



EUROPEAN CENTRAL BANK

EUROSYSTEM

**European Economic and Social  
Committee**

**Section for EMU and Economic and Social  
Cohesion**

**“The Deepening EMU Package: What’s  
next?”**

**26 January 2016**

**The ECB’s role in a  
balanced policy-mix to  
sustain European recovery  
and promote growth in EMU**

**Frank Moss**

**Director General International and European Relations**

Unchanged message for quite some time

**“Without determined structural reforms, aggregate demand measures will quickly run out of steam and may ultimately become less effective....The way back to higher employment is a policy mix that combines monetary, fiscal and structural measures at the union level and at the national level.”**

Mario Draghi, Jackson Hole, 22 August 2014

**“Monetary policy is focused on maintaining price stability over the medium term and its accommodative stance supports economic activity. However, in order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively.”**

Mario Draghi, Introductory Statement, 21 January 2016

# The ECB's monetary policy in the post-Global Financial Crisis world...

**Conventional** and **unconventional** measures contribute to

- safeguarding **price stability**, and
- supporting the **general economic policies in the Union**.

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Reduction in **main policy rates** counteracts downside risks to price stability

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**Non-standard measures**

To address impairments in monetary policy transmission in the euro area as a whole

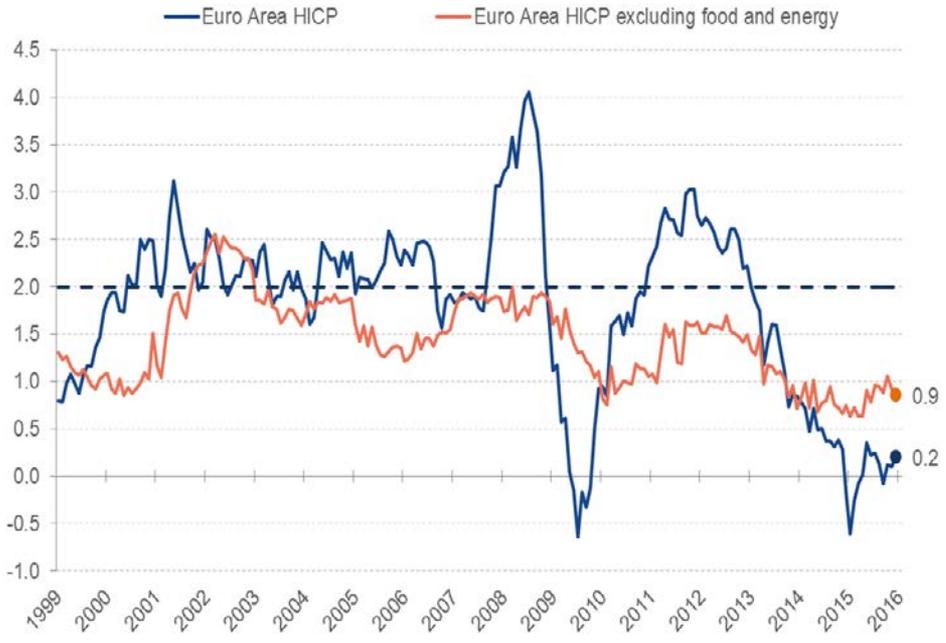
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To allow for further loosening (when the effective lower bound for policy rates is reached)

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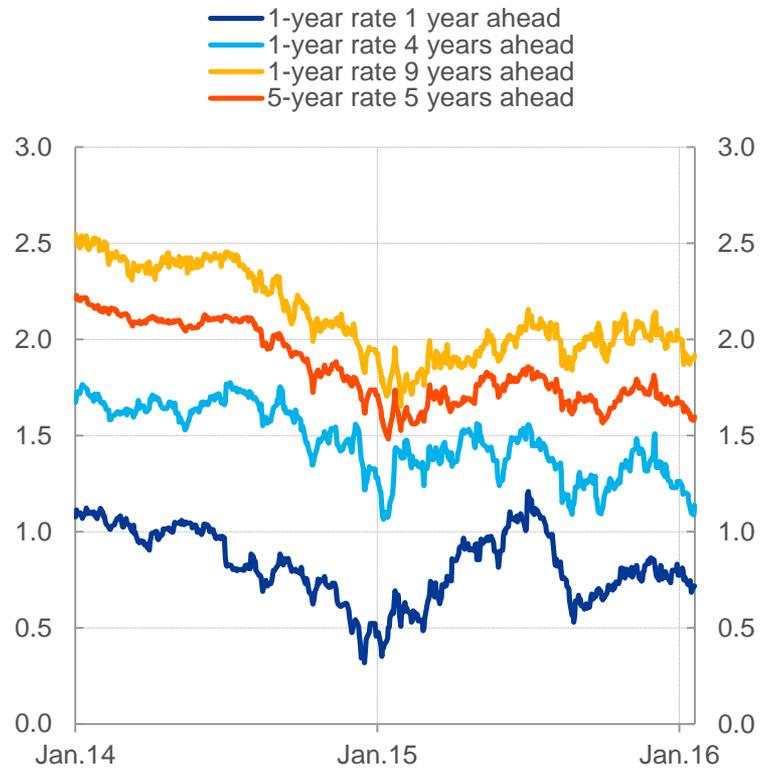
... generated stabilising effects on inflation and inflation expectations

