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, 25 July 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 decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present or lower levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to our aim over the medium term.

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.

The Governing Council also underlined the need for a highly accommodative stance of monetary policy for a prolonged period of time, as inflation rates, both realised and projected, have been persistently below levels that are in line with its aim. Accordingly, if the medium-term inflation outlook continues to fall short of our aim, the Governing Council is determined to act, in line with its commitment to symmetry in the inflation aim. It therefore stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner.

In this context, we have tasked the relevant Eurosystem Committees with examining options, including ways to reinforce our forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases.

Incoming information since the last Governing Council meeting in early June indicates that, while further employment gains and increasing wages continue to underpin the resilience of the economy, softening global growth dynamics and weak international trade are still weighing on the euro area outlook. Moreover, the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets, is dampening economic sentiment, notably in the manufacturing sector. In this environment, inflationary pressures remain muted and indicators of inflation expectations have declined. Therefore, a significant degree of monetary stimulus continues to be necessary to ensure that financial conditions remain very favourable and support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, headline inflation developments over the medium term.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Following a rise of 0.2% in the fourth quarter of 2018, euro area real GDP increased by 0.4%, quarter on quarter, in the first quarter of 2019. Incoming economic data and survey information continue to point to somewhat slower growth in the second and third quarters of this year. This mainly reflects the ongoing weakness in international trade in an environment of prolonged global uncertainties, which are particularly affecting the euro area manufacturing sector. At the same time, activity levels in the services and construction sectors are resilient and the labour market is still improving. Looking ahead, the euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

The risks surrounding the euro area growth outlook remain tilted to the downside, reflecting the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets.

Euro area annual HICP inflation increased to 1.3% in June 2019, from 1.2 % in May, as higher HICP inflation excluding food and energy more than offset lower energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline over the coming months, before rising again towards the end of the year. Looking through the recent volatility due to temporary factors, measures of underlying inflation remain generally muted. Indicators of inflation expectations have declined. While labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets, the pass-through of cost pressures to inflation is taking longer than previously anticipated. Over the medium term underlying inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and stronger wage growth.

Turning to the **monetary analysis**, broad money (M3) growth stood at 4.5% in June 2019, after 4.8% in May. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The annual growth rate of loans to non-financial corporations remained unchanged at 3.8% in June 2019. Notwithstanding some moderation from the peak recorded in September 2018, the annual growth rate of loans to non-financial corporations continues to be robust. The annual growth rate of loans to households also remained unchanged at 3.3% in June, continuing its gradual improvement. Overall, loan growth is still benefiting from historically low bank lending rates. The euro area bank lending survey for the second quarter of 2019 indicates that loan growth continued to be supported by increasing demand across all loan categories. At the same time, credit standards for loans to enterprises tightened in the second quarter amid concerns about the economic outlook, while they remained broadly unchanged for loans for house purchase.

Our monetary policy measures, including the forthcoming new series of targeted longer-term refinancing operations (TLTRO III), will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

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 boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance is providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should reinforce their 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.