Mario Draghi: ECB press conference – introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, Frankfurt am Main, 6 November 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, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, and in line with our forward guidance, we decided to keep the ***key ECB interest rates*** unchanged. Following up on the decisions of 2 October 2014, we last month started purchasing covered bonds under our new programme. We will also soon start to purchase asset-backed securities. The programmes will last for at least two years. Together with the series of targeted longer-term refinancing operations to be conducted until June 2016, these asset purchases will have a sizeable impact on our balance sheet, which is expected to move towards the dimensions it had at the beginning of 2012.

Our measures will enhance the functioning of the monetary policy transmission mechanism, support financing conditions in the euro area, facilitate credit provision to the real economy and generate positive spillovers to other markets. They will thereby further ease the monetary policy stance more broadly, support our forward guidance on the key ECB interest rates and reinforce the fact that there are significant and increasing differences in the monetary policy cycle between major advanced economies.

With the measures that have been put in place, monetary policy has responded to the outlook for low inflation, a weakening growth momentum and continued subdued monetary and credit dynamics. Our accommodative monetary policy stance will underpin the firm anchoring of medium to long-term inflation expectations, in line with our aim of achieving inflation rates below, but close to, 2%. As they work their way through to the economy, our monetary policy measures will together contribute to a return of inflation rates to levels closer to our aim.

However, looking ahead, and taking into account new information and analysis, the Governing Council will closely monitor and continuously assess the appropriateness of its monetary policy stance. Should it become necessary to further address risks of too prolonged a period of low inflation, the Governing Council is unanimous in its commitment to using additional unconventional instruments within its mandate. The Governing Council has tasked ECB staff and the relevant Eurosystem committees with ensuring the timely preparation of further measures to be implemented, if needed.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Euro area real GDP increased by 0.1%, quarter on quarter, in the second quarter of this year, revised up as compared with the earlier estimate. Since the summer months, incoming data and survey evidence have overall indicated a weakening in the euro area's growth momentum. This information has now been incorporated into the most recent forecasts by private and public institutions, which indicate a downward revision of real GDP growth over the projection horizon up to 2016, with the outlook for a modest economic recovery remaining in place. This picture is broadly in line with the Governing Council's current assessment. On the one hand, domestic demand should be supported by our monetary policy measures, the ongoing improvements in financial conditions, the progress made in fiscal consolidation and structural reforms, and lower energy prices supporting real disposable income. Furthermore, demand for exports should benefit from the global recovery. On the other hand, the recovery is likely to continue to be dampened by high unemployment, sizeable unutilised capacity, and the necessary balance sheet adjustments in the public and private sectors.

The risks surrounding the economic outlook for the euro area continue to be on the downside. In particular, the weakening in the euro area's growth momentum, alongside heightened geopolitical risks, could dampen confidence and, in particular, private investment. In addition, insufficient progress in structural reforms in euro area countries constitutes a key downward risk to the economic outlook.

According to Eurostat's flash estimate, euro area annual HICP inflation was 0.4% in October 2014, after 0.3% in September. Compared with the previous month, this mainly reflects a somewhat less negative contribution from energy prices and slightly stronger annual increases in food prices. A fall in industrial goods prices was partly compensated for by an increase in services price inflation. On the basis of current information and prevailing futures prices for energy, annual HICP inflation is expected to remain at around current low levels over the coming months, before increasing gradually during 2015 and 2016. This is also the picture portrayed by the most recent forecasts, which now incorporate the recent sharp fall in oil prices.

The Governing Council will continue to closely monitor the risks to the outlook for price developments over the medium term. In this context, we will focus in particular on the possible repercussions of dampened growth dynamics, geopolitical developments, exchange rate and energy price developments, and the pass-through of our monetary policy measures.

Turning to the ***monetary analysis***, data for September 2014 continue to point to subdued underlying growth in broad money (M3), with the annual growth rate increasing moderately, however, to 2.5% in September, after 2.1% in August. Annual growth in M3 continues to be supported by its most liquid components, with the narrow monetary aggregate M1 growing at an annual rate of 6.2% in September.

The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) remained negative at –1.8% in September, after –2.0% in August and –2.2% in July. On average over recent months, net redemptions have moderated from the historically high levels recorded a year ago. Lending to non-financial corporations continues to reflect the lagged relationship with the business cycle, credit risk, credit supply factors 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) was 0.6% in September, after 0.5% in August. In line with some stabilisation in credit flows, the October bank lending survey for the euro area reported a net easing of credit standards on loans to enterprises and households. At the same time, it has to be kept in mind that the level of credit standards is still tight from a historical perspective. Following the completion of the ECB's comprehensive assessment, a further strengthening of banks' balance sheets can be expected to contribute to reducing credit supply constraints and facilitating more lending.

To sum up, a ***cross-check*** of the outcome of the economic analysis with the signals coming from the monetary analysis confirms the recent decisions taken by the Governing Council to provide further monetary policy accommodation and to support lending to the real economy.

Monetary policy is focused on maintaining price stability over the medium term and its accommodative stance contributes to supporting economic activity. However, in order to strengthen investment activity, boost job creation and raise productivity growth, other policy areas need to contribute decisively. In particular, the legislation and implementation of ***product and labour market reforms*** as well as actions to improve the business environment for firms need to gain momentum in several countries. The effective implementation of structural reforms will raise expectations of higher incomes and encourage firms to increase investment today and bring forward the economic recovery. As regards ***fiscal policies***, countries with remaining fiscal imbalances should not unravel the progress already made and should proceed in line with the rules of the Stability and Growth Pact. Throughout the procedural steps under the agreed framework, the Pact should remain the anchor for confidence in sustainable public finances. The existing flexibility within the rules should allow governments to address the budgetary costs of major structural reforms, to support demand and to achieve a more growth-friendly composition of fiscal policies. A full and consistent implementation of the euro area's existing fiscal and macroeconomic surveillance framework is key to bringing down high public debt ratios, to raising potential growth and to increasing the resilience of the euro area economy to shocks.

We are now at your disposal for questions.