1-001

AUSSCHUSS FÜR WIRTSCHAFT UND WÄHRUNG
MONETÄRER DIALOG MIT MARIO DRAGHI, PRÄSIDENT DER EZB
(gemäß Artikel 284 Absatz 3 des EG-Vertrags)
BRÜSSEL, MONTAG, 9. JULI 2012

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH MARIO DRAGHI,

PRESIDENT OF THE ECB

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

BRUSSELS, MONDAY, 9 JULY 2012

COMMISSION ÉCONOMIQUE ET MONÉTAIRE
DIALOGUE MONÉTAIRE AVEC M. MARIO DRAGHI,
PRÉSIDENT DE LA BCE
(conformément à l'article 284, paragraphe 3, du TFUE)

BRUXELLES, LUNDI 9 JUILLET 2012

1-002

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

(The meeting opened at 14.40)

(The meeting started with a few announcements)

1-003

Mario Draghi, *President of the European Central Bank***.** – Madam Chair, honourable members of the Committee on Economic and Monetary Affairs, it is a pleasure to be back here in Parliament and in front of your Committee for our regular exchange of views.

Today, I will explain the decisions of the Governing Council of the ECB last week. I will then consider the actions taken by central banks around the world in response to the crisis. I will also discuss the economic adjustment programmes in euro area member countries, and close with some remarks on the longer term vision for EMU.

Last Thursday, the ECB's Governing Council unanimously decided to lower key interest rates by 25 basis points. This has brought the main refinancing rate to 0.75 % and the deposit rate to zero. The policy decision took account of further dampening of inflationary pressures, as some of the previously identified downside risks to economic activity materialised.

On non-standard monetary policy measures, the Governing Council decided in June to continue conducting all refinancing operations as fixed-rate tender procedures with full allotment, at least until mid-January 2013. Measures were also taken to improve access of the banking sector to these operations by enhancing collateral availability.

Our measures, both standard and non-standard, support the transmission of monetary policy and the provision of credit to the real economy. They safeguard price stability in the euro area. And they help to reduce financing costs, supporting renewed confidence and sustainable growth.

The ECB remains committed to delivering on its mandate – and retains full capacity to act in a firm and timely manner.

Indicators for the second quarter of 2012 point to a weakening of growth and heightened uncertainty. But looking ahead, we continue to expect the euro area economy to recover gradually, albeit with dampened momentum.

Euro area annual inflation was 2.4 % in June 2012, unchanged from May. Inflation should decline in the course of 2012 and be below 2 % in 2013. In an environment of modest growth and well-anchored inflationary expectations, underlying price pressures should remain moderate. This will restore purchasing power of wages and salaries.

Risks to this outlook are broadly balanced over the medium term: on the downside, they relate to weaker than expected euro area growth; on the upside, risks could stem from further increases in indirect taxes and higher than expected energy prices.

Our monetary analysis gives a picture consistent with price stability over the medium term – and remember, whenever I say 'price stability' I mean price stability in both directions, upwards and downwards. In particular, the underlying pace of monetary expansion remains subdued. Weak loan growth largely reflects the current cyclical situation, heightened risk aversion and balance sheet adjustments by households and firms, which weigh on credit demand.

Let me now turn to the first topic you asked me to address, the measures taken by central banks around the world in response to the global financial crisis. In a nutshell, I consider those actions to have been bold, forward-looking, yet historically informed, drawing appropriate lessons from financial crises of the 20th century.

Central banks have cooperated very closely during the crisis: through an important coordinated interest rate cut in October 2008, provision of swap lines, continuous information exchange, and overall actions that have been mutually consistent. In particular, the overriding objective of medium-term price stability has never been lost from sight.

Both interest rate policy and non-standard measures have taken account of the prevailing specific circumstances: first, the financial and economic structure of each economy; second, the magnitude and specificity of the shocks; third, the different operational frameworks of different central banks; and fourth, the different institutional settings in which they operate.

For these four reasons, comparisons across constituencies have their limits – comparisons about what the different central banks do, they have their limits. What is more, comparison of the size of central banks' balance sheets may give a distorted picture of the extent of policy action. For example, in the euro system, a significant part of the balance sheet is not related to monetary policy but to gold and foreign exchange reserves. If we take this into account we will see that the ECB balance sheet expanded way less than other central banks' balance sheets.

Therefore, the appropriate way to measure a central bank's actions is to do so in its own institutional and economic setting and against its own objectives.

For the ECB, those actions have been, and will continue to be, geared towards maintaining price stability in the

medium term in the euro area. This is our mandate, and our track record speaks for itself.

Effective crisis resolution needs bold actions by central banks but it also needs bold actions by other policy actors, notably governments. This brings me to the other topic that you proposed: economic adjustment programmes and the role of the ECB.

In the aftermath of the crisis, a number of EU and euro area countries have requested financial assistance because of their challenged access to capital markets. At the same time, they have committed to implementing the reforms necessary to secure full market access in the future. Since financial assistance can only be temporary, the quality of the reforms and their implementation are absolutely essential. It is this quality that ultimately determines the success of a programme.

The design and monitoring of programmes in the euro area is done jointly by the Commission, the ECB and the IMF. The ECB provides input through its expertise, not least with respect to the financial sector but also with regard to country surveillance. Our experience with this set-up has been very good, and the cooperation with the Commission and the IMF has been excellent.

Today's economic environment obliges all countries to take a very critical look at their past – and it obliges all to take a very objective view of their future. It is only against the background of the past that the adjustment programmes currently under way in several euro area countries can be understood. It was past economic developments and policies that led to excessive imbalances in a number of countries. And it was those imbalances – fiscal, macroeconomic and external – that were neither healthy nor sustainable.

Unsustainable imbalances provide the objective need for adjustment programmes – and the degree of the adjustment is directly related to the extent to which policies were misguided.

Policy adjustment in the euro area takes place under market pressures, but less so than for countries outside the euro area because being part of a monetary union shelters countries against some pressures, notably on the exchange rate. But this does not mean that the degree of policy adjustment can be lower. The schedule of regaining full market access within a few years applies here too. Therefore, perseverance in bold and necessary reforms is crucial.

A critical success factor is ownership of the programmes by governments, parliaments and ultimately the citizens of the countries concerned. An essential precondition for ownership is that policymakers communicate clearly about the economic rationale for adjustment. As I have suggested, this means taking a critical view of the past and an objective view of the future.

This process has started. Increasingly, national policymakers make the case for reform strongly – and I should add for their own sake and not because of some external imposing factor. They point to past developments in explaining the background of adjustment and now highlight the main beneficial elements of reforms. Some of these reforms improve fairness by combating tax evasion or rent-seeking by vested interests, and they improve the efficiency of the public sector.

National policymakers are now increasingly making a central part of their objective the overall aim of the European Monetary Union, namely to sustain economic well-being in the absence of major imbalances, and to generate sustainable growth in a competitive environment.

In our view, a great deal of progress is underway in this respect. For example, the Irish authorities have maintained a strong track record for maintaining reform momentum throughout their programme. They have also taken important steps towards restoring the stability of the financial system. In Portugal, programme implementation remains good and important progress has been made in such areas as the labour market, the housing market, the general competition framework, the judicial system and the transport sector. The Portuguese authorities remain fully committed to achieving this year's fiscal target.

The Spanish authorities too have shown that they remain fully committed to accelerating the structural reform agenda and putting the financial sector on a sound footing. They are also committed to improving external competitiveness to lay the foundations for more sustainable prosperity.

Even without programmes, many policymakers are bold in reform. In Italy, for example, reforms to increase competition, reduce the administrative burden and increase labour market flexibility have been important measures. The country's spending review will help to achieve the fiscal targets.

Virtually all other countries are undertaking measures to improve fiscal solidity and the basis for sustainable growth without excessive imbalances. So despite the current challenges, countries' progress is strong and the fundamentals of the euro area as a whole are sound. The euro area's fiscal deficit is declining towards 3 % of GDP; price stability is ensured; and the external accounts have remained close to balance. All these are reasons to pursue reforms with a strong degree of confidence.

Why then do we still have tensions in a number of market segments? Let me first stress that a lot has been done at country as well as euro area level in terms of economic reforms and governance. But we need full implementation. We have to make clear that the European Monetary Union is a union based on stability at national and aggregate levels. Stability at national level means completing reforms to ensure sustainable growth without major imbalances. Stability at aggregate

level means implementing the vision recently presented at the summit. The central message of this vision is that the euro is here to stay – and the euro area will take the necessary steps to ensure that.

In my view, the core of the report submitted by President Van Rompuy is the identification of four building blocks. First, a financial market union that elevates responsibility for supervision of banks to the euro area level. Second, a fiscal union that reinforces oversight of budgetary policies at the euro area level and also provides some fiscal capacity to support the functioning of the currency area. Third, an economic union with sufficient mechanisms to ensure that countries can achieve sustained prosperity without excessive imbalances. And finally, a political union that strengthens the legitimacy of EMU among euro area citizens and deepens its political foundations.

These four building blocks are mutually consistent and coherent, and should be pursued in parallel. I am looking forward to the work on a roadmap that has started. In my view, three issues deserve particular attention. First, we need to move towards a further sharing of sovereignty in the fiscal, financial and economic domains. There can be no shortcuts in establishing a sound and stable monetary union.

