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, 15 FEBRUARY 2016

1-002-0000

IN THE CHAIR: ROBERTO GUALTIERI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.09)

Chair. – First of all, I would like to adopt the agenda. I declare the agenda adopted.

I shall make some announcements after the Monetary Dialogue, but there is just one I need to make now, which is that this meeting has been extended by 30 minutes to 7 p.m., with the voting session coming at the end of this afternoon's proceedings, from 6 p.m. onwards.

We have also now approved the minutes of the previous three meetings.

I would like to greet my predecessor, Sharon Bowles. Welcome. I understand you are here now in your capacity as a member of a national parliament, for the important conference we will be having tomorrow.

I will now welcome the President of the ECB, Mario Draghi, for the first Monetary Dialogue of 2016. He will present the ECB's perspective on economic and monetary developments and will discuss also the implications of divergent monetary policy stances for the Federal Reserve and the ECB and the possibilities and limits of an extension of the QE programme.

It is not necessary to explain the reasons why there is a high level of interest in President Draghi's intervention today. As we all know, in the light of the increase of downside risks and weaker-than-expected euro area inflation dynamics, at its last meeting the Governing Council unanimously agreed to review and possibly reconsider the ECB's monetary policy stance in March, and in his introductory statement at the plenary debate on 1 February, President Draghi reiterated that commitment. Moreover, in the last weeks, stock markets have continued their negative performance, with a particularly strong fall, combined with a high volatility of bank shares, which some analysts have linked not only to the uncertainties of the global economic environment but more specifically also to the incompleteness and rigidity of the Banking Union and its regulatory framework. For these reasons, we will be extremely interested to hear President Draghi's views both about possible outcomes of the QE review foreseen for March, namely in terms of the composition – and not just size – of ECB purchases, and about the state of play of the Banking Union and the perspectives of its completion within the broader framework of a deepening of EMU.

1-003-0000

Mario Draghi, *President of the European Central Bank***. –** Mr Chair, honourable Members of the Economic and Monetary Affairs Committee, ladies and gentlemen, the first weeks of this year have shown that the euro area and the Union at large face significant challenges. A strong effort by all policy makers will be needed in the months ahead to overcome them. I am therefore grateful to be back before your committee to discuss these challenges and how the ECB can contribute to tackling them.

In my remarks today, I will address in turn the global economic context, recent financial developments and the state of the euro area recovery. I will conclude by briefly presenting our most recent decision to disclose the Agreement on Net Financial Assets – or ANFA – as I know this topic is of concern to some of you.

Let me start with the state of the global economy. In recent weeks, we have witnessed increasing concerns about the prospects for the global economy. Activity and trade data have been weaker than expected, turbulence in financial markets has intensified and commodity prices have declined further. Slowing growth in emerging market economies is a focal point for this uncertainty.

In the early years of this century, many emerging economies expanded at a rapid pace. They benefited from increasing integration with the global economy and the tailwinds of buoyant financial markets. As these factors diminish, many countries have to adjust to a new reality. In several economies the slowdown has revealed exacerbated structural problems which are increasingly restraining growth. A continuation of the rebalancing process is needed to secure sustainable growth over the medium term. This could imply some headwinds in the short term, which will require close monitoring of the related risks.

One consequence of this adjustment is the divergence of economic cycles. While the recovery in advanced economies is gradually proceeding, the growth momentum in emerging market economies has weakened. Weaker global demand has also contributed to the recent fall in the price of oil and other commodities, which in turn may have aggravated fiscal and financial fragilities in some commodity-exporting economies. Countries that have suffered worsening terms of trade have seen a sharp decline in activity, while investment in their energy sectors has contracted.

Since early December, a general deterioration in market sentiment has taken root and has gathered pace over the last week. This initially appeared closely linked to concerns regarding weakening economic activity around the globe – notably in emerging markets – and to potential adverse signals from falling commodity prices. Over time, however, market sentiment has become more volatile and susceptible to rapid change. In this environment, stock prices significantly declined and bank equity prices were particularly hit, both globally and in Europe.

The sharp fall in bank equity prices reflected the sector's higher sensitivity to a weaker-than-expected economic outlook; it also reflected fears that some parts of the banking sector were exposed to the higher risks in commodity-producing sectors. The bulk of euro area listed banks, although they have relatively limited exposure to emerging markets and commodity producing countries, are currently trading well below their book values.

The fall in bank equity prices was amplified by perceptions that banks may have to do more to adjust their business models to the lower growth/lower interest rate environment and to the strengthened international regulatory framework that has been put in place since the crisis. However, we have to acknowledge that the regulatory overhaul since the start of the crisis has laid the foundations for durably increasing the resilience not only of individual institutions but also of the financial system as a whole. Banks have built higher and better quality capital buffers, have reduced leverage and improved their funding profiles. Moreover, the Basel Committee on Banking Supervision noted that substantial progress has been made towards finalising post-crisis reforms and that the remaining elements of the regulatory reform agenda for global banks are being finalised.

The clarification of these elements will provide regulatory certainty on the stability of the future framework. This will support the banking sector's ability to make long-term sustainable business plans into the future. In fact, central bank governors and heads of supervision indicated that they are committed to not significantly increase overall capital requirements across the banking sector. So no Basel IV.

In the euro area, the situation in the banking sector now is very different from what it was in 2012. Perhaps, most importantly, euro area banks have significantly strengthened their capital positions over the past few years, notably as a consequence of the Comprehensive Assessment conducted in 2014. For significant institutions, the Common Equity Tier 1 (CET1) ratio has increased from around 9% to 13% today, making them more resilient to adverse shocks. In addition, the quality of the banks' capital has also been substantially improved.

With the 2015 Supervisory Review and Evaluation Process, the so-called SREP, the ECB has outlined the steady-state Pillar 2 supervisory capital requirements. This means that, all things equal, capital requirements will not be increased further. Hence, the banking sector can now conduct much better capital planning. Moreover, in 2015, the banks under ECB supervision further increased profits relative to 2014. This allows banks to have appropriate distribution policies while still meeting regulatory capital requirements and buffers, and to support lending to the economy. In addition, the ECB's monetary policy actions continue to support banks' financing conditions and, more broadly, economic activity.

Clearly, some parts of the banking sector in the euro area still face a number of challenges. These challenges range from uncertainty about litigation and restructuring costs in a number of banks to working through a stock of legacy assets, particularly in the countries most affected by the financial crisis.

There is a subset of banks with elevated levels of non-performing loans (NPLs). However, these NPLs were identified during the Comprehensive Assessment, using for the first time a common definition, and have since been adequately provisioned for. Therefore, we are in a good position to bring down NPLs in an orderly manner over the next few years. For this purpose, the ECB's supervisory arm is working closely with the relevant national authorities to ensure that our NPL policies are complemented by the necessary national measures.

Concerning the state of the euro area recovery and the role of economic policies: against the background of downward risks emanating from global economic and financial developments, let me now turn to the economic situation in the euro area. The recovery is progressing at a moderate pace, supported mainly by our monetary policy measures and their favourable impact on financial conditions as well as by the low price of energy. Investment remains weak, as heightened uncertainties regarding the global economy and broader geopolitical risks are weighing on investor sentiment. Moreover, the construction sector has so far not recovered.

In order to make the euro area more resilient, contributions from all policy areas are needed. The ECB is ready to do its part. As we announced at the end of our last monetary policy meeting in January, the Governing Council will review and possibly reconsider the monetary policy stance in early March. The focus of our deliberations will be twofold. First, we will examine the strength of the pass-through of low imported inflation to domestic wage and price formation and to inflation expectations. This will depend on the size and the persistence

of the fall in oil and commodity prices and the incidence of second-round effects on domestic wages and prices. Second, in the light of the recent financial turmoil, we will analyse the state of transmission of our monetary impulses by the financial system and in particular by the banks. If either of these two factors entail downward risks to price stability, we will not hesitate to act.

In parallel, other policies should help to put the euro area economy on firmer grounds. It is becoming clearer and clearer that fiscal policies should support the economic recovery through public investment and lower taxation. In addition, the ongoing cyclical recovery should be supported by effective structural policies. In particular, actions to improve the business environment, including the provision of an adequate public infrastructure, are vital to increase productive investment, boost job creation and raise productivity. Compliance with the rules of the Stability and Growth Pact remains essential to maintain confidence in the fiscal framework.

