1-001-0000

# COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
# MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE EUROPEAN CENTRAL BANK
# (pursuant to Article 284(3) of the TFEU)
# BRUSSELS,
# MONDAY, 6 FEBRUARY 2017

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.** - Colleagues, may I ask you to take your seats. I would like to adopt the agenda. The agenda is adopted.

I welcome the President of the European Central Bank, Mario Draghi, for the first monetary dialogue of 2017. The previous one, as you will remember, took place on 28 November 2016. Today's dialogue is taking place in a context which is particularly complex and challenging. We see improvements in the economic data. However, risks surrounding the euro area growth outlook remain on the downside, mainly due to geopolitical factors. In particular, some first concrete confirmations of a new, more unilateral, policy stance by the new US administration, including on sensitive financial market regulatory issues, raise concerns and require both thorough reflection and action from the EU side. In this respect, differentiated integration is – and can be – an important tool, but it has to be used in the framework of the EU legal order and the Community method, and should be a tool to push through the unity of the EU and to achieve ambitious goals, including the completion of EMU, not the opposite.

As you know, since the last monetary dialogue the ECB monetary stance has remained unchanged. The Governing Council has decided to continue the asset purchase programme after April 2017, at a monthly rate of EUR 60 billion, until the end of December or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. So, with this decision, the ECB sent a clear message that it would not let the moderate but firm recovery of the euro area economy be put at risk, and confirmed that it was equipped with the necessary ammunition to respond to any economic or geopolitical contingency.

I think it is very clear that, until now, the ECB's unconventional policies have played a crucial role in repairing monetary policy transmission channels and supporting domestic demand and price stability. Some concerns have been raised about the possible adverse effects of unconventional monetary policies – in particular the additional risk to financial stability of an extension of the QE programme and the possible side effects of nonstandard policies on aggregate productivity, so these two topics have been selected by the ECON coordinators in preparation for this monetary dialogue. We have done some preparatory work on these two items with the contribution of distinguished scholars.

Regarding the first topic, the papers outline that the theoretical and empirical literature does not provide a clear consensus on the influence of monetary policy on asset price bubbles and that possible instabilities are a matter for domestic policy and not for QE. Regarding the second topic, the paper underlines that there is no clear evidence that monetary policy has had a negative impact on productivity.

So we have a lot of interesting topics to discuss and we expect a lot from your presentation, President Draghi. I give you the floor.

1-004-0000

**Mario Draghi,** *President of the European Central Bank***.** - Chair, honourable Members of the Committee on Economic and Monetary Affairs, ladies and gentlemen, I am pleased to be speaking before your committee on the eve of the 25th anniversary of the signature of the Treaty on European Union in Maastricht. That bold decision marked 'a new stage in the process of European integration'. It laid the foundations for Economic and Monetary Union, and the European Central Bank. Ten years later, citizens started to have euro in their hands. This amounted to a considerable strengthening of the political commitment that has been keeping us together for 60 years.

It is easy to underestimate the strength of this commitment. But that would overlook the progress we have made. With the single currency, we have forged bonds that survived the worst economic crisis since the Second World War. This was, in fact, the original *raison d'être* of the European project: keeping us united in difficult times, when it is all too tempting to turn against our neighbours or seek national solutions. But the objective of Economic and Monetary Union should be to strive to achieve 'economic and social progress' as was the intention of the signatories to the Maastricht Treaty. And for this, we need sustained growth and job creation.

The resilient recovery we have witnessed in recent times has been a welcome step towards this objective. Over the last two years, GDP per capita has increased by 3% in the euro area, which compares well with other major advanced economies. Economic sentiment is at its highest level in five years. Unemployment has fallen to 9.6%, its lowest level since May 2009. And the ratio of public debt to GDP is declining for the second consecutive year. These are steps in the right direction. But these are just first steps. We need to continue on this path so that unemployment decreases further and more Europeans can benefit from the recovery.

I will start by discussing our contribution to supporting the recovery and will then lay out why the monetary policy decisions taken in December were the right ones in the current economic context. As you have requested, I will also discuss risks to financial stability, which are constantly monitored.

Our monetary policy has been a key contributor to the positive economic developments I have just described. Our measures have worked through the financial system and are benefiting the real economy at large by ensuring very favourable financing conditions.

At the December meeting, the Governing Council saw the need for the recovery to further mature and strengthen to ensure a sustained convergence of inflation rates towards levels below, but close to, 2% over the medium term. For this to happen, financing conditions have to remain supportive, taking remaining uncertainties inside and outside the euro area into account. We therefore decided to safeguard the amount of monetary easing for the period ahead.

Against this background, we decided to extend the asset purchase programme beyond March 2017, with the intention of conducting our purchases until the end of December 2017 or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. We will continue to purchase assets at the monthly pace of EUR 80 billion until March. Starting from April, our net asset purchases will run at the monthly pace of EUR 60 billion, and we will reinvest the securities purchased earlier under our programme, as they mature. This will add to our monthly net purchases.

Our December decisions strike a balance between our growing confidence that the euro area's economic prospects are firming up, and – at the same time – the lack of a clear sign of sustained convergence of inflation rates towards the desired level.

On the one hand, the evidence suggests that the acute deflation risks have disappeared and that inflation is set to pick up over the coming years. And contrary to a widespread perception, euro area economic conditions have also been steadily improving. Euro area GDP growth has been solid in every quarter since the beginning of 2015, averaging 1.9 percent in annualised terms. Compared to 2013, there are 3.5 million fewer unemployed in the euro area, a decrease by more than 18%. And in the last quarter, the recovery has been broadening across sectors and across countries. Indeed, the dispersion of value added growth across euro area countries and sectors has declined sharply and stands close to its lowest level since the introduction of the euro.

But support from our monetary policy measures is still needed if inflation rates are to converge towards our objective with sufficient confidence and in a sustained manner. The pickup in headline inflation in December and in January largely reflects sizeable upward base effects and recent increases in energy prices. So far, underlying inflation pressures remain very subdued and are expected to pick up only gradually as we go on. This lack of momentum in underlying inflation reflects largely weak domestic cost pressures. The still significant degree of labour market slack and weak productivity developments are weighing down on wage growth.

As I have argued before, our monetary policy strategy prescribes that we should not react to individual data points and short-lived increases in inflation. Our relevant policy horizon is the medium term. We therefore continue to look through changes in headline, HICP, inflation if we believe they do not durably affect the medium-term outlook for price stability.

Looking ahead, risks to the euro area outlook remain tilted to the downside and relate predominantly to global factors. Our current monetary policy stance foresees that, if the inflation outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, the Governing Council is prepared to increase the asset purchase programme in terms of size and/or duration.

You asked me to discuss the financial stability implications of our accommodative monetary policy. In short, the benefits of our policy clearly outweigh potential side effects. And the latter are best addressed – if necessary – through other policies. As I have just argued, our monetary policy has been key in supporting the ongoing recovery. Going one step further, our measures have played a key role in preserving stability in the euro area – and that includes financial stability.

Let me now elaborate on the potential side effects of a very accommodative monetary policy on financial stability. One of those side effects concerns the impact on banks' profitability. Let us first look at the data. Following a slowdown in profit generation in the first quarter of 2016, the profitability of euro area banks stabilised in the second quarter. According to preliminary data, developments for the third quarter seem to be in line with those observed for the second quarter.

Monetary policy can have an impact on bank profitability through various channels. Our assessment is that so far these effects tend to largely offset each other. Low (and negative) rates might dent bank profits through the narrowing of net interest margins. At the same time, in supporting the recovery, accommodative monetary policy reduces delinquency and default. It thus improves the credit quality of firms and households. This improved credit quality in loan portfolios – together with increasing intermediation volumes – is certainly positive for

banks. It has been a key factor sustaining banks' earnings over the last year. Moreover, low longer-term interest rates increase the market value of financial assets held by banks. This, in turn, results in capital gains that further support bank profitability. This aggregate picture masks some heterogeneity within the banking sector, however. In particular, depending on their business models, individual banks might be affected in different ways by the low interest rate environment.

