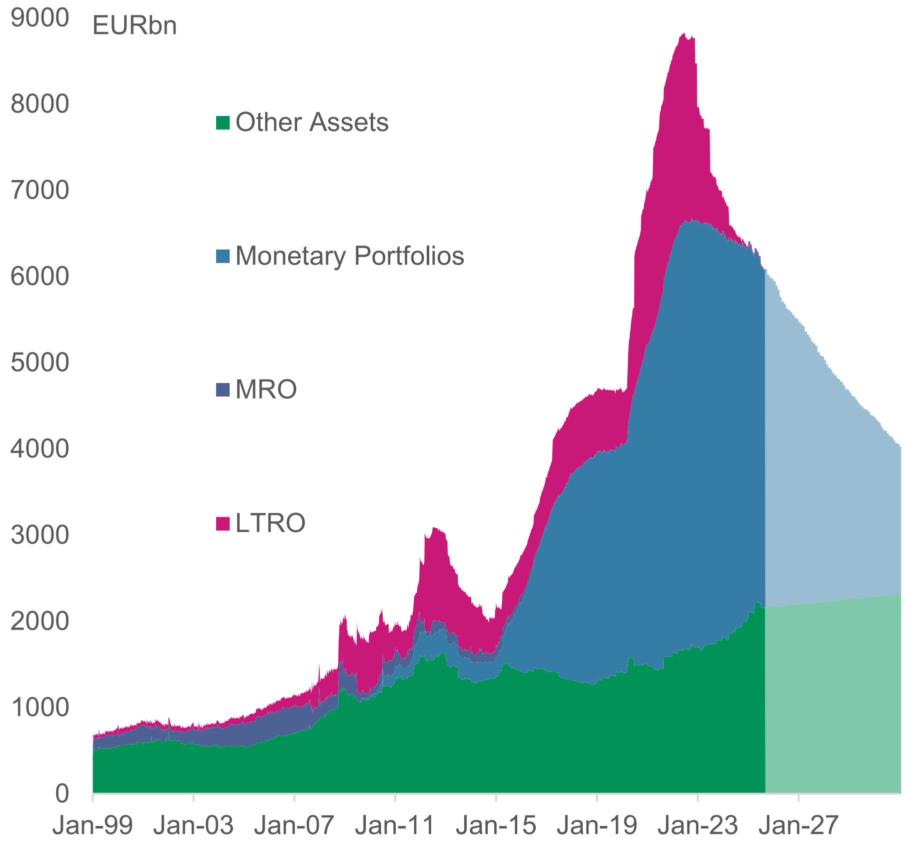
Bund and swaps



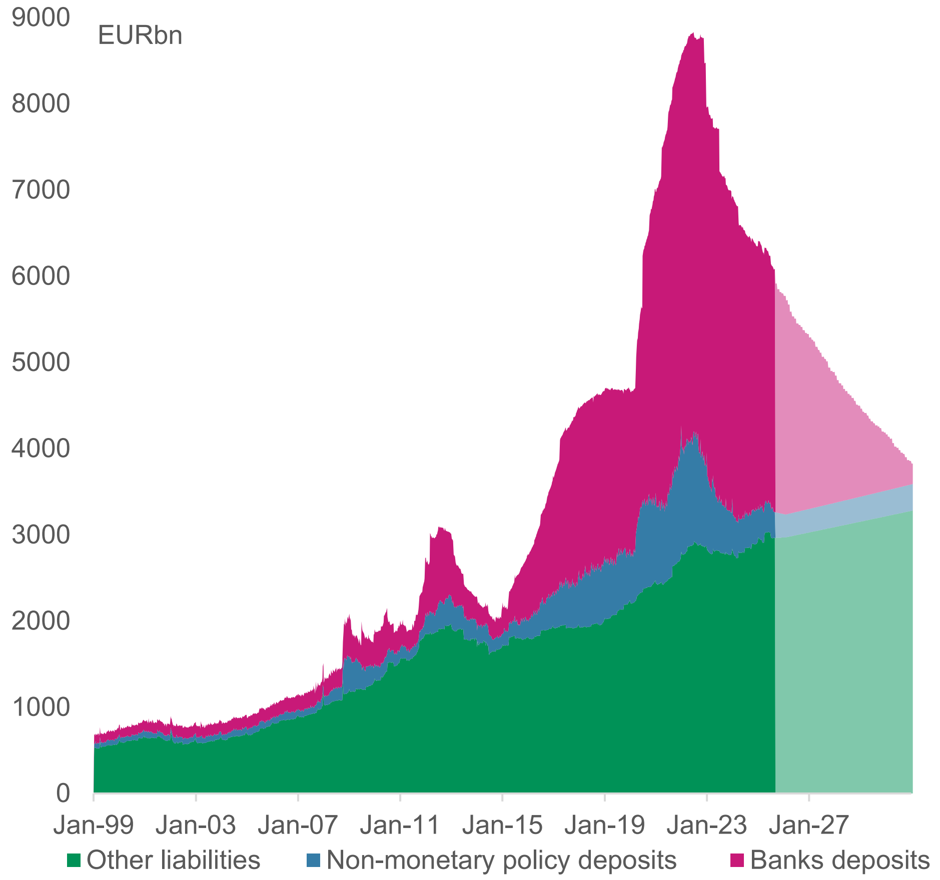
Source: ECB, Bloomberg, Crédit Agricole CIB

