Mario Draghi: IMFC Statement

Statement by Mr Mario Draghi, President of the European Central Bank, at the thirty-sixth meeting of the International Monetary and Financial Committee, Washington DC, 13 October 2017.

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The euro area's economic expansion, supported by the ECB's monetary policy measures, continues to be firm and broad-based across countries and sectors. The economy has now expanded for 17 consecutive quarters, and at a faster than expected pace in the first half of this year. Over this period, employment in the euro area has increased by almost seven million. Youth unemployment has declined from its peak above 24% in 2013 to just above 19% recently, but still remains above its pre-crisis level, and especially high in some member countries.

The ongoing recovery is being largely driven by domestic forces, with both consumption and investment contributing to growth. Private consumption is fostered by employment gains and increasing household wealth. Investment continues to benefit from very favourable financing conditions and improvements in corporate profitability. Also, the broad-based global recovery is increasingly supporting euro area exports. The latest ECB staff projections foresee annual real GDP increasing by 2.2% in 2017, 1.8% in 2018 and 1.7% in 2019. Risks to the growth outlook are broadly balanced, with downside risks stemming predominantly from external sources. In this context, preserving openness underpinned by multilateral cooperation and effective financial regulation will decisively contribute to fostering a favourable external environment.

While headline inflation has increased markedly over the past year, this is largely reflecting energy and food inflation. Measures of underlying inflation however have yet to show convincing signs of a sustained upward trend, despite an uptick in recent months. Domestic cost pressures remain subdued, with wage growth still low by historical standards. At the same time, the deflation risk in the euro area has essentially disappeared. Because of anticipated base effects in energy prices, headline inflation is likely to temporarily decline towards the end of the year. The latest ECB staff projections point to annual euro area headline inflation of 1.5% in 2017, 1.2% in 2018 and 1.5% in 2019. Risks to this inflation outlook are broadly balanced. Exchange rate volatility represents one source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability in the euro area.

Looking ahead, underlying inflation is expected to rise gradually over the medium term, supported by our monetary policy measures, the expected continuing economic recovery and the corresponding gradual absorption of slack in the euro area economy. However, progress towards a durable and self-sustaining convergence of inflation towards our objective is not yet sufficiently convincing.

Thus, a very substantial degree of monetary accommodation is still needed to secure a sustained return of inflation towards levels below, but close to, 2% over the medium term – in line with the ECB's mandate. As affirmed by the Governing Council at its last monetary policy meeting on 7 September, we expect the key ECB interest rates to remain at present levels for an extended period of time, and well past the horizon of the net asset purchases. Our asset purchase programme (APP), at the current monthly pace of €60 billion, is intended to run until the end of December this year, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The net purchases are made alongside reinvestments of the principal payments from maturing securities purchased under the APP. Later this year we will decide on the calibration of our policy instruments beyond the end of 2017, taking into account the expected path of inflation and the financial conditions needed for a sustained return of inflation rates towards our objective.

The ECB's monetary policy measures and the favourable effects they are having on borrowing conditions for firms and households, access to financing and credit flows across the euro area are supporting domestic demand and are also facilitating the deleveraging process. In order to reap the full benefits of our monetary policy measures, actions in other economic policy areas remain necessary to strengthen long-term growth and resilience in the euro area.

Meanwhile, the condition and resilience of the euro area banking sector has continued to improve. Euro area banks' CET1 capital ratios remain at a solid level of about 14%, whereas profitability has stabilised on the back of the strengthening recovery. Some weak banks have been successfully resolved with the impact on the rest of the euro area banking sector being well contained. Notwithstanding these positive developments, important challenges remain, including the still subdued profitability, structural challenges in some parts of the euro area banking sector, such as the presence of excess capacity and cost inefficiencies, as well as – in a few countries – the persistently high stock of non-performing loans (NPLs). On aggregate, however, further progress has been made with respect to resolving NPLs, and a comprehensive action plan to deal with legacy asset quality issues was adopted by the Council of the European Union and is now being followed up by EU and national authorities. The ECB has published guidance to banks on NPLs and a draft addendum, currently subject to public consultation.

With respect to financial stability, we observe that at the current stage the euro area's position in the financial cycle is consistent with the ongoing economic recovery. There are no indications of widespread asset price misalignments and credit developments remain modest. Nevertheless, relatively buoyant real estate dynamics and high household debt levels in some countries warrant careful monitoring. We expect the national macroprudential authorities in the euro area to remain vigilant and ready to use the macroprudential policy instruments at their disposal to counteract the any emerging risks when necessary. Within its macroprudential mandate, the ECB will contribute to this end.

Despite the potential for monetary policy to influence economic growth in the short term, strong, sustainable and balanced growth requires other policymakers to assume their responsibilities. From a global perspective, one of the key ingredients for raising potential growth and productivity is openness. Open trade, investment and sustainable financial flows play a key role in the cross-border diffusion of new technologies that drive forward efficiency improvements. Preserving openness is thus key to strengthening global growth potential. It should be underpinned by effective multilateral cooperation, including in the field of financial regulation and supervision.

As regards the euro area, strengthening its long-term growth potential calls for decisive action to address the remaining structural issues. Reform implementation needs to be substantially stepped up, with further actions to improve the business and regulatory environment aimed at boosting investment and increasing productivity. Labour market rigidities need to be reduced further to enhance job creation and reduce unemployment, especially for young people. To foster reform implementation at country level, a full and consistent application of the EU's policy framework is required, including the European Semester and the macroeconomic imbalance procedure. Likewise, full and consistent implementation of the Stability and Growth Pact remains crucial to ensure confidence in the EU's fiscal framework and to safeguard public debt sustainability. In the current environment, a broadly neutral euro area fiscal stance strikes an appropriate balance between aggregate stabilisation and sustainability needs. Although such a euro area stance is prevailing, the contribution of individual Member States to the aggregate outcome is suboptimal. Some of them need to take additional measures to ensure compliance with the fiscal rules, while others have scope to use available fiscal space. In addition, all euro area countries should strive for a more growth-friendly composition of fiscal policies by prioritising public investment and reducing the tax burden on labour.

The current political and economic momentum in Europe also provides an opportunity to strengthen our Economic and Monetary Union (EMU). Further integration needs to be achieved above all by implementing what has been agreed and by completing the common projects we have started. This includes completing the banking union and building a capital markets union. A more complete EMU, with further steps towards a deeper financial, fiscal and economic union, will be the foundation for a stable, flourishing and resilient euro area economy. That is the best contribution which Europe can make to global economic growth and financial stability. By delivering on its mandate, the ECB will continue to play its part in this endeavour.