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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE ECB
(pursuant to Article 284(3) of the TFEU)
BRUSSELS,
THURSDAY, 12 NOVEMBER 2015

4-002
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IN THE CHAIR: ROBERTO GUALTIERI
Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 9.40)

4-003
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Chair. – Good morning, President Draghi, it is always a pleasure to have you here at this fourth and last monetary dialogue for this year. We have not been short of important statements in recent times, and I am sure that the Members of the Committee on Economic and Monetary Affairs (ECON) will come back to these and other issues.

You announced after the last meeting of the ECB Governing Council that the degree of monetary policy accommodation will need to be re-examined at the Governing Council December meeting when the new Eurosystem staff macroeconomic projections are available, and you confirmed that the Governing Council is willing and able to act by using all the instruments available within its mandate. In particular you reiterated once more that the Asset Purchase Programme provides sufficient flexibility in terms of adjusting its size, composition and duration. Furthermore, the meeting in Malta also saw governors discussing a further lowering of the deposit facility rate. Moreover, you said yesterday at the Bank of England Open Forum that completing banking union means a fully-equipped Single Resolution Mechanism and a uniform deposit insurance scheme.

Finally, prior to today's monetary dialogue, ECON's coordinator indicated to the ECB its wish to address the involvement of the ECB in the design and implementation of assistant programmes. We have a lot of important things to discuss. We look forward to your introduction, and after that we will as usual have our slots of five-minute questions and answers.

4-004
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Mario Draghi, *President of the European Central Bank***. –** Mr Chair, I am pleased to be back again with this committee for the last meeting of 2015. The ECB's accountability to you, the European Parliament, is a central counterpart to the ECB's independence. And transparency is a precondition for your holding us to account. As you are aware, following a public access request, last week we released the diaries of all members of the ECB's Executive Board – including my own – for the period from August 2014 to end-July 2015. But we will not stop there. Starting next February, we will publish these diaries on a monthly basis.

It is only natural that some of you will raise questions with regard to the meetings my colleagues and I have had; after all, the whole point of publishing the diaries is to give the public and you a better understanding of with whom we are interacting. But let me be very clear: whatever the date, we have had and still have a clear rule: we do not discuss market-sensitive information in non-public meetings. For our monetary policy to be effective, however, it is important to meet market participants and also to hear their views.

For the remainder of my remarks, I will mainly talk about two issues: first, our current economic outlook and the upcoming reassessment of it at our December meeting; and second, as requested by ECON coordinators, the macroeconomic adjustment programmes over the last half-decade and the ECB's role in them.

Firstly, economic developments and our monetary policy. Incoming data confirm that the recovery in the euro area is progressing moderately. So far, economic activity in the euro area has shown some degree of resilience in the face of external influences that tend to weaken demand. While external demand has receded, euro-area export market shares have increased. The lower cost of energy and our monetary policy measures are supporting consumption and, increasingly, new capital formation.

However, downside risks stemming from global growth and trade are clearly visible. Moreover, inflation dynamics have somewhat weakened, mainly due to lower oil prices and the delayed effects of the stronger euro exchange rate seen earlier in the year. In addition, price pressures – such as producer prices – remain very subdued. Signs of a sustained turnaround in core inflation have somewhat weakened. While the recovery will gradually strengthen the impulse underlying the inflation process, the protracted economic weakness of recent years continues to weigh on nominal wage growth, and this could moderate price pressures as we move forward. From today's perspective, this suggests that a sustained normalisation of inflation could take longer than we anticipated in March, when we first appraised the overall impact of our measures.

We will closely monitor the risks to price stability and thoroughly assess the strength and persistence of the factors that are slowing the return of inflation to levels below, but close to, 2%. At our December monetary policy meeting, we will re-examine the degree of monetary policy accommodation. We will use as one input the Eurosystem staff projections we will receive in December. Another input will be the work of our staff in consultation with the Eurosystem committees on the monetary policy stimulus that has been achieved so far and the range of instruments available in case more accommodation should be seen as necessary.

If we were to conclude that our medium-term price stability objective is at risk, we would act by using all the instruments available within our mandate to ensure that an appropriate degree of monetary accommodation is maintained. Consistent with our forward guidance, the asset purchase programme is considered to be a particularly powerful and flexible instrument. In fact, we have always said that our purchases would run beyond end-September 2016 in the case that we do not see a

sustained adjustment in the path of inflation that is consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term. Other instruments could also be activated to strengthen the impact of the purchase programme if necessary.

Now let me come to the second topic: the ECB and the macroeconomic adjustment programmes. Let me now turn to a topic that the Chair has asked me specifically to address, namely the macroeconomic adjustment programmes and the ECB's role in their negotiation and monitoring. Benoît Cœuré spoke on this topic here last year, so I will be brief; but of course, we can discuss more during the Q&A session if you wish.

To understand our role in the programme work, one needs to recall the initial conditions in which the programme set-up was established. In spring 2010 there was no framework in place at European level to negotiate and monitor adjustment programmes. In this situation, Member States turned to the IMF and the Commission for help, and they also asked the ECB to contribute its expertise at the time when Europe needed it most. This set-up was codified in the ESM Treaty and by the co-legislators in the two-pack; the ECJ confirmed its legality. In line with this, the ECB has since provided its advice in programmes in five Member States. But we should not forget that the respective national governments are responsible for programme implementation, while the final responsibility for the programme design and the disbursement of financial assistance lies with the Eurogroup.

