EUROPEAN CENTRAL BANK

EUROSYSTEM

20 February 2020

Account of the monetary policy meeting of the Governing Council of the European Central Bank

held in Frankfurt am Main

on Wednesday and Thursday, 22-23 January 2020

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Christine Lagarde

President of the European Central Bank

1. Review of financial, economic and monetary developments and policy options

Financial market developments

Ms Schnabel reviewed the latest financial market developments.

The period since the Governing Council's monetary policy meeting on 11-12 December 2019 had been marked by three major events: the year-end, the geopolitical tensions in the Middle East, and the signing of the "phase-one" trade agreement between the United States and China. The trade agreement appeared to be the most significant, as it had helped consolidate the general improvement in market sentiment that had gained momentum in early September 2019. Expectations that monetary policy would remain highly accommodative, both in the United States and in the euro area, further supported the improved market sentiment.

The year-end, as usual, had been characterised by thin liquidity in money markets due to reporting and regulatory obligations. The turn of this year, however, had been the smoothest since 2016. Repo rates had remained mostly concentrated around levels prevailing before the turn of the year. Use of the Eurosystem's securities lending facilities had also increased only slightly over the year-end. In the US money market, the Federal Reserve's injections of additional liquidity had mitigated any potential year-end tensions.

The new year had started with geopolitical tensions escalating in the Middle East. However, financial markets had proved rather resilient, which could be explained by a number of factors. One had been the attempt by the authorities to quickly de-escalate the situation through their rhetoric. A second factor had been the prevailing high level of oil inventories in OECD countries. Combined with a global economy much less reliant on oil than in the past, this cushioned the expected impact of supply-side disruptions on the oil price. A third factor might have been the general underlying improvement in market sentiment.

This improved sentiment had been visible in global bond markets since early September 2019, following indications that a phase-one trade deal between the United States and China was within reach. Since September 2019, yields on 10-year German benchmark government bonds had increased by around 50 basis points. In addition, the spread vis-à-vis the 10-year US Treasury benchmark had narrowed by some 30 basis points.

Some insight into the reversal in the US-euro area interest rate differential could be derived from the breakdown of bond yields into the short-term rate expectations component and the term premia component. In both the United States and the euro area, yields were currently well below their end-2018 levels, but for different reasons. In the euro area, the expected interest rate path during 2019 had been adjusted downwards much less than in the United States, and had also partly reversed as sentiment had brightened in recent months. However, the decline in term premia had proven much more persistent in the euro area. This might partly be linked to the resumption of net asset purchases by the ECB, which had removed additional duration risk from the market. In addition, the decline in term premia might be related to the reduced uncertainty around the outlook for short-term interest rates.

The overnight index swap forward curve suggested that the markets currently expected the ECB to stay on hold for at least the next two years. These expectations were broadly consistent with the subdued inflation outlook priced in by markets.

Turning to corporate and government bond issuances, the combination of improved market sentiment and continued monetary accommodation had likely fostered investor demand. In the private sector, strong issuance of corporate bonds had been observed for the year to date. For public issuers, investor demand for long-maturity government bond issuances, such as those of Italy or Spain, had been exceptionally high in January.

Prospects for continued monetary policy accommodation and improved market sentiment likely also supported equity valuations. The S&P 500 and the EURO STOXX 600 were up by around 5% and 4%, respectively, since 12 December 2019. Many equity indices were at, or close to, their historical highs.

The global environment and economic and monetary developments in the euro area

Mr Lane reviewed the global environment and recent economic and monetary developments in the euro area.

Regarding the external environment, global activity and trade had remained subdued. There were some signs of a stabilisation, and even a slight pick-up, in the Purchasing Managers' Index (PMI) data, with the turnaround being most visible in the manufacturing PMI. Overall, the PMIs had signalled a stabilisation in global activity at modest growth rates in the fourth quarter of the year, with signs of improvement within the last quarter. Global trade had recovered in the third quarter of 2019 and, more recently, trade uncertainty had declined based on the trade deal between the United States and China. On the whole however, global trade had remained subdued, dampened by a still high level of trade tensions and weak Asian demand. Turning to global financial conditions, market sentiment towards risky assets had remained positive. Global equity prices had continued to increase, especially in the United States.

