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, before the Hearing at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 21 June 2016.

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Mr Chairman,

Honourable Members of the Economic and Monetary Affairs Committee,

Ladies and gentlemen,

I am grateful to be back speaking to your committee for the second hearing of this year.

Let me first say that the ECB takes note of today's judgement of the Federal German Constitutional Court. This judgement confirms the ruling of the Court of Justice of the European Union which concluded that the OMT programme is compatible with EU law and falls within our mandate.

In my remarks today, I will review the state of the euro area recovery and the recent monetary policy measures adopted by the ECB. Then, at the request of this committee, I will discuss the investment outlook, outlining in particular why more action is needed to boost investment demand in the euro area.

Economic outlook and the ECB's monetary policy

As regards economic developments, the recovery of the euro area economy gained momentum at the start of the year. It is expected to proceed at a moderate but steady pace, supported by solid domestic demand and the effective pass-through of our monetary policy measures to the real economy. Consumers are benefiting from still relatively low oil prices and improved employment prospects. Likewise, investment is edging up, supported by higher corporate profits and favourable financing conditions. Looking forwards, according to the June 2016 Eurosystem staff macroeconomic projections for the euro area, annual real GDP is expected to increase by 1.6% this year and by 1.7% in the next two years.

At the same time, inflation dynamics in the euro area remain rather subdued. The rate of headline inflation was slightly negative in May and is expected to hover at low levels over the coming months. While lower oil prices continue to act as a drag on the annual headline inflation, domestic price pressures, notably from wage growth, also remain muted, reflecting persistent economic slack. According to the Eurosystem staff projections, inflation should pick up towards the end of 2016. Thereafter, inflation is expected to increase further to 1.3% in 2017 and to 1.6% in 2018, as a strengthening economic recovery mobilises unused resources.

Since the start of our credit easing measures in June 2014, bank lending rates for firms and households have fallen by about 90 and 80 basis points respectively, reaching historical lows in April 2016. The growth rate of bank credit to euro area corporations turned positive in 2015. At the same time, other sources of external finance – the net issuance of debt securities and shares by non-financial corporations – have benefited from more favourable capital market conditions, improving corporate profits and increasing retained earnings.

The easing is especially felt by small and medium-sized companies (SMEs), which are heavily reliant on bank credit. In our recent Survey on the Access to Finance of Enterprises in the euro area, SMEs continued to report a further improvement in their access to credit and an increased willingness of banks to provide credit at lower interest rates. New bank credit to companies is increasingly being used to finance investment projects.

Further monetary policy stimulus is in the pipeline. We started our corporate bond purchases earlier this month as part of our asset purchase programme. The programme has started smoothly, with ample purchase volumes. Since the start of 2016, and even more evidently since the corporate bond purchase programme was announced in March, borrowing conditions for companies with direct access to the bond market have improved materially. For example, over the first half of 2016 the cost of market-based debt for euro area non-financial corporations has declined by around 75 basis points. We expect more firms, including mid-sized companies, to be able to access this source of external finance over the near future as the market for companies' debt expands and deepens. Tomorrow we will start conducting the first operation of our new series of targeted longer-term refinancing operations (TLTRO II). TLTRO II will allow banks to secure long-term funding at very attractive conditions that can be as low as the deposit facility rate. This should further ease the borrowing costs of the private sector and provide an additional impulse to credit creation.

Overall, our measures have been instrumental in putting the recovery on a more solid footing and thereby securing the conditions for inflation to rise towards levels closer to 2% over a not-too-distant horizon. They have underpinned the revival in the consumption of durable goods which we have observed since 2014, and are finally showing through in a more robust pick-up in non-construction investment.

Without our policy stimulus, both growth and inflation would be significantly lower.

Our March package, in particular, has mitigated the downside risks to the euro area economic outlook. Additional impetus will come from the measures that are still at an early stage of implementation.

At the same time, uncertainty remains high and downside risks are still significant due to the continued fragile state of the global economy and geopolitical developments.

We will closely monitor the evolution of the outlook for price stability. We stand ready to act by using all the instruments available within our mandate, if necessary, to achieve our objective. In particular, the ECB is ready for all contingencies following the UK's EU referendum.

Investment in the euro area

After the sharp downturn observed during the financial crisis in 2008 and the renewed decline during the European sovereign debt crisis, real investment in the euro area has now begun to recover. In particular, business investment has undergone a welcome recovery since 2013 and public and housing investment have recently broadly stabilised.

Despite these positive trends, the current level of investment is still unsatisfactory. The level of total real investment in the euro area remains more than 10% below pre-crisis levels.

Therefore, further action is needed, including at EU level.

The Investment Plan for Europe is a welcome example. While we would support extending it beyond 2018, the success of the current plan also rests on its capacity to improve the investment environment, at both European and national level. Only reforms in this area can guarantee its long-term effects.

At EU level – and here the European Parliament has an important role to play as co-legislator – we should further deepen the Single Market, notably in the areas of energy, transport and the digital economy. We should also make full use of the potential of existing Single Market legislation by ensuring its complete and consistent enforcement. Strengthening the European dimension of regulatory enforcement would help to lessen complexity, enhance the level playing field and reduce the fragmentation of product markets.

In addition, we should act decisively to make the channelling of savings into productive investment more efficient. The banking union, including the ECB in its micro- and macroprudential role, has an important role to play in ensuring that banking markets efficiently allocate resources to the most productive investment opportunities across the euro area.

Progress on the capital markets union is also essential to develop a favourable environment for productive investment in the EU. It will help diversify the sources of funding needed to spur investment – notably for SMEs and long-term projects – by complementing bank financing with deeper, more developed capital markets. The legislative acts regarding simple, transparent and standardised securitisation you are discussing are tangible examples of how EU legislation can broaden financing opportunities for EU companies, foster cross-border investment and ultimately have a positive impact on the EU investment outlook.

At national level, reforms to improve business framework conditions and reduce regulatory and administrative bottlenecks also need to be further pursued. It is the whole institutional framework that helps to transform financial resources into productive investments, which, in turn, increase productivity and, ultimately, create jobs. Inefficient public procurement, taxation systems, judicial systems and insolvency frameworks, identified in some countries, need to be fully addressed. Country-specific recommendations can be a powerful tool to identify and address barriers to investment in individual countries.

Moreover, those countries where public finances allow, should undertake public investment in areas conducive to growth. Regarding other countries, let me mention that long-term investment benefits from stability-oriented macroeconomic policies.

Finally, investors need certainty regarding the economic and institutional environment in which they will operate. This is also one of the reasons why, almost one year ago, the Five Presidents' Report set out a plan for strengthening Europe's Economic and Monetary Union (EMU).

Conclusions

Allow me to conclude.

Looking ahead, we expect the economic recovery to proceed at a moderate but steady pace. Nevertheless, for this recovery to be consolidated, our efforts should now concentrate on strong policy action to improve the business environment, favour investment and raise productivity. Delivering on these objectives will not only create the conditions for inflation to accelerate its return to levels below, but close to, 2%. It will also make a major contribution to improving the standard of living of the people of Europe.

Citizens and markets need to be sure about our capacity to take on the common challenges we face. Our focus should be on making our common home, Europe, stronger.

Thank you for your attention. I am now at your disposal for questions.