Since 2010, three countries have now successfully completed their programmes, and Ireland is a particularly good example of how such programmes can deliver the necessary adjustment and restore financial stability, economic competitiveness and fiscal sustainability. It has shown that a country which takes strong ownership of its programme can come out of it with robust growth and a more stable financial system, and that eventually employment will also rebound.

There is no doubt that the adjustment process was painful. But we should keep in mind that the adjustment would have caused significantly more hardship in the absence of financial assistance. The programmes had to address excessive macroeconomic imbalances which had accumulated over several years in the run-up to the crisis, often reflecting misguided national economic policies. As we have said before: do not blame the fire damage on the fire brigade.

Throughout the programmes in Ireland and elsewhere, the ECB has played the role assigned to it under the Treaty – to be the central bank for the euro area and to provide liquidity to financial institutions, including those in programme countries, when warranted. At times, this meant that risk-management considerations made it necessary for us to consider the progress of a programme implementation when deciding on the provision of further liquidity if the soundness of the domestic financial sector was intimately linked to programme success. We did so in full accordance with our rules and legal framework and in full independence. This was the case for Ireland, and it continues to be the case for Greece and Cyprus.

Please allow me to conclude. Five years ago, the programme framework came to life. It is certainly part of our path toward a genuine economic and monetary union to integrate the European Stability Mechanism and the related programme work fully into the legal framework of the European Union; we again called for this most recently in the Five Presidents' Report. But it is even more important that we take decisive steps to avoid a Member State needing a programme in the first place. That is why completing the banking union, embarking on a new economic convergence process towards more resilient economies and achieving a fiscal union that ensures that both fiscal sustainability and fiscal stabilisation are all crucial to providing a long-term vision of where European monetary union is leading. The Commission package adopted three weeks ago is a first step in this direction. But more will need to follow. Thank you for your attention, and I am now looking forward to your questions.

4-005
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Chair. – We can now start with the questions. The first speaker is Mr Brian Hayes. This also gives me the opportunity to clarify and point out that there will be among the speakers a number of Irish colleagues. This is connected to a letter that some colleagues wrote, and to the very important point that the ECB President made about the accountability of the ECB to the European Parliament. It has been accepted that this hearing will also be an opportunity to address this issue, and all Irish colleagues have been made aware that they can, through the coordinators, ask for the appropriate amount of speaking time – within the framework, of course, of a balanced monetary dialogue that also has to address other points.

4-006
EN

Brian Hayes (PPE). - Mr Gualtieri, thank you for facilitating this opportunity for us to put these questions. President Draghi, you are welcome once again to the Committee on Economic and Monetary Affairs (ECON), and I recognise that the Irish bailout did not happen on your watch as President of the ECB. You have repeatedly said that the ECB is accountable to European Union citizens through this Assembly, and I welcome that accountability. So in the context of that accountability, there are some unanswered questions that remain, that many Irish citizens want asked of you and the ECB in the context of the Irish bailout.

I have three questions to ask you, President Draghi. Firstly, why did the ECB on two separate occasions demand that Ireland pay unsecured and unguaranteed creditors of two banks, namely Anglo Irish Bank and Irish Nationwide – banks that were clearly insolvent? We are not talking here about public debt; we are not talking about sovereign debt, which is the absolute

responsibility of Ireland. We are talking about private debt, and we are talking about private banks that had losses of eight times their capital. Do you accept that the refusal of the ECB to allow Ireland to write down unsecured debt in these two zombie banks put unfair and unprecedented pressure on Irish taxpayers? Your predecessor claimed that there was a consensus on this decision, a consensus that did not include Ireland. Why was Ireland overruled by the ECB in relation to this matter?

My second question relates to the emergency liquidity assistance (ELA): could you explain to the Committee why the ECB allowed that emergency liquidity assistance to be 25% before the crisis?

Finally, you are the current President of the ECB. Could you ever envisage a circumstance where you would write to a euro area finance minister and tell that finance minister by way of correspondence that unless they signed up to a programme, they would then find that emergency liquidity was cut off?

4-007
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Mario Draghi, *President of the European Central Bank.*
J I am sorry, I did not understand the last part of your last question.

4-008
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Brian Hayes (PPE). – My last question is: could you ever envisage a circumstance where you would write to a euro area finance minister and say that you would cut off ELA unless they signed up to a programme? It is a hypothetical question.

4-009
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Mario Draghi, *President of the European Central Bank.*
J This is quite a rich set of questions to answer, but first of all let me make one general point which I will make in answering other questions on Ireland. Let us not forget that the whole banking crisis was entirely homemade. Let us start from this point. It was exacerbated by a series of actions that were taken by the government at that time, before the ECB became involved in this. I will come back to this in a moment.

The second point is more a formal point but it is nonetheless important: namely, the burning-out of senior bondholders was not a decision taken by the ECB. It was taken by the Irish Government. The ECB advised in that direction certainly, but the ECB did not have the authority or the means to impose this decision.

The third point: we have been talking a lot about this bail-out, but we forget that before the bail-out, private investors in Ireland had already suffered losses which overall, between write-offs of equity and junior write-offs of subordinated debt, amount to something like EUR 43 billion. The bail-out we are talking about, in the first instance, was at most EUR 4 billion and in the second instance was only EUR 2 billion. I am saying this just to have an idea of the relative proportion of the figures.

The fourth point, and I have made this point in various different contexts: it is very difficult to judge the actions that were decided at that time – this holds for Ireland but it also holds for other programme countries – with the eyes of today. At that time there were no clear rules about bail-in and there were no precedents, so there was no idea of what the order of precedence should be in these cases.

