# ECB Watch: Further steps in the autumn

Agustín García / María Martinez / Juan Navarro

20 July 2017

- **As widely expected, the ECB remained on hold, in a unanimous decision**
- **The discussion on tapering of QE to take place in the Autumn, most likely in September**
- **The ECB is paying "attention" to the appreciation of the euro**

At today's monetary policy **meeting there were no changes in the ECB's monetary policy stance**, as the central bank left key interest rates unchanged and confirmed that it intended to run the monthly asset purchases of €60 billion until the end of December 2017, or beyond if necessary. Mr Draghi highlighted also **the unanimity of the Governing Council (GC) on its decision not to change their forward guidance:** *"we stand ready to increase our asset purchase programme in terms of size and/or duration."* The dovish stance remains in place as the GC stressed that a very substantial degree of monetary accommodation is still needed. For the economic outlook, risks remain broadly balanced.

During the Q&A, the attention was focused on the roadmap of the monetary policy normalization process. Mr **Draghi made clear that GC will take a decision in the autumn**. He stressed that they need to be persistent and patient because inflation pressures remain subdued for the moment but eventually will return: *"We are finally experiencing a robust recovery where we only have to wait for wages and prices to follow course."* However, prudence is warranted as "*inflation is not where we want it to be and where it should be."* Moreover, Mr Draghi stressed that the **last thing that the GC may want is an unwanted tightening of the financing conditions that could threaten the Eurozone recovery**. On the question whether tapering scenarios were discussed, he stated that none was discussed, and furthermore he clarified that the ECB staff has not been requested yet by the GC to develop scenarios for the APP (asset purchase programme) after December (when the current program of purchases is set to expire).

Over the last month, markets have accelerated their expectations on monetary policy normalization, following Draghi's upbeat speech in Sintra. On the question of whether the GC is worried about such market evolution, Mr Draghi said that despite the recent movements in bond prices and the euro exchange rate, financing conditions remain supportive. However, he stated that the **repricing of euro has received some attention, which suggests that the ECB could be a bit worried with the recent rally.**

All in all, the message from the ECB was in line with expectations, as the central bank left its monetary policy unchanged, maintaining a cautious tone. Regarding the normalization process, our baseline scenario remains unchanged: **we expect in September (or October at the latest) meeting the ECB to make changes in its communication by removing the downward bias on the APP, which will open the door to a slower pace of APP to start in early 2018.**

PLEASE NOTE: **TRACKING CHANGES IN FOLLOWING STATEMENTS**

in black, wording common to both the current and previous statements, in red and crossed, previous wording that was replaced by new wording, in blue and underlined (YES, TRACK CHANGES ARE THERE ON PURPOSE)

## Mario Draghi, President of the ECB,
## Vítor Constâncio, Vice-President of the ECB,
## ~~Tallinn, 8 June~~Frankfurt am Main, 20 July 2017

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 Governor Hansson for his kind hospitality and express our special gratitude to his staff for the excellent organisation of~~ We will now report on the outcome of today's meeting of the Governing Council~~. We will now report on the outcome of our meeting~~, 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 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 our net asset purchases, at the current monthly pace of €60 billion, are intended to run until the end of December 2017, 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 net purchases ~~will be~~are made alongside reinvestments of the principal payments from maturing securities purchased under the asset purchase programme.

Our monetary policy measures have continued to ~~preserve~~secure the very ~~favourable~~supportive financing conditions that are necessary to ~~secure~~ make continuous progress towards a sustained convergence of inflation rates ~~towards~~to levels below, but close to, 2% over the medium term. The incoming information ~~that has become available since our last monetary policy meeting in late April~~ confirms a ~~stronger momentum in~~ continued strengthening of the economic expansion in the euro area ~~economy~~, which ~~is projected to expand at a somewhat faster pace than previously expected. We consider that the~~has been broadening across sectors and regions. The risks to the growth outlook are ~~now~~ broadly balanced.

