COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE ECB (pursuant to Article 284(3) of the EC Treaty) BRUSSELS, 17 DECEMBER 2012

1-002

IN THE CHAIR: SHARON BOWLES, CHAIR OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

(The meeting opened at 15.35)

1-003

Chair. – I am pleased to welcome once again Mario Draghi to this committee. He is a very frequent visitor.

1-004

Mario Draghi, *European Central Bank***. –** Madam Chair, it is a pleasure to be back here in Parliament and in front of your committee for our last exchange of views in 2012.

This year has not been an easy one. It has been a year when the ties that bind the Member States of the euro area have been tested but it has also been a year in which a longer-term vision for Economic and Monetary Union (EMU) has been formulated and it is a year in which that vision has begun to be translated into actions, including on vital reforms of European governance. We end the year on a positive note with the re-launching of that longer-term vision, with the proactive steps taken by governments and European institutions towards a genuine EMU and, most recently, with the unanimous agreement by ECOFIN to establish a Single Supervisory Mechanism, the SSM.

Let me congratulate your committee on the swift adoption of its position on the SSM and its ambitious European approach. This is a clear demonstration that European institutions are determined to act in a timely and decisive way to complete the European Monetary Union and it is a clear demonstration that euro area Member States are ready to agree to a substantial sharing of sovereignty when circumstances require.

Recent agreements mark a major qualitative step towards a stable European Monetary Union. The establishment of the SSM can be expected to be a key turning point in the resolution of our current challenges. The SSM will contribute to restoring confidence in the banking sector across the euro area. It will help to revive inter-bank lending and cross-border credit flows, with tangible effects for the real economy and, combined with possible direct recapitalisation of banks by the European Stability Mechanism and an envisaged single resolution mechanism, the SSM will go a long way towards breaking the vicious feedback loops between sovereigns and banks.

I hope that the legislative process can now be concluded swiftly. After the adoption of the relevant legal acts, the European Central Bank will launch the preparations so that the SSM can be established within the timeline foreseen by the legislators.

In my introductory remarks today, I will first briefly summarise the economic and monetary situation. I will then address the relationship between monetary policy and financial supervision, and I will close by outlining my views on the priorities for 2013 in implementing the shared longer-term vision for EMU.

Since our last meeting, the ECB has left its key interest rates unchanged: the main refinancing rate stands at 0.75%; the rate on the deposit facility at 0%; and the rate on the marginal lending facility at 1.50%. On non-standard monetary policy measures, the Governing Council decided in December to continue conducting all refinancing operations as fixed-rate tender procedures with full allotment, at least until July 2013.

The medium-term outlook for economic activity remains challenging. Economic activity contracted for a second consecutive quarter in the third quarter of 2012, and indicators for the fourth quarter signal further weakness, although some recent survey indicators have stabilised at low levels and financial market sentiment has improved further.

Domestic demand is dampened by still weak consumer and investor sentiment and the ongoing balance sheet adjustments in the banking and business sectors, which continue to weigh on investment decisions. We expect economic weakness to extend into the next year with a very gradual recovery in the second half of the year. The recovery is expected to be supported by strengthening global demand, a highly accommodative monetary policy and significantly improved confidence in financial markets, all of which should work their way through to spending and investment decisions.

Annual inflation in the euro area has continued to moderate, falling from 2.5% in October to 2.2% in November. Looking ahead, inflation is expected to decline further. This should support real disposable incomes.

Risks to the outlook for price developments are broadly balanced. Inflation expectations for the euro area remain firmly in line with the Governing Council's aim of maintaining annual inflation rates below, but close to, 2%.

Our monetary analysis paints a picture consistent with price stability. Looking at developments over several months, the underlying pace of monetary expansion, when accounting for special factors, remains subdued. Loan dynamics are also subdued and in many parts of the euro area, credit has been contracting. This is the result of balance sheet adjustments by banks and businesses as well as the current economic weakness.

Let me now turn to the first topic chosen for our exchange of views, namely the relationship between

monetary policy and financial supervision. The discussions leading to the recent decision to establish the SSM have raised questions about how monetary policy responsibilities and supervisory responsibilities should be appropriately separated.

In recent years, many central banks have, for good reasons, assumed supervisory roles. Fourteen of the 17 national central banks in the euro area have a role in supervision and so too do several major central banks elsewhere in the world. Indeed, the global financial crisis has generally led to closer ties between central banks and financial supervision. The Bank of England, for example, will soon assume supervisory responsibilities previously assigned to the Financial Services Authority. In the US, the role of the Fed in financial supervision has been strengthened.

This all suggests that the relationship between monetary policy and financial supervision is particularly important in times of crisis. It is not by chance that historically the first central banks were supervisors of commercial banks. The ECB will establish clear guiding principles and internal operating practices to ensure effective separation of monetary policy and financial supervision. Let me briefly elaborate.

First, the ECB's involvement in financial supervision has no bearing whatsoever on our primary objective of price stability. It bears neither on the objective itself, which is statutory, nor on its quantified expression of inflation rates below, but close to, 2%.

Second, a supervisory board will form the centre of gravity for the conduct of financial supervision. It may encompass a geographical entity that is somewhat wider than the euro area if, as we hope, several countries that are not currently euro area Member States decide to join the SSM.

Third, separation between monetary policy and financial supervision will in particular take the form of independent analysis and prescription for the use of policy tools for each of the two functions. This will rely on strong governance. We will establish appropriate internal procedures that ensure clear functional separation. Here we will follow international best practice.

While separation of the two functions is essential, it is an established fact that stronger supervision facilitates the conduct of monetary policy. Let me give you just two examples. First, in the absence of financial stability, standard monetary policy tools – namely, changes in interest rates – lose some of their potency. Effective supervision that contributes to a stable financial system can only benefit the smooth transmission of monetary policy.

Second, effective financial supervision can counteract excessive leverage and exuberant credit expansions, which can generate inflationary pressure over the longer term. Thus, in mitigating the build-up of macroeconomic imbalances, effective supervision can foster a stable macroeconomic environment with stable prices.

Monetary policy will stay credibly oriented towards price stability. In so doing, it secures the trust of markets and the public in the stable purchasing power of a currency. This stabilises market expectations, lowers volatility and creates an environment for stable financial markets. We have begun internal reflections on all these issues, together with the national central banks, and we stand ready to launch the formal preparations as soon as the legal framework has been adopted.

Let me now turn to the second topic chosen for our exchange of views, namely a genuine Economic and Monetary Union. In the spring of this year, after three years of severe economic and financial challenges, it became clear that what the euro area needs is a coherent longer-term vision for European monetary union. At our April hearing, we discussed such a vision, following earlier discussions in this committee about the Fiscal Compact and the Growth Compact. The vision was then laid out in greater detail for the Heads of State or Government.

Since that time, remarkable progress has been made. The June European Council was an important milestone. Institutional changes that were not conceivable less than a year ago have been put on the EU political agenda or are about to be finalised. The SSM is a prime example of such political momentum.

