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IMFC Statement by Mario Draghi
President
European Central Bank

Statement by Mario Draghi, President of the ECB, at the thirty-third meeting of the International Monetary and Financial Committee, Washington DC, 16 April 2016

The euro area economy is continuing on a path of gradual recovery, notwithstanding an external environment characterised by some further deceleration in economic growth and occasional bouts of financial volatility. But the outlook for euro area growth remains faced with uncertainty, mainly as a result of downside risks to growth prospects in emerging market economies, a clouded outlook for oil prices and their economic implications, and also geopolitical risks. Given the new risks to the outlook for inflation, as well as the materialisation of some of the existing ones, the Governing Council of the European Central Bank has adopted a comprehensive package of monetary policy measures to further ease financing conditions in the euro area, stimulate bank lending and thereby reinforce the momentum of the euro area's economic recovery and accelerate the return of inflation to levels below, but close to, 2%. In order to reap the full benefits of these monetary policy measures, decisive implementation of structural reforms and greater progress towards sustainable and more growth-friendly public finances is necessary. Such a combination of policy actions will not only lead to higher sustainable growth but will also make the euro area more resilient to global shocks. At the same time, this will be the best contribution the euro area can make in terms of promoting strong, sustainable and balanced growth in the world.

The cyclical recovery in the euro area is largely supported by developments in private consumption, and more recently also investment. Real GDP rose by 0.3%, quarter on quarter, in the second half of last year. Recent data provide some mixed signals as regards the near-term outlook. While hard data show some improvement in January and February, survey data for the first quarter are consistent with a somewhat weaker growth momentum. Nonetheless, the economic recovery in the euro area is projected to proceed at a moderate pace. Domestic demand should be further supported by the ECB's monetary policy measures, continued employment gains, the low price of oil and a slightly expansionary fiscal stance. The risks to this growth outlook remain on the downside, however, and relate mainly to the heightened uncertainties regarding developments in the global economy.

Headline inflation has remained low and its profile continues to be shaped by the path of energy inflation. In addition the recent partial unwinding of the past depreciation in the external value of the euro reduces the upward price pressure from the external side. Looking ahead, inflation in the euro area is likely to display slightly negative rates in the coming months before picking up later in 2016. Thereafter, supported by our substantial monetary stimulus and the projected evolution of energy prices and economic developments more generally, euro area inflation rates should recover further. In the current context, it is crucial for the ECB to ensure that the very low inflation environment does not become entrenched in second-round effects on wage and price-setting.

Our monetary policy continues to aim at safeguarding price stability in fulfilment of our mandate. While the monetary policy measures taken since June 2014 have helped supporting the euro area's economic recovery and fighting too low inflation, new shocks that emerged during the course of last year prompted a measurable downgrade of the inflation outlook. Hence, in March 2016 the ECB's Governing Council decided on a comprehensive package of measures that complement and reinforce each other and thereby strengthen the monetary policy impulse. The package combines a further broad-based easing of financial conditions through a further reduction in the ECB's key policy rates and the expansion of our asset purchase programme, with other measures, notably four new targeted longer-term refinancing operations (TLTRO II) that will reinforce the transmission of our monetary policy stance to the borrowing conditions of firms and households. The TLTRO II operations will enable banks to borrow liquidity for a period of four years at a rate that can be as low as the rate on the deposit facility – currently -0.40% – in case these banks increase their lending beyond a certain benchmark. The ECB's asset purchases are being expanded in terms of both size and composition: the monthly purchase volume has been increased from €60 billion to €80 billion and the universe of eligible assets now includes non-bank corporate bonds. Purchases are intended to run until the end of March 2017 – or beyond, if necessary – , and in any case until the Governing Council sees a sustained adjustment in the path of inflation to levels close to 2% over the medium term. Taking into account the current outlook for price stability, the Governing Council expects the ECB's key policy rates to remain at present or lower levels for an extended period of time, well past the horizon of the net asset purchases. We are confident that the very accommodative monetary policy stance will provide further support to the euro area recovery and will accelerate the return of inflation to levels that we consider to be consistent with our objective. The Governing Council has done and, within its mandate, will continue to do whatever is needed to pursue its price stability objective.

Our very accommodative monetary policy stance has provided considerable support for the euro area recovery. By supporting growth prospects, our actions have also been beneficial for financial stability. While accommodative monetary policies over an extended horizon may have unintended consequences for certain sectors in the form of excessive risk-taking and misaligned asset prices, we do not currently see any broad based evidence of excesses in the behaviour of banks and other financial institutions and valuations of euro area asset prices. Moreover, euro area countries are in a position to use macroprudential policies to address imbalances should they arise.

The stability of the euro area banking sector has improved significantly over the past few years. Bank capital and provisions have been substantially reinforced and bank profitability has started to rise again. However, against the background of a moderate economic recovery, this profitability remains low. Structural factors may also be at play. In addition, in some jurisdictions, a high stock of non-performing loans (NPLs) continues to linger as a legacy of the earlier crisis. As this may constrain banks' lending capacity and their ability to build up further capital buffers, determined action is needed. Cooperation among all major stakeholders, including governments, banks, regulators and investors, at national and European level, is necessary in order to make substantial progress in this field. Tailored approaches, based on a thorough understanding of country-specific aspects and in the context of a comprehensive strategy that is led as much as possible by the private sector, are needed. The banking supervision arm of the ECB is working from the supervisory perspective, on identifying best practices that can be adopted by individual banks. Certainly, a decline in NPL ratios will also be facilitated by an environment of stronger economic growth.

In the euro area, such conditions of strong and sustained growth will require the ongoing cyclical recovery to be supported by effective structural policies. In particular, reform efforts need to be stepped up to improve the business environment, which in turn will help increase productivity, employment and growth – and also make the euro area more resilient to shocks. Fiscal policies should support the economic recovery, while remaining in compliance with the European Union's fiscal rules. The full and consistent implementation of the Stability and Growth Pact is crucial to maintaining confidence in the fiscal framework and ensuring the sustainability of public debt. At the same time, all euro area countries should strive for a more growth-friendly composition of fiscal policies, prioritising public investment and reducing the tax burden on labour.

A clear policy focus on the growth agenda will contribute to enhancing confidence and reducing uncertainty about the future. In the case of the euro area, a stronger and more complete Economic and Monetary Union (EMU) will also help improve confidence. The so-called Five Presidents' Report – "Completing Europe's Economic and Monetary Union" – provides a roadmap for how to improve the architecture of EMU. Effectively implementing the enhanced governance framework, completing the banking union, and building a capital markets union to reduce risk and to allow for more private risk-sharing while establishing additional public risk- sharing mechanisms in parallel are some of the key near-term requirements in this regard.

In the longer run, a more perfect EMU will form the basis for a stable, flourishing euro area economy that will not only enable the euro area to tackle challenges in other policy areas, but that will also be to the benefit of global economic and financial stability.