

Yves Mersch: The ECB's monetary policy stance

The global recovery is firming and broadening. And the ongoing economic expansion in the euro area provides confidence.

But while inflation will gradually head to levels in line with our definition of price stability in the mid-term, it has yet to translate into stronger inflation dynamics. Headline inflation is dampened by the weakness in energy prices. Moreover, measures of underlying inflation remain overall at subdued levels. Therefore, as I pointed out yesterday in my oral presentation at the Bank Negara Malaysia Monetary Policy Conference, a very substantial degree of monetary accommodation is still needed for underlying inflation pressures to gradually build up and support headline inflation developments in the medium term.

Let me provide you with some details of the ongoing recovery. Euro area real GDP increased by 0.6%, quarter on quarter, in the first quarter of 2017, after 0.5% in the last quarter of 2016. Incoming data, notably survey results, continue to point to solid, broad-based growth in the period ahead. The pass-through of our monetary policy measures is supporting domestic demand and has facilitated the deleveraging process. The recovery in investment continues to benefit from very favourable financing conditions and improvements in corporate profitability. Private consumption is supported by employment gains, which are also benefiting from past labour market reforms, and by increasing household wealth. Moreover, the global recovery should increasingly lend support to trade and euro area exports. However, economic growth prospects continue to be dampened by a slow pace of implementation of structural reforms, particularly in product markets, and by remaining balance sheet adjustment needs in a number of sectors, notwithstanding ongoing improvements.

The risks surrounding the euro area growth outlook might be upward in the short term, but are overall broadly balanced. On the one hand, the current positive cyclical momentum increases the chances of a stronger than expected economic upswing. On the other hand, downside risks primarily relating to global factors continue to exist.

The thread of deflation is gone and reflationary forces are at play. Prices pressures in the early stages of the pricing chain remain strong but have still not transmitted to the later stages. Euro area annual HICP inflation was 1.3% in June, down slightly from 1.4% in May, mainly due to lower energy price inflation. Looking ahead, on the basis of current futures prices for oil, headline inflation is likely to remain around current levels in the coming months. In these conditions, we can be more assured about the return of inflation to our objective than we were a few years ago. At the same time, measures of underlying inflation remain low and have yet to show convincing signs of a pick-up, as domestic cost pressures, including wage growth, are still subdued: although compensation per hour worked is rising, compensation

per employee remains flat. This divergence goes back, at least in part, to the increased fragmentation of labour time. In the labour market technological advance, in particular the use of the internet allows for more services being offered with less intermediation at lower prices.

Underlying inflation in the euro area is expected to rise only gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion and the corresponding gradual absorption of economic slack.

Also broad money (M3) continues to expand at a robust pace, with an annual rate of growth of 5.0% in May 2017, after 4.9% in April. As in previous months, annual growth in M3 was mainly supported by its most liquid components, with the narrow monetary aggregate M1 expanding at an annual rate of 9.3% in May 2017, unchanged from April.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations remained stable at 2.4% in May 2017, while the annual growth rate of loans to households increased to 2.6%, from 2.4% in April. The euro area bank lending survey for the second quarter of 2017 indicates that credit standards for loans to enterprises and loans to households for house purchase have further eased and that loan growth continues to be supported by increasing demand. The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households and credit flows across the euro area.

The cross-check of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for a continued very substantial degree of monetary accommodation to secure a sustained return of inflation rates towards levels that are below, but close to, 2%.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to strengthening the longer-term growth potential and reducing vulnerabilities. Political winds are becoming tailwinds. There is newfound confidence in the reform process, and newfound support for European cohesion, which could help unleash pent-up demand and investment, if confirmed by decisive action.

Still, the implementation of structural reforms needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost productivity growth. Regarding fiscal policies, all countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalances procedure over time and across countries remains essential to bolster the resilience of the euro area economy.

Mergers: Commission opens in-depth investigation into Knorr-Bremse's proposed takeover of competing brakes manufacturer Haldex

Commissioner Margrethe **Vestager**, in charge of competition policy, said: *"Brakes are a crucial component for the safety of the millions of trucks, trailers and buses that transport goods and passengers across Europe every day. We want to ensure that Knorr-Bremse's takeover of Haldex does not restrict competition for these critical components, which could lead to less innovation, for example in the development of automated driving, or to price increases for vehicle manufacturers, fleet operators and ultimately consumers."*

Knorr-Bremse and Haldex are two of the world's largest manufacturers of commercial vehicle brake systems and components, together with Wabco, with a particularly significant presence in the European Economic Area. Knorr-Bremse announced its public offer for Haldex on 5 September 2016 and eventually outbid the competing offer of ZF Friedrichshafen, another car parts manufacturer.