~~At~~While the ~~same time, the~~ongoing economic expansion provides confidence that inflation will gradually head to levels in line with our inflation aim, it has yet to translate into stronger inflation dynamics. ~~So far~~Headline inflation is dampened by the weakness in energy prices. Moreover, measures of underlying inflation ~~continue to~~ remain overall at subdued levels. Therefore, a very substantial degree of monetary accommodation is still needed for underlying inflation pressures to gradually build up and support headline inflation developments in the medium term. 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 our asset purchase programme in terms of size and/or duration.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.6%, quarter on quarter, in the first quarter of 2017, after 0.5% in the last quarter of 2016. Incoming data, notably survey results, continue to point to solid, broad-based growth in the period ahead. The pass-through of our monetary policy measures is supporting domestic demand and has facilitated the deleveraging process ~~and should continue to support domestic demand. In particular, the~~. The recovery in investment continues to benefit from very favourable financing conditions and improvements in corporate profitability. ~~Employment~~Private consumption is supported by employment gains, which are also benefiting from past labour market reforms, ~~are supporting real disposable income and private consumption.~~and by increasing household wealth. Moreover, the global recovery ~~is~~should increasingly ~~supporting~~ lend support to trade and euro area exports. However, economic growth prospects continue to be dampened by a ~~sluggish~~slow pace of implementation of structural reforms, ~~in particular~~particularly in product markets, and by remaining balance sheet adjustment needs in a number of sectors, notwithstanding ongoing improvements.

~~This assessment is broadly reflected in the June 2017 Eurosystem staff macroeconomic projections for the euro area, finalised in late May, which are conditional on the full implementation of all our monetary policy measures. These projections foresee annual real GDP increasing by 1.9% in 2017, by 1.8% in 2018 and by 1.7% in 2019. Compared with the March 2017 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised upwards over the projection horizon.~~

The risks surrounding the euro area growth outlook are ~~considered to be~~ broadly balanced. On the one hand, the current positive cyclical momentum increases the chances of a stronger than expected economic upswing. On the other hand, downside risks primarily relating to ~~predominantly~~ global factors continue to exist.

~~According to Eurostat's flash estimate, euro~~Euro area annual HICP inflation was 1.3% in June, down slightly from 1.4% in May, ~~following 1.9% in April and 1.5% in March. As expected, the recent volatility in inflation rates was~~ mainly due to lower energy ~~prices and temporary increases in services prices over the Easter period~~price inflation. Looking ahead, on the basis of current futures prices for oil, headline inflation is likely to remain around current levels in the coming months. At the same time, measures of underlying inflation remain low and have yet to show convincing signs of a pick-up, as ~~unutilised resources are still weighing on~~ domestic ~~price and~~cost pressures, including wage ~~formation.~~growth, are still subdued. Underlying inflation in the euro area is expected to rise only gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion and the corresponding gradual absorption of economic slack.

~~This assessment is also broadly reflected in the June 2017 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.5% in 2017, 1.3% in 2018 and 1.6% in 2019. By comparison with the March 2017 ECB staff macroeconomic projections, the outlook for headline HICP inflation has been revised downwards, mainly reflecting lower oil 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 May 2017, after 4.9% in April ~~2017, after 5.3% in March~~. As in previous months, annual growth in M3 was mainly supported by its most liquid components, with the narrow monetary aggregate M1 expanding at an annual rate of 9.~~2~~3% in ~~April~~May 2017, ~~after 9.1% in March.~~ unchanged from April.

The recovery in ~~loan~~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~~remained stable at 2.4% in ~~April~~May 2017, ~~from 2.3% in the previous month,~~ while the annual growth rate of loans to households ~~remained stable at~~increased to 2.6%, from 2.4% in April. The euro area bank lending survey for the second quarter of 2017 indicates that credit standards for loans to enterprises and loans to households for house purchase have further eased and that loan growth continues to be supported by increasing demand. 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, hence,~~ 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 a continued very substantial 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 ~~much more~~ decisively to strengthening ~~economic~~the longer-term growth~~.~~ potential and reducing vulnerabilities. The implementation of **structural reforms** needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost productivity ~~and potential output~~ growth. Regarding **fiscal policies**, 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 imbalances procedure over time and across countries remains essential to bolster the resilience of the euro area economy.

We are now at your disposal for questions.