Last week, the European Council set out further steps towards the completion of the European monetary union. The in-depth discussions of structural reforms and the challenges of competitiveness have been particularly important and they are reflected in the Council's conclusions.

From an ECB perspective, I see two main priorities for 2013. First, we should improve the functioning of the economic union. Excessive imbalances within the euro area have destabilised the European monetary union. This must not be allowed to happen again. It is encouraging that adjustment is now visibly underway.

For example, exports of goods and services have increased by 27% in volume in Spain since 2009 – and by 14% for Ireland, 22% for Portugal and 21% for Italy. These four countries are also experiencing gains in relative unit labour costs.

Economic reforms bear fruit, even if, in the short term, the costs to individual citizens can be and are indeed considerable. But the reforms are the right path. Governments should persevere.

What can be done at the European level to provide even more support for this process? The proposed reform contracts between euro area Member States and EU institutions are a promising avenue. Combined with a carefully designed framework of targeted and temporary financial support, they should contribute to fostering

structural reforms and thereby strengthening competitiveness.

Ideally, the reform contracts should focus on countries with the largest competitiveness challenges. They should identify the structural bottlenecks to improving competitiveness and target the reforms in a way that will remove those bottlenecks. This would establish a clear link between reforms and restoring competitiveness, which is essential for growth and for job creation.

Smooth functioning of product and labour markets is a prerequisite for growth and job creation in the European monetary union. I therefore welcome the announcement that next year the Commission will undertake a systematic review of product and labour markets. For euro area countries the review should make it possible to assess whether these markets are fully compatible with participation in the European monetary union. Here, product and labour markets must provide for enhanced adjustment capacity to adapt to a changing global economic environment and ensure sustained high levels of employment.

The second priority for 2013 from the ECB's perspective is the completion of financial union with the establishment of a single resolution mechanism. The aim of resolution is to deal with non-viable banks through measures that include their orderly winding down and closure while preserving financial stability. Such a mechanism will make it possible for banks to fail in an orderly manner.

Improving economic union by restoring competitiveness and the functioning of product and labour markets on the one hand, and setting up a single resolution framework on the other hand are key priorities for 2013.

This committee has always pushed for ambitious European solutions in the field of financial and economic governance. I am confident that you will again play an instrumental role in moving the agenda – this agenda – forward and adopting the relevant legislative proposals. Thank you for your attention. I am now at your disposal for questions.

1-005

Chair. – We are now going to move to the Question and Answer session. I know that Mario has to get away at 17.30 sharp, so please be economical with your time. Slots cannot exceed five minutes, those are the coordinators' instructions. Therefore, if your question is too long I will have to cut the President of the ECB off in his answer.

1-006

Pablo Zalba Bidegain (PPE). – Madam Chair, allow me to thank Mr Draghi once again for being here today. I agree that it has been a difficult year, but that we have also made a great deal of progress.

Mr Draghi, you acknowledged that without financial stability, eurozone monetary policy will not be effective. There is clear evidence that in Spain reasonable progress is being made: productivity is increasing, unit labour costs are falling, as you have mentioned; you have also pointed out that exports have increased by 27% since 2009. Furthermore, large multinationals, which do not depend on domestic credit, have announced large-scale investments in the country.

In my opinion, Mr Draghi, the problem lies with small and medium-sized enterprises, the driving force of our economy. They rely on access to domestic credit, which has practically been shut off, and as a result they are having real difficulty surviving, never mind creating jobs.

Mr Draghi, you will surely agree that it is not fair that a company's borrowing costs should be determined by its geographical location, rather than by its economic situation. This goes against single market principles and also hinders productivity.

My question is as follows: how can monetary policy be of use in alleviating or improving this situation?

1-007

Mario Draghi, *European Central Bank***. –** Indeed things are progressing in Spain and, I would say, in all the other stressed countries on all the fronts that you have mentioned. It is also true that credit flows remain subdued. In the first part of this year, with the two LTROs, we injected a net amount of about EUR 0.5 trillion into the system, but it is hard for this money to find its way into the economy.

There are two sides to credit development. One is the supply. In doing the two LTROs we certainly avoided major disaster scenarios such as banks having accidents because they were short of funding. We also expanded the collateral framework, so much so that many banks in the stressed countries – in Spain for example – have had plenty of access to the funding provided by the LTRO.

But there is also a demand factor. Demand is not growing. Lack of investment and lack of consumption are keeping the credit flow subdued. The ECB has certainly done what it could about this, in a sense accepting what we call additional credit claims as collateral by the banks. The banks can take them to the ECB. We have taken a major decision in terms of trying to do our best to make sure that this extra liquidity can find its way through the economy because, if banks lend, they can take this lending as collateral and borrow from the ECB. So in point of fact, beyond this, it is very hard to do anything else because we have to see how the demand factor develops.

Having said that, we are confident that, given the present accommodative stance of our monetary policy, its good effects will find their way through the economy, so much so that the latest projections by the ECB foresee the beginning of a recovery in the second part of this year.

1-008
Elisa Ferreira (S&D). – Thank you for being here with us today, Mr Draghi. I would like to start by commending you on your medium-term vision for monetary union, on your decisive intervention to maintain bank liquidity, then on your defence of sovereign debt against speculators, and now on what you have done to bring about banking union. Congratulations! I believe that the single currency would have collapsed otherwise.

Having said that, I disagree with your vision for the real economy and its development. The eurozone is in recession, 25 million people are unemployed, and national debts and deficits are increasing in the programme countries. What I ask is that, before continuing with the same old formula, you should apply logic and objectivity rather than ideology to the situation, as you have done in the other instances that I have mentioned. When an economy is faltering, too much austerity is the wrong answer. The inevitable result is a recessionary spiral, as we have seen in most of the programme countries. Today, in Portugal, deflation is a very real threat. I would also like to know whether or not the same terms could be imposed on all the programme countries, i.e. whether all countries could be offered the best terms. Will the ECB be in a position to return its profits to the countries in which, effectively, they were generated?

1-009
Mario Draghi, *European Central Bank***.** – First of all thank you for your very kind words, but let us not forget that the words 'Fiscal Compact' and 'Growth Compact' were first used in this forum. So I for my part should thank the Committee on Economic and Monetary Affairs for the fertile discussions that were at the origin of these two concepts.

Let me say, however, coming to your question, that there was a need for fiscal adjustment. It is not something that was unwarranted or unjustified. Really significant progress has been made so far, so going back on this would harm the credibility that has been built so far and would mean starting all over again.

The ECB view is that we have to look at the long term, we have to persevere, especially given the progress that has been made and the credibility that has been acquired in so doing. Any sort of wavering about this is counter-productive. It would simply mean higher interest rates, it would mean a restart of the negative cycle.

1-010
Elisa Ferreira (S&D). – Thank you, Mr Draghi. I will speak in English to make it quicker. Nobody is talking about going back, or about not having any kind of discipline, and merely claiming that the dose is excessive, the cost is too high and the timeframe is too short.

