7 July 2016

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

held in Vienna

on Wednesday and Thursday, 1-2 June 2016

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Mario Draghi

President of the European Central Bank

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

Financial market developments

Mr Cœuré reviewed financial market developments since the Governing Council's previous monetary policy meeting on 20-21 April 2016. Euro area markets had, overall, been rather calm, while global financial markets had focused their attention on several specific risk events.

In the United States, market expectations of a rate hike by the Federal Open Market Committee (FOMC) had firmed since the Governing Council's April monetary policy meeting. A 25 basis point rate hike was fully priced in by the end of the year. US Treasury yields had remained relatively stable at the long end of the curve, while the nominal effective exchange rate of the US dollar had strengthened. US equity markets had continued to perform well, with the S&P 500 trading slightly below its all-time high.

The Bank of Japan had kept its monetary policy stance unchanged at its meeting on 27-28 April 2016. With financial markets having expected a rate cut into more negative territory, the Japanese yen had appreciated temporarily, by 5%, against the US dollar in the week following the Bank of Japan's decision. Against the US currency, the yen was currently back to around its level before the Bank of Japan's meeting and its nominal effective exchange rate was similar to the level seen at the time of the Governing Council's April meeting.

The Chinese renminbi had continued to depreciate against the US dollar, having fallen by around 2% since the Governing Council's April monetary policy meeting. The Chinese authorities had outlined a new plan to open the onshore interbank bond market to foreign investors. According to market estimates, the Chinese bond market could attract as much as USD 155 billion in capital inflows from funds passively tracking global bond indices should Chinese bonds be included in these indices.

Brent crude oil prices had risen markedly, to levels around USD 50 per barrel, since the April meeting. However, recent increases in oil prices had so far had no significant impact on market-based inflation expectations for the euro area.

Concerns over a possible leave vote in the forthcoming UK referendum had abated somewhat until the day before the current meeting. Currency option markets had reflected some reduction in uncertainty through declining implied volatilities.

Euro area bond markets had seen strong issuance of investment grade corporate debt over the previous month. Cumulative gross issuance of Eurosystem eligible debt from January until May 2016 was, compared with the corresponding period in the previous two years, higher than in 2014 but lower than in 2015, when the public sector purchase programme (PSPP) had been seen as fostering asset reallocation from sovereign and agency bonds into corporate credit. The difference compared with 2015 also reflected the fact that, in 2016, the period between February and April had seen somewhat muted issuance activity because of domestic and global uncertainties leading to a "risk-off" mode in the markets. Another notable trend was a substantial

lengthening of duration in the supply of government bonds, reflecting, on the demand side, not only search-for-yield considerations but also technical factors related to portfolio hedging.

Euro area monetary policy expectations had been very stable since the Governing Council's monetary policy meeting in March. Money market forward rates had continued to price in a likelihood of around 60% for a 10 basis point cut by early 2017. Meanwhile, market attention had shifted to expectations regarding the potential demand in the upcoming second series of targeted longer-term refinancing operations (TLTRO II), the first of which would be conducted on 22 June.

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

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

Global growth remained subdued. The global composite output Purchasing Managers' Index (PMI) had edged up slightly to 51.6 in April, from 51.5 in March, mainly driven by the services component, while the indicator remained below its long-term average. At the same time, incoming trade data had been weak, mainly driven by developments in emerging market economies. The volume of world imports of goods had decreased by 1.8%, quarter on quarter, in the first quarter of 2016, following an increase of 1.3% in the fourth quarter of 2015. While trade growth remained marginally positive among advanced economies, momentum had fallen markedly in emerging market economies, notably those in Asia.

Global inflation remained low in March. For the OECD area, annual consumer price inflation had declined to 0.8%, down from 1.0% in February, although excluding food and energy, inflation remained unchanged in March, at 1.9%. Since the Governing Council meeting on 20-21 April, Brent crude oil prices had increased markedly to levels of around USD 50 per barrel. Over the same period, non-oil commodity prices had increased by 1.8% in US dollar terms, while the euro had remained broadly unchanged in nominal effective terms vis-à-vis the currencies of 38 of the euro area's major trading partners.

