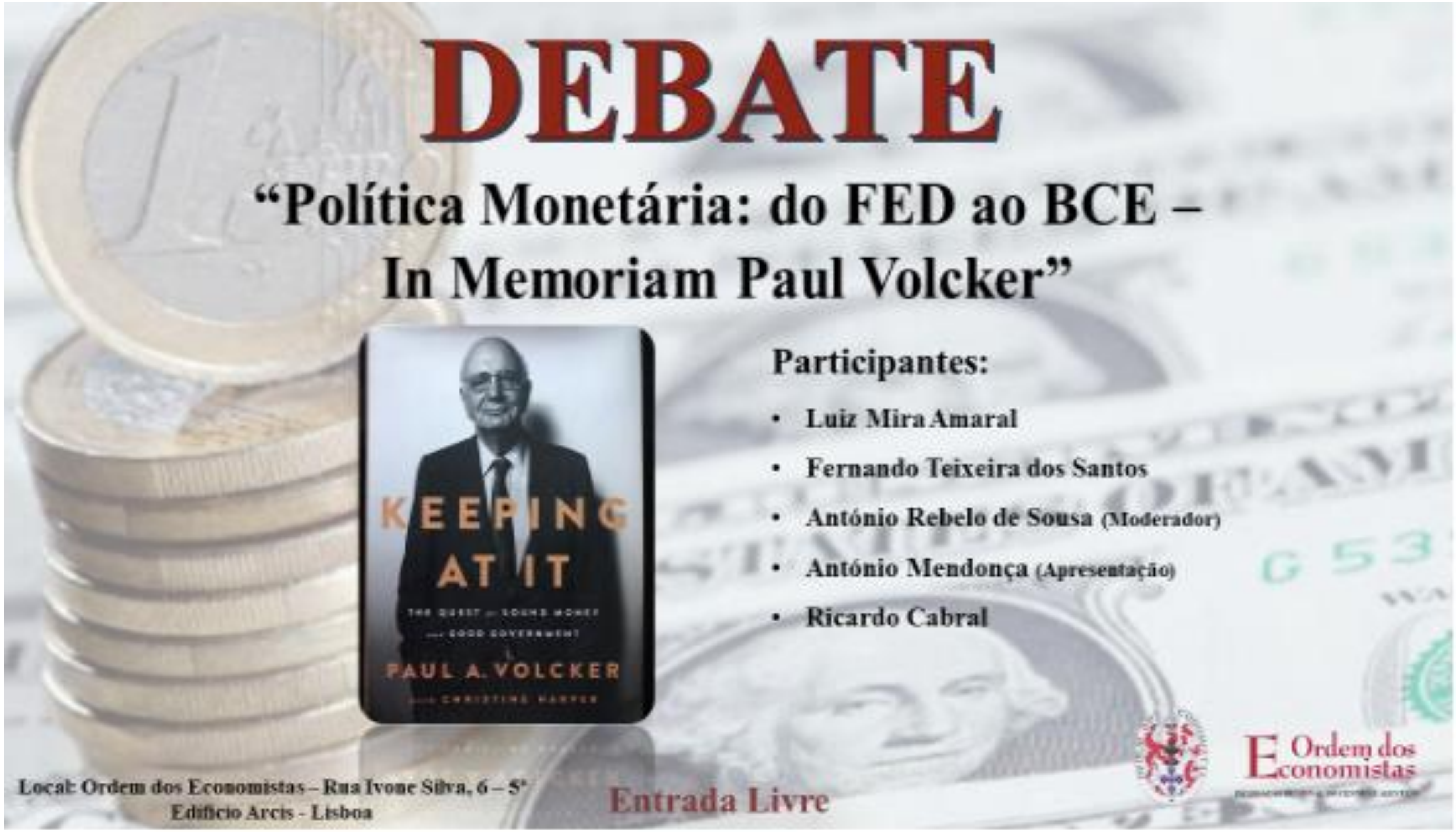
ORDEM DOS ECONOMISTAS



António Mendonça
Professor Catedrático
Presidente da DRCA da Ordem dos Economistas
amend@iseg.ulisboa.pt

BCE: DECISÕES DO CONSELHO DE GOVERNADORES (23/01/2020)

- Manutenção das taxas de juro (0,00%, 0,25%, -0,50%);
- Objetivo dos 2% para a taxa de inflação;
- Continuação do programa APP (compra líquida de ativos ao ritmo de 20 000 milhões/mês;
- Continuação do reinvestimento complete dos pagamentos das obrigações compradas ao abrigo do programa APP.
- *O Conselho de Governadores decidiu lançar um processo de revisão da estratégia de política monetária.*

  (até dezembro de 2020)

Since 2003 the euro area and the world economy have 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, have driven interest rates down, reducing the scope for the ECB and other central banks to ease monetary policy by conventional instruments in the face of adverse cyclical developments. In addition, addressing low inflation is different from the historical challenge of addressing high inflation. The threat to environmental sustainability, rapid digitalisation, globalisation and evolving financial structures have further transformed the environment in which monetary policy operates, including the dynamics of inflation.

- *Review will encompass quantitative formulation of price stability, monetary policy toolkit, economic and monetary analyses and communication practices;*
- *Other considerations, such as financial stability, employment and environmental sustainability, will also be part of review;*
- *Expected to be concluded by end of 2020;*
- *Review will be based on thorough analysis and open minds, engaging with all stakeholders:*

SPEECH

Hearing at the Committee on Economic and Monetary Affairs of the European Parliament

Introductory statement by Christine Lagarde, President of the ECB, at the ECON committee of the European Parliament

Brussels, 2 December 2019

In the euro area, support for the single currency has grown steadily in recent years, rising from a low of 62% in 2013 during the crisis to an all-time high of 76% today. Trust in the ECB has grown in that time as well – but its recovery after the crisis has been less dynamic.[1]

…

Euro area growth remains weak, with gross domestic product growing by only 0.2%, quarter on quarter, in the third quarter of 2019. This weakness has been mainly due to global factors.

The world economy outlook remains sluggish and uncertain. This lowers demand for euro area goods and services and also affects business sentiment and investment.

…

What can the ECB do in a weaker economic environment to fulfil its price stability mandate?

First of all, monetary policy can respond effectively even when growth is being dampened by external factors. And it can do so by ensuring favourable financing conditions for all sectors of the economy and providing visibility on those conditions into the future.

The ECB's negative policy rates and forward guidance on their likely future path influence short to medium-term interest rates, which are used by banks to price loans to firms. In parallel, the net purchase of bonds eases medium- to long-term yields, which provide the benchmark for long-term loans to households. The more attractive conditions on the TLTROs help keep bank credit flowing to customers on affordable terms.

But you have also asked me to discuss more structural issues facing monetary policy, in particular the review of the ECB's monetary policy strategy, which will start in the near future.

Such strategic reviews are relatively common for central banks, although their scope and aims often vary.

The US Federal Reserve is currently undertaking such a review; the Bank of Canada has one every five years. In the ECB's case, the last strategy review was completed in 2003. A lot has changed in the last 16 years.

The macroeconomic landscape has been marked by the Great Financial Crisis and the sovereign debt crisis, and more recently by a low inflation environment. At the same time, new challenges have emerged such as demographics, disruptive technology and climate change. Conventional wisdom has been challenged and monetary policy globally has explored unchartered territories.

This calls for us to review our strategy and to consider how our monetary policy can best deliver on our mandate.

Monetary policy decisions

12 September 2019

Monetary policy decisions

12 September 2019

At today's meeting the Governing Council of the ECB took the following monetary policy decisions:

(1) The interest rate on the deposit facility will be decreased by 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility will remain unchanged at their current levels of 0.00% and 0.25% respectively. The Governing Council now expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

(2) Net purchases will be restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

(3) Reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date when the Governing Council starts 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.

(4) The modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) will be changed to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. The interest rate in each operation will now be set at the level of the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The maturity of the operations will be extended from two to three years.

(5) In order to support the bank-based transmission of monetary policy, a two-tier system for reserve remuneration will be introduced, in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate.

Donald J. Trump
@realDonaldTrump

European Central Bank, acting quickly, Cuts Rates 10 Basis Points. They are trying, and succeeding, in depreciating the Euro against the VERY strong Dollar, hurting U.S. exports.... And the Fed sits, and sits, and sits. They get paid to borrow money, while we are paying interest!

