

## **Mario Draghi: Opening statement to the Economic and Monetary Affairs Committee of the European Parliament**

Opening statement by Mr Mario Draghi, Governor of the Bank of Italy and Chairman of the Financial Stability Board, and Candidate for President of the European Central Bank, to the Economic and Monetary Affairs Committee of the European Parliament, Brussels, 14 June 2011.

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I am honoured to appear before your Committee for this hearing, which is part of the process of my nomination to the Presidency of the ECB.

I trust you have read my CV. What I want to emphasize about my record are my professional experience in financial matters and as a central banker, and my long-standing commitment to the cause of the European construction.

I have served as a member of the Governing Council and the General Council of the European Central Bank since 2006, in my capacity as Governor of the Bank of Italy. I believe that we have been able to deliver very positive results, although we were faced with exceptionally difficult challenges.

I also took part in many of the decisions leading to the birth of the euro. In 1991, in my capacity as Director General of the Italian Treasury, I headed the Italian delegation negotiating the Maastricht Treaty. Subsequently, I was actively involved in many of the steps that were essential in ensuring Italy's adoption of the euro, particularly the ambitious fiscal adjustment that took place in the 1990s.

I have gained considerable experience in prominent European and international fora. Here, let me just mention that since April 2006 I have been Chairman of the Financial Stability Forum, which became the Financial Stability Board (FSB) in 2009. The FSB, which brings together national and international authorities responsible for financial stability and international standard-setting bodies, coordinates the work to develop and promote the implementation of effective regulatory supervisory and other financial sector policies.

The more detailed information in my CV further clarifies my long-standing professional and academic experience in economic, monetary and banking matters.

Today, I would like to concentrate my introductory comments on my assessment of the experience with EMU and on the main challenges that I believe lie in front of us.

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Let me first of all say that I am honoured to be considered as a candidate for the Presidency of the ECB, because I believe that EMU, with the euro at its centre, has been a great success, a success that should be preserved for the sake of all the citizens of Europe. Let me state that none of the recent events, including the global crisis, call this fact into question.

The euro has established itself as a credible and strong international currency, trade among the euro-area countries has been fostered, financial integration has been given an enormous boost. Price stability is now rooted in the conduct of economic agents: in the twelve years of the euro, annual inflation in the area has averaged just under 2 per cent, fully in line with the definition of price stability adopted by the Governing Council of the European Central Bank (ECB). This achievement is noteworthy, considering the headwinds the euro area had to weather, including substantial increases in oil and other commodity prices and the financial crisis.

Thanks to the credibility gained over the years, the Eurosystem was able to keep inflation expectations steady during the crisis and to act with the speed and flexibility demanded by

extraordinary circumstances. Without EMU, the response of the different monetary policies could not have been so rapid and decisive: it would have been practically impossible to achieve a similar level of coordination in the monetary field.

This credibility must be preserved and I am fully committed to doing so. I believe its roots lie in the independence that the Treaty grants to the ECB to pursue its mandate of maintaining price stability.

I also firmly believe that, as a counterpart of its independence, the ECB must ensure that in the exercise of its responsibilities there is the highest degree of transparency and accountability, first and foremost towards the citizens and their elected representatives in the European Parliament. I look forward to pursuing a fruitful, frank and open dialogue with your institution.

We need responsible behaviour and decisions by all the parties involved, in the monetary, financial stability and economic fields.

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Starting with monetary policy, it is of the utmost importance to recall that the credibility we have earned will not necessarily last forever; it cannot be taken for granted.

An important challenge for the ECB is to manage the exit from the still very accommodative monetary policy stance and the phasing-out of the remaining non-standard measures. The measures adopted by the ECB were crucial to restoring orderly conditions on interbank markets, containing risk premia, and preserving credit flows to the economy in the worst phases of the crisis. We have avoided the collapse of the financial system, supported the functioning of the transmission of monetary policy to the economy and, ultimately, ensured price stability, thereby supporting the European economy. However, these measures are by their nature temporary.

There have been a number of signs of normalisation in money markets and in the access to market-based financing by most banks in the euro area; the recourse to Eurosystem operations has declined. At the same time, concern about the sustainability of the public finances in some euro-area countries has led to strains in a number of banking sectors and a small number of institutions remain reliant on central bank liquidity, accounting for a substantial share of the overall refinancing volumes.

