EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS CONFERENCE

Frankfurt am Main, 13 September 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 today's meeting of the Governing Council, which was also attended 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 at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, we will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of this month. After September 2018, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and we anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases. We intend to reinvest 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.

European Central Bank Directorate General Communications
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, E-mail: media@ecb.europa.eu, Website: www.ecb.europa.eu

The incoming information, including our new September 2018 staff projections, broadly confirms our previous assessment of an ongoing broad-based expansion of the euro area economy and gradually rising inflation. The underlying strength of the economy continues to support our confidence that the sustained convergence of inflation to our aim will proceed and will be maintained even after a gradual winding-down of our net asset purchases. At the same time, uncertainties relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently. 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**. Euro area real GDP increased by 0.4%, quarter on quarter, in the second quarter of 2018, following growth at the same rate in the previous quarter. Despite some moderation following the strong growth performance in 2017, the latest economic indicators and survey results overall confirm ongoing broad-based growth of the euro area economy. Our monetary policy measures continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by rising wages. Business investment is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the expansion in global activity is expected to continue, supporting euro area exports.

This assessment is broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020. Compared with the June 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2018 and 2019, mainly due to a somewhat weaker contribution from foreign demand.

The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. At the same time, risks relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently.

According to Eurostat's flash estimate, euro area annual HICP inflation was 2.0% in August 2018, down from 2.1% in July. 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 and broadening amid high levels of capacity utilisation and tightening labour markets, which is pushing up wage growth. 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 economic expansion and rising wage growth.

This assessment is also broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2018, 2019 and 2020, which is unchanged from the June 2018 Eurosystem staff macroeconomic projections.

Turning to the **monetary analysis**, broad money (M3) growth declined to 4.0% in July 2018, from 4.5% in June. Apart from some volatility in monthly flows, M3 growth is increasingly supported by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

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 4.1% in July 2018, while the annual growth rate of loans to households stood at 3.0%, both unchanged from June.

European Central Bank Directorate General Communications
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, E-mail: media@ecb.europa.eu, Website: www.ecb.europa.eu

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 – in particular 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 that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to 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 broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt is high and for which full adherence to the Stability and Growth Pact is critical for safeguarding sound fiscal positions. Likewise, the transparent and consistent implementation of the EU's fiscal and economic governance framework over time and across countries remains essential to bolster 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.

European Central Bank Directorate General Communications
Global Media Relations Division, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, E-mail: media@ecb.europa.eu, Website: www.ecb.europa.eu