# Mario Draghi: Hearing at the Committee on Economic and Monetary Affairs of the European Parliament

Introductory statement by Mr Mario Draghi, President of the European Central Bank, for the Hearing at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 23 September 2013.

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Madam Chair,

Honourable members of the Committee on Economic and Monetary Affairs,

It is a pleasure for me to be back with your committee, shortly after the important vote of your assembly on the SSM regulation. This vote has been preceded by intense interaction on the interinstitutional agreement on accountability and transparency, and I would like to thank President Schulz, your Committee and the negotiating team for the commitment to a successful establishment of the SSM. Our two institutions share a common interest in a swift and effective implementation of banking union. The draft inter-institutional agreement ensures high standards of transparency and accountability, while safeguarding the protection of confidential information. We will continue working with a similar constructive spirit in the months ahead and hope that this will allow a swift set-up of the Supervisory Board.

Today, I will first review recent economic and monetary developments in the euro area. I will then address the two topics that you have selected for our discussion: the impact of our non-standard measures; and the new tasks of the ECB in the reformed EMU architecture.

## Economic and monetary developments

Since our meeting in July we have received positive data for the euro area economy. Following six quarters of negative output growth, euro area real GDP rose by 0.3%, quarter on quarter, in the second quarter of 2013. Measures of confidence and surveys of production have given some support to the view that euro area economic activity should continue its slow recovery in the current quarter, despite weak production data for July. Looking forward, economic activity should benefit from a gradual improvement in domestic demand, supported by the ECB's accommodative monetary policy stance and strengthening external demand for euro area exports. However, unemployment in the euro area remains far too high, and the recovery will need to be firmly established.

Annual euro area inflation declined to 1.3% in August 2013, down from 1.6% in July. Underlying price pressures are expected to remain subdued, reflecting the broad-based weakness in aggregate demand and the modest pace of the recovery. Medium to long-term inflation expectations continue to be firmly anchored in line with price stability. The risks to the outlook for price developments are expected to be still broadly balanced over the medium term.

Monetary and, in particular, credit dynamics remain subdued. The annual rate of change of loans to the private sector and, notably, to firms weakened further in July. Weak loan dynamics continue to reflect the current stage of the business cycle but also heightened credit risk and the ongoing adjustments in the balance sheets of borrowers and lenders. The significant improvement in the funding situation of banks since the summer of 2012 has not yet fed through into higher credit provision.

## Review of recent monetary policy decisions

Against this background, the Governing Council has pledged to maintain monetary policy accommodative for as long as necessary. In order to re-affirm and clarify this conditional pledge, in a context of volatile money market interest rates, the ECB has introduced forward guidance in July, stating that it expects the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation, which has been reconfirmed in August and September, is based on a subdued outlook for inflation extending into the medium term, given the broad-based weakness in the economy and subdued monetary dynamics. We will maintain the degree of monetary accommodation warranted by the outlook for price stability and aim at promoting stable money market conditions.

To ensure an adequate transmission of monetary policy to the financing conditions in the broader economy, it is essential that effective measures be taken to further reduce fragmentation of euro area credit markets and to strengthen the resilience of banks where needed. Monetary policy contributes to these objectives, but it can only address impairments in transmission insofar as they are not related to more structural barriers.

By giving unlimited access to central bank refinancing against adequate collateral, our non-standard measures have been pivotal in relieving bank funding stress. The collateral framework has been adjusted as necessary to ensure continued adequate risk protection for the ECB's balance sheet, while at the same time promoting transparency, for example in markets for structured finance products. Ensuring that solvent banks remain liquid has contributed to avoiding an abrupt deleveraging which would have deeply damaged the economy.

The Outright Monetary Transactions (OMTs) announced a year ago have prevented risks of destructive scenarios with potentially severe challenges for price stability in the euro area. OMTs serve as a fully effective backstop, within the ECB's mandate, and under formal conditionality so as to preserve the appropriate incentives for governments to ensure fiscal solvency and adopt those structural policies that can put the economy on a sustainable path.

Over the past twelve months, confidence in the euro area has returned. As a consequence, fragmentation in euro area funding markets has been receding. This improvement owes not only to the ECB's non-standard measures, but also to progress by governments in improving the euro area governance and in pursuing reform agendas. Deposit outflows from stressed countries have been reversed. Market access for banks has improved. Reliance on ECB funding support has been steadily declining. These improvements are reflected primarily in the on-going advance repayments of funds by several banks which had borrowed from the ECB under the two three-year longer-term refinancing operations. While repayment of central bank credit is certainly a sign of normalisation, the resulting reduction in excess liquidity can reinforce upward pressures on term money market rates. We will remain particularly attentive to the implications that these developments may have for the stance of monetary policy.

## The tasks of the ECB in the reformed EMU architecture

Let me finally address the tasks of the ECB in the reformed EMU architecture. The Maastricht set-up has been substantially strengthened since the start of the crisis. Europe has reinforced fiscal and macroeconomic surveillance, created a permanent crisis management mechanism, the ESM, and has improved its institutional framework. It is moving swiftly towards the Single Supervisory Mechanism (SSM) for banks in the euro area. A key priority of the agenda for the last quarter of 2013 is to complement it by a Single Resolution Authority and Single Resolution Fund as proposed by the European Commission. The ECB strongly supports the envisaged timeline for the establishment of the SRM by 1 January 2015, which adequately reflects the urgency.

Let me make a few remarks on the specific role of the ECB in the progress towards a fully-fledged banking union. Already in 2010, with the decisive contribution of your institution, the ESRB was created to oversee macro-prudential risks in the financial system as a whole. The ECB ensures the Secretariat and thereby provides support to the ESRB. This year, a further-reaching step is being made with the imminent launch of the Single Supervisory Mechanism. The ECB is fully committed to assume its new responsibilities and to discharge accountability accordingly. Preparatory work has started in order to ensure that the new tasks are performed at the highest level of effectiveness and professionalism.

While synergies between the new supervisory and existing monetary policy functions exist, the ECB will strictly respect the principle of separation between monetary policy and banking supervision, as foreseen in the SSM Regulation. Such separation will ensure that the ECB will continue to fulfil its primary mandate of price stability in complete independence, in line with the Treaty.

The effective separation of monetary policy and bank supervision decisions will be implemented both at the decision making level and at the technical staff level. A separate Supervisory Board will be created to draft and enforce decisions. Furthermore, deliberations of the Governing Council on supervisory matters will be strictly separated from monetary policy decisions. This separation between the two tasks will be underpinned by separated agendas and meetings.

Finally, let me say a few words on the involvement of the ECB in the troika. Back in 2010, we were asked by the Council to provide our technical expertise to the design and monitoring of EU/IMF financial assistance programmes. In the meantime, the ECB has been allocated a number of specific tasks by the ESM Treaty and EU secondary legislation. We act in liaison with the Commission to provide technical advice, based on our expertise. As we have done in the past, we remain ready to share our views on the situation in programme countries with the European Parliament and to explain the advice provided as part of the troika. However, it is important to recall that the Eurogroup is the body which actually decides whether to grant financial assistance and under which terms.

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