### HICP and HICP excluding energy and food (annual percentage changes)



Source: Eurostat.  
Latest observations are for December 2015.

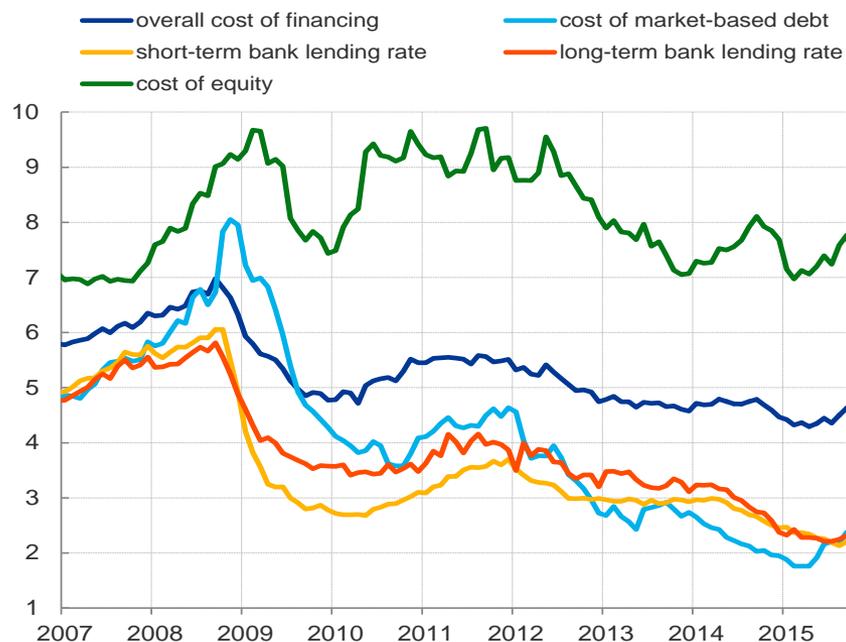
### Forward inflation swap rates (percentages per annum)



Sources: Thomson Reuters and ECB calculations.  
Last observation: 19 January 2015.

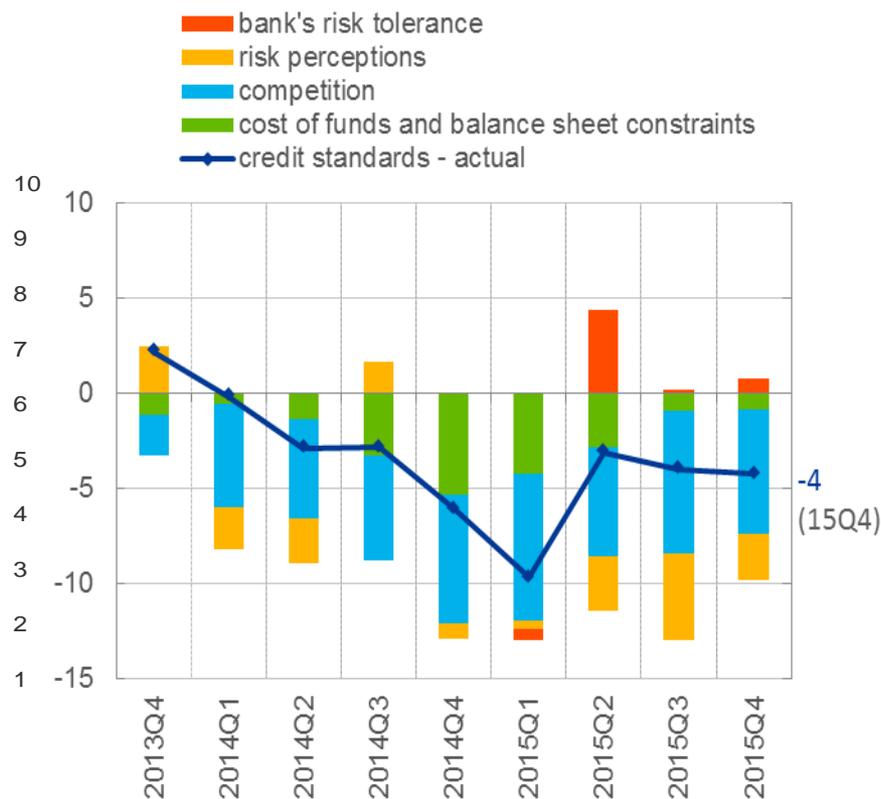
# ...and positive effects on the cost and availability of credit

