1-001

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH MARIO DRAGHI,

PRESIDENT OF THE ECB

(pursuant to Article 284(3) of the Treaty on the Functioning of the European Union)

BRUSSELS, MONDAY, 8 JULY 2013

1-002

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

(The Monetary Dialogue opened at 15:35)

Chair. – We now come to the Monetary Dialogue, which was alluded to in the previous session concerning the ESRB, when a very interesting statement was made about low, or lower, interest rates continuing into the future. There were also some interesting remarks about the Single Supervisory Mechanism and how that is going to work, with or without backstops so to speak, and whether it can start with or without backstops and resolution mechanisms.

Perhaps we will get on to those issues in the fullness of time, but first I will give the floor to Mario for his introductory remarks for the ECB.

1-003

Mario Draghi, *President of the European Central Bank***. –** Madam Chair, it is a great pleasure for me to be back with your committee for our last exchange of views before the summer break.

At this time, it is worth taking stock of progress over the past 12 months. Clearly, financial conditions in the euro area today are more stable and more resilient than they were last summer. This is partly due to our determined monetary policy actions. Governments and parliaments have also played a key role in the relative return of confidence and stability by undertaking courageous reforms, at both the national and European levels.

Yet despite this progress, the euro area still faces considerable challenges. The economy is still weak. Financial fragmentation remains. This challenges the very concept of the single market. Small and medium-sized enterprises can find it difficult to access credit, particularly in countries under strain; and several key steps remain to be taken to complete the banking union. These are the three topics that I will address in turn today.

On economic and monetary developments, let me first briefly discuss our recent monetary policy decisions. In May, the Governing Council of the European Central Bank decided to lower the interest rate on the main refinancing operations by 25 basis points to 0.50%, and the rate on the marginal lending facility by 50 basis points to 1.00%. The rate on the deposit facility was left unchanged at 0%. These policy decisions took account of subdued underlying inflationary pressures over the medium term and they are expected to improve funding conditions across the whole monetary union.

Following its July meeting, the Governing Council stressed that the monetary policy stance is geared towards maintaining the degree of monetary accommodation warranted by the outlook for price stability and promoting stable money market conditions.

It reiterated that its monetary policy stance will remain accommodative for as long as needed. Furthermore, the Governing Council sharpened its communication by announcing that it expects the key ECB interest rates to remain at present or lower levels for an extended period of time. This expectation was based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics. That is to say both M3 and credit flows remain weak. In the period ahead, we will monitor all incoming information on economic and monetary developments and assess any impact on the outlook for price stability.

The accommodative stance of our monetary policy, together with the significant improvements in financial markets since mid-2012, should help to support prospects for an economic recovery later in the year and in 2014.

On non-standard measures, the Governing Council decided in May to continue conducting all refinancing operations as fixed-rate tender procedures with full allotment, at least until mid-July 2014. This measure will help to support a smooth transmission of the ECB's monetary policy stance. In particular, it will ensure that banks' lending decisions are not impaired by funding constraints.

The Governing Council also decided in May to start consultations with other European institutions on initiatives to promote a functioning market for asset-backed securities (ABS), collateralised by loans to non-financial corporations.

Before discussing this issue in more depth, let me briefly comment on the economic outlook. Economic activity in the euro area contracted for a sixth consecutive quarter in the first quarter of 2013. Labour market conditions remain weak. Recent confidence indicators based on survey data have shown some further improvement, albeit from low levels. Overall, euro area economic activity should stabilise and recover over the course of the year, although at a subdued pace.

The risks surrounding the economic outlook for the euro area continue to be on the downside. The recent tightening of global money and financial market conditions and related uncertainties may have the potential to negatively affect economic conditions. Other downside risks include the possibility of weaker than expected domestic and global demand and slow or insufficient implementation of structural reforms in euro area countries.

Annual inflation in the euro area has continued to moderate, falling from 2.5% in 2012 to 1.6% in June. Looking ahead, the underlying price pressures over the medium term are expected to remain subdued, reflecting the broad-based weakness in aggregate demand and the modest pace of the recovery. Inflation expectations nonetheless continue to be firmly anchored in line with the Governing Council's aim of maintaining inflation rates below, but close to, 2%.

Risks to the outlook for price developments are expected to be still broadly balanced over the medium term. Upside risks are related to stronger than expected increases in administered prices and indirect taxes, as well as higher commodity prices. Downside risks stem from weaker-than-expected economic activity.

Consistent with our expectations of low underlying inflationary pressures over the medium term, monetary – and in particular credit – dynamics remain subdued. The annual growth rate of loans to the private sector remains negative. To a large extent, weak loan dynamics continue to reflect primarily the current stage of the business cycle, heightened credit risk and the continuing adjustment of financial and non-financial sector balance sheets.

Let me now turn to the second topic – namely the financing of SMEs. It is important to recall that the euro area financial system is mainly bank-based: around 80% of the debt of non-financial corporations consists of bank loans. There can be no sustained recovery without a sound banking system capable of effectively intermediating funds across the whole euro area.

In the recent past, this intermediation process has suffered from two issues: first, financial fragmentation, between peripheral and core countries; and second, higher challenges for SMEs relative to large firms.

On the first issue, lending rates are very heterogeneous across euro area economies. This reflects divergent bank funding conditions, as well as country-specific macroeconomic developments that affect the creditworthiness of borrowers. The ECB has taken action, within its mandate, to alleviate this fragmentation: explicitly, it took action that alleviated funding constraints and reduced the dispersion of bank funding costs, not least through the three-year long-term refinancing operations. Still, the dispersion in lending rates across countries and borrowers remains substantial.

As regards the second issue, access to financing is more challenging for SMEs than for large firms. Spreads between bank lending rates for small-sized loans and large loans are still high by historical standards, although they have broadly declined since the last quarter of 2012. Difficult access to credit by SMEs is an issue for investment and growth in parts of the euro area, especially in countries that are under strain.

In Spain, for instance, the interest rate on small loans is almost 2.3 percentage points greater than interest rates on large loans. In France, by contrast, the difference is only 1 percentage point. Given their high dependence on bank credit, SMEs in countries under strain suffer particularly from financial fragmentation.

In this context, the Commission and the European Investment Bank are looking into possible ways to support SME financing, notably in the form of joint risk-sharing instruments. These would combine the lending capacity of the EIB and the European Investment Fund, as well as resources from national promotional banks, to finance special activities in EU priority areas.

A number of options – of both a short- and longer-term nature – are being explored, including the provision of guarantees, credit enhancements of SME loan pools to revive structured credit markets over a longer timescale; and third, purchases of asset-backed securities by the Commission and the EIB.

Initiatives to foster the developments of the capital market, including the securitisation market, to complement the role of the banking system are particularly useful in the euro area. With respect to securitisation, we have to be aware of the numerous constraints on the revival of ABS public issuance. These include in particular some proposed changes to the regulatory framework, which may reduce incentives to invest in certain types of ABS in the long term. Such constraints need to be properly addressed. The regulatory treatment for securitisation should acknowledge credit performance and ensure an unbiased level playing field with other securities regarding risk, rating and maturity. I would also like to make clear that, with regard to the ABS market, the ECB now has an advisory role.

