1-001-0000

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) of the TFEU)
BRUSSELS, MONDAY, 26 SEPTEMBER 2016

1-002-0000

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

(The meeting opened at 16.10)

Chair. – Welcome, Mr Draghi, to the European Parliament for the third monetary dialogue of the year. The last one we had was on 21 June. The ECB's monetary stance has remained unchanged. Further to the decisions adopted last March, policy measures continue to ensure supporting financing conditions and underpin the momentum of the expected economic recovery, which is expected to proceed at a moderate pace. However, the downside risks are today important, especially with the uncertainties following the UK referendum.

We understand that the asset purchase programme shall continue beyond March 17 if necessary, and until a sustainable adjustment in inflation is seen, in accordance to the ECB target. President Draghi will today, as usual, present the ECB perspective on economic and monetary developments and will make a special focus on the economic and financial consequences of Brexit. He will also discuss the two topics select by the ECON coordinators for the preparation of the monetary dialogue – namely the state of play of financial market fragmentation in the euro area and the reasons and implications for monetary policy of the ultra-low or even negative deals on euro area long-term bonds.

We did some preparatory work on these two items, as usual, with the contribution of distinguished scholars. On the first issue, fragmentation, the papers we received recognised that the unconventional monetary policy conducted by the ECB has reduced financial fragmentation notably, and that the remaining signs of divergence in bond and banking markets are potentially explained by differences in fundamentals rather than fragmentation.

On the second item, I think one paper very interestingly noted how the downward trend in long-term bond yields that characterised almost all developed countries seems to have begun well before the current economic contingency, and seems to be the result of a combination of various factors, driven by a circular decline in a so-called natural neutral interest rate on which central banks have little influence. So rather than being the cause of the current ultra-low yields in long-term bonds, the ECB's policies seem aimed to influence market rates in order to make them consistent with the neutral rates, thus avoiding creating further deflationary pressure and so trying to fulfil its broad stability mandate.

Of course we should not under underrate the potential risks of a prolonged ultra-low interest rate for financial stability in the medium-term and it is therefore crucial to take on the

structural causes behind this fall in long-term rates. That means a fortified euro zone, as a prominent member of the board said today, addressing structural reform and including also addressing the issue of an inappropriate fiscal stance for the euro area.

So we have a lot of interesting topics to discuss. We have a lot of expectations as to your presentation, President Draghi. I give you the floor.

1-003-0000

Mario Draghi, *President of the European Central Bank***.** - Mr Chairman, honourable Members of the Economic and Monetary Affairs Committee, ladies and gentlemen, I am grateful to be back speaking to your committee less than a week away from an important anniversary for the European Parliament. 40 years ago, the act that made direct European elections possible was signed, and I am happy to be speaking to you – the direct representatives of the people of Europe.

Europeans are calling on our institutions to bring tangible benefits to their everyday lives. We need to respond to this appeal with action within our respective competences. This is why I am here today: not only to demonstrate once again the importance that the ECB places on being accountable to EU citizens, but also to discuss with you how the ECB is acting to fulfil the mandate that was democratically conferred upon us.

Therefore, in my remarks today, I will first review the state of the euro area recovery and the impact of our monetary policy measures. Then, at the request of this committee, I will discuss financial market conditions in the euro area and, in particular, the evolution of financial market integration.

The recovery in the euro area is expected to continue at a moderate and steady pace, but with slightly less momentum than envisaged in June. On the positive side, incoming information continues to point to the euro area economy being resilient to global and political uncertainty, notably following the UK referendum outcome. The initial impact of the vote has been contained and the strong financial market reactions, such as equity price falls, have largely reversed.

At the same time, the substantial weakening of the foreign demand outlook since June is expected to dampen export growth. Along with other factors, it will continue to pose downside risks to the euro area's growth prospects. According to the September ECB staff macroeconomic projections, annual real GDP growth is expected to increase by 1.7% this year, and by 1.6% in each of the next two years.

Inflation continues to remain at low levels, reflecting past declines in oil prices and weak wage growth. Annual inflation is expected to be 0.2% this year and to increase to 1.2% in 2017 as the impact of past oil price falls unwinds. The continued economic recovery and a decline in the level of slack are expected to gradually push inflation further up to 1.6% in 2018.

Against this background, our comprehensive policy measures continue to filter through to the real economy. Borrowing conditions for households and firms have eased considerably and credit creation has strengthened, thus supporting aggregate spending across the euro area.

Let me now focus on the description of the credit-easing components of our policy measures. They act as critical transmission channels for the monetary stimulus by facilitating meaningful reductions in funding costs for the real economy.

In June of this year and last week we conducted the first two operations of our new series of targeted longer-term refinancing operations (TLTRO-II), which attracted significant demand. Two additional operations will take place in December and March. These operations allow banks to secure long-term funding at very attractive conditions that they can pass on to their customers.

Likewise, the credit easing components of our expanded asset purchase programme (APP), namely the asset-backed securities (ABSPP), covered bond (CBPP3) and corporate sector (CSPP) purchase programmes, further boost the pass-through of our monetary policy by directly lowering the financing costs for crucial actors in our economy. While the ABSPP and CBPP3 empower the monetary pass-through by containing banks' funding costs, the CSPP directly lowers the cost and improves the availability of market-based funding for non-financial corporations.

Let me stress, in that respect, that the CSPP is benefiting not only the large companies, which can directly access the bond market, but also smaller companies. Buoyant bond market conditions for large companies incentivise them to obtain more funding from bond markets, thus leaving more space on banks' balance sheets for providing loans to small and medium-sized enterprises.

Overall, our projections indicate that the accommodative monetary policy stance will continue to provide effective support to the cyclical recovery and the upward path in inflation.

But financing conditions must remain supportive for our baseline scenario to materialise. Therefore, the Governing Council will continue to monitor economic and financial market developments very closely. We will preserve the very substantial amount of monetary support that is embedded in our staff projections and that is necessary to secure a return of inflation to levels below, but close to, 2% over the medium term. If warranted, we will act by using all the instruments available within our mandate.

I am grateful that today you decided to discuss the state of financial market fragmentation in the euro area. I remember that almost four years ago, in this same building, in my statement to you, I commented that 'the impact on financial and monetary conditions of past reductions in key ECB interest rates differed considerably within the euro area'.

Compared with the financial market situation in the autumn of 2012, the situation has largely improved. Financial market fragmentation has declined substantially and the financing conditions of firms and households have improved markedly across the whole of the euro area.

In particular, the reductions in the key ECB interest rates have been passed through in vulnerable euro area countries to a larger extent, and the fragmentation in funding costs and loan conditions across different countries has receded. To give an example, from October 2012 to July 2016 the composite cost-of-borrowing indicator for new loans to non-financial corporations declined by almost 287 basis points in Portugal and 200 basis points in Italy, compared with 117 basis points for the euro area as a whole.

A similar phenomenon has been observed for SMEs, which have benefited substantially from improved financing conditions and reduced fragmentation. As a result, the spread between lending rates for small loans and large loans was similar in July 2016 in vulnerable and non-vulnerable euro area countries (at 135 and about 120 basis points, respectively), which was a situation not seen since spring 2011.

While the challenges of financial fragmentation have been largely overcome, there are new ones we have to face. The low interest rate environment you selected for today's discussion is indeed one of them. Low rates are a symptom of the underlying economic situation. They reflect weak long-term growth trends and the protracted macroeconomic slump that has resulted from the crisis.

The ECB's monetary policy has provided significant accommodation to limit the negative effects of the global and euro area-specific shocks on the economy, thereby mitigating their disinflationary impact. Nevertheless, monetary policy cannot determine the sustainable level of real interest rates in the long run, as they in turn depend on long-term growth prospects. This means that other policy actors need to do their part, pursuing fiscal and structural policies which will contribute to a self-sustaining recovery and increase the economic growth potential of the euro area, as I discussed with you in June.

In the meantime, the low interest rate environment has a range of implications for economic actors that need to be carefully monitored. I am sure that this was part of your exchange today with the Chairs of the European Supervisory Authorities, and I am of course happy to continue this discussion in answering your questions.

Another, more recent, challenge is the outcome of the UK referendum on EU membership and its economic implications for the euro area. The extent to which the economic outlook will be affected depends on the timing, development and final outcome of the upcoming negotiations. So far, the euro area economy has been resilient, but due to this uncertainty our baseline scenario remains subject to downside risks.

