CENTRAL BANKS

The ECB commits the full implementation of measures

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- The ECB reiterates its focus on the full implementation of their monetary policy measures
- The ECB seems more confident on the economic recovery

As expected, at today's monetary policy meeting there were no changes in the ECB´s monetary policy stance, as the central bank left the key policy rate unchanged at 0.05% and took no additional steps on non-standard measures. Mr Draghi stressed its commitment in executing its Asset Purchase Programmes (APPs) until a sustained path of inflation is achieved, reiterating that the Governing Council's (GC) focus "will be on the full implementation of our monetary policy measures." On the inflation outlook, the GC will continue to closely monitor medium-term risks; meanwhile, it has been stressed that risks for the economic outlook have become more balanced, although remaining to the downside.

On the economic outlook, Mr Draghi seemed more confident on the recovery, stating that the euro area's economy has gained momentum since the end of 2014, and that the ban expects the economic recovery "to broaden and strengthen gradually" although he highlighted that this "recovery is conditional upon full monetary policy implementation."

On inflation, the ECB´s statement included an explicit reference to the inflation assessment, as the GC (when it assesses the APPs) will concentrate on "trends of inflation, looking through unexpected outcomes in measured inflation in either direction if judged to be transient and to have no implication for the medium-term outlook for price stability." Moreover, Mr Draghi said that the central bank will be flexible in its measuring of inflation, and he stated that it is "not going to be judging or assessing on the basis of point-in-time observations," adding that it "are not bound by one specific indicator; we'll be using a variety of indicators about inflation expectations."

At the press conference, the attention was on questions about the APPS. Mr. Draghi highlighted that the programme is "intended" (emphasising this wording as a powerful signal) to be in place until the end of September 2016. Moreover, this is proceeding smoothly and is having an impact on economic activity. In response to a question about whether the ECB is having problems in finding enough assets to meet its monthly goal of EUR60bn of debt purchases -- as in some jurisdictions an increasing share of European debt is yielding below -0.2%, the threshold for the ECB buying bonds - Mr Draghi downplayed these worries of potential scarcity of bonds, saying that they are a "little exaggerated" as the bank does not see any problems. However, he stated that the APPs could be flexible [1] enough if circumstances require; although he made clear that the reduction of the deposit facility rate is not an option. Regarding the speculation about an earlier-than-expected end to the programme, Mr Draghi expressed surprise on this discussion as the programme has only been in place for a month. He added on various occasions that "it´s premature" to change a programme that is working well.

Regarding Greece, when Mr Draghi was asked about the possibility of an extension of the emergency liquidity assistance (ELA) to Greek banks, he said that it will continue to approve ELA while Greek banks remain solvent and they have adequate collateral, but he remarked that the ball is now in the Greek government's court. To reinstate the waiver for Greek government bonds (admitting Greek bonds as collateral for monetary operations again) he clarified that they have to see "a credible prospect for a successful conclusion" of the Greek economic reforms. Moreover, he added that haircuts on Greek debt as collateral were mentioned during the policy meeting, but were not discussed. He said that the GC will return to this question “in due time”.

As we expected, the ECB remained firm on the asset purchase plan, as it is at the early stage of the implementation when the (critical) signaling effect is expected to be more powerful, and considering the persistent downside risks on both growth and inflation. Moreover, it will be premature to give any signal on other directions.

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[1] Today, the ECB added new agencies to the list of those that qualify to sell it bonds in its APPS. (see)

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PLEASE NOTE: **TRACKING CHANGES IN FOLLOWING STATEMENTS**

in black, wording common to both the current and previous statements, in red and crossed, previous wording that was replaced by new wording, in blue and underlined (YES, TRACK CHANGES ARE THERE ON PURPOSE)

Mario Draghi, President of the ECB,
~~Nicosia, 5 March 2015~~

~~Ladies and gentlemen, the~~ Vítor Constâncio, Vice-President ~~and I are very pleased to welcome you to our press conference, here, in Nicosia. I would like to thank Governor Georghadji for her kind hospitality and to express our special gratitude to her staff for the excellent organisation~~ of ~~today's meeting of the Governing Council.~~the ECB, 15 April 2015

Based on our regular economic and monetary analyses, and in line with our forward guidance, we decided to keep the **key ECB interest rates** unchanged.

