Mario Draghi: ECB press conference - introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, and Mr Luis de Guindos, Vice-President of the European Central Bank, Vilnius, 6 June 2019.

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. I would like to thank Chairman of the Board Vasiliauskas for his kind hospitality and express our special gratitude to his staff for the excellent organisation of today's meeting of the Governing Council. We will now report on the outcome of our meeting.

Based on our regular economic and monetary analyses, we have conducted a thorough assessment of the economic and inflation outlook, also taking into account the latest staff macroeconomic projections for the euro area. As a result, the Governing Council took the following decisions in the pursuit of its price stability objective.

First, we decided to keep the **key ECB interest rates** unchanged. We now expect them to remain at their present levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Second, we intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Third, regarding the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III), we decided that the interest rate in each operation will be set at a level that is 10 basis points above the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation plus 10 basis points.

A press release with further details of the terms of TLTRO III will be published at 15:30 CET today.

The Governing Council also assessed that, at this point in time, the positive contribution of negative interest rates to the accommodative monetary policy stance and to the sustained convergence of inflation is not undermined by possible side effects on bank-based intermediation. However, we will continue to monitor carefully the bank-based transmission channel of monetary policy and the case for mitigating measures.

Today's monetary policy decisions were taken to provide the monetary accommodation necessary for inflation to remain on a sustained path towards levels that are below, but close to, 2% over the medium term. Despite the somewhat better than expected data for the first quarter, the most recent information indicates that global headwinds continue to weigh on the euro area outlook. The prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets, is leaving its mark on economic sentiment.

At the same time, further employment gains and increasing wages continue to underpin the resilience of the euro area economy and gradually rising inflation. Today's policy measures ensure that financial conditions will remain very favourable, supporting the euro area expansion, the ongoing build-up of domestic price pressures and, thus, headline inflation developments over the medium term. Looking ahead, the Governing Council is determined to act in case of adverse contingencies and also stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP rose by 0.4%, quarter on quarter, in the first quarter of 2019, following an increase of 0.2% in the fourth quarter of 2018. However, incoming economic data and survey information point to somewhat weaker growth in the second and third quarters of this year. This reflects the ongoing weakness in international trade in an environment of prolonged global uncertainties, which are weighing, in particular, on the euro area manufacturing sector. At the same time, the euro area services and construction sectors are showing resilience and the labour market is continuing to improve. Looking ahead, the euro area expansion will continue to be supported by favourable financing conditions, the mildly expansionary euro area fiscal stance, further employment gains and rising wages, and the ongoing – albeit somewhat slower – growth in global activity.

This assessment is broadly reflected in the June 2019 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.2% in 2019, 1.4% in 2020 and 1.4% in 2021. Compared with the March 2019 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised up by 0.1 percentage points for 2019 and has been revised down by 0.2 percentage points for 2020 and by 0.1 percentage points for 2021.

The risks surrounding the euro area growth outlook remain tilted to the downside, on account of the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets.

According to Eurostat's flash estimate, euro area annual HICP inflation was 1.2% in May 2019, after 1.7% in April, reflecting mainly lower energy and services price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline over the coming months, before rising again towards the end of year. Looking through the recent volatility due to temporary factors, measures of underlying inflation remain generally muted, but labour cost pressures continue to strengthen and broaden amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and stronger wage growth.

This assessment is also broadly reflected in the June 2019 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. Compared with the March 2019 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised up by 0.1 percentage points for 2019 and revised down by 0.1 percentage points for 2020.

Turning to the **monetary analysis**, broad money (M3) growth stood at 4.7% in April 2019, after 4.6% in March. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The annual growth rate of loans to non-financial corporations increased to 3.9% in April 2019, from 3.6% in March. Beyond short-term volatility, the annual growth rate of loans to non-financial corporations has moderated somewhat in recent months from its peak in September 2018, reflecting the typical lagged reaction to the slowdown in economic growth observed over the course of 2018. The annual growth rate of loans to households stood at 3.4% in April, compared with 3.3% in March, continuing its gradual improvement.

The monetary policy measures taken today, including TLTRO III, will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. The 2019 country-specific recommendations should serve as the relevant signpost. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance is providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should reinforce their efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.