

15 January 2009

# Economic News

## ECB CUTS REFI RATE BY 50 BASE POINTS

### Trichet hints at pause in interest rate cuts in February

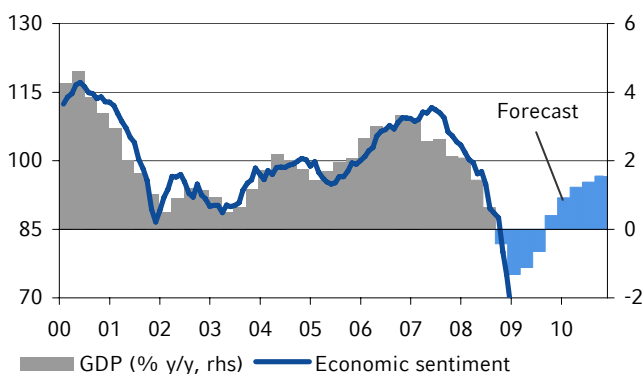
As expected, the ECB today cut the main refinancing rate by a further 50bp to 2%. Trichet several times pointed to the importance of the meeting in March. This should be taken to mean that the ECB intends to maintain interest rates at their present levels at the next meeting in February. We therefore expect the next rate cut to take place in March, with a drop of a further 50bp. Thereafter, the ECB is likely to leave rates at a level of then 1.5% for an extended period of time.

- At today's press conference, Trichet indicated again that the eurozone was in the middle of a phase of pronounced economic weakness and that the ECB's forecast back in December, which suggested a decline in output in the eurozone of 0.5% in 2009, was too optimistic.
- He went on to add that inflation would fall sharply until the middle of the year due to the energy price trend, and that it would probably rise at the end of the year as energy prices edge back up again. It was said that today's interest rate decision took account of easing inflationary pressure brought about by the weak economy.
- Trichet clearly hinted that interest rates would be on hold in February, stating that since the meeting would be taking place in only three weeks' time it would not be an important meeting with the aim of reaching decisions.
- As announced back in December, the ECB has also increased the interest rate corridor for the marginal lending rate and deposit facilities. The range of 100 base points above and below the main refinancing rate is therefore back to what it was before the financial crisis escalated last September. In taking this decision, the European Central Bank is attempting to shift responsibility for the money market back to the banks. Only a few days ago bank deposits with the ECB reached new record highs at well over €300bn. In view of this, the move is to be welcomed.

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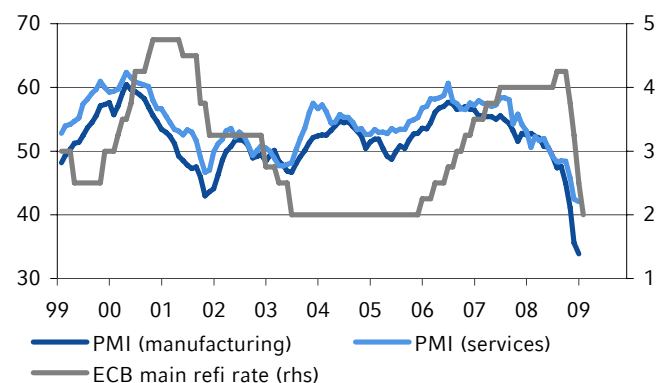
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**Euro zone: GDP and economic sentiment**



Quelle EcoWin, WestLB Research

**Euroraum: ECB main refi rate (in %) and PMIs**



Quelle EcoWin, WestLB Research

## ECB information

### Schedule of ECB's interest rate decisions

|      | Datum                |
|------|----------------------|
| 2009 | 15. Januar           |
|      | 5. February          |
|      | 5. March             |
|      | 2. April (Roma)      |
|      | 7. May               |
|      | 4. June              |
|      | 2. July (Luxembourg) |
|      | 6. August            |
|      | 3. September         |
|      | 8. October           |
|      | 5. November          |
|      | 3. December          |

Source: ECB.

### Forecasts (% y/y)

|                       | GDP         |            | Consumer prices |            |
|-----------------------|-------------|------------|-----------------|------------|
|                       | 2008        | 2009       | 2008            | 2009       |
| <b>ECB</b>            |             |            |                 |            |
| June2007              | 2.3         | -          | 2.0             | -          |
| September 2007        | 2.3         | -          | 2.0             | -          |
| December 2007         | 2.0         | 2.1        | 2.5             | 1.8        |
| March 2008            | 1.7         | 1.8        | 2.9             | 2.1        |
| June 2008             | 1.8         | 1.5        | 3.4             | 2.4        |
| <b>September 2008</b> | <b>1.4</b>  | <b>1.2</b> | <b>3.5</b>      | <b>2.6</b> |
| <b>WestLB</b>         | <b>-0.5</b> | <b>1.0</b> | <b>0.5</b>      | <b>1.7</b> |

Source ECB, middle of the projected range

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