

# **Now is the time to strengthen the public finances and the foundations for productivity growth**

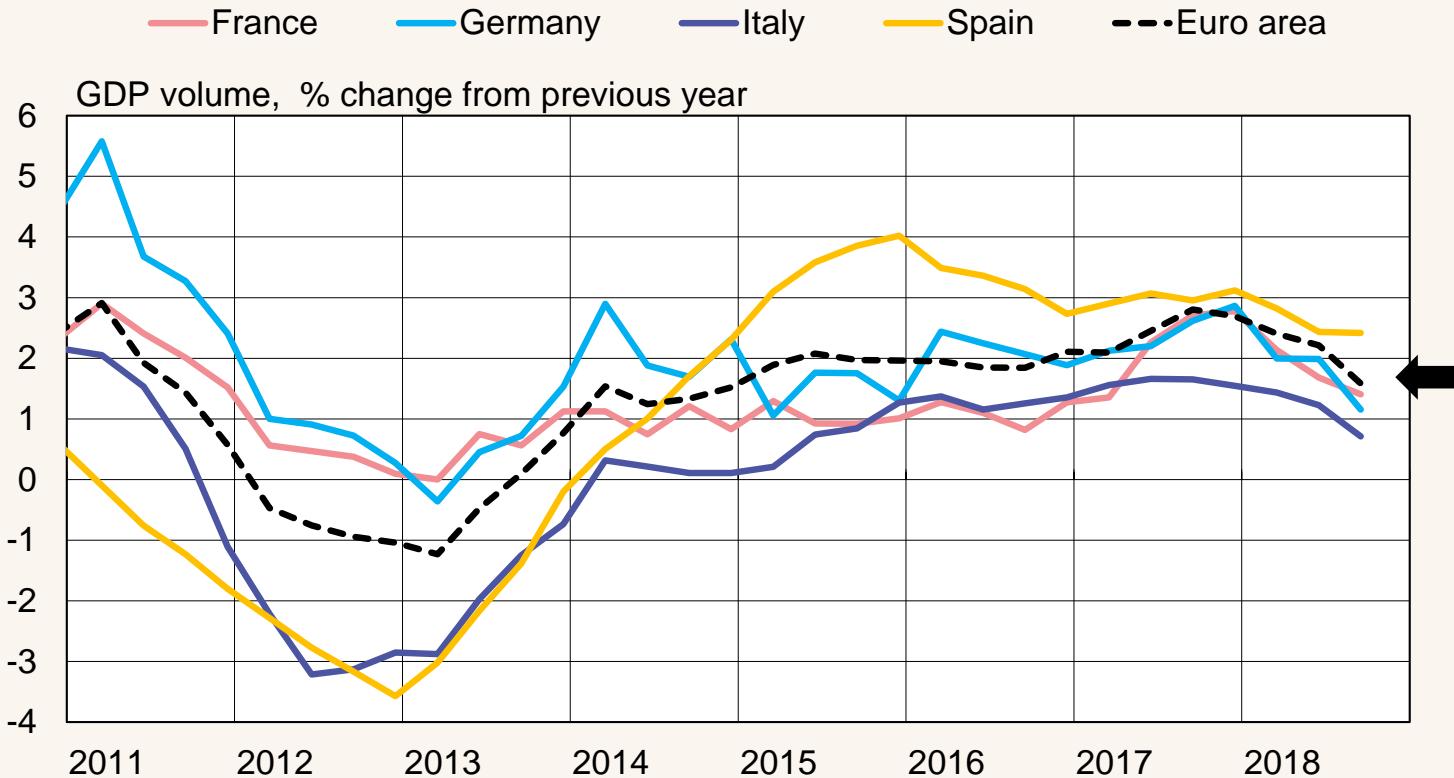
Press conference 18 December 2018





# ECB monetary policy: Accommodative policy stance maintained amid conditions of uncertainty

# Growth in the euro area moderating for the first time since 2012



Sources: Eurostat and Macrobond.

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# Euro area growth and price outlook

## December 2018 Eurosystem staff macroeconomic projections (cf. ECB's September 2018 projections)

- GDP
  - 2018: 1.9 % (-0.1)
  - 2019: 1.7 % (-0.1)
  - 2020: 1.7 %
  - 2021: 1.5 %
- Unemployment rate
  - 2018: 8.2% (-0.1%)
  - 2019: 7.8%
  - 2020: 7.5% (+0,1 %)
  - 2021: 7.1%
- Inflation
  - 2018: 1.8% (+0,1)
  - 2019: 1.6% (-0.1)
  - 2020: 1.7%
  - 2021: 1.8%
- Underlying inflation (HICP excl. energy and food)
  - 2018: 1.0% (-0.1)
  - 2019: 1.4% (-0.1)
  - 2020: 1.6% (-0.2)
  - 2021: 1.8%

