[17 October: International Day for the Eradication of Poverty – Downward trend in the share of persons at risk of poverty or social exclusion in the EU – But still over 115 million people in this situation]

In 2016, 117.5 million people, or 23.4% of the population, in the **European Union** (EU)were at risk of poverty or social exclusion. This means that they were in at least one of the following three conditions: at-risk-of-poverty after social transfers (income poverty), severely materially deprived or living in households with very low work intensity. After three consecutive increases between 2009 and 2012 to reach almost 25%, the proportion of persons at risk of poverty or social exclusion in the **EU** has since continuously decreased to 23.4% last year, only 0.1 percentage points above its 2009 low-point. The reduction of the number of persons at risk of poverty or social exclusion in the EU is one of the key targets of the Europe 2020 strategy.

[Full text available on EUROSTAT website]

[ESMA seeks two candidates – academics and financial market participants – for its stakeholder representative group]

The SMSG helps to facilitate consultation between ESMA, its Board of Supervisors and stakeholders on ESMA's areas of responsibility and provides technical advice on its policy development. This helps to ensure that stakeholders can contribute to the formulation of policy from the beginning of the process.

The successful candidates will take up their roles on 1 January – academic – and 1 May 2018 – financial market participant, respectively.

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Strengthening the Eurozone, EU Bank President urges a new push for investment and reform #IMFmeetings

Today in Washington D.C., at a key debate on how to improve the functioning of the Eurozone and Europe's economy as a whole, European Investment Bank President Werner Hoyer stressed the importance of investment in infrastructure and for a particular focus on creating the right conditions for young and innovative firms to thrive in Europe. He also said that the possibility of a new future relationship between the European Stability Mechanism and the EIB should be given "serious thought".

"Supporting investment matters terribly, it is part of the overall common economic policy response of the EU" said European Investment Bank President Werner Hoyer at the EURO50/C breakfast in the margins of the annual meetings of the World Bank Group and IMF.

He added: "Our research at the EIB suggests that investment in infrastructure has now stopped declining, but it has stabilised at 20% below pre-crisis levels. This is bad for Europe's long-term growth potential, and it is also bad for the process of economic convergence in the EU and the Eurozone… The countries that score worse in terms of infrastructure quality. In other words, convergence has weakened."

At the same time when it comes to European companies he said “Our own EIB Investment Survey of European firms shows that their outlook for investment remains positive… But there are important exceptions: conditions have not improved for small firms, for young and innovative firms that tend to invest a lot in intangibles and can’t offer much collateral, and for firms in certain countries where financial systems are still showing strain.”

President Hoyer also addressed a possible new relationship with an evolved European Stability Fund (ESM). He said, “The evolution of the ESM into a “European Monetary Fund” is an idea that the EU Bank looks at with special interest. The EIB provides very important investment financing to programme countries. A future EIB-EMF relationship might be rather like that between IMF and the World Bank. There is great potential for complementarity and mutual reinforcement between the two institutions. We should give this scenario serious thought as we consider how the roles of the different EU bodies fit together.”

President Hoyer pointed to the impact of EIB financing, including through the Investment Plan for Europe via the European Fund for Strategic Investment:

“I am proud of what the EIB – the EU bank – has already been able to do in this regard. We provided over 80 billion euros of financing in 2016 – that’s around 0.6% of EU GDP. That supported investments amounting to 1.8% of GDP. The way we have implemented the European Fund for Strategic Investment demonstrates that the EU budget can be used more effectively to have a greater impact on the real economy by crowding-in financing.

“EFSI is a clear success so far” he added, “After almost 2 years, we are three quarters of the way to our first 315 billion euros target for investment supported.”

A set of findings recently released by the EIB, estimates that the 272bn euros of EIB Group supported investments in the EU for 2015 and 2016 – which include EFSI related investment – will around 2.25 million extra jobs after 5 years, with a 2.3% increase in GDP. After twenty years, the findings predict a level change in the EU economy of around 1.27 million extra jobs and GDP that is 1.5% higher than it would have been in a baseline scenario.

