On 26 October, the Governing Council of the ECB announced its decision to recalibrate the various components defining its monetary policy stance, in view of the imminent expiry, in December 2017, of the minimum period for net asset purchases established earlier. The decisions adopted – and confirmed at the Governing Council's most recent meeting on 14 December – imply an extended period of monetary stimulus and reveal the simultaneous existence of two opposing elements.

On one hand, the new measures are a reflection of the improved macroeconomic situation in the euro area, with a more robust, entrenched and broad-based recovery. Activity in the euro area has been growing uninterruptedly for more than four years and the prospect of maintaining growth is favourable, in line with the sustained easing of financial conditions as a result of expansionary monetary policy, and with strong job creation.

However, on the other hand, the decisions taken in October reflect the need to maintain a substantial degree of monetary stimulus for inflation to resume a path of sustained convergence towards rates that are closer to the medium-term monetary policy target. As is also the case of other advanced economies, the improvement in activity and in the labour market has not yet had the expected impact on inflation[1]. As shown in Chart 1, core inflation, which excludes the more volatile components from the overall index, was expected to stand at 1% on average in 2017, and subsequently to rise gradually towards reference rates that are below, but close to, 2%.

In these circumstances, at its October meeting, the Council extended the minimum period for net asset purchases to September 2018, albeit at a reduced monthly pace of €30 billion as from January 2018, compared with the current monthly volume of €60 billion (see Chart 2). With this nine-month extension, the asset purchase programme (APP) will have been in place for at least three and a half years, since its launch in March 2015. Thus, in September 2018, cumulative asset purchases will amount to

1 The subdued pace of wage growth is one of the factors explaining the low inflation rate. For more details, see box 3, «Wage growth in the euro area», Quarterly Report on the Spanish Economy, *Economic Bulletin 3/2017,* Banco de España.

Chart 1
INFLATION

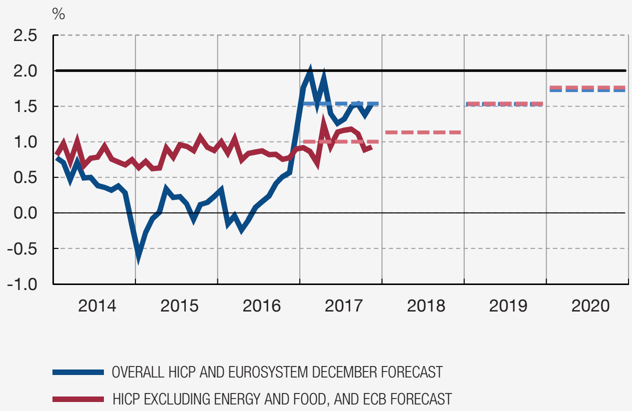


Chart 2
ASSET PURCHASE PROGRAMME (APP).
Monthly net purchases and cumulative purchases

