EUROPEAN CENTRAL BANK

EUROSYSTEM

2 July 2015

Account of the monetary policy meeting

of the Governing Council

of the European Central Bank

held in Frankfurt am Main

on Tuesday and Wednesday, 2-3 June 2015

………………………………………………..…….

Mario Draghi

President of the European Central Bank

1. Review of financial, economic and monetary developments and policy options

Financial market developments

Mr Cœuré reviewed recent financial market developments.

Since the Governing Council's previous monetary policy meeting on 14-15 April 2015, the implementation of the ECB's expanded asset purchase programme (APP) had continued smoothly in a market environment characterised by rising euro area government bond yields and bouts of volatility, with the higher levels of excess liquidity putting downward pressure on euro money market rates. The increased volatility and pick-up in bond yields had had some spillover effects on other global bond markets.

Regarding developments in the euro area bond markets, the period since the April monetary policy meeting had been characterised by a rise in yields, led by German government bonds. Since December 2013, when the German ten-year government bond yielded 2%, yields had been on a virtually uninterrupted downward trend. On 17 April 2015 they had reached 0.05%, their lowest ever intraday level. At the end of April and in the first half of May, the German ten-year government bond yield had, however, risen substantially, touching intraday highs close to 0.78% on 7 and 14 May. Yield changes had been most pronounced in long-term maturities, leading to a significant steepening of the German yield curve. Since those moves, the German ten-year bond yield had declined somewhat and on 1 June had closed at 0.54%. The yields on other euro area government bonds had also been under upward pressure. During the first two weeks of the bond sell-off, yields had generally increased by less than those on German government bonds, but yield spreads had widened during the second half of May.

Among the different explanations put forward by market analysts for the bond market moves since the monetary policy meeting on 14-15 April, three seemed to have played a key role.

First, several indicators of euro area economic activity and sentiment released in the second half of April had increased, thereby supporting expectations that the economy was gradually picking up. Second, the recovery in euro area inflation expectations and inflation data had also started to attract analysts' attention, including the HICP release on 2 June, which was associated with sizeable market moves. That said, a change in fundamentals could not explain such an abrupt correction in yields. Accordingly, third, technical factors in the markets were also likely to have contributed. Gross bond issuance by euro area governments in May had been high, with hardly any redemptions. Furthermore, many investors' positioning had reportedly been one-directional, owing to the conviction that yields would remain at the prevailing levels or would even decline further. Once the markets had started to turn around, the unwinding of investors' positions had been very quick and pronounced. In this environment, volatility had increased substantially over the period between the end of April and the end of May. Inter alia, market analysts had pointed to relatively poor market liquidity conditions as significantly exacerbating the rise in bond yields, which had been linked to the general positioning of the market and to the absence of some traditionally active investors.

Turning to the implementation of the APP, Eurosystem securities holdings had increased by €60.3 billion in April and by €63.1 billion in May. The recent significant increase in yields had had a positive impact on the implementation of the public sector purchase programme (PSPP) and on market liquidity for covered bonds. Covered bond purchases under the CBPP3 had amounted to €34 billion over a three-month period to the end of May, taking the cumulative book value of CBPP3 holdings to €85.1 billion, with the share of primary market purchases standing at 18%. The recent sell-off in the euro area fixed income market had temporarily facilitated the implementation of the CBPP3, with some investors selling more covered bonds under the CBPP3 when they became less attractive than sovereign bonds on a relative value basis. Moving to the ABS purchase programme, purchases of asset-backed securities had amounted to €1.2 billion in April and €1.4 billion in May. In May, ABS primary market issuance had been somewhat stronger. Cumulative purchases under the programme had increased to €7.2 billion by the end of May, having been largely concentrated in the secondary market.