This contributed to making the situation of financial markets, which was already very fragile for a variety of reasons, even more so because of this uncertainty about the order of precedence. This resulted in an exasperated volatility. Our advice against burden-sharing was not a matter of principle – as a matter of fact the ECB is in favour of burden-sharing now. But the necessary precedents and the conditions to facilitate the bail-in of senior creditors were just missing at that point in time.

Then we had some positive developments. In 2011, at the end of the first quarter, we had the outcome of the so-called PCAR (Prudential Capital Assessment Review) of the Irish banks. You may remember that some of the institutions were foreseeing a much higher capital need, but according to the ECB staff estimate, the final figure was actually lower. This certainly contributed to restoring confidence in the markets. At that point, when confidence was just returning, the ECB was of the view that it would have been highly disruptive to have a bail-in of, as I said, at most, EUR 4 billion after the EUR 43-44 billion that had already been bailed in before. So it would have been highly disruptive: in other words, the costs would not offset the benefits of this bail-in. This was the view.

Later on in 2011, this view was confirmed: the foreseeable bail-in was about two billion, also because the Irish authorities wanted to exempt two Irish banks from the bail-in. So it was a small bail-in to begin with, with a potential high cost in terms of confidence in the Irish programme.

One should also remember that the issue at stake there was restoring market access, which by the way is the key issue in all programmes, so the main objective at that time was to achieve market access. Thanks to the compliance with the programme, to the action of the Irish Government and to the sacrifices of the Irish people, this was achieved. It was the beginning of a story which is 100% a success story, of which all the Irish people should be proud.

Turning to the question about ELA, I would point to the written reply I gave Member of the European Parliament Matt Carthy in February, where we explained the decision-making process for granting ELA. Once again, a formal point but one that is nonetheless important, which I make all the time, and not only in the case of Ireland: responsibility for the provision of ELA lies with

the respective national central bank, in this case the Central Bank of Ireland, and not with the ECB.

The same goes for the solvency assessment that is the basis for the non-objection of the Governing Council to the request by the national central bank. In other words, the national central bank proposes ELA. The ELA can be given only to banks that are solvent and have adequate or good, sufficient collateral. The quality of this collateral is assessed by the competent supervisor, which at that time was the Central Bank of Ireland, and that is crucial because if the supervisor says the collateral is adequate, good and sufficient, then the Governing Council has no reason to object to the request by the national central bank.

So having said that, one should also remember that the Governing Council expressed concern several times at the volumes of ELA that were being given by the national central bank at that time.

Let me just conclude this long answer. Fortunately now the situation is entirely different. As I said, Ireland has not only come out of the programme with flying colours, it is now the fastest-growing country in the European monetary union. The per capita GDP of Ireland is way higher than the euro area average, but the overall situation is also different. We now have clear rules for bank recovery and resolution. We have a well-defined order of precedence for bank creditors. We have one supervisor now, so we have almost completely eliminated this ambiguity of who does what. All in all, a lot of progress been achieved.

4-010
FR
Pervenche Berès (S&D). – Mr President, there is indeed a very rich choice of subjects, but I would like in particular to talk about the proposal which the UK Prime Minister, David Cameron, put on the table the day before yesterday.

In that proposal, the matter of the governance of the euro area itself formed part of the first set of issues addressed by the UK Prime Minister, and featured two very key points.

The first, it seems to me, is that he wishes to call into question the Treaty which makes the euro the currency of the EU, and proposes that there should be two Europes: a Europe with the euro and a Europe without the euro. What do you think of that suggestion?

He then emphasises that there should be no discriminating against or disadvantaging of business environments whose economy is based on a currency other than the euro. Well, it seems to me that he is forgetting about circumstances in which the United Kingdom has been able to benefit from the very existence of the euro. It would seem to me very useful to make that comparison.

What do you think of these demands, including when viewed in conjunction with overriding and pressing concerns within the Economic and Monetary Union, some of which are quite well summarised in the work in which you participated for the Five Presidents' report, and which we know will eventually necessitate a reform of the Treaties? Is there not a risk inherent in the dovetailing of these required reforms to the Treaties and their timing?

4-011
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Mario Draghi, *President of the European Central Bank.*
J First, let me say that it is not for me to comment on a letter that was addressed to the European Council President. This is a political question. What is important for the ECB is that we continue to fulfil our mandate within the Treaty provisions. Now, the basis for the ECB's tasks and responsibilities is the current Treaty framework. The establishment of an Economic and Monetary Union is one of the European Union's central tasks. The Treaty is very clear on this. It says that the Union's single currency is the euro. Our mandate is to define and implement a single monetary policy for this currency in order to maintain price stability. This is the basis of our work, and it is our duty to fulfil our mandate. That is what I can say at this point in time, but I am sure we will have many other opportunities to discuss this issue in greater depth as it unfolds through time. We are now just at the first steps.

4-012
FR
Pervenche Berès (S&D). – Mr Draghi, that may be so, but as an author of the Five Presidents' report on the issue of the reform of the Treaties, how do you view this dovetailing of what might need to be done to respond to Mr Cameron's demands, in terms of a review of the Treaties, with what needs to be done to ensure the functioning of the Economic and Monetary Union?

4-013
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Mario Draghi, *President of the European Central Bank.*
J It is a very early stage in this issue. I am pretty certain that this will occupy the coming months. It is a very complicated process. The only perception that I may convey now is that both sides are, and will be, acting in complete good faith.