30.9K 1:13 PM - Sep 12, 2019

14.5K people are talking about this

Yes Mr President, you will forgive me if I read you a tweet. It's from Donald Trump.

President Draghi: Yes, yes I've seen it.

Yes, some minutes ago he tweeted like "European Central Bank acting quickly cuts rates ten basis points. They are trying and succeeded in depreciating the euro against the VERY strong dollar." It's all capital letters. "Hurting US exports and the Fed sits and sits and sits. They get paid to borrow money while we are paying interest." So I would like you maybe to comment on this and second you know that in Germany there is a very strong discussion about banks and negative rates on deposits and their intention to transfer these negative rates on retail clients, I wanted to know if you have an opinion on this.

President Draghi: Thank you, now the first question I in a sense answered to the first question on the occasion of the first tweeter and the answer is very simple. We have a mandate, we pursue price stability and we don't target exchange rates, period. On negative rates I think today, I have said several times negative rates have been actually a very positive experience in terms of stimulating growth, sustaining inflation but it's quite clear, and I did say this several times, that they have side effects and they have negative side effects and it's not so much that we want to protect bank profits, that's not, certainly not our mandate but it's that we want to protect the smooth transmission of the lending channel. We should never forget that the European economy is a bank-based economy, that lending goes through banks and we want to protect the transmission of monetary policy through the lending channels. I think that's the, shall we say the philosophy behind the tiering measures, the mitigating measures that we have discussed and approved today.

The question, my first question would be about the dynamic in the room because going into the meeting we've seen quite a vocal opposition, especially to the restarting of the QE, so probably me and the others here would like to know how much support each of the instruments that were eventually adopted got and whether, how much support was there for it? My second question is specifically about your Asset Purchase Programme (APP) because it's effectively a programme that's open-ended, it starts from November which basically means you will end up buying bonds or assets for months or years, the question is do you have the space to do it, have you considered changing limits or adding other assets to the programme? Thank you.

And let me now move to the other point, your first question was about the chemistry of the meeting. First of all let me start from one thing about which there was unanimous consensus, unanimity, namely that fiscal policy should become the main instrument it's quite clear that in order to raise demand in an effective… you've seen the language of the Introductory Statement after many years I think of being more or less the same about fiscal policy that has changed and I think there was complete agreement about that. And if you see also if you compare what's happening now that jurisdictions where inflation rates are higher and you look at monetary policies that are broadly comparable in terms of easing capacity, you see that fiscal policy did play in these jurisdictions a much more active role than it played here and I'm talking now not only about this year, last year, I'm talking about the last six, seven years. Almost all the things that you see in Europe, the creation of more than 11 million jobs over a short period of time, the recovery, the sustained growth for several quarters were by and large produced by our monetary policy. There was very little else, of course there were structural reforms in some countries, in some countries. So now it's high time I think for the fiscal policy to take charge. Second, there was a broad agreement on the parts concerning forward guidance and the rate cut and the reinvestments and the TLTRO. So you can see that that part was by and large agreed. And then there was of course more diversity of views as it was vastly pre-announced by statements on all newspapers, wires, television and so on, there was more diversity of views on APP, but then in the end the consensus was so broad, there was no need to take a vote.

Fed: decisões de política monetária

https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

FEDERAL RESERVE press release

For release at 2 p.m. EDT June 19, 2019

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes, but uncertainties about this outlook have increased. In light of these uncertainties and muted inflation pressures, the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.

FEDERAL RESERVE press release

For release at 2 p.m. EDT

July 31, 2019

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.

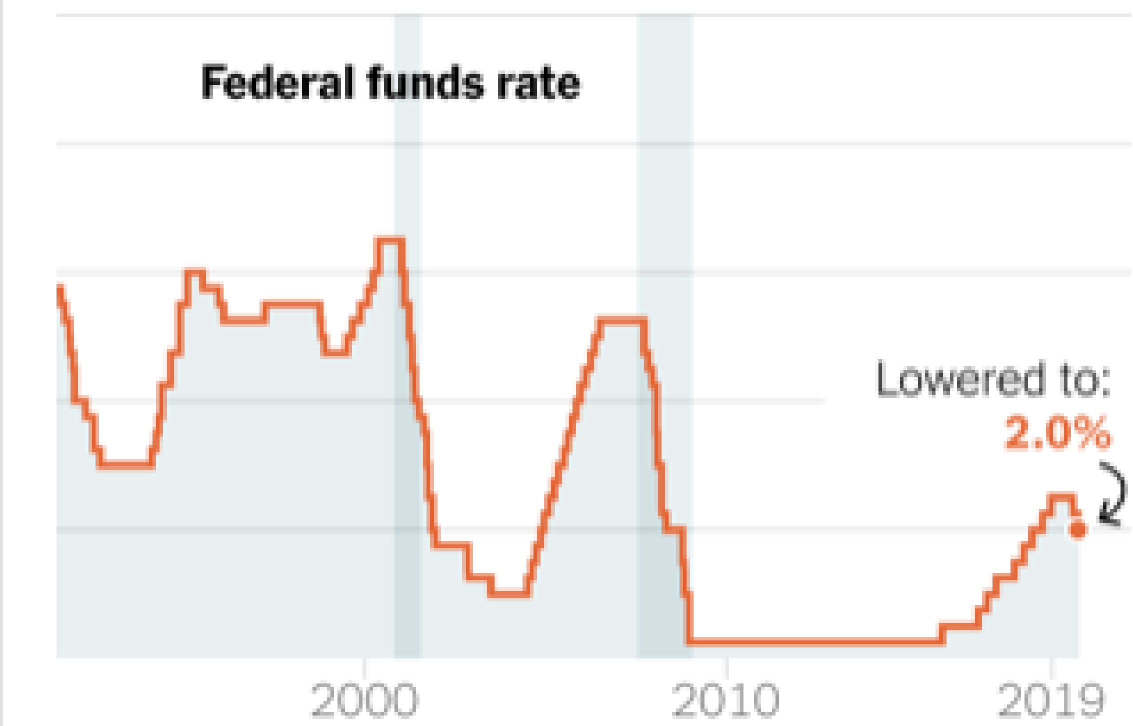
September 18, 2019

Federal Reserve issues FOMC statement

Information received since the Federal Open Market Committee met in July indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports have weakened. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1-3/4 to 2 percent. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.

Voting for the monetary policy action were Jerome H. Powell, Chair, John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Charles L. Evans; and Randal K. Quarles. Voting against the action were James Bullard, who preferred at this meeting to lower the target range for the federal funds rate to 1-1/2 to 1-3/4 percent; and Esther L. George and Eric S. Rosengren, who preferred to maintain the target range at 2 percent to 2-1/4 percent.

The New York Times



Why the Fed Lowered Interest Rates Again

The Federal Reserve lowered interest rates as it tries to guard the United States economy against trade-related uncertainty and slowing global growth.

1h ago

Wednesday, September 18, 2019

Donald J. Trump
@realDonaldTrump

Jay Powell and the Federal Reserve Fail Again. No “guts,” no sense, no vision! A terrible communicator!

20K   7:25 PM - Sep 18, 2019

11.7K people are talking about this

Monetary policy decisions

24 October 2019

At today's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

As decided at the last Governing Council meeting in September, net purchases will be restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

The Governing Council intends 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 starts 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 President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:30 CET today.

1/11/2011 - 31/10/2019

1/11/2019 - .....

26 de julho de 2012 "Pronto para fazer o que for preciso"
Numa conferência financeira em Londres, quando as taxas de juro da dívida dos países periféricos continuavam a bater recordes, Draghi profere as frases que marcariam o seu mandato para sempre: "Dentro do nosso mandato, o BCE está pronto para fazer o que for preciso para preservar o euro. E, acreditem em mim, isso será o suficiente." Passou a ser visto como o "salvador do euro".

16 de março de 2016 Novo mínimo da taxa diretora entra em vigor
BCE desce a taxa de juro diretora para 0%, um mínimo histórico que ainda se mantém.

31 de dezembro de 2018 Fim do primeiro QE
Termina o programa de compra de ativos com um saldo de €2,65 biliões no balanço — dos quais €2,1 biliões em dívida pública e títulos de entidades plurinacionais. O programa adquiriu €36,8 mil milhões em obrigações portuguesas.

1 de novembro de 2019 Reinício da compra de ativos

- O BCE volta à compra de ativos num montante mensal de 20 mil milhões de euros.

what advice are you giving to Christine Lagarde – that you can tell us about anyway?