The Commission's concerns

The Commission's initial investigation has shown that the proposed merger would likely remove a significant competitor from an already very concentrated sector.

The Commission has concerns regarding a number of markets where Knorr-Bremse and Haldex currently compete, such as electronic braking systems (EBS) and air disc brakes for both trucks and trailers, anti-lock braking systems (ABS) for trailers, valves and air treatment systems. These markets have high entry barriers due to the technical and regulatory requirements for safety-critical equipment, as well as the significant research and development efforts required to enter, or expand, in these markets.

At this stage, the Commission is concerned that, following the transaction, the level of the remaining competition would be insufficient to avoid price increases and to meet customer requirements in terms of innovation. In some markets, this may result in having Wabco as the only effective competitor to the merged entity.

The transaction was notified to the Commission on 1 June 2017. The Commission now has 90 working days, until 30 November 2017, to take a decision. The opening of an in-depth inquiry does not prejudice the final result of the investigation.

On 30 June 2017, Knorr-Bremse submitted commitments to address the

Commission's concerns. However, the Commission considered these commitments insufficient to clearly dismiss its serious doubts as to the transaction's compatibility with the EU Merger Regulation. The Commission therefore did not test them with market participants.

Given the worldwide scope of Knorr-Bremse and Haldex' activities, the Commission is cooperating closely with the Department of Justice in the United States.

Companies and products

Knorr-Bremse, headquartered in Germany, is a global manufacturer and supplier of brake systems and components, door systems and other equipment for railway and commercial vehicles. Knorr-Bremse's portfolio for commercial vehicles includes, inter alia, foundation brake products such as air disc brakes and actuators, EBS, ABS, valves, air treatment and driver assistance systems.

Haldex, headquartered in Sweden, is a global manufacturer and supplier of various brake systems and components, as well as air suspension control systems, for commercial vehicles. Its business activities comprise foundation brake products, including slack adjusters, air disc brakes and actuators, EBS, ABS, valves and air treatment components.

Merger control rules and procedures

The Commission has the duty to assess mergers and acquisitions involving companies with a turnover above certain thresholds (see Article 1 of the [Merger Regulation](#)) and to prevent concentrations that would significantly impede effective competition in the EEA or any substantial part of it.

The vast majority of notified mergers do not pose competition problems and are cleared after a routine review. From the moment a transaction is notified, the Commission generally has a total of 25 working days to decide whether to grant approval (Phase I) or to start an in-depth investigation (Phase II).

In addition to the present transaction, there is currently one other on-going phase II merger investigation in the [proposed acquisition of NXP by Qualcomm](#).

More information will be available on the [competition](#) website, in the Commission's [public case register](#) under the case number [M.8222](#).

Route migratoire en Méditerranée centrale: Déclaration de Tunis

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[Concentrations: la Commission ouvre une enquête approfondie sur le projet de Knorr-Bremse de racheter le fabricant de freins concurrent Haldex](#)

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[Proposal for a new EU strategy on Afghanistan: in support of peace and prosperity](#)

In recent years, Afghanistan has been confronted with a number of challenges that threaten the progress made in its economic and social development and its democratic institutions. The European Union recognises that the delicate security situation and the fragile economic situation the country is facing, combined with a clear determination on the part of the Afghan authorities to implement much-needed reforms necessitates renewed attention from the international community. Today, the High Representative for Foreign Affairs and Security Policy and the European Commission have set out their vision for how the European Union can support Afghanistan both to address its challenges and to bring about positive change for the Afghan people.

The Joint Communication on elements for an EU strategy on Afghanistan is available [online](#).