As regards **non-standard monetary policy measures**, ~~the focus is now on implementation.~~

~~Following up on our decisions of 22 January 2015, we will,~~ on 9 March ~~2015, start~~ we started purchasing euro-denominated public sector securities ~~in the secondary market. We will also continue purchasing~~as part of our expanded asset~~-backed securities and covered bonds~~ purchase programme, which ~~we started last year. As previously stated, the combined monthly~~also comprises purchases of ~~public and private sector securities will amount to €60 billion. They~~asset-backed securities and covered bonds. Purchases are intended to ~~be carried out~~ run until the end of September 2016 and ~~will~~, in any case, ~~be conducted~~ until we see a sustained adjustment in the path of inflation ~~which~~that is consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term. ~~Further information on certain implementation aspects of the public sector purchase programme will be released at 3.30 p.m. CET on the ECB's website~~When carrying out its assessment, the Governing Council will follow its monetary policy strategy and concentrate on trends in inflation, looking through unexpected outcomes in measured inflation in either direction if judged to be transient and to have no implication for the medium-term outlook for price stability.

~~We have already seen a significant number of positive effects from these monetary policy decisions.~~The implementation of our asset purchase programmes is proceeding smoothly, with volumes in line with the announced figure of €60 billion of securities per month. In addition, there is clear evidence that the monetary policy measures we have put in place are effective. Financial market conditions and the cost of external finance for the private ~~economy~~ sector have eased ~~further, also following our previous monetary policy measures. In particular,~~ considerably over the past months and borrowing conditions for firms and households have improved ~~considerably. Moreover, money and credit dynamics have been firming~~notably, with a pick-up in the demand for credit.

~~The substantial additional easing of our monetary policy stance supports and reinforces the emergence of more favourable developments for the euro area economy. In an environment of improving business and consumer sentiment, the transmission of our measures to the real economy will strengthen, contributing to a further improvement in the outlook for economic growth and a reduction in economic slack. Thereby, our measures will contribute to a~~ Looking ahead, our focus will be on the full implementation of our monetary policy measures. Through these measures, we will contribute to a further improvement in the economic outlook, a reduction in economic slack and a recovery in money and credit growth. Together, such developments will lead to a sustained return of inflation towards a level below, but close to, 2% over the medium term and will underpin the firm anchoring of medium to long-term inflation expectations.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. ~~According to Eurostat's flash estimate, real~~Real GDP in the euro area rose by 0.3%, quarter on quarter, in the last quarter of 2014~~, which was somewhat higher than previously expected. The latest economic data and, particularly, survey evidence available up to February point to some further improvements in economic activity at the beginning of this year.~~. Domestic demand, especially private consumption, continued to be the main driver behind the ongoing recovery. The latest economic indicators, including survey data up to March, suggest that the euro area economy has gained further momentum since the end of 2014. Looking ahead, we expect the economic recovery to broaden and strengthen gradually. ~~The low level of the price of oil should continue to support households' real disposable income and corporate profitability.~~ Domestic demand should ~~also~~ be further supported by ~~our monetary policy measures leading to~~ ongoing improvements in financial conditions, as well as by the progress made ~~in~~ with fiscal consolidation and structural reforms. Moreover, the lower level of the price of oil should continue to support households' real disposable income and corporate profitability and, therefore, private consumption and investment. Furthermore, demand for euro area exports should benefit from improvements in price competitiveness ~~and from the global recovery~~. However, the euro area recovery is likely to continue to be dampened by the necessary balance sheet adjustments in ~~various~~ a number of sectors and the ~~rather slow~~sluggish pace of implementation of structural reforms.

~~This assessment is also broadly reflected in the March 2015 ECB staff macroeconomic projections for the euro area, which foresee annual real GDP increasing by 1.5% in 2015, 1.9% in 2016 and 2.1% in 2017. Compared with the December 2014 Eurosystem staff macroeconomic projections, the projections for real GDP growth in 2015 and 2016 have been revised upwards, reflecting the favourable impact of lower oil prices, the weaker effective exchange rate of the euro and~~ While remaining on the downside, the risks surrounding the economic outlook for the euro area have become more balanced on account of the recent monetary policy decisions, the fall in oil prices and the lower euro exchange rate.

