1-001

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI,
PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) of the Treaty on the Functioning of the European Union)
BRUSSELS, MONDAY, 16 DECEMBER 2013

AUSSCHUSS FÜR WIRTSCHAFT UND WÄHRUNG
WÄHRUNGSPOLITISCHER DIALOG MIT MARIO DRAGHI,
PRÄSIDENT DER EZB
(gemäß Artikel 284 Absatz 3 des Vertrags über die Arbeitsweise der Europäischen Union)
BRÜSSEL, MONTAG, 16. DEZEMBER 2013

COMMISSION ÉCONOMIQUE ET MONÉTAIRE
DIALOGUE MONÉTAIRE AVEC M. MARIO DRAGHI,
PRÉSIDENT DE LA BCE
(conformément à l'article 284, paragraphe 3, du traité sur le fonctionnement de l'Union)
BRUXELLES, LUNDI 16 DÉCEMBRE 2013

1-002

IN THE CHAIR: SHARON BOWLES,
Chair of the Committee on Economic and Monetary Affairs

1-003
(The meeting opened at 15.10)

1-004
Mario Draghi, *President of the European Central Bank***.** – Madam Chair, honourable members of the Committee on Economic and Monetary Affairs, it is a pleasure for me to be back in your committee at such a decisive moment. The next days and weeks until the end of this legislature will show whether the euro area will be able to take another key step towards banking union. I believe your institution can play a crucial and constructive role in ensuring that this next step will entail a truly European dimension.

This is also the last time that I will discuss with you in detail matters related to the Single Supervisory Mechanism (SSM). Pending the appointment by the Council, Danièle Nouy will become the Chair of the Supervisory Board as of 1 January 2014. She will then also become your primary interlocutor with regard to the SSM.

Today, I will first review recent economic and monetary developments in the euro area. I will then explain in greater detail our more recent monetary policy decisions and will present the progress in the preparations of the SSM.

Since our meeting in September, incoming information has confirmed the ECB's assessment that underlying price pressures remain subdued over the medium term. The economic recovery in the euro area is fragile. Real GDP in the euro area expanded in the last two quarters: from July to September, it grew by 0.1% – quarter on quarter – following 0.3% in the second quarter of this year. Developments in survey-based confidence indicators up to November point toward a modest growth rate also in the last quarter of the year. At the same time, unemployment remains high. Necessary balance sheet adjustments in financial and non-financial sectors continue to weigh on economic activity.

Looking further ahead, we expect output to continue to recover at a slow pace. This is in particular due to some improvement in domestic demand supported by our accommodative monetary policy. Euro area activity should, in addition, benefit from a gradual strengthening of demand for exports. Moreover, the improvement in financial market conditions and reduced uncertainty seems to be gradually transmitted to the real economy. Finally, the progress made in fiscal consolidation has strengthened the confidence of markets in the resilience of the euro area. This should also positively affect the recovery.

Nevertheless, the risks to the outlook remain on the downside. They are mainly related to uncertain developments in global economy and financial market conditions. Higher commodity prices, weaker than expected domestic demand and export growth, and

insufficient structural reforms in euro area countries could also negatively affect economic conditions.

Annual HICP inflation increased in November to 0.9%, according to Eurostat's flash estimate, following an unexpectedly strong decline in October to 0.7%. Underlying price pressures in the euro area are expected to remain subdued over the medium term. We might experience a prolonged period of low inflation to be followed by a gradual upward movement towards inflation rates below, but close to, 2% later on. This reflects the modest pace of the recovery and the fact that medium to long-term inflation expectations continue to be anchored in line with price stability.

Monetary and, in particular, credit dynamics remain subdued. The annual growth rate of loans to the private sector has stabilised, but at negative levels. Weak loan dynamics continue to reflect primarily the current stage of the business cycle, credit risk and the ongoing adjustment of financial and non-financial sector balance sheets.

Based on this assessment of the current economic outlook, let me now explain in greater detail our more recent monetary policy decisions. In July this year we introduced forward guidance to clarify the orientation of our monetary policy going forward in an exceptionally uncertain environment; we stated that we expected key interest rates to remain at present or lower levels for an extended period of time. This statement was conditional on an overall subdued outlook for inflation extending into the medium term, which is currently the case, as I have just explained.

In line with our forward guidance, we decided in November to lower the key ECB interest rates further. The interest rate on the main refinancing operations was lowered by 25 basis points to 0.25% and the rate on the marginal lending facility by 25 basis points to 0.75%. The rate on the deposit facility was left unchanged at 0.00%.

Our forward guidance still remains in place: we continue to expect ECB key interest rates to remain at present or lower levels for an extended period of time. Thus, monetary policy will remain accommodative for as long as necessary.

Adjusting interest rates is not always sufficient to maintain price stability. When I speak about price stability, I mean price stability in both directions. In this crisis, interest rate cuts have been transmitted more slowly and unevenly across euro area countries due to the fragmentation of financial markets. To address this problem, we adopted in recent years a series of non-standard measures. The purpose of these was – and remains – a more effective transmission of the ECB's interest rate cuts, so that our monetary policy can reach companies and households throughout the euro area.

This was also the purpose of our decision in November to continue conducting all our refinancing operations as fixed rate tender procedures with full allotment at least until July 2015. Thus, we have helped to alleviate funding concerns of banks, which are still hesitant to lend to households and firms.

Two years ago, we provided funding support to euro area banks through two long-term refinancing operations with a maturity of three years each. As the funding situation of banks has improved significantly since then, banks have this year opted to repay about 40% of the initially outstanding amount. Accordingly, excess liquidity in overnight money markets has been gradually receding. We are monitoring the potential impact of these developments on our monetary policy stance. We are ready to consider all available instruments.

As usual, it takes time before our policy decisions work their way through financial markets and affect the economy. The November decisions on interest rates, on forward guidance and on prolonging full allotment in all refinancing operations are working their way through the economy.

Financial markets have taken up our conditional commitment to an accommodative monetary policy stance for an extended period of time. Money market term interest rates and yields on bank bonds declined.

On the other hand, we are fully aware of the downward risks that a protracted period of low inflation entails. Consistent with its forward guidance, the Governing Council is ready and able to act if needed, as I mentioned at the most recent press conference.

Furthermore, we currently see no signs of risks of financial imbalances related to the low interest rate environment. What we observe is still a very subdued trend in monetary and credit developments in the euro area.

Nevertheless, if we were to observe the build-up of such imbalances, this would be the field where macro-prudential authorities would have to intervene with market-specific instruments. Local risks have to be addressed by local instruments. This is why supervisory authorities, including the SSM, are now being equipped with the appropriate micro- and macro-prudential policy tools. I am confident that these will be used if necessary.

Let me now update you on the latest developments establishing the SSM, which are well underway.

Our internal preparations aim at ensuring that the ECB will be ready to assume its supervisory responsibilities in November 2014. We will make sure that the ECB's monetary policy mandate focused on price stability will not be affected by considerations and decisions related to banking supervision. Internal rules are therefore being developed for the separation of monetary policy and supervisory functions. The units involved in decision-making will be clearly separated. We are putting in place an organisational set-up whereby the information flow between the two functions will be limited to a 'need to

know' basis. However, we will avoid unnecessary duplication of structures not involved in the decision-making process. This is cost-efficient, and I am sure you will appreciate this.

As regards recruitment of staff, I can say that the process for senior and middle managerial positions is well underway. Further recruitment initiatives will start in due course.

An important element of our preparations is the comprehensive assessment, which comprises a supervisory risk assessment, an asset quality review and a stress test performed in cooperation with the European Banking Authority (EBA). This exercise will increase transparency by enhancing the quality of information available. It will facilitate the repair of the sector by identifying the necessary corrective actions. And it will build confidence by assuring all stakeholders that banks are fundamentally sound. It will be concluded shortly before the ECB assumes supervisory responsibilities.