A second issue is the potential risk of credit or asset bubbles. Currently, we do not see compelling evidence, at the euro area level, of stretched asset valuations. Both corporate bond spreads and equity prices appear to be broadly in line with fundamentals. Similarly, real estate price growth remains moderate in the area as a whole, although significant cross-country heterogeneity is observable. This assessment is corroborated by the fact that credit growth is still modest, which suggests that asset price developments are not accompanied by increasing leverage.

Nevertheless, the longer the accommodative measures need to be kept in place, the greater the risks of unwarranted side effects on the financial system become. For instance, asset prices may increase to levels that are not in line with fundamentals because investors may be tempted to take on more risk during times of low yields. Such developments are best addressed by enacting appropriate macro and micro prudential measures.

While our single monetary policy is geared towards delivering price stability for the euro area as a whole, macroprudential policy measures can be designed to address financial stability risks that may be building up in specific market segments, in specific jurisdictions or individual countries. Addressing potential risks at their origin also reduces the probability of contagion throughout the euro area.

Microprudential policies also help to reduce vulnerabilities in banks. I therefore welcome the European Commission risk reduction proposals presented last November, which further develop the European Union's legal framework for credit institutions and should increase the resilience of banks.

Let me conclude. As I argued last week in Ljubljana, and as the crisis has shown, the benefits of the single currency can only be fully reaped if we have policies and institutions at national and European level that ensure it works for everyone.

In the run-up to the launch of the euro, there was a strong commitment to advancing along the path of institutional and economic convergence. The crisis showed that this commitment cannot be relaxed. In fact, it remains fully relevant today as we seek to strengthen EMU and the EU in the face of current uncertainties and in preparation for future challenges.

The euro area's resilience in 2016 despite a range of negative shocks shows that we are on the right track. It also suggests that reforms at national and European level have been paying off in terms of economic growth. As the economic situation improves, and even though challenges in other policy realms have understandably been the recent focus of our attention, we should not stop our efforts to make EMU more resilient and prosperous. We can and should address the remaining, well-identified fragilities at national and European level. On the latter point, I look forward to the continued support of the European Parliament in the second half of this legislative term. Thank you for your attention. I am now at your disposal for questions.

1-005-0000
**Chair.** – President Draghi, you will of course have the support of the European Parliament in these ambitious but necessary goals. We now come to the first speaker in this slot. I would remind you that there is a maximum of two minutes for the question, five minutes in total.

1-006-0000
**Luděk Niedermayer (PPE).** – Welcome, Mr President. As always, let me thank you for your work. I believe you have all our support.

My first question concerns the development of real interest rates. We can see that inflation is, finally, not close to the zero mark, and obviously not at the target, but somewhere in between. It could go up a little bit. As a consequence, real interest rates are falling because nominal interest rates have stayed the same. This means that monetary policy is providing more stimulus to the real economy at a time when, as you said, the economy is showing quite good growth. So I wonder how you would expect – or wish – to see the development of real interest rates in the next few quarters?

My second question is more macroeconomic. Unfortunately, in the current world situation we can see some signs of a possibility that global economic management will move from a liberal and more pro-trade strategy to a more protectionist approach, at least from some important countries. I wonder to what extent you consider this to be an important risk factor for the European economy. What would be your response to such a scenario?

1-007-0000
**Mario Draghi,** *President of the European Central Bank***.** – The conditions that the Governing Council has defined for our inflation objective are basically four conditions. The first is that there should be convergence towards our objective of an inflation rate below, but close to, 2% over the medium term or over the relevant policy horizon. The second is that this convergence should be durable. In other words, we look through developments in inflation that we judge transient.

The third condition is that it should be self-sustained. Why is that so? Because the current projections of the ECB staff for inflation, which foresee that the inflation rate will approach the objective of being close to, but below, 2% by 2019, foresee that the present level of expansionary financing conditions – so not only the monetary policy but generally speaking financing conditions – will remain in place, so the market expectations actually discount the continuation of the present financing conditions.

The fourth feature is that the objective, we should never forget, is defined in terms of an inflation rate for the whole of the eurozone, so even if certain countries experience an inflation rate which is moving quite vigorously towards the objective, we should look at the inflation rate for the whole of the eurozone, as our mandate basically specifies.

Let me also add that our objective is defined and will continue to be defined as the headline inflation rate, but we have to be convinced that movements in headline inflation are durable, self-sustained, medium-term and for the whole of the eurozone, and for this matter we also look at other concepts of inflation like the underlying inflation pressures that I mentioned in my introductory statement.

On the second question, I would say it is too early to say. I would certainly look with worry at the potential announcement of protectionist measures because, after all, our Union, the European Union, has been created on the foundation of free trade and on the foundation of the four freedoms, so we will have to judge when we actually see in place what is being announced.

1-008-0000
**Jakob von Weizsäcker (S&D).** – President Draghi, it is a pleasure to have you here and you have convincingly argued in the introductory statement that your mandate and the measures you employ are properly synchronised, contrary to what some critics have argued, based on headline inflation, but I think you explained very well why just going for headline inflation, in some countries may not be the best way to look at your responsibilities. However, in the introductory statement you also outlined that there are some risks coming with that policy and that it is of the utmost importance to deal with the robustness and credibility of prudential measures in particular.

My first question to you is: how do you think we are going to succeed in doing that in light of Friday's executive order from President Trump, which outlines what first appeared to be quite reasonable principles for financial sector regulation, but in fact puts in motion a mechanism of review of existing financial regulation with a 120-day rhythm – so three times per year the Treasury is supposed to report basically on how to best dismantle the lesson learned from the financial crisis. I am caricaturing a little bit now, but that it what it would amount to. My question to you is: in light of the importance of the robustness and credibility of prudential measures, what should Europe's strategy be to respond to that challenge? That is my first question.

My second question goes to a specific matter we are starting to discuss in the European Parliament, and that is the recovery and resolution of CCPs (Central Counterparties). In the past, in EMIR, we have taken a college of regulators approach for CCPs, while we have decided to create the Banking Union for banks on account of very big spillovers. My question to you is: in view of the fact that the members of the CCPs are basically all very large banks, is this college of regulators' approach still the appropriate approach and Banking Union, especially after Brexit.

1-009-0000
**Mario Draghi,** *President of the European Central Bank***.** – On your first question, to some extent I would say that it is still too early to say. But if we were just to look at historical experience and ask ourselves what were the main reasons for the financial crisis we experienced starting in 2007, we can of course disagree about whether it was a monetary policy which was too expansionary, as some would argue. Others would say that actually it was due to the dismantling of pre-existing financial regulation in the previous years. But surely all would agree that there was a combination of both factors. At the present time we have expansionary monetary policies more or less everywhere in all jurisdictions, to different degrees depending at which stage of the recovery cycle the various economies are. So the last thing we need at this point is a relaxation of regulation. I think, to a great extent, that the fact that we are not seeing the development of significant financial stability risks is the reward of the action that legislators, regulators and supervisors have been undertaking since the financial crisis erupted. Nowadays, financial intermediaries are stronger than they were before the crisis. So the idea of repeating the conditions that were in place before the crisis is something that is very worrisome. I think I have answered your question.

Your second question was about the recovery and resolution of central CCPs. We have a proposal by the Commission. We are in favour of strengthening the arrangements for recovery and resolution of the CCPs so, to some extent, especially in the presence of Brexit, the college's framework may have to be revisited. We think that the ECB should have a role in regulation for the CCPs. Finally, whatever arrangement we come up with, there must be consistency in international standards.