When there is a decline in economic growth the legal text – the Six-Pack – allows for a softer adjustment. Let us exploit this because, instead of having a cut of EUR 130 billion, we can do it within the timeframe with one of about EUR 80 billion. We can reduce it to EUR 80 billion or EUR 85 billion. So we follow the legal text but at a slower pace and not as strongly, because all the calculations from the multipliers are coming out wrong and you cannot enter into individual contracts if people do not trust the recipe. People no longer trust the recipe, so politically it is a very sensitive issue.

That is what I am talking about, not about forgetting discipline and going back. We have to adjust it to the perceived results.

1-011
Mario Draghi, *President of the European Central Bank***.** – I shall be very short in answering this. When you had very big budget deficits you did not have any growth either. That is the first response.

My second response is something you asked me about before and I did not actually answer. On the ECB profits: the ECB distributes its profits and this is a decision of the Member States – it is not the ECB. The ECB distributes its profits to the NCBs, to the members of the ESCB, and then they, in total independence, distribute the profits to their own governments which, in turn, will decide what to do with these profits.

1-012
Sylvie Goulard (ALDE). – Mr President, I would like to ask you a question concerning the democratic legitimacy aspects contained in the Council's guidelines in June, but which are much less prominent in Mr Van Rompuy's document.

Where is the impetus which you tried to give the ECB on these subjects? I would like to know whether you share my huge disappointment about this. It is not a minor point. I don't think it's something which can simply be tacked on to the end of documents as an afterthought – 'Oh yes, democracy, maybe we should say a bit about that'. It's actually about putting things right.

I'll give you a very specific example: I am very worried about the use of these contracts. It seems to me that what we need are policies that are decided jointly in accordance with democratic procedures and which apply to everyone. But the contracts which the European Council is proposing seem to me to run very much counter to the Community method.

1-013
Mario Draghi, *President of the European Central Bank***.** – In a sense all of these have been steps forward. I consider the June Summit as a major milestone in relaunching the euro and in the consolidation of the European Monetary Union. At the same time, I completely agree with you that the process must go hand-in-hand with democratic accountability and democratic legitimacy. The work with the European Parliament must go on.

1-015
Derk Jan Eppink (ECR). – President Draghi, according to reports in the media, Bundesbank lawyers found that the plans for the banking union lack, and I quote, 'sustainable legal basis'. They also have concerns at the lack of clarity regarding the new supervisor's powers and the lack of legal protection of the Conciliation Committee, which is to facilitate decision-making between the ECB Governing Council and the new Supervisory Committee. As I attach great importance to the views of the Bundesbank, I am anxious to hear your reaction.

1-016
Mario Draghi, *President of the European Central Bank***. –** On procedural matters, the Bundesbank lawyers are certainly good lawyers but you also have the European Council lawyers, you have the Commission lawyers and you have the ECB lawyers. All of them, in different nuances, have basically given a green light as far as the robustness of the legal grounds of this SSM is concerned.

On the substance we all have to remember that the ECB here is in a sense in a passive stance. The whole concept has not been crafted by the ECB; the ECB legal opinion was simply an opinion on others' views. So we are a passive subject, we are on the receiving side as far as this is concerned. Our assessment is that, from an economic, management viewpoint and legal viewpoint, the whole concept is pretty solid and we will be able to deliver this supervisory mechanism on time.

1-017
Philippe Lamberts (Verts/ALE). – Mr President, welcome back to Brussels, which I guess is your second home today.

I have two quick questions. On SSM one of the major concerns of this Parliament is that the responsibility for supervision within the eurozone should remain undivided, that is, it should rest with one player, which would be you. The Council agreement will entrust the function of primary supervision to the national supervisors, but the ECB will retain the power to call in any bank it wishes. How satisfied are you with this arrangement, knowing that what we do not want – and I believe that you share this view – is the division of the banking markets within the EU? The banking union is not two banking unions.

Secondly, on the role of the Central Bank, I think that I can guess your aims, but I see that Mark Carney and others have been saying of late that maybe just chasing an inflation target may not be the only way for a Central Bank to behave and that objectives in terms of unemployment or growth might be appropriate as well. I would like to have your comments on that, even if I have a good idea of what they will be.

1-018
Mario Draghi, *President of the European Central Bank***. –** On the first point I completely agree with you. This step seeks to ensure a single banking system, so the ECB will supervise the whole of the banks in the euro area. However, the way this supervision is going to be implemented differs according to the size of the bank. The numbers that have been put forward in the agreement suggest something in the order of 130 to 150 banks under so-called 'direct supervision', while the rest would be under indirect supervision.

We are still far from specifically stating what 'direct' and 'indirect' means. It is pretty clear that the national supervisors will be important for both direct and indirect supervision. What is going to happen in all likelihood, common sense would suggest, is that the intensity of supervision would become stronger and stronger at the centre as the banks become bigger and bigger, and vice versa; the national supervisor's role will become bigger and bigger as banks become smaller and smaller.

Having said that, all the national supervisors are going to be subject to the regulations, the standards and the single rule book – which, by the way, we will make it one of our objectives to enforce – as regulated from the centre. That is, the ECB will also retain power to call in any bank under its own direct domain. The ECB will also have the power to ask for any sort of information, ask any question. I read a couple of articles in the press today saying that this system might create a fractured banking system. I would not agree with that. No, I do not think so.

On the second question, I have seen what you refer to in mentioning Governor Carney but we have to remember that he is speaking in a different institutional set-up, a set-up where you have more than one mandate, not only price stability but also employment, growth, and so on. In a sense I would consider that as a variation around the theme of a central bank which has more than one objective in its mandate.

1-019
Philippe Lamberts (Verts/ALE). – On the first question, do you believe that there is a risk that banks might try to escape the EUR 30 billion limit, by off-balance sheet vehicles for example? Are you concerned about that or not?

1-020
Mario Draghi, *President of the European Central Bank***. –** Not really, because right now banks do not escape from the limit. In other words the national supervisors supervise the whole balance sheet of a bank, both off-balance sheet and on-balance sheet vehicles. So this is not going to change now because we move to a different supervisory system. Banks will be supervised in their entirety.

1-021
Marisa Matias (GUE/NGL). – Thank you, Mr Draghi, for being here again today. I would like to ask you some questions about what you have just said, because there is one variable that never changes. In the context of all the difficult problems that the Union has faced, the European institutions always say the same thing when it comes to solidarity, and there are two examples that you mentioned which I cannot let pass.

Firstly, you referred only to the positive aspects of banking union, and presumably forgot to mention that, truth be told, once again the logic behind it is 'every man for himself'. The second example concerns the bailout programmes. Mr Draghi always comes here saying that everything is going well, the plans are working, but in reality, we know that the primary variables for countries in a bailout programme, their deficit and their debt, are spiralling out of control. So in an attempt to present the programmes as a success, when in fact they are not, what Mr Draghi is really doing here is introducing new variables.

Instead of the debt or the deficit, therefore, he uses other yardsticks. Today, he is talking about exports. Although exports have indeed increased in Portugal and in other countries undergoing adjustment, this has more to do with other factors, such as the strategic role of partners outside the EU in Portugal's trade relations, the fall in imports, and the massive rise in unemployment. What I would like to ask him is, knowing that the debt and the deficit will continue to spiral out of control, as indeed they did in 2011, whether he will admit they will continue to spiral out of control...