Reduction of the ECB’s balance sheet via the QT

QT will have a strong impact on the ECB’s assets…



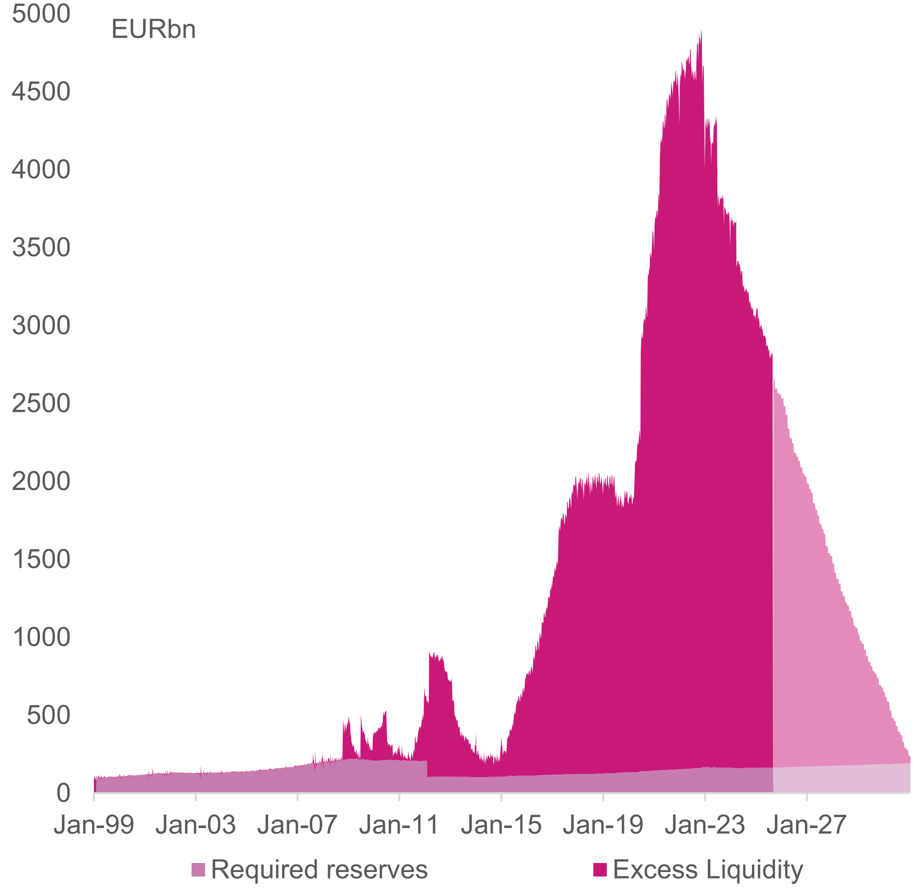
…which will extend the reduction of liquidity



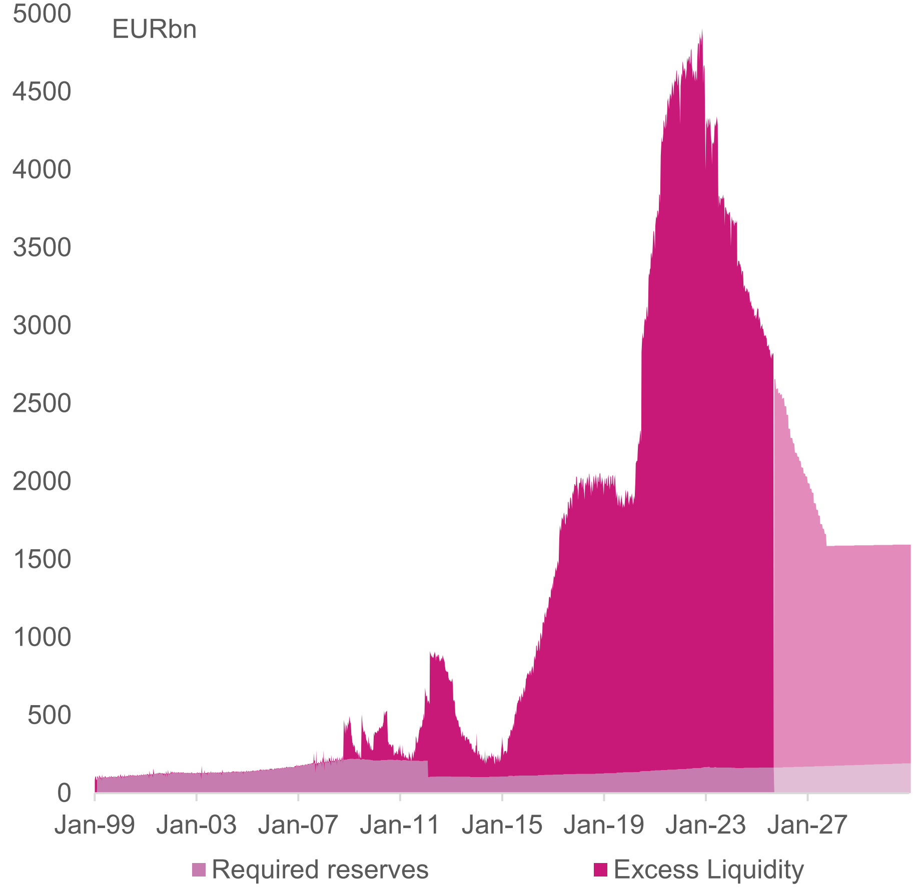
Source: ECB, Crédit Agricole CIB

From lower excess liquidity to borrowing at MRO and LTRO

Reduction in banks' liquidity, until EUR0bn?



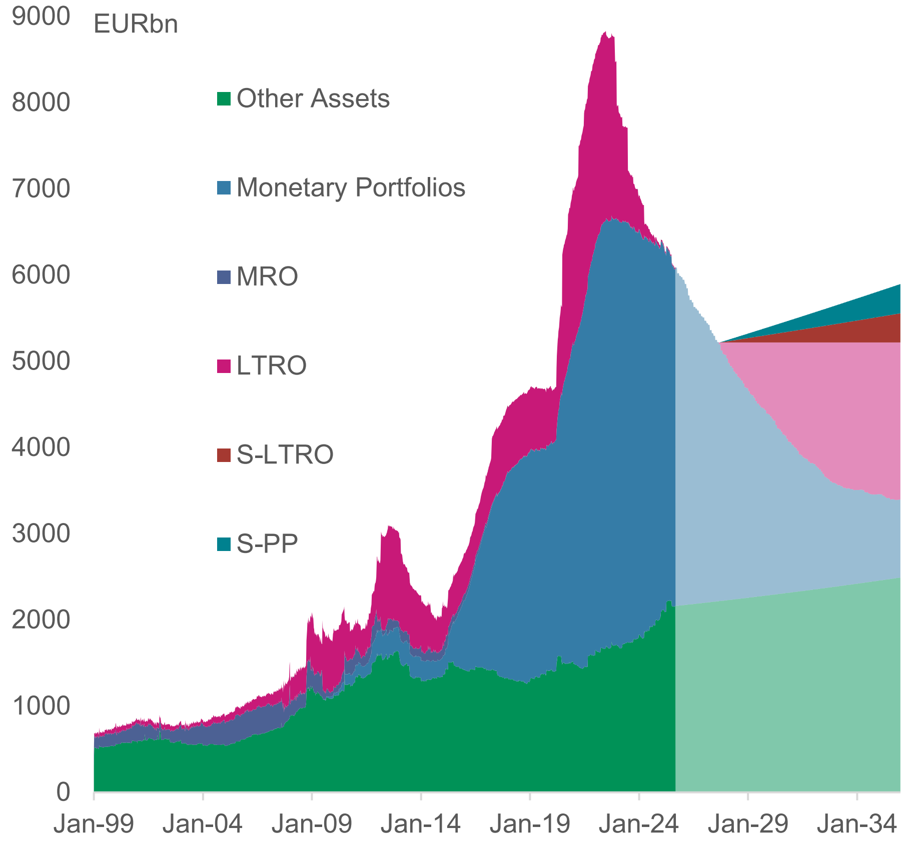
Reduction in banks' liquidity – or stabilisation at a certain level



