



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Jonás Fernández

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 24 July 2018

L/MD/18/250

Re: Your letter (QZ-054)

Honourable Member of the European Parliament, dear Mr Fernández,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 18 June 2018.

The confidence of the ECB's Governing Council in the progress towards a sustained adjustment in the path of inflation has been gradually firming recently on the back of the euro area economy's strong and broad-based growth momentum. In spite of some moderation at the start of 2018, economic activity remains solid, with output continuing to grow at rates above potential.

This increasing confidence in the sustained convergence of inflation towards our aim has already been reflected in the gradual reductions in the monthly net purchase volumes under the asset purchase programme (APP) since April 2017 and in the removal of the APP easing bias in March this year.¹

At its monetary policy meeting in June, the Governing Council carefully reviewed the progress made so far towards a sustained adjustment in inflation. Specifically, we assessed inflation developments against the three conditioning criteria for net asset purchases: convergence, confidence and resilience.

¹ The easing bias was formulated as follows: "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 the asset purchase programme (APP) in terms of size and/or duration". The Governing Council's detailed assessment at the time of the removal of the APP bias is presented in the account of the monetary policy meeting of 7-8 March 2018 (<https://www.ecb.europa.eu/press/accounts/2018/html/ecb.mg180412.en.html>).

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- As regards convergence, the June 2018 Eurosystem staff projections see headline inflation reaching 1.7% in 2020, a convergence path that has held firm over recent projection vintages.
- Our confidence in the path of inflation is also rising. First, the range of uncertainty around the inflation projections has narrowed. Second, underlying inflation has increased from the very low levels that prevailed in 2016 and is expected to rise as the economy continues to expand and capacity utilisation tightens.
- Finally, the projected increase in the path of inflation appears to be resilient to a gradual ending of net asset purchases.

On the basis of this assessment, the Governing Council concluded that progress towards a sustained adjustment in inflation has been substantial so far and should continue in the period ahead, although some uncertainties continue to prevail.² As a result, it anticipates that after September the ECB will reduce its monthly net asset purchases from €30 billion to €15 billion and terminate them at the end of December. This is subject to incoming data confirming our medium-term inflation outlook.

At the same time, an ample degree of monetary stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. As remaining uncertainties surrounding the inflation outlook still counsel caution, monetary policy has to remain patient, prudent and persistent. Accordingly, we decided at our June monetary policy meeting to reaffirm our reinvestment policy and to enhance our forward guidance on the key ECB interest rates.

Specifically, the Governing Council intends to maintain its policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Moreover, it decided to keep the key ECB interest rates unchanged and expects 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 that the evolution of inflation remains aligned with its current expectations of a sustained adjustment path.

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 objective in a sustained manner.

Yours sincerely,

[signed]

Mario Draghi

² The Governing Council's detailed assessment at the time of the announcement of the gradual winding-down of the net asset purchases is presented in the account of the monetary policy meeting of 13-14 June 2018: <https://www.ecb.europa.eu/press/accounts/2018/html/ecb.mg180712.en.html>.