## Nominal cost of external financing for NFCs (percent per annum)



Sources: ECB calculations, Thomson Financial DataStream, Merrill Lynch. Latest observations: Overall cost and lending rates refer to October 2015. Cost of market-based debt and cost of quoted equity refer to 30 November 2015. Last observation for the overall cost of financing is generated on the basis of a now-cast, conditioning on a large set of financial variables. The overall cost of financing for NFCs is calculated as a weighted average of the cost of bank lending, the cost of market-based debt and the cost of equity, based on their respective amounts outstanding derived from the euro area accounts.

## Net easing of credit standards for loans to NFCs and contributing factors (net percentages)

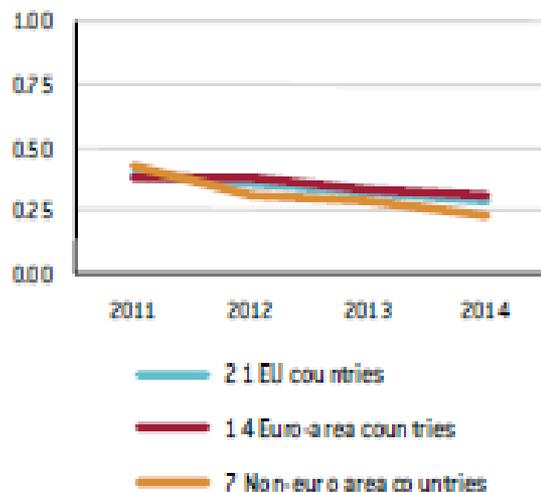


Source: Eurosystem BLS. Latest observation: 2015 Q4.

# But monetary policy must not be overburdened

The fiscal room for manoeuvre is small but underutilised; and structural reform implementation poor

Figure 1: European Semester reform implementation index



Implementation of country-specific and OECD going for growth recommendations. 1 = full implementation

source: [Bruegel](#)

## A more balanced policy-mix calls for

Fiscal policies

Fiscal consolidation

Use of fiscal space

Growth-friendly composition

Structural policies

Foster productivity (labour- and product market policies)

Better conditions for investment

Euro area rebalancing

The euro area as a common destiny must be a happy destiny

**“The long-term coherence of the euro area depends on each country in the union achieving a sustainable high level of employment. And given the very high costs if the cohesion of the union is threatened, all countries should have an interest in achieving this.”**

Mario Draghi, Jackson Hole, 22 August 2014

**“A complete EMU is not an end in itself. It is a means to create a better and fairer life for all citizens, to prepare the Union for future global challenges and to enable each of its members to prosper”**

Five Presidents' Report, June 2015

# Towards a better functioning EMU

**The benefits of further reducing policy weaknesses are obvious:**

- 1) They will benefit countries individually**
- 2) They will benefit the euro area as a whole given countries' interdependence in a monetary union**
- 3) They will pave the way for lowering risks and increasing confidence-building among national policy makers as a stepping stone/precondition for further risk sharing in EMU**

# Frameworks for a better functioning EMU

## Financial

- **Implement fully the first 2 pillars of Banking Union**
- **Complement with the third pillar of Banking Union**
- **Strengthen the Single Market with a Capital Markets Union**

## Fiscal

- **Practice the SGP and thereby create policy buffers for future shocks (EFB can be of help)**
- **Improve composition/quality of public finances**
- **Develop a euro area fiscal capacity**

## Economic

- **Strengthen implementation of the MIP to boost economic resilience**
- **Enhance competitiveness by fostering structural flexibility (Nat. Comp. Author. can be of help)**
- **Promote best practices to achieve higher potential growth in common**

## Concluding messages on a more perfect EMU

- **A better functioning European financial system**
- **More ambition on the part of national fiscal and structural policies**
- **Better implementation of European policy frameworks in these domains will all lead to better effects for our monetary policy, better growth outcomes, and stronger resilience of the euro area**
- **In the face of a more adverse external environment, the case for deciding more in common on economic policy choices, which in any case are already interdependent, becomes even stronger**
- **A move towards a joint exercise of sovereignty over economic policy making is therefore inescapable if we want a sustainably well-functioning EMU**

**Thank you for your attention!**

For further questions:

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