Let me now conclude by turning briefly to the recent decision to publish the Agreement on Net Financial Assets, also known as ANFA. This is another step to live up to our commitment to be accountable and transparent, both towards you as Parliament and towards the public at large.

The ANFA is an agreement between the ECB and the euro area National Central Banks (NCBs). It ensures that monetary policy is unaffected by National Central Bank operations related to their national, non-monetary policy tasks. The right to perform such tasks dates back to the start of Economic and Monetary Union. At that time, the founding Member States decided to centralise only central bank functions and tasks that are necessary to conduct a single monetary policy. All other tasks remained with the NCBs. Such national, non-monetary policy tasks include managing the National Central Banks' remaining foreign reserves – including gold – after the transfer of foreign reserves to the ECB, managing some non-monetary policy portfolios, including those related to pension funds for their employees, or providing payment services to national governments.

When the NCBs hold portfolios not related to monetary policy as part of their national tasks, these portfolios are financed either by central bank money provided by the NCBs or by non-monetary liabilities. This does not interfere with monetary policy, as long as it is limited to less than the amount of banknotes needed by the public. This limit ensures that banks still have to borrow from the Eurosystem at the monetary policy rate set by the Governing Council.

Here is where ANFA comes in. Its purpose is to limit the size of the NCBs' non-monetary policy portfolios, net of related liabilities, and thus to ensure that the Eurosystem can effectively implement the single monetary policy. Of course, when performing national tasks, the NCBs must comply with the Treaty including the prohibition of monetary financing. Moreover, if these tasks were to interfere with monetary policy in any other way, they can be prohibited, limited or have conditions placed on them by the Governing Council.

The publication of the previously confidential ANFA text was a unanimous decision of the ECB and the NCBs in the Eurosystem to live up to our commitment to be transparent. This publication should resolve misunderstandings about ANFA. In particular, it clarifies that the sole purpose of ANFA is to set limits for non-monetary policy operations related to national

tasks of the NCBs, which they are allowed to conduct according to the Treaty. Nothing more and nothing less. These limits ensure that the NCBs' operations do not interfere with the objectives and tasks of the Eurosystem and, in particular, with the single monetary policy.

Finally, complementing the information on ANFA, the ECB also published data on the Eurosystem's aggregate net financial assets. The NCBs will follow suit and disclose their respective net financial assets when publishing their annual financial accounts. These data provide factual information to the public as to which part of central bank money demand is provided by non-monetary policy operations. Thank you for your attention, and I look forward to your questions.

1-004-0000

Chair. – Thank you, President Draghi, for your very interesting and important remarks, including those relating to the situation in the banking sector, and also to the further steps in terms of transparency and accountability relating to the publication of the Agreement on Net Financial Assets.

We will now start with our question and answer slot.

1-005-0000

Burkhard Balz (PPE). – Mr Chair. Welcome President Draghi. It is good that we are able to talk and discuss with each other in these uncertain times.

Since I know what some of my colleagues will be asking shortly, I should like to outline two topical issues and put questions concerning them.

Firstly, the European summit is being held at the end of the week here in Brussels, which will focus on what kind of agreement the European Union can reach with the United Kingdom. In my view, it is clear that no EU treaties can be amended.

Mr Cameron's demand for a legally binding agreement is to be met through an at least superficial instrument of international law. I am concerned that this could result in diverging financial market regulation inside and outside the eurozone in Europe and would like to ask you whether you also see this risk. In my opinion, such instruments are not so easily compatible with the internal market powers of the EU, which are regularly cited in connection with financial market regulation.

My second topic – very briefly – is the abolition of the 500-euro note, which is being hotly debated in many different countries at the moment. I know that this is a highly controversial issue and there are also differing views within your board.

My question: what is your opinion? At the moment this whole topic is basically centring on the fight against crime.

My personal opinion is that we risk undermining confidence in the currency if we abolish this high-denomination banknote – curtailing citizens' freedom or possibly leading to increased capital flight to other countries such as Switzerland.

I would therefore be very interested to hear your opinion.

1-006-0000
Mario Draghi, *President of the European Central Bank***. –** As far as the first question is concerned – and I am pretty sure that I am going to be asked this question by some of your colleagues as well – I would make the following points. We can go into them more deeply in the follow-up discussion.

First, the ECB is not a party to these negotiations. It is the governments of the Member States that are parties to these negotiations. But we can say two things and they are in a sense the guidelines of our views with respect to this. We have two predominant aspects that we should protect. One is the single market and the second is our monetary union. We had – and we continue to have – great benefits from the single market, so we should protect it. It is clear that further integration of our monetary union is essential. These are the two guidelines for the ECB's views on what is being negotiated.

The third point is one I made in our last exchange, namely that the ideal objective of this negotiation would be to anchor the UK in the European Union and have the European Union and the UK working together. Both have to draw benefit from this.

On the second question, let me first say quite clearly that the 500-euro note has nothing to do with the objective of limiting cash. There is a pervasive and increasing conviction in world public opinion that high-denomination banknotes are also used for criminal purposes. That is where our action comes in. It does not mean that people cannot store their savings in other denomination banknotes. People will continue saving the 200-euro notes. But the 500-euro note is being viewed as increasingly an instrument for illegal activities.

It is in this context that we are considering action on that front. We have, of course, to do it very carefully and in the best possible way. The Governing Council and the Executive Board are now reflecting and we are all working together on how to do this in the best possible way. But it has nothing to do with reducing cash. It is important to keep that in mind.

1-007-0000
Elisa Ferreira (S&D). – Mr Draghi, my questions relate to last week's events. These revealed huge turmoil in the European banking system and huge contagion, particularly in the most vulnerable economies, to sovereign debt. I would like to hear your comments, as some important and influential commentators are already saying that the Banking Union has failed, while others are asking who is in charge of financial stability.

First of all, is it possible to apply the BRRD, as we are doing, without any stabilisation mechanisms if we jump into the third phase of BRRD – resolution and bail-in – without carrying out the first two phases, where we had the plans and progress embodied in the legislation? Secondly, is it logical that in certain economies you are asking for banks to go into the private market to increase their capital, while at the same time also operating bail-ins for the first time, thus sending a completely different message to the markets? Thirdly, who has the vision for each Member State's banking system? Is it the SSM or is it the Commission's competition policy, which also greatly limits what can be done on the market? Is there not a conflict between these two agendas?

Thirdly, relating again to sovereign debt, in 2012 we discussed at length the limits of the rating agencies, but in the meantime we see the ECB being dependent in its decisions on these instruments and the nominations and ratings from the rating agencies in the most essential

elements of the stabilisation that the ECB has to carry out. Should we not go back to what we discussed in 2012 and 2013 in that respect?

1-008-0000
Mario Draghi, *President of the European Central Bank***. –** As far as the first question is concerned, it is important to keep in mind that the responsibility for the BRRD lies with the Commission and with the Single Resolution Board (SRB). It is also important to consider that the transition to these new bail-in rules is a very significant change, and we think it is a change for the better. It is a change for the better because in this way, taxpayers' money is not going to be used, as unfortunately happened during the crisis. Let me also just recall that we are not exceptional on this point. Most other countries have similar bail-in rules, so it is the responsibility of the Commission to monitor the application of these rules to assess their effectiveness.

So how can these rules function properly? The first prerequisite is that banks have enough loss-absorption capacity, and from this viewpoint, what has been done in the last year or year and a half with TLAC at world level and will be done with MREL (Minimum Requirement Eligible Liabilities) is exactly in the right direction. It means that the significant banks will have enough loss-absorbing capacity. That is an important prerequisite.
Are the BRRD rules inconsistent with financial stability? Well the BRRD rules themselves provide exceptions where certain liabilities may be exempted when there are systemic financial instability situations. As I said before, the responsibility for the assessment of these situations lies with the Commission and with the SRB.

On the second point about sovereign debt ratings, we have been discussing this, and as you know, the ESB has thought quite extensively. We have to acknowledge that the major rating agencies are viewed by investors as the ones that are going to be used by them, so the fact that the rating agency is used by investors is the most important aspect. It would not make much sense to have the rating agency's views when investors are not using it. So that is one prerequisite. The second prerequisite is that existing rating agencies are viewed as independent. We have discussed this – the idea of having a European rating agency – and we will continue thinking about how we combine the two aspects of being accepted by the investors and viewed as independent and, at the same time, not being in a sense in the hands of the largest rating agencies.

