CENTRAL BANKS

ECB keeps stance unchanged

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- Rates were kept unchanged and the tone remained dovish.
- No hints of any policy change in the near term.
- The ECB unveiled further details of the CSPP.

As expected, at today's monetary policy meeting there were no changes in the ECB´s monetary policy stance, as the central bank left the key policy rate unchanged at 0.0% and the deposit rate at -0.4%. The dovish tone was reinforced and the easing bias was strengthened as the ECB stated that, if warranted to achieve its objective, the ECB "will act by using all the instruments available within its mandate." During the press conference, Mr Draghi noted that it is essential to preserve an appropriate degree of monetary accommodation as long as needed. Mr Draghi highlighted the unanimity of the Governing Council (GC) on the appropriateness of the current monetary policy stance. For the economic outlook, risks still remain to the downside as uncertainties related with the global economy and geopolitical risks persist.

Today the ECB revealed the details of the corporate sector purchase programme (CSPP) announced on 10 March, as at that meeting the GC left many questions unanswered. (See) There is still a lack of detail, mostly regarding how the benchmark is defined. Also, the amount of monthly purchases has not yet been unveiled. Overall, the high issuer share limit (70%), coupled with the wide range of maturities to be purchased (30Y), suggest that the ECB is dealing with a narrow market.

At the press conference, part of the attention was focused on the possibility of going further on negative rates, as at the last ECB meeting Mr Draghi had hinted that further rate cuts seemed very unlikely. In this context, Mr Draghi highlighted that the GC is aware of the complexity of low interest rates but he said that negative rates have not hurt the banks' net interest income, up to now. He also added that the experience of negative rates has been broadly positive but he clarified that this was not true for all levels of interest rates (hinting that significant rate cuts are not on the table).

Mr Draghi took the opportunity to highlight the positive effects of additional easing. He said that the policies implemented are effective but they need time, and he again called on government support, saying that "If there were also structural reforms, the effect of these policies would be quicker." In response to Germany´s recent criticism, he defended the independence of the central bank. "We have a mandate to preserve price stability for the whole of the euro zone, not only for Germany." "We obey the law, not the politicians, because we are independent." He also added that the ECB's policies are not very different from the policies that are being implemented in a very large part of the world.

In response to a question about the possibility of implementing so-called 'helicopter money', Mr Draghi repeated his own words at the March monetary policy meeting, saying that it is a "very interesting concept" but stressing that there are "complexities, both accounting-wise and legal-wise." Finally, he clarified that they "have not discussed it."

On the potential effects of a Brexit, Mr Draghi said that it has already had some impact on the markets, but he does not see it as a risk for Eurozone recovery. However, he added that the UK´s membership of the EU is mutually beneficial.

At today´s meeting, Mr Draghi did not hint at any additional action in the short term. We expect the ECB to remain on hold, monitoring the impact of the measures announced in March.

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

in black, wording common to both the current and previous statements, in red 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,
Vítor Constâncio, Vice-President of the ECB,
Frankfurt am Main, ~~10 March~~21 April 2016

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 review~~decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at present or lower levels for an extended period of ~~the~~time, and well past the horizon of our net asset purchases. Regarding **non-standard** **monetary policy** ~~stance, in which we also took into account the new macroeconomic projections by our staff extending into the year 2018. As a result, the Governing Council has~~ **measures**, as decided on ~~a set of measures in the pursuit of its price stability objective. This comprehensive package will exploit the synergies between the different instruments and has been calibrated to further ease financing conditions, stimulate new credit provision and thereby reinforce the momentum of the euro area's economic recovery and accelerate the return of inflation to levels below, but close to, 2%.~~

~~First, as regards the key ECB interest rates, we decided to lower the interest rate on the main refinancing operations of the Eurosystem by 5 basis points to 0.00% and the rate on the marginal lending facility by 5 basis points to 0.25%. The rate on the deposit facility was lowered by 10 basis points to -0.40%.~~
~~Second, we decided~~10 March 2016, we have started to expand ~~the~~our monthly purchases under ~~our~~the asset purchase programme ~~from~~ to €80 billion, from the previous amount of €60 billion~~ at present to €80 billion. They~~. As stated before, these purchases are intended to run until the end of March 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its ~~aim of achieving inflation rates below, but close to, 2% over the medium term. To ensure the continued smooth implementation of our asset purchases, we also decided to increase the issuer and issue share limits for the purchases of securities issued by eligible international organisations and multilateral development banks from 33% to 50%.~~inflation aim. Moreover, in June, we will conduct the first operation of our new series of targeted longer-term refinancing operations (TLTRO II) and we will commence purchases under our corporate sector purchase programme (CSPP). Further information on the implementation aspects of the CSPP will be released after the press conference on the ECB's website.

