Christine Lagarde: ECB press conference - introductory statement

Introductory statement by Ms Christine Lagarde, President of the European Central Bank, and Mr Luis de Guindos, Vice-President of the European Central Bank, Frankfurt am Main, 12 December 2019.

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Ladies and gentlemen, welcome to our press conference. 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.

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.

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 monetary policy 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 growth was confirmed at 0.2%, quarter on quarter, in the third quarter of 2019, unchanged from the previous quarter. 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. At the same time, 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 in the latter half of 2019. 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.

According to Eurostat's flash estimate, euro area annual HICP inflation increased from 0.7% in October 2019 to 1.0% in November, reflecting mainly higher services and food price inflation. On the basis of current futures prices for oil, headline inflation is likely to rise somewhat in the coming months. Indicators of inflation expectations stand at low levels. Measures of underlying inflation have remained generally muted, although there are some indications of a 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 October 2019, 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 3.8% in October, up from 3.6% in September, while 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 remain mildly expansionary in 2020, thus providing support to economic activity. In view of the weakened economic outlook, the Governing Council welcomes the Eurogroup's call 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 at your disposal for questions.