1-009-0000
Sander Loones (ECR). – Thank you, Mr Draghi, for coming here this afternoon. It is important that you can account for your policy here in this Parliament, because it strikes me that your policy is coming in for more and more criticism. That was apparent to me a fortnight ago in Strasbourg, when you attended our plenary sitting. It is also apparent to me when I read what experts write, what economists write, what professors write. In fact, it is also apparent to me when I hear what the man in the street is saying – ordinary people are complaining that they are receiving virtually no interest on their savings accounts any longer. When our Minister of Finance, Johan Van Overtveldt, mentioned this a year ago, he was still denounced for it. Today he is being proved right. Johan Van Overtveldt is being proved right.

And yet you simply carry on as before. You continue to print unlimited quantities of extra money. First we had low interest rates. When that did not work, we got very low interest rates. When that policy failed too, we got 'quantitative easing', monetary doping. Now it is becoming clear that that is not working either, and the question is: what will we get next? More of the same? Yet more quantitative easing? Or will we even get negative interest rates, a

subject about which we are reading more and more at present? I do not believe that negative interest rates are part of the solution: on the contrary, they are part of the problem.

The obvious course, I should have thought, would be to say: let us try a change of approach. But then today I read what is circulating in the media. And then I read – which brings me to my questions to you – that you, the ECB, are holding discussion with the Italian Government. You are talking to them about buying up bundles of bad loans, as it were. Then my question is very simple: why? Why are you considering this? I can see how this will benefit the Italian Government. But how, for God's sake, will this benefit the rest of the euro zone? Is this not a large fiscal transfer from the north to the south? Is it not a form of expropriation of savers and pensioners in the north, once again in favour of failing banks and undertakings in the south? So my question is quite simply: why, Mr Draghi?

1-010-0000

Mario Draghi, *President of the European Central Bank.* - Let me firstly answer the first question. I do not think we would agree with you when you say that QE and our monetary policy is not working. Actually it has worked, it has worked a lot. According to an estimate that the ECB has, about half of the recovery we have seen over the last two years can be ascribed to our monetary policy. Do not forget that in the last four years our monetary policy has been the only stimulative policy, the only one. So we now face a situation which is quite different to what we had two or three years ago, with a recovery that is gradual – certainly it is not spectacular, but it is gradual and it is fairly continuous. It is upon this foundation that we have to reach the other objective, which is to go back to an inflation rate of below, but close to, 2%.

On that front, of course, the situation is less satisfactory and as I recalled in the introductory statement the Council will review – possibly 'reconsider', whatever the exact wording is there – the monetary policy stance at the meeting in March. This policy has produced low interest rates. Let me ask you: is this only something specific to the euro area? Or do we not have low interest rates everywhere, everywhere – in the US, in Japan? So there is nothing special with the ECB's monetary policy. The problems the pension funds, the insurers and savers have to cope with in the eurozone are the same problems that pension funds and insurers and savers have to cope with in the United States, in Japan. But somehow the solutions also are slightly different depending on the regulatory frameworks, depending on the saving strategies and investment strategies – although, by the way, we are very conscious of this and frankly we all wish that interest rates could go up again, because that would mean that the recovery is proceeding successfully and inflation is on its way back to our objective – but this is not the case now. Frankly, I do not think anybody is thinking now about changing policies, but if we were to change it we would simply aggravate the economic situation and lengthen the time taken for inflation to go back to its objectives.

On your second question, you said that the ECB is in talks with the Italian Government. Not as far as I know. But let me also say something about this story which has surfaced in the media in the last two or three days, whereby the ECB would buy NPLs in Italy. I do not know where that comes from. We are not talking about buying anything. The question is whether the NPLs in a specific ABS format could be accepted as collateral. Collateral is different from purchase, keep that in mind. The ECB has detailed eligibility rules for its collateral and these rules would apply to all ABSs. Within this framework it is specified that ABSs will have to have a minimum second-best rating of single A. Therefore, the inclusion of NPLs in the pool of underlying assets does not preclude these ABSs that you mention from collateral eligibility,

which means that we cannot discriminate either in favour or against. However, I am not aware of any talks or conversations. Finally, let me say that we do not have any losses on our collateral so far.

1-011-0000
Sylvie Goulard (ALDE). – This is a follow-up to Burkhard Balz's questions. There are ongoing negotiations to find 'a new settlement for the UK within the EU', as Mr Tusk says. For me, until now, the settlement was the Treaties, and that is the reason I fear that the envisaged decision of the Heads of State and Governments will create legal and political uncertainties.

Mr Draghi, I have two questions. The first is: do you not think that an ambiguous international agreement creates a dangerous precedent of a systemic nature with consequences also for the markets and for our economies? You said in your answer to Burkhard that the ECB is not a party in this, but if there were true Treaty change it would have the opportunity to give an opinion. We would know what the ECB was thinking and also public opinion, so do you not think that there is a risk in the procedure that they have chosen?

My second question is: should we not use this opportunity to consolidate and further integrate the eurozone? Because for the people in the eurozone, the whole purpose of this would be to find a fair agreement where the UK has a clear position, but where our citizens can also benefit from all the discussions.

1-012-0000
Mario Draghi, *President of the European Central Bank***. –** I would agree with you on both counts. First, I completely agree that a less-than-clear framework for this negotiation, or, as you said an ambiguous agreement would have implications of a systemic nature which would not be positive for European Monetary Union and the eurozone. So, the clearer the agreement, the better it is for all of us.

Second, I also agree with you that we should take this opportunity to deepen our monetary union integration. If anything, recent events have shown that the unfinished status of our monetary integration may become a source of fragility. This is one more reason to take this opportunity to deepen our integration. From this viewpoint, of course, the agreement – whatever it is – should not hamper any further integration movement for our monetary union.

1-013-0000
Sylvie Goulard (ALDE). – We hear very often that the UK is discriminated against, but the UK has made a sovereign choice not to join the euro. This is not discrimination. It is a sovereign choice. What about the discrimination for the eurozone if the institutional framework remains definitely as it is in the long run?

1-014-0000
Mario Draghi, *President of the European Central Bank***. –** As I said before, we have to protect the two aspects. This would be our guideline when we express a view on this, namely that, first, the single market has to be protected and, second, so does the integration of our European monetary union. I think that both things should be equally protected on all counts – from the one we just mentioned but also from other aspects that this agreement might entail.

1-015-0000
Marisa Matias (GUE/NGL). – Mr Chair, Mr Draghi, thank you for coming to our meeting again today. After being in denial for many years, the ECB introduced an unprecedented expansionary monetary policy, the aim being to drive away the spectre of recession and

deflation in the eurozone. However, this programme has coexisted with continued pressure on the Member States to apply highly recessive economic and fiscal policies. We all listened to your initial statement today, and I would like to ask you this: looking beyond the global context and leaving aside your personal wishes, are we or are we not approaching a first serious assessment? Because this is important. Every time you come here, you say that things will work out in the end. They never work out in the end. Are you then willing to make a serious assessment, or will you remain in a state of denial?

The second question concerns the banking system. In 2016 the banks have fallen more than in the same period in 2008. Inflation forecasts continue to drop and growth is mediocre to say the least. This is in spite of favourable conditions and unconventional monetary policy, and in spite of all the public money that was buried in the banks. We now see the quantitative easing policy trapped between the risks of deflation on one side and loss of bank profitability on the other. My second question is therefore: assuming that the main problem is in fiscal policy, why is there not a policy mix between monetary and fiscal policy, and now that we have reached this stage, does the ECB have any idea what it is doing?

Finally, for my third question I should like to go back to your initial statement, when you said that things are now starting to go well, in spite of everything, and the easy money that was buried in the banks will now finally get through to the real economy. I would say people can see that the policy mix in the eurozone is a failure, so what will it take for the ECB to recognise the limitations of its monetary policy and the need for a countercyclical fiscal policy?

1-016-0000

Mario Draghi, *President of the European Central Bank***. –** You asked three questions: the first is about fiscal policies in the context of monetary policy which has been accommodative, is accommodative and will remain accommodative for a long time. If we look at fiscal policy for the euro area, in fact the stance is now slightly expansionary. Last year it was neutral; it was on the consolidating side the year before; and now it is slightly expansionary. Does this mean that it is expansionary for everybody? The answer is no. Fiscal policy can and should be used, depending on whether countries have fiscal space. So there is only one rule at the bottom line of all these complex rules: countries that have fiscal space should use it, and countries that do not have fiscal space should not use it.

