Mario Draghi: Hearing before the Plenary of the European Parliament on the occasion of the adoption of the Resolution on the ECB Annual Report 2012

Introductory statement by Mr Mario Draghi, President of the European Central Bank, at a hearing before the Plenary of the European Parliament on the occasion of the adoption of the Resolution on the ECB Annual Report 2012, Strasbourg, 12 December 2013.

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President,

Honourable members of the European Parliament,

I am very pleased to take part in this debate on the ECB Annual Report 2012. Today is the last time in this legislature that I participate in the plenary. This represents a good opportunity to take stock of the progress made over the past few years in strengthening the resilience and stability of the euro area.

To introduce the debate, I would first like to review the more recent ECB's monetary policy decisions. I will then address institutional matters of particular interest to your house as well as the progress made so far in reinforcing EMU governance. I will thereby address most of the issues which the ECON Committee highlighted in its draft resolution on the ECB Annual Report.

ECB's monetary policy

Let me begin by describing the economic environment of the past years. The economic recovery that followed the post-Lehman global recession of 2008–09 was aborted in the euro area as the sovereign debt crisis took hold. Financial stability was threatened; the viability of banks that had survived the first phase of the crisis was called into question. Credit was curtailed and the recession that ensued has lasted until the first quarter of this year. Since then, we have been experiencing a weak recovery. Weak economic activity and high unemployment have resulted in a subdued inflation. Against this backdrop, and in respect of our price stability mandate that was assigned to us by the Treaty, we have lowered our key interest rates to historically low levels.

To clarify the orientation of our monetary policy going forward in an exceptionally uncertain environment, we introduced *forward guidance* in July 2013: we stated that we expected key interest rates to remain at present or lower levels for an extended period of time. That statement was conditional and based on an overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics. In November we acted upon that conditional pledge by reducing two of our key interest rates, as price pressures have diminished further and we anticipate inflation weakness to be protracted. In keeping with these anticipations, we also re-confirmed our forward guidance in its original formulation.

Over the past two years our interest rate cuts were transmitted only unevenly across euro area countries, due to the fragmentation of financial markets along national borders. To address this problem, we adopted a series of non-standard measures. The purpose of these was – and remains – a more effective transmission of the ECB's interest rate cuts, so that our monetary policy can reach euro area companies and households. Our measures addressed those distortions in sovereign debt markets that were due to the redenomination risk and alleviated funding pressures of euro area banks. At our November meeting we also decided to extend the time horizon for the application of the fixed rate full allotment procedures in our liquidity operations until at least July 2015. This decision provides our counterparties reassurance that the liquidity necessary to re-finance their core activities will be forthcoming at our main refinancing rate.

As a direct consequence, bank lending rates for households and non-financial corporations have decreased at the euro area level. In this way, our measures have helped SMEs, too, the backbone of the euro area economy. We have, in addition, taken direct measures to alleviate the funding situation for SMEs through our collateral framework. And we have worked with the European Commission to further improve SME financing conditions.

Institutional matters

Let me now turn to institutional developments and focus in particular on measures related to accountability and transparency. Since our creation we have always gone beyond the Treaty requirements in making our work transparent and accessible. The monthly press conferences, which were without precedent at the time among major central banks, are a telling example. This year has also shown that the ECB stands ready to adapt its communication policy where deemed necessary. For example, we have published the procedures governing the provision of Emergency Liquidity Assistance (ELA). We have started internal reflections on how to increase transparency of the deliberations in the Governing Council without undermining independent decision-making by its members.

Our commitment to accountability and transparency has also become apparent in the Agreement concluded between our two institutions on the Single Supervision Mechanism (SSM). Supervision necessitates a differentiated form of accountability from monetary policy, while preserving the independence of the ECB as a whole. The Inter Institutional Agreement (IIA) strikes the right balance between ensuring high standards of accountability, transparency and safeguarding confidential information. I am confident that the implementation of the IIA will open a new chapter of successful cooperation between our two institutions. In this context let me also welcome your positive vote on Ms Nouy's nomination. Following her final appointment by the Council, she will become your main interlocutor on all matters related to the SSM as of January 1st.

I would like to also address an issue which, I know, is as much a concern to you as it is to me: the gender balance at the ECB. Today, 17% of our management positions are filled by female staff. It is clearly not enough. This is why the Executive Board decided this summer to introduce gender targets aiming at 35 % women in management positions by 2019. And this is not an empty promise. The ECB has started to implement a diversity action plan that will help us attaining those targets.

Let me now share my thoughts on the process of completing EMU.

Taking stock of the progress made towards a genuine EMU

As this legislature comes to the end of its term, it is an opportune time to reflect on what we have achieved in such a short space of time. Not so long ago the euro area was facing an uncertain future. In the meantime, doubts about the integrity of the single currency have dissipated. Notably, a roadmap for a genuine EMU has been outlined encompassing four pillars: banking union, fiscal union, economic union and ultimately political union.

Through a concerted legislative effort the euro area, and the EU as a whole, has been put on a more stable footing. Your institution has made a decisive contribution to this effort. The establishment of the Single Supervisory Mechanism (SSM) represents probably the most significant change to the EU since the establishment of the single currency and I am happy to report the internal preparations are well underway. I strongly welcome the political agreement on the Bank Recovery and Resolution Directive you have reached with the Council yesterday night.

Swift agreement on the other key component of Banking Union – the Single Resolution Mechanism – is of paramount importance. I trust you will succeed in adopting the relevant legislation before your term comes to an end. These institutions are essential to implement the "single rulebook" in the years to come. Looking ahead we will have a stronger set of rules for capital and liquidity. We will also have a new toolbox for the resolution of financial institutions. And we will have stronger national deposit guarantee schemes.

Banking Union however is not a panacea for eliminating financial market fragmentation and fully stabilising EMU. It is a necessary, but not sufficient condition to break the bank-sovereign nexus and restore sustainable economic growth. Equal borrowing conditions can only be ensured through the joint implementation of other measures. This not only includes continued fiscal consolidation and implementation of structural reforms, but also progress on the other "unions". Only then can we say we have created a genuine EMU. Let us seize the opportunity of the next EP elections to have an open public debate on the further steps needed to strengthen the architecture of EMU.

Thank you for your attention.