Looking ahead, expanding the size of the Eurosystem balance sheet toward levels observed at the beginning of 2012, which had been the stated objective of the purchase programmes and the targeted longer-term refinancing operations (TLTROs), appeared to be within reach. With respect to liquidity developments in the banking system, excess liquidity had doubled since the start of the PSPP purchases. The higher excess liquidity had continued to exert downward pressure on short-term euro money market rates, as evidenced by several new all-time lows in various market segments, illustrating a stronger pass-through of the accommodative monetary policy stance into money market rates. Having begun in the wholesale markets, negative rates were now spreading to the retail markets through the EURIBOR, which did not seem to be creating major disruptions in contracts. However, the further narrowing of the spread between the overnight money market rate and the rate on the deposit facility was becoming a disincentive for banks to lend into the market as opposed to them depositing excess cash at the central bank with potentially an adverse impact on market functioning.

Money market forward rates had increased, as the bond market sell-off had also put pressure on money market rates in longer maturities at the beginning of May. Since then, this upward trend had come to a halt and, over the last two weeks of May, forward rates had partly reversed their earlier sharp increases.

Finally, with regard to developments in international markets, the elevated volatility and the significant increase in euro area government bond yields had had some spillover effects on other global bond markets. US Treasury yields and, to a lesser extent, Japanese government bond yields had risen sharply since the Governing Council's April monetary policy meeting, while US and Japanese yield curves had steepened. In the context of stronger economic and inflation data in the euro area, the euro had appreciated against other major currencies over the period.

The global environment and economic and monetary developments in the euro area

Mr Praet reviewed the global environment and recent economic and monetary developments in the euro area.

Global growth momentum had softened in the first quarter of 2015, with the recovery remaining uneven across regions. Global trade had also lost momentum in the first quarter. Annual OECD CPI inflation had declined to 0.4% in April 2015, from 0.6% in March. Excluding food and energy, it had decreased slightly to 1.6%.

Since the Governing Council's monetary policy meeting on 14-15 April 2015, Brent crude oil prices had risen by 12% to stand at USD 63 per barrel on 1 June (8% higher in euro terms) and thus almost 40% higher than in mid-January 2015 (almost 50% higher in euro terms). Non-oil commodity prices had also slightly increased since mid-April. Over the same period, the euro had appreciated by 3.6% against the US dollar and by 2.8% in nominal effective terms.

For the euro area, real GDP had risen by 0.4%, quarter on quarter, in the first quarter of 2015. Although no breakdown was available as yet, data suggested that both the industrial and services sectors had made positive contributions to real GDP growth. In addition, short-term indicators and country-specific information pointed to strong private consumption and, to a lesser extent, a pick-up in investment growth.

Looking ahead, survey data for the second quarter pointed to continued moderate real GDP growth. Both the composite output PMI and the European Commission's economic sentiment indicator had improved between the first quarter of 2015 and the first two months of the second quarter. In addition, both indicators had stood, on average in April and May, above their respective long-term averages.

Consumption was expected to remain the main driver of the recovery in the euro area, with the past fall in oil prices supporting households' purchasing power. A recovery in investment could also be expected in view of improving financing conditions and lower energy prices easing firms' costs in the short term. However, profits – as measured by the net operating surplus as a share of value added – had still been on the decline and there was a risk that they would remain weak, notwithstanding a cyclical pick-up in domestic and external demand.

The improvement in euro area labour markets had continued, albeit proceeding relatively slowly. Employment had risen further by 0.1%, quarter on quarter, in the last quarter of 2014, while the unemployment rate had declined by 0.2 percentage point, to 11.3%, in the first quarter of 2015 and stood at 11.1% in April. Survey data pointed to continued moderate, possibly accelerating, employment growth in the first and second quarters of 2015.

While output had grown in recent quarters and the unemployment rate had declined from its peak in 2013, there was still considerable slack in the euro area economy. According to available estimates, the negative output gap was currently nearly as large as in 2009. Although the output gap was expected to close and potential growth to pick up in the coming years, the loss in actual and potential output owing to the crisis and to structural impediments to growth was likely to remain substantial in the medium term.

Against this background, the June 2015 Eurosystem staff macroeconomic projections for the euro area saw real GDP increasing by 1.5% in 2015, 1.9% in 2016 and 2.0% in 2017. This was virtually unchanged from the March 2015 ECB staff projections.