Since the Governing Council's December monetary policy meeting, oil prices had decreased by around 1% and the euro had remained broadly stable against the US dollar, although it had depreciated slightly in nominal effective terms. Turning to the euro area, GDP growth had stood at 0.3%, quarter on quarter, in the third quarter of 2019, according to Eurostat's third estimate. In the fourth quarter, business indicators had provided some signs of a stabilisation, with the composite output PMI and the Commission's Economic Sentiment Indicator starting to increase. In particular, the results of forward-looking manufacturing surveys appeared to have stabilised. Incoming data since the last Governing Council meeting pointed to continued positive but modest GDP growth.

The demand components of private consumption had continued to be supported by robust income developments. This had reflected the overall resilience of the labour market. Most importantly, solid growth in compensation of employees had continued. Moreover, fiscal policies – mainly in the form of lower taxes or higher transfers – had also started to contribute positively to developments in disposable income. In addition, terms of trade developments – driven by energy prices in particular – had supported annual growth in disposable income over the course of 2019. However, business investment dynamics remained weak and had been slowing since early 2019. The latest sectoral indicators suggested business investment would remain subdued in the short term. Extra-euro area exports of goods had increased in the last four months, although displaying some Brexit-related volatility.

Looking at developments in euro area labour markets, euro area employment had continued to rise in the third quarter but had increased only slightly, consistent with the slowdown in economic growth. The euro area unemployment rate had stood at 7.5% in November, essentially unchanged since August.

Euro area annual HICP inflation had increased to 1.3% in December, reflecting mainly higher energy inflation, but it remained considerably below the Governing Council's inflation aim. HICP inflation excluding energy and food was unchanged at 1.3%, with services inflation continuing to be substantially stronger than non-energy industrial goods inflation. Measures of underlying inflation had remained generally muted, although there were further signs of a gradual increase in line with previous expectations. HICP sub-components with a relatively high domestic content had become more prominent drivers of underlying inflation over recent years.

Wage growth continued to be solid. Annual growth in compensation per employee was 2.2% in the third quarter of 2019, unchanged from the second quarter of 2019, and broadly in line with its long-term average of 2.1%. Furthermore, wage growth had remained broad-based across sectors.

According to the latest Survey of Professional Forecasters (SPF), HICP inflation expectations were 1.2%, 1.4% and 1.5% for 2020, 2021 and 2022 respectively. Following four successive rounds of downward revisions, SPF respondents had kept their inflation forecasts essentially unchanged, with longer-term inflation expectations standing at 1.7%. Market-based indicators of longer-term inflation expectations in the euro area had recovered somewhat since the Governing Council's last monetary policy meeting, but remained at subdued levels, with the five-year forward inflation-linked swap rate five years ahead standing at just above 1.3%.

Turning to euro area financial conditions, long-term risk-free rates had changed little since the December Governing Council meeting, as was the case for the EONIA forward curve, with the short end of the curve remaining almost flat.

Euro area equity prices for both financial and non-financial corporations had continued to increase since the December meeting. Lower discount rates, on the back of accommodative monetary policy, had played an important role in supporting euro area equity prices in 2019, counteracting the drag from a decline in longer-term earnings expectations. Financing conditions for euro area non-financial corporations remained very favourable and had remained broadly unchanged since the December meeting.

Turning to money and credit developments, the annual growth rate of M3 had remained robust in November, at 5.6%, almost entirely driven by annual M1 growth. Portfolio considerations linked to low opportunity costs of holding M3 were the main economic factor supporting robust broad money growth. From a counterpart perspective, credit to the private sector was contributing about half of broad money creation, while net external monetary flows accounted for the other half.

The pass-through of monetary accommodation to euro area bank lending rates had been continuing, although lending rates had stabilised in November, standing slightly above historical lows. This likely reflected earlier movements in market rates. Since February 2019 interest rates on loans to the private sector had been on a declining trend.

Growth in loans to households and firms remained solid. While the annual growth rate of loans to households had remained unchanged from October to November, at 3.5%, the annual growth rate of loans to non-financial corporations had moderated to 3.4%, from 3.8%, likely reflecting some lagged reaction to the past weakening in the economy.