Turning to the euro area, according to Eurostat's flash estimate real GDP had risen by 0.5%, quarter on quarter, in the first quarter of 2016, exceeding expectations. Private consumption and stronger investment growth had been the main drivers, supported by the ECB's accommodative monetary policy stance, improving labour markets and still low oil prices. The most recent incoming data had been mixed. While industrial production and construction had continued to decline on a month-on-month basis in March, by 0.8% and 0.9% respectively, survey-based indicators up to May, such as the European Commission's Economic Sentiment Indicator (ESI) and the composite output PMI, were more positive.

Labour income, the largest and most stable component of gross disposable income, had been supporting consumption since the onset of the recovery. Private consumption growth was expected to remain robust in the short term, supported by still low oil prices. In 2015 as a whole, growth in durable goods consumption had risen to rates not seen since 2006. This, in part, reflected pent-up demand generated during the crisis, particularly among the more stressed countries.

Housing construction was recovering on the back of increasing demand. Strengthened confidence in the sector pointed to a continuation of strong growth in residential investment over the coming quarters. The developments observed in building permits granted confirmed this outlook.

While the gross indebtedness of non-financial corporations (NFCs) in relation to their gross operating surplus had remained at a relatively high level, firms had increased their retained earnings and improved their access to external financing. At the same time, corporate debt-to-equity ratios had declined strongly since early 2009, driven by the sharp increase in equity prices and the weak growth in debt in recent years. In addition, NFCs' net interest payments had declined from 9% to 2% of gross operating surplus between the end of 2008 and the fourth quarter of 2015.

The weakening in euro area exports in 2015 had been less pronounced than could have been expected on the basis of developments in foreign demand, reflecting gains in euro area market shares that benefited mainly from the past depreciation of the euro.

Looking ahead, the June 2016 Eurosystem staff macroeconomic projections for the euro area saw real GDP growing by 1.6% in 2016 and by 1.7% in both 2017 and 2018, broadly in line with recent forecasts from other international institutions and the private sector, including the OECD forecasts for the euro area, which had just been released. Compared with the March 2016 ECB staff projections, the growth outlook had been revised upwards for 2016 and had remained broadly unchanged for 2017 and 2018.

Turning to price developments in the euro area, according to Eurostat's flash estimate annual HICP inflation had remained negative in May, at -0.1%, slightly up from its April level of -0.2%, mainly reflecting higher energy and services price inflation. Annual HICP inflation excluding food and energy had risen to 0.8% in May, up from 0.7% in April, although most measures of underlying inflation did not show a clear sign of an upward trend.

Producer prices for domestic sales had not changed significantly. While past rises in import prices for non-energy goods and a slight improvement in economic conditions should, in the meantime, have exerted upward pressure on producer prices, available data suggested that these factors could have been countered by lower commodity prices and subdued wage growth. It appeared that producers were content to maintain prices at their current levels, possibly facilitating some recovery in profit margins if, on balance, input costs had declined. Survey data also pointed to continued subdued price pressures.

According to the June Eurosystem staff projections, HICP inflation was expected to rebound from 0.2% in 2016 to 1.3% in 2017 and 1.6% in 2018, broadly in line with recent forecasts from other international institutions and the private sector, including the OECD forecasts for the euro area, which had just been released. In comparison with the March 2016 ECB staff projections, the outlook for HICP inflation had been revised slightly upwards for 2016, reflecting recent oil price increases, and had remained unchanged for 2017 and 2018.

Looking at recent developments in long-term inflation expectations, market-based measures had increased slightly across horizons since the Governing Council's April monetary policy meeting, but had remained at low levels. At the same time, deflation fears remained contained and visibly below the early-2015 peak.

As regards financial and monetary conditions, the EONIA forward yield curve – which had been almost unchanged from just before the 20-21 April meeting of the Governing Council – remained significantly below the levels observed just before the Governing Council's December 2015 and January 2016 monetary policy meetings. In addition, bank lending rates for NFCs had remained broadly unchanged in March, at 2.0%, close to their historic low. At the same time, the lending rates for households for house purchase had decreased further, to stand at 2.1% in March.

Turning to money and credit, annual growth in M3 had remained robust at 4.6% in April, after 5.0% in March and 4.9% in February. M1 had remained the only positive contributor to growth in M3, with an annual growth rate of 9.7% in April, after 10.1% in March and 10.3% in February. Euro area loan growth had continued to recover gradually. The annual growth rate of loans to NFCs (adjusted for sales and securitisation) had been 1.2% in April, up from 1.1% in March 2016. The annual growth rate of loans to households had remained broadly unchanged in March and April, at around 1.5%.