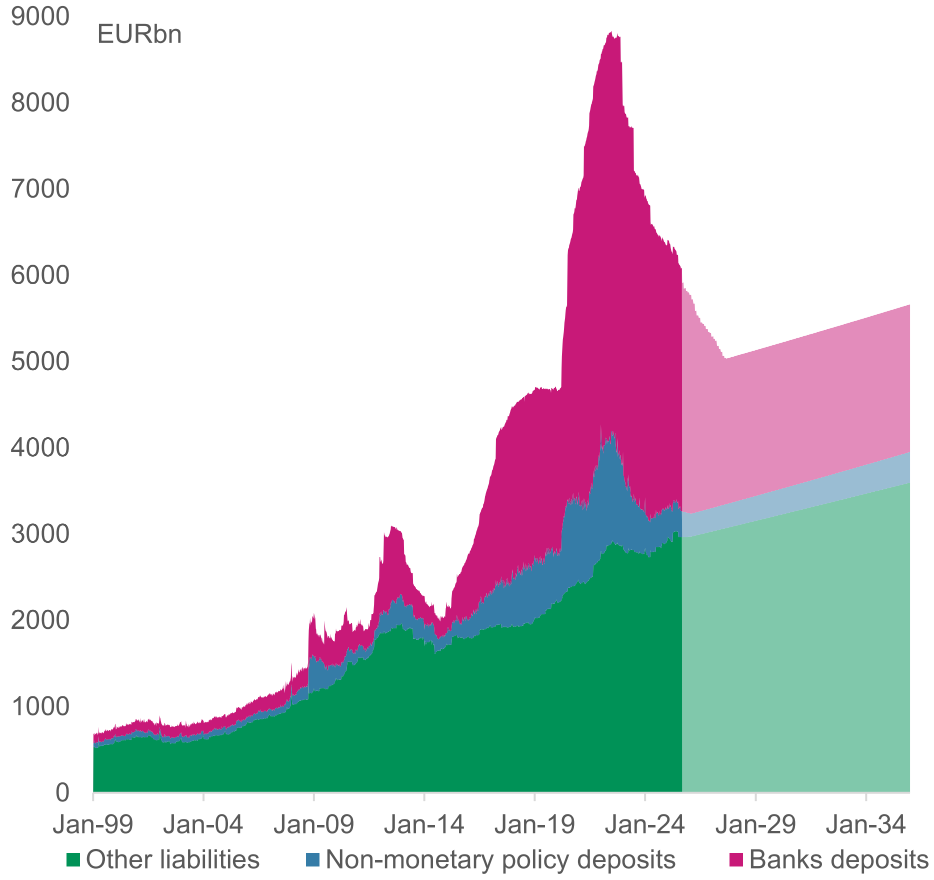
Source: ECB, Crédit Agricole CIB

The new monetary framework: LTRO and new tools

The balance sheet will reduce…

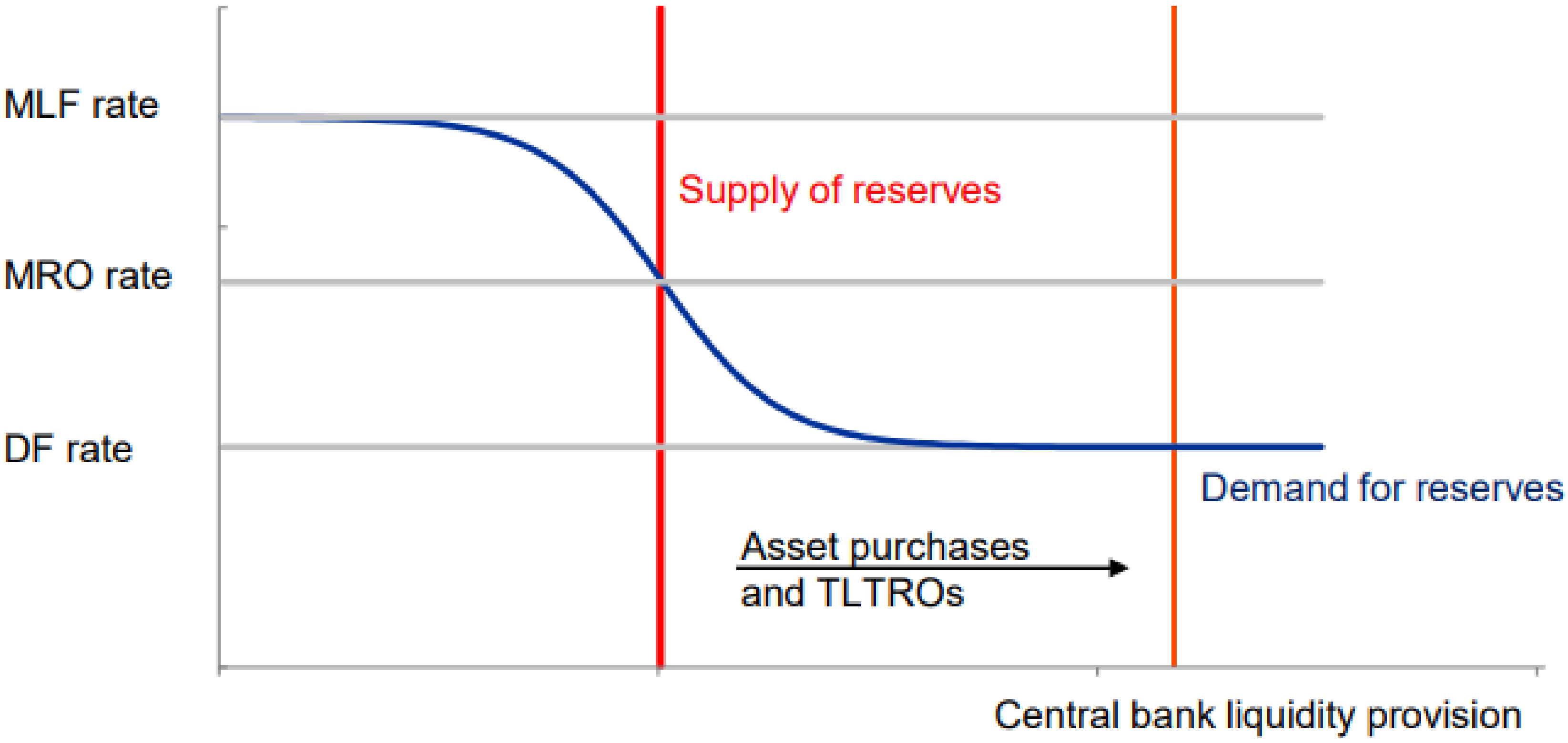


