Mario Draghi: ECB press conference – introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, Frankfurt am Main, 6 March 2014.

*   *   *

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. Incoming information confirms that the moderate recovery of the euro area economy is proceeding in line with our previous assessment. At the same time, the latest ECB staff macroeconomic projections, now covering the period up to the end of 2016, support earlier expectations of a prolonged period of low inflation, to be followed by a gradual upward movement in HICP inflation rates towards levels closer to 2%. In keeping with this picture, monetary and credit dynamics remain subdued. Inflation expectations for the euro area over the medium to long term continue to be firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2%.

Regarding the medium-term outlook for prices and growth, the information and analysis now available fully confirm our decision to maintain an accommodative monetary policy stance for as long as necessary. This will assist the gradual economic recovery in the euro area. We firmly reiterate our forward guidance. We continue to expect the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation is based on an overall subdued outlook for inflation extending into the medium term, given the broad-based weakness of the economy, the high degree of unutilised capacity and subdued money and credit creation.

We are monitoring developments on money markets closely and are ready to consider all instruments available to us. Overall, we remain firmly determined to maintain the high degree of monetary accommodation and to take further decisive action if required.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Real GDP in the euro area rose by 0.3%, quarter on quarter, in the last quarter of 2013, thereby increasing for three consecutive quarters. Developments in survey-based confidence indicators up to February are consistent with continued moderate growth also in the first quarter of this year. Looking ahead, the ongoing recovery is expected to proceed, albeit at a slow pace. In particular, some further improvement in domestic demand should materialise, supported by the accommodative monetary policy stance, improving financing conditions and the progress made in fiscal consolidation and structural reform. In addition, real incomes are supported by lower energy prices. Economic activity is also expected to benefit from a gradual strengthening of demand for euro area exports. At the same time, although unemployment in the euro area is stabilising, it remains high, and the necessary balance sheet adjustments in the public and private sectors will continue to weigh on the pace of the economic recovery.

This assessment is also broadly reflected in the March 2014 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP increasing by 1.2% in 2014, 1.5% in 2015 and 1.8% in 2016. Compared with the December 2013 Eurosystem staff macroeconomic projections, the projection for real GDP growth for 2014 has been revised slightly upwards.

The risks surrounding the economic outlook for the euro area continue to be on the downside. Developments in global financial markets and in emerging market economies, as well as geopolitical risks, may have the potential to affect economic conditions negatively.

Other downside risks include weaker than expected domestic demand and export growth and insufficient implementation of structural reforms in euro area countries.

According to Eurostat's flash estimate, euro area annual HICP inflation was 0.8% in February 2014, unchanged from the (upwardly revised) outcome for January. While energy prices fell more strongly in February than in the previous month, increases in industrial goods and services prices were higher than in January. On the basis of current information and prevailing futures prices for energy, annual HICP inflation rates are expected to remain at around current levels in the coming months. Thereafter, inflation rates should gradually increase and reach levels closer to 2%, in line with inflation expectations for the euro area over the medium to long term.

This assessment is also broadly reflected in the March 2014 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.0% in 2014, 1.3% in 2015 and 1.5% in 2016. In the last quarter of 2016, annual HICP inflation is projected to be 1.7%. In comparison with the December 2013 Eurosystem staff macroeconomic projections, the projection for inflation for 2014 has been revised slightly downwards. In view of the first publication of a three-year projection horizon in the March 2014 ECB staff macroeconomic projections, it should be stressed that the projections are conditional on a number of technical assumptions, including unchanged exchange rates and declining oil prices, and that the uncertainty surrounding the projections increases with the length of the projection horizon.

Regarding the Governing Council's risk assessment, both upside and downside risks to the outlook for price developments are seen as limited and are considered to be broadly balanced over the medium term.

Turning to the ***monetary analysis***, data for January 2014 confirm the assessment of subdued underlying growth in broad money (M3) and credit. Annual growth in M3 increased to 1.2% in January, from 1.0% in December. The monthly inflow to M3 in January was substantial, compensating for the strong outflow in December. The increase in M3 growth reflected a stronger annual growth rate of M1, which rose to 6.2% from 5.7% in December. As in previous months, the main factor supporting annual M3 growth was an increase in the MFI net external asset position, which continued to reflect the increased interest of international investors in euro area assets. The annual rate of change of loans to the private sector continued to contract. The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) was –2.9% in January, unchanged from December. Weak loan dynamics for non-financial corporations continue to reflect their lagged relationship with the business cycle, credit risk and the ongoing adjustment of financial and non-financial sector balance sheets. The annual growth rate of loans to households (adjusted for loan sales and securitisation) stood at 0.2% in January 2014, broadly unchanged since the beginning of 2013.

Since the summer of 2012 substantial progress has been made in improving the funding situation of banks. In order to ensure an adequate transmission of monetary policy to the financing conditions in euro area countries, it is essential that the fragmentation of euro area credit markets declines further and that the resilience of banks is strengthened where needed. This is the objective of the ongoing comprehensive assessment by the ECB, while a timely implementation of additional steps to establish a banking union will further help to restore confidence in the financial system.

To sum up, the economic analysis confirms our expectation of a prolonged period of low inflation, to be followed by a gradual upward movement towards levels of inflation closer to 2%. A ***cross-check*** with the signals from the monetary analysis confirms the picture of subdued underlying price pressures in the euro area over the medium term.

As regards ***fiscal policies***, the ECB staff macroeconomic projections indicate continued progress in reducing fiscal imbalances in the euro area. The aggregate euro area general government deficit is expected to have declined to 3.2% of GDP in 2013 and is projected to be reduced further to 2.7% of GDP this year. General government debt is projected to peak at 93.5% of GDP in 2014, before declining slightly in 2015. Looking ahead, euro area countries should not unravel past consolidation efforts and should put high government debt ratios on a downward trajectory over the medium term. Fiscal strategies should be in line with the Stability and Growth Pact and should ensure a growth-friendly composition of consolidation which combines improving the quality and efficiency of public services with minimising distortionary effects of taxation. National authorities should also continue with the decisive implementation of ***structural reforms*** in all euro area countries. These reforms should aim, in particular, to make it easier to do business and to boost employment, thus enhancing the euro area's growth potential and reducing unemployment in the euro area countries. To this end, the Governing Council welcomes the European Commission's communication of yesterday on the prevention and correction of macroeconomic imbalances and on the Excessive Deficit Procedure. Looking ahead, it is key that the macroeconomic surveillance framework in the euro area, which was significantly strengthened in the wake of the sovereign debt crisis, is implemented fully and in a consistent manner.

We are now at your disposal for questions.