

## Yves Mersch: Reflections on monetary policy in the euro area

Speaking points by Mr Yves Mersch, Member of the Executive Board of the European Central Bank, at the Eurofi conference, Sofia, 27 April 2018.

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- ♦ While the recent flow of data points towards some moderation in the on-going economic expansion, growth is still expected to remain solid and broad based.
- ♦ Monetary policy measures introduced since 2014 have been instrumental in supporting euro area growth and employment.
- ♦ Underlying inflation continues to be subdued and have yet to show convincing signs of a sustained upward trend. At the same time, wages continue to edge higher and should contribute to price pressures.
- ♦ Overall, the underlying strength in the euro area economy continues to support our confidence that inflation will converge towards our aim over the medium term. Yet, inflation convergence will likely proceed only gradually, and remains contingent on a highly accommodative monetary policy stance.
- ♦ Looking ahead, the evolution of monetary policy will be firmly guided by the outlook for price stability. The transition towards policy normalisation will begin once the Governing Council assesses there has been sustained adjustment in the path of inflation.
- ♦ This assessment will be based on three criteria: convergence, confidence, and resilience
  - ♦ **Convergence:** looking into the medium term, headline inflation should be well on track toward reaching levels below, but close to, 2%
  - ♦ **Confidence:** Governing Council will need to have confidence that the convergence path is likely to materialise sustainably
  - ♦ **Resilience:** sustained adjustment in the path of inflation will be maintained even without additional net asset purchases
- ♦ There is growing confidence that these criteria will be attained, yet patience, persistence and prudence are necessary:
  - ♦ **Patience:** as it takes time for underlying price pressures to build up
  - ♦ **Persistence:** the pick-up in inflation still needs support from the monetary policy stance
  - ♦ **Prudence:** global and domestic uncertainties counsel prudence in the adjustment of the monetary policy parameters
- ♦ Once the Governing Council decides that sustained adjustment is taking place, net asset purchases will end in line with our forward guidance.
- ♦ Thereafter, monetary support for inflation convergence will be provided by
  - ♦ Reinvestments continuing for an extended period of time
  - ♦ Policy rates remaining at present levels well past the end of our net asset purchases
- ♦ The path of policy normalisation will remain conditional on the outlook for price stability.