

Mario Draghi: Safeguarding price and financial stability in the euro area

Introductory remarks by Mr Mario Draghi, President of the European Central Bank, at the visit to the Finnish parliament, Helsinki, 27 November 2014.

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Summary

In his speech at the Finnish Parliament the President highlighted that, over the past crisis years, the ECB has acted forcefully to safeguard price stability and to contribute to financial stability in the euro area as a whole.

In particular, the ECB has taken several non-standard measures to ensure the transmission of its monetary policy to the economy. The latest unconventional measures announced by the ECB (the targeted long term refinancing operations (TLTROs), and the covered bond and ABS purchase programmes) will have a sizeable impact on our balance sheet, which we expect to move towards its early 2012 dimension. This will ensure the necessary degree of monetary accommodation and contribute to a gradual recovery and a return of inflation to levels closer to below, but close to, 2%. If, however, it becomes necessary to further address risks of too prolonged a period of low inflation, the Governing Council is unanimous in its commitment to using additional unconventional instruments within its mandate.

Accountability and transparency are the essential elements balancing the independence of a central bank, especially in times where unconventional measures are being taken. The ECB regularly publishes a variety of data on the execution of monetary policy operations and the liquidity conditions of the Eurosystem. (i.e. the SMP, the Covered Bonds Programmes and the ABS Purchase Programme portfolios). Additionally, the Governing Council committed to the publication of an account of monetary policy discussions.

As regards fiscal policy and structural reforms, while the Stability and Growth Pact should remain the anchor for confidence in sustainable public finances, a comprehensive strategy is needed to put the euro area economy back on track. This involves further sharing of sovereignty, i.e. a leap forward from common rules to common institutions. The upcoming report commissioned by the Euro Summit on the future of economic governance will present a good starting point for further reflection.

Honourable Members of Parliament,

Ladies and Gentlemen,

I would like to thank you warmly for having invited me to address you today. This is a good opportunity for me to explain the policies of the European Central Bank (ECB) and to listen to your concerns and questions. I am looking forward to a fruitful exchange of views today.

To lay the ground for our discussion, I will focus on three topics: the ECB's monetary policy (even though I will not elaborate on possible upcoming measures as we are in the so-called "quiet" period during which members of the Governing Council are expected to remain silent on this issue), the ECB's accountability framework and transparency, and the progress towards building a deeper economic and monetary union (EMU).

Economic and monetary developments

Let me first turn to economic developments in the euro area.

We have seen a weakening in the euro area's growth momentum over the summer and the euro area economic outlook is surrounded by a number of downside risks. Also, most recent forecasts by private and public sector institutions have been revised downwards. Our expectation for a moderate recovery in the next years still remains in place, reflecting our monetary policy measures, the ongoing improvements in financial conditions, and the progress made vis-à-vis structural reforms and fiscal consolidation. But the recovery will likely be dampened by high unemployment, sizeable unutilised capacity, and the necessary balance sheet adjustments.

Inflation in the euro area remains very low, standing at 0.4% in October. In the light of the recent sharp fall in oil prices, and taking into account prevailing futures prices for energy, inflation is expected to remain at around current low levels over the coming months, before increasing gradually during 2015 and 2016.

Meanwhile, we are facing continuously sluggish money and credit dynamics – even if the growth rates of some key aggregates have edged up in recent months.

Monetary policy in crisis times

During the past crisis years, the ECB has acted forcefully to safeguard price stability and to contribute to financial stability in the euro area as a whole. In particular, we have taken several non-standard measures to ensure the transmission of our monetary policy to the economy. We provided the euro area banking system with unprecedented funding, including the full allotment – at fixed rates – of banks' demand for liquidity. We also communicated our readiness to undertake Outright Monetary Transactions with a view towards restoring the monetary transmission mechanism which was impaired by distress in sovereign bond markets. While these measures have been successful in improving banks' access to private credit and countering financial fragmentation, broader financing conditions – foremost the cost of borrowing from banks – have been exceptionally sluggish in responding to the monetary policy accommodation that was introduced. As a consequence, monetary and credit dynamics have followed a protracted, negative trend until very recently. Against this backdrop, and in view of a persistently weak inflation outlook, we decided in June and then in September to adopt a number of monetary policy measures. With these monetary policy decisions, we have moved from a monetary policy framework based predominantly on passive provision of liquidity to a more active and controlled management of our balance sheet.

In September, we cut the key ECB interest rates to their lower bound. The main refinancing rate now stands at 0.05%, and the deposit facility rate at –0.20%.

We also announced further measures to support lending and materially ease credit conditions for households and non-financial businesses.

These measures include the targeted longer-term refinancing operations (TLTROs), which we started to implement in September. These operations allow banks to borrow from the Eurosystem at very attractive conditions over a period of up to four years, provided that they meet certain conditions regarding their lending to the private non-financial sector (excluding loans to households for house purchases).