Turning to price developments in the euro area, headline inflation had continued on an upward path and underlying inflation had moved off a historical low.

According to Eurostat's flash estimate, annual HICP inflation had increased to 0.3% in May 2015 from 0.0% in April, turning positive for the first time since November 2014. HICP inflation excluding food and energy had also increased, from 0.6% in April to 0.9% in May. Headline inflation was expected to continue to hover around low levels until later in 2015, when it was seen as increasing on account of base effects due to earlier developments in oil prices. In 2016 and 2017 inflation was expected to rise further, owing to a gradual decline in economic slack and positive external price pressures, reflecting the lagged effect of the exchange rate and the upward sloping oil price futures curve.

Broadly consistent with this picture, PMI survey data on output and input prices had generally pointed to increases in May 2015, while further upward price pressures along the pricing chain, such as producer prices, were likely to be imminent. Also in the retail sector, selling price expectations had been recovering and were now higher in most large euro area economies.

The June Eurosystem staff projections saw annual HICP inflation at 0.3% in 2015, 1.5% in 2016 and 1.8% in 2017. Compared with the March ECB staff projections, the outlook for HICP inflation had been revised upwards for 2015 and remained unchanged for 2016 and 2017.

As regards longer-term inflation expectations, market-based measures had broadly stabilised at higher levels, albeit displaying some volatility. For instance, the five-year forward inflation-linked swap rate five years ahead stood at 1.8% in early June 2015. Shorter-term market-based measures, such as forward inflation-linked swap rates with maturities of up to five years, remained broadly unchanged overall since the April monetary policy meeting.

Moving on to monetary and financial conditions, the EONIA forward curve had steepened since mid-April, notably at medium to longer horizons. Sovereign bond yield spreads had increased somewhat between April and May, while corporate spreads had broadly stabilised. Against the background of sharp increases in longer-term nominal yields in the euro area, real rates had likewise increased amid broadly stable inflation expectations. Nonetheless, financing conditions for corporates and households had, overall, improved somewhat further.

Regarding money and credit, the recovery in broad money growth and loan dynamics had continued, although only gradually in the case of the latter. The annual growth rate of M3 had increased to 5.3% in April from 4.6% in March. This increase had been mostly driven by the narrow monetary aggregate M1, up to 10.5% in April from 10.0% in March, reflecting the low opportunity cost of holding the most liquid components of money.

The annual growth rate of MFI loans to the private sector (adjusted for loan sales and securitisation) had remained unchanged at 0.8% in April 2015. The annual rate of change in MFI loans to non-financial

corporations had stood at -0.1%, slightly improved from March and notably up from the trough (-3.2%) recorded in February 2014. The annual growth rate of MFI loans to households had been 1.3% in April 2015, up from 1.1% in March.

Banks' funding costs had continued to fall significantly in the first quarter, partly related to the expanded APP. In addition, the creation of the Single Supervisory Mechanism was contributing to a defragmentation of financial markets. At the same time, non-performing loans remained a factor constraining credit expansion in some countries.

The latest half-yearly "Survey on the access to finance of enterprises in the euro area" (SAFE), which had been conducted between 16 March and 25 April 2015 and reported mainly on changes with respect to the period from October 2014 to March 2015, highlighted that, for the first time since 2009, SMEs signalled an overall improvement in the availability of external sources of finance and in the willingness of banks to lend. This was also reflected in the more favourable terms and conditions applied by banks when granting new loans. Amid some signs of improvements in the financial situation of SMEs, the general economic outlook had also had a smaller negative impact on their financing conditions in comparison with the previous survey round.

As regards fiscal policies, the June Eurosystem staff projections had seen the fiscal stance for the euro area, as measured by the change in the cyclically adjusted primary balance, to be broadly neutral over the projection horizon. The aggregate euro area government deficit-to-GDP ratio was projected to improve from 2.4% in 2014 to 1.5% in 2017, mainly on account of the cyclical recovery and low interest payments. The aggregate euro area government debt-to-GDP ratio had peaked at 92% in 2014 and was projected to decline gradually to 88.4% by 2017.