Well, the second question I'll answer immediately: no advice is needed. She knows perfectly well what she has to do. By the way, she has a long period of time ahead during which she will have to form her own view, together with the Governing Council, about what to do. But I'll stop here, really, because this question is going to pop up again and again; how do you judge the past? If nobody is asking this question, I'll come back to you later.

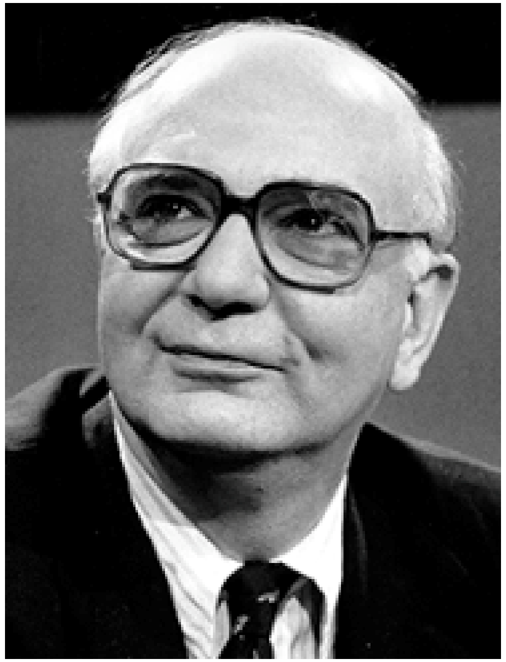
FEDERAL RESERVE press release

For release at 2 p.m. EDT October 30, 2019

Information received since the Federal Open Market Committee met in September indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1-1/2 to 1-3/4 percent. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. The Committee will continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2 percent inflation objective. This



© Associated Press

Paul A. Volcker

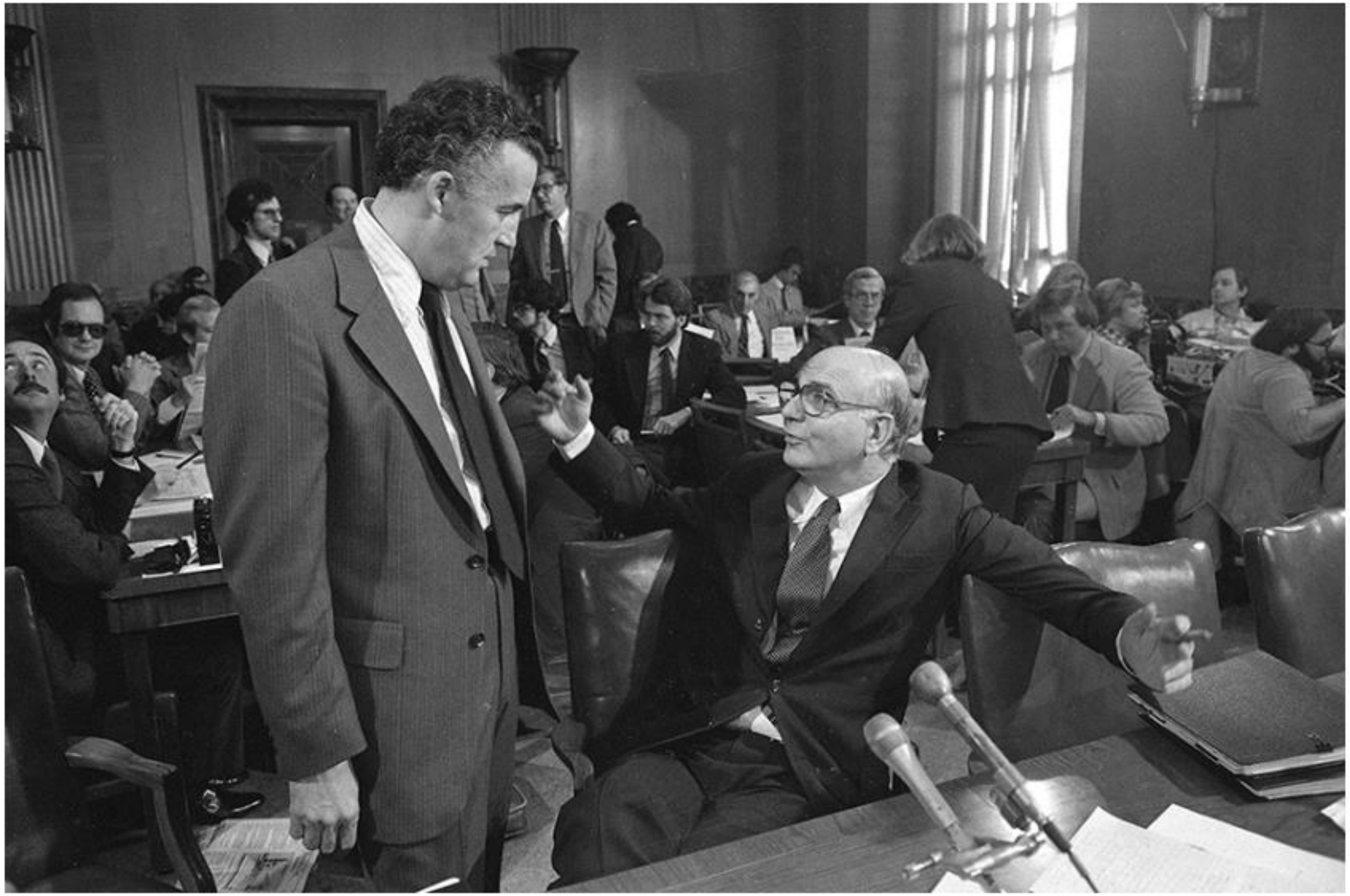
- Chairman, Board of Governors, 1979–1987
- President, FRB New York, 1975–1979
- Born: September 5, 1927
- Died: December 8, 2019

Measures

https://www.federalreservehistory.org/essays/anti_inflation_measures

October 1979

In October 1979, Fed Chairman Paul Volcker announced new measures by the Federal Open Market Committee aimed at reining in the inflation that had afflicted the US economy for several years.



Paul Volcker prior to appearing on the Senate Banking Committee Panel in 1979 (Photo: Associated Press; Photographer: Charles W. Harrity)

!978: Full Employment and balanced Growth Act (Humphrey – Hawkins Act)

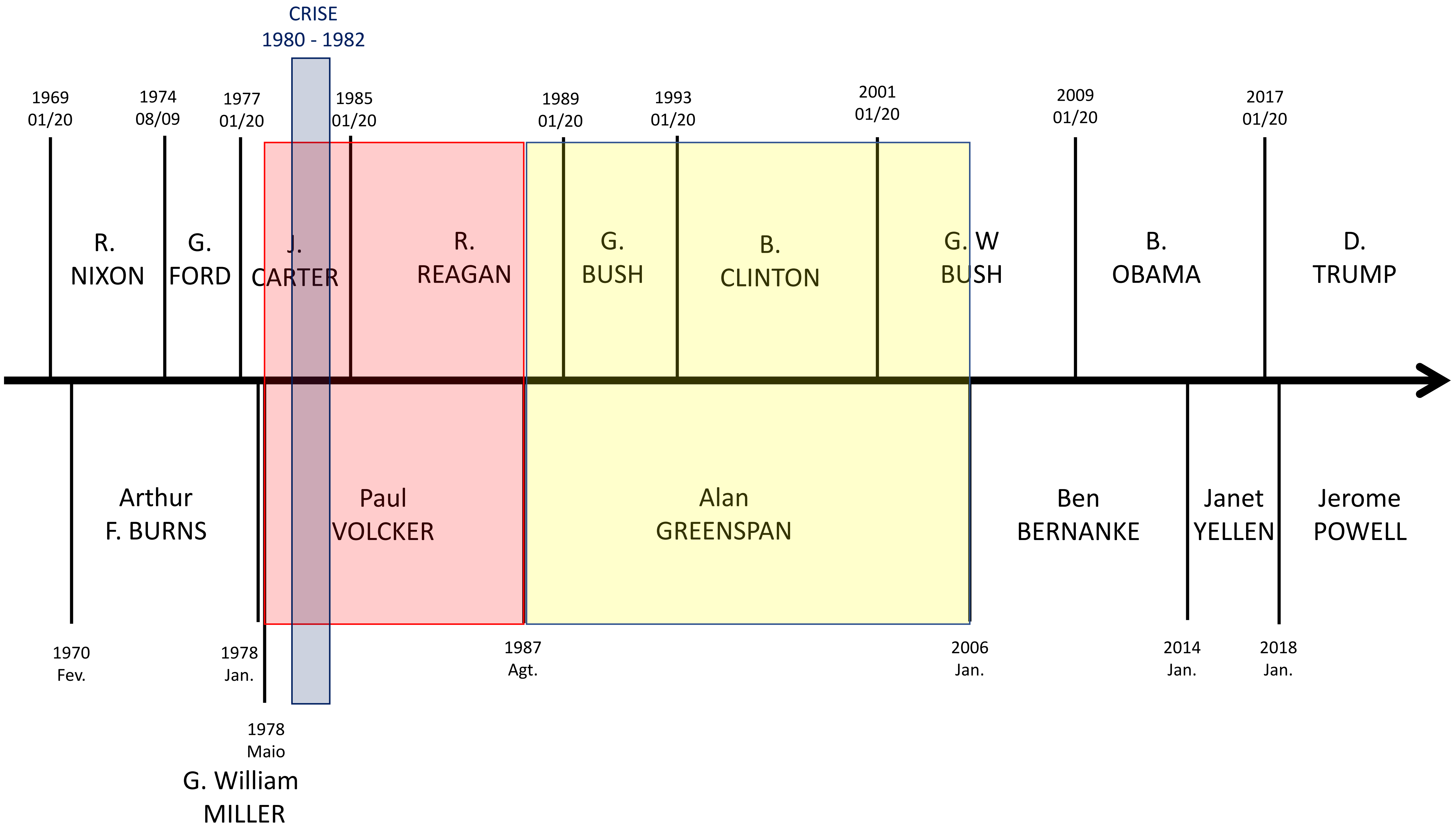
- Relatórios bi-anuais ao Congresso sobre Política Monetária
- Secundarização do objetivo do pleno – emprego