Second, European Monetary Union is an integral part of the Treaty. This calls on all relevant bodies and actors to engage constructively on improving its functioning, not only at Union level but also at national level. To call for an impeccable application of the Treaty and at the same time refuse closer union as mentioned in Article 1 of the Treaty is inconsistent, to say the least.

Third, we need to accompany deeper euro area integration with significant progress on democratic legitimacy and accountability. There is no doubt that you and your colleagues – the Members of the European Parliament, the directly elected representatives of the citizens of Europe – will continue to play a central role in the steps towards political union. Thank you for your attention.

1-004
Jean-Paul Gauzès (PPE). – Monsieur le Président, permettez-moi de vous parler en termes simples. Vous avez expliqué beaucoup de bonnes choses, avec beaucoup de mots tout à fait recherchés, mais j'ai le sentiment, quand je parle avec mes concitoyens, que ce n'est pas du tout la perception qu'ils ont, ni de la situation de la crise financière, ni la situation de l'Europe aujourd'hui.

La première question que je voudrais vous poser est la suivante: quand, enfin, allons-nous, par des actes liés aux paroles qui sont prononcées, assurer la crédibilité de l'Europe, à la fois vis-à-vis des citoyens, des entrepreneurs et des marchés? Car pour les marchés ce qui compte, ce n'est pas que l'on change radicalement les choses tous les jours, c'est que l'on s'inscrive dans la durée avec un calendrier précis.

La deuxième remarque que je voudrais faire tient à l'union bancaire. Le Parlement avait souhaité en 2010 – au moment où nous discutions de la supervision – qu'il y ait une vraie union bancaire, avec une supervision transnationale des banques, avec une autorité européenne forte, avec un fonds pour la conversion et pour les crises. Le rapporteur de l'époque, José Manuel García Margallo, qui est maintenant ministre des affaires étrangères de l'Espagne, avait fait des propositions intéressantes que le Parlement suivait. Les États membres n'en ont pas voulu. Deux ans après, on reparle d'union bancaire. Il s'agit simplement une remarque.

Ma question est la suivante: comment la BCE, qui passe pour être celle qui doit être au centre de la supervision pour la zone euro, pourra-t-elle concilier à la fois son indépendance – à laquelle elle est très attachée – et le rôle de superviseur, qui nécessite nécessairement de mettre, de temps à autre, les mains dans le cambouis et d'avoir des attitudes qui prennent en compte la situation politique et une appréciation subjective de la situation des banques qui pourraient être concernées?

1-005
Mario Draghi, *President of the European Central Bank***.** **–** You have asked the right question. When are we going to put words into action? I think this is the key question to ask and the answer is this: we have started.

As I said in my statement, many governments belonging to the European Monetary Union have started their reform efforts. I have said many times that, if you compare today's world with six months ago – with November 2011 when we were closest to several major credit accidents – the world is a completely different one. Much progress has been undertaken and much has been achieved, both in the fiscal consolidation effort and in the structural reforms.

So why are we not seeing the benefits of this – or why are some countries at least not seeing the benefits of this? I think there are two reasons. One has to do with the fact that these reforms have just started after many years of misguided policymaking in many of these countries. So this burst of action is relatively recent.

Secondly, much of this has been legislated on and it now needs to be fully implemented. Thirdly, on the fiscal consolidation front, since these governments were in a great hurry, they focused the fiscal consolidation effort mainly on tax increases, which is the easiest thing to do in a hurry, and much less on cuts in current expenditure. Now, if the urgency is gradually overcome, this fiscal consolidation will have to be 'requalified' towards greater expenditure cuts and less taxation. But this is certainly one of the reasons why some of these countries are not seeing the benefits and their economies are now sliding into recession.

Fourthly, the action of structural reforms has just started. Some of these reforms provide benefits in the short term, like, for example, increasing competition in the product markets and in the labour markets, but some others will take more time to produce benefits.

However, some other problems are not necessarily related to national governments' policies and we discussed this at our last meeting in this committee. They are related to the clarity of the long-term vision of European Monetary Union. The four building blocks that have come out of the summit are the first step towards giving clarity to this concept. In this sense the summit has been quite a success. It has been a first step rather than the last step.

1-006
Arlene McCarthy (S&D). – Madam Chair, these are of course profound issues of great concern to the public as well. President Draghi, can I ask you this. We seem to be limping from one banking crisis and scandal to the next, which is undermining confidence and trust in the European system. I read that you had said that the ECB would have done a better job on the scandal over the rigged interest rates on Libor and Euribor, so I was interested to know what action would you have taken?

Do you believe in the view that is given today in today's 'Financial Times' that, had this manipulation not taken place, there would have been a run on banks, including Barclays, and this would have guaranteed the collapse of the financial system? Is it ever justifiable to manipulate interest rates and give false information to the market to save the banking system, while investors and borrowers pay the price?

1-007
Mario Draghi, *President of the European Central Bank***.** – I think the answers to your many questions are 'no', but there is just one thing I want to say first: I did not say that the ECB would have done a better job, I said that I *hope* the ECB would have done a better job. I do not think it takes much to have such a hope.

I fully agree with you because it came as a shock. There are of course many inquiries into this on both sides of the ocean: this is a process which is very complicated and will have many further developments. However, from what we can understand from our modest observation point in Frankfurt, first of all, frankly, there were problems of governance. There were problems of governance with the banks that were supplying the data and there were problems of governance with the banks that were actually creating the benchmark that would then be used by the entire financial system as the pillar, the cornerstone, upon which to price most of the transactions. I am sure that these issues are being carefully studied by those who will be their supervisors in the future.

On the other questions you asked me, I think you probably know the answers, as I said before: I do not think it is fair to cheat people. This was the question.

1-008
Arlene McCarthy (S&D). – But to save the banking system, which is what we are consistently doing? We are saving the banking system at any cost.

1-009
Mario Draghi, *President of the European Central Bank***.** – I am not sure whether this relates to saving the banking system. In any event I do not think it is wise to save the banking system at all costs, sacrificing the citizens of entire countries – unless you need financial stability, because if you destroy financial stability, then the ultimate price would be even higher for everybody. One has to move between these two tracks really, trying to find the right equilibrium.

On the one hand, you absolutely do not want to use taxpayers' money, on the other hand you want to preserve financial stability. That is why a resolution regime and a resolution fund are essential. You want to be able to resolve systemically important institutions without using taxpayers' money, while at the same time keeping those parts of the systemically important institutions that mostly relate to financial stability – namely the payments system – alive and working.

1-010
Chair. – President Draghi, I was just going to remind you that you did not quite finish with Jean-Paul Gauzès' questions about banking union and how you are going to maintain your independence, as a supervisor, from the monetary policy side of things. I think you are straying into it already in your responses to Arlene McCarthy. Maybe this is an opportune time to complete the question.

1-011
Mario Draghi, *President of the European Central Bank***.** – I am sorry. I was taken aback by your reproach to Mr Gauzès for asking questions which were too deep, but I will come to this.

We are reflecting on how to organise this new supervisory arrangement. We should not forget that the proposal will be a Commission proposal. It will be in consultation with the European Parliament and the ECB, but it will be a Commission proposal.

1-012
Werner Langen (PPE). – Herr Präsident! Im Ratsdokument steht, dass der Rat diese Bankenaufsicht beschließen soll. Dann kann es ja nur nach Artikel 136 gehen, entsprechend nur für die Eurozone. Da ist das Parlament nicht beteiligt.

1-013
Mario Draghi, *President of the European Central Bank***.** – That is true, but it is the prerogative of the Commission to put forward a proposal. But having said that, there are certain principles that should inspire this proposal.

The first is that, going back to the summit, I really do think that this was a major first step forward. The leaders' commitment to successful supervision was a very strong one. That is why we should expect a strong proposal from the Commission that would put the ECB in a position to carry out its duty with effectiveness, rigour, independence and without risk to its reputation.

I think that is what we all expect from this, but there are other issues to consider. We have to be able to find an arrangement whereby we retain our monetary policy independence from the supervision. At the same time, we should not forget that 14 out of 17 governors around the table of the ECB are supervisors. So there are extraordinary synergies, as I can testify having been Governor of the Bank of Italy and had supervision of that institution, but the same would be said for the Governor of the Bank of France and 14 out of the 17 other countries. There are synergies.

So there is the potential here to find exactly that arrangement that preserves independence of monetary policy, does not create any conflict of interest and, at the same time, enforces an effective supervisory mechanism with full synergies from the other side. I am not saying that this is easy to do but, in the end, that is what many countries have already done by themselves in the past. So this is not a new discovery.

Also let me just say one thing. The knowledge, the experience, the tradition, the history and the institutions in supervision are at national level, so the arrangement that might see the ECB at its centre will have to be based on the national supervisors. That is also very important.

Finally – a point I made in the press conference we had at the end of the Governing Council last week – all this means greater powers for the ECB. With greater powers there should be greater democratic accountability and greater transparency, in the sense that this is a new activity so we have to comply with the standards of transparency and democratic accountability. We stand ready to do so.

1-014
Chair. – Just to clarify for Members, we have already received authorisation to draw up an own-initiative report in response to the Council conclusions, which will be discussed at the Coordinators' meeting tomorrow. That is probably record time for getting an authorisation. So the consultation in a sense has started and we will have our initial input that way. The next question is from Wolf Klinz.

