Jean-Claude Trichet: ECB press conference – introductory statement

Introductory statement by Mr Jean-Claude Trichet, President of the European Central Bank, and Mr Vítor Constâncio, Vice-President of the European Central Bank, Frankfurt am Main, 9 June 2011.

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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, which was also attended by Commissioner Rehn.

Based on its regular economic and monetary analyses, the Governing Council decided to keep the ***key ECB interest rates*** unchanged. The information that has become available since our meeting on 5 May 2011 confirms continued upward pressure on overall inflation, mainly owing to energy and commodity prices. The underlying pace of monetary expansion is gradually recovering. Monetary liquidity remains ample, with the potential to accommodate price pressures in the euro area. Furthermore, the most recent data confirm the positive underlying momentum of economic activity in the euro area, while uncertainty remains elevated. Overall, our monetary policy stance remains accommodative, lending support to economic activity. On balance, risks to the outlook for price stability are on the upside. Accordingly, strong vigilance is warranted. On the basis of our assessment, we will act in a firm and timely manner. We will do all that is needed to prevent recent price developments giving rise to broad-based inflationary pressures. We remain strongly determined to secure a firm anchoring of inflation expectations in the euro area in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. This is a prerequisite for monetary policy to make an ongoing contribution towards supporting growth and job creation in the euro area.

The Governing Council today also decided to continue conducting its 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 ninth maintenance period of 2011 on 11 October 2011. 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 third quarter of 2011. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. Furthermore, the Governing Council decided to conduct the three-month longer-term refinancing operations (LTROs) to be allotted on 27 July, 31 August and 28 September 2011 as fixed rate tender procedures with full allotment. The rates in these three-month operations will be fixed at the average rate of the MROs over the life of the respective LTRO.

As stated on previous occasions, the provision of liquidity and the allotment modes for refinancing operations will be adjusted when appropriate, taking into account the fact that all the non-standard measures taken during the period of acute financial market tensions are, by construction, temporary in nature.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. In the first quarter of 2011, the euro area recorded strong real GDP growth of 0.8% quarter-on-quarter, following the 0.3% increase of the fourth quarter of 2010. Recent statistical releases and survey-based indicators point towards a continued expansion of economic activity in the euro area in the second quarter of this year, albeit at a slower pace. This easing reflects the fact that the strong growth in the first quarter was partly due to special factors, which will cease to play a role in the second quarter. Hence, it is appropriate to look through such short-term volatility and to emphasise the positive underlying momentum of economic activity in the euro area. Looking ahead, euro area exports should be supported by the ongoing expansion in the world economy. At the same time, taking into account the favourable level of business confidence in the euro area, private sector domestic demand should contribute increasingly to economic growth, benefiting from the still accommodative monetary policy stance and the measures adopted to improve the functioning of the financial system. However, activity is expected to continue to be dampened somewhat by the process of balance sheet adjustment in various sectors.

This assessment is also reflected in the June 2011 Eurosystem staff macroeconomic projections for the euro area, which foresee annual real GDP growth in a range between 1.5% and 2.3 % in 2011 and between 0.6% and 2.8% in 2012. Compared with the March 2011 ECB staff macroeconomic projections, the range for 2011 has been revised upwards, while the range for 2012 remains broadly unchanged. The June 2011 Eurosystem staff projections are broadly in line with recent forecasts by international organisations.

In the Governing Council's assessment, the risks to this economic outlook remain broadly balanced in an environment of elevated uncertainty. On the one hand, favourable business confidence could provide more support to domestic economic activity in the euro area than currently expected and higher foreign demand could also contribute more strongly to growth than expected. On the other hand, downside risks relate to the ongoing tensions in some segments of the financial markets that may potentially spill over to the euro area real economy. Downside risks also relate to further increases in energy prices, protectionist pressures and the possibility of a disorderly correction of global imbalances.

With regard to price developments, euro area annual HICP inflation was 2.7% in May according to Eurostat's flash estimate, after 2.8% in April. The relatively high inflation rates seen over the past few months largely reflect higher energy and commodity prices. Looking ahead, inflation rates are likely to stay clearly above 2% over the coming months. Upward pressure on inflation, mainly from energy and commodity prices, is also discernible in the earlier stages of the production process. It remains of paramount importance that the rise in HICP inflation does not translate into second-round effects in price and wage-setting behaviour and lead to broad-based inflationary pressures. Inflation expectations must remain firmly anchored in line with the Governing Council's aim of maintaining inflation rates below, but close to, 2% over the medium term.