The ECB convened a series of meetings in November in Frankfurt with the banks that will undergo the comprehensive assessment. These meetings were positively received and provided the useful opportunity to have a first exchange of views, to receive feedback on our communication, and respond to questions. We also explained that we would welcome prompt action from the banks, beginning now, to strengthen their balance sheets including profit retention and equity issuances.

Other elements of the comprehensive assessment are ongoing. The process for the selection of asset portfolios to be reviewed for the asset quality review was initiated in November, based on specific data collections. Furthermore, we expect to announce the key parameters of the stress test exercise together with the European Banking Authority (EBA) towards the beginning of next year.

In this context, let me explain again the treatment of sovereign bonds. The Asset Quality Review is a valuation exercise where we will apply the current regulatory framework. It is not for us to change this framework – this is a global discussion, and the Basel Committee is the right forum for it. That said, we will of course 'stress' a wide range of assets as part of the stress tests: sovereign bonds will be among them.

To ensure the credibility and rigour of the comprehensive assessment, backstops should be well specified and in place as soon as possible. The pecking order should be first private sources, then national public backstops and, as a last resort, European instruments.

Turning now from supervision to resolution, I understand you have reached agreement with the Council on the Bank Recovery and Resolution Directive. Let me again strongly welcome this agreement, as it is an important step towards the completion of the Banking Union.

However, for the credibility of the Banking Union, another step must be taken too. The SSM needs a strong and credible Single Resolution Mechanism as its counterpart. Responsibilities for supervision and resolution need to be aligned at the European level. Thus I urge you and the Council to swiftly set up a robust Single Resolution Mechanism, for which three elements are essential in practice: a single system, a single authority, and a single fund. We should not create a Single Resolution Mechanism that is single in name only. In this respect, I am concerned that decision-making may become overly complex and financing arrangements may not be adequate. I trust that the European Parliament, together with the Council, will succeed in creating a true Banking Union.

(Applause)

1-005

Chair. – Thank you very much. I think the Parliament will very much share your view on the SRM, as we do on many things.

1-006

Pablo Zalba Bidegain (PPE). – I have questions concerning two different but clearly related topics.

Mr Draghi, I have two questions concerning small and medium sized enterprises: are you satisfied with the impact which the measures adopted to date by the ECB have had on access to credit by SMEs? Because with each month that passes, we are seeing that in in some countries SMEs are finding it increasingly difficult to access credit.

We have read in the press that a debate seems to be taking place within the European Central Bank about non-standard measures to facilitate access by these types of enterprise, along the lines of those adopted by the Bank of England. Is this debate really taking place within the ECB?

And another question, about the single resolution mechanism: you have said that it has to be strong and credible; from your words, should it be gathered that the agreement adopted by the Council last week was neither strong enough nor credible enough? If that is the case, do you see any space for manoeuvre at this week's Ecofin within which to improve the agreement? What are your expectations in this respect?

1-007

Mario Draghi, *President of the European Central Bank***.** **–** The question you asked about SMEs has been a question which has now been with us for more than a year, but with the two LTRO operations that we launched two years ago we certainly addressed the major uncertainties and the major risks for the banking system and the economy as a whole at that time. We have not forgotten that there was a very significant and dramatic hump in bonds being due in the first quarter of that year, with more than 230 billion bank bonds being due and more than 300 billion commons bonds being due exactly at that time and we addressed that. And then we had to witness a very slow process whereby this money would actually find its way through the economy. Regarding

questions such as why we are not doing the same as in other countries, namely funding for lending schemes, let me say that the funding for lending scheme has three features: a broad system of collateral, a wide set of counterparties and liquidity term funding.

These three features were present in the original LTRO. In the LTRO we told the banks that they could use the loans that they were making to their clients as collateral in borrowing from the ECB. So, in a way, we have already linked the funding with the use of collaterals. Since then the point is whether we can do more than that, and it is very difficult. We are thinking about this and we have been reflecting about this but we all should be aware of the operational complications that arise from running a scheme like this in 17 – soon 18 – different countries as compared to running a scheme like that in one country only.

So we are certainly in favour of making sure that this money reaches the real economy and does not stop in the banks or in the banks buying government bonds only. But I should not underplay the fact that it is a complicated scheme and we will certainly continue to think about that.

On the second point, you asked me about my expectations. More than expectations, I think the SSM needs an SRM as its fundamentally important other part. Therefore the continuation of the construction of a banking union is absolutely essential, and also in terms of the market perception it is absolutely essential that a good agreement on the SRM be found by the next Ecofin.

1-008
Elisa Ferreira (S&D). – Thank you very much for being among us once more and for your work to defend the euro and eurozone. I have three short questions.

The first is on SRM. I am the rapporteur and I completely share your message, but I would like to know whether you can guarantee that the SSM will not end up confirming a two-tier approach to banks. If there is a two-tier approach in SSM then we are opening the gate for a very non-single SRM system.

My second question is about the ESM. When we started the discussion of SSM it was promised that the ESM would end up directly recapitalising the banks. This did not happen because the system is still based on a guarantee from the Member States which prevents the objective of separating sovereign debt from bank debt being achieved. It is not achieved there, as it is not achieved when you try to stimulate the economy through the banks. You will not have that availability because it is not being transferred. Probably this requires a new approach to the issue but my precise question is about what the role of the ESM should be.

My third question is as follows. You now desperately need demand and investment but one of the issues on which I do not agree with the role of the ECB is as a member of the troika. The troikas have been very strong agents of the pro-austerity stance. Now some countries that completely followed this recipe are in the last stage of the adjustment programme. What is next? What kind of lessons do you take from your participation in the troika concerning the transition programme and what kind of conditionality is engaged in this transition programme, if it happens?

1-009
Mario Draghi, *President of the European Central Bank***.** **–** On the first question, no: there is no two-tier system. All banks are subject to the same supervision by the ECB and by the SSM. The difference between those banks that are on the list and those that are not lies in the implementation: the degree of centralisation and direct reporting to the centre. But in principle this system will apply to guarantee a completely level playing field to all banks in the euro area.

The implementation for the smaller banks will see a greater presence of the national competent authorities, but according to a centralised rulebook, so there is no two-tier system. On the ESM, let me refer to the conclusions of the Ecofin Council meeting of 15 November. There it is spelled out that if national backstops – first of all you have the private source of funding, second you have the national backstops – are not sufficient, you have the instruments in the euro area and the EU that will be used as appropriate. First the ESM can, through its normal procedures, provide financial assistance for the recapitalisation of financial institutions in the form of a loan to a Member State, as was done in Spain.

Second, the direct recapitalisation instrument, with its EUR 60 billion ESM exposure limit, could also be used when adopted according to euro area and national procedures in line with the June 2013 Euro Group agreement, following the establishment of the SSM. These are the conclusions of the Ecofin Council of 15 November 2013.

On the third point you raised on fiscal austerity, first we should not forget what the situation was when the first programmes were designed. It was a situation of great and dramatic uncertainty, with spreads on government bonds which were several hundred points higher than they are today and which were quickly strangling the economy. We may well say that the real recession started at that time.

So the programmes took shape during that period. Frankly, if we look at exactly what happened in Portugal when, at some point a few months ago, the programmes seemed to be uncertain because of certain pronouncements by courts, the immediate reaction of the market was dramatic, penalising Portuguese government bonds immediately. So to say that the troika programmes were poorly designed is probably not correct, given what was happening at that time.

The question is, what now? The first thing the ECB has always said is that you should not unravel the progress that countries and governments have made so far. Do not unravel this progress. Secondly, adapt the fiscal consolidation to be more growth friendly, namely a fiscal consolidation based on higher government expenditure for capital infrastructure, lower government expenditure on current government expenditure and lower taxation. Thirdly, undertake structural reforms because these are the only ones that can generate growth in a sustainable fashion. If there is one lesson we have learned – and I have repeated this several times – it is that there is no sustainable growth that can be generated out of an endless creation of debt. For that matter there is no sustainable equity that can be generated out of an endless creation of debt.

