1-001-0000

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) TFEU)
BRUSSELS, MONDAY, 9 JULY 2018

1-002-0000

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

(The meeting opened at 15.05)

1-003-0000

Chair. – Welcome. I would like to adopt the agenda. Before welcoming President Draghi, I would like to make two short announcements on ongoing interinstitutional negotiations. On 5 July we opened the CRR2/CRD5 proposal trilogues, defining with the Council a working method and the distinction between various categories of item: political, purely technical and political/technical. So, on this basis, we have given a mandate to technical level to prepare the next trilogue, scheduled for 4 September 2018.

We also had the first EMIR refit trilogue on 4 July, which was very positive and allowed us to discuss the clearing obligation for pension-scheme arrangements, with substantial progress on the clearing regime for financial counterparties and non-financials, and to have a preliminary exchange of views on the suspension of clearing obligations. Negotiation on this issue is also to be continued.

I would now like warmly to welcome ECB President Mario Draghi for the second monetary dialogue of the year and, of course, the one following the very relevant ECB Governing Council decisions of 14 June. As you know, the ECB interest rate remains unchanged and is set at the present level at least through to the summer of 2019; and net purchases under the Asset Purchase Programme (APP), which were scheduled to run at a monthly base of EUR 30 billion until September, will be prolonged on a monthly base of EUR 15 billion until December 2018.

I would like to welcome the decision of the Governing Council to maintain a substantial degree of monetary accommodation. As you know, while the APP will be phased out, monetary stimulus will remain significant both through the reinvestment of principal payments for an extended period of time and through the forward guidance on interest rates.

I would also like to welcome the very effective way in which this important decision was prepared and has been communicated to the markets, which I think have fully understood and have reacted well to it. It is very important to say now, as you said at the press conference, President Draghi, that we have also set a deadline for this APP and we can say now that we have a broader toolkit of instruments for our monetary policy which put the ECB fully in line with the other central banks in the world. This is a positive element – a sign of the strength and resilience of our monetary union.

As President Draghi knows, the committee coordinators have also selected two additional topics, namely the challenges for monetary policy from virtual currencies, and the collateral constraints and potential risks for monetary policy determined by ECB non-standard measures. As usual, we have done some preparatory work, with a contribution from our panel of experts. I shall not recall the main findings of our studies. So I would like now to give the floor to you, President Draghi.

1-004-0000

Mario Draghi, *President of the European Central Bank***.** – Chair, it is a pleasure to be back at the European Parliament before your committee. Since we last met, the ECB's Governing Council, as the Chair reminded us a moment ago, has taken important decisions on the recalibration of our monetary policy stance after September this year. In my remarks today, I will outline these decisions and explain the assessment of the current economic environment on which they were based. Following the recent euro area summit, I will also take this opportunity to discuss the future of our Economic and Monetary Union (EMU), pointing to priorities for the near term from an ECB perspective.

The euro area economy grew by 0.4% during the first quarter of 2018, marking five years of continued economic expansion. Underlying economic fundamentals remain solid, notwithstanding some moderation in growth at the beginning of the year.

The labour market has improved notably over recent years. Employment has risen by 8.4 million since mid-2013, and is growing in nearly all euro area countries. The unemployment rate stood at 8.4% in May, its lowest level since December 2008, and workforce participation now stands at an all-time high.

Looking ahead, the latest Eurosystem staff macroeconomic projections are for average annual growth of 2.1% in 2018, 1.9% in 2019 and 1.7% in 2020. While uncertainties related to global factors, including the threat of increased protectionism, have become more prominent, the risks surrounding the euro area growth outlook remain broadly balanced. Of course, we continue to monitor developments closely.

According to the Eurostat flash estimate, headline inflation increased to 2.0% in June from 1.9% in May, reflecting higher rates of energy and food inflation. Excluding these more volatile items, inflation decreased from 1.1% in May to 1.0% in June. As the economy continues to grow, and slack is absorbed, supporting rising wages, underlying inflation is expected to pick up. Recent wage agreements in several countries point to a continuation of these favourable dynamics.

I will discuss the inflation outlook in more detail as I explain the monetary policy decisions taken by the Governing Council in June.

At our last monetary policy meeting, the Governing Council undertook a careful review of the progress made so far towards a sustained adjustment in inflation. Specifically, we assessed inflation developments against the three conditioning criteria for net asset purchases: convergence, confidence and resilience.

As regards convergence, the June 2018 Eurosystem staff projections see headline inflation reaching 1.7% in each of the next three years. These are the latest in a series of projections for inflation converging towards our inflation aim of below, but close to, 2% over the medium term. Our confidence in the inflation path is also rising. First, the range of uncertainty around the inflation projections has narrowed. Second, underlying inflation has increased from the very low levels that prevailed in 2016 and is projected to rise as the economy continues to expand, capacity utilisation strengthens and labour markets further tighten.

Finally, on the third criterion, the projected path of inflation appears to be self-sustained, that is to say, resilient to a gradual ending of the net asset purchases.

On the basis of this assessment, the Governing Council concluded that progress towards a sustained adjustment has been substantial so far and should continue in the period ahead, although some uncertainties persist. We therefore anticipate that after September we will

reduce our monthly net asset purchases from EUR 30 billion to EUR 15 billion and will end our net asset purchases at the end of December. This is of course subject to incoming data confirming our medium-term inflation outlook.

The expected end of the net asset purchases in December 2018 does not mean that our monetary policy is ceasing to be expansionary. Monetary policy will have to continue to accompany the economic expansion for some time. We have therefore reaffirmed our reinvestment policy and enhanced our forward guidance on key interest rates.

More specifically, we intend to maintain our policy of reinvesting the principal payments from maturing securities purchased under the asset purchase programme (APP) for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. And we expect key ECB interest rates to remain at their present levels at least through the summer of 2019 and, in any case, for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path.

Let me now turn to the governance of Economic and Monetary Union. In times of heightened global uncertainty, it is more important than ever that Europe stands together. The efforts we have made in recent years to strengthen EMU governance have already made EMU more resilient to shocks. However, our monetary union is still incomplete and remains vulnerable. To support confidence and continue the economic expansion, we need further convergence and integration among euro area Member States.

It is almost exactly six years since European leaders decided to launch the banking union. This was a major step forward and it has significantly contributed to risk reduction and thus a more stable European banking sector. But banking union is not yet complete. We welcome the committee's adoption of the report on the banking package and call for a swift trilogue process.

The agreement on the European Stability Mechanism (ESM) as the backstop for the Single Resolution Fund is equally important. It will provide an additional layer of safety for banks in resolution, ensuring that they can be resolved effectively and without endangering financial stability. All this, in turn, will enhance confidence in the banking sector as a whole and make it more stable. The backstop should be made operational as soon as possible and be given swift and efficient decision-making procedures.

In the period ahead, including the deliberations on a European deposit insurance scheme (EDIS), we should not be held back by the distinction between risk reduction and risk sharing, for two reasons in particular. First, substantial risk reduction has already taken place. Common Equity Tier 1 ratios of significant banks – a key indicator of bank health – are now 67% higher than they were 10 years ago. Further risk reduction is under way with the reduction of non-performing loans and toxic assets in the portfolios of some large banks.

Second, risk-sharing greatly helps risk reduction. Consider the United States Federal Deposit Insurance Corporation. It successfully resolved 500 banks without causing financial instability during the crisis, in part because it was backstopped by the US Government. The corresponding number for the euro area was 10 times lower, which is another reason why the euro area banking sector still faces structural challenges. In other words, if risk-sharing were to lead to orderly management of the financial stability consequences derived from risk reduction, risk reduction itself would proceed at a much faster pace. Moreover, a European deposit insurance scheme would avoid the risk of destabilising self-fulfilling prophecies in the form of bank runs. It would also reduce the risk of financial fragmentation and thus support

the effectiveness of monetary policy throughout the monetary union, contributing to economic stability. With the right policy framework, risk-sharing and risk reduction are thus mutually reinforcing.

A more resilient monetary union would also benefit from a bolstered crisis-management framework. The commitment to strengthen the ESM made at the recent Euro Summit is therefore very welcome. This should include an increase in its effectiveness and agility in terms of both governance and instruments, while fully respecting the mandates of the Commission and the ECB.

To absorb shocks and reduce the risk of full-blown crises, the euro area would also benefit from a common stabilisation function. Such an instrument could provide macroeconomic support in the event of euro-area-wide recessions, thereby preserving convergence, supporting stabilising national policies and allowing monetary policy to operate effectively. At the same time, this instrument should not undermine incentives for Member States to pursue sound fiscal and economic policies. We therefore very much welcome the renewed impulse to this discussion.