What I was saying, and I shall speak more calmly now, is that I thank you for being here with us today, Mr Draghi, but there are two questions to which I would like to hear an answer, because one question is very clear, which is the fact that on all the essential issues, on all the difficult issues...

1-022
I can speak in English. I was just thanking you for coming here. I would like to ask you something concerning two questions and two examples that you gave. In all the difficult files that you bring here and that you present here before us, there is always one dimension where the European institutions are failing and lacking, and that is solidarity.

I wanted to ask if this is true of my first example, namely the banking union? Because one of the things you do not talk about with us is the fact that when everything fails, and everyone is divided again, there is no solidarity mechanism.

The second example I want to mention is the bailout programmes. Mr Draghi, you always come here to say that they have been a success, but they are not a success. The main variables, the deficit and debt, are totally out of control and this will continue. So what is your recipe? Is it that every time the variables, which should be the main objective of the bailout programmes, do not work, you bring in additional ones, out of context, such as exports for instance? Exports in Portugal have increased a little, but the trade balance has more to do with the reduction of imports than with an increase in exports.

1-023
Mario Draghi, *President of the European Central Bank***.** **–** The SSM has all the powers to be effective. So I would say that now the challenge is really in its implementation and that is what we will have to work on very hard. But we should consider that this is the first step of a banking union; there are two more steps.

One is the creation of a single resolution mechanism and this is again contained in the European Council conclusions, so next year the Commission will present a proposal to this effect. The third is the potential in the long run for a European deposit insurance guarantee scheme.

To have mutualisation, to have solidarity in your set-up, means to have mutualisation of risks. To have mutualisation of risks you need to have trust in place and the SSM is one of the tools that we will be using to increase trust; to increase the trust in our banks regardless of where they are positioned.

The second point of your question is more a statement than a question. You are saying that debt and deficit are out of control; they are not. We believe that they are not. I think we believe that there has been substantial progress and the facts show that there has been progress.

1-024
Sampo Terho (EFD). – Mr Draghi, there has been a lot of discussion concerning the different roles of the ECB. You made some remarks in your opening speech also. Now the ECB is to perform as the responsible authority for monetary policy as well as the supervisor of banks. While it is clear that there should be a division of tasks among the staff, how is it going to work out for the President? My question is: have you had the chance to plan how your personal role, or the office that you currently personally hold, will be organised in the new ECB? Is it even possible for one person to be in control of both tasks. How will you organise this in the future?

1-025
Mario Draghi, *President of the European Central Bank***.** **–** Thanks for the trust, but it is not me who is going to take care of this. There is going to be a completely separate body called the Supervisory Board. It will have a different Chair and a Vice-Chair and so on, and it will take its decisions in a substantively independent fashion from the Governing Council. We want to keep it this way because as I have said many times, the primary objective of the ECB is to maintain price stability.

This is one of the features that I remember I mentioned on the very first occasion I had to speak publicly about this development. Whatever is going to come out has to be many things and we have to make sure that monetary policy and supervision are rigorously separated.

1-028
Marianne Thyssen (PPE). – As rapporteur for the SSM I have a couple of questions relating to it. Like many in this House, and with you, Mr Draghi, I am happy that we are really going to have a single supervisory mechanism. That is very important.

One element of this mechanism is that the ECB Governing Council, or at least the Supervisory Board,

can issue instructions and draw up rules for the national competent authorities, but it can only issue general instructions. In some versions it was also possible to issue individually targeted instructions, and thus to target a specific national authority which is maybe not complying. Do you not think this is a shortcoming in the system? Should we try to do something to remedy this, or do you consider that you have enough instruments at your disposal with the General Regulations and your powers?

Secondly, I note that implementation has been slightly delayed. We had all hoped that we would be fully operational on 1 January 2014. Now it will be 1 March 2014. In one draft I read that this delay had to do with the fact that the ECB would not be ready. Fortunately that was deleted, but there is still a kind of get-out clause there, to the effect that if the ECB decides it is not ready, then implementation can be delayed even past 1 March 2014.

Should we read into this that you are afraid you will not be ready, or is this addition to the proposal really superfluous? Thank you in advance for your answer.

1-029
Mario Draghi, *President of the European Central Bank***.** **–** Let me first thank you and your group for all the good work you have done, which has certainly laid the groundwork for the deliberations that have been made.

You basically raise two issues. One concerns instructions – general as opposed to individual instructions. The ECB can issue general instructions to national supervisors. Would the fact of being prevented from issuing individual instructions be a main obstacle? All in all, we do not think so. It is true that instructions will be general but only up to a point. For example, we can issue instructions for groups of banks and categories of banks. Frankly, when we talk about instructions, that is what we really want. It is very difficult to issue an instruction which has a certain broad power and yet relates to specific individual banks. One copes with problems related to individual banks in a different way, and not by issuing instructions. So I do not think that is a big issue.

The second point concerns the actual effectiveness of the SSM and timing. Here the idea is that it is important to do it soon, but it is even more important to do it well. It is true that we have set a time frame of one year after the entry into force of the Council regulation. So we estimate that it could be March 2014: if the Council regulation enters into force and if the trialogue process is finished, it will enter into force in March.

But it is also true that we are moving into completely uncharted waters. So it was wise to keep some room for flexibility in case of unforeseen obstacles or impediments of different kinds. We should not forget that this is a process which heavily involved national supervisors, with, for example, requests for information, data, statistics and changes to national legislations. There are many things that may take more time but, when all is said and done, we estimate that a year will be enough.

1-030
Marianne Thyssen (PPE). – I do not know whether you really need it before the entry into force of the SSM or whether it can come later, but do we only need a resolution authority, or would you prefer to have a resolution fund as well?

1-031
Mario Draghi, *President of the European Central Bank***.** **–** Let me say, as a corollary to what I said about timing, that the ECB has every interest in establishing a fully effective SSM soon. I was speaking basically about prudential considerations that I made.

On the single resolution mechanism, the ideal thing would be for the two to come into full effectiveness together. The single resolution mechanism is very important because it allows us to cope with failures – bank failures, which may well happen – in a way that it does not force us to use taxpayers' money and, at the same time, does not destroy major parts of the payment system.

We have seen both things happen during the financial crisis. We have seen failures which had exactly these two consequences: enormous use of taxpayers' money and disruption to the payment system. That is why we have to have a single resolution framework in place to manage failures, which is always by itself a complex task especially when it involves banks that are based in different countries and are therefore, even today, subject to different bankruptcy legislation.

We first have to move on the legislative part and then we will think about the fund and the independent authority, but I think ideally that one would like to have all these things coming together.

1-032
Werner Langen (PPE). – Mr Draghi, I have always thought very highly of your work, but I now see considerable problems if, as you have said, you are taking over banking supervision for all banks. My first question is this: what changes in law are required, in your view, to (a) Article 127 of the Treaty and (b) the ECB Statute? Article 3 makes no provision for banking supervision, and the wording of Article 25 is identical to that in the Treaty. No amending procedure is provided for in the ECB Statute.

