Mario Draghi: ECB press conference – introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, Brussels, 8 May 2014.

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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 Governor Coene 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 today's meeting, which was also attended by the President of the Eurogroup, Finance Minister Dijsselbloem.

Based on our regular economic and monetary analyses, we decided to keep the ***key ECB interest rates*** unchanged. Incoming information continues to indicate that the moderate recovery of the euro area economy is proceeding in line with our previous assessment. At the same time, recent information remains consistent with our expectation of a prolonged period of low inflation followed by only a gradual upward movement in HICP inflation rates. The signals from the monetary analysis confirm the picture of subdued underlying price pressures in the euro area over the medium term. Inflation expectations for the euro area over the medium to long term remain firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2%.

Looking ahead, we will monitor economic developments and money markets very closely. We will maintain a high degree of monetary accommodation and act swiftly, if required, with further monetary policy easing. We firmly reiterate that 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, the high degree of unutilised capacity, and subdued money and credit creation. The Governing Council is unanimous in its commitment to using also unconventional instruments within its mandate in order to cope effectively with risks of a too prolonged period of low inflation. Further information and analysis concerning the outlook for inflation and the availability of bank loans to the private sector will be available in early June.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Real GDP in the euro area rose by 0.2%, quarter on quarter, in the last quarter of 2013, thereby increasing for three consecutive quarters. Recent data and survey indicators confirm that the ongoing moderate recovery continued in the first quarter of 2014 and at the beginning of the second quarter. Looking ahead, domestic demand should continue to be supported by a number of factors, including the accommodative monetary policy stance, ongoing improvements in financing conditions working their way through to the real economy, the progress made in fiscal consolidation and structural reforms, and developments in energy prices. At the same time, although labour markets have stabilised and shown the first signs of improvement, unemployment remains high in the euro area and, overall, unutilised capacity continues to be sizeable. Moreover, the annual rate of change of MFI loans to the private sector remained negative in March and the necessary balance sheet adjustments in the public and private sectors 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. Geopolitical risks, as well as developments in global financial markets and emerging market economies, may have the potential to affect economic conditions negatively. Other downside risks include weaker than expected domestic demand and insufficient implementation of structural reforms in euro area countries, as well as weaker export growth.

According to Eurostat's flash estimate, euro area annual HICP inflation was 0.7% in April 2014, up from 0.5% in March. As expected, given the timing of Easter, the increase was mainly due to a rise in services prices. On the basis of current information, annual HICP inflation is expected to remain around present low levels over the coming months, before only gradually increasing during 2015 to reach levels closer to 2% towards the end of 2016. New macroeconomic projections by Eurosystem staff will become available in early June. Medium to long-term inflation expectations remain firmly anchored in line with price stability.

The Governing Council sees both upside and downside risks to the outlook for price developments as limited and broadly balanced over the medium term. In this context, the possible repercussions of both geopolitical risks and exchange rate developments will be monitored closely.

Turning to the ***monetary analysis***, data for March 2014 continue to point to subdued underlying growth in broad money (M3). Annual growth in M3 moderated to 1.1% in March, from 1.3% in February. The growth of the narrow monetary aggregate M1 remained robust but decreased to 5.6 % in March, after 6.2% in February. The increase in the MFI net external asset position, reflecting in part the continued interest of international investors in euro area assets, remains the main factor supporting annual M3 growth.

The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) was –3.1% in March, unchanged from February. 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. The annual growth rate of loans to households (adjusted for loan sales and securitisation) stood at 0.4% in March 2014, broadly unchanged since the beginning of 2013.

The April 2014 bank lending survey confirmed the stabilisation of credit conditions for loans to enterprises and households. Credit standards over the previous three months remained broadly unchanged for loans to enterprises but were eased in net terms for households. Broadly in line with these results, in the survey on the access to finance of small and medium-sized enterprises (SMEs) for the period October 2013-March 2014, SMEs reported that bank loan availability had become less negative and had actually improved in some euro area countries. According to both surveys, the general economic outlook contributed less negatively or even positively to these developments. At the same time, banks still reported tight levels of credit standards when seen in a historical perspective.

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. In this context, the ongoing comprehensive assessment of banks' balance sheets is of key importance. Banks should take full advantage of this exercise to improve their capital and solvency position, thereby contributing to overcome any existing credit supply restriction that could hamper the recovery.

To sum up, the economic analysis confirms our expectation of a prolonged period of low inflation followed by only a gradual upward movement in HICP inflation rates towards levels closer to 2%. 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.

Regarding ***fiscal policies***, according to the European Commission's spring forecast, the general government deficit in the euro area is expected to decline further, from 3.0% of GDP in 2013 to 2.5% this year and to 2.3% in 2015. The government debt-to-GDP ratio is expected to stabilise at 96.0% in 2014 and to decline to 95.4% in 2015. In view of still rather high debt ratios and to improve fiscal sustainability, euro area countries should not unravel progress made with fiscal consolidation and should comply with their commitments under the Stability and Growth Pact. At the same time, comprehensive and ambitious ***structural reforms*** in product and labour markets are warranted to lift the euro area's growth potential, improve its adjustment capacity and reduce the high unemployment facing many euro area countries today. To this end, the Governing Council concurs with Tuesday's ECOFIN Council communication that decisive policy action is needed in countries where macroeconomic imbalances hinder the smooth functioning of Economic and Monetary Union.

We are now at your disposal for questions.