According to the January 2020 bank lending survey, credit standards for loans to enterprises remained broadly unchanged in the fourth quarter of 2019. A continued tightening contribution from risk perceptions consistent with subdued economic activity in the euro area was counterbalanced by an easing impact from competitive pressures. The survey had also indicated a weakening in demand for loans to firms, in line with the slowdown in economic activity observed since 2018. Turning to fiscal policies, the euro area fiscal stance was assessed to be mildly expansionary for 2019-21.

The fiscal stimulus consisted mainly of direct tax cuts and increases in transfers and was expected to contribute positively to disposable income growth in 2019-21. This provided a tailwind for private consumption for the first time since 2010.

Monetary policy considerations and policy options

Summing up, Mr Lane remarked that financial conditions had remained accommodative, supported by receding trade tensions and the unfolding effects of the September policy package. Bank lending conditions for firms and households continued to be favourable, indicating an ongoing pass-through of favourable market funding conditions.

Incoming economic data confirmed the Governing Council's previous assessment of ongoing but moderate growth, with slightly more positive signals from forward-looking indicators. Some of the uncertainty surrounding international trade was receding but the risks surrounding the euro area growth outlook – relating to geopolitical factors, protectionism and vulnerabilities in emerging markets – remained skewed to the downside.

HICP inflation dynamics and developments in underlying inflation remained subdued overall. Market and survey-based indicators of inflation expectations continued to signal the risk of a prolonged period of low inflation. However, wage growth was resilient and broad-based, even though the pass-through to inflation continued to be slow. In addition, there were tentative signs of a gradual pick-up in underlying inflation.

Overall, despite some positive signals for future growth and inflation, the outlook for price developments remained below the Governing Council's medium-term aim and risks to the outlook were still elevated. However, financial conditions remained favourable and could rely on the automatic stabilisation function embedded in the forward guidance to accommodate any short-term volatility in the outlook. Considering the tentative signals of a stabilisation in the euro area economy, the Governing Council would await further data to see if there were firmer grounds for optimism.

On the basis of this assessment, Mr Lane proposed keeping the monetary policy stance unchanged at the current meeting. This would entail reiterating the forward guidance on policy rates, net asset purchases and reinvestments of principal payments. In addition, in its public communication, the Governing Council should continue to highlight that it remained ready to adjust all of its instruments, as appropriate, to ensure that inflation moved towards the aim in a sustained manner, in line with its commitment to symmetry.

2. Governing Council's discussion and monetary policy decisions

Economic and monetary analyses

On the economic analysis, the members of the Governing Council generally shared the assessment of the outlook and risks for economic activity in the euro area provided by Mr Lane in his introduction. Incoming information since the Governing Council's December monetary policy meeting was considered to be in line with the baseline scenario of ongoing, but moderate, growth in the euro area economy in the December 2019 Eurosystem staff macroeconomic projections. In particular, the weakness in the manufacturing sector remained a drag on euro area growth momentum. However, ongoing, albeit decelerating, employment growth and robust wage growth continued to support the resilience of the euro area economy.

In considering the outlook and risks for the external environment, members noted that although global activity and trade were still subdued, there were some indications, as also reflected in recent survey data, of a stabilisation and even a possible pick-up in activity. Attention was drawn to the January 2020 update of the IMF's World Economic Outlook, which foresaw growth in global activity slightly above the December 2019 staff projections and stronger growth in 2020 compared with 2019. Moreover, reference was made to the IMF's assessment that temporary factors behind the slowdown in global manufacturing, such as the adjustment in the automobile sector to new emission standards and the lull in the launch of new tech products, had appeared to fade. Members also agreed that some of the uncertainty surrounding international trade was receding, although the risks to the external environment relating to geopolitical factors, rising protectionism and vulnerabilities in emerging markets continued to be tilted to the downside.

