## 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, 9 February 2012.

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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 Rehn.

Based on our regular economic and monetary analyses, we decided to keep the ***key ECB interest rates*** unchanged. The information that has become available since mid-January broadly confirms our previous assessment. Inflation is likely to stay above 2% for several months to come, before declining to below 2%. Available survey indicators confirm some tentative signs of a stabilisation in economic activity at a low level around the turn of the year, but the economic outlook remains subject to high uncertainty and downside risks. The underlying pace of monetary expansion remains subdued. Looking ahead, it is essential for monetary policy to maintain price stability for the euro area as a whole. This ensures a firm anchoring of inflation expectations in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. Such anchoring is a prerequisite for monetary policy to make its contribution to supporting economic growth and job creation in the euro area. A very thorough analysis of all incoming data and developments over the period ahead is warranted.

Through our non-standard monetary policy measures we will continue to support the functioning of the euro area financial sector, and thus the financing of the real economy. Since the first three-year longer-term refinancing operation (LTRO) was conducted in December 2011 we have approved specific national eligibility criteria and risk control measures for the temporary acceptance in a number of countries of additional credit claims as collateral in Eurosystem credit operations, which should lead to an increase in available collateral. Further details will be provided in a press release to be published today at 3.30 p.m. At the start of the current reserve maintenance period on 18 January 2012 the reserve ratio was reduced, freeing up additional collateral. As stated on previous occasions, all our non-standard measures are temporary in nature.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Real GDP growth in the fourth quarter of 2011 is likely to have been very weak. According to the survey data for the last two months, there are tentative signs of a stabilisation in economic activity at a low level. Looking ahead, we expect the euro area economy to recover very gradually in the course of 2012. The very low short-term interest rates and all the measures taken to foster the proper functioning of the euro area financial sector are lending support to the euro area economy. Moreover, stress in financial markets has diminished in response to our monetary policy measures, but also in response to the progress made towards a stronger euro area governance framework and intensified fiscal consolidation in several euro area countries. However, subdued global demand growth, the remaining tensions in euro area sovereign debt markets and their impact on credit conditions, as well as the process of balance sheet adjustment in the financial and non-financial sectors, continue to dampen the underlying growth momentum.

This outlook is subject to downside risks. They notably relate to tensions in euro area debt markets and their potential spillover to the euro area real economy. Downside risks also relate to possible adverse developments in the global economy, higher than assumed increases in commodity prices, protectionist pressures and the potential for a disorderly correction of global imbalances.

Euro area annual HICP inflation was 2.7% in January 2012, according to Eurostat's flash estimate, unchanged from December. The average inflation rate for 2011 was 2.7%, mainly driven by higher energy and other commodity prices. Looking ahead, inflation is likely to stay above 2% for several months to come, before declining to below 2%. This pattern reflects the expectation that, in an environment of weak growth in the euro area and globally, underlying price pressures in the euro area should remain limited.

Risks to the medium-term outlook for price developments remain broadly balanced. On the upside, they relate to higher than assumed increases in indirect taxes and administered prices, as well as increases in commodity prices. The main downside risks relate to the impact of weaker than expected growth in the euro area and globally.

The ***monetary analysis*** indicates that the underlying pace of monetary expansion remains subdued. The annual growth rate of M3 decreased to 1.6% in December 2011, after 2.0% in November, reflecting a further weakening of monetary dynamics towards the end of the year.

The annual growth rates of loans to non-financial corporations and loans to households, adjusted for loan sales and securitisation, also decreased further in December, and stood at 1.2% and 1.9% respectively. The volume of MFI loans to both sectors declined in December, and this was particularly pronounced in the case of the non-financial corporate sector. In addition, there are indications that bank lending conditions tightened further, affecting loan supply in several euro area countries in late 2011. It is not yet possible to draw firm conclusions from these developments, particularly given that the impact of the first three-year LTRO on bank funding is still unfolding and may not have been fully reflected in the most recent bank lending survey. In addition, other non-standard monetary policy measures announced in December are still to be implemented. Accordingly, close scrutiny of credit developments in the period ahead is essential.

The soundness of bank balance sheets will be a key factor in facilitating an appropriate provision of credit to the economy over time. It is essential that the implementation of banks' recapitalisation plans does not result in developments that are detrimental to the financing of economic activity in the euro area.

To sum up, the economic analysis indicates that underlying price pressures should remain limited and risks to the medium-term outlook for price developments remain broadly balanced. A ***cross-check*** with the signals from the monetary analysis confirms this picture.

A combination of structural reforms and fiscal discipline is essential for boosting confidence and delivering a favourable environment for sustainable growth. Regarding ***fiscal policies***, all euro area governments need to continue to do their utmost to ensure fiscal sustainability. It is essential that all countries adhere to the fiscal targets they announced for 2012. This should help to anchor expectations of sound fiscal policies and strengthen confidence. The rules guiding the design and implementation of national fiscal policies are being strengthened at the EU level as well as in the legal frameworks of several Member States. These are important steps in the right direction. With regard to ***structural reforms***, these are key to increasing the adjustment capacity and competitiveness of euro area countries, thereby strengthening growth prospects and job creation. Notably, far-reaching and ambitious reforms should be implemented to foster competition in product markets, particularly in services sectors, while rigidities in labour markets should be reduced and wage flexibility should be enhanced.

We are now at your disposal for questions.