EUROPEAN CENTRAL BANK
EUROSYSTEM

# PRESS CONFERENCE

## Frankfurt am Main, 9 March 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.

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 present or lower 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 we will continue to make purchases under the asset purchase programme (APP) at the current monthly pace of €80 billion until the end of this month and that, from April 2017, our net asset purchases are intended to continue at a monthly pace of €60 billion 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 made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

Our monetary policy measures have continued to preserve the very favourable financing conditions that are necessary to secure a sustained convergence of inflation rates towards levels below, but close to, 2% over the medium term. Their ongoing pass-through to the borrowing conditions for firms and households benefits credit creation and supports the steadily firming recovery of the euro area economy. Sentiment indicators suggest that the cyclical recovery may be gaining momentum.

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Headline inflation has again increased, largely on account of rising energy and food price inflation. However, underlying inflation pressures continue to remain subdued. The Governing Council will continue to look through changes in HICP inflation if judged to be transient and to have no implication for the medium-term outlook for price stability.

A very substantial degree of monetary accommodation is still needed for underlying inflation pressures to build up and support headline inflation 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 0.4%, quarter on quarter, in the fourth quarter of 2016, following a similar pace of growth in the third quarter. Incoming data, notably survey results, increase our confidence that the ongoing economic expansion will continue to firm and broaden. The pass-through of our monetary policy measures is supporting domestic demand and facilitates the ongoing deleveraging process. The recovery in investment continues to be promoted by very favourable financing conditions and improvements in corporate profitability. Moreover, rising employment, which is also benefiting from past structural reforms, is having a positive impact on households' real disposable income, thereby providing support for private consumption. Also, there are signs of a somewhat stronger global recovery and increasing global trade. However, economic growth in the euro area is expected to be dampened by a sluggish pace of implementation of structural reforms and remaining balance sheet adjustment needs in a number of sectors.

This assessment is broadly reflected in the March 2017 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP increasing by 1.8% in 2017, by 1.7% in 2018 and by 1.6% in 2019. Compared with the December 2016 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised upwards slightly in 2017 and 2018. The risks surrounding the euro area growth outlook have become less pronounced, but remain tilted to the downside and relate predominantly to global factors.

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According to Eurostat's flash estimate, euro area annual HICP inflation increased further to 2.0% in February, up from 1.8% in January 2017 and 1.1% in December 2016. This reflected mainly a strong increase in annual energy and unprocessed food price inflation, with no signs yet of a convincing upward trend in underlying inflation. Headline inflation is likely to remain at levels close to 2% in the coming months, largely reflecting movements in the annual rate of change of energy prices. Measures of underlying inflation, however, have remained low and are expected to rise only gradually over the medium term, supported by our monetary policy measures, the expected continuing economic recovery and the corresponding gradual absorption of slack.

This pattern is also reflected in the March 2017 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2017, 1.6% in 2018 and 1.7% in 2019. By comparison with the December 2016 Eurosystem staff macroeconomic projections, the outlook for headline HICP inflation has been revised upwards significantly for 2017 and slightly for 2018, while remaining unchanged for 2019. The staff projections are conditional on the full implementation of all our monetary policy measures.

Turning to the **monetary analysis**, broad money (M3) continues to expand at a robust pace, with an annual rate of growth of 4.9% in January 2017, after 5.0% in December 2016. 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 8.4% in January 2017, after 8.8% in December 2016.

Loan dynamics followed the path of gradual recovery observed since the beginning of 2014. The annual growth rate of loans to non-financial corporations was 2.3% in January 2017, as in the previous month. The annual growth rate of loans to households was 2.2% in January 2017, after 2.0% in December 2016. Although developments in bank credit continue to reflect the lagged relationship with the business cycle, credit risk and the ongoing adjustment of financial and non-financial sector balance sheets, the monetary policy measures put in place since June 2014 are significantly supporting

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borrowing conditions for firms and households and thereby 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% without undue delay.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute much more decisively to strengthening economic growth. The implementation of **structural reforms** needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost potential output growth. Against the background of overall limited implementation of country-specific recommendations in 2016, greater reform effort is necessary in all euro area countries in 2017. Regarding **fiscal policies**, all countries should intensify efforts towards achieving a more growth-friendly composition of public finances. A full and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalances procedure over time and across countries remains crucial to ensure confidence in the EU's governance framework.

We are now at your disposal for questions.

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