Finally, let me say something about the banking union. Policy-makers have made strong commitments on moving towards banking union and now it is essential to deliver on those commitments. The objective is effectively threefold: reinstating beyond doubt the

soundness of the banking system; re-integrating the banking system; and delivering a supervisory and resolution framework that will prevent a repeat of the past risk build-up.

All core elements should fall into place swiftly to reap the full benefits of the banking union. The stakes are too high to afford undue delays. To complete such an essential project, resolute action has to be taken in the months to come – and this Parliament has a key role to play.

First, until the regulation on the single supervisory mechanism (SSM) is adopted, we at the ECB cannot formally take decisions. In this context, it is my understanding that the supervisory accountability arrangements with Parliament, in line with the SSM regulation, are nearing finalisation on the basis of a constructive stance by both parties.

With a view to the adoption of the regulation, we have already launched the process of internal preparations, on which I would like to give you a brief update. We are working in close and constructive cooperation with the national authorities for the establishment of the SSM. This includes five main workstreams: first, mapping the euro area banking system to identify, in particular, systemic institutions; second, addressing legal issues in the development of the new supervisory processes at SSM level; third, preparing a harmonised supervisory data reporting framework; fourth, developing a supervisory model and manual; and fifth, designing and implementing the balance sheet assessment required by the SSM Regulation.

Let me be clear about the importance of that fifth workstream. A credible and thorough balance sheet assessment is an indispensable step towards restoring full confidence in the banking system. Transparency on asset valuation is necessary to subsequently assess the capital position of banks and also to facilitate market transactions on bank assets.

The balance sheet assessment will be complemented by a stress test, in coordination with the European Banking Authority, that will cover all banks supervised directly by the ECB. We expect to conclude the comprehensive assessment when the SSM becomes operational. It is crucial to have a commitment to ensure that effective backstops are available, in order to ensure that the assessment is duly and timely concluded.

A second cornerstone of banking union is the Bank Recovery and Resolution Directive (BRRD). By providing the tools and powers in national laws, it will form a basis on which to build a single resolution mechanism. The ECB welcomes the fact that an agreement on the BRRD was reached at the last ECOFIN meeting. I trust that this Parliament, together with the Council, will reach an agreement by the end of this year.

This will in turn pave the way for a swift entry into force of the European Stability Mechanism's direct bank recapitalisation instrument. We welcome the political agreement reached at the last Euro Group meeting. This instrument will usefully complement the existing European backstop and will contribute to the further decoupling of banks from their respective sovereigns.

A single resolution mechanism is the next crucial pillar of the banking union. It is an indispensable complement to the single supervisor and should ideally be in place once the SSM is operational. The ECB looks forward to the Commission's proposal for an SRM, with a strong single resolution authority at its heart and a single resolution fund at its disposal.

Thank you for your attention. I now look forward to taking your questions.

1-004

Pablo Zalba Bidegain (PPE). – Mr President, I believe that this is the first time we have heard you speak so adamantly about small and medium-sized enterprises, about SMEs, in this House, and I welcome some of what you have said because –as you know– on numerous occasions I have expressed my concern regarding the difficulty that European SMEs, particularly those in southern Europe, have accessing credit.

You have acknowledged that the markets remain fragmented, that monetary policy is not being transmitted correctly, and you have given us an example: the cost of financing small and medium-sized enterprises in Spain vis-à-vis their German counterparts.

I will give you another fact. In Spain, credit to SMEs has fallen by 23% in the last year. As a result economic recovery will be extremely difficult, because you will agree that SMEs play a vital role in economic recovery.

I believe that things are going well. Today there is a confidence and a financial stability that –as you have reminded us– did not exist a year ago, in part due to your decisive action.

As far as SMEs are concerned, do not you believe that there would be a much greater impact on growth should the ECB assume a much more active role in facilitating the financing of SMEs, with measures such as those you have mentioned here, and that a further reduction in interest rates, which you have not ruled out, would have a very limited impact in some of the southern European countries due to market fragmentation?

Moreover, with regard to the measures that you have described to ensure that SMEs have a more balanced access to credit in the euro area, when do you believe that the European Central Bank may be prepared to take and to implement these measures?

1-005

Mario Draghi, *President of the European Central Bank***. –** I share your concerns about SMEs.

Just think: almost 75% of total employment in the Union is created by SMEs. It is also true that fragmentation is hitting SMEs in two ways. First of all, fragmentation across countries affects both credit flows and their costs: credit flows are weaker and their costs are higher in stressed countries than in other countries.

Secondly, comparing SMEs and large corporates, there is clear evidence of greater difficulty in accessing credit. Large corporates, even in the stressed countries, have, by and large, had easier access to financing than SMEs.

This is not the first time that I have spoken about SMEs in this Parliament and with this committee. The problems have been evident to the Governing Council since the beginning, and the Governing Council and the ECB reacted almost two years ago when we launched two longer-term refinancing operations (LTROs) at the end of 2011 and then in the first three months of 2012. We broadened the collateral rules to include the possibility of banks taking their loans to their clients as collateral when they came to borrow from us. So we have addressed this problem from the funding side.

Now, what else can we do?

We have to keep in mind, if we ask why banks are not lending more, that the first part of the answer has to do with lack of funding. I think we addressed that successfully in a variety of ways, which have been outlined on other occasions. Secondly, they may not lend because they lack capital, and there the ECB cannot do anything. We cannot replace banks' capital. That is something that their shareholders, and other actors, ought to do, but not the ECB.

The third factor has to do with the risk premium that banks are asking for lending to SMEs. Some of this risk premium depends on macro-economic factors and I believe that we acted quite successfully on that, as you reminded us, last year in July. But much of the risk premium also depends on the perceived riskiness of the client, namely the probability that clients will not pay back the money they have borrowed from the bank. That again is something that it is not part of the ECB's role to deal with.

The next step was to consider, given that banks have vast portfolios of loans to SMEs, what the system can do about that. Is there a way to shoulder the risk and the burden that these loans place on the banks' capital, so as to free up lending capacity? On this point, the suggestion was that the EIB and the Commission, with the ECB in an advisory capacity, would work together to see how this could be done.

One way of doing it would be to resurrect what used to be called securitisation, namely the possibility of some of these loans being transferred or sold to other market players. Securitisation, as you will remember, does not have a good name: the term rings of things of the past, pre-financial crisis. We think, however, that there is good securitisation and bad securitisation: good products and bad products. Many of the products being traded and priced and rated in Europe were transparent, but the regulation that we ended up with was the same for all the jurisdictions, and so all asset-backed securities (ABS), even those that are 'plain vanilla', are treated as if they were heavily structured and lacking in transparency.

What the EIB and the Commission and the ECB are trying to do now is to revisit this regulatory role – and of course we will need the support of the Parliament amongst others – to see whether we can have a regulation in place that is less discriminatory towards a certain kind of 'good' ABS, so that banks can package these loans to SMEs and trade them, price them and rate them as would otherwise be impossible if you have separate loans to different categories of SME.

1-006

Chair. – On securitisation, I partly agree with you, but you have to respect the fact that there is a skin-in-the-game requirement in the Capital Requirements Directive that does not sit comfortably with the models of asset management. That is something which is currently being wrestled with.

