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June 14, 2018, ECB Press Conference – What has changed from April 26, 2018?

Summary

- progress towards a sustained adjustment in inflation has been substantial so far with longer-term inflation expectations well anchored (**changed**)
- sustained convergence of inflation to levels below, but close to, 2% in the medium term will be maintained even after a gradual winding-down of our net asset purchases. (**changed**)
- continue to make net purchases under the APP at the current monthly pace of €30 billion until the end of September 2018 (**changed**)
- after September 2018, subject to incoming data confirming ECB's medium-term inflation outlook, the monthly pace of the net asset purchases would be reduced to €15 billion until the end of December 2018 and then end net purchases (**changed**)
- intend to maintain existing policy of reinvesting the principal payments from maturing securities for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. (**changed**)
- keep the key ECB interest rates unchanged and expect rates to remain at their present levels at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path. (**changed**)

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PRESS CONFERENCE
https://www.ecb.europa.eu/press/pressconf/2018/html/ecb.is180614.en.html

Mario Draghi, President of the ECB,

Luis de Guidos ~~Vítor Constâncio~~, Vice-President of the ECB,

Riga, 14 June, ~~Frankfurt am Main, 26 April~~ 2018

INTRODUCTORY STATEMENT

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. ~~We will now report on the outcome of~~ **I would like to thank Deputy Governor Razmusa for her kind hospitality and express our special gratitude to her staff for the excellent organisation of** today's meeting of the Governing Council. **We will now report on the outcome of our meeting.** ~~Based on our regular economic and monetary analyses, we decided to keep~~ **Since** the ~~**key ECB interest rates**~~ ~~unchanged. We continue to expect them to remain at their present levels for an extended period~~ **start** of ~~time, and well past the horizon of~~ our ~~net~~ asset ~~purchases. Regarding~~ ~~**non-standard monetary policy measures**~~~~, we confirm that our~~ **purchase programme (APP) in January 2015, the Governing Council has made** net asset purchases, ~~at~~ **under the APP conditional on the extent of progress towards** c~~urrent monthly pace of €30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees~~ a sustained adjustment in the path of inflation ~~consistent with its inflation aim. The Eurosystem will continue to reinvest the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favourable liquidity conditions and to an appropriate monetary policy stance. Following several quarters of higher than expected growth, incoming information since our meeting in early March points towards some moderation, while remaining consistent with a solid and broad-based expansion of the euro area economy. The underlying strength of the euro area economy continues to support our confidence that inflation will converge towards our inflation aim of~~ **to levels** below, but close to, 2% ~~over~~ **in** the medium term. ~~At the same time, measures of underlying inflation remain subdued and have yet to show convincing signs of a sustained upward trend. In this context,~~

Today, the Governing Council **undertook a careful review of the progress made, also taking into account the latest Eurosystem staff macroeconomic projections, measures of price and wage pressures, and uncertainties surrounding** ~~will continue to monitor developments in the exchange rate and other financial conditions with regard to their possible implications for~~ the inflation outlook. **As a result of this assessment, the Governing Council concluded**

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that progress towards a sustained adjustment in inflation has been substantial so far. With longer-term inflation expectations well anchored, the underlying strength of the euro area economy and the continuing ~~Overall, an~~ ample degree of monetary **accommodation provide grounds to be confident that the sustained convergence of inflation towards our aim will continue in the period ahead, and will be maintained even after a gradual winding-down of our net asset purchases.** ~~stimulus remains necessary for underlying inflation pressures to continue to build up and support~~

Accordingly, the Governing Council today made the following decisions: First, as regards non-standard monetary policy measures, we will continue to make net purchases under the APP at the current monthly pace of €30 billion until the end of September 2018. We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and then end net purchases.

Second, we intend to maintain our policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Third, we decided to keep the key ECB interest rates unchanged and we expect them to remain at their present levels at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path.