The responsibility of administering the Stability and Growth Pact lies with the Commission, and the present rules have inbuilt flexibility that the Commission knows how to interpret. However, there is much that can be done to improve fiscal policies in general in their composition, whether they are going to be expansionary or whether they are going to be contractionary in the sense of consolidating. The composition of these fiscal policies should be what I think you are used to hear me saying: growth-friendly. And growth-friendly means giving emphasis to public investment, investment in infrastructure and lower taxation, and to financing those structural reforms that are demand-stimulative. So I am talking especially about structural reforms that favour private investment and the creation of new jobs. That is an ideal composition of fiscal policy.

We have to keep in mind that compliance with the rules of the Stability and Growth Pact is important too. It is a complex picture because also it does not reflect equal economic conditions across countries. So that is the framework within which, however – let me remind

you once again – monetary policy has been the only truly stimulative policy in the last four years.

Let me continue in the same vein, about the limits of monetary policy. Certainly there are several commentaries about that, and we talk about different sets of limits. One is the willingness to act, another is the capacity to act, and the third is the effectiveness of our actions. I think you addressed the third mostly. As I said before, we have a view in the ECB that monetary policies actually account for about half of the recovery, half of the growth in GDP we have seen in the eurozone in the last two years, with the other half being imputable more or less to lower oil prices. So in our view our monetary policy has been effective and is being effective. But as I have said many times, we have a variety of instruments that are usable, and we shall certainly look at all of them and see which ones are the most effective.

The third question was about banks, but can you repeat the question?

1-017-0000
Marisa Matias (GUE/NGL). – I will just give an outline of the question, and I can try to say it in in English. I was asking you about the failed policy mix between fiscal policy and monetary policy, as you were saying that finally the money will get to the real economy, but that is not the case yet. That was the main issue in the question.

1-018-0000
Mario Draghi, *President of the European Central Bank***. –** I think I have addressed this. We see this from a variety of signs. All interest rates, the spreads, the lending conditions and the credit flows all seem to have been affected by our monetary policy.

1-019-0000
Sven Giegold (Verts/ALE). – First, let me say briefly on the issue of addressing some problems with banking bonds and the ongoing negotiations over the eligibility criteria for bail-in, I have to say that I am surprised to hear that some Member States, but also ECB representatives, are asking that certain liabilities be excluded. You also made a hint to that effect. I think it is very important that the European Union stays firm on the liability of banks and does not again give the wrong market signals; we should not weaken the banking rules we have just decided.

But more broadly, if I may move to a second issue, if I look at swaps data, inflation expectations are now well anchored up to 10 years, far below the ECB target. Could you explain to us which measures you envisage or are thinking about, in order to protect the reputation of the ECB for being serious with its targets? Could you tell us which measures you are, over a medium-term horizon, reflecting upon?

Secondly, what do you regard as an appropriate eurozone fiscal stance in order to complement your monetary policy stand? Lastly, could you give us a bit more indication as to what inflation rates, over which time period, you would see as indicators of success or failure of the ECB monetary policy?

1-020-0000
Mario Draghi, *President of the European Central Bank***. –** First, let me be very clear. The so-called financial stability 'exceptions' that I referred to before are in the BRRD. This was not something that I, or the ECB representatives, stressed. They are part of the BRRD provisions, and I was simply recalling those provisions.

As I said before, the introduction of the BRRD is a change for the better, and part of the successful implementation of these rules through time depends on the banks having sufficient Loss Absorbing Capacity (LAC). That is one requirement, and it is very much in the hands of the ECB-SSM to make sure that this happens. But also – and here I agree with you – this is dependent on the punctual, timely enforcement of these rules.

Third – and this is where improvement is needed – it also depends on how the Member States translate these rules into actual legislation. In other words, we had two countries where bail-in rules were used – Portugal and Italy – when in fact these rules were implemented in a different way. That is very important, because equal implementation across the eurozone would give the creditors certainty that they are being treated equally across all parts of the eurozone. We talk a lot about banking union but, if we do not have equal treatment under the application of the bail-in rules, we are going to be far away from a banking union. That is where improvement is needed. That was just to make the point clear about what my stance is with respect to the BRRD rules.

The second point concerns expectations of inflation and, as you correctly observed, we are far off our expectations. We are not using only one indicator. People hear that we use the 5-year expectation, but really we are using a set of indicators. In point of fact, no matter which indicator we use, we are far from our objective. So that is why our monetary policy stance is what it is. As I said before, the Governing Council will review, and possibly reconsider, the monetary policy stance in March.

What sort of inflation would we like to see in order to declare success? Well, our objective is an inflation rate below, but close to, 2%. This means that the horizon over which our objective is to be reached has gradually lengthened over the last two years. We expected to reach it in 2017, but now it is further away. The reason is pretty clear, namely that there have been developments outside our control in the rest of the world – especially, as I said, in the emerging market countries and on the oil price and other commodity prices. That explain this lengthening of the inflation horizon. By the way, the same situation exists in the United States and almost the same situation in Japan. So the whole world is in this situation. But the relevant question for us is whether this is a good reason to abandon our monetary policy strategy. The answer is no. As I think I said in the last press conference, we are not giving up.

Finally, you asked me another simple question: what is the appropriate fiscal stance for the eurozone? Right now the appropriate fiscal stance for the eurozone is what we have today, namely slightly expansionary. Ideally, the fiscal stance should be expansionary, while respecting and complying with the Stability and Growth Pact. That is in the aggregate but, as I said before – and I always insist on this because, in a sense, it is easy for me to say, but it is very difficult to do it politically – it is the composition of the budget that matters as much, if not more, than the aggregate numbers.

1-021-0000

Marco Zanni (EFDD). – I have two questions for the President. The first concerns the single currency and its sustainability. After 40 years of economic doctrine, we now also have 17 years of empirical evidence that the single currency is a failure. The imbalances in this fixed exchange rate system have brought many countries to the verge of collapse and the eurozone is the only part of the developed world which is still stagnating. In this regard, at a hearing before the Committee on Employment a month ago, Minister Padoan stated that without exchange rates, it is the labour market, in terms of job losses, that is paying the cost of these

economic crises, given that it is impossible to devalue the currency. I should like to know whether you agree with what the Minister said and with what has also been confirmed by leading economists. Can you confirm, therefore, that to keep the euro at all costs we have to accept high unemployment?

My second question concerns a measure that has been discussed in recent weeks, both in the EU institutions and in economic circles, i.e. the fact that government bonds are no longer to be considered risk-free assets. This has always been a subject very dear to the German Minister of Finance, Mr Schäuble, and to his colleague, the President of the Bundesbank, Mr Weidmann. I should like to ask you what you think about the fact that government bonds in the European system are no longer to be regarded as risk-free assets and what the impact might be in terms of the financial stability of the banking system, which is already under stress, in calling for additional reserves for holding such instruments on balance sheets. For example, we know that in the Italian banking system banks now hold about EUR 400 billion of government bonds on their balance sheets. What might be the impact of this, both in terms of financial stability and with regard to the government bond market, and hence the ability of governments to obtain financing from the markets?

1-022-0000

Mario Draghi, *President of the European Central Bank***. —** I shall answer your second question first. The issue of whether or not government bonds should be considered risk-free has been a subject of debate and has been a subject of debate for about two years now. In fact, in view of the financial crisis of 2010-2011 and the Deauville agreement, government bonds are not risk free. In the stress tests carried out by the ECB, but also prior to that, government bonds were not considered to be risk free. That is a fact.

Do we have to translate this fact into general rules? We have to know that this is a problem of a global nature. It cannot be only us, in Europe, to take this initiative, but we also have to see what is going on in other jurisdictions. Therefore, the Basel Committee, which is responsible for drawing up regulations for all countries, and hence also for the United States, Japan and the UK, has been reflecting for some time now on a possible supervisory requirement for government bonds. Might I add that a document has also been published by the ESRB and that there is a note by the ECB, which has been the subject of discussion within the EFC committee, again on the same subject. So, as you said, it is a very important matter, it is an issue that needs to be addressed, but it is also an issue that needs to be addressed very, very cool-headedly and very gradually.