In discussing the risks to the external environment, members took note of the recent phase-one trade deal between the United States and China, which appeared to have increased confidence and had been received positively by financial markets. This, together with greater clarity on the United Kingdom's withdrawal from the EU following the UK general election in December, had contributed to a decline in international risks – although there was still substantial uncertainty. At the same time, it was noted that the tariffs imposed by both China and the United States had largely been left in place and that the trade deal could have adverse consequences for euro area exports as a result of trade diversion. In addition, unresolved issues remained between the United States and the EU as regards trade and there was evidence that firms were affected by uncertainty, including about the impact of potential tariffs on the automobile sector. Moreover, although it was now clear that the United Kingdom would be leaving the EU at the end of January 2020, their future trade relationship still had to be agreed and there could be more divergence in this relationship than previously expected.

Turning to euro area activity, members broadly agreed that incoming economic data and survey information pointed to some stabilisation in euro area growth dynamics. Near-term growth was expected to be similar to rates observed in the previous quarters, thus broadly in line with the December 2019 Eurosystem staff projections. Real GDP had increased by 0.3%, quarter on quarter, in the third quarter of 2019, following growth of 0.2% in the previous quarter. This pattern of moderate growth reflected the ongoing weakness of international trade in an environment of continued global uncertainties, which had particularly affected the euro area manufacturing sector and had also dampened investment growth. At the same time, the services and construction sectors remained more resilient, despite some moderation in the second half of 2019.

Nowcasting models, which took recent data releases into account, pointed to a stabilisation in growth at low rates, below estimates of potential growth. The EuroCOIN indicator had remained unchanged in December, as the impact of the positive stock market performance had been offset by persistent pessimism among firms in the manufacturing sector. It was remarked that the increase in the stock market did not seem to be related to an improvement in earnings expectations. As also appeared to be the case in the United States, this pointed to a possible disconnect between buoyant financial markets and the continued subdued outlook for the real economy.

The risk of adverse spillovers from the continued weakness in the manufacturing sector to other sectors of the economy still needed to be monitored closely. It was noted that so far activity in the services sector had been quite resilient – supported by domestic demand, and underpinned by favourable financial conditions related to the ECB’s September 2019 monetary policy package as well as expansionary fiscal policy. However, while there might have been a bottoming-out in manufacturing, it was too soon to conclude that the slowdown in growth in the services sector had stopped, as spillovers to services could emerge with a lag and the sector’s current resilience might not last.

The point was made that the stabilisation in euro area growth was mainly driven by household consumption, while external demand and corporate investment remained subdued. Weak investment suggested that there was little prospect of a sustained increase in growth potential and productivity. The slowdown in employment growth was highlighted. In the euro area’s largest economy this slower employment growth could be considered a normal feature of a maturing business cycle amid emerging supply bottlenecks, but other countries were not in a situation of full employment. While euro area unemployment, at 7.5%, was around pre-crisis levels, it had been flat for some time and there was considerable heterogeneity in the level of unemployment across countries.

More positively, reference was made to developments in a number of euro area indicators, including the improvement in forward-looking expectations components of business surveys and the rise in the Citigroup surprise indicator. It was felt to be important to acknowledge these positive signs and care should be taken to avoid being too slow to change the risk assessment. It was noted that the automobile sector remained a concern and there were also deeper structural factors affecting this industry that needed to be monitored closely.

However, some caution was also expressed about becoming too optimistic. It was noted that although the manufacturing PMI had improved, it was still at a level which signalled a contraction in activity. In particular, the automobile sector and industrial production were still declining in the euro area’s largest economy, which would affect other countries, in part via value chain linkages. Moreover, the improvement in the Citigroup surprise indicator was mainly related to confidence indicators, while the real economy remained weak and the improvement in hard data had been negligible.

The risks surrounding the euro area growth outlook, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remained tilted to the downside, but had become less pronounced as some of the uncertainty surrounding international trade had receded.

The euro area fiscal stance was expected to provide some support to economic activity. In view of the weak economic outlook, the Governing Council welcomed the Eurogroup's call in December for differentiated fiscal responses and its readiness to coordinate. Governments with fiscal space should stand ready to act in an effective and timely manner, while in countries where public debt was high governments needed to pursue prudent policies and meet structural balance targets, which would 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.