1-010
Wolf Klinz (ALDE). – I would also like to come back to the situation in some of the countries that are still having difficulties. You were quite outspoken when it comes to the need to implement reforms and structural changes in countries like Italy and France, for instance, but so far not much has really happened. So I am wondering whether neither you nor the Commission really has enough influence to make these countries act. The only force that really makes them act is the market, as we have seen in the case of Silvio Berlusconi. When the rates went up all of a sudden, he did act, all of a sudden – too late, but still – for three days, then he revoked his decision and eventually he had to leave.

My question is whether the policy that the ECB has followed, namely to offer the banks low-interest money, cheap money – which they have used, for instance, in Italy and in other countries, to buy a lot of bonds – is not counterproductive? If that had not been possible, market forces would have probably already put such pressure on the governments that they perhaps would have acted by now. Right now they do not.

My second question is that one of your – I should not say senior because he is still a young man – directors, Mr Asmussen, has announced that he is leaving. I am not a member of his political group but I still deplore this because I had the impression that he was quite an effective member of your team. From the outside I also had the impression that he got along with you reasonably well, maybe even very well. So my question is – and I am not speculating about his reasons, whatever he says – what impact will his departure have? Will this possibly lead to a reorganisation of responsibilities among your directors? One advantage will be – and my friend to the left will of course be jubilant – that you will have a woman. That is for sure. So in that respect Parliament is happy. My last point is that Asmussen was one of the first to raise the question of whether or not the ECB should publish minutes. I think the discussion has become rather intense. So the question is, do you see a chance that you will change your policy with regard to minutes?

1-011
Mario Draghi, *President of the European Central Bank***.** **–** The first question, whether ECB policies have decreased the incentives that governments had to reform themselves, is an important one. You can imagine that we have asked ourselves this question several times. In a sense it is counterfactual. It is what I call the 'heroes of the counterfactual' when I am asked this question because, when we acted – and I think this is universally acknowledged – there were serious redenomination risks, which is a euphemism for saying that there was a lot of scepticism on the capacity of the euro to survive. So we acted and I think we have successfully addressed that problem.

Second, when we look closely at the relation between market interest rates and incentives to reform, I think we have to distinguish between their different situations. Do you really think that a country would change its electoral law because interest rates are a couple of hundred basis points higher? Do you think that a country would actually change its educational system or its judiciary because interest rates are higher? It seems implausible. What it admittedly could change are certain things which are intimately linked with the budgetary process. For example, it could be said that austerity savings could follow such a link, but regarding the real structural reforms, do you think that a country would really change labour market legislation because of interest rates? I think this would probably be unlikely. So that is the sort of thing, but we keep this dimension in mind. We are extremely sensitive because we certainly want to achieve this: our first and foremost target is that countries undertake structural reforms. So, at that point in time, it seemed to us that the general uncertainty – the dramatic uncertainty that was prevailing in the euro area – would overcome this other consideration, but since then we have of course been looking intensely at countries that definitely have to do this. As I said before, there is no sustainable growth without undertaking these reforms. It is certain that a hundred basis points cut in interest rates would not generate sustainable growth without structural reforms. So I am with you on that.

Let me say that Jörg's departure really is a tremendous loss for the Board and for me personally. We got along very, very well. He was a precious collaborator. We have known each other for between 15 and 20 years in different capacities, and his contribution to the work of the Executive Board and the ECB has been invaluable. So I can only say that and, of course, wish him the very best. We will certainly miss him a lot.

The only thing that I can say now is that his replacement should be appointed as soon as possible. We definitely need a very quick reaction by the Council and, of course, then by the European Parliament as soon as possible because we need to complete the Board, at a time when the Board is really undergoing an enormous amount of activity, both through our normal economic policy-making and the preparation of the SSM and the AQR, and so on and so forth. So it is a time when we cannot really afford to operate without a member.

Jörg was one of those who started the discussion on the minutes. There are some Board members who care about this – me included – but it is not an easy issue. We want

to have an account of our meetings but the discussion is more complicated than we expected because we have to balance on the one hand the desire to be even more transparent – and by the way I think we are very transparent already compared with other central banks but we could easily be more transparent – with the need at the same time to preserve the national independence of the different members of the Governing Council so as not to put these members under national pressure to vote in favour of their own vested interests rather than in favour of the euro area as a whole.

1-012
Peter van Dalen (ECR). – I have two questions.

Firstly, each country in the eurozone is convinced that it is necessary to reduce debts, and steps are also being taken to do so. Both in public and in private, debts are being reduced. That naturally does have one effect – it creates the danger of deflation. My question therefore is: what instrument will the ECB use if a further deflationary element arises in the eurozone? The interest rate which banks have to pay to the ECB is already virtually zero, so I assume that the ECB will then deploy an unconventional instrument, namely buying up bonds. The specific question then, of course is: from which eurozone countries will the ECB then still buy up bonds?

Secondly, the German weekly magazine *Der Spiegel* recently published an article on the ECB's valuation of Italian zero coupon bonds, also known as 'strip bonds'. The ECB assigned these government bonds the highest rating on the basis of the evaluation by the credit rating agency DBRS. However, DBRS long ago ceased to rate any strip bonds in Europe. I should like to know, therefore, how it is possible that the ECB nonetheless gave these strip bonds such a high A rating, despite the fact that the rating agency itself has stated that it has not assigned them such a rating for a long time. It was also strange that, when *Der Spiegel* continued to put questions to DBRS, the agency at this second stage refuse to answer any more questions, although initially it had contributed to the production of that article. Thus it seems that the ECB has intervened, and I should be interested to hear why it did so and why it is prohibited to give any further information to journalists.

1-013
Mario Draghi, *President of the European Central Bank***. –** Let me immediately be clear on the second question. In that case the application was no different from any other case. No special measure was used for Italy or for any other country. These are the rules of the ECB and that is it.

On the first point you raised, on deflation, we do not see deflation in the sense defined as that self-fulfilling drop in prices whereby people postpone their expenditure plans because they think that prices will fall, and therefore prices fall. We do not see that. We do not see a generalised fall in prices across commodities and countries. We do not see a situation like the one in Japan. We asked ourselves whether we were in a situation like Japan and we looked at the differences. The differences are essentially that medium to long-term inflation expectations are firmly anchored in our case while they were not in the Japan of the end of the 90s and early 2000s.

That is one reason. The second reason is that the monetary stimulus in our case has been much stronger than it was in Japan at that time. The third reason is that, frankly, the situation of the banks and the private sector in Japan at the end of the real estate bubble of the late 80s and the early 90s was, by all accounts, much worse than it is in Europe today. The fourth reason – one of the most important – is that we are actually going to undertake the AQR and the stress tests of our banking system at a very early stage; this did not happen in Japan for a long time. We should keep one thing in mind, namely that monetary policy, in order to have its effect on prices and output, has to be transmitted and this takes a certain amount of time. I often say that it takes a while before our monetary policy gets transmitted to the real economy. The speed with which monetary policy is transmitted depends on how healthy the banking system is. The healthier the banking system, the quicker the transmission channel will be. This is another comparison with the Japan of that time and that is why AQR will actually speed up the transmission speed between the monetary impulse and the real economy.

Other than that, I think we have plenty of instruments to cope with deflation. As I said, we do not see this risk now, but we are certainly very well aware that to have inflation at a low level – way below the 2% – for a protracted period of time entails considerable downside risks. We are very well aware of that and we are ready to act on that front.

1-014
Sven Giegold (Verts/ALE). – President, welcome back here. I have two quick questions.

