

# ECO FLASH

March 2019

## The ECB foresees less growth and extends monetary stimulus

Louis Boisset

- The ECB sharply lowered its 2019 growth forecast. Inflation is also expected to be milder over the entire forecast horizon.
- ECB president Mario Draghi noted that uncertainty was particularly high, but said that the vibrant labour market was supporting economic activity.
- Key rates would not be raised in 2019. Another round of targeted longer-term refinancing operations (TLTRO), with a maturity of 2 years each, would be launched starting in September 2019 and ending in March 2021.

### Outlook for 2019 revised downwards, cautious optimism thereafter

At the Governing Council meeting of 7 March, the European Central Bank sharply lowered its 2019 growth forecast to 1.1%, from 1.7%. This slowdown is expected to be temporary since the growth forecasts for 2020 and 2021 were barely changed (to growth rates of 1.6% and 1.5%, respectively). The expected rebound in 2020 will be driven by the dissipation of negative headwinds, both domestically and externally.

Headline inflation was also revised downwards across the entire forecast horizon. The new scenario calls for inflation to hold at 1.2% in 2019 (vs. 1.6% previously), before rising mildly thereafter in 2020 and 2021. Despite the slowdown in unit labour costs, Mario Draghi said the ECB is still confident that inflation will converge on its official 2% inflation target in the medium term, based on the labour market's dynamic momentum and favourable wage trends. Nonetheless, it could still take a while for wage growth to carry over to inflation. Core inflation was revised downwards by 0.2 point each year, and is now estimated at 1.2%, 1.4% and 1.6%, respectively, in 2019, 2020 and 2021.

Mr. Draghi also stated that we are in a period of pervasive uncertainties.

### Economic outlook

	PIB réel		Inflation		Inflation sous-jacente	
	mars-19	dec-18	mars-19	dec-18	mars-19	dec-18
2019	1,1	1,7	1,2	1,6	1,2	1,4
2020	1,6	1,7	1,5	1,7	1,4	1,6
2021	1,5	1,5	1,6	1,8	1,6	1,8

Table 1

Source: ECB

### Another round of longer-term refinancing operations (TLTRO)

The central bank modified its forward guidance on interest rates. Whereas it previously said that key rates would not be raised before summer 2019, it is now saying they will remain unchanged for the rest of the year.

Among the expected announcements, at the top of the list were targeted longer-term refinancing operations (TLTRO) with eurozone banks. The ECB president confirmed the launch of *TLTRO-III*. With a maturity of 2 years each, these refinancing operations will start in September 2019 and end in March 2021. Rates will be indexed to the main refi rate which is now zero. The central bank left open the possibility of raising key rates starting in 2020 (including the rate on the deposit facility).

These longer-term refinancing operations have two main objectives: 1) to prevent a negative liquidity squeeze, especially with regard to bank ratios, and 2) to support the transmission of monetary policy via the stimulation of private sector lending.

The stimulus of domestic demand should help offset a less buoyant international environment.

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