On price developments, there was broad agreement with the assessment presented by Mr Lane in his introduction. According to Eurostat, euro area annual HICP inflation was 1.3% in December 2019, after 1.0% in November, mainly reflecting higher energy price inflation. On the basis of current futures prices for oil, headline inflation was likely to hover around current levels in the coming months. Measures of underlying inflation had remained generally muted, although there were further indications of a moderate increase in line with previous expectations. While indicators of inflation expectations remained at low levels, recently they had either stabilised or ticked up slightly. Labour cost pressures had strengthened amid tighter labour markets, but the weaker growth momentum was delaying their pass-through to inflation. Over the medium term inflation was expected to increase, supported by the ECB's monetary policy measures, the ongoing economic expansion and solid wage growth.

In discussing recent inflation developments, members were encouraged by the fact that headline and underlying inflation had recently evolved in line with the December staff projections and by the evidence of a continued gradual upward trend in some indicators of underlying inflation. HICP inflation excluding food and energy was at its highest level for four years, although it was still slightly below its pre-crisis average. It was remarked that this level had been reached even without housing costs fully represented in the inflation measures. While goods prices were being dampened by global factors and weak demand, services prices were gradually increasing, linked to the ECB's monetary policy measures. On developments in other inflation measures, it was noted that the GDP deflator was also increasing. At the same time, it was argued that the level of underlying inflation remained muted, even though the likelihood of a general upward trend in inflation dynamics had increased.

Members agreed with the assessment presented by Mr Lane in his introduction that wage growth remained resilient and was broad-based, against the background of solid labour market developments. The observed upward movement in inflation had increased confidence that, with wages and salaries having grown by over 2.5% in the third quarter of 2019 and above its long-term average, recent wage dynamics would pass through to inflation over time. However, it was felt that there was a need to continue to investigate the pass-through of wages to inflation, and developments in profit margins.

On longer-term inflation expectations, members noted that although the indicators had either stabilised or ticked up recently, they continued to stand at low levels. Market-based inflation expectations, as measured by the five-year forward inflation-linked swap rate five years ahead, currently stood at 1.3%. Meanwhile, in terms of survey-based measures, in the SPF for the first quarter of 2020 longer-term inflation expectations were unchanged at 1.7%. It was recalled that there were important issues related to the measurement of inflation expectations and that most of the gap between survey-based and market-based measures of longer-term inflation expectations could be accounted for by estimates of risk and liquidity premia. It was also pointed out that the risk of deflation had declined further. However, it was suggested that the low level of inflation expectations indicated that most investors expected inflation to remain below the ECB's aim for some time to come.

Reference was made to survey evidence from the European Commission highlighting a strong correlation between households' inflation perceptions and measured HICP inflation. Mention was also made of some analysis showing that short-term inflation expectations were heavily influenced by actual inflation and, in turn, affected longer-term inflation expectations. The concern was also expressed that the recent slight increase in market-based measures of inflation expectations might be related to higher oil prices and might therefore not be sustained.

On the monetary analysis, members broadly shared the assessment provided by Mr Lane in his introduction, that overall money and credit developments remained robust. The annual rate of M3 growth stood at 5.6% in November 2019, broadly unchanged since August. The growth of loans to firms and households remained solid, benefiting from very low bank lending rates and the ongoing support provided by a highly accommodative monetary policy stance. In November although the annual growth rate of loans to households had remained unchanged, the annual growth rate of loans to non-financial corporations had moderated, likely reflecting some lagged reaction to the past weakening in the economy. These developments were also visible in the results of the euro area bank lending survey for the first quarter of 2020. Demand for loans to firms had weakened for the first time since 2013 and rejection rates were increasing, which could indicate a further decline in credit growth in the months ahead. It was cautioned, however, that the bank lending survey reported banks' estimates of demand, not actual credit growth, which had remained buoyant in some countries. Moreover, credit standards for both loans to firms and loans to households for house purchase had remained broadly unchanged, pointing to still favourable credit supply conditions.

