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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, 26 NOVEMBER 2018

1-002-0000

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

(The meeting opened at 15.04)

1-003-0000

Chair. - Dear colleagues, welcome to our meeting. I would like to welcome ECB President, Mario Draghi.

Before giving him the floor, I would first like to adopt the agenda, if you don't have any objections. I also have to give a very short update according to our rules on ongoing trilogues.

As you know, we are working very hard on the banking package in order not only to conclude it by the end of the year, but also to try to anticipate its conclusion in order also to give the maximum possible contribution to the important discussion of the European Council and, before that, of Ecofin, on EMU reform and its various components.

For that reason I would like also to thank the rapporteurs and shadows who are making an extraordinary effort in order to conclude at least the main political element of this discussion. On 22 November, we had the seventh trilogue on CRR2/CRD5. We were able to reach political agreement on a large number of issues – proportionality, NSFR, credit risk, trading book, own funds, IPOs, scope, leverage ratio, ESG – and we will still need to finalise the texts on a number of various other issues. We will try to do this as soon as possible.

On 21 November, and also during the night, we had the sixth trilogue of BRRD also with the same aim of concluding the most relevant issues and we are very close. We defined the provisional agreement conditional on other issues to be solved, in particular on subordinated debt requirement. Progress was also made on other difficult issues, including the retail holdings of bail-inable liabilities and on moratorium, so we are looking forward, on the one hand, to a final position of the Member States and, on the other hand, finalisation of all the various aspects in order to have a package concluded, which I think would be extremely important.

We also had our first trilogue on the Single Euro Payments Area (SEPA) cross-border payments on 19 November. As you know, Parliament and the Council had differing views on the scope of the proposal: where Parliament aims to extend the application of the same-charge rule to all currencies of the Union, the Council, backed by the Commission, prefers to limit application only to transfers in euros. The rapporteur wishes to find a possible middle-ground solution on this. On the issue of transparency, the Council agreed in principle to Parliament's position, although it remains unsure of the possible disproportionate burden to service providers, and we gave a technical mandate on a number of non-political issues. So we will continue the negotiation at the next trilogue, preliminarily scheduled for 3 December.

Having said that, I would like to move now to the monetary dialogue with Mario Draghi, as President of the ECB. After that we will also have the discussion with President Draghi in his

ESRB capacity. But, first, thank you for being here. It is a pleasure to have you here at such a crucial and important moment before a very decisive meeting that the Governing Council of the ECB will have in December. We took note of, and welcome, the recent decision that the ECB has taken. We understand that now, subject to data, there might be an important decision in December, but I also understand from reading your text and your statements that there is also a commitment to maintaining an accommodative stance on monetary policy also beyond December by means of forward guidance and reinvestment of principal. I think this is extremely important if one takes into account the microeconomic situation and also some challenges that I think will also be discussed during the hearing and on which we have also had a contribution of a number of papers: secular stagnation, the reason for long-term low growth, and natural interest rates being low – so there is an interesting discussion with papers, which offer different views. But I have to say that the position of this Parliament and this committee has always been extremely supportive of the monetary policy of the ECB and the contribution it has made to support liquidity and achieve the target of price stability and also, indirectly but decisively, by supporting growth in Europe.

So thank you very much again for being here. President Draghi, you have 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, it is a pleasure to be back at the European Parliament and to appear again before your Committee for our last exchange of views of the year.

As you have chosen very topical issues for our discussion today, I'll get started on the substance without further ado. First, I will share with you our assessment of the economic outlook for the euro area and the implications for the ECB's monetary policy. Second, I will discuss why designing and implementing the necessary reforms to Economic and Monetary Union (EMU) would support the ECB's monetary policy – and thus the euro area economy at large.

The data that have become available since my last visit in September have been somewhat weaker than expected. Euro area GDP grew by 0.2% in the third quarter. This follows growth of 0.4% in both the first and second quarter of 2018. The loss in growth momentum mainly reflects weaker trade growth, but also some country and sector-specific factors.

Do we think this slowdown is temporary or more long-lasting? A gradual slowdown is normal as expansions mature and growth converges towards its long-run potential. Indeed, looking further ahead, employment growth is expected to slow somewhat as labour supply shortages become more binding. Savings ratios will also normalise and temper consumption dynamics to some degree. This is also reflected in our staff projections from September, which see annual growth at 2.0% for this year, and then slightly lower rates of 1.8% in 2019 and 1.7% in 2020.

Some of the slowdown may also be temporary. In fact, the latest data already show some normalising of production in the car industry, which has been impeded by one-off factors. In addition, insofar as world trade stabilises, albeit at a lower level, its drag on growth could also be temporary. At the same time, risks relating to protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent.

Underlying drivers of domestic demand remain in place. Household income, which underpins domestic demand, continues to be supported by high levels of capacity utilisation and further improvements in labour markets. The unemployment rate declined to 8.1% in September 2018, which is the lowest level observed since late 2008, and employment continued to

increase in the third quarter. Moreover, business investment is supported by still very favourable financing conditions in the euro area, together with solid demand and rising profitability.

Regarding price developments, HICP inflation increased to 2.2% in October this year, from 2.1% in September. Measures of underlying inflation continue to be muted, but have increased from earlier lows. Generally, there is good reason to be confident that underlying inflation will gradually rise in the period ahead. Wages are rising as labour markets continue to improve and labour supply shortages become increasingly binding in some countries. Higher wage growth, as well as a recovery in producer and import prices, is expected to continue to support the upward adjustment in underlying inflation. In addition, long-term market and survey-based inflation expectations are reasonably well anchored and broadly in line with this outlook.

Overall, recent developments confirm the Governing Council's earlier assessments of the medium-term inflation outlook. The underlying strength of domestic demand and wages continues to support our confidence that the sustained convergence of inflation to our aim will proceed, and will be maintained even after a gradual winding-down of our net asset purchases. The Governing Council therefore continues to anticipate that, subject to incoming data confirming our medium-term inflation outlook, net asset purchases will come to an end in December 2018.

At the same time, prevailing uncertainties still call for patience, prudence and persistence in calibrating our monetary policy stance. Significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. To ensure that inflation continues to move towards our aim in a sustained manner, a significant degree of monetary policy stimulus will be maintained, even after the end of net asset purchases. This will be provided by the enhanced forward guidance pertaining to the path of interest rates and by the sizeable stock of acquired assets and the associated reinvestments.

