ECB: Adjust, add and assure

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- **Unexpectedly extends liquidity facilities, with a new liquidity program and more flexible conditions for the current TLTRO-III**
- **The asset purchases programs remained unchanged. The PEPP is certainly the instrument that will be used if further action is required**
- **The ECB is worried on the macro (expecting a sharp fall in GDP of between -5% and -12% this year) and on the coordinated fiscal response**

With COVID-19 led disruptions portending an unprecedented crisis across the Euro Area, that could lead growth to decline between -5% and -12% according to Ms Lagarde, the ECB took further actions today to ensure ample liquidity conditions, sustain an economy-wide flow of credit and preserve highly accommodative financial conditions. Today's two-pronged actions included: 1) the introduction of a new LTRO operation, the PELTRO (Pandemic Emergency LTRO), intended to provide an effective liquidity backstop that ensures a smooth functioning of money markets and 2) the second recalibration of conditions on the TLTRO III to ease liquidity operations. Meanwhile, benchmark interest rates were left unchanged (depo -0.5%, refi 0%), and so were the ECB's asset purchase programs, including the PEPP.

More specifically, the PELTRO would include seven rounds of operations starting on May 21, ending on December 3 with diminishing tenors, from 16 months the first one to 8 months the last one, at a cost of 25 bp below the main refi operations (currently 0%) irrespective of the benchmark. Meanwhile, the amended TLTRO III now involves (i) lower cost; (ii) reduction of the original benchmark from 2.5% to 1.15% and (iii) bringing forward the dates to calculate the benchmark with more favourable ones, i.e. starting now on March 1 2020 instead of April 1 2020 (as credit has been reactivated during April as a response to the emergency). Thus, the cost of the TLTROs could be as low as -1% from June 2020 to June 2021 if the 1st March 2020 to 31st March 2021 benchmark is met.

Importantly, today's additions and amendments to ECB's policy toolkit were accompanied by an emphatic rhetoric by the ECB chief that the bank will use full flexibility to deploy particular powder in the right direction, where it thinks it needs to be deployed. The ECB emphasized that it was "fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed". It underscored that purchases under the program will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions.

The post policy Q&A highlighted ECB's lower, although not completely discounted, preference for the use of the OMT to tackle the current crisis. Unlike the OMT, which Lagarde noted, was intended for particular country cases and particular circumstances, the ECB believes that the PEPP is best suited to deal with the symmetry of the COVID-19 shock. Meanwhile, Lagarde struck down the need for other policy options such as the yield curve control.

Responding to concerns over the risk of sovereign rating downgrades to potentially speculative grade within the Euro area and ECB’s readiness to adjust its bond purchase program to include junk bonds, the ECB chief made it clear that ECB will not accept fragmentation or procyclical tightening of financial conditions in the Euro area and will adjust as and when needed. She suggested that non-investment grade bond purchases could be a possibility under the PEPP (rather than the APP program) and reminded that under the PEPP, a waiver was already given on securities issued by the Greek government.. Given the current pace of purchases under PEPP, the size of the program could not be enough to cover them until December, so an issue in the next meeting could be the eventual increase in its amount.

Painting a grim and highly uncertain macroeconomic outlook, the ECB expects GDP to contract in the Eurozone by between -5% and -12% this year (with an expected fall of -15% q/q in Q2 after -3.8% in Q1), but acknowledged that the lack of clarity on the course, and duration and degree of the pandemic impact, makes the job of ECB forecasting extremely difficult.

Today’s measures, alongside the previous ones and assurances of full fledged flexibility to do what it takes, serves well to bridge the economic and financial impact of the coronavirus across the Euro area that is taking shape. Against the depth of the crisis and the potential need for more monetary stimulus, the ECB is likely to consider an expansion of PEPP, which could also be influenced by how much the fiscal support is willing to come through. Ms Lagarde today repeated her call for an ambitious and joint fiscal response in these exceptional circumstances.

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).

Christine Lagarde, President of the ECB,

Luis de Guindos, Vice-President of the ECB,

Frankfurt am Main, ~~12 March~~30 April 2020

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 Executive Vice-President, Mr Dombrovskis.