…until banks will be 'short' of liquidity



Source: ECB, Crédit Agricole CIB

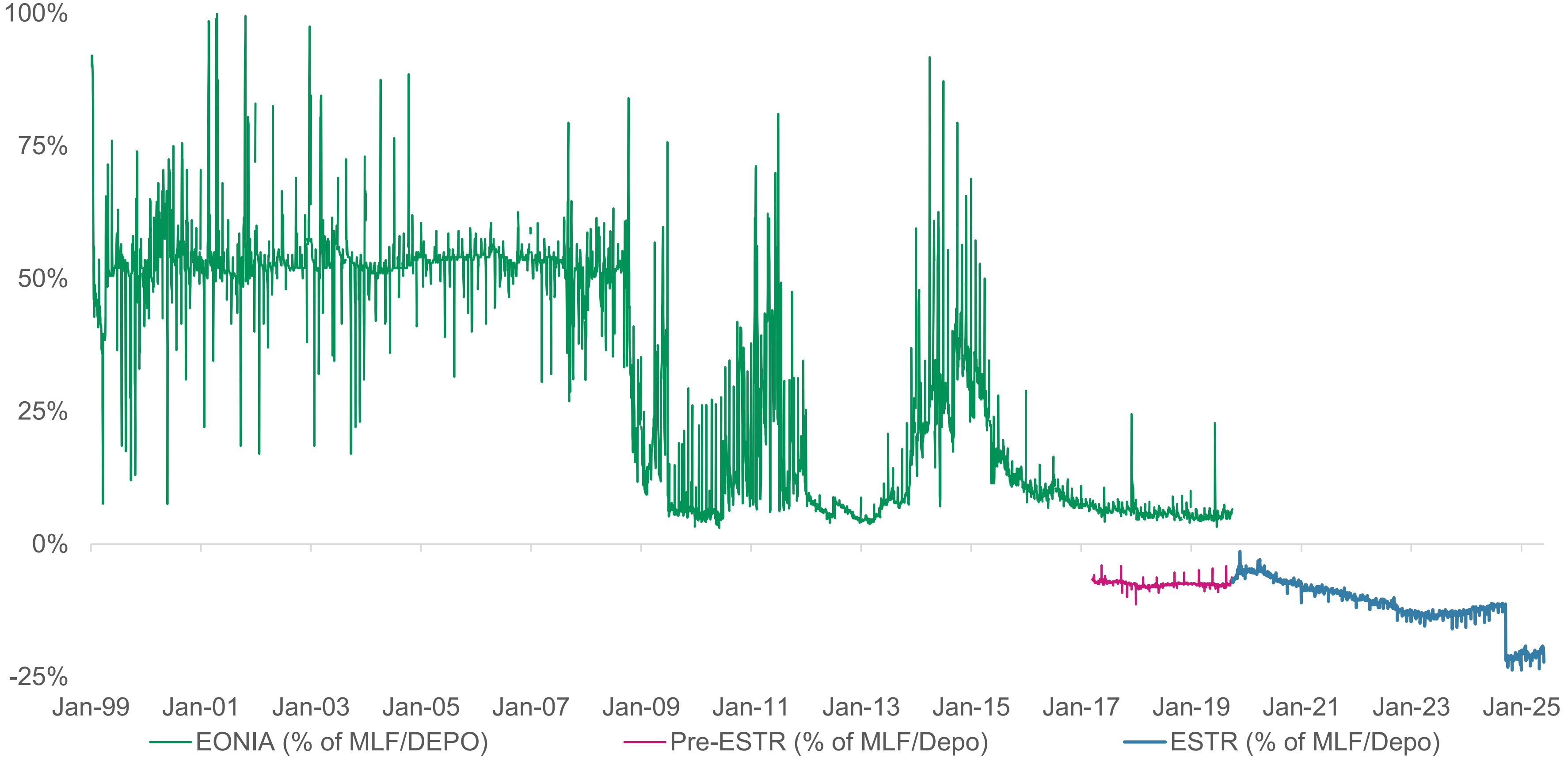
Central bank reserves and short-term rates