1-007

Peter Simon (S&D). – *(DE)* Mr President, you have just welcomed the fact that we have achieved an agreement in the Ecofin Council concerning the bank resolution funds and the resolution Directive. We share your enthusiasm. However, things get more interesting when we look at the details. What did the Members of the Council decide? They decided firstly to reiterate clearly that deposits of up to EUR 100 000 would be excluded from the bail-in, a necessary move following the first attempt to rescue Cyprus, which ended so chaotically. However, they followed this up by deciding that instead we should include Deposit Guarantee Schemes; in other words, there should be a bail-in for Deposit Guarantee Schemes.

As was jointly agreed right at the outset, the banking union rests on three pillars: supervision, the Bank Recovery and Resolution Directive and deposit protection. The moment the Deposit Guarantee Schemes Directive ran into trouble, this House showed cross-party support for stable funds, in stark contrast to the governments of the Member States, which believed that funds amounting to one third of a medium-sized banking crisis per country would be sufficient. Since this hiatus, all the protagonists have focused exclusively on two of the pillars of the Banking Union, namely resolution and supervision. However, if we are now to have a bail-in for Deposit Guarantee Schemes in the Bank Recovery and Resolution Directive, could you please explain how the national deposit guarantee schemes are to work, given that in most countries they do not at present exist as funds that actually have money at their disposal? If we do not successfully conclude the Deposit Guarantee Schemes Directive at the same time, are we not simply building a construct that can never work in practice because there are no deposit guarantee funds in most of the Member States?

1-008
Mario Draghi, *President of the European Central Bank***.** **–** The agreement about the Resolution Directive is certainly to be welcomed. We have to see exactly what is in it and I am sure that further work will be needed and that the role that the European Parliament can play in carrying out this work is fundamental.

The main purpose of the Resolution Directive is to break the link between banks and their sovereigns. That is the main goal of this directive. The second point is that there should be a pecking order as to who should pay for resolution, both for domestic and cross-border resolution cases. First, it should be the shareholders and creditors who pay for resolution, according to the hierarchy of their claims. In this hierarchy, the ECB has supported the introduction of depositor preference. Second, if needed, the privately financed Resolution Fund may provide additional funding to ensure orderly least-cost resolution. Third, and only as a last resort, there should be a fiscal backstop in place for the Resolution Fund to draw from.

Let us see why the insistence of the ECB on the depositor's preference has made it less important – or less urgent – to have the third pillar of this construction, namely the deposit insurance guarantee. This is certainly part of the future steady state banking union, but the introduction of a harmonised depositor preference in the EU will significantly reduce the need for a single deposit guarantee system (DGS) in the near term. It will provide a second layer of protection to insure depositors and thus reduce the role of the DGS in resolution funding. Therefore it will also help to break the bank-sovereign nexus.

In addition, the depositor's preference may support the introduction at a later stage of a single DGS in the banking union in two ways. First, this would imply that the single DGS could be smaller because it would significantly lower any potential payout by the single DGS. Second, this would also considerably lower the risk of depletion of the DGS so that the need for a public backstop is smaller, which implies less burden-sharing among Member States. That is why the depositor preference is so important in all this. I believe this answers your question.

1-009
Wolf Klinz (ALDE). – *(DE)* Mr President, a few days ago, President Barroso of the Commission presented his decision to set up a working group to deal with the question of the communitarisation of debts. Consideration is to be given to the establishment of a fund for the elimination of old debts or the introduction of Eurobills or perhaps even Eurobonds. Do you not see a danger in this project that the European Union will be divided even more starkly into euro area and non-euro area Member States? Do you not also see a danger that non-euro area Member States will no longer be interested in joining the euro area because they will perceive this as joining a debt union, something they would wish to avoid? This was my first point.

Point 2: The communication strategy of the European Central Bank (ECB) was always characterised by honesty and accountability. It seems to me that in the case of the indebted states, such as Greece, for example, the ECB has *de facto* abandoned such a policy. It is already patently clear that Greece is no longer capable of sustaining its debts. Despite last year's cut in the debt, Greece will have a debt of almost 170% of GDP by the end of the year. In financial circles, it is already seen as self-evident that a second 'haircut', or debt write-off, will be required. The ECB is actually the institution that was most opposed to the first haircut and that is now most opposed to the second write-off. How can this be reconciled with the desire and previously practised policy of the ECB of offering our citizens clarity?

1-010
Mario Draghi, *President of the European Central Bank***.** **–** I will answer the second question first: I do not think the ECB has said or done anything that is not true. That is not my recollection. I cannot really comment on this point, because this very issue is now being discussed in the Euro Group. I am told that the third review appears to be – by and large – broadly on track. I do not want to speculate on matters while they are being discussed there. However, I do take exception to the claim the ECB did not tell the truth.

On your first point, I do not think that a distinction between debt mutualisation amongst euro area members and non-euro area members is the first thing to come to mind when we think about debt mutualisation. We have to be quite careful when we consider this concept. I have said here on another occasion that if we talk about 'debt mutualisation' in isolation, then that to me means 'I issue and you pay'. That is a good reason for being very serious when we talk about this issue.

In order to have debt mutualisation, we have to have trust in place, meaning that all governments in all Member States ought to be aware that they have to comply with rules. They are all subject to the same discipline so that there can be mutual trust between them. It is only at the end of that process that we can actually think and talk about debt mutualisation. Incidentally, in order to be part of this process, countries will have to share national sovereignty.

1-011
Derk Jan Eppink (ECR). **–** Two weeks ago in its 83rd annual report the Bank for International Settlements warned about the adverse side effects of prolonged expansive monetary policies and asked central banks to strike the right balance between the level of interest rates and the pressure for reform. Last week, in the view of the BIS, you did precisely the wrong thing; you kept interest rates low for an extended period of time, whereas structural reforms are generally only carried out when there is sufficient pressure. Your forecast and the forecast of the Commission have very often been too rosy. It amounts to a pep talk. In 2012 Greece was growing by 2%; it has contracted by 6%.

Are you not afraid of a Japan scenario, with many years without real structural reform and low interest rates that allow governments to indebt themselves ever more? The eurozone turning into a long-lasting recession zone? Japan now has a public debt of over 200% to GDP.

1-012
Mario Draghi, *President of the European Central Bank***.** **–** Our announcement parallels very accurately what was decided by the Bank of England. I do not know which parallels which, but they are strikingly similar. Given that the present situation is what it is, on the real side, on the price side, on the monetary flows, this is what central banks do – they keep interest rates low. So there is no surprise there.

Second, what is this about being wrong with forecasts? What I said during the press conference is that we are seeing our baseline scenario of a gradual recovery by year end being confirmed. Fragile – and from very low levels – as it is today, by and large we are seeing some confirmation of this baseline scenario. So let us wait until the year end before saying that we are wrong.

Third, are we afraid of a Japan-like situation? The key thing here is that monetary policy remains accommodative and, as I said during the press conference, interest rates will remain at present levels or lower for the foreseeable future. The ECB Governing Council has injected a downward bias in interest rates, and we will look at price stability, the price path, we will look at economic activity and we will look at monetary developments – namely credit flows and monetary aggregates. This is our three-pillar strategy, and nothing has changed with respect to this.

