June 6, 2019 , ECB Press Conference – What has changed from April 10, 2019?

CHAO & COMPANY
FIDUCIA PERPETUA

Summary

- Keep ECB interest rates unchanged and expect to remain so at least through the summer of 2019. (**unchanged**)
- ECB expects to remain at their present interest rate levels at least through the end 2020 - previously first half of 2019. (**changed**)
- Intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. (**unchanged)**
- Under the targeted longer-term refinancing operations (TLTROs), the interest rate in each operation will be set at a level that is 10bp above the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III will be lower and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation plus 10bp.(**new**) This will help to safeguard favourable bank lending conditions.
- Continue conducting our lending operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the reserve maintenance period starting in March 2021. (**new**)
- The positive contribution of negative interest rates to the accommodative monetary policy stance and to the sustained convergence of inflation is not undermined by possible side effects on bank-based intermediation. (**new**)
- The most recent information indicates that global headwinds continue to weigh on the euro area outlook. The prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets, is leaving its mark on economic sentiment. (**unchanged**)
- Economic projections foresee annual real GDP increasing by 1.2% in 2019 (from 1.1% in March), 1.4% in 2020 (from 1.6% in March) and 1.4% in 2021 (from 1.5% in March). (**changed**)
- An ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. (**no change**)

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PRESS CONFERENCE

Mario Draghi, President of the ECB,
Luis de Guindos, Vice-President of the ECB,
~~Frankfurt am Main, 10 April~~ **Vilnius, 6 June** 2019

INTRODUCTORY STATEMENT

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. ~~We will now report on the outcome of~~ **I would like to thank Chairman of the Board Vasiliauskas for his kind hospitality and express our special gratitude to his staff for the excellent organisation of** today's meeting of the Governing Council. **We will now report on the outcome of our meeting.**

Based on our regular economic and monetary analyses, we **have conducted a thorough assessment of the economic and inflation outlook, also taking into account the latest staff macroeconomic projections for the euro area. As a result, the Governing Council took the following decisions in the pursuit of its price stability objective.**

First, we decided to keep the key ECB interest rates unchanged. We ~~continue to~~ **now** expect them to remain at their present levels at least through the ~~end of 2019~~ **first half of 2020**, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

~~We~~ **Second, we** intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

~~The Governing Council~~ **Third, regarding the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III), we decided that the interest rate in each operation will be set at a level that is 10 basis points above the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation plus 10 basis points.**

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A press release with further details of the terms of TLTRO III will be published at 15:30 CET today.

The Governing Council also assessed that, at this point in time, the positive contribution of negative interest rates to the accommodative monetary policy stance and to the sustained convergence of inflation is not undermined by possible side effects on bank-based intermediation. However, we will continue to monitor carefully the bank-based transmission channel of monetary policy and the case for mitigating measures.

Today's monetary policy decisions were taken to provide the monetary accommodation necessary for inflation to remain on a sustained path towards levels that are below, but close to, 2% over the medium term. Despite the somewhat better than expected data for the first quarter, the most recent information indicates that global headwinds continue to weigh on the euro area outlook. The prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets, is leaving its mark on economic sentiment.

At the same time, further employment gains and increasing wages continue to underpin the resilience of the euro area economy and gradually rising inflation. Today's policy measures ensure that financial conditions will remain very favourable, supporting the euro area expansion, the ongoing build-up of domestic price pressures and, thus, headline inflation developments over the medium term. Looking ahead, the Governing Council is determined to act in case of adverse contingencies and also stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

~~Details on the precise terms of the new series of targeted longer-term refinancing operations (TLTROs) will be communicated at one of our forthcoming meetings. In particular, the pricing of the new TLTRO-III operations will take into account a thorough assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook. In the context of our regular assessment, we will also consider whether the preservation of the favourable implications of negative interest rates for the economy requires the mitigation of their possible side effects, if any, on bank intermediation.~~

~~The information that has become available since the last Governing Council meeting in early March confirms slower growth momentum extending into the current year. While there are signs that some of the idiosyncratic domestic factors dampening growth are fading, global headwinds continue to weigh on euro area growth~~

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~~developments. The persistence of uncertainties, related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets, is leaving marks on economic sentiment. At the same time, further employment gains and rising wages continue to underpin the resilience of the domestic economy and gradually rising inflation pressures. However, an ample degree of monetary accommodation remains necessary to safeguard favourable financing conditions and support the economic expansion, and thus to ensure that inflation remains on a sustained path towards levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus is being provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets and the new series of TLTROs.~~