1-010-0000
**Notis Marias (ECR)** – Mr Draghi, the involvement of the private sector in the process of restructuring of Greek debt, known as PSI, which took place in Greece in 2012, led to a

53.5% haircut of the bonds belonging to small bondholder individuals. More than 15 000 small bondholders lost more than EUR 6 billion. Compared with the remaining 46.5% of their capital, 31.5% was replaced by the Greek Government bonds, to be paid between 2023 and 2042. Thus, unlike the European Central Bank, which has avoided the PSI haircut and rescued EUR 54 billion, the small bondholders who are natural persons, if they ever receive the money, will be repaid by 2042, if, of course, they live until then. To solve this injustice, I would like to make a proposal and I ask you to provide me with an answer. Could the Eurosystem, in particular, the ECB and the Bank of Greece, as part of the quantitative easing programme, move in 2017 by buying these Greek Government bonds, by paying the amounts to the beneficiaries and repaying them 100% of all the bonds that expire between 2022 and 2042? That way, the ECB would contribute to resolving an injustice. It would cost about EUR 800 million, this the ECB would be able to act at last to provide quantitative easing for people. I would like an answer to the question, Mr President.

1-011-0000

**Mario Draghi,** *President of the European Central Bank***.** – On your first question the only thing I can say at this stage is that the terms of the restructuring had been set at that time and, as far as my knowledge goes, there is no intention to revise these terms, but if a more complete answer can be given I will certainly give you a written answer.

As regards the second question, I have been asked this question several times, so let me try to respond to it in terms of when and if the ECB is going to buy Greek debt. First of all, we have to address the issue of debt sustainability. To reach a convincing assessment about debt sustainability, both the short-term and the medium-term measures that are being negotiated – the short-term are already in place, but the medium-term measures that are being negotiated with the Member States – will have to be in place so that a convincing debt-sustainability assessment can be made. In other words, the second review must be concluded. Once that is done, the Governing Council, in full independence, will express its own assessment of debt sustainability based, inter alia, on risk management considerations, and at that point we can talk about purchasing debt. So we may be close to that time if the conclusion of the second review comes quickly, or it may be some time before we can actually do that.

1-012-0000

**Notis Marias (ECR)** – Mr Draghi, my question is very specific and refers only to the small bondholders who were destroyed. If you decide to buy Greek debt, will you be able to purchase in advance the bonds of the small bondholders and repay them at 100%, although they expire in 2042? I would like an answer. Thousands of people are watching you. This is a serious issue.

1-013-0000

**Mario Draghi,** *President of the European Central Bank***.** – We will certainly look at this idea, but let us keep in mind the fact that the rules governing purchases are the same for all member countries, so we have to start from the same standards.

1-014-0000

**Cora van Nieuwenhuizen (ALDE).** – Welcome, Mr Draghi. I would like to ask you two questions, first on monetary policy and the second one on cybersecurity. As you mentioned yourself in your opening statements, your monetary policy doesn't exactly give you the popularity prize in every country, including mine. In the Netherlands, many people think of you as an economic body-builder, taking too much monetary steroids just to pimp the economy. You said that the monetary policy cannot go on for ever, and I'm also aware that you cannot discuss your exit strategy scenarios in detail with us. But when we visited the US with a delegation from the Committee on Economic and Monetary Affairs (ECON), at the Fed they told us that their policy was not date driven but data driven, and that of course makes sense. So I would like to ask you the question: is the ECB policy also data driven? And if that is the case, what data exactly are you taking into account?

And the second question is about cyber. Last week in Frankfurt you spoke very positively about the opportunities that new technologies can offer the financial sector for innovating. As the rapporteur on Fintech I wholeheartedly agree with you on that and I think we should really should make sure that all developments can actually happen. But you also mentioned the threats that we have to face on cyber risk. So my question to you is: do you think that we have cybersecurity in the financial sector high enough on our agenda, for example in all of our stress tests, or do you think we need to step up? Do we have already enough knowledge and experience, for example, in all of our supervisors, or do you think we need something extra for that?

1-015-0000
**Mario Draghi,** *President of the European Central Bank***.** – Let me respond first to the second question: we definitely need to step up our efforts. Our experience with cybersecurity in the last four or five years shows that in all sectors we have been fairly unprepared, not only in the financial sector but at large. So there is a serious, I would say almost a quantum leap that all actors will have to make, including the financial services industry, both the industry in the private sector and the supervisors in this field. It's also something that doesn't have a defined, finite benchmark, because the progress of cybercrime is continuously moving with technology, with innovation. So we definitely have to work hard and continue to develop safer and better standards.

On your first question, it's really about what we need in order to clarify what we will do next. Well, we need in a sense an inflation rate that satisfies the four conditions that I mentioned before, namely: that we see a convergence towards our objective; that we see a durable convergence over the medium term, that is over the relevant policy horizon; and we have to see that it is self-sustained, in other words when we judge this we have to respond positively to the question: suppose we are going to withdraw our support, what is going to happen? Will the inflation rate drop suddenly, or will it continue its convergence to its medium-term objective? And if the answer is the second, then in that case we would be in a position to withdraw our monetary policy support. And the fourth condition is something that I won't stop arguing in all countries, including yours, that there has to be an inflation rate which refers to the whole of the Eurozone, because that is how our mandate is being defined.

1-016-0000
**Marisa Matias (GUE/NGL).** - President Draghi, thank you. Inflation in the eurozone stood at 1.1% at the end of 2016, and less than 1% if we exclude energy from food products. Inflation increased in January 2017 but, again, if we exclude those products, it remains stable, which means that the ECB has been in violation of its mandate since 2012.

Despite that, and in spite of the difficulties and violation, the Quantitative Easing programme has produced reasonable results for the economy and contributed to the solvency of Member States. Given this failure to meet the inflation target, it is absurd to reduce the stimulus. Indeed, the announcement of this reduction has already increased the interest on Portugal's public debt, despite Portugal having surprised all of the European institutions by significantly reducing its deficit. In addition, the capital key rule is not being honoured in the distribution of ECB purchases.

As a result of the scale of government debt generated by the rescue package, economies such as Portugal's cannot access the purchases to which they should be entitled, and the resulting situation is absurd, Mr Draghi.
Portugal has the same debt ratio as Italy and has a much higher primary surplus, and yet it pays higher interest because it cannot access the ECB purchases that it should be able to. This is because it is well below the capital key, unlike Italy, which is well above it. I therefore have two very simple questions: The first is whether this is the concept of equality between Member States that exists in European laws and Mr Draghi promotes and believes in, and

whether or not the ECB intends to introduce a compensation mechanism, as we clearly are not seeing equality here. If the situation continues as it is, it will only get worse in 2017. The second question is whether the ECB is considering re-accelerating the Quantitative Easing programme and, if inflation continues below the rate expected and the rate set out in your mandate (as already mentioned), do you intend to continue to violate the mandate to which you were elected?

1-017-0000

**Mario Draghi,** *President of the European Central Bank***.** - On your first point about the success of our monetary policy, I am of course fairly biased, but we think that it has been successful. You can see that success now if you look at the millions of jobs that have created, as I just said in my introductory statement: how, gradually but continuously, the recovery is firming up, and the continuous growth that we have had since the beginning of 2015, quarter after quarter. We will see how all this will gradually translate into higher growth in nominal wages and, in the end, higher growth in prices, reflecting not only energy prices but also other components of the price index.

So, all in all, we think that the policy has been successful. In fact, if you also consider the low oil prices we had until a few months ago, the two main drivers of the recovery have just been lower oil prices and our monetary policy. For years there was not much more than that around in the eurozone in terms of policies.

The second part of the first question deals with the spreads of Member States' debt. Our monetary policy does not target spreads. Our monetary policy targets price stability, not spreads.