Today's monetary policy decisions maintain the current ample degree of monetary accommodation that will ensure the continued sustained convergence of inflation towards levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This ~~continued monetary~~ support ~~is~~ **will continue to be** provided by the net asset purchases **until the end of the year**, by the sizeable stock of acquired assets and the ~~ongoing and forthcoming~~ **associated** reinvestments, and by our **enhanced** forward guidance on **the key ECB** interest rates.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. ~~Real~~ **Quarterly real** GDP ~~increased by 0.7%,~~ **growth moderated to 0.4% in the first** quarter of 2018 ~~on quarter, in the fourth quarter of 2017,~~

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following ~~similar~~ growth of **0.7%** in the previous **quarters.** ~~quarter. This resulted in an average annual growth rate of 2.4% in 2017 – the highest since 2007. The latest economic indicators suggest some moderation in the pace of growth since the start of the year. This moderation may in part reflect~~ **This moderation reflects** a pull-back from the **very** high **level** ~~pace~~ of growth in 2017, compounded by an increase in uncertainty and some temporary and supply side factors at both the domestic and the global level, as well as weaker impetus from external trade. The latest economic indicators and survey results are weaker, but remain consistent with ongoing solid and broad-based economic growth.
~~observed at the end of last year, while temporary factors may also be at work. Overall, however, growth is expected to remain solid and broad-based.~~ Our monetary policy measures, which have facilitated the deleveraging process, ~~should~~ continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by growing household wealth. Business investment ~~continues to strengthen on the back of very~~ **is fostered by** favourable financing conditions, rising corporate profitability and solid demand. Housing investment **remains robust** ~~continues to improve~~. In addition, the broad-based ~~global~~ expansion **in global demand is expected to continue, thus** ~~is~~ providing impetus to euro area exports.

This assessment is broadly reflected in the June 2018 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.1% in 2018, 1.9% in 2019 and 1.7% in 2020. Compared with the March 2018 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised down for 2018 and remains unchanged for 2019 and 2020.

The risks surrounding the euro area growth outlook remain broadly balanced. ~~However, risks~~ **Nevertheless, uncertainties** related to global factors, including the threat of increased protectionism, have become more prominent. **Moreover, the risk of persistent heightened financial market volatility warrants monitoring.**

According to Eurostat's flash estimate, euro ~~Euro~~ area annual HICP inflation increased to ~~1.3~~**1.9**% in ~~March~~ **May** 2018, from ~~1.1~~**1.2**% in ~~February~~ **April**. This reflected ~~mainly~~ higher **contribution from energy,** food **and services** price inflation. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around ~~1.5%~~ **the current level** for the remainder of the year. ~~Measures~~ **While measures** of underlying inflation remain **generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening amid high levels of capacity utilisation, tightening labour markets and rising wages. Uncertainty around the inflation outlook is receding** ~~subdued overall~~. Looking ahead, ~~they are~~

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underlying inflation is expected to ~~rise~~ **pick up towards the end of the year and thereafter to increase** gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

This assessment is also broadly reflected in the June 2018 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2018, 2019 and 2020. Compared with the March 2018 ECB staff macroeconomic projections, the outlook for headline HICP inflation has been revised up notably for 2018 and 2019, mainly reflecting higher oil prices.

Turning to the **monetary analysis**, broad money (M3) ~~continues to expand at a robust pace, with an annual~~ growth stood at 3.9% in April 2018, after 3.7% in March and ~~at rate of~~ ~~4.2~~ **4.3**% in February ~~2018, slightly below the narrow range observed since mid-2015.~~ **While the slower momentum in M3 dynamics over recent months mainly reflects the reduction in the monthly net asset purchases since the beginning of the year,** M3 growth continues to ~~reflect~~ **be supported by** the impact of the ECB's monetary policy measures and the low opportunity cost of holding the most liquid deposits. Accordingly, the narrow monetary aggregate M1 remained the main contributor to broad money growth, **although its annual growth rate has receded in recent months from the high rates previously observed** ~~continuing to expand at a solid annual rate~~.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations stood at ~~3.1~~**3.3**% in ~~February~~ **April** 2018, ~~after 3.4% in January and 3.1% in December 2017, while~~ **unchanged from the previous month, and** the annual growth rate of loans to households **also** remained stable ~~unchanged~~ at 2.9%. ~~The euro area bank lending survey for the first quarter of 2018 indicates that loan growth continues to be supported by increasing demand across all loan categories and a further easing in overall bank lending conditions for loans to enterprises and loans for house purchase.~~

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – notably for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for an ample degree of monetary accommodation to secure a sustained return of inflation rates towards levels that are below, but close to, 2% over the medium term.

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In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Against the background of overall limited implementation of the 2017 country-specific recommendations, greater reform effort is necessary in euro area countries. Regarding **fiscal policies**, the ongoing broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. All countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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