Regardless of the type of relationship that emerges between the European Union and the United Kingdom, it is of utmost importance that the integrity of the single market is respected. Any outcome should ensure that all participants are subject to the same rules. But more generally, it is important to ensure that the European Union meets the expectations of its people. This requires three lines of action.

First, new common European projects should focus on the immediate concerns and needs of its people. For those challenges that unequivocally go beyond national borders, effective solutions do require joint European action. From that perspective, today's priorities notably include the fields of migration, security and defence. Second, for further European integration to be feasible and acceptable, trust among its nations and people is essential. To bolster such trust, it is important that agreed rules are respected. In our Economic and Monetary Union, in particular, the economic governance framework is essential to avoid imbalances that would eventually risk destabilising the euro area. And for the euro area to thrive, actions by national governments are needed to unleash growth, reduce unemployment and empower individuals, while offering essential protections for the most vulnerable.

Finally, our Economic and Monetary Union remains vulnerable as long as we do not complete the integration projects we have started. We need, in particular, to complete the banking union and develop an ambitious capital markets union (CMU) to ensure the resilience of financial integration in the euro area and support cross-border investment. The European Parliament played a key part in setting up the banking union and has an important role to play to ensure swift progress on the legislative dossiers which are now under discussion as part of the banking union and CMU agendas.

Making determined progress in these fields would significantly strengthen our Economic and Monetary Union, and thus constitute an important step forward in line with the roadmap proposed in the Five Presidents' Report.

In concluding these remarks, I want to recall the words of my late friend and colleague Carlo Azeglio Ciampi when he addressed the European Parliament in 2005. He said that ‘the euro is the greatest demonstration of the united will of the European people, and a driving force of political integration’.

And, indeed, the political commitment underpinning our single currency has been strongly reaffirmed during the crisis. Important efforts have been made. But widespread feelings of insecurity, including economic insecurity, remain a major concern. We cannot simply wait for better times: we need to renew our efforts to ensure that Economic and Monetary Union offers protection and prosperity. The ECB will do its part.

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

1-004-0000
Chair. – Thank you for reminding us of the 40th anniversary of the 1976 Act on the Direct Election of Members of the European Parliament. Europe is indeed founded on representative democracy, with Member States and citizens directly represented in the European Parliament. The balance between these two elements is crucial, and we very much appreciate the great importance you attach to the direct representation of citizens in this House and the full openness, transparency and accountability you practice in relation to this Parliament. We will now move on to the first speaker.

1-005-0000
Burkhard Balz (PPE). – President Draghi, I am pleased that you have come here to Brussels today again to take part in our monetary dialogue. The last time we saw each other was shortly before the referendum in the UK.

Several months have now passed, and the long-term monetary and economic impact of the withdrawal of the United Kingdom from the European Union is still difficult to predict. You have already made a number of clear statements on this issue. But when I look at the latest economic report that you, the ECB, published last week, then I see that the Central Bank admits that Brexit may weaken or even severely weaken the projected moderate upturn in the economic output of the euro zone. Hence my question: What do you intend to do about it, even though we may still be at an early stage?

Another point - this will perhaps prepare you for your visit to the German Bundestag in Berlin on Wednesday this week - is the issue of continuing low interest rate policy. Like many of my colleagues, I didn’t spend all the summer recess at the beach, but also spent some time travelling the length and breadth of my home *Land*, meeting many people, savers, small banks' representatives, representatives of private health insurance schemes, and everywhere - no matter where I went - I clearly heard criticism of the continuing low interest rate policy. My question is therefore: How long will this go on for, Mr President, and are you not asking too much of many European citizens and also of the European banking industry?

Against this background, may I make a very brief comment: At the Central Bankers’ meeting in Jackson Hole, your colleague on the Governing Board of the ECB, Benoît Coeuré, inter alia criticised European governments for half-baked and half-hearted structural reforms. In his opinion, it was the failure of politicians that was forcing the ECB to do more, even if this would produce side effects, and I would emphasise the term 'side effects'. Do you not agree Mr President, not that we should rather be endeavouring to normalise monetary policy again in the long term? To take additional measures with side effects appears to me to be counter-productive. I wonder how you see that.

1-006-0000
Mario Draghi, *President of the European Central Bank***.** – Thank you for your question. The first part of your question is, what is the economic impact of the UK referendum. The

immediate answer from the financial markets was that they basically turned out to be quite resilient, thanks also, we think, to the adequate preparation that central banks on both sides of the Channel had actually undertaken – both the Bank of England and ourselves made sure that conditions in the market were such that there were no traumatic developments after that. So after a drop in stocks and asset prices there was a quick reversal.

The real economy has also proved to be, at least so far, resilient. What it says to us is that, at least in the very short term, both the financial markets and the economy have withstood the aftermath of the referendum. What the long-term consequences or the medium-to-long-term consequences will be, is however much, much more difficult to foresee, because these will depend on the length of time that it will take to reach clarity in the new situation, and of course the outcome of the negotiations, but also third, and probably most important, on the policies that will be undertaken in the UK and also in the euro area. So given that these three are the key elements which will determine the medium term consequences, we have to watch them quite carefully.

It is pretty clear that the longer the uncertainty about the final outcome lasts, the more relevant the consequences will be, and we can see this already in some data. We don't see that very much here, but of course it is one of the important, in a sense, points of destination of our experts. The destiny of the UK does have an influence on the euro area economy.

What are we going to do about that? Well we have come out in the latest projections with a slightly revised projection for the outlook for inflation and marginally for growth, but the revisions have been so minor that the effect of the monetary policy decisions already undertaken is still developing, and we felt there is no reason to go over that, to add to that.

Of course, as I said in the statement, the staff projections do embody the current extraordinary monetary policy support. Another factor to be considered is that our monetary policy decisions have not been fully and completely implemented because, as I said, we have two more TLTROs to go, and the effect of what we've decided is not finished, it is not exhausted.

On your question about interest rates, first of all we have to accept the fact that low interest rates are not an effect only of central banks' decisions. The low interest rates are a symptom, a symptom of low growth, a symptom of an activity that has been, as I said, of low growth for a long time, and therefore policy rates do have to adjust to this.

Second, if we look around the world we see that many jurisdictions, many countries have negative policy rates. We have Japan, we have Sweden, we have Switzerland, we have Denmark and others. But even if the policy rates are not negative, they do have negative rates in the market because of their policies, and this situation has been going on for years in many of these countries, especially the ones which started quantitative expansion and monetary policy before us. They went on for many years.

Third, have they been effective? Has this policy been effective? We have all reasons to think it has been very effective. In a sense we can say that the transmission of our monetary policy has never worked better than it does today. Changes in rates and changes in policies have been passed through to the real economy. I've gone through before about how much the rates and the spreads have narrowed. So all in all, all this has been pretty effective. We see credit volumes, for example, that have been growing constantly month after month now for more than two years. We see these volumes addressed to the small and medium-sized corporations and companies, and so even in terms of volume, the differences between large companies and small companies have narrowed. So all in all our experience has been positive.

Its true that savers are being penalised by the current system. We are fully aware of that. But on the other side of the scale, it is also true that whoever asks for a mortgage to buy a house or whatever, borrows money, has been benefitting from this and a rough estimate of this would show that borrowing expenses more than offset loss of return for savers.

Banks' profitability, that's another claim. I'm sorry if I'm taking longer than I should. If you want I'll stop here and we'll come back on this.

1-006-0500
Chair. – I suspect this topic will return.

1-007-0000
Pervenche Berès (S&D). – MR President, you have said that, in relation to the Central Bank's quantitative easing policy, it was important that others should do their bit. That is something that you have indeed said before, referring to the contribution that ought to be made by budgetary policy and structural reform policy.

We are familiar enough with the subject of structural reform, but as regards budgetary policy, could you say a bit more about what you expect in the current context, particularly as, in your substantive replies concerning the projection of the European project following Brexit, you did not mention the idea, for example, of a euro zone budget as a proactive element which would make it possible to balance or back up the ECB's quantitative easing policy.

Last Thursday, in Frankfurt, in a speech to the European Systemic Risk Board, you mentioned the issue of overcapacity in banking, which, because of the competition that it generates, brings pressure to bear on banks' margins and therefore, in a way, damages the quality of the European banking architecture.

