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, 27 April 2017.

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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 Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases. Regarding **non-standard monetary policy measures**, we confirm that our net asset purchases, at the new monthly pace of €60 billion, are intended to run until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the asset purchase programme.

Our monetary policy measures have continued to preserve the very favourable financing conditions that are necessary to secure a sustained convergence of inflation rates towards levels below, but close to, 2% over the medium term. Incoming data since our meeting in early March confirm that the cyclical recovery of the euro area economy is becoming increasingly solid and that downside risks have further diminished. At the same time, underlying inflation pressures continue to remain subdued and have yet to show a convincing upward trend. Moreover, the ongoing volatility in headline inflation underlines the need to look through transient developments in HICP inflation, which have no implication for the medium-term outlook for price stability.

A very substantial degree of monetary accommodation is still needed for underlying inflation pressures to build up and support headline inflation in the medium term. If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, we stand ready to increase our asset purchase programme in terms of size and/or duration.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.5%, quarter on quarter, in the fourth quarter of 2016, following a growth rate of 0.4% in the third quarter. Incoming data, notably survey results, bolster our confidence that the ongoing economic expansion will continue to firm and broaden. The pass-through of our monetary policy measures is supporting domestic demand and facilitates the ongoing deleveraging process. The recovery in investment continues to benefit from very favourable financing conditions and improvements in corporate profitability. Employment gains, which are also benefiting from past labour market reforms, are supporting real disposable income and private consumption. Moreover, the signs of a stronger global recovery and increasing global trade suggest that foreign demand should increasingly add to the overall resilience of the economic expansion in the euro area. However, economic growth continues to be dampened by a sluggish pace of implementation of structural reforms, in particular in product markets, and by remaining balance sheet adjustment needs in a number of sectors. The risks surrounding the euro area growth outlook, while moving towards a more balanced configuration, are still tilted to the downside and relate predominantly to global factors.

Headline inflation has been recovering from the very low levels seen in 2016, largely owing to higher energy price increases. After reaching 2.0% in February 2017, euro area annual HICP inflation stood at 1.5% in March. This reflected mainly lower energy and unprocessed food price inflation, but also a decline in services price inflation. Looking ahead, on the basis of current futures prices for oil, headline inflation is likely to increase in April and thereafter to hover around current levels until the end of this year. However, as unutilised resources are still weighing on domestic wage and price formation, measures of underlying inflation remain low and are expected to rise only gradually over the medium term, supported by our monetary policy measures, the expected continuing economic recovery and the corresponding gradual absorption of slack.

Turning to the **monetary analysis**, broad money (M3) continues to expand at a robust pace, with an annual rate of growth of 4.7% in February 2017, after 4.8% in January. As in previous months, annual growth in M3 was mainly supported by its most liquid components, with the narrow monetary aggregate M1 expanding at an annual rate of 8.4% in February 2017, unchanged from the previous month.

The recovery in loan growth to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations declined to 2.0% in February 2017, from 2.3% in the previous month, while the annual growth rate of loans to households remained broadly stable at 2.3% in February. At the same time, the euro area bank lending survey for the first quarter of 2017 indicates that net loan demand has increased and bank lending conditions have further eased across all loan categories. The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for a continued very substantial degree of monetary accommodation to secure a sustained return of inflation rates towards levels that are below, but close to, 2% without undue delay.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute much more decisively to strengthening economic growth. The implementation of **structural reforms** needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost productivity and potential output growth. Regarding **fiscal policies**, all countries should intensify efforts towards achieving a more growth-friendly composition of public finances. A full and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalances procedure over time and across countries remains crucial to enhance the resilience of the euro area economy.

We are now at your disposal for questions.