The third point of your first question relates to presumed inequality in the treatment of different countries. Well, there is no inequality at all here. You should remember that it is not only the capital key that matters in this, but also issuer limits. So our purchase programme respects and reflects issuer limits and capital keys. We have temporary deviations from capital keys, which are supposed to be offset in a relatively short time. So there is no inequality here, but simply the fact that we are bound – and the Governing Council has reiterated that recently – by the existing issue and issuer limits.

Finally, certainly – as I have just stated – if financing conditions were to develop in a way not consistent with reaching our objective of an inflation rate close to, but below, 2% in the medium term and, as I said a moment ago, for the whole eurozone in a durable and self sustained way, we are ready to step up again our purchase programme and other parts of our monetary policy stance.

1-018-0000

**Philippe Lamberts (Verts/ALE).** – Mr President, when I hear you speaking about jobs and growth I cannot refrain as an engineer from saying: well, if you want infinite growth in a materially finite world, you need to be able to fully decouple GDP growth from physical footprint, and that has never been observed. And also in terms of jobs, I like what you say about unemployment, but in the best performing European countries the employment rate – not the unemployment rate, the employment rate, expressed in full time equivalents – culminates at 75%, with 68% in Germany, 63% in Belgium, 55% in Italy. So it would take an enormous amount of growth to reach the full employment that is in your objective.

But precisely if I look at Article 127, you need to achieve price stability, and the way the ECB translates this is 'below but close to 2%'. Is this the only definition of price stability? Or could there be another? But also when I read Article 127 I see that there is an explicit reference to Article 3 of the Treaty, which mentions social progress, environmental sustainability and all the rest of it. And there I have a question about the distributional impact of ECB policy – of

course the QE policy, and there is some indication that indeed it does have an adverse distributional impact – but also the distributional impact of the kind of structural reforms that the ECB keeps advocating. We are strong supporters of structural reforms, though probably not exactly the same ones as you suggest – especially when I think of permanent flexibilisation of labour markets. That does have an adverse distributional impact, because of course you are flexible – well, you are putting workers in competition with one another and thereby increasing the capability of capital to extract a greater share of the added value. What would you have to say about this?

1-019-0000
**Mario Draghi,** *President of the European Central Bank***.** – The answer to your first question is yes. For us, that is the only relevant definition of price stability for our own monetary policy mandate.

On your second point, we have looked with great care, great attention at the distributional impact of our quantitative easing, and in fact I gave a speech a few months ago in Berlin, where we were really going through excruciating detail to assess the distributional consequences of our monetary policy. But by and large, one can say that our monetary policy has been addressing the major consequence of inequality in our society, namely unemployment, and in this sense the medium-term consequences of our quantitative easing have been altogether against inequality.

However, it is also true that in the short term, if we buy assets, asset prices go up, and the holders of assets are usually not the poorest members of our society. So what you would expect is a short-term effect, which may be negative, but is actually not very significantly negative, for a variety of reasons. For example: house prices of all sorts going up. Now, ownership of houses is pretty well distributed across society. And the medium-term effects are definitely positive as far as inequality is concerned.

On the structural reforms, probably the ones you have in mind square with the ones I have in mind. I don't think there has to be a big difference. Certainly there is a sequence, and there are two issues here that we have to be careful of when we talk about this. By and large, each country has its own agenda in terms of structural reforms. In some countries, for example, you have issues like the judiciary, in other countries you have education, you have the labour market. In all countries, however, and that should be the first thing, you have the enactment of the single market, the conclusion of the single market, namely competition in trade in goods and services. That – as by the way, macroeconomic theory also shows – should be the first reform to be enacted. Then you will see other reforms such as, as I said, to the labour market, the judiciary, and indeed education where it's needed.

However, there is also another aspect which – and here I agree with you –has been paid less attention in the last few years, namely that all these reforms entail big changes in our societies. Big changes create winners and losers, and losers have to be looked at with much greater attention than we've done in the past. And again, if we go back to our textbooks, it has always been said that that there has to be a principle of indemnification or compensation whenever there are big changes in society. There are ways to take care of the losers. And so in a sense we have to go back and think about that.

1-020-0000
**Marco Zanni (ENF).** – Chair, honourable Members, President Draghi, I am sure you will have followed the dispute between the United States and Germany which arose when President Trump accused the German Government of having manipulated the exchange rate. The German Finance Minister recently blamed Germany's enormous trade surplus on the ECB's monetary policy, saying that he had warned the ECB privately not to go too far, because that would be the result if it did.

So, my question is: do you agree with Schäuble, or would you say that a real implicit exchange rate which is far too low for Germany, and the resulting particularly high trade surplus, has given rise to the German Government pursuing an aggressive salary policy since 2004 and its obsession with the trade balance? That is my first question.

My second question concerns a remark you made during your speech in Ljubljana last week, in which you levelled harsh criticism at the Member States' monetary policy, saying that the countries which have introduced reforms do not depend on a flexible exchange rate to achieve sustainable growth. In the light of this statement, could you explain to us why under your mandate the ECB has pursued monetary policies which have significantly devalued the euro against the US dollar as a means to stimulate growth? Can you give us any examples of large eurozone countries which have achieved this objective through reforms, as the average annual GDP growth of large countries in the eurozone between 1999 and 2015 appears much lower than that of countries such as the US or the UK.

And my final question concerns the potential break-up of the eurozone. What do you think about a possible return to an SME2, with reasonably wide fluctuation bands of around 10% to 15%?

1-021-0000

**Mario Draghi,** *President of the European Central Bank***.** – With regard to the first question, let me read an interesting document about whether we are actually manipulating the currency or not. In its latest report to Congress, released on 14 October 2016, the US Treasury itself stressed that Germany does not manipulate its currency. The reason is that Germany does not satisfy all three criteria used by the US Treasury to identify unfair currency practices. Germany has a significant bilateral trade surplus with the United States and a material current account surplus, but it is not engaged in persistent one-sided intervention in the foreign exchange market. Let me quote the US Treasury: 'The Treasury has found in this report that no economy satisfied all three criteria. Germany has both a significant bilateral trade [surplus]…' and I [continue…] 'The European Central Bank has not intervened in the foreign currency market since 2011 and did so then as part of a G7 concerted intervention to stabilise the yen following Japan's earthquake and tsunami in cooperation with US authorities'.

So, first and foremost, we are not manipulating the currency.

Secondly, the monetary policies we have pursued reflect the different positions in the cycle of the US and the eurozone; let me remind you that in 2013 the exchange rate against the dollar was roughly 1.4. However, Germany's surplus with the United States was already at 6%, because that is the strength of the German economy, which is not entirely based on aggressive salary reduction policy, as you say, but also on productivity and competition based not solely on price.

As for which countries have benefited and achieved growth – and neither do I agree that the eurozone grew less than other States or jurisdictions outside the eurozone – as I said just a moment ago, but also in my speech in Ljubljana, many countries have done very well despite the crisis, first and foremost Germany, but many others too, even Ireland. Unfortunately, I do not have the exact figures with me today, but many countries have succeeded in reducing unemployment significantly, despite a major economic crisis caused by sovereign and private debt. The Netherlands, for example. Many countries have done well in recent years, largely because they carried out structural reforms, making their economies stronger and more flexible.

Finally, on SME 2...

I would like to respond with President Reagan's words in his famous presidential debate.

'There you go again, please.' We have seen what happened with exchange rate arrangements before the euro was enacted. The 1970s and the 1980s were certainly not years of stability. They were years of continual competitive devaluations, and the belief we have is that the single market would not survive with continual competitive devaluations.

1-026-0000
**Marco Valli (EFDD).** – Chair, honourable Members, I have a question for you, President Draghi, concerning a question that my colleague and I sent you and to which we received a response a few weeks ago, attracting considerable media attention.