Let me say a few words about the monetary union reform and our policy. In keeping with the topics you have chosen for today's exchange, let me now discuss why a more complete EMU would support the ECB's monetary policy. In particular, I will discuss two sets of challenges which arise in an incomplete EMU where monetary policy is truly European, while other important parts of economic policy are still handled at the national level.

First, the euro area is exposed to shocks arising from global shocks or common vulnerabilities. The 2007-08 financial crisis and its aftermath were a case in point, causing growth to go into negative territory in all euro area countries in 2009. What made the euro area different from other economies was the absence of a readily available area-wide fiscal capacity to complement monetary policy. Moreover, the lack of a robust regulatory, supervisory and crisis management framework when the crisis hit gave rise to increased doubts about the solidity of the European banking system. This in turn affected the financing of the real economy and the transmission of monetary policy.

Second, as we have seen in the past crisis, the euro area can be exposed to the risks originating from unsustainable domestic policies, resulting in excessively high levels of debt, financial sector vulnerabilities and/or a lack of competitiveness.

Through financial, confidence and trade channels, these risks can spill over to other countries, which have similar fragilities or strong interlinkages with the country where the risk originated. Such policies can also fragment economic and financial conditions, thereby hampering the homogeneous transmission of our monetary policy across the euro area. And

unsustainable policies eventually force socially painful and financially costly economic adjustments which can undermine cohesion in the EMU. In other words, an incomplete EMU impacts the economic and financial environment in which we conduct monetary policy.

Europe has learned this lesson the hard way and we have made significant progress in fixing the gaps in the EMU's architecture. For instance, we now have a much stronger and more integrated framework for financial regulation, supervision and crisis resolution. You played an essential role in bringing this about. The framework has also helped contain any financial stability risks that may emerge during a long period of low rates. But more progress can, and should, be made. I would like to mention three areas where work is still needed.

First, an effective system for policy coordination is vital for promoting sound national policies, thus reducing the domestic sources of such shocks and increasing countries' shock-absorption capacity when they materialise. This pertains to promoting sound economic and fiscal policies. For that, we need to rekindle faith in our common rules and ensure that they are respected. Additional support from the EU level, as recently proposed by the European Commission, could be beneficial in implementing reform priorities identified in the European Semester. If euro area economies had a greater level of resilience, they would also be more likely to react to a common shock in a similar way, thus reducing costly macroeconomic divergences, which cannot be addressed by our single monetary policy. Developing sound economic structures and institutions would also lift potential output.

Second, as recently advocated by the ECB in its opinion on the establishment of a European Investment Stabilisation Function, the euro area needs a fiscal instrument to help maintain convergence in the face of large exogenous shocks, thereby also supporting the single monetary policy. A fiscal stabilisation function should focus on cyclical developments, and it should be conditional on economic and fiscal policies being sound and fully respecting the European Union's governance framework. This would in turn contribute to macroeconomic stability both at the euro area level and, crucially, in each of its Member States and it would allow action to be taken before recourse to the ESM needs to be made.

For situations where market instability materialises, the ESM remains essential to credibly address the causes of financial instability and contagion. It is important that the ESM is provided with the financial instruments necessary to achieve its objectives and to support the banking union. I thus welcome the ongoing discussions on making the ESM more effective, as also advocated in an ECB opinion on this issue.

Last but not least, completing the banking union and building an ambitious capital markets union are essential. If we want to avoid repeating the mistakes of the past, it's crucial to strengthen the resilience and integration of the financial sector, thereby also improving the transmission of our monetary policy.

Of course, the policy agenda I have just outlined would support the ECB's monetary policy. However, its benefits would not end there. The main motivation for these policy initiatives would be to deliver the tangible benefits of the common currency for all Europeans. Their support for the euro has increased as EMU has recovered from the crisis, and it now stands at a record high. We need to ensure they are not disappointed.

I would like to end by saying that the coming days, weeks and months until the end of this legislature will be decisive in making concrete steps on EMU reform. This institution has repeatedly played a crucial and constructive role in ensuring that such discussions focus on a truly European dimension and on building effective common institutions. We know that such a shift from coordination to common decision-making and from shared rules to institutions is necessary, but it does require time. This should not be an excuse for inaction. Many of the

basic steps for this to happen need to be taken now, namely designing an ambitious reform plan and building trust among all parties.

I am confident that you and the European Union leaders will again play an instrumental role in moving this EMU agenda forward, so that we can deliver tangible results to mark the 20th anniversary of the euro.

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

1-005-0000

Chair. – Thank you very much, President Draghi. I think that many of us fully share what you said at the end of your speech, that now building trust and designing an ambitious reform plan is crucial. Recently, a Eurobarometer recorded that 74% of people across the euro area support the euro: that is the highest since its creation in 2002. I have to say that the great merit of this is also what the ECB has been doing in supporting the integrity of the euro area and contributing to relaunching growth. But, if we want this to continue to increase and also to be able to address potential new crises, we do indeed need to make progress on reforms. That's why your appeal is very important and also our determination is very strong in a number of files, including the one you mentioned about the fiscal stabilisation function, which is, in my view, a crucial file.

So thank you very much. Now we move to the Members. The first speaker is Georgios Kyrtsos. You have the floor.

1-006-0000

Georgios Kyrtsos (PPE). – President Draghi, I agree with your analysis but it seems to me that we face challenges. For instance, there is reform fatigue in certain eurozone countries and we are facing difficult European elections. Do you believe that we can move forward in the direction you described despite the fact that we, as politicians, are bound to make political calculations in the run-up to the European elections? For instance, you have the Italian situation: I read the criticism of the Bank of Italy towards the Italian Government, but who is going to decide in the end what's going to be done?

I have a second question that has to do with Brexit. We know the terms of the agreement. Do you think that there is a cost associated to it, as far as the financial structure of the eurozone is concerned? And what about if the British Parliament says no? Everybody says that there is no Plan B, but what's going to happen in the financial sector?

1-007-0000

Mario Draghi, *President of the European Central Bank***.** – Both are quite difficult questions really. First you asked me whether the agenda that I hinted at is a realistic one at the present time. And the answer is yes, indeed, it's realistic. It clearly does require a confident vision of our future. As it is a common future – and the fact it is common is good for all of us – it does require this vision. And I think that, by and large, this vision, over all the European Union, is shared by most people. There are country-specific situations where this may be more difficult or appears to be more difficult, and others where it's less difficult, we will see. But I believe it's a realistic agenda.

