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, 6 December 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, which was also attended by the Commission Vice-President, Mr Rehn.

Based on our regular economic and monetary analyses, we decided to keep the ***key ECB interest rates*** unchanged. Owing to high energy prices and increases in indirect taxes in some euro area countries, HICP inflation rates have been elevated for some time. More recently they have declined, as anticipated, and are expected to fall below 2% in 2013. Over the policy-relevant horizon, inflation rates should remain in line with price stability. The underlying pace of monetary expansion continues to be subdued. Inflation expectations for the euro area remain firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. The economic weakness in the euro area is expected to extend into next year. In particular, necessary balance sheet adjustments in financial and non-financial sectors and persistent uncertainty will continue to weigh on economic activity. Later in 2013 economic activity should gradually recover, as global demand strengthens and our accommodative monetary policy stance and significantly improved financial market confidence work their way through to the economy. In order to sustain confidence, it is essential for governments to reduce further both fiscal and structural imbalances and to proceed with financial sector restructuring.

Today, we have also decided to continue conducting our main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the sixth maintenance period of 2013 on 9 July 2013. This procedure will also remain in use for the Eurosystem's special-term refinancing operations with a maturity of one maintenance period, which will continue to be conducted for as long as needed, and at least until the end of the second quarter of 2013. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. The rates in the three-month longer-term refinancing operations, to be allotted until June 2013, will be fixed at the average rate of the MROs over the life of the respective longer-term refinancing operation.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Following a contraction of 0.2%, quarter on quarter, in the second quarter of 2012, euro area real GDP declined by 0.1% in the third quarter. Available statistics and survey indicators continue to signal further weakness in activity in the last quarter of the year, although more recently some indicators have stabilised at low levels and financial market confidence has improved further. Over the shorter term, weak activity is expected to extend into next year, reflecting the adverse impact on domestic expenditure of weak consumer and investor sentiment and subdued foreign demand. A gradual recovery should start later in 2013 as our accommodative monetary policy stance and significant improvement in financial market confidence work their way through to private domestic expenditure, and a strengthening of foreign demand should support export growth.

This assessment is reflected in the December 2012 Eurosystem staff macroeconomic projections for the euro area, which foresee annual real GDP growth in a range between –0.6% and –0.4% for 2012, between –0.9% and 0.3% for 2013 and between 0.2% and 2.2% for 2014. Compared with the September 2012 ECB staff macroeconomic projections, the ranges for 2012 and 2013 have been revised downwards.

The Governing Council continues to see downside risks to the economic outlook for the euro area. These are mainly related to uncertainties about the resolution of sovereign debt and governance issues in the euro area, geopolitical issues and fiscal policy decisions in the United States possibly dampening sentiment for longer than currently assumed and delaying further the recovery of private investment, employment and consumption.

According to Eurostat's flash estimate, euro area annual HICP inflation fell to 2.2% in November 2012, down from 2.5% in October and from 2.6% in the two previous months. On the basis of current futures prices for oil, inflation rates are expected to decline further to below 2% next year. Over the policy-relevant horizon, in an environment of weak economic activity in the euro area and well-anchored long-term inflation expectations, underlying price pressures should remain moderate.

This assessment is also reflected in the December 2012 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation of 2.5% for 2012, between 1.1% and 2.1% for 2013 and between 0.6% and 2.2% for 2014. Compared with the September 2012 ECB staff macroeconomic projections, the projection range for 2013 has been revised downwards.

In the Governing Council's assessment, risks to the outlook for price developments are seen as broadly balanced, with downside risks stemming from weaker economic activity and upside risks relating to higher administered prices and indirect taxes, as well as higher oil prices.

Turning to the ***monetary analysis***, the underlying pace of monetary expansion continues to be subdued, taking into account developments over several months. Most recently, the annual growth rate of M3 increased to 3.9% in October, from 2.6% in September, while M1 growth accelerated to 6.4% from 5.0% over the same period. These developments are partly due to a specific transaction leading to an increase in overnight deposits belonging to the non-monetary financial sector. At the same time, deposits from households and non-financial corporations also rose in October. Overall, more observations are needed to distinguish between shorter-term volatility and more lasting factors.

Unlike in the case of monetary developments, there has been little change in credit growth. The annual growth rate of loans to the private sector (adjusted for loan sales and securitisation) remained at –0.4% in October, unchanged from September. But this development reflects further net redemptions in loans to non-financial corporations, which led to an annual rate of decline in these loans of –1.5%, down from –1.2% in September. The annual growth in MFI lending to households remained unchanged at 0.8% in October. To a large extent, subdued loan dynamics reflect the weak outlook for GDP, heightened risk aversion and the ongoing adjustment in the balance sheets of households and enterprises, all of which weigh on credit demand. Furthermore, in a number of euro area countries, capital constraints, risk perception and the segmentation of financial markets restrict credit supply.

In order to ensure an adequate transmission of monetary policy to the financing conditions in euro area countries, it is essential to continue strengthening the resilience of banks where needed. The soundness of banks' balance sheets will be a key factor in facilitating both an appropriate provision of credit to the economy and the normalisation of all funding channels. Decisive steps for establishing an integrated financial framework will help to accomplish this objective. A single supervisory mechanism (SSM) is one of the main building blocks. It is a crucial move towards re-integrating the banking system.

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.

Further economic policy measures and progress in the reform of ***European governance*** should help to support financial market sentiment and improve the outlook for economic growth. In this context, the Governing Council looks forward to the roadmap towards genuine

Economic and Monetary Union to be decided at the European Council meeting on 13–14 December 2012. Initiatives to accelerate ***structural reforms*** that help restore competitiveness are particularly important to revive the growth potential of euro area countries and to increase employment. More generally, all euro area countries must ensure that their product and labour markets possess the adjustment capacity required for their smooth and effective functioning within a monetary union. Finally, continued ***fiscal consolidation*** is expected to restore sound fiscal positions, in line with the commitments under the Stability and Growth Pact and the 2012 European Semester recommendations. Significant progress has already been made in reducing domestic and external imbalances and in improving competitiveness. Continued policy actions on the European, structural and fiscal reform fronts should be mutually reinforcing and send a strong signal to markets.

We are now at your disposal for questions.