But is this enough? What you yourself have said is that Japan ought to undertake structural reforms, but that is where the ECB basically has no role to play, other than saying that they are needed.

1-013
Philippe Lamberts (Verts/ALE). **–** Welcome, Mr President. Recently the Euro Group decided the ESM could recapitalise banks up to EUR 60 billion. Now just imagine that we look at the asset quality of eurozone banks and we come to the conclusion that more than EUR 60 billion is needed.

I see four options. Option A: we pretend 60 billion is enough; we just ignore the basic facts, and we have seen past examples of that. Option B: we say EUR 60 billion is not enough; would you recommend going above the ceiling of EUR 60 billion as regards what the ESM can do? Option C would be to let the states go beyond what the ESM can do. Option D would be to say, OK, if more is needed, then probably we need to resolve or restructure a number of these banks.

That takes on a special colour when we hear the debate on the fact that restructured assets are a decreasingly reliable way to measure the solidity of banks. If we look at leverage as a better indicator, would that not make the situation more alarming?

So I would like to hear your views on that and, if you have one second, your comments on what the IMF said about the Greece crisis management, I know that the ECB did everything right but maybe there are some lessons you want to draw from what the IMF has been saying.

1-014
Mario Draghi, *President of the European Central Bank***.** **–** Let me first say that the European Stability Mechanism (ESM) direct recapitalisation instrument is not for the asset quality review. In other words, if the ECB were to identify capital shortfalls in the banks that are subject to the asset quality review, the ESM direct recapitalisation instrument could not be used. The ECOFIN Council and the Euro Group have decided that would only be an option after the ECB has taken over the role of single supervisor.

So the question now is: what are the backstops if the ECB were to identify capital shortfalls in the banks that are subject to the asset quality review?

There are two types of backstop. The European Council conclusions made reference to national backstops; however, there are two types of national backstop. One is the backstop that is 100% national, coming from the budget of the country concerned. The other is the backstop that would derive from the country having signed an ESM programme, which would then finance the national budget. In other words, a country that increases its debt with the ESM would have then the money to finance a backstop.

But let us ask ourselves this question: if shortfalls in capital were to be identified, would countries immediately access the backstops? In fact, things have never worked like that. The first thing a supervisor undertakes when it is established that a bank has a capital shortfall is what is termed supervisory action: i.e. tapping the shareholders.

By the way, let me step back for a moment. It is very important that we should distinguish between 'gone' concerns and going concerns. In the case of the gone concerns, you simply bail in all the shareholders and the creditors in their pecking order, and then you resolve the bank.

With a going concern, the situation is more complicated and more delicate. The supervisor finds that there is a capital shortfall. At that point, the supervisor calls the shareholders and asks them to put more capital in the bank. The next step would be to ask the bank, for example, to sell parts of its operations or to merge. In other words, there are lots of supervisory actions that are normally undertaken by all supervisors in the euro area before one even thinks about accessing a backstop.

The backstop is, however, absolutely essential and important in terms of providing certainty and giving credibility to the asset quality review.

Let us not forget that we made a tragic mistake when, at the end of 2010 and in 2011, we had the first stress test without a backstop. That was highly pro-cyclical and very destabilising and, to some extent, the origins of the credit crunch we are experiencing could be found in that mistake at that time.

So that is why the ECB has insisted so much on having the backstops in place, not in the sense that they are going to become fully and immediately useable, but simply because they give credibility to the process. Otherwise, people would think that the asset quality review had produced only positive results because there was no money to be used anyway. That is why backstops are important.

On the points relating to the IMF, it is not true that the ECB always gets it right. However, let me say that when I was asked this question a couple of months ago, I had not read the IMF paper, which had just come out, but I responded in the same way I would respond today. Often these exercises are like reading yesterday's history with today's eyes. There is often a lack of perspective.

Certainly, some decisions at the time were taken on the basis of information that was incomplete, erroneous or deceptive. Certainly the reports about the structural strength of the Greek economy were not correct. The Troika was constantly reassured by the authorities at that time that the economy was much stronger than it in fact was.

So there have been mistakes and it is good that they have been identified so that they may not be repeated in the future.

However, Greece has achieved extraordinary progress in the meantime. It is one of the countries which has changed most, and I think we should be congratulating the Greek Government on these achievements and basically urging it to persevere on the track of structural reforms, now that we are starting to see the first benefits – rather than reading yesterday's history with today's eyes.

Let me add another thing. Often you hear people saying, 'Oh, that should have been restructured a long time ago … we waited too long … the restructuring should have been much bigger' … and so on and so forth. However, people forget perhaps what the overall climate was in 2010 and 2011. The most feared thing then was contagion, and I think that ought to be kept in mind. Things have changed a lot. Financial markets are much wider today and it is much easier today to speak about the need for restructuring than it was two or three years ago, but one should be fair to the people who were the policymakers at that time.

1-015

Chair. – I am going to have to press you on one point here because it is pretty fundamental to ongoing work. I was present at the informal ECOFIN Council when your predecessor at the ECB, Jean-Claude Trichet, demanded that backstops be put in place before the stress tests were done, and he was ignored.

As you have said, that was at the height of this fear of contagion, which was one of the reasons why Mr Trichet made that demand. He made it pretty publicly because he also raised it here, in various monetary dialogues, and Parliament was on his side.

What are you going to do if these backstops are not in place? Member States could see it as a demand on their budgets, which they could not afford. They are all swearing that they are not going to go to the taxpayer – although I thought that was what budgets were all about. It is still a demand on their budget even if they go to the European Stability Mechanism in order to get the money.

What goes if you do not get the necessary guarantee? Is it asset evaluation or is it the Single Supervisory Mechanism (SSM)? What guarantee do you have, other than some idle possible promise, that these backstops are actually going to be there?

1-016

Mario Draghi, *President of the European Central Bank***. –** Madam Chair, thank you very much for setting the record straight. With Jean-Claude Trichet, when I used the word 'we' I meant the policymaker community at large, but certainly I would have excluded the ECB because, as you said before, the ECB is always right.

(Laughter)

But this time we have no reason to doubt that the backstops will be put in place because, unlike last time, we have not been ignored. We have an explicit commitment made by the European Council in their conclusions to make sure that national backstops will be in place by the time we run the asset quality review. That is what makes me a little more confident that with preventive measures we may not actually repeat the same mistakes we made two or three years ago.

1-017

Chair. – Well, we have had an explicit commitment to a banking union, to country-by-country reporting and to quite a lot of other things that have been backed off from, so we will hold our breath.

1-018

Nikolaos Chountis (GUE/NGL). – *(EL)* Mr President, I get the impression, following these proceedings, that you are having trouble answering certain questions and that, in some instances, you are sweetening the pill or just giving one version of events, as has already been remarked upon. I should therefore like to go back to the previous topic, because it is very specifically dealt with in the version which you opted for in your report as President of the European Central Bank:
Very well, you do not have information on Greece's non-performing loans. Although I believe that economic activity has declined, the number of non-viable loans is

increasing. You said in your report that we now have the tools for the banks to address this. That is the question which I asked you last time and now you say that you will answer it. I have two more words to say and I am interested in hearing how you will respond. Do you mean that the deposit guarantee scheme regulation will be applied? In that case, as one of my colleagues observed, that system is based on government guarantees. Therefore, if that is what you mean, then the first consequence that such an approach or tool will have is, without doubt, that capital and deposits from the weaker economies will be moved to the stronger economies which, theoretically, can guarantee deposits of up to EUR 100 000. That is what the discussion is about. Please, if at all possible, give me something more specific for the credibility of these discussions, if you are able to, of course, so that we have a better picture; if we are causing you difficulties, please overcome them, so that we too can have more information.

