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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE ECB
(pursuant to Article 113(3) of the EC Treaty)
BRUSSELS,
MONDAY, 20 NOVEMBER 2017

1-002-0000

IN THE CHAIR: ROBERTO GUALTIERI
Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.04)

Chair – Dear colleagues, welcome to this Monetary Dialogue with ECB President Mario Draghi, who I would like to welcome. This is the fourth and last Monetary Dialogue of the year and is taking place after very important monetary policy decisions taken by the ECB in a framework of an economic recovery which is gaining momentum and is continuing on a very solid and broad base. On the other hand, we see – and President Draghi will elaborate on this – a price dynamic which is not yet sufficiently sustained, in particular a weak wages dynamic. I remember that in the last Monetary Dialogue we had an extremely interesting exchange of views on this point, the cyclical and structural reasons for this.

Against this backdrop, the ECB monetary policy decisions have been very important. I welcome these decisions, in particular the decision to maintain a substantial degree of monetary accommodation, as long there is a durable and self-sustained return of inflation towards its target. We will discuss these decisions.

As President Draghi knows coordinators of the Committee on Economic and Monetary Affairs (ECON) also selected two additional topics, namely TARGET balances and imbalances – whether there is reason to be worried – and the design and sequencing of exit from non-standard monetary policy measures, in other words what the ECB's 'new normal' should look like. That is strictly related to the decisions which have been taken. We have a number of studies, some of which I think very convincingly say how, for instance, these TARGET2 balances reflect many mainly technical features of the euro area financial structures, but we will have the opportunity to discuss this topic.

So there are a number of very relevant issues. President Draghi, welcome again and you have the floor.

1-004-0000

Mario Draghi, *President of the European Central Bank***.** – Chair, honourable Members of the Committee on Economic and Monetary Affairs, ladies and gentlemen, I am glad to be back at the European Parliament for my last hearing of the year. Since we last met, the ECB Governing Council has taken important decisions on the recalibration of its monetary policy instruments beyond the end of this year.

Therefore, in my remarks today, I will first discuss the outlook for the euro area economy and the recalibration of our monetary policy measures. Then, at the request of the Economic and Monetary Affairs Committee, I will discuss the role of TARGET2 in supporting financial integration and the implementation of our monetary policy, which in turn has implications for interpreting TARGET2 balances.

The economic expansion remains solid and broad-based across countries and sectors in the euro area, mainly supported by domestic demand. According to the recent Eurostat flash estimate, real GDP growth has continued in the third quarter at the rate of 2.5% year on year. This amounts to four-and-a-half years of continuous quarterly expansion, and the latest survey data point to unabated growth momentum in the near term. GDP growth is also increasingly broad-based across countries and sectors. The dispersion of GDP growth rates across euro area countries has fallen to its lowest level since 1997, caused by a general upward convergence.

The labour market continues to benefit from the recovery and the deep and painful employment losses recorded during the crisis have now been offset, at least in the aggregate. The number of people unemployed in the euro area declined from 18.6 million in the second quarter of 2014 to 14.6 million in the last quarter. Relative to past patterns, employment growth has been broad-based across countries and sectors. Sixteen of the 19 euro area countries have experienced positive annual employment growth since mid-2014 and employment has been increasing in about 60% of sectors, compared with zero in mid-2014. These employment gains, together with increasing household wealth, are supporting the private consumption outlook. Business investment also remains on an upswing, aided by improvements in corporate profitability.

Our monetary policy measures have played a key role in supporting both consumption and investment demand by ensuring favourable financing conditions for euro area firms and households. Since end-May 2014, bank lending rates for non-financial corporations, for instance, have fallen by around 120 basis points and those for households by around 100 basis points. Lending rates for very small loans, which can be taken as a proxy for loans to small and medium-sized enterprises (SMEs), have declined by almost 190 basis points. The significant improvement in funding conditions for SMEs is especially encouraging as they provide two-thirds of total private sector employment in the euro area. This improvement in financing conditions has been accompanied by reduced heterogeneity across countries in bank lending rates. For example, the difference between rates for firms in the euro area countries most severely affected by the crisis, versus the other countries, has narrowed by around 100 basis points since mid-2014. Despite the firm economic recovery, inflation dynamics have yet to show convincing signs of a self-sustained upward trend. Headline inflation was 1.4% in October and is expected to temporarily decline towards the turn of the year, mainly owing to a weaker energy component as a result of base effects. Underlying inflation pressures are still subdued as labour market slack remains significant. The improvements in labour markets that we have observed still need time to translate into more dynamic wage growth.

In the light of this economic outlook, at our monetary policy meeting in October, we decided to recalibrate our monetary policy instruments. The recalibration of our policies for the period beyond the end of this year is meant to preserve the degree of monetary stimulus that is still necessary to secure a sustained return of inflation rates towards levels below, but close to, 2% in the medium term.

Let me briefly explain the four main decisions the Governing Council took.

First, the improved outlook and our growing confidence in the gradual convergence of inflation rates towards our inflation aim allowed us to adjust the pace of our asset purchase programme (APP). Accordingly, we announced that, starting in January 2018, net asset purchases are intended to continue at a monthly pace of EUR 30 billion until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

Second, as regards our re-investment policy, we stated that the Eurosystem will reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary. This will contribute both to favourable liquidity conditions and to an appropriate monetary policy stance. In this context, let me also mention that we provided additional information on the redemption amounts for each component of the APP, as our policy to maintain the stock of our securities holdings, and to continue to reinvest the proceeds of those securities that come to redemption for an extended period of time, has become more important as the size of our portfolio has grown. Our website now reports all the details of the expected monthly redemption amounts for the next 12 months.

Third, on policy rates, we kept them unchanged and reconfirmed that we expect our key interest rates to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases. This sequenced ordering of the outlook for our net asset purchases and the policy rate path is a central element of our monetary policy at present. The 'well past' condition that governs the policy rate horizon lays out a critical enabling factor for asset purchases to have their full impact.

Finally, we decided that our regular refinancing operations would continue to be conducted as fixed-rate tender procedures with full allotment for as long as necessary, and at least until the end of 2019. This will ensure the continued smooth implementation of monetary policy while also safeguarding favourable conditions in euro area money markets.

As the Governing Council concluded at the end of its last monetary policy meeting, the monetary policy support that we provide today comes from the combined effect of the additional net asset purchases, the sizeable stock of acquired assets that have been accrued under the purchase programme in the past and the forthcoming reinvestments of the maturing securities, and our forward guidance on interest rates. Taken together, these measures will preserve the current financing conditions and ensure the ample degree of monetary stimulus that is still necessary for a sustained return of inflation rates towards levels that are below, but close to, 2%.

Let me now turn to the topic of TARGET balances. TARGET2 is the Eurosystem's real-time gross settlement system, through which payments in euro can be safely and efficiently processed between banks, both within and across borders. It provides a state-of-the-art payment infrastructure that is used to settle, in central bank money, payments related to a wide variety of transactions, including monetary policy operations, financial market instruments, and interbank and customer payments. Last year, TARGET2 processed a daily average of about 342 000 payments, representing a daily average value of EUR 1.7 trillion. It therefore plays a key role in ensuring the smooth conduct of monetary policy, the correct functioning of financial markets and banking, and financial stability.

By supporting financial integration and the implementation of our monetary policy, TARGET2 represents a cornerstone of our monetary union. In the TARGET2 system, each Eurosystem national central bank (NCB) has a debtor or creditor position (a balance) vis-à-vis the ECB, which keeps track of the money entering and leaving each participant country for accounting purposes. The TARGET balances of individual NCBs therefore merely reflect the settlement of cross-border payments executed via TARGET2.

Payments undertaken as part of the asset purchase programme are also settled via TARGET2. Asset purchase programme implementation is distinct from that of refinancing operations because it can entail immediate cross-border payments. Indeed, around 80% of total NCB's purchases have been by financial market parties that are not resident in the same country as the purchasing central banks, thereby impacting TARGET2 balances. Moreover, the sellers of

the assets purchased under the APP can reinvest the proceeds, inducing a cross-border rebalancing of their portfolio. This phenomenon, referred to as international portfolio rebalancing, can prompt further changes in TARGET balances, following the same logic I have just outlined. All this notwithstanding, we have seen that TARGET2 has been instrumental in the smooth pass-through of our monetary policy measures to the financing conditions of households and businesses.

Let me conclude.

The EU Treaties gave the ECB the primary objective of maintaining price stability in the euro area as a whole. This is the best contribution we can make to the welfare of our fellow citizens. Ensuring price stability is a precondition for the euro area economy to achieve a balanced growth path that can be sustained in the long run. But this is not the only condition.

Achieving a balanced growth path also requires strengthening the euro area's ability to deal with risks, whenever they materialise. The current economic outlook provides a unique opportunity to reduce the likelihood of severe shocks by strengthening the economic structures of Member States, with policy actions both on the fiscal and structural side. At the same time, boosting the resilience of the Economic and Monetary Union (EMU) implies also reinforcing our common institutional set-up so as to prevent and manage shocks.