As regards your first question, clearly we have differing views. I do not believe that the euro is a condition for permanent unemployment. Unemployment is largely a result of the crisis and is in part due to the management of economic policy prior to the crisis. Let us not forget that today we have, I think, a 10.6-10.7% – just below 11% – unemployment rate in the euro area, and that before the crisis we were not very far from those figures. So obviously there are some structural deficiencies underpinning unemployment. Clearly, the adoption of a single currency has led to constraints that were not there before, such as the exchange rate restriction, and clearly, because of this new situation we need to change economic policy management and undertake certain necessary reforms.

1-023-0000

Bernard Monot (ENF). – Mr President, in late January, in Davos, you said that you would be reviewing your monetary policy in March in an attempt to provide more support to the economy. All well and good. You also say that there are no limits to the range of non-

conventional measures the ECB could deploy in order to meet its 2% inflation target. Again, all well and good. But what instruments are left to you when deposit facility rates are already negative and the base rate is at a historic low? What effect can three years of TLTRO and ABS programmes be said to have had when the eurozone economy has still not recovered?

This move by rate markets into negative territory is exacerbating the insolvency of the private banking system as a whole, and of insurance companies as well. The problem is that every time the financial markets catch a cold, you offer them a little bit more by extending and expanding the QE programme. The fresh liquidity thus injected is not going into the productive economy but into speculation and financial bubbles. So what can be said to be the end product of 10 months of QE other than fears about deflation and structural recession? Where do you go from here? Are you going to follow in the Fed's footsteps and just go from one QE programme to the next? Or, as Mr Constâncio is calling for, to champion further migration as a means of fostering economic growth in the eurozone?

The eurozone has never been an ideal monetary area, as is clear from the growing disparities in inflation, unemployment and economic growth rates, as well as nominal rates, in the 19 eurozone countries. All of which is exacerbated by Germany's soaring balance of payments surplus, which is causing enormous problems for all the other eurozone countries.

How can this infernal money printing spiral continue without undermining the intrinsic value of the euro? Europeans are beginning to wake up to the fact that they are on board the Euro Titanic.

So, Mr President, I would like to ask whether, in the face of this permanent Euro crisis, you, as an economic, can continue to believe that the euro – the single currency – still has a future. In other words, is the solution not a multi-currency zone?

1-024-0000

Mario Draghi, *President of the European Central Bank.* **–** As an economist I think that the euro has a future, but let me add immediately that we have to work for this future. I shall just link with something that was put to me before: we should take this opportunity to deepen our monetary union integration now.

Let me address the first part of your question, namely: does the ECB have enough instruments? The answer is yes. Our purchase programme – and we have shown it – is flexible enough to be adapted to the changing circumstances of the economy and of the markets. We have shown already this by adjusting certain parameters; we have shown this by expanding the range of bonds that can be bought; we have shown this by expanding the horizon. Incidentally, the expansion of the horizon that was decided at the beginning of December is going to add slightly less than EUR 700 billion of additional liquidity between now and 2019, so it is almost two-thirds of the original programme. It is by far not a negligible size.

We are confident that, if needed, as announced at the end of the last monetary policy meeting in January, the Governing Council will review and possibly reconsider the monetary policy stance in early March. If the Governing Council does so, we have plenty of instruments; we have shown that we can adapt our purchase programme to this extent, as well as other instruments.

1-025-0000
Pablo Zalba Bidegain (PPE). – Mr Chair, President Draghi, I am going to speak in Spanish.

On Brexit, I agree that this is an opportunity for the eurozone to take a significant step towards integration, and I naturally agree with you that the single market and monetary union must be protected. But I have the feeling that this is rather a case of *excusatio non petita, accusatio manifesta*. What do I mean? Well, do you think that the single market is in danger? Do you think that monetary union is in danger during the negotiating process? I would appreciate it if you would clarify this point.

With regard to what you said today in your initial statement: if I understood correctly, you said that we need more public investment and lower taxes, but you also referred to the need to comply with and take a rigorous approach to the Stability and Growth Pact. How can we square this particular circle? Finally, on the eurozone banks, you defended the situation of the eurozone banks, especially by comparison with their situation in 2009; however, we are seeing and being affected by significant market instability in this regard. Do you consider the market reaction to be exaggerated?

Finally, it has been suggested that the recapitalisation of Italian banks was treated differently to other recapitalisation processes. Could you give us some arguments to refute these suggestions?

1-026-0000
Mario Draghi, *President of the European Central Bank***. -** On the first question, I have to say again that the ECB is not party to these negotiations. I have not seen anything yet, because we are not a party in the negotiations. But we do think that our guidelines – at least as far as the ECB view of what the outcome of this negotiation is going to be is concerned – should be the preservation and protection of the single market and the right to deepen monetary union integration in the future.

The second point is a question about how countries can do what I have suggested they should do under the rules. Well, I think there is plenty of evidence. First of all, I do not grow tired of repeating that the composition of the budget is as important as the aggregate size, if not more so. Second, there is ample evidence that the present rules contain flexibility. The Commission is administering this flexibility and is the guardian of this flexibility. There is ample evidence that, if you take most eurozone members, you cannot really say that their budgets are contractionary. We cannot really say that. Any comparison worldwide would show that this is not the case, and the aggregate stance – as I said before – is slightly expansionary this year, which of course is going to help the recovery.

On the eurozone banks, I think I have said before that the situation in the banking sector now is very different from what it was in 2012. Perhaps most important is that euro area banks have significantly strengthened their capital positions over the past few years. For significant institutions, the Common Equity Tier 1 ratio has increased from around 9% to 13% – so they are more resilient to adverse shocks – and the quality of banks' capital has improved.

I have already said that in 2015 the banks under our supervision, namely the significant banks, further increased profits relative to 2014. I mentioned that there is, of course, a subset of banks with elevated levels of Non-Performing Loans (NPLs). I also said what the ECB's

assessment of this is. These NPLs were identified during the comprehensive assessment, for the first time using a common definition, and since then have been adequately provisioned for. So there is not an unexpected request for further provisions coming from the comprehensive assessment. Finally, the ECB's SSM is well aware that to deal with NPLs issues we need time, and this should be done in an orderly manner.
I am not sure I got your fourth question.

1-027-0000
Pablo Zalba Bidegain (PPE). – Regarding Italian recapitalisation, some suggest that there has been different treatment compared with other recapitalisation processes in Europe. I would like you to give us reasons in support of there not having been differential treatment.

1-028-0000
Mario Draghi, *President of the European Central Bank***. –** No, of course there has not been any differential treatment. Are you saying that treatment in Italy is different from other countries? No, there is absolutely no differential treatment at all. The reason for the creation and the existence of the SSM is precisely to make sure that the application of supervision is consistently applied across the whole eurozone. It is important to keep that in mind. It is at the root of the motivation with which people work in the SSM and in the ECB.

1-029-0000
Pervenche Berès (S&D). – Mr President, I should like to come back to the question Elisa Ferreira asked you about the bail-in mechanism. You said that the various elements were in place, but we are concerned because, when we look at the real situation, we have the impression that the entry into force of the bail-in rules without the other parts of the system first being in place could jeopardise the success of the system as a whole. We would therefore ask for you for a clear statement on this specific issue.

Furthermore, you said that when you review monetary policy in March you will analyse the state of transmission of that policy by the banks. Does this mean that you are concerned about the use that banks are making of the liquidity you are providing? Or that you believe that Member States and their financial ministers should be doing more to protect the euro's future?

I have a third question loosely linked to the second, about the timetable now facing us. You have already answered two questions on the negotiations with the United Kingdom, and you authored the Five Presidents' Report, in connection with which it is clear that major pressures are building as a result of the fact that, to some extent, time is against us in our efforts to consolidate the EU's achievements and strengths. So, given the timetable imposed on us by the negotiations with the United Kingdom and the fact that even if a deal were to be reached in the European Council it would not settle the matter, as we would then have to wait for the official result of the referendum and the completion of the EU-level procedures required for implementation of the proposals, what is your view of the situation? In my view, we need to speed up work at government level with a view to implementing a sound budgetary policy, to which you yourself have alluded, alongside the monetary policy to be pursued by the ECB.

1-030-0000
Mario Draghi, *President of the European Central Bank***.** The first question is about the BRRD. Indeed, we need the other two pillars, but let me stress that the BRRD has been a change for the better, and the arrangements we now have in place are about the same – of course there are institutional differences between different jurisdictions – as those that prevail in other countries. But the key for successful implementation of BRRD, I insist, is first and

foremost the banks having enough loss-absorbing capacity; second, the punctual enforcement of these rules; third, the harmonised implementation by the national authorities of these rules.