1-015
Wolf Klinz (ALDE). – The positive reaction of the markets to last week's Council meeting has now given way to scepticism. There is a fear that the time that it will take to set up and develop the full banking union, including supervision, the rescue mechanism and the deposit guarantee scheme, will be too long, and that the euro zone will not have the time needed to achieve this.

Given these circumstances, could you see the ECB taking some bold steps that would include, for instance, extending collateral to include shares or bonds issued outside the Eurobonds? Could you perhaps see the ESM being refinanced like a bank, even though I know that you have always refused this in the past? Could you perhaps even see banks paying back their ECB credits, not in cash but by passing on the titles of assets given as collateral, as some of the French suggest?

1-016
Mario Draghi, *President of the European Central Bank***. –** As our Chair said, it is a pity that such profound questions need to be squeezed into five minutes. I can say that, like all first steps, the last summit was successful in stating the objectives but, at the same time, it raised at least as many questions as the number of objectives stated. On the other hand, it would have been too much to expect full answers to a new roadmap drafted for the first time at the summit.

I think that some of the scepticism is unwarranted. I read just today, for example, a very interesting article which basically said that the banking union was the wrong route to start on because there was no way it could be achieved. Well, let us see. I think it can be achieved, it will be achieved, and the first step is the supervision.

Secondly, it said it was the wrong route to start on because it will not be achieved in time. Here one has to judge from the efforts that all participants in this process are actually putting into it. I can testify that all the *parties en cause* are working very hard to produce a proposal by the autumn: that is for the supervisory part. But there is also a full awareness by all participants in this process that here we are talking about the long-term sustainability of the European Monetary Union and so all participants are fully engaged; they know very well the value of time. They know very well that there is no time to waste. In a sense, I am a little more confident than most of those who made comments after the summit.

The situation is complicated, and when complexities increase I would say that the variety of solutions suggested also increases. In other words, there are many interesting ideas around that one wants to look at. Some of these ideas have been discarded in the past, others are continuously popping up. What I can say is this: the ECB, within the limits of its mandate and without unnecessarily increasing the risk of its balance sheet, will do what is needed to ensure compliance with its mandate – as I said, price stability on both sides for the whole of the euro area, and financial stability as a by-product. In particular, as I think I said to this committee the last time we talked, the ECB will keep the liquidity lines open to all sovereign banks in the euro area.

Finally, let me add that we look with interest at all these ideas and we are continuously studying and working – the ECB's staff are on a continuous search for actions that could attenuate the current crisis.

1-017
Philippe Lamberts (Verts/ALE). – If the banking union ever gets off the ground, some Heads of State or Government – and yourself – are claiming a much bigger role for the ECB, on top of its current missions, but you, as part of the quartet with Mr Van Rompuy, say we need to do something to bridge the gaping democratic deficit that we have in Europe. I have a hard time reconciling this.

The ECB is already the most unaccountable of all the central banks on the planet. You operate totally independently. There is no transparency in your day-to-

day management and absolutely no transparency in your non-standard operations. So, if we have it your way, basically we are headed towards transforming the European Union into a Chinese-style regime, except that in China it is the Government and the Party instructing the Central Bank and here it is the other way round.

What I see is that you, as the Head of the Central Bank, feel authorised to comment on how we split profits between capital and work, on how big government is in the total economy and how good our social contract is. If you already feel authorised now to go so far outside your mandate, how can we trust you with even more responsibility and with less accountability?

I have a very clear argument for you. You should be more transparent in what you already do today – and I would suggest you use Article 129 of the Treaty which allows you to submit to us changes in the regime of the ECB, notably in terms of transparency – before we start giving you more powers.

1-018
Mario Draghi, *President of the European Central Bank***.** **–** Thank you very much for your points. Let me say that we are not asking for more powers, just a first step. It was the European Council that asked to have a new supervisory mechanism and asked to use a certain specific article of the Treaty. We are not asking for more powers. I have stated quite clearly what the conditions are whereby these greater powers are to be entrusted to the ECB. Otherwise, if these conditions are not in place, you can forget about new powers because it is much worse to do something badly than not to do it all.

My second point is that, frankly, I would probably not completely agree with you. I think we are transparent. I think we are very transparent. The fact that I am here today is a sign of this transparency. The transparency of the ECB is shown by its press conferences, by its bulletins and by the immense number of its publications, appearances and speeches. The members of the ECB Board speak very often. But if you have any suggestions in this connection, we stand ready to be even more transparent.

1-019
Philippe Lamberts (Verts/ALE). – Just transparency on how you rate products under the SMP programme or will you give us transparency on the LTRO?

1-020
Mario Draghi, *President of the European Central Bank***.** **–** It is true that it is unelected. That is the Treaty. If you want to change that and make us elected, you can table a proposal, but that is the Treaty.

Finally, let me now answer your final point. Often the ECB President, and not only the President but also the national central bank governors, speak about things that seem to be outside the narrow remit of the monetary policy instruments. I cannot speak on behalf of the national central bank governors, who are often very talkative, but I can speak for myself.

In a normal situation where you do not have current account imbalances, fragmentation of the euro area or the need for structural reforms – and I could go on and on – and where fiscal budgets are in good order, then our mandate of ensuring price stability in the medium term for the whole of the euro area also implies financial stability.

But if you do not have structural reforms, if you have unsustainable current account balances and a fragmentation of the euro area, then you cannot have financial stability as a by-product of price stability. That is why the ECB's voice is heard more and more in areas which do not seem to have a connection with the traditional monetary policy remit. That is why the ECB President has to speak on certain issues, for example about the need to have sound public finances. That is why. It is not a situation that we especially enjoy, but we have to do this.

1-021
Philippe Lamberts (Verts/ALE). – I shall wait for the day you speak up on bankers' compensation, for instance, and then we will see whether your recommendations are only one-sided.

1-022
Mario Draghi, *President of the European Central Bank***.** **–** Well I am sorry to disappoint you, but I have spoken several times about bank compensation, both as head of the FSB and as head of the ECB. You can look at the last few press statements I made. We have spoken about this several times. Not only that, but we even mentioned the split you asked me about, about how certain profits should be split between shareholders and wages.

1-023
Philippe Lamberts (Verts/ALE). – Basically you say that we have to cut wages, that is the only way to solve the issue.

(The Chair cut off the speaker)

1-024
Mario Draghi, *President of the European Central Bank***.** **–** I am sorry but I think I have explained to you why we are saying this. If you have unsustainable current account balances you have to restore competition. You have to take certain actions and that is why the ECB is saying this.

1-025
Kay Swinburne (ECR). – President Draghi, my apologies for being late. I have just been given a briefing note of all the questions so far and your responses, so I will refrain from duplicating these with any of the questions I have here. Of interest to me are your comments about the banking union. Obviously there are some major implications in a banking union for the euro area for the rest of the EU-27. I would quite like to hear your comments on what you think these implications and major outcomes are likely to be, with regard in particular to the single market for financial services, if we have a closer banking union of the 17.

1-026
Mario Draghi, *President of the European Central Bank***.** **–** I think you are touching on a complex point, but firstly let me say one thing. We are discussing this banking union, this centralisation of supervision, because of the situation of the euro, not because of the situation of the European Union. Let us not forget that much of what we are saying today is related to the euro area.

Having said that, I completely agree with you that we have to do this while maintaining the single market. We have to be able to achieve both objectives, otherwise if we lose the one we will certainly weaken the euro; while if we lose the other, we will weaken the single market and in the end we will also weaken the euro. These things can be done and I am confident that the Commission proposal will have both objectives largely in mind.

1-027
Marisa Matias (GUE/NGL). – Senhor Presidente, eu volto aqui à questão que colocou no início e sobretudo à referência que fez à baixa de 25 pontos de base nas taxas de referência e volto a esta questão porque o Senhor Presidente referiu-se a ela como sendo uma ação que mostrava a visão de futuro do BCE e eu quero colocar-lhe algumas questões porque não sei se concordamos muito nessa visão de futuro, se é de vistas curtas ou se é de visão de futuro alargado.

E digo isto porque o Senhor Presidente disse que esta medida pode ser tomada porque as pressões inflacionárias estavam controladas. Ora, em 2011, perante um cenário de inflação completamente controlada, o BCE aumentou duas vezes as taxas de juro, o que, aliás, veio pôr muito em causa os fraquíssimos sinais de recuperação económica que estávamos a ter naquele momento e, portanto, contribuiu ainda para mais recessão do que a sua salvação. E, neste caso, o que eu gostaria de lhe perguntar é, neste contexto em que depois o BCE é obrigado a redefinir o seu trajeto várias vezes e voltar atrás, como é o caso do abaixamento das taxas de referência, o que eu gostaria de lhe perguntar era, numa situação em que não há recuperação económica à vista, em que não temos nenhuma perspetiva de recuperação económica, se o BCE está disponível para mais reduções de taxas de juro e de taxas de referência no curto prazo, porque isso, sim, seria, penso eu, uma visão de futuro.

Juntamente com isto, porque é que o BCE ainda não colocou a taxa de depósitos em terreno negativo, no contexto em que vivemos atualmente de crise. E se o BCE está disponível, além do mais, para rever em alta o seu *target* para a inflação porque nós temos que arranjar uma forma de acomodar o crescimento salarial e, nomeadamente, nos países do centro da Europa e nos países das economias mais integradas.