Certainly we want to keep two objectives in the future very clearly in mind. One is the single currency, and the second is the single market. Everything that comes out of this complicated interaction between different souls of the Union will have to preserve these two extraordinary achievements of the European Union.

4-014
EL
Notis Marias (ECR). – Mr President, Mr Draghi, in Greece the memorandums have been a complete failure and yet I have heard nothing at all from you in the way of self-criticism or indeed the slightest acceptance of responsibility. In fact, you appear to be washing your

hand of the entire matter like a latter-day Pontius Pilate. I must remind you that, despite receiving EUR 240 billion in loans under the first two memorandums, Greece still has 1.5 million unemployed, 40 % of its population living below the poverty line, GDP down by 26 % and a debt that has risen unmanageably from 123% of GDP in 2010 to an expected 201 % in 2016, according to the IMF. So why, despite the failure of the first two memorandums, are you, as a member of the Troika, continuing to pursue the same policy under the third memorandum?

Why do you continue in the Troika to extort EUR 3,2 billion annually from Greek property owners under the special property tax, as well as increasing VAT to 23 % in the Aegean islands, at a time when pensions are being cut and the welfare system is in tatters? Why are you authorising the auctioning of first homes in Greece? Why are you still refusing to agree to the reimbursement of over EUR 3 billion in profits on bonds purchased at 40% below their face value by the ECB, and redeemed at their full value?

Why then are you not ploughing back these profits back into projects to tackle youth unemployment, which currently exceeds 50 %? Finally, do you intend to accept the haircut proposed by the IMF in order to make Greek debt more manageable? What is the situation regarding non-performing loans? Greece simply cannot take any more and is sending you a powerful message with today's general strike, Mr Draghi.

4-015
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Mario Draghi, *President of the European Central Bank.* J Let me answer by saying what the ECB wants and has wanted. Thanks to the excellent policy dialogue that the government has been having recently with the institutions, the current programme now is what is called a strong programme, namely a programme that can deliver growth with fairness, but also with fiscal sustainability and with financial stability. Many actions have been undertaken, and many more will be undertaken in the future. If the financial milestones are complied with, the banks will be recapitalised and the amount of money that the euro area Member States, and their taxpayers, have agreed to put on the table for this purpose is up to EUR 25 billion. Very likely, this will not be necessary, but it is there.

One has to understand that this effort by the euro area taxpayers is justified only if the banks are in a healthy situation – namely, capable of complying with their mandate, which is to provide credit to the private system, to households and firms in Greece. To do so, they had to cope with the non-performing loans (NPL) problem, and one of the financial milestones addresses exactly this: actions needed to decrease the level of NPLs.

I will not comment on the other measures in the sense that they have all been devised to speed up the structural reform process in Greece and to make the economy more competitive and more productive, while maintaining a degree of social fairness and fiscal sustainability. But let me comment on the SMP issue, because you have also raised this issue in the past. This is not the first occasion on which I have had to correct statements you have made which were not correct. This also occurred during our last meeting in September, and also in June and in February early this year.

I will skip your other statements about the IMF repayment and so on because I have answered you in writing, but since you repeat the statement about the SMP, I will say it again. SMP profits made by the ECB are distributed to the national central banks in accordance with our accounting rules and decisions. They then transfer them to their national budgets in line with their own rules. In turn, Member States have committed to transfer the equivalent of the profits made by the ECB on Greek bonds in the SMP portfolio to Greece, so it is not the ECB holding onto these profits.

4-016
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Marian Harkin (ALDE). - Thank you, Mr Draghi, and thank you to the Committee on Economic and Monetary Affairs (ECON) for facilitating this debate this morning.

The background to my question has already been discussed, and that is about Ireland's attempts to burden-share. Back in 2010 we wanted to force losses on senior as well as subordinated bondholders. According to Ajai Chopra, who was the Deputy Director of the IMF's European Department and in charge of the Irish bailout at that time, the remaining unguaranteed and unsecured senior bondholder exposure was about EUR 16 billion at that time in 2010. According to Kevin Cardiff, who was at that time the Secretary-General of our Department of Finance and is now a Member of the Court of Auditors: 'the EU Commission reported to us that if there was to be burden-sharing for senior bondholders, there would be no programme'. The ECB was similarly determined in its view, so you played a role.

Again in March 2010, Ireland wanted to burden-share EUR 3.7 billion, a much smaller amount of money which you discussed already, and that was when Jean-Claude Trichet made his famous comment that if the Irish Government did it, a bomb would go off, and he said it would not be here, it would be in Dublin. So we stood down and we invented the promissory notes. The context of my question this morning is not who is right or wrong, not who started the fire or who put out the fire. The context is that Ireland was first. The crisis was initially misdiagnosed and mistakes were made.

You said this morning that the crisis was entirely homemade, but you also said that now the overall situation is different, and it is. Then we had a currency union that was not fit for purpose and we had many European banks operating in an extremely risky fashion.

The entire system was faulty, not just the Irish banks. It is also fair to say that actions taken at that time in Ireland were never subsequently taken in any other European country.

But now we have solutions. Now we have ESM. And my question to you is very simple: in the interests of solidarity and fairness, and in light of the June 2012 political commitment by EU leaders to break the link between banks and sovereigns, will you commit to working with relevant parties to find a mechanism or a solution to transfer Ireland's promissory note cost to the ESM? You told us this morning that the ECB is in favour of burden-sharing. My question is: can you find a way?