The June 2011 Eurosystem staff macroeconomic projections for the euro area foresee annual HICP inflation in a range between 2.5% and 2.7% for 2011 and between 1.1% and 2.3% for 2012. In comparison with the March 2011 ECB staff macroeconomic projections, the range for HICP inflation in 2011 has been revised upwards, largely reflecting higher energy prices. The projection range for 2012 has narrowed somewhat. It is appropriate to recall that the staff projections are conditional on a number of purely technical assumptions, including oil prices, interest rates and exchange rates. In particular, it is assumed that oil prices will decline somewhat and that short-term interest rates will rise, in accordance with market expectations. Overall the projections embody the view that the recent high rates of inflation do not lead to broader-based inflationary pressure in the euro area.

Risks to the medium-term outlook for price developments remain on the upside. They relate, in particular, to higher than assumed increases in energy prices. Furthermore, there is a risk of increases in indirect taxes and administered prices that may be greater than currently assumed, owing to the need for fiscal consolidation in the coming years. Finally, upside risks may come from stronger than expected domestic price pressures in the context of increasing capacity utilisation in the euro area.

Turning to the ***monetary analysis***, the annual growth rate of M3 was 2.0% in April 2011, after 2.3% in March. Looking through the recent volatility in broad money growth, M3 growth has continued to edge up over recent months. The annual growth rate of loans to the private sector strengthened slightly to 2.6% in April, after 2.5% in March. Overall, the underlying pace of monetary expansion is gradually recovering. At the same time, monetary liquidity accumulated prior to the period of financial market tensions remains ample, with the potential to accommodate price pressures in the euro area.

Looking at M3 components, the annual growth rate of M1 decreased in April, while that of other short-term deposits increased. The development partly reflects the gradual increase in the remuneration of these deposits over recent months. At the same time, the steep yield curve implies a dampening impact on overall M3 growth, as it reduces the attractiveness of monetary assets compared with more highly remunerated longer-term instruments outside M3. However, available information suggests that this impact may be waning.

On the counterpart side, there has been a further slight strengthening in the growth of loans to non-financial corporations, which rose to 1.0% in April, after 0.8% in March. The growth of loans to households was 3.4% in April, unchanged from the previous month. The latest data confirm a continued gradual strengthening in the annual growth of lending to the non-financial private sector.

The overall size of bank balance sheets has remained broadly unchanged over the past few months, notwithstanding some volatility. It is important that banks continue to expand the provision of credit to the private sector in an environment of increasing demand. To address this challenge, where necessary, it is essential for banks to retain earnings, to turn to the market to strengthen further their capital bases or to take full advantage of government support measures for recapitalisation. In particular, banks that currently have limited access to market financing urgently need to increase their capital and their efficiency.

To sum up, based on its regular economic and monetary analyses, the Governing Council decided to keep the key ECB interest rates unchanged. The information that has become available since our meeting on 5 May 2011 confirms continued upward pressure on overall inflation, mainly owing to energy and commodity prices. A ***cross-check*** of the outcome of the economic analysis with that of the monetary analysis indicates that the underlying pace of monetary expansion is gradually recovering. Monetary liquidity remains ample, with the potential to accommodate price pressures in the euro area. Furthermore, the most recent data confirm the positive underlying momentum of economic activity in the euro area, while uncertainty remains elevated. Overall, our monetary policy stance remains accommodative, lending support to economic activity. On balance, risks to the outlook for price stability are on the upside. Accordingly, strong vigilance is warranted. On the basis of our assessment, we will act in a firm and timely manner. We will do all that is needed to prevent recent price developments giving rise to broad-based inflationary pressures. We remain strongly determined to secure a firm anchoring of inflation expectations in the euro area in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. This is a prerequisite for monetary policy to make an ongoing contribution towards supporting growth and job creation in the euro area.

Turning to ***fiscal policies***, all parties involved in the preparation of the 2012 national budgets must ensure that they are fully in line with the requirement to support confidence in fiscal policies. A comparison between the latest economic forecasts by the European Commission and the fiscal plans embodied in the stability programmes points to the need for many countries to underpin their budget targets with concrete consolidation measures in order to correct their excessive deficits by the commonly agreed deadlines. The implementation of credible fiscal adjustment strategies is crucial in view of ongoing financial market pressures.

At the same time, the implementation of ambitious and far-reaching ***structural reforms*** is urgently required in the euro area to strengthen substantially its competitiveness, flexibility and longer-term growth potential. In particular, countries which have high fiscal and external deficits or which are suffering from a loss of competitiveness should rapidly carry out comprehensive economic reforms. In the case of product markets, policies that enhance competition and innovation should be vigorously pursued to facilitate productivity growth. Regarding the labour market, the priority must be to enhance wage flexibility and incentives to work, and to remove labour market rigidities.

We are now at your disposal for questions.