In your response, you said that if a country were to leave the eurozone, its national central bank's claims on or liabilities to the ECB would need to be settled in full. Here we are talking about the *Target* 2 balance system.

The press interpreted this statement as you saying that revoking the euro was a possibility, something that you had never mentioned before now, and that, should it leave the eurozone, a country such as Italy would have to pay the ECB roughly EUR 359 billion in Target 2 liabilities.

There have been many debates on the issue, in the academic sphere too, but it is not clear on what basis or how these deficit balances can technically be classified as debts to the ECB, and also what binding legal bases or legislative instruments would legitimise the ECB in demanding and obtaining repayment, as it is objectively a balance system and therefore not really debt. So I would like to know on what principle you have based your statements.

My next question concerns the meeting of Prime Ministers in Malta and the possibility of a two-speed Europe, a proposal put forward in the five presidents' report on the budget, the eurozone, and finance, and another framework of some sort for the other countries, which has opened up a broad prospect of reform. One possibility, from what we have understood, is that some countries, such as Greece, Italy and others, could leave the eurozone for a brief period before rejoining. As a possibility advocated by politicians, how would the ECB manage the possible exit and re-entry of a eurozone country?

1-027-0000
Mario Draghi, *President of the European Central Bank***.** – In response to your first question, I will say that the euro is irrevocable.

The euro is irrevocable.

This is the Treaty.

This is the Treaty.

And my response to your letter was a response to a technical question, based on hypotheses not provided for under the Treaty.

So my answer to your question was an answer to a technical question which was based on assumptions that are not provided for by the Treaty.

My response to your second question is as follows:

I think it is much too early to talk about it. I do not believe it is clear what was said at the Malta summit. They talked about Europe, a two-speed European Union, but it is not yet clear who, how, why, as this concept is not yet fully developed. I therefore think that we only have a rough outline, on which I am unable to comment, at this point in time at least.

1-034-0000
**Marco Valli (EFDD).** – I have submitted another question on the technical matter at hand – the legal bases on which the Target 2 deficit balances could technically constitute a debt – should you wish to respond in writing.

What you said before is perfectly clear, but I would be grateful if you could give me a response on the matter because we also need to resolve the academic debate which has opened up in Europe and the rest of the world.

1-035-0000
**Mario Draghi,** *President of the European Central Bank***.** – As I said before, I don't want to answer a question based on hypotheses not covered under the Treaty.

What I can do, however, is provide a written answer comparing the differences between our Target 2 system and the Federal Reserve system.

I cannot answer a question which is based on hypotheses and assumptions which are not provided for by the Treaty, but I will send you a written answer comparing our Target 2 system with the Federal Reserve based system.

1-037-0000
**Gabriel Mato (PPE).** – President Draghi, it is a pleasure to have you here in my first meeting as a new member of the ECON Committee.

As already stated: 2017 has started with positive data in the euro area, with inflation nearing the ECB's 2% objective, and with growth picking up in the final quarter of 2016. Furthermore, beyond our borders, the Federal Reserve has decided to change its low-rate policy and last week the Chinese Central Bank decided to increase short-term interest rates.

My first question would be whether you believe that the measures adopted by the Reserve are, or could or should be, a basis or a guide for other central banks and what our level of concern should be regarding the potential impact on the bond markets.

Moreover, the United States Congress sent a letter to the chair of the Federal Reserve last week which left clear the message from the president that the interests of the United States should be the priority in all international negotiations. Now for a difficult question – well, the question is easy; but the answer probably won't be, will it? – and that is where do relations with the Federal Reserve stand and what are your expectations as regards the new United States presidency?

And finally, I have a question relating to the European Banking Authority's proposal on the potential establishment of a 'bad bank' to accumulate the stock of non-performing loans in the EU, knowing that non-performing loans in Europe amount to almost EUR 1 trillion. More specifically, last week the Vice-President of the ECB, said, or took the view, during a conference in Bruegel, that creating this asset management company could quickly clear the non-performing loans from bank balance sheets. My question is what is the President's view on the creation of this 'bad bank'? Also, if it should come to be, what is your opinion on whether there should just be one bank at European level or one in each Member State?

1-038-0000
**Mario Draghi,** *President of the European Central Bank***.** – On your first question about this letter which was sent by a United States Member of Congress to the President of the Federal

Reserve, let me say that I am not supposed to comment on what members of parliament of other jurisdictions say, but if I were to be asked or to be sent a similar letter I would say that I think we all benefit from having central banks, supervisors and regulators. All major economies share their experiences and efforts and develop regulatory standards together with the input of public consultations.

Over the last 30 to 40 years these consultations, this exchange, has produced extremely valuable results and is at the basis, is at the source of the recent strengthening of the financial system through a much more robust regulatory and supervisory framework. Given the complexity of global interlinkages between institutions today, we especially need such exchanges. By the way, financial regulators and supervisors do not operate in isolation, especially in this world where everything is interlinked. But are the regulators, are the central bankers, are the supervisors, the ones who actually have the last say on regulation, financial legislation? Of course not. Not here, not in the United States and not anywhere else. It is always the legislators who have had not only the ultimate say, but the naturally discretionary power in implementing the views that have been exchanged and discussed between central banks and between supervisors. That is what I would say if I were sent a similar letter.

On your second point about the creation of a bad bank or an asset management company for the NPLs, let me say one thing. Management companies are by their very nature complex and we have experienced this in the recent past on various occasions. Even more complex would be a management company at European level. And finally, we should ask ourselves whether management companies or bad banks are a panacea for NPLs. The answer is not really. NPLs, assets of weak quality, have to be addressed through profound changes in the legal, judiciary regulatory frameworks, first and foremost at national level. To take an example, procedures for debt recovery, out of court settlement, the creation of a market for NPLs, are all essential to address this problem. The creation of a management company is only one of the various measures, of the various steps that need to be put in place in order to address this problem.

1-039-0000

**Neena Gill (S&D).** – You rightly highlighted the fact that we finally have green shoots of growth in the EU, an optimistic outlook for the economy. I believe that the ECB does deserve credit for this. However – there is always a 'however' – I am concerned by a couple of developments that could just cause a blip in the upswing.

Firstly, on 10 January, you wrote a letter to my coordinator expressing concern that Brexit may lead to a loss of oversight and supervision of UK central counterparties (CCPs) by the ECB. You also said that it would be important to find solutions that at least preserve, or ideally enhance, the current level of supervision and oversight. However, according to sectoral players, a policy that prevents CCPs located outside the euro area from clearing euro products for EU members and clients will have significant economic consequences, as such a policy would constrain the ability of these key financial institutions to contribute to growth, innovation and financing of the real economy.

Experts like Tim Massad are concerned that restricting euro clearing could adversely affect anyone who pays taxes or has a bank loan, a deposit or a pension plan. This really would be a lose-lose situation.

So, against this background, do you share the view that, with drastic euro location policy to challenge the international status of the euro as a reserve, trading and anchor currency, there is also a risk that there could be retaliatory measures from other jurisdictions, which would have an impact on EU-based financial institutions?

You said, in response to my colleague Jakob von Weizsäcker, that you had emphasised the ECB must have a role on CCPs – and I accept that – but would it not be more prudent to have better cooperation between the Bank of England and the ECB, as this would provide the best outcome for continuing growth of the European economy?

My second point, very quickly, is about non-performing loans. You answered most of my points in the earlier question, but my concern is whether what you are suggesting will take too long. Is there a quick way of trying to address the non-performing loans issue?