And of course there are also other elements which I did not mention before. The transition to this new regime has been very significant, so it does require a special effort, both of transparency by the banks themselves, by the national authorities, and of financial information for all the savers that are investing in bank bonds. It is easy for us to say that people should understand that buying a bond is a risky proposition, but it is evidently not easy to get for lots of people, who should be helped by the proper financial information. It is quite clear that we have to have a backstop in place, and that we have to move forward with the deposit insurance. At that point, we have a well-organised complex of rules.

(Interjection from the floor)

Well, we are moving towards that objective.

The second point is about banks' use of liquidity. We have evidence that our monetary policies – especially the TLTROs, the Asset Purchase Programme, the negative rate on the deposit facility – all these measures have contributed significantly to making sure that the money that banks borrow from the ECB would be used in the real economy. We have seen credit conditions improving, we have seen spreads between large corporates and SMEs narrowing, we have seen spreads between lending in the core countries and the periphery narrowing. So all in all we have seen a constant gradual improvement in the credit conditions due to the various measures of our monetary policy.

The third question is about the Five Presidents' Report. The Five Presidents' Report has two different horizons. It has a short-term horizon where a certain number of actions have to be undertaken, and the Five Presidents' Report lists these actions; and it has a longer-term horizon where a deeper integration of the monetary union is being sketched. But nothing is said in that report about making this longer-term horizon dependent on the negotiations with the UK. The two issues ought to be viewed as independent.

1-031-0000
Markus Ferber (PPE). – Thank you, Mr Draghi. I should like to come back to the issue of bank stability.

Your role in supervising the largest banks in the eurozone also includes investigating the banking sector. We saw contingent convertible bonds in a large bank that you are supervising come under pressure very recently. Nevertheless, the bank in question recently passed the stress test – in 2014 – with flying colours.

My question concerns the extent to which the supervisory side can send out a stability signal for the markets. Or are CoCos not as stable as they were assessed to be in the stress test after all?

1-032-0000
Mario Draghi, *President of the European Central Bank***. –** I have to say that I think you should put this question to the Chair of the SSM, who will be speaking tomorrow in the context of the Interparliamentary Week.

But let me just observe that, first, the current market developments appear to be more related to general factors – concerns regarding the weakening economic activity around the globe. Capital requirements have not increased materially compared with last year and bank funding should, in any event, benefit from strong capital positions.

On the specific instruments that you mentioned, the ECB – the SSM –recently communicated that it would follow the EBA's recent opinion on MDA. MDA is the maximum distributable amount, according to Article 141 of CRD IV. This trigger for MDA has been intensively discussed and analysed. The MDA will be triggered as soon as a bank breaches its capital requirements, defined as Pillar 1 plus Pillar 2 plus the combined buffers.
A lot has been said in the markets about the lack of disclosure of the trigger points for the MDA, for the maximum distributable amount, and we will respond explicitly to that, but we should keep in mind that the situation is not that the SSM is forbidding disclosure. It is up to the banks to disclose and, in fact, some banks have been forced by the market authorities to disclose. So this is something to keep in mind.

On the specific bank, I mentioned in my introductory statement that there are situations where, and I quote: 'Clearly, some parts of the banking sector in the euro area still face a number of challenges. These range from uncertainty about litigation and restructuring costs in a number of banks to working through a stock of legacy assets' – that is the other group of banks. So the SSM is aware of this, and I am pretty sure the Chair of the SSM will best respond to your specific question, namely whether the specific bank – this was the question – was seen during the comprehensive assessment. Was that the question?

1-033-0000
Markus Ferber (PPE). – If I can unpack it a little. My question concerns these CoCos, which were specially created to provide more stability for bank financing and which are now of course leading to additional pressure if – as in this specific case – CoCos and their use are called into question at a press conference presenting the annual results. The issue is whether they should be converted into the bank's own capital. This has a major impact on the financial market.

1-034-0000
Mario Draghi, *President of the European Central Bank***. –** As I said, this has to do with the trigger points and core costs, and I think Danièle Nouy would be the best person to answer that question, tomorrow. We often argue about separation, and this is one instance where you want to see separation between monetary policy and supervisory decisions.

1-035-0000
Chair. – By the way, we are discussing intensively the issue of the MDA and the trigger point with the SSM and Danièle Nouy, because some of us assess that more flexibility would be possible. Also, Ms Nouy has confirmed that putting core costs and bonds and dividends in the same basket is probably not the best formulation in the current legal framework. However, we will discuss this in detail tomorrow and we are going to vote on a report which also deals with this topic later this afternoon.

1-036-0000
Jakob von Weizsäcker (S&D). – I am afraid I shall have to come back to two issues that have already been mentioned. The first has to do with the Tusk letter in the context of the referendum on Brexit. In your previous answers you appear to have some optimism that the issue of the single market and the issues relating to the common currency were really orthogonal and that there was little overlap. I would be delighted if that were the case, and of

course if that were the case then I do not see why it should be such an important issue for Britain to have anything said on this matter during the negotiation. I am inclined to believe that if they feel this is an important subject, there is an overlap, and that perhaps, given the difficulty that we have in constructing the common currency so that it really works, we should pay very close attention to the potential conflict between these two areas. The first part of my question is to probe a little bit deeper on that: where you feel there might be conflicts and how they could be beneficially resolved.

The second relates to the recent financial turmoil, if you like, regarding the good health of a number of large European banks. As you yourself have pointed out, this turmoil has not been due to very surprising developments: there was no massive earthquake. It was simply a slightly bleaker macro-outlook than was previously anticipated. It was not even a stress test – it was much less than that. And still we had a very significant reaction.

For these developments there are three different interpretations. One interpretation is to say that markets are irrational; one interpretation would be to say that markets are finally realising that we are serious about bail-in; and one interpretation would be to say that perhaps – despite all the improvements that have been made and that in previous responses you have already pointed out – we have not done enough, because if a slight bleakening in macro-outlook can lead to such nervousness, then perhaps capital buffers and loss absorption capacity should be bigger. So I just wanted to probe why you exclude this third possibility.

1-037-0000

Mario Draghi, *President of the European Central Bank***.** To answer your first question, I do not want to sound more optimistic than I am. As I said before, the ECB is not party to this negotiation. I only wanted to make sure, in what I said, that the two principles, which for us override any other concern, are kept in mind by the negotiating parties. Any weakening of either of the two would have bleak – to use the word you used in a different context – systemic consequences on the future of the Union and the future of monetary union.

So I take your question as being more of an invitation to keep this in mind. I certainly share this and I would forward this stance – which for me should be the dominant stance in this negotiation – to the leaders and the President of the European Council, who are actually negotiating the agreement.

The second question is about what has happened recently. It is actually a combination of factors. It is not a slightly bleaker outlook; it is a seriously bleaker outlook in the emerging market economies, especially in one large economy, although I should say that the very recent actions taken by the Chinese Government showed – and in fact I remarked on this in the last press conference – that they are living up to their reputation for responsibility.

But let me also add that the markets have been in a fragile situation since about the middle of last year. This is not only due to the more uncertain and bleaker outlook, but also the wide gyrations of the oil price and other commodity prices and some uncertainty about the strength of the recovery in other parts of the world, where it was more or less accepted that the recovery would develop in a strong and foreseeable manner. So it is a series of combinations.

One specific feature – and I am coming to the last part of your question – is the following. Certainly the significant regulatory push that has characterised the policymakers' actions since the crisis today has increased significantly the amount of capital that banks now have to

hold. I mentioned before that for euro area banks we have a common Equity Tier 1 ratio from 9% to 13% now. That certainly has had the effect of making the banks stronger. Incidentally, if we had had these dramatic fluctuations in all asset prices and commodity prices before the crisis, I am pretty sure the whole system would have been much more fragile than it is today.

So the system is considerably stronger, both globally and in Europe, but certainly the rate of return on equity has gone down. So banks are stronger, but their lower risk has not yet translated into an adequate return of equity; or, more simply, the amount of capital that has been invested has been so significant that the return on equity now, especially if adjusted for risk, is low.