Quadro geral:

- Fim de Bretton Woods (ligação do dólar ao ouro)
- Inflação alta (13 – 14%)
- Revolução iraniana (Komeiny)
- Perda e valor do dólar
- Défices orçamentais

Medidas:

- Independência do Fed
- Ataque à inflação (torna-se o objetivo primordial)
- Introdução do conceito “estabilidade dos preços”, que passa a ser responsabilidade do banco central
- Controle da quantidade de moeda (através da gestão das reservas)
- Políticas monetárias restritivas
- Subida das taxas de juro


CRISE
1980 - 1982
1969
01/20
1974
08/09
1977
01/20
1985
01/20
1989
01/20
1993
01/20
2001
01/20
2009
01/20
2017
01/20
R.
NIXON
G.
FORD
J.
CARTER
R.
REAGAN
G.
BUSH
B.
CLINTON
G. W
BUSH
B.
OBAMA
D.
TRUMP
Arthur
F. BURNS
Paul
VOLCKER
Alan
GREENSPAN
Ben
BERNANKE
Janet
YELLEN
Jerome
POWELL
1970
Fev.
1978
Jan.
1987
Agt.
2006
Jan.
2014
Jan.
2018
Jan.
1978
Maio
G. William
MILLER

☆ **Inflation, consumer prices for the United States** (FPCPITOTLZGUSA)