Firstly, the loss of Mr Asmussen on the Board also means that you are losing a very rare animal in Germany, namely someone who has defended the OMT programme vis-à-vis the German public. Despite this defence, the image of the ECB in Germany has suffered in recent years in public opinion, so what is your strategy for filling this gap? One thing is already clear: it will be very difficult to find a highly qualified German woman who will be on your side on OMT.

Secondly, concerning the SRM, I would like to know if you could be a bit more specific. In which respect does the current Council text not correspond to the truly European and effective instrument you were demanding?

1-015
Mario Draghi, *President of the European Central Bank***. –** As I said before, we – and I personally – are going to miss Mr Asmussen on the Board. Regarding what you said about the image of the ECB, we run the monetary policy for the whole of the euro area and I think the OMT as such is universally recognised to have been an extremely successful measure. I am sorry that in

Germany some people may not agree with this, but the fact is that it is recognised worldwide to have been successful.

I really hope that the successor to Mr Asmussen will have all the qualities that he had, and many more depending, of course, on how he or she will be utilised and what kind of tasks he or she will have. It is not up to me to choose the successor to Mr Asmussen, it is the responsibility of the Council. The Council knows two things: that the successor has to be competent, professionally appreciated with high professional skills; and that the process must begin soon. That is the key thing. It has to be done soon because we all know that the procedures are lengthy and have to go through several stages. If it is done soon the succession problem will have been resolved and the Board will be complete again and able to cope with the many challenges ahead in the coming year.

On the SRM, the ECB agrees with the concept of having one authority, one concept and one fund, so that is OK from that viewpoint. There is one other aspect where we would like to see the two stages of the process clearly separated. The assessment by the supervisor of the non-viability of a certain bank ought to be clearly separated from the SRM decision about what to do about this non-viable bank. At the moment there is a certain mingling of responsibilities whereby the SRM might also have a say in the non-viability of a bank. Where these things are well done, the two things are completely separate. Any resolution authority will have certain incentives about protracting the whole process. In any event, for anybody who has done this in real life he or she should know one thing: these things must be done instantly. There is a point of non-viability where the supervisor states that a certain institution is non-viable. After that statement any transaction that is made potentially falls under bankruptcy law and under criminal proceedings. These things must be decided immediately because, if you have lots of people thinking that the bank might become unviable, but it has not been stated that it is unviable, you are going to have a very messy situation to manage in the years to come. That is why whatever mechanism is put in place should work. One cannot have hundreds of people consulting each other on whether a certain bank is viable. My worry here is whether the mechanism that emerges is actually workable.

1-016

Nikolaos Chountis (GUE/NGL). – Mr President, while my question is prompted by the situation in Greece, I consider it of relevance to the entire European Union, particularly the south. As a result of harsh austerity measures imposed by the troika, of which you are a member, earnings in Greece have fallen by over 50%, accompanied by a record 12% slump in Greek export figures, notwithstanding numerous market reforms intended to eliminate barriers to the provision of services and goods. This has been accompanied by a 5% fall in industrial output, with unemployment rising to 30%. While European Central Bank interest rates are falling, 60% of Greek companies are cutting back on investment and only 25% have access to liquidity. As a result, many large companies in Greece and presumably southern Europe are relocating to northern Europe in search cheaper credit. In the south, households and businesses are unsuccessfully struggling to cope with the burden of constantly increasing interest rates, in contrast to northern countries such as Germany, which are reducing them and thereby attracting all available capital and investment.

As we have already pointed out, the troika has failed in its attempts to support SMEs in Greece through NSRF initiatives.

The question thus arises as to how to achieve within the European Union the balance of which you speak. How will you stem the flow of investment and business activity towards northern Europe and Germany in particular, now that the south has been plunged into recession and unemployment?

1-017

Mario Draghi, *President of the European Central Bank***. –** I think there is only one answer to your question. We have to fight fragmentation. Since last year we have made significant progress in fighting fragmentation from the funding side. Banks now fund themselves at rates that differ across the area, as they should according to risk-based considerations, but they do not differ by as much as they used to a year or a year and a half ago. In fact now, if we compare the dispersion between interest rates that banks pay for funding themselves out of deposits, the dispersion is, by and large, at the level it was in 2007. So with regard to funding via deposits, the fragmentation is gone. However, banks fund themselves through other channels, like bond issuance, and there we still see significant differences in costs.

On the lending side, fragmentation is still present. On the lending side, banks charge rates that differ greatly between north and south, and the conditions of credit are also very different. There too we have seen improvements, but to a much lesser extent. On the positive side we have seen – and I think I hinted at this in my introductory statement – that the flow of credit, which does, however, remain subdued, appears in the latest data to have stopped worsening. So it is still decreasing, but it has stopped going down in terms of negative rates. I am pretty confident that, as the economy starts recovering, we will also see some of these problems gradually disappear, but two steps are absolutely crucial for reducing fragmentation. One is the entry into force of the SSM. Let us not forget that one component, one cause of fragmentation (not the only one) was that, all of a sudden, citizens in different parts of the euro area started mistrusting the banks in other parts of the euro area. So at some point there was a collapse of trust in the euro area, which was based on national borders. The SSM – the one supervisor which would guarantee a level playing field in supervision across the area – should help to overcome this lack of trust. The second mechanism is certainly the SRM. The fact that you have in place one system which can resolve banks in exactly the same way across the euro area is another additional component.

So there are basically three factors. As we see the economy improve, the risk aversion which is higher in the south should also decline. In fact we have observed a marked improvement in the south, including in Greece. The second point is the SSM entering into force, and the third point is the Single Resolution Mechanism. The more we move forward towards banking union, the more we sever the link between sovereigns and banks, the more we are likely to win the fight against fragmentation.

1-018
Sampo Terho (EFD). – Thank you for coming to our committee once again. As you said earlier, it takes time before our policy decisions work. I am sure that everybody now agrees that Europe was too slow in reacting to the economic crisis that we have been experiencing for the past five years. We were simply unprepared.

We often talk about planning solutions for hypothetical future crises, but at the same time we have to solve the current problems. We all know that the Greek situation, for example, is far from solved, and people are exhausted with the austerity in certain Member States. The biggest question, both in the short and long term, is still the possibility of a Member State exiting from the euro area. This question is now being asked by researchers, ex-politicians and citizens alike. For example, last month Frank Newman, former United States Deputy Secretary of the Treasury, advised Finland in the press – Finland being my home country – at least to consider the possibility of exiting from the euro.

My question is whether you would find it appropriate for the EU to make plans about exiting from the euro so as not to be unprepared when, and if, the crisis happens and some Member State actually decides to leave. The issue is obviously being discussed all over the media, but should EU institutions change their policy and participate in the discussion? It would perhaps be better to do so now when there is no immediate risk of a country exiting and when such a discussion would not spread panic.

1-019
Mario Draghi, *President of the European Central Bank***. –** I can give you one short answer and one slightly longer answer to this. The short answer is that I do not see any benefit in making Plan Bs. The euro, as I said in more dramatic circumstances, is irreversible. It is not an option.

(Applause)

The slightly longer answer – and this holds true for all countries really – is that, even in a lucid analysis, what one hopes to gain from exiting is ephemeral. If countries leave the euro because they think they can do without carrying out structural reforms, they are wrong. They would have to carry them out anyway outside the euro, and very likely the overall circumstances would be much harder to manage in that situation than within the euro. There is also a final, naive perspective that I have heard sometimes, where people say 'it would be so nice if we could leave the euro and depreciate the exchange rate by, say, 40%, and all of a sudden, by magic, our exports would skyrocket.' But do these people really think that the others would simply accept a 40% depreciation without doing anything? Unlikely.

1-020
Ildikó Gáll-Pelcz (PPE). – We have touched on a large number of topics today. I would like to ask one question. We are all of the same mind when we say that the role played and action taken by the ECB in dealing with the crisis was crucial and outstanding.

