Mario Draghi: Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

Introductory statement by Mr Mario Draghi, President of the European Central Bank, at the ECON committee of the European Parliament, Brussels, 28 January 2019.

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Mr Chairman,

Honourable members of the Economic and Monetary Affairs Committee,

Ladies and gentlemen,

It is a pleasure to be back at the European Parliament and to appear before your Committee.

I am happy that you have chosen the euro project and its achievements over the past 20 years as the topic for our discussion today. I will start on the substance without further ado, discussing in turn the internal and external dimensions of the euro area. I will then argue that, building on what we have already achieved, our duty today is to continue to make progress in ensuring that all of the euro's benefits are realised in full.

The euro's internal dimension

The euro was introduced to deepen the Single Market and safeguard its integrity. It continued the European project of reducing cross-border barriers through common endeavours and common policies. It followed the spirit that was already imbued in the Schuman declaration in 1950: building Europe "through concrete achievements". As a result, our economies are now integrated to a point that was unimaginable not so long ago.

The euro was designed to be a trusted and stable currency. And the euro has indeed provided two decades of price stability, thereby upholding people's confidence in the value of their savings. Stable prices also facilitated firm investment and the creation of new jobs. Today, there are 20 million more Europeans in employment than 20 years ago in the 19 countries that currently make up the euro area. And since the creation of the euro, the labour force participation rate has risen from 59% to 67%, its highest level ever.

The two decades in which the euro has existed have been exceptional. The first decade was the culmination of a 30-year period of macroeconomic stability, also known as the Great Moderation. Inflation averaged close to 2% and the ECB ensured price stability mainly by adjusting its key interest rates.

The second decade produced the worst economic and financial crisis since the Great Depression. As I had the opportunity to discuss at length in my remarks at the Parliament's plenary debate two weeks ago, as a response to the crisis we had to deploy new instruments to safeguard the effectiveness of our monetary policy and stabilise the euro area economy.[1]

Thanks to the collective efforts of all European citizens, the euro area has emerged from this crisis. The results of their and their representatives' determination have been tangible: 22 consecutive quarters of economic growth, the unemployment rate at its lowest level since October 2008, and wages and incomes on the rise.

However, over the past few months, incoming information has continued to be weaker than expected on account of softer external demand and some country and sector-specific factors. The persistence of uncertainties in particular relating to geopolitical factors and the threat of protectionism is weighing on economic sentiment.

At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures. This supports our confidence in the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus remains essential to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This will be provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets. In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

The euro's external dimension

The benefits of the euro have not been limited to the European internal dimension. Standing together within the Economic and Monetary Union (EMU) allowed us to retain sovereignty that would otherwise be lost by individual countries in a highly integrated world economy.

As already envisaged at the time of its creation, the euro symbolises the unity of a European continent that is better able to exert global influence. Our togetherness in the EMU gives us "a greater say in international negotiation" and enhances our "capacity to influence economic relations" – to quote the Delors Report.[2]

Over the past 20 years, the euro has become the second most important currency in the international monetary system. Somewhere between 20% and 40% of global foreign reserves, foreign exchange transactions, international debt and international trade transactions are denominated in euro. And over 50 countries or territories use or link their currency to the euro.[3]

This global standing brings benefits. For one, it lowers the transaction costs of trading internationally, making euro area firms more competitive. It also adds breadth and liquidity to euro area financial markets, allowing domestic and international investors to allocate economic resources more efficiently. And it lowers the cost of global capital market financing for euro area borrowers, including corporations, financial institutions and public entities, thus benefiting firms, households and taxpayers. Of course, the international role of the euro also brings challenges, such as greater exposure to global foreign financial developments and potential changes to the monetary policy transmission process.

The international benefits of sharing a currency go beyond the monetary sphere. In a world with deep economic and financial interlinkages, international cooperation is essential and we can more effectively promote European ideas and interests by speaking together. Indeed, the euro area's voice has been crucial in strengthening the international financial regulatory framework after the global financial crisis. Today, the Single Supervisory Mechanism is the largest banking supervisor globally and successfully contributes to shaping the international supervisory framework.

Since the global financial and euro area debt crises, however, the euro's international role seems to have gradually eroded. While its importance as the currency of invoice for international trade transactions has remained broadly stable, its role in global foreign reserves and global debt markets has declined.