Can you say a little more about this idea and the meaning of what you said during the talk in Frankfurt last week?

1-008-0000
Mario Draghi, *President of the European Central Bank***.** - It's quite clear that other policies should complement monetary policy action to reap all the benefits of the present monetary policy stance. In a sense, if the proper policies are in place, the length of time during which monetary policy is so expansionary will be shorter. If no other policies are in place, the length of time for the effectiveness of monetary policy will be longer.

Now this is not without a cost, because it is pretty clear that interest rates, very low interest rates for a very long time, do have side effects that especially affect financial stability. So it is very important. It is also important because, as I was about to say before, low interest rates do have effects as far as the social texture of our societies and of our economies goes. So in a sense, if other policies are in place, these side effects would be lower.

As you said, as you reminded me, one should refer both to fiscal policies and structural policies. As far as fiscal policies go, we have two aspects. One is the fiscal policies of different countries, and I will discuss that later, but you asked me about the EU budget, and certainly there is also another side to that. The extension of the EFSI, for example, is one other thing that we could think about. Then we could have the funding guarantees for SMEs and then we should complete the single market. Also, the EU should be reconsidered within the multiannual financial framework in way that could become also more growth-friendly – namely orient expansion towards those expenditures that would raise productivity, like research, development and education. So that's the answer to how to use the EU budget. Of course, then countries' national budgets should or could also do things, and we will discuss that later.

Many European banks have a general problem of profitability. There are several reasons why they are less profitable than other banks in the rest of the world, but one is certainly overcapacity. The very big number of banks, present almost everywhere in the euro area, means that there is competition and, at the same time, duplication of corporate structures and at the same time there are costs-to-income ratios which are way above those of banks in other parts of the world.

So, in general, initiatives that would tend to bring a consolidation of the banking sector are important. Now we have to be careful here because when we say overbanking what do we mean? Do we mean the number of banks or do we mean the number of people who work in the banking sector? And we have to be careful because, for example, there are many hundreds of small banks that do a very good job in serving their clients and we certainly do not want to disrupt that. But there are also other banks, not necessarily small, that could be profitably consolidated. So here in this field there is a danger of saying things that may mean different things. I want to be careful about that.

1-009-0000
Sander Loones (ECR). – Good afternoon Mr Draghi, I would like to go more into detail specifically on the question on fiscal policy. This seems to be the new theme song in European politics. I have heard it when I listened to the speeches of the G20 leaders in China, if you read the newspapers, if you look at the television, analysts are always singing that song; everybody seems to be talking about that need for fiscal policy. However, if we look at the budgets of most governments we see that they have an empty treasury. One action could therefore be to print money, and in this respect I have three questions.

In your introduction you refer to the fact that you will make use of all instruments at your disposal and within your mandate, so do you think that money-financed fiscal programmes are compatible with Union law?

Second question, is the ECB considering, preparing or studying any form of money-financed fiscal programme at the moment, has it done so in the past, or is it planning to do so in the future?

The last question is, in your opinion, what are the advantages and disadvantages of such a programme?

1-010-0000
Mario Draghi, *President of the European Central Bank***.** – Well my answer would be, I would say, unusually short. It is no to both the first questions – and what was the third, sorry?

1-011-0000
Sander Loones (ECR). – Well I note that you recognise that money-financed programmes are not compatible with Union law, that you have not studied, prepared or considered any form of money-financed fiscal programme in the past, not today, and not in the future.

So the last question was, what are the advantages and disadvantages in your respect of such a programme?

1-012-0000
Mario Draghi, *President of the European Central Bank***.** – Well, we never discussed it.

1-013-0000
Sander Loones (ECR). – So I note that you do not have an opinion on money-financed fiscal programmes.

1-014-0000
Mario Draghi, *President of the European Central Bank***.** – We have never discussed this. Policy makers should be very careful about having opinions about things that have never been discussed by them.

1-015-0000
Sander Loones (ECR). – If I can make use of the rest of my time, I would like to refer to QE and the question of whether or how we could normalise ECB policy and exit from the ultra-easy monetary policy to avoid runaway credit creation. How can we do that without creating trouble in the bond markets? Do we need a sovereign default mechanism, in your opinion, before we can unwind monetary policy, or would that in your opinion be counterproductive? I have a couple more questions if necessary.

1-016-0000
Mario Draghi, *President of the European Central Bank***.** – You may actually need them, because the answers are going to be as short as the previous ones. We never discussed exit strategies and there may be, but I don't see it now, any clear relation between the exit strategy and sovereign restructuring mechanisms. In any event, my answer to the second part is to be at an advanced stage of our economic union, which is not where we are today.

1-017-0000
Sander Loones (ECR). – A last question, if I may. In your introduction you made reference to the fact that, in your opinion, the European Union needs more integration and more collaboration on the issues of migration, security and defence. My question is, how do those recommendations fit within the mandate of the European Central Bank?

1-018-0000
Mario Draghi, *President of the European Central Bank***.** – Oh well, that is a complex question! The point here is that integration should respond to the citizens' needs. Until, I would say, a few years ago this response was combined – and at the beginning very successfully – with the creation of new institutions. Now, and it is very important for the euro, and it is very important for the Central Bank, that whatever is being done addresses people's needs and continues the integration, but not necessarily through the creation of new institutions but through an integrated response directly to people's needs. That is the essence.

1-019-0000
Sylvie Goulard (ALDE). – President, thank you for being with us again today. As you perfectly know the primary objective of the ECB and the European system of central banks is to maintain price stability. But price stability cannot be reached if the broader framework is as uncertain as it is right now, because if we think in simple terms we have just lost a Member State. You stress rightly in your intervention the importance of the 'integrity of the single market', but could you tell us more precisely what it means please? What it means if we want to safeguard stability and avoid systemic risks? I take one very concrete example: do you consider that any concession in terms of passporting for financial services and compensation for trading in euros should require the acceptance of the jurisdiction of the Court of Justice? Because enforcement is key in the single market. So do you include enforcement in your conception of integrity? Last question, how long do you think that we can stay in this very uncertain situation? And on this I do not want to put the blame on you at all, I just want to send a small message to the ones who are supposed to be politically the leaders of Europe.

1-020-0000
Mario Draghi, *President, European Central Bank***.** – As you said, it is very true that our mandate is price stability and to reach price stability we need action in a variety of fields, some of which fall under the mandate of the ECB and some others, like the ones you just discussed, don't fall under the mandate of the ECB but have an impact on the capacity of the ECB to reach this objective and that is why the ECB needs to talk about them. The single market is one of these. The completion of the single market is essential, but also the fact, as I

said before, that all subjects, all actors, all participants in the single market should be subject to the same rules.

Now to answer your question in the most, I would say, authoritative way, I would simply quote what the leaders said in, I think, September in the last Bratislava Council. Do you have the quote?

Anyway, they said that the four freedoms go all together: freedom of people, freedom of goods, freedom of capital movements and freedom of services, movements of services. That is pretty clear, all these things go together.

1-021-0000
Sylvie Goulard (ALDE). – And what about enforcement, if I may?

1-022-0000
Mario Draghi, *President of the European Central Bank***.** – Well, perhaps I am being too simple, but I think the two things go together: if there is a freedom it must be enforced, equally. It is very hard to imagine that any agreement that would be perceived as discriminatory against some subjects or in favour of other subjects could be a source of stability for the future of our European Union. To say it differently, we are now at a very difficult transition. How we come out of this transition will impinge on the stability of our Union in the future. If we come out in a way that respects what the leaders have said, we can confidently say that our Union will be stable in the future, and if not it will be different.

1-023-0000
Matt Carthy (GUE/NGL). – Mr Draghi, I have to say I am a bit taken aback by your response to the post-Brexit scenario. If I was to boil it down, then I gather the ECB has a 'see and watch' approach, and I am not sure whether that is good enough. We know that Brexit will have particular implications for some countries, and in some countries it will have a bigger implication than in others. In Ireland, for example, we are going to be in a situation where one part of the country is now going to be in the EU and another part outside, if the British Government gets its way, and because so many of our monetary powers are now in your hands I do not think it possible that the ECB can just say 'we'll see and watch what happens'. I think that we need to have a much more proactive plan to deal with all eventualities.