Let me now explain our assessment in greater detail, starting with the economic analysis. Euro area real GDP rose by 0.~~2~~**4**%, quarter on quarter, in the ~~fourth~~ **first** quarter of ~~2018~~ **2019**, following an increase of 0.~~1~~**2**% in the ~~third~~ **fourth** quarter~~.~~ ~~Incoming~~ **of 2018. However, incoming economic** data ~~continue to be weak, especially for the~~ **and survey information point to somewhat weaker growth in the second and third quarters of this year. This reflects the ongoing weakness in international trade in an environment of prolonged global uncertainties, which are weighing, in particular, on the euro area** manufacturing sector~~, mainly on account of the slowdown in external demand, which has been compounded by some country and sector-specific factors. As the impact of these factors is turning out to be somewhat longer-lasting, the slower growth momentum is expected to extend into the current year~~. **At the same time, the euro area services and construction sectors are showing resilience and the labour market is continuing to improve.** Looking ahead, the ~~effect of these adverse factors is expected to unwind. The~~ euro area expansion will continue to be supported by favourable financing conditions, **the mildly expansionary euro area fiscal stance,** further employment gains and rising wages, and the ongoing – albeit somewhat slower – ~~expansion~~ **growth** in global activity.

This assessment is broadly reflected in the June 2019 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.2% in 2019, 1.4% in 2020 and 1.4% in 2021. Compared with the March 2019 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised up by 0.1 percentage points for 2019 and has been revised down by 0.2 percentage points for 2020 and by 0.1 percentage points for 2021.

The risks surrounding the euro area growth outlook remain tilted to the downside, on account of the ~~persistence~~ **prolonged presence** of uncertainties related to geopolitical factors, the **rising** threat of protectionism and vulnerabilities in emerging markets.

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According to Eurostat's flash estimate, euro area annual HICP inflation was 1.~~4~~**2**% in ~~March~~ **May** 2019, after 1.5% in ~~February~~ **April**, reflecting mainly ~~a decline in food,~~ **lower energy and** services ~~and non-energy industrial goods~~ price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline over the coming months~~. Measures~~**, before rising again towards the end of year. Looking through the recent volatility due to temporary factors, measures** of underlying inflation remain generally muted, but labour cost pressures ~~have strengthened~~ **continue to strengthen** and broaden~~ed~~ amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and ~~rising~~ **stronger** wage growth.

This assessment is also broadly reflected in the June 2019 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. Compared with the March 2019 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised up by 0.1 percentage points for 2019 and revised down by 0.1 percentage points for 2020.

Turning to the monetary analysis, broad money (M3) growth ~~increased to~~ **stood at** 4.~~3~~**7**% in ~~February~~ **April** 2019, ~~from 3.8%~~ **after 4.6%** in ~~January. Looking through some volatility in monthly flows, M3~~ **March. Sustained rates of broad money** growth ~~continues to be backed by~~ **reflec ongoing** bank credit creation, ~~notwithstanding a recent moderation in credit dynamics.~~ **for the private sector and low opportunity costs of holding M3.** The narrow monetary aggregate M1 ~~remained~~ **continues to be** the main contributor to broad money growth **on the components side**.

The annual growth rate of loans to non-financial corporations ~~rebounded~~ **increased** to 3.~~7~~**9**% in ~~February~~ **April** 2019, from 3.~~4~~**6**% in ~~January, reflecting mainly a base effect. Looking through~~ **March. Beyond** short-term volatility, the annual growth rate of loans to non-financial corporations has moderated **somewhat** in recent months, **from its peak in September 2018**, reflecting the typical lagged reaction to the slowdown in economic growth~~. At~~ **observed over** the ~~same time, the~~ **course of 2018.** The annual growth rate of loans to households ~~remained broadly unchanged at~~ **stood at 3.4% in April, compared with** 3.3% in ~~February. The euro area bank lending survey for the first quarter of 2019 suggests that overall bank lending conditions remained favourable~~ **March, continuing its gradual improvement.**

~~Our~~ **The** monetary policy measures **taken today**, including ~~the new series of TLTROs that we announced in March~~ **TLTRO III**, will help to safeguard favourable

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bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a cross-check of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of structural reforms in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. **The 2019 country-specific recommendations should serve as the relevant signpost.** Regarding fiscal policies, the mildly expansionary euro area fiscal stance ~~and the operation of automatic stabilisers are~~ **is** providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should reinforce their efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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