

# The ECB reaffirms its dovish tone

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- **April was a transition meeting for the ECB, with no changes in the forward guidance and little information on hot issues (liquidity measures and tiered-deposit rates)**
- **Still, Draghi sounded dovish on the macroeconomic outlook and his reiteration that they are ready to act with all available instruments**
- **We expect details on the TLTRO-III at the June meeting**

The focus of today's monetary policy meeting was to what extent the ECB would maintain the dovish tone struck in March with the announcement of the new round of long-term liquidity measures and the delay in rate hikes until at least end of 2019. **No decisions were expected and indeed the ECB maintained its monetary policy stance**, leaving key interest rates and forward guidance unchanged - they expect rates to remain "at their present levels at least through the end of 2019, and in any case for as long as necessary". During the press conference Mr **Draghi reinforced his dovish tone**, mentioning several times that the central bank is ready to use all the instruments available. In particular, he said that **the main goal today was to reassert the readiness to act** if needed. There was unanimity within the Governing Council (GC) on this.

On **economic activity**, Draghi mentioned weakness not so much because of idiosyncratic factors but rather due increasing global headwinds related with unresolved global concerns. **The slower growth momentum is extending into the current year (this is a novelty; before the reference was more to the short term)**. The drivers for this are quite standard: though country and sector-specific factors are unwinding, they compound with negative effects from global uncertainty (Brexit, protectionism -US threats of auto tariffs- and vulnerability in emerging markets). As a positive, Eurozone growth will continue to be supported by favourable financing conditions, improving labour market and rising wages. **The risks surrounding the growth outlook remain tilted to the downside, but Draghi stressed that the probability of a recession remains low**. On the price performance, the ECB remains confident of a gradual upward trend in core inflation, while Draghi downplayed the fall in inflation expectations, which contrary to what happened in 2016 do not reflect a risk of deanchoring but rather the reaction to energy prices and softer activity.

The ECB's statement included an explicit reference to the **mitigation of side-effects of negative rates on bank profitability**, a point raised recently by Draghi at the ECB Watchers conference which has raised wide speculation on possible modifications in the workings of the depo rate (towards a "tiered" system). We expected that the ECB could give some indications on this front, but Draghi said they did not discuss it yet, and even less the issue if that measure could open the door to a further softening of the forward guidance - lower rates for longer.

Today we did not expect any more details on the new series of targeted longer-term **refinancing operations (TLTROs)** announced in March, and they did not disappoint us. But the central bank clarified that **their pricing 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". Draghi said that it is "too early" to decide on the details, emphasizing to wait until next staff projections. All this signals that the economic outlook will weigh on the pricing, suggesting the possibility of introducing a

more beneficial rate for banks (below the MRO rate) under certain conditions. The final details will be communicated at one of its forthcoming meetings (we expect them for June).

**Overall, a slight dovish tone**, with little information disclosed on the issue of TLTRO or tiered deposit rates, as expected. Regarding **our baseline scenario for euro rates**, we have delayed our expectations of the first (depo and refi) rate hikes six months, following downward revisions of Eurozone macro projections and the recent dovish tone by ECB members (the change in guidance on rates in March continued by Draghi's speech at the ECB Watchers' conference). **We now expect first depo rate hike (+10bps) in Jun20 and first refi rate hike (+25bps) in Dec20.**

**PLEASE NOTE: TRACKING CHANGES IN FOLLOWING STATEMENTS**

in black, wording common to both the current and previous statements, in light grey and crossed, previous wording that was replaced by new wording, in blue and underlined (YES, TRACK CHANGES ARE THERE ON PURPOSE)

**Mario Draghi, President of the ECB,  
Luis de Guindos, Vice-President of the ECB,  
Frankfurt am Main, ~~7 March~~ 10 April 2019**

**INTRODUCTORY STATEMENT**

~~Jump to the transcript of the questions and answers~~

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 the pursuit of its price stability objective.~~  
First, we decided to keep the **key ECB interest rates** unchanged. We ~~now~~ continue to expect them to remain at their present levels at least through the end of 2019, 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.

~~Second, we~~ 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.

