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IMFC Statement by Mario Draghi
President, European Central Bank

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The economic situation and the short-term outlook for the euro area are currently brighter than they have been for several years. Various factors are helping to boost confidence that the weak and uneven recovery experienced up to now will gain strength and breadth. The ECB has pursued its price stability mandate with determination so that inflation will return to a level below, but close to, 2% over the medium term. A strengthened financial sector, an accommodative macroeconomic policy setting, sound fiscal policies and a determination by euro area governments to pursue structural reforms should allow the euro area to embark on a sustainable growth path in a context of price stability.

The ongoing recovery, which started almost two years ago, is now more firmly taking hold. Euro area real GDP rose by 0.3%, quarter-on-quarter, in the last quarter of 2014, driven mainly by domestic demand and especially private consumption. The latest data and survey evidence suggest that the euro area economy has gained further momentum since the end of 2014. Looking ahead, the economic recovery is expected to broaden and strengthen gradually. Domestic demand should be further supported by the ongoing improvements in financial conditions resulting from our monetary policy measures, as well as by the progress made in fiscal consolidation and structural reforms. Moreover, the lower level of the price of oil should continue to bolster households' real disposable income and corporate profitability. Euro area labour markets are gradually improving. Employment continued to grow in the fourth quarter of 2014 and the level of unemployment is continuing to fall gradually from elevated levels. At the same time, the euro area recovery is likely to continue to be dampened by necessary balance-sheet adjustments in a number of sectors and the sluggish pace at which structural reforms are being implemented. While remaining on the downside, the risks surrounding the euro area growth outlook have become more balanced on account of the recent monetary policy decisions, the fall in oil prices and the lower euro exchange rate.

HICP inflation in the euro area turned negative in December 2014 mainly on account of the sharp drop in oil prices observed last year. Looking ahead, inflation is expected to remain very low or still negative in the coming months. However, supported by the favourable impact of the recent monetary policy measures on aggregate demand, and by the impact of the lower euro exchange rate, the base effects that will materialise later in 2015 and somewhat higher oil prices in the years ahead, inflation rates are expected to increase consistently over the short and medium term. The ECB will continue to closely monitor the risks to the inflation outlook. In this context, the Governing Council will focus in particular on the pass-through of our monetary policy measures, as well as on geopolitical, exchange rate and energy price developments.

Our monetary policy continues to aim at safeguarding price stability. Since mid-2014 we have taken a number of both conventional and unconventional measures. Monetary policy measures adopted in the second half of 2014, such as the TLTRO, CBPP3 and ABSPP, had resulted in a material improvement in terms of financial market prices. In January 2015, the Governing Council launched an expanded asset purchase programme to address the heightened risks of too prolonged a period of too low inflation, encompassing purchases in the secondary market of euro-denominated investment-grade securities issued by euro area governments and agencies and European institutions. We intend to purchase private and public securities until end-September 2016. In any case, we will continue the purchases until the Governing Council sees a sustained adjustment in the path of inflation which is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term. In its assessment, the Governing Council will follow its monetary policy strategy and concentrate on trends in inflation, looking beyond any unexpected movement of inflation in either direction if it is regarded as transient and deemed to have no implications for the medium-term outlook for price stability. There is clear evidence that the policy measures are effective, as financial market conditions and the cost of external finance for the private sector have eased considerably over the past months and borrowing conditions for firms and households have improved notably, with a pick-up in the demand for credit.

As regards fiscal policies, we concur with the IMF WEO assessment that the by and large neutral euro area aggregate fiscal stance in 2015 continues to appear broadly appropriate, although it masks significant heterogeneity across countries. Many euro area countries still face significant consolidation challenges in order to reduce high debt ratios and to ensure fiscal sustainability. The flexibility within the Stability and Growth Pact should be used wisely and should not lead to increased debt sustainability risks and making countries vulnerable to economic shocks in the future. Full and consistent implementation of the Stability and Growth Pact is key for confidence in our fiscal framework. We also acknowledge the findings of the IMF Fiscal Monitor that good economic times prevailing before the crisis were not sufficiently used by advanced economies to build sufficient fiscal buffers. It is thus important that euro area countries now make sufficient progress towards their medium-term budgetary objectives.

Regarding structural reforms, important steps have been taken in several euro area Member States, while in others measures still need to be implemented. Product and labour market reforms addressing supply-side bottlenecks, as well as policies aimed at improving the business environment for firms, are crucial to the economic recovery. Bold and effective implementation of reforms is not just in the interest of the individual countries, it is also key for strengthening the resilience and ensuring the smooth functioning of the Economic and Monetary Union and for supporting growth at the global level.

The implementation of the banking union has been a pivotal step in the reform of Europe's financial sector. The new environment for banks, reflected in the better health of the banking system, supports the transmission of our monetary policy and thereby creates more favourable conditions for the real economy, which could in turn support the private sector's efforts to address debt overhangs and impaired corporate and bank balance sheets.

The Single Supervisory Mechanism (SSM) of the ECB has been in operation for just over six months now as the micro-prudential supervisor of all euro area banks and the direct supervisor of more than 120 significant institutions. The SSM is committed to establishing effective and high-quality supervision across its jurisdictions. While respectful of vital business diversity among SSM banks, an even-handed approach supported by harmonised supervisory standards will help to halt the fragmentation and underpin the reintegration of the euro area banking sector. The ECB is looking closely at the scope for rolling back national options and discretions in order to foster regulatory harmonisation. Within the newly created banking union, the SSM has launched various initiatives to incentivise banks to reduce NPEs and to implement viable restructuring practices, as well as to achieve consistency in provisioning and realistic collateral valuation in line with accounting rules.

The successful completion of the comprehensive assessment improved transparency in an unprecedented way and boosted the strengthening of banks' balance sheets. It thereby increased confidence in the European banking sector. Remedial actions for shortfall banks have to be completed by end-July. Supervisory priorities defined for 2015 aim to scrutinise the sustainability of banks' business models in a low-profitability environment, the adequacy of their risk cultures and governance structures, and their resilience to unexpected shocks. All of this should put the banks in a better position to increase their lending to the real economy.

The second pillar of the banking union, the recovery and resolution framework complementing the SSM, has also seen substantial progress since our last IMFC meeting: as of 1 January 2015, the Single Resolution Mechanism (SRM) has been in place. The Single Resolution Board will start exercising its full set of responsibilities from next January onwards. The Single Resolution Fund is set to start operating in January 2016 and ensure that failing banks are resolved in an orderly fashion so that costs for taxpayers and the real economy are kept to a minimum.