Source: ECB, Crédit Agricole CIB

Eonia, ESTR and Pre-ESTR

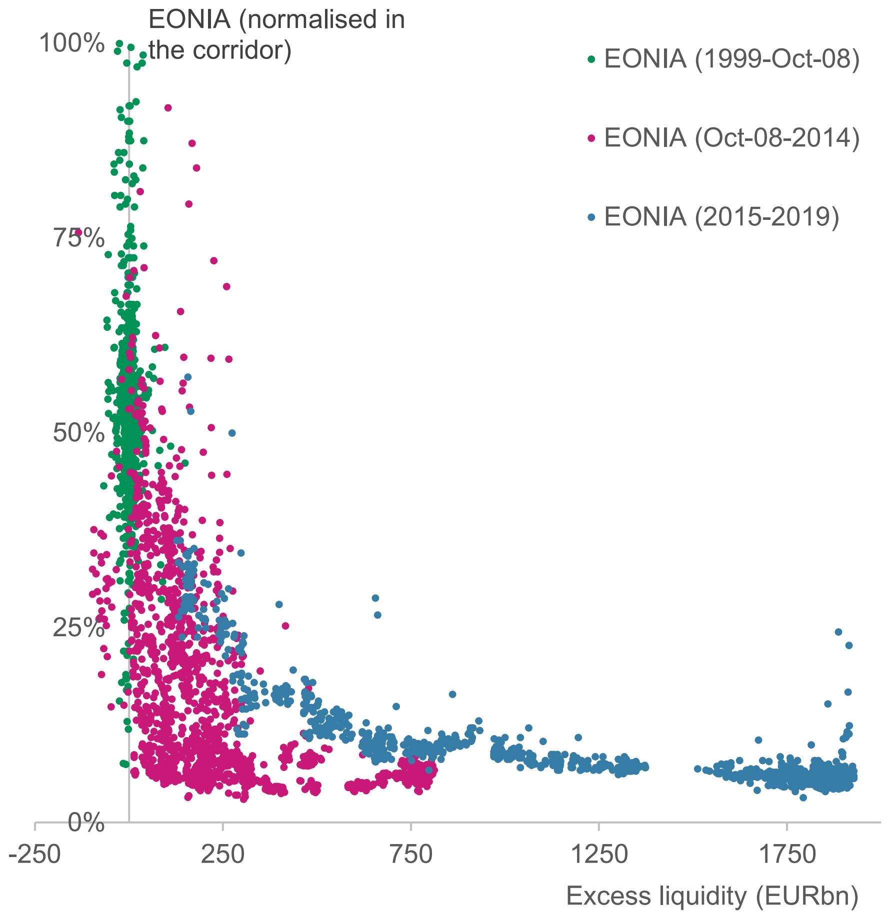
Eonia, pre-ESTR, ESTR in % of the corridor



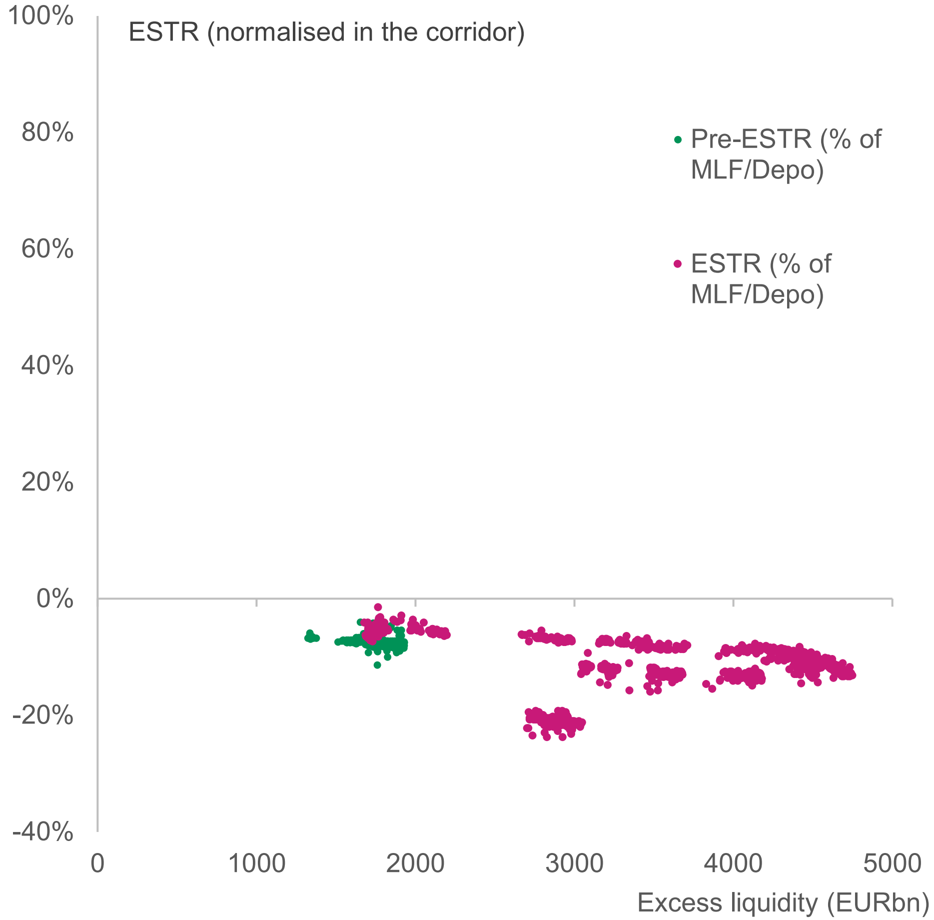
Source: ECB, Bloomberg, Crédit Agricole CIB