I thus welcome the European Parliament's role in such discussions and the renewed efforts by euro area leaders and Ministers to tackle the issue, as reflected, for instance, in the recent Eurogroup meeting. It is in this spirit that I look forward to the upcoming Euro Summit meeting on EMU governance.

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

1-005-0000
Esther de Lange (PPE). – Thank you, President Draghi, for being here once again and for being available to address issues that are of key importance to the Committee on Economic and Monetary Affairs.

I would like to pick up on the issue of non-performing loans, which the ECB and you yourself actually have described as a key – or even *the* key – vulnerability in the European banking system. I would also like to mention the issue of EDIS, of course, as rapporteur, of which I know that the ECB is a strong proponent. We hope to be ready soon within our team of shadows to also be able to hold a meeting with your experts on this issue.

Of course, the issue of NPLs – let's call it risk reduction – and EDIS – let's call it risk sharing – are interlinked, not only in terms of content, but also politically, I'm afraid. Hence my questions: How can we make progress on EDIS, which is what we want as a team of shadows and a rapporteur, if there is such reluctance in some Member States to address the issue of non-performing loans – I refer, of course, to the reactions to the proposed ECB guidance on the matter; and what in your view is the best way to address NPL flow, and stocks even, since the issue won't miraculously solve itself; what do you think is a realistic timetable to bring NPLs down to a level comparable to the international level?

These are key issues that are interlinked, through the issue of EDIS, that we will have to address as rapporteur and shadow rapporteurs. I thank you already beforehand for your strong commitment to both issues and for your answers.

1-006-0000
Mario Draghi, *President of the European Central Bank***.** – First of all, I agree with what you said. The NPL issue and EDIS are interlinked.

Let me just step back and look at EDIS. On EDIS, we certainly welcome the Commission proposal, but we have to keep in mind the final objective, which is a fully-fledged deposit insurance. That may be a goal and we can get there step by step, but here the key point is that progress should be clearly quantifiable and clearly assessable, with clear objectives and measures. It should be measured and should not be a vague postponement. That is important because EDIS remains a fundamental pillar of the banking union.

Having said that, it is quite clear that risk reduction and risk sharing should go in parallel. That has always been the ECB viewpoint, and NPLs are part of this. The NPL issue is by itself, even regardless of this, a problem that needs to be solved. You have heard Ms Nouy in this room; it is mostly an issue that has to do with supervision. I myself have just said that it does require a concerted joint effort, certainly by banks' management and supervisors, but also by the governments and legislators in different Member States to ensure a legal environment where NPLs can be disposed of, sold and traded. Progress has been made in several countries, but often this progress is limited to the new NPLs and does not take into consideration – or only partly takes into consideration – what the problem is, namely a legacy problem. It is a legacy problem mostly due to the great recession that characterised the last few years before the recovery. So legislation should consider and should address legacy issues, not only the new issues. That is what I can say now.

1-007-0000

Chair. – Thank you very much, and indeed I and many of us recall the very wise words about the joint effort which is clearly what is required by all the institutions, including by taking into account the respective roles and competences. Here I would say that the outcome of the discussion with Danièle Nouy has been very positive, because I heard from her an opening to improve the addendum in order to have additional measures that we consider necessary, but to do this to fall in line with the respective institution prerogatives. I would say also that the Commission role is very positive, and the recent text put to consultation helps a lot to clarify what are the various roles of the various actors in what indeed has to be a joint effort.

1-008-0000

Pervenche Berès (S&D). - Monsieur le président de la BCE, je ne vais pas rebondir sur ce débat entre NPL et EDIS, même si l'on pourrait s'interroger sur les conditions dans lesquelles la mise en œuvre des deux piliers existants de l'Union bancaire, que ce soit la supervision ou la résolution, n'a pas déjà permis de faire des progrès quantifiables gigantesques en termes de réduction des risques.

Ma question concerne le suivi d'un thème que vous avez commencé à aborder lors de notre dernier échange dans le cadre du dialogue démocratique que nous menons avec vous. Suite à une question de notre collègue Paul Tang sur la question des salaires, vous vous interrogiez sur le rythme de remontée des salaires dans les pays où le régime de croissance semble tourner à plein et où, finalement, les salaires n'augmentent pas dans des conditions qui faciliteraient l'exercice de la politique monétaire.

Il s'agit d'un débat qui est en train de se nouer entre les économistes, mais dans lequel les banquiers centraux ont aussi voix au chapitre, et où finalement, plutôt que de s'interroger sur la question de l'affaiblissement du pouvoir syndical ou du rythme auquel cette reprise de la pression en faveur de la hausse des salaires pourrait venir – nous avons eu cette discussion avec M. Carlos Costa, le gouverneur de la Banque centrale du Portugal –, il s'agirait d'émettre un scénario assez différent, avec l'idée qu'au fond c'est la mondialisation qui a changé les conditions de définition des salaires. Plutôt que de prospérer sur l'héritage de la courbe de Phillips, il nous faudrait donc envisager une autre relation entre augmentation des salaires et inflation comme toile de fond de la politique monétaire. Où en êtes-vous dans la réflexion sur cette problématique au sein du Conseil des gouverneurs?

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Mario Draghi, *President of the European Central Bank***.** – Our recent monetary policy measures reflect various assessments by the Governing Council. They reflect confidence that the inflation rate will move gradually, but will eventually get to our objective because of the strength of the recovery and especially because of the employment gains.

However, when we move from the real side to the inflation side of the assessment, we see that inflation remains subdued. The main reason why it remains subdued is that underlying inflation – that is to say, excluding food and energy price changes – is subdued, and the reason why it is subdued is mostly attributable to low nominal wage growth. We have been saying this now for quite a time.

Compared with other business cycles in the past, the response of nominal wages to the closing of the output gap, to the improvement in the labour market, to the decline in unemployment, and to the number of jobs being created – if you think about it, it is four million jobs over four years – this remarkable increase in employment and decline in unemployment actually took place in the presence of an increased participation rate. We had quite strong gains in participation rates, not only because of new arrivals – migrants and others – but also an increased participation rate by women, which is now at an all-time high, and old people. I do not have the numbers with me now, but the increase in participation rates of older people is staggering. It is really very high.

So, in spite of these new entrants to the labour force, we still had a strong decline in unemployment. All this suggests a very successful experience and would suggest a stronger response on nominal wages, but we are not seeing it. So we asked ourselves what the causes could be, and certainly one thing that was mentioned was that it could be globalisation. It could actually be that the relevant output gap is not the euro area's output gap, but is the rest of the world's output gap. Now, we do not have any convincing evidence that this is the dominant reason. Also, the output gap in the rest of the world is actually closing as much as our own output gap, so we should see pressures elsewhere as well.

There are other reasons. One is that, after a prolonged period of very low inflation with some hints, at some point in time, of deflation risks, wage negotiations could be backward-looking, and from this viewpoint they would internalise the experience of low inflation into future negotiations. Another reason is that, after a prolonged period of unemployment and very difficult conditions in the labour markets, the main strategy in labour negotiations is to look for job security rather than wage increases. That is another reason. Let us also keep in mind that productivity remains low and that is a third structural reason.

But, all in all, especially as far as the first two reasons are concerned, we tend to view this as something serious but transitory. In the presence of our monetary policy support and also given the continuation [of recovery] – as I said in my introductory statement, the growth momentum is unabated so we continue to have signs that this recovery is continuing and the pace of it is also continuing – in the presence of these factors, backward-looking wage negotiations or the preference towards job security, that I mentioned, these are transitory elements and in the end we will see this nominal wage response.

So that is what we will be looking for in assessing whether underlying inflation is showing convincing signs of increases and that therefore our inflation rate is moving towards our objective.

1-010-0000
Bernd Lucke (ECR). – Guten Tag, Herr Draghi! Ich möchte zunächst einen kurzen Kommentar zu Ihrer Antwort eben geben. Sie haben gesagt: „Die EZB hat 4 Millionen Jobs geschaffen." Ich frage mich: Woher wissen wir eigentlich, dass die EZB diese 4 Millionen

Jobs geschaffen hat? Sind nicht auch außerhalb der Eurozone Jobs entstanden, und war das Wachstum außerhalb der Eurozone zum Teil nicht sehr viel stärker als innerhalb der Eurozone? Vielleicht kann das auch gelegentlich noch besser begründet werden. Aber ich möchte Sie nicht bitten, auf diesen Kommentar zu antworten, sondern auf die folgende Frage.

Die EZB hat im Rahmen des PSPP inzwischen ungefähr 1,6 Billionen Euro in Staatsanleihen investiert. Sie hält also Staatsanleihen von Staaten der Eurozone. Meine Frage ist ganz einfach: Ist es richtig, wenn ich sage, dass die EZB ein großer und andauernder Kreditgeber für Staaten der Eurozone ist?

1-011-0000
Mario Draghi, *President of the European Central Bank***.** – I am sorry, the translation was such that I didn't understand your second question.