An ambitious agenda for the capital markets union (CMU) can further underpin and facilitate the priorities I have outlined. First, capital markets union would increase private-sector risk-sharing, and thus help to cushion local shocks, reducing the need to use public stabilisation funds. Second, a consistent framework is essential for deep and resilient financial integration. For instance, harmonising and improving insolvency frameworks should make it easier for banks to deal with non-performing assets, something which would be beneficial to banks' health. A genuine capital markets union would also support deeper, integrated and more stable capital markets, improving access to funding for all.
Let me emphasise that none of the measures I have mentioned are possible without trust between Member States, and that requires national governments to play their part in increasing the resilience of their economies and modernising their structures.

Let me conclude. Our monetary policy measures have been very effective. We estimate that the measures we have taken since mid-2014 will have an overall cumulative impact of around 1.9 percentage points on both euro area real GDP growth and inflation for the period between 2016 and 2020.

Our measures are playing a decisive role in bringing inflation back on track to reach a level that is below, but close to, 2% over the medium term. However, we need to be patient, persistent and prudent in our policy in order to ensure that inflation remains on a sustained adjustment path.

As I have said before, downside risks to the outlook relate mainly to the threat of increased protectionism. A strong and united European Union can help reap the benefits of economic openness while protecting its citizens against unchecked globalisation. In leading by example, the EU can lend support to multilateralism and global trade, which have been cornerstones of growing economic prosperity over the past seven decades. But to be successful on the outside, the European Union requires strong institutions and sound economic governance at home.

1-005-0000
Chair. – President Draghi, thank you for welcoming the adoption by our committee of the banking package. We all hope, too, that the European Council will be fully aware that the ordinary legislative procedure is based on two legs – the Council's general approach and Parliament's acts – which are on an equal footing. We will remind them this week when we open the trilogue on BRRD led by the rapporteur, Mr Hökmark, who is also our first speaker.

1-006-0000

Gunnar Hökmark (PPE). – Chair, I would like to thank President Draghi for his presentation. I can only agree very much with what you have been saying, Mr Draghi, about the need for a strong Union, a strong banking union and capital markets, but I have one particular and one more general question.

The first one is about the development of non-performing loans in the perspective of the increased stability that you talked about. Do you see the development of non-performing loans following the lines that it should have followed? Or, if not, what would you say is the main reason for that?

The more general issue is about how you view inflation and the unique, expansionist monetary policy that we have seen for quite a long time. It was launched in the deep crisis – in 2008-2009 – and it was further strengthened in the first years of recovery. It has been there during the recovery and then as the economy has been going better and better. Now, as you say, we are reaching a number of all-time highs, and we still have the same – unique or, some might say, extreme – monetary policy. My question is: is it relevant to go for the inflation criteria in the way we are doing now?

Don't you see that the risks of pursuing this unique monetary policy for such a long time, in bad weather as well as good weather, are becoming stronger and stronger?

What are we to do, and what are you to do, when things may not be going the right way? And there are a lot of reasons to fear that: I mean, as you mentioned, there is not only the protectionism that we see but also a number of political uncertainties in the Union and a number of other risks. How do you see the consequences of this unique expansionist monetary policy that the ECB is maintaining, and what do you think we can do when things are not developing as well as they are today and when the fears are being realised?

1-007-0000

Mario Draghi, *President of the European Central Bank***.** – On the first question, the answer is yes: we see developments on non-performing loans (NPLs) going in the right direction. The situation has definitely improved, but the work is certainly not finished yet. There are a variety of underlying factors behind the growth of NPLs, one of which – the most important one – was the great recession itself. As the economic recovery continues, NPLs are going to be washed out in many countries, not necessarily in all of them. But in many countries where the outgrowth was aggravated by the great recession, the NPLs are bound to decrease substantially.

There are a variety of reasons for this. First of all, the banks' clients start paying back and market valuations of existing stocks improve so it is easier to sell them.

The second reason is supervision. There has been a substantial improvement and strengthening of supervision as far as non-performing exposures – as I would call them – and not only loans are concerned. The harmonisation process has also allowed an upgrade of standard practices to more demanding standards so the formation of new NPLs will become less and the growth of NPLs will become more difficult than in the past.

The third issue is the legislative framework that allows banks to dispose of their NPLs. This is a variety of rules, regulations and legislation that should be adopted, changed or adjusted. This very much depends on each country's specific situation, but, for example, to tell you how important this is, there is one case where the situation has improved enormously improved with respect to the past, and NPLs still remain at an outstandingly high level. The reason is that, evidently, legislation actually incentivises the maintaining of NPLs rather than selling them off. So we need all three components to see a decline in NPLs, but actually

everything we have seen so far, in the past two years, has been very encouraging in this direction.

The second question is about the risks of our monetary policy. Let me preface this by saying that our monetary policy is not unique by any standard. The same monetary policy was being pursued in the USA – as a matter of fact, for longer than we had it – and also in England, and in Japan, even more so than we did. But having said that, we are constantly monitoring the potential risks to financial stability that a prolonged period of very low interest rates and ample liquidity could generate and entail. We are certainly watching that very carefully, and so far we have not seen systemic risks on that front. By the way, in the areas where we see some risk, the response would be not so much to change monetary policy but rather to adopt the proper macroprudential tools.

1-008-0000

Pervenche Berès (S&D). – Merci Monsieur le Président, je voudrais poser une question sur la gouvernance de la Banque centrale et des banques centrales nationales puisque vous avez saisi, au mois d'avril, la Cour de justice sur le cas du gouverneur de Lettonie, M. Rimsevics, suspendu de ses fonctions par le gouvernement au motif de corruption.

La première partie de ma question, c'est, d'abord, que saviez-vous, non seulement des activités des clients hors zone euro qui pouvaient utiliser cette banque centrale ou des risques de blanchiment d'argent tels qu'ils ont été identifiés par le Congrès américain, mais surtout du comportement et des agissements du gouverneur et des risques de dérive?

Nous comprenons que vous vous êtes renseigné auprès de la Cour concernant la procédure en Lettonie mais une question se pose tout de même: comment, dans le cas d'une suspicion ou d'une inquiétude quant à la probité d'un gouverneur de banque centrale d'un des États membres de la zone, pensez-vous que l'on doive intervenir pour faire cesser ses fonctions dans le respect des statuts de la Banque centrale et de l'indépendance des banques centrales nationales?

1-009-0000

Mario Draghi, *President of the European Central Bank* **-** First of all the ECB is unaware of what the elements of the inquiry are in the behaviour of Governor Rimšēvičs**.**

Let me first make a comment that one issue is to protect the personal independence of members of the Governing Council. So following this first requirement, we complied with Article 14.2 of the Statute, that provides the governors of national central banks with some protection, namely that they can be relieved from office if he or she no longer fulfils the conditions required for the performance of his duties or her duties, or if they have been guilty of serious misconduct. So, this provision also enables the Governing Council to refer to the Court of Justice a decision relieving a governor of a national central bank from office.

On this basis, the Governing Council decided on 7 March 2018 to refer the individual security measures imposed on Mr Rimšēvičs**,** including the prohibition from holding the position as governor, to the Court of Justice, arguing that they constituted removal from office and that the substantive requirement of Article 14.2 of the Statute could now be satisfied.

So this decision to refer the case to the European Court of Justice is not meant to interfere with the criminal investigation in Latvia, and this has been made explicit in two letters that I sent to the prime minister and the minister of finance. This is where we stand.

The first thing then is to see the national investigation is continuing. Since then, since we made this reference to the European Court of Justice, there has been an indictment, if I'm not mistaken, and the situation is in evolution in the country itself.

But more generally, the case has highlighted that action needs to be taken on anti-money laundering at large. I made this point in the previous hearing: much more cooperation needs to be in place between supervisory authorities, both national and the Single Supervisory Mechanism (SSM), and the anti-money laundering authorities – which at present are only national – and across anti-money laundering authorities, and that is very important, and that's the only action on that front. It's really the only thing that can prevent cases of this nature happening again.

1-010-0000
Pervenche Berès (S&D). – Monsieur le Président, êtes-vous en train de dire que vous n'aviez aucune information du risque de corruption du gouverneur letton avant l'intervention des États-Unis?

Je reviens sur la deuxième partie de ma question à laquelle vous n'avez pas répondu: que pensez-vous qu'une banque centrale puisse ou doive faire lorsqu'un gouverneur de banque centrale est soupçonné de corruption?

1-011-0000
Mario Draghi, *President of the European Central Bank***.** – In general the ECB attaches great importance to the good conduct of members of the Governing Council and, generally speaking, the decision-making bodies. This is essential for safeguarding the public's trust and to be irreproachable in public office. We are very concerned at what's happening, and that's why we decided to refer to the ECJ to see what interim measures should be taken to comply with this situation.

This is what we know. We based our action on what we knew, nothing more nothing less.

1-012-0000
Pervenche Berès (S&D). – Monsieur le Président, vous ne saviez rien donc avant qu'il soit suspendu?

(Le Président retire la parole à l'oratrice)

1-013-0000
Chair. – Sorry, Ms Berès, but the time is up.

