Mario Draghi: ECB press conference – introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, and Mr Vítor Constâncio, Vice-President of the European Central Bank, Frankfurt am Main, 8 March 2012.

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the ***key ECB interest rates*** unchanged. The information that has become available since the beginning of February has confirmed our previous assessment of the outlook for economic activity. Available survey indicators confirm signs of a stabilisation in the euro area economy. However, the economic outlook is still subject to downside risks. Owing to rises in energy prices and indirect taxes, inflation rates are now likely to stay above 2% in 2012, with upside risks prevailing. Nevertheless, we expect price developments to remain in line with price stability over the policy-relevant horizon. The underlying pace of monetary expansion remains subdued, consistent with contained inflationary pressures over the medium term.

Looking ahead, we are firmly committed to maintaining price stability in the euro area, in line with our mandate. To this end, the continued firm anchoring of inflation expectations – in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term – is of the essence.

Over recent months, a wide range of additional non-standard monetary policy measures has been implemented by the Eurosystem. These measures, including in particular two three-year longer-term refinancing operations, were decided upon against the background of exceptional circumstances in the last quarter of 2011. The first impact of these measures has been positive. Together with fiscal consolidation and stepped-up structural reforms in several euro area countries, as well as progress towards a stronger euro area economic governance framework, they have contributed to a significant improvement in the financial environment over recent months. We expect that the three-year longer-term refinancing operations will provide further support for the ongoing stabilisation in financial markets and, in particular, for lending activity in the euro area. All our non-standard monetary policy measures are temporary in nature. Furthermore, all the necessary tools to address potential upside risks to medium-term price stability are fully available.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Real GDP contracted by 0.3% in the euro area in the fourth quarter of 2011. According to recent survey data, there are signs of a stabilisation in economic activity, albeit still at a low level. Looking ahead, we expect the euro area economy to recover gradually in the course of this year. The outlook for economic activity should be supported by foreign demand, the very low short-term interest rates in the euro area, and all the measures taken to foster the proper functioning of the euro area financial sector. However, the remaining tensions in euro area sovereign debt markets and their impact on credit conditions, as well as the process of balance sheet adjustment in the financial and non-financial sectors, are expected to continue to dampen the underlying growth momentum.

This assessment is also reflected in the March 2012 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP growth in a range between –0.5% and 0.3% in 2012 and between 0.0% and 2.2% in 2013. Compared with the December 2011 Eurosystem staff macroeconomic projections, the ranges have been shifted slightly downwards.

This outlook remains subject to downside risks. They notably relate to a renewed intensification of tensions in euro area debt markets and their potential spillover to the euro area real economy. Downside risks also relate to further increases in commodity prices.

Euro area annual HICP inflation was 2.7% in February 2012, according to Eurostat's flash estimate, slightly up from 2.6% in January. Looking ahead, inflation is now likely to stay above 2% in 2012, mainly owing to recent increases in energy prices, as well as recently announced increases in indirect taxes. On the basis of current futures prices for commodities, annual inflation rates should fall again to below 2% in early 2013. Looking further ahead, in an environment of modest growth in the euro area and well-anchored long-term inflation expectations, underlying price pressures should remain limited.

The March 2012 ECB staff macroeconomic projections for the euro area foresee annual HICP inflation in a range between 2.1% and 2.7% in 2012 and between 0.9% and 2.3% in 2013. In comparison with the December 2011 Eurosystem staff macroeconomic projections, the ranges for HICP inflation have been shifted upwards, notably the range for 2012.

Risks to projected HICP inflation rates in the coming years are seen to be still broadly balanced, with upside risks in the near term mainly stemming from higher than expected oil prices and indirect tax increases. However, downside risks continue to exist owing to weaker than expected developments in economic activity.

The ***monetary analysis*** indicates that the underlying pace of monetary expansion remains subdued. The annual growth rate of M3 was 2.5% in January 2012, up from 1.5% in December 2011. Loan growth to the private sector also remains subdued. However, its annual rate (adjusted for loan sales and securitisation) picked up slightly in January to 1.5% year on year from 1.2% in December.

The annual growth rates of loans to non-financial corporations and loans to households (adjusted for loan sales and securitisation) stood at 0.8% and 2.1% respectively in January. The volume of MFI loans to non-financial corporations declined only slightly in January, following the pronounced decline in December. By contrast, the flow of loans to households in January was positive.

Following the signs of improvement in the financial environment, it is essential for banks to strengthen their resilience further, including by retaining earnings. The soundness of banks' balance sheets will be a key factor in facilitating an appropriate provision of credit to the economy.

To sum up, the economic analysis indicates that price developments should remain in line with price stability over the medium term. A **cross-check** with the signals from the monetary analysis confirms this picture.

Looking ahead, in order to deliver a favourable environment for sustainable growth and to support confidence and competitiveness, the Governing Council stresses the urgent need for governments to make further progress towards restoring sound fiscal positions and implementing the structural reform agenda. Regarding ***fiscal consolidation***, many governments in the euro area are making progress. Continuing with comprehensive fiscal consolidation and complying with all commitments remains essential. In this respect, the 2012 European Semester should be used to enforce rigorously the reinforced fiscal surveillance mechanism. Equally important are ***structural reforms*** to increase the adjustment capacity and competitiveness of euro area countries and to strengthen growth prospects and job creation. In this area, more progress is desirable. The Governing Council strongly welcomes the European Commission's Alert Mechanism Report on macroeconomic imbalances and expects the proposed in-depth country reviews to actively support the reform processes under way in euro area countries.

We are now at your disposal for questions.