1-019
Mario Draghi, *President of the European Central Bank***.** **–** There are two stages in this. The first is the pre-asset quality review stage when the European Council has stated that there will be national backstops in place for the capital shortfalls that might be identified by the asset quality review. Then there will be another stage when the ESM directory capitalisation instrument could be used after the SSM has started its operations.

So I think that is the difference. At the first stage, we will go by the pecking order, the supervisory action that I mentioned before, and then only at the very last stage will we be using the national backstops. I think that is the sequencing in this.

1-020
Chair. – So now that we have got the pecking order in the Recovery and Resolution Directive (RRD), we know what is going to happen if there is not enough capital.

1-021
Sampo Terho (EFD). – Welcome once again to our Committee, Mr Draghi. While the economic crisis has lasted, the amount of currency in circulation globally has increased dramatically. If we employ the narrowest definitions of the money supply, then the M0 money supply in the United States has almost trebled since 2008. The M1 money supply in the euro areas has also increased by around 37%, so fairly substantially, but relatively little compared with the United States.

Could you please now comment on this difference in the strategies that have been pursued? Why is it so great, how would you assess the outcome, and do you think that either of them has anything to learn from the other? I would also ask you to tell us why you think inflation has remained so low, despite the growth in the money supply.

1-022
Mario Draghi, *President of the European Central Bank***.** **–** Let me say first that what really matters for the economy is M3, and then M1. For example, there was a very significant enlargement of liquidity after the two long-term refinancing operations (LTROs) we launched at the end of 2011, and this huge amount of liquidity has now come back.

Even when it was out, some of it stayed in the deposit facility with the Central Bank. So, even though it has not been repaid yet, it was in that facility, which basically meant two things – one good, namely that funding needs and the potential stress that would have come from a lack of funding were being addressed successfully by the two LTROs; and one not so good, in the sense that this money really could not find its way through to the real economy, because we have not seen as significant an increase in M3 as we have in base money. I think that is the main difference.

When people compare our situation with the situation in the United States, they should have in mind that there are several differences. One is the difference in mandate, but the other is a difference between the institutional-financial set-up in the different policy jurisdictions. In the United States, a great deal of financial intermediation goes through capital markets, so the Fed reacts to lack of credit basically by intervening on the capital markets and buying government bonds and assets of different kinds. In Europe, 80% of intermediation goes via the banks, so that is why the ECB works with the banks. It can work on the funding side, but it cannot make sure that the banks, in the end, will lend. We have really tried everything from this point of view – I have mentioned the broadening of collateral routes so as to make it easier for banks to borrow from the ECB.

1-023
Danuta Maria Hübner (PPE). – Mr President, on your last week's policy of open mouths, or if you wish on 'forward guidance', my question is whether you plan to combine this forward guidance on interest rates with new, further, monetary activism, or do you expect your words alone will do the trick as they did last year on another occasion?

On the weakness of credit, listening to what you have said on why credit is so weak, I understand that there is this weakness of economic outlook which matters strongly, but my conclusion from what you have said is that the weakness of the banking sector matters even more in this context.

You also say we are in the middle of the financial sector reforms, and not even in the middle of the banking union, so my question is, what do you need in order to be able to say that we have a sound banking sector?

1-024
Mario Draghi, *President of the European Central Bank***.** **–** The statement that I made at the press conference on monetary policy, and indeed other statements, will provide some reassurance. Let me read the exact sentences: 'The Governing Council expects the key ECB interest rates [i.e. including the rate on the deposit facility] to remain at present or lower levels for an

extended period of time. At the same time, the ECB will continue to supply the system with ample liquidity.'

Basically this means that monetary policy will remain accommodative for a prolonged period of time.

The second point is credit. Credit remains weak, in spite of this very accommodative stance. Here I must refer to a survey that the ECB undertakes periodically, which is the counterpart of the bank lending survey, in which we ask the banks what developments they envisage in the credit system. This is the survey that we undertake with SMEs, in which ask what the main obstacle is that they encounter in doing business, and the answer has been, first and foremost, lack of clients and, secondly, lack of credit.

So the issue is not a simple one to address, because at the same time as urging banks to extend credit we are also wondering how a bank can supply a firm with credit if the firm has no clients. That is why the issue is so complex.

We also asked the SMEs some other questions, namely: have you applied for a loan, were you rejected, or did you apply for a certain amount and the amount that was given to you was less than that? Or did you apply and the loan was given to you but at an interest rate so high that you had to say 'thanks, but no thanks'? We get answers from all these firms across the whole of the euro area and by country. In some stress countries, we have observed a moderate improvement, albeit from very low levels, so that too should be kept in mind. It is too early to speak of broad improvement: what we have is selective improvement in some countries.

1-025

Markus Ferber (PPE). – *(DE)* Mr President, you previously announced and reiterated today that the European Central Bank (ECB) intends to keep interest rates low for the long term. However, this is only half the truth. The other half of the truth is that the inter-bank rate – in other words, the rate that the banks charge for lending money to each other – varies enormously in the euro area Member States and that there is a very large spread. This is also the root of the problems encountered by small and medium-sized enterprises (SMEs) that you have just described. What measures does the President of the ECB envisage in order to help significantly reduce the spread in the inter-bank rate between the euro area Member States?

1-026

Mario Draghi, *President of the European Central Bank***.** – From the funding side, I have to say that fragmentation has decreased. When we look at quantity flows – flows of funding to banks – fragmentation really has decreased. We look at the rates of growth of bank deposits in different parts of the euro area and then we ask how dispersed and different these growth rates are. In that respect, we are now in a situation which is by and large the same as we had in 2007, namely pre-financial crisis.

So, in that respect, fragmentation has been overcome. But that is only part of the story. When we move from deposits to other forms of funding, such as interbank lending for example, we see not only that certain banks have access to the interbank market while others do not, but also that funding costs can differ widely between countries and between banks. To some extent, this was due to, and started with, a general uncertainty that has characterised the euro area financial markets over the past three years.

We have done a lot to reduce this uncertainty, firstly with the two long-term re-financing operations (LTROs) last year and secondly with the Outright Monetary Transactions (OMT) programme. OMT has greatly reduced the tail risks for the euro area. It has thus decreased fragmentation and differences in funding costs. By the way, it has also reduced risks for everybody. Target2 balances have gone down.

So this is something else that is being done, but you also have to keep in mind the fact that banks are located in different parts of the euro area where the economic situation is different. Banks that have 95% of their clients in stressed countries tend to have more non-performing loans than banks that have 95% of their clients in strong and healthy countries. There is nothing the ECB can do about that.