~~Third, we decided to include investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area in the list of assets that are eligible for regular purchases under a new corporate sector purchase programme. This will further strengthen the pass-through of our asset purchases to the financing conditions of the real economy. Purchases under the new programme will start towards the end of the second quarter of this year.~~

~~Fourth, we decided to launch a new series of four targeted longer-term refinancing operations (TLTRO II), starting in June 2016, each with a maturity of four years. These new operations will reinforce the ECB's accommodative monetary policy stance and will strengthen the transmission of monetary policy by further incentivising bank lending to the real economy. Counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 31 January 2016. The interest rate under TLTRO II will be fixed over the life of each operation, at the rate on the Eurosystem's main refinancing operations prevailing at the time of take-up. For banks whose net lending exceeds a benchmark, the rate applied to the TLTRO II will be lower, and can be as low as the interest rate on the deposit facility prevailing at the time of take-up. There will be no requirement for mandatory early repayments under TLTRO II, and switches from TLTRO I will be allowed.~~

~~Finally, looking ahead, taking into account the current outlook for price stability, the Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases.~~

~~Separate press releases with further details of the measures taken by the Governing Council will be published this afternoon at 15:30 CET.~~

~~Adding to the measures taken since June 2014, with today's comprehensive package of monetary policy decisions we are providing substantial monetary stimulus to counteract heightened risks to the ECB's price stability objective. While very low or even negative inflation rates are unavoidable over the next few months, as a result of movements~~ Following our comprehensive package of decisions taken in early March, broad financing conditions in the euro area have improved. The pass-through of the monetary policy stimulus to firms and households, notably through the banking system, is strengthening. However, global uncertainties persist.

Looking forward, it is essential to preserve an appropriate degree of monetary accommodation as long as needed in order to underpin the momentum of the euro area's economic recovery and in ~~oil prices, it is crucial to avoid second-round effects by securing~~order to accelerate the return of inflation to levels below, but close to, 2~~% without undue delay.~~%. The Governing Council will continue to monitor ~~very~~ closely the evolution of the outlook for price stability ~~over the period ahead~~and, if warranted to achieve its objective, will act by using all the instruments available within its mandate. In the current context, it is crucial to ensure that the very low inflation environment does not become entrenched in second-round effects on wage and price setting.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP ~~growth was confirmed at~~increased by 0.3%, quarter on quarter, in the fourth quarter of 2015, supported by domestic demand, while being dampened by ~~a negative contribution from net exports. The most recent survey~~relatively weak export trends. Incoming data for the first quarter of 2016 point to ~~weaker than expected~~ongoing output growth ~~momentum~~, at a pace broadly similar to that in the ~~beginning~~final quarter of ~~this year~~2015. Looking ahead, we expect the economic recovery to proceed ~~at a moderate pace.~~. Domestic demand ~~should~~, in particular, continues to be ~~further~~ supported by our monetary policy measures ~~and their~~. Their favourable impact on ~~financial~~financing conditions, ~~as well as by~~together with improvements in corporate profitability, is benefiting investment. Moreover, our accommodative monetary policy stance, continued employment gains ~~benefiting~~resulting from past structural reforms~~. Moreover,~~ and the still relatively low price of oil should provide ~~additional~~ongoing support for households' real disposable income and private consumption~~, as well as corporate profitability and investment.~~. In addition, the fiscal stance in the euro area is slightly expansionary~~, partly reflecting measures in support of refugees. However~~. At the same time, the economic recovery in the euro area ~~continues to be~~ is still dampened by ~~subdued growth prospects in emerging markets, volatile financial markets, the necessary~~the ongoing balance sheet adjustments in a number of sectors ~~and~~, the ~~sluggish~~insufficient pace of implementation of structural reforms and subdued growth prospects in emerging markets.

~~This outlook is broadly reflected in the March 2016 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP increasing by 1.4% in 2016, 1.7% in 2017 and 1.8% in 2018. Compared with the December 2015 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised slightly down, mainly reflecting the weakened growth prospects for the global economy.~~

The risks to the euro area growth outlook still remain tilted to the downside. ~~They~~ Our recent monetary policy decisions have improved overall financing conditions, which should support the outlook for consumption and investment. However, uncertainties persist and relate, in particular, to ~~the heightened uncertainties regarding~~ developments in the global economy~~, as well as~~ and to ~~broader~~ geopolitical risks.