Excess liquidity and interbank rates

Excess liquidity and the Eonia



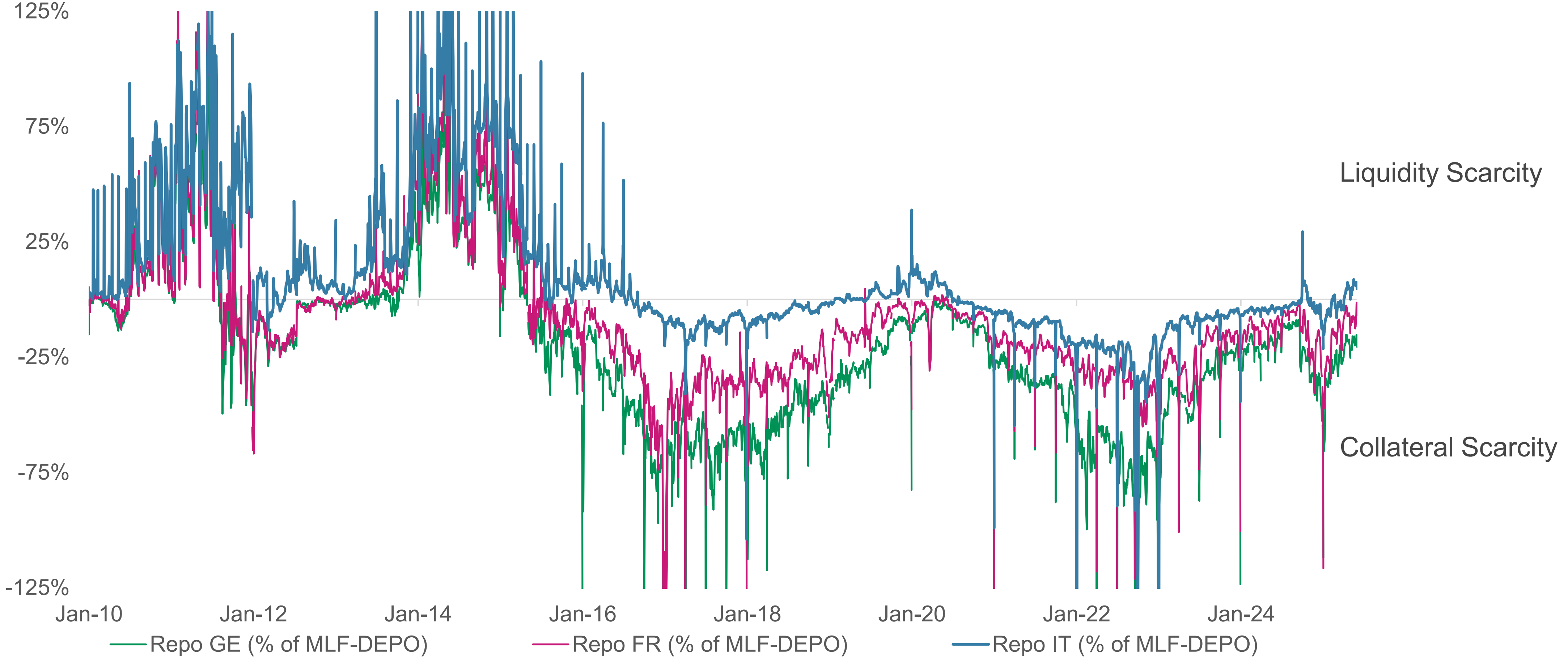
Excess liquidity and the ESTR



Source: ECB, Bloomberg, Crédit Agricole CIB

Limited repricing on the repo market, so far

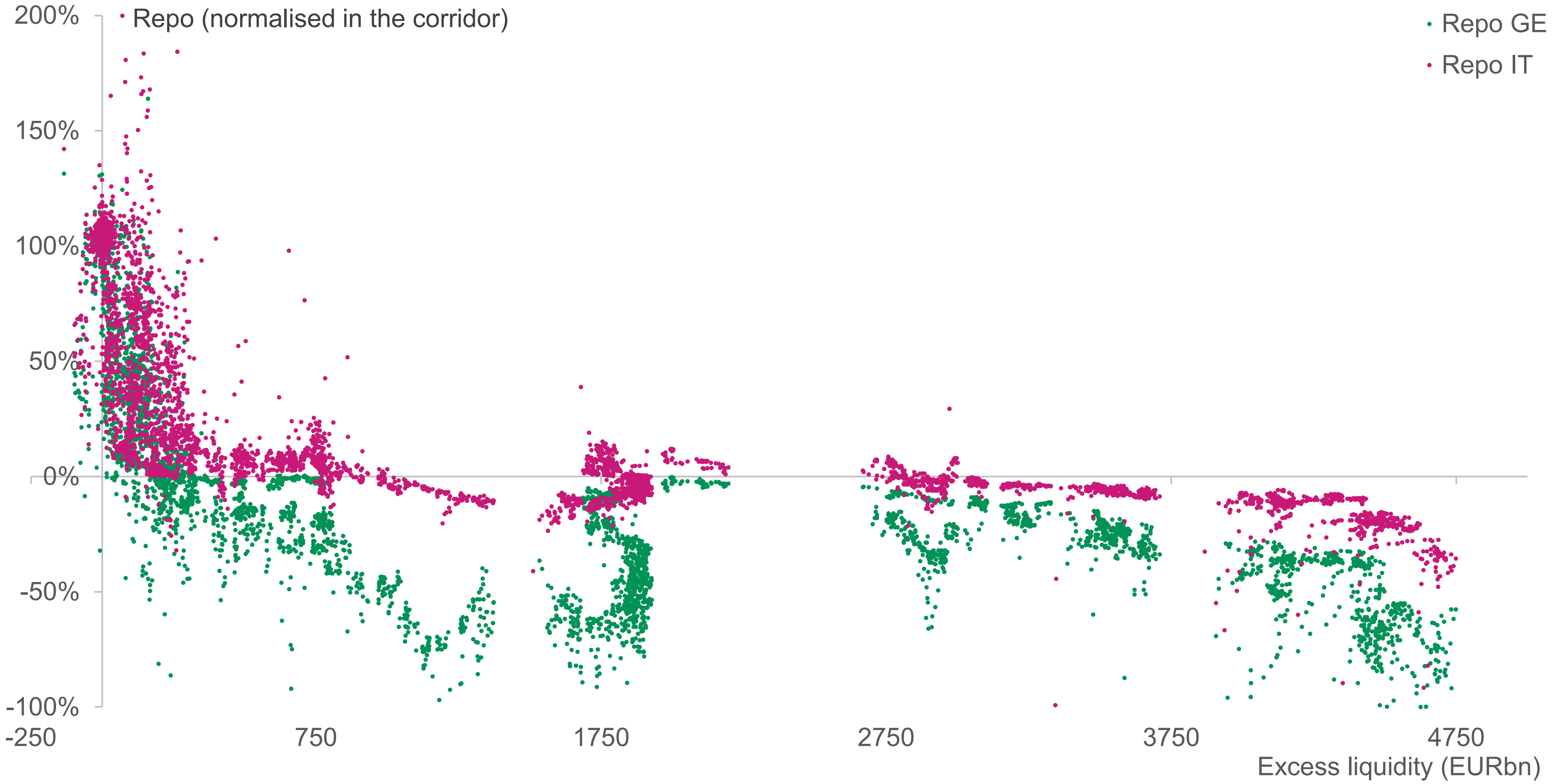
