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Central Banks

Draghi calm on recent data but more vigilant on protectionism

Sonsoles Castillo / Agustín García / Miguel Jiménez / María Martínez

- **The ECB left the main lines of its forward guidance unchanged**
- **Draghi did not sound much worried about growth moderation but vigilant on protectionism**
- **There was no discussion on the next steps of monetary policy**

As widely expected, at today's monetary policy meeting there were **no changes in the ECB's monetary policy stance**, as the central bank left key interest rates unchanged and reiterated that asset purchase programme (APP) will run since January 2018 at a monthly pace of EUR30bn until September 18, or beyond, if necessary and "at any case until Governing Council sees sustained adjustment in the path of inflation consistent with inflation aim." The dovish stance remains in place as the central bank reiterated its pledge to keep interest rates unchanged until well past the horizon of the net asset purchases after the removal of the easing bias on the APP announced last month. Moreover, the Governing Council reiterated that an "ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up".

On economic outlook, Mr Draghi showed **caution** as he stressed that **while the risks surrounding the euro area remained as broadly balanced**, **risks associated to** global factors, including the threat of increased **protectionism**, have become **more pronounced**. But on the recent **growth moderation** of the eurozone economy, Mr Draghi did not seem too worried. He said that such loss of momentum is broad by most euro-area nations and sectors, but he described this as **"temporary".** He wanted to clarify that **some normalisation was awaited** after the strong GDP growth in 2H17, beyond temporary factors in early this year (cold weather, strikes, timing of Easter), and **growth is expected to remain solid**. On inflation, ECB´s president said that underlying measures remain subdued –despite that there are seeing some encouraging signs on nominal wage growth- and have yet to show convincing signs of a sustained upward trend. He emphasized that the bottom line of this discussion (on economic data), is basically **caution in reading these developments, "caution tempered by an unchanged confidence in the convergence of inflation toward our inflation aim".** He stressed that convergence remains conditional on an ample degree of monetary accommodation.

During the Q&A, some of the attention was focused on the roadmap of the monetary policy normalization process. Mr Draghi made clear that **the GC did not discuss today monetary policy per se** nor plans for the June meeting.

All in all, the ECB left monetary policy unchanged, as expected, and without giving further details on the QE recalibration and the future of the exit strategy. **We continue to expect that changes in forward guidance hinting the end of QE will be possible by June but we do not rule out that such decision is delayed until July, depending on the evolution of macro and inflation data as the ECB may wait until it is clear that the current softer data is indeed only temporary.** Regarding the normalization process, our baseline scenario remains unchanged, i.e. ending QE during 4Q18 and hiking rates in 2019 (first depo rate by March and first refi rate by June).

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

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

PRESS CONFERENCE

Mario Draghi, President of the ECB,
Vítor Constâncio, Vice-President of the ECB,
Frankfurt am Main, ~~8 March~~26 April 2018

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.
Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases.
Regarding **non-standard monetary policy measures**, we confirm that our net asset purchases, at the current monthly pace of €30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The Eurosystem will continue to reinvest the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favourable liquidity conditions and to an appropriate monetary policy stance.

~~Incoming~~Following several quarters of higher than expected growth, incoming information~~, including~~ since our ~~new staff projections, confirms the strong~~meeting in early March points towards some moderation, while remaining consistent with a solid and broad-based ~~growth momentum in~~ expansion of the euro area economy~~, which is projected~~. The underlying strength of the euro area economy continues to ~~expand in the near term at a somewhat faster pace than previously expected. This outlook for growth confirms~~support our confidence that inflation will converge towards our inflation aim of below, but close to, 2% over the medium term. At the same time, measures of underlying inflation remain subdued and have yet to show convincing signs of a sustained upward trend. In this context, the Governing Council will continue to monitor developments in the exchange rate and other financial conditions with regard to their possible implications for the inflation outlook. Overall, an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term. This continued monetary support is provided by the net asset purchases, by the sizeable stock of acquired assets and the ongoing and forthcoming reinvestments, and by our forward guidance on interest rates.
Let me now explain our assessment in greater detail, starting with the **economic analysis**. Real GDP increased by 0.~~6~~7%, quarter on quarter, in the fourth quarter of 2017, ~~after increasing by 0.7%~~ following similar growth in the ~~third~~previous quarter. This resulted in an average annual growth rate of 2.4% in 2017 – the highest since 2007. The latest economic ~~data and survey results indicate continued strong~~indicators suggest some moderation in the pace of growth since the start of the year. This moderation may in part reflect a pull-back from the high pace of growth observed at the end of last year, while temporary factors may also be at work. Overall, however, growth is expected to remain solid and broad-based~~ growth momentum.~~. Our monetary policy measures, which have facilitated the deleveraging process, should continue to underpin domestic demand. Private consumption is supported by ~~rising~~ongoing employment gains, which~~ is also benefiting from~~, in turn, partly reflect past labour market reforms, and by growing household wealth. Business investment continues to strengthen on the back of very favourable financing conditions, rising corporate profitability and solid demand. Housing investment ~~has improved further over recent quarters.~~continues to improve. In addition, the broad-based global expansion is providing impetus to euro area exports.