Monetary policy stance and policy considerations

On the monetary policy stance, members widely shared the assessment provided by Mr Lane in his introduction. Financial conditions had remained very accommodative overall. All components of financial conditions indices had loosened over the course of 2019, namely short-term and long-term interest rates, exchange rates and equity prices. The monetary policy measures decided at the Governing Council's September meeting were seen to have lowered term premia and contributed to the overall substantial easing in financial conditions. Market sentiment had turned positive and risk appetite among market participants seemed strong. Uncertainties were perceived as receding, mainly due to reduced US-China trade tensions and the recent stabilisation in the economic outlook. This had led to some upward movement in risk-free interest rates, with no further cuts currently being priced into the forward curve. The accommodative monetary policy stance continued to safeguard very favourable bank lending conditions, supporting household investment demand, consumers' expectations about their financial situation, and consumer confidence.

Members saw indications that the Governing Council's September package was being gradually transmitted to the economy. They expressed confidence in the capacity of the monetary policy measures to provide the necessary monetary stimulus to support the euro area expansion and the gradual build-up of domestic price pressures. On the two-tier system for reserve remuneration, it was remarked that the implementation of the tiering had worked well. Banks' access to the targeted longer-term refinancing operations (TLTRO III) was highlighted as an additional measure that was helping preserve favourable bank lending conditions.

The accommodative monetary policy stance had benefited the economy by contributing to the resilience of domestic demand, in particular in the services sector, whereas manufacturing continued to suffer from weak global demand. Notably, investment was being held back by international uncertainty despite the low cost of borrowing. It was also recalled, however, that the interest rate elasticity of investment had always been low and that a lack of correlation between borrowing costs and investment demand did not mean that monetary policy was ineffective.

Members agreed that monetary policy had to remain highly accommodative for a prolonged period of time. Inflation was still far away from the Governing Council's objective and a robust convergence of inflation towards the Governing Council's aim was not yet assured, notwithstanding a slight uptick in underlying inflation. The current monetary policy configuration was seen as appropriate and sufficient to support underlying inflation pressures and developments in headline inflation over the medium term. The point was made that the recent absence of any large projection errors for core inflation should support the Governing Council's confidence in the robust convergence of inflation to its medium-term aim. While market-based measures of inflation expectations had increased slightly, also on the back of the accommodative monetary policy stance, it was argued that risks of an unanchoring of longer-term inflation expectations remained.

Against this background, all members agreed with the proposal by Mr Lane to keep the monetary policy stance unchanged. This entailed reiterating the Governing Council's forward guidance on policy interest rates, net asset purchases and reinvestments of principal payments. A highly accommodative monetary policy stance for a prolonged period of time was seen as necessary to sustain the euro area expansion, the build-up of domestic price pressures and, thus, the robust convergence of inflation to the Governing Council's medium-term aim. It was pointed out that the measures taken in September should be given time to exert their full impact on the euro area economy.

In this context, members highlighted the essential role of the Governing Council's state-dependent forward guidance in providing monetary accommodation. It needed to be stressed that the forward guidance formulation – by tightly linking the expected future path of policy rates to an inflation outlook that was sufficiently close to, but below, 2% as well as a consistent rise in observed underlying inflation – ensured that financial conditions adjusted in accordance with changes in the inflation outlook. In addition, tying the likely path of policy interest rates to inflation prospects ensured that financial conditions would not tighten prematurely purely on the back of an improving growth outlook.

At the same time, the need to continue evaluating the pass-through of the September policy decisions was highlighted, also in the light of the potential side effects of the present monetary policy stimulus. Financial stability-related risks needed to be monitored closely, as potential side effects might become more pronounced in an environment with low rates and a flat yield curve persisting for a long time. In this context, it was noted that a shift from bank-based to market-based finance, in combination with investors' search for yield, could lead to increased risk-taking. Reference was made to equity markets, where the continued rise in valuations was difficult to square with a weaker earnings outlook on both sides of the Atlantic, subdued profit margins and pervasive uncertainty. A remark was also made that higher housing prices could lead to fragilities in the financial system which might be insufficiently addressed by macroprudential policies.

On communication, members broadly agreed with the proposals put forward by Mr Lane in his introduction. It needed to be emphasised that a prolonged accommodative monetary policy stance was required, that monetary policy transmission was effective and that the Governing Council was confident that the substantial monetary policy stimulus would pass through to inflation.

