Mario Draghi: ECB press conference - introductory statement

Introductory statement by Mr Mario Draghi, President of the European Central Bank, and Mr Luis de Guindos, Vice-President of the European Central Bank, Frankfurt am Main, 7 March 2019.

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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 assessment of the economic and inflation outlook, also taking into account the latest staff macroeconomic projections for the euro area. As a result, the Governing Council took the following decisions in the pursuit of its price stability objective.

First, we decided to keep the **key ECB interest rates** unchanged. We now expect them to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Second, we intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Third, we decided to launch a new series of quarterly targeted longer-term refinancing operations (TLTRO-III), starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations will help to preserve favourable bank lending conditions and the smooth transmission of monetary policy. Under TLTRO-III, counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 28 February 2019 at a rate indexed to the interest rate on the main refinancing operations over the life of each operation. Like the outstanding TLTRO programme, TLTROIII will feature built-in incentives for credit conditions to remain favourable. Further details on the precise terms of TLTRO-III will be communicated in due course.

Fourth, we will continue conducting our lending operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the reserve maintenance period starting in March 2021.

Today's monetary policy decisions were taken to ensure that inflation remains on a sustained path towards levels that are below, but close to, 2% over the medium term. While there are signs that some of the idiosyncratic domestic factors dampening growth are starting to fade, the weakening in economic data points to a sizeable moderation in the pace of the economic expansion that will extend into the current year. The persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets appears to be leaving marks on economic sentiment. Moreover, underlying inflation continues to be muted. The weaker economic momentum is slowing the adjustment of inflation towards our aim. At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures. Today's decisions will support the further build-up of domestic price pressures and headline inflation developments over the medium term. Significant monetary policy stimulus will continue to be provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets and the new series of TLTROs. In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.2%, quarter on quarter, in the fourth quarter of 2018, following growth of 0.1% in the third quarter. Incoming data have continued to be weak, in particular in the manufacturing sector, reflecting the slowdown in external demand compounded by some country and sector-specific factors. The impact of these factors is turning out to be somewhat longer-lasting, which suggests that the near-term growth outlook will be weaker than previously anticipated. Looking ahead, the effect of these adverse factors is expected to unwind. The euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, and the ongoing – albeit somewhat slower – expansion in global activity.

This assessment is broadly reflected in the March 2019 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.1% in 2019, 1.6% in 2020 and 1.5% in 2021. Compared with the December 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down substantially in 2019 and slightly in 2020.

The risks surrounding the euro area growth outlook are still tilted to the downside, on account of the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets.

According to Eurostat’s flash estimate, euro area annual HICP inflation was 1.5% in February 2019, after 1.4% in January, reflecting somewhat higher energy and food price inflation. On the basis of current futures prices for oil, headline inflation is likely to remain at around current levels before declining towards the end of year. Measures of underlying inflation remain generally muted, but labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by our monetary policy measures, the ongoing economic expansion and rising wage growth.

This assessment is also broadly reflected in the March 2019 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.5% in 2020 and 1.6% in 2021. Compared with the December 2018 Eurosystem staff macroeconomic projections, the outlook for HICP inflation has been revised down across the projection horizon, reflecting in particular the more subdued near-term growth outlook.

Turning to the **monetary analysis**, broad money (M3) growth decreased to 3.8% in January 2019, from 4.1% in December 2018. M3 growth continues to be backed by bank credit creation, notwithstanding a recent moderation in credit dynamics. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The annual growth rate of loans to non-financial corporations declined to 3.3% in January 2019, from 3.9% in December 2018, reflecting a base effect but also, in some countries, the typical lagged reaction to the slowdown in economic activity, while the annual growth rate of loans to households remained at 3.2%. Borrowing conditions for firms and households are still favourable, as the monetary policy measures put in place since June 2014 continue to support access to financing, in particular for small and medium-sized enterprises. The policy measures decided today, and in particular the new series of TLTROs, will help to ensure that bank lending conditions remain favourable going forward.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. This is particularly important in view of the overall limited implementation of the 2018 country-specific recommendations, as recently communicated by the European Commission. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance and the operation of automatic stabilisers are providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should continue to increase efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.