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January 23, 2020, ECB Press Conference – What changed from December 12, 2019?

Summary

- 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**)
- Keep 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**)
- Incoming economic data and survey information point to some stabilisation in euro area growth dynamics, with near-term growth expected to be similar to rates observed in previous quarters. (**change**)
- These projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 (revised down) and 1.4% in both 2021 and 2022. (**REMOVED**)
- 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 RELEASE

Monetary policy decisions

23 January 2020

At today's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

The Governing Council will continue to make net purchases under its asset purchase programme (APP) at a monthly pace of €20 billion. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

The Governing Council intends 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 it starts 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 also decided to launch a review of the ECB's monetary policy strategy. Further details about the scope and timetable of the review will be published in a press release today at 15:30 CET.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:30 CET today.

PRESS CONFERENCE

Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB,
Frankfurt am Main, 23 January 2020 ~~12 December 2019~~

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 ~~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~~.

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.

We will continue to make ~~On 1 November we restarted~~ net purchases under our asset purchase programme (APP) at a monthly pace of €20 billion. 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.

Today the Governing Council also decided to launch a review of the ECB's monetary policy strategy. Further details about the scope and timetable of the review will be published in a press release today at 15:30 CET (see below under the review Press Release section).

The incoming data since **our** ~~the~~ last ~~Governing Council~~ meeting **are in line with our baseline scenario of ongoing, but moderate, growth of the euro area economy. In particular, the weakness in the manufacturing sector remains a drag on euro area growth momentum. However, ongoing, albeit decelerating, employment growth and increasing wages continue to support the resilience of the euro area economy. While** ~~in late October point to continued muted~~ inflation **developments remain subdued overall,** ~~pressures and weak euro area growth dynamics, although~~ there are some ~~initial~~ signs **of a moderate** ~~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 unfolding monetary policy measures are underpinning ~~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 **supporting** ~~underpinning~~ consumer spending and business investment. This will **sustain** ~~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.

At the same time, in ~~In~~ the light of the **continued** subdued inflation outlook, ~~the Governing Council reiterated the need for~~ monetary policy **has** to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. 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.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP **increased by 0.3%** ~~growth was confirmed at 0.2%~~, quarter on quarter, in the third quarter of 2019, **following growth of 0.2% in** ~~unchanged from~~ the **second** ~~previous~~ quarter. **This pattern of moderate growth reflects the** ~~The~~ ongoing weakness of international trade in an environment of **continued** ~~persistent~~ global uncertainties**, which has particularly affected** ~~continues to weigh on~~ the euro area manufacturing sector and **has also dampened** ~~is 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 **more** resilient, despite some moderation in the latter half of 2019. **Incoming economic data and survey information point to some stabilisation in euro area growth dynamics, with near-term growth expected to be similar to rates observed in previous quarters.** Looking ahead, the euro area expansion 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, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remain tilted to the downside, but have become ~~somewhat~~ less pronounced **as some of the uncertainty surrounding international trade is receding**.

Euro ~~According to Eurostat's flash estimate, euro~~ area annual HICP inflation increased to 1.3% ~~from 0.7%~~ in **December** ~~October~~ 2019**, from** ~~to~~ 1.0% in November, reflecting mainly higher **energy** ~~services and food~~ price inflation. On the basis of current futures prices for oil, headline inflation is likely to **hover around current levels** ~~rise somewhat~~ in the coming months. **While indicators** ~~Indicators~~ of inflation expectations **remain** ~~stand~~ at low levels **recently they have either stabilised or ticked up slightly**. Measures of underlying inflation have remained generally muted, although there are **further** ~~some~~ indications of a **moderate** ~~mild~~ increase in line with previous expectations. 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 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 stood at 5.6% in **November** ~~October~~ 2019, **broadly** unchanged **since August** ~~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 **ongoing support provided by** ~~continued pass-through of~~ our accommodative monetary policy stance**, which is reflected in very low** ~~to~~ bank lending rates. **While the annual growth rate of loans to households remained unchanged from October, at 3.5% in November, the** ~~The~~ annual growth rate of loans to non-financial corporations **moderated** ~~increased~~ to **3.4% in November, from** 3.8% in October, **likely reflecting some lagged reaction to the past weakening in the economy. These developments are also visible in the results of the euro area bank lending survey for the fourth quarter of 2019, which indicate weakening demand for loans to firms** ~~up from 3.6% in September~~, **while demand for loans to households for house purchase continued to increase. However, credit standards for both loans to firms and loans to households for house purchase remained broadly unchanged,**

pointing to still favourable credit supply conditions. Overall, our ~~the annual growth rate of loans to households continued on its gradual upward path, reaching 3.5% in 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 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 euro area fiscal stance is expected to **continue to provide some** ~~remain mildly expansionary in 2020, thus providing~~ support to economic activity. In view of the **weak** ~~weakened~~ economic outlook, the Governing Council welcomes the Eurogroup's call **in December** for differentiated fiscal responses and its readiness to coordinate. Governments with fiscal space should be ready to 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 **ready to take** ~~at~~ your ~~disposal for~~ questions.

PRESS RELEASE

ECB launches review of its monetary policy strategy

23 January 2020

- Review will encompass quantitative formulation of price stability, monetary policy toolkit, economic and monetary analyses and communication practices
- Other considerations, such as financial stability, employment and environmental sustainability, will also be part of review
- Expected to be concluded by end of 2020
- Review will be based on thorough analysis and open minds, engaging with all stakeholders

The Governing Council of the European Central Bank (ECB) today launched a review of its monetary policy strategy. The monetary policy strategy was adopted in 1998 and some of its elements were clarified in 2003.

Since 2003 the euro area and the world economy have been undergoing profound structural changes. Declining trend growth, on the back of slowing productivity and an ageing population, as well as the legacy of the financial crisis, have driven interest rates down, reducing the scope for the ECB and other central banks to ease monetary policy by conventional instruments in the face of adverse cyclical developments. In addition, addressing low inflation is different from the historical challenge of addressing high inflation. The threat to environmental sustainability, rapid digitalisation, globalisation and evolving financial structures have further transformed the environment in which monetary policy operates, including the dynamics of inflation.

In the light of these challenges, the Governing Council has decided to launch a review of its monetary policy strategy, in full respect of the ECB's price stability mandate as enshrined in the Treaty.

"As our economies are undergoing profound changes, it is the time for a strategy review to ensure we deliver on our mandate in the best interest of Europeans," said ECB President Christine Lagarde.

The Governing Council will take stock of how the monetary policy strategy has supported the fulfilment of the ECB's mandate under the Treaty over the years and consider whether any elements of the strategy need to be adjusted. The quantitative formulation of price stability, together with the approaches and instruments by which price stability is achieved, will figure prominently in this exercise. The review will also take into account how other considerations, such as financial stability, employment and environmental sustainability, can be relevant in pursuing the ECB's mandate. The Governing Council will review the effectiveness and the potential side effects of the monetary policy toolkit developed over the past

decade. It will examine how the economic and monetary analyses through which the ECB assesses the risks to price stability should be updated, also in view of ongoing and new trends. Finally, it will review its communication practices.

The process is expected to be concluded by the end of the year. The Governing Council will be guided by two principles: thorough analysis and open minds. Accordingly, the Eurosystem will engage with all stakeholders.