Just a couple of questions that I would like you to answer, if you have the time. The first is in relation to the – I suppose – imminent crisis at Deutsche Bank, when we combine that with the post-Brexit scenario. Is there the potential that we are entering back into the period of economic crisis?

With all of that in mind, I wonder if your Board has given any more consideration from your previous answers in relation to a move away from the previous quantitative easing models towards the notion of helicopter money that I know has been discussed in these forums before.

Finally, just two brief questions. It was reported last week that the ECB intends to establish a so-called 'task force for economic reform', which we are told is going to push structural reform. I wonder if you could tell us what mandate you intend to use to set up that body, if indeed that is your intention, and what are the goals? Also, I wonder if you could comment on the implications of the ECJ's ruling last week that citizens affected by austerity may actually be in a position to sue the ECB. Are you expecting a long line of people attempting to take up that possibility?

1-024-0000
Mario Draghi, *President of the European Central Bank***.** – So you asked me four questions. Responding to the question on the Deutsche Bank, I will never comment on individual

institutions. On the last question, the ECJ statement that individuals can sue the ECB or other institutions, I would say there is nothing new there. You could always do that. As a matter of fact, the specific instance where this is said is one where the ECB won all the cases, but there is nothing new in what the ECJ said.

Regarding the ECB in the context of the UK negotiations, first of all let me make it clear that the ECB does not have an official role as a negotiator in this process. The ECB may well work in an advisory role, but it certainly is not an institutional counterpart on that. Second, to be more specific regarding what you asked, the ECB has jurisdiction over the payments system, but it does not yet have jurisdiction over the clearing of securities. The reason why the ECB does not is that its statute does not give the ECB such power, and the EMIR Directive does not give the ECB such power. So if one wants to now extend the ECB's jurisdiction over securities clearing, which is one of the issues that is being discussed, and has been discussed for a while now, the legislator should amend Article 22 of the ESCB Statute or else change the EMIR Directive.

Regarding the taskforce, I have said many times that structural reforms are very important because they are the only ones that can ensure stable sustainable real growth that monetary policy helps to overcome in adverse cycles – expansion of monetary policy helps to overcome in an adverse cycle – which in this specific case is a very long cycle. But it will not deliver long-term real growth on a sustainable basis. So monetary policy, as I just said before, needs the compliment of other policies for minimising costs to society of the side effects of monetary policy. That is why structural reforms are very important, and that is why the ECB has given a lot of attention to structural reforms. That is why there is now a group. This has always been done by the ECB, but this group will do it in a more systematic way. Certainly we will limit our work to exploring the interactions between structural policies and monetary policy. It is certainly not in the ECB's mandate to suggest specific structural policies and agendas to different countries and different governments.

1-025-0000

Ernest Urtasun (Verts/ALE). – It has been recently documented that the euro system has been involved in corporate bond purchases by means of private placements. This is of course not forbidden by the rules, but we are concerned because such a situation clearly raises question marks on whether the ECB is providing targeted support, and then implicit subsidies, to a certain number of big corporations which hardly need any public support for their capital market operations.

In our opinion, Mr President, such practices may create meaningful market distortions and blur the limits between monetary and economic policy. In relation to this, I would like to ask you three questions. First, is the ECB concerned by the possible reputational drawbacks due to the fact that these operations can be perceived by many citizens as support to large companies that are not really in need of assistance? My second question is whether you are ready to publish the overall methodology and eligibility criteria according to which the euro system might participate in corporate bond purchases, and more specifically in private placements?

My third question in relation to this matter is that there is a recent report of the ESRB outlining the systemic risks related to high exposures to carbon assets. Is it prudent for the euro system to acquire long-term exposure to stranded carbon assets in the framework of this programme? Jumping to another topic, and I will end here, I would like to know, Mr President, what the estimation of the ECB is of the current output gap in the euro area and its evolution in the past year?

1-026-0000
Mario Draghi, *President of the European Central Bank***.** – The first question is about purchases relating to large corporates, and certainly the euro system buys bonds of large corporates and buys also ABSs of large corporates as long as they meet the general eligibility requirements specified in our guidelines. The argument is that this will give support to large corporates, and therefore does it deprive the small corporates of support? That is the key question. Does it crowd out small companies? I argue – and I think I said this in my introductory statement – quite the opposite, because large corporates receive support from our corporate bond program and free space in the banks' balance sheets for supporting SMEs. The ECB has participated in private placements. There is absolutely no evidence of anything that is outside the ordinary behaviour of the markets or particular targeted support. I think there is ample evidence that this is just standard procedure with many of the placements of large corporates.

Then you asked me about large exposure to stranded government bonds?

1-027-0000
Ernest Urtasun (Verts/ALE). – Stranded carbon assets.

1-028-0000
Mario Draghi, *President of the European Central Bank***.** – Not that I am aware of, but I can let you know later.

Regarding the wide output gap, there are several estimates of the output gap. As you know, these estimates can be quite different, so we look at all the range of output gap estimates whenever we have to consider and discuss monetary policy decisions. We do not have one preferred estimate of output gap.

1-029-0000
Chair. – Thank you. This should find reflection in the Commission as it is such an important indicator for our Stability and Growth Pact.

1-030-0000
Marco Valli (EFDD). - I should like to thank Mario Draghi for his intervention and to secure from him a technical contribution, as the debate has so far been very lively at European level, at the level of the euro zone and Parliament, on the issue of the revision of governance, as well as the problems of immigration and security.

There is the major problem – as you will be very well aware – of the fetter of fixed exchange rates through monetary union, and there are recent studies by the Monetary Fund and the OECD on sectoral balances which demonstrate the need, if economies were to be released from fixed exchange rates, for a devaluation of around 6%, or so it has been suggested, for France in these studies, and 10% for Italy, and in contrast a revaluation of around 15% for Germany.

This situation is very obvious and cannot be disregarded, so I should like to know how this situation is to be resolved technically, as we have fixed exchange rates at present, and wage devaluation does not strike me as being a solution that can be proposed. Besides, how can a single monetary policy meet the needs of 19 different countries, when in terms of taxation and inflation it is obvious that we have different needs and therefore this is the crux of what we should be debating? Will it be possible to find a solution along these lines or not? Because otherwise the debate cannot be launched from the political angle.

And then a topical issue: perhaps you can tell me whether you agree with the German Government that at present the Deutsche Bank does not need any injection of capital?

1-031-0000
Mario Draghi, *President of the European Central Bank***.** - My answer to the second question is the same as before, that is that I do not comment on individual institutions.

Your first question is about the implicit changes in the exchange rate among different countries if we had to have different currencies. Of course, when you look at relative prices and relative labour costs per unit of output, you see differences that one might think could easily be adjusted if we had different currencies, through changes in the exchange rates.

First, let me say that experience has not been like that. Almost always you have changes in the exchange rate which then feed through, increasing prices and wages domestically, and then you need another change in the exchange rate which will feed through, and then you need another one. That is Italy's history in the 1970s and the 1980s. But we are not in a different currency situation; we have one currency. So your question could be reformulated to ask: given that we have these differentials, because they are there and they exist, how should they be addressed? At this moment in time I agree with you that wage deflation would not be the right way to address this, because also, in most countries, wages have not grown at all for quite a long period of time.

So the only answer to that is that productivity in these countries has to go up, and that is why we go back to the usual thing about structural reforms. Structural reforms are the policy that would make productivity go up. Investments in research, in education, investments in all kinds of infrastructure would make productivity go up. That is the real and only answer, in an integrated economy, to the problem that you rightly pointed out.

1-033-0000
Marco Valli (EFDD). – But what money can be used to invest, as it is not possible to pursue an expansionary policy in one country? So our hands are tied when it comes to economic policy. So I should like to know how we are to invest.

1-034-0000
Mario Draghi, *President of the European Central Bank***.** – I have often commented that for countries that do not have fiscal space... but we can come back to that later. First of all, in the existing rules there is a lot of flexibility, and, second, countries that have no fiscal space should think more about the composition of their balance sheet and of their budgets than the size of them, because, if you look, many of these countries increased government expenditure year after year in the 10 to 15 years before the crisis but growth still remained stagnant or very small. So it is not necessarily hiring people to do nothing that increases growth in a country.