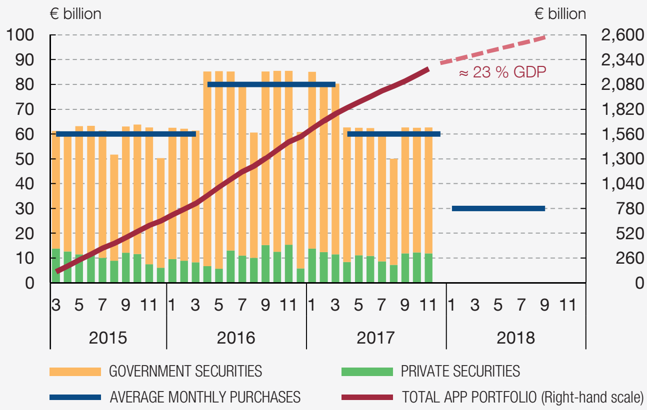


Chart 3
ONE-YEAR OIS FORWARD RATE CURVE

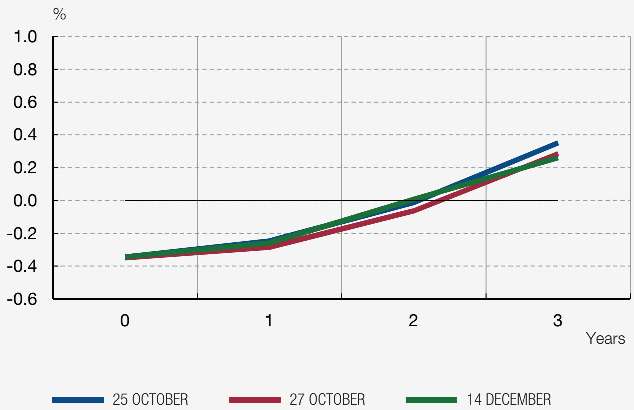
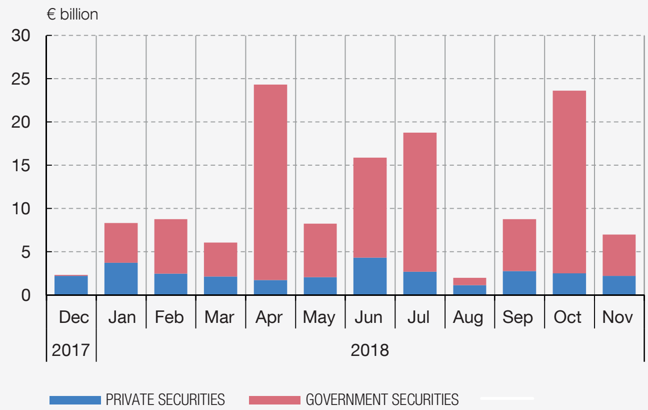


Chart 4
MATURITIES ARISING IN THE APP PORTFOLIO



SOURCES: Datastream, Eurostat and ECB.

almost €2.6 trillion, tantamount to more than 20% of euro area GDP. By type of asset, the ECB has stated that it intends to give an increasingly prominent role in its purchase programmes to private sector instruments over government bonds, which at the end of November accounted for 82% of the total portfolio.[2]

The Council did not make any changes to the policy rates or to the guidance on the future path of these rates ("forward guidance"). However, removing the uncertainty as to the duration of the APP was key to ensuring the effectiveness of the purchases, in terms of their contribution to supporting the anchoring of inflation expectations at the currently reduced levels, in a context in which the Council's guidance indicates that policy rates shall remain at current levels for a period extending considerably beyond the end of net purchases. Accordingly, the decisions adopted in October by the Council and confirmed at its December meeting have translated into remarkably stable interest-rate expectations. Policy rate will not foreseeably increase in the near future in the euro area, as reflected by developments in the forward yield curve of the OIS (overnight index swap) shown in Chart 3.

As regards guidance on non-standard measures, the Council left open the possibility of further extensions of the APP in the event of a deterioration in the economic outlook or a worsening of the financial conditions so that they become incompatible with the monetary policy targets. In addition, the Council made clear its intention to reinvest the principal payments from maturing securities for as long as necessary, i.e. for a prolonged period after the end of net asset purchases. The growing importance of maturities arising in the portfolio, together with their variable profile and the reinvestment flexibility retained by the Eurosystem[3] could, nevertheless, lead to some volatility in the effective volume of monthly net purchases. To avoid the incorrect interpretation of net purchase figures, the ECB also decided to publish information on the estimated monthly maturities for the next 12 months (a total of around €134 billion between December 2017 and November 2018) (see Chart 4).

To conclude, the prolongation of net purchases, the size of the purchases already carried under the assets purchase programme, the commitment to continue reinvesting the maturities for a prolonged period and the forward guidance on interest rates all point to an extended period of substantial monetary accommodation, to ensure the gradual convergence of inflation to rates that are more compatible with the medium-term monetary policy target.

2 Eligible private assets include asset-backed securities, covered bonds and corporate bonds, purchased, respectively, through programmes known as ABSPP, CBPP3 and CSPP.

3 The principal payments from maturing securities purchased under the public sector purchase programme (PSPP) are reinvested flexibly by the Eurosystem at the appropriate time in the month of the maturity date, as far as possible, or in the two following months, if the liquidity conditions in the market so allow it. During the period of net asset purchases, the principal repayments under the PSPP shall be reinvested in the jurisdiction in which the maturing bond was issued.