CENTRAL BANKS

# ECB: few clues for December

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**Today's ECB meeting provided little news apart from dismissing rumors of tapering. Decisions have been postponed to December, as widely expected, and no clues were provided on the discussion of QE extension or technical changes to cope with bond scarcity problems. We continue to expect the ECB to announce an extension of QE by December.**

As expected, **Draghi did not provide much information on what will be decided in December**. Today the Governing Council (GC) discussed mostly technical measures to reduce the problem of lack of bonds to buy, but no details were provided on such discussion. The ECB will continue to buy €80 bn per month until the end March 2017, or beyond if necessary. The special committees that study how to ensure a smooth implementation of QE continue working, but Mr Draghi mentioned several times that the GC is the "ultimate decision maker" on these issues. This could signal some discrepancies between the committees' views and (part of) the GC, which may have other type of (less technical) considerations.

The most interesting comments came on the recent rumors about an eventual tapering of QE measures, which Mr Draghi attributed to "random statement who did not have any clue or information about that" and later to "uninformed sources", suggesting that those rumors should not be heeded. When asked about an eventual "sudden stop" of the programme, Mr Draghi made clear that, even if they did not discuss it today, it is unlikely and "not in anybody's mind". In addition, he mentioned that current inflation projections are conditional on current financial conditions and expectations of very accommodative policies, which further suggests that the ECB is not in a tapering mood. Nonetheless, Mr Draghi also underlined that QE is not forever, and depends on achieving a durable and self-sustained path of convergence to the ECB objective.

**Once again, Mr Draghi defended the policies of very low rates and QE** implemented so far, stressing that the low rates policies are working, improving bank lending conditions and reducing fragmentation, while the purchase of private bonds from large corporations are freeing banks to lend more to smaller firms.

**The economic outlook remains broadly unchanged**, as growth remains steady and resilient to global uncertainty. While headline inflation is rising due to base effects from energy prices, there are no signs yet of a convincing upward trend in core inflation. Risks continue to be tilted to the downside.

**When asked about the possibility that the ECB allows for some overshooting of inflation** beyond the target (as suggested by other central banks), he just said that "inflation will have to be self-sustained. **We want a convergence that is self-sustained**. In other words without the policy support that is in place right now." This may point to less tolerance by the ECB to such overshooting in the future.

**On bail-ins** to be eventually applied to bank restructurings, Mr Draghi stressed that the **rules are clear but allow for flexibility in its application**.

**On Portugal and the eventual downgrade of its deb**t, he reminded the audience that they would be ineligible as collateral for monetary policy operations, though he pointed out that the government has made remarkable progress.

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 Frankfurt am Main, ~~8 September~~20 October 2016

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 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 the monthly asset purchases of €80 billion are intended to run until the end of March 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.

~~Today, we assessed the economic and monetary data which had~~The information that has become available since our ~~last~~ meeting ~~and discussed the new ECB staff macroeconomic projections. Overall, while the available evidence so far suggests resilience~~ in early September confirms a continued moderate but steady recovery of the euro area economy ~~to the continuing~~and a gradual rise in inflation, in line with our previous expectations. The euro area economy has continued to show resilience to the adverse effects of global economic and political uncertainty, ~~our baseline scenario remains subject to downside risks.~~

~~Our~~ aided by our comprehensive monetary policy measures~~ continue to~~, which ensure ~~supportive~~very favourable financing conditions ~~and underpin the momentum of the euro area economic recovery. As a result, we continue~~for firms and households. Overall, however, the baseline scenario remains subject to downside risks.

Looking ahead, we remain committed to ~~expect real GDP to grow at a moderate but steady pace and euro area inflation to rise gradually over the coming months, in line with the path already implied in our June 2016 staff projections.~~

~~The Governing Council will continue to monitor economic and financial market developments very closely. We will preserve~~preserving the very substantial ~~amount~~degree of monetary ~~support that is embedded in our staff projections and that~~ accommodation which is necessary to secure a ~~return~~sustained convergence of inflation ~~to~~towards levels below, but close to, 2% over the medium term. ~~If~~To that end, we will continue to act, if warranted, ~~we will act~~ by using all the instruments available within our mandate. ~~Meanwhile, the Governing Council tasked the relevant~~In December the Governing Council's assessment will benefit from the new staff macroeconomic projections extending through to 2019 and from the work of the Eurosystem committees ~~to evaluate~~on the options ~~that~~to ensure ~~a~~the smooth implementation of our purchase programme~~.~~ until March 2017, or beyond, if necessary.