1-014-0000
Bernd Lucke (ECR). – Herr Draghi, Sie haben auf Ihrer Pressekonferenz am 14. Juni in Riga das langsame Auslaufen des APP angekündigt, so wie Sie das hier auch getan haben, und haben dann gesagt, dass das APP ein normales Instrument der Geldpolitik der Europäischen Zentralbank bleiben soll und wird. Bedeutet das, dass Sie sich vorbehalten, zu jedem beliebigen Zeitpunkt, wo Sie bestimmte *contingencies* erfüllt sehen – so haben Sie es ausdrückt –, auch die Nettokäufe an Wertpapieren wieder aufzunehmen? Das ist meine erste Frage.

Meine zweite Frage ist, was das richtige Kriterium für eine solche Wiederaufnahme sein könnte. Die Inflationsrate ist ja von Herrn Hökmark bereits hinterfragt worden. Ich möchte es noch einmal präzisieren: Der harmonisierte Verbraucherpreisindex im Euro-Währungsgebiet wird berechnet, ohne die Kosten für selbst genutztes Wohneigentum zu berücksichtigen. Es gibt quantitative Abschätzungen darüber, dass diese Vernachlässigung der Kosten von selbst genutztem Wohneigentum die wahrgenommene Inflationsrate im Euro-Währungsgebiet niedriger ansetzt, als sie tatsächlich ist. Und in der Tat haben viele Staaten, auch die USA, den Verbraucherpreisindex anders definiert, nämlich unter Berücksichtigung der Kosten von selbst genutztem Wohneigentum. Wie sicher sind Sie, dass Sie hier nicht möglicherweise einer Verzerrung in der Wahrnehmung der Inflationsrate unterliegen und damit möglicherweise im Rahmen des APP Politikmaßnahmen einsetzen, die eigentlich gar nicht notwendig sind?

Die dritte Frage: Der Realzins im Euro-Währungsgebiet ist durch die Intervention der Europäischen Zentralbank auf einem sehr niedrigen Niveau angekommen, er ist möglicherweise phasenweise negativ. Der Realzins ist aber ein wichtiges Steuerungsinstrument für Investitionen, und insbesondere gewährleistet er normalerweise, wenn er positive normale Werte annimmt, dass keine unproduktiven Investitionen getätigt werden. Sehen Sie nicht die Gefahr, dass die Tatsache eines sehr niedrigen oder negativen Realzinses dazu führt, dass in einem beträchtlichen Ausmaß auch unproduktive Investitionen im Euro-Währungsgebiet getätigt werden?

1-015-0000
Mario Draghi, *President of the European Central Bank***.** - Thank you. First of all, let me reaffirm that we believe that our monetary policy has been very effective, including the asset purchase programme (APP).

Second, the answer to your question is yes, the APP has become a tool of monetary policy, it is part of our toolbox, and whenever contingencies arise that deserve the use of that instrument we will go ahead and use it. At the present time, however, we don't see these contingencies as requiring a lengthening of the asset purchase programme beyond what was announced in the press conference.

Third, it is true we don't question the consumer price indices that are calculated by our statistical offices in the eurozone. We have to have a harmonised consumer price index, and this does not, as you correctly pointed out, include residential investment. We have been having discussions since the very beginning of the ECB's existence on this point. In the first place, the problem is timeliness, there are objective difficulties in having an indicator which includes this element. Simulations have been carried out, and do not show a big difference, or at least a difference such as not to justify the use of the monetary policy instruments that we've used so far.

On the danger that low interest rates could generate zombie firms – unproductive firms – we have, of course, been looking at this now for a few years because it is clearly a possibility, but frankly we haven't seen much of it. I mean, how could we have had such growth in the eurozone as we have had in the past two years, even 2017, if that growth were generated by a massive number of unproductive firms?

On the second consideration – are we observing any increase in leverage? –no, quite the opposite. Non-financial corporations' leverage is actually going down, and that is because they are using our low interest rates to pay back debt, which is not what a zombie firm would do.

Thirdly, are we observing what the banks call 'evergreening', namely refinancing debtors that cannot pay? No, we are not saying that. As a matter of fact, NPLs are going down.

1-016-0000
Nils Torvalds (ALDE). – I have two questions for you. I guess that you know the writings of Hans-Werner Sinn very well, especially since one of his books contains the title 'The next crash will be the Draghi crash'. He has constantly been critical of the target balances and, when you look at the Italian target – that is his obsession, yes, that's right – it is EUR 500 billion. How much of a crisis is that and do the target balances show some indication of problems in the system?

Regarding the second question, I'm going to be the rapporteur for the next annual report on the ECB. There is a Finnish saying, which when you translate it into English, says that 'the goat is the gardener'. On the one hand, you are controlling and supervising the banks, but on

the other hand you are, in a way, the goat in the garden. Do you find this problematic or should I, in the report, ask for a division of labour?

1-017-0000
Mario Draghi, *President of the European Central Bank***.** - In answer to the second question, you should do what you feel like doing. It is not up to me to suggest what you should do. I can tell you that the examples of institutions where you have both monetary policy and supervision together are many and numerous and important: the Federal Reserve Bank of the United States of America to begin with, but in also other countries, the Bank of England and so on and so forth. It is not at all unprecedented, as a matter of fact.

Second, frankly, we haven't seen any conflict of interest and it is very hard to picture them even in abstract terms. If you have a monetary policy which pursues its mandate of price stability, and you have a supervision which pursues its mandate of financial stability and whatever is connected to that, in full independence of each other, there is no conflict of interest. Neither is trying to influence one another. We are not lowering interest rates or, as someone suggested, raising interest rates because we think this would fix financial stability risks, because we have not seen financial stability risks that should be addressed through higher interest rates. We only see localised risks.

As far as the first question is concerned, we have discussed this on a variety of occasions: the target two liabilities. Let me first give you a general answer. The target two liabilities have been going up since the beginning of our net asset purchase programme, and the reason is that central many banks of non-core countries are purchasing securities from institutions that do not reside in the country as such. I think about 50% of the institutions are non-euro area institutions, and 80% of the sellers of these securities reside outside the countries where these securities are being purchased.

So this means that basically what matters for the target two balances is where these flows are being settled and accounted for, and the settling account is in the core countries' financial institutions, and that is why we see this. It is non-controversial that target two balances are going up significantly after the beginning of the net asset purchases and they will go down significantly when the asset purchases programme comes to an end.

But then there is another more specific answer to what we have seen in Italy. The number we have seen in Italy is large, significantly large, but not inconsistent with historical experience and not at all unprecedented, so we will have to look into this.

1-018-0000
Ernest Urtasun (Verts/ALE). – Thank you, Chair. A recently published letter, signed by over 50 international NGOs, calls on the ECB to lead by example when it comes to increasing financial transparency about the risks and implications of climate change. The letter underlines in particular the importance of transparency and disclosure in relation to climate change, and welcomes the role of the Financial Stability Board which puts climate change firmly on the agenda, establishing the task force on climate-related financial disclosures.

President Draghi, given that the ECB currently holds over EUR 440 billion worth of private-sector assets through its various asset purchase programmes, what are your views on the possibility that the ECB could, as a public institution, lead by example and apply voluntarily the recommendations of the task force on climate-related financial disclosures? Do you stand ready to recommend such a way forward to the ECB Governing Council?

And my second question. In a recent speech you made in Florence, Mr Draghi, you called for the effective counter-cyclical support of aggregate demand. I would like you to outline this

further: what would be the main features of such an instrument and what features and size should this have to make it macroeconomically meaningful?

1-019-0000
Mario Draghi, *President of the European Central Bank***.** – I will start with the second question. The presence of some fiscal capacity with some stabilisation function is considered essential to complete monetary union and to make it more resilient and less vulnerable. But, in the very speech you mentioned, I also said that the more you have private risk-sharing, the less you need public funds to finance the stabilisation function.

To give you an example, in the United States, which is by and large a well-functioning monetary area, 75% of risks are shared by the private financial markets and 25% are shared through the working of the federal budget, namely states or parts of the Union that see a recession would automatically pay less taxes. There are other automatic stabilisers, and especially the unemployment insurance system.

In Europe, the same figure is 40% privately shared through financial markets, with the rest shared through the operation of government budgets. So, in a sense, the more complete our capital market union and our banking union, the smaller the size of the fiscal capacity that we need to stabilise the economy through the use of public funds. I believe that this is quite an important point to remember in our discussions and it's part of the general point I just made that risk reduction and risk-sharing come together: one complements the other, rather than – as we have discussed for a long time – being opposite to each other.

On the first question, I should say that the ECB certainly supports the general economic policies and the aims of the Union. It supports the conclusion of the Paris climate agreement, and we certainly also support – directly and indirectly – the ongoing work in various international fora, and we joined the network for greening the financial system, which brings together central banks and supervisors committed to developing common supervisory macroprudential practices to address climate-related and environmental risks.