1-035-0000
Gerolf Annemans (ENF). – Mr Draghi, I do not know whether you realise it yourself, but from our perspective the fact that you ultimately forgot to read out the whole of your speech was highly symbolic of the atmosphere and the uselessness of this dialogue, which, in my view, is not a quarterly dialogue but rather a quarterly monologue.

We are faced with a format here in which we represent the people and try to convince you of what we hear from the people and to make you aware of public opinion. There is no support for your ECB policy in public opinion, and you show too little sign of realising that fact. There is growing criticism of your ECB policy – and more particularly your interest-rate policy – and of the fact that you are buying up bonds on a massive scale and in reality promoting an economy based on indebtedness. You have even said in so many words to my colleague Balz that pensioners and savers who are no longer seeing any return should borrow a bit more still and should learn to borrow. You are creating a kind of economy of indebtedness for people who are living in poverty and have questions to ask. With your low-interest policy you are also in effect destroying capitalism. Many people realise that, and I do

not think that you should underestimate it. Without there being much real impact on your targets, namely generating inflation or boosting the economy. That is not happening.

The people who concluded the Maastricht Treaty never intended that the Central Bank should spend thousands of billions on buying bonds and state securities or even equities. All of that happened against the will of those who founded your currency union. And all of it entails serious risks for national central banks. So you come here, honourable members, and you are always 'pleased that you have come', and you 'monitor the situation closely'. And if it is positive, you say that it is 'increasing significantly'. And if it is negative, it is 'decreasing substantially'. It is all part of your mandate, and we have no true dialogue.

So my question to you – and when it comes down to it, my complaint too – is: can we put an end to this play-acting? Is it possible that, in response to what you hear here, you will ever not only defend your policy but also alter it or tell us that you will consider altering it? That is my real political question.

1-036-0000
Mario Draghi, *President of the European Central Bank***.** – Well, the only thing I can say is that they draw substantial and substantive benefit from this exchange.

1-037-0000
Gerolf Annemans (ENF). – You say you take it with you? Although there is no change at all the next month or the next trimester? We should think that you are inspired by the people, by us?

1-038-0000
Mario Draghi, *President of the European Central Bank***.** – Well, certainly. You are one of the contributors to our monetary policy decisions. There is no question about that. We take this very seriously, and if you say no change, I think you should look at our monetary policy decisions over the last five, six, ten years, and then decide whether they never changed. They did change a lot.

1-039-0000
Chair. – In any case, I would recommend that Mr Annemans read our report, approved by the majority of this committee, on ECB monetary policy, which might not exactly represent his personal views.

1-040-0000
Pablo Zalba Bidegain (PPE). – Mr Draghi, I should like to thank you for saying that all of us who are members of the same monetary area must adhere to the same rules. If only everyone thought like you do.

I have two questions. There are too many banks. You have said that here, and you said so at a conference recently. What can governments do, what can the Commission do, to encourage banks to merge, given the adverse effects there have been when it comes to mixing politics with the financial system?

And my second question is this: some people are saying, or warning, that the monetary policy is running out of steam. Do you also feel that the monetary policy is being worn out? Do you feel that you have support? And by that I mean do you feel that you have the backing of the others involved, of the governments, when there are reforms to bring in, of the governments, when tax policy reform is required, and of the European institutions, when it comes to making progress towards a stronger economic Union.

1-041-0000
Mario Draghi, *President of the European Central Bank***.** – The first question you asked is actually quite a difficult one. Let me be general about this. Given that we have an overcapacity in the banking sector in Europe, what can we do about that? It is very

complicated. In some countries there have been changes in legislation which actually favour concentration and the consolidation of some banks but, more generally, we have to rely on the willingness and determination of the executives and the shareholders of these banks when these banks are still companies. This process is not necessarily optimal because it may take a long time, or actually it may not happen until the bank is almost about to fail.

Then we enter into another even more difficult question: do you really want to have a system which reaches its right dimension only after protracted failures? The answer is certainly no. We want to have a system which is able to support the economy. To do that, it needs to be a system based on banks that are strong and profitable. One of the reasons for the low profitability of European banks is exactly the system's overcapacity. That is something that all governments should keep an eye on and should find all the legislative ways to create the conditions for consolidation to happen.

As I said, it is not an easy question to answer, and the important thing is also to address the other conditions why European banks are only moderately profitable, one of which is the existence of large stocks of NPLs. Another condition is that with growth being so low, it is very difficult to have profitable banks in a situation like that, with low growth and low interest rates. So all these conditions combine to produce a low-profitability situation and the overbanking situation is one more condition which lowers profitability. For example, the cost-income ratios in the European Union are higher than in the rest of the world. So some of these conditions could, and should, be addressed by the bank management or by the shareholders. Others could be addressed by the governments.

There was another question. The ECB thinks that the policies we have implemented, especially with the decisions of last March, are being effective. We have evidence the pass-through to the economy is happening and I can confirm that we have instruments that we can further develop, if needed, and we certainly have the willingness and the determination to act to that extent.

1-042-0000

Jonás Fernández (S&D). – Mr Draghi, first of all, I should like to congratulate you on the speech you made at the De Gasperi award ceremony in Trento a few weeks ago, which, for many of us, reawakened our enthusiasm for the European project.

I have three questions. First, as you know, the President of the Commission, Mr Juncker, has announced a review of the plan that bears his name. I should like to ask whether you have any views on how that plan might be improved with a view to improving inflation expectations, improving the interest rate curve... We often talk about how we can combine tax and monetary policy, and with that in mind I should like to ask what your thoughts are on the Juncker Plan, and on how we can improve it for the years to come.

My second question is about where the ECB's profits should go. As you know, Mario Monti is drawing up a high-level document on how to improve the EU's budget capacity. Seignorage revenue, seignorage profits are one option. Do you think that option might help improve the EU budget?

And thirdly, given the problems we are having with ensuring that the passthrough of monetary policy has more of an impact on the real economy, could you at any point envisage extending the TLTRO to SMEs, to families? In other words, an attempt to make the scope monetary policy even broader, or do you think there would be legal problems there? I would be glad to hear your thoughts on those three questions.

1-043-0000

Mario Draghi, *European Central Bank***.** – I am sorry, what was the first question?

1-044-0000
Jonás Fernández (S&D). – The Juncker plan.

1-045-0000
Mario Draghi, *President of the European Central Bank***.** - Now, your third question on the extension of the TLTRO to other potential beneficiaries has never been discussed. On using the profits of the ECB for other reasons, I do not think that would be allowed by our statute. Our profits are redistributed to the national governments, so if they want to use them for any other reason, they are free to do so. But we would contravene a variety of rules if we were to use profits to do budget financing or other sorts of monetary financing.

The Juncker plan is an important addition to our toolbox. It has actually been effective and now it is conceived that it might be extended, and we certainly welcome the extension of the Juncker plan. The implementation of the Juncker plan should proceed faster and I think that, like any expenditure on investment, its success is also grounded in the capacity of the governments to create an environment that is growth friendly. That has always been shown with large public investment plans or publicly financed investment plans. They are effective only if the economic environment is friendly to growth. Otherwise we can spend all the money we want, but if the conditions for growth are not there it is going to be wasted. That is not the case with the Juncker plan. What we have seen so far is very good, but implementation should be enhanced. Extension is highly welcome, but should come together with policy actions by the governments.

1-046-0000
Esther de Lange (PPE). – Mr President, I know you were criticised by some Members – not of my Group, obviously – about the carefully chosen words in your speech. I would like to say to those colleagues who did not actually wait to see the rest of the debate that I would not like to see a world in which central bankers do not choose their words carefully.

That being said, I think that I clearly understood your message on the completion of the banking union. Of course, on this issue we have different starting positions and national and political sensitivities. We all know that. But at least in this House there is a large majority that is willing to work towards progress. That will take time, but at least the will is there and, if we want to keep these initiatives alive, it will be up to Parliament, if we see the current progress in Council. So work is continuing.