DOWNLOAD

Observation:
2018: **2.44258** (+ more)
Updated: Jul 1, 2019

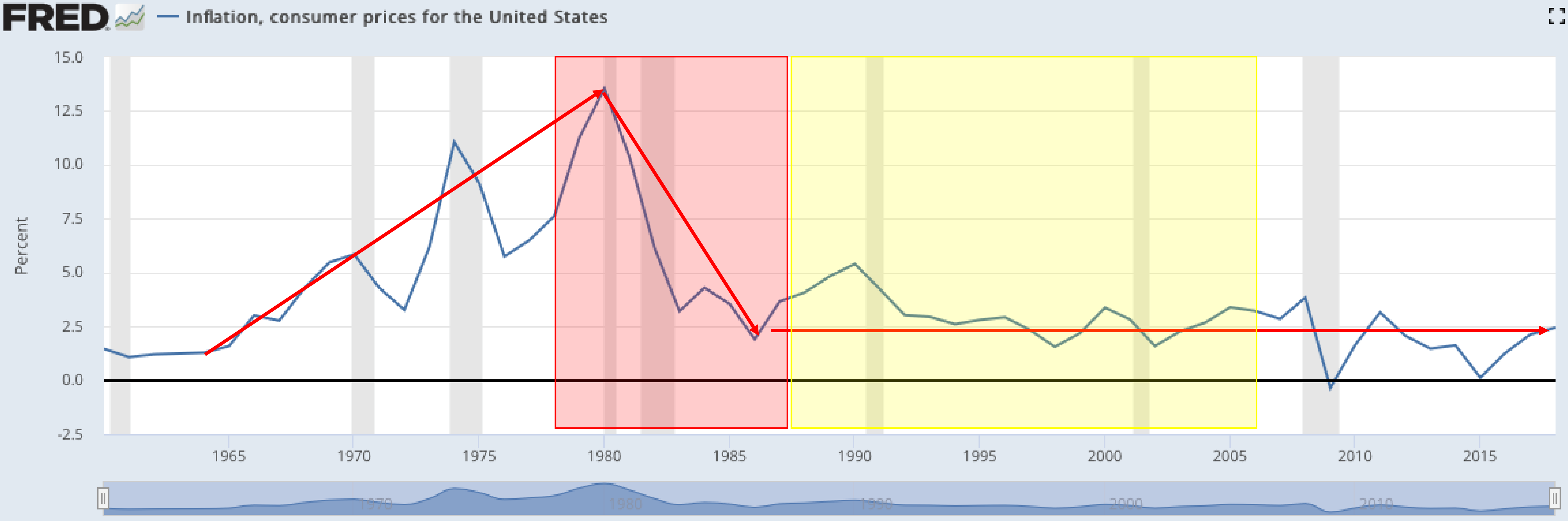
Units:
Percent,
Not Seasonally Adjusted

Frequency:
Annual

1Y | 5Y | 10Y | Max

1960-01-01 to 2018-01-01

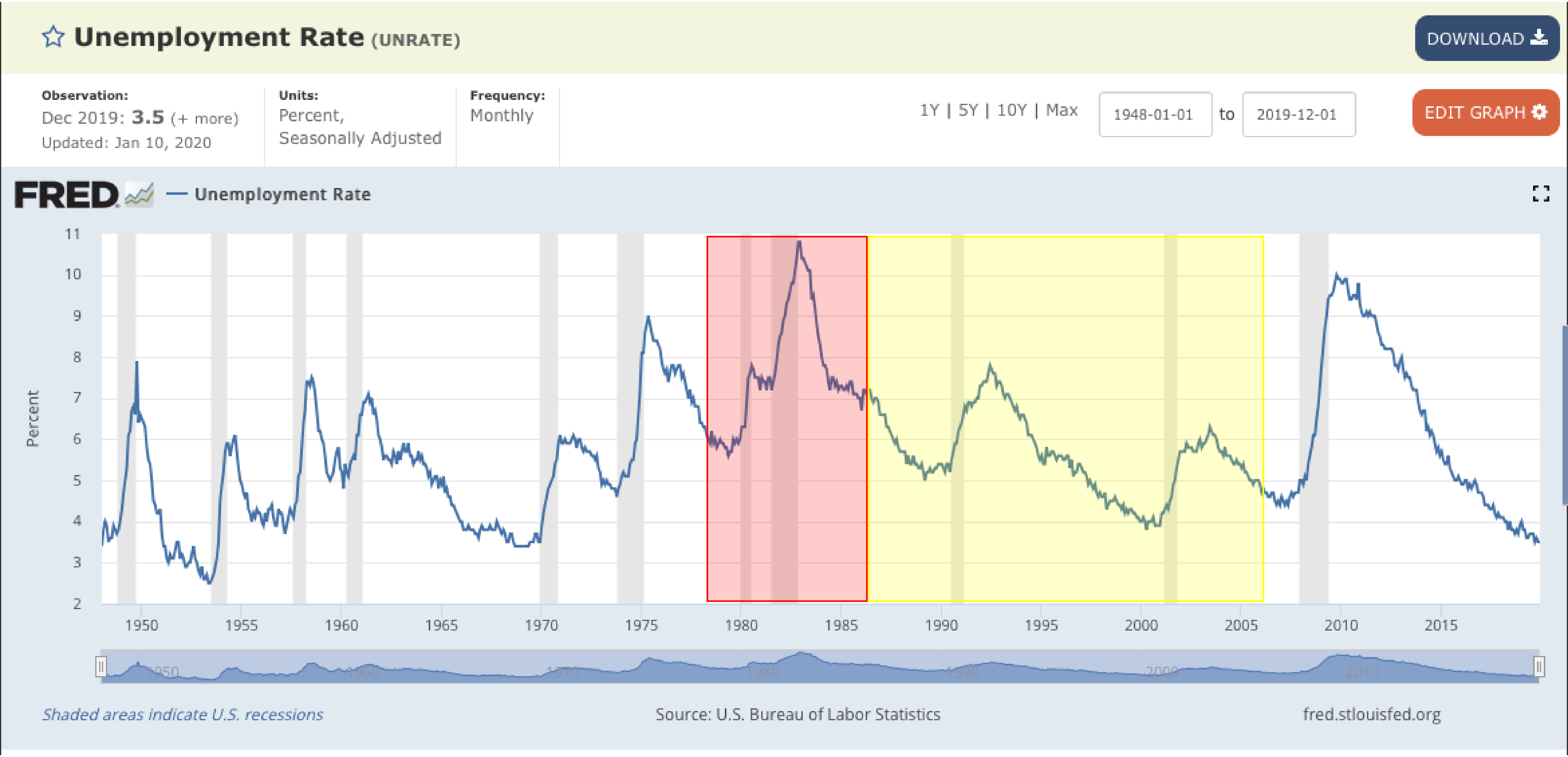
EDIT GRAPH



Shaded areas indicate U.S. recessions

Source: World Bank

fred.stlouisfed.org



Unemployment Rate (UNRATE)
DOWNLOAD
Observation:
Dec 2019: 3.5 (+ more)
Updated: Jan 10, 2020
Units:
Percent,
Seasonally Adjusted
Frequency:
Monthly
1Y | 5Y | 10Y | Max
1948-01-01
to
2019-12-01
EDIT GRAPH
FRED
— Unemployment Rate
Percent
11
10
9
8
7
6
5
4
3
2
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
Shaded areas indicate U.S. recessions
Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org

Effective Federal Funds Rate (FEDFUNDS)

DOWNLOAD

Observation:
Dec 2019: **1.55** (+ more)
Updated: Jan 2, 2020

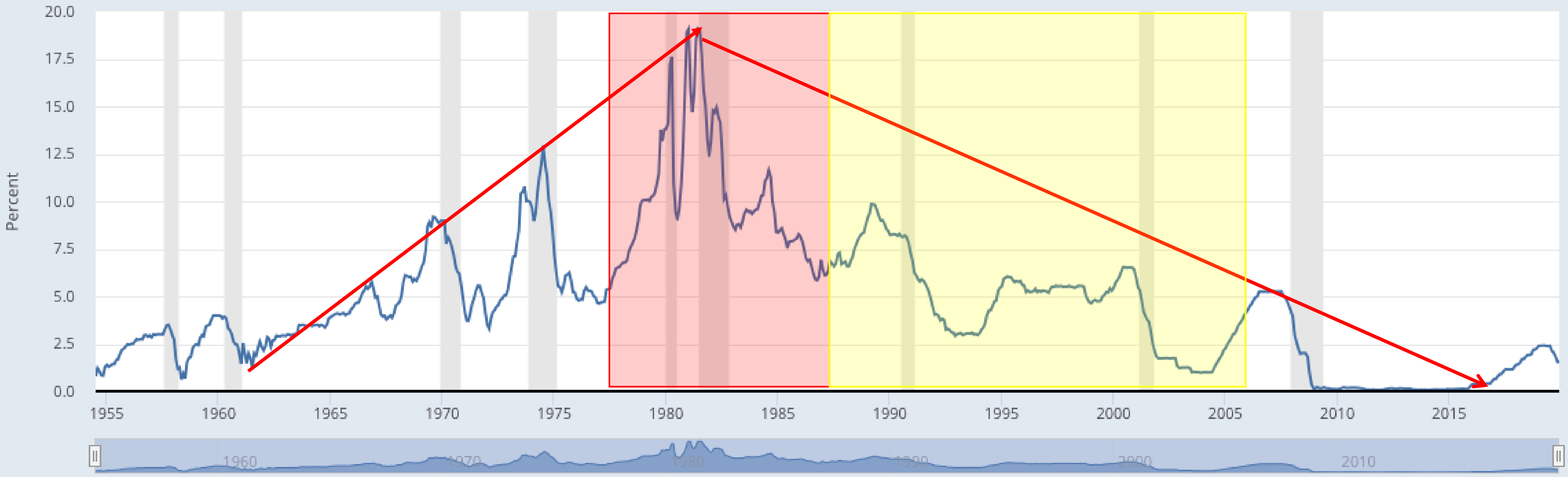
Units:
Percent,
Not Seasonally Adjusted

Frequency:
Monthly

1Y | 5Y | 10Y | Max   1954-07-01 to 2019-12-01

EDIT GRAPH

FRED — Effective Federal Funds Rate



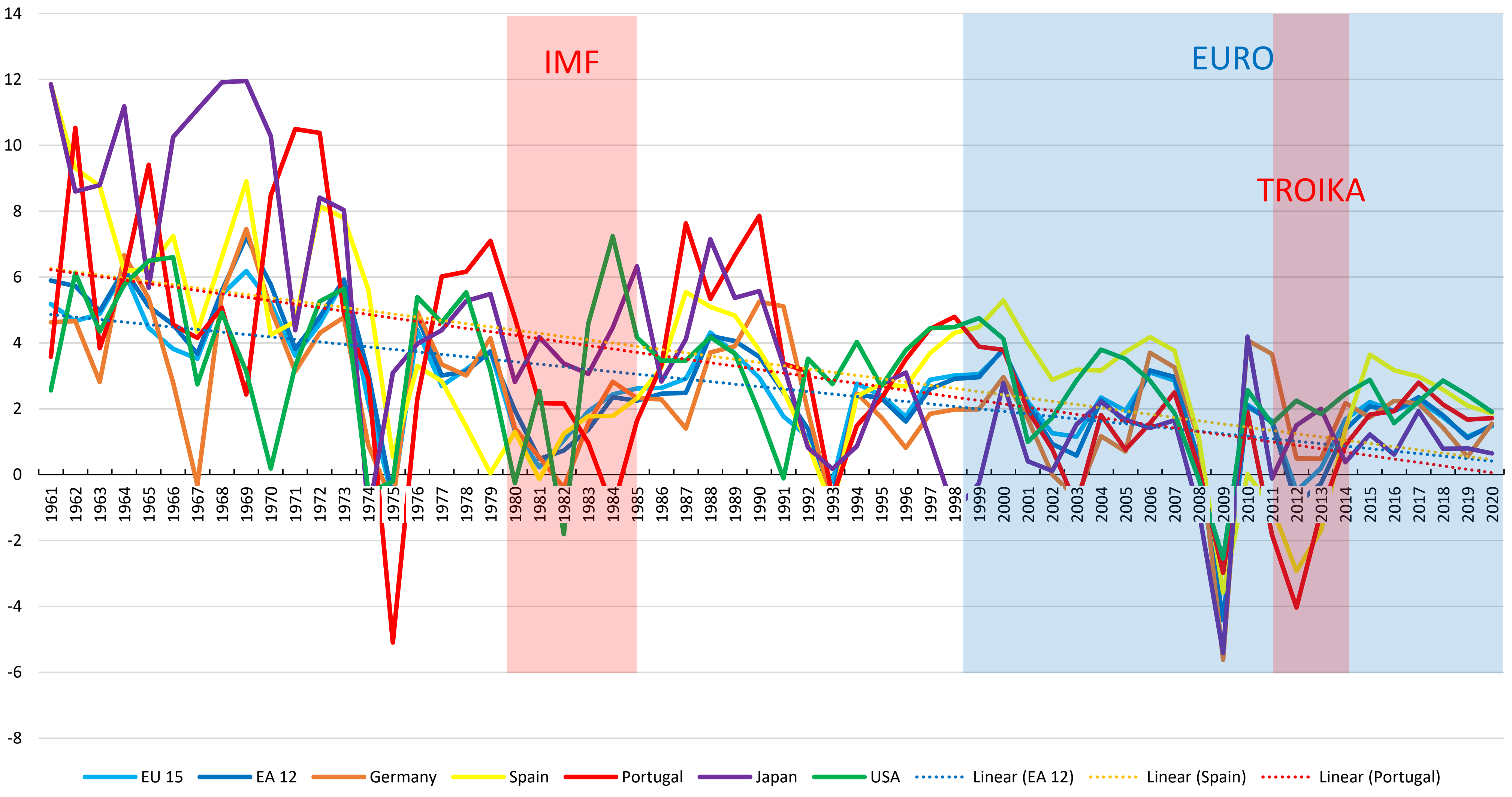
Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)