Secondly, Mr Salba has pointed out that the impact of the ECB's half-a-trillion-euro money market programme has evidently been different. It is an established fact that the southern European banks have made no loans for investment; rather, because of the 5% difference in interest rates, they have been buying government bonds, increasing Italian, French and Greek banks' dependence to as much as 99%, and not reducing it, in the process. That is at odds with the intention of separating states and banks.

Thirdly, how is separation to be ensured, precisely, if four of the six ECB Executive Board members are members of the Supervisory Board?

1-033

Mario Draghi, *President of the European Central Bank***.** – No, let me just correct this last point. It is not true. It is foreseen that the Supervisory Board will be formed by the national supervisors and by ECB members, but it is going to be 17, plus ECB members of which there are four, plus the non-euro area members which will want to join through their national supervisors. So there is no possibility of having the ECB telling the national supervisors what they ought to do.

The second point you made is about long-term refinancing operations (LTROs) being used to buy government bonds. This is partly true. The banks used the liquidity acquired via the LTRO firstly to repay their own bonds. We should not forget that EUR 230 billion in bank bonds was due in the first quarter of this year, so what banks did was basically avoid a major funding crisis by repaying their own bank bonds. And then they also bought government bonds.

The issue is, as we have discussed, could the ECB have prevented these banks from buying government bonds and forced them into lending to the economy? The answer I always give is that basically both the people who say we should force banks to give money to the economy and the people who say we should make sure the banks do not buy government bonds are asking the ECB to do something that we cannot do, namely, to tell banks what they ought to do with their money.

However, in terms of inducing banks to lend to the economy, we have done really substantive things because, as I said before, through the expansion of collateral and the use of so-called 'credit claims' we have placed the banks in a situation where the more they lend, the more collateral they have to fund with the ECB. I think we have done a lot.

On the other hand, other programmes that we have seen implemented by other central banks do not seem to work, or at least not to fully work. But you should also think about the complications of any programme that tells banks what to do with their money in an area of 17 countries like the euro area. If we tell banks we are going to give them money but only if they lend to the economy, then we had better check whether they actually do. As we have just learnt, there are 6 000 banks in the euro area, of which at least 850 came to borrow money from the LTRO in March 2012. The operational complexities of any programme like this are very difficult to overcome.

On your first point about the legal foundations, I think I answered before. I am no lawyer and I have to trust other lawyers, and the other lawyers are saying that there is enough robustness in the legal grounds to move ahead. We have to think about how they read Article 127(6). I shall not make further comments other than relying on other people's judgment.

1-034

President. – I actually share Werner Langen's concerns about how to get the money into the real economy but the reality of it, and I have thought about this, is that central banks used to be able to operate window guidance, and the quid pro quo was to take away their support, but when every bank is implicitly guaranteed and the central banks have to step up to the plate you have lost the stick.

1-035

Antolín Sánchez Presedo (S&D). – Madam Chair, I would also like to congratulate Mr Draghi on the decisive action that the European Central Bank has taken this year, and the progress it has made in broadening the scope for action in the context of Economic and Monetary Union.

I have always regretted the fact that ECB intervention was confined to the financial, fiscal, economic and institutional contexts. I believe that, although they are not its primary objectives it could also contribute to increasing growth and employment, in particular at a time when we are in the middle of a credit crunch and a process of deleveraging.

My first question is: can the countries which would benefit from selling bonds to the ECB be informed in advance of the terms that it would impose?

My second question concerns direct recapitalisation, for which the single supervisory mechanism needs to be in operation. Does the ECB have a programme for this? Can it say which States have a direct assistance programme? When will the ECB be able to begin exercising supervision?

1-036

Mario Draghi, *President of the European Central Bank***.** – As I was saying in my introductory statement, this year has indeed been a very difficult one. If we go back and look at what the ECB has done this year, we have to conclude that the ECB has indeed been very active. We lowered interest rates three times, we carried out the two LTROs, we broadened the collateral, we have the minimum required reserve ratio and we entertained a series of actions up to the July announcement of the OMT. I think we have indeed delivered price stability in the medium term. We can also see how inflation is moving and how well long-term inflation expectations are anchored.

Having said that, all this liquidity will have to find its way through the economy and that takes time. Frankly, the present situation shows how serious the funding crisis was that developed last year. The two LTROs avoided an even more serious situation.

On the OMT, it is not the task of the ECB to push governments into applying for our OMT programme. The governments themselves and their national

parliaments know better what to do and when to do it, if necessary. On the direct recapitalisation of banks, the decision is that banks can be directly recapitalised by the ESM only if and when they are subject to SSM supervision.

Incidentally, in all this there is a concept that has been raised at the level of the ECOFIN Council, namely the legacy assets. I think that a clear definition of these assets is urgently needed. It is certainly not the task of the ECB to define these assets now.

1-037
Corien Wortmann-Kool (PPE). – Mr Draghi, my question regards the progress we have achieved in getting our Economic and Monetary Union on the right track. Well, it is clear that your new bazooka, the OMT, really has been helpful in calming down the markets, even without being used. But you have always made it clear that politicians have to act; you praised the conclusions of the June European Council, you underlined the need for further progress on completion of the Economic and Monetary Union.

However, when you look into the Council conclusions the progress made seems to be vague. The reform contracts and the temporary financial support you elaborated on in your introductions are not even mentioned in the Council conclusions.

Now my question is: is the ECB prepared, and are the circumstances right to use this new OMT instrument? You made it clear that the OMT can be used on the request of the Member States but is it also linked to a reform programme, maybe even a reform contract, before it can be used? And is there any relation in general to progress on completion of the Economic and Monetary Union? Do you consider the progress in the Council to be sufficient and encouraging?

1-038
Mario Draghi, *President of the European Central Bank***. –** Very generally, any progress we achieve on the path towards a more genuine European monetary union is strongly linked to the undertaking of reforms – fiscal reforms and structural reforms – where they are needed. Everything must be read in conjunction with the reform process. The contracts are in fact linked to the reforms, even if it this has been mentioned in a rather indirect way. But this link is there, so much so that the Commission was asked to undertake a review of whether product markets and labour markets are compatible with belonging to a European monetary union. So I would see the reform process as intimately linked to anything we do.

When we look at OMT, you know all the prerequisites that have to be in place before activating OMT. We even say that it is a necessary condition that conditionality should be complied with, but not a sufficient one, because we also need an independent assessment by the ECB. But, as regards defining the conditionality, this will be for the ESM – because as you know countries will have to apply for an ESM programme – and the IMF, if it is going to be there as the ECB always wishes.

So I would be surprised if the reform contracts framework were in place. I imagine that in one or two years' time a country might need to do this and I would be surprised if this were not to be taken into account by the Commission at that time and/or by the IMF.