1-040-0000
**Mario Draghi**, *President of the European Central Bank***.** – Right now, the ECB is involved in the oversight of UK central counterparties (CCPs) through the supervisory colleges established by the European Market Infrastructure Regulation and a dedicated memorandum of understanding with the Bank of England. The framework of our cooperation with the Bank of England and the legal certainty afforded by the authority of the European Court of Justice enables us to monitor the risk to our currency. It is too early to take a firm stance on the regulatory framework that should be established once the UK leaves the EU, but our core concern, as well as having a level playing field for all euro-area consumers, citizens and companies, will be that financial stability and investor protection must be established. More especially, what is important is that we do not step back on the single market. To be part and parcel of the single market means to be subject to the European Court of Justice, so we will have to look carefully at that aspect. As I said, it is still too early to say.

On your second point, namely whether there is a quick way to address non-performing loans, unfortunately there is not. This is one of the reasons why the problem has been lingering for so long. It is certainly a major challenge for some European banks, and for some European countries. It is one of the main factors keeping bank profitability low at eurozone or European level. There are also other factors, of course. Environmentally low rates and low growth also contribute. The situation of what I would call an overcrowded sector also contributes. Certainly, especially in certain countries, the legacy of a high stock of non-performing loans is taking energy from the banking system and lowering profitability. As I said before, what is needed is a comprehensive strategy where national reforms in the sectors that I mentioned before, namely judiciary, legal and regulatory, are essential.

More particularly, non-performing loans are a legacy problem. To introduce new legislation which addresses only future non-performing loans is not very helpful. We would need legislation to address the legacy, especially considering that the improvement in economic conditions has, overall, benefited the situation. Non-performing loans nowadays are growing much more slowly, or are even going down, thanks to the improvement in economic conditions.
As far as the ECB Single Supervisory Mechanism (SSM) is concerned, you know that we have published, for public consultation, a draft guideline on non-performing loans. It is a qualitative document and is going to be published in its final form in the early part of this year.

1-041-0000
**Danuta Maria Hübner (PPE).** – Mr President, I have a question related to the liquidity on markets in the context of potential normalisation of the policy. Because we sometimes hear from industries complaints, or feelings, or concerns that, due to many elements of the new regulatory framework, especially UCITS, MiFID and IMR, the liquidity on markets has been reduced, and this is mostly due to the fact that banks have tended to withdraw from many market-making activities. So the problem is that there are not really any convincing hard data because the quantitative easing programme has provided a lot of liquidity, which is maybe hiding the problem, but this problem might reappear when you switch to normalisation of the policy. So my question is: have you been monitoring the impact of the regulatory framework

on liquidity? And is it something that you are taking into account? And what kind of liquidity landscape are you expecting once you go to the exit strategy?

And my second question is related to what we heard from the ESRB in December. They have been consulting on a new special vehicle which is sovereign bond-backed securities. There is a lot of good about that, because there is a benefit-risk sharing that is clear, but there are also questions related to the fact that securities are much more complex and most likely less liquid than sovereign bonds. So there might be a problem with finding markets and with attractiveness, attracting investors. But also, is it a question of potential competition between those new securities and what the ECB has been doing, meaning the sovereign bonds and purchase programmes? Could you comment on this?

1-042-0000

**Mario Draghi,** *President of the European Central Bank***.** – I will answer your second question first. We are at a very early stage, and we are not in an ECB-led effort. What is actually happening is that there is a task force in the ESRB where all central bank governors or their representatives sit, and they are working out this concept of European safe bonds. So we'll have to see what comes out of the task force. What we know at this stage is that it's a 100% private-sector-based concept that certainly doesn't relieve governments from their responsibility in terms of issuance, sustainability of their debt, or honouring the existing debt and its servicing.

So it's basically something that it is still too early to comment on. And frankly we have not asked ourselves the question, as you are asking now, of what's going to happen to sovereign bonds, because it hasn't yet reached that stage.

On your other point about liquidity: certainly, in general, even regardless of present changes in regulation, the exit from a prolonged period of a very expansionary monetary policy, in low or even negative interest rates, needs special care for a variety of reasons, one of which is the fact that market participants have got adjusted to plenty of liquidity for a very long time. Right now we don't observe, by and large, any shortage of liquidity – maybe there are small market segments where this is been observed, but they are not, by and large, the reason for any significant shortage of liquidity. But we have to be very careful and monitor this issue very closely, because we have experienced during the crisis, and also on other occasions, that liquidity is there until it isn't, and it gets out and goes and disappears very quickly.

So that's why certain regulatory measures are going to be implemented: also to make sure either that sudden swings in liquidity don't happen or that intermediaries are resilient to such an event.

1-043-0000

**Pedro Silva Pereira (S&D).** – President Mario Draghi, we were presented with some very convincing arguments for continuing with an expansionist and largely unconventional monetary policy. Those who are asking the ECB for an immediate and potentially radical change in a restrictive direction are misjudging the European economic situation. They are, perhaps, thinking more of their own interests than those of the eurozone as a whole and, as President Draghi already said on a separate occasion, it is important to be patient.

However, in his speech, President Draghi also emphasised the importance of convergence. I want to ask whether he acknowledges that recent changes to monetary policy, and in particular the asset-purchasing programme criteria, introduced a solution that has had an uneven effect on the eurozone. It has benefited some more than others and has, for example, made investing in Germany's debt more attractive, and as a repercussion, has made investing in the debt of periphery countries less attractive.

If this is the case and this problem concerns him, should mechanisms be designed within monetary policy to support convergence and avoid solutions that increase divergence in the eurozone? Lastly, can countries with a level of asset purchasing below that anticipated (although other constraints must be taken into account) expect as quick as possible a return to asset-purchasing levels that do not also worsen their situation in sovereign debt markets?

1-044-0000
**Mario Draghi,** *President of the European Central Bank***.** - We always have to keep in mind that our objective, our mandate is to pursue price stability, defined as a rate of inflation which is close to but below 2% over the medium term. So the whole monetary policy stance is predicated on this point and on a rate of inflation that would satisfy the four features that I mentioned before.

So we don't actually… we have an asset purchase programme, we made a change in December whereby we can buy below the rate on our deposit facility, and at its last meeting the Governing Council expressed its satisfaction about the consequences, the results of this December decision.

And we have seen, as I was saying before, that our monetary policy has contributed to the improvement and the firming of the recovery that we are witnessing, and to the improvement conditions in the labour market, and has laid out the conditions whereby an improvement also of underlying inflation is possible, besides the increase in headline inflation which is due to changes in energy prices and to base effects.

In the course of carrying out this purchase programme it is quite clear that we are bound not only by the capital key but also but by what I was saying before: there is an issue limit, there is an issuer limit, and the reasons for these limits are that we want to make sure that we don't run into what would be called monetary financing, which is forbidden by the Treaty, and we want to make sure that we let markets function.

If we were to buy a much higher share of the public debt of one single country, we would probably run against these two considerations, namely that we would be viewed as being close to monetary financing, and we would be viewed as close to distorting the functioning of the market in favour of that specific country. That's why we established those issue and issuer limits. So, there isn't any inequality as a result of our asset purchase programme.

I think I have answered both your questions.

1-045-0000
**Werner Langen (PPE)** – Mr President, on 28 November, you stated that low interest rates signal a crisis and, at the same time, took the convergence of the basis points for interest rates in the eurozone as a positive sign.

At present, we are seeing the opposite trend. The spread has become wider, in particular between Germany and Italy, but also among others. The interest margin is growing considerably – the inflation rate is already at 2% in individual countries – and in places with the most investors and a tradition of saving, interest rates are still extremely low. This will certainly not change for some time, but you will eventually have to encourage a reverse trend when interest rates in the dollar area start to rise.

However, the opposite has been decided: the programme is to be expanded and the time period extended. And given that, since November, this has happened so quickly, what do you think will happen in the future when the situation has already changed so much in the space of three months?

Secondly: President Trump has announced that he will abrogate – or may have already done so – certain provisions of the *Dodd-Frank Act* and has stated that the additional Basel requirements will no longer apply to American banks. This is an enormous change.