Mr Draghi, on December 10 there was a conference in Rome at which you stated that maintaining price stability would remain the task of the ECB in the medium term. You also expressed the idea that in the near future or even now we would have more opportunities than in the preceding preventive period. Would you tell us in detail what opportunities you had in mind and what instruments you were thinking of which the ECB might yet bring to bear?

1-021
Mario Draghi, *President of the European Central Bank***. –** The latest macro-economic projections that came out in the last monetary policy meeting at the beginning of December show that inflation, everything else being equal, will remain subdued at the low level of 2% for the medium term. The actual medium term we use in defining the inflation target would go beyond the forecast in horizons of two years, but for 2014 and 2015 inflation will remain there. We still see some upside risks to inflation coming from the price of materials, energy, food and so on, but it has to be said that the weak level of economic activity will represent a dampening factor on inflation.

Let me also add that if we look at inflation net of food and energy, in other words the so-called 'core inflation', we see that this is marginally higher than the overall inflation, suggesting that the subdued part of inflation depends on food and energy and other commodity price projections for the next two years. But as I said before, low rates of inflation for a protracted period of time entail risk and the risks are that it could go even lower. And if it goes lower we do not like that, because this might entail several problems. One reason why our predecessors stated and decided that 2% would be the right figure – to be close but below 2% – was the possible mistakes that one can make when inflation goes too low, so we really think that inflation is – say – 0.6% but in fact we could be already in deflation because of mistakes. That is one reason.

The second reason why we want to have an inflation rate which is close but below 2% is that we know that countries have to readjust their relative prices. We know that certain countries which have been permanent debtors have to increase their current accounts, to increase their trade balances, which is actually what is happening, and that is a sign of progress. In order to do that, they have to readjust the prices of their exports and

the price of their imports. This is easier if you have inflation which is close to 2% rather than if you have inflation which is zero, because of the nominal rigidities of wages and prices.

So there are several reasons why we are very aware of this risk. And we have plenty of instruments to address this. As I said, all interest rates, not only the refinancing rate, will stay at the present or lower level for a considerable period of time. We have several other instruments on the liquidity front and so we do not feel that we are short of instruments. In the meantime, we continue reflecting on the array of instruments that we can mobilise if further risk were to materialise.

1-022
Werner Langen (PPE). – I have three questions: the first concerns your interview in a French Sunday newspaper, in which you urged the government to undertake reforms. The question must be asked: is that a matter which falls within the direct remit of the ECB or does it exceed that remit? We know that, in your capacity as President of the ECB, you …

(The Chair asked the speaker to start again.)

Mr President, at the weekend, addressing the French Government – addressing the President of France – through the medium of a newspaper, you called on them to undertake reforms. My question is: how do you see your task as regards national responsibility for the reform agenda, given that, by means of your decision not to buy up any more government bonds for Italy, you have already removed Mr Berlusconi from office, and given that in the past, as President of the Italian bank of issue, you wrote reminder letters with Mr Trichet? How do you view the role of the President of the ECB in the reform process, if you are now taking individual countries to task?

The second question concerns the cheap money policy. Might there be any plans, in unison with Japan and the USA, if there is a turnaround there – perhaps not yet in Japan but in the USA – to raise interest rates? Is there an international agreement about this, or are decisions on the subject to be taken completely independently of the European Central Bank?

The third question concerns Mr Asmussen. I am sorry that he has gone, but of course there was a series of disagreements with you. At least, so the press reported. Press reports have been denied, and so on. Is what you have just said really true: was Mr Asmussen at least the second best friend of the President of the ECB?

1-023
Mario Draghi, *President of the European Central Bank***. –** Let me answer the last question. As I said, the loss of Jörg is really a serious loss. In terms of getting along, I still continue to say that we get along very well but, having said that, I think friendships go together with mutual respect of different opinions and at times we can certainly have different views on what to do. This is part of the normal discussions we have in the Governing Council, otherwise we would be like a Soviet parliament, and we are not like that.

On the US question: no. I think we – meaning the central bankers – are fairly protective of our own independence. We decide monetary policies according to our mandate, which in our case is price stability in the medium term. In the case of the US, it is price stability and full employment and so we do not at this point in time coordinate our monetary policy. There have been times many years ago when there were instances of coordination, especially of coordination on exchange rates, but not at present.

On the cheap money: from this viewpoint I think the ECB balance sheet is actually shrinking faster than any other central bank in the world right now and the answer is simple. We do not have a government bond programme where we buy millions and millions of bonds. In the case of the Fed the ongoing problem foresees the purchase of almost one trillion of bonds a year, 85 billion a month. The case of Japan is even more significant and the UK also has a problem in buying gilts. We do not. If we were to think about exiting – and it is certainly very distant – it would be much easier for us because the balance sheet has expanded according to the LTRO and now it is going down because banks are repaying the LTRO funds which they do not use. In fact the ECB balance sheet is going down.

Is this going to have an effect on interest rates? The answer is not really. It should not, because this liquidity is the liquidity which never became money. It was liquidity which was not used and so the banks are repaying it. In this sense the ECB is well placed with respect to the other central banks in the world. Having said that, we remain very aware of the potential downside risk coming from having a subdued inflation rate for a protracted period of time.

If I understand correctly, you asked a question about national responsibilities. I think the governments are the ultimate responsible authorities for undertaking national and structural reforms, but there is one important thing that national governments have to keep in mind. It has been more and more apparent as we work more and more together, and it has been more and more apparent even after the crisis. One of the lessons that we all learnt from the crisis is that our national political and policy decisions have spillovers. They affect other countries in the European Union and especially in the euro area. So there is a common interest in designing policies where the spillovers do not negatively affect the others, which implies that structural reforms have to be undertaken because the lack of them negatively affects all the other countries in the euro area.

1-024
Antolín Sánchez Presedo (S&D). – The data from October seems to show a stabilisation in loans to families; credit to non-financial bodies continues to decline, and robust growth and financial reforms are essential if credit is to be restored. But do you not think that the level of requirement concerning structural reforms by the Member States is far stricter than that

which the euro zone imposes on itself? Because it seems that the agreement on building up the single resolution fund will reach completion in 2026: do you see this as being a reasonable time-scale, in view of the circumstances of the crisis, or does it reveal the lack of will to speed up the process and establish the secure public network?

Secondly, it is being said that the Federal Reserve will exit the non-standard measures (quantitative easing). Is any assessment being made of the foreseeable impact of this on European monetary policy? Is any form of dialogue or coordination underway?

1-025
Mario Draghi, *President of the European Central Bank***.** **–** The impact of the possible tapering of the US Fed's purchases of government bonds is not simple to assess. We have, however, an example which we can look at. In May, if I am not mistaken, there was a sense in the market that tapering could start any time soon and we had massive movements of bonds in the financial markets. The movements mostly affected emerging markets; they affected the European markets very little, even the known core bond markets. Within the emerging markets I would say the movements affected mostly the three, four or five countries which had the greatest vulnerabilities, namely high public deficits, high current account deficits and perceived lack of structural reforms.

If that example is of any usefulness, we would not have to expect major consequences on our own bond markets, not even the known core bond markets, from a discontinuation of tapering. On top of this, I would say the uncertainty that prevails today in the financial markets is less than it was a few months ago, but it is very hard to make prophesies in an area like this.

In terms of what we could do – and you ask whether we will cooperate – our objective is maintaining price stability. We will calibrate our actions according to the consequences that they will have, or might have, on our objective of price stability.

1-026
Antolín Sánchez Presedo (S&D). **–** Concerning the speed of the reform processes in the euro zone and allocations to the single fund up to 2026, as being proposed at the moment, do you not see it as being rather slow in relation to the need to restore credit and confidence in the markets?

1-027
Mario Draghi, *President of the European Central Bank***.** **–** There are two issues here. One is the amount of time needed for the fund (I am sorry I did not answer the question before) but one is the amount of time that is needed for the fund to reach the final amount of 1%. The other issue is when the fund, even though not completed, might start acting as a real European fund.