Read the full text of the speech here

Further links:

The EIB Investment Survey

The recent impact study by ECON

[Vítor Constâncio: Growth in a more resilient Euro area]

Remarks by Vítor Constâncio, Vice-President of the European Central Bank, on a panel entitled "The Global Economy: Prospects for Broad-Based Growth" at the 32nd Annual G30 International Banking Seminar, Washington D.C., 15 October 2017

Ladies and Gentlemen,

It is a great pleasure to be part of such a distinguished panel. In my remarks today, I would like to reflect on the euro area's recent economic developments and prospects. In doing so, I will outline the role monetary policy has played – and will continue to play – in supporting the recovery, while also touching upon some of the additional policies required to firmly secure a self-sustained recovery.

The main message I would like to convey is that the euro area economy is experiencing a broad-based, robust and resilient recovery, which is underpinned by the monetary policy measures introduced by the ECB since June 2014. Despite this favourable growth dynamics, inflation developments have been subdued. We remain confident that the continued closing of the output gap will lead inflation to return to our medium-term objective, yet this return remains conditional on a very substantial degree of monetary accommodation.

Looking beyond monetary policy, considerable reforms have been implemented and institutional progress has been achieved since the crisis, but supply-side policies are still required at the national level to boost potential growth, while at the euro area level, further institutional reforms are needed to enhance the functioning of EMU.

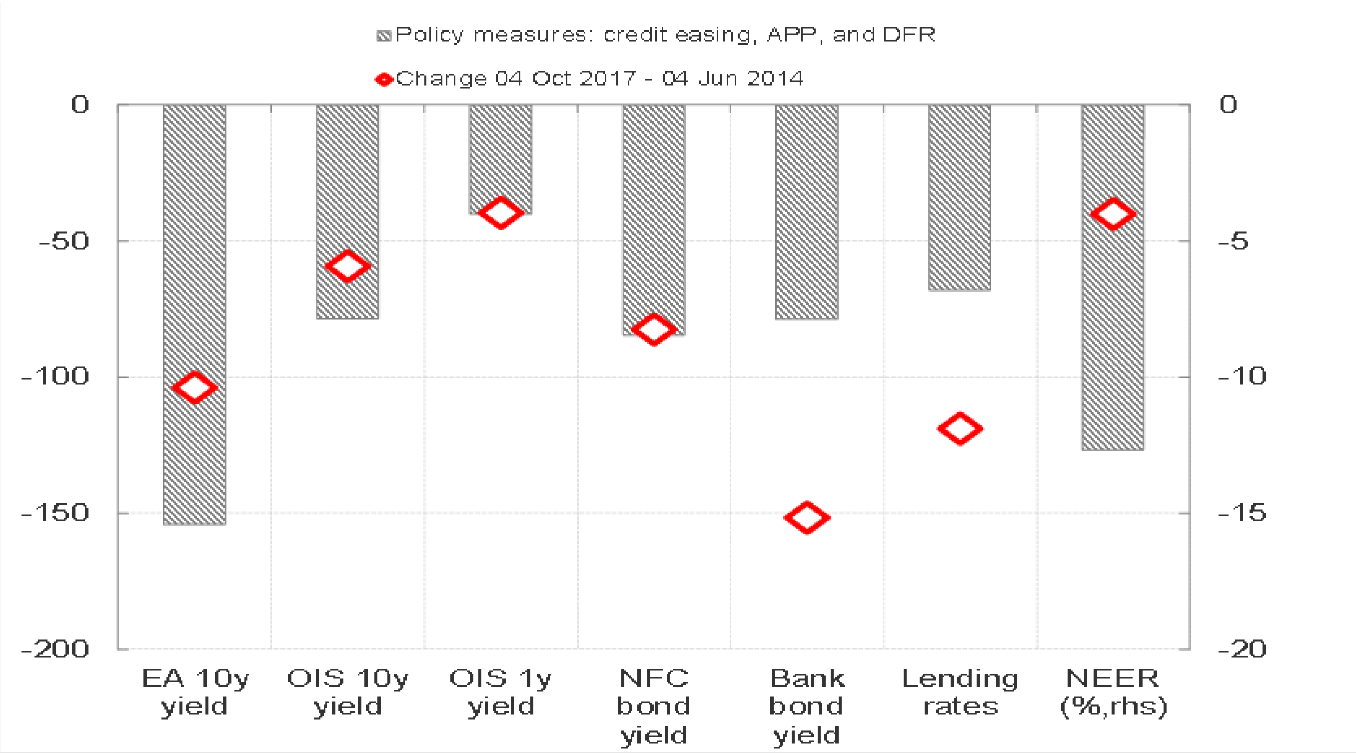
Recent economic developments and prospects

In the second quarter of 2017, euro area real GDP expanded for the 17th consecutive quarter, growing by 2.3% year-on-year and exceeding our expectations from earlier in the year. Growth is also becoming more broad-based across euro area countries, showing the lowest dispersion since the beginning of the monetary union. The flow of survey data in the third quarter has been encouraging and bodes well for continued growth momentum in the period ahead.