1-012-0000
Bernd Lucke (ECR). – My question was: Am I correct if I say that the ECB is a big and long-lasting creditor of euro zone governments?

1-013-0000
Mario Draghi, *President of the European Central Bank***.** – Well, the answer to your second question is: No, it is not, because the ECB overall has purchased something like – I can't remember what the percentage is, but it is low, at most 20% – 10, 15, 20% of total stock, so it's not the largest.

Second: The ECB has purchased this on the secondary market, so from other people. These bonds were already purchased from the governments that had been issuing them.

1-014-0000
Bernd Lucke (ECR). – I would like to ask you a second question, please. I don't want a reply to the first question, as I have said.

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Chair. – But you did reply on the second.

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Mario Draghi, *President of the European Central Bank***.** – I replied, I answered.

1-016-5000
Bernd Lucke (ECR). – Yes, so I would like to ask you a third question, if you don't mind? *Und ich werde es wieder auf Deutsch tun, wenn Sie gestatten.* [And for this I will revert to German, if I may.]

Mir ist der Unterschied zwischen Primärmarkt- und Sekundärmarktkäufen natürlich bekannt. Aber für die Tatsache, dass die EZB diese Staatsanleihen hält, ist es völlig irrelevant, wie die EZB sie erworben hat. Dadurch, dass sie die Staatsanleihen hält, ist sie der Kreditgeber von Staaten der Eurozone.

Meine Frage ist jetzt, weil Sie sich auf die Bestände bezogen haben: Für einzelne Eurostaaten ist es so, dass die EZB bis zu 250 % des Volumens an Staatsanleihen aufgekauft hat, das diese Staaten als Neuverschuldung im Zeitraum 2015 bis 2017 gehabt haben. Die Neuverschuldung ist also deutlich geringer als das, was die EZB auf dem Sekundärmarkt an Staatsanleihen von diesen Staaten gekauft hat. Es sind bis zu 250 %, was die EZB erworben hat. Wie kann man dieses Ankaufverhalten der EZB mit dem Verbot der monetären Haushaltsfinanzierung in den europäischen Verträgen in Übereinstimmung bringen?

1-018-0000
Mario Draghi, *President of the European Central Bank***.** – It's very simple: We didn't violate the ban on monetary financing at all. We only complied with our mandate. Our mandate is to drive inflation towards our objective. That's what the Statute and the European Treaty ask us to do, and we comply with the law.

Now that's the answer to the second question. If you want, I can now answer your first question. Your first question is: How do we know? Well, how *do* we know? We know that, because it's thanks to the financing conditions created by the monetary policy that recovery was actually possible. It has been the main policy in place for many years now, when there were no policies at all. And so, while one can always think that it's not true, we have evidence – plenty of evidence – that our monetary policy support has been key to forcing the recovery we are experiencing today.

1-019-0000
Bernd Lucke (ECR). – Mr Draghi, I have asked you whether you have violated your mandate, or how you can explain that it is not a violation of your mandate if you purchased 250% of the new debt of some of the euro zone governments.

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Mario Draghi, *President of the European Central Bank***.** – I responded: We haven't violated any mandate. We actually complied with our mandate, we haven't violated any ban on monetary financing. We stayed within the limits that we gave ourselves to begin with, with the programme.

1-021-0000
Chair. – I am also sure that Mr Lucke is fully aware of the difference between the ECB and the euro system, but that is for a future discussion.

1-022-0000
Ramon Tremosa i Balcells (ALDE). – Welcome again, President Draghi, to this Parliament. I have two questions: the first one is that in January next year, the ECB will begin to reduce its bond purchases in order gradually to phase out the APP. However, the end of purchases may have an effect on the risk premium of some of the more indebted countries of the eurozone. Which reforms would you prioritise for those countries where public deficit is still upwards of 3% of their GDP? Do you think these countries are prepared in case there is a new recession?

I have another question about EDIS. We are discussing the European deposit insurance scheme. You have always supported this, but I would like to ask how you imagine this. What would be fundamental for you in order to ensure that it works properly?

In addition, finally, how can we reassure investors that this will work well after the inconsistencies in the Italian and Banco Popular bailouts?

1-023-0000
Mario Draghi, *President of the European Central Bank***.** – Let me answer the second question first. The prolonged discussion we had about EDIS has actually convinced everybody that this is a journey. It should not be put in place immediately because there are certain conditions that have to be verified, and risk reduction and risk sharing should go and hand-in-hand. Part of the risk reduction also consists of harmonisation: harmonisation of certain features that are critical to a banking union. One of them, for example, is the hierarchy of creditors. If countries keep having different hierarchies, it is pretty clear that the Union is not complete. The other harmonisation which is necessary, of course, is that of the resolution regimes. Again, it is a serious point to complete and create a true banking union.

The other parts of risk reduction have to do with the NPLs we discussed before, and many other parts. It is a journey and, in a sense, the Commission's proposal takes note that this is something that needs to be achieved, step-by-step. As I said before, we should not lose sight of the ultimate objective, which is a fully-fledged deposit insurance and, in order to be sure that we are moving there and we are not trying to avoid this, progress towards this objective should be clearly defined and clearly measurable, and assessed with equal clarity.

The other question is: Are countries going to be ready for our policy stimulus reduction? Let us call it this. Well, first of all we have not discussed this. We just decided on our recalibration last week. Actually, when we announced it, the impact on financial markets was nil, because it was exactly measured on the improvement in the economy – and it was calibrated while taking note of that improvement. Still, the monthly flows were reduced to 30 from 60, which is, *prima facie*, a big reduction in the monthly purchases. So the reduction in policy stimulus which may take place, if the conditions that the Governing Council stated for that materialise, will take place in an environment where we should not expect big changes. Having said that, however, let me remind you that our mandate is price stability and not government support or fiscal deficit support.

Finally, there is a point you made which I entirely agree with. It prompts me to say that this is the time – as I said in the introductory statement – not only to make economic structural reforms, but also to improve the budget situation, without waiting only for the improvement that comes from growth and low interest rates. The main reason for that is exactly the one you hinted it – namely that countries have to regain policy space in case there is going to be another recession or another crisis ahead.

1-024-0000

Δημήτριος Παπαδημούλης (GUE/NGL). – Κύριε Πρόεδρε, κύριε Draghi, θα σας μιλήσω στα ελληνικά. Σας καλωσορίζω και πάλι στην Επιτροπή μας και θα ήθελα να σας ρωτήσω ορισμένα πράγματα. Το πρώτο αφορά στη χώρα μου, την Ελλάδα. Η Ευρωπαϊκή Κεντρική Τράπεζα μετέχει στους θεσμούς που εκπροσωπούν τους δανειστές και τώρα τελευταία ακούμε θετικές προβλέψεις από την Επιτροπή και από τον Ευρωπαϊκό Μηχανισμό Σταθερότητας για την πορεία της ελληνικής οικονομίας και του ελληνικού τραπεζικού συστήματος. Θα ήθελα να μου δώσετε τις δικές σας εκτιμήσεις -της ΕΚΤ- για την πορεία της ελληνικής οικονομίας και για την προοπτική ολοκλήρωσης της τρίτης αξιολόγησης και, ιδιαίτερα, τη γνώμη σας για το πώς εξελίσσονται τα πράγματα στο ελληνικό τραπεζικό σύστημα.

Η δεύτερη ερώτηση αφορά τις αποκαλύψεις αυτής της σκανδαλώδους, μεγάλης φοροδιαφυγής, μέσω των Paradise Papers. Ο Επίτροπος Moscovici, πριν από μία εβδομάδα, μίλησε στην ολομέλεια του Ευρωπαϊκού Κοινοβουλίου για «βαμπίρ της φοροδιαφυγής» και είπε πως πρέπει να ληφθούν μέτρα διαφάνειας, ανταλλαγής πληροφοριών και φορολογικής εναρμόνισης, διότι εκτός από τους φορολογουμένους πλήττεται και η ευρωπαϊκή οικονομία μέσω αυτής της σκανδαλώδους αποφυγής πληρωμής φόρων από τους υπερπλουσίους. Θα ήθελα την εκτίμηση σας, την εκτίμηση της Ευρωπαϊκής Κεντρικής Τράπεζας, απέναντι σε αυτή τη φοροδιαφυγή και στο πώς μπορεί να αντιμετωπιστεί.