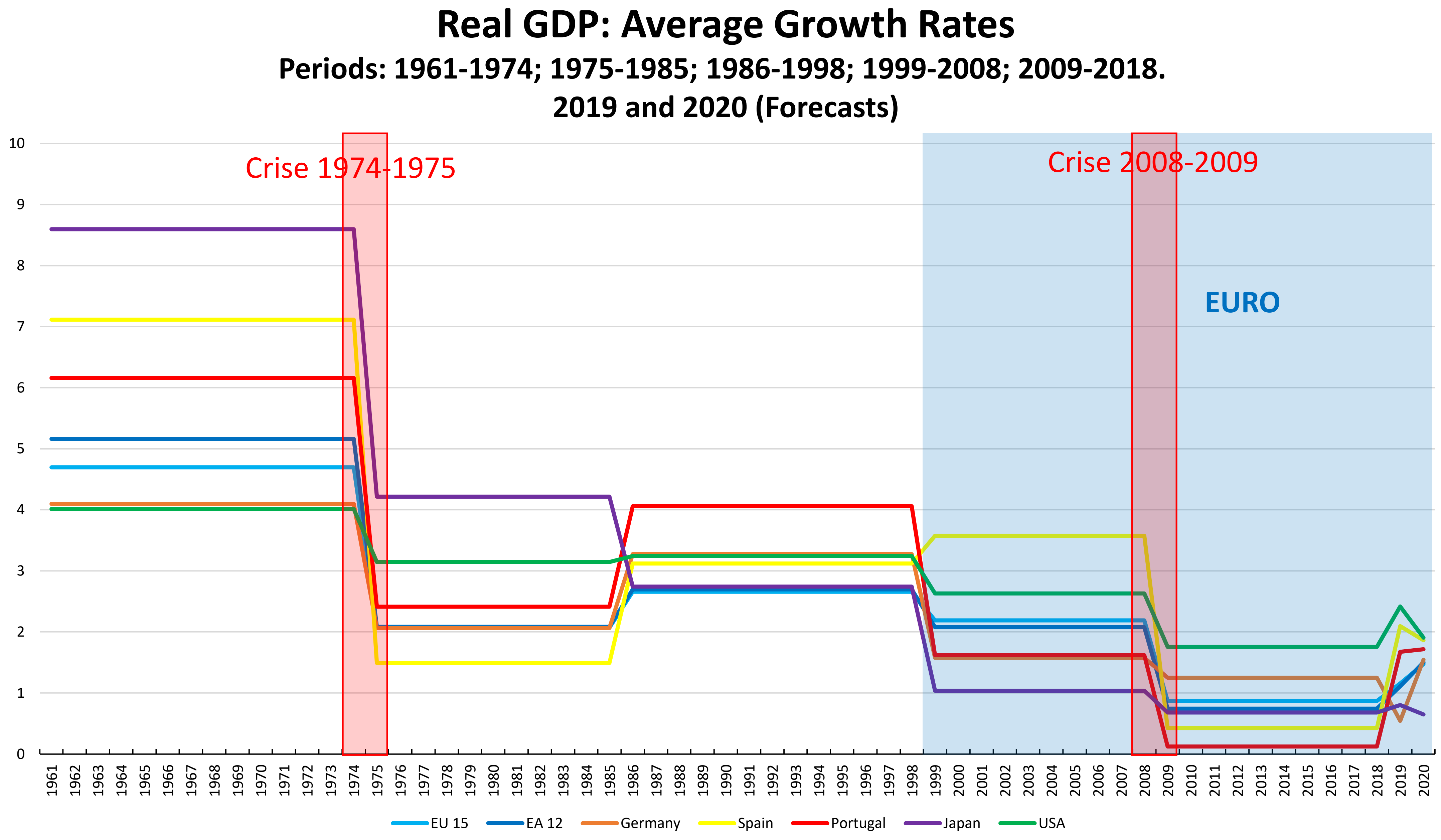
fred.stlouisfed.org

Considerações finais

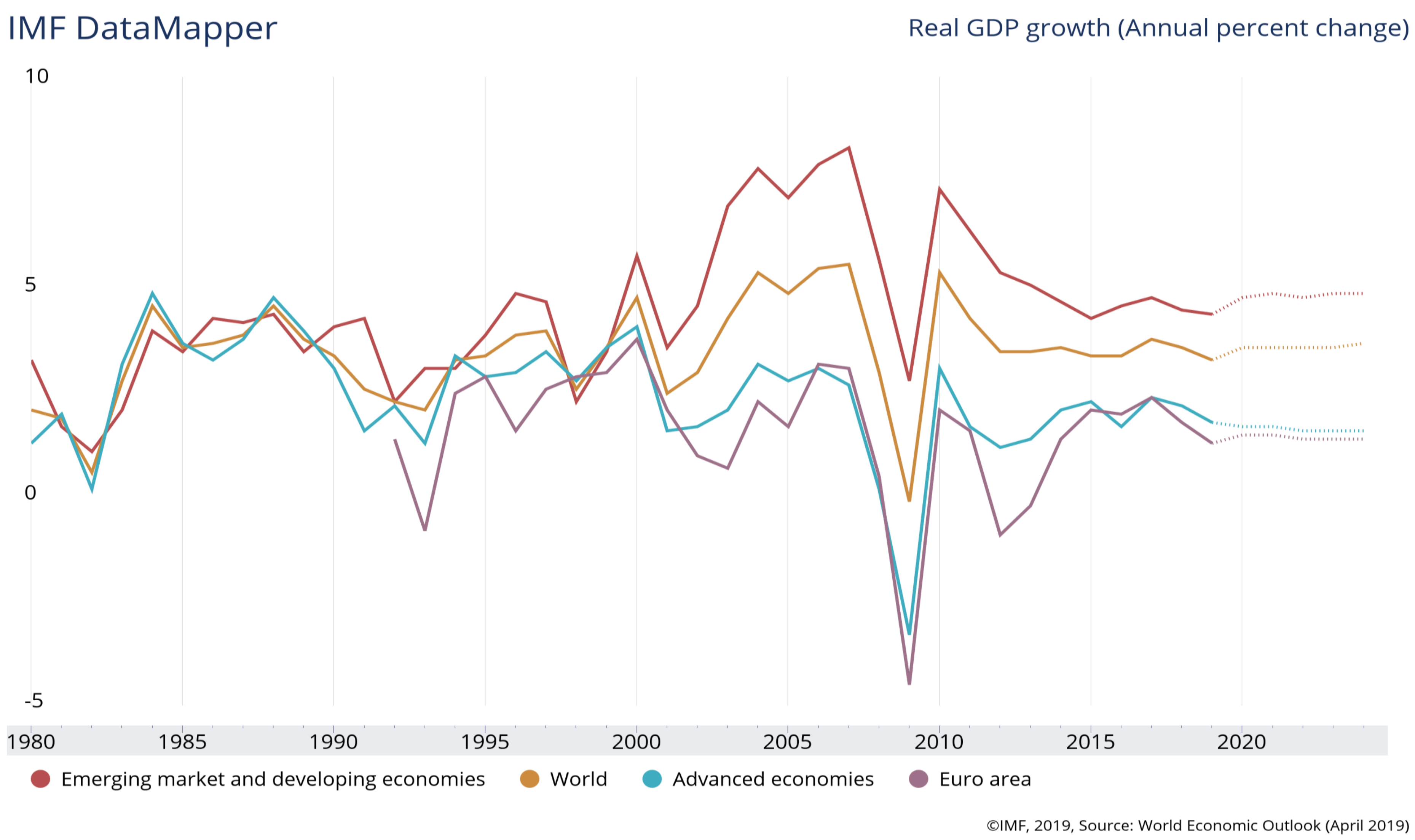
Real GDP: 1961 – 2020
Annual changes (%)