Robust economic activity is also being translated into a substantial amount of job creation. Almost 7 million more people are now employed in the euro area than in mid-2013, which implies that all of the employment losses recorded during the crisis have been offset. The improving labour market combined with increasing household wealth, strong consumer confidence and favourable financing conditions should all support continued robust private consumption. Investment prospects also look promising, which reflects both the need to make up for forgone investment in previous years as well as the highly accommodative financing conditions which have been passed through to lower borrowing costs for euro area firms.

The resilience of the recovery reflects the strength of domestic demand which in turn, is being supported by the very favourable financing conditions stemming from the monetary policy measures introduced since June 2014 (see Chart 1).

Chart 1: Impact of ECB measures on key financing conditions

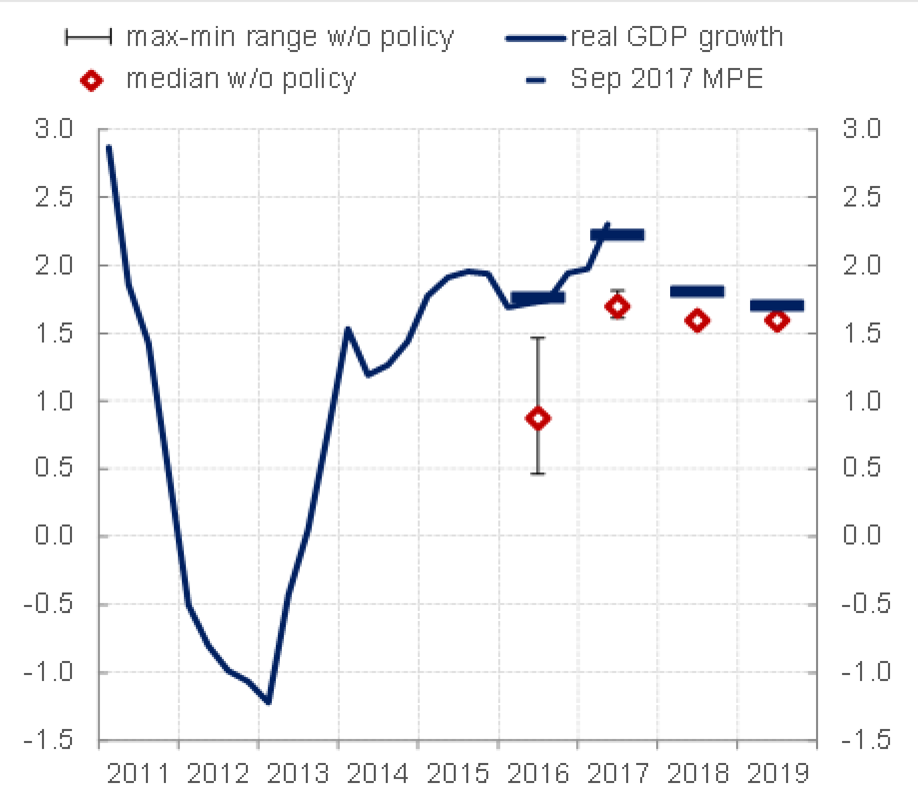


(contributions in basis points and percent)

Source: Bloomberg, ECB, ECB calculations.[1]