And the third question is: Tomorrow will mark 25 years since the signing of the Maastricht Treaty. You signed the Five Presidents' Report. Which institutional reforms does the President of the ECB regard as indispensable?

1-046-0000
**Mario Draghi,** *President of the European Central Bank***.** – I'm sorry, what is the last part of your question? From the Five Presidents' Report viewpoint, which institutions are…?

1-047-0000
**Werner Langen (PPE)** – Twenty-five years of the Maastricht Treaty, and we need institutional reforms. What is your proposal?

*(Mr Draghi: 'Institutional reforms?')*

The Five Presidents' Report.

1-048-0000
**Mario Draghi,** *President of the European Central Bank***.** – On your first question, the ECB has been criticised by many in some quarters of the eurozone on the grounds that our monetary policy would basically kill market discipline. Well, we see that is not happening. We see that markets do react to various conditions, and here I would recommend that budget policies in all countries be conducted as a way, certainly, to support the recovery, but at the same time to be sustainable.

So countries that do not have fiscal space should not try to use it, should not try to force some fiscal space to be found where there isn't any. They should work rather on the composition of the budget – and we have discussed this several times – trying to make their government budgets growth-friendly. There are many things that can be done and, by the way, the changes in the budget composition go hand in hand with structural reforms.

You also asked me when we are going to exit, and the answer is, in a sense, the same answer I have given before: our objective is an inflation rate which is close to, but below, 2% in the medium term. So we have to see – I'm not sure why you are laughing at that, but anyway – we have to be convinced of a durable convergence to this objective. So we look through transient changes in headline inflation: it also has to be for the whole of the eurozone and it has to be self-sustained. These are conditions we look at with a view to changing our monetary policy stance.

Your second question had to do with financial deregulation. As I have said, we have to see exactly what the US administration wants to do with respect to the negotiation about Basel III, which has been going on up until a month ago with the US administration, and we have to see exactly what lies behind these broad statements. But certainly, and I repeat this, the combination of easy money and financial deregulation was exactly the ground upon which the financial crisis developed. And while present expansionary monetary policy is granted by the need to achieve our objective, frankly I do not see any reason to relax the present regulatory stance which has produced a much stronger banking industry, and financial services industry in general, than we used to have before the crisis.

You also asked me about institutional changes, as suggested. By and large, there is a roadmap, not a blueprint but a roadmap, which has been sketched in the Five Presidents' Report. It is now pretty clear to everybody that there are two sets of policy actions that need to be undertaken. One, first and foremost, is at national level. Our economies must converge more.

This was an assumption that people had in mind when they underwrote the Maastricht Treaty, that proper convergence would take place, and convergence is based on structural reforms.

Second, exactly at the time of the Maastricht Treaty, or right after that, we had the Stability and Growth Pact, because we also had to have compliance with rules. If we have convergence and compliance with rules, we will create that basis of trust which will enable us to move forward with deeper European monetary integration, with the creation of institutions, so we would move, in a sense, in a way that is very similar to what we have done with the creation of the ECB. We would move from different separate policies to a unified view of our policy-making, but we need trust in order to do that.

1-049-0000
**Jonás Fernández (S&D).** – Welcome, President Draghi. I have three quick questions for you.

The first one – my colleague Danuta Hübner has already touched on this – concerns the proposal that it appears that the committee which is part of the European Systemic Risk Board, which you chair, is discussing securitising public debt. You stated that the work is in its early stages, but I would like to ask you when you believe that there could be a more or less formal proposal and what your assessment is of this work. I would like you to provide us with more ideas, with the direction of the debate in the institution which you chair.

The second question concerns the Monti report on the EU's resources. As you know, for some time now we have been pressing for the ECB seigniorage benefits to go towards the EU budget, specifically for the Member States in the euro area. This proposal is acknowledged in the Monti report and I would like to hear your opinion on the matter.

And finally, to follow on slightly from the question from my colleague Langen on what remains to be done in the institutional design of the Union and their reference to the Five Presidents' report, I would like to ask you what you think of the delays in the Council, on the debate about EDIS and, regarding the debate that we are having in Parliament, whether you have an opinion on the amendments that have been tabled.

1-050-0000
**Mario Draghi,** *President of the European Central Bank***.** - On the European Safe Bonds, I responded earlier. It is simply too early to make any comment. It is not something that the ECB is directly addressing right now, but it is being studied by a task force chaired by the Governor of the Central Bank of Ireland, and all the central bank governors or their representatives sit on this task force. We have to see their conclusion before we can assess it. It is quite clear that it is a 100% private sector concept, which will not relieve governments from their responsibility as far as budget policy or honouring their debt obligations is concerned.

Your second point is about the potential devolution of ECB profits to the EU budget. This is primarily a political decision and such a decision would require a change in the Statute of the ECB. We think that would require a change in the Treaty that cannot be – and I think the Monti report agrees with this – addressed by a simplified procedure. In particular, it would probably require the amendment of Article 33.1(b) of the ESCB Statute, which governs the distribution of the remaining ECB profit. Amendments to the Statute require the application of the ordinary revision procedure, as laid down in Article 48 of the Treaty on European Union. In our view, it is also questionable whether an amendment to Article 33.1(a) to distribute all, or part, of the ECB's profits to the EU budget in applying this simplified amendment procedure, is legally sound.

*(Off-mic. intervention from Mr Fernández. Mr Draghi's assistant: 'It's a question on EDIS')*

Oh, I'm sorry. It is the other pillar of our Banking Union and we will have to proceed on that ground, but it is quite clear, as I was saying before, that we are in favour of a parallel approach where we have risk reduction and risk sharing. We have always had this approach. Several measures have been undertaken on risk reduction. We had TLAC and now we have MREL. We have the net stable funding ratio and we will have the leverage ratio. So several measures have been taken on that ground. We may also want to continue the strengthening, and possibly the consolidation, of the banking sector. At the same time, we will have to move forward with risk sharing.

1-051-0000
**Alain Lamassoure (PPE).** –Mr Chair, you have reminded us that one of the paradoxes of the workings of the European Monetary Union is that our economies in the euro area have been converging less and less, especially since the crisis.

Another paradox is that, since the crisis, the capital market has split, with every bank and every financial institution, in particular, falling back on their domestic market. This split remains today, which is concerning, of course. To a certain extent, quantitative easing could rectify this, but at the same time, it could also indirectly facilitate it.

In your opinion, to get back free movement of capital and cross-border investment for banks and all financial institutions, would a trust problem – you spoke of trust earlier– be the main issue, or is it also a problem with sharing responsibilities between European regulators and national regulators?

1-052-0000
**Mario Draghi,** *President of the European Central Bank***.** – The first point concerns the convergence of our economies. In fact there are quite interesting figures showing that the dispersion of value-added growth in the eurozone countries has decreased considerably and is now at its lowest level historically since the beginning of the euro. I am confident that, as the recovery proceeds, this dispersion will continue to decrease. However – as I have said many, many times – this convergence ought to be sustainable and, to be made sustainable, countries have to undergo the reforms that they need, each according to its own national agenda.

The other point concerning fragmentation is, in a sense, quite similar. Financial fragmentation has, by and large, disappeared. I would say that the highpoint of fragmentation was in 2012 and that, since the end of 2012, it has been going down. We have seen continuing improvement in funding and in a continuing narrowing of spreads both between countries in bank lending, and between sectors – between large corporates and small firms. The latest survey – a fairly recent bank lending survey – shows a continuation of this positive trend. Even in the Commission's survey on small and medium-size companies, two or three years ago, when they were asked what the major problem was with their business, the number one answer was very often about difficulty in obtaining credit, which differed depending on whether they were at the core or on the periphery. Now they answer that their biggest problem is finding clients. The availability of credit comes last, and that is as it should be.