The introduction of new rules is not a global phenomenon. It is a European phenomenon. So how would we explain the oscillations in banking stocks elsewhere where these bail-in rules already exist? It might have had an effect in the eurozone, but it is one additional component.

Should we do more now in terms of asking for more capital? I think I have mentioned before what the governments and heads of supervisory bodies concluded in their press statement in December after a meeting reviewing the Basel Committee working programme, namely that basically the review should be completed without a significant increase of capital on average. This does not mean that we should not do more with our policies. I have commented about that before.

1-038-0000

Danuta Maria Hübner (PPE). – I would like to go back to the issue of the UK referendum, because I think we have to assume that the negotiations are largely done so it will not now happen this week, and with regard to the single market there is, I would say, a very strong emergency brake mechanism envisaged in this new deal with regard to the single rulebook for the financial sector. This is not only for the UK; it is for all non-euro Member States, which means that the risk of going backwards towards more fragmentation of the sector after all those years of working in different directions is quite high. So I think we should take this very seriously.

The negotiations are done and there is a risk that the single rulebook will come under threat for the financial sector, and this is not only for the UK, but for all the non-euro Member States. I do not know whether you can just slip through these days before the end of the negotiations or whether you should rather intervene in this whole process. I have heard all your comments so far.

My second question is on loose monetary policy, which for years has been combined with rather aggressive regulation, and my feeling is that it is getting more and more difficult to predict the behaviour of the banks when it comes to changes to monetary policy. I do not know how well we really understand the potential reaction of any of the banks to any changes in your policy. My question to you is: can you talk to the banks like the Americans did, when they started the changes some weeks ago to the policy of the Federal Reserve and when also insurers and currency controllers make a kind of declaration to the financial sector? You can give a lot of warnings through soft law reminders of risks. You can ask them to respect certain risk management requirements, and so you can steer the lenders away from the danger zone. Do you think this would work in Europe?

1-039-0000
Mario Draghi, *President of the European Central Bank***. –** I take your first point as a statement, a comment, and as I said before, we are not party to that negotiation, but we will certainly have these principles in mind when we see the outcome.

The second point is about whether we talk to the banks. Sure, we do talk to banks, within the proper format that we have now given ourselves. We always talk to banks and the markets and the financial intermediaries because they are a source of information. There is no doubt about that. Recently the behavioural rules that we follow have been made transparent through a series of decisions that I have presented on other occasions, but even before that there was absolutely no conflict of interest, so we have only made things more formal. Certainly we do talk to them. We have semi-official or official occasions when we group together financial intermediaries and also representatives of the industry at the ECB, and we have extensive presentations on the situation. So I would say we consider the information that comes from markets and from banks as an important input in our policy decisions.

1-040-0000
Danuta Maria Hübner (PPE). – I have 20 seconds still, so I would like to clarify that quantitative easing does not really create permanent purchasing power. To overcome inflation my feeling is that the injection of new money could be a helpful approach. Could you think of techniques that would allow that and which the ECB could use to inject new money into the economy?

1-041-0000
Mario Draghi, *President of the European Central Bank***. –** We are certainly looking at all these ideas. They have not been tested yet with any central bank, but we have been looking at them. Let me say, incidentally, that they do present some serious complications. The first is of an accounting nature, and the second is of a fiscal nature – namely to what extent monetary policy can intrude into fiscal policy.

1-042-0000
Costas Mavrides (S&D). – Mr Draghi, we greatly appreciate your presence today with us, and we also appreciate your efforts. Having said that, I have noticed that central bankers are usually criticised for doing too little or being too late, or both. I will give you an example of this. When the Federal Reserve started with QE, it decided to buy almost everything – all kinds of papers. When the ECB started, after a few years, to do the same thing, we know what it did: it was very selective.

I remember very well that about a year ago – or maybe even a few months ago – we had an exchange of views here on the mechanism relating to NPLs. The answer at the time was that this was a matter which was a competence of the localised authorities. Now, it seems to me, the Central Bank has a different view. I would like you to elaborate on that.

One more comment: last week in Cyprus there was a lot of public discussion about the role of the ECB regarding implementation of the rules on unfair banking practices or terms which are void. The way in which banks or Member States implement unfair terms rules is very heterogeneous, and we can find many reasons for that. But my question to you is very simple: do you see any role for the ECB towards updating, or offering know-how for the Member States, in order to have homogeneous and better implementation of the law regarding unfair practices?

1-043-0000
Mario Draghi, *President of the European Central Bank***. –** The answer to the second question is that I think this is hardly the case, because this is a task which falls squarely with the national authorities. We can certainly think about ways to help national authorities with a view to having consistent application across the eurozone of behavioural rules that would limit these unfair practices, but, as I see it today, I see it mostly – and squarely – within the national authorities' area of competence. But we will certainly reflect on that and see whether we can help.

Regarding the second point, I am not sure that I actually share your recollection. As I said before, when I was asked a question about Italian NPLs, the NPLs in the format of ABS may become eligible as collateral if they do comply with certain rating standards – namely, as I said, a minimum second-best rating of single A – and there are also other conditions in our collateral framework. I am not sure that things have changed. It has always been like that. How different jurisdictions shape their monetary policy, and more specifically their QE, does, of course, differ across jurisdictions. The institutions are different. The fact that, for example, the US is predominantly a market-based financing system, where instruments are rated and priced predominantly in markets and the financing flows go predominantly through markets, is a very different institutional framework from what we have here, where it is mostly bank-based and the assets the banks can offer as collateral are assets that very often are not easily priced or rated, because often it is credit to SMEs. In fact, one of the reasons for the ECB to have very favourable securitisation – and in fact we were one of the two initiators of the push towards transparent and simple securitisation – was exactly the objective of taking these credits and having them in a form that could be priced and transparently assessed, so that this could also be used as an instrument for our monetary policy. We certainly strongly welcome the Commission proposal, and the ECB will issue an opinion on it as well.

1-044-0000
Georgios Kyrtsos (PPE). – President Draghi, it seems that the Greek Government has serious difficulties in implementing the third bailout agreement and the Memorandum of Understanding attached to it. The IMF claims that additional measures have to be taken and that there is a huge gap separating the Greek Government from the creditors of the Greek state. On the other hand, the Greek Government believes that we could have a positive first review even before the end of February. The Commission and the Eurogroup are somewhere in the middle, claiming that we could have a successful first review before Easter, provided the Greek side becomes more effective in implementing the agreement.

What is the ECB's view on the matter? Is it possible to have a positive first review in the immediate future, or will the Greek economy face a new confidence, financing and liquidity crisis similar to the last years? Finally, what is the state of negotiations with regard to managing the NPLs of the Greek banking system, which are somewhere between 40 and 50% of total loans?

1-045-0000
Mario Draghi, *President of the European Central Bank***. –** First, let me say that the discussions with the Greek authorities are still ongoing, so it is too early to specify a precise timetable for the finalisation of the review. It is of crucial importance that this review be concluded swiftly, but it should be concluded on the basis of a policy package that is robust and especially that would minimise risks to programme implementation. In other words, swiftness – time – is important, but the credibility of the review is also important.

A successful conclusion of this review hinges on several fronts. The first is that the authorities need to make a genuine effort to ensure the effective implementation of the NPL strategy. This is of crucial importance to ensure a swift resolution of the review, and it is also important because it reallocates resources for the Greek economy to support the private sector in Greece. But we also have another side which is the fiscal side, and there of course we have the income tax and the pension reform. On the pension system, despite the reforms approved since 2010, we still have short and medium-term challenges, and the action there would have to improve actuarial and inter-generational fairness. Action is also needed on the income tax front, so there are a series of fronts where negotiations have not yet been concluded.

1-046-0000

Jonás Fernández (S&D). – Mr Chair, welcome President Draghi. Speaking at the end of the session makes it difficult to prepare questions, since my colleagues have already asked about almost everything. At all events, I should like to focus on two issues in particular.

We have seen very significant financial instability in recent weeks, and my colleague Jakob spoke earlier about the need to improve the capital buffers for banks in Europe. My question concerns the extent to which the agenda (the legislative agenda in this case), and the need to improve securitisation marketing entails a review of capital requirements for those securitisations. I should like to ask whether you consider it appropriate to reduce capital requirements for some securitisations at this point, even when we do not all share the objective of reviving the non-bank financing market.