According to the latest Survey on the Access to Finance of Enterprises (SAFE), conducted from 10 March to 21 April 2016, for the third consecutive time since early 2015 small and medium-sized enterprises (SMEs) had signalled an improvement in the availability of external sources of finance and in the willingness of banks to provide credit at lower interest rates. However, cross-country differences were still sizeable.

Recent developments in price-to-book ratios of euro area companies pointed to a marginal decline since the 20-21 April Governing Council meeting. In the case of euro area banks, those ratios had remained relatively low compared with NFCs and insurance companies. The underperformance of banks could relate to the perceived need for the banking sector to consolidate and to concerns over non-performing loans. At the same time, the ECB's monetary policy measures were expected to support funding conditions for banks while also strengthening their profitability through higher demand for loans.

With regard to fiscal policies, the euro area fiscal stance, as measured by the change in the cyclically adjusted primary balance, was expected to be mildly expansionary in 2016 and turn broadly neutral in 2017 and 2018.

Monetary policy considerations and policy options

Summing up, Mr Praet recalled that the June 2016 Eurosystem staff projections were broadly in line with the March ECB staff projections. They confirmed the moderate, but steady, recovery that had been embedded therein and that the additional March policy package had been instrumental in avoiding a severe deterioration in financial conditions after the turbulences around the end of 2015 and in supporting the economic recovery.

At the same time, the June Eurosystem staff projections confirmed the persistence of weak underlying price pressures. The outlook for HICP inflation had been revised up slightly for 2016, on the back of higher oil prices, but was unchanged for 2017 and 2018. Staff also saw HICP excluding food and energy somewhat lower over the projection horizon. The protracted period of very low inflation thus remained a matter of continued concern.

Looking ahead, some upside potential, beyond what was already embedded in the staff projections, could be expected from the implementation of the new series of TLTROs and the corporate sector purchase

programme (CSPP). In particular, TLTRO II could further ease the borrowing costs of the private sector and provide an additional impulse to credit creation. Overall, it would tilt the balance of risks surrounding the staff baseline projections to a more balanced configuration than was the case for the March exercise.

Cross-checking the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need to preserve an appropriate degree of monetary accommodation in order to secure a return of inflation rates towards levels below, but close to, 2% without undue delay.

Against this background, it was key to continue focusing on the full implementation of the measures decided.

As regards communication, it was important for the Governing Council to reiterate its forward guidance on the future path of its policy rates and on its monthly asset purchases, with the same formulations that had been used earlier in March and April 2016.

It also needed to be stressed that additional stimulus, beyond the impetus already taken into account, was expected from the monetary policy measures still to be implemented, which would contribute to rebalancing further the risks to the outlook for growth and inflation. Likewise, it needed to be reiterated that it was crucial to ensure that the very low inflation environment did not become entrenched in second-round effects on wage and price setting. Accordingly, the Governing Council would state again that it would closely monitor the evolution of the outlook for price stability and, if warranted to achieve its objective, act by using all the instruments available within its mandate.

Finally, it was appropriate that the Governing Council should continue to stress that, in order to reap the full benefit from its monetary policy measures, other policy areas had to contribute much more decisively, both at the national and at the European levels.

2. Governing Council's discussion and monetary policy decisions

Economic and monetary analyses

With regard to the economic analysis, members broadly agreed with the assessment of the outlook and risks for economic activity in the euro area provided by Mr Praet in his introduction. The recovery of the euro area economy was expected to continue, led by domestic demand and supported by the pass-through of the ECB's monetary policy measures, as well as by still relatively low oil prices and a slightly expansionary fiscal stance in 2016. In particular, investment continued to be supported by favourable financing conditions together with improving corporate profitability, while consumption was supported by higher real household disposable income, related to sustained employment gains and low oil prices. Growth prospects were seen to be still dampened by headwinds stemming from the external environment, as well as by balance sheet adjustments in the non-financial and financial sectors. This assessment had also been reflected in the outlook for growth in the June 2016 Eurosystem staff projections, which broadly confirmed the outlook embedded in the March ECB staff projections. As regards the risk assessment, additional stimulus, beyond the impetus already taken into account, could be expected from the monetary policy measures still to be implemented, while a number of

uncertainties persisted. On balance, the risks to the growth outlook were considered to remain tilted to the downside, but the balance of risks had improved.