~~Since our last Governing Council meeting in late January, the spread of the coronavirus (COVID-19) has been a major shock to the growth prospects of the global and euro area economies and has heightened market volatility. Even if ultimately temporary in nature, it will have a significant impact on economic activity. In particular, it will slow down production as a result of disrupted supply chains and reduce domestic and foreign demand, especially through the adverse impact of the necessary containment measures. In addition, the heightened uncertainty negatively affects expenditure plans and their financing.~~

~~Governments and all other policy institutions are called upon to take timely and targeted actions to address the public health challenge of containing the spread of the coronavirus and mitigate its economic impact. In particular, an ambitious and coordinated fiscal policy response is required to support businesses and workers at risk. The Governing Council strongly supports the commitment of euro area governments and the European Institutions to joint and coordinated policy action in response to the repercussions of the spread of the coronavirus. We also welcome the decisions taken by the ECB's Supervisory Board, which are detailed in a separate press release published earlier today.~~

The euro area is facing an economic contraction of a magnitude and speed that are unprecedented in peacetime. Measures to contain the spread of the coronavirus (COVID-19) have largely halted economic activity in all the countries of the euro area and across the globe. Survey indicators for consumer and business sentiment have plunged, suggesting a sharp contraction in economic growth and a profound deterioration in labour market conditions. Given the high uncertainty surrounding the ultimate extent of the economic fallout, growth scenarios produced by ECB staff suggest that euro area GDP could fall by between 5% and 12% this year, depending crucially on the duration of the containment measures and the success of policies to mitigate the economic consequences for businesses and workers. As the containment measures are gradually lifted, these scenarios foresee a recovery in economic activity, although its speed and scale remain highly uncertain. Inflation has declined as a result of the sharp fall in oil prices and slightly lower HICP inflation excluding energy and food.

The decisive and targeted policy measures that we have taken since early March have provided crucial support to the euro area economy and especially to the sectors most exposed to the crisis. In particular, our measures are supporting liquidity conditions and helping to sustain the flow of credit to households and firms, especially small and medium-sized enterprises (SMEs), and to maintain favourable financing conditions for all sectors and jurisdictions.

We welcome the measures taken by euro area governments and the European institutions to ensure sufficient healthcare resources and to provide support to affected companies, workers and households. At the same time, continued and ambitious efforts are needed, notably through joint and coordinated policy action, to guard against downside risks and to underpin the recovery.

In line with our mandate, the Governing Council is determined to continue to support households and firms in the face of the current economic ~~disruptions~~disruption and heightened uncertainty~~.~~, in order to safeguard medium-term price stability.

Accordingly, ~~we~~the Governing Council decided today to further ease the conditions on ~~a comprehensive package of monetary policy measures. Together with the substantial monetary policy stimulus already in place, these measures will support liquidity and funding conditions for households, businesses and banks and will help to preserve the smooth provision of credit to the real economy.~~
~~First, we decided to conduct, temporarily, additional~~ our targeted longer-term refinancing operations (~~LTROs) to provide immediate~~ TLTRO III). Specifically, we decided to reduce the interest rate on TLTRO III operations during the period from June 2020 to June 2021 to 50 basis points below the average interest rate on the Eurosystem's main refinancing operations prevailing over the same period. Moreover, for counterparties whose eligible net lending reaches the lending performance threshold, the interest rate over the period from June 2020 to June 2021 will now be 50 basis points below the average deposit facility rate prevailing over the same period.

We also decided on a new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs) to support liquidity ~~support to~~ conditions in the euro area financial system~~. Although we do not see material signs~~ and contribute to preserving the smooth functioning of money markets by providing an effective liquidity backstop. The PELTROs consist of seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July and September 2021 in line with the duration of ~~strains in money markets or liquidity shortages in the banking system, these operations will provide an effective backstop in case of need.~~our collateral easing measures. They will be carried out ~~through a~~as fixed rate tender ~~procedure~~procedures with full allotment, with an interest rate that is ~~equal to~~25 basis points below the average rate on the ~~deposit facility. The LTROs~~main refinancing operations prevailing over the life of each PELTRO.

Further details on the amendments made to the terms of TLTRO III and on our new PELTROs will ~~provide liquidity~~be published in dedicated press releases this afternoon at 15:30 CET.

Since the end of March we have been conducting purchases under our new pandemic emergency purchase programme (PEPP), which has an overall envelope of €750 billion, to ease the overall monetary policy stance and to counter the severe risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus pandemic. These purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. We will conduct net asset purchases under the PEPP until the Governing Council judges that the coronavirus crisis phase is over, but in any case until the end of this year.