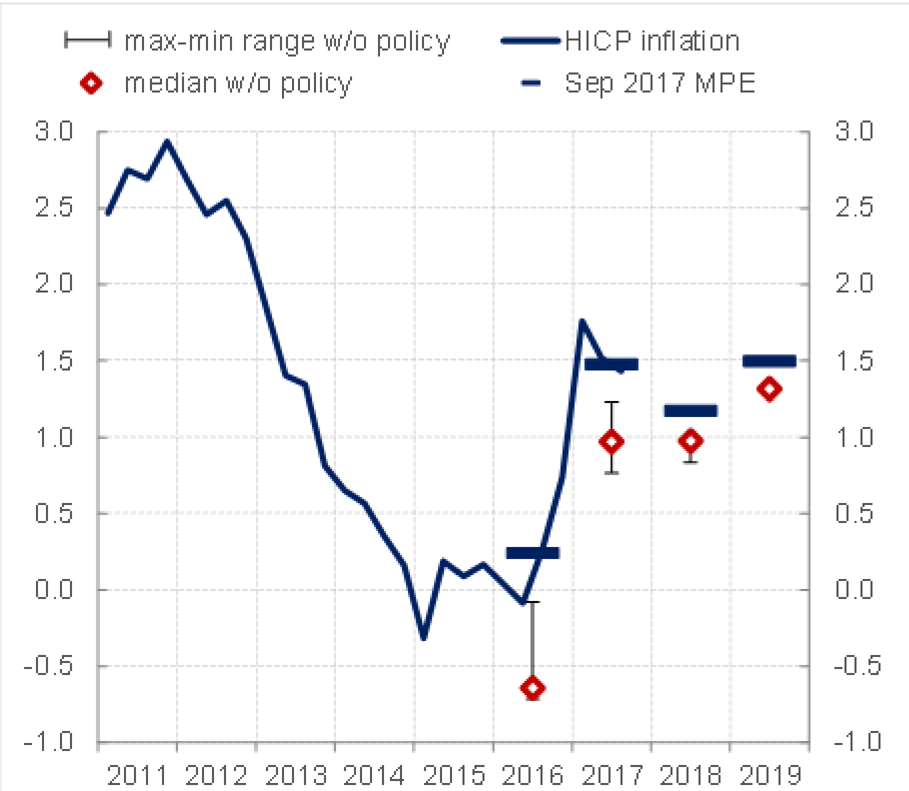
ECB staff counterfactual simulations indicate that absent our measures, GDP-weighted euro area 10-year government bond yields would, at present, be about 154 basis points higher and lending rates to NFCs about 68 basis points higher. ECB staff estimates indicate that our measures are contributing to an increase in euro area GDP of around 1.7%, cumulatively over the period 2016-2019 (see Chart 2) – well above monetary policy's contribution to the two previous euro area recoveries in 2003Q2-2006Q4 and 2009Q3-2011Q3.

Chart 2a: Real GDP growth: actual, baseline projection and counterfactual without policy contribution



(year on year percentage change)

Chart 2b: HICP inflation: actual, baseline projection and counterfactual without policy contribution



(year on year percentage change)

Sources: ECB computations, SAPI Task Force, September 2017 MPE, BMEs.[2]

Looking ahead, the latest ECB staff projections continue to expect domestic demand to remain the key driver of euro area growth. Annual real GDP is projected to increase by 2.2% in 2017, 1.8% in 2018 and 1.7% in 2019. The risks to the growth outlook are broadly balanced. According to the latest IMF WEO projections, euro area real GDP is expected to grow by 2.1% in 2017 before moderating to 1.9% in 2018 and 1.7% in 2019, which is in line with the ECB projections.

Table 1: Comparison of forecasts for euro area real GDP growth

	Publication date	GDP growth						HICP inflation					
		2017		2018		2019		2017		2018		2019	
ECB staff (MPE)	07 Sep 2017	2.2	(+0.3)	1.8	(=)	1.7	(=)	1.5	(=)	1.2	(-0.1)	1.5	(-0.1)
Consensus Economics	14 Sep 2017	2.1	(+0.1)	1.8	(=)	1.4	(+0.1)	1.5	(=)	1.3	(=)	1.7	(+0.1)
OECD	07 Jun 2017	1.8	(+0.2)	1.8	(+0.2)	-	-	1.7	(+0.5)	1.4	(=)	-	-
Euro Zone Barometer	22 Sep 2017	2.1	(+0.1)	1.8	(=)	1.5	(=)	1.5	(-0.1)	1.3	(-0.1)	1.7	(=)
European Commission	11 May 2017	1.7	(+0.1)	1.8	(=)	-	-	1.6	(-0.1)	1.3	(-0.1)	-	-
ECB SPF	21 Jul 2017	1.9	(+0.2)	1.8	(+0.2)	1.6	(+0.1)	1.5	(-0.1)	1.4	(-0.1)	1.6	(-0.1)
IMF	10 Oct 2017	2.1	(+0.2)	1.9	(+0.2)	1.7	(+0.1)	1.5	(-0.1)	1.4	(-0.1)	1.7	(=)