Let me now explain our assessment in greater detail, starting with the~~ ~~ **economic analysis**. ~~Euro~~Real GDP in the euro area~~ real GDP~~ increased by 0.3%, quarter on quarter, in the second quarter of 2016, after 0.5% in the first quarter. ~~Incoming~~The latest data and survey results point to ~~ongoing~~continued growth in the third quarter of 2016, at around the same ~~rate~~pace as in the second quarter. Looking further ahead, we ~~continue to~~ expect the economic ~~recovery~~expansion to proceed at a moderate but steady pace. Domestic demand ~~remains~~should be supported by the pass-through of our monetary policy measures to the real economy. Favourable financing conditions and improvements in ~~the demand outlook and in~~ corporate profitability continue to promote a recovery in investment. ~~Sustained~~Moreover, still relatively low oil prices and sustained employment gains, which are also benefiting from past structural reforms, ~~and still relatively low oil prices~~ provide additional support for households' real disposable income and ~~thus for~~ private consumption. In addition, the fiscal stance in the euro area ~~is expected to~~will be ~~mildly expansionary in 2016 and to turn~~ broadly neutral in 2017~~ and 2018~~. However, the economic recovery in the euro area is expected to be dampened by still subdued foreign demand, ~~partly related to the uncertainties following the UK referendum outcome,~~ the necessary balance sheet adjustments in a number of sectors and a sluggish pace of implementation of structural reforms. The risks to the euro area growth outlook remain tilted to the downside and relate mainly to the external environment.

~~This assessment is broadly reflected in the September 2016 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP increasing by 1.7% in 2016, by 1.6% in 2017 and by 1.6% in 2018. Compared with the June 2016 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised downwards slightly.~~

According to ~~Eurostat's flash estimate~~Eurostat, euro area annual HICP inflation in ~~August~~September 2016 was 0.~~2%, unchanged~~ 4%, up from ~~July. While~~ 0.2% in August. This reflected mainly a continued increase in annual energy inflation~~ continued to rise, services and non-energy industrial goods~~, while there are no signs yet of a convincing upward trend in underlying inflation~~ turned out to be slightly lower than in July.~~. Looking ahead, on the basis of current oil futures prices, inflation rates are likely to ~~remain low~~pick up over the next ~~few~~couple of months~~ before starting to pick up towards the end of 2016~~, in large part owing to base effects in the annual rate of change of energy prices. Supported by our monetary policy measures and the expected economic recovery, inflation rates should increase further in 2017 and 2018.

~~This pattern is also reflected in the September 2016 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 0.2% in 2016, 1.2% in 2017 and 1.6% in 2018. In comparison with the June 2016 Eurosystem staff macroeconomic projections, the outlook for HICP inflation is broadly unchanged.~~

Turning to the~~ ~~ **monetary analysis**, broad money (M3) continued to increase at a robust pace in ~~July~~August 2016, with its annual rate of growth standing at ~~4.8~~5.1%, after ~~5.0~~4.9% in ~~June~~July. 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 8.9% in August, after 8.4% in July~~, after 8.7% in June~~.

Loan dynamics followed the path of gradual recovery observed since the beginning of 2014. The annual rate of change of loans to non-financial corporations ~~increased to~~stood at 1.9% in ~~July~~August 2016~~, compared with 1.7% in June.~~. The annual growth rate of loans to households also remained stable, at 1.8~~%~~%, in ~~July~~August. 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 in place since June 2014 are ~~increasingly filtering through to support~~significantly supporting borrowing conditions for firms and households and thereby credit flows across the euro area.

The euro area bank lending survey for the third quarter of 2016 indicates some further improvements in both supply and demand conditions for loans to the non-financial private sector. Furthermore, banks continued to report that the ECB's asset purchase programme and the negative deposit facility rate had contributed to more favourable terms and conditions on loans.

To sum up, a~~ ~~ **cross-check**~~ ~~ of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need to preserve the very substantial amount of monetary support that is necessary in order to secure a return of inflation rates towards levels that are below, but close to, 2% without undue delay.

Monetary policy is focused on maintaining price stability over the medium term and its accommodative stance supports economic activity. As emphasised repeatedly by the Governing Council, and as again strongly echoed in both European and international policy discussions, in order to reap the full benefits from our monetary policy measures, other policy areas must contribute much more decisively, both at the national and at the European level. The implementation of **structural reforms** needs to be substantially stepped up to reduce structural unemployment and boost potential output growth in the euro area. Structural reforms are necessary in all euro area countries. The focus should be on actions to raise productivity and improve the business environment, including the provision of an adequate public infrastructure, which are vital to increase investment and boost job creation. The enhancement of current investment initiatives, including the extension of the Juncker plan, progress on the capital markets union and reforms that will improve the resolution of non-performing loans will also contribute positively to this objective. In an environment of accommodative monetary policy, the swift and effective implementation of structural reforms will not only lead to higher sustainable economic growth in the euro area but will also make the euro area more resilient to global shocks. **Fiscal policies** should also support the economic recovery, while remaining in compliance with the fiscal rules of the European Union. Full and consistent implementation of the Stability and Growth Pact over time and across countries remains crucial to ensure confidence in the fiscal framework. At the same time, all countries should strive for a more growth-friendly composition of fiscal policies.

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