1-027

Anni Podimata (S&D). – *(EL)* Mr President, allow me first of all to clarify what you said in reply to my colleague Philippe Lamberts in connection with the report by the International Monetary Fund and criticism about the time taken to restructure the Greek debt. I absolutely endorse your comment that we cannot in the light of current circumstances criticise decisions which were taken two years ago under very different circumstances. However, I totally disagree with what you said about the national authorities telling the Troika that the real economy was stronger and better than it actually was. As you know, Greece has changed prime minister four times over the last three-and-a-half years and it is in its sixth consecutive year of recession; thus, none of the prime ministers administering the fate of the country could have given the Troika information that the real economy was in better shape.

I would now like to ask you two questions: the first relates to direct recapitalsation of the banks. I should like, Mr President, by way of an introductory comment, to ask you for your opinion on the decisions adopted by the Economic and Financial Affairs Council (Ecofin) in connection with the retroactive application of the measure. Do you consider that the criteria adopted by Ecofin on the retroactive application of direct recapitalisation are sufficiently clear and do you believe that this measure of direct recapitalisation can help to make the debt viable and thus to facilitate a faster and smoother return to the markets for countries facing particular difficulties, especially countries applying an adjustment programme?

My second question concerns Cyprus which, to all intents and purposes, has had no banking system for the past four months: the big issue, as you know, is the restructuring of the Bank of Cyprus, which needs to be approved by the European Central Bank, and the main concern here is the EUR 9 billion given to Laiki Bank from the liquidity mechanism and inherited by the Bank of Cyprus. I would therefore like to ask you if the European Central Bank is willing and able to help the Bank of Cyprus repay that money, in order to guarantee faster and smoother reform of the bank, the Cypriot banking system as a whole and the recovery of the Cypriot economy?

1-028
Mario Draghi, *President of the European Central Bank***.** **–** I will start with the third question. The Bank of Cyprus has to get out of resolution. That is the first and foremost requirement. There is no point in speculating on different ways out when the ink on the memorandum of understanding (MOU) is not yet dry. The key thing now for the Cyprus Government is to move forward, to do what has been agreed in the MOU, to get the Bank of Cyprus out of resolution and to restore it to a situation in which we can consider it as a counterpart in our monetary policy operations. That is the priority, and all of us should be focusing on that priority.

The European Stability Mechanism (ESM) direct recapitalisation is a good instrument but whether there are infallible criteria for judging when and if it could be used for retroactive purposes, I cannot tell you. I do not know. This may be due to my own ignorance or simply to the fact that the discussion at Euro Group level has not progressed far enough, but I would not be able to answer.

On the first point you made, I have no difficulty in acknowledging that while mistakes may have been made at that time, there is a good basis for not repeating them in the future. I just want to make that very clear

1-029
Diogo Feio (PPE). – Welcome, President Draghi. My question concerns your general assessment of the adjustment programmes that are currently being implemented. I have learned, through the media, for example, that the Managing Director of the IMF, Ms Lagarde, has admitted that her organisation made mistakes in assessing the situation of some countries. She has even said that the brutal fiscal adjustment need not be applied to its maximum extent and that it is within the IMF's general philosophy to admit mistakes when they are uncovered.

I believe that fiscal discipline is very important for sustainable and healthy growth in the Member States, but I have no doubt whatsoever that growth requires States to have healthy public finances. What I would like to know, Mr President, is whether, for example, the effects on recession and unemployment in the States undergoing adjustment programmes have exceeded initial expectations, whether you believe that this adjustment programme model should be reconsidered for the future, whether some elements need changing or whether, on the contrary, you believe that it is a successful model?

1-030
Mario Draghi, *President of the European Central Bank***.** **–** I cannot make direct reference to what Christine Lagarde is saying because she is actually discussing this right now in the Euro Group. She is discussing Article 4 for the euro area as a whole and she will probably be dwelling on fiscal policies and in general macro policies.

More generally I cannot do other than repeat what we have been saying now. Basically these countries – most countries in the euro area, if not all of them as a matter of fact – have achieved significant progress with regard to fiscal consolidation.

The recommendation is: do not unravel this progress. The consolidation was and is unavoidable because of the levels of debt and deficit. We should not forget how all this started three or four or five years ago, with markets that suddenly widened the spreads and basically made both credit conditions and lending conditions much harder.

So I would say do not unravel this but make it growth-friendly. Keep alive the dialogue with the Commission, make the process growth-friendly and therefore complement the progress that has been achieved already with the undertaking of structural reforms.

1-031
Liem Hoang Ngoc (S&D). – *(FR)* Mr Draghi, I have two questions. You have repeated what you said on 4 July, namely that interest rates would remain at present or lower levels for an extended period of time. If there is one area in which this has had an impact, it is that of sovereign debt, since the Spanish and Portuguese rates, which recently increased, have fallen slightly – not enough, but slightly.

My first question is this: will this announcement be sufficient or necessary, in certain cases, to activate the Outright Monetary Transactions (OMT) programme? Secondly, Jörg Asmussen, Member of the Executive Board of the European Central Bank, declared on 23 June 2013, and I quote: 'The increasing level of integration within Europe calls for a new institutional design to ensure legitimation. Therefore, European institutions should be strengthened, in particular the European Parliament, which could maybe also convene in a euro area format. This would ensure that the level of accountability matches the level at which decisions are taken.'

I should like to know whether this is the official position of the European Central Bank. If it is, then, clearly, Parliament can only welcome it.

1-032
Mario Draghi, *President of the European Central Bank***.** **–** The first question you asked was whether the statement that was made after the last Governing

Council meeting is enough. The intention was to announce a monetary stance which will keep interest rates at present or lower levels for an extended period of time. We will have to see what the market reaction to this statement has been, is and will be. This announcement is based on the overall subdued outlook – and incidentally, I would again stress that the key ECB interest rates are all interest rates, including the rate on the deposit facility. So as I say, this expectation is based on the subdued outlook for inflation, the weakness in the real economy and the subdued monetary dynamics.

You also asked whether OMT should be activated. OMT is ready to be used, first of all if this is necessary and also if the conditions foreseen by the OMT are in place and are being complied with. OMT is a fully effective backstop. It is ready to be activated if needed. The proper conditions – of which you are aware, as we have discussed them several times – have to be in place.

Finally, regarding the point about the ECB and Parliament, we strongly cherish our relationship with the European Parliament. Both Parliament and the ECB have achieved great results from working together. The ECB has always been in favour of a strong role for Parliament, which has been demonstrated by the fact that we take accountability very seriously.

1-033
Werner Langen (PPE). – *(DE)* Mr President, you have just compared the special functions of the European Central Bank (ECB) with the US Federal Reserve, which intends to change its monetary policy, a move that may have direct effects on the major markets. My question is as follows: the supply of credit to small and medium-sized enterprises (SMEs) has dried up, even though the banks are obviously the sector with the lowest capital adequacy in the economy as a whole; on the other hand, relatively large amounts of cheap money from the ECB have been used to purchase more government bonds because the interest difference was large enough to make to make this a worthwhile proposition, rather than lending to SMEs. In view of this policy, what are the prospects for further loosening the links between banks and governments, as many people wish? After all, as long as Europe's banks hold too many government bonds, we will always hear complaints that medium-sized enterprises cannot get credit, although the banks are obviously failing to live up to their responsibilities in this area.