Η τελευταία μου ερώτηση αφορά την έκθεση που δόθηκε πριν από λίγες μέρες στη δημοσιότητα από ένα θεσμικό όργανο, το Ευρωπαϊκό Ελεγκτικό Συνέδριο, το οποίο αξιολόγησε την πορεία εφαρμογής των μνημονίων στη χώρα μου, την Ελλάδα, και εντόπισε πολλά λάθη στον σχεδιασμό, με αρνητικές κοινωνικές συνέπειες, και ένα έλλειμμα αξιολόγησης των κοινωνικών συνεπειών. Στην έκθεσή του, το Ευρωπαϊκό Ελεγκτικό Συνέδριο σημειώνει ότι δεν μπορεί να αξιολογήσει τον ρόλο που έπαιξε η Ευρωπαϊκή Κεντρική Τράπεζα στα ελληνικά προγράμματα, διότι αρνηθήκατε να δώσετε τις πληροφορίες που σας ζήτησε. Μπορείτε να μου σχολιάσετε αυτή την επισήμανση; Πώς απαντάτε στην κριτική του Ελεγκτικού Συνεδρίου της Ευρώπης;

1-025-0000

Mario Draghi, *President of the European Central Bank***.** – The first question relates to the improvements in the Greek economy. Indeed, the overall situation has improved substantially on the real side – GDP-wise and employment. Basically, the continued implementation of many of the measures presented in the third review is proving fruitful.

The improvements are also reflected both in the market for Greek debt – where we have seen a notable decline in the spreads – but also in the positive reaction of the markets to the proposed debt swap measures by the government; clearly the intent of creating a yield curve and improving the liquidity of government debt has been welcomed by markets.

As far as the Greek banks are concerned, let me immediately say that right now the common equity Tier 1 Ratio is staying at 17.1%, which is quite a remarkable measure. However, on the funding side the banks need to stabilise their funding situation because the situation of deposits in the banking system has basically stabilised but not recovered to the levels there were before the crisis.

On your second question, taxation does not fall within the ECB mandate, but certainly the ECB is in favour of measures that reduce tax evasion and tax elusion, and certainly welcomes what the legislators and the Commission will propose in this field. We have always supported the Commission's and the legislators' proposals in this field.

On your last point, about the European Court of Auditors (ECA) and with regard to the ECA report, first of all I have one general point to make – and we can return to this – which is that the mandate of the ECA is basically limited to analysing the operational efficiency of the management of the ECB. So when the ECA asks questions that go beyond this mandate, the ECB cannot answer – especially when the questions relate to the input that the ECB has given to the Commission, to the Eurogroup and to the EWG.

Furthermore, no evidence is presented in the ECA report that would support the claim that you mentioned before – that there were mistakes and so on. The capital needs assessments were always based on the macro assumptions available at the point in time when the respective AQRs and stress tests were conducted. Having said that, the ECB of course stands ready to cooperate and continue cooperation with the ECA.

1-026-0000

Philippe Lamberts (Verts/ALE). – Mr Draghi, first on wage dynamics. When I look at the employment rate expressed in full-time equivalent – so basically the capacity usage of the working capacity of a society, I see it culminates at 68% in Germany, at 63% in Belgium and at 53% in your country, Italy. So with such a huge under-employment I am absolutely not surprised that wages are not picking up. It is quite obvious – you might even say it's just supply and demand. But that people would prefer job stability seems obvious to me, because there so many people lining up behind them to take their place if not.

You spoke about an increase in the wealth of households. What can you tell us about the distribution of this wealth increase? Does it benefit everyone, or are people still seeing a wealth decrease? And then, how well or poorly distributed is it? Is it comparable to the US, where in the last 10 years 99% of the growth has been benefiting basically 1% of the population?

But my most important question is this: you as a central banker have an especially good vantage point on the global financial system. What are the fragilities that you see in this system, either within the euro zone or outside of it, that worry you most in terms of impact on the euro zone countries? So what keeps you awake at night, basically, in terms of euro zone financial stability? It can be internal factors or external factors.

1-027-0000

Mario Draghi, *President of the European Central Bank***.** – With respect to your first point, I could not agree more. In my answer about the reasons why nominal wages are slower to respond to the shrinking output gap and the improvements in the labour market, I did not in fact mention this reason, but it is a further reason. If we measure unemployment based on

what is called the U6 – namely, what you said – measuring also the quality of the present employment, we find another explanation of why nominal wages are not reacting.

Again, provided our monetary policy support continues, this factor will also tend to mitigate its influence on the nominal wage response. So again, we have a reason to be, in a sense, confident that at some point in time nominal wages will pick up. It would be an entirely different answer if we were to say that it is mostly the fault of globalisation or of digitalisation, because there is nothing that central banks can do about that. So we think that that is not the main reason. The main reasons are those such as the one you mentioned, or the other reasons I mentioned before. So the point here is just to be able to continue calibrating monetary policy support in a way that will foster this gradual improvement in the labour market up to the point where nominal wages react.

Concerning wealth distribution, first of all, you did not say – and I am pretty sure you would not say this, but some people say – that monetary policy is worsening wealth inequality. I would just like to make it clear, and I have made this point several times: it is not true. Clearly, if you buy assets, then asset prices go up. The holders of assets are predominantly wealthy people, so, in the short term, wealth distribution worsens. But, given enough time to improve the labour market, then we can cope with the worst source and the most serious reason for wealth and income inequality, namely unemployment. So the creation of 4 million jobs, the improvement in labour markets, is actually improving the situation of wealth and income inequality as well.

By the way, all the studies show that the short-term effect may be going against equality, or towards greater inequality, but then medium and long-term effects are definitely offsetting this short-term effect and there are improvements in income and wealth. In addition to this, the effect that our monetary policy had on house prices is also improving. It is reducing wealth inequality for households, and especially younger house owners, because they are the ones who typically borrow more to purchase their houses.

Is our wealth and income distribution situation as bad as it is in the United States? The answer is no. Continental European wealth and income distribution is better. We have a different social model, basically, that has protected distribution, in spite of the fact that, without question, the dramatic increase in unemployment in the years of the crisis has seriously worsened both income and wealth distribution.

Finally, on financial stability risks. First of all we carefully monitor financial stability risks after a prolonged period of low rates and ample liquidity. The risk of underestimated liquidity premiums, the question of whether liquidity is always there, and the search for yield, are all issues that we take very seriously. We continue to monitor the financial stability situation for the euro area.

Do we see bubbles? Not so far. We see local situations where valuations are stretched – mostly, if not exclusively, in the prime commercial real estate market. We see that in certain cities house prices are going up fast, but the valuations are not stretched compared with not so long ago, when these prices were unduly depressed. So they are not far from their historical averages and, in any case, this situation is in certain large cities in certain countries.

So the answer is, if there are financial stability risks so far, they are localised, they are not systemic, they are confined to specific situations. The answer there is that the authorities in many countries have already taken measures of a macro-prudential character to cope with these situations. Certainly the answer would not be to change monetary policy, because that would not be the answer to a local financial stability risk.

1-028-0000
Marco Valli (EFDD). - Presidente Draghi, io ho due domande per lei. La prima riguarda un parere, che è stato pubblicato dalla BCE qualche giorno fa, relativo alla revisione della BRRD, e nello specifico sulla misura del *moratorium* – ovvero, in caso di risoluzione di una banca, si propone di congelare per cinque giorni tutte le attività finanziarie – ma la BCE in questo *paper* propone anche di bloccare i conti correnti per cinque giorni. Siccome sono i conti correnti dei cittadini, e sono appunto i risparmi dei cittadini, volevo capire con quale diritto si propone di bloccare i risparmi dei cittadini per cinque giorni. Capisco sulle attività finanziarie, ma i conti correnti, anche dal punto di vista politico, è una domanda che ci stanno facendo parecchi e ci sono, appunto, tanti che ne stanno parlando, e quindi volevo capire come mai proponete questa cosa.

Poi sulla questione NPL, a me piacerebbe vedere le istituzioni internazionali, quindi Mario Draghi, ma anche Lagarde, Nouy, oltre che accanirsi sulla questione dei crediti deteriorati, in un certo senso anche certe volte manipolando il mercato, perché se si continua a incentivare su questa situazione, ad esempio per le banche italiane si creano dei problemi non indifferenti nella gestione, e si fa un po' il gioco della speculazione che oggi è interessata a comprarsi gli stock a prezzi di sconto. E, d'altronde, poi le banche devono mettere a svalutazione tutti questi NPL e di fatto è difficile avere degli aumenti di capitale. Quindi mi piacerebbe che i regolatori internazionali facessero invece pressione anche, ad esempio, sugli *asset* illiquidi detenuti dalle più grandi banche d'affari, che dal mio punto di vista sono un rischio sistemico molto più importante e impellente per quanto riguarda, ad esempio, *asset* di secondo e terzo livello. Ecco, volevo capire perché non incentrate anche su questo la vostra azione.

1-029-0000
Chair. – I am sure that you are aware that the SSM is within the ECB, but there is a separation and we are here to discuss monetary policy. I am of course sure that you will answer that.

1-030-0000
Mario Draghi, *President of the European Central Bank***.** - To some extent I am allowed to discuss some general issues in a general way, and you will understand that if I don't touch on some points it depends on the fact that I don't know these things, because in a sense I am concentrated on monetary policy, not on supervision.

But on the ECB opinion on the moratorium, basically the opinion was favourable because in these extreme situations one wants to have a situation where you have enough flexibility to cope with the crisis. The moratorium would assure that there is adequate time for preparing a credible solution while preventing the severe deterioration of a credit institution's balance sheet and liquidity outflows.