Finalmente, e a última pergunta, termino com esta, fez uma referência muito explícita a Portugal a dizer que estava a fazer um suposto bom caminho no sentido da disciplina do cumprimento dos objetivos de disciplina orçamental. Eu só lhe quero perguntar, se houver licença bancária, termino mesmo agora, Senhor Presidente, se houver licença bancária poderá, ou não, o mecanismo de estabilidade vir a substituir os programas de ajustamento em países como Portugal?

1-028
Mario Draghi, *President of the European Central Bank***.** **–** I am sorry, but what was the last part of your question on Portugal?

1-029
Marisa Matias (GUE/NGL). – A minha última parte da pergunta em relação a Portugal tinha a ver com o facto: se houver a licença bancária e o mecanismo de estabilidade, se há disponibilidade para serem substituídos os programas de ajustamento em países como Portugal, ou não, nos países que estão intervencionados pela Troika. Era essa a parte final da minha pergunta.

1-030
Mario Draghi, *President of the European Central Bank***.** **–** You mentioned the monetary policy undertaken last year with the two increases in interest rates and you linked this to the recession. As a matter of fact, the recession that we are seeing today was to some extent a by-product of something that started last year in around August or September: chiefly the fall in credit availability that took place mostly in the second part of last year.

This fall in credit availability was due essentially, I would say, to two reasons. One was the funding needs of the banking system, the prospective funding needs of the banking system in the first part of this year which was EUR 230 billion of bank bonds coming due in the first quarter of this year, plus approximately EUR 300 billion of sovereign bonds coming due in the first quarter of this year. Most banks in most of the euro area stopped lending by September/October because they were fearful they could not cope with these funding needs. That is what led us to carry out the two LTRO operations by year-end, which resolved the funding needs. To some extent – to a great extent I would say – the present economic condition of the euro area is not due to interest rates being too high, but it was due to lack of liquidity and the implied credit policies.

The second reason for this is the current fragmentation of the euro area, which exacerbated these funding needs because it did not allow funds to circulate in the euro area from one country to another. So that gives a picture of the present situation.

As we realised that the inflation rate path was moving favourably from the viewpoint of price stability in the medium term, we also thought it was wise to lower interest rates in the last Governing Council. Whether we are going to do more than that, many people here would know the answer to that. I am not asking all of you here – the ones I know – what the answer would be, because you will certainly say we never pre-commit. We have to see what the situation is, we will look at the data, the developments and then we will make up our minds in the Governing Council about what we will do next.

On your final point about Portugal, I think what I said before still stands, namely that within the limits of our mandate we will do everything needed to improve the situation in the euro area, on both sides, from a price stability viewpoint.

1-031
Sampo Terho (EFD). – In the aftermath of the last summit there has been a lot of confusion, and some nasty accusations too, as to what was decided and what has not been decided, and these accusations have been going back and forth. Once again too, the positive effects of the decisions taken lasted about 48 hours.

In the current situation, where any statements made by a small northern country or a big southern country, or whoever, seem to be able to diminish all the assistance that we put together, or its positive effects, what real concrete devices do you in the ECB, for your part, have left in order to re-establish the credibility and the stability of the euro zone? Or are we to understand that this current situation which has gone on for years will last for years to come?

1-032
Mario Draghi, *President of the European Central Bank*. – You rightly referred to the way the conclusions of the summit have been presented by various participants in this process. I think you are right. The summit is a process that has its own credibility for a variety of reasons. Its participants hold the highest political positions in our countries, but a summit has credibility if, once the participants leave the summit, they do not make statements that contradict the summit conclusions which they have endorsed. This holds true for all participants. I think that is a very fundamental point regarding this way of moving forward. I am confident that in the future things will actually improve compared to the past.

You asked a question about the ECB's credibility. It is clear that the ECB cannot do much about this. It has been said that the ECB wants to do and say too much but, however much we say or do, we cannot actually fix this part – no matter what we do.

I think our best contribution here is to maintain credibility. To maintain credibility means doing everything that we think is right, doing it together, being seen to act in a compact way, but also not acting outside our mandate. I do not think there is much to gain by asking one of the few institutions that works in the euro area to go beyond its mandate. It would probably destroy its credibility rather than strengthen it and it would certainly harm the credibility of the Union as a whole. I think we should stay within our mandate, which is the pursuing of price stability in the medium term within our mandate.

1-033
Pablo Zalba Bidegain (PPE). – Señora Presidenta, señor Draghi, como bien ha dicho, los acuerdos del último Consejo han constituido un paso importantísimo para avanzar en la unión bancaria y en la unión económica, asunto sobre el que —yo creo— casi todos estamos de acuerdo.

Como sabe —y como ha dicho mi compañero el señor Gauzès—, el Parlamento Europeo viene defendiendo desde hace algún tiempo la unión bancaria basada en tres pilares: supervisión bancaria europea, sistema de garantía de depósitos y fondo de resolución bancaria; punto que también, obviamente, compartimos usted y nosotros, tal y como dijo en su última comparecencia, por ejemplo.

Sin embargo, aún quedan algunas dudas por despejar en relación con estos tres pilares. Con respecto a la supervisión centralizada, las conclusiones del Consejo dejaron clara su estrecha relación con el BCE, así como que en las próximas semanas se definiría según una propuesta de la Comisión Europea.

En el caso de que sea el BCE el encargado de llevar a cabo esta supervisión, me gustaría saber cómo se resolvería, en su opinión, la interacción entre el BCE y los bancos de los Estados no pertenecientes a la zona del euro, para evitar, entre otras cosas —como ha dicho—, el riesgo de ruptura del mercado único. Además, ¿qué bancos deberían supervisarse? ¿Todos o solo los transfronterizos y sistémicos?

Por otra parte, en lo relativo a los otros dos pilares —el sistema de garantía de depósitos y los fondos de resolución—, me gustaría saber qué tipo de esquema valora el Banco Central Europeo como el más adecuado.

1-034
Mario Draghi, *President of the European Central Bank*. – These are all difficult questions, and they are difficult to answer in a process that has just started, but I would say that there are three schools of thought about how many banks should be supervised. One school of thought says basically: only the cross-border systemically important institutions, namely the ones that, if they were to fail, would have an impact on the whole Union.

A second school would say that systemically important institutions are not only the cross-border institutions, but also certain big purely domestic institutions. They should also have a supervision going beyond the national level.

A third school of thought says that both of these are wrong and that to avoid especially competitive distortions all banks should be supervised. All banks: how many is that? There was an article this morning coming up with 6 000 and a few hundreds.

I think that, in answering these questions, we should never forget that we will rely on national supervisors, so it is not that we are starting from scratch, that we do not have supervision at present. I would guess that there are at least as many supervisors as banks, probably more than 6 000 in the whole of the euro area. It is really important to remember that they are there. They have done their work, I would say in some cases with

astounding success, in other cases with a little less success, but that is where we come in. When things have not been done well, that is what we do: we try to improve the process.

It is clear that the rationale for having centralised supervision at a higher level than national supervisors is stronger for the very large banks. You can always argue that small banks can be well supervised by national supervisors which have much greater knowledge about a small regional bank than someone who is sitting elsewhere, perhaps outside the country.

We are now looking at these three ways of thinking, but I am sure that the present arrangements and the future arrangements together will make us able to respond in the best possible way to this question. We do not have to choose. Often these questions are presented as something where the answer is either one thing or the other. In fact the present arrangements are so varied, so big and so spread around in the euro area that they can give us the possibility of really achieving the best final outcome.

1-035
Udo Bullmann (S&D). – Frau Vorsitzende, Herr Präsident Draghi! Der Europäische Stabilitätsmechanismus soll nach Aussage der Staats- und Regierungschefs nach dem letzten Gipfel mehr Aufgaben übernehmen, er soll aktiver werden. Gleichzeitig bleibt aber sein Mittelvolumen begrenzt. Wenn meine Zahlen richtig sind, sind noch knapp 400 Milliarden vorhanden. Das ist ja weniger als das jährliche Refinanzierungsvolumen von Spanien und Italien. Ist ein Fonds, der mehr Aufgaben übernehmen soll, gleichzeitig aber begrenzte Mittel hat, in seiner Botschaft an die Märkte ein Teil der Lösung oder ist er in seiner Botschaft an die Märkte ein Teil des Problems?

Zweite Frage: Der deutsche Sachverständigenrat – die fünf Weisen, Ökonomen zur Begutachtung der gesamtwirtschaftlichen Entwicklung – haben nach dem Gipfel am 5. Juli erneut ein Gutachten vorgelegt, in dem sie für einen Schuldentilgungspakt plädieren – ganz bewusst nach dem Gipfel als langfristige, wichtige Maßnahme. Und sie führen den Beweis in ihrem Sondergutachten, dass ein solcher Schuldentilgungspakt, wenn er richtig konstruiert ist, weder mit deutschem Verfassungsrecht noch mit europäischem Recht kollidiert. Wenn es eine Entscheidung in der Politik dafür gäbe, würden Sie es aus Sicht der EZB befürworten, dass wir einen solchen Schuldentilgungspakt bekommen?

1-036
Mario Draghi, *President of the European Central Bank***.** – One thing to say at the beginning is that we should actually look at the combined resources of the ESM and the EFSF, which is about EUR 800 billion. That is a different order of magnitude. I think that you are absolutely right in saying that the size is important, but the effectiveness is just as important, if not more so.

If we look back at our experience with the EFSF, it was designed, if I am not mistaken, almost three years ago. At that time, that amount of money was considered to fall a little short of what people would have liked to have seen, but not so dramatically short of what was needed as it would appear two years down the road.