I would like to ask you about a number of bail-in and related issues, because a couple of years ago we all told our electorates and our citizens that there would be no more taxpayers' money for banks. At the moment, this concept is under political pressure. I would like to hear your opinion on that matter and on the involvement, first and foremost, of shareholders when it comes to a failure of a bank. How would you see the related consumer issue? For example, the mis-selling of high-risk financial products to regular consumers. How would you suggest that this issue could be addressed? Lastly, you mentioned non-performing loans; we are talking about badly performing banks. Would you agree that history has shown us that swifter action in the past could have saved money and that this should be a lesson for the present and the future? My clear question to you is, what kind of lessons do you draw from this experience in the past when it comes to addressing this matter now and in the future?

1-047-0000
Mario Draghi, *President of the European Central Bank***.** – Thank you for your kind words at the beginning.

You are absolutely right: swifter action would avoid the formation of large NPL stocks. Sometimes swift action is made considerably difficult by the fact that often NPLs – especially the largest, and most of the NPLs we see today – have been generated by a prolonged recession or a prolonged stagnation. In that case, swift action is important because it redresses the situation immediately but then, if the stagnation continues, other NPLs will come. In that

situation, what is important is to create the environment where the banks themselves can get rid of the NPLs in a market. So there is a lot of work that the governments can do in order to create an environment where NPLs can be easily sold, transparently priced and sold. Unfortunately, in many countries in the eurozone and in many countries in Europe generally, these markets are rare and this is so because of a variety of shortcomings – weak insolvency laws, weak bankruptcy laws, poor judiciary, lack of expertise of practitioners in insolvencies, lack of experience in out-of-court settlements – but basically there is a lot that can be done to create an environment which is conducive to a rapid disposal of NPLs. That is the very first line of action, together with strong and effective supervision.

You mention the current BRD rules and the bail-in associated with that. The current BRD rules are certainly progress. The original intention, the original mindset that said we do not want to use taxpayers' money any longer to pay for the failures of the banks, should stay. The BRD rules are actually the legal translation of that mindset. The rules also contain enough flexibility to address a variety of difficult circumstances and, of course, the interpretation of the circumstances in the rules is in the hands of the Commission. But we should also ask ourselves another question: before we look at the use and the implementation of the BRD rules, what can we do to make the banking sector more resilient and stronger? That is what is being done today through the introduction of what is called the Total Loss Absorption Capacity (TLAC) in the eurozone, and a corresponding concept, which is the Minimum Requirement for own funds and Eligible Liabilities (MREL). The two are not exactly the same thing, in the sense that the TLAC applies only to significant, globally-systemic-important banks, and the MREL applies to all banks. If we make sure that banks have enough loss-absorbing capacity, we will rarely face the extreme circumstances where we ask to have an implementation of the BRD rules, with all the side effects of that which we well know.

1-048-0000

Jakob von Weizsäcker (S&D). - President Draghi, I want to follow up immediately, in my first question, on the matter of the banking sector. Immediately after the SSM stress tests were published this summer, a scientific paper was published that tried to apply US capital rules to the banks under SSM supervision and found significant capital shortfalls by those standards. I would imagine that partly against that background you are calling for a consolidation in the sector. But of course in the meantime, what it also says in the paper is that some of these weaker banks have distributed to the tune of 20 billion in dividends while having weak balance sheets, and of course that goes contrary to strengthening their balance sheets. If I recall correctly, with the Governor of the Bank of Italy at the time of crisis, you even imposed the dividend freeze. So I am wondering whether perhaps you are contemplating to encourage colleagues to envisage similar measures.

Also, last time, in the context of strengthening balance sheets, I asked you about your views on the impact of negative interest rates on the ailing balance sheets of banks, and you said you were in active reflection on what the channels might be that influence balance sheets. I am just wondering whether today you able to share some additional insights on that matter.

The second question concerns your call for the creation of a capital markets union, which is of course a great idea. Now institutionally we have created the SSM and the SRB for banking union, but so far we have not created a single regulator for capital markets, and I am wondering whether you feel it could be helpful, also in view of a post-Brexit environment, to envisage the creation of such an institution.

1-049-0000

Mario Draghi, *President of the European Central Bank***.** – The beginning of the stress test, the prospect of being tested through the stress test, induced a variety of several large and small institutions to increase their capital levels. So one would actually see that even before

the first stress test many banks raised their capital. When the stress test had been undertaken, they still showed some shortfalls, but less than there were before because there was some pre-emptive action by many intermediaries.

Now – I do not know and cannot remember for how long – there is in place a let's call it possibility, or capacity, or power, for the supervisor to limit or freeze the payment of dividends, very much along the lines that you mentioned before. So the supervisor would analyse what the situation of the bank is and may well decide that dividends are not going to be paid, or cannot be paid. So that is in place.

On the effect of negative rates on banks' balance sheets, if we look at the aggregate of the banking system for what it is worth in a very sort of heterogeneous situation as we have in the euro area, we see that for 2015, which is the first full year with negative rates over the deposit facility, in fact the profitability of the banking system went up and – even in a sense more surprisingly – the net interest income margin went up. Because what banks lost on one side they made on the other.

When we see that in the first quarter of 2016 the banks' profits went down by 20%, the reason was that in the first quarter of 2015 banks' profits had gone up quite substantially, because we started our asset purchase programme and therefore they realised very high capital gains on their stocks of bonds which did not repeat themselves in 2016. So we have to look at these figures. Having said that, these figures would not show an especially worrisome situation stemming from negative interest rates. But we have to be careful. First of all, this is just an average, and within the average of the banking system we have several different situations, with banks doing different things and with business models which could well be more exposed to negative interest rates than others.

Second, negative interest rates, as I discussed before, have been obviously a powerful monetary policy instrument, but in terms of their consequences on the banking system we have seen that so far there is no reason for special worry. But then let me ask you, is that true forever? I do not think so; I think we should be especially aware that negative rates do have side consequences. So what I often say is that with negative interest rates it is not a matter of yes or no, but it's a matter of extent, and for how long.

On your second question about capital markets union, and the need to have one regulator for the capital markets union, I cannot give a definite answer now, but certainly the change after the British referendum will inspire some thinking and reflection on whether the current regulatory framework is still up-to-date or needs to be modified.

1-050-0000

Werner Langen (PPE). – Mr President, I think the monetary dialogue that we have been conducting here for years has generally been very fruitful, so I do not understand the criticism of individual colleagues.

But we also have legitimate questions, of course. You have mainly considered the issue of low interest rates from a macroeconomic perspective: anti-inflation measures, debt reduction, a decline in interest rate spreads, exchange rates, money supply etc. People - at least in my country – are asking about the microeconomic impact of low interest rates. They are quite different.

My question is: How does the ECB take into account the microeconomic aspects in its decisions? For example, let us consider savers and borrowers: If debts are easier to make and savings rates no longer exist, that amounts to an indirect redistribution from future to present consumption, to the advantage of the debtor. Which has consequences for the investment

behaviour of savers who make riskier investments, potentially creating new bubbles which could impact the role of the banks.

On this matter there are four short questions I should like to ask. Firstly: Do you think that the flood of money has increased the supply of credit, or have the banks used the extra money to balance their books? Two years ago you said here that there should be a separation between banks and governments. Has this actually occurred?

My second point: It is unclear whether low interest rates really help to drive the real economy, and whether the increased money supply is effective – there is great uncertainty here.

My last question: Which way out of the low-interest rate trap would you offer to savers? Because if interest rate policy does not also win over ordinary citizens, the ECB will end up losing the argument.

1-051-0000
Mario Draghi, *President of the European Central Bank***.** –Well, I think these questions are very relevant and we can actually see their relevance every day in looking at the reality in the euro area. But let me start from the last of your questions, about legitimacy.

Our legitimacy is based essentially on whether we are able to comply with our mandate. Our mandate is to achieve price stability, defined as a rate of inflation which is close to but below 2%.

So that is something that we always have to keep in mind. The other question, of course, when we have this in mind, is that we ask ourselves whether our monetary policy instruments are effective, and the answer we have, as I have said before, looking at all the changes that have happened in the interest rates, in the spreads and the pass-through to the real economy, is a positive one. It is quite positive.

Also, one should ask the other question: suppose we did not have such an expansionary monetary policy. Suppose we had interest rates at the level that we had three or four years ago. What would have been the consequence? The answer we have is that the consequence would have been protracted deflation and higher unemployment. What we see today is an economy that is gradually recovering at a steady but continuous pace, month after month. We see a labour market which is gradually improving, and the unemployment rate, which two years ago was, I think, still above 12%, is now about 10%.