According to Eurostat's flash estimate, euro area annual HICP inflation was -0.1% in March 2015, up from -0.3% in February and -0.6% in January. This pattern largely reflects an increase in oil prices in euro terms since mid-January. On the basis of the ~~impact of the ECB's recent monetary policy measures.~~

~~The risks surrounding the economic outlook for the euro area remain on the downside but have diminished following recent monetary policy decisions and the fall in oil prices.~~

~~According to Eurostat's flash estimate, euro area annual HICP inflation was -0.3 % in February 2015, after -0.6% in January. The negative outcomes largely reflect the impact of the significant fall in~~ information available and current oil ~~prices since July 2014. On the basis of current information and prevailing~~ futures prices ~~for oil~~, annual HICP inflation is expected to remain very low or still negative in the months ahead. Supported by the favourable impact of our ~~recent~~ monetary policy measures on aggregate demand, the impact of the lower euro exchange rate and the assumption of base effects and somewhat higher oil prices in the years ahead, inflation rates are expected to ~~start increasing gradually~~ increase later in 2015 and to pick up further during 2016 and 2017.

~~This assessment is also broadly reflected in the March 2015 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 0.0% in 2015, 1.5% in 2016 and 1.8% in 2017. In comparison with the December 2014 Eurosystem staff macroeconomic projections, the inflation projection for 2015 has been revised downwards, mainly reflecting the fall in oil prices. In contrast, the inflation projection for 2016 has been revised slightly upwards, also reflecting the expected impact of our recent monetary policy measures.~~

The Governing Council will continue to monitor closely ~~monitor~~ the risks to the outlook for price developments over the medium term. In this context, we will focus in particular on the pass-through of our monetary policy measures, as well as on geopolitical ~~developments, and~~, exchange rate and energy price developments.

~~When discussing the economic outlook and the new projections, the Governing Council acknowledged that the staff projections are conditional on the full implementation of all our policy measures. Moreover, the March staff projections extend the horizon to 2017. In this context, the Governing Council again stressed that the degree of forecast uncertainty tends to increase with the length of the projection horizon.~~

Turning to the **monetary analysis**, recent data confirm the gradual increase in underlying growth in broad money (M3). The annual growth rate of M3 increased to 4.~~1~~0% in February 2015, up from 3.7% in January ~~2015, up from 3.8% in December 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 9.~~0~~1% in ~~January~~February.

Loan dynamics also gradually improved further. The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) was -0.~~9% in January 2015, after -1.1% in December 2014~~4% in February, after -0.9% in January, continuing its gradual recovery from a trough of -3.2% in February 2014. ~~The three-month cumulated net lending flows were positive in January for the second consecutive month, compared with sizeable net redemptions still recorded a year ago.~~In this respect, the April 2015 bank lending survey confirms that improvements in lending conditions support a further recovery in loan growth, in particular for firms. Despite these improvements, the dynamics of loans to non-financial corporations remain subdued and continue 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) increased further to 1.0~~.9~~% in ~~January~~February 2015, after 0.~~8~~9% in ~~December 2014. Our recent~~January. The monetary policy measures we have put in place should support ~~a~~ further ~~improvement~~improvements both in borrowing costs for firms and households and in 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 confirms the ~~appropriateness of~~need to implement firmly the Governing Council's recent decisions. The ~~determined~~full implementation of all our monetary policy measures will provide the necessary support to the euro area recovery and bring inflation rates towards levels below, but close to, 2% in the medium term.

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 reap the full benefits from our monetary policy measures, other policy areas ~~need to~~ must contribute decisively. Given continued high structural unemployment and low potential output growth in the euro area, ~~a~~the ongoing cyclical recovery ~~along the lines of the March ECB staff projections is no grounds for complacency.~~should be supported by effective supply-side measures. In particular, in order to increase investment, boost job creation and raise productivity, both the ~~decisive~~ implementation ~~of~~of **product and labour market reforms** and actions to improve the business environment for firms need to gain momentum in several countries. ~~It is crucial that structural~~A swift and effective implementation of these reforms ~~be implemented swiftly, credibly and effectively, as this~~ will not only ~~increase the future~~ lead to higher sustainable growth ~~of~~in the euro area but will also raise expectations of permanently higher incomes and encourage both households to expand consumption and firms to increase investment today, ~~bringing forward~~thus reinforcing the current economic recovery. **Fiscal policies** should support the economic recovery while remaining in compliance with the Stability and Growth Pact. Full and consistent implementation of the ~~Stability and Growth~~ Pact is key for confidence in our fiscal framework. In view of the necessity to step up structural reform efforts in a number of countries, it is also important that the macroeconomic imbalance procedure is implemented effectively in order to address the excessive imbalances as identified in individual Member States

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