4-017
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Mario Draghi, *President of the European Central Bank***.** – At this point in time I shall not comment on the past but rather on the future. Your question as I understand it is: can the ESM be used for direct recapitalisation in general, but more specifically in the case of Irish banks? You are absolutely right that there was a political commitment to use the ESM, and then this political commitment was translated into the bylaws, or statute provisions, of the ESM. Now, ESM direct recapitalisation is possible when four conditions are satisfied. The first is that the bank has to be in resolution. The second is that it has to bail in up to 8% –if I am not mistaken – of total liabilities. The third is that the bank must be seen as incapable of raising capital on private markets, and the fourth is that the bank must have a systemic character.

You can see how the combined action of these four prerequisites makes the use of ESM for direct recapitalisation a fairly difficult and unlikely mechanism for use in times of crisis, but nonetheless we might conceive of situations where a bank is in resolution and has bailed in 8%, is of a systemic nature and is incapable of raising private capital on the markets. All this comes from the combined action of the BRRD and state aid rules.

4-018
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Matt Carthy (GUE/NGL). - Mr Draghi, I note from your earlier responses that you have singlehandedly absolved the ECB from having any role in the Irish banking crisis. But I would argue that the ECB has in fact directly interfered in not only the crisis itself, but in the democratic decision-making process in Ireland.

In several instances the ECB interventions were extremely damaging and, many would argue, illegal. For example, I want to refer to the fact that ECB officials from September 2010 were briefing journalists about their concerns about so-called 'addict banks' in Ireland: the suggestion that it was a meeting with Timothy Geithner at the Seoul G20 Summit on 11 November 2010 that actually triggered the ECB's decision to force the Irish Government into a Troika programme. Can you confirm this, and can you outline the details of the communication between the ECB and the Irish Government the next day, 12 November 2010?

The ultimatums which were issued by your organisation to the then Irish Finance Minister in 2010 that included the threat to cut the liquidity support to Ireland unless it agreed to a financial assistance programme; the fact that the ECB made full payment of all senior Irish bondholders a precondition of the programme in 2010 and again in 2011, and of course, that famous phone call that Marian Harkin referred to from your predecessor to the Irish Finance Minister Michael Noonan, where he said a bomb would go off in Dublin if even the suggestion of senior bondholders being forced to bear a brunt was suggested in the Irish Parliament: Mr Draghi, do you accept that these interventions into the Irish democratic process make it even more scandalous that your organisation has refused to formally engage with the parliamentary banking inquiry that was established so that the Irish people could learn of the causes and details of the banking and subsequent economic crisis? Can you explain once again why the ECB forced the Irish people to bear a disproportionate burden of a crisis to address wider euro-area concerns? And finally, Mr Draghi, will you apologise for the destructive and illegal actions of the ECB and for the contempt that the ECB has shown to the democratically-appointed banking inquiry and to the Irish people? The ECB was not a firefighter: the ECB was one of the arsonists in relation to our crisis.

4-019
EN
Mario Draghi, *President of the European Central Bank***.** – I still claim and contend that the ECB was a firefighter, but let me just answer a few of your questions. The first is about the nature of the ECB communication on 12 November 2012 with the Irish authorities. On that, a public access request has already been made in this regard, and the ECB did not find any evidence of relevant communication.

Second, as far as I am aware, there were no press briefings by ECB officials, but having said that, just let me say something of a different nature. The problem of so-called 'addict banks' – banks that were using ELA heavily at that time – was not only Irish. There were banks everywhere; even in Germany there was a bank which was using ELA. We have kind of forgotten that time. It was a time of uncertainty so there was a lot of talk about addict banks, but as far as I am aware there was no kind of background press briefing by ECB officials on Irish addict banks.

Third, let me make this point again: we should not forget that the banking crisis was entirely homemade. That is one point. Second point: the immediate reaction to the banking crisis was the issuance of a government guarantee. The government guarantee basically received a negative view from the ECB in two published ECB opinions. This guarantee that was presented without coordination with the other monetary union members (nor, as a matter of fact, European Union members) had

the immediate effect of making explicit the nexus between the banking system and the sovereign, and this of course produced or increased the uncertainty in financial markets as far as the sovereign capacity was concerned.

This was one of the factors that in fact led to the loss of market access by the Irish Government and ultimately to the need for a financial assistance programme. I think it would be fair in looking at these events in retrospect also to keep these elements in mind when we talk about who was a firefighter and from where the fire came. That is quite important.

A lot of emphasis – but I dealt with this a moment ago – had also been placed on the bail-out, or the missed bail-in. We should not forget, as I said before, that EUR 44 billion had already been bailed out before. We are talking about figures which are much smaller than the ones that had already been bailed in.

One more thing, about being accountable to Parliament: we are accountable to the European Parliament and not to the national parliaments. That is why I am here and am responding to your questions.

4-020
EN
Chair. – Mr Carthy, as a Member you have the full right to express your views, but you used language that is not appropriate for a European Parliament meeting, so I would ask you not to do that again.

4-021
EN
Sven Giegold (Verts/ALE). - President Draghi, first of all I would like to say that I have great respect for your independence as an institution and would first like to stress that the euro would not be there anymore if you had not used that independence in the way you did. That is the starting point for everything we discuss. However, I would also like to stress that this independence of course comes with particular responsibilities and, as you can see, there have been (from my perspective legitimate) questions from Irish colleagues, and also in the Greek case, where there is a strong indication that there was very clear timing coordination between action in the Eurogroup, in the Troika, and in certain decisions on ELA, and even questions about some supervisory decisions in the supervisory arm of the ECB.