I hear that the supply of credit is not as bad everywhere as it is in the Southern European countries in particular. The question is: can this problem be solved using normal market mechanisms, or will the ECB possibly have to impose more stringent rules when providing financial resources in individual banking sectors?

1-034
Mario Draghi, *President of the European Central Bank***.** – The question you are asking is: why are banks not lending to SMEs? Why, in spite of the plentiful funds that they have, are they not lending to SMEs?

One reason is that they may be lacking capital. We do not yet know whether this is the predominant reason or if it is one of the reasons. We will find out with the asset quality review. But, if that is the reason, the ECB cannot do much about it. Lack of capital has to be met by action by the shareholders and by the other stakeholders of the banks.

The second reason could be, and this is certainly true from anecdotal evidence, that banks may actually have capital but they still do not lend to SMEs. And this depends on risk aversion. SMEs are simply perceived as being too risky, given the present economic situation. At the same time, banks are buying government bonds which are less risky in their view.

What can we do about that? I think what we can do is let our accommodative monetary policy stance, the low interest rates, the abundance of funds, work their way through the economy. The ECB does not have a direct instrument to force banks to lend to SMEs; nor do I think it would be right to force banks to lend to clients that have a high probability of not repaying their loans.

I mentioned before – I do not know whether you were here – the results of a survey that we carried out, where we asked the SMEs: what is the greatest obstacle that you have to doing business? The first answer was 'we do not have clients' and the second answer was 'we do not have credit'. But then it would be very difficult for anybody to force banks to lend to companies and SMEs that do not have clients.

So we are trying our best in the present situation, which is a situation where credit intermediation has to go through the banking system. It is not like other countries where credit intermediation goes primarily through capital markets.

1-035
Werner Langen (PPE). – *(DE)* Mr President, I would like to ask a brief additional question. During your introductory remarks you said that the interest rate for medium-sized enterprises in Spain was around 2.5 % higher than for major investment projects. If you consider the risk weighting, then a thousand loans to medium-sized businesses will generally fare better than one major project that may, in the final analysis, be based on an incorrect assessment of the market. My question is, then, is there any kind of mechanism that can give loans to medium-sized enterprises a more positive weighting over and above what Basel III can provide?

1-036
Mario Draghi, *President of the European Central Bank***.** – Let me just say one thing that I mentioned before: in all of this, the ECB has broadened its collateral rules so that banks can use the loans they have made to their clients, including SMEs, as collateral for borrowing from the ECB.

However, let me answer your point – basically quoting what many or some bankers in good banks with plenty

of capital are saying. When you have an economy where an entire sector disappears, you cannot continue to lend to that sector, and that means your lending declines. Then you look at your clients and you see that some of them are highly indebted.

At the beginning of this session – I think it was in relation to the Systemic Risk Board – I took a question about personal debt having gone up or down during the crisis. We see countries where personal debt has gone down: one of them, in fact, is Spain, where it is slightly less than it was in 2007. In other countries it has gone up, so banks are hesitant to lend to clients with high debt. Then you are left with the good, promising firms which have clients and are not very much in debt, and you can see that, in fact, they receive credit.

This is a situation that requires a granular approach but, as I said at the beginning, we do expect that our monetary stance – very accommodative, with low rates and ample liquidity – will find its way through into the economy.

1-037
George Sabin Cutaş (S&D). – Mr President, two short questions. As you know euro area unemployment increased to 12.2% in April, with youth unemployment reaching as high as 57% in Spain. So my question is, do you believe that full employment should stand on an equal footing with price stability as an objective of monetary policy as in the case, for example, of the US Federal Reserve?

The second question relates to Article 127 of the Treaty on the Functioning of the European Union, which states that, once the primary objective of price stability has been achieved, the ECB should support the general economic policies in the Union. This includes full employment and economic growth. Given that the inflation expectations are very low, would you be in agreement that the new Treaty now requires the ECB to engage in an even more significant expansionary monetary policy?

1-038
Mario Draghi, *President of the European Central Bank***. –** As you know, we have price stability as our mandate – price stability in the medium term, defined as a rate of inflation which is close to, but below, 2%.

I have always stressed, since the very beginning of my mandate, that by price stability we mean in both directions, upward and downward. What is happening now is that basically the ECB has taken stock, and has adjusted its interest rates to be in line with the primary mandate of price stability. The ECB also believes that price stability is the foundation of any long-term sustainable growth.

Let me also say something that comes out of the evidence. There is no central bank – and this is a study that has been done over several years for many central banks – whatever its mandate, that has neglected to pursue a real objective. The mandate is price stability. The US Fed has price stability in its mandate as well. Both of us, and the Bank of England and the Bank of Japan, are shown in this study to have in fact aimed at all the objectives.

Finally, on the issue of the mandate, we are on the receiving side here. We are in the hands of the legislators. Our view at the ECB is that one mandate, price stability, is enough, and that does not preclude the pursuit of the right economic policy from a general viewpoint.

1-039
Astrid Lulling (PPE). – *(FR)* Mr Draghi, I should like to return briefly to the answers you gave to the question put by my colleague sitting beside me on interest rates that clients have to pay and on personal debt. My bank wrote to me this morning to say that the rate would be 7.5%, but my colleague here has told me that some German banks charge 12%. In your opinion, what rate is justified and how can we achieve harmonisation within the single market?

I have another question: I should like to return to the answer you gave to Mr Simon regarding the banking union. If I have understood you correctly, the banking union will probably be asymmetrical in structure, in other words a European supervisory mechanism will exist alongside national guarantee and resolution mechanisms. In your opinion, will this structure be merely fragile, or will it be dangerous?

I have one final question: you have not been very optimistic about an economic recovery in the euro area. I therefore assume that you are not seeing any clear signs of this at the moment. However, if one day there are signs of a recovery, do you believe it will be because the cycle has come full circle, as the French President François Hollande, for example, expects, or will it be the structural reforms initiated, after a fashion, by the Europeans that make the difference?

1-040
Mario Draghi, *President of the European Central Bank***. –** You mentioned, in your example of interest rates, something that unfortunately continues to be a problem in the euro area, namely fragmentation.

We have to overcome this and we have to overcome it in such a way that cross-border flows within the euro area will restart. We have seen improvement in this regard in the course of the past year and a half. We have certainly seen improvement – mostly, as I said, on the funding side. We need to see improvement on the lending side as well. At the same time, we know that we cannot return to the situation as it was pre-financial crisis, where the spreads between different countries' debt did not reflect the actual differences in risk.

So we have to reconstruct, we have to overcome fragmentation while at the same time maintaining spreads that reflect the riskiness of the various players, and this process is going to take time.

On the question about the economy, we have said that our baseline scenario, of a gradual, fragile recovery with downside risks, should materialise by the year end. The risks are, admittedly, the downside, because economic activity is weak across the board, unemployment is high, and consumption and investment are low.

So what is going to drive this recovery? The answer is exports, global demand, low interest rates and lower overall uncertainty. And indeed, right now, we see less uncertainty than there was a year ago. On that basis, we should see the persistent accommodation and the reduced uncertainty making their way through the economy.

Certainly, however, structural reforms are fundamental. If we look at how the various countries in the euro area have performed, we see in the ones performing worst that what is not working – or at least where progress has been slowest – has been the restoration of competitiveness. Competitiveness is the dimension that these countries have to regain.