Considering the arguments in more detail, members discussed the outlook and risks for the external environment. It was noted that, in the latest Eurosystem staff projections, the prospects for both global growth and global trade throughout the projection horizon had been revised downwards compared with the March 2016 ECB staff projections. Attention was drawn to the fact that this marked the continuation of a long sequence of downward revisions to the external outlook. It was also observed that global trade was again expected to grow less than global activity in 2016, as in 2015, and that in the past a rate of growth of global trade below that of global activity had been a precursor to a downturn in global economic activity. At the same time, it was highlighted that there were important composition effects behind the weaker developments in trade growth observed since the financial crisis. In particular, it was underlined that stronger growth in emerging market economies relative to advanced economies in recent years was an important factor accounting for the lower trade elasticity seen since the crisis, as the trade openness of emerging market economies was lower than that of advanced economies.

As regards developments in advanced economies, the increased prospects of an interest rate hike in the United States were seen as a positive signal for the global economy. If, on the basis of incoming data, the FOMC were to raise interest rates at one of its forthcoming meetings, this would suggest that the US economy was experiencing a stronger recovery, which in turn could be expected to have a positive effect on "animal spirits" and confidence globally.

Members also exchanged views on the possible impact on the euro area of the upcoming June UK referendum on its membership of the European Union. There was general agreement that this was an important source of uncertainty as regards the economic outlook, and in the event that the United Kingdom voted to leave, i.e. a "Brexit", there could be significant, although difficult to anticipate, negative spillovers to the euro area via a number of channels, including trade and the financial markets. At the same time, it was noted that there might also be an upside risk to the euro area outlook if the United Kingdom voted to remain part of the European Union.

Turning to the euro area, members concurred with the view that the economic recovery was broadly proceeding as expected, at a steady pace, driven mainly by domestic demand, also as a result of the monetary policy measures that had been taken. As a consequence, the output gap was closing, albeit only gradually, as was to be expected after a balance sheet recession. The latest incoming information provided confirmation of a moderately improving economic situation and of the recovery becoming more robust. Notably, the outcome for real GDP growth in the first quarter of the year had been better than generally expected. In particular, the pick-up in euro area investment, mainly driven by non-construction investment, was considered to be an encouraging development. Likewise, recent indications of stronger construction investment, after a prolonged period of weak construction activity since 2008, were seen as a positive sign. Reference was also made to some recent improvements in economic sentiment and to increasing growth in consumer durables, supported by real income growth, even though stronger oil prices recently, if sustained, could be expected to moderate the recovery in output growth, owing to their adverse impact on disposable

income. Financial market conditions remained supportive overall. Employment figures had also recently recorded further improvements.

Altogether, the Governing Council considered that the risks to the euro area growth outlook remained tilted to the downside. Some important downward risks were still looming, relating, in particular, to developments in the global economy, the outcome of the forthcoming UK referendum and other geopolitical risks. At the same time, there was broad agreement that the balance of risks to the euro area growth outlook had improved on the back of monetary policy measures taken and the stimulus still in the pipeline.

Members again emphasised strongly the need for other policy areas to contribute much more decisively, both at the national and the European levels, in order to reap the full benefits from the ECB's monetary policy measures. Structural policies were considered essential, given the continued high structural unemployment and low potential growth in the euro area. In particular, members judged that actions to raise productivity and improve the business environment, including the provision of an adequate public infrastructure, were vital to increase investment and boost job creation. Although specific reform needs differed across countries, the swift and effective implementation of structural reforms, in line with the country-specific recommendations recently published by the European Commission, would lead to higher sustainable economic growth in the euro area and make the euro area more resilient to global shocks. It was emphasised that, with the economic situation improving and demand increasing, it was an opportune time to strengthen investment in the public and private sectors. The enhancement of the current investment initiatives, including the extension of the Juncker plan, and the importance of making progress with the capital markets union were both mentioned. The role of the euro area banking sector was also considered critical. In particular, dealing with non-performing loans was seen as an important contribution to strengthening the euro area economic recovery.

Turning to fiscal policies, members highlighted the need for full and consistent implementation of the rules of the Stability and Growth Pact, both over time and across countries, in order to maintain confidence in the fiscal framework. At the same time, fiscal policies should also support the economic recovery. It was recalled that all countries should strive for a more growth-friendly composition of fiscal policies and that fiscal space should be used where appropriate.

