Mario Draghi: Statement at the Thirtieth Meeting of the IMFC

Statement by Mr Mario Draghi, President of the European Central Bank at the Thirtieth Meeting of the IMFC, Washington, DC, 10 October 2014.

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Against the backdrop of an uneven global recovery, which is also influencing the shape and strength of the euro area upturn, the ECB has been determinedly pursuing its mandate of maintaining price stability over the medium term for the euro area.

Following four quarters of moderate expansion after two recessionary spells in the wake of first a global financial crisis and thereafter a euro area sovereign debt crisis, euro area real GDP growth remained unchanged between the first and the second quarter of this year. Recent survey data, available up to September, confirm a weakening in the euro area's growth momentum. Looking ahead, the recovery is expected to resume, while remaining modest. Domestic demand is projected to be supported by our monetary policy measures, the ongoing improvements in financial conditions, the absence of fiscal headwinds on account of past progress made in fiscal consolidation and a gradual payoff of structural reforms undertaken in euro area countries. Economic activity in the euro area is also expected to benefit from a gradual strengthening of demand for its exports. However, unemployment in the euro area remains high and, overall, unused capacity is sizeable. Moreover, the necessary balance sheet adjustments in the public and private sectors are likely to continue weighing on the pace of economic recovery for some time. The risks surrounding this economic outlook remain on the downside. The current weakening in economic momentum may postpone somewhat more the resumption in private investment, which is also negatively affected by heightened geopolitical risks. Steadfast implementation of fiscal consolidation in a growth-friendly manner and determination in structural reform efforts should contribute to supporting business and consumer confidence going forward.

This real economy picture, together with the continued subdued monetary and credit dynamics corroborates our expectation that inflation will remain low over the coming months before increasing gradually during 2015 and 2016. The risks to the inflation outlook will require close monitoring, which include possible repercussions of dampened growth dynamics, geopolitical as well as exchange rate developments, and the pass-through of our monetary policy measures.

It deserves to be underlined that the downward trend in euro area HICP inflation, which started in late 2011, has to a large extent been driven by global factors, such as commodity and food price developments, until earlier this year exacerbated by the appreciation of the euro exchange rate. More recently, however, the weak level of aggregate demand has become a factor contributing to a lower than forecast inflation outcome.

Our monetary policy continues to aim at firmly anchoring medium to long-term inflation expectations, in line with our objective of maintaining inflation rates below, but close to, 2% over the medium term. In this context, we have taken both conventional and unconventional measures that will contribute to a return of inflation rates to levels closer to our aim. Our unconventional measures, more specifically our TLTROs (Targeted Longer-Term Refinancing Operations) and our new purchase programmes for ABSs and covered bonds, will further enhance the functioning of our monetary policy transmission mechanism and facilitate credit provision to the real economy. Should it become necessary to further address risks of too prolonged a period of low inflation, the ECB's Governing Council is unanimous in its commitment to using additional unconventional instruments within its mandate.

As regards fiscal policies, comprehensive fiscal consolidation in recent years has contributed to reducing budgetary imbalances. Euro area countries should not unravel the progress made with fiscal consolidation and should proceed in line with the Stability and Growth Pact.

There is room for fiscal strategies to better exploit the existing scope for a more growth-friendly composition of fiscal policies. We therefore concur with the IMF WEO that there is a need to prioritise efficient productivity-enhancing public investment, while taking due account of the overall limited fiscal space in euro area countries. In this respect, we also welcome the work presented in the IMF Fiscal Monitor on how well-designed fiscal strategies can support job creation. Reducing the high tax burden on labour, while maintaining the agreed strategy of differentiated growth-friendly fiscal consolidation, is one of the Eurogroup's current policy priorities.

When looking at the structural reform picture, important steps have been taken in several euro area Member States, while in others such measures still need to be legislated and implemented. Further efforts now clearly need to gain momentum to achieve a higher and more sustainable rate of growth in the euro area. Determined structural reforms in product and labour markets as well as action to improve the regulatory environment for firms will encourage investment activity and job creation. More specifically, labour markets need to be more inclusive, flexible and resilient, while product markets, including those for services, should be made more open to competition. In addition, countries should take further steps towards improving the business environment, reducing the regulatory burden and pursuing more growth-friendly taxation. Bold and effective implementation is not just in the interest of the individual countries, it is also key for strengthening the resilience of the Economic and Monetary Union and for supporting growth at the global level.

One domain in which the euro area has been bold and determined concerns the financial sector, and more in particular the banking sector. Indeed, important further progress on the road to banking union has been made since our previous IMFC meeting. The ECB's legal, governance and organisational infrastructure that, as of 4 November, will support the operations of the Single Supervisory Mechanism (SSM), is close to being completed. The Supervisory Board has been fully operational since the start of this year, helping to steer this process. In less than one month from now, the ECB will be assuming full responsibility for the micro-prudential supervision of all banks in the euro area and more directly by becoming the single supervisor of around 120 significant banks. Together with the national supervisors, the ECB will be enabling and facilitating coherent and consistent application of the EU Single Rule Book across the euro area in the Single Supervisory Mechanism.

As a second pillar to the Banking Union, the Single Resolution Mechanism (SRM) will start operating in the new year, even if the Single Resolution Board will only start exercising all of its responsibilities from 1 January 2016 onwards. Based on a wider-ranging set of pertinent legal provisions in the financial regulatory domain, the banking union in Europe is about to take off, barely two years after this important decision was taken by the European Council.

One of the elements in preparation of the banking union has been the so-called Comprehensive Assessment of all significant banks in the euro area by the ECB. It has been a challenging undertaking, involving almost 85% of the total balance sheet of euro area banks, More than 6,000 supervisors and auditors were involved in the execution of the Asset Quality Review. An EU-wide bank stress test was added on to it. Numerous quality checks at all levels were undertaken to underpin the credibility of the exercise and to ensure level playing-field conditions across the participating countries and banks. The results of this year-long exercise, which will become available on 26 October, will substantially increase transparency of balance sheets of European banks. The exercise has already contributed to a further strengthening of the capital base of banks and for some of them further efforts will be needed, once the results of the comprehensive assessment are known.

The ultimate aim of the exercise is to enable euro area banks to strengthen their capital base and thereby substantially increase their credit provision capabilities. Together with the policy measures taken by the ECB since June 2014 to further enhance the transmission of our monetary policy and support the provision of credit to the real economy, this should lead to a rebound in investment demand and growth. To make it sustainable, economic policy makers in the euro area will need to do their part to create an environment conducive to sustainable growth. I fully share the call of the Managing Director in her Global Policy Agenda that addressing structural deficiencies are a priority to unlock growth, at the global level and definitely also in the euro area.