The eligibility criteria of our corporate sector purchase programme have been deliberately defined in a broad way so that we don't discriminate against green bonds. Having said that, the eligibility criteria are primarily guided by monetary policy considerations and the fact that we had to comply with our mandate, which is price stability. But our monetary policy certainly includes green bonds: we've bought a lot of green bonds and we are buying a lot of European Investment Bank bonds. The EIB is one of the world's largest issuers of green bonds. So the bottom line is that we are trying to do our best within the limits that guide our monetary policy.

1-020-0000
Marisa Matias (GUE/NGL). – Senhor Presidente, Senhor Draghi, eu também quero colocar-lhe algumas questões mais gerais, aliás, na sequência de alguns temas que foram aqui trazidos pelo colega Hökmark.

Em 2011, quando a economia europeia ensaiava uma tímida recuperação económica, o que nós assistimos foi a um aumento das taxas de juro, aliás promovido pelo seu antecessor.

Durante vários anos o BCE tem apoiado políticas de compressão de salários e, recentemente, o Sr. Draghi chegou ao ponto de pedir aos sindicatos para que eles sejam mais exigentes no sentido de ver se a inflação pode descolar ou não, porque não tem descolado.

É verdade - e isso é mesmo a verdade - é que a política expansionista do BCE e com tudo aquilo que tem sido feito, a inflação mantém-se no 1%, muito abaixo do objetivo do BCE e, portanto, eu queria colocar-lhe aqui quatro questões muito rápidas e muito diretas.

A primeira é se acha mesmo sensato recuar nas únicas políticas que estão a produzir algum tipo de resultado na União Europeia, ainda que insuficientes?

A segunda é se está arrependido de ter andado a advogar a compressão salarial e a desregulação do mercado de trabalho?

A terceira é se o preocupa a viragem na política orçamental no sentido do desinvestimento na política de coesão e no impasse total na discussão sobre o orçamento europeu a sério, e a última, é se vai aumentar as taxas de juro, se vai parar o "quantitavite easing", se vai fazer isto, mesmo que a inflação se mantenha bem abaixo dos 2% a que está subjacente obviamente ao que acabei de referir.

Se não considera que esta decisão é uma flagrante violação do próprio mandato do BCE.

1-021-0000

Mario Draghi, *President of the European Central Bank***.** – I'll start from the last point. First of all, I don't think I ever asked trade unions to ask for more wages. I think this is the complete responsibility of social partners, it is certainly not up central bankers to tell the social partners what they should do or not.

We are, as I said in my introductory statement, we are confident that inflation is converging. And it is converging, given a variety of projections, figures, statistical analysis, confidence intervals and it is converging in a way that it is self-sustained, in other words it doesn't need the continuation or the asset purchase programme beyond the limits that have been announced in the press conference, for inflation to continue converging. We believe that our policy has been very effective to this extent.

At the same time, the forward guidance that was given by the last Governing Council decision explicitly said that interest rates will stay at the present level past the end of the net asset purchases, well through the end of the summer into 2019 and beyond if needed. And, in any event, the Governing Council is ready to adjust all its instruments depending on the incoming data. So there isn't any intention here to raise interest rates or anything like that, nobody said anything about doing so.

On the point about fiscal policy. It is quite clear now that countries which have a high debt ought to have a sustainable fiscal policy. And now that growth has picked up, countries which have a high debt especially should rebuild fiscal buffers for the time when growth will go down. This is the experience of the crisis, the crisis gave many lessons, one of which was exactly this. The countries that had plenty of fiscal buffers had a good, solid, robust budgetary condition and were in a position when the crisis struck, for example, to spend a lot of public money bailing out their banks. Other countries which didn't have such a strong budget position and had banking problems down the road could not do the same because markets believed that their fiscal position was not sustainable.

So the crisis is telling us many things, but one thing it is also telling us is that in view of the future when times are good, it is good to rebuild fiscal buffers and use the very low interest rates as an opportunity to recover. As someone said 'it's when the sun is shining that we fix the roof'. That was the view on fiscal policy.

Now about wages. Why are we confident that inflation is converging towards our objective and why are the projections saying this? Because with inflation expectations that are solidly anchored to our objective and the economy that continues with its strength, we see the labour market becoming gradually tighter and tighter. In other words, unemployment keeps on going down, and with that we see the nominal wages are gradually picking up.

The latest number for a nominal compensation per employee in the eurozone is – if I'm not mistaken – 2%, up from 1.6% previously. So we are seeing signs of this and we are confident that, thanks to our monetary policy, the inflation rate will converge towards our objectives.

1-022-0000
Marco Valli (EFDD). – Signor Presidente, onorevoli colleghi, ringrazio il presidente Draghi. Collegandomi all'ultima risposta, che ha dato alla collega Matias, sui dati dell'inflazione, ho in mano i dati dell'inflazione *core*, che ovviamente non sono quelli che prendete in considerazione per la politica monetaria, perché si prende in considerazione il dato *headline*.

Però, guardando l'inflazione *core*, ovvero escludendo i prezzi del carburante, che negli ultimi mesi sono saliti di una percentuale notevole, e i prezzi dei beni di prima necessità –cibo, alcol e tabacco –, i dati sono di media attorno allo 0,9-1 %. Quindi questo mi porta a pensare che se, in un futuro anche prossimo non troppo lontano, il prezzo del carburante e di questi beni dovesse calare, inevitabilmente anche il dato dell'inflazione, e quindi l'obiettivo della stabilità dei prezzi della BCE, sarebbe lontano dal famoso 2 %. Quindi non è stato molto chiaro. Se il dato dell'inflazione *headline* dovesse andare in questa direzione, volevo chiederle se la BCE comunque ha la possibilità di rivedere la sua politica e anche ritornare a una fase espansiva.

Poi vorrei fare un'altra domanda, visto che abbiamo parlato anche di riduzione dell'NPL. Sono d'accordo che questa va fatta, ovviamente con una certa velocità ma allo stesso tempo con una certa sensibilità per evitare speculazioni sull'argomento, ma quello che le voglio chiedere è: in un'ottica di riduzione dei rischi, secondo lei è necessario anche puntare giustamente un pochino di più l'attenzione sui titoli illiquidi che detengono principalmente le banche d'affari del nord Europa?

Abbiamo un recente studio della commissione ECON che evidenzia concentrazioni rilevanti soprattutto in banche d'affari francesi e tedesche e, secondo me, in un momento di mercato sereno come quello attuale questi titoli illiquidi prezzano un prezzo abbastanza buono, però, in caso di crisi sul mercato, questi potrebbero andare a perdere valore. Quindi è bene che nei prossimi *stress test* ci sarà un indicatore, però è fondamentale, secondo me, almeno avere la stessa attenzione che si ha per gli NPL anche per questi titoli di secondo e terzo livello. Volevo chiedere un suo parere al riguardo.

1-023-0000
Mario Draghi, *President of the European Central Bank***.** – I will start with the second question. I'll read again the part of my introductory statement that addresses your question. When I discuss risk reduction and risk sharing, I say: 'First, substantial risk reduction has already taken place. Common Equity Tier 1 ratios of significant banks – a key indicator of bank health – are now 67% higher than they were 10 years ago. Further risk reduction is under way with the reduction of non-performing loans and toxic assets in the portfolios of some large banks.' So the answer to your point is that I completely agree with you.

The second point is about the inflation rate. As a matter of fact, in the coming projections, we foresee a decline in oil prices – so much so that we expect inflation for the coming months to hover around 1.5%, not 2% as it is today – but then the underlying inflation rate will gradually keep on going up. In fact, in our three-year projection, we foresee a decline in oil prices but a pick-up in underlying inflation so that, by the last quarter of 2020, core inflation is going to be higher than underlying inflation. If I am not mistaken, core inflation – it's not actually the core, it's inflation excluding energy and food so the underlying inflation – is going to be 2% or 1.9%, and headline inflation lower. It is going to be 1.7% or 1.8% in the last quarter of 2020. So that addresses your point.

1-024-0000
Chair. – A very clear definition! We had some different nuances from other interlocutors.

1-025-0000
Barbara Kappel (ENF). – Herr Vorsitzender! Herr Präsident Draghi! Sie haben heute etwas für mich sehr Interessantes gesagt, nämlich, dass Sie trotz des Auslaufens des *asset purchase programme* die Investitionspolitik der EZB fortführen werden, und ich würde Sie bitten, uns vielleicht zu erläutern, wie wir uns das vorstellen dürfen. Heißt das, dass die Bilanzsumme, die jetzt auf unglaubliche 4 578,5 Milliarden Euro erhöht wurde, gleich bleiben wird, dass Sie Anleihen, die auslaufen, nachkaufen werden? Ich bitte hier um eine Erläuterung.