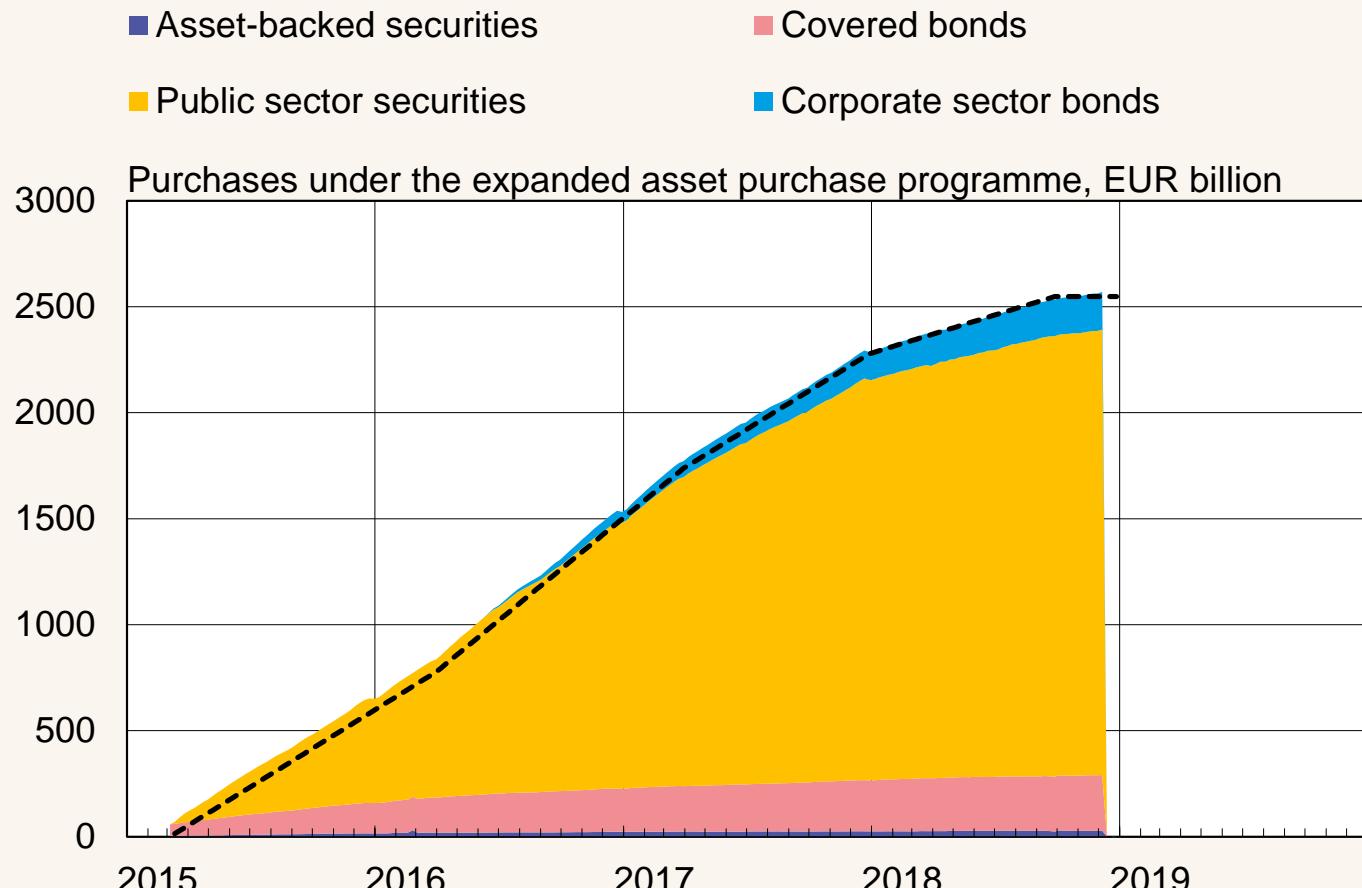


# ECB Governing Council decisions 13 Dec 2018: Accommodative monetary policy stance to continue

- The Governing Council of the ECB expects 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 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, net purchases under the asset purchase programme (APP) will end in December 2018.
- At the same time, the Governing Council enhanced its forward guidance on reinvestment:
- The Governing Council intends to continue full reinvestment of principal payments from maturing securities for an extended period of time, well past the date when the Governing Council starts 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.

# Reinvestment of maturing securities will maintain a broad balance sheet in the Eurosystem

- Reinvestment: volume of new securities purchases will correspond with the amount of securities maturing



Sources: ECB and Macrobond. Dashed line refers to the target level announced in October 2017 and broken line to December 2016. 32422@EAPP(2)



# Considering a periodic review of the ECB's monetary policy framework

- The ECB's monetary policy framework consists of the assumptions, principles and instruments that the ECB uses in its pursuit of price stability. Price stability is the primary objective of the ECB's monetary policy. This mandate is given, but the strategy to achieve it is not cast in stone and should instead evolve with the economic environment.
- The ECB's monetary policy framework was adjusted in 2003, or about 15 years ago, based on the available economic literature at the time and on its then 5-year experience of single monetary policy.
- By beginning to review our monetary policy strategy would place us in good company. For example, the central banks of the United States, Canada, the United Kingdom and Sweden regularly review their strategies.



# Why a strategy review would be useful?

- Both the operating environment for and the instruments of monetary policy have changed considerably since the previous review in 2003:
  - The natural rate of interest (= the real equilibrium interest rate) that is of key relevance to monetary policy has declined and the probability of monetary policy facing an effective lower bound has increased.
  - The euro area has been hit by a financial crisis, sovereign debt crisis, liquidity trap and disruptions in monetary policy transmission.
- To ensure the success of monetary policy, it would be useful to look at the key factors and constituents of the strategy with fresh eyes.