The second point is again a very difficult question: 'What happens if..?' The Commission, then the ECB and the Bank of England and the UK Government have been discussing this. Especially the Bank of England and the ECB have been working together so as to identify the main vulnerabilities that may arise from a sharp, sudden deterioration of the climate. I would say that, by and large, and now especially after the Commission's communication on the conditional and temporary equivalence, many of the uncertainties may well be coped with in a way that doesn't prejudge financial stability.

1-008-0000

Pervenche Berès (S&D). – Monsieur le Président, vous avez fait référence à la proposition de la Commission visant à, enfin, créer un embryon de fonction de stabilisation pour les pays membres de la zone euro, et évoqué l'avis émis par votre institution, que nous recevons très positivement, même si, sur certains aspects de la proposition de la Commission, vous êtes réservé, notamment sur l'utilisation de seigneuriage, dont vous voulez vous assurer qu'il ne nuira pas à l'indépendance des banques centrales.

Cela étant dit, vous avez insisté de nouveau sur le lien entre l'accès à cette fonction de stabilisation et le respect des règles budgétaires et du pacte de stabilité. Ne pensez-vous pas qu'il y a une contradiction entre le fait d'assurer une fonction de stabilisation et le plein respect des règles budgétaires? Je sais pourquoi nous débattons, mais si, pour être aidé, un pays heurté par un choc asymétrique doit respecter scrupuleusement les dispositions du pacte de stabilité, nous n'aiderons que ceux qui vont bien et pas les victimes d'un choc asymétrique ou d'une absence de convergence.

Je sais bien tout le débat que nous avons sur l'aléa moral, mais aller jusqu'au bout de cette logique, c'est, me semble-t-il, ne pas vraiment mettre en place une fonction de stabilisation. Comment imaginez-vous que la proposition de la Commission puisse servir de base à cette fonction?

Comme vous le savez, au Parlement européen, avec mon corapporteur, Reimer Böge, nous avons proposé d'élargir le soutien qui pourrait être apporté non seulement à la protection de l'investissement, mais aussi à des mécanismes nationaux d'indemnisation du chômage. Qu'en pensez-vous?

Et enfin, que pensez-vous du fait que cette fonction de stabilisation ne soit pas du tout prise en compte, selon moi, par la proposition franco-allemande de mise en œuvre de la déclaration de Meseberg?

1-009-0000

Mario Draghi, *President of the European Central Bank***.** - I'll answer your question about the common fiscal capacity. In a sense, the fact that we are discussing this topic with renewed energy these days is an answer to your previous question: whether the agenda that I have outlined is a realistic one. This is the first time in many years, where we have proposals coming from different parties – Member States, the Commission – so this is by itself quite a positive, encouraging development.

We certainly welcome the Commission's proposal about the investment stabilisation fund. This, like other proposals from Member States, are first steps. The design of this fiscal capacity and the fact that it's increasingly acknowledged to be a fundamental topic for the existence of EMU is already in itself an important step. But the design is far from easy, exactly for the reasons that you have outlined. Namely, that this fiscal capacity has to be designed in a way that firstly is adequate in size, and then in its design. Because a way has to be found between, on the one hand, the procyclical nature of an observation of certain rules – and, by the way, we're talking about existing rules, of course, all of this will be revisited in the coming years – so the observance of these rules in a cyclical downturn can be procyclical; and, on the other hand, one has to cope with moral hazard, namely, to design a mechanism which doesn't encourage deviant behaviours. So the design of this capacity is far from being simple. What I think the experience of other monetary areas shows is that observance of rules is fundamental. Usually the balanced budget rule is typical at the state level in other jurisdictions.

The second thing that it shows is that the more automatic the mechanism is, the better it functions. Just to give an example, in the United States the first stabilisation comes basically

from the fact that less income tax is paid when you have a downturn in one part of the union. The same holds for unemployment insurance compensation: transfers would automatically pour into the area that's been affected by the cyclical downturn.

So all this future work will not be a one-day affair. I think we should look at the experience of other monetary unions and learn from them, being aware that our political process is not yet there. It's a combination of vision and realism that we have to have in mind on this. In a sense it's like the Commission's proposal, it's a first step. It's very important that its presentation has launched the discussion of a topic on which, if you just step back and look at when this first came up, there wasn't much discussion at that point in time. Most people had abandoned this topic as being unrealistic, so that paper marked a point. It's not unrealistic that we should think 'is this the last word in town?' It's certainly not.

1-010-0000

Ramon Tremosa i Balcells (ALDE). – Signor Presidente Gualtieri, onorevoli colleghi, caro Presidente Draghi, benvenuto un'altra volta in questo Parlamento. Vorrei fare due domande e le farò in inglese.

– The first question: I think that it is good news that the euro has a record high acceptance rate among Europeans. Our monetary system is based on trust and it's very important and very good news that, at this moment, after 20 years, we have such an approval rate. But, as you may know, in some Member States we see that the idea is popular of having a parallel currency to pay allowances and to make them easier to go through public expenditure. Maybe you have new fresh arguments against this idea? In my opinion it could be a very bad precedent, but if you want to say something on this it could also be an interesting moment to say so.

And my second question is about Italy. Italy is practically the only country in the eurozone that has achieved a primary budget surplus. If I'm not wrong, in 19 of the last 20 years a primary budget surplus has been achieved. But, as we all know, because of the high amount of public debt, there is a lot of money that has to be paid in interest and it is creating problems in the total amount of the year-by-year public deficit. So how do you see the possibility that the European Stability Mechanism could help Italy to refinance its public debt interest rates so it could lower the amount of interest and it could make the governance of Italy easier?

1-012-0000

Mario Draghi, *President of the European Central Bank***.** – On the first question, I can really only reiterate the answer to this question that the ECB has given in the past. The euro is the only currency of the monetary union, so either these parallel currencies are currency and then they are not legal, or they are not a currency and then they are debt – and that's a different thing, of course – and then they go towards increasing the existing stock of debt. I don't think there can be a third choice in this.

On the second question – and I think this also holds for the future questions on Italy – let me just say that the present situation is one where there is a dialogue. I've always been confident that an agreement could be reached and, frankly, I don't see at this point in time the opportunity to comment on the situation. I've said many times that countries with high debt should reduce debt. In reducing debt, they strengthen themselves. I will not add anything else to that.

1-013-0000

Ramon Tremosa i Balcells (ALDE). – Thank you for your answers. Just very briefly, I share your vision that countries with high debt should reduce debt. If we see how we are now, compared to 10 years ago, maybe in different Member States of the euro area we now have higher levels of public debt. So I think that we have less ammunition when it comes to facing another crisis. This also includes the instruments that the ECB has been using, the

extraordinary measures of recent years, to avoid contagion in the financial crisis. So do you think that we are now in a weaker position? Is it urgent for us to reduce public debt in order to be stronger when another crisis comes?