Federica **Mogherini**, the High Representative of the European Union for Foreign

Affairs and Security Policy/Vice-President of the European Commission, said: *"The Afghan people deserve peace and prosperity. As the European Union, we have been standing by them and will continue to do so, in support of the reform process, of Afghanistan's democratic path, of the rule of law and human rights, and of bringing peace to the country, to the benefit not only of all Afghans but also of the entire region and the international community as a whole. This work towards peace needs to be led by Afghans and owned by Afghans, but the active support of the region and of the international community is crucial. The Afghan people can count on the European Union to accompany this process."*

Neven Mimica, the Commissioner for International Cooperation and Development, said: *"Afghanistan is not alone. We will continue the support which we have been providing since 2002 – to make sure that the development achievements of the last years are not lost. With the EU's support, more Afghan women are actively participating in the country's politics. Access to health care has increased, and farmers are better supported to improve agricultural production than before. Moving forward to help Afghanistan overcome its many challenges, we will renew our engagement and focus on supporting good governance and the justice sector, creating sustainable growth and jobs, and ensuring basic social services for the Afghan people."*

The Joint Communication sets out ways in which the European Union can work, in close cooperation with civil society, the Afghan authorities, and all stakeholders, towards lasting peace, a consolidated democracy, equitable development and social justice in Afghanistan. It proposes concrete actions, focussing on five priority areas:

Peace, stability and regional security:

- Supporting and promoting an inclusive, **Afghan-led and Afghan-owned peace and reconciliation process** leading to a negotiated peace settlement
- Building the capacity of the Afghan government to reach out to all those in **sincere negotiations on peace and reconciliation**.
- Supporting the civilian aspects of **security sector reform**, including the professionalisation of the police and the fight against corruption in this area.
- Working with the government of Afghanistan to support its **strategic policy priorities**, including peacebuilding and sustainable development.

Democracy, rule of law and human rights:

- Assisting Afghanistan's efforts to **reform its electoral system and to strengthen the integrity of the electoral process**, for example by supporting independent electoral bodies or assisting in drafting of electoral legislation and regulations.
- Helping to **fight corruption**, as well as supporting the country's justice sector, parliament and civil society.
- Working with the Government of Afghanistan to **address human rights concerns**, including respect for minorities, child protection or the fight against impunity.

Economic and human development:

- Providing **technical cooperation** to assist the Afghan authorities to implement the Agenda 2030 for Sustainable Development, and their own National Peace and Development Framework.
- Reinforcing the role of **rural economies and agriculture**, an increased role of the **private sector** and enhancing **resilience**.
- Supporting **regional connectivity**, to further improve the country's transit, transport and energy corridors and to enable increased trade throughout the region.

Migration:

- Working together to fully implement the *EU-Afghanistan Joint Way Forward on migration issues* and the bilateral memoranda of understanding concluded between EU Member States and Afghanistan.
- Helping to **address the root causes** of irregular migration and forced displacement.
- Helping to create an environment that offers the Afghan people an **alternative to irregular migration**, as well as to enable the **sustainable reintegration** of returnees from the EU and non-EU countries through a community-based approach.

Empowering Women:

- Supporting the implementation of the national action plan for UNSC resolution 1325 on **women, peace and security**, and other national women's empowerment legislation.
- Supporting the incorporation of legislation and additional measures to **prevent, combat and criminalise violence against women** and sexual harassment.
- Strengthening **the role and rights of women** in preventing and resolving conflicts, in democratic participation, and in sustainable development.

The Joint Communication is the latest illustration of the European Union's strong engagement in and strong commitment to Afghanistan. Notably, it follows the [Brussels Conference on Afghanistan](#), held in October 2016 in Brussels, the signing of a new [EU-Afghanistan Cooperation Agreement on Partnership and Development](#) in February 2017, and the appointment of a [Special Envoy to Afghanistan](#) in June.

The actions proposed in the Joint Communication will be discussed with the EU Member States and the European Parliament in the coming weeks, and will contribute to a **new EU Strategy on Afghanistan**, to be finalised soon afterwards.

Further Information

[Joint Communication](#): Elements for an EU Strategy on Afghanistan

[Factsheet](#): EU-Afghanistan relations

[Website](#): Delegation of the European Union to Afghanistan

[Website](#): International Cooperation and Development – Afghanistan

[Press Release](#): European Union strengthens engagement with Afghanistan through the appointment of a Special Envoy

[Press Release](#): Brussels Conference on Afghanistan: realising Afghanistan's economic potential and reinforcing the role of women

[Press Release](#): Brussels Conference on Afghanistan: continued international support for Afghanistan's political and economic stability and development