This raises concerns over the way the independent decisions of the ECB are coordinated with political decisions in the Troika and in the Eurogroup, which mostly fall outside the scope of responsibility and accountability vis-à-vis the European Parliament. Therefore, I ask you the following: would it not be appropriate for the ECB to put in writing clear rules about the limitations of interference in political bodies like the Troika and the Eurogroup, and about which decisions it takes there and which decisions it does not take, in order to protect your integrity as an institution? I think there is a need to define clearly, in writing, the divisions between political bodies and the independent actions of the ECB. If not, there is a danger that your reputation will be harmed even more than it has been until now. Can I urge you to take such clear decisions on separation of powers? Oral statements are not enough in order to reinstate the trust in your institution which is needed everywhere in Europe.

4-022
EN
Mario Draghi, *President of the European Central Bank***.** **–** Thank you for your acknowledgment of our independence in the past. But I would also claim that we have been acting independently at the present time too, and in the recent past during the examples that you have just quoted.

Let me make this point about ELA. At the present time ELA is a national central-bank decision to which the Governing Council may object. This decision is based on two features mainly. First of all, the banks that receive ELA must be declared solvent. The assessment of their solvency is given by the competent supervisor which, until about a year and a half ago, was the national supervisor and is now the SSM. So in the case of Greece this was the assessment of the SSM – that the Greek banks were solvent – and this assessment was based on a so-called point-in-time assessment, namely they were complying with the minimum capital requirements and with the regulatory capital requirements.

But let me say one more word about solvency. On top of the Supervisor's assessment, the Governing Council in the Greek case (but this was true also in the Irish case), in order not to object, has to give an assessment of solvency in perspective. In periods of great uncertainty and loss of market access, the sovereign affects the quality of the collateral that banks provide for borrowing through ELA and affects more generally their solvency, especially when the banks hold, in a direct or indirect form, lots of sovereign assets. The Greek banks do. The Greek banks also have DTCs and DTAs, which are basically liabilities of the government to the banking system.

So what the government does in its negotiations on the programme with the other Member States is very relevant to establishing the quality of the government assets and therefore the quality of the banking system and therefore their eligibility for ELA or not.

4-023
EN
Sven Giegold (Verts/ALE). – Could you answer my question as to whether you will put the separation in writing?

4-024
EN
Mario Draghi, *President of the European Central Bank***.** **–** I will come to that, but you seem to be saying that we have not acted independently, so I have to react to that. We would claim that we have acted exactly with good judgment, balance and independence, and I want to make that pretty straight.

But things have changed with respect to two years ago. Now we have one SSM and soon we will have one single resolution mechanism and possibly one deposit insurance system for the whole of Europe. So does it still make sense for ELA to still be a national central bank task? That is something we are discussing, and we are looking at how to review this and make it an ECB task or a Eurosystem task rather than a national central bank task. Within that revision we may well think about better rules for our participation in the Troika and in the programme.

It is really not up to us in the end to decide this. As you know well, our role in the Troika and our role in the policy dialogue has been stipulated; it has been written in the Two-pack, in the Six-pack and in the ESM Treaty, so there is a substantial part of EU and EMU legislation that foresees the presence of the ECB. But as I said several times, the ECB is not going to stay there forever. Things have changed. The ECB's role was the one asked for at that time and it was very important for the ECB to participate at that time. We will have to see what the future holds for us, but basically there is a whole process of revision in action now on what was thought in the past few years.

4-025
EN
Diane James (EFDD). - Mr Draghi, thank you for coming here this morning. This is my first opportunity to ask you a question and I welcome that opportunity.

It is ironic – and a number of other speakers have referred to this – that in the same week that you and your team are being criticised for attending private meetings with financial services firms, the ECB refuses to attend public meetings at the Irish parliamentary inquiry into the 2010 Irish banking crisis. It is essential for financial stability that the ECB face proper – and I emphasise meaningful – scrutiny to rebut serious allegations that the ECB threatened an elected government, and the two-minute question format in this committee just does not seem to be providing that.

I welcome some of the previous questions, particularly from Mr Giegold and also from my Irish colleague at the end of the other row.

Despite my misgivings about the scrutiny quality, my questions are as follows: are there any circumstances in which you could envisage the ECB attending a national parliamentary inquiry? And the second: would you confirm that the ECB, in this regard and in its regulatory function, is actually no different from other EU-level regulators such as ESMA, which now oversees regulation of the City of London?

4-026
EN
Chair. – Let me just say that all of us have a duty to provide such scrutiny. This is exactly what we are doing, including you, and the quality of the scrutiny depends on the quality of the answers that we as Members of the European Parliament, elected by the citizens, are able to provide after asking the ECB, which is here because it is accountable to the citizens through the European Parliament.

4-027
EN
Mario Draghi, *President of the European Central Bank.*
J I do not have much to add to what I said before. We respond to the European Parliament, we do not respond to national parliaments.

4-028
EN
Diane James (EFDD). – Thank you, Mr Draghi, but can I just make a point to the Chair: I did ask a question and I did put the point that I do not think the scrutiny function within this committee is actually addressing the issues. I think I am correct in saying that to then respond to me in that way was not quite the way that the committee should handle things. I am willing to learn as a relatively new MEP, but the point I would make is that we have had lots of questions and we are not getting the confirmation in terms of responses that something will happen.

4-029
EN
Mario Draghi, *President of the European Central Bank.*
J I am sorry, which questions did you not get the answers to?

4-030
EN
Diane James (EFDD). – The one about ESMA, sir, and in terms of the UK.