Und dann eine zweite Frage, eine Nachfrage zu Ihrem internen Risikomanagement in Bezug auf die Bankbilanz. Ich habe jetzt den Betrag angesprochen, der also 41 % des BIP des Euro-Währungsgebiets betrifft. Verfügt die EZB über ausreichend Know-how und auch die Instrumente, um die Risiken einer Bilanz, die sich so schnell erhöht hat, entsprechend zu modellieren und zu erproben?

Und eine Nachfrage in Bezug auf die Immobilienpreise: Das *asset purchase programme* hat ja auch erhebliche Auswirkungen auf die Kosten, die Preise von Finanzanlagen und die Kosten der Marktfinanzierung von Staaten und auch von Unternehmen – sprich auf die Anleiherenditen – gehabt. Die Deutsche Bundesbank hat beispielsweise im Februar dieses Jahres gesagt, dass Immobilien in Deutschland – sowohl gewerbliche, als auch private in Stadtlagen – um 35 % überbewertet sind. Und jetzt möchte ich Sie fragen: Welche Auswirkungen erwarten Sie nach Auslaufen des *asset purchase programme* insbesondere auf den Immobiliensektor?

1-026-0000
Mario Draghi, *President of the European Central Bank***.** – Let me just read again what I said about the conclusions of our last press conference: the Governing Council anticipates that, 'after September, we will reduce our monthly net asset purchases from EUR 30 to EUR 15 billion and will end our net asset purchases at the end of December. This is subject to incoming data confirming our medium-term inflation outlook.' I went on to say that this does not mean our monetary policy will become less expansionary because it will continue to accompany the economic expansion for some time.

We therefore reaffirmed our reinvestment policy, which means that securities coming to maturity will be repurchased for an extended period of time, and we enhanced our forward guidance on the key interest rates, saying that interest rates will remain at their present levels at least through the summer of next year. That's what we have decided: we say that we expect the ECB interest rates to remain at their present levels at least through the summer of 2019 and, in any case, for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path.

I probably briefly discussed this monetary policy in answering the first question about how closely we monitor potential risks, but so far we don't see general misalignment across asset classes. Certainly, certain segments, like, as I said, prime commercial real estate – house prices, as you correctly pointed out, in some large cities and some countries – as well as high-yield bonds and leveraged loans, display somewhat stretched valuations. We are certainly monitoring these segments closely, but even the recent volatility in financial markets has not been a game-changer in this respect.

So, we look at that and we don't have any sense that there is a systemic risk building up. There are localised risks that should be – and are being –addressed through the use of microprudential tools. This is not to deny that the bubbles are very costly, because of their implications for the economy and when they are accompanied by excessive credit growth.

But, when we look at that, we see that loan growth rates are still moderate and broadly in line with fundamental developments. So, all in all, as I said at the beginning of this hearing, we have no signs of the sort of increase in leverage or in credit that characterised the years before the great financial crisis.

1-027-0000
Gabriel Mato (PPE). - Señor presidente; como siempre, señor Draghi, es un placer tenerlo en esta casa. En esta ocasión le doy la bienvenida en mi nueva condición de ponente del informe anual del Banco Central Europeo, en el que ya estoy trabajando y que me gustaría presentar antes de las vacaciones de verano.

Son tres los temas sobre los que a mí me gustaría preguntarle. Primero, créditos morosos o NPL, por sus siglas en inglés. En los bancos de la zona hemos visto una reducción en los últimos tres, cuatro años del 8 % al 5,2 % en el primer trimestre de 2017. La pregunta sería cómo podemos garantizar que esos Estados miembros en los que el sector financiero se ve más afectado por estos créditos morosos no vayan a sufrir un déficit o una reducción de financiación debido, precisamente, a las nuevas medidas que se establecen.

La segunda cuestión sería en relación con la progresiva retirada de estímulos y la necesidad —que compartimos— de no ser complacientes y de continuar con las reformas estructurales. Usted lo ha dicho: hemos visto que la tasa de desempleo en la eurozona ha caído hasta el 8,4 %, pero ¿podemos asegurar que esta tendencia —una buena tendencia, desde luego— podría formalizarse o continuar en un escenario de retirada de estímulos como es este al que nos enfrentamos?

Y tercero, un tema que desata mi curiosidad y me atrae, que es el de las criptomonedas. ¿Considera usted —el Banco Central Europeo— que, en el largo plazo, el mercado de criptomonedas puede continuar creciendo y, a lo mejor, suponer un riesgo para la política monetaria y la estabilidad financiera? Es decir, ¿cuáles serían, desde su punto de vista, las bondades y los riesgos de estas criptomonedas?

1-028-0000
Mario Draghi, *President of the European Central Bank***.** - The first question asked whether the reduction of NPLs could curb the flow of financing to the economy. It is the same question, in a sense, that was asked several years ago when the ECB and many supervisors in the world were pushing banks to increase their capital and capital ratios. The answer is no. If anything, a decrease in NPLs and a strengthening of the banks' capital position would make lending to the real economy more profitable and increase the flow of lending to the economy in the medium term.

Let me also add another thing: for banks to be able to raise capital from private markets, it is absolutely essential that they reduce their NPL stocks. Even what was seen recently, the last two years let's say, we have seen banks that were successful at dramatically reducing their NPL stocks and being also very successful at raising amounts of capital from private markets which would have been unthinkable some time before. In this sense, the reduction of NPLs is complementary to a continuation and an increase of lending to the economy.

The second point is about withdrawing the stimulus. We are not withdrawing the stimulus, as a matter of fact. Monetary policy remains expansionary, and we said that an ample degree of monetary accommodation is needed, meaning that we are confident that inflation will converge to our objective, while gradually reducing the influence of the net asset purchase programme.

We have seen this and the Governing Council has gone through an assessment about that. And why is that? Because we think the economy is strong enough to continue the expansion

even though the asset purchase programme (APP) has reduced its importance, but at the same time we have enhanced the forward guidance on interest rates and committed to an investment in repurchasing of securities coming to maturity for an extended period of time.

So in other words, our monetary policy is now based on continuing the APP until December on a reinvestment policy for an extended period of time and on keeping interest rates at the present level for at least – as I said – through the summer of 2019. And then, in any event, the Governing Council is ready to adjust the monetary policy instruments depending on the medium-term inflation outlook.

Finally, on cryptocurrencies. First of all, we entirely share the European supervisory authorities' concerns about the need for action to protect investors and consumers when we come to cryptocurrencies.

Thirdly, the point was raised before about anti-money laundering activities because it is unquestionable that the great benefit of cryptocurrencies is the fact that they are anonymous. Therefore, we need action on three fronts on this point. Having said that, we don't really think they raise any risk for financial or not much risk for financial stability. The amounts are still small and the exposures of the supervised entities in the eurozone to cryptocurrencies are not relevant at all. This is in the eurozone.

So all in all, and as far as monetary policy is concerned, there is no interaction because cryptocurrencies are not a good unit of account or a good means of payment – which is what money is – because they are volatile, but especially because there is no institution back-stopping a cryptocurrency. You have the ECB back-stopping the euro. A euro today is a euro tomorrow, but the value of crypto-currencies changes. So we are not concerned by that.

1-029-0000

Jakob von Weizsäcker (S&D). – Chair, I want to ask Mr Draghi a question about the sovereign-bank nexus. To date, the balance sheets of Member States and banks are still very closely intertwined. The good news that you pointed to in your introduction is that we are close to having a European fiscal backstop for the Single Resolution Fund (SRF) and levels of bail-inable capital in line with the 8% requirement. This, once properly implemented, will go a long way towards preventing bank balance sheets infecting the balance sheets of individual Member States.

If that is the good news, the bad news is, of course, that we are still some way away from dealing with the reverse problem, namely sovereign balance sheets infecting the balance sheets of banks. I am currently working on a proposal on sovereign bond-backed securities (SBBS), building on the work of the European Systemic Risk Board (ESRB) on SBBS, under which the senior tranche would create a euro-area safe asset fit for bank balance sheets. If properly combined with progress on the European fiscal capacity and evolving rules for sovereign debt and bank balance sheets, this could go a long way towards addressing this reverse problem. Of course, it would all have to be implemented carefully so as not to cause market disruption.

My question to you, Mr Draghi, is: what do you think of that particular strategy – and, of course, there are others – in terms of addressing the problem of the sovereign-bank nexus?

1-030-0000

Mario Draghi, *President of the European Central Bank***.** – Well, first of all, we should thank the Commission for the work it has done. We are going to be consulted on this and, in our opinion, we will review the proposal in respect of the areas relevant to the ECB's mandate.

I should say, at the beginning, that this proposal is no longer – or at least does not look like being – a big priority for Member States. The Commission's proposal deviates in some ways from the report by the European Systemic Risk Board (ESRB) High-Level Task Force: in particular, the tranches of sovereign bond-backed securities (SBBS), including junior ones, will be treated identically as far as capital and liquidity are concerned and for large-exposure purposes. So, in the end, while this provides more incentives for investment in this product it certainly raises concerns on the riskiness of the non-senior tranches. The Commission also favours private issuance of the SBBS.