According to ~~Eurostat's flash estimate~~Eurostat, euro area annual HICP inflation in March 2016 was 0.0%, compared with -0.2% in February ~~2016, compared with 0.3% in January. All main HICP components contributed to this decline.~~, reflecting mainly a rise in services price inflation. Looking ahead, on the basis of current futures prices for energy, inflation rates ~~are expected to remain at~~could turn negative ~~levels~~again in the coming months ~~and to pick~~before picking up ~~later in~~in the second half of 2016. Thereafter, supported by our monetary policy measures and the expected economic recovery, inflation rates should recover further~~. The Governing Council will closely monitor price-setting behaviour and wage developments in the euro area, paying particular attention to ensure that the current low inflation environment does not become entrenched in second-round effects on wage and price-setting~~ in 2017 and 2018.

~~This broad pattern is also reflected in the March 2016 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 0.1% in 2016, 1.3% in 2017 and 1.6% in 2018. In comparison with the December 2015 Eurosystem staff macroeconomic projections, the outlook for HICP inflation has been revised down, mainly reflecting the fall in oil prices over recent months.~~

Turning to the **monetary analysis**, ~~recent data confirm solid growth in~~ broad money (M3~~), with the~~) continued to grow at a robust pace in February 2016, with its annual rate of growth ~~of M3 standing~~remaining unchanged at 5.0~~%~~%. As in ~~January 2016, after 4.7% in December 2015. Annual~~previous months, annual growth in M3 ~~continues to be~~is mainly supported by its most liquid components, with the narrow monetary aggregate M1 growing at an annual rate of 10.3% in February, after 10.5% in January~~, after 10.8% in December~~.

Loan dynamics ~~continued~~followed the path of gradual recovery observed since the beginning of 2014. The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) increased to 0.~~6~~9% in ~~January~~February 2016, up from 0.~~1~~6% in ~~December 2015~~January. Developments in loans to enterprises continue to reflect the lagged relationship with the business cycle, credit risk and the ongoing adjustment of financial and non-financial sector balance sheets. The annual growth rate of loans to households (adjusted for loan sales and securitisation) ~~remained stable at~~increased to 1.6% in February 2016, from 1.4% in January~~ 2016. ~~.

The euro area bank lending survey for the first quarter of 2016 indicates further improvements in loan supply conditions for enterprises and in loan demand across all loan categories. Improvements in the demand for bank loans were supported by the low level of interest rates, financing needs for investment purposes and housing market prospects.

Overall, the monetary policy measures in place since June 2014 have clearly improved borrowing conditions for firms and households, as well as credit flows across the euro area. The comprehensive package of new monetary policy measures adopted in March this year underpins the ongoing upturn in loan growth, thereby supporting the recovery of the real economy.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need ~~for further~~to preserve an appropriate degree of monetary ~~stimulus~~accommodation in order to secure a return of inflation rates towards levels that are below, but close to, 2% without undue delay.

Monetary policy is focused on maintaining price stability over the medium term and its accommodative stance supports economic activity. ~~However~~As emphasised repeatedly by the Governing Council, and as strongly echoed in both European and international policy discussions, in order to reap the full benefits from our monetary policy measures, other policy areas must contribute much more decisively~~. Given~~, both at the national and at the European levels. **Structural policies** are essential, given continued high structural unemployment and low potential output growth in the euro area~~,~~ ~~the ongoing cyclical recovery should be supported by effective **structural policies**~~. In particular, actions to raise productivity and improve the business environment, including the provision of an adequate public infrastructure, are vital to increase investment and boost job creation. The swift and effective implementation of structural reforms, in an environment of accommodative monetary policy, will not only lead to higher sustainable economic growth in the euro area but will also make the euro area more resilient to global shocks.~~ As indicated by the European Commission, the implementation of country-specific recommendations continued to be fairly limited in 2015; reform efforts thus need to be stepped up in the majority of euro area countries. **Fiscal policies** should~~ **Fiscal policies** should also support the economic recovery, while remaining in compliance with the fiscal rules of the European Union. Full and consistent implementation of the Stability and Growth Pact is crucial to maintain confidence in the fiscal framework. At the same time, all countries should strive for a more growth-friendly composition of fiscal policies.

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