Moreover, net purchases under our asset purchase programme (APP) will continue at ~~favourable terms to bridge the period until the TLTRO III operation in June 2020.~~
~~Second, the Governing Council decided to apply considerably more favourable terms during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that same time. These operations will support bank lending to those affected most by the spread of the coronavirus, in particular small and medium-sized enterprises. Throughout this period, the interest rate on these TLTRO III operations will be 25 basis points below the average rate applied in the Eurosystem's main refinancing operations. For counterparties that maintain their levels of credit provision, the rate applied in these operations will be lower, and, over the period ending in June 2021, can be as low as 25 basis points below the average interest rate on the deposit facility. Moreover, the maximum total amount that counterparties will henceforth be entitled to borrow in TLTRO III operations is raised to 50% of their stock of eligible loans as at 28 February 2019. In this context, the~~

~~Governing Council will mandate the Eurosystem committees to investigate collateral easing measures to ensure that counterparties continue to be able to make full use of our funding support.~~
~~Third, we decided to add a temporary envelope of additional net asset purchases of €120 billion until the end of the year, ensuring a strong contribution from the private sector purchase programmes. In combination with the existing asset purchase programme (APP), this will support favourable financing conditions for the real economy in times of heightened uncertainty. We continue to expect net asset purchases~~a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year. We continue to expect monthly net asset purchases under the APP 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.
~~In addition, the Governing Council~~
~~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 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.
~~Further details on the precise terms of our new operations will be published in dedicated press releases this afternoon at 15:30 CET.~~
~~In view of current developments, the Governing Council will continue to monitor closely the implications of the spread of the coronavirus for the economy, for medium-term inflation and for the transmission of its monetary policy. The~~
In addition, 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.

Together with the substantial monetary policy stimulus already in place, these measures will support liquidity and funding conditions and help to preserve the smooth provision of credit to the real economy. At the same time, in the current rapidly evolving economic environment, the Governing Council remains fully committed to doing everything necessary within its mandate to support all citizens of the euro area through this extremely challenging time. This applies first and foremost to our role in ensuring that our monetary policy is transmitted to all parts of the economy and to all jurisdictions in the pursuit of our price stability mandate. We are, therefore, fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed. In any case, the Governing Council 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.

Let me now explain our assessment in greater detail, starting with the economic analysis. The latest economic indicators ~~suggest~~ and survey results covering the period since the coronavirus spread to the euro area have shown an unprecedented decline, pointing to a ~~considerable worsening of the near-term growth outlook.~~significant contraction in euro area economic activity and to rapidly deteriorating labour markets. The ~~disruption of supply chains is impeding production plans in the manufacturing sector, while necessary~~coronavirus pandemic and the associated containment measures ~~against the further spread of the coronavirus are adversely affecting economic activity. Before the coronavirus outbreak~~have severely affected the manufacturing and services sectors, taking a toll on the productive capacity of the euro area economy and on domestic demand. In the first quarter of 2020, which was only partially affected by the spread of the coronavirus, euro area real GDP ~~growth moderated to 0.1%, quarter on~~ decreased by 3.8%, quarter~~,~~ on quarter, reflecting the impact of the lockdown measures in the ~~fourth quarter of 2019, following growth~~ final weeks of ~~0.3% in~~ the ~~third~~ quarter. ~~This mainly reflected the ongoing weakness~~The sharp downturn in economic

activity in ~~the euro area manufacturing sector and slowing investment growth.~~April suggests that the impact is likely to be even more severe in the second quarter. Looking beyond the immediate disruption stemming from the coronavirus pandemic, euro area growth is expected to ~~regain traction over the medium term~~resume as the containment measures are gradually lifted, supported by favourable financing conditions, the euro area fiscal stance and ~~the expected~~a resumption in global activity.
~~This assessment is only partly reflected in the March 2020 ECB staff macroeconomic projections for the euro area, as their data cut-off date predates the most recent rapid spread of the coronavirus to the euro area. These projections foresee annual real GDP increasing by 0.8% in 2020, 1.3% in 2021 and 1.4% in 2022. In particular, the projections foresee very muted growth in the first half of 2020, followed by an improvement in the second half of the year. Compared with the December 2019 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down notably for 2020 and slightly for 2021, on account of the potential economic impact of the coronavirus outbreak.~~
~~The risks surrounding the euro area growth outlook are clearly on the downside. In addition to the previously identified risks related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, the spread of the coronavirus adds a new and substantial source of downside risk to the growth outlook.~~

Given the highly uncertain duration of the pandemic, the likely extent and duration of the imminent recession and the subsequent recovery are difficult to predict. However, without pre-empting the forthcoming Eurosystem staff macroeconomic projections, which will be published in June, growth scenarios produced by ECB staff suggest that euro area GDP could fall by between 5% and 12% this year, followed by a recovery and normalisation of growth in subsequent years. The extent of the contraction and the recovery will depend crucially on the duration and the success of the containment measures, how far supply capacity and domestic demand are permanently affected, and the success of policies in mitigating the adverse impact on incomes and employment.