Monetary policy considerations and policy options

Summing up, Mr Praet noted that the latest data confirmed that the euro area economy was growing at a moderate pace and that, looking ahead, the economic recovery was expected to broaden in line with what had already been expected in the March 2015 ECB staff projections. On the nominal side, euro area HICP inflation had continued on its upward path and inflation expectations remained broadly unchanged. Cross-checking the results of the economic analysis with evidence from the monetary analysis, money and credit dynamics had strengthened further in a context of favourable financial conditions and remained consistent with the outlook of a slowly improving environment for euro area economic growth and inflation. At present it was judged that recent strong fluctuations in financial market prices had not materially altered this picture, while close monitoring and continuous assessment were warranted from a monetary policy perspective.

Furthermore, while a case could be made for prudent optimism, the outlook for euro area growth and inflation remained conditional on the full implementation of all the monetary policy measures in place. Moreover, the economic recovery still faced headwinds related to the necessary balance sheet adjustments in various sectors of the economy and insufficient structural reforms to improve the business

environment and investment activity. Risks to the economic recovery therefore remained on the downside – although more balanced on account of the January monetary policy decisions and oil price and exchange rate developments.

Against this background, the Governing Council needed to continue to monitor closely the outlook for price developments over the medium term and also ensure that the degree of monetary accommodation throughout the euro area remained appropriate.

With regard to key monetary policy issues for the present meeting, Mr Praet deemed that the information available since the Governing Council's previous monetary policy meeting on 14-15 April did not give grounds to reconsider the monetary policy stance or any of the APP parameters. Accordingly, it was warranted to maintain a steady monetary policy course and to signal the Governing Council's commitment to the firm implementation of the previously announced measures. To this end, the Governing Council needed to reconfirm the monthly APP purchase volume of €60 billion and that purchases were intended to be carried out until the end of September 2016 – and in any case until the Governing Council saw a sustained adjustment in the path of inflation that was consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term.

In addition, Mr Praet raised the need for the Governing Council to assess recent strong fluctuations in financial market prices from a monetary policy perspective.

2. Governing Council's discussion and monetary policy decisions

Economic and monetary analyses

With regard to the economic analysis, the members of the Governing Council generally shared the assessment of the outlook and risks for economic activity in the euro area provided by Mr Praet in his introduction. The latest economic data, including survey evidence available up to May 2015, were seen to be consistent with a continuation of the moderate growth trend in the second quarter of the year. Overall, the euro area recovery appeared to be proceeding in line with earlier expectations. Looking ahead, the economic recovery was expected to broaden, supported by the improvement in financial conditions, the past decline in oil prices and depreciation of the euro. At the same time, there were still a number of factors dampening growth, including the necessary balance sheet adjustments in some sectors and the sluggish pace of structural reforms. This assessment was broadly reflected in the June 2015 Eurosystem staff macroeconomic projections, which had not seen any major revisions, and could be viewed as confirmation of the outlook for growth that had been embedded in the March 2015 ECB staff projections. As in the previous exercise, the June 2015 macroeconomic projections were predicated on the full implementation of the monetary policy measures in place.

A number of remarks were made regarding both the outlook and the risks for the international environment. While global growth was expected to increase gradually, growth in global trade had experienced a slowdown at the start of the year and there had been some weakening in the global recovery. Geopolitical uncertainties continued to prevail. There was therefore a downside risk to trade, which in the case of the euro area had, to some extent, been compensated for by past movements in the exchange rate. At the same time, it was suggested that the external environment might be weak for some time, while the positive effects of the lower exchange rate on euro area growth would gradually dissipate. Members were in general agreement that the recovery was broadly on track to unfold as expected. Available evidence pointed to ongoing growth of around 0.4% quarter on quarter, which was consistent with the June staff projections. Although a number of surveys had recently provided indications of a stabilisation or of a plateau being reached, it was recalled that survey results needed to be interpreted with caution.

Some observations were made regarding the latest country-specific developments. The overall conclusion was that recent developments in the largest euro area countries seemed to support the assessment of continued moderate growth.