Source: AMECO, May 2019

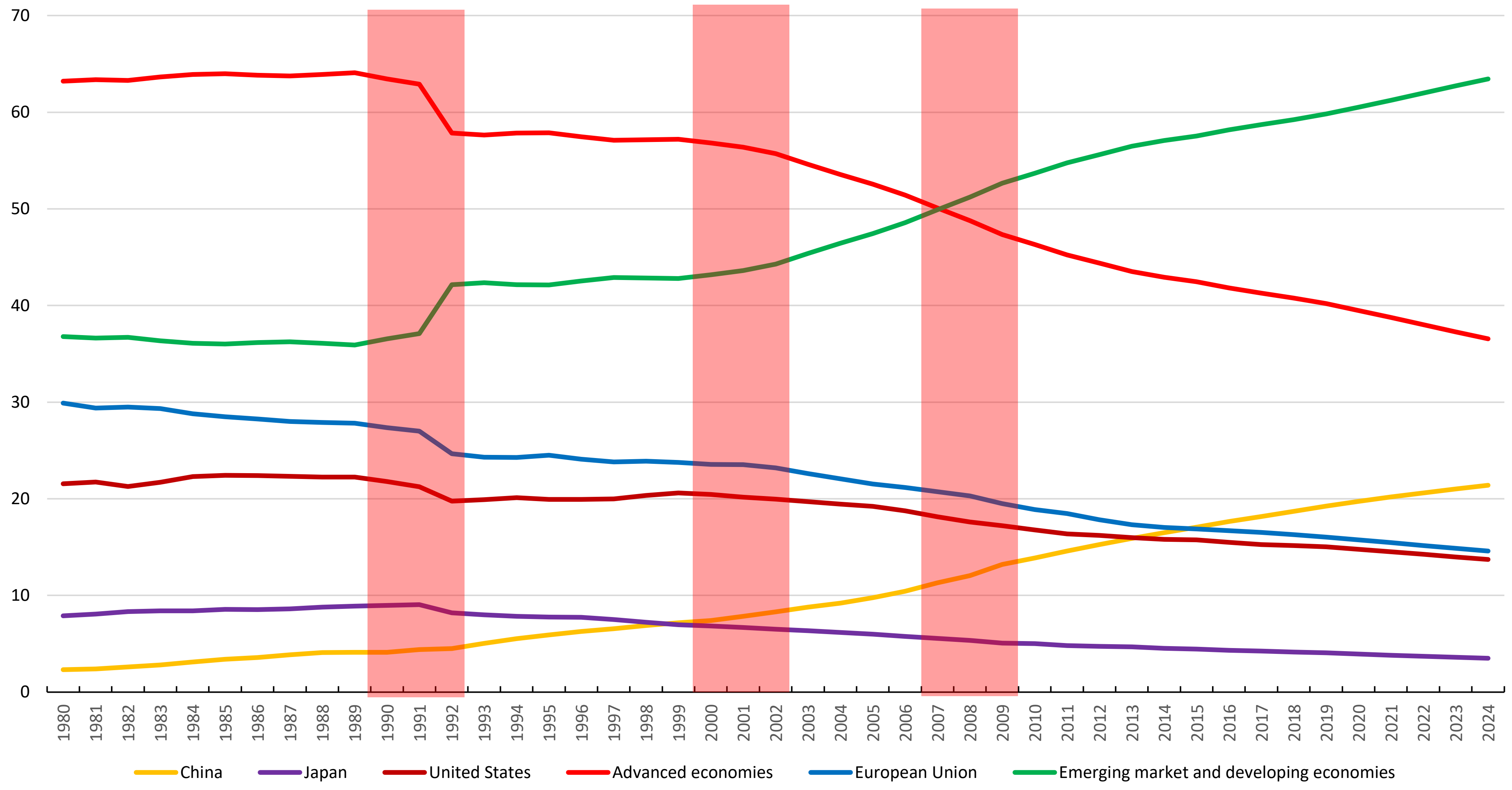


Source: AMECO, May 2019


IMF DataMapper
Real GDP growth (Annual percent change)
10
5
0
-5
1980
1985
1990
1995
2000
2005
2010
2015
2020
Emerging market and developing economies
World
Advanced economies
Euro area
©IMF, 2019, Source: World Economic Outlook (April 2019)

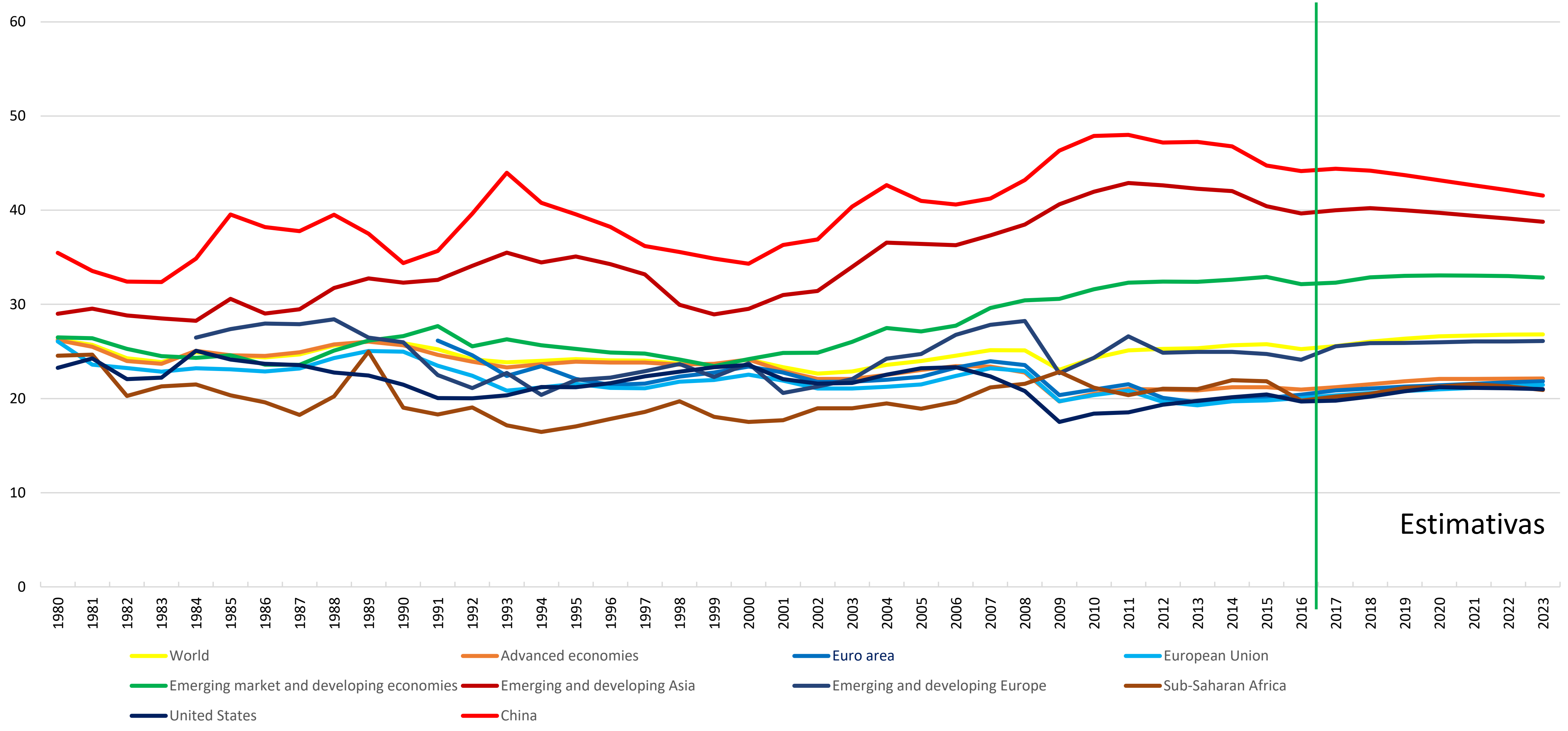
PARTICIPAÇÃO NO PIB MUNDIAL (PPP)