1-014-0000
Mario Draghi, *President of the European Central Bank***.** – Debt that is too high increases the vulnerability of countries, so we have to keep this in mind. I think the lesson that many countries have learned with the crisis is exactly that, when the crisis struck, they didn't have fiscal space to intervene because debt was too high.

So we now have the recovery, which has lasted a long time now, accompanied by unprecedentedly low interest rates. This room that has been created by our monetary policy should be used to rebuild fiscal buffers exactly for the reason you gave, namely to be ready when the next crisis or the next event strikes and governments may need to have fiscal space.

1-015-0000
Molly Scott Cato (Verts/ALE). – As you're well aware, we are very active in the Parliament at the moment addressing the three legislative proposals on sustainable finance that have been sent to us by the Commission. However, I think it's also important that we use the power of the European Central Bank and the national central banks to ensure that we finance the sustainability transition with sufficient urgency. In this connection I was very pleased to hear that in his speech earlier this month on monetary policy in the environment, Benoit Coeuré argued that, and I'm quoting now 'the ECB, acting within its mandate, can and should actively support the transition to a low-carbon economy in two main ways. First, by helping to define the rules of the game; and second, by acting accordingly without prejudice to price stability.'

Now obviously his two points there were not very detailed, so I'd be interested first of all to hear a little bit more detail from you about what that might mean. My specific questions are, firstly could we hear a little bit more about progress on the carbon stress tests for financial institutions? And it's also been argued that macroprudential supervision should take into account externalities that may give rise to financial instability and identify the ecological imbalances that may cause material financial risks. So as a way of addressing environmental systemic risk, would you consider introducing ceilings on credit extension to certain carbon-intensive or polluting activities? And, in a similar vein, given the urgency of the climate crisis, might there also be a role for credit guidance measures, perhaps even introducing targets for lending to certain types of economic activity, as defined in the sustainability taxonomy when that's agreed?

1-016-0000
Mario Draghi, *President of the European Central Bank***.** – Let me first give you current the state of affairs. First of all, we have looked at the purchases of green bonds, the proceeds of which are used for investment projects with an environmental benefit, and at the impact of the asset purchase programme on the green bond market in the euro area. The results were published in our Bulletin on 8 November. So the ECB has purchased green bonds both under its public sector and corporate sector purchase programmes. Under the former we currently hold around 24% of the Public Sector Purchase Programme (PSPP)-eligible green universe. Under the Corporate Sector Purchase Programme (CSPP), we hold about 20% of the eligible green corporate bond universe. Under both programmes the share we hold in green eligible bonds mirrors the share of our holdings in the entire eligible universe. So green bonds account for about 4% of the total eligible universe.

So the evidence shows that through these purchases the euro system has reduced the yields of green bonds and supported their issuance by non-financial corporations. Also we have some econometric analysis that attributes a big part of the decline in the spread of green bonds to

our CSPP, a trend which is particularly visible following the announcements of the CSPP in March 2016, and again after the start of a programme in June of the same year.

At the same time, issuance of green bonds picked up immediately after the announcement, and has been rising ever since. This is consistent with previous findings on the impact of the CSPP.

This issuance increased after the announcement of the programme, especially among the eligible universe.

Now, let me answer your second question. Climate-related risks have been discussed and we have addressed some of our efforts to this achieving objective and basically our efforts are meant to support market participants, legislators and standard-setting bodies in identifying the risks emerging from climate change and providing a clear framework to re-orient financial flows and reduce such risks.

In the light of the global nature of this challenge, the ECB supports the ongoing work in international fora and has joined the network for greening the financial system, which brings together central banks and supervisors committed to developing common practices to address climate-related and environmental risks.

Let me also recall that the protection of the environment is not the only secondary objective assigned to the ECB. Under the Treaty, one could equally ask, for example, why the ECB should not promote industries that promise the strongest employment growth, such as carbon-intensive industries, irrespective of their ecological footprint?

Equally importantly, the ECB is subject to the treaty requirement to act in accordance with the principle of an open-market economy with free competition.

And finally the ECB is guided by its main mandate, which is to ensure price stability. This is to say that we are trying our best, or what I think is our best, but I certainly want to continuously review this issue. But we also have certain boundaries to our mandate within which we have to address the objective that you mentioned.

1-017-0000

Marisa Matias (GUE/NGL). – Sr. Draghi, obrigada pela sua presença, mais uma vez. Tenho quatro questões para colocar-lhe, as duas primeiras são relacionadas com o mesmo tema. O senhor disse que o abrandamento da economia na zona euro é temporário, mas nós vimos que a economia da zona euro abrandou, pronunciadamente, durante o ano de 2018 e que registou no terceiro trimestre o mais baixo crescimento em quatro anos e, a este respeito, gostaria de lhe colocar, como disse, quatro questões, sendo que as duas primeiras têm a ver com o *quantitative easing*.

Considera que o abrandamento do *quantitative easing* e a certeza sobre a sua continuação tiveram um papel definitivo ou decisivo, melhor dizendo, para este desempenho?

A segunda é: acha que é possível manter o anunciado fim do programa perante estes dados que temos, que, do meu ponto de vista, são preocupantes?

As duas outras questões têm também a ver com o crescimento, mas numa linha diferente. Se temos um crescimento económico completamente dependente da política monetária não convencional, não acha que isto é a prova de que o *policy mix* da zona euro está errado, ou seja, para concretizar melhor esta pergunta, não lhe parece que a dependência de uma política monetária extraordinariamente expansionista é a prova de que a obsessão com as políticas de

consolidação orçamental acelerada e a compressão dos salários é danosa, não apenas para qualidade de vida das pessoas mas também para o desempenho da economia?

E a última pergunta, que já lhe fiz várias vezes, mas que repito, é se não acha que está na hora de criarmos maior flexibilidade para políticas de investimento público e de promovermos um regresso à contratação coletiva como uma norma de funcionamento do mercado de trabalho?

1-018-0000

Mario Draghi, *President of the European Central Bank***.** - Let me answer the first question. In my introductory statement, I discussed whether the loss of momentum in the growth rate is temporary or permanent. The way we view this at this point in time – and I am saying 'at this point in time' because we are going to have a discussion when the last projections come out in December – the view we have at this point is that part of this lower momentum is due simply to a normalisation of the growth process coming from a pretty exceptional year in 2017 – especially exceptional as far as the performance of the export sector is concerned. Since then world trade growth momentum has slowed considerably and so have our exports.

