EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS CONFERENCE

Frankfurt am Main, 22 January 2015

Introductory Statement

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. Let me wish you all a Happy New Year. I would also like to take this opportunity to welcome Lithuania as the nineteenth country to adopt the euro as its currency. Accordingly, Mr Vasiliauskas, the Chairman of the Board of Lietuvos bankas, became a member of the Governing Council on 1 January 2015. The accession of Lithuania to the euro area on 1 January 2015 triggered a system under which NCB governors take turns holding voting rights on the Governing Council. The details on this rotation system are available on the ECB's website. 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 conducted a thorough reassessment of the outlook for price developments and of the monetary stimulus achieved. As a result, the Governing Council took the following decisions:

First, it decided to launch an **expanded asset purchase programme**, encompassing the existing purchase programmes for asset-backed securities and covered bonds. Under this expanded programme, the combined monthly purchases of public and private sector securities will amount to €60 billion. They are intended to be carried out until end-September 2016 and will in any case be conducted until we see a sustained adjustment in the path of inflation which is consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term. In March 2015 the Eurosystem will start to purchase euro-denominated investment-grade securities issued by euro area governments and agencies and European institutions in the secondary market. The purchases of securities issued by euro area governments and agencies will be based on the Eurosystem NCBs' shares in the ECB's capital key. Some additional eligibility criteria will be applied in the case of countries under an EU/IMF adjustment programme.

Second, the Governing Council decided to change the pricing of the six remaining **targeted longer-term refinancing operations** (TLTROs). Accordingly**,** the interest rate applicable to future TLTRO operations will be equal to the rate on the Eurosystem's main refinancing operations prevailing at the time when

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each TLTRO is conducted, thereby removing the 10 basis point spread over the MRO rate that applied to the first two TLTROs.

Third, in line with our forward guidance, we decided to keep the **key ECB interest rates** unchanged.

As regards the additional asset purchases, the Governing Council retains control over all the design features of the programme and the ECB will coordinate the purchases, thereby safeguarding the singleness of the Eurosystem's monetary policy. The Eurosystem will make use of decentralised implementation to mobilise its resources. With regard to the sharing of hypothetical losses, the Governing Council decided that purchases of securities of European institutions (which will be 12% of the additional asset purchases, and which will be purchased by NCBs) will be subject to loss sharing. The rest of the NCBs' additional asset purchases will not be subject to loss sharing. The ECB will hold 8% of the additional asset purchases. This implies that 20% of the additional asset purchases will be subject to a regime of risk sharing.

Separate press releases with more detailed information on the expanded asset purchase programme and the pricing of the TLTROs will be published this afternoon at 3.30 p.m.

Today's monetary policy decision on additional asset purchases was taken to counter two unfavourable developments. First, inflation dynamics have continued to be weaker than expected. While the sharp fall in oil prices over recent months remains the dominant factor driving current headline inflation, the potential for second-round effects on wage and price-setting has increased and could adversely affect medium-term price developments. This assessment is underpinned by a further fall in market-based measures of inflation expectations over all horizons and the fact that most indicators of actual or expected inflation stand at, or close to, their historical lows. At the same time, economic slack in the euro area remains sizeable and money and credit developments continue to be subdued. Second, while the monetary policy measures adopted between June and September last year resulted in a material improvement in terms of financial market prices, this was not the case for the quantitative results. As a consequence, the prevailing degree of monetary accommodation was insufficient to adequately address heightened risks of too prolonged a period of low inflation. Thus, today the adoption of further balance sheet measures has become warranted to achieve our price stability objective, given that the key ECB interest rates have reached their lower bound.

Looking ahead, today's measures will decisively underpin the firm anchoring of medium to long-term inflation expectations. The sizeable increase in our balance sheet will further ease the monetary policy stance. In particular, financing conditions for firms and households in the euro area will continue to improve. Moreover, today's decisions will 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. Taken together, these factors should strengthen demand, increase

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capacity utilisation and support money and credit growth, and thereby contribute to a return of inflation rates towards 2%.

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 third quarter of 2014. The latest data and survey evidence point to continued moderate growth at the turn of the year. Looking ahead, recent declines in oil prices have strengthened the basis for the economic recovery to gain momentum. Lower oil prices should support households' real disposable income and corporate profitability. Domestic demand should also be further supported by our monetary policy measures, the ongoing improvements in financial conditions and the progress made in fiscal consolidation and structural reforms. Furthermore, demand for exports should benefit from the global recovery. However, the euro area 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 remain on the downside, but should have diminished after today's monetary policy decisions and the continued fall in oil prices over recent weeks.

According to Eurostat, euro area annual HICP inflation was -0.2% in December 2014, after 0.3% in November. This decline mainly reflects a sharp fall in energy price inflation and, to a lesser extent, a decline in the annual rate of change in food prices. On the basis of current information and prevailing futures prices for oil, annual HICP inflation is expected to remain very low or negative in the months ahead. Such low inflation rates are unavoidable in the short term, given the recent very sharp fall in oil prices and assuming that no significant correction will take place in the next few months. Supported by our monetary policy measures, the expected recovery in demand and the assumption of a gradual increase in oil prices in the period ahead, inflation rates are expected to increase gradually later in 2015 and in 2016.

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 geopolitical developments, exchange rate and energy price developments, and the pass-through of our monetary policy measures.

Turning to the **monetary analysis**, recent data indicate a pick-up in underlying growth in broad money (M3), although it remains at low levels. The annual growth rate of M3 increased to 3.1% in November 2014, up from 2.5% in October and a trough of 0.8% in April 2014. 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 6.9% in November.

The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) remained weak at -1.3% in November 2014, compared with -1.6% in October, while continuing its gradual recovery from a trough of -3.2% in February 2014. On average over recent months,

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net redemptions have moderated from the historically high levels recorded a year ago and net lending flows turned slightly positive in November. In this respect, the January 2015 bank lending survey indicates a further net easing of credit standards in the fourth quarter of 2014, with cross-country disparities decreasing in parallel with an increase in net demand for loans across all loan categories. Banks expect that these dynamics will continue in early 2015. Despite these improvements, lending to non-financial corporations remains weak and 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 0.7% in November, after 0.6% in October. Our monetary policy measures should support a further improvement in credit flows.

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 policy accommodation. All our monetary policy measures should provide support to the euro area recovery and bring inflation rates closer to levels below, but close to, 2%.

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 increase investment activity, boost job creation and raise productivity growth, other policy areas need to contribute decisively. In particular, the determined implementation of **product and labour market reforms** as well as actions to improve the business environment for firms needs to gain momentum in several countries. It is crucial that structural reforms be implemented swiftly, credibly and effectively as this will not only increase the future sustainable growth of the euro area, but will also raise expectations of higher incomes and encourage firms to increase investment today and bring forward the economic recovery. **Fiscal policies** should support the economic recovery, while ensuring debt sustainability in compliance with the Stability and Growth Pact, which remains the anchor for confidence. All countries should use the available scope for a more growth-friendly composition of fiscal policies.

We are now at your disposal for questions.

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