So then the question is when will the ECB be able to raise interest rates to a level that creates – and here I agree with you – distributional consequences, to a level that would mitigate distributional consequences? The answer is we will be able to raise this interest rate again when we see that the inflation rate moves in a sustainable way to the objective of close but below 2%. This of course depends on the overall movement in prices but, I would say, especially in the movement in wages. In the last press conference I said that the case for higher wages is unquestionable. Wages are the output of the social partners' negotiations and as such we cannot determine them and we do not want to even have a view, but the fact is that wages, for many many years, grew less than productivity, and now from an objective viewpoint and from our perspective of reaching the inflation rate of close to but below 2% it is important that they grow.

How could they grow? Well they grow gradually through a lowering of the unemployment rate, through improvements in the labour market. So the path that we envisage is the path of an economy which has been gradually recovering, an improving labour market, and gradually – as soon as the output gap narrows – this will exert pressure on wages, and from wages we

will see effects in prices. We will see also that the inflation rate – I think I have said it in the introductory statement – will gradually pick up by the year end and go over 1% next year.

1-052-0000
Pedro Silva Pereira (S&D). – Mr President, you have painted a none too rosy picture of a very gradual, modest economic recovery, with a 1.7% growth rate this year and even less than that not just next year, but in the next two years; and the inflation targets also leave much to be desired.

So the obvious question to ask the chief architect of monetary policy – while acknowledging all the efforts, including those of an unconventional nature, that the ECB has been making – is whether we can expect new monetary policy initiatives to stimulate the economy, in particular a possible extension of the asset purchase programme or perhaps a revision of the rules on purchases by countries so as to enable the European Central Bank to combat the divergence which is undermining the euro area.

You have said that the European Central Bank is ready to employ all the means that its mandate provides, once it has gauged the impact of the measures under way. But what kind of message do you want to send about the possibility of new economic stimulation initiatives?

The second and final question relates, once again, to fiscal policy.

You have renewed your call for a more growth-friendly fiscal policy and talked a little about the European dimension, and have even gone so far as to say that countries with less fiscal space could do more for growth. We still need to talk about the countries with more fiscal space.

Having spent two years calling for a more growth-friendly fiscal policy, would you say that Member States with more fiscal space are living up to their responsibilities and doing what they have to do to promote growth in the EU?

1-053-0000
Mario Draghi, *President of the European Central Bank***.** – Our monetary policies, and especially the decisions we took in March, are progressing smoothly. Our asset purchase programme is progressing smoothly and we have not seen yet all the effects of these decisions.

Not only that, but the decisions we took in March have not yet been fully implemented, because we still have two TLTROs that have to take place. So given that that is the situation, we have not really discussed about new initiatives or revisions.

Also, our macroeconomic projections are by and large unchanged, or very marginally changed, since our last ones and the effects of some of the uncertainties that we have identified as producing downside risks have not yet materialised, like the results of the UK referendum.

On the budget and budgetary policies, you asked me whether the countries that have fiscal space should use it, and the answer is certainly yes, they should, in compliance with all the rules. We should also remember, however, that while the countries that do not have fiscal space are forbidden from using the fiscal space they do not have, the countries that do have fiscal space are not compelled to use that fiscal space if they do not want to. So we should always be mindful that there is an inherent asymmetry in the application of these rules, which by the way is an asymmetry may have its justifications, but it is there anyway.

The second reflection that we have to have in mind is that when we ask countries that have fiscal space to use it, what do we mean exactly? It is not easy to suggest fiscal expansion to countries that are by and large at full employment, so possibly people might have in mind that this money should be spent elsewhere, in other parts of the Union, but at the present time we do not have any institutional channel for doing that. So I mean, in principle, the answer is yes, countries that have fiscal space should use it, but we should be sort of careful also about detailing how, and how much, and where.

1-054-0000

Luděk Niedermayer (PPE). - Mr Draghi, let me start by saying that, in my opinion, the ECB and its presidents are one of the important and stable assets of the European Union, so let me thank you for your job.

I think, like you, that the economy is doing better. It is not fantastic, but it is doing better and we are in new territory because the political agenda presents bigger threats to the European Union than the economic agenda. Nevertheless, I want to talk about monetary policy. Let me say that I have full understanding of your monetary policy and also the monetary policy of some other central banks, aiming to react to low inflation and very low demand pressures on prices. As you have mentioned, it has implications for financial stability, potentially, and also other implications for the economy.

So let me now look at price stability. Very low nominal interest rates and very strong liquidity of the banks is creating both demand and supply for certain kinds of credit, and here I mean especially household mortgage credits. So, not surprisingly, in some parts of the economy, household prices are growing rapidly, and obviously household prices are not directly captured by the CPI. I wonder how serious a risk do you consider it, especially for the future and for the appropriate monetary policy?

The second question is that some central banks are trying to react to such a development with specific targeted measures, for example by capturing the maximum loan-to-value ratio and similar. I wonder how this could be efficient when there is fully-logical demand for such credit and banks are more than willing to provide such credit because they represent one of the few options to realise the interest rate margin.

1-055-0000

Mario Draghi, *President of the European Central Bank***.** – Thank you for your kind words at the beginning. I think that these days compliments are rare goods, so we cherish them.

First, we cannot really say that we have a bubble in the real estate sector. We have seen prices growing in some cities, but I would say not at all a generalised problem at a country level or, even more so, at the eurozone level.

There is another side to this. First of all, we are monitoring carefully these prices, these developments, in the real estate market and also in other markets. When should we become suspicious that the bubble may be coming? Well, one component, of course, is the extent of the increase in prices, but the other component, which is always there, is the increasing leverage, and also the developments on the credit side. So, a very marked increase in credit or in leverage, together with an unusually fast growth in prices, and we are not seeing that. We are only seeing in some local situations an increase in prices, but we are not seeing an increasing leverage or increasing growth of credit. In fact, if anything, credit, as I was saying before, continues to grow, but grows modestly month after month, but continuously.

The answer to problems like that you gave yourself, in a sense, namely the use of macro-prudential instruments. It would not make much sense to change monetary policy in response

to local asset price increases, but we have what are called macro-prudential instruments, so the use of the loan-to-value ratio, of several measures of debt service to income ratios, and so on. National authorities have the responsibility as far as these measures are concerned, and several eurozone countries – and not only those in the eurozone – have adopted such measures.

The ECB has a top-up power, namely if the ECB were to deem that the measures undertaken were not sufficient, the ECB can top these up. There has been no need so far to use this power because the ECB is also in close contact with the national authorities, so this dialogue has naturally produced the undertaking of the necessary measures. We are all collectively, and at ECB level, monitoring quite closely these developments.

1-056-0000
Gunnar Hökmark (PPE). – If I can make things better, I would like to agree with all the nice words that you have received here this afternoon, if that can help.

I would like to raise two issues. You said that we have too many banks, but isn't it rather so – or could you not phrase it – that we have too less efficient banks, and if I may put it that way, couldn't it also be seen that this is also a consequence of monetary policy, with a lot of money coming out and negative interest rates, making no pressure for reforms on banks and mergers and increasingly higher efficiency?

Second, aren't the problems of the banks, which we are seeing today having huge problems, not very much a consequence of macroeconomics to a very high level? If you look at where you have the banks, you also have the economies which have had stagnated economic development for quite a long time, and then you get non-performing loans as a clear consequence. Is it not coming to a point when the policy on negative interest rates is having more disadvantages than benefits, meaning that it is in some way creating less pressure for structural reforms, and making it easy to just proceed as you did the year before in a lot of Member States.

1-057-0000
Chair. – I understand that the departure time for the plane that Mr Draghi has to take is not too far away, so we have to group the questions or he will be unable to answer some of them or miss that plane, with both outcomes being undesirable, so Neena Gill please.

