European Central Bank President Mario Draghi said the bank stands ready to cut interest rates if the economy deteriorates further, and officials are considering additional measures to boost growth as the debt crisis enters its fourth year.

“Our monetary policy stance will remain accommodative for as long as needed,” Draghi said at a press conference in Frankfurt today after the ECB kept its benchmark interest rate at a record low of 0.75 percent. “We will assess all the incoming data in the coming weeks and we stand ready to act.”

With doubts growing about Draghi’s forecast for an economic recovery later this year, the ECB is looking at a range of measures including lower rates, more long-term loans to banks and a program to encourage lending to small- and medium-sized companies, three officials with knowledge of the deliberations said this week. The ECB president said today that officials are “looking at various instruments,” though he stopped short of saying what they would be.

The yield on France’s 10-year bond yield fell to a record low after Draghi’s remarks, declining to 1.893 percent, the lowest since Bloomberg started compiling data in 1990. The euro initially dropped before rebounding to $1.2862, almost unchanged from its level at the start of the day.

‘Highly Likely’

An interest-rate cut “now looks highly likely,” said Howard Archer, chief European economist at IHS Global Insight in London. “Indeed, it is very possible that the ECB could trim interest rates to 0.5 percent as soon as at its May policy meeting.”

Draghi said risks to the economic outlook remain on the downside and inflation is “edging down well below” the ECB’s 2 percent target. It will slow to 1.3 percent next year from 1.6 percent this year, according to ECB forecasts.

“We are considering both standard and non-standard measures” to increase stimulus, Draghi said.

Draghi spoke hours after Bank of Japan (8301) Governor Haruhiko Kuroda began his unprecedented onslaught to end 15 years of deflation. The BOJ said it plans to purchase 7.5 trillion yen ($78.6 billion) of bonds a month and double the monetary base, which includes cash in circulation, in two years. The Bank of England kept its main lending rate unchanged at 0.5 percent and refrained from expanding its stimulus program.

Exit Struggle

In Europe, evidence is mounting that the 17-nation euro economy is struggling to exit a recession that began more than a year ago, partly as financial institutions restrict access to credit.

The ECB’s measure of bank lending to the private sector fell for a 10th month in February, dropping 0.9 percent from a year earlier. Euro-region manufacturing and services activity, measured by surveys of purchasing managers, contracted more than economists forecast in March.

“Weak economic activity has extended into the early part of the year and a gradual recovery is projected for the second half of this year, subject to downside risks,” Draghi said. The consensus at today’s meeting was not to cut rates “for the time being.”

Draghi said that the ECB will examine other countries’ experiences when assessing what further emergency measures to take.

In the U.K., the Bank of England has employed the Funding for Lending Scheme to get credit flowing to companies, while Denmark’s central bank has taken its deposit rate into negative territory, effectively charging financial institutions that park excess cash with it overnight.

Draghi stressed the ECB’s “determination to fight” any speculation of a euro break-up after Cyprus last month became the...
fifth euro-area nation to secure a bailout. A botched first attempt to rescue Cyprus sent bank shares tumbling across the region and rattled confidence in policy makers’ ability to tame the sovereign debt crisis. Draghi acknowledged that the initial response hadn’t been “smart.”

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