Mario Draghi: ECB press conference – introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, Frankfurt am Main, 5 September 2013.

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Ladies and gentlemen, I am very pleased to welcome you to our press conference. I 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 and analysis have further underpinned our previous assessment. Underlying price pressures in the euro area are expected to remain subdued over the medium term. In keeping with this picture, monetary and, in particular, credit dynamics remain subdued. Inflation expectations for the euro area continue to be firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. At the same time, real GDP growth in the second quarter was positive, after six quarters of negative output growth, and confidence indicators up to August confirm the expected gradual improvement in economic activity from low levels. Our monetary policy stance continues to be geared towards maintaining the degree of monetary accommodation warranted by the outlook for price stability and promoting stable money market conditions. It thereby provides support to a gradual recovery in economic activity. Looking ahead, our monetary policy stance will remain accommodative for as long as necessary, in line with the forward guidance provided in July. The Governing Council confirms that it expects the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation continues to be based on an unchanged overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the economy and subdued monetary dynamics. In the period ahead, we will monitor all incoming information on economic and monetary developments and assess any impact on the medium-term outlook for price stability. With regard to money market conditions, these have also been influenced by a gradual reduction in excess liquidity. Repayments of funds taken up in the context of the three-year longer-term refinancing operations reflect improvements in financial market confidence, some reduction in financial market fragmentation and the ongoing deleveraging by euro area banks. We will remain particularly attentive to the implications that these developments may have for the stance of monetary policy.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Following six quarters of negative output growth, euro area real GDP rose, quarter on quarter, by 0.3% in the second quarter of 2013. This increase is partly explained by transitory effects related to weather conditions in the first half of this year. Since then, survey-based confidence indicators up to August have improved further from low levels, overall confirming our previous expectations of a gradual recovery in economic activity. Looking ahead to the remainder of the year and to 2014, in line with our baseline scenario, output is expected to recover at a slow pace, in particular owing to a gradual improvement in domestic demand supported by the accommodative monetary policy stance. Euro area economic activity should, in addition, benefit from a gradual strengthening of external demand for exports. Furthermore, the overall improvements in financial markets seen since last summer appear to be gradually working their way through to the real economy, as should the progress made in fiscal consolidation. In addition, real incomes have benefited recently from generally lower inflation. This being said, unemployment in the euro area remains high, and the necessary balance sheet adjustments in the public and private sectors will continue to weigh on economic activity.

This assessment is also reflected in the September 2013 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP declining by 0.4% in 2013 and increasing by 1.0% in 2014. Compared with the June 2013 Eurosystem staff macroeconomic projections, the projection for 2013 has been revised upwards by 0.2 percentage point, largely reflecting incoming data. For 2014 there has been a downward revision of 0.1 percentage point.

The risks surrounding the economic outlook for the euro area continue to be on the downside. Recent developments in global money and financial market conditions and related uncertainties may have the potential to negatively affect economic conditions. Other downside risks include higher commodity prices in the context of renewed geopolitical tensions, weaker than expected global demand and slow or insufficient implementation of structural reforms in euro area countries.

According to Eurostat's flash estimate, as expected, euro area annual HICP inflation was 1.3% in August 2013, down from 1.6% in June and July. On the basis of current assumptions for energy and exchange rate developments, annual inflation rates are expected to remain low in the coming months, owing in particular to energy price developments. Taking the appropriate medium-term perspective, underlying price pressures are expected to remain subdued, reflecting the broad-based weakness in aggregate demand and the modest pace of the recovery. Medium to long-term inflation expectations continue to be firmly anchored in line with price stability.

This assessment is also reflected in the September 2013 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.5% in 2013 and 1.3% in 2014. In comparison with the June 2013 Eurosystem staff macroeconomic projections, the projection for inflation for 2013 has been revised upwards by 0.1 percentage point, while the projection for 2014 remains unchanged.

The risks to the outlook for price developments are expected to be still broadly balanced over the medium term, with upside risks relating in particular to higher commodity prices as well as stronger than expected increases in administered prices and indirect taxes, and downside risks stemming from weaker than expected economic activity.

Turning to the ***monetary analysis***, data for July confirm that underlying broad money (M3) and, in particular, credit growth remained subdued. Annual growth in M3 decreased further in July to 2.2%, from 2.4% in June. Annual growth in M1 remained strong but decreased to 7.1% in July, from 7.5% in June. M3 growth continued to be mainly supported by net capital inflows into the euro area, while the annual rate of change of loans to the private sector weakened further. The annual growth rate of loans to households (adjusted for loan sales and securitisation) remained at 0.3% in July, broadly unchanged since the turn of the year. The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) was –2.8% in July, compared with –2.3% in June. Weak loan dynamics continue to reflect primarily the current stage of the business cycle, heightened credit risk and the ongoing adjustment of financial and non-financial sector balance sheets.

Since the summer of 2012 substantial progress has been made in improving the funding situation of banks and, in particular, in strengthening the domestic deposit base in a number of stressed countries. 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. Further decisive steps to establish a banking union will help to accomplish this objective.

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.

In order to further reduce imbalances and to foster competitiveness, growth and job creation, euro area countries need to continue with their reform agenda. As regards ***fiscal policies***, governments should not unravel their efforts to reduce deficits and put debt ratios on a downward path. The composition of fiscal consolidation should be geared towards growth-friendly measures which have a medium-term perspective and combine improving the quality and efficiency of public services with minimising distortionary effects of taxation. In terms of ***economic policies***, product market reforms to increase competitiveness will facilitate the creation of new businesses, support the tradable goods sector and foster job creation, while high unemployment rates require decisive structural reforms to reduce rigidities in labour markets and to increase labour demand.

I am now at your disposal for questions.