All in all, this is a good starting point in terms of addressing a situation which has shown itself to be a factor of instability when crisis strikes either the sovereign or the bank part of the system. All in all, work in this field should continue and, by the way, I don't think the last word has been said on that. In a sense, however, it is like fiscal capacity: the impulse to do this and to work along these lines should be encouraged as much as we can encourage it.

1-031-0000

Jakob von Weizsäcker (S&D). – Thank you. I very much agree with you that one needs to look at the question of the entities that can create sovereign bond-backed securities, and also at the regulatory treatment of the junior tranche. I have great sympathy for the line that has been taken by the European Systemic Risk Board, but what I would find interesting is whether you feel that, if the senior tranche is designed well, this would, indeed, be a way to have sovereign debt on bank balance sheets without running too much of a risk in the sovereign-bank direction. In principle, do you feel this would be an attractive way to proceed?

1-032-0000

Mario Draghi, *President of the European Central Bank***.** – Certainly it is. The issue is whether markets will believe it to be an attractive way and whether markets will buy into it. That has always been the problem, from the very beginning of this discussion: how to produce an asset which addresses the problem of the nexus between sovereigns and banks and, at the same time, is being bought into by markets. I agree with you to the extent that there are ways to do a better senior tranche.

1-033-0000

Werner Langen (PPE). – Vielen Dank, Herr Präsident, für Ihre Übersicht. Ich kämpfe seit Jahren um die Definition der Inflationsrate. Vor einigen Jahren haben Sie gesagt: Die sinkenden Energiepreise, die sind volatil, es droht Deflation. Heute haben Sie gesagt: Die Inflationsrate ist zwei Prozent, ohne die Energiepreise nur ein Prozent. Die Energiepreise sind aber Teil des Inflationsbildes für Haushalte und Unternehmen. Ich hätte gerne gewusst, in welcher Form die EZB überlegt, die Inflationsrate neu zu definieren: Entweder unter zwei Prozent für die Gesamtinflation oder in einen volatilen Teil und einen Kerninflationsteil. Bisher ist das meiner Meinung nach widersprüchlich. Die daran anschließende Frage ist: Vor knapp zehn Jahren sind die Zinsen – nach der Lehman-Pleite – erstmals gesenkt worden, seitdem sind sie niedrig. Die US-Notenbank hat sie erhöht, die andere Richtung eingeschlagen. Wann und in welchen möglichen Schritten wird die EZB diesem Weg folgen? Denn bisher war der Gleichklang der Notenbanken einer der wesentlichen Punkte.

Zweite Frage: Über die Target2-Salden haben Sie schon gesprochen, die steigen. Im Juni 796 Milliarden Euro für Deutschland, sie sind allein gegenüber Italien angestiegen auf knapp 500 Milliarden, und das nicht zuletzt deshalb, weil die italienische Notenbank in Frankfurt Anleihen bei internationalen Banken gekauft hat. Jetzt ist natürlich der Streit da: Wer haftet dafür? Solange der Euro existiert und solange er keine großen Probleme macht, kann man sagen: Okay, das gleicht sich im Laufe der Jahre aus. Aber die Tendenz ist so eindeutig, dass hier die Frage berechtigt ist, die auch Professoren stellen: Wo ist das Risiko, und wer trägt es im Endeffekt?

Meine letzte Frage: Sie haben hier über viele Jahre das Thema „Staaten und Banken trennen“ propagiert. Die Niedrigzinsen haben allerdings dazu geführt, dass im Süden Europas der Anteil der Staatsfinanzierung in den Banken weiter angestiegen ist, also das Ziel ist auf jeden Fall verfehlt worden. Deshalb meine Frage: Wie kommen Sie – außer mit neuen Instrumenten, die der Kollege von Weizsäcker genannt hat – aus dieser Falle heraus?

1-034-0000
Mario Draghi, *President of the European Central Bank***.** – Let me clear: our objective is defined in terms of headline inflation, i.e. including energy and food. It has always been like that. There are no changes to that.

However, the references to other inflation measures are important in terms of understanding how stable this inflation-rate convergence is. Does it depend on prices? Don’t forget that our convergence is medium-term convergence so it has to be there in a stable way. If headline inflation of 2% is reached because of a sudden increase in food prices or in oil prices, and we expect these prices to go down again, this is not reaching our objective because it’s not in the medium term.

That is where other measures of inflation come into play. The inflation measures excluding food and energy – or other inflation measures as well – capture what is happening in the real economy, regardless of components the prices of which fluctuate greatly. That’s why we look at these measures, as further information, in order to judge the stability of our convergence: whether it is actually medium-term convergence rather than ‘touch and go’. That’s how the various definitions square with each other, but let there be no confusion: our objective is in terms of headline inflation.
On TARGET2, you said the trend was clear. Well, not really: the trend is not clear. It’s now going up, it had gone up before, and it went down before. But you are right on another point: countries must converge. Countries must make structural reforms. This is not a union which was built on having permanent debtors and permanent creditors.

So, TARGET2 is not necessarily a measure of capital outflows and – as I said before – it is very much influenced by our asset purchase programme. We have seen liabilities going up because of this. When we meet next time – or the time after next – we will see a significant decline in TARGET2 measures, at least as far as our asset purchase programme is concerned.

Regarding your last question, the nexus between sovereigns and banks has been shown to be a factor that made the crisis more serious than it should have been. So measures that address this problem, whether through the private market, through sovereign bond-backed securities (SBBS) or through other supervisory measures that can be undertaken, are to be welcomed. But, let’s not be under the illusion that if you have a serious sovereign crisis a bank that has no sovereign bonds in its portfolio will be safe. If you have a serious sovereign crisis, everybody is going to be affected, both banks – whether they have bonds in their portfolios or not – and non-banks. The reason is simple: when you have a significant sovereign debt crisis, liquidity dries up, money rushes away from the country, banks lose funding – whether they have sovereign bonds in their portfolio or not – and the credit rating falls dramatically. At that point, all ratings follow the sovereign rating, so both banks and non-bank corporates – producers in the real economy – will pay much more for their funding. So, when you have a sovereign debt crisis, this affects everybody.

1-035-0000
Neena Gill (S&D). – Thank you Chair. Firstly, I wanted to speak to you about Brexit, but as we speak Sterling has into a nosedive because of the resignation of the foreign secretary, but really it is about tackling instability.

With Brexit and the continuity of existing derivative contracts, in its financial stability report published last Wednesday, the UK Bank of England said that while the British Government had committed to a temporary permissions regime from March 2019 onwards, the EU had yet to make any corresponding promise. According to the Bank of England that risks the possibility of 29 trillion-worth of derivatives becoming untradeable after March next year. I wanted to ask you, President Draghi, what your response is to the assessment made by Bank of England and its call upon the EU to allow a temporary permissions regime? Are they right or are they wrong in that there's no preparation on the EU side?

And secondly, I wanted to thank you for your response to our letter on the climate impact on the corporate sector purchase programme (CSPP), and I heard in your earlier response that you believe that the CSPP has purchased green bonds, but I'd like to pursue it a bit further and get greater clarity. Did the ECB undertake analysis of the climate impact of its quantitative easing programme and has the ECB undertaken an internal impact assessment process? Because there's a London School of Economics study that said 62% of the CSPP bonds are highly carbon-intensive. I'm not sure if that's the case, but that's what they said.

And finally, just more a general point, the Commission has proposed a package of sustainable finance investment. However, I believe the package lacks ambition and focuses almost exclusively on climate elements and remains pretty silent on social and governance criteria. Given the possibility of a systemic risk of unsustainable investments, what would you suggest, how do we make this more mainstream?

1-036-0000

Mario Draghi, *President of the European Central Bank.* – Certainly some of the derivative contracts, especially the ones that are centrally cleared, may have a problem of continuity, there's no question about that. Both because legislation will change some of the definitions in the contract and because there could be events which would affect the life of these contracts in the future. The number of contracts that will have this problem depends, first of all, on how many of them will expire before March 2019.

Second, it will depend on whether either side will have legislation that will somehow mitigate the problem but, and here I express our side's view ,it very much depends on what the private parties will do to mitigate this issue. To my knowledge, we don't have an analysis of the impact of our programme or of climate change considerations in our programme, but I can certainly say that we will look into this and see what's the effect. What was the third question?

1-037-0000

Neena Gill (S&D). – How do we make sustainable investment more mainstream, because proposals from the Commission tend to focus more on the climate aspect and not on the social and governance aspects?

1-038-0000

Mario Draghi, *President of the European Central Bank.* – First of all, we welcome the Commission action plan on this and we welcome the legislative proposals. We agree with the proposed development of a European Union taxonomy of sustainable economic activities and we share the objectives of the proposals on enhancing the sustainability of disclosure, and creating a new category of low-carbon and positive-carbon impact benchmarks. We believe that increased transparency and better comparability could contribute to sustainability and to financial decision-making, while avoiding unnecessary layering and overburdening of financial regulation. So, fundamentally, we agree with what the Commission has said.