The problem is that, important as size is, it is the effectiveness of the mechanisms that matters. The experience we had with the EFSF design was that it was designed in a way that would it be very difficult to use. That is why the latest steps are so important because they basically made the ESM and EFSF more flexible, and therefore more usable, than they were before. It was no use really to have a very huge firewall but designed in a way that nobody could use it.

So now it has been made more flexible. The direct recapitalisation of banks is especially important. Admittedly, this can be done only when the supervision is in place. It has to be conditional; it is a special conditionality, but it has to be conditional. The EFSF has been made operational on market operations, and again only with conditionality. We have to keep this in mind because, as someone said about the summit, different statements were coming out of the summit. We have to make it clear that the EFSF is flexible but also that it has retained the conditionality that was typical of its original design.

So I think we have taken one step forward. We now have EUR 800 billion altogether. It is more flexible and will be used in a way that will not necessarily increase the public debt of the country, which is very important, because the decisions taken at the last summit for the first time tried to break the link between banks and sovereigns.

Now people will immediately say that you have not done enough. Certainly we could do more, but this was the first step. That is why, when asked immediately after the summit, I said I was pleased with the summit's results.

(Interjection: And the redemption fund?)

The redemption fund and similar proposals cannot be judged by themselves in isolation. What is most important with any proposal that suggests sharing of debt – or, as some people used to say in the very old days, assumption of other countries' debt or mutualisation of debt charges – is that it has to be judged in the proper sequence.

We are gradually aiming towards a fiscal union, but a fiscal union cannot start from being a transfer union: this will be the arrival point. So this scheme is fine but can be seen only in the perspective of a union where countries have shown their capacity to stand on their own feet without the need for external help. I would say the same for this proposal, which by itself – like some others – is quite intelligent but has to be judged in a sequential order rather than in isolation.

1-037
Ramon Tremosa i Balcells (ALDE). – President Draghi, my first question. As you have recently acknowledged, money given through LTRO to Spanish banks has not reached the real economy in terms of

credit to enterprises and families. What should be done to improve the transmission mechanism of monetary policy in Spain?

My second question: considering the recapitalisation of the Spanish banks with EU public money, what are the conditions in your opinion to force a bank to close?

My third question to complete the answer given to my colleague Philippe Lambert, talking about transparency: when will the ECB publish the Governing Council's Minutes as do the Bank of Sweden, the Federal Reserve, the Bank of Japan and the Bank of England?

1-038
Mario Draghi, *President of the European Central Bank***.** **–** Thank you for your three questions. The first is about the LTRO, and with your permission I would like to make your question even more general, in a sense.

LTROs have been criticised for two different reasons. One is the implicit criticism which you put forward – with great kindness, but it is there: how come the LTRO has not really reached the real economy? Why cannot you ask banks to do something so that they could use the money they borrowed at such a cheap rate from the ECB for the real economy? This was one criticism we received.

The other criticism was almost the complete opposite: ah, you cannot buy bonds directly so you are financing banks at cheap rates so that *they* can buy the government bonds, in this way circumventing some article of the Treaty prohibiting monetary financing.

Both criticisms make the same mistake – that we can actually tell the banks what to do with the money they borrow from the ECB. Both criticisms assume that we can actually channel this money and tell the banks what they should do: by a little of this and a little of that, but not more than that. This is not possible. It is certainly very difficult at national level. I do not think it is really desirable to do this in general, especially in view of its long-term implications, but it is certainly very hard to do at euro-area level. It is not desirable on account of the long-term implications. I agree there may be good reasons to do it if it could be done in the short term, but in the long term it is not desirable.

Let me give you a specific example from when I went through this. In the 1970s in Italy there was a concept of total internal credit. It was like a cake whereby the Central Bank would decide how much credit should go to the government – at subsidised rates, by the way – how much credit should go to the private sector, how much should go to this and that part. This system produced under-capitalised banks which were forced into lending to bad clients, a politicised process of credit allocation and ultimately 20 % inflation rate.

Having lived through that, I do not think that is a viable way to go in the long term. Even if one were to go down this route, one would have to have the capability to monitor the individual banks of the euro area – just think that in the last LTRO there were more than 800 banks that borrowed from us – and make sure that the money they borrowed actually went to the place one wanted. This is very hard.

Let me also add another point. This idea of intervening at the stage where the ECB lends the money to the banks would be, as I said, not desirable, but could be conceivable if it were true that the LTRO did not go into credit for all euro area countries. But this is not true. In some countries the banks that borrowed from the ECB actually lent to their real economy – to the SMEs, to firms. In other countries it did not make any difference, and in some other countries the process actually coincided with a steep fall in credit availability.

The explanation is that first of all you have certain national contractual arrangements which make mobilising credit much more difficult in some countries than in others. Second, in certain countries you actually need banks to deleverage, because they have so many bad assets on their balance sheets that they have to liquidate these assets, and so you see hardly any money going into the real economy in countries where this deleveraging is necessary. That is also a reason why it is very hard, because countries react in different ways to the same operation.

But we have done something however – I cannot be that negative throughout – in order to try to increase the probability that borrowing from the ECB would actually go to finance the real economy. We did exactly this when we expanded the eligibility rules for the collateral that banks could take to the ECB, in the sense that we have allowed banks to use credit claims, namely, their lending to the private sector, as collateral for borrowing from the ECB. Nowadays banks know that if they lend to the private sector they will have collateral, they could borrow more from the ECB, so that is a concrete measure that we have undertaken. It has been taken up. Of course we have to be extremely sensitive to the amount of risk that the ECB is taking.

1-039
Chair. – President Draghi, you have two more questions to answer. You have to say how you are going to force banks to close, and whether you will publish the Minutes.

1-040
Mario Draghi, *President of the European Central Bank***.** **–** Sorry, I probably answered the only question I know how to answer.

(Interjection from the Chair: 'I have a follow-up on that, as well')

So how do you force banks to close? In all countries at the present time this is a process which is in the hands of, firstly, the government and, secondly, the supervisory entity.

Traditionally the process goes as follows. The national supervisor assesses the fact that a certain bank is no longer a viable concern and then the government has to decide what to do, because very often these bank closures will have an impact on the national government's budget. So this is usually a joint process. Usually the national supervisor indicates to the government and to that part of the government that deals with banks the need to close a certain bank and then the government intervenes.

Finally, why do we not publish the minutes? This has been a question – Sharon, I think you can testify to this – that has been asked since the very beginning of the ECB. My predecessor was certainly asked this question.

(Interjection from the Chair: 'I am sure I have asked it several times')

You did, yes. It was asked of me in the pre-appointment hearing by this committee.

There are certain good reasons. We are in the euro area. We are not in one country. We want to preserve, as much as we can, the independence of each single governor. The governors, when they sit around the table of the ECB Governing Council, do not have the names of their institutions – they do not have Bundesbank or Banca d'Italia or Banque de France – but their own names. They are there in their personal capacity. So, to some extent, the non-publication of the minutes protects this process and their independence.

Also, there is an issue about the different communication strategies that different central banks have. In the United States and in the United Kingdom the strategy is one where you publish the minutes and also you say, for example, that interest rates will stay at this level for three years.

In the case of the ECB, the communication strategy is different but not less transparent. It says that our objective is price stability in the medium term for the whole of the euro area, it says that inflationary expectations have to be strongly anchored, and then it says to the market: deduce from this what the implications are for interest rates and monetary policy.

So these are two different ways of communication, but we will certainly reflect on your ideas and your suggestions.

(The Chair reminded the speaker of another point to answer)

Ah yes, I give a lot of press conferences and speeches myself so, in a sense, the contents of the minutes is reflected in these press conferences and these speeches.

1-041
Werner Langen (PPE). – Frau Vorsitzende! Eine Frage: Gelten für Liberale doppelte Antwortzeiten? Oder wird das hier einheitlich gehandhabt?

1-042
Chair. – I do not control the answering time. I allowed President Draghi to continue for quite a long time on the LTRO and then I picked him up on two other questions. I took him back when it was Jean-Paul's Gauzès's question that was unanswered and we also took him back to Udo Bullmann's question that was unanswered, so that is the luck of the draw.

I am now going to do something I rarely do and that is to abuse the power of the Chair just to follow up, by asking: could you comment on an interesting thing they do in Ireland, where they require accountability for the LTRO? Also you said that, if you were winding up a bank, you would then have to go to the government. If it is the ECB in that situation, who are you going to go to? Or is that why you are promoting the resolution fund?

1-043
Mario Draghi, *President of the European Central Bank***. –** I will start with the second question which is actually a very crucial question. To the extent that the resolution of a bank will impact the national budget, we will have to go through the national government to force the closure of a bank, but we have to keep in mind that if the bank is judged to be unviable as a concern, it will have to be closed.

The issue is who is going to bear the burden of this closure? If there is a European resolution fund or if there is a resolution fund financed by the industry, it will be that fund. Otherwise it will have to be the government concerned. If you have a cross-border group, however, you may have several governments' budgets being affected.

And the first question, I think, was about accountability of LTRO, namely where the money goes?

1-043-500
Chair. – Yes, I believe in Ireland they have to say where it is going.

(Three-way exchange between the Chair, President Draghi and Mr Langen concerning the time allocated for answers)

1-044
Bas Eickhout (Verts/ALE). – I do want to go ahead on the banking union again because you say this is a very important first cornerstone for solving the crisis. You also said that you are very transparent, so I hope that you can be transparent in your vision on the essential steps of the banking union.