Part of this normalisation simply has to do with the increasing labour shortages that we find and the fact that capacity utilisation rates are indeed pretty high in many parts of the Union. So all this is simply a structural adjustment to a lower growth path.

On top of that, we had some temporary factors – I mentioned the car industry – but there are also other temporary factors in other countries as well. What we now have to assess is what this is: is this the right picture or is it subject to change, revealing that a serious recession lies ahead? The impression we have in the Governing Council is that this is not the case at this point in time. Let me add that at this point in time we expect to end our net asset purchases at the end of this year, but even if this is the case, monetary policy will remain extraordinarily accommodative as it's based on forward guidance on the interest rate path and the reinvestment policy which will complement and strengthen each other in the future. So this is the point to keep in mind.

On the second question, you seem to deny the fact that we've had a very long recovery – I think five years now of continuous growth – and that 9.5 million new jobs were created in this period of five years, as never before in the history of this part of the world. In fact, nominal wages are actually growing and they finally seem to have picked up in various parts of the Union – obviously more in those countries that have higher capacity utilisation rates and higher labour shortages, but also in other countries, which is one of the main reasons why we are confident that the inflation rate is converging towards our objective.

The same thing is true about fiscal policies. I don't see many fiscal cuts in the euro area. If anything, fiscal policies, at least looking at the draft budgetary plans in all countries of the euro area, perhaps with one exception, actually look pretty expansionary. So the overall fiscal stance could be said to be 'neutral/slightly expansionary'.

And finally to your question about more flexibility for public investment programmes. Two observations: first, the current set of rules already grants some flexibility for public investment programmes; second, if people want to discuss this, well it's certainly a discussion that's important, because in some countries there is a serious lack of infrastructure. But this discussion was extensive and deep at the moment the Stability and Growth Pact was designed, even back when the Maastricht Treaty was being prepared, namely whether public investments should be excluded from the definition of the fiscal targets. And at that point in time the collective decision was that they should not be excluded from the fiscal targets, and one reason is that it's very difficult to distinguish between what is actually public investment and what is current expenditure, and we can find many examples of that. But having said that,

I think the whole thing is in the hands of the legislators, at the Commission, and we are simply a central bank.

1-019-0000
Gerolf Annemans (ENF). - Ik wil het even met u hebben, meneer Draghi, over het einde van de *quantitative easing* (QE). In maart 2015 bent u daar dus mee begonnen. Buitensporige aankoop van effecten met vers, nieuw door u gecreëerd geld. Het opstarten van dat beleid, zes jaar na het begin van de financiële crisis, louter om niet te zeggen enkel en alleen in functie van het overeind houden van een instabiel geworden munt, steunde natuurlijk voornamelijk op de afwezigheid van alternatieven.

Inmiddels is deze monetaire politiek voor heel wat spelers in het economische veld uitgedraaid op een verslaving, wat altijd resulteert in een risico op afkickverschijnselen wanneer wordt overgestapt op een genormaliseerde situatie. Dit in mijn ogen losgeslagen monetaire beleid heeft inmiddels desastreuze gevolgen.

Ik noem er enkele: onrendabele bedrijven blijken kunstmatig in leven te worden gehouden en ook overheden worden niet meer gestimuleerd om gezonde financiën na te streven. Vooral de Belgische overheid, die ik vrij goed ken, slaagt er vandaag al niet meer in om het gat in de begroting te dichten. Met hoge rentes op onze staatsschuld zou dat probleem nog vele malen groter zijn.

Een ander voelbaar risico van uw monetair beleid is dat er zeepbellen ontstaan in de vastgoedsector. Het beleid veroorzaakt ook zware herstructureringen in de gehele financiële sector, omdat de *quantitative easing* neerkomt op het massaal aankopen van effecten met vers geld, hetgeen ervoor heeft gezorgd dat de geldhoeveelheid is gestegen, maar ook dat de marktrentes zijn gedaald. En bij lage rentes is het steeds moeilijker geworden voor de financiële instellingen om goede marges te maken.

Spaargelden en pensioenen werden natuurlijk ook aangetast door uw lage rentes en de balans van de Centrale bank werd enorm opgeblazen tot proporties van een luchtballon die op springen staat.

Over enkele dagen stopt u er dus mee. De “governing council anticipates that subject to incoming data confirming the medium term inflating outlook net purchases will then end”.

De ganse eurozone gaat van het geldinfuus. Mijn vraag is dan ook, in de door mij geschetste context van onder meer de grote verslaving bij overheden, banken, markten en ondernemingen, welke risico's u op korte, middellange en lange termijn ziet voor het stopzetten van die QE. En acht u het mogelijk dat u verplicht zult worden om QE opnieuw op te starten?

1-020-0000
Mario Draghi, *President of the European Central Bank***.** – I will answer your question in a moment.

But first of all let me question whether our policy has had disastrous consequences. It has created 9.5 million jobs in a few years. I think the recovery of the eurozone owes much to the monetary policy of the ECB.

Second, has the Governing Council decided ‘all of a sudden’ to end the net asset purchases? First of all, we haven’t finally decided to do that, but we are expecting to do so; and we said it in June, we took this decision way back, so it’s not at all a sudden decision.

Third, in designing the monetary policy for the whole of the euro area, when we say 'the whole', it means all countries, without distinction, and all sectors. It's not a monetary policy that's targeted to a specific sector where you keep interest rates low or high for a certain sector – that's the Soviet Union, it's not a normally free-market economy where monetary policy is being designed. Having said that, we do think, we do believe, we estimate, that all players – governments, but especially the private sector, financial and non-financial, are ready for this decision if this decision is taken.

Let me also add, as I said before, that our monetary policy, regardless of our decision about net asset purchases, will remain very accommodative as the forward guidance on our interest rate path says that interest rates will not rise until 'through the summer' – I don't have the precise words of the IS of the ECB at this point in time, but basically that's what it says – and that the ECB will reinvest the bonds that fall due for an extended period of time. So that's it.

1-021-0000

Werner Langen (PPE). - Herr Präsident Draghi! Im Gegensatz zu meinem Vorredner bin ich der Überzeugung, dass Sie nach sieben Jahren Ihrer Amtszeit erfolgreich zurückblicken können, denn ohne Ihre Interventionen wäre der Euro nicht so stabil geblieben, und wenn wir am Jahresanfang 20 Jahre feiern, dann ist das auch das Verdienst der EZB. Trotz aller Kritik an der Zinspolitik, am Aufkaufprogramm und vielen Kleinigkeiten ist Ihre Arbeit – glaube ich – wichtig gewesen.