4-031
EN
Mario Draghi, *President of the European Central Bank.*
J Oh yes, I am sorry, but I did not understand your question: ESMA and London, the City of London?

4-032
EN
Diane James (EFDD). – Yes, sir, but in terms of some of the points that you have been making. On the one hand, you have indicated that you cannot intervene and that you do not want to intervene, and yet in other responses you have actually cited parts of the system that do undertake precisely that sort of intervention. So I am walking away and I think anybody viewing this is going to be slightly bemused. What exactly is your role, when do you intervene and when are you actually answerable to individuals, other committees and national parliaments?

4-033
EN
Mario Draghi, *President of the European Central bank.*
J I am sorry but I do not understand your point.

4-034
EN
Chair. J Thank you. The next speaker is Barbara Kappel.

4-035
DE
Barbara Kappel (ENF). – President Draghi, my questions are simpler; possibly more complex, but nevertheless simpler to answer.

Since the financial crisis, the leading national central banks have been pursuing a policy of cheap money and historically low interest rates – the Fed, the Bank of England, the Bank of Japan and, of course, since March, the European Central Bank. I would like to highlight a complex aspect of this trend: many experts warn that the ECB, with its policy of cheap money, *quantitative easing*, is driving government debt up because the bond purchase programmes provide perverse incentives for Member States' budgetary policies. If you look at the way debt has grown: 70.4% from 2007 to 2011 and 87.8% in 2015, you see there has been a debt increase of 25%. So you could say that this assumption is evidence-based.

In addition, due to the cheap money on the capital markets and the low – and even negative – interest rates for government bonds, a budgetary policy is being pursued that leads to sovereign debt, but that also means that fewer structural reforms are being implemented. While you have mentioned Ireland as a positive example – it has 6% economic growth, and I would like to specially emphasise this – as a rule, Member States fail to do so, which makes the coordination of economic policies, namely the European Semester, much harder.

I would be interested in hearing your assessment of the situation.

A second aspect: the Commission's autumn forecast shows that inflation in the EU in 2015 is running at 0%, and 0.1% in the euro zone, despite the fact that, since March this year, the European Central Bank has invested EUR 540 million in bond purchase programmes and has held out the prospect of expanding the programme. You have actually confirmed that again today. This statement and what you have again confirmed today, namely, namely the expansion, has led to buoyancy on the stock markets so that the DAX rose to over 11 000 points last week. However, experts say that the current upswing has nothing to do with the fundamental economic and corporate data. They note that for the last three years the bullish stock markets are only partly due to the improved situation of enterprises and the economy and that there is very strong evidence of a decoupling.

I would therefore like to ask you two questions: a) Is the ECB doing a lot to push up the stock markets with QE? And b) How do you rate the effectiveness of the bond purchase programme and the degree to which it has achieved its purpose, given the 0.1% rate of inflation in the euro zone?

4-036
EN
Mario Draghi, *President of the European Central Bank.*
J The point you made about low interest rates is reasonable. I have said many times that a protracted period – too long a period – with too low interest rates basically provides fertile ground for financial stability issues and problems, so we have to monitor financial stability risks very carefully. However, our primary mandate is price stability. Price stability for us means having an inflation rate below and close to 2%. That is why we use all these monetary policy instruments. That is why we have the asset purchase programme in place. That is why we monitor closely all developments in the world economy that might postpone the achievement of our inflation target.

It is quite clear that in situations like the present ones, what we call economic risk-taking goes jointly with financial risk-taking. We want the first and we do not want the second. However, low interest rates and especially abundant liquidity certainly encourages the second as well. That is why I said we have to monitor carefully the potential financial stability risks. To this extent, however, the first line of resistance is not monetary policy but what we call the macro-prudential instruments that will have to be in place, and we will have the opportunity to discuss this later in the ESRB hearing.

4-037
FR
Alain Lamassoure (PPE). - President, I am not going to talk about any particular country, but about the euro area economy and the EU economy as a whole.

You said in your opening speech that world demand is slightly slack and you felt that in this global context the EU economy was showing a degree of resilience. In reality, however, the growth rates we are achieving are particularly disappointing.

We are now seeing all the indicators pointing in the right direction, as you have just mentioned: interest rates have never been so low and the quantitative easing from the Central Bank is extremely generous; oil prices have been at half their previous value for over a year now; the euro is now worth less than the dollar and, since the hearing began, has fallen again, following your opening speech; the budgetary policies of the twenty-eight Member States are now neutral, when they were negative in terms of activity; the Juncker Plan to stimulate investment is entering the operational phase and, as you have said, economic recovery programmes are running relatively well in those countries which have implemented them, and structural reforms are being undertaken in almost every country, with mine still having progress to make.

If we had been told this eighteen months ago, we would have felt at that point that we could achieve an extremely high growth rate. However, growth levels are still very disappointing.

What can be done to trigger investor and consumer confidence to genuinely relaunch growth?

4-038
EN

Mario Draghi, *President of the European Central Bank.* J The signs we have been getting in the last few months actually show that things are improving. The recovery is continuing. I agree with you, it is gradual. It is slow but it is stronger and broader than in the past. It is now taking place too in the so-called (formerly called) 'stressed' countries – non-core countries – and it is driven by consumption and recently also by investment, and that is another positive sign.

We ask ourselves very often how effective is and has been our monetary policy, and again the signs show that it has been, and is, effective. If we look back to, say, 2012, that was when – by the end of 2012 – confidence in the euro returned and financing conditions started to improve dramatically after they had been very severe in the previous months. This improvement in financing conditions was dramatic, but also it did not happen all at once. In the meantime, however, the banks and the health of the banking system had been severely hampered.