Starting with the supervisory mechanism, it is still unclear to me how we can separate the euro banks and the EU banks. You say we start with the euro but of course this separation is not very easy to do. Could you dwell a bit on how you envision a very European supervisory mechanism? Then – because the banking union is not finalised with only a supervisory mechanism – we also know that there needs to be a resolution fund, and that within the proposals what we see now will only lead to EUR 80 billion in 2023, which is hardly enough to save one bank. So is that enough?

Secondly, the proposed deposit guarantee scheme is being blocked by Member States again. So we can all talk about this banking union but, in reality, we see that most of the time it is too little, too late, or being blocked by Member States. So I welcome your optimism, but how do you see us really taking steps towards a banking union that really has teeth, enough money and a banking depositing scheme instead of only vague words?

1-045
Mario Draghi, *President of the European Central Bank***.** – I think there is a stage that comes between 'words' and 'everything'. I think we are at that stage now. I think the summit for the first time actually tried to put some flesh on the words. You are asking good questions that might have an answer, should have an answer. Whether these answers are going to come immediately or in time is a different issue, but the important thing is that we should try to achieve as much as we can now within the existing Treaties.

We have to deliver at the end of this year a reasonable concept of a banking union, which will not be perfect for sure, but it will be what is achievable now. The more it conforms to your point of view, the more it will conform to my point of view, so we completely agree on the ultimate objective. The issue is what can we do about reaching these objectives sooner rather than later, and achieving something that is the right size rather than too short.

That is the question that I face. At the same time should we delay this process without end, as some people are saying? People are saying: please do not even start, it is such a hopeless thing because we have to change this Treaty, we have to change that other constitution, we have to change and it will never be enough. That is very often what markets are telling you. They are asking desperately for something, they get it and the day after it is not enough, they want more.

Our approach here is pragmatic but not less ambitious than yours. Let us see what we can get within the existing overall legal framework now without losing ambition.

1-046
Werner Langen (PPE). – Frau Vorsitzende! Ich beanstande nicht, dass Sie Fragen stellen, sondern dass Sie die Antworten unterschiedlich lang machen. Egal, wer von den Liberalen gefragt hat, die dürfen immer überziehen.

Ich möchte eine Vorbemerkung machen und dem Kollegen Lamberts ausdrücklich widersprechen. Die Unabhängigkeit der Europäischen Zentralbank ist nicht nur in den Verträgen geregelt, sonder sie ist gewollt und wichtig. Sie haben in den letzten Monaten bewiesen, dass diese Unabhängigkeit die politische Handlungsunfähigkeit ersetzen musste. Die Anmerkung von Herrn Lamberts, der EZB-Präsident sei nicht gewählt, kann ich nur mit Staunen sehen. Denn wir alle, ich zumindest, habe Sie gewählt – aus Überzeugung. Und Sie machen das auch gut! Die Diskussion haben wir vor zehn Jahren mit Frau Berès geführt. Sie ist längst überholt, und gerade der monetäre Dialog mit der EZB ist hervorragend, beispielhaft, weltweit.

(Zwischenruf von Herrn Lamberts: Ich habe das nicht gesagt.)

So ist es übersetzt worden. Im Englischen klang es genau so.

Ich habe zwei Fragen. Erstens zu der Bankenaufsicht: Wir haben in der Tat eine stärkere Bankenaufsicht gefordert. Das ist uns vom Rat verwehrt worden. Wir haben aber keine Bankenunion gefordert, Herr Kollege Zalba, sondern eine Bankenaufsicht. In Deutschland hatte man Pläne, die Bundesbank damit zu beauftragen und die BaFin zu entmachten. Man hat diese Pläne fallengelassen wegen der Frage der Unabhängigkeit. Herr Barnier will jetzt die EBA stärken, und Sie wollen Ihre Unabhängigkeit zu Recht nicht verlieren. Wo liegen nach Ihrer Meinung die Knackpunkte für dieses Problem?

Zweitens: Sie haben positiv über Irland, Portugal, Spanien und Italien gesprochen. Griechenland, Zypern und Slowenien haben Sie nicht erwähnt. Wie sehen Sie den weiteren Verlauf mit Griechenland?

Drittens: Bei der Rekapitalisierung der Banken haben wir heute das Wettbewerbsrecht – Dexia, Société Génerale, Bayerische Landesbank, WestLB. Wie soll eine Rekapitalisierung stattfinden, ohne dass wir das Wettbewerbsrecht, also die Auflage, die bisher der Wettbewerbskommissar praktiziert, beachten müssen?

1-047
Mario Draghi, *President of the European Central Bank***.** – Thank you for your questions. Like others, they are not easy to answer because they are about a process which has just started. As a matter of fact we have used the words 'banking union', but we should probably say 'financial markets union' because that is what the process is in the long term.

It is true that in some countries it is more difficult to embrace the other two aspects of this financial markets union, namely the resolution fund and the European deposit insurance guarantee. My suggestion here is again to be as pragmatic as we can. Let us focus on what can be done immediately, namely supervision. Let us see what sort of resolution fund we have. Can we afford to have it funded publicly or should we start with an entirely privately funded resolution fund, funded by the industry – perhaps by the proceeds of the financial transaction tax?

Thirdly, what is the best form of deposit insurance guarantee scheme that we could have? I think the reasoning on this third element has progressed even less than on the other two, especially as we have at the moment a directive entirely based on harmonisation of national deposit insurance guarantee schemes. But once again it is the sequence of events that is important here.

We cannot start with the deposit insurance guarantee because that involves some mutualisation. We want this to be the end rather than the beginning of this financial markets union. So we can make a start and hope to make progress with supervision.

Here you are absolutely right that we have to make sure that we find appropriate internal and external arrangements that, on the one hand, will preserve the independence of the ECB on the monetary policy side and, at the same time, will make supervision strong and effective, but also ensure a supervision that could benefit from the synergies of the governors being supervisors themselves. It has been done in several countries and I think it can be repeated at euro area level.

1-048

Antolín Sánchez Presedo (S&D). – Señora Presidenta, una de las cosas que me ha extrañado en el documento que ha presentado el señor Van Rompuy para tener un debate a largo plazo sobre una unión económica y monetaria genuina es que propone avanzar en el aspecto financiero, en el presupuestario, en el económico y en el institucional, pero parece que mantiene el *statu quo* en el ámbito monetario, cuando precisamente hoy surgen voces que plantean un Banco Central Europeo más activo y se han oído también propuestas de un Banco Central Europeo más comprometido con el crecimiento.

¿No cree que se debería también mejorar el *statu quo* del Banco Central Europeo para que sea un banco central que cuente con más instrumentos para poder asumir sus responsabilidades?

Y la segunda cuestión a la que quiero referirme es la recapitalización. La recapitalización de las entidades financieras tiene que cubrir dos objetivos que forman parte de los grandes objetivos de la política económica europea: uno es restablecer el crédito y el otro es la fortaleza de las finanzas públicas.

Para restablecer el crédito —y ahora, por ejemplo, se está negociando el *Memorandum of Understanding* con España—, ¿no sería conveniente asegurar que parte de esos fondos van verdaderamente dirigidos al crédito real y que no se destinan, por ejemplo, a financiar a otros acreedores? ¿No se debería contemplar algún mecanismo para que efectivamente eso sea posible?

Y, en segundo lugar, para mejorar las finanzas públicas, la clave es cortar el contagio entre deuda privada y deuda pública. Y para que exista realmente un mecanismo de recapitalización privada directa, es necesaria una supervisión europea y, para que exista una supervisión europea, se le ha preguntado al Ministro alemán Schäuble cuándo sería posible; él ha respondido que, realistamente, este año no sería posible. Se le ha preguntado entonces: «¿Y en doce meses?» Y ha contestado: «El Banco Central Europeo dice que puede tardar».

A mí me gustaría que usted dijera cuánto puede tardar para tomar esas medidas que son tan urgentes.

1-049

Mario Draghi, *President of the European Central Bank***. –** You have asked several questions. The first is about what I shall call a dual mandate: about the ECB having a mandate which is not limited to price stability but also to growth and full employment like the US Fed. My answer to this question has always been that I think having one mandate is already so difficult that to have two would probably make our lives even more impossible.

The serious difference between the different institutional set-ups is that we have a tradition of sustainable growth based on price stability. For us, price stability in the medium term is the pillar on which growth can develop. We think that inflation – I am thinking now about permanent sustained inflation – is disruptive of growth and it is disruptive of societies. That is our tradition. Frankly it has not worked badly so far. Even before the euro was created, countries that had their monetary policies geared to this tradition probably did better than countries that did not share this tradition.

We are bound by the Treaty but we are also convinced by history and, I would say, rationality, that in *this* institutional set-up our mandate is the right one. I am not saying that it is the best in all the world in all institutional set-ups, but in this one yes, it is probably the most rational.

Your second question is: would not ESM money be better used to finance credit rather than to insure creditors of existing failed banks? I think this is a very important question. I think the answer to your question is that we have to distinguish between banks that are definitely non-viable, that ought to be closed, and banks that have a life ahead of them. I think the supervisors, governments and ECB will have to reflect deeply on this big distinction.

The ESM was a step forward because it starts to break this perverse link between sovereigns and banks, but the ESM will become operational only when we have supervision in place, as you said, and you quoted me as saying that it might take some time, but I never said how much time.

