Mario Draghi has some explaining to do.

A month after the European Central Bank president unveiled a bevy of standard and non-standard fixes for the euro area’s faltering recovery, economists are in disagreement about how long interest rates will stay near zero and in the dark on the details of a plan to boost lending. Draghi may use today’s appearance in Frankfurt as an opportunity to enlighten them.

As the Federal Reserve and the Bank of England feel their way out of crisis-era support for their economies, the ECB is still steering against the risk of a relapse. Draghi’s guidance -- should he choose to give any -- on how he expects rates to develop over the next two to four years will be crucial in bolstering investors’ optimism that the worst is truly over, while reassuring them that protection won’t be removed before they’re ready.

“My understanding is that Draghi is signaling rates aren’t going to go up before the end of 2016,” said Nick Kounis, head of macro research at ABN Amro Bank NV in Amsterdam. “However, the way he has brought the four-year duration of the targeted loans into the equation seems to have been aimed at misdirection, as if he was trying to say rates will stay where they are even longer. But once you start going that far out you lose credibility.”

Complicated Outlook

Official interest rates will be kept on hold when policy makers meet today, according to all economists surveyed by Bloomberg News. The Governing Council will release its monthly decision at 1:45 p.m. in Frankfurt, and Draghi will speak at a press conference 45 minutes later.

The ECB complicated the outlook for borrowing costs at its last meeting on June 5 when it said it will offer banks as much as four years of funding at a fixed price just above its benchmark rate. That makes the program more attractive the more banks expect the cost of the ECB’s regular cash tenders to rise as the economy recovers. The loans are conditional on banks increasing credit supply to companies and households.
At the same time, officials cut the key rate to a record-low 0.15 percent, lowered the deposit rate to minus 0.1 percent, and extended unlimited liquidity provision to the end of 2016. Draghi told reporters that rates have “for all practical purposes reached the lower bound” and will stay low for “possibly longer than previously foreseen.”

**Rate Expectations**

On June 21, he blurred the issue further by saying that the extension of unlimited cash “is a signal” on the duration of low rates. He also said the targeted lending program “shows that interest rates will remain low over a longer period, but thereafter they will increase when the recovery will firm up.”

The interpretations of those messages have varied. A gauge of future interest-rate expectations, the 3-month Euribor futures curve, shows that bets the ECB will keep rates low even beyond the end of 2018 have increased.

In contrast, just under a third of respondents in the Bloomberg Monthly Survey after the June decision forecast the first increase in rates will come as early as next year. A third predicted 2016, and 28 percent said it will be 2017 or later.

While the ECB’s own economic forecasts don’t gauge the path of rates, they do predict inflation will accelerate to 1.5 percent by the fourth quarter of 2016. That’s an improvement on the 0.5 percent seen last month, yet still below the central bank’s goal of just under 2 percent.

**Loan Benchmarks**

“Credit conditions are still tight in many countries, unemployment remains elevated and seems more likely to creep down than fall markedly,” said Howard Archer, chief European economist at IHS Global Insight in London. “The ECB is clearly going to sit tight for now at least while the interest rates and liquidity measures it announced at its June meeting increasingly kick in.”

Just how those measures kick in depends in part on the details of the targeted longer-term refinancing operations, known as TLTROs. The ECB has yet to reveal how it will determine some of the funding entitlement, and how it will measure whether banks are passing it on to the real economy.

The stock of loans outstanding to companies and households excluding mortgages, one of the measures by which the ECB will set funding under the TLTRO program, has shrunk by more than 600 billion euros ($819 billion) since a peak in 2009, and by some 190 billion euros, or 3.2 percent, in the year through April, according to ECB data.

**Passive Improvement**
“Does this mean lending just needs to be less negative for banks to receive the funds?” said Robert Kuenzel, an economist at Daiwa Capital Markets Europe Ltd. in London. “Some unanswered questions, especially with regards to the targeted long-term loans are still hanging in the air.”

The ECB has said that each bank taking part in the TLTRO, which starts in September, will have to improve its lending to the real economy as measured by a benchmark, or repay the funds after two years. The benchmarks have yet to be published, and banks will be watching for further information at today’s press conference.

If the ECB sets the benchmark too low, for example by requiring that lenders simply slow the decline in loans they provide, it won’t have any noticeable credit-easing effect, according to Richard Barwell, senior European economist at Royal Bank of Scotland Group Plc in London.

“The very best thing they could do is to set a threshold above what the passive improvement in lending because of a recovery in the economy would deliver,” he said. “If it’s designed in such a way that, standing still, you can beat the threshold, that’s not credit easing, it’s inflating the balance sheet.”

To contact the reporter on this story: Jeff Black in Frankfurt at jblack25@bloomberg.net

To contact the editors responsible for this story: Craig Stirling at estirling1@bloomberg.net Paul Gordon, Jana Randow