EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS CONFERENCE

Frankfurt am Main, 14 December 2017

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 today's meeting of the Governing Council, which was also attended by the President of the Eurogroup, Mr Dijsselbloem, and by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases.

Regarding **non-standard monetary policy measures**, we confirm that from January 2018 we intend to continue to make net asset purchases under the asset purchase programme (APP), at a monthly pace of €30 billion, 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. If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, we stand ready to increase the APP in terms of size and/or duration. The Eurosystem will reinvest the principal payments from maturing securities purchased under the APP 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.

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Our monetary policy decisions have preserved the very favourable financing conditions that are still needed for a sustained return of inflation rates towards levels that are below, but close to, 2%. The incoming information, including our new staff projections, indicates a strong pace of economic expansion and a significant improvement in the growth outlook. The strong cyclical momentum and the significant reduction of economic slack give grounds for greater confidence that inflation will converge towards our inflation aim. At the same time, domestic price pressures remain muted overall and have yet to show convincing signs of a sustained upward trend. An ample degree of monetary stimulus therefore remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term. This continued monetary support is provided by the additional net asset purchases that we decided on at our October monetary policy meeting, by the sizeable stock of acquired assets and the forthcoming reinvestments, and by our forward guidance on interest rates.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. The economic expansion in the euro area continued in the third quarter of 2017, when real GDP increased by 0.6% quarter on quarter, after 0.7% in the second quarter. The latest data and survey results point to solid and broad-based growth momentum. Our monetary policy measures, which have facilitated the deleveraging process, continue to support domestic demand. Private consumption is underpinned by ongoing employment gains, which are also benefiting from past labour market reforms, and by rising household wealth. Business investment continues to strengthen on the back of very favourable financing conditions, rising corporate profitability and strengthening demand. Housing investment has also risen further over recent quarters. In addition, euro area exports are being supported by the broad-based global expansion.

This assessment is broadly reflected in the December 2017 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.4% in 2017, 2.3% in 2018, 1.9% in 2019 and 1.7% in 2020. Compared with the September 2017 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised up substantially.

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Risks surrounding the euro area growth outlook remain broadly balanced. On the one hand, the strong cyclical momentum, underpinned by continued positive developments in sentiment indicators, could lead to further positive growth surprises in the near term. On the other hand, downside risks continue to relate primarily to global factors and developments in foreign exchange markets.

According to Eurostat's flash estimate, euro area annual HICP inflation was 1.5% in November, up from 1.4% in October. At the same time, measures of underlying inflation have moderated somewhat recently, in part owing to special factors. Looking ahead, on the basis of current futures prices for oil, annual rates of headline inflation are likely to moderate in the coming months, mainly reflecting base effects in energy prices, before increasing again. Underlying inflation is expected to rise 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 December 2017 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.5% in 2017, 1.4% in 2018, 1.5% in 2019 and 1.7% in 2020. Compared with the September 2017 ECB staff macroeconomic projections, the outlook for headline HICP inflation has been revised up, mainly reflecting higher oil and food prices.

Turning to the **monetary analysis**, broad money (M3) continues to expand at a robust pace, with an annual rate of growth of 5.0% in October 2017, from 5.2% in September, reflecting 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 continued to be the main contributor to broad money growth, expanding at an annual rate of 9.4% in October, after 9.8% in September.

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 increased to 2.9% in October 2017, after 2.4% in September, while the annual growth rate of loans to households remained stable at 2.7%.

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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%.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to strengthening the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in all euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the increasingly solid and broad-based expansion strengthens the case 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. Strengthening Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing discussions on completing the banking union and the capital markets union, and on further enhancing the institutional architecture of our Economic and Monetary Union.

We are now at your disposal for questions.

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