Jetzt gibt es aber neue Herausforderungen. Ich habe drei Fragenbereiche: Der erste Bereich ist die Inflation. Sie haben gesagt, die Kerninflation ist noch niedrig, die echte Inflation – einschließlich der Energie – ist höher. Wo ist das Ziel von unter 2 % überschritten und wo sind neue Maßnahmen notwendig, da insbesondere das Wachstum zurückgeht?

Die zweite Frage betrifft die Konvergenz: Neue Untersuchungen zeigen, dass alle Eurostaaten positive Konvergenzdaten vorzuweisen haben – mit Ausnahme von Italien. Italien ist aber jetzt aus einem anderen Grund noch ein schwieriger Fall, weil Ihre Tender von 722 Mrd. Euro zu einem Drittel nach Italien gegangen sind. Gleichzeitig haben die ausländischen Investoren aufgrund der politischen Entwicklung weitere Staatsanleihen verkauft. Ist die EZB bereit und in der Lage, eine neue Finanzspritze für Italiens Banken vorzubereiten, wie ich heute in den Tageszeitungen gelesen habe?

Die dritte Frage: Ihren Optimismus, dass wir ein effizientes System der Koordinierung der Wirtschafts- und Währungspolitik bekommen, den muss ich aus der Erfahrung der letzten 20 Jahre in Frage stellen. Sie haben zum Schluss gesagt, ich habe es extra aufgeschrieben: Der Übergang von der Koordinierung zu einer gemeinsamen Entscheidungsstruktur ist langwierig. Jetzt warten wir aber schon über zehn Jahre. Wo sehen Sie denn den notwendigen Druck für eine gemeinsame Entscheidungsstruktur und die Einbeziehung des Europäischen Parlaments, etwa beim künftigen ESM?

1-022-0000

Mario Draghi, *President of the European Central Bank***.** – You've asked many questions, but first let me thank you for the kind words at the beginning of your intervention.

First, about inflation: headline inflation is our objective; our mandate of price stability is defined in terms of headline inflation. Inflation has been going up recently, essentially because of the energy price. Now energy prices are going down so we would expect that headline inflation will also decline in the coming months. So we look at headline inflation, but also at those components of the inflation definition that are more stable than energy or other components: underlying inflation, as we call it. The underlying inflation has been – as I said in the introductory statement – muted, but it's also better than it was in the past, so it's over the previous lows and is moving upward.

What makes us think that underlying inflation will actually pick up? Well, it's basically nominal wages. Nominal wage growth is picking up, in certain countries more than others, but the quality of this increase in nominal wages is decidedly better than it was before. In the past, when we saw some pick-up in nominal wages, often it was temporary because it was due to one-off factors. Now nominal wages are picking up on the basis of negotiated wages, so it's basically a stable increase which will last over time, the time that these negotiations are being settled for.

Gradually these increases in wages – and, by the way, also in producer prices – will be passed through to higher prices and higher inflation in the future. Now this pass-through will actually depend in different countries on what stage the economic business cycle is at. Usually what is observed is that, in the beginning, job numbers go up, but often the quality of these jobs is poor. They are temporary jobs and when people are on a temporary job they don't ask for higher wages. Gradually they stabilise their employment position and later on they will ask for higher wages, so that's a normal cycle. Some countries are well advanced. In some countries the creation of jobs is mostly permanent, full-time jobs; in other countries the creation of jobs is mostly still temporary. The share of temporary jobs is gradually decreasing and the share of permanent jobs is going up. Together we will also see higher wages maturing.

So higher producer prices, growth and nominal wages all make us think that these increases will be passed through into higher prices. But it takes time, because the period during which pricing capacity was not there has been very, very long. So it's taken longer than on other occasions. Still, we are confident that inflation is converging towards our objective.

Speaking of convergence, I completely agree with you. Let me elaborate on that. I hinted at this agenda in my introductory statement: the movement from rules-based to institution-based governance. But to move in that direction one needs trust between member countries, between governments and between peoples. Trust hinges on basically two features. One is respect for the rules, and the second is what you mentioned, convergence. If countries – no matter what the reason – diverge, they become inherently weaker, and therefore it's very difficult to trust them in this process which we consider to be unavoidable if we want a strong monetary union.

One final word about your question on the path of the transition from rules-based to institution-based convergence. Well, if we look back and look at what happened with monetary policy, until the end of the 1980s each central bank had its own monetary policy and it was, from a financial stability point of view, a very, very difficult situation because we had free capital movements and we had changes in the exchange rates on a continual basis. Basically monetary policy management was incredibly difficult. And by the way, at that point in time there were rules – rules on how to stabilise exchange rates, rules that would decide how much a certain currency would move within certain bands – and all these rules were constantly broken because market pressures were too strong. That's what led people, in the end, to create the ECB. That's a good example of a transition from a rules-based system to an institution-based system and, frankly, I think in your own words, this transition has been pretty successful.

1-023-0000

Pedro Silva Pereira (S&D). – Let me begin by welcoming President Draghi's fundamental messages here today. First, that significant monetary policy stimulus is still needed and will be maintained even after the end of the net asset purchases, and a slowdown in the European economy makes this even more understandable. And the second message, the need for concrete steps in EMU reform.

You've mentioned three areas: policy coordination, establishment of a European investment stabilisation function, and the ESM reform. I have three questions on these last two topics. The first on the stabilisation function. You've mentioned that the euro area needs a fiscal instrument to maintain convergence. You normally choose your words very carefully, but would you agree that besides maintaining convergence, we need before that to promote convergence? Because in fact we are in a situation of divergence, both in economic and social terms, between the members of the euro area.

The second question on ESM reform. What is foreseen for the December summit is the establishment of a Single Resolution Fund. My question would be, how urgent is that? Because one of the topics under discussion is when this Single Resolution Fund should be fully operational. We would like to know what you think about the timetable for this.

And finally, today the Committee on Economic and Monetary Affairs will discuss my report on the reform of the ESM where we suggest that the so-called European Monetary Fund should instead be called the European Stability Fund in order to make it clear that monetary policy is the competence of the European Central Bank. I would like to know what you think about that.

1-024-0000
Mario Draghi, *President of the European Central Bank***.** – The words 'maintain convergence' refer to a situation where countries have converged enough to have a central fiscal capacity but are still subject to shocks, shocks that can be idiosyncratic or shocks of various kinds, where convergence would be lost if there were no action. It's in this sense that the word 'maintain' is used.