It was pointed out that risks remained tilted to the downside, although they had become less pronounced as some of the uncertainty surrounding international trade was receding. Although a more positive assessment of risks could foster confidence in the upswing and further support positive economic developments, it was cautioned that a more optimistic outlook for the economy needed to be communicated carefully in order not to give rise to a premature tightening of financial conditions.

As regards the Governing Council's forward guidance, it needed to be emphasised that it was tied to the inflation outlook and therefore an accommodative stance would be maintained until the Governing Council had seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within the projection horizon, and such convergence had been consistently reflected in underlying inflation dynamics. At the same time, it was felt that the Governing Council needed to reiterate its commitment to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moved towards its aim in a sustained manner, in line with its commitment to symmetry.

Following members' preliminary considerations at the December 2019 meeting, the Governing Council decided to launch a review of the ECB's monetary policy strategy. Since the last strategy review in 2003 the euro area and global economies had been undergoing profound structural changes. Declining trend growth, on the back of slowing productivity and an ageing population, as well as the legacy of the financial crisis, had driven interest rates down. This had reduced the scope for the ECB and other central banks to ease monetary policy using conventional instruments in the face of adverse cyclical developments. In addition, addressing low inflation was different from the historical challenge of addressing high inflation. The threat to environmental sustainability, rapid digitalisation, globalisation and evolving financial structures had further transformed the environment in which monetary policy operated, including the dynamics of inflation. It was emphasised that the discussion on the strategy was to be kept separate from the ongoing monetary policy deliberations and should not be perceived as constraining the Governing Council in its readiness to act by adjusting all of its instruments, as appropriate.

Monetary policy decisions and communication

Taking into account the foregoing discussion, the Governing Council decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility would remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expected the key ECB interest rates to remain at their present or lower levels until it had seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence had been consistently reflected in underlying inflation dynamics.

The Governing Council would continue to make net purchases under its asset purchase programme (APP) at a monthly pace of €20 billion. The Governing Council expected them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it started raising the key ECB interest rates.

The Governing Council intended 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 it started 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 Governing Council furthermore decided to launch a review of the ECB's monetary policy strategy, approving the related press release.

The members of the Governing Council subsequently finalised the introductory statement, which the President and the Vice-President would, as usual, deliver at the press conference following the end of the current Governing Council meeting.

Introductory statement

https://www.ecb.europa.eu/press/pressconf/2020/html/ecb.is200123~0bc778277b.en.html

Press releases

https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200123~ae33d37f6e.en.html
https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200123~3b8d9fc08d.en.html

Meeting of the ECB's Governing Council, 22-23 January 2020

Members

Ms Lagarde, President

Mr de Guindos, Vice-President

Mr Costa

Mr Hernández de Cos *

Mr Herodotou

Mr Holzmann

Mr Kazāks *

Mr Kažimír

Mr Knot

Mr Lane

Mr Makhlouf

Mr Mersch

Mr Müller

Mr Panetta

Mr Rehn

Mr Reinesch *

Ms Schnabel

Mr Stournaras

Mr Vasiliauskas *

Mr Vasle

Mr Vella

Mr Villeroy de Galhau

Mr Visco

Mr Weidmann

Mr Wunsch

* Members not holding a voting right in January 2020 under Article 10.2 of the ESCB Statute.

Other attendees

Mr Teixeira, Secretary, Director General Secretariat

Mr Smets, Secretary for monetary policy, Director General Economics

Mr Winkler, Deputy Secretary for monetary policy, Senior Adviser, DG Economics

Accompanying persons

Mr Antunes

Mr Arce

Mr Aucremanne

Mr Bonello

Mr Bradeško

Ms Buch

Mr Demarco

Ms Donnery

Mr Gaiotti

Ms Goulard

Mr Haber

Mr Kaasik

Mr Kuodis

Mr Kyriacou

Mr Lünnemann

Mr Odór

Mr Pattipeilohy

Mr Rutkaste

Mr Tavlas

Mr Välimäki

Other ECB staff

Ms Graeff, Director General Communications

Mr Straub, Counsellor to the President

Mr Silvonen, Deputy Director General Market Operations

Mr Rostagno, Director General Monetary Policy

Mr Sousa, Deputy Director General Economics

Release of the next monetary policy account foreseen on Thursday, 9 April 2020.