

Hearing at the European Parliament's Economic and Monetary Affairs Committee

Introductory statement by Mario Draghi, President of the ECB,
Brussels, 12 November 2015

Mr Chairman,

Honourable members of the Economic and Monetary Affairs Committee,

Ladies and gentlemen,

I am pleased to be back again with this committee for the last hearing of 2015. The ECB's accountability to you, the European Parliament, is a central counterpart to the ECB's independence. And transparency is a precondition for your holding us to account. As you are aware, following a public access request, last week we released the diaries of all members of the ECB's Executive Board – including my own – for the period from August 2014 to end-July 2015. But we will not stop there. Starting next February, we will publish these diaries on a monthly basis.

It is only natural that some of you will raise questions with regard to the meetings my colleagues and I have had; after all, the whole point of publishing the diaries is to give the public and you a better understanding of with whom we are interacting. But let me be very clear: whatever the date, we have had and still have a clear rule – we do not discuss market-sensitive information in non-public meetings. For our monetary policy to be effective, however, it is important to meet market participants and to also hear their views.

For the remainder of my remarks, I will mainly talk about two issues: first, our current economic outlook and the upcoming reassessment of it at our December meeting; and second, as requested by ECON coordinators, the macroeconomic adjustment programmes over the last half-decade and the ECB's role in them.

Economic developments and monetary policy

Incoming data confirm that the recovery in the euro area is progressing moderately. So far, economic activity in the euro area has shown some degree of resilience in the face of external influences that tend to weaken demand. While external demand has receded, euro area exports market shares have increased. The lower cost of energy and our monetary policy measures are supporting consumption and, increasingly, new capital formation.

However, downside risks stemming from global growth and trade are clearly visible. Moreover, inflation dynamics have somewhat weakened, mainly due to lower oil prices and the delayed effects of the stronger euro exchange rate seen earlier in the year. In addition, price pressures – such as from producer prices – remain very subdued. Signs of a sustained turnaround in core inflation have somewhat weakened. While the recovery will gradually strengthen the impulse underlying the inflation process, the protracted economic weakness of the past years continues to weigh on nominal wage growth, and this could moderate price pressures as we move forward. From today's perspective, this suggests that a sustained normalisation of inflation could take longer than we anticipated in March when we first appraised the overall impact of our measures.

We will closely monitor the risks to price stability and thoroughly assess the strength and persistence of the factors that are slowing the return of inflation to levels below, but close to, 2%.

At our December monetary policy meeting, we will re-examine the degree of monetary policy accommodation. We will use as one input the Eurosystem staff projections we will receive in December. Another input will be the work of our staff in consultation with the Eurosystem committees on the monetary policy stimulus that has been achieved so far and the range of instruments available in case more accommodation should be seen as necessary.

If we were to conclude that our medium-term price stability objective is at risk, we would act by using all the instruments available within our mandate to ensure that an appropriate degree of monetary accommodation is maintained. Consistent with our forward guidance, the asset purchase programme is considered to be a particularly powerful and flexible instrument. In fact, we have always said that our purchases would run beyond end-September 2016 in case we do not see a sustained adjustment in the path of inflation that is consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term. Other instruments could also be activated to strengthen the impact of the purchase programme if necessary.

The ECB and the macroeconomic adjustment programmes

Let me now turn to a topic that the Chair has asked me specifically to address, namely the macroeconomic adjustment programmes and the ECB's role in their negotiation and monitoring. Benoît Cœuré spoke on this topic here last year, so I will be brief; but of course, we can discuss more during the Q&A session if you wish.

To understand our role in the programme work, one needs to recall the initial conditions in which the programme setup was established. In spring 2010 there was no framework in place at the European level to negotiate and monitor adjustment programmes. In this situation, Member States turned to the IMF and the Commission for help, and they also asked the ECB to contribute its expertise at a time when Europe needed it most. This setup was codified in the ESM Treaty and by the co-legislators in the two-pack; the ECJ confirmed its legality. In line with this, the ECB has since provided its advice in programmes in five Member States. But we should not forget that the respective national governments are responsible for programme implementation, while the final responsibility for programme design and the disbursement of financial assistance lies with the Eurogroup.

Since 2010, three countries have now successfully completed their programmes, and Ireland is a particularly good example of how such programmes can deliver the necessary adjustment and restore financial stability, economic competitiveness and fiscal sustainability. It has shown that a country which takes strong ownership of its programme can come out of it with robust growth and a more stable financial system, and that eventually employment will also rebound.

There is no doubt that the adjustment process was painful. But we should keep in mind that the adjustment would have caused significantly more hardship in the absence of financial assistance. The programmes had to address excessive macroeconomic imbalances which had accumulated over several years in the run-up to the crisis, often reflecting misguided national economic policies. As we have said before: don't blame the fire damage on the fire brigade.

Throughout the programmes in Ireland and elsewhere, the ECB has played the role assigned to it under the Treaty – to be the central bank for the euro area and to provide liquidity to financial institutions, including those in programme countries, when warranted. At times, this meant that risk-management considerations made it necessary for us to consider the progress of programme implementation when deciding on provision of further liquidity if the soundness of the domestic financial sector was intimately linked to programme success. We did so in full accordance with our

rules and legal framework and in full independence. This was the case for Ireland. And this continues to be the case for Greece and Cyprus.

Please allow me to conclude.

Five years ago, the programme framework came to life. It is certainly part of our path toward a genuine Economic and Monetary Union to integrate the European Stability Mechanism and the related programme work fully into the legal framework of the European Union; we again called for this most recently in the Five Presidents' Report. But it is even more important that we take decisive steps to avoid a Member State needing a programme in the first place. That is why completing the banking union, embarking on a new economic convergence process towards more resilient economies and achieving a fiscal union that ensures both fiscal sustainability and fiscal stabilisation are all crucial to providing a long-term vision of where EMU is heading. The Commission package adopted three weeks ago is a first step in this direction. But more will need to follow.

Thank you for your attention, and I am now looking forward to your questions.