1-039-0000
Γεώργιος Κύρτσος (PPE). - Πρόεδρε Ντράγκι, μετά το τέλος του ελληνικού προγράμματος έχει αυξηθεί ακόμα περισσότερο το ενδιαφέρον των Ελλήνων για τις επόμενες κινήσεις της Ευρωπαϊκής Κεντρικής Τράπεζας. Δεν είναι μόνο θέμα χρημάτων, είναι θέμα και τι μηνύματα θα στείλει. Επομένως, έχω τις εξής ερωτήσεις:

Πότε εκτιμάτε ότι θα μάθουμε ή θα ολοκληρώσετε τη μελέτη της Ευρωπαϊκής Κεντρικής Τράπεζας, για το ελληνικό χρέος, την προοπτική του, την αξιολόγησή του;

Η δεύτερη ερώτηση, κι αυτή μεγάλου ελληνικού ενδιαφέροντος, είναι αν υπάρχει δυνατότητα έστω σε μία καθυστερημένη, θα έλεγα, συμμετοχή των ελληνικών τίτλων στο QE, στο Quantitative Easing, το πρόγραμμα.

Το τρίτο που κι αυτό απασχολεί πάρα πολύ την Ελλάδα και το θέσαμε και στον κύριο Στουρνάρα, σε πρόσφατη επίσκεψη ευρωβουλευτών στην Τράπεζα της Ελλάδος, τι θα γίνει με το waiver, αν θα παραμείνει δηλαδή τώρα που η Ελλάδα είναι εκτός προγράμματος και από ό,τι μας είπε ο κύριος Στουρνάρας, ο διοικητής της Τράπεζας της Ελλάδος, θα σας κάνει μια θετική εισήγηση, ή τέλος πάντων θα υποστηρίξει μια θετική άποψη.

Ποια είναι η θέση της Ευρωπαϊκής Κεντρικής Τράπεζας σε όλα αυτά;

1-040-0000
Mario Draghi, *President of the European Central Bank***.** – Thank you. First of all, let me answer the last two questions, which were really just one question. In a sense, Greece can become part of the quantitative easing (QE) if it has a waiver after the end of the programme: only if there is a waiver. Now the current post-programme enhanced surveillance doesn't warrant a waiver, and we have made that clear.

But then – and now I come to the answer to the first question – we will have, as I said we would, our own independent debt sustainability analysis (DSA) and we will make our own assessment of risk management considerations. Now, at present Greece has a waiver, and the natural question to ask, after what has been agreed by the Eurogroup with the various measures, is whether it can be part of the QE while the programme is still in operation. The issue is that, before we can do our own DSA in respect of this question, we have to wait for the answer by the various parliaments that have to approve the decisions taken by the Eurogroup, and then we have to wait for the decision of the board of the European Financial Stability Facility (EFSF).

Only thereafter can we consider doing the debt sustainability assessment and the risk management assessment that I was hinting at earlier.

1-041-0000
Jakob von Weizsäcker (S&D). – From that answer to the Greek question, I gather that you will do the debt sustainability assessment before the review period in 2032 *(laughter)*.

In the first part of my question I want to follow up on something that you told Werner Langen about banks being impacted by sovereign troubles even if they hold fully diversified portfolios of sovereign debt. What comes to mind is that the sovereign crisis of California doesn't lead empirically to the described effects for Californian banks. That raises the question, my first question to you: in analysing these sort of situations shouldn't we make a distinction between sovereign debt restructuring risk, which can be dealt with by means of diversification in a sense that really works, and redenomination risk, which is a far more fundamental problem and doesn't occur in California? In that context, the recent Council conclusions were very helpful when you think of strengthening security, defence, humanitarian treatment of refugees and even social protection. Then perhaps one can reduce

the redenomination risk and end up in a situation where it is almost like California, if we run into trouble.

Following up on the social protection angle, I would be keenly interested in getting a better sense of how you view the stabilisation effect of a serious European unemployment reinsurance, a combination of a solid system of national self-insurance with the proper rainy-day fund enshrined in the European system and with a reinsurance component. What does your analysis show in that respect? Would this have a meaningful stabilisation impact?

1-042-0000
Mario Draghi, *President of the European Central Bank***.** – Let me answer the last question first. I view it with great favour. I think it's the right thing to do, and for a variety of obvious reasons that don't require me discussing them now: it has a combination of stabilisation and a social dimension, as well as compatibility with the monetary union and enhancing labour mobility. So it is really positive from all points of view.

Of course, it then has to be properly designed: it has to take into account existing insurance systems; it has to take into account differences in the labour markets. It's not simple but, frankly, and I express a personal view because we have not discussed this in the Governing Council, I think it's exactly the right direction.

On the other point you made, the examples of California or of Texas during the crisis of the 1980s are telling and show how a well-integrated banking union and capital markets union could be a powerful way of avoiding the spread of a crisis from the banking sector in one localised area to the rest of the economy. In the 1980s, I think it was 1980s if I'm not mistaken, there was an oil price crash and most of the Texas banks went bust, and this affected the economy deeply because credit dried up. That was because the then legislation forbade foreign banks and the rest of the United States banks from buying or giving credit into Texas. This legislation was abolished and cross-border banking blossomed: there was another oil price crisis that had no impact whatsoever on the capacity of the banking system to give credit to the economy. This shows again that private risk sharing can be very, very effective even before thinking about public funds to be used for risk sharing.

On the possibility of distinguishing two types of debt restructuring, I am somewhat sceptical. Once you enter that field, everything affects everything else, and I think the very best rule is to do everything you can to avoid a sovereign debt crisis. So fiscal sustainability and so on and so forth are of the essence, as my predecessor would have said.

1-043-0000
Chair. – And in any case, they have a federal budget that is slightly bigger than the EU budget and are a federal state. So if these are the conditions for having this I endorse it.

1-044-0000
Fulvio Martusciello (PPE). – Signor Presidente, onorevoli colleghi, ho due domande. La prima: mi pare di capire che la fine del *quantitative easing* avrà effetti diversi a seconda dei paesi dell'Unione. Lei riesce a immaginare quale sarà l'effetto della fine del *quantitative easing* per l'Italia?

La seconda domanda: dall'agenda del governo è completamente scomparso il dibattito sulla riforma delle pensioni e sull'abbassamento del debito, elementi che avevano fatto intervenire più volte la BCE, preoccupata naturalmente dai conti dell'Italia. Lei immagina che nel breve periodo il nostro paese potrà avere un richiamo su questo punto?

1-045-0000
Mario Draghi, *President of the European Central Bank***.** - Let me first answer the first question. What we decided in the last Governing Council, was because of the assessment that inflation would converge and would be resilient, and we were confident that this process was taking place. One has always to keep in mind that their mandate is price stability.

It was not to protect, for example, the profits of the banks. We were criticised because our interest rates were too low and the banks' profitability would be affected, which was not the case by the way: it may be the case in the long term but is certainly not in the short term. Nor was it to protect the insurers' interests, again because interest rates were too low. in fact the insurers are doing pretty well as far as we can see because while liabilities went up because of low interest rates also assets went up at the same time.

So as well as our function, our mission, our mandate is not to protect countries' national budgets. That is the bottom line, but having said that, we are confident that the economy is strengthening. And the gradual reduction of the asset purchase programme is complemented by other monetary policy measures and so the monetary accommodation remains ample. As we've seen from the markets' reaction to our decision, it was nothing dramatic, nothing at all.

Now on the second point I think we should wait to pass judgment. The test will be the facts, and so far there been words, but the words have changed. And we'll have to see facts before we can express a view.

1-046-0000
Pervenche Berès (S&D). – Monsieur le Président, merci de toutes vos réponses. Je ne vais pas revenir sur ma première question, encore qu'il faudra, je pense, qu'on poursuive cet échange, mais je voudrais évoquer une nouvelle fois la question soulevée notamment par mes collègues Neena Gill et Ernest Urtasun.

Je partage avec vous l'idée que la politique monétaire n'a pas à poursuivre d'autres objectifs que ceux qui ont été clairement définis, notamment dans le traité, ni à se substituer à des objectifs de politique publique, que ce soit dans le domaine du développement durable ou du soutien à l'activité économique. Quoi qu'il en soit, on peut développer de bonnes pratiques concernant la façon dont on surveille les investissements réalisés (*monitoring*) et dont on en rend compte (*reporting*).

En clair, comment pourrait-on, selon vous, développer le *reporting* et le *monitoring* dans les stratégies de la Banque centrale pour favoriser l'investissement durable? Bien entendu je ne demande pas que l'on modifie les objectifs de la politique monétaire, mais que la BCE fasse son travail sur ces deux points particuliers.