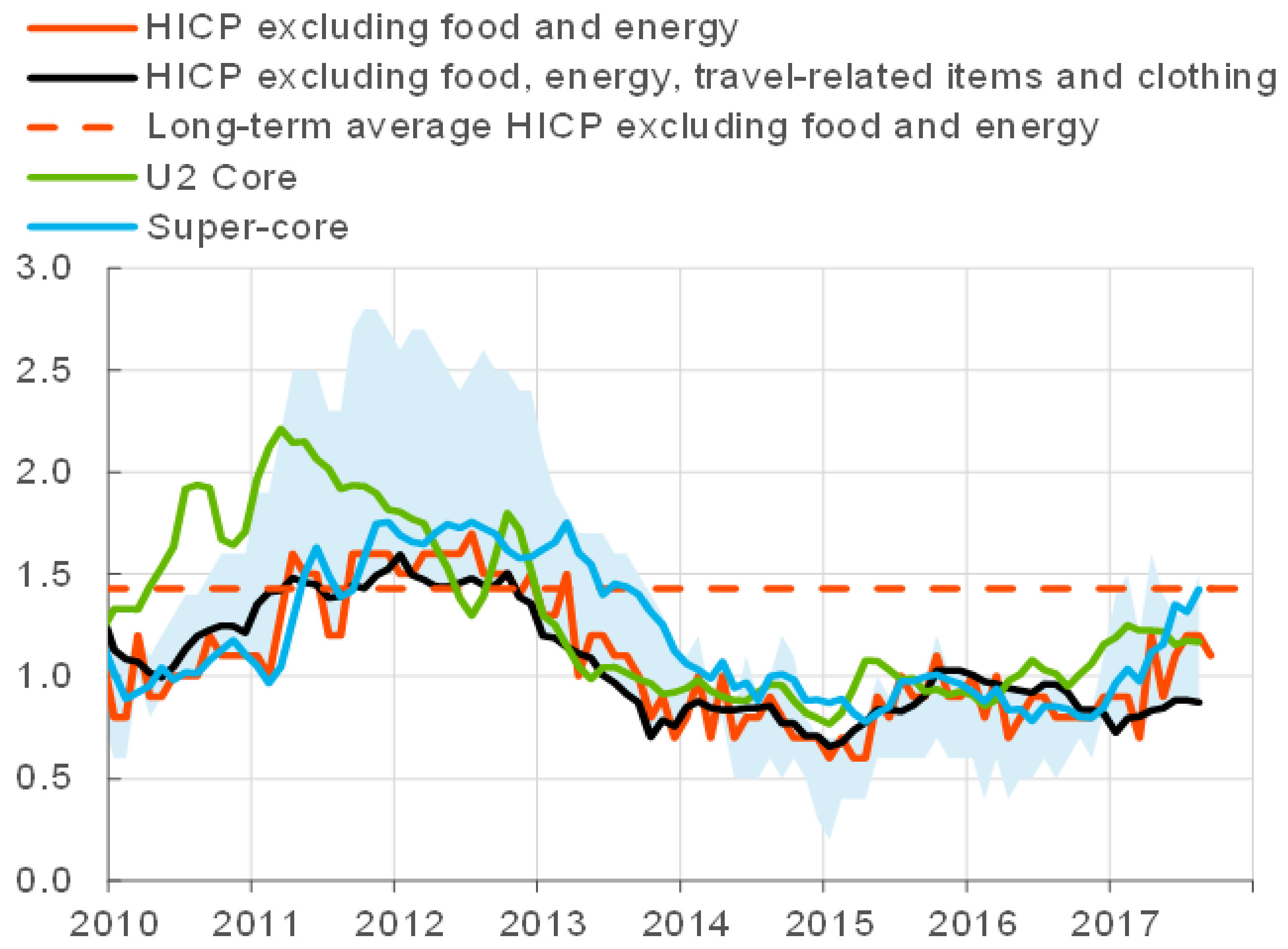
Note: With the exception of the (B)MPE, the forecast revisions are calculated on rounded data (i.e. only the apparent revisions are shown). ECB staff macroeconomic projections (MPE): changes with Eurosystem staff macroeconomic projections (BMPE) published on 08 June 2017. Consensus Economics: changes with August 2017. 2019 is taken from April 2017 long term forecast survey, changes with October 2016 survey. OECD: For GDP: OECD Economic Outlook 2017 n. 101, June 2017. Changes with March Interim Economic Outlook 2017 (only GDP updated). For HICP: OECD Economic Outlook 2017 n. 101, June 2017: changes with OECD Economic Outlook 2016 n. 100, November 2016. Euro Zone Barometer: changes with August 2017. 2019 is taken from July 2017 long term forecast survey, changes with April 2017 survey. European Commission: changes with November 2016. ECB SPF 2017 Q3 - Survey conducted between 3 and 7 July 2017; changes with 2017 Q2 (April 2017). IMF WEO published in October 2017; changes with IMF Article IV country report July 2017.