~~This assessment is broadly reflected in the March 2018 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.4% in 2018, 1.9% in 2019 and 1.7% in 2020. Compared with the~~

~~December 2017 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised up for 2018 and remains unchanged for 2019 and 2020.~~

The risks surrounding the euro area growth outlook ~~are assessed as~~remain broadly balanced. ~~On the one hand, the prevailing positive cyclical momentum could lead to stronger growth in the near term. On the other hand, downside~~However, risks ~~continue to relate primarily~~related to global factors, including ~~rising~~the threat of increased protectionism ~~and developments in foreign exchange and other financial markets~~, have become more prominent.

~~According to Eurostat's flash estimate, euro~~Euro area annual HICP inflation ~~decreased to~~ increased to 1.3% in March 2018, from 1.1~~.2~~% in February ~~2018, from 1.3% in January.~~. This reflected mainly ~~negative base effects in unprocessed~~higher food price inflation. ~~Looking ahead, on~~On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around 1.5% for the remainder of the year. Measures of underlying inflation remain subdued overall. Looking ~~forward~~ahead, they are expected to rise gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

~~This assessment is also broadly reflected in the March 2018 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.4% in 2018, 1.4% in 2019 and 1.7% in 2020. Compared with the December 2017 Eurosystem staff macroeconomic projections, the outlook for headline HICP inflation has been revised down slightly for 2019 and remains unchanged for 2018 and 2020.~~

Turning to the **monetary analysis**, broad money (M3) continues to expand at a robust pace, with an annual growth rate of ~~growth of~~ 4.~~6~~2% in ~~January~~February 2018, ~~unchanged from~~slightly below the ~~previous month, reflecting~~narrow range observed since mid-2015. M3 growth continues to reflect the impact of the ECB's monetary policy measures and the low opportunity cost of holding the most liquid deposits. Accordingly, the narrow monetary aggregate M1 remained the main contributor to broad money growth, continuing to expand at a solid annual rate.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is ~~progressing~~proceeding. The annual growth rate of loans to non-financial corporations ~~strengthened to~~stood at 3.1% in February 2018, after 3.4% in January ~~2018, after~~and 3.1% in December 2017, while the annual growth rate of loans to households remained unchanged at 2.9%. The euro area bank lending survey for the first quarter of 2018 indicates that loan growth continues to be supported by increasing demand across all loan categories and a further easing in overall bank lending conditions for loans to enterprises and loans for house purchase.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – notably for small and medium-sized enterprises – and credit flows across the euro area.

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 an ample degree of monetary accommodation to secure a sustained return of inflation rates towards 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 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. Against the background of overall limited implementation of the 2017 country-specific recommendations, ~~as communicated by the European Commission yesterday,~~ greater reform effort is necessary in ~~the~~ euro area countries. Regarding **fiscal policies**, the ~~increasingly solid and~~ongoing broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. All countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. ~~Deepening~~Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

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CONTACT DETAILS:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain). Tel.:+34 91 374 60 00 and +34 91 537 70 00 / Fax: +34 91 374 30 25 - bbvaresearch@bbva.com www.bbvaresearch.com