GC repo rates



Source: ECB, Bloomberg, Crédit Agricole CIB

Excess liquidity and repo rates

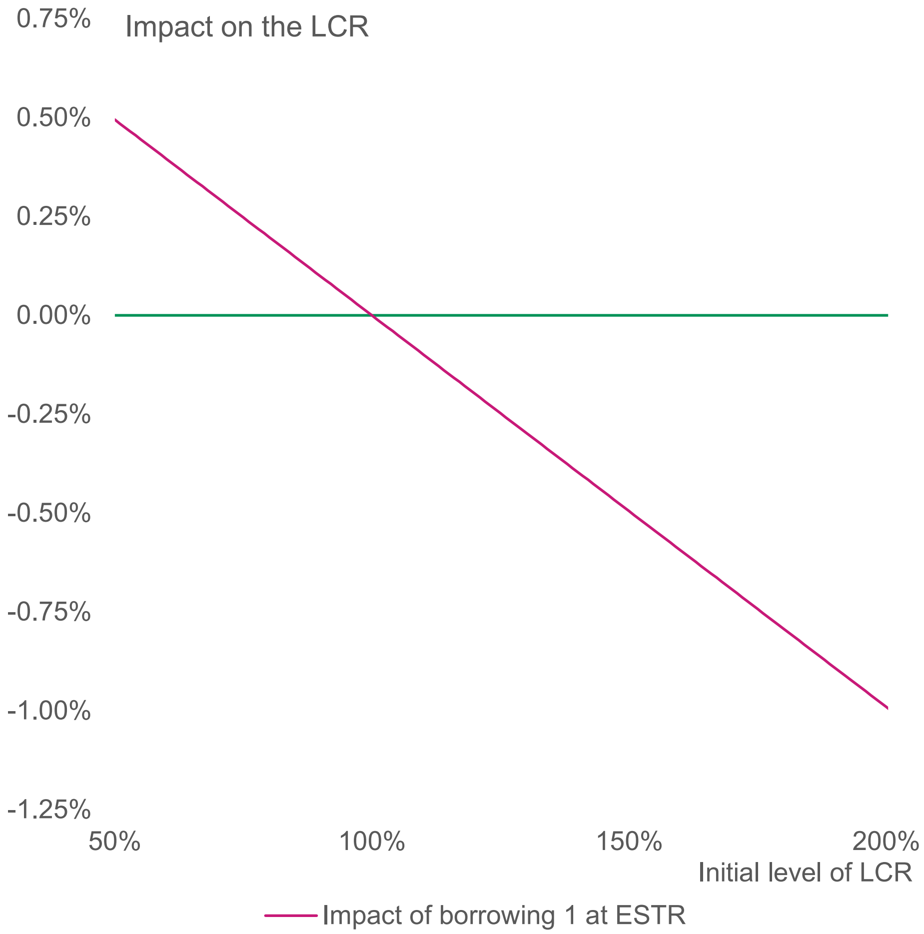
Excess liquidity and repo rates: liquidity vs collateral scarcity



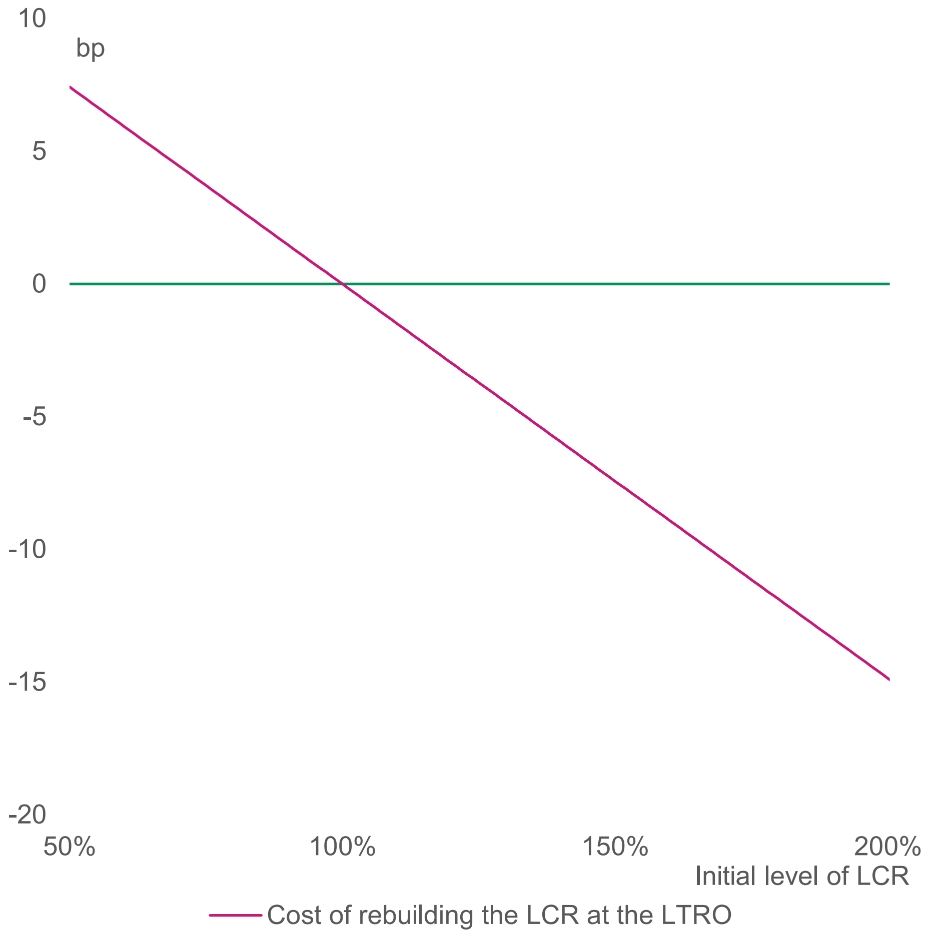
Source: ECB, Bloomberg, Crédit Agricole CIB