(annual percentage changes)

There are reasons to believe that the strengthening of economic activity, which so far has been significantly supported by accommodative monetary policy, will progressively be supported by more structural factors. Euro area governments have undertaken substantial policy actions and reforms to redress pre-crisis related macroeconomic imbalances and increase economic resilience.[3] For instance, euro area countries which had previously experienced large current account deficits are now in surplus. Moreover, both ECB staff and IMF estimates indicate that the largest driver of this adjustment is non-cyclical in nature, which implies a higher likelihood of sustainability as the recovery continues. Additionally, business cycle synchronisation across euro area countries has increased in recent years.[4] Finally, most countries that had large budget deficits have now positive primary surpluses. In sum, the euro area is now in a better state to withstand future economic or financial shocks.

Despite robust growth dynamics, inflation developments have been subdued. Euro area headline inflation stood at 1.5% in September 2017, according to Eurostat’s flash estimate and is expected to temporarily decline towards the turn of the year owing to energy-related base-effects. Measures of underlying inflation have not yet showed convincing signs of a sustained upward trend (see Chart 3).

Chart 3: Measures of underlying inflation



(annual percentage changes)

Sources: Eurostat and ECB calculations[5].

Looking further ahead and according to the latest ECB staff projections, inflation is expected to rise to 1.5% in 2017, 1.2% in 2018 and 1.5% in 2019. There are uncertainties clouding the medium-term outlook for price stability, most notably the recent exchange rate volatility, which requires monitoring with regard to possible implications for inflation dynamics. The inflation outlook from the recent IMF WEO depicts inflation at 1.5% in 2017 and 1.4% in 2018, which is broadly in line with ECB projections.

The apparent disconnect between strong economic activity, on the one hand, and low inflation and wages on the other, is one of the stand-out characteristics of the ongoing recovery.[6] From a policymaker’s perspective, a predictable relationship between slack and inflation represents a key monetary policy transmission mechanism through which central banks exert their effect on inflation dynamics.

While there is no agreed upon approach to estimating a Phillips curve linking inflation to slack, on the whole empirical estimates indicate that the slope is currently flatter than in the period preceding the crisis, with several explanations as to why this might be the case. One reason relates to the choice of slack measurement, as the crisis may have led to structural changes in the labour market. For example, when a broader measurement of unemployment is used (Unemployment 6, currently just below 18%) as opposed to the narrower definition (Unemployment 3, standing at 9.1%), the slope of the euro area Phillips curve appears to have become steeper in recent years. Other reasons proposed include: external factors including globalisation, the enhanced role of adaptive expectations in influencing wage and price decisions, anchored by central bank targets, and finally, non-linearities and time-varying behaviour of different Phillips curve coefficients. [7]

Overall, a steepening Phillips curve provides confidence that the continued closing of the output gap will gradually lead inflation to return to our medium-term objective. Yet, this return remains conditional on a very substantial degree of monetary accommodation.

It is against this background that the Governing Council will decide over the autumn period on a re-calibration of its instruments, with a view to safeguarding the monetary policy impulse that is still necessary to secure a sustained adjustment in the path of inflation, in a way that is consistent with our monetary policy aim.

Other policies

Notwithstanding the strength of the ongoing recovery, supply-side policies as well as institutional reforms are required in order to firmly secure a self-sustainable recovery and a better functioning euro area. Country level policies should be aimed at increasing productivity and facilitating innovation and business investment. Turning to Europe and European reforms, the most relevant ones concern the completion of Banking Union, meaningful progress in the Capital Markets Union and the creation of an additional budgetary stabilisation function for the euro area. Both the Five Presidents Report on “Completing Europe’s Economic and Monetary Union” (2015) and the recent EU Commission paper on the “Deepening of the Economic and Monetary Union” (2017), provide sufficient guidance on the way to proceed towards a stronger monetary union.