The continued high degree of uncertainty about the macroeconomic and financial environment requires a careful assessment of the overall situation and outlook. Non-standard measures need to be phased out to the extent that they are no longer needed to support the functioning of the transmission of monetary policy to the economy; we must make sure that liquidity support to the economy is maintained as long as appropriate; but also that we do not sow the seeds of future imbalances and create addiction to our liquidity.

At the same time, the setting of our policy rates must be adjusted with the aim of delivering on the ECB's mandate, – to maintain price stability for the euro area in the medium term – in a pre-emptive manner, in order to avoid any deterioration of inflation expectations.

It must be fully clear that neither the sovereign debt crisis nor the abnormal dependence of some banks on central bank liquidity can divert the ECB from pursuing its primary objective.

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Secondly, challenges to monetary policy come from the area of financial stability.

The financial crisis and the heightened emphasis on financial stability have raised a number of questions on the relationship with monetary policy. It has shown that a closer interaction is needed between macroeconomic and macroprudential analyses, although it has also brought out that there is no real trade-off between the objective of price stability and the support that the ECB can lend to other areas.

In this respect, I believe that while synergies must be exploited to the full, the respective roles and responsibilities must remain clearly distinct.

Monetary policy must keep its focus on preserving price stability over the medium term. As I just mentioned, the benefits of a sound monetary framework have been made more – not less – evident by the crisis.

At the same time, monitoring the emergence of monetary and credit imbalances and asset price developments is one important element in a robust monetary policy strategy; a medium-term orientation is also crucial. The ECB's monetary policy strategy already goes a long way towards taking these concerns into account.

However, monetary policy is not necessarily the most appropriate instrument to deal with credit or asset price imbalances. The use of macroprudential instruments targeted on the sources of financial exuberance may be more appropriate. The new European supervisory authorities can make an important contribution in this respect. Let me just remark here that the ECB plays an important role in the European Systemic Risk Board (ESRB), to which it provides logistical, analytical and administrative support.

An appropriate management of the interaction between macroprudential and monetary policy authorities will be crucial to success. The institutional arrangement adopted in Europe appears well-suited to address any problem that may arise from the management of monetary policy and new macroprudential tools. It will certainly be important for there to be dialogue between the two bodies on policy issues that can affect systemic risk.

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Finally, let me mention the challenges to the construction of Europe itself. The sovereign debt crisis is a real test of the solidity of European institutions and of the political will in Europe to do whatever is needed to ensure the achievement of economic and monetary integration.

The European surveillance of national budgetary policies proved to be inadequate. For a long time exceptionally favourable financing conditions have concealed the differences between member countries' underlying conditions and economic policies and the absence of really binding common rules. The global crisis has accentuated investors' perception of risk and revealed weaknesses in the architecture of the Union.

The exceptional response of national governments and European authorities limited the risk of contagion and safeguarded the area's financial stability. The financial support granted to the countries in greatest difficulty allows them to proceed with adjustment sheltered from market volatility. It is not a fiscal transfer between countries and it is subject to stringent conditions.

There are no shortcuts available: the response to the debt crisis lies first and foremost in national policies, in the complete implementation of the adjustment plans that have been agreed. Solidarity among the member countries in the Union must be matched by a sense of responsibility and compliance with the rules.

Looking ahead, I believe that the steps that have already been taken to tackle the weaknesses of the European architecture are important. The proposals of the EU Commission and the Council reinforce surveillance over budgetary policies. They can be made more ambitious by making procedures more automatic so as to shield them from the arbitrary nature of political negotiations. The European Parliament is having an important influence in this regard.

The extension of rules similar to those governing national budgets to the surveillance of macroeconomic imbalances, with special consideration for the state of member countries' external accounts, is also a very welcome development.

Above all, structural reforms aimed at boosting economies' competitiveness and growth potential must be a top priority on the policy agenda, not only in those countries hit by the debt crisis. In the end, the ultimate objective of EMU, and the measure of its success, is its ability to promote growth and economic and social welfare.

Many of these matters are not the direct responsibility of the ECB, but the ECB can – and I believe must continue to – offer objective and independent advice, based on rigorous and credible analysis. I hope we will continue exchanging our views on these issues in the future.