Mario Draghi: ECB press conference – introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, Frankfurt am Main, 6 February 2014.

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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. Incoming information confirms that the moderate recovery of the euro area economy is proceeding in line with our previous assessment. At the same time, underlying price pressures in the euro area remain weak and monetary and credit dynamics are subdued. Inflation expectations for the euro area over the medium to long term continue to be firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2%. As stated previously, we are now experiencing a prolonged period of low inflation, which will be followed by a gradual upward movement towards inflation rates below, but close to, 2% later on. Regarding the medium-term outlook for prices and growth, further information and analysis will become available in early March. Recent evidence fully confirms our decision to maintain an accommodative stance of monetary policy for as long as necessary, which will assist the gradual economic recovery in the euro area. We firmly reiterate our forward guidance. We continue to expect the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation is based on an overall subdued outlook for inflation extending into the medium term, given the broad-based weakness of the economy and subdued monetary dynamics. With regard to recent money market volatility and its potential impact on our monetary policy stance, we are monitoring developments closely and are ready to consider all available instruments. Overall, we remain firmly determined to maintain the high degree of monetary accommodation and to take further decisive action if required.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Following two quarters of positive real GDP growth, developments in recent data and surveys overall suggest that the moderate recovery continued in the last quarter of 2013. Looking ahead, our previous assessment of economic growth has been confirmed. Output in the euro area is expected to recover at a slow pace. In particular, some improvement in domestic demand should materialise, supported by the accommodative monetary policy stance, improving financing conditions and the progress made in fiscal consolidation and structural reforms. In addition, real incomes are supported by lower energy price inflation. Economic activity is also expected to benefit from a gradual strengthening of demand for euro area exports. At the same time, although unemployment in the euro area is stabilising, it remains high, and the necessary balance sheet adjustments in the public and the private sector will continue to weigh on the pace of the economic recovery.

The risks surrounding the economic outlook for the euro area continue to be on the downside. Developments in global money and financial market conditions and related uncertainties, notably in emerging market economies, may have the potential to negatively affect economic conditions. Other downside risks include weaker than expected domestic demand and export growth and slow or insufficient implementation of structural reforms in euro area countries.

According to Eurostat's flash estimate, euro area annual HICP inflation was 0.7% in January 2014, after 0.8% in December. This decline was mainly due to energy price developments. At the same time, the inflation rate in January 2014 was lower than generally expected**.** On the basis of current information and prevailing futures prices for energy, annual HICP inflation rates are expected to remain at around current levels in the coming months. Over the medium term, underlying price pressures in the euro area are expected to remain subdued. Inflation expectations for the euro area over the medium to long term continue to be firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2%.

Both upside and downside risks to the outlook for price developments remain limited, and they continue to be broadly balanced over the medium term.

Turning to the ***monetary analysis***, data for December 2013 confirm the assessment of subdued underlying growth in broad money (M3) and credit. Annual growth in M3 moderated to 1.0% in December, from 1.5% in November. Deposit outflows in December mirrored the strong sales of government and private sector securities by euro area MFIs, which, in part, could be related to adjustments by banks in anticipation of the ECB's comprehensive assessment of banks' balance sheets. These developments also affected annual growth in M1, which moderated to 5.8% in December but remained strong. As in previous months, the main factor supporting annual M3 growth was an increase in the MFI net external asset position, which continued to reflect the increased interest of international investors in euro area assets. The annual rate of change of loans to the private sector continued to contract. The annual growth rate of loans to households (adjusted for loan sales and securitisation) stood at 0.3% in December, broadly unchanged since the beginning of 2013. The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) was –2.9% in December, after –3.1% in November. The January 2014 bank lending survey provides indications of some further stabilisation in credit conditions for firms and households and a smaller net decline in loan demand by enterprises. Overall, weak loan dynamics for non-financial corporations continue to reflect their lagged relationship with the business cycle, 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. 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. This is the objective of the ECB's comprehensive assessment, while the timely implementation of additional steps to establish a banking union will further help to restore confidence in the financial system.

To sum up, the economic analysis confirms our expectation of a prolonged period of low inflation, to be followed by a gradual upward movement towards inflation rates below, but close to, 2% later on. A ***cross-check*** with the signals from the monetary analysis confirms the picture of subdued underlying price pressures in the euro area over the medium term.

As regards ***fiscal policies***, euro area countries should not unravel past consolidation efforts and should put high government debt on a downward trajectory over the medium term. Fiscal strategies should be in line with the Stability and Growth Pact and should ensure a growth-friendly composition of consolidation which combines improving the quality and efficiency of public services with minimising distortionary effects of taxation. When accompanied by the decisive implementation of ***structural reforms***, these strategies will further support the still fragile economic recovery. Governments must therefore continue with product and labour market reforms. These reforms will help to enhance the euro area's growth potential and reduce the high unemployment rates in many countries.

We are now at your disposal for questions.