Mario Draghi: Plenary debate of the European Parliament on the ECB's Annual Report 2013

Introductory statement by Mr Mario Draghi, President of the European Central Bank, to the plenary debate of the European Parliament on the ECB's Annual Report 2013, Brussels, 25 February 2015.

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Mr Vice-President,

Mr Vice-President of the Commission,

Honourable Members of Parliament,

Ladies and Gentlemen,

I am very pleased to participate in this plenary debate. To lay the ground for our discussion, I would like to discuss three topics: the ECB's monetary policy, focussing on the rationale for our latest monetary policy measures, the ECB's commitment to accountability and transparency, and the progress towards building a deeper economic and monetary union (EMU). I will thereby address most of the issues which the ECON Committee highlighted in its draft resolution.

The ECB's monetary policy

For several quarters now, inflation in the euro area has been on a continuous downward trend. At the same time, in January 2015 market participants were expecting inflation to return to levels closer to our policy aim only over a horizon which stretched well beyond any meaningful definition of medium term. In an environment of weak economic recovery and subdued money and credit developments, risks were increasing that falling inflation expectations would feed back into weakening actual inflation. Such a self-reinforcing process could have posed severe downside risks to our price stability objective.

Against this background, we judged that the degree of monetary accommodation that had been introduced in 2014 was insufficient. A more forceful monetary policy response became necessary. With key interest rates at their lower bound, the Governing Council of the ECB considered outright purchases of public securities to be the only remaining instrument which could be activated on a sufficient scale to broaden and strengthen the measures already in place. Thus, we decided in January to launch an expanded asset purchase programme.

Under the programme the Eurosystem will continue its purchases of simple and transparent asset-backed securities and of covered bonds. In addition, we will start purchasing on the secondary market investment-grade securities issued by euro area governments, public agencies and European institutions. The purchases will start in March. The combined purchases of public and private sector securities will amount to €60 billion per month. The programme is intended to last until end-September 2016. In any case, it will last until the Governing Council sees a sustained adjustment in the path of inflation which is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term.

As in the case of the existing purchases of private sector securities, the purchases of public securities have a high transmission potential to the real economy. They will further support a broad based easing of financial conditions in the euro area, including those relevant for the borrowing conditions of euro area firms and households. In fact, we have already seen some positive effects of our measures. Financial conditions in money and bond markets throughout the euro area have eased further. Accordingly, lending rates to households and firms have come down considerably. Loan dynamics have continued to recover, with the growth in credit to the private sector turning positive in December for the first time since mid-2012. Also, evidence from the recent January 2015 Bank Lending Survey provides positive signals, showing a further improvement in credit standards for all loan categories in the fourth quarter of 2014. Moreover, most recently, we have also seen a measurable improvement in indicators of business and consumer confidence.

Overall, our measures will support economic activity, underpin the firm anchoring of medium to long-term inflation expectations, and contribute to a sustained return of inflation towards a level below, but close to, 2% over the medium term.

The ECB's commitment to accountability and transparency

Today's session is also an opportunity to take a wider perspective on ECB policies. In that context, let me touch upon a topic that is of high relevance to you: the ECB's accountability and transparency. Accountability of the central bank is the essential counterpart to its independence. To this end, the ECB has an elaborate framework to discharge accountability to European citizens and your house, and today's debate is a key element of this framework. Taking up new tasks in the supervisory field required adding further elements to this framework, and I believe the first months of operation of the SSM have proven our commitment to accountability in this domain as well.

But accountability would not be meaningful without an appropriate degree of transparency. From the start, due also to its unique institutional set-up, the ECB has strived to be transparent. For instance, we were the first major central bank to hold a regular press conference immediately after our policy meetings. The ECB also regularly publishes a variety of data on the execution of its monetary policy operations and the liquidity conditions of the Eurosystem.

More recently, we have decided to go one step further and to publish regular accounts of Governing Council monetary policy discussions, starting with the meeting on 21–22 January 2015, the account of which was published last Thursday. Through these accounts, we are enriching the communication of the rationale behind our monetary policy decisions and seek to give a sense of the discussion that has taken place among Governing Council members and the main arguments that were exchanged. We believe that this will enable members of the public and markets to improve their understanding of our assessment of the economy and our policy responses in the light of evolving conditions, our so-called "reaction function". In the current circumstances, it will also underpin our forward guidance on interest rates. It will thereby further enhance the effectiveness of our monetary policy.

The future of EMU governance

The past few years have been challenging for the conduct of our monetary policy in view of the environment of financial fragmentation, which brings me to the topic of the foundation of our economic and monetary union. At the beginning of EMU stood a clear commitment by Member States to converge economically and institutionally. Progress has been significant when it comes to common institutions. We now have not only one currency and one central bank, but also one supervisor, one resolution authority and one crisis-management mechanism. These institutions are built on the principles of shared sovereignty and of strong enforcement of common rules. Together, these institutions clearly set the euro area apart from the arrangements that were in place prior to the start of EMU.

But we have not yet reached the stage of a genuine EMU. Economic convergence has not been as sustainable as it was hoped for at the outset. This still puts at risk the long-term success of monetary union when faced with an important shock. In my view, there are two complementary responses to address this situation: First, the economies of euro area Member States need to become more resilient. This requires sound public finances and, in particular at the current juncture, decisive reforms of their economic structures. Fully applying the strengthened economic governance framework will support this objective. Second, in the medium to longer term, we need to move from a system of rules and guidelines for national economic policy making to a system of further sovereignty sharing within common institutions so as to strengthen our economic policy governance. A common rule is only as strong as the common institution that can enforce it. The discussions on the new Four Presidents' Report will certainly provide a good opportunity to think further on these matters, and I am looking forward to your views in the upcoming Berès report on the economic governance framework.

Thank you for your attention.