Experience has shown that, with the existing moratorium rules, which certain countries do have, this does not provide evidence – because this is the criticism that's been laid against this – that if we have a moratorium then this will only speed up the banking crisis, in other words that people will run away from the bank even faster than if there is no moratorium. In fact it actually facilitates the orderly actions of authorities. Of course in this we are talking about extreme powers in extreme circumstances.

In any event, let me add that we have to have further assessments on this point. There have been other proposals, such as for example publishing a clearly defined and harmonised known-in-advance creditors' hierarchy as an alternative to having the moratorium. So the answer is that we have to find a way that will make the resolution of crises more orderly than it is at present. There are various ways, one of which is the moratorium, but I would not limit my attention only to that. Incidentally, the publication of the creditors' hierarchy is essential no matter what, even regardless of the moratorium.

On the idea that we are thinking about a banking union with different hierarchies, often unknown or changeable at governments' discretion: this is not a banking union, it is something different. So I think if there is one area where I frankly would insist on asking for action from the governments, this is it.

Now on the other point you raised on level 2 and 3 portfolios, we agree that level 2 and 3 portfolios in particular may be more sensitive to mispricing, overvaluation and do require continued supervisory attention. Supervisors will build on the existing work programme – so there is a work programme –and continue to focus on the soundness and reliability of valuation frameworks for accounting and prudential purposes, as banks should adhere strictly to prudential and accounting rules and have appropriate policies, models and processes in place. The main areas of concern will be the valuation of complex products in credit, debt and equity trading, the scrutiny of the relevant control processes including, but not limited to, financial reporting and risk-measurement approaches, and the in-depth analysis of the relevant classification policies.

This is not yet on the list of supervisory priorities in 2016 and 2017, but the ECB banking supervision is giving supervisory attention to risks posed by level 3 assets. In cases where level 3 assets are material for specific banks, we devote significant attention to potential valuation losses through both our off-site and on-site supervisory processes.

1-031-0000

Chair. – We are also going to discuss this thing in a specific format with the SSM. Indeed I very much appreciate its principles and it seems to warrant it being time for the SSM to make this a priority.

What we heard is more than welcome. I would like to say to Mr Valli that fortunately on this thing, on the moratorium, this is a legislative proposal so it is fully in our hands. We listen to all the opinions but we are the one, together with the Council, to make the legislation. So we can be sure that we will use all the necessary caution and reflection, including by identifying some critical elements in this. I personally, for instance, am pretty sceptical, but we will see – codecision is a pretty complex process – and ensure that all the issues and problems are fully examined.

1-032-0000

Gerolf Annemans (ENF). – President Draghi, we zijn hier vandaag natuurlijk om uw programma voor de aankoop van activa (APP) en de wijzigingen daarvan te evalueren. Ikzelf en mijn fractie zijn EU-critici omdat wij van oordeel zijn dat grotere gehelen niet noodzakelijk alle kleine onderdelen goed uitkomen en soms zelfs geen enkel onderdeel ten goede komen. Dat geldt in onze filosofie natuurlijk voor de Europese Unie, maar eigenlijk ook voor de euro, die in deze vorm volgens ons niet houdbaar is. Maar goed, u hebt er anders over geoordeeld. U hebt de instabiliteit van het euro-concept min of meer verborgen achter uw lage interest en uw opkoopbeleid. We zijn nu 2 016 miljard euro verder. U kon uw beleid niet voortzetten omdat het onmogelijk was om zo door te gaan. U kon het ook niet stopzetten omdat het herstel, dat u nu aanhaalt als de reden waarom u het niet voortzet, eigenlijk toch veel te broos is en omdat er nog altijd grote risico's in het systeem aanwezig zijn.

Een en ander staat momenteel sterk ter discussie in de academische wereld in de regio waar ik vandaan kom en waar men Nederlands spreekt, meer bepaald in Nederland en Vlaanderen. Ik vermeld onder meer professor Kocken van de Universiteit van Amsterdam, die risico-management doceert en zegt dat de schulden gigantisch zijn. Volgens hem is het systeem fragiel, zijn er meer risico's dan in 2008 en hebben we eigenlijk geen instrumenten meer om te reageren. Ook Lex Hoogduin, monetair econoom in Groningen en voormalig bestuurder van de Nederlandse centrale bank, zegt dat we aan struisvogelpolitiek doen, want het beleid dat wordt voortgezet, is eigenlijk bedoeld voor crises. Bij de minste inflatie of bij een nieuwe

recessie gaan we opnieuw naar instrumenten moeten grijpen die we eigenlijk niet meer hebben.

Die commentaren maken mijn vraag dus wat minder hypothetisch: ziet u nog instrumenten mogelijk om te reageren wanneer toch opnieuw zou blijken dat het herstel zich niet doorzet of wanneer zich een nieuwe schok of een recessie voordoet?

1-033-0000
Mario Draghi, *President of the European Central Bank***.** – First, the assessment on our programme is that the programme contains, in its design, enough flexibility to be adapted to changing circumstances.

Second, as I said before, at the present time we do not identify – although we are carefully monitoring – financial stability risks, systemic financial stability risks that would justify changes in monetary policy stance. We identify local pockets of potential risks that have been coped with by macro-prudential instruments.

Having said that, if you point to the problem that we have collectively, namely a lack of policy space in case of sudden adverse contingencies, I certainly agree with you. But here my attention would go, first and foremost, to fiscal policies. Let us not forget that the experience of the crisis showed that there were countries that had no fiscal space in their fiscal policies to cope with the crisis. Their debt levels and their deficit levels were already so high that any potential expansion would be questioned by markets, and the credibility of their budgets had been severely questioned, with serious consequences for the financial stability of these countries.

Another issue is the amount of sovereign bonds that are owned by the banking system, so every time the credibility of the country is being questioned you also have the inherent weakness of the banking system and, therefore, decreasing credits and the recession that we have witnessed in the past. Regaining policy space, both on the fiscal side, and also especially on the structural side, is essential. There is no better time than now, when things are going better, to do so. That is the answer that I would give to your question.

1-034-0000
Georgios Kyrtsos (PPE). – President Draghi, it seems to me that Mr Stournaras, the Governor of the Bank of Greece, is under intense political pressure. A pro-government newspaper which specialises in reporting the real or non-existent economic wrong-doings of the Governor and his wife has already been condemned for libel in the Greek courts, but continues its attacks on the government supported, in my view, by influential government members. In addition, the Governor has been accused of selectively leaking auditors reports from the Piraeus Bank and the Attica Bank to the press; an anti-corruption prosecutor is already dealing with this case. Mr Stournaras strongly denies any wrongdoing.

In view of these developments, do you still consider Mr Stournaras a trustworthy central banker, and a trustworthy collaborator of yours? Would you like to comment on the methodology being used against Greece's Central Banker?

1-035-0000
Mario Draghi, *President of the European Central Bank***.** – I do not have specific comments to make on this matter, but let me say that Governor Stournaras is a trusted member of the Governing Council of the ECB, and he has worked hard for the well-being of Greece.

1-036-0000
Georgios Kyrtsos (PPE). – President Draghi, I would like to share your optimism about the situation of the Greek banking sector, but this is the big issue in Greece right now – namely whether the systemic banks will in effect be able to manage the NPLs in a successful way. The value of their stock is going down. So do you think that they will manage this NPL crisis

– and I repeat the question that I asked the other time – or do you think there should be some additional initiative to help them get through these difficulties?

1-037-0000
Mario Draghi, *President of the European Central Bank***.** – I have commented before about the capital position of the banks at this point in time, but NPLs are the most critical problem that the Greek banking system has to address and the decision of the notaries to abstain from electronic and physical auctions until the end of the year is certainly not a good sign.

Oh... they have changed now? They have decided to participate? Well, that's a good sign.

Clearly the disposal of NPLs is always, as we just discussed before, very difficult. But what we understand is that enough guarantees, from the social viewpoint, have been put in place by the government for the disposal of this stock to continue and actually increase in the coming months. That is the key problem.

You are aware that we are going to have a SREP for Greek banks earlier than for other banks, so we consider the present situation a solid one. We are aware that the problem of the NPLs has to be addressed with effectiveness. We are also aware, as I said before, that the funding conditions are not stabilised yet.

We will see. We will have a better view of how things stand with this SREP done at an earlier time so that – and this is the reason for doing it – if remedial action has to be undertaken, it will be done before the end of the review.

1-038-0000
Jonás Fernández (S&D). - Señor presidente, la verdad es que deseaba preguntarle por el EDIS, pero creo que ya ha habido preguntas suficientes y ha quedado meridianamente clara la posición del BCE, de tal manera que voy a pasar a una segunda pregunta.