I think one can actually work with shorter deadlines. The idea of filling the fund in three years, asking the banking system to foot the bill in a very short time, might have to be looked at with greater attention. I do not know exactly what the consequences might be, but the idea of having a fund, even though not completed, working as a truly European fund, could well be achieved in a shorter time, because the political signal would certainly be very important and very relevant.

1-028
Diogo Feio (PPE). **–** Mr President, I would like to congratulate you. 2013 is coming to a close. It has been a year in which one state, Ireland, left the adjustment programme. Do you believe that in 2014 we will see another state, namely Portugal, also exit an adjustment programme?

Secondly, I would like to know, in the case of those states subject to adjustment programmes requiring a transitional period in order to access markets, what conditions are likely to be imposed on them? Thirdly, I have a direct question about banking union: has it been thought out in terms of supervision?

My second question is about the situation of states which may need a transitional period in which to leave the programme and access the markets: what sorts of conditions are likely to be imposed on them in the future?

The third question is about the banking union which is planned in terms of supervision, resolution and to safeguard deposits. Do you not think that, when it comes to safeguarding deposits, we should move more comprehensively towards a European solution which can inspire greater confidence on the part of depositors?

I am coming to the end, Mr President. This has been another year of economic dialogue and, as it reaches its end, I wish everyone a merry Christmas and that 2014 will be a good year, in which we are able to personally witness one more country's exit from the adjustment programme.

1-029
Mario Draghi, *President of the European Central Bank***.** **–** Let me say a few words about Portugal. The 10th programme review is currently ongoing so it is very preliminary to say anything about the current state of implementation of reforms. Certainly up to now the track record has been very satisfactory and authorities continue to show strong commitment to the programme quantitative targets.

Incoming data on macro and fiscal variables clearly indicate that the situation is improving. Real GDP posted two consecutive quarters of positive growth, unemployment is declining, the current account is now in a surplus position and tax revenues are also performing well. And confidence is improving steadily. We also observed a decline in sovereign yields, which is certainly going to help authorities to regain market access. Of course all this process will have to be supported by compliance with programme conditionality.

There are certain legal risks on the implementation of some important expansion-based consolidation measures. The financial sector has seen a significant weakening of its profitability in the first three quarters of 2013 as a result of a protracted economic recession. While the economic situation is improving, it may still take some time before this is translated into improved profitability of the banking system. Continued monitoring is essential and, as I said before, it is too early to express forecasts on when Portugal will be able to exit this, especially now that we have the 10th review ongoing.

On the transition period there will be a programme adapted to the situation during that period of time and we have to see what sort of shape this programme will have.

You also asked me about the deposit guarantees. That is basically postponed. In a sense we will continue having a discussion on this; it has not been abandoned but, as you can see clearly, it is going to take place in the future discussion on this.

On the fourth point, let me reciprocate the best wishes for Christmas and let me extend them to all of you.

1-030
Liem Hoang Ngoc (S&D). – I would like to ask two questions: one on banking union, the other on the macro-economy.

First of all, together with many colleagues in my group, I would like to congratulate you on your stance on banking union: you have helped us reach the point where this union is almost completed. We still need – as you have said – a single resolution fund; you have spoken today about the importance of this step. An EU banking law is also needed to complete the banking union.

A delegation from the Committee on Economic and Monetary Affairs went with Sharon to the United Kingdom and we saw that even the United Kingdom – the country which set up the Vickers Commission – is waiting for the Union to go in this direction. I would therefore like to hear your position on Mr Liikanen's proposals, which we supported here in Parliament in the McCarthy report. Perhaps it would be a good idea for the European Union to have a banking law that unifies all national practices within the framework of the banking union.

My second question concerns the macro-economy. My friend Mr Langen asked just now whether talking about budgetary policy and structural policy fell within your remit. In the normal run of things this does not form part of your job, but as you gave an interview in yesterday's Sunday paper, I will take you at your word.

I find you extremely severe in this respect with France, as severe as my colleague Mr Klinz (who is no longer here), severe because France, nowadays, is virtually trumpeting its supply policy. It has reduced corporation tax by 20 billion through a tax credit, it is preparing to lower corporation tax, it has cut public spending a lot more than the previous governments did and it is bringing flexisecurity onto the labour market. I find your comments on structural reforms extremely severe therefore.

But structural reforms are not the real issue today. The real issue – you stressed this, it was your second announcement –, is that there is now a real threat of deflation in Europe. Faced with this, you have taken right monetary policy measures. But will this be enough?

You are a connoisseur of economic history and the situation reminds me a little of the debate in the 1930s in the McMillan Committee – which you know about. At that time one of the British Treasury's lines was 'Monetary policy is all that is needed'. There was no need for structural policy at the time because collective bargaining did not exist, nor did the minimum wage and there was very little welfare protection. So the question then was whether monetary policy really was all that was needed or should a drop of budgetary policy be added?

We are having the same discussion here today and I would like to ask you whether it is not contradictory to acknowledge that public spending may have a multiplier effect – the IMF, the ECB and the Commission are discussing this today – while constantly repeating that drastic public spending cuts are needed to consolidate budgets.

1-031
Mario Draghi, *President of the European Central Bank***. –** On banking union: as you said, we are supporting the banking union; the ECB has always been on that side. On the Liikanen report in particular, we had a public consultation in May 2013. After this public consultation the Commission came up with an impact assessment, including legislative proposals, up to the end of the year 2013, with a focus on the Liikanen report's proposals for mandatory separation. As stated in your contribution in January 2013, the ECB sees merit in separating certain high-risk activities of financial institutions that are not associated with the provision of client-related services. However, a common EU approach towards separation of specific bank activities is clearly needed. The EBA should develop EU-wide criteria for mandatory separation in order to ensure a consistent treatment across the EU. This is even more important in view of the fact that certain Member States are already moving ahead with structural reform proposals.

We certainly welcome the intention of the Commission to adopt a legislative proposal on structural separation, and I understand this is going to be done year end this year, in order to ensure a harmonised framework in the EU. We also welcome the recommendations proposed by the High-Level Group chaired by Erkki Liikanen. So this is welcome, with consistency across different countries' legislation and separation.

On the second question you are absolutely right. Monetary policy cannot do everything. Monetary policy cannot replace governments' lack of action on structural

reforms. It cannot fix government budgets; it cannot fix the banking system, the lack of capital. Monetary policy cannot do this. However, I think our monetary policy has done a lot; we stand ready to act but we cannot solve other institutions' problems. There must be some further action.

On the specifics of budget consolidation, as I said before: do not unravel the progress. By the way, this wording is well captured by our macro-economic projections where it is clear that one of the drivers of this gradual recovery is going to be less fiscal pressure than there has been in these last 12 to 15 months. So that is there, but do not unravel it; do not go back in one year's time to producing higher government deficits and higher debt levels, because the market will certainly take a dim view, as we have already seen in the example I quoted about Portugal.

1-032

Gay Mitchell (PPE). – First of all, Mr Draghi, thank you for all the work you have done during the year and for the work done by the Central Bank. I join with others in wishing you a Happy Christmas.

I also want to invite you to say something about Ireland. As you know, people there have stoically made really great efforts without any civil unrest. People have had their pay cut, their pensions cut and their taxes increased, and they have endured the introduction of a property tax and covered banking debts to the extent of EUR 10 000 for every man, woman and child. So a huge amount of effort has been made and the Irish Government intends us to continue on this path. We have unprecedented levels of foreign direct investment as a result of this effort, unemployment is declining, the budget deficit is coming under control and growth prospects are good, but people need to hear this, people need to understand that there is a point to this sacrifice. I want to invite you, in the spirit of Christmas, to paint a picture for the people of Ireland for 2014 and beyond, and of what it will mean for Ireland and for other countries. What is going to be the dividend of all of this effort? What is your crystal ball for Ireland and for those countries that do consolidate into the New Year and beyond?