There was broad agreement about the important role of investment and a resumption of risk-taking in the real economy for a sustained recovery, as well as about the connection between a pick-up in investment and an improvement in profit margins. While it was recognised that cyclical developments pointed to an upturn in profits, it was possible that downward pressures on profits might continue, notably owing to the impact of globalisation. On a future occasion, it would be worthwhile for the members of the Governing Council to discuss in more detail what was driving profit developments, including evidence on the pricing power of euro area firms in domestic and foreign markets.

Looking at country-specific developments, the composition of growth in the first quarter of the year highlighted some positive indications for investment growth across countries. Despite these positive signs, there was still a high degree of uncertainty about the investment outlook across the euro area.

Members also referred to developments in potential growth and the degree of slack in the economy. In this context, it was underlined that, even if the output gap was closing over the projection horizon, output growth in the euro area was developing below its pre-crisis long-term trend, owing in part to past low investment. The euro area was thus experiencing a cyclical, rather than a structural, recovery. At the same time, the well-known uncertainty surrounding estimates of the output gap was recalled, which supported a cautious interpretation of the output gap. This caution was also seen to be applicable to estimates of the structural level of unemployment.

The outlook for economic activity was seen as being dependent on the implementation of structural reforms and sound public finances. For the full benefits of the monetary policy measures to be reaped, other policy areas needed to contribute decisively. There was no room for complacency. Important challenges, including low potential growth and high structural unemployment in certain parts of the euro area, remained to be addressed. It was equally important to monitor productivity developments closely, as they were a key determinant of potential growth and therefore also of the size of the output gap.

A number of remarks were made about fiscal developments. On the one hand, it was noted that one of the key features of the current projections, and one of the factors supporting growth, was the broadly neutral fiscal stance from 2014 onwards, after the more restrictive fiscal stance in previous years. The point was made that, even if the fiscal stance for the euro area was neutral overall, from a macroeconomic perspective different policy advice was warranted for different countries. While some countries still needed further fiscal consolidation, one should caution against making a uniform plea for more fiscal tightening. At the same time, the comment was made that the Stability and Growth Pact seemed to be, once more, incorrectly perceived to be about reaching the 3% government deficit ratio, rather than about aiming for a structural government budget balance close to zero in the medium term. In this context, it was important to learn from the mistakes of the past.

Overall, members noted that the recovery in the euro area economy was proceeding in line with the Governing Council's earlier expectations. While they remained on the downside, the risks surrounding the economic outlook for the euro area had become more balanced on account of earlier monetary policy decisions and oil price and exchange rate developments.

With regard to price developments, there was broad agreement with the assessment presented by Mr Praet in his introduction. Reference was made to Eurostat's flash estimate, according to which euro area annual HICP inflation had risen to 0.3% in May 2015, the first positive rate since late 2014, reflecting higher annual growth rates for all main components of the HICP. While the outcome in May was slightly above market expectations, it was in line with the June Eurosystem staff projections. However, the annual rate of HICP inflation excluding food and energy, which increased to 0.9% in May from 0.6% in April, was slightly higher than expected. While it was important to remain cautious, as these data related to only one month, it was nevertheless considered to be a positive development.

Inflation seemed to have bottomed out at the beginning of the year. While expected to remain low over the months ahead, inflation rates were seen to rise visibly towards the end of the year and to pick up further in 2016 and 2017. This assessment was also broadly reflected in the June 2015 Eurosystem staff macroeconomic projections. The pick-up in inflation was expected to be supported by the gradual closing of the output gap, the impact of the lower exchange rate of the euro and the assumed path of oil prices according to oil futures markets. Accordingly, the inflation profile for 2015-16 also reflected base effects on account of the sharp fall in oil prices in late 2014. A number of other positive indications were also highlighted, including the recovery of inflation expectations from their troughs in early 2015 and the absence of significant deflation risks.

Members took note of these developments, in particular of the confirmation of the inflation outlook provided by the projections. At the same time, it was noted that the role of external factors in this turnaround appeared to be significant. It would therefore be very important to monitor carefully domestic inflation indicators in order to assess whether a sustained adjustment in the path of inflation had been achieved.