This decline is a symptom of the fault lines in EMU exposed by the crises. Concerns about the resilience of the EMU architecture and about financial fragmentation underpinned this erosion. Indeed, stability, financial depth and liquidity are among the key determinants of an international currency.

European policymakers are now paying closer attention and various calls have been made in recent months for the euro to assume a stronger international role. The Euro Summit of

December 2018 encouraged work to be taken forward to this end.

The international role of the euro is supported by the pursuit of sound economic policies in the euro area and a deeper and more complete EMU. And this requires further efforts along the path of deeper integration.

Completing the Economic and Monetary Union

The past 20 years have revealed beyond doubt how challenging ensuring economic prosperity and stability can be. This was true both inside and outside the euro area.

Nonetheless, these years also demonstrated that such a shared challenge is best faced collectively. To realise in full the benefits of the euro, we need to have the same components that made the euro a reality in 1999.

On the one hand, we need national reforms to promote sustainable economic convergence. Under any monetary system, higher growth potential can only be achieved through continuous reform efforts. As the convergence process is primarily driven by structural factors, this is a key responsibility of Member States.

On the other hand, Europe can make a difference by supporting and facilitating such reform efforts. Our togetherness represents a unique competitive advantage, and we should capitalise on this.

First, we can build on the synergies between EMU and the Single Market. The Single Market is indeed one of the most powerful tools we have to unlock the mechanisms that will raise productivity. In particular, a genuine capital markets union (CMU) would not only ease and diversify access to funds for households and firms, thus fostering investment and innovation. It would also enable risk diversification and thus compensate for temporary drops in activity locally – the so called private risk-sharing –, thereby reinforcing the overall resilience of EMU.

Second, it is essential to complete the projects that we initiated during the crisis, namely the banking union. Together with CMU, a complete banking union would deliver meaningful private risk sharing that is currently lacking in the euro area in comparison to the US.

But private risk sharing, to be effective, needs to be supported by other policies.

We should thus rekindle trust in our economic and fiscal framework, by making it more effective in ensuring sound policy making at national level. These actions can also be further supported at the European level by the recent decisions to launch an instrument for convergence and competitiveness for the euro area.

To tackle future cyclical crises, the two layers of protection against shocks – the diversification of risk through the private financial system on the one hand, and public countercyclical support through fiscal instruments at the national and European levels on the other – need to interact in a complete and efficient manner.

Achieving these reforms is not idealistic, nor utopian if we work together. And at the Euro Summit in December, leaders renewed their political commitment to strengthen EMU. If we want to realise in full the benefits of the euro, we need to capitalise on this commitment and translate it into concrete policy actions.

Conclusion

Mr Chairman,

Honourable members of the Economic and Monetary Affairs Committee, I have used the word "together" several times today. As this is the last time that we will be together in this legislative term, let me add a few words to you personally.

I would like to thank you all for the role that this Committee has played over the past years.

In my first hearing here, I remember saying that was my first exercise in democratic accountability with the European Parliament and how grateful I was for it. Many more would follow and you effectively ensured that the ECB would be accountable and therefore could legitimately be independent in carrying out its monetary policy. But I am also grateful for the support that this Committee always expressed for the actions of the ECB, a sincere support because it built on the voice of European citizens and an important support that helped the ECB through the many difficult times of the past years.

As co-legislators your role was also essential in delivering reforms that further strengthened our Union.

This Committee, and the European Parliament more generally, has been in my experience an attentive interpreter of the demands of European citizens. It is only by doing so that the trust in the legitimacy of the EU's institutions and policies is built, making it possible to achieve a more effective and inclusive Union.

As I have argued elsewhere, citizens demand, and Parliament may help in achieving, a "more perfect Union". A Union that will continue providing its citizens with physical and economic security, while also promoting the values of an open, democratic and peaceful society.

Thank you for your attention. I am now at your disposal for questions.

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[1] See Speech by Mario Draghi, President of the European Central Bank, at the plenary debate of the European Parliament on the ECB's Annual Report 2017, Strasbourg, 15 January 2019.

[2] Committee for the Study of Economic and Monetary Union presided over by Delors, Jacques, "Report on economic and monetary union in the European Community", 17 April, 1989.

[3] See The international role of the euro – Interim report, European Central Bank, June 2018.