1-039
Corien Wortmann-Kool (PPE). – This links to, for example, a reform programme in a specific Member State, but do you also consider the progress in general? Is there a link with using the OMT instrument, that general progress has to be ambitious, and do you consider it sufficiently ambitious?

1-040
Mario Draghi, *President of the European Central Bank***. –** In general, progress on governance and whether it is sufficiently ambitious? If we go back and ask ourselves how the situation was way back in February 2012, many major steps have been undertaken this year by the European Parliament, first and foremost, but also by the European Council.

If you compare 2012 with 2011, this year will mark a year of substantial progress on all fronts: on euro area governance, on reforms in individual Member States – on both fiscal and structural sides – and on the stabilisation of financial markets.

1-041
Arlene McCarthy (S&D). – I want to return to the question that Philippe Lamberts asked because I noted that you said on several occasions, and also in the press, that you were a passive actor in the banking union debate. I am interested in how you are going to be proactive in maintaining the integrity and coherence of the ECB in its single supervisory role.

So, what I am confused about is that we started off with 6 000 banks being under ECB control but now we have only 150. So that means 5 850 are going to be shared with national supervisors. So I want to know how you are going to do that job, because you did say you were going to enforce the rule book. How do you intend to enforce that rule book and share power with regulators? Are you going to shame local supervisors or governments into taking action?

As you are aware, the Council rejected the idea of a mutualisation of debt, so there is going to be no EU-wide burden-sharing. So are we therefore looking at a smaller resolution fund financed only by banks? Is the taxpayer off the hook, as you said you would like them to be? Will you then be able to withdraw a licence, meaning that you could not then oversee the resolution of that bank?

Some experts have suggested that the ECB should now open formal resolution contracts with Member States to get the power to demand that a bank goes into a national resolution scheme as a condition of its supervising.

So I am interested in how this process is going to work. To me it is not clear; I have a little bit of knowledge, but people out there have no knowledge. I have to say they will be very confused at what came out of the Council and how you intend to implement that.

1-042
Mario Draghi, *President of the European Central Bank***.** **–** First of all when I say that the ECB is a passive actor in this, I mean that it is on the receiving end of the legal framework that is first of all drafted by the Commission and then by this Parliament and by the Council.

So in this sense the ECB is on the receiving end of this. Having said that, implementation of the framework will be completely different. The ECB will first of all have to make sure that the logistical conditions for the implementation of this new mechanism are in place. It is up to us, and we will move together. However, I have always said that we will move together with the national supervisors. The supervisory board will be formed, first and foremost, by the national supervisors. So we will work together.

When I talk about 150 banks, let me take a step back. One idea that people had is that we would cut the banking market in two. One chunk of this would be directly supervised by the ECB and the rest would stay with national supervisors. That is not what will happen. We will all work together.

The single supervisory mechanism is a mechanism formed by the national supervisors and by the ECB. The people at the ECB will have no direct responsibilities regarding monetary policy. Having said that, then we have the 150 banks where supervision from the centre will be dominant. Then there are the other banks which will be supervised more by national supervisors than from the centre. The ECB will still have powers to issue instructions for groups of banks and general instructions to national supervisors. It has the power to bring any bank under its supervision. So any bank could be added to the roughly 150 banks that we currently foresee. More generally, this system has not been created yet. It is a system in the making. I will be able to tell you more and more as we move forward along this path.

Regarding the resolution fund, what is the resolution authority? I always say that it is made up of 90-95% legal changes and 5-10% money. We have to ensure that we have a single resolution mechanism in place in the euro area. Let me be more explicit. When a bank is resolved, one of the key decisions to be taken is whether creditors will be bailed in or not and whether shareholders will be wiped out or not.

At the moment the euro area countries have 17 different bankruptcy legislations, so this list of creditors is different from country to country. The very first thing about having a single resolution mechanism is agreement about what to do when a bank is resolved, namely which creditors to bail in, agreement about wiping out the shareholders and all sorts of actions that characterise the resolution. This is the most important step.

Then you have to have a certain fund which is used to manage resolutions. It is not a bail-out fund. It is a very different thing. That is why the resolution fund is not necessarily enormous. It is as large as it needs to be to finance the resolution, namely to close a certain branch or to finance the transitory process for another branch or another subsidiary. So these expenses are well limited and well defined.

1-043
Arlene McCarthy (S&D). – I just want to know what happens – because you do not directly supervise those banks – if a national supervisor says we are not going to put it into resolution? And the taxpayer pays. That is what I want to know.

1-044
Mario Draghi, *President of the European Central Bank***.** **–** That is a good question. Again, I have to figure it out, because we do not have anything in place yet.

My sense is that a statement from the central supervisor saying that a bank has to be resolved is on its own a very strong statement which leaves the national supervisors with very little leeway. You can imagine what would happen if the supervisory board were to say that bank X had to be resolved and the national supervisor did not take any action.

What do you think the depositors would do at that bank? They would leave, so you would have a bank run. The national supervisors would, therefore, act immediately. But having said that, it is greatly preferable to have everything in place when we start.

1-045
Gunnar Hökmark (PPE). – On the other hand, I was going to ask about the macro-economic consequences of the monetary easing we see around the world: the EU presented the ECB programme on OMTs in September, the US Fed presented its purchase programme which amounts to USD 40 billion per month, and the Bank of Japan has gone the same way; and all this has been described as the greatest monetary experiment of all time.

It is not surprising that this could still have some consequences in the short-term perspective, calming financial markets down, but it would be interesting to hear from you: if you look around the corner, what sort of risks do you see? You were, in your presentation, highlighting the need to keep macroeconomics in balance, and you warn of the imbalances. I think it is true to say that we have never seen such monetary easing as we do today; helpful, of course, in the short-term perspective but much more complicated in the long-term perspective which you are responsible for.

So I would welcome that, and if you have the opportunity and time you could maybe also say some

words about the risks of fragmentation, and maybe division, which could spring from the fact that we now base the design of European supervision on the euro area, with all the consequences we are discussing today. But my main question concerns the macroeconomics.

1-046
Mario Draghi, *President of the European Central Bank***.** **–** Of course, I can only speak for my own jurisdiction, namely the ECB jurisdiction. We have undertaken the two LTRO operations which increased liquidity, but then the real easing came from an announcement, not an action, not yet. As far as the first tools are concerned ...

1-047
Gunnar Hökmark (PPE). – But I think you emphasised that you would be prepared to take these actions?

1-048
Mario Draghi, *President of the European Central Bank***.** **–** Sure, but as far as the two first operations are concerned, it is true that base money was created but it did not go into M3. To have inflation you need two things: you need to have no margins of spare capacity and you need liquidity to go into M3, into actual money that can be spent by people because it is lent to people.

Unfortunately, in a sense, we have not seen either, in that this money has not gone into the economy; this was the question that was asked of me before. We are not seeing, certainly, a shortage of spare capacity in the euro area. So we are seeing inflation going down – it is 2.2% now, it was 2.7% earlier in the year. We see inflationary expectations, long-term inflationary expectations, which are firmly anchored.

