September 12, 2019, ECB Press Conference – What has changed from July 25, 2019?

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Summary

- As reflected in the new staff projections, expecting a more protracted weakness of the euro area economy, the persistence of prominent downside risks and muted inflationary pressures with further downgrade of the inflation outlook. (**changed**)
- Lowers the interest rate on the deposit facility by 10 basis points to -0.50% - to remain at this or lower levels until witnessing the inflation outlook robustly converge to a level sufficiently close to, but below, 2%, within ECB's projection horizon (**changed**)
- Restarts net purchases under the asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. This is expected to run at least through the first half of 2020 and for as long as necessary and to end shortly before raising key ECB interest rates. (**changed**)
- Changes the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. The interest rate in each operation will now be set at the level of 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 operations will be lower and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The maturity of the operations will be extended from two to three years. (**changed**)
- Introduces a two-tier system for reserve remuneration in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate. (**changed**)
- Overall loans to non-financial corporations continue to be solid, although short-term loans – which are more sensitive to the cycle – show signs of weakness. (**changed**)
- Governments with fiscal space should act in an effective and timely manner. Countries where public debt is high, governments need to pursue prudent policies that will create the conditions for automatic stabilisers to operate freely. (**changed**)

PRESS CONFERENCE

Mario Draghi, President of the ECB,
Luis de Guindos, Vice-President of the ECB,
Frankfurt am Main, 12 September ~~25 July~~ 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 today's meeting of the Governing Council~~, which was also attended by the Commission Vice-President, Mr Dombrovskis~~.

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 pursuit of its price stability objective.

First, as regards ~~decided to keep~~ the key ECB interest rates, we decided to lower the interest rate on the deposit facility by 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility will remain - unchanged at their current levels of 0.00% and 0.25% respectively. We now expect the key ECB interest rates ~~them~~ to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

Second, the Governing Council decided to restart net purchases under its asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. We expect them to run ~~at least through the first half of 2020, and in any case~~ for as long as necessary to reinforce ~~ensure~~ the accommodative impact ~~continued sustained convergence~~ of ~~inflation to~~ our policy rates, and to end shortly before we start raising ~~aim over~~ the ~~medium term~~ key ECB interest rates.

Third, we ~~We~~ intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP ~~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.

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Fourth, we decided to change the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. The interest rate in each operation will now be set at the level of 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 operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The maturity of the operations will be extended from two to three years.

Fifth, in order to support the bank-based transmission of monetary policy the ~~The~~ Governing Council decided to introduce a two-tier system for reserve remuneration in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate.

The Governing Council reiterated ~~also underlined~~ the need for a highly accommodative stance of monetary policy for a prolonged period of time, and ~~as inflation rates, both realised and projected, have been persistently below levels that are in line with its aim. Accordingly, if the medium-term inflation outlook~~ continues to stand ~~fall short of our aim, the Governing Council is determined to act, in line with its commitment to symmetry in the inflation aim. It therefore stands~~ ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Today's decisions were taken in response to ~~In this context, we have tasked~~ the continued shortfall of inflation ~~relevant Eurosystem Committees~~ with respect to ~~examining options, including ways to reinforce our forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases. Incoming~~ information since the last Governing Council meeting ~~in early June~~ indicates a more protracted weakness of the euro area economy, the persistence of prominent downside risks and muted inflationary pressures. This is reflected in the new staff projections, which show a ~~that, while~~ further downgrade of the inflation outlook.

At the same time, robust ~~that, while further~~ employment growth ~~gains~~ and increasing wages continue to underpin the resilience of the euro area economy, With today's comprehensive package~~, softening global growth dynamics and weak international trade are still weighing on the euro area outlook. Moreover, the prolonged presence of uncertainties, related to geopolitical factors, the~~

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~~rising threat of protectionism, and vulnerabilities in emerging markets, is dampening economic sentiment, notably in the manufacturing sector. In this environment, inflationary pressures remain muted and indicators of inflation expectations have declined. Therefore, a significant degree~~ of monetary policy decisions, we are providing substantial monetary stimulus ~~continues to be necessary~~ to ensure that financial conditions remain very favourable and support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, the sustained convergence of ~~headline~~ inflation to our ~~developments over the~~ medium-term inflation aim.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro ~~Following a rise of 0.2% in the fourth quarter of 2018, euro~~ area real GDP increased by 0.24%, quarter on quarter, in the second first quarter of 2019, following a rise of 0.4% in the previous quarter. Incoming economic data and survey information continue to point to moderate but positive ~~somewhat slower~~ growth in the ~~second and~~ third quarter ~~quarters~~ of this year. This slowdown in growth mainly reflects the prevailing ~~ongoing~~ weakness of ~~in~~ international trade in an environment of prolonged global uncertainties, which are particularly affecting the euro area manufacturing sector.

At the same time, ~~activity levels in~~ the services and construction sectors show ongoing resilience ~~are resilient~~ and the ~~labour market is still improving. Looking ahead, the~~ euro area expansion is also ~~will continue to be~~ supported by favourable financing conditions, further employment gains and rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.
This assessment is broadly reflected in the September 2019 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.1% in 2019, 1.2% in 2020 and 1.4% in 2021. Compared with the June 2019 staff macroeconomic projections, the outlook for real GDP growth has been revised down for 2019 and 2020.

The risks surrounding the euro area growth outlook remain tilted to the downside, These risks mainly pertain to ~~reflecting~~ the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets.

According to Eurostat's flash estimate, euro ~~Euro~~ area annual HICP inflation was ~~increased to~~ 1.0~~3~~% in August ~~June~~ 2019, unchanged from July. Lower energy inflation was offset by ~~1.2 % in May, as~~ higher food inflation, while the rate of HICP inflation excluding food and energy was unchanged ~~more than offset lower energy price inflation~~. On the basis of current futures prices for oil,

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headline inflation is likely to decline ~~over the coming months,~~ before rising again towards the end of the year. Measures ~~Looking through the recent volatility due to temporary factors, measures~~ of underlying inflation remained ~~remain~~ generally muted and indicators~~. Indicators~~ of inflation expectations stand at low levels ~~have declined~~. While labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets, their ~~the~~ pass-through ~~of cost pressures~~ to inflation is taking longer than previously anticipated. Over the medium term underlying inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and robust ~~stronger~~ wage growth.

This assessment is also broadly reflected in the September 2019 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.0% in 2020 and 1.5% in 2021. Compared with the June 2019 staff macroeconomic projections, the outlook for HICP inflation has been revised down over the whole projection horizon, reflecting lower energy prices and the weaker growth environment.

Turning to the monetary analysis, broad money (M3) growth increased to ~~stood at 4.~~5.2% in July ~~June~~ 2019, after 4.5~~8~~% in June ~~May~~. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The annual growth rate of loans to non-financial corporations remained unchanged at 3.9~~8~~% in July ~~June~~ 2019. The ~~Notwithstanding some moderation from the peak recorded in September 2018, the~~ annual growth rate of overall loans to non-financial corporations continues to be solid, although short-term loans – which are more sensitive to the cycle – show signs of weakness ~~robust~~. The annual growth rate of loans to households stood ~~also remained unchanged~~ at 3.4% in July, after 3.3% in June, continuing its gradual improvement. Overall, loan growth is still benefiting from historically low bank lending rates. ~~The euro area bank lending survey for the second quarter of 2019 indicates that loan growth continued to be supported by increasing demand across all loan categories. At the same time, credit standards for loans to enterprises tightened in the second quarter amid concerns about the economic outlook, while they remained broadly unchanged for loans for house purchase.~~

The ~~Our~~ monetary policy measures we have taken today, including the more accommodative terms of the ~~forthcoming~~ new series of TLTROs, ~~targeted longer-term refinancing operations (TLTRO III),~~ will help to safeguard

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favourable 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, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of structural policies ~~reforms~~ in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost.

Regarding fiscal policies, the mildly expansionary euro area fiscal stance is currently providing some support to economic activity. In view of ~~At~~ the weakening economic outlook and the continued prominence of downside risks, governments with fiscal space should act in an effective and timely manner. In ~~same time,~~ countries where public ~~government~~ debt is high, governments need to pursue prudent policies that will create the conditions for automatic stabilisers to operate freely ~~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.

https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190912~658eb51d68.en.html

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PRESS RELEASE

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ECB introduces two-tier system for remunerating excess liquidity holdings

- Two-tier system aims to support bank-based transmission of monetary policy
- Part of excess liquidity holdings exempt from negative deposit facility rate
- Scheme to apply as of seventh maintenance period starting on 30 October 2019
- Exempt tier will be remunerated at the annual rate of 0%

The Governing Council of the European Central Bank (ECB) today decided to introduce a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. This decision aims to support the bank-based transmission of monetary policy, while preserving the positive contribution of negative rates to the accommodative stance of monetary policy and to the continued sustained convergence of inflation to the ECB's aim.

All credit institutions subject to minimum reserve requirements under Regulation ECB/2003/9 will be eligible for the two-tier system. The two-tier system will apply to excess liquidity held in current accounts with the Eurosystem but will not apply to holdings at the ECB's deposit facility. The volume of reserve holdings in excess of minimum reserve requirements that will be exempt from the deposit facility rate – the exempt tier – will be determined as a multiple of an institution's minimum reserve requirements. The multiplier will be the same for all institutions. The Governing Council will set the multiplier such that euro short-term money market rates are not unduly influenced. The multiplier may be adjusted by the Governing Council in line with changing levels of excess liquidity holdings. Any adjustment to the multiplier will be announced and will apply as of the following maintenance period after such decision is made. The size of the exempt tier is determined on the basis of average end-of-calendar-day balances in the institutions' reserve accounts over a maintenance period.

The exempt tier of excess liquidity holdings will be remunerated at an annual rate of 0%. The non-exempt tier of excess liquidity holdings will continue to be remunerated at zero percent or the deposit facility rate, whichever is lower.
The two-tier system will first be applied in the seventh maintenance period of 2019 starting on 30 October 2019. The multiplier that will be applicable as of that maintenance period will be set at 6. The remuneration rate of the exempt tier and the multiplier can be changed over time.

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