With regard to price developments, there was broad agreement with the assessment of the outlook and risks presented by Mr Praet in his introduction. HICP inflation developments continued to be subdued. Looking ahead, on the basis of current oil futures prices, headline inflation was expected to remain very low or in negative territory for the next few months, before picking up in the second half of the year largely as a result of the upward impact of base effects in the annual rate of change of energy prices. Inflation was expected to pick up further in 2017 and 2018 in line with the projected economic recovery and supported by the ECB's monetary policy measures. This assessment was broadly reflected in the June 2016 Eurosystem staff projections, where the inflation outlook had been revised up slightly for 2016 compared with the March ECB staff projections, reflecting recent oil price increases. For 2017 and 2018, upward revisions of the energy and food components had been broadly offset by downward revisions in the HICP excluding food and energy.

A number of comments were made regarding expected developments in headline inflation. It was noted that, in the projections, a significant increase in overall HICP inflation, from 0.2% to 1.3%, was expected between

2016 and 2017. The increase in inflation largely reflected the path of energy prices. It was suggested that oil prices might rise even more than assumed in the projection baseline, as it could be argued that the impact of changes in the supply of oil would take some time to be reflected in oil prices. At the same time, it was recognised that the factors affecting the production of oil included some temporary supply disruptions, which could imply that there might also be some downside risks to oil prices.

With regard to recent developments in underlying measures of inflation, while there had been some increase in the annual rate of HICP inflation excluding food and energy in May, it remained at quite a low level and disappointed expectations of a somewhat stronger increase. So far, most measures of underlying inflation had yet to show clear signs of an upward trend, and members agreed that there was a need to analyse further the recent fall in core inflation rates. In this context, it was noted that there had been a significant downward impact on the services component of inflation in recent months owing to statistical changes in the measurement of rental prices in one large euro area economy. However, overall, inflationary pressures continued to be weak, also reflecting the amount of slack remaining in the economy.

Members also discussed recent developments in and the outlook for nominal wage growth, which remained at low levels and was expected to pick up only modestly, to just over 2% in 2018 for the euro area as a whole, according to the June 2016 Eurosystem staff projections. One element which warranted further analysis was the extent to which labour market reforms might have reduced the level of structural unemployment in the euro area. Structural reforms should have had a downward impact on the non-accelerating inflation rate of unemployment (NAIRU) but it was difficult to quantify the impact. As the reforms were relatively recent, their effects might not yet be fully reflected in various NAIRU estimates. On the other hand, if the actual rate of unemployment were to fall below the NAIRU over the course of the projection horizon, there could be an upside risk to nominal wage growth. Another possible reason mentioned for low nominal wage growth was related to persistently low inflation expectations, with risks of second-round effects emerging. More generally, it was suggested that output gap measures were performing better than labour market measures as an indication of inflation.

Members exchanged views on the latest developments in inflation expectations. Market-based inflation expectations for the euro area had remained low, but the slight increase since the Governing Council's April monetary policy meeting was noted, with the five-year forward inflation-linked swap rate five years ahead currently standing just below 1.5%. However, the decoupling of inflation expectations from oil price developments and the fact that market-based inflation expectations had not picked up from their low levels despite the increase in oil prices remained a matter of concern. At the same time, it could be argued that the projected pick-up in headline inflation would help to avoid second-round effects. Moreover, doubts were again expressed about relying too much on market-based measures of inflation expectations, which had deviated strongly from survey-based measures.

Overall, there was broad agreement that euro area inflation was expected to pick up, supported by the ECB's monetary policy measures and the expected recovery. While there remained some downside risks to inflation, given that inflation had been low for a protracted period of time, and it remained crucial to avoid second-round effects on wage and price setting, there were also some upside risks, with additional stimulus beyond that

already taken into account in the projections to be expected from the monetary policy measures still to be implemented. Moreover, the monetary policy measures taken into account in the projections could potentially have a stronger impact than assumed in the baseline. This would contribute to further rebalancing the risks to the outlook for growth and inflation. In any case, the Governing Council would continue to monitor closely the evolution of the outlook for price stability.

