Mario Draghi: Exchange of views with members of the Irish Parliament

Introductory statement by Mr Mario Draghi, President of the European Central Bank, during his exchange of views with the House of Representatives, Dublin, 8 November 2018.

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Thank you, Chairman. I am happy to be back in Dublin and honoured to be invited to speak at the Oireachtas. On this occasion, I am joined by my colleague, Philip Lane, whom you meet regularly in his capacity as Governor of the Central Bank of Ireland.

While the ECB is accountable to the European Parliament, we greatly value our exchanges with national parliaments. In September, some of you already met the Chair of the Supervisory Board, Danièle Nouy, in Frankfurt and discussed the ECB's supervisory policies. In full respect of the functional separation between the ECB's monetary policy and its supervisory tasks, today is an opportunity to discuss our monetary policy and policies to make the euro area economy and its constituent parts more resilient. In this respect, I expect an open exchange from this meeting, which will give us a chance to listen to and better appreciate each other's positions. I am conscious that I am speaking in a country that went through a severe crisis. The Irish people made tremendous efforts, for which I have great respect. And these efforts are now paying off.

The euro area economic outlook

Ten years after the start of the global financial crisis, the euro area economy is performing well – and has been for some time. We have now seen 22 consecutive quarters of economic growth, while over 9 million jobs have been created and the unemployment rate has declined to 8.1%, its lowest level since November 2008.

The Irish economy has seen a particularly strong expansion in recent years. Ireland is now growing at the fastest pace of any euro area country. Unemployment has been falling too, and now stands well below the euro area average. This is all the more impressive given the severe crisis Ireland went through and the legacies it is dealing with, including high private debt and arrears.

Looking ahead, while some sector-specific data and selected survey results have been somewhat weaker than expected, the latest incoming information overall suggests that the broad-based expansion in the euro area, and in Ireland, is set to continue. Against this background, euro area inflation is expected to continue to converge towards the ECB's objective of below, but close to, 2% over the medium term.

Getting to this point has required considerable monetary policy support. The euro area is looking back on several years of exceptionally low interest rates and unconventional monetary policy measures. The ECB's key interest rates have been at unprecedented low levels since 2009. They have been supported by a series of unconventional measures, introduced in the face of a protracted recession and persistently low inflation.

While we are now at the point where we anticipate – subject to incoming data confirming our medium-term inflation outlook – that we will end net asset purchases at the end of the year, significant monetary stimulus will still be needed to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Even after we end our net asset purchases, monetary stimulus will continue to be provided by the guidance we have given namely that we expect to keep interest rates at their present levels at least through the summer of 2019 and to maintain the stock of assets on our balance sheet by reinvesting maturing bonds purchased under the asset purchase programme for an extended period of time after the end of our net asset purchases.

But the overall favourable outlook and our still accommodative stance should not invite complacency. Although on the whole the risks surrounding the euro area growth outlook can still be assessed as broadly balanced, risks relating to protectionism, vulnerabilities in emerging markets and financial market volatility remain/are prominent. We are seeing a growing willingness to question multilateralism, which has underpinned global growth since the end of the Second World War. The protectionist trade measures implemented may have had very limited effects thus far, but the escalation of trade tensions is undermining confidence.

Financial stability

Allow me also to say a few words about euro area financial stability. The financial stability environment in the euro area overall remains favourable, but it has become somewhat more challenging in recent months.

The results of the European stress test published last Friday show that euro area banks are increasingly resilient to financial shocks. This also reflects the continuing economic expansion, which has strengthened private and public balance sheets alike.

Still, there are risks. These include liquidity risks in the non-bank financial sector that could be transmitted to the broader financial system. Developments in this area should be closely monitored, and the regulatory and supervisory framework for non-banks needs to be strengthened.

Asset prices also require close monitoring. While there is currently no compelling evidence of overstretched asset valuations at the euro area level, we are seeing some localised risks. However, euro area monetary policy is not the appropriate tool with which to address such risks. They call instead for targeted macroprudential policies, which can be tailored to local and sectoral conditions. The recent decisions by the Central Bank of Ireland are an example of how macroprudential policy can promote financial stability.

As regards Brexit, with negotiations ongoing and less than five months to go until the United Kingdom's departure from the European Union, it is essential to prepare for all possible outcomes, including a no-deal scenario. While the direct trade effects of a hard Brexit would be limited for the euro area as a whole, Ireland is more exposed due to its very close trade relations with the United Kingdom. We also see limited overall risks to euro area financial stability. Without sufficient mitigating action, however, a cliff-edge Brexit could have an adverse impact in certain areas of centrally cleared derivatives markets.

Sources of risk from outside the EU have grown since May. A stronger US dollar and heightened trade tensions triggered renewed stress in a number of emerging market economies.

Financial integration and the deepening of EMU

Thanks to our collective efforts at the European and national level, we have come a long way since the start of the financial crisis. However, to strengthen our economies and preserve financial stability, we need to go further. Let me highlight in particular some of the concrete steps in the area of financial integration that we need to take at the European level.

First, we need to complete the architecture of the banking union. The benefits of having a euro area supervisor are clear when we look at banks' strengthened balance sheets. Still, more needs to be done to reduce the risks for citizens as both taxpayers and depositors and to break the remaining link between banks and national governments. In addition to the adoption of banking package which is currently under negotiation among EU legislators, a genuine banking union needs further regulatory harmonisation, for instance through greater reliance on Regulations instead of Directives. In particular, unwarranted national options and discretions still stand in the way of a level playing field for banks. At the same time, we need to establish a common backstop to the Single Resolution Fund and lay the groundwork for the creation of an effective European Deposit Insurance Scheme. Significant steps in these areas are a precondition for a truly integrated euro area banking system and single money. The transmission of the ECB's monetary policy remains at risk of being hampered in crisis situations as long as levels of depositor confidence differ across the euro area.

The second thing we need to do is build a true single market in capital. Diversified capital markets play an important role in sharing risks and smoothing private consumption over time. For this reason, the ECB has been a strong supporter of the European Commission's plan for a capital markets union. To be robust, the capital markets union needs effective regulation and supervision, for example in relation to investment firms and clearing. Not least given the United Kingdom's imminent departure from the EU, we need to make concrete progress on this agenda and complement it with an ambitious, longer-term vision.

Conclusions

I would like to end by mentioning that recent Eurobarometer data show that support for the euro stands at a record high of 77% among euro area citizens and a large majority believe that their country's membership of the EU is a good thing. Support for the European project is particularly strong in Ireland, where with 88% of citizens the single currency enjoys the highest level of support in the EU.

Europe has to repay this trust.

We face important global challenges that are naturally causing concern among the people of Europe, especially those who feel left behind. Common institutions and collaboration among Member States give Europe a strong voice in the world. More importantly, they make it possible for us to find effective answers to joint problems. In other words, we are stronger together. Thank you for your attention.