~~Third, we decided~~ The Governing Council stands ready to launch ~~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 quarterly targeted longer-term refinancing operations (TLTROs) will be communicated at one of our forthcoming meetings. In particular, the pricing of the new TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations will help to preserve ~~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 bank lending 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 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 ~~the smooth transmission of monetary policy. Under TLTRO III, counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 28 February 2019 at a rate indexed to the interest rate on the main refinancing operations over the life of each operation. Like the outstanding TLTRO programme, TLTRO-III will feature built-in incentives for credit conditions to remain favourable. Further details on the precise terms of TLTRO-III will be communicated in due course.~~

Fourth, we will 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.

Today's monetary policy decisions were taken 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. While there are signs that some of the idiosyncratic domestic factors dampening growth are starting to fade, the weakening in economic data points to a sizeable moderation in the pace of the economic expansion that will extend into the current year. The persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets appears to be leaving marks on economic sentiment. Moreover, underlying inflation continues to be muted. The weaker economic momentum is slowing the adjustment of inflation towards our aim. At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures. Today's decisions will support the further build-up of domestic price pressures and headline inflation developments over the medium term. Significant monetary policy stimulus will continue to be 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. In any event, the Governing Council 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.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased rose by 0.2%, quarter on quarter, in the fourth quarter of 2018, following growth an increase of 0.1% in the third quarter. Incoming data have continued continue to be weak, in particular in especially for the manufacturing sector, reflecting mainly on account of the slowdown in external demand, which has been compounded by some country and sector-specific factors. The As the impact of these factors is turning out to be somewhat longer-lasting, which suggests that the near term growth outlook will be weaker than previously anticipated the slower growth momentum is expected to extend into the current year. 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, further employment gains and rising wages, and the ongoing – albeit somewhat slower – expansion in global activity.

~~This assessment is broadly reflected in the March 2019 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.1% in 2019, 1.6% in 2020 and 1.5% in 2021. Compared with the December 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down substantially in 2019 and slightly in 2020.~~

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

According to Eurostat's flash estimate, euro area annual HICP inflation was 1.54% in ~~February~~ March 2019, after 1.45% in ~~January~~ February, reflecting somewhat higher mainly a decline in food, services and non-energy and food industrial goods price inflation. On the basis of current futures prices for oil, headline inflation is likely to remain at around current levels before declining towards decline over the end-of-year coming months. Measures of underlying inflation remain generally muted, but labour cost pressures have strengthened and broadened 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 wage growth.

~~This assessment is also broadly reflected in the March 2019 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.5% in 2020 and 1.6% in 2021. Compared with the December 2018 Eurosystem staff macroeconomic projections, the outlook for HICP inflation has been revised down across the projection horizon, reflecting in particular the more subdued near term growth outlook.~~

Turning to the **monetary analysis**, broad money (M3) growth ~~decreased~~ increased to 4.3% in February 2019, from 3.8% in ~~January 2019, from~~ 4.1% in ~~December 2018~~. Looking through some volatility in monthly flows, M3 growth continues to be backed by bank credit creation, notwithstanding a recent moderation in credit dynamics. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The annual growth rate of loans to non-financial corporations ~~declined~~ rebounded to 3.7% in ~~January~~ February 2019, from 3.4% in ~~December 2018~~ January, reflecting mainly a base effect but also, in some countries. Looking through short-term volatility, the annual growth rate of loans to non-financial corporations has moderated in recent months, reflecting the typical lagged reaction to the slowdown in economic activity, while growth. At the same time, the annual growth rate of loans to households remained broadly unchanged at 3.2%. Borrowing 3% in February. The euro area bank lending survey for the first quarter of 2019 suggests that overall bank lending conditions for firms and households are still remained favourable, as the

Our monetary policy measures put in place since June 2014, including the new series of TLTROs that we announced in March, will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small

and medium-sized enterprises. ~~The policy measures decided today, and in particular the new series of TLTROs, will help to ensure that bank lending conditions remain favourable going forward.~~

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. ~~This is particularly important in view of the overall limited implementation of the 2018 country-specific recommendations, as recently communicated by the European Commission.~~ Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance and the operation of automatic stabilisers are providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should ~~continue to increase~~ **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.

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