With regard to the monetary analysis, members concurred with the assessment presented by Mr Praet in his introduction. Broad money (M3) had continued to grow at a robust pace in April 2016, which, as in previous months, was supported by growth in its most liquid components. Loan dynamics had followed the path of gradual recovery observed since the beginning of 2014, with the annual rates of change of loans to non-financial corporations and of loans to households (adjusted for loans sales and securitisation) both having remained broadly stable in April 2016.

The favourable impact of the ECB's measures was deemed to be clearly visible in the pass-through of policy rates to bank lending rates. This was also supported by a greater role played by competition among banks, in line with evidence from the bank lending survey, where risk perceptions and other factors had become less important compared with two years ago. As regards volumes, it was underlined that they had recovered gradually and continuously for more than two years and that loan growth had continued to edge higher, with lending to non-financial firms growing at an annualised rate of more than 2% for the latest three-month period.

At the same time, some concerns were expressed with regard to monetary transmission via quantities and bank balance sheets. A number of factors were weighing on the still relatively weak pick-up in credit volumes, which was assessed to continue to relate, overall, more to the demand side than to the supply side. Reference was made, in particular, to the low price-to-book ratios in the banking sector, which reflected market perceptions of a continued need to deal with non-performing loans across banks and countries, pressures on bank business models and profitability, as well as remaining regulatory uncertainty. In addition, notwithstanding the presence of subdued domestic loan demand, there appeared to be little appetite among banks to exploit opportunities for cross-border lending in the face of inadequate compensation for perceived credit risks. A call was made to address non-performing exposures comprehensively at all levels, also with a view to avoiding renewed fragmentation of the financial systems in the euro area. At the same time, it was underlined that the process of balance sheet repair was laborious and required careful management, also with regard to financial stability.

It was recalled that most enterprises in Europe, and particularly SMEs, relied on bank credit. Hence, the health of the banking system remained key for the effective transmission of monetary policy in the euro area. Comfort could be drawn from the results of the latest SAFE survey, which had recorded a further improvement in lending conditions, including for SMEs, and an increase in the perceived willingness of banks to lend. However, the use of borrowed funds by large and small firms needed to be better understood, as there seemed to be only a weak correlation with business investment. It was also noted that, in the wake of the financial crisis, a protracted period of balance sheet repair in the financial and non-financial sectors and subdued investment, coupled with sizeable cash holdings by large corporations, seemed to be a global phenomenon, with some of the funds used for the acquisition of shares.

Monetary policy stance and policy considerations

With regard to the monetary policy stance, members widely shared the assessment provided by Mr Praet in his introduction. Based on recent data and projections, the previous outlook for the euro area was broadly confirmed with regard to both activity and prices. The economic recovery was expected to proceed at a moderate but steady pace, underpinned by the comprehensive package of monetary policy decisions taken in early March 2016. At the same time, price pressures continued to be weak, with inflation rates likely to remain very low or negative in the next few months, before picking up in the second half of 2016. Going forward, some additional stimulus, beyond the impetus already taken into account, was expected from the monetary policy measures still to be implemented, which would contribute to further rebalancing the risks to the outlook for growth and inflation. At the same time, the Governing Council would continue to monitor closely the evolution of the outlook for price stability to ensure, in particular, that the very low inflation environment did not become entrenched in second-round effects on wage and price setting.

Broad agreement was expressed with the main monetary policy conclusions and the line of communication put forward by Mr Praet. These comprised an unchanged monetary policy, reiteration of the Governing Council's forward guidance and a continued focus on implementing the measures adopted and on the need to continue to monitor closely the outlook for price stability, affirming the Governing Council's readiness to act by using all the instruments available within its mandate, if warranted, to achieve the ECB's objective.

This assessment of the monetary policy stance and the line of communication reflected consideration of a number of key elements. First, the view was widely shared that the ECB's monetary policy measures were effective and that the focus should now be firmly on the implementation of the comprehensive new package adopted in March 2016, including the forthcoming launch of the CSPP on 8 June 2016 and the first operation under TLTRO II, which was set to start on 22 June 2016. The positive impact of the March decisions could already be observed in improved financial conditions across a number of markets, including for government and corporate bonds, which continued to translate into lower bank lending rates and strengthened credit creation.

Second, time was needed for the effects of all the measures to fully unfold on the euro area economy and to pass through to price developments, taking into account the likely effects in the pipeline of the measures still to be implemented and the transmission lags of monetary policy via intermediate variables to the ultimate objective. It was also reiterated that the size and nature of shocks affecting the economy had to be taken into account for the policy relevant time horizon.

