

## Mario Draghi: Monetary policy in unconventional times

Introductory remarks by Mr Mario Draghi, President of the European Central Bank, at the ECB colloquium held in honour of Mr José Manuel González-Páramo, Frankfurt am Main, 16 May 2012.

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Ladies and Gentlemen, Dear José Manuel,

It is my pleasure to welcome you here today on the occasion of this colloquium on “Monetary Policy in unconventional times”. It is held in the honour of José Manuel González-Páramo to mark the end of his eight-year term as Member of the ECB’s Executive Board.

The topics of today’s colloquium are not only of great relevance, but I believe also very close to your heart, José Manuel, as they reflect two of the main areas which you have dealt with during much of your career:

***The first topic concerns the experiences gained with the ECB’s non-standard measures and monetary policy during crisis times.*** José Manuel was closely involved in shaping these measures during his time at the ECB, having been in charge of monetary policy operations for several years, also prior to the financial crisis.

José Manuel joined the ECB in times that seemed very different from today. Financial markets seemed to work rather efficiently in an environment of low volatility and seemingly little risk. Liquidity was distributed by stable and efficient interbank markets at (almost) uniform prices throughout the euro area. The operational framework served well its purpose of transmitting the decisions by the Governing Council on policy rates to market rates. Monetary policy relied on standard monetary policy operations. Money market rates were quite stable and close to the ECB’s main refinancing rate, with fluctuations in money market rates being within a few basis points.

How times have changed! Over the past few years, a number of standard and non-standard measures have been implemented as the Eurosystem’s response to the dysfunctions in money markets caused by the financial and sovereign debt crises. You have been involved in the design and the implementation of these measures in all phases of the recent crisis: in the early phases, the ECB mainly responded to the crisis by adjusting the timing of its liquidity provision and the lengthening of the maturity of its open market operations, which helped to stabilise short term rates in an environment of high volatility and extreme distrust.

Later on, we dealt with the design and the launch of longer-term refinancing operations, the adjustment of the collateral framework, and the various purchasing programmes that were necessary to maintain an efficient transmission mechanism of monetary policy throughout the euro area.

At the same time, for several years you were overseeing the ECB’s research department, which contributed with in-depth analyses on related topics, such as the effects of non-standard measures, or monetary policy around the zero lower bound. All this was achieved with the input, great effort and expertise of you and your staff.

I hope that the interventions in the first half of today’s colloquium will provide us with some important insights on the effects of these measures and relationship with standard monetary policy.

***The second topic of today’s colloquium will look at the interaction of private and public debt, deficits and monetary policy.*** As Professor of Economics from the Universidad Complutense in Madrid, José Manuel had of course already dedicated a lot of thought and work to these issues prior to the start of his career as a central banker. In fact, José Manuel headed the Public Finance Department of the Universidad Complutense for

many years and has published numerous important academic articles in this area and a reference university textbook on the economics of the public sector. He has also played a leading role in many of the most prestigious academic journals on economics and public policy in Spain. He also helped lead the work of the prestigious Centre for Monetary and Financial Studies in Spain better known as the CEMFI Foundation of which he was an Executive Board Member.

José Manuel was able to combine his depth of academic knowledge and experience with a brilliant career as a central banker in Banco de España. This background and wealth of experience proved to be an invaluable asset after he joined the Executive Board and Governing Council of the ECB in June 2004.

One can say that José Manuel had foreseen some of the pressing problems of the euro area today: the need for tax reforms and fiscal consolidation, the issue of sustainability of fiscal reforms and economic growth, to name a few. You have asked the question how to achieve permanent reductions in public deficits in order to achieve fiscal reform, pointing to the reduction of structural public expenditure. You have also asked the question on regional divergences in the euro area, pointing to the need for structural reforms.

Some of these topics are now at the forefront of the questions that European policy makers are confronted with, how to reduce fiscal and macroeconomic imbalances, how to achieve growth, and how to combine these goals with the necessary fiscal discipline that serves to balance the interests among the present and future generations.

Important steps have been taken on the European level as regards the implementation of fiscal rules and consolidation measures. The euro area general government deficit has declined significantly; public debt should stop rising next year and decline thereafter.

The extent of the progress on this front is insufficiently acknowledged and worth noting. Everywhere governments have undertaken significant and difficult reforms and continue to do so. Although more work is certainly needed, we should appreciate how quickly things improve when serious action is taken.

To foster employment and growth policy makers have to address macroeconomic imbalances in the euro area. While monetary policy will continue to ensure price stability in the euro area as a whole and cannot address inflation rates in individual countries, relative competitiveness adjustments can and need to occur at the country level. These adjustments need to be driven by national policies. The countries that experienced unit costs systematically above the euro area average and lost competitiveness will have to regain competitiveness. This can be achieved through a combination of cost moderation – including in some specific cases of past excesses, decisive adjustments – productivity gains and technological change.

In this process, they should experience unit costs below the euro area average – possibly for a sustained period in case of large earlier competitiveness losses. The ECB's focus on price stability in the medium term for the euro area will contribute to an anchoring of longer-term inflation expectations in all countries.

Before concluding, let me comment briefly on the difficult situation in Greece. Since the Treaty does not foresee anything on exit, this is not a matter for the ECB to decide. While the ECB will continue to comply with the mandate of keeping price stability over the medium term in line with Treaty provisions and preserving the integrity of our balance sheet, I want to state that our strong preference is that Greece will continue to stay in the euro area.

**Dear José Manuel**, you joined the Executive Board of the European Central Bank 8 years ago, in 2004. Since 2006, we were both members of the Governing Council, and I still recall extensive meetings in which José Manuel presented to the Governing Council one item after another on a very wide variety of subjects – ranging from the implementation of monetary policy to the new series of banknotes or to complicated statistical and risk-management

issues – with the same degree of commitment and full command of the most technical details.

And of course we became even closer colleagues last fall when I moved to Frankfurt to join the Executive Board. It is with warmth and admiration of your professional skills and congenial nature that I look at our common experiences.

Having now nearly completed your full term as ECB Executive Board member, you have witnessed the financial and sovereign debt crises from the start. Even though we will welcome a new highly experienced member to this team in a few weeks' time, we will greatly miss your personal experience and judgement.

Ladies and Gentlemen, let me close by wishing you a very interesting colloquium. We have highly distinguished speakers from Europe and overseas, and I look forward to some interesting discussions.

Thank you.