In an economy like ours, our monetary policy mostly works through the banks. As you know, about 80% of our credit intermediation goes through banks, so if the banks do not work, we can lower interest rates as much as we can. But this still does not translate and is not transmitted into lower lending rates to the real economy. This is exactly what happened during 2012 and 2013.

So the damage done to the real economy was quite severe, but then several things happened that caused an improvement, one of which was the creation of the Single Supervisor, which basically undertook the Asset Quality Review and the Comprehensive Assessment, and then the following recapitalisation of the banking system in Europe.

So banks have emerged out of this experience stronger, more capitalised and therefore better equipped to provide the real economy with credit, and that is what we have been demonstrating. That is another sign of improvement in the last year and a half. We have been seeing what we called fragmentation basically fading away. Now banks can fund themselves everywhere, by and large, at the same cost, regardless of the countries concerned, and they can lend at the same interest rate, regardless of which country we are talking about. This was not the case in 2011, 2012, 2013 and up to the end of 2013. That is another good sign.

Then we saw, of course, that stock markets and financial markets have improved considerably. Now we are starting to see that this improvement in financial conditions is actually translating itself into improvement in the real economy.

The credit flows have been, in the euro-area average but also country by country, consistently improving in the last 15 months or so. So we keep on seeing this, also an improvement in monetary aggregates, and as I said, we are now starting to see that all this is having an effect on growth, consumption, real disposable income, investment and, most importantly, the labour market. We have seen improvements in the labour market.

Again, everything is taking place slowly. We would like it to be faster, but I think – partly because of the damage that was caused in the years before the improvement – it is slow. And of course, as I said in the introductory statement, we have to be especially aware of the risks to this recovery which at the present time come mostly from the slowdown in emerging market economies which affects the euro area via the export channel and possibly via the confidence channel.

4-039
DE
Udo Bullmann (S&D). – President Draghi, you are now midway through your term of office. Those were years marked by crises and major challenges. I want to build on the remark with which Mr Giegold began. I want to strongly emphasise that you are a man who has been able to take bold decisions. Whatever criticisms it makes of the policies pursued by the ECB – and such criticisms are necessary – this House should recognise that without these bold decisions the euro would probably no longer exist today. I would like to ask you to answer two questions of vital interest to me with the same boldness.

We are all focused on the major challenge of refugee movements: we know that even if we finally, at long last, get to grips with the causes of this exodus, it will nevertheless not cease in the medium term We all hope that the Member States, that the European Union will address this challenge jointly with decency, with dignity, with humanity. But what does that mean for our use of monetary and fiscal policy instruments? I am quite sure that an institution like the ECB will have an analytical perspective on this.

My second point: you went so far as to say that it would make sense in your opinion to turn the ELA instruments into a European decision-making system and thereby to make the ECB assume responsibility in the place of the national central banks – if I have understood you correctly. Don't you agree that the whole issue of macroeconomic adjustment programmes – you called this a work in progress – must finally become a European responsibility, freed from the interstate dimension? This is precisely the dilemma pointed out by many colleagues here: this is a grey area of legitimacy, a grey area of political decision-making beyond the control of the European Parliament. When will we manage this bold leap forward? Five presidents have made some remarks, but no adequate proposals.

4-040
EN
Mario Draghi, *President of the European Central Bank.* J Let me say firstly that I am profoundly grateful for your words at the beginning of your question. Thank you. On migrants, it is quite clear that what is happening is changing – and will continue to change – deeply the social texture of the European Union. It is also evident from what has happened that our leaders have shown both humanity and vision in coping with this problem

and will continue, of course, to work on this: humanity owing to the need to give a humanitarian response to what is often a tragedy, and vision because if it is properly managed, and if there are investments in this change, the Union and the euro area will emerge stronger in due time.

However, this is a profound change. It does require – and will continue to require – investments and active participation. It will require thorough analysis of the investments that will be needed in the future and role of governments and of public investment in all this. We do not yet have available a completed analysis of this problem. We are working on it. At this point in time it would be premature of me to say by how much the government deficit would have to expand in order to invest in this development.

On ELA, as I said there are two ways, in a sense, to respond to your question. One is purely defensive – we do not see a conflict of interests, and so far the European Court of Justice has said there is no conflict of interests. I could, as I did a moment ago, try to explain the rules that we follow in deciding on ELA, but I should also say that your question shows that the need for, in a sense, moving beyond national responsibilities to some supranational decision-making which is both accountable and politically legitimate is in a sense the direction in which the ECB is moving. That is one of the reasons why the ELA framework – and I am the first to acknowledge this – is very complex and intricate and will have to be simplified and made more European, less national, more accountable and clearer, as was suggested earlier by Mr Giegold, so that there will be more visibility: not only ex post, as I am giving to you today, but also ex ante. I completely agree on that.

4-041
DE
Werner Langen (PPE). – President Draghi, I have consistently supported your crisis management policy in recent years. But I have to admit that I have become increasingly critical about the ECB's current policy. I would like to mention three points. Firstly, we know that you are the initiator of the 'Five Presidents' Paper', and I was surprised that you did not reply to the question by Ms Berès, because the idea of deposit insurance is after all your idea that you have been pushing internally. I therefore believe that Mr Cameron wants to go in a completely different direction: he is questioning whether the euro is Europe's currency. In my opinion, you, as President of the ECB, should respond more