It was underlined that the degree of forecast uncertainty tended to increase with the length of the projection horizon, and it remained to be seen whether inflation would increase as strongly as projected

by staff. In particular, the size of the output gap and the speed at which it closed would have important implications for the inflation rate in 2017. Two issues were noted in this context. First, while it had to be recognised that there was substantial measurement uncertainty, the output gap in the June Eurosystem staff projections was assessed to close somewhat faster than the estimates of some international institutions. Second, since 2010, core inflation in the euro area had been around 1¼%, with movements in headline inflation being driven primarily by developments in the non-core components of the HICP. The Governing Council should therefore not draw conclusions prematurely, in particular as regards the price outlook for 2017, but rather continue its close monitoring and assessment of underlying price trends.

The inflation outlook embedded in the staff projections was also seen to be based on a fairly strong pass-through of the past depreciation of the exchange rate and to depend on a future upward path of oil prices. As regards the former, different views were expressed by members. It was pointed out that, over the past 10-15 years, the pass-through of the exchange rate had been slower following large movements. The pass-through had also been slow so far for the euro area. A pricing-to-market strategy on the part of euro area exporters, which implied higher euro prices following the depreciation of the euro, represented a low pass-through to importing countries. At the same time, it could be argued that this was not that surprising, as exporting firms needed to see where the exchange rate would stabilise. It would take some time for foreign prices to adjust. In the meantime, margins were improving and the potential for having more competitive products on markets abroad was a positive indicator for the future. Many euro area countries would, over time, benefit through their exports of goods and services.

All in all, the euro area economy was seen to be moving in the right direction and inflation was also improving. In their assessment of the risks surrounding the inflation outlook, members referred to the pass-through of the monetary policy measures, as well as geopolitical, exchange rate and energy price developments. While there was broad agreement on the need to monitor closely the risks to the outlook, the Governing Council saw recent developments as overall confirming its previous assessment and the staff projections.

With regard to the monetary analysis, members concurred with the assessment that money and credit dynamics had strengthened further, although credit growth had improved only gradually and remained overall subdued. Recent data had confirmed that growth in broad money (M3) had continued to accelerate, driven by a further pick-up in the narrow monetary aggregate M1.

The robust recovery in the most liquid components of money was seen to reflect a more pronounced preference for liquidity given the low opportunity cost of holding monetary instruments. As a result, there had been a substitution within MFI liabilities towards short-term instruments included in M3 owing to the low incentives for the money-holding sector to invest in alternative assets, as their returns were not high enough to compensate for the loss of transaction services that money offered. In addition, the most recent acceleration in broad money growth was starting to reflect the effects of the Eurosystem's asset purchases from the euro area money-holding sector, in particular via increased holdings of monetary deposits by non-monetary financial intermediaries, especially investment funds. All in all, caution was still

seen to be warranted as regards possible monetary policy interpretations of recent favourable dynamics in money growth.

Loan dynamics, while remaining subdued, had gradually improved further. Though the annual growth rate of loans to the private sector had remained at 0.8% in April, a positive signal was visible from developments over the previous six months, whereby loans to the private sector on a six-month annualised basis recorded a growth rate of 2%. These developments had been supported by significant decreases in composite bank lending rates, which had declined by around 60 basis points for euro area non-financial corporations since May 2014, as well as by signs of an improvement in both the supply of, and demand for, bank loans. In particular, banks showed a greater willingness to lend, as extending credit had become relatively more attractive in the context of a negative rate on the deposit facility, whereby individual banks were seeking ways to avoid the higher cost of keeping deposits with the Eurosystem, although this was not possible for the banking system to achieve in the aggregate.

Overall, also taking into account the pipeline effects from the interest rate cuts in 2013 and 2014, the credit-easing package from the summer of 2014 and the comprehensive assessment of banks' balance sheets, recent developments confirmed that the ECB's monetary policy measures were helping to restore the proper functioning of the monetary policy transmission mechanism and were continuing to support a further recovery in credit flows to firms and households. Complementing earlier positive evidence from the bank lending survey on the general improvements in credit market conditions, the recent survey on enterprises' access to finance (SAFE) had provided indications that the more favourable credit environment not only applied to large firms but was also trickling down to SMEs.