1-033

Mario Draghi, *President of the European Central Bank***. –** When we look at Ireland, I think what you said is absolutely right. Programme implementation in Ireland has consistently been, and remains, on track, and this has permitted the authorities to close the current programme successfully. Looking ahead, we still have a positive – but more cautious – assessment of the budget for 2014, even if targets are also likely to be met. On the positive side, the outlook for the deficit to GDP ratio is credibly set at 4.8%, which outperforms the excessive deficit procedure requirement of 5.1. However, the Irish banking sector remains a source of some concern, with outstanding issues still requiring swift and decisive action.

The recently-submitted results for the Irish specific balance sheet assessment (BSA) exercise indicated that while no capital shortfalls were identified, there is a need for adjustments to provisioning, as well as to risk-weighted assets. These issues should be addressed before the SSM comprehensive assessment, so it should be clearly stated that the BSA just conducted is not forward-looking in nature, and thus falls short of the stringent stress test that is ultimately required and will be conducted when the SSM comprehensive assessment takes place.

So Ireland's exit from the programme underlined the success of the sometimes painful but unavoidable measures that needed to be undertaken. While it is crucial for Ireland to push ahead in the areas I have just mentioned, you also asked me what the dividend is going to be. The dividend is going to be higher growth. It is going to be more jobs and it is going to be more freedom, in a sense. A statement was made by someone in Ireland today to the effect that the country has regained national pride in leaving the programme. That is correct, and it is a concept that really rings true when translated into higher growth and higher jobs.

1-034

Peter Skinner (S&D). – Mr Draghi, your statement really shows, once again, that Ireland is a success story. It is worth noting how well the Irish people have come through this, and I hope that they will continue to do better.

I also listened to your comments on the involvement that you are going to have in the value of assets and sovereign bonds and, generally, on the wider economic watching brief your institution is going to have in its new role. However, can I refer somewhat to my colleague's question concerning the Central Bank and monetarism and its philosophical intent in the general economy. You have partly answered this, but I would say that the bank does deal with macro-economic issues without getting directly involved in what happens on the ground, in a prudential supervisory role. You have three European supervisory authorities which pretend to play a role inside the European Systemic Risk Board. There is a joint committee as well which is, I have to say, a very nascent – and maybe even stillborn – joint committee.

I do not mean to suggest for one moment that people have not tried, it is just that when I look at the intent of this House and the prescriptions that we set out earlier, we have (a) been overtaken by some events, but also (b) we have seen some issues actually pushed to one side. I do not know where you think the role lies that needs to be played between the macro-supervisory approach of the ECB and the prudential supervisory roles left for the European supervisory authorities. How will we make up the difference, how will you listen to them, and how can we be confident and sure that you will take into account what needs to be done when they say something urgently needs to be done?

1-035

Mario Draghi, *President of the European Central Bank***.** **–** That is certainly a very important question and one that the Governing Council has addressed. It has produced – although this has not been announced yet – a way in which those with macro-supervisory responsibilities will have a dialogue with those with micro-supervisory responsibilities within the SSM. This is not an easy issue to resolve because, on the one hand, we want to keep a strict separation between monetary policy and supervision. On the other hand, especially in the field of prudential supervision, there are synergies in the knowledge that both sides can actually gather about specific problems – identification of bubbles, instruments to address those bubbles, in what sense a general monetary policy could be the source of a bubble and so on. So there is a rather elaborate arrangement that it has taken some time for the Governing Council to discuss and to define in its parts, and this will be made known before the year end. The idea is to do exactly what you are suggesting – namely to be able to exercise macro-prudential supervision jointly with micro-prudential supervision, not in the sense of one influencing the other, but rather of sharing information and sharing assessments of the gravity of situations.

1-036
Astrid Lulling (PPE). – We are currently reviewing the European supervisory system, and some of my colleagues are insistently making the point that the European Central Bank is amassing too much power.

They say it is too much for a single person and a single institution, and they do not seem convinced by the institutional safeguards that have been put in place.

What arguments do you have to counter that view, Mr President? Are you hoping that events will prove them wrong and specifically that an appropriate system of governance might offer a sufficient response to the various powers and tasks of the ECB?

1-037
Mario Draghi, *President of the European Central Bank***.** **–** Let me preface this by saying that in fact it was not the ECB that asked for this accumulated power but you, the legislators – the European Parliament and the Council – which decided that the right place to position the supervisory mechanism was the ECB. Our response to this could only be, and has been so far, to increase the standards of accountability and transparency, first and foremost towards the European Parliament and secondly towards everybody else, the Council included.

We have fully taken on board the indication of the European Parliament; the only way to respond to this is to accept higher standards of accountability than we normally have for monetary policy. That is, in a sense, the objective of the interinstitutional agreement that we now have with the European Parliament. It has been a very important step, for which I want to thank the European Parliament at large, the Committee on Economic and Monetary Affairs and its Chair. So, Sharon, thank you very much for everything that you and your staff and your collaborators have done to reach this agreement.

1-038
Ramon Tremosa i Balcells (ALDE). – Mr Draghi, thank you very much. I have two very brief questions. Do you think that the banking union is compatible with Member States' continuing capacity to veto European decisions on the resolution of banks? The second question relates to the ECB's comprehensive assessment. Uncertainty is a major concern because important parameters have not yet been communicated as regards, for instance, the treatment of sovereign debt, the magnitude of the stress test and the treatment of systemic risk in the asset quality review and in the stress tests. Of course a five minute speech does not suffice to provide information about this, but I would like to know at least when we can expect to find out about the treatment of sovereign debt and the magnitude of stress tests.

1-039
Mario Draghi, *President of the European Central Bank***.** **–** One moment, whose veto were you referring to?

1-040
Ramon Tremosa i Balcells (ALDE). – That of the Member States. It seems that, in the new deal on resolution, the Member States want to hold onto their ability to veto a European decision to resolve a bank.

1-041
Mario Draghi, *President of the European Central Bank***.** **–** I am not aware of this. It may well be the case, but I am not aware this was to be there.

1-042
Ramon Tremosa i Balcells (ALDE). – But if it were the case, could some Member States have this ability?

1-043
Mario Draghi, *President of the European Central Bank***.** **–** No, I do not think it would make much sense. As a matter of fact, it does not make much sense to have a veto on declaring a bank non-viable. I think the issue of veto could arise if and when the ESM resources were used in the event of a resolution. You would still have the current ESM Treaty which basically gives everybody a veto right. On the overall assessment of the non-viability of a bank, however, I am not aware that there is a veto issue there.

On the second point yes, you are absolutely right, there is a certain amount of uncertainty but we have just started after all. We plan to speed up our communication as regards the AQR parameters and the stress test parameters, and we are aware that the sooner we do this the better it is for the banking industry, for regulators, and also for the ECB, which has to use the instrument.

Let us not forget that, even though the final results of the tests are going to be announced in September or October of next year, if some action were to be taken in the meantime – either to recapitalise or provision some banks because they were found lacking adequate capital, especially publicly listed companies – it would be unthinkable to wait until the end of October 2014 or whenever before this is known. If corrective action is indeed required – especially in the case of publicly listed

companies – this would have to be known immediately because the markets need to know.

Firstly, we will speed up communication as much as possible. Secondly, it is true that the final results are going to be announced in October 2014 or whenever, but it is also true that, in certain cases, market rules will require information immediately if corrective action has to be taken.

1-044
Marino Baldini (S&D). – Mr President, this is the first time I have put a question to you as I come from Croatia and have only been a Member since 1 July.