At the last European Council I said that it is probably better to do things right rather than to do things in a hurried fashion because we have to accelerate this aspect. After all, we certainly want to see something finished by the end of this year, but let me tell you why this is not a big problem.

If banks were to need to be recapitalised and the ESM were not yet operational, then they would be recapitalised via the EFSF. This would increase the public debt of the country and would certainly worsen the link between banks and governments, but it would be temporary. It would be perceived as a temporary blip in the public debt of that country because it would now be known that as soon as the ESM enters into force it will replace public debt with ESM money. We are going as fast as we can. We want to do things right, but we should do them well.

1-050
Diogo Feio (PPE). – Senhor Presidente, queria começar por o cumprimentar, referiu a existência de problemas de curto prazo, esses problemas de curto prazo têm muito a ver com a segurança e com a confiança, têm a ver com a necessidade de retirar pressão sobre os títulos da dívida dos Estados.

Nesse sentido, tem-se falado de várias soluções. Eu gostaria de saber a sua opinião sobre uma possível solução, que não é uma solução de *eurobonds,* não é um *redemption fund* não é uma solução de *euro bills*, é uma solução que foi chamada por um grupo chamado *Euronomics*, *European Safe Bonds*, que corresponde à possibilidade de agregar em novos títulos da dívida os títulos de dívida de vários Estados da zona euro que seriam adquiridos no mercado secundário. Esses títulos poderiam depois ser vendidos, não haveria responsabilidade conjunta, não é necessária uma alteração dos Tratados. É uma solução eminentemente económica, que não é uma solução de natureza política. Seria um sistema gradual. O risco ficaria mais diluído, mais seguro. Aquilo que eu pretendia saber é se tem conhecimento desta proposta, se títulos deste género poderiam ser aceites como colateral pelo Banco Central Europeu e como vê esta possibilidade?

Quanto ao longo prazo, tinha bastante curiosidade em perceber, no que tem a ver com a união política, que ideias é que, em concreto, tem para alterações a fazer nesse âmbito?

1-051
Mario Draghi, *President of the European Central Bank***.** – I am not sure that I have understood this proposal. I must confess my ignorance about this proposal as far as I could understand it, but if it contains any element of mutualisation…? It would not? Then I will ask you to explain it to me after the meeting so I can be in a better position to reflect on it.

Regarding political union, it is very difficult to see exactly how things will be many years from now. Only the best statesmen have this vision and I am certainly not one of them. But, as we move forward let us, in a sense, go back to the four building blocks. We are moving towards a union of financial markets and this will imply a certain amount of loss of sovereignty. We are talking about the centralisation of supervision and common European funds – very cautiously, but we have started talking about them. Regarding economic union, we are talking about investing money together for growth in Europe. We are talking about structural reforms under greater European governance. Again this means a gradual loosening of national sovereignty. The same, *a fortiori,* is true of fiscal union.

So all these steps that naturally release national sovereignty will have to be balanced by a correspondingly greater assumption of political responsibility at Community level. I am now thinking about how this process will unfold. I am not in a position to say that, but I am in a position to see now that, when we advocate progress on all these four blocks, we automatically imply a different political configuration from the one we have today.

1-052
Peter Simon (S&D). – Frau Vorsitzende! Herr Präsident, ich möchte auf zwei Punkte eingehen, die Sie als wesentlich für Ihre Vision für Europa, für eine Bankenunion, betrachtet haben, nämlich die Einlagensicherungssysteme und den Abwicklungsfonds. Und da möchte ich ins Detail dessen gehen, was die Kommission vorgeschlagen hat. Die Europäische Kommission hat ursprünglich allein für die Einlagensicherung einen Fonds von 1,5 % der gedeckten Einlagen vorgeschlagen. Mehr als ein mittlerer Bankencrash – räumt selbst die Europäische Kommission ein – wird damit aber nicht zu bewältigen sein. Jetzt schlägt sie in ihrem Abwicklungsfonds vor, dass für den Abwicklungsfonds insgesamt 1,0 % der gedeckten Einlagen eingezahlt werden sollen. Gleichzeitig ermöglicht sie den Mitgliedstaaten, dass die Gelder des Fonds, des Einlagensicherungssystems, für den Abwicklungsfonds verwendet werden sollen können. Dies entspricht der Verhandlungsposition des Rates bei den Verhandlungen zur Einlagensicherung, wo der Rat sagt, mehr als 1 % dürfen Einlagensicherung und Abwicklungsfonds gemeinsam nicht kosten.

Ich frage Sie jetzt: Etwas, was dann letztendlich nur zwei Drittel dessen absichern würde, das nach den Erkenntnissen der Europäischen Kommission lediglich für die Auszahlung der Einleger eines mittleren Bankencrashs – eines Crashs, nicht einer Krise – zur Verfügung stünde, wie soll das für eine stabile Einlagensicherung und zugleich die Abwicklung auch von Großbanken reichen? Es würde mich interessieren, was Ihrer Auffassung nach eine angemessene Mittelausstattung für Abwicklungs- und Einlagensicherungsfonds wäre. Und es würde mich interessieren, ob Sie bei den vorgeschlagenen Zahlen nicht auch die Gefahr sehen, dass wir trotz einer Bankenunion, die diese Elemente enthält, nicht zu der gewünschten Finanzmarktstabilität kommen, da unterausgestattete Fonds auch weiterhin nicht zum Vertrauen der Anleger führen werden.

1-053
Mario Draghi, *President of the European Central Bank***.** – I think you are touching on another of the issues that are not immediately clear because, just as this long-term vision with the four building blocks and the financial markets union is starting to unfold, we now have a Commission proposal about the deposit insurance guarantee, which was designed several years ago and took a long period of thinking before it came out. The thinking about this proposal is basically nation-based, state-based, and the objective is to harmonise the deposit insurance guarantee at state level.

I think this is a perfectly sensible proposal, but at the same time the financial markets union is thinking that we need, on the one hand, something in common, and on the other hand something that would not make the people of certain countries think that their money is being taken out to finance a common scheme.

We have national schemes that are fully funded and we have national schemes that are still unfunded. What the Commission proposal tried to achieve was to put some order into this situation. On the one hand you have one development going towards some sort of undefined but more European level, and on the other hand, you have this directive which is quite precise in its objectives.

On top of this you have your question about what is the right size. I think all this will need a lot of reflection: what is the right size, all combined, between national schemes and European schemes? But, as I said, it is premature to put this in the front line of our problems. We have national schemes. It is good that we put them in order, it is good that we keep them, but whatever is European now comes in third place for the financial markets union. First is supervision, second is a resolution fund – if we can fund it by the industry, even better – and the third is the deposit insurance guarantee. But I agree with you. We have to think about the right size of this.

1-054
Chair. – Just as a matter of some numbers: from the UK, I think we had to put up guarantees in excess of EUR 1.5 trillion. The proposals for a deposit guarantee scheme that is 1% of the bank balance sheet would give you EUR 60 billion, so if you reach a catastrophic situation, EUR 60 billion does not go very far in EUR 1.5 trillion and I think this is the thing we have to somehow get our minds around, how we can construct a resolution fund of a size that works. It is not easy.

1-055
Peter Simon (S&D). – Frau Vorsitzende! Genau dahin ging meine Frage. Ich hätte gerne eine Einschätzung von Ihnen. Wir haben einen konkreten Vorschlag, 1,0 % für den Abwicklungsfonds. Ihre Einschätzung zu dieser Höhe wüsste ich gern.

Und ich wüsste ebenfalls gerne: Wir haben einen konkreten Vorschlag hinsichtlich der Einlagensicherung. Und wir haben seit ungefähr acht Monaten einen Block durch den Rat, der die Verhandlungen hier nicht weiter fortführt, weil er eben über diese Höhe – 1,0 % für das nationale Einlagensicherungssystem, wie für den jetzt von Kommissar Barnier vorgelegten Abwicklungsfonds – nicht hinausgehen will. Die konkrete Einschätzung zu diesen konkret vorgelegten Entwürfen würde mich interessieren.

1-056
Mario Draghi, *President of the European Bank.* **–** I think I can say at this stage that we will certainly think and reflect about this and will provide this committee with our thinking on this issue.

1-057
Astrid Lulling (PPE). – Monsieur le Président, votre prédécesseur ou vous-même avez toujours mis en garde contre la création d'une taxe sur les transactions financières, si cela ne se faisait pas au niveau du G20. Nous ne sommes maintenant plus au niveau des 27 ni même au niveau des 17, mais on parle d'une coopération renforcée entre – peut-être – neuf États membres. Est-ce que vous continuez à mettre en garde contre une telle démarche?

M. Juncker, qui a toujours plaidé ici pour une telle taxe, vient de dire maintenant clairement que le Luxembourg ne serait pas partie à cette coopération renforcée à cause de la délocalisation possible. Et vous venez de dire – si je vous ai bien compris – que les recettes de cette taxe pourraient être utilisées pour alimenter les fonds de garantie des banques. Est-ce que ce serait possible si cette taxe n'est perçue qu'au niveau de certains États membres – qui veulent d'ailleurs garder les recettes pour eux-mêmes, pour équilibrer leur budget?

