Lagarde’s strategy

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- **Lagarde confirmed at her first press conference the launch of a comprehensive review of ECB’s strategy, with a broad scope and lasting throughout 2020**
- **The monetary policy stance is unchanged and therefore it continues to be dovish**
- **ECB economic projections are broadly unchanged, though growth stabilization and higher core inflation is recognized, while downward risks are less pronounced**

Today's meeting was the first one with Lagarde as head of the Governing Council. Given the lack of expectations on substantial measures after the strong accommodative package approved in September, the focus was on her first performance in the press conference and on what she might say on different controversial issues.

Her main message was the **announcement of a comprehensive review of ECB's strategy**, which will start in January and will last all throughout 2020, and will reach to academics, members of the EU parliament and the civil society. **The definition of the target will be reviewed, and the different tools for monetary policy**. She did not close the door to helicopter money or equity purchases as eventual new tools for monetary policy. When asked about other issues (digital currency, purchases of green bonds), she included them into the review, and mentioned for instance housing prices in the inflation definition as an issue for debate. She insisted that the review has to be seen as a normal exercise, since the last one was carried out 16 years ago.

On the current monetary policy stance, the main points of the statement were barely changed. In particular, rates will "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". This is a **continuist message (i.e. broadly wait-and-see and dovish**, in line with what was last defined in September).

On the **economic outlook**, Lagarde highlighted the **signs of stabilization in the growth slowdown and the mild increase in underlying inflation**. There were **no significant changes in the ECB Staff forecasts** of a gradual increase from 2020 onwards in both growth and inflation, although downward risks have become less pronounced than three months ago, especially those related to the US-China trade disputes and Brexit. The ECB foresees growth to remain close to what Lagarde characterized as potential growth in two years time (GDP: 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 2022) that could sustain the gradual increase of inflation to around 1.7% by end 2022 (CPI: 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022).

In the Q&A session, the focus was mainly on **Mrs Lagarde’s view on the effectiveness of non-standard measures and the side-effects of negative interest rates.** As a way to avoid questions on different views within the GC on the relative merits of rate cuts and QE, she stressed that both are in the same package, together with forward guidance, and they work at different horizons. She said that the **tiered system of ECB deposit rates has worked well and that the GC are well aware of side effects of negative rates** and will monitor them closely. However, she signalled that we have not reached the reversal interest rate as, according to her, credit is still growing in the eurozone. She recognized that the takeup of the second TLTRO-III auction (97.7 bn) was below expectations, but warned that it could be linked to end-of year factors. Lagarde was also optimistic when asked about Europe’ risk of Japanification, and suggested the Eurozone potential growth rate is around 1.5% (we will be close to it by 2022).

Overall, Mrs Lagarde' first post-meeting press conference went as expected, with an **outspoken communication style when talking about different issues not strictly related to monetary policy, and an unchanged line on the monetary policy stance**. Policy changes will likely be absent in 2020 in the absence of shocks, and her job will likely focus in building a consensus both within the GC and with other institutions on the tools and strategy of monetary policy in the future, and its coordination with other policies. It will be a difficult task.

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~~Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB,
Frankfurt am Main, ~~24 October~~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~~, 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~~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 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~~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 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~~October 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~~a 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.~~7~~6% 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 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.

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