1-058-0000
Neena Gill (S&D). – Thank you, Chair, and welcome, President Draghi. Since the outcome of the EU referendum, uncertainty clouds are hovering over the UK financial sector, as well as a possible negative impact on the euro area. The clearing sector is a good example. It is central to, and drives, the physical location of the rest of the financial market infrastructure. Recently, we have heard politicians at the highest level on the continent trying to benefit from this situation by declaring, for example, that the euro clearing activities should be moved out of London. However, given the lack of critical mass in either, say, Paris or Frankfurt or wherever else, it is unlikely to happen or be workable, given that the content of the major derivative asset classes in euro clearing is inseparable from the 16 other major currencies. Now, experts tell us that there is only one location that could provide a credible and workable alternative home for business if it is not London, and that is not European, but New York. A couple of questions: would you agree with those stating that clearing activities need a critical mass and that euro clearing is inseparable from the 16 other major currencies and that, under these circumstances, a move would only be working well towards New York and counterproductive to EU interests? What is your opinion to those who are stating that re-activating the principle of geographical placement in your policy would perhaps put at legal risk the T2S Programme of the ECB?

1-059-0000

Bernd Lucke (ECR). – Good evening President Draghi, There is much criticism of your low interest rate policy, and you are now deflecting it little by saying that the low profitability of banks is linked to excess capacity in the banking sector.

I would ask you to explain this again.

Before the financial crisis the major German banks had returns on equity after tax of over 20%. I would like to know where the many extra banks that have appeared since the financial crisis come from, producing the excess capacity we now have and so sharply reducing the profitability of the banks. I don't really understand this. Instead - and I think you were right to stress this - the policy of low interest rates is, of course, producing distributional effects. It harms savers and favours debtors. Now you say you want to have greater concentration in the banking sector. Greater concentration means more market power and thus the possibility for banks to charge higher fees precisely for those savers who are already affected by the low interest rate policy. My question is this: Is that really an intended effect of your policy?

A third question that I would like to ask refers to your statement that the low interest rate environment is favoured by poor growth prospects or is caused by them, and the ECB only, as it were, reflects these low growth prospects. But at the same time we are in a situation in which we can see that there has been enormous technical progress. There are several general purpose technologies, which normally generate growth and which have been developed over the last few years and decades: The internet, genetic engineering, nanotechnology and digitisation - many things that strongly boost growth.

On the other hand, we have had phases of stagnation, in which there were never low interest rates, or even negative interest rates. In the 70s - or even over the course of entire centuries, if you look further back in economic history – there were no low-interest, no negative interest rates. How well-founded is your assertion that the low interest rates that we have now are caused by poor long-term growth? Thank you very much.

1-060-0000

Georgios Kyrtsos (PPE). – I'll skip most of the questions that I prepared; I have a very short question. A lot of tension has surfaced recently in relations between the Greek Government and the Governor of the Bank of Greece, Mr Stournaras. Do you stand by him? Does he enjoy the confidence and the full support of the ECB?

1-061-0000

Eva Kaili (S&D). – Mr Draghi, I will move directly to my questions. In case we do not reach the inflation target, how do you think we could make it politically easier for you, in this House, to expand the quantitative easing programme and also to amend your risk-sharing policy? A second question: if European downturns occur in the near future, due to external global factors, would you be willing to continue buying peripheral government bonds when budget deficits are expanding again and the debt looks less and less sustainable?

1-062-0000

Sotirios Zarianopoulos (NI). – President Draghi, may I return to a thorny problem which was also transferred to today's discussion: Are we talking about an expansive or a restrictive policy? Of course, both in Germany which is pursuing a restrictive policy to maintain its surpluses, and in France, Italy, Greece, etc., which are demanding a more expansive policy so as to provide incentives to investors, the policy is always and everywhere based on reducing labour costs. What you said, namely that that no specific guidance is issued to countries, is not the case, because the European Central Bank is a member of the Quartet which is currently presenting Greece too with measures for fresh wage reductions, mass lay-offs, the abolition of collective agreements and even the abolition of the right to strike, privatisation measures, etc. So then, my question here is:

What do you mean by pro-investment government spending or government policies? Because, so far, the only thing that has been done and, clearly, the only thing that this system can come up with is this: the only pro-investment policy is one that everywhere and ceaselessly reduces labour costs, wages, pensions, workers' rights, etc. Is there after all, any other way to implement this policy?

1-063-0000

Mario Draghi, *President of the European Central Bank***.** - I will try to respond to all the questions there were, though some of them are very complex.

First of all, the issue of whether low rates are linked to reforms and whether low rates disincentivise governments to undertake reforms is, I think, a complex one. There may be links between rates and the willingness to undertake reforms as far as those reforms that are part of the budget are concerned. In other words, the budget deficit needs financing, and the higher the rates are, the more difficult this financing is. This will certainly cause governments to prioritise what is more important or less important, and what is more, or less, demanding from a financial viewpoint. We have evidence that some reforms, especially pension reforms, have been done under the urgency of high interest rates. When we move out of this area, however, we also have evidence that fiscal measures undertaken under market pressure are often based on what, in a sense, is the easiest thing to do in a hurry. Well, you raise taxes and you cut public investment. So the outcome often is a level of current government expenditure which is unchanged, or even growing, lower public investment and higher taxes. That is not exactly a recipe for growth. But when we move out of the area of structural reforms that are specifically linked to the budget like, for example, an overhaul of the judicial system, of education, of the constitution, or of electoral law, these structural reforms do not have any relationship with interest rates. They are done, or not done, according to priorities that are entirely different. We have also seen even labour market reforms being undertaken when interest rates were already very low. I am not saying that it is the opposite, but I am saying that it is complex to assess the direction of this argument one way or another. We probably have to look at it case by case.

Are inefficient banks being kept alive by low interest rates? Well, certainly there is an element that if rates were higher, then inefficient banks would have to do something to live with higher interest rates, but I think what we have to look at is the net interest margin, rather than simply the level of interest rates, to decide whether a bank has been subsidised or not. The point is that banks in the eurozone are, by and large, pretty robust in terms of the capital they have raised so far, on average. Of course, we have outliers, and they are not, on average, very profitable. It depends on the factors that I have mentioned before.

I must confess I do not have an answer about the clearing sector. The argument whereby if euro clearing is going to be subject to euro jurisdiction it would be a source of financial instability, because we sort of separate the clearing of the euro from the other 16 currencies' clearing, is an argument that has been made in the UK, but I have not assessed its strength or its validity.

The other question I had is about banks being profitable before the financial crisis, if I understood correctly. Yes, they had a 20% rate of return on equity, but we know now how that was reached. It is clear that much of that was a bubble – namely investment in toxic assets. The reality of the years before the financial crisis – the last, say, five, six, seven years – is a reality that inflated rates of return, concealing what was wrong in the banking system. Obviously risk management was wrong, but there were also other inefficiencies. It concealed a very high level of cost-to-income ratios or other weaknesses. Now we have a system which, thanks to the effort made by the regulators, by the governments, and by the banks themselves,

is much stronger, much more resilient and, at the same time, being less risky is also having a rate of return on equity which is lower. But we want to address those weaknesses that make it even too low relatively to the banks of other jurisdictions. As we all know, bank stocks have underperformed bank stocks in other jurisdictions, and that is a weakness we want to address. As I said, the legacy of NPLs is one, the very high cost-to-income ratio is another, and overcapacity, and generally speaking, when we say overcapacity I do not have in mind an oligopoly system where banks would be free to exact the highest fees from their customers – not at all. Overcapacity means that we are not in a situation of equilibrium and, as I said at the very beginning, we have got to be careful about these general statements because there are plenty of small and medium-sized banks which do their job very well, serving their clients very well. So we have got to be careful here about applying general paradigms to a situation which is very complicated and very heterogeneous.

In answer to your point about governors, the ECB stands strongly in favour of the independence of the national central bank governors.

In answer to the question about what the European Parliament can do if we do not reach the objective of inflation, well I think we will reach the objective of inflation, definitely, and so our monetary policy, our projections of a return of inflation to an objective close to, but below, 2%, are predicated exactly on the preservation of the extraordinary monetary policy stimulus we have in place today.

The last question concerned what monetary policy has done for private investment. We have basically recreated the financing conditions which are optimal for growth in private investment in the euro area. I am saying recreated because they had been destroyed by the various crises to hit the eurozone after 2010. I gave examples before of what the spreads in the interest rates were in 2012 and what they are today. But, as we were discussing at the very beginning of this session, monetary policy is not enough for delivering real and sustainable growth in the long term. Thank you.

1-064-0000

Chair. – Thank you very much for this extremely interesting and useful monetary dialogue hearing, which has been highly appreciated by Members. We can conclude this meeting.

(The meeting closed at 18.20)