Moreover, last week we started to purchase simple and transparent asset-backed securities under our ABS purchase programme (ABSPP). Purchases will be restricted to senior and – down the line – guaranteed mezzanine tranches. Due to the stringent quality criteria for eligibility demanded of the underlying loans, and the considerable amount of credit enhancement which is built into the securitisations qualifying for the programme, the additional risk exposure which the Eurosystem will acquire under the ABSPP will remain limited.

We have also already started purchasing covered bonds issued by euro area banks under our new covered bond purchase programme (CBPP3).

These measures will enhance the transmission of monetary policy, support the provision of credit to the euro area economy and, as a result, ease our monetary policy stance more broadly. They will also have a sizeable impact on our balance sheet, which we expect to move towards its early 2012 dimension. This will ensure the necessary degree of monetary accommodation which will effectively contribute to a gradual recovery and a return of inflation to levels closer to our aim of below, but close to, 2%.

We already have indications that this credit easing package is delivering tangible benefits, but time is needed for the positive effects to fully materialise.

However, should it become necessary to further address risks of too prolonged a period of low inflation, the Governing Council is unanimous in its commitment to using additional unconventional instruments within its mandate. In this context, we have also tasked relevant ECB staff and Eurosystem committees with the timely preparation of further measures to be implemented, if needed.

The ECB's accountability framework and transparency

Throughout the crisis, the ECB has undertaken a series of measures to pursue its mandate of price stability, including unconventional measures such as the ones just described. To carry out its tasks, the ECB enjoys a high degree of independence under the EU treaties.

This independence manifests itself in a number of institutional features of the Eurosystem. Let's take collegiality: the Eurosystem's main decision-making bodies (the Executive Board and the Governing Council) both work in a collegiate way, as it is absolutely essential to take decisions which reflect the wisdom and expertise of all members. For example, I have now worked for many years with Governor Liikanen in the Governing Council and really treasure his input into the discussions. Like the other governors, he is not there as a delegate of his country but contributes with his expertise, knowledge and the work of Suomen Pankki – Finland's Bank so that the best decision is taken for the euro area as a whole. National central banks (NCBs) play a crucial role in the functioning of the Eurosystem. NCBs' tasks range from the research and analysis which feed into the decision-making process to implementing monetary policy decisions, the collection and production of statistics, and the operational aspects of payment systems and banknotes. Their role cannot be overplayed.

As an independent central bank, the ECB is committed to being fully accountable to citizens and their elected representatives and has an established framework to discharge accountability to the European Parliament. This includes, most importantly, the hearings of its Committee on Economic and Monetary Affairs (ECON), as well as an array of further channels for interacting with the European Parliament.

As regards national parliaments, Finland's Bank is accountable to your parliament, and I understand that the Parliamentary Supervisory Council is provided with information on monetary policy regularly to exercise its prerogatives. In addition, our accountability towards the European Parliament does not exclude that there are also a number of ad hoc interactions with national parliaments, such as today's meeting.

But accountability would not be meaningful without an appropriate degree of transparency, to which the ECB is also strongly committed.

In general, the ECB's commitment to transparency has increased over the years. The ECB regularly publishes a variety of data on the execution of monetary policy operations and the liquidity conditions of the Eurosystem. The most recent examples include the weekly publication of the value of all monetary policy portfolios, i.e. the Securities Markets Programme (SMP), the covered bond purchase programmes and the ABS purchase programme.

Transparency is key, especially in times where unconventional measures are being taken. This is why the Governing Council committed to the publication of an account of its monetary policy discussions.

The future of EMU governance

Finally, let me turn to the governance of Economic and Monetary Union. In the short run, our overarching focus should be on the full and consistent implementation of the existing fiscal and macroeconomic surveillance framework. This is key to bringing down high public debt

ratios, to raising potential growth and to increasing the resilience of the euro area economy to shocks. Now is certainly not the right moment for complacency, neither in the area of fiscal policies nor with regard to structural reforms. It should be clear that monetary policy alone cannot do all the “heavy lifting”. All policy actors – both at the national and the European level – need to do their part. This should be embedded in a comprehensive strategy that puts the euro area economy back on track.

The Stability and Growth Pact should remain the anchor for confidence in sustainable public finances – throughout the procedural steps under the agreed framework. With regard to macroeconomic surveillance, the implementation of structural reforms is imperative and should be a matter of priority for the euro area governments.

In the medium to long term, we need to explore various options to further ensure a smooth functioning of EMU. During the crisis, euro area Member States – including Finland – have made a significant effort in terms of strengthening both discipline and solidarity within EMU. While this has contributed decisively to overcoming the crisis, I believe that this is not yet fully commensurate with the long-term necessities of being part of a monetary union. In the euro area, economic policy choices are so interdependent that, ultimately, sovereignty over economic policy-making should be exercised jointly. Therefore, we need, in my view, to further share sovereignty in this realm. This could translate into a leap forward from common rules to common institutions. The forthcoming report that the Euro Summit has commissioned on the future of economic governance will present a good starting point for further reflection on these matters.

I am here today to represent the ECB and am looking forward to a constructive exchange of views. Therefore, I very much welcome your questions.