In our discussions with Eurosceptics in the second half of the year, we have on many occasions been able to give examples of the good work done by the European Central Bank. I should like to congratulate you on what you have achieved. I would also like to ask you a question in this connection. I would not want the very positive example of Ireland to lead us to believe that it will be far easier for smaller countries with economies smaller than those of other southern Europe countries to exit the crisis.

In my region, there are a host of countries – six in total – whose economies have this year finally started to grow – some significantly – but none of those countries are members of the European Union. On the other hand, Slovenia and Croatia are experiencing serious problems. Slovenia has problems with its banking sector, while Croatia has economic problems and has seen production and the economy declining for four months now. They are perhaps the most economically developed countries, but are facing a very serious economic crisis.

Could you perhaps give us some economic pointers, and do you share my cautious optimism that it will be easier for these countries to make their choices and start to grow again economically, as Ireland has done, maybe in the not too distant future?

1-045
Mario Draghi, *President of the European Central Bank***.** **–** I believe that some cautious optimism can be transmitted today, looking not only at the example of Ireland, but also that of Portugal and that of Spain, being a larger country. We need to look at the progress that has been achieved in all these countries. We need to look at the situation a year to a year and a half ago and the dramatic changes for the better in all those countries. Greece is another positive example.

The sense one has is that, regardless of their dimension, if the right policies are pursued the crisis can be overcome and these countries can make it across this difficult river to cross. The benefits that arise – higher growth and more jobs – can be seen in all the countries I mentioned, but there must be the determination to correct the weaknesses in their economies which led to the imbalances.

1-046
Werner Langen (PPE). – I have another question: the stress tests – you have just touched on the matter – in the context of European banking supervision are impending, and I have a particular question: as the Basel Committee was unable to give risk weightings of government bonds, what everyone wants to know is how the ECB will deal with this major problem of the weighting of government bonds in bank finances. And how would you evaluate the success of your previous statement and that of the governments that a series of programmes will promote the separation of banks and states? Regrettably, I do not so far see that.

1-047
Mario Draghi, *President of the European Central Bank***.** **–** There are two different issues. One is to assess government bonds for their inherent riskiness and attach different risk weightings to different government bonds. This is an issue that has to be discussed globally within the Basel Committee because you cannot have separate treatment for European bonds from that for US bonds or British bonds or Japanese bonds in the world, because otherwise you would put the euro area banks at a competitive disadvantage with respect to American banks, British banks and Japanese banks. So the issue of risk weightings for government bonds has to be discussed in the global forum that is the Basel Committee.

However, this does not mean that we do not consider government bonds in our stress test. When we do the stress test, government bonds will be treated like any other asset owned by the banks and will therefore have to be stressed according to the rules defined by the European Banking Authority. The two things are different. One is the specific risk weightings for the banks and for government bonds, and the other one is how well the government bonds owned by banks that reside in the euro area perform in a stress situation.

1-048
Gay Mitchell (PPE). – Mr Draghi, the joint document issued by the European Central Bank and the Commission on accessing finance in relation to SMEs paints a picture which is not very encouraging. Are you considering an LTRO Mark II, and what would it mean for SMEs?

1-049
Mario Draghi, *President of the European Central Bank***.** **–** The present situation is one where banks are actually repaying their LTROs, so we should once again ask why banks not lending to SMEs. There are basically three reasons. One is lack of funding. We addressed this question two years ago with the LTROs, and now these banks are repaying, so there is no *prima facie* evidence of a lack of funding being the major obstacle to lending to SMEs. I should add that bond issuance by banks has also taken place, and I was saying before that deposits overall, even in the none-core countries, have increased substantially over the last year, so lack of funding is not an issue, or at least at this point in time it does not look to be the main issue.

Then you have a second reason, which is lack of capital. We are going to find out whether this is the case with our AQR test, but we should not forget that between 2008 and now – in 2008-2009 and at the end of 2012, if I am not mistaken – more than half a trillion euros was injected into banks' capital, roughly half of which was public money and half of which was private money. Many bank institutions have continued raising capital even in the last four, five or six months, which is definitely a good development. By the way, here we are talking about averages, and we should consider that we have thousands of banks and we may have completely different realities when we move from the large banks to the small banks, for example. We do not know what these averages actually conceal and we will have to look into this. A lack of capital may well be an obstacle for certain categories of banks, even though as an aggregate we do not see that.

The third reason is risk aversion, namely banks do not lend because they are afraid that their clients will not pay back and their clients will not pay back because there are no clients to whom their clients can sell. That, let me remind you, was the main reason in the survey we ran – not the latest survey, but the survey before – with SMEs, asking them what the major obstacle was to their doing business. They said a lack of clients. Lack of credit was only the second reason.

I think things have improved, and we will soon see credit, being a live indicator of future growth, showing that risk aversion by banks is actually going down.

I see that Sharon is looking at me, asking me to finish my answer. I feel this pressure.

(Laughter)

1-050

Chair. – It is only because I want to squeeze in one more question. We like our pound of flesh here.

1-051

Sylvie Goulard (ALDE). – Thank you, Mr President, for enduring a further question from me. Your answers today have been compelling, particularly on the issues in relation to exiting from the euro area.

I want to ask whether you share what is my major concern, about mutual trust in Europe and the growing gulf between north and south, despite all your efforts and all the legislation that we have adopted.

What action can our institutions take to stop that gulf becoming even wider – for it is my belief that this is very much part of your remit? The currency, after all, represents trust, and if there is no trust between the main players in the system then I think there is a risk that technical measures will not have the desired effect.

1-052

Mario Draghi, *President of the European Central Bank***. –** That is a very important question because trust is at the heart of any progress we make at European governance level. Let us ask ourselves why did trust disappear? Trust disappeared because people felt that the rules were not being observed, that the fiscal discipline of the stability and growth pact had been forgotten altogether in the early 2000s and/or because people felt that structural reforms had not been made in all but one or two countries.

The best way to reconstruct trust is to comply with the rules that have been agreed, to share sovereignty and to understand that economic policies have spillover effects on other countries. What undermines trust is this indifference about national decision-making; the lack of awareness that these policies affect others. It is a failure to consider the impact that really undermines trust and, finally, the right policies must be made to show that countries can stand on their own two feet: as we said several times, you cannot have a union in which there are permanent creditors and permanent debtors. Countries have to show that sometimes – once in a lifetime – they can be a creditor. I think that this is how trust is being rebuilt.

1-053

Pervenche Berès (S&D). – Everyone – heads of state and government, ministers of finance, the European Parliament – has worked hard in the course of this parliamentary term. Everyone has invested a great deal of effort in restoring market stability, including certainly those who have contributed on the question of trust.

However, there is a critical issue in relation to the financing of the economy, which you touched on earlier when you spoke about small and medium-sized enterprises. At a more fundamental level, Commissioner Barnier has just tabled a document addressing the issues around long-term investment financing. It is recognised, including in Germany, that this will be costly: the German Institute for Economic Research (DIW), for example, reckons it will take EUR 75 billion a year to fund the investment that is required.

How do we take a joined-up approach to all this? How can monetary policy contribute to the long-term financing of the economy? For it seems to me that many of the laws and regulations that have been introduced have an impact in that regard.

1-054

Mario Draghi, *President of the European Central Bank***. –** The greatest contribution that monetary policy can make is to continue pursuing its primary mandate of maintaining price stability. When I say price stability – I have said this before – I mean in both directions, both upwards and downwards. Right now we are seeing an inflation rate on the low side of 2% for a protracted period of time. We want our monetary policy to stay accommodative. We introduced forward guidance saying that interest rates will stay at the present or lower levels for an extended period of time. We acted in November in line with that forward guidance, when we reduced rates. We will continue watching because, as I said before, we are very aware of the downside risk of such low inflation, and we are ready and able to act with plenty of instruments. That is the greatest contribution that monetary policy can make.

1-055

Chair. – That concludes the monetary dialogue.

The next monetary dialogue will be held on 3 March 2014.

(The meeting closed at 17.10)