Unidade: %



IMF, World Economic Outlook Database, April 2019

INVESTIMENTO EM PERCENTAGEM DO PIB

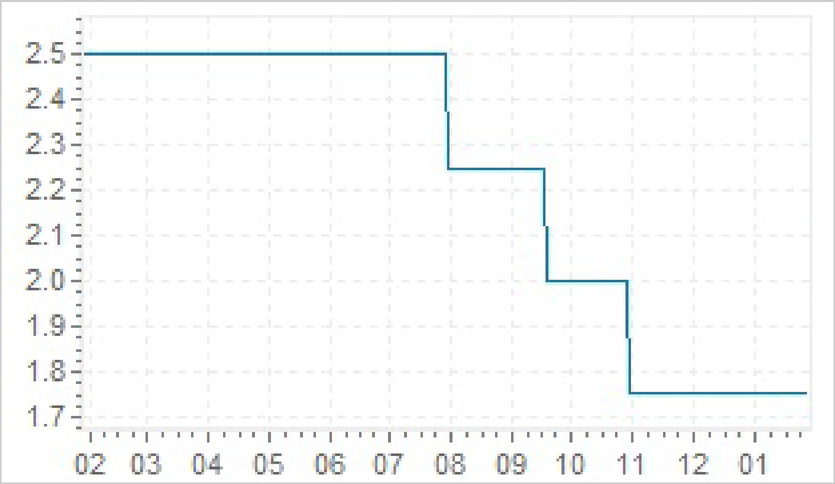


IMF, World Economic Outlook Database, April 2018

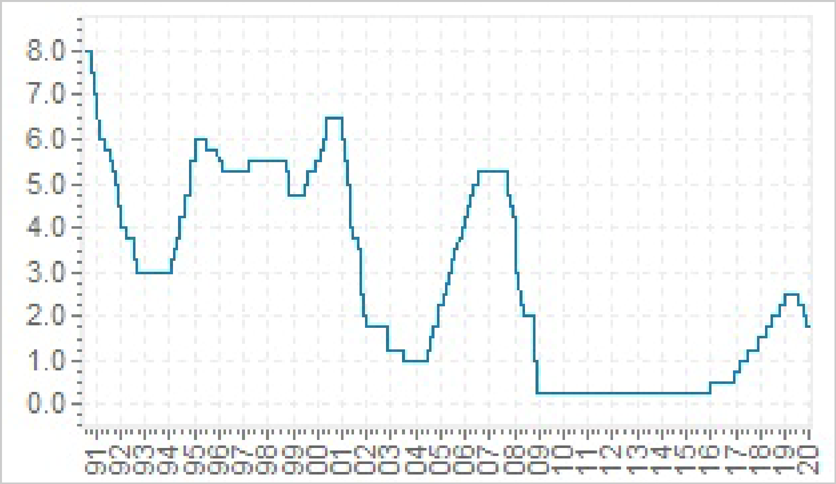
FED Federal Funds Rate, American central bank's interest rate

Charts - historic FED interest rates

Graph American interest rate FED - interest rates last year



Graph American interest rate FED - long-term graph



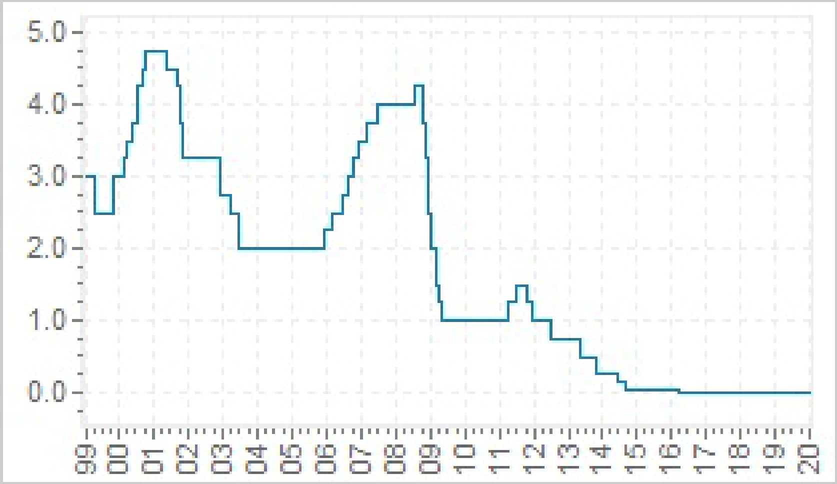
The current American interest rate FED (base rate) is 1.750 %

ECB refi rate - European Central Bank's interest rate

Charts - historic ECB interest rates

Graph European interest rate ECB - interest rates last year

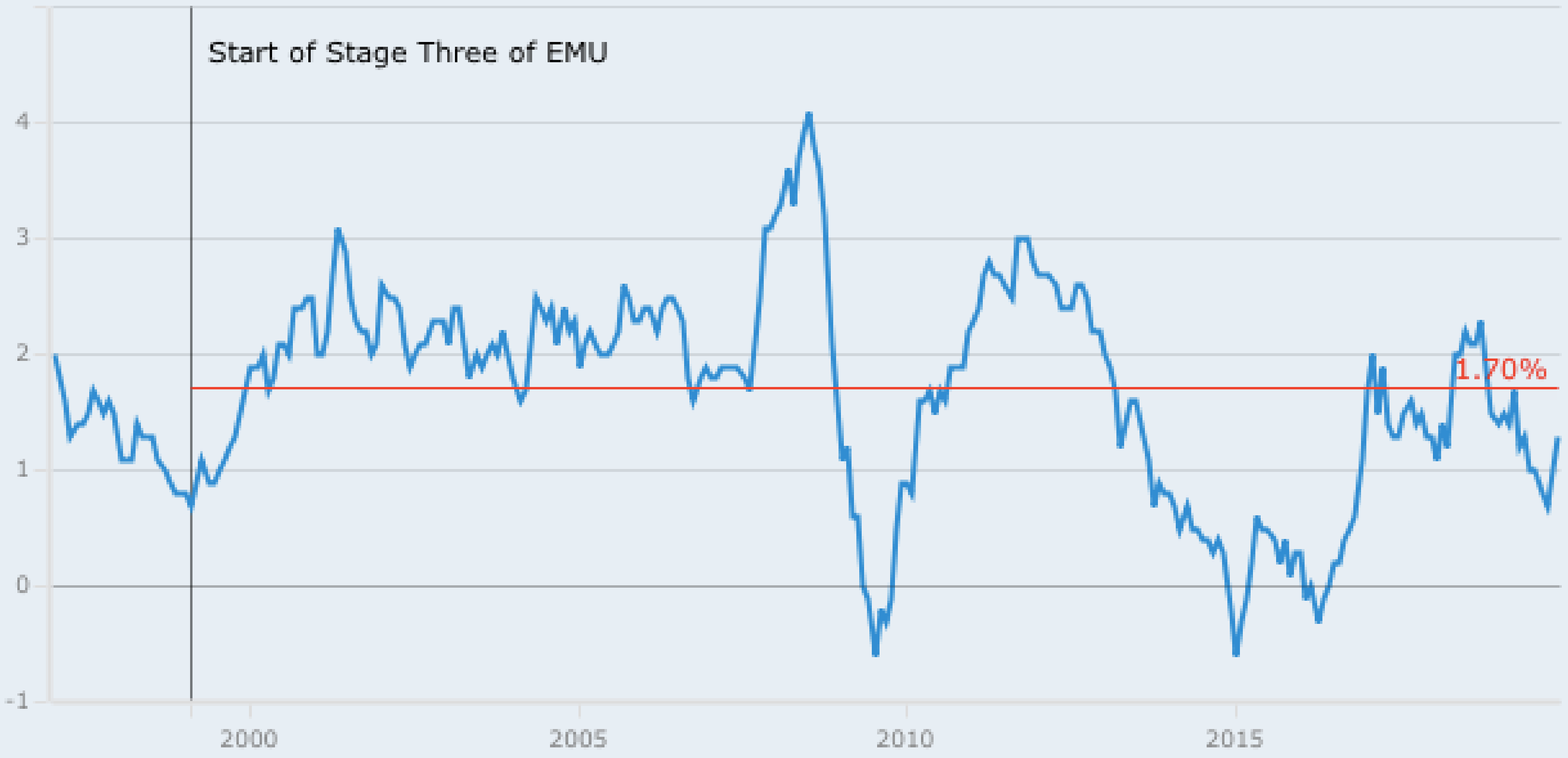
Graph European interest rate ECB - long-term graph



The current European interest rate ECB (base rate) is 0.000 %

https://www.global-rates.com

Inflation in the euro area (annual percentage changes, non-seasonally adjusted)



Source: Eurostat. Data prior to 1996 are estimated on the basis of non-harmonised national Consumer Price Indices (CPIs). Average inflation since 1999.

Obrigado!