Third, confidence was expressed that the effects of the monetary policy measures undertaken – including on rates, lending operations and outright asset purchases – were mutually reinforcing via a variety of channels. In particular, while financial prices were impacted by expectations about the future path of policy rates as well as by the extraction of term and credit premia, the injection of liquidity in the presence of negative rates on the deposit facility was further reinforcing the portfolio rebalancing effects.

Fourth, additional stimulus was expected from the measures still to be implemented, beyond the impetus already taken into account. Both TLTRO II and the CSPP were seen as important measures that could be

expected to impact the real economy directly. With regard to the series of TLTRO II operations, it was recalled that the earlier operations had been instrumental in turning around the credit cycle in the euro area and in reducing fragmentation, and that the new operations should also help to support lending and, ultimately, inflation expectations. It was underlined that both the gross and the net take-up would matter from a monetary policy perspective, as TLTRO II allowed banks to substitute more expensive shorter-term financing with cheaper long-term funds, over and above any net impact on excess liquidity, which also mattered in conjunction with the negative deposit rate. However, the actual take-up was not to be seen as the sole measure of success, as the TLTROs also contained an important "insurance" element to cater for uncertainty and adverse contingencies.

Fifth, as regards the asset purchase programme (APP), a continued smooth implementation could be observed overall, although a remark was made that markets appeared to foresee future challenges in sourcing sufficient volumes of public bonds for some jurisdictions under the present limits, which could contribute to increased price volatility. With respect to the composition of purchases under the APP and the associated portfolio balancing effects operating via close substitutes across markets, it was pointed out that, if assets were indeed close substitutes, it should not matter much which precise assets were being purchased under the APP, but rather the overall purchase volume and associated money creation. However, since many investors remained closely tied to specific market segments, the composition of purchases still mattered.

Monetary policy decisions and communication

Taking into account the foregoing discussion among the members, on a proposal from the President, 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 -0.40% respectively.

Regarding non-standard monetary policy measures, on 8 June 2016 the Eurosystem would start making purchases under the CSPP. Moreover, starting on 22 June 2016, it would conduct the first operation in its new series of targeted longer-term refinancing operations (TLTRO II). Further information on the implementation aspects of the CSPP would be released on the ECB's website after the press conference.

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

http://www.ecb.europa.eu/press/pressconf/2016/html/is160602.en.html

Press releases

http://www.ecb.europa.eu/press/pr/date/2016/html/pr160602.en.html

http://www.ecb.europa.eu/press/pr/date/2016/html/pr160602_1.en.html

Meeting of the ECB's Governing Council, 1-2 June 2016

Members

Mr Draghi, President

Mr Constâncio, Vice-President

Mr Bonnici

Mr Cœuré

Mr Costa

Ms Georghadji*

Mr Hansson

Mr Jazbec

Mr Knot

Mr Lane

Ms Lautenschläger

Mr Liikanen

Mr Linde

Mr Makúch

Mr Mersch

Mr Nowotny

Mr Praet

Mr Reinesch

Mr Rimšēvičs*

Mr Smets

Mr Stournaras

Mr Vasiliauskas*

Mr Villeroy de Galhau

Mr Visco*

Mr Weidmann

* Members not holding a voting right in June 2016 under Article 10.2 of the ESCB Statute.

Other attendees

Mr Teixeira, Secretary, Director General Secretariat

Mr Schill, Secretary for monetary policy, Director General Economics

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

Accompanying persons

Ms Buch

Ms Donnery

Mr Gaiotti

Mr Hakkarainen

Mr Hernández de Cos

Mr Ittner

Mr Kaasik

Mr Kuodis

Ms Le Lorier

Mr Mifsud

Mr Pattipeilohy

Mr Ramalho

Mr Rutkaste

Mr Schoder

Mr Stavrou

Mr Tavlas

Mr Tóth

Mr Tratnik

Mr Wunsch

Other ECB staff

Ms Graeff, Director General Communications

Mr Smets, Counsellor to the President

Mr Klöckers, Deputy Director General Economics

Mr Rostagno, Director Monetary Policy, DG Economics

Release of the next monetary policy account foreseen on Thursday, 18 August 2016.