As in many other areas, there has been some progress, but much less on this front than on, for example, fiscal consolidation. So: great progress on the budget consolidation front; little progress on the front of regaining competiveness, though we see some encouraging signs. For example, exports have greatly increased in some countries. One of them is Spain, which is the second highest exporter in the euro area – the third highest being Italy. We have seen different labour cost trends: higher in Germany and negative in Spain. So some rebalancing is taking place. I would suggest, however, that greater effort needs to be invested in structural reforms so that competiveness can be restored.

1-041
Olle Schmidt (ALDE). – I have two questions, and also a short introductory comment after listening to the discussion concerning what the IMF did, did not do or is supposed to do. A very famous Danish philosopher once said that life could only be understood backwards, but it must be lived forwards. You can change life with finance ministers, central bankers and even MEPs.

My first question relates to trust, accountability and transparency. You have done a tremendously good job at the ECB – I will start by saying that – but do you think it might hamper your credibility that you have an ongoing court issue in the Constitutional Court in Karlsruhe? I saw an interview with you on German television. You did very well, but there were some tricky questions. My simple question is whether you think this could hamper your credibility.

My second question concerns banking union. I am from a small country which is in discussions about joining this banking union, even though it is outside the eurozone. The government is very reluctant. I am more positive, but I am sad to say that it is not eager to listen to me. My fear is that, in the end, if this banking union happens – I really hope it will and that it will be a speedy procedure – there could actually be a risk that this will lead to an even more fragmented European Union, because some of these countries will find it difficult to join – not only my country but others as well – if they are not in the eurozone. Do you share the view of Finance Minister Schäuble that there might be a need for Treaty change?

1-042
Mario Draghi, *President of the European Central Bank***. –** On the first question, let me say that OMT is, and remains, an effective backstop, ready to be used as soon as it is needed.

The ECB is subject to the judiciary and jurisdiction of the European Court of Justice. The ECB has been called by the Karlsruhe Court as an expert, not as a defendant. So we have put forward our reasons, and I have full confidence that they have been heard, listened to and properly assessed. So to answer your question: no, we do not see any damage to our credibility.

The second point is about the banking union and a Treaty change. First of all, I can only say that there are varied views here. There are views that say we do not need a Treaty change either for the SSM or for the resolution authority. Then there are views that say we do need a Treaty change for both – in different ways of course. So I cannot really decide what is actually going to be at the end of this process, other than saying that, as far as the ECB is concerned, we are trying to play our role in the best possible way in order to create and build a single supervisory mechanism and have it in place in time in order to achieve the first step of the banking union.

I think it is only fair to say that there are not any definite foolproof views saying 'yes' or 'no' to a Treaty change for the banking union, for the next steps.

So far we have been moving on the assumption that there is no need for a Treaty change for the single supervisory mechanism, and we will simply look at what happens for the single resolution authority. I do not think that for the single resolution mechanism one needs a Treaty change. The issue may arise for the single resolution authority.

1-043
Olle Schmidt (ALDE). – May I ask you about fragmentation, because that is in the loop, it is happening now. What do you think about that?

1-044
Mario Draghi, *President of the European Central Bank***. –** If we are successful in building a well-functioning banking union, this should reduce fragmentation.

Even just the first step, the establishment of a single supervisory mechanism, should reduce fragmentation because the supervision of the 130 banks that account for about 85% of credit in the euro area will be undertaken by a central supervisor which should be

immune to the pressure of vested interests at national level.

In conclusion, one would expect fragmentation to be reduced, and that, after all, is the main reason for creating a banking union. The hard lessons of this crisis have shown that it is the identification between banks and their sovereigns that lies at the root of our fragmentation, so anything we do to weaken or to cut that link is progress towards the elimination of fragmentation.

1-045
Antolín Sánchez Presedo (S&D). – Mr President, I would like to make three comments: one regarding predictability; one regarding lending to SMEs; and one regarding democracy.

As regards predictability: I believe that your position following the Governing Council of the European Central Bank has been very well received, especially after the BIS had said that monetary policy had already done all it had to do and the FED had conveyed the idea that the ongoing monetary policy may come to an abrupt end. We now know therefore what we can expect from the European Central Bank. It may worthwhile for the European Central Bank to clearly explain what it expects from the other operators.

As regards lending to SMEs: in the last conclusions of the European Council, it is clear that the European Central Bank has played an advisory role. However, you had said that it would look at its options from a 360-degree perspective and that perhaps, as well as lending advice, more direct action was also needed in future. I simply wish to confirm that this has not been ruled out.

As regards democracy: Banking Union will mean a transfer of powers to the European Central Bank, which will act as the single supervisor. This transfer of powers must go hand in hand with the transfer of responsibilities and we would like a guarantee that throughout this process the European Central Bank will assume accountability standards before Parliament, at the same level as in the National Parliaments.

1-046
Mario Draghi, *President of the European Central Bank***. –** With regard to your first question, I think you have basically said it all, but let me add this. One of the reasons is that the current stage of recovery in the euro area is different from that in other monetary policy jurisdictions. That explains the statement by the last Governing Council.

In other words, as I have said on several occasions, the exit from our current accommodative monetary policy stance is distant.

Secondly, we continue to consider the situation from every angle. As I said before, we continue to have an advisory role vis-à-vis the EIB and the Commission. We will see what comes out of the effort to revisit the regulatory framework and then we will make up our mind about the role the ECB could have, within its mandate.

Thirdly, I am in favour of accountability for the Single Supervisory Mechanism (SSM), as we were in favour of it within the ECB monetary policy framework, but we also acknowledge that the level of accountability for the SSM supervisory role is both higher than and different from the one we used to have for the monetary policy part of our activity.

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In conclusion, let me thank the Committee on Economic and Monetary Affairs for this very constructive exchange and especially for the extraordinarily constructive support that the ECB has enjoyed throughout the past year. I very much hope that a European Parliament/ECB agreement can be reached tomorrow and that it will be the final and decisive agreement. At the ECB we still trust that momentum will be restored by the end of this year, as we indicated in the very cautious forecast we made for the European economy.

As we are concluding, let me wish all of you a good summer break.

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Chair. – Thank you very much, Mario. I know that, like you, I get no summer break because things tend to go on over the summer; I receive inquiries so I have to keep commenting and doing things. I too hope that we can make good progress tomorrow in the discussions with the ECB on the interinstitutional agreement.

For those who are wondering what we are up to, we have made some good progress but we are still having a little bit of difficulty over establishing what one might call the right level of disclosure to ensure the accountability that is necessary without breaching things that have to be confidential in either the market interest or the public interest. That therefore extends into several areas. But I think that it is this right level of disclosure that is at the bottom of our current not-quite-there-yet situation.

We expect to see you again on 23 September for the next monetary dialogue and I hope that by then we will have reached a conclusion.

Let me also take this opportunity to mention that I see that both our new Croatian members of the committee are here, Ivana Maletić and Marino Baldini.

(Applause)

For those of you who watch the numbers, this means that we now have 50 members of this committee and of course an equal number of substitutes, and boy, do we need it, with all the work that we have to get through.

(The Monetary Dialogue concluded at 17:30)