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, 10 March 2016.

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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, we have conducted a thorough review of the monetary policy stance, in which we also took into account the new macroeconomic projections by our staff extending into the year 2018. As a result, the Governing Council has decided on a set of measures in the pursuit of its price stability objective. This comprehensive package will exploit the synergies between the different instruments and has been calibrated to further ease financing conditions, stimulate new credit provision and thereby reinforce the momentum of the euro area's economic recovery and accelerate the return of inflation to levels below, but close to, 2%.

First, as regards the key ECB interest rates, we decided to lower the interest rate on the main refinancing operations of the Eurosystem by 5 basis points to 0.00% and the rate on the marginal lending facility by 5 basis points to 0.25%. The rate on the deposit facility was lowered by 10 basis points to –0.40%.

Second, we decided to expand the monthly purchases under our asset purchase programme from €60 billion at present to €80 billion. They are intended to run until the end of March 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term. To ensure the continued smooth implementation of our asset purchases, we also decided to increase the issuer and issue share limits for the purchases of securities issued by eligible international organisations and multilateral development banks from 33% to 50%.

Third, we decided to include investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area in the list of assets that are eligible for regular purchases under a new corporate sector purchase programme. This will further strengthen the pass-through of our asset purchases to the financing conditions of the real economy. Purchases under the new programme will start towards the end of the second quarter of this year.

Fourth, we decided to launch a new series of four targeted longer-term refinancing operations (TLTRO II), starting in June 2016, each with a maturity of four years. These new operations will reinforce the ECB's accommodative monetary policy stance and will strengthen the transmission of monetary policy by further incentivising bank lending to the real economy. Counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 31 January 2016. The interest rate under TLTRO II will be fixed over the life of each operation, at the rate on the Eurosystem's main refinancing operations prevailing at the time of take-up. For banks whose net lending exceeds a benchmark, the rate applied to the TLTRO II will be lower, and can be as low as the interest rate on the deposit facility prevailing at the time of take-up. There will be no requirement for mandatory early repayments under TLTRO II, and switches from TLTRO I will be allowed.

Finally, looking ahead, taking into account the current outlook for price stability, the Governing Council expects the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases.

Separate press releases with further details of the measures taken by the Governing Council will be published this afternoon at 15:30 CET.

Adding to the measures taken since June 2014, with today's comprehensive package of monetary policy decisions we are providing substantial monetary stimulus to counteract heightened risks to the ECB's price stability objective. While very low or even negative inflation rates are unavoidable over the next few months, as a result of movements in oil prices, it is crucial to avoid second-round effects by securing the return of inflation to levels below, but close to, 2% without undue delay. The Governing Council will continue to monitor very closely the evolution of the outlook for price stability over the period ahead.

Let me now explain our assessment in greater detail, starting with the ***economic analysis***. Euro area real GDP growth was confirmed at 0.3%, quarter on quarter, in the fourth quarter of 2015, supported by domestic demand, while being dampened by a negative contribution from net exports. The most recent survey data point to weaker than expected growth momentum at the beginning of this year. Looking ahead, we expect the economic recovery to proceed at a moderate pace. Domestic demand should be further supported by our monetary policy measures and their favourable impact on financial conditions, as well as by continued employment gains benefiting from past structural reforms. Moreover, the low price of oil should provide additional support for households' real disposable income and private consumption, as well as corporate profitability and investment. In addition, the fiscal stance in the euro area is slightly expansionary, partly reflecting measures in support of refugees. However, the economic recovery in the euro area continues to be dampened by subdued growth prospects in emerging markets, volatile financial markets, the necessary balance sheet adjustments in a number of sectors and the sluggish pace of implementation of structural reforms.

This outlook is broadly reflected in the March 2016 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP increasing by 1.4% in 2016, 1.7% in 2017 and 1.8% in 2018. Compared with the December 2015 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised slightly down, mainly reflecting the weakened growth prospects for the global economy.

The risks to the euro area growth outlook remain tilted to the downside. They relate in particular to the heightened uncertainties regarding developments in the global economy, as well as to broader geopolitical risks.

According to Eurostat's flash estimate, euro area annual HICP inflation was –0.2% in February 2016, compared with 0.3% in January. All main HICP components contributed to this decline. Looking ahead, on the basis of current futures prices for energy, inflation rates are expected to remain at negative levels in the coming months and to pick up later in 2016. Thereafter, supported by our monetary policy measures and the expected economic recovery, inflation rates should recover further. The Governing Council will closely monitor price-setting behaviour and wage developments in the euro area, paying particular attention to ensure that the current low inflation environment does not become entrenched in second-round effects on wage and price-setting.

This broad pattern is also reflected in the March 2016 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 0.1% in 2016, 1.3% in 2017 and 1.6% in 2018. In comparison with the December 2015 Eurosystem staff macroeconomic projections, the outlook for HICP inflation has been revised down, mainly reflecting the fall in oil prices over recent months.

Turning to the ***monetary analysis***, recent data confirm solid growth in broad money (M3), with the annual rate of growth of M3 standing at 5.0% in January 2016, after 4.7% in December 2015. Annual growth in M3 continues to be mainly supported by its most liquid components, with the narrow monetary aggregate M1 growing at an annual rate of 10.5% in January, after 10.8% in December.

Loan dynamics continued the path of gradual recovery observed since the beginning of 2014. The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) increased to 0.6% in January 2016, up from 0.1% in December 2015. Developments in loans to enterprises continue to reflect the 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) remained stable at 1.4% in January 2016. Overall, the monetary policy measures in place since June 2014 have clearly improved borrowing conditions for firms and households, as well as credit flows across the euro area.

To sum up, a ***cross-check*** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for further monetary stimulus in order to secure a return of inflation rates towards levels that are below, but close to, 2% without undue delay.

Monetary policy is focused on maintaining price stability over the medium term and its accommodative stance supports economic activity. However, in order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively. Given continued high structural unemployment and low potential output growth in the euro area, the ongoing cyclical recovery should be supported by effective ***structural policies***. In particular, actions to raise productivity and improve the business environment, including the provision of an adequate public infrastructure, are vital to increase investment and boost job creation. The swift and effective implementation of structural reforms, in an environment of accommodative monetary policy, will not only lead to higher sustainable economic growth in the euro area but will also make the euro area more resilient to global shocks. As indicated by the European Commission, the implementation of country-specific recommendations continued to be fairly limited in 2015; reform efforts thus need to be stepped up in the majority of euro area countries. ***Fiscal policies*** should support the economic recovery, while remaining in compliance with the fiscal rules of the European Union. Full and consistent implementation of the Stability and Growth Pact is crucial to maintain confidence in the fiscal framework. At the same time, all countries should strive for a more growth-friendly composition of fiscal policies.

We are now at your disposal for questions.