Central Banks

The ECB on track to end QE

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- **Asset purchases to be halved since September**
- **No changes in interest rate forward guidance**

As widely expected, 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 reiterated that it expects the key **ECB interest rates to remain "at their present levels at least through the summer of 2019, and in any case for as long as necessary."** Regarding the asset purchase programme **(APP), the central bank confirmed that, after September 2018, the monthly pace of net asset purchases will be reduced to €15 billion until December 2018, and reaffirmed that they will then end the programme, contingent upon incoming data**. Moreover, the **governing council reiterated its intention to reinvest the proceeds of maturing bonds** "for an extended period of time after the end of net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation". The dovish tone remains as Mr Draghi stated that "significant monetary policy stimulus is needed."

The ECB **maintains its assessment of an ongoing broad-based expansion** in the euro zone supported by the **strength of domestic demand**. Mr. Draghi downplayed recent disappointing data, as activity approaches steady growth rates after the rebound observed in the second half of last year. This, along with **tightening labour markets, is pushing up wage growth and underpins the ECB's view of a gradual upward trend in core inflation** in the coming quarters. This scenario is reflected in minor changes in the updated forecasts. **GDP growth has been revised slightly downwards** by 0.1 pp to 2% in 2018 and 1.8% in 2019 **driven by weaker foreign demand**, but remains at 1.7% in 2020. The **outlook for inflation remains unchanged**, holding steady at 1.7% over the forecast horizon. The easing base effects of energy prices in the coming months should be offset by the gradual increase in core inflation from the end of the year (slight downward revision of 0.1 pp to 1.5% in 2019 and 1.8% in 2020). Mr. Draghi stressed that all members of the **Governing Council agreed that the risks to the growth outlook are broadly balanced** (unchanged from previous month's assessment), as **more prominent risks on protectionism and emerging markets should be offset by** upside domestic risks stemming from **less neutral fiscal policy in some members states and the improvement in the labour market and wages**.

All in all, the **ECB is on track to end QE but refrained from giving new clues on the next steps on the path to normalisation**; in particular Mr Draghi stressed that it is **premature to talk about rate hikes**. In the coming months the focus will be on knowing how reinvestment policy will be instrumented and when and at what pace interest rates will rise. So far, the ECB seems comfortable with markets expectations; hence, they are not in a hurry to make any change in its forward guidance.

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

in grey, wording common to both the current and previous statements, in light grey 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,

Luis de Guindos, Vice-President of the ECB,

Frankfurt am Main, ~~26 July~~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 ~~September 2018. We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook~~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.

~~While uncertainties, notably related to the global trade environment, remain prominent, the~~The incoming information ~~available since~~, including our ~~last monetary policy meeting indicates that~~ new September 2018 staff projections, broadly confirms our previous assessment of an ongoing broad-based expansion of the euro area economy ~~is proceeding along a solid~~ and ~~broad-based growth path.~~gradually rising inflation. The underlying strength of the economy ~~confirms~~continues to support our confidence that the sustained convergence of inflation to our aim will ~~continue in the period ahead~~proceed and will be maintained even after a gradual winding-down of our net asset purchases. ~~Nevertheless, significant~~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**. ~~Quarterly~~Euro area real GDP ~~growth moderated to 0.4%~~increased by 0.4%, quarter on quarter, in the ~~first~~second quarter of 2018, following growth ~~of 0.7%~~at the same rate in the previous ~~three quarters. This easing reflects a pull-back from the very high levels of growth in 2017 and is related mainly to weaker impetus from previously very strong external~~

~~trade, compounded by an increase in uncertainty and~~quarter. Despite some ~~temporary and supply-side factors at both~~moderation following the ~~domestic and~~strong growth performance in 2017, the ~~global level. The~~ latest economic indicators and survey results ~~have stabilised and continue to point to~~overall confirm ongoing ~~solid and~~ broad-based ~~economic growth, in line with the June 2018 Eurosystem staff macroeconomic projections for~~ growth of the euro area economy. 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.~~rising wages. 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~~activity is expected to continue, ~~thus providing impetus to~~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. ~~Uncertainties related to global factors, notably the threat of~~At the same time, risks relating to rising protectionism, ~~remain prominent. Moreover, the risk of persistent heightened~~vulnerabilities in emerging markets and financial market volatility ~~continues to warrant monitoring~~have gained more prominence recently.

~~Euro~~According to Eurostat's flash estimate, euro area annual HICP inflation ~~increased to~~was 2.0% in ~~June~~August 2018, down from 2.1~~.9~~% in ~~May, reflecting mainly higher energy and food price inflation~~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~~, the corresponding absorption of economic slack~~ 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 ~~increased~~declined to 4.~~4% in June 2018, up from 4.~~0% in ~~May.~~July 2018, from 4.5% in June. Apart from some volatility in monthly flows, M3 growth ~~continues to benefit from the impact of the ECB's monetary policy measures and the low opportunity cost of holding the most liquid deposits~~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 ~~rose to~~stood at 4.1% in ~~June~~July 2018, ~~after 3.7% in the previous month,~~ while the annual growth rate of loans to households ~~remained~~stood at 3.0%, both unchanged ~~at 2.9%. The euro area bank lending survey for the second quarter of 2018 indicates that loan growth continues to be supported by easing credit standards and increasing demand across all loan categories~~from June.

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 ~~ongoing~~ broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt ~~remains~~is high~~. All countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A~~ 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 ~~Stability and Growth Pact and of the macroeconomic imbalance procedure~~EU's fiscal and economic governance framework over time and across countries remains essential to ~~increase~~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.

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