

PRESS CONFERENCE

Frankfurt am Main, 13 December 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 President of the Eurogroup, Mr Centeno.

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**, our net purchases under the asset purchase programme (APP) will end in December 2018. At the same time, we are enhancing our forward guidance on reinvestment. Accordingly, we intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

While incoming information has been weaker than expected, reflecting softer external demand but also some country and sector-specific factors, the underlying strength of domestic demand continues to underpin the euro area expansion and gradually rising inflation pressures. This supports our confidence that the sustained convergence of

inflation to our aim will proceed and will be maintained even after the end of our net asset purchases. At the same time, uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent. 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. Our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets, continues to provide the necessary degree of monetary accommodation for the sustained convergence of inflation to our aim. 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 0.2%, quarter on quarter, in the third quarter of 2018, following growth of 0.4% in the previous two quarters. The latest data and survey results have been weaker than expected, reflecting a diminishing contribution from external demand and some country and sector-specific factors. While some of these factors are likely to unwind, this may suggest some slower growth momentum ahead. At the same time, domestic demand, also backed by our accommodative monetary policy stance, continues to underpin the economic expansion in the euro area. The strength of the labour market, as reflected in ongoing employment gains and rising wages, still supports private consumption. Moreover, business investment is benefiting from domestic demand, favourable financing conditions and improving balance sheets. Residential investment remains robust. In addition, the expansion in global activity is still expected to continue, supporting euro area exports, although at a slower pace.

This assessment is broadly reflected in the December 2018 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and 1.5% in 2021. Compared with the September 2018 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised slightly down in 2018 and 2019.

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The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. However, the balance of risks is moving to the downside owing to the persistence of uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility.

According to Eurostat's flash estimate, euro area annual HICP inflation declined to 2.0% in November 2018, from 2.2% in October, reflecting mainly a decline in energy inflation. On the basis of current futures prices for oil, headline inflation is likely to decrease over the coming months. Measures of underlying inflation remain generally muted, but domestic cost pressures are continuing to strengthen and broaden amid high levels of capacity utilisation and tightening labour markets, which is pushing up wage growth. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

This assessment is also broadly reflected in the December 2018 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.8% in 2018, 1.6% in 2019, 1.7% in 2020 and 1.8% in 2021. Compared with the September 2018 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised slightly up for 2018 and down for 2019.

Turning to the **monetary analysis**, broad money (M3) growth stood at 3.9% in October 2018, after 3.6% in September. Apart from some volatility in monthly flows, M3 growth continues to be supported by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

In line with the upward trend observed since the beginning of 2014, the growth of loans to the private sector continues to support the economic expansion. The annual growth rate of loans to non-financial corporations stood at 3.9% in October 2018, after 4.3% in September, while the annual growth rate of loans to households remained unchanged at 3.2%. 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 Governing Council reiterates the need 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 welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

Further information on the technical parameters of the reinvestments will be released at 15:30 CET on the ECB's website.

We are now at your disposal for questions.

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