The Single Resolution Fund is urgent, and like the completion of the banking union, we call it 'low-hanging fruit'. All of this has been discussed and decided, so now in some cases it's only some implementation modalities that have to be agreed.

So these are urgent measures, and this is part of deepening and making the monetary union stronger. We have to complete the banking union. We have to credibly move forward on the capital market union with all this. There are many things that can be done pretty quickly; there are other things that will take a long time, for example harmonising insolvency laws and bankruptcy legislation across countries, but there are several things and the Commission I believe will come out soon with a paper identifying the so-called low-hanging fruit of a capital market union.

As a third point, I couldn't agree more with you on the fact that we shouldn't use the word 'monetary' for designating the new reformed institution.

1-025-0000
Chair. – It is indeed a very good one and many of us support this, the European Stability Fund.

1-026-0000
Luděk Niedermayer (PPE). – Let me say that I also share the assessment of Mr Langen concerning your great job at the ECB. I have a question concerning the recent economic figures, but as you said the economy is benefiting from increases of employment and wage growth, and by definition this should contribute to the continuation of the economic expansion because more people have a job and they get a better salary. So unless there are some offsetting factors, this should rather support the economic growth for quarters to come. So I have two questions, having in mind the recent figures that are not extremely strong.

The first is that, if there is a visible slowdown in the next one or two years are we equipped with sufficient tools to support the economy? My concern is – and you said it Mr President –

fiscal policy is now in an expansionary situation and interest rates are close to zero. It seems to me that we will be missing two key elements to stabilise growth if the economy slows down.

Second – and this is just rather a technical issue – it's constantly being said that car-making played important role in contributing to weaker figures in the third quarter, but it seems to me that the factories are actually producing the cars and there is just no final sale because of the missing type approvals. I assume that if cars are in stock they are included in GDP, and the only thing that is missing is the added value associated with the sales. So I wonder to what extent the car sector can really be one of the key explaining factors in weak GDP growth in the third quarter, notably in Germany?

1-027-0000

Mario Draghi, *President of the European Central Bank***.** – The first question was, if there is a visible slowdown in the coming years, do we have enough policy space? The answer is that our monetary policy will remain extraordinarily accommodative and for a protracted period of time, because we see that this convergence of inflation to our aim has a horizon which is about our forecast horizon, which is about 2020 if I'm not mistaken. So there is going to be this continuous accommodation that comes from our investment policy and from our interest rate path's forward guidance.

As far as the car sector is concerned, the car sector actually rebounded in this quarter. Not yet to the extent that would offset the decline of the previous quarter, but this may well take more than one quarter to see the full offset. But there we don't see reasons why it shouldn't rebound – other than one word of caution, which I will explain in a moment. But it's not only the one-off factors that have produced this weaker growth momentum, and not only related to the car sector. There are other factors, and some of them I discussed before: some of it is a decline to a lower potential output growth coming from a period which was pretty exceptional due to world trade. But why aren't we saying that it is a slowdown? Well, because world trade growth is lower but it's not low. We've seen lower confidence indicators, but they are still above historical averages, and all in all, in some cases at least, pretty high. So it's early, at this point in time – at least as I said before, we are going to have new data shortly – but it's still too early to say that we are approaching a slowdown. And then, as I said, there are one-off factors, not only in the car industry, but also in other countries.

1-028-0000

Jakob von Weizsäcker (S&D). - I'm happy to join Ludwig Niedermayer and Werner Langen in the overall positive assessment, and also I very much liked Mr Draghi's subtle explanation of the old saying that when the sun is shining we need to repair the roof, and I believe, if I understood you correctly, in your speech you gave two reasons for that. The first reason, of course, is that we need to prepare for the eventuality of the next crisis. And the second reason is that the sun can become terribly hot as it induces changes in monetary policy for countries with very high debt levels and very low rates of growth. So these are two reasons. Also I concur with you that a strengthened euro area fiscal capacity is a key ingredient for repairing the roof.

In that context, you used the word 'convergence' in your speech. I think traditionally we would have thought the word convergence in this context is useful and productive because it may contain something we in Brussels like to call constructive ambiguity: everybody reads into the word what they would like to hear. However, and this is really my question, I fear a little bit that the word convergence in its ambiguity has, to some extent, become a problem because of course there is the word convergence that is all about making it easier for Member States who can no longer use the exchange rate and other mechanisms, who may have little fiscal space to deal with shocks, and that's a kind of insurance against shock, the preparedness-against-shock type of convergence.

Of course there's another type of convergence, which is the level, and there of course we have structural funds in order to encourage overall economic convergence in the Union, but that is not necessarily something specific to monetary policy and I can certainly say in some countries if convergence is meant in this widest possible sense of the word it raises concerns about rather large-scale transfer union. Therefore my question to you is, wouldn't it be more sensible to now say goodbye to the word convergence – not the aim of convergence, but the word convergence – in the context of arguing for euro area fiscal capacity, and be more specific? That could I think go a long way towards accelerating a political consensus around what we really need. For example, things like European unemployment reinsurance would be very specifically targeting the first set of objectives, whereas a very large-scale euro area budget could be misunderstood, and it is by some, to imply the second.

1-029-0000

Mario Draghi, *President of the European Central Bank***.** - I completely agree with you. While you were speaking I was trying to think about what sort of convergence we may want to mean, and we have at least three different features of convergence. In other words, convergence is a catch word for at least three phenomena.

One is cyclical convergence. By the way, in terms of convergence defined as growth rates, as output growth rates, we have a dispersion index which looks at the growth in value added across countries, and this dispersion index today is at historical lows. We have to go back to the early 1990s to find a similar convergence. So convergence in that sense has taken place and this is basically because of the recovery, and there was a wide divergence with the crisis.

Then there is a second definition of convergence that has to do with structural reforms, and that's in a sense the convergence that we have to have in place. For example, you mention, and I agree with you, that the unemployment insurance scheme is a very promising way to go forward. But how can we have that if our labour markets are entirely different? If our classification rules are different – not entirely different, because some of them can be defined at central level, but some others are not. So we need to have convergence of institutions, or convergence of real structural reforms in the sense that they are intended to make the economy more competitive and converging around competition – because if we have one economy that is very, very competitive and another which is not competitive at all, it's very difficult to do something together.

Then we have the third meaning of convergence, which is the one you captured with the Structural Funds, namely redistributional convergence, convergence that is achieved through redistribution.

