PRESS CONFERENCE

Riga, 14 June 2018

Introductory statement

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. 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.

Since the start of our asset purchase programme (APP) in January 2015, the Governing Council has made net asset purchases under the APP conditional on the extent of progress towards a sustained adjustment in the path of inflation to levels below, but close to, 2% in the medium term. 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 the inflation outlook.

As a result of this assessment, the Governing Council concluded 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 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.

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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 support 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 associated reinvestments, and by our enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Quarterly real GDP growth moderated to 0.4% in the first quarter of 2018,

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following growth of 0.7% in the previous quarters. This moderation reflects a pull-back from the very high levels 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. Our monetary policy measures, which have facilitated the deleveraging process, 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 is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the broad-based expansion in global demand is expected to continue, thus 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. 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 area annual HICP inflation increased to 1.9% in May 2018, from 1.2% in April. This reflected higher contributions 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 the current level for the remainder of the year. 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. Looking ahead, underlying inflation is expected to 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

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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) growth stood at 3.9% in April 2018, after 3.7% in March and 4.3% in February. 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 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.

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 3.3% in April 2018, unchanged from the previous month, and the annual growth rate of loans to households also remained stable, at 2.9%.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households and credit flows across the euro area. This is also reflected in the results of the latest Survey on the Access to Finance of Enterprises in the euro area, which indicates that small and medium-sized enterprises in particular benefited from improved access to financing.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that today's monetary policy decisions will ensure the ample degree of monetary accommodation necessary for the continued

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sustained convergence of inflation towards levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more 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. 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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