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, 7 February 2013.

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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. HICP inflation rates have declined further, as anticipated, and are expected to fall below 2% in the coming months. Over the policy-relevant horizon, inflationary pressures should remain contained. The underlying pace of monetary expansion continues to be subdued. Medium to longer-term inflation expectations for the euro area remain firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2%. Overall, this allows our monetary policy stance to remain accommodative. The economic weakness in the euro area is expected to prevail in the early part of 2013. In particular, necessary balance sheet adjustments in the public and private sectors will continue to weigh on economic activity. Later in 2013 economic activity should gradually recover, supported by our accommodative monetary policy stance, the improvement in financial market confidence and reduced fragmentation, as well as a strengthening of global demand. 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.

With regard to the liquidity situation of banks, counterparties have so far repaid €140.6 billion of the €489.2 billion obtained in the first of the two three-year longer-term refinancing operations (LTROs) settled in December 2011 and March 2012. This reflects the improvement in financial market confidence. Repayments are provided for in the modalities of the three-year LTROs and are at the discretion of the counterparties, who must appropriately assess their funding situation, their ability to provide new loans to the economy and their resilience to shocks. We will closely monitor conditions in the money market and their potential impact on the stance of monetary policy, which will remain accommodative with the full allotment mode of liquidity provision.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Euro area real GDP declined by 0.1%, quarter on quarter, in the third quarter of 2012, following a contraction of 0.2% in the second quarter. Available data continue to signal further weakness in activity in the fourth quarter and at the beginning of 2013. This weakness reflects the adverse impact of low consumer and investor sentiment on domestic expenditure, as well as subdued foreign demand. However, financial market sentiment has improved and the latest survey indicators confirm earlier evidence of a stabilisation in business and consumer confidence, albeit at low levels. Later in 2013 a gradual recovery should start, with domestic demand being supported by our accommodative monetary policy stance, the improvement in financial market confidence and reduced fragmentation, and export growth benefiting from a strengthening of global demand.

The risks surrounding the economic outlook for the euro area continue to be on the downside. They relate to the possibility of weaker than expected domestic demand and exports, slow implementation of structural reforms in the euro area, as well as geopolitical issues and imbalances in major industrialised countries which could both have an impact on developments in global commodities and financial markets. These factors have the potential to dampen the ongoing improvement in confidence and thereby delay the recovery.

According to Eurostat's flash estimate, euro area annual HICP inflation was 2.0% in January 2013, down from 2.2% in November and December and from 2.5% in October. On the basis of current futures prices for oil, inflation rates are expected to decline further to below 2% in the coming months. 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 contained.

Risks to the outlook for price developments continue to be seen as broadly balanced over the medium term, with upside risks relating to higher administered prices and indirect taxes, as well as higher oil prices, and downside risks stemming from weaker economic activity and, more recently, the appreciation of the euro exchange rate.

Turning to the ***monetary analysis***, the underlying pace of monetary expansion continues to be subdued. The annual growth rate of M3 decreased to 3.3% in December 2012, from 3.8% in November. Shifts from overnight deposits to short-term time deposits led to a decrease in the annual rate of growth of M1, which declined to 6.2% in December, from 6.7% in November, and outflows from marketable instruments dampened overall M3 growth. A further strengthening in the deposit base of MFIs in a number of stressed countries took place in December, in combination with further capital inflows into the euro area, both of which continued to reduce fragmentation.

The annual growth rate of loans to the private sector (adjusted for loan sales and securitisation) remained negative in December. This mainly reflected ongoing negative annual growth of loans to non-financial corporations, which was –1.3% in December after –1.5% in November. However, annual growth in MFI loans to households remained broadly unchanged at 0.7% in December. To a large extent, subdued loan dynamics reflect the current stage of the business cycle, heightened credit risk and the ongoing adjustment in the balance sheets of the financial and non-financial sectors. In line with these developments, the bank lending survey for the fourth quarter of 2012 confirms the weakness in credit demand and the continued effect of credit risk considerations on the tightening of credit standards. At the same time, the survey confirms the positive impact of Eurosystem measures on banks' overall funding and liquidity situation. In particular, banks reported improvements across all funding categories in the fourth quarter.

In order to ensure 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. Decisive steps for establishing an integrated financial framework will help to accomplish this objective. The future 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.

As regards other policy areas, ***structural reforms*** and ***fiscal adjustment*** can complement each other, thereby improving the outlook for job creation, economic growth and debt sustainability. Past policy action is bearing fruit, in terms of both the unwinding of existing fiscal imbalances and the reduction of current account deficits. In particular, in several countries with particular adjustment needs, contained growth in unit labour costs signals greater price competitiveness and exports are performing better. Governments should build on the progress achieved in fiscal consolidation, strengthen competition in product markets and continue with labour market reforms. This would boost the euro area's growth potential, reduce high structural unemployment and improve the adjustment capacities of the euro area countries.

We are now at your disposal for questions.