I think we want to limit ourselves when we discuss fiscal capacity to the first definition, namely convergence in the face of different cycles or different shocks, and it may well be a very good idea not to use the word convergence at all, so we'll think about that.

1-030-0000

Chair. – Actually what we are working on is asymmetric shocks, so it's clearly the first kind of convergence. We think that, if the support to unemployment is reinsurance, that de facto is more like a rainy-day fund, so it is not necessary to wait for harmonisation, which of course, in the medium to long term, could be inappropriate. But if it is just to give a backstop for a national system and their natural differences, it is something that might be useful to have right now. I agree, of course, that the third kind of convergence is different, but it is needed as well. That's why reducing the level of the budget of the structural funds would be quite a different thing. It is EU-wide and is not the same as this fiscal stability function. It's very good and also politically important to clarify this distinction.

1-031-0000
Philippe Lamberts (Verts/ALE). – Chair, I like Mr Draghi's approach about moving from a rules-based system to an institution-based system and indeed, I hope that we are still on this path.

I want to continue on the line of my colleague, Molly Scott Cato, because I listened very carefully to your answer and I must say I was not completely satisfied. Because you say we have multiple constraints or objectives and, of course we may want to continue funding job-intensive but climate-destructive activities. I recognise that, but the fact is that if we have runaway climate change we won't have any economy.

The point I'm making here is to say yes, it's true that as part of the QE, as part of its activities, the ECB is funding activities that are helping to mitigate or fight climate change, but at the same time it still funds activities that go in the exact opposite way. This is really what puzzles me. Because if we look at market dynamics, you said we are committed to an open-market economy but if actually the short-term obsession of the market economy is indeed discounting the effects of climate change in a way that makes them totally irrelevant in rational economic choices, then we are, in a way, confronted with a market failure.

So, one thing is what the ECB is doing, its own means, the other thing is what we could do to regulate the economy in a different way. And there, I do believe that we should probably have, at the very least, a binding climate risk disclosure mechanism for the entire financial sector so that we start having a sort of market discipline there.

But I'd like you to continue to reflect on this, and also if you can add something about how our monetary system is working because you might say, if we have interest-bearing deposits that demands growth – and at the moment we can still not decouple growth from ecological impact, so I don't know how to solve this one.

1-032-0000
Mario Draghi, *President of the European Central Bank.* – It's not an easy thing to solve at all, but we don't want to fund high-employment and climate-disruptive sectors deliberately. I was simply listing all the different secondary mandates that the ECB has. Also this discussion has started in the Governing Council and it's my intention to continue this discussion on how to further refine our monetary policy, if possible.

One thing we have done, for example, concerns our pension fund portfolio where we have delegated the proxy voting for equity investments to investment managers who have signed up to the UN Principles for Responsible Investment, so requiring them to incorporate environmental, social and corporate governance standards in their voting policies.

Together with our external asset managers we are also considering broadening the options for ECB staff to invest in sustainable financial products. For our own funds portfolio, which consists of the ECB's paid-up capital and the general reserve fund, we've started an internal investigation on how these criteria – the UN criteria that I mentioned before – could be implemented.

So we're trying to do something. It's not easy because monetary policy is meant to be for the whole of the euro area, meaning across countries and across sectors, and our objectives, our targets, are defined in an aggregate fashion. But there is increasing attention paid by the Governing Council members to discuss this and reflect on this issue.

1-033-0000
Pervenche Berès (S&D). – Monsieur le Président, vous allez organiser le retour de la politique monétaire vers ses outils classiques comme vous l'avez rappelé et comme l'a

souligné mon collègue, Silva Pereira. Mais, au-delà de cela, alors que les objectifs de stabilité des prix de la Banque centrale font que l'on met l'accent sur le besoin de réformes structurelles, la croissance risque de ne pas être au rendez-vous dans l'Union européenne et dans la zone euro, en particulier du fait de la pression démographique ou des problèmes de productivité, et ce quelles que soient les réformes structurelles engagées par les États membres.

Au regard de cela, une fois que nous serons revenus à une période normale de politique monétaire, pensez-vous que l'objectif d'inflation à poursuivre sera toujours de 2 %?

1-034-0000

Mario Draghi, *President of the European Central Bank***.** - As I said before, at the present time it's difficult to assess with certainty whether, in the medium to long term, we are on what is called a secular stagnation path or whether we have just had a temporary lowering of our output growth. It's true that what we've seen in the last six or seven years is that potential output growth has actually recovered from the lows of the crisis, so this means that it's not permanently anchored to a low level forever.

It's also true that there are factors such as you mentioned, like demography, which themselves have a depressing factor, but on the other hand we also have digitalisation. We have technological developments right across the board, which could increase productivity and make the hypothesis of secular stagnation less likely to be realised. At this point in time, it's very, very uncertain, and what we look at is our objective of inflation converging towards our objective. That's how we calibrate our monetary policy stance: it depends on sustained convergence in the medium term.

In this context, you are asking whether 2% is still an objective. In recent years many of you have asked me this question, either implying that we should have 1% or implying that we should have 3%. The answer has always been that, firstly, it's not just random thinking that led central banks right across the world at the end of the 1990s to pick this 2% as a target level. There are many reasons we considered and they are especially important in a currency area where you can't change the exchange rate, so often these sort of relative price adjustments happen within countries. So constraining ourselves to a lower rate of inflation would make these adjustments more difficult than they are with a higher rate of inflation.

It would also be difficult to communicate that we were changing our objective when we haven't managed to reach our initial objective. So it wouldn't be that credible at this point in time.

But also there are really serious reasons why so far we have stayed away from even discussing this option because it could certainly increase volatility and affect expectations. So for the time being we want to move forward and, frankly, so far we are not thinking about discussing changing the objective.

1-035-0000

Chair. – We can conclude this first part of the monetary dialogue with Mr Draghi in his capacity as President of the ECB. I would like to underline the very broad appreciation and support for the ECB's monetary policy that, across the political spectrum, has emerged today, and also reiterate the importance of the double message that you have given us today, to which we and I fully subscribe.

Now we move to the public hearing with Mario Draghi as the Chairman of the European Systemic Risk Board (ESRB), which is the body responsible for the macroprudential oversight of the financial system in the Union. Mr Draghi last appeared in this capacity on 9

July 2018. I have to say that it is also important to underline that Parliament is working on the ESRB in the framework of the ESA review.

So we welcome you in this capacity, President Draghi, and you have the floor.

(The monetary dialogue closed at 16.37)