LCR and the ESTR

Borrowing at the ESTR reduces the LCR



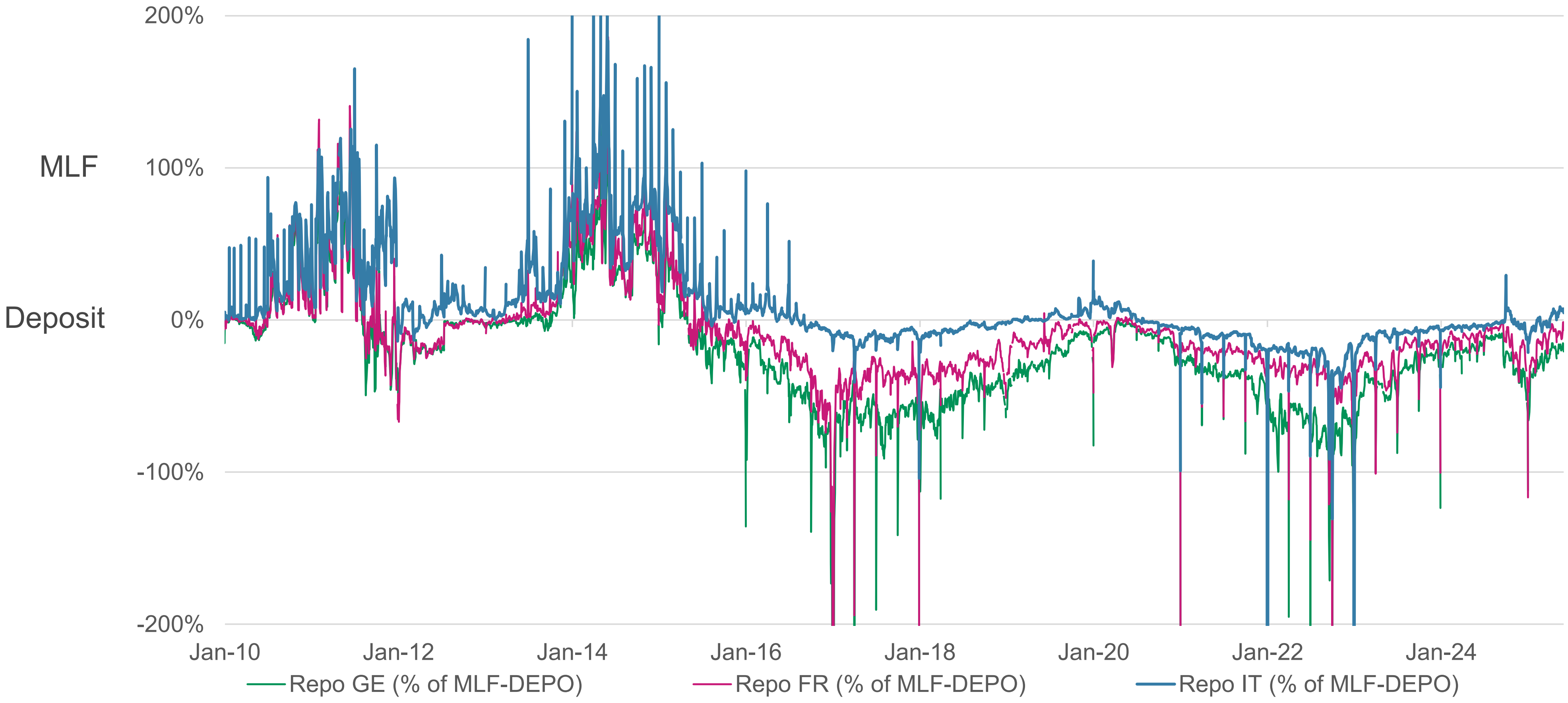
If the LCR is at 140%, the cost of the ESTR is 6bp, at 130% it is 4.5bp



Source: Crédit Agricole CIB

Quarter-end spikes in the repo

Leaky floor (and ceiling)

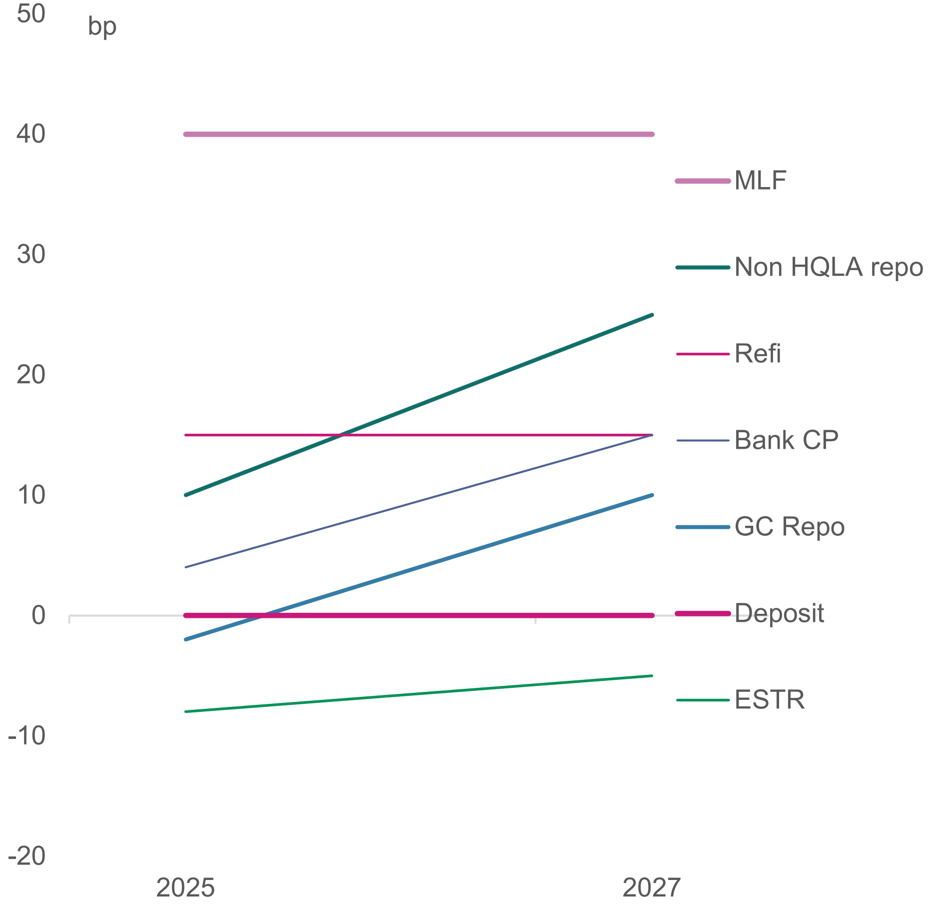


Source: ECB, Bloomberg, Crédit Agricole CIB

Conclusion

- The reduction of excess liquidity will trigger upward pressure on short-term rates
- The ESTR will remain below the deposit rate (probably around 5bp below the DFR)
- 3M rates will converge towards the refi rate (as 3M LTRO will be the LCR provider of last resort)
- GC repo would remain between the deposit rate and the refi rate
- Non-HQLA repo will likely exceed the refi rate (for operational and stigma purposes)
- At quarter-end, GC repo could exceed the refi rate (and the MLF rate) because of balance sheet constraints. To avoid these spikes, we would encourage the ECB to implement its refinancing operations (or at least the MLF) in clearing houses.

Rough estimate of change in short-term rates heading towards end-2027



Source: ECB, Bloomberg, Crédit Agricole CIB

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