https://www.wsj.com/articles/ecb-takes-eurozone-off-life-support-as-it-ends-bond-buying-program-11544705637

CENTRAL BANKS

ECB Cuts Growth Forecasts as It Ends Bond-Buying Program

President Mario Draghi signals deepening concern over a slowdown in the eurozone economy

ECB President Mario Draghi speaks to the press on Thursday. **PHOTO:** DANIEL ROLAND/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Tom Fairless

Updated Dec. 13, 2018 11:34 a.m. ET

FRANKFURT—The European Central Bank cut its economic growth forecasts Thursday, highlighting the risks confronting Europe's economy even as it ended its massive four-year stimulus program.

"It's a climate of great uncertainty," ECB President Mario Draghi said at a press conference, citing trade tensions, vulnerabilities in emerging markets and volatility in financial markets. He spoke after the ECB confirmed it would keep its key interest rates—which include a minus 0.4% rate on bank deposits held at the central bank—unchanged at least through the summer of 2019.

Mr. Draghi's comments signal a deepening concern among senior ECB officials over the state of the 19-nation economy, which has slowed sharply in recent months after outpacing the U.S. in 2016 and 2017. Officials had maintained until recently that the slowdown reflected temporary factors that would soon pass.

negative territory, where they have languished since mid-2014.

"The ECB is turning more cautious," said Florian Hense, an economist at Berenberg Bank in London. Top officials "will have their fingers crossed that the economy does not disappoint their growth expectations too much."

The euro slipped against the dollar during Mr. Draghi's news conference to $1.133, as investors digested the ECB's more dovish tone. The common currency has slid 9% against the dollar since February, as the Fed increased interest rates three times this year, but the ECB signaled it would be slow to follow suit.

The eurozone slowdown sits uncomfortably with the ECB's decision to end new purchases under its €2.6 trillion ($3 trillion) bond-buying program—known as quantitative easing, or QE—this month, a move that the bank confirmed on Thursday. That decision was signaled earlier this year and comes years after the Federal Reserve and Bank of England wound down their own bond purchases.

The ECB lowered its 2018 forecast for gross domestic product growth in the eurozone by 0.1 percentage point to 1.9% and shaved its 2020 forecast by a similar amount to 1.7%.

ECB asset purchases, in trillions

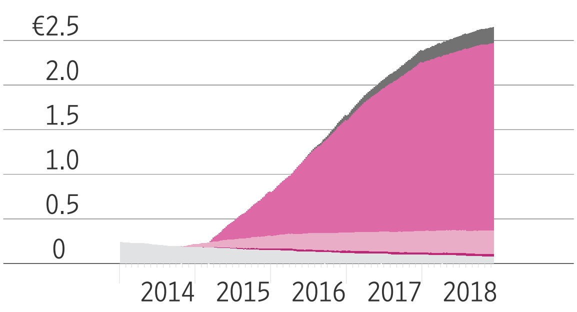
Corporate-sector purchase program

Public-sector purchase program

Third covered-bond purchase program

Asset-backed securities purchase program

Old programs



Source: European Central Bank

How ECB measures are affecting markets and the economy » (https://graphics.wsj.com/what-ecb-qe-stimulus-has-done/)

Some analysts questioned the bank's decision to press ahead with ending QE despite the weakening economy.

"The decision to end QE now is more about politics than economics," aimed at assuaging ECB officials who have been critical of the bank's bond purchases, particularly its German contingent, said Paul Diggle, an economist at Aberdeen Standard Investments. "If you squint hard enough, the economic data can just about justify the decision."

The ECB softened its decision on QE by pledging to hold its €2.6 trillion stock of bonds for "an extended period of time" after its first interest-rate rise, which investors have penciled in for late 2019.

A key concern for ECB officials is Italy, whose $2 trillion economy shrank in the three months through September, aggravating concerns around the country's weak banks and high government debt. But weaknesses have also emerged

France is also softening as President Emmanuel Macron faces mass protests over his economic reforms.

John Taylor, a portfolio manager at AllianceBernstein in London, said the ECB missed an opportunity to phase out its stimulus program a year ago when the economy was in much better shape.

RELATED

- Analysis: What Does $3 Trillion Buy in Europe?
- ECB to End Bond-Buying Program in December as Crisis-Era Policies Wind Down (June 14)
- Investors Prepare for the End of ECB's Corporate-Bond Buying (March 9)

"The longer borrowing costs are left low, the more debt is taken on, the more it affects behavior," Mr. Taylor said. "Investors are now more sensitive to higher credit spreads because there's more debt."

Corrections & Amplifications
The ECB lowered its 2018 forecast for gross domestic product growth in the eurozone by 0.1 percentage point to 1.9%, and shaved its 2019 forecast by a similar amount to 1.7%. An earlier version of this article incorrectly stated that the 2019 forecast change was for 2020.

Write to Tom Fairless at tom.fairless@wsj.com