De los datos que usted ha dado de recuperación económica de la zona del euro, que, ciertamente, están ahí, es importante destacar, como ha hecho usted en una respuesta posterior, que el *output gap* de la zona del euro sigue en porcentajes negativos, y que aunque la inflación pueda estar repuntando, en parte también debido a la evolución de los precios energéticos, es verdad que las propias previsiones del BCE sitúan ese «cerca del 2 %» dentro de bastante tiempo, con lo cual me gustaría moderar un poco las expectativas o la visión de la economía de la zona del euro que ha hecho en su interpretación inicial.

En todo caso, querría preguntarle por el debate académico en torno a la definición de «estabilidad de precios». No voy a preguntarle si el Consejo de Gobierno está valorando revisar ese «cerca, pero por debajo del 2 %». Y no se lo voy a preguntar porque me imagino la respuesta. Pero sí me gustaría preguntarle por el debate que estamos observando en medios académicos sobre cómo guiar la política monetaria.

Hay tendencias de fondo, como la evolución de la demografía, que afectan claramente a los niveles de ahorro de las economías desarrolladas y cómo eso puede afectar a la implementación de la política monetaria. Hay quien ha defendido, como ha hecho Blanchard muy recientemente, no tener un objetivo de inflación sino fijar un objetivo de nivel de precios, de tal manera que permita a las autoridades monetarias tener más margen de maniobra. La propia definición actual del 2 % probablemente es asimétrica y algo ambigua, porque no se sabe. Se dice «por debajo del 2 %» pero no sabemos qué significa eso, de tal manera que pudiera haber un criterio simétrico, un 2 % +/- 1, o algo así.

También se intenta introducir el debate sobre la necesidad de incorporar el valor de los activos a los objetivos de política monetaria. Que no solamente sean los precios de bienes y servicios

de consumo sino también introducir activos de inversión, *real estate* por ejemplo, o cualquier otro tipo de activos o, incluso, reabrir el debate sobre el PIB. Nominar usando, por lo tanto, el deflactor del PIB.

En fin, no quiero preguntarle si están pensando en cambiarlo, porque me sé la respuesta, pero me gustaría saber su opinión, su reflexión sobre este debate.

1-039-0000

Mario Draghi, *President of the European Central Bank***.** - In the Governing Council we have not discussed any change in our price stability definition, and there are good reasons for that. One is that we should not forget that the central banks of virtually everywhere in the world, or certainly the largest jurisdiction central banks, adopted this definition of price stability at the end of the 1990s after several experiences, one of which was in Japan, for good reasons which hold true today. These good reasons have not gone away.

There are also other reasons for not discussing this issue in the Governing Council at the present time. One has to do with credibility. To change an objective once you are not able to achieve it is not a great test of credibility. If we were to choose a different objective then next time, when inflation is much higher, people would say it was going to change again and a higher level of inflation or a lower level inflation adopted. So it is not a good time to think about this.

Furthermore, the whole set of expectations is calibrated and geared to this definition of price stability, so to discuss the possible changes would, at this point in time, be highly destabilising in both directions. In this way, I would certainly not advise discussions on changes in the definition of price stability. We should focus our attention now on reaching the objective, as we have been doing for the last few years – or since our existence really – because it is part and parcel of our mandate.

1-041-0000

Anne Sander (PPE). – Merci Monsieur le Président de venir à notre rencontre pour ces échanges toujours très riches et très constructifs.

Depuis la crise financière, la BCE, sous votre mandat et celui de votre prédécesseur M. Trichet, a mené une action décisive pour maintenir la stabilité de la zone Euro.

Je reviens sur un sujet que vous avez déjà abordé mais peut-être aurez-vous des compléments à apporter. Il a été annoncé une diminution du programme d'achat d'actifs par la BCE. Je voudrais savoir quels sont les risques d'après vous. Il est vrai que les premiers indicateurs sont plutôt bons et que l'absence de réaction des marchés est plutôt positif, mais est-ce que vous identifiez des risques ? Et en particulier, quel sera selon vous l'impact sur l'économie européenne et plus particulièrement sur les banques, sachant que ce sont surtout elles qui financent l'économie?

Ma deuxième question porte sur les politiques monétaires des grandes puissances telles que les États-Unis, le Japon ou la Chine. Comment la BCE tient-elle compte de leur impact sur l'économie européenne au moment de prendre des décisions de politique monétaire?

Je voudrais enfin savoir comment la BCE entend concilier des taux d'intérêt répondant aux besoins de financement de l'économie réelle et une rémunération de l'épargne permettant de faire face au vieillissement de la population?

1-042-0000

Mario Draghi, *President of the European Central Bank***.** – As you mentioned, our decisions were welcomed by the markets with no reaction, which is always the best possible situation. This suggests that, all in all, the careful calibration of the various elements of our monetary

policy decision, namely the monthly flows, the decision to continue reinvesting the principal payments of bonds that come to maturity, the forward guidance on interest rates and the MRO, are all elements of a complex bundle of instruments which reflected, basically, the improvement in the overall situation and the situation of the eurozone economy.

You asked me what risks we foresee. At the present time, one of the risks we foresee is an unwanted tightening of monetary policy, which could come from changing external conditions. There, one may imagine situations in the rest of the world which could generate such a contingency, from the geopolitical risk to the fact that simply disappointments in the policy agenda of other major jurisdictions could unravel expectations that at the present time are priced in the current valuations. An unravelling would cause a market correction, which could cause – and as I said, this we want to avoid – an unwanted tightening in the financing conditions of the eurozone. Today we have to bear this possibility in mind.

This leads me to respond to your second question. Do we take into account what happens in the monetary policies of other jurisdictions? Well, as you know, I think all of us in different central banks are bound by our national mandates, so price stability in our case is defined for the euro area. In other jurisdictions where they have price stability they might have dual mandates but, basically, the limits of these mandates are national. What we certainly consider in our information set is what the monetary policies of other jurisdictions are. In the case of large economies like the eurozone, we are primarily driven by our own domestic conditions, however. We certainly look at the rest of the world, it is part of our information set, but it is very different from a small open economy where what the others do is immediately relevant for the domestic conditions of a small open economy. The eurozone economy is definitely large enough for domestic conditions to be dominant with respect to external considerations.

1-043-0000

Pedro Silva Pereira (S&D). – President Draghi, I do not think there can be any doubt that monetary policy has played a key role in the economic recovery and, once again, the ECB Governing Council took very important decisions for the future of the European economy.

I very much welcome this announced recalibration of monetary policy instruments because it is designed to maintain a high level of monetary stimulus to support economic growth and the self-sustained path for inflation. Normally, people pay attention to the big titles. Interest rates are maintained and are to be kept even well past the horizon of the Asset Purchase Programme. The Purchase Programme is prolonged and will be maintained until a sustained adjustment of inflation occurs. Starting in January 2018, the amount of purchases will be of around EUR 30 billion per month so we will continue to see a substantial level of economic stimulus.

But I would like you to elaborate on the forgotten pillar of monetary policy, namely the announcement that the ECB will reinvest all the payments from maturing securities purchased under the programme and that this will be done for as long as necessary. I think this is of the utmost importance for the European economy and I would like you to elaborate on the implications of this specific measure. In your initial statement you said that this will be favourable for liquidity conditions, but also that it will ensure the appropriate monetary policy stance.

My question is, can we expect this measure also to contribute to a more balanced distribution of the economic stimulus of monetary policy across the eurozone? We all know that purchases per each member country are limited by the general capital key requirements and limits by each line of that issue. In the last few months those limits have imposed a level of purchases for certain member countries, for example Portugal, under the capital key of the European Central Bank. Would you say that the announcement that the ECB will reinvest the

payments from maturing securities purchased under the programme will mean that some member countries – probably Portugal – can expect a higher level of purchases under the programme as soon as their securities purchased reach maturity and are paid. That is my question.

1-044-0000
Mario Draghi, *President of the European Central Bank***.** – Well, we are certainly limited by the capital key – that is the guiding principle. In terms of convergence across countries of the eurozone, we have already observed a substantial degree of convergence according to a variety of measures.

I mentioned in my introductory statement growth in value-added – we take a dispersion index of growth and value-added in different member countries of the eurozone – and we concluded that this measure is at an all-time low; I think it is at about 1997 levels. So it really shows that countries are actually converging through higher growth in the countries that used to have low growth and so on. So in this sense, the effect is already there and we expect that this will continue. It is one of the best pieces of news of this recovery in the sense that this is no longer focused and localised in certain of the eurozone.

So, in terms of our investment programme, we published ex ante the monthly redemption amounts for each component of the asset purchase programme for the euro system as a whole for the following rolling 12 months' time.
These redemptions will amount – over the coming 12 months – to 11 billion on average per month, though of course there can be sizeable differences from month to month because the repurchases will not regularly happen in the same way as they mature. But to give enough flexibility and to avoid unwanted impacts on the market conditions these repurchases could also happen in the next two months. So there will be differences.

Basically these investments will be conducted in a timely manner, as I said, and they will take place in the same jurisdictions as the principal redemptions. So we keep the repurchases within the same jurisdictions; the reason being we want to stay with the capital key as much as we can.