Une deuxième petite question: on parle beaucoup d'euro-obligations comme moyen de résoudre la crise. Cela peut être une piste intéressante, mais ce ne sera jamais non plus un remède miracle. Ce qui est sûr, c'est que les conditions préalables à l'établissement d'euro-obligations ne sont pas assez définies à mon avis, notamment en matière de contrôle de la politique budgétaire des États membres. Est-ce que vous ne pensez pas que l'Union – à travers le Conseil et la Commission – devrait avoir un droit de veto vis-à-vis d'un projet de budget d'un État membre qui ne respecterait pas ses obligations et engagements en matière de déficit et de dette?

1-058
Mario Draghi, *President of the European Central Bank.* **–** On the financial transaction tax, the suggestion is that its revenue should be financed not so much from the deposit insurance guarantee, but from the resolution fund. We will certainly have to think more about this, but the incentives seem to be pretty well aligned. You have a tax and you use the proceeds from this tax to create a resolution fund that would cover only the banks of those countries that have accepted the financial transaction tax.

However, the problems of applicability do not go away. A financial transaction tax has to be designed in such a way that either all countries underwrite it – and that does not seem to be the case – or in such a way that only some countries do so, but in that case they have to be sure that this does not cause a relocation of the industry to some other parts of Europe.

So it is a delicate issue. It is a potential source of income. This income can actually be used to finance a resolution fund, which I think makes a lot of sense for taxpayers who have paid up to now, over the last four or five years, a heavy bill for the banks' failures. That is the sense I can give to this.

On Eurobonds, I have answered this before. I think Eurobonds come at the end of this process.

Finally, on veto rights, this is part of the fiscal compact. We have to put this in place and it is quite clear – and perhaps I did not make this sufficiently clear earlier today – that the sharing of national sovereignty at a supranational level is essential for any progress on the fiscal side, the economic side and the financial markets union side. There is no way out. Progress towards a

fiscal union must be accompanied by a release of national sovereignty.

1-059
Elisa Ferreira (S&D). – Bem-vindo, Senhor Presidente, tem defendido que o Fundo de Resgate para os Bancos deve ser financiado pelos próprios bancos e eu também estou completamente de acordo. Mas a situação que temos neste momento é uma situação em que, quer com a facilidade de liquidez quer com a possibilidade de os bancos utilizarem o ESM, são os contribuintes quem está a intervir para apoiar os bancos. E, por isso, há aqui um desequilíbrio entre salvar a dívida privada e salvar a dívida pública, porque a dívida dos Estados fica com um fundo mais reduzido. O ESM tem outros clientes e outros utilizadores e penso que por causa disto, e porque entretanto fizemos o *Six-Pack,* o *Two-Pack,* o *Fiscal Compact* e todo esse trabalho, provavelmente chegou o momento de ouvirmos o Banco Central sobre como defender a dívida dos Estados, porque ela não pode ser menor relativamente à dívida dos bancos.

A minha segunda questão era sobre os países sob programa. No caso de Portugal, a receita da Tróica foi seguida escrupulosamente, e ela obviamente não funcionou, porque é óbvio que um país com medidas restritivas gera uma deflação interna que, neste momento, leva o desemprego à ordem dos 15%, e as reformas estruturais são difíceis de fazer num período curto, como sabe, e, por outro lado, com condições sociais perfeitamente desarticuladas.

Por isso, no caso destes países, a Tróica tem de admitir que as receitas podem estar erradas ou merecer alguma correção. Pelo menos há que admitir que os prazos sejam alargados. É isso que, neste momento, eu pergunto ao Presidente do Banco Central, que monitorização faz da qualidade das suas próprias receitas, uma vez que é um dos elementos presentes na Tróica?

1-060
Gay Mitchell (PPE). – I am delighted to hear what President Draghi said about the EFSF and the ESM treatment. I am sure it will not be long before it is applied to the GDP debt ratio in Ireland so that we are comparing apples with apples.

But I want to ask a question about the abuse of unaccountable powers, in two parts if I may. After every profound annoucement made by a European institution, whether it is the European Council, the European Central Bank, the Commission or Parliament, we seem to have to come to the stage where we await their eventual dismissal by what have become known as 'the markets'. Are European institutions simply too weak to counterbalance, let alone influence, the puppet-masters of financial power that globalisation has spawned? Are we being manipulated by unacceptable powers? Is it time to strike back and to cause public inquiry into just who it is who holds the fate of nations in their hands? I would like to suggest, perhaps in parallel with the ongoing actions, that it is time to appoint maybe a retired judge of the European Court to inquire into these matters. We need transparency and openness. I do not want the market that is tied up. I want the market that is really a free market.

The second part of my question is as follows. If you cannot tell the banks what to do with liquidity funds – and I accept the difficulties as you set them out, Mr President – for how much longer will the European Central Bank tolerate shady, powerful financial powers who refuse to pass on to mortgage holders and others the benefits of European interest rate cuts? Will the ECB seek to make these financial institutions behave more ethically?

1-061
Mario Draghi, *President of the European Central Bank***. –** I come to your second question. We can discuss the first question separately because I am not sure I grasped some of the elements.

I think Portugal has done very well. The Portuguese programme is fully on track, as has been certified by the troika recently. It is quite clear – and I agree with you – that there are social tensions, that there is a very difficult economic situation in Portugal and in other countries. But as we have discussed on other occasions, what is the alternative? If we were to go back and loosen the programme, how do you think – I am sorry to have to use this word – the 'markets' would take this, as it would be considered a reversal? My sense is that we should persevere.

Ireland actually shows that it does pay to persevere because Ireland was able to return to the markets last week and the spreads in Ireland are actually much lower today than (certainly) in one country and (perhaps) in two other countries which, until about a month ago, had much lower spreads.

In the end we will see some benefit. It is clear that the situation is very difficult but fiscal consolidation is unavoidable and the structural reforms especially are unavoidable to restore competition. In fact the current account deficit is going down. Progress is evident, that is why I am very hesitant and reluctant to say: 'No, we should slow down, we should go back, we should reconsider', because we are now starting to see the first signs of progress in many of these countries, and especially in Ireland and Portugal.

I now come to the unacceptable powers of markets. Certainly markets have their share of opaque actors, but the point of fact is that what we have seen in the last year-and-a-half is that lots of investors, especially from the rest of the world, were seeing their trust in the euro weakened by various actions by these same actors in the euro area. They saw their trust being weakened by actions taken at euro-area level, taken at national level, and so on. The sense is that, as this is being corrected at euro-area level, at national level, the rest of the world will come back and invest in the euro area again. There is one good sign in such a sober picture that I should point out; recently, what is called the 'overall market sentiment', which is a catch-all word really for

describing the situation of several key spreads, has improved. We have not seen any outflow from the euro area in the last month. We have seen flows within the euro area but we have not seen what we used to see up until a few months ago, namely outflows out of the euro area. I think we should keep this in mind.

Your last question is about pass-through and in a sense it is related to the question I was asked before about the LTRO effects in the real economy. Fortunately we see that in some countries this pass-through actually happens while in other countries it does not, so it is a combination of different factors.

By the way, one thing I have forgotten to mention is that we are now at the juncture when credit is led by demand and we are now putting in place all the conditions whereby there will be a time in which demand will take into account the very low level of interest rates – nominal – and the negative level of real interest rates, and this will be incorporated into business decisions and household decisions, so we should not be too pessimistic. We still foresee a mild recovery of the euro area by year-end.

1-062
Gay Mitchell (PPE). – Within some countries some banks are passing on the interest rate cuts, but other banks are not doing this and yet these people all continue to get liquidity funds. There are small enterprises and mortgage holders struggling. We should be using every pressure we can to stop them putting their hands in the pocket of people who cannot carry the burden.

1-063
Mario Draghi, *President of the European Central Bank***. –** I completely agree. As I have said before we have made a first step in expanding the collateral eligibility, but we should not forget another thing. There are countries where national contractual arrangements will make it very difficult for lower interest rates to be passed on.

Let me give a specific example. In many countries mortgage rates are indexed to the variable rate, so the interest paid by the client to the bank is now at historic lows. On top of this there is a certain amount of commission and fees that the banks apply to the client. In many countries the size of these fees and commissions is being made subject to regulation, or even legislation, so the overall amount is way less than what banks can actually get from a government bond of their own country.

The result of this is that mortgages have dropped dramatically in some countries and have basically stayed where they were in other countries. So we have to consider these various arrangements but, having said that, I completely agree with you and we should do everything we can to make sure that the money being borrowed from the ECB actually reaches the real economy, SMEs and households.

1-064
Chair. – One interesting point is that in Ireland the supervisors require the banks to say what they are doing with the LTRO money which would be very interesting if it were to apply throughout Europe. Parliament is of course trying to do things like this in the capital requirements directive and regulation but we are receiving resistance from the Commission and the Council.

I do know, I have been told by banks that access the LTRO through Ireland, that they have changed their use of the money because of that requirement and so I think that is a very intesting thing for us to reflect upon.

1-065
Mario Draghi, *President of the European Central Bank***. –** Madam Chair, I would like to thank you, and indeed all of you, for this exchange which once again has been not only challenging but also stimulating with regard to my own thinking, and that of my staff and the ECB staff, on many of the issues you have raised. I will never forget that certain key words such as 'fiscal compact', 'growth compact' and 'long-term vision' have actually come out of these exchanges we have had here, so let me thank you deeply and wholeheartedly.

(Applause)

1-066
Chair. – Thank you, President Draghi.

(Applause)

(The meeting closed at 16.50)