

PRESS CONFERENCE

Frankfurt am Main, 3 July 2014

INTRODUCTORY STATEMENT

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.

Based on our regular economic and monetary analyses, we decided to keep the key **ECB interest rates** unchanged. The latest information signals that the euro area economy continued its moderate recovery in the second quarter, with low rates of inflation and subdued monetary and credit growth. At the same time, inflation expectations for the euro area over the medium to long term continue to be firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2%. The combination of monetary policy measures decided last month has already led to a further easing of the monetary policy stance. The monetary operations to take place over the coming months will add to this accommodation and will support bank lending. As our measures work their way through to the economy, they will contribute to a return of inflation rates to levels closer to 2%. Concerning our forward guidance, the key ECB interest rates will remain at present levels for an extended period of time in view of the current outlook for inflation. Moreover, the Governing Council is unanimous in its commitment to also using unconventional instruments within its mandate, should it become necessary to further address risks of too prolonged a period of low inflation. We are strongly determined to safeguard the firm anchoring of inflation expectations over the medium to long term.

As a follow-up to the decisions taken in early June, the Governing Council today also decided on specific modalities for the **targeted longer-term refinancing operations (TLTROs)**. The aim of the TLTROs is to enhance the functioning of the

monetary policy transmission mechanism by supporting lending to the real economy. A press release on the modalities for the TLTROs will be published today at 3.30 p.m. As announced last month, we have also started to intensify preparatory work related to outright purchases in the ABS market to enhance the functioning of the monetary policy transmission mechanism.

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 first quarter of this year. Economic indicators, including survey results available up to June, signal a continuation of the very gradual recovery in the second quarter of 2014. Looking ahead, domestic demand should be supported by a number of factors, including the further accommodation in the monetary policy stance and the ongoing improvements in financing conditions. In addition, the progress made in fiscal consolidation and structural reforms, as well as gains in real disposable income, should make a positive contribution to economic growth. Furthermore, demand for exports should benefit from the ongoing global recovery. However, although labour markets have shown some further signs of improvement, unemployment remains high in the euro area and, overall, unutilised capacity continues to be sizeable. Moreover, the annual rate of change of MFI loans to the private sector remained negative in May and the necessary balance sheet adjustments in the public and private sectors are likely to continue to dampen the pace of the economic recovery.

The risks surrounding the economic outlook for the euro area remain on the downside. In particular, geopolitical risks, as well as developments in emerging market economies and global financial markets, may have the potential to affect economic conditions negatively, including through effects on energy prices and global demand for euro area products. A further downside risk relates to insufficient structural reforms in euro area countries, as well as weaker than expected domestic demand.

According to Eurostat's flash estimate, euro area annual HICP inflation was 0.5% in June 2014, unchanged from May. Among the main components, services price inflation increased from 1.1% in May to 1.3% in June, while food price inflation fell from 0.1% to -0.2%. On the basis of current information, annual HICP inflation is expected to remain at low levels over the coming months, before increasing gradually during 2015 and 2016. Meanwhile, inflation expectations for the euro area over the medium to long term continue to be firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2%.

The Governing Council sees both upside and downside risks to the outlook for price developments as limited and broadly balanced over the medium term. In this context, we will closely monitor the possible repercussions of geopolitical risks and exchange rate developments.

Turning to the **monetary analysis**, data for May 2014 continue to point to subdued underlying growth in broad money (M3). Annual growth in M3 was 1.0% in May, compared with 0.7% in April. The growth of the narrow monetary aggregate M1 moderated to 5.0 % in May, after 5.2% in April. The increase in the MFI net external asset position, reflecting in part the continued interest of international investors in euro area assets, has recently been an important factor supporting annual M3 growth.

The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) was -2.5% in May 2014, compared with -2.8% in April. Lending to non-financial corporations continues to be weak, reflecting 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 0.5% in May 2014, broadly unchanged since the beginning of 2013.

Against the background of weak credit growth, the ongoing comprehensive assessment of banks' balance sheets is of key importance. Banks should take full advantage of this exercise to improve their capital and solvency position, thereby supporting the scope for credit expansion during the next stages of the recovery.

To sum up, the economic analysis indicates that the current low level of inflation should be followed by a gradual upward movement in HICP inflation rates towards levels closer to 2%. A **cross-check** with the signals from the monetary analysis confirms this picture.

As regards **fiscal policies**, substantial fiscal consolidation in recent years has contributed to reducing budgetary imbalances. Important structural reforms have increased competitiveness and the adjustment capacity of countries' labour and product markets. However, significant challenges remain. To strengthen the foundations for sustainable growth and sound public finances, euro area countries should not unravel the progress made with fiscal consolidation, in line with the Stability and Growth Pact, and should proceed with **structural reforms** in the coming years. Fiscal consolidation

should be designed in a growth-friendly manner, and structural reforms should focus on fostering private investment and job creation. 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 euro area's resilience to shocks.

Finally, I wish to inform you that the Governing Council today announces that the frequency of our monetary policy meetings will change to a six-week cycle, from January 2015. The reserve maintenance periods will be extended to six weeks to match the new schedule. Moreover, we announce our commitment to publish regular accounts of the monetary policy meetings, which is intended to start with the January 2015 meeting. A press release providing more details will be published today at 3.30 p.m.

We are now at your disposal for questions.

European Central Bank

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