1-045-0000
Luděk Niedermayer (PPE). – Thank you, Mr President for coming. I will ask a question concerning monetary policy. Let me start by saying that I guess you were too modest when describing the situation in the economy of the eurozone. It seems to me that the data are not just showing improvement compared to previous years, but really substantial change. If I go through that data, we know that GDP growth has been accelerating since, I guess, 2013. Since 2016, the unemployment rate has been decreasing constantly. From 2013, long-term unemployment has been going down also – and we are still lucky because inflation is not 'close to zero' as your mandate would say it. However, I believe that wages will start to improve, and while I understand all your reservations, I expect that that there could be improvement in the pipeline because the economy is showing signs of robustness.

So I fully understand the stress you are putting on the quantitative side of monetary policy – and obviously I understand that you believe there is still a substantial negative output gap that must be closed – but I still wonder how big a probability you would ascribe to the chance of the economic recovery accelerating, and quite soon bringing improvements to very important areas like wages and unemployment that will actually start to drive inflation up, because we will enter such a hypothetical situation with interest rates being very, very, very, very low in nominal terms.

The second question is that I fully understand the policy and commitment of the ECB in putting together or tieing together the very low nominal interest rates with your quantitative

policy, but I wonder in theory if there is really not another option to start to increase the interest rate while keeping your quantitative policy in place, and that means reducing the risk of, for example, a speeding-up of asset price inflation.

1-046-0000
Mario Draghi, *President of the European Central Bank***.** - First of all we agree with your positive assessment of the recovery in the eurozone and following on from that we are confident that we will see changes in nominal wages, which will drive underlying inflation towards a more convincing upward trend than it has had so far. So far we have had underlying inflation which has just moved a little with respect to the end of last year, but it does not show any convincing upward trend and the reason is what you mentioned – namely nominal wages behaviour, which has been quite subdued.

At the same time, looking at the improvements – especially in the closing of the output gap – we are confident that we will see a nominal wages response.
At the same time, since we have this sort of dual reality – very convincing behaviour on the real side, on unemployment, on the GDP front, and also the composition of the recovery, with a strong consumption – the investment business, fixed investment, which used to be the most subdued part of the recovery now accounts for 45% of the latest growth figures.

So the composition of the recovery, the drivers of the recovery, all lead us to think that the momentum – and not only the levels – of this recovery will continue and will continue as strong if not stronger than it has been in the past.

At the same time we have to be, as we say, patient and persistent in our monetary policy stimulus and accurate in calibrating this stimulus to the improvement of the economic conditions.

In this context, we discussed several times, as you may imagine, exactly the point that you asked about: the sequencing of our measures. Starting with last year, and by around September, October last year, we clarified that the sequence is what has been stated in several Governing Council statements – namely that interest rates will remain at the present level well past the end of the net asset purchases.

That is very important because it has anchored expectations of future interest rate hikes in such a way that the yield curve now is well anchored – by the way, it has always been well anchored – and even if we make comparisons with other jurisdictions, our yield curve has remained, through control of the short-term path thanks to the forward guidance, and the medium and long-term path thanks to the Asset Purchase Programme. So it has always been quite controlled.

1-047-0000
Jakob von Weizsäcker (S&D). – President Draghi, we are of course extremely grateful for the way in which monetary policy has helped in the past years to bring us to the situation which we are in today. At the same time, I think the kind of caution that you outline – that in a fragile situation we do not rush things too much – is warranted.

But I want to ask you about a ‘new normal’. I want to ask you the following question. Let us assume that what you saying is right and that there are some expectations that have to catch up and there is some hidden slack in the labour market. Yes, eventually wages will increase a little bit, but the new normal will be a situation where the normal interest rate, nominal and real, will still be very low. Compared to growth rates, if growth rates stay more or less at the level we have them right now, it is not so clear whether we will be to the left or the right of the golden rule for some time, which creates, in the longer run – in the new normal – a fragile

situation for financial stability. So the question is, do we not need to rethink, for example, the way in which we preserve financial stability in that new normal?

Secondly – and this is the more immediate challenge for you as a central banker – how are you going to act and pursue monetary policy in a new normal where the monetary policy space is very limited indeed? We are not talking about setbacks in the next couple of months. We would be talking about any kind of setback in that new normal that would be substantial and mean that your policy space will again be exhausted. It is a very depressing view of the world and I would be curious how you think you can deal with that fragile new normal.

1-048-0000
Mario Draghi, *President of the European Central Bank.* - The present situation is one of continuous improvement in GDP growth, the labour market and employment. Is this going to end in a situation where, basically, interest rates, real rates, will continue to be very low? From this viewpoint, I think our situation is evolving – at least if it continues this way – in a way that is rather different from the rest of the world. Our growth rates are quite a bit higher than at most times in the past. Given the past estimates of potential output growth, we have been over potential output growth rates for some time now.

So what is going to be this new normal for the eurozone? I would not venture a guess. Supposing that this is what you are suggesting, then one conclusion – which I think you hinted at – would be that financial stability would become a dominant feature of this new normal. By the way, many measures have already been undertaken on that, but it will continue to be the dominant consideration of policy makers to make sure that this fragility does not materialise into events that might disrupt such an environment where growth rates continue to move in the way they are moving today.

I would like a normal like that, where growth rates continue and improvements in the labour market continue to be what we are seeing today. It is pretty clear, however, and I make this point again, that in such a situation both macro-prudential policies and micro-prudential policies become of the essence, because the space for macroeconomic policies, as you have said, is restricted. This is, by the way, one more reason – and I repeat what I said a moment ago – to exploit this circumstance to re-create space for the fiscal policy, to recreate space on the structural side.

That is the best way to cope with this new normal of very low real rates: on the one hand, create policy space where you can, and, on the other hand, have micro- and macro-prudential policies that ensure that no contingency disrupting financial stability takes place.

1-049-0000
Siegfried Mureşan (PPE). – President Draghi, I have two questions. The first one is on the CSPP and the second one is around communication on monetary policy decisions.

On the CSPP I would like to ask you whether the ECB is considering changing the eligibility criteria for the CSPP? Even if the CSPP is phased out at some point in the future, there might occur a need for the CSPP to become necessary again and the question is: could the eligibility criteria be adjusted in the future should the CSPP be needed again in the future?

And my question on communication around monetary policy is this. Last week you hosted the high-level Conference on Communication Challenges for Policy Effectiveness, with Janet Yellen, the Japanese Central Bank and also the Bank of England. And my question is: How is the ECB planning to actively improve its communications with the outside world and where particularly do you see space for improvement?

Your Chief Economist, Peter Praet, said that central banks have a role in explaining the ECB monetary policy in their own countries. Do you see a conflict between this positive affirmation vis-à-vis national central banks and the fact that some central banks openly criticise ECB monetary policy tools?

1-050-0000
Mario Draghi, *President of the European Central Bank***.** - On the CSPP, first, we anticipate that the purchase volumes under the three private sector purchase programmes, the CSPP, the ABSPP and the Covered Bonds Programme No 3 – because we had two previous ones – will remain sizable.

The programme has the flexibility to react to changes in market conditions, including through the redistribution of purchase volumes between the four programmes. Such redistributions have occurred already in the past, although in the past they were at a somewhat limited scale, and these redistributions are expected to continue. We expect that this redistribution will continue to reflect market conditions. The PSPP operates in the deepest and most liquid market and therefore is expected to adjust the fluctuations in the purchase volumes of the other programmes as well.

On the monetary policy communication question, that conference was actually quite interesting because first of all it reflected the importance of the task of communicating monetary policy. And we have seen this really every time: the clearer our communication is, the better it is understood by markets. In fact communication itself has become a monetary policy instrument. I observe, for example, that forward guidance – which is communication – has now become a monetary policy tool in all respects. So was the announcement of OMT in the past, and that is why increased attention on communications is warranted. It is part and parcel of our monetary policy tool.

But it is also part and parcel of our accountability. Our accountability is important because we are independent and we are independent within a mandate. So we are accountable – and I heard an example in my session in the panel during the communication conference – we are independent within a mandate that has been designed by the legislators who are elected. We are not elected. So the non-elected body is accountable to the elected body through its accountability in complying with the mandate. That is why accountability is a duty, and it is very important.

But in so doing, communication, precisely through accountability, becomes a monetary policy instrument, and I said on that occasion that we welcome the court cases because they allowed us to explain how well we comply with our mandate. So in this sense, any clarification on our compliance with a mandate is important for this dual role. It is our duty, but it is also becoming a monetary policy instrument.

1-051-0000
Pervenche Berès (S&D). – Je ne voulais pas revenir sur la réduction des risques dans le cadre de l'Union bancaire mais compte tenu des échanges qui ont eu lieu, je pense que c'est utile.

Chacun mesure qu'il faut débloquer le dossier du système européen d'assurance des dépôts (SEAD) et pas uniquement pour achever l'Union bancaire. Cela est nécessaire pour rétablir la confiance dans le système bancaire européen car si nous n'y parvenons pas, d'autres dossiers vont s'auto-bloquer.