My second question refers to the need for stimulus policies. You said that monetary policy has been the only expansionary policy in the last four years, and in my opinion you are quite right. You also said that the Stability and Growth Pact provides flexibility to improve the fiscal impulse in some countries facing problems, and here too I believe that you are right. However, we probably need greater capacity for those countries that have fiscal space, as you put it, to make use of it, and in fact we have been discussing the need for countries with fiscal capacity to make use of it ever since I arrived in the European Parliament 18 months ago, and this is still not happening. I also wondered whether, in addition to improving fiscal capacity and the fiscal impulse in these countries, we could provide the Union with an authentic fiscal policy, and to what extent you believe that European Central Bank profits, which are seigniorage profits that in other countries flow into the Union budget — and not into the corresponding national budgets — might help to improve the fiscal policy that you and we hope will foster growth in the European Union.

1-047-0000

Mario Draghi, *President of the European Central Bank***. –** I take it that your first question is about simple and transparent securitisation. I made reference to that before. We consider that the Commission has put forward a strong package that achieved a balance between the need to revive the European securitisation markets and the need to preserve a prudential regulatory framework. The ECB received a request for consultation from the Council and, as I said before, we are currently preparing an opinion on the two legislative acts.

As an aside, in the first wave of responses to the financial crisis in 2008 and 2009, all types of securitisations were treated equally on both sides of the Atlantic. In fact, there was a very deep difference between the securitisations that had taken place in the United States and the ones that were undertaken in Europe. They were completely different. The first were characterised by the heavy presence of subprime lending or other products which were neither transparent nor priceable in a transparent way. On this side, the securitisations were pretty

simple, easily readable and, broadly, easily priceable. This was reflected by the default rates. The default rates were completely different. They were very high in the United States and extremely low in Europe. Within that set, we suggested, together with the Bank of England, that we define a narrower, even simpler and more transparent set of securitisable assets. I think that is the bulk of the Commission's proposal, which is a very strong package.

On the second point, let me say that the whole matter is in the hands of the Commission – the Treaty and trust, the surveillance over fiscal policy. But, when all is said and done and all these very complicated rules are applied, the bottom line is that countries that have fiscal space should use it and countries that do not have fiscal space should not use it.

Let me add, for the third time today, that the composition of the budget is as important as the size of the budget.

1-048-0000

Fulvio Martusciello (PPE). – There is great concern in Europe and Italy over the stability of banks and the protection of savers and small and medium-sized enterprises. The BRRD Directive is creating difficulties for banks. Do you think the review clause should be applied before 2018 and that, in the meantime, an information campaign should be launched to protect savers, in addition to strict supervision regarding the correct and uniform application of the Directive?

Mr Draghi, do you not also agree that some aspects of the recent cooperative bank reform, adopted by the Italian Government, might constitute a fatal attack on the system of local banks, abolishing the principles relating to the indivisibility of mutual funds by giving some banks the option of not joining the single holding company provided for in the decree? Do you not think this might create imbalances in the market?

1-049-0000

Mario Draghi, *President of the European Central Bank***. –** I cannot reply to the second question as it is outside my specific area of responsibility. You can ask the president of the SSM tomorrow.

As regards the first question, I would say that the rules have only just entered into force and you are already thinking of reviewing them? It seems quite unlikely to me. However, responsibility for the rules, I reiterate, lies with the Commission and the Single Resolution Board. The need for information on the rules is of vital importance. What recent experience in Italy and in Portugal, too, has shown, is that these rules were voted on and adopted two years ago. Therefore, we needed to, and still need to, do everything we could and can to help savers understand the importance of these rules. As I said before, it's easy to say that when someone invests in a bank bond, they should know it is a risky instrument and that the money invested might be lost. It's easy to say, but we have to help people understand it instead. That is why, from this point of view, both the transparency of banks' behaviour and information to savers are important.

1-050-0000

Hugues Bayet (S&D). – Mr President, all of us here are aware of the important role that you and the ECB play in supporting the real economy in Europe. However, we are a little concerned about the tools being used. You have told us that we are on the right path and that, although things are difficult, we need to hold our nerve. However, when I, like people all around Europe, open the paper in the morning, I see that, for example, the Italian Prime Minister is questioning the choices made by the ECB or that our friends in the USA and the President of the Fed are questioning the

tools being used in Europe, which are taking so long to give the economy the boost it needs, or that stock markets are still being disrupted by a lack of faith in the rescue package for Greece and Italian banks.

Therefore, even if I were totally convinced by what you have said about the tools and methods that need to be brought to bear, I would still have to say that there is a problem, if not of trust, then of communication. You are better placed than me to know that trust and communication are vitally important in the world of finance. Accordingly, should the ECB and the other parties involved not be doing a little more to improve matters in this respect? Do you perhaps not require some assistance or some new instrument or other in order to improve the situation? This is my first, more general, question.

My second question is about your reply to the question that Pervenche Berès asked about quantitative easing. You say you are optimistic about the money being channelled into the real economy, and that you have been talking to bankers and things are going well. We too have been talking to bankers and the grassroots sentiment is that money is now too cheap. For example, in my own country, Belgium, bank loans are available at 1.5%, so the banks are not interested in lending, because money is not 'expensive' enough. So why are they not interested? To take a concrete example, in Belgium Belfius and BNP Paribas operate as networks of independent banks, and because the banks are independent, if they are unable to earn enough because there is too much money in circulation, they are not interested in handling real-economy business.

So, could it not be said that there is a disconnect between the decisions taken by the ECB and what is actually happening on the ground? Because although you have been speaking to senior figures in banks, they are not the people who are applying those decisions on a day-to-day basis.
Thirdly, you are an economist, but a large number of your peers, who do not always agree with you, say that one of the key factors holding the economy back is the curb on public investment. I am not talking about austerity in general, but about one specific rule, ESA 2010, which is acting as an artificial curb on public spending while, as everyone knows, the real economy is being directly held back.

1-051-0000
Mario Draghi, *President of the European Central Bank***. –** Let me just respond to the third question first. It is quite clear that the overall assessment of the present economic situation is complex, and no party holds the entire truth here. But even those economists who claim that the real interest rate is so low would not suggest that we change our course on monetary policy. They do not suggest that we should tighten monetary policy today. They are actually arguing for other policies to be implemented – most prominently fiscal policy and public investment.

On your first question, we are certainly aware – and we are probably the first to be aware – that communication is very important. We believe that we have done a substantial amount of work in the recent past to improve communication, and the number and the intensity and – I would say – the granularity of our communication has certainly increased. It is also true that when things get complicated, as at the present time, when markets are so volatile, further efforts are needed in communication. I certainly agree with you that we ought to continue working to improve our communication. When I talk about monetary policy and say that we do not give up, the same thing should be said about communication. We should certainly work more and more to improve it.

I did not exactly understand the question on the second point. You said that money is too cheap and therefore people do not use it? I am not clear that it works this way.

1-052-0000
Hugues Bayet (S&D). – Mr President, the banks are not using the money, but local banks, which are independent – BNP Paribas being a case in point – have their own branch in a given town. And in that town, in that branch, they are not looking for mortgage business, for example, because money is so cheap that they would not earn anything on mortgages, as they are independent.

So there is a real problem with the practical impact that quantitative easing is having on the real economy.

1-053-0000
Mario Draghi, *President of the European Central Bank***. –** It is true that very low interest rates for a very long time do produce a need for different business models. That is in a sense the way I understand your question. The pre-existing business models were predicated on a different constellation of asset prices, especially interest rates. Now we have a situation where interest rates have been low – look at the United States where they have been zero for something like eight years – and by the way, we have not seen insurance companies going bust in the United States, so somehow the business model adjusted to this low-interest-rate climate.

I do not want to underplay the difficulties that these adjustments entail. I know that they are complex and I know that to some extent they have to cope with a regulatory environment which is different in Europe, but the point from the Central Bank viewpoint is that we have a mandate and our mandate is to reach price stability defined according to our objective. That comes first and foremost, and if we reach this objective, if we comply with our mandate, the economic situation will improve, interest rates will rise again and the pension funds, insurance companies and savers who are suffering at the present time in the present situation will actually be better off. If we were to change monetary policy because of the concerns of these categories I think we would ultimately eventually go against their interests.

1-054-0000
Chair. – Thank you once again, President Draghi. This has been an extremely interesting Monetary Dialogue. The next Monetary Dialogue is scheduled for 21 June 2016.

(The meeting closed at 17.25)