Spooked by slowdown, the ECB rolls out stimulus

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THE EUROPEAN CENTRAL BANK is usually a predictable beast, shy of springing monetary-policy surprises. Take, for instance, its move to halt new asset purchases last year: it had been telegraphed for so long that traders could have got away with sleeping through it.

But anyone dozing on a trading floor on March 7th would have been in trouble. The ECB announced two measures to counter a slowing of the euro zone's economy. The bank pledged to keep interest rates on hold for longer—"at least through the end of 2019"—having previously said it would keep rates at rock-bottom until the summer. And it announced a third round of "targeted longer-term refinancing operations" (TLTRO-III), which will make cheap loans to banks. The euro fell by 0.6% against the dollar, to its lowest level against the greenback since mid-November.

The ECB's motivation is clear. The euro-zone's economy has been slowing, largely because of dulled demand for its exports. The bank expects the slowdown to continue. It has, according to its president, Mario Draghi, revised down its projections for economic growth in 2019 "substantially", to 1.1%. Its previous forecast, in December, had pencilled in 1.7%. Weaker growth will, in turn, keep inflation, now 1.5%, below the ECB's target of close to, but less than, 2%. The bank has revised down its projections for inflation in 2019-21.

Market participants had been expecting TLTROs to be extended eventually, if only to avert a tightening of lending conditions. This coming summer some past loans will stop counting towards regulatory liquidity buffers (because they will be due to expire in the following 12 months). That would force banks to seek funding elsewhere, at a higher cost. But the announcement came earlier than expected; the package, says Mr Draghi, also represents extra stimulus. The two-year loans will be made between September 2019 and March 2021, in order to "preserve bank-lending conditions and smooth transmission of monetary policy".

Although the timing of the shift in interest-rate guidance came as a surprise, it confirmed markets' expectations that rate rises would only take place next year. It means that Mr Draghi is due to depart in October without having raised interest rates in his eight years at the bank's helm, and ties the hands of his successor for at least two months.

Some might ask whether the package is big enough. Even with it, the bank expects inflation of only 1.6% by 2021, shy of its target. Mr Draghi still sees mostly downside risks to economic growth, thanks to "pervasive uncertainty" around the prospects for China's economy, world trade, and Brexit. But "in a dark room", as he explained at the press conference, "you move with tiny steps—you don't run".