1-047-0000
Mario Draghi, *President of the European Central Bank***.** – I know what the problem is there. We think we are transparent enough with our CSPP programme and we can give aggregate amounts of sustainable investment bonds, but all our market people are telling us not to disclose individual amounts. Disclosure would put some market participants in positions where they would draw specific benefits from this knowledge and this would, therefore, make it more difficult to pursue of our mandate. But we can still improve, if need be, on aggregate reporting.

1-048-0000
Dariusz Rosati (PPE). – I have two questions. The first one is on the definition of price stability. As we know, the ECB is using the definition of price stability to define inflation being below 2% but close to 2%. This is the definition used in the monetary policy. However, for the purposes of nominal convergence, when assessing performances of countries that are

candidates for the monetary union, the ECB uses a different definition of price stability. It uses the average of three countries with the lowest inflation rates.

My doubt, which I would like to express here, is that you probably cannot have two different meanings of the same term that is in the Treaty, and in the Treaty we speak about price stability. So, could you explain the difference, and to what extent you think it is reasonable or justified to use two different definitions for two different purposes?

The second question is about the outright monetary transactions programme. You haven't said anything about that, but I just want to have confirmation that the programme is still in place and that the ECB would be prepared to use it if the need arises.

1-049-0000
Mario Draghi, *President of the European Central Bank***.** –The answer to the second question is an indisputable yes. It's there, it's part of our toolbox.

The answer to the first question is the two things are quite different. Our close to but below 2% medium-term objective is for defining the inflation objective consistent with our mandate of price stability. The other one is to assess convergence in potential candidates for membership of our union. So the purposes of the two definitions are different: one is meant to assess convergence and the other one is meant to measure our objective.

1-050-0000
Dariusz Rosati (PPE). – Can I follow up on this?

Still, you want the candidate member countries, those aspiring to become members, to converge their inflation rates, to converge to the inflation rate of the euro area. At the same time, in conducting the monetary policy, you are aiming for inflation below but close to 2% – and of course you cannot have two different benchmarks. You cannot ask the candidate countries to have lower inflation rates as they enter the monetary union.

This is, in fact, what is happening, right? Because the Treaty asks them to have inflation close to the average of the three countries with the lowest inflation rates. These may be inflation rates of 0.1%. So do you want them, these candidate countries, to have inflation rates of 0.1% or you want to have them inflation close to but below 2%?

1-051-0000
Mario Draghi, *President of the European Central Bank***.** – I know, but, as I said before, the two situations are completely different and the provision on the average of the lowest three, which you mentioned, was actually written at the time when inflation was higher and the dangers were coming from high inflation. The idea was to make sure that the countries which were potential entrants would have an inflation rate converging with the objective, assuming it was from above, and I think that's there basically.

As I said, however, the two purposes are very different: one is convergence based on a monetary policy, the other one is convergence based on what the countries are doing in their completely independent policies prior to the joint union.

1-052-0000
Νότης Μαριάς (ECR). – Κύριε Ντράγκι, ήθελα να σας ρωτήσω για την απόφαση του Eurogroup για το ελληνικό πρόγραμμα διότι, όπως ξέρετε πολύ καλά, το τρίτο πρόγραμμα προέβλεπε μια δανειοδότηση 86 δισεκατομμυρίων ευρώ και πολύ σκληρά μνημονιακά μέτρα. Τελικά τα μέτρα παρέμειναν, έγιναν ακόμη πιο σκληρά, αλλά υπάρχει ένα υπόλοιπο 24 δισεκατομμυρίων ευρώ.

Το ερώτημα είναι, επειδή υπάρχει ένα τεράστιο πρόβλημα με τα κόκκινα δάνεια, τα μη εξυπηρετούμενα δάνεια, για τα οποία μάλιστα υπάρχει και κίνδυνος, όπως αναφέρατε, και

πρέπει να αντιμετωπιστεί αυτή η κατάσταση. Εμείς πιστεύουμε, βέβαια, όχι εις βάρος των ίδιων των δανειοληπτών.

Θυμόσαστε ότι υπήρχε μια πρόβλεψη στο τρίτο δανειακό πακέτο 25 δισεκατομμυρίων ευρώ για ανακεφαλαιοποίηση τραπεζών. Χρησιμοποιήθηκαν, όμως, μόνο 4,5 δισεκατομμύρια. Το ερώτημά μου είναι απλό: Από αυτά τα 24 δισεκατομμύρια που περίσσεψαν, συμφωνείτε ένα μέρος να πάει για τη δημιουργία ενός Ταμείου σωτηρίας των δανειοληπτών, ενός Ταμείου που θα διαχειριστεί τα κόκκινα δάνεια με τέτοιο τρόπο ούτως ώστε οι δανειολήπτες να μην χάσουν τα σπίτια τους, μια και περίσσεψε αυτό το ποσό;

Αυτή την ερώτηση σας την είχα κάνει και πριν ενάμιση χρόνο. Τώρα έχουμε τα δεδομένα, αυξημένα κόκκινα δάνεια, κίνδυνοι για πλειστηριασμούς, αλλά ταυτόχρονα έχουν περισσέψει 24 δισεκατομμύρια ευρώ από το τρίτο δανειακό πακέτο. Δεν θα μπορούσαν αυτά τα χρήματα να πάνε για να στηρίξουν τους δανειολήπτες, για να έχουμε ένα θετικό αποτέλεσμα;

Σε αυτό το θέμα θα ήθελα να έχω την απάντησή σας.

1-053-0000
Mario Draghi, *President of the European Central Bank***.** – First of all, I don't know exactly the numbers you are referring to and, secondly, it is not our decision, it is the Member States' decision.

I have a third observation, if I can rephrase your question in a more general way: couldn't public money be used to buy NPLs from banks, and simply, perhaps, at a price where banks have no losses, so that the other parties in the NPLs will be protected? Well, it has not been possible. It has not been possible because of the state aid rules. It has not been possible in other countries that have tried to do the same in the past few years because there are rules – mostly on state aid, I believe – that have hampered such a process.

1-054-0000
Notis Marias (ECR). – Κύριε Ντράγκι, έχουμε, όπως ξέρετε, την απόφαση της Επιτροπής, τον Μάρτιο φέτος, που καθορίζει τους όρους για τη δημιουργία μιας κακής τράπεζας, τους όρους με τους οποίους θα μπορούσε να γίνει μια ρύθμιση και αντιμετώπιση των κόκκινων δανείων. Έχουμε την εμπειρία της Ιταλίας. Ρωτώ, λοιπόν, μήπως στο πλαίσιο του Τρίτου Προγράμματος μπορούσε να υπάρξει αυτή η χρήση κεφαλαίων, από αυτά τα 24 δισεκατομμύρια που περίσσεψαν, επειδή είναι ειδικό πρόγραμμα για τη διάσωση, υποτίθεται, της Ελλάδος και έτσι να έχουμε μια ρύθμιση θετική για τα κόκκινα δάνεια.

1-055-0000
Mario Draghi, *President of the European Central Bank***.** – I told you, it's not our decision to do so. But in any event, I think even if this money were there, even if it could be in principle used, there would be problems that all other countries had in creating bad banks that would purchase NPLs not at their intrinsic value, but at prices which are not market prices. Because that's the only way you could protect or reach your objective, and it has not been possible because of rules that mostly have to do with state aid, I believe.

1-056-0000
Νότης Μαριάς (ECR). – Κύριε Πρόεδρε, σε σχέση με το QE, υπάρχει η δυνατότητα επίσης να ενταχθούν και ομόλογα των ελληνικών εταιρειών, που είναι κάτι διαφορετικό ως πρόγραμμα. Επομένως, το ερώτημά μου είναι: Πρώτον, υπό ποιες προϋποθέσεις ομόλογα ελληνικών εταιρειών μπορούν να ενταχθούν στο QE και, δεύτερον, επειδή θα υπάρξει και πρόγραμμα επαναγοράς ομολόγων, που θα τελειώσει τον Αύγουστο του 2019, αν η Ελλάδα μπορεί να μπει συνολικά στο QE μέχρι τότε.

1-057-0000
Mario Draghi, *President of the European Central Bank***.** – I thought I answered this question earlier. To be part of the programme, one needs either a waiver or a positive assessment of debt sustainability, and some other risk-management considerations are also needed.

The waiver will expire with this programme, and the present post-programme arrangement – the enhanced surveillance – does not warrant a waiver. For us to do the debt sustainability analysis (DSA), we first need to see what the parliamentary answers in some Member States will be, and we have to see the decision of the Board of Directors of the European Financial Stability Facility. At that point, we can consider the DSA.

1-058-0000
Chair. – In any case, both are most likely to be positive. We are optimistic that the national parliaments will vote on the EFSF, so we are confident that a very good agreement will be fully implemented. It is very positive news for Greece.

I would like to thank President Draghi in his capacity as ECB President. We now move to your second hat, and I welcome you in your capacity as the Chair of the European Systemic Risk Board (ESRB).
(The meeting closed at 17.05)