Je voudrais insister sur deux aspects, la réduction des risques et le partage des risques. Honnêtement, depuis le début de cette audition, vous avez désigné les risques un par un mais depuis que l'Union bancaire a été mise en place, je ne vois pas trace de partage. La réalité est

que l'on s'efforce de réduire les risques mais sans les partager. C'est une réécriture complète de ce qui avait été prévu.

Concernant le SEAD, vous avez dit qu'il fallait arriver à un système d'assurance à part entière. Qu'entend-on par cela? Quel est le point critique? Est-ce que la façon dont on s'y prend nous permettra d'y parvenir? Pour l'instant on se contente de passer d'une étape à l'autre, est-ce un progrès dans la négociation? Ou faut-il viser l'objectif final et se donner les moyens d'y parvenir?

1-052-0000
Mario Draghi, *President of the European Central Bank***.** – I completely agree with the last words you said. We should have a final objective that is shared and agreed, and ask ourselves what is the best way to get there. If I did not place enough emphasis on risk sharing in my answers, I would certainly say that it was not intentional. The two things have to go together.

That is why I said it is a journey where we go together in parallel. Both sharing and reduction have to go together. One way to make this journey is represented in the Commission proposal. There may be other ways that may be faster or slower, and that will depend, but the important thing is that we all share the final objective. We are not yet there, by the way. A convinced acceptance of the final objective is the most important step, first, and the second most important step is to ask ourselves how to get there. For this, the fact that this journey is well specified and – I mentioned accountability – is clearly accounted for, so that we know exactly what happens between now and then, and what should happen, is the way I would see this process now.

1-053-0000
Siegfried Mureşan (PPE). – I am not taking the floor for a second time because I am back from the budget negotiations, but because my colleague, Tom Vandenkendelaere, who was supposed to ask questions, has had to send his apologies because he is sick today. He has asked me to ask you, President Draghi, two questions on his behalf.

The first one is on ECB profits, where the High Level Working Group on Own Resources, chaired by Mario Monti, speaks about the possibility of ECB profits financing an own resource for a euro zone budget. The question is: What is your opinion on this? Do you consider it a risk for the ECB's independence if the Central Bank's seigniorage revenues were to become part of the eurozone budget? That is the first question on behalf of Tom Vandenkendelaere.

His second question is related to digital currencies. Over the past few years numerous digital currencies have emerged. Digital currencies will have an impact on a central bank's monopoly power on the issuance of money and thereby the possibility of controlling the money supply in the economy. Tom Vandenkendelaere's question is whether you believe that digital currencies could endanger this monopoly which central banks currently have, and whether there are any other risks involved in this current evolution around digital currencies.

1-054-0000
Mario Draghi, *President of the European Central Bank***.** – On your first question, the devolution of ECB profits to the EU budget is an entirely political decision and this decision requires a change in the Statute of the ECB. The possibility of transferring ECB profits to the EU budget is not related – contrary to what some have said – to ECB policy on financial reserves, which is the subject of Article 33.1(a). Actually, changes to the recipient of ECB profits would require a change in the Statute and it is Article 33.1(b) which has to be amended. This governs the distribution of the remaining ECB profits after the establishment of the profit and loss account. That is the thing to understand.

As far as digital currencies are concerned, when we look at how much they are used in the eurozone, who the users are and the impact of their use on the real economy, we think that all this is still pretty limited. It is not yet something that could constitute a risk for central banks. More generally, however, the digital technologies, the DLT and other technologies that could be used, are certainly a development which should be receiving the interest of central banks and supervisors. The ECB and various national central banks are already working on this and have been working now for several months. We coordinate our work across the euro zone, the ESCB. Other streams of work are taking place in the BIS and one key angle, which has, in a sense, become the most important aspect of this discussion, is cyber risks.

With the development of digital technologies, obviously cyber risks are increasing and, at the last meeting of the G7 Finance Ministers, they have been considered the most dominant risk we have. That is why supervisors come into play, because cyber risks should, more and more, be assessed by the supervisors in their inspections on site, and cyber risk testing, stress testing, of the most relevant banking institutions should actually become current practice.

Of course, the matter is quite complex, and what we are now trying to have is, first of all, a harmonised reporting of cyber incidents across the euro zone, and second, a sharing of best practices by all the national central bank supervisors and ECB supervisors, because it is quite clear that actions on this front do require a collective effort. Similarly, collective efforts are taking place at global level, in the G7, in the G20, and in the BIS. I hope all this is enough. It is an area in continuous expansion.

1-055-0000

Bernd Lucke (ECR). – Herr Draghi! Ich habe das Glück, Ihnen heute zweimal Fragen stellen zu dürfen.

Ich möchte noch einmal auf Ihre Antworten auf meine frühere Frage zurückkommen. Ich habe Sie so verstanden, dass Sie im Wesentlichen gesagt haben, dass die geldpolitischen Maßnahmen des EZB-Systems – PSPP insbesondere – im Einklang mit Ihrem Mandat stehen. Ich habe aber nicht verstanden, warum Sie keine Verletzung des Verbots monetärer Staatsfinanzierung sehen. Meine Frage bezog sich ja darauf, ob nicht eine Verletzung genau dieses Verbots in Artikel 123 AEUV vorliegt, wenn die EZB dadurch, dass sie große Mengen an Staatsanleihen hält, über einen längeren Zeitraum – mehrere Jahre – hinweg der Kreditgeber gegenüber Staaten der Eurozone ist.

Meine Frage war: Warum ist es kein Verstoß gegen das Verbot monetärer Staatsfinanzierung, wenn die EZB in größerem Umfang neue Kredite an Eurozonenstaaten gewährt – indem sie deren Staatsanleihen aufkauft – als diese Staaten überhaupt an Neuverschuldung in dem fraglichen Zeitraum haben?

Einen dritten Aspekt möchte ich noch ansprechen, der an Ihr Mandat anknüpft: Das PSPP begünstigt diejenigen Staaten, die hohe Schulden und hohe Defizite haben. Von diesen Staaten hat das EZB-System die höchsten Anleihebestände erworben, auch relativ zum Bruttoinlandsprodukt. Und die Refinanzierungsbedingungen bzw. die Finanzierungsbedingungen dieser Staaten haben sich am meisten vergünstigt. Warum ist das mit einem strikt geldpolitischen Mandat der Europäischen Zentralbank kompatibel?

1-056-0000

Mario Draghi, *President of the European Central Bank***.** – Let me give you just two quick answers. First of all, it's not true they bought the highest amounts from high-debt countries. They follow the capital key rule. Second: I've told you before and I say it again: the ECB buys on the secondary market. Third, there is a previous pronouncement of the European Court of Justice, which you can look at.

And fourth, as you are aware, the PSPP is currently the subject of a preliminary ruling procedure before the Court of Justice of the European Union, which was initiated by an order for reference of the German Federal Constitutional Court. As I have already had the opportunity to clarify, since your query specifically related to the questions referred to the ECJ, we respectfully have to refrain from any further comment at this point in time.

Finally, as I had the opportunity to explain on other occasions, and again in the last hearing, we consider the asset purchase programme to be legal and within our mandate.

1-057-0000
Bernd Lucke (ECR). – Ich habe, glaube ich, noch Zeit. Herr Draghi, ich würde Ihnen gerne noch eine Frage stellen zu TARGET2. Gibt es einen Mechanismus innerhalb des TARGET2-Systems, der dazu führt, dass die aufgelaufenen Ungleichgewichte innerhalb des Systems wieder abgebaut werden? Ursprünglich war das TARGET2-System ja so gedacht, dass sich die Salden mehr oder weniger tagesaktuell ausgleichen. Aber inzwischen haben sich sehr, sehr große Ungleichgewichte aufgebaut, und die reflektieren natürlich Ungleichgewichte auf den Gütermärkten und auch auf den Kapitalmärkten der Mitgliedstaaten. Gibt es irgendeinen Mechanismus, der dazu führt, dass die TARGET-Salden sich wieder ausgleichen werden, oder müssen wir damit rechnen, dass die Ungleichgewichte möglicherweise im Laufe der Zeit weiter zunehmen werden?

1-058-0000
Mario Draghi, *President of the European Central Bank***.** – I am sorry, I have to correct you. Originally it was not meant to rebalance, it has never been; TARGET has always been the same. Second, they do not reflect different current account surpluses or capital account conditions.

Let me give you an example: Italy has big liabilities in TARGET2. Germany has big claims in TARGET2. Following your point Italy should have a big current account deficit to Germany. It doesn't, it's balanced. So TARGET2 represents a settlement of all payments, and the current liabilities and claims are driven by our asset purchase programme, where they are settled and accounted for, not by current account deficits and surpluses.

Given that it is a centralised settlement system, there is no rebalancing mechanism such as you hinted at. It has not been designed with that in mind.

1-059-0000
Chair. – So we have now concluded the Monetary Dialogue.

(The meeting closed at 17.09)