The next question is: what if we were to see something? We have plenty of instruments that we have created to rein in liquidity before it gets into the system. Incidentally, by year end or at the beginning of next year we will see some banks repaying the LTRO, and in so doing they will shrink down the balance sheet of the ECB.

So all in all, we reacted in June, we reacted in July, and at the end of July, against the fragmentation of the euro area which was going to create disastrous scenarios and, to some extent, since then, we have seen marked improvement on all fronts in financial markets.

The approval of the SSM, if anything, will further reduce the fragmentation of the euro area. All in all, the impression one has of this year, or at least the second part of this year, is of a gradual improvement in financing conditions, which is one of the reasons why we foresee recovery beginning in the second part of next year.

1-049
Anni Podimata (S&D). – First, I would like a short clarification on whether banks not representing a systemic risk, that will stay under national supervision, can benefit from direct recapitalisation from the ESM. With regard to the recent European Council conclusions – despite the significant decisions by ECOFIN, endorsed by the Heads of State and Government, on the banking union and the SSM as a first step – decisions on fiscal integration have been much less ambitious.

My question is, do you think that the banking union can be fully operational without appropriate fiscal risk-sharing mechanisms in place? What is your opinion on the idea – which actually disappeared from the Council's conclusions – of a future eurozone fiscal capacity?

Last but not least, regarding Greece and the decisions made earlier by the Euro Group, I would like to ask you when we should expect the ECB and the central banks to implement the vital decision to pass income from the Securities Markets Programme to the country's segregated account?

1-050
Mario Draghi, *President of the European Central Bank***.** **–** As to which banks are also subject to ECB supervision, here the key word is 'significant'. You may have banks that are not necessarily large but still could have systemic risk. They would, therefore, fall under the 150. The number is not fixed, there may be between 130 and 150, depending on many things, one of which is how many non-euro countries will actually join the system.

With regard to a banking union without a fiscal union, the banking union has three pillars, two of which do not entail any mutualisation of risk. The third does: the common guarantee on deposits.

The point is that you can have a banking union which includes supervision and resolution, in which case you would break the link between banks and sovereignty to some extent, namely as far as supervision is concerned. You will have the certainty that the central supervisor will assess the state of banks independently of where they are located, and in a manner independent of national vested interests and national political pressures. So to some extent this link is broken, and if you have to recapitalise a bank that is not under the ESM programme the money must come from the national budget. So, it is broken but not 100% broken. That is my assessment.

But, as we have said many times, before you can have mutualisation of risk all countries must show a willingness to share national sovereignty in fiscal matters and to comply with the rules they give themselves. That is the only way to re-establish trust and that is the prerequisite for mutualisation of risk for establishing a common fiscal union.

On the Securities Markets Programme (SMP) profits, the ECB has distributed these profits to the national central banks. The national central banks will decide, in accordance with their national legislation, whether or not to deliver these profits to the national governments, which in turn will use these profits for the Programme.

With regard to fiscal capacity, the common budget has not completely disappeared, because reference is made

to the possibility of establishing contracts and reform contracts. In a sense, that is how fiscal capacity was included in the summit conclusions.

1-051
Diogo Feio (PPE). – President Draghi, I would like to put two questions to you. The first concerns our programme for achieving debt and deficit targets, in which connection a host of sanctions are set out in the Stability and Growth Pact. It seems to me, however, that we also need suitable incentives. Much has been said about the 'carrot and stick' approach; it seems the second part has been well covered, but the first has been somewhat forgotten. Do you not agree that States which are progressing well under adjustment programmes, such as Portugal and Ireland, for example, would benefit from incentives beyond mere acknowledgment that they are on the right track and that they are carrying out the necessary reforms?

The second question concerns debt and sovereign debt, which as we all know has reached disastrous levels in some States. Much has already been said about possible measures that we could take to reduce the debt, such as euro bonds or the redemption fund. Now, Mr Van Rompuy has come up with a general solution in his report. What do you think should be done within our current legal frameworks to address these excessive levels of debt?

As we have developed a certain rapport during these dialogues, I would like to end by wishing you a very Merry Christmas and a Happy New Year. I hope 2013 is an even better year for you, and considering that you have been voted Person of the Year for 2012 by the Financial Times, I am expecting a lot of you next year.

1-052
Mario Draghi, *President of the European Central Bank***. –** To begin with, the fiscal adjustment, as I have said many times, was unavoidable. Let us not forget how we got into this situation. Second, it will have contractionary effects; certainly it is having short-term contractionary effects. How do we mitigate these effects?

Well there are various ways: one is, for example, to focus more on reductions in expenditure rather than tax increases. The second one is to undertake structural reforms. The hope is that exports will pick up. We have examples of countries that have mitigated the effects of the unavoidable fiscal correction through higher exports, and that should have positive effects on growth and job creation. That is the key strategy in a situation which is admittedly very serious and very painful for these countries – we should not and we certainly do not take these concerns lightly, these are serious concerns.

On the staggeringly high levels of debt, there is no silver bullet to cope with this problem. All stressed countries have huge levels of debt and the present strategy is predicated on reducing debt or debt-to-GDP levels.

And I would just like to say thank you so much for all your Christmas wishes which I wholeheartedly reciprocate to all of you.

1-053
Ramon Tremosa i Balcells (ALDE). – Mr Draghi, I want to ask you a question about the Spanish forecast that you gave, because you were very optimistic. Let me remind you that all the forecasts from the Commission, the IMF, the OECD, and even different Spanish big banks, are saying that 2014 may be the worst year of the crisis in Spain. We are talking about a huge fall in GDP, more unemployment, credit to SMEs will continue to fall, public deficit will not be under control and we have yet to see the final impact of the cost of the financial bailout.

Regarding what you said about Spanish exports, it is true that since 2009 Spanish exports have grown, but let me remind you that those exports are concentrated in only three or four Spanish regions. As a Catalan MEP, I can say that it is true that Catalonia generates 30% of Spanish exports. There was a lot of growth in 2010 and 2011 but now this is slowing down because of the global slowdown. I do not know if you have more information with which to justify your optimism in this Chamber.

1-054
Mario Draghi, *President of the European Central Bank***. –** Let me get this straight. I did not produce forecasts for Spain. The forecast was for the whole of the euro area and, as such, it stays as I said.

1-055
Ramon Tremosa i Balcells (ALDE). – As I still have some time; one month ago the Spanish Finance Minister Luis De Guindos came to this House and he said literally that 'Spain has an extremely competitive economy'. What do you think about this?

1-056
Mario Draghi, *President of the European Central Bank***. –** I am sorry, but I am not going to comment on national ministers and on their statements. I can comment on facts, however, and the facts show that in Spain unit labour costs went down and that the current account surplus went up, or that the current account deficits are less and exports are going up.

So there are signs of increased competitiveness and of improvement. In a sense I think it is self-defeating not to admit that progress has been made in Spain, and also in Greece, Portugal, Ireland and all the stress countries. This year has been a year of what I would define as 'painful progress'.