According to Eurostat's flash estimate, euro area annual HICP inflation decreased ~~to 1.2% in February 2020, from 1.4% in January~~from 0.7% in March to 0.4% in April, largely driven by lower energy price inflation, but also slightly lower HICP inflation excluding energy and food. On the basis of the sharp decline in current and futures prices for oil, headline inflation is likely to decline considerably further over the coming months. ~~Indicators of inflation expectations have fallen and measures of~~The sharp downturn in economic activity is expected to lead to negative effects on underlying inflation ~~remain generally muted. While labour cost pressures have so far remained resilient amid tighter labour markets, the weaker growth momentum is delaying their pass-through to inflation. Over~~over the coming months. However, the medium~~-~~-term~~, the increase in inflation will be supported by our monetary policy measures and the recovery in euro area growth dynamics.~~
~~This assessment is only partly reflected in the March 2020 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022. Compared with the December 2019 Eurosystem staff macroeconomic projections, the outlook for HICP inflation is broadly unrevised over the projection horizon. The~~ implications of the coronavirus pandemic for inflation are surrounded by high uncertainty, given that downward pressures linked to weaker demand may be partially offset by upward pressures related to supply disruptions. ~~The recent sharp decline in oil prices poses significant downside risks to the short~~Market-based indicators of longer-term inflation ~~outlook~~expectations have remained at depressed levels. Even though survey-based indicators of inflation expectations have declined over the short and medium term, longer-term expectations have been less affected.

Turning to the monetary analysis, broad money (M3) growth ~~stood at~~ increased to 7.5~~.2~~% in ~~January~~March 2020, ~~having moderated somewhat~~ from ~~its recent peak.~~5.5% in February. Money growth ~~continues to reflect ongoing~~ reflects bank credit creation for the private sector, which is driven to a large extent by drawing on credit lines, and low opportunity costs of holding M3 relative to other financial instruments~~. The~~, while heightened economic uncertainty appears to have triggered a shift towards monetary holdings, likely for precautionary reasons. In this environment, the narrow monetary aggregate M1, encompassing the most liquid forms of money, continues to be the main contributor to broad money growth.

~~Loans~~

Developments in loans to the private sector ~~continued to expand.~~have also been shaped by the impact of the coronavirus. The annual growth rate of loans to households ~~picked up somewhat to~~ stood at 3.~~7~~4% in ~~January~~March 2020, ~~from~~after 3.~~6~~7% in ~~December 2019. The~~February, while the annual growth rate of loans to non-financial corporations ~~remained unchanged~~stood at 5.4% in March, after 3.~~2% in January, confirming the moderation seen since autumn 2019~~0% in February. These developments are also clearly visible in the results of the euro area bank lending survey for the first quarter of 2020, which indicate a surge in firms' demand for loans and ~~likely reflecting the typically lagged reaction~~for drawing on credit lines to ~~the past weakening in the economy. Overall, our accommodative monetary~~meet liquidity needs for working capital, while financing needs for fixed investment declined. Demand for loans to households for house purchase increased less than in the previous quarter. Credit standards for loans to firms tightened slightly, while credit standards for loans to households tightened more strongly. In both cases, this was related to the deterioration in the economic outlook and a decline in the creditworthiness of firms and households. At the same time, banks expect an easing of credit standards for loans to firms in the second quarter of 2020.

Our policy ~~stance, including the~~ measures ~~taken today, will safeguard~~, in particular the more favourable ~~bank lending conditions and will continue to support~~ terms for TLTRO III operations and the collateral easing measures, should encourage banks to extend loans to all private sector entities. Together with the credit support measures adopted by national governments and European institutions, they support ongoing access to financing, including for those most affected ~~most~~ by the ramifications of the coronavirus ~~and, in particular, for small and medium-sized enterprises.~~pandemic.

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 necessary for the robust convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding fiscal policies, an ambitious and coordinated fiscal stance is ~~now needed~~critical, in view of the ~~weakened outlook~~sharp contraction in the euro area economy. Measures taken should as much as possible be targeted and ~~to safeguard against the further materialisation of downside risks.~~temporary in nature in response to the pandemic emergency. We welcome the ~~measures already taken by several governments to ensure sufficient health sector resources and~~ endorsement by the European Council of the Eurogroup agreement on the three safety nets for workers, businesses and sovereigns, amounting to a package worth €540 billion. At the same time, the Governing Council urges further strong and timely efforts to ~~provide~~prepare and support ~~to affected companies and employees.~~the recovery. In ~~particular, measures such as providing credit guarantees are needed to complement and reinforce the monetary policy measures taken today. We~~this regard, we welcome the ~~commitment of the euro area governments and the European Institutions to act now, strongly, and together in response to the repercussions of the further spread of the coronavirus.~~European Council agreement to work towards establishing a recovery fund dedicated to dealing with this unprecedented crisis.

Creating Opportunities

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