The same thing goes for banks. Four years ago the first answer to our question about their primary motivations in deciding to give credit was risk. Therefore, risk being higher at the periphery than at the core, you had very little credit flowing in the periphery and normal flows in the core. This consideration no longer even appears: the key considerations are, firstly, demand and, secondly, competition between banks. So, all in all, this is another reason to be satisfied – and the Governing Council is certainly satisfied – with the monetary policy that has, by and large, eliminated fragmentation.

1-053-0000
**Paul Tang (S&D).** – President Draghi, you could say that the job of macroeconomic stabilisation falls entirely on monetary policy. I assume you would like to see a difference, at

least that budgetary policies do not go against monetary policy. The Commission has introduced a fiscal stance, and in a recent proposal also suggested that countries like Germany and the Netherlands should take the opportunity they have and invest more, up to EUR 50 billion. That would have been a counter-cyclical budgetary policy. In fact what the Ministers in Ecofin did was shrug their shoulders and say that the Commission should not interfere, not even mention it. How do you see this? Is this a missed opportunity that could have contributed to macro-stabilisation in the Eurozone? I would like to hear you on that. That is my first question.

The second question is in a sense related, because you seem to be the favourite scapegoat of Schäuble. First he blames you for the rise of populists: today, the euro is too low for Germany; and I am warning you that the next thing will be that prices are too high in Germany, inflation is too high, you know how sensitive they are in that country about inflation. So maybe it is time to manage expectations here, because your aim is to go towards 2%, but that means that in countries like Germany and in Holland, inflation should be significantly higher than 2%. Can you say something about for how long a period, and what inflation differential you would like to see – is it 1% between Germany and Holland and the rest? Is it more? I would like to hear it from you.

1-054-0000

**Mario Draghi,** *President of the European Central Bank***.** – Let me answer your second question first. First of all, inflation differentials are not a new thing, they have always been with us; especially if we go back before the crisis we will see pretty significant differentials in inflation, and we see that today. Our objective is defined in terms of an inflation rate for the whole of the eurozone, not for single individual countries.

Concerning statements, I won't comment on statements by national politicians, necessarily, because otherwise I would have to comment on too many of them, but certainly I can recall what my predecessor, Wim Duisenberg, a good Dutchman, said when he was attacked for his monetary policy. He said something to this effect: It is understandable. The politicians, especially at times of elections, express their views about monetary policy – although a polite comment or a polite exchange of views is better than finger-pointing on things like that – so it is understandable that they express their views, but it is also understandable that independent central bankers hear them, but do not listen to them.

On the fiscal stance. (First of all I should qualify what I said. I was not entirely right when I said that monetary policy has been the only policy in town. There have been exceptions. One exception is the Netherlands, where actually there was an effective fiscal policy from that viewpoint, considering substantial changes in taxation.) Let me now come to the fiscal stance. By and large we think the fiscal stance right now is appropriate. We think that by year end we will find out it has been mildly expansionary. Several countries have upgraded their expansion plans given migration, security and the various needs of different countries, but as a rule, the fiscal stance in each country should reflect both, certainly the need to support the recovery, but also its sustainability.

I spoke before about countries that have no fiscal space. Let me say one word about the countries that have fiscal space. Here in the eurozone we have countries that have fiscal space and are at full employment, and countries that do not have fiscal space and are not in full employment. On the second ones I have just commented. For the first ones to advocate an indiscriminate broad fiscal expansion in a country that is at full employment does not make much sense in my view. One would like to see this sort of space being used for the rest of the eurozone but we do not have an immediate mechanism now, an institutional mechanism that translates a national fiscal space into a euro fiscal space. It does not exist. So the bottom line is that moderate fiscal expansions may be advisable but they should be targeted at increasing

supply, that is to say, enhancing productivity in these countries because they are at full employment. Therefore investments in education, in digitalisation and in *particular* infrastructures could be advised, but I would certainly not advocate broad fiscal expansion at large. I think I have answered your questions.

1-055-0000
**Chair.** – Thank you, and that is why many of us think a fiscal capacity is the only way to solve this dilemma.

I can take two quick catch-the-eyes according to political group, so first Mr Zarianopoulos and then Mr Kyrtsos.

1-056-0000
**Sotirios Zarianopoulos (NI).** – Mr Draghi, it seems that negotiations for the evaluation of the Greek Memorandum will be concluded and it seems that you agree with the Greek Government on new measures on wages, pensions, and a reduction of the tax-free allowance, so I will not ask you about this. Instead, I wish to ask about a European Central Bank report which was published recently and which promotes or requires replacement of labour agreements at sector level with labour agreements at enterprise level, for more flexible and therefore even lower wages. Questions: In what way has this policy ultimately benefited employees – given that employers have reaped the rewards – wages have decreased and unemployment in Greece remains high and flexible working, with salaries in the range of EUR 200-250, is spreading further and further? Given that the Greek Government says that the European Union is good but the International Monetary Fund is not good, I ask, in connection with this wage-related issue, what is the difference between the views of the IMF and the European Central Bank. Are pay cuts an alternative to collective redundancies? Is this the best practice in the European Union? This is blackmail. Lastly, surpluses have been achieved, and may there be more and a recovery. But here we must listen – the first argument, even in recovery – to the voices saying that salaries will not increase because we will sink back into a crisis. Last question: for recovery with stability, as you and the Government say, are pay cuts a requirement needed to attract new investments?

1-057-0000
**Georgios Kyrtsos (PPE).** – Another Greek question, Mr President. There are different assessments concerning the sustainability of the Greek debt. The IMF has reached very negative conclusions, whereas the European Stability Mechanism has a kind of… let's say reasonable optimism or something of the sort.

Where does the ECB stand concerning the sustainability of the Greek debt? Have you reached a conclusion, are you about to reach a conclusion? Are you going to follow the same criteria, or a different approach? Could you please tell us in a few words?

1-058-0000
**Mario Draghi,** *President of the European Central Bank***.** - On the first question, unfortunately I don't know what is in the OECD report about this. I can give you a written answer to your question, however.

*(Off-mic. exchange between Mr Draghi and Mr Kyrtsos)*

Yes, a written answer, as European Central Bank, to your question about the OECD report.

The point is, however, that there must be measures which will accelerate the absorption of unemployment. That is important. Now, what the particular shape of these measures will be is being discussed now in the negotiation towards the conclusion of the second review. That is… and now I'm answering also the other question, in a sense linked to that… I think significant progress has taken place in Greece, many important changes have been introduced.

Now the conclusion of the second review hinges by and large on the following issues. First of all, it is believed that for a positive assessment of debt sustainability there should be a medium-term primary surplus of 3.5%, that is to say, a 3.5% primary surplus for a certain long period of time, and that is one point of negotiation. The second point concerns the closing of the fiscal gap for 2018. The third point concerns a certain set of structural reforms, one of which, and here I respond, is the labour market reform, another is about the judiciary, and a third is about energy. But I would add one – and here I am answering about the role of the ECB as well – which we care about a lot, which is the NPL handling, to give renewed strength to the banking system. And our role in general, I would say, has been as it were carved out in the Troika in the last two or three years, especially as far as is the financial sector is concerned, which is viewed as closer to the institutional capacities of the ECB.

1-059-0000

**Chair.** – Thank you very much for this extremely interesting and important monetary dialogue. I consider what you said about the importance of a regulatory framework at international level to be very important. It is good that the resolution this committee adopted, for instance, on Basel was quite different from the letter than the US senators sent to the Federal Reserve, and, while making some critical points, we underlined that we fully support strong and sound standards at international level. That is very important in this committee, as are all the points that have been discussed today, so thank you very much.

The next monetary dialogue will take place on 29 May 2017.

1-060-0000

*(The meeting closed at 17.10)*