1-057
Ramon Tremosa i Balcells (ALDE). – When you talk about labour unit costs, are you distinguishing between the private and public sectors? If I am not wrong, the Spanish Vice-President said that the extra Christmas payment to civil servants that will not be paid this year will be paid next year. And these labour unit cost reductions are only concentrated in a very few private subsectors.

1-058
Mario Draghi, *President of the European Central Bank***.** **–** This is for the whole economy, for the unit labour costs, it is for the whole economy. At the same time, there have been reforms: there have been reforms in the labour market for certain. It has been a year of painful progress but it is progress.

1-059
Jean-Paul Gauzès (PPE). – Mr President, thank you for being with us once again. I'm going to ask you a question, but let's imagine for a moment that we are in Spain, at a bullfight, and keep the *estocada* until the end.

You have told us very clearly about the various organisations that will be set up and the timetable for doing so, and about cooperation with national regulators.

I recall what was announced at the outset about supervision, that there would be European supervision to overcome – let's be frank – the failures in the system which came to light during the financial crisis.

Now we learn that the objective that has been set is much more modest. Therefore, in keeping with the theme, I'd like to grab the bull by the horns and ask whether – and if so how – the ECB intends to do better than has been done so far and with what additional resources.

People who know me say that in the run-up to Christmas I can be a bit of a killjoy, but sometimes someone has to ask the tough questions.

1-060
Mario Draghi, *President of the European Central Bank***.** **–** I must confess that I also ask myself this question, so it is only a natural question, it is not a tough question, and we had better answer this.

The answer lies in the fact that we do not think we are going to be 'better' than any national supervisor, because we will work with them. The single supervisory mechanism is a mechanism acted upon by the national supervisors, together with the ECB. The key point is that in supervision with this mechanism we will overcome the national boundaries. We will overcome the national boundaries, we will overcome the ring-fencing that has contributed to the fragmentation of the euro area.

So, in the sense that this is my answer, no, I have never pretended that the ECB could do anything better, not at least until we have done it.

1-061
Peter Skinner (S&D). – Mr President, you are not superhuman but, perhaps even better, you are Financial Times Person of the Year 2012. There is great expectation upon you.

What you seem to be saying is that the issues are rather too fresh for a real assessment to take place now. Although we know the numbers of banks that will be directly supervised under the SSM, do we know the figure for how many banks would be capable, or could qualify, to receive support for recapitalisation directly under the mechanism? It was not really clear. Are you saying that at the moment this is not clear? It would be very useful for us to know.

1-062
Mario Draghi, *President of the European Central Bank***.** **–** No, we cannot make any such an estimate right now because it is a different process really. We know which banks might ask because they are located in certain countries and they will be under the SSM process. But it is very hard to figure out which banks may need direct recapitalisation by the ESM in a year and half's time. It is a very different process.

First and foremost it will be the ESM that will have to decide on this. The ESM will use SSM supervision to support them in their decision, but the final decision will be up to the ESM.

1-063
Peter Skinner (S&D). – So in practice it is difficult to estimate but, in theory, maybe. That is all that we can say at the moment. I will not go any further than that.

Perhaps I could just ask about the general economy. There are of course the twin hates of economists – high inflation and high unemployment. You say that you would like to separate monetary policy from the issues of further discussion on supervision. Can you not see yourself perhaps being too much of a dampener in the issue of the European economy as a whole? How would you see yourself in your role? Remember that it is Christmas so Santa Claus is expected. A lot of economies are looking for that push. You have done a lot of work on this so far, but there will be criticism that you will actually be the Scrooge coming round the corner as well.

1-064
Mario Draghi, *President of the European Central Bank***.** **–** We have undertaken this year, as I said before, two LTRO operations. We have expanded collateral, we have included credit claims, as I said before, which is in our view the best tool to make sure that we fund for lending because, as I said, banks, at the same time as they lend, produce collateral they could use with us to fund themselves.

So the interest rates are low, real interest rates are negative in many parts of the euro area and, at the same time, price stability has been safeguarded and will be safeguarded, according to any estimate of medium or long-term inflationary expectations.

I think that is what we have done this year and I think that remains. We are quite confident that this monetary policy stance will, in time, produce a better economic situation than we see today, so much so that the ECB projections for the whole of the euro area foresee the beginning of a recovery in the second part of next year.

1-065
Gay Mitchell (PPE). – Madam Chair, could I join with others in wishing Mr Draghi a very happy Christmas and

I hope he will have a well-earned break over Christmas. Might I add in passing that I hope that by St Patrick's Day, which is 17 March, Irish eyes will again have reasons for smiling, at least as far as the Anglo debt rescheduling is concerned. But I will not press you on that today.

People say to us constantly, particularly people who are politically opportunistic, that austerity is not working; as if you plant the seeds today and you wake up tomorrow and the flowers are in full bloom. But at the same time we are in danger of losing the public if we do not give them some hope.

So I would like to ask Mr Draghi this: in the Wall Street Journal last week the German Finance Minister Wolfgang Schäuble quoted Holger Schmieding, Chief Economist at Berenberg Bank in London, as saying in a recent analysis by that bank on the Lisbon Council that if the eurozone 'stays on the reform path it could eventually emerge from the crisis as the most dynamic of the major Western economies'. Does Mr Draghi share that view? Can you give us some cheer at Christmas?

1-066
Mario Draghi, *President of the European Central Bank***.** **–** Yes, I do share this view. I share this view because, in a sense, the eurozone has the best fundamentals that we can find at the moment. If you look at the budget deficits, debt, current account, price, inflation – no matter what you look at – you find a less unbalanced situation than in most other parts of the world.

So what we have to be capable of doing is building on these sound fundamentals – as a eurozone, overcoming our fragmentation which, in a sense, isolates countries in their individual weaknesses. I think that is the challenge. It seems that this year we have certainly moved a long way towards this objective. We have come a long way along this path in correcting imbalances, both fiscal and structural, competitiveness-wise, but also at euro-governance level, in trying to reach a meaningful and a more genuine monetary union.

We should never forget that, when we look at our fundamentals in their entirety, they are actually good. They provide the solid foundation for this objective that Mr Schäuble has commented upon.

1-067
Gay Mitchell (PPE). – Thank you, Mr Draghi, for that bit of Christmas cheer. Can I just say this, because I think it is important that it is said.

We keep telling people what needs to be done, but we are failing to tell people why. Could I suggest that at your level as President of the Central Bank – and you have really done a very good job and your Central Bank has done a very good job, and I do not think we tell you that often enough but we should tell you more often – but at your level, and at the level of the Council of Ministers, and at European Council level, we need to start saying more about the why, so that people see the hope. We need to start saying we are doing this for a reason and what the outcome will be. I respectfully suggest that this should become more of the vocabulary for 2013. Thank you again for your response.

1-068
Mario Draghi, *President of the European Central Bank***.** **–** Thank you for your kind words but thank you especially for suggesting that we be more explanatory in our policy commentary and in our policy narrative. We will certainly take that on board.

1-069
Chair. – That concludes this Monetary Dialogue. The next Monetary Dialogue is scheduled for 18 February.

(The meeting closed at 17.25)