Despite these improvements, the dynamics of loans to non-financial corporations remained subdued. This could, in part, be attributed to the ongoing adjustment of financial and non-financial sector balance sheets, which was still incomplete, as evidenced by the high level of non-performing loans in some countries where a clear turnaround could not yet be discerned. At the same time, it was felt that increased recourse to various forms of non-bank sources of financing needed to be taken into account in the assessment alongside the bank lending channel. In this context, it was noted that an environment of weak credit growth, coupled with attractive financing conditions, also required caution on the part of the relevant authorities with regard to possible financial stability implications, arising in particular from a shift of intermediation activity into the shadow banking sector.

Monetary policy stance and policy considerations

Members generally shared the assessment that the economic recovery was proceeding at a moderate pace in line with earlier expectations, with inflation continuing its upward trajectory and money and credit dynamics strengthening further, supported by the accommodative monetary policy stance. Members also recalled that the outlook for growth and inflation, as portrayed in the June 2015 Eurosystem staff macroeconomic projections, which were virtually unchanged from the March ECB staff projections, was predicated on the full implementation of all the monetary policy measures taken by the Governing

Council. Overall, there was broad agreement that cross-checking the assessment of economic and monetary developments did not give reason to reconsider the current monetary policy stance or any of the APP parameters. This called for maintaining a steady monetary policy course, firmly implementing the Governing Council's monetary policy measures.

Regarding the need to assess the recent sharp fluctuations in financial market prices from a monetary policy perspective, as suggested by Mr Praet in his introduction, there was broad agreement that the recent partial reversal of previous strong increases in financial market prices was of a multifaceted nature and was likely to be related to the three factors mentioned by Mr Cœuré, namely a reappraisal of the economic outlook by market participants, the observed recovery in inflation expectations since early 2015 and a number of technical market factors. Recent financial market developments had been dominated by sharp movements in government bonds, accompanied by a fall in equities and a stronger euro, which, however, on balance, were not assessed to have materially altered the economic outlook for the euro area. On this basis, it was widely felt that it was advisable for the Governing Council to look through recent financial market volatility. As stated on previous occasions, if there were factors that led to an unwarranted tightening of monetary policy, or if the outlook for growth and inflation were to materially change, the features of the monetary policy programmes in place would have to be reviewed. There was, however, no reason to do so now.

As regards the factors behind volatility in financial market prices, to the extent that the rise in longer-term real interest rates and the re-appreciation of the euro were related to expectations of an improved macroeconomic outlook, this was to be seen as a confirmation of the current monetary policy stance. To the extent that the recent reversal was a correction driven mainly by technical factors, volatility could subside again as markets adjusted to the new market environment, characterised by the injection of cash associated with the Eurosystem's asset purchases and the implications for the pricing of sovereign bonds. However, there were also reasons to expect that increased volatility would persist in an environment of low interest rates in which asset prices tended to be more volatile, as also borne out by the experience in other jurisdictions. Prevailing geopolitical risks and continued uncertainty about the outcome of negotiations between one euro area government and its official creditors were also seen as likely sources of market uncertainty and volatility.

Notwithstanding the recent volatility in the financial markets, the ECB's monetary policy measures were seen to be working in the right direction. Asset purchases were proceeding well and positive effects were visible. Taking a somewhat longer-term perspective, the monetary policy measures introduced since the summer of 2014 had contributed to a broad-based easing in financial conditions, which remained very accommodative in spite of the recent reversal in financial market prices. In particular, short-term money market rates remained at historically low levels and in line with the Governing Council's forward guidance on the key policy interest rates and the ongoing expansion of the Eurosystem balance sheet. Moreover, financing conditions for banks, firms and households had improved considerably, the euro exchange rate had weakened and inflation expectations had recovered.

There was, hence, broad agreement among members that the monetary accommodation provided by all the ECB's monetary policy measures was bearing fruit, with the effects of these policy measures gradually working their way through to the economy, thereby contributing to the recovery, the pick-up in inflation and improvements in money and credit growth. The view was widely shared that it was, nonetheless, too early to declare them a success. The purchases under the ECB's expanded APP were only into their third month. Moreover, the economic recovery remained moderate and it still faced headwinds and remained subject to risks and vulnerabilities. Against this background, members widely agreed that it was essential to maintain a steady course of monetary policy, looking through short-term economic and financial market developments to the extent that they were temporary and would not have a materially adverse impact on the transmission of monetary policy and, ultimately, on the medium-term outlook for price stability. This included leaving the key ECB interest rates unchanged in line with the Governing Council's forward guidance and firmly implementing the non-standard monetary policy measures adopted.

Monetary policy decisions and communication

Overall, taking into account the views expressed, the President concluded that the Governing Council was unanimous in its assessment that it should look through recent volatility in financial markets and maintain a steady monetary policy course.

The Governing Council also reaffirmed its intention to carry out asset purchases of €60 billion per month until the end of September 2016 and, in any case, until a sustained adjustment was visible in the path of inflation, consistent with the Governing Council's aim of achieving inflation rates below, but close to, 2% over the medium term. When carrying out its assessment, the Governing Council would follow its monetary policy strategy and concentrate on trends in inflation. As stated on previous occasions, the design of the APP provided sufficient flexibility for it to be adapted if circumstances were to change and should the need arise.

With regard to interest rates, taking into account the foregoing and on a proposal from the President, the Governing Council decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility would remain unchanged at 0.05%, 0.30% and -0.20% respectively.

The members of the Governing Council subsequently finalised the introductory statement, which the President and the Vice-President would, as usual, deliver at the press conference following the end of the current Governing Council meeting.

Introductory statement

http://www.ecb.europa.eu/press/pressconf/2015/html/is150603.en.html

Press release

http://www.ecb.europa.eu/press/pr/date/2015/html/pr150603.en.html

Meeting of the ECB's Governing Council, 2-3 June 2015

Members

Mr Draghi	President
Mr Constâncio	Vice-President
Mr Bonnici *	
Mr Cœuré	
Mr Costa	
Ms Georghadji	
Mr Hansson	
Mr Honohan	
Mr Jazbec	
Mr Knot	
Ms Lautenschläger	
Mr Liikanen	
Mr Linde *	
Mr Makúch	
Mr Mersch	
Mr Nowotny	
Mr Noyer	
Mr Praet	
Mr Reinesch *	
Mr Rimšēvičs *	
Mr Smets	
Mr Stournaras	
Mr Vasiliauskas	
Mr Visco	
Mr Weidmann **	

* Members not holding a voting right in June 2015 under Article 10.2 of the ESCB Statute.
** Not for the part of the meeting held on 3 June 2015.

Other attendees

Mr Dombrovskis ***	Commission Vice-President
Mr Van der Haegen	Secretary, Director General Secretariat
Mr Schill	Secretary for monetary policy, Director General Economics
Mr Catenaro	Principal Official, DG Secretariat

*** In accordance with Article 284 of the Treaty on the Functioning of the European Union.

Accompanying persons

Mr Beau	
Mr Bitāns	
Ms Buch	Alternate to Mr Weidmann ****
Mr Dewatripont	
Mr Gaiotti	
Mr Gerlach	
Mr Kuodis	
Mr Malo de Molina	
Mr Mifsud	
Mr Mooslechner	
Mr Ramalho	
Mr Randveer	
Mr Schoder	
Mr Stavrou	
Mr Swank	
Mr Tavlas	
Mr Tóth	
Mr Tratnik	
Mr Ulbrich	
Mr Välimäki	

**** Only for the part of the meeting held on 3 June 2015.

Other ECB staff

Ms Graeff	Director General Communications
Mr Smets	Counsellor to the President

Release of the next monetary policy account foreseen on Thursday, 13 August 2015.