December 12, 2019, ECB Press Conference – What changed from October 24, 2019?

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Summary

- This is the first ECB monetary policy meeting under the presidency of Christine Lagarde, who was appointed on October 18, 2019, by the ECB Executive Board.
- Incoming data suggest muted inflation pressures and weak euro area growth dynamics while ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy. (**no change**)
- Kept key ECB interest rates unchanged. (**change**)
- Keep rates at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2%. (**no change**)
- Maintain net purchases under the asset purchase programme (APP) at a monthly pace of €20 billion since 11-1-2019. This is for as long as necessary and to end shortly before raising key ECB interest rates. (**no change**)
- Continue to reinvest, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date of 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. (**no change**)
- The ongoing weakness of international trade in an environment of persistent global uncertainties continues to weigh on the euro area manufacturing sector and is dampening investment growth. (**no change**)
- These projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 (revised own) and 1.4% in both 2021 and 2022. (**change**)
- Governments with fiscal space should act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies that will create the conditions for automatic stabilisers to operate freely. (**no change**)
- An ample degree of monetary accommodation is still necessary for the continued sustained robust 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~~Christine Legarde, President of the ECB,

Luis de Guindos, Vice-President of the ECB,

Frankfurt am Main, ~~24 October~~ 12 December 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~~ **Today is the first time that I have had the privilege and pleasure of chairing the monetary policy** meeting of the Governing Council~~, which~~ **of the ECB. I am delighted to proceed now with reporting on the outcome of our meeting, together with the Vice-President. The Governing Council meeting** was also attended by the Commission **Executive** Vice-President, Mr Dombrovskis~~, and the incoming President, Ms Lagarde~~.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect 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.

~~As decided at our last meeting in September,~~ On 1 November we ~~will restart~~ **restarted** net purchases under our asset purchase programme (APP) at a monthly pace of €20 billion ~~as from 1 November~~. We expect them to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP 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 incoming data since the last Governing Council meeting in late October point to continued muted inflation pressures and weak euro area growth dynamics, although there are some initial signs of stabilisation in the growth slowdown and of a mild increase in underlying inflation in line with previous expectations. Ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy.

The comprehensive package of policy measures that the Governing Council decided in September provides substantial monetary stimulus, which ensures favourable financing conditions for all sectors of the economy. In particular, easier borrowing conditions for firms and households are underpinning consumer spending and business investment. This will support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, the robust convergence of inflation to our medium-term aim.

In the light of the subdued inflation outlook, the ~~The~~ Governing Council reiterated the need for ~~a~~ **monetary policy to remain** highly accommodative ~~stance of monetary policy~~ for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. ~~In particular, the Governing Council's~~ **We will therefore, closely monitor inflation developments and the impact of the unfolding monetary policy measures on the economy. Our** forward guidance will ensure that financial conditions adjust in accordance with changes to the inflation outlook. In any case, the Governing Council continues to stand 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.

~~The incoming data since the last Governing Council meeting in early September confirm our previous assessment of a protracted weakness in euro area growth dynamics, the persistence of prominent downside risks and muted inflation pressures. At the same time, ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy. The comprehensive package of policy measures that we decided at our last meeting provides substantial monetary stimulus, which will contribute to a further easing in borrowing conditions for firms and households. This will support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, the sustained convergence of inflation to our medium-term inflation aim.~~

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP growth was confirmed at 0.2%, quarter on quarter, in the ~~second~~ third quarter of 2019, ~~following a rise of 0.4% in~~ **unchanged from** the previous quarter. ~~Incoming economic data and survey information continue to point to moderate but positive growth in the second half of this year. This slowdown in growth mainly reflects the~~ **The** ongoing weakness of international trade in an environment of persistent global uncertainties~~, which continue~~ **continues** to weigh on the euro area manufacturing sector and are dampening investment growth.

At the same time, the **incoming economic data and survey information, while remaining weak overall, point to some stabilisation in the slowdown of economic growth in the euro area. The** services and construction sectors remain resilient, despite some moderation~~. The~~ **in the latter half of 2019. Looking ahead, the** euro area expansion ~~is~~ **will continue to be** supported by favourable financing conditions, further employment gains in conjunction with 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 December 2019 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 and 1.4% in both 2021 and 2022. Compared with the September 2019 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2020.

The risks surrounding the euro area growth outlook ~~remain on the downside. In particular, these risks pertain to the prolonged presence of uncertainties~~, related to geopolitical factors,

rising protectionism and vulnerabilities in emerging markets~~.~~**, remain tilted to the downside, but have become somewhat less pronounced.**

~~Euro~~ **According to Eurostat's flash estimate, euro** area annual HICP inflation ~~decreased~~ **increased** from ~~1.~~**0.7** % in ~~August~~ 2019 to 1.0~~.8~~% in ~~September~~**November**, reflecting ~~lower~~ **mainly higher services** and food ~~and energy~~ price inflation. On the basis of current futures prices for oil, headline inflation is likely to ~~decline slightly further before rising again at the end of the year.~~ **rise somewhat in the coming months. Indicators of inflation expectations stand at low levels.** Measures of underlying inflation **have** remained generally muted ~~and indicators~~**, although there are some indications** of ~~inflation~~ **mild increase in line with previous** expectations ~~stand at low levels~~. While labour cost pressures have strengthened amid tighter labour markets, the weaker growth momentum is delaying their pass-through to inflation. Over the medium term inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and ~~robust~~ **solid** wage growth.

This assessment is also broadly reflected in the December 2019 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022. Compared with the September 2019 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised up slightly for 2020 and down slightly for 2021, mainly driven by the expected future path of energy prices.

Turning to the **monetary analysis**, broad money (M3) growth ~~increased to~~ ~~stood at~~ 5.6~~7~~% in ~~August~~ **October** 2019, ~~after 5.1% in July~~**unchanged from the previous month**. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3 **relative to other financial instruments**. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The growth of loans to firms and households remained solid, benefiting from the continued pass-through of our accommodative monetary policy stance to bank lending rates. The annual growth rate of loans to non-financial corporations increased to ~~4.~~3.8% in ~~August~~**October**, **up** from ~~4.0~~**3.6**% in ~~July 2019~~**September**, while the annual growth rate of loans to households ~~remained unchanged at 3.4~~ **continued on its gradual upward path, reaching 3.5**% in ~~August. The euro area bank lending survey for the third quarter of 2019 indicates a slight easing of credit standards and increasing demand for loans to households, while demand for loans to firms remained broadly stable~~**October**. Our accommodative monetary policy stance will help to safeguard **very** favourable bank lending conditions and will continue to support access to financing, **across all economic sectors and** 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~~ **robust** 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** 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~~ **expected to remain mildly expansionary in 2020, thus** providing some support to economic activity. In view of the ~~weakening~~ **weakened** economic outlook**, the Governing Council welcomes the Eurogroup's call for differentiated fiscal responses** and ~~the continued prominence of downside risks, governments~~ **its readiness to coordinate. Governments** with fiscal space should act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies and meet structural balance targets, which will create the conditions for automatic stabilisers to operate freely. All countries should intensify 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.is191212~c9e1a6ab3e.en.html

The following a copy of the introductory remarks to the press conference by President Lagarde

"Before the questions I'm going to take just a couple of minutes of your time to tell you a few things. One is, each and every President has his or her own style of communicating. I know some of you are keen to compare and rate or rank. I will have my own style. As I've said before, don't over-interpret, don't second-guess, don't cross-reference. I'm going to be myself and therefore probably different. Point number 1. Point number 2, this introductory statement probably rings a few bells for those of you who follow those documents very carefully. But some of you will be disappointed that it does not include anything having to do with the strategic review. It is intended to be that way, so the introductory statement does not include, does not refer and should not be associated with the strategic review that we are considering. I'll be happy to give you – I can do that now actually if you want – a little bit of my thinking and our collective thinking on the strategic review because I know that it is of interest to some of you. Shall I do that now? Yes, that's easier, and then you can ask questions!

First of all, there is nothing unusual or extraordinary about having a strategic review. I actually consider for myself that it's a little bit overdue. Legitimately so, because there were many other things to do but the last strategic review was in 2003. It's been16 years since there has been a strategic review, so it's quite legitimate to have a strategic review at this point in time.

Second, that strategic review needs to be comprehensive, needs to look at all and every issue, will turn each and every stone and will take its time but will not take too much time. By that I mean my plan is to actually get the review started in the course of January. Don't ask me which week or which day or which second, but it will be in the course of January. Our goal is to complete it before the end of 2020.

Third, about the strategic review, it will be reaching out to not just the usual suspects, but it will also include consulting with Members of Parliament and I've committed to that with the European Parliament. It will reach out to the academic community, of course. It will reach out to civil society representatives and it will aim at not just preaching the gospel that we think we master, but also listening to the views of those to whom we reach out. It is the point of every strategic review by all central banks that are conducting this exercise to actually look at their objective, how they define their medium-term objective in particular, how they give content to the price stability that is in their mandate, and it is the only objective that we have in our mandate ourselves. So that topic indeed will be core and centre to our strategic review. There is no preconceived landing zone at this point in time.

Indeed it will also address the major changes that have taken place over the course of the last 16 years, and by that I include the massive technological change that our societies are facing. It will include the immense challenge that climate change is addressing to each and every one of us, wherever located, and whatever our mission and duties. It will include aspects of inequality that are certainly rising in our economies, and all of those will be addressed with a view to exploring each and every corner of the business that we conduct as a central bank to see how those businesses are affected and how we can take them into account to better respond to the mission that we have, and to deliver on our mandate: serving the euro area citizens, and

delivering on the mandate of price stability. That's on the strategic review, and if you have additional points that I can answer, I will.

But I will not go into much further details when it comes to the substance, because the framework has not yet been completely agreed and discussed with members of the Governing Council. I have certainly made a point of my tenure to include members of the Governing Council and to seek their views and their consideration before any decision is made.

Let me add I have huge respect for the work that you do. You are a main audience for the central bank. But you are not the only audience, and I would also encourage you not to try to draw too many conclusions or decisive findings from communication that I would address to a different audience with a slightly different language in order to be maybe better understood by those who do not have your level of skills and in-depth knowledge of the matters that we deal with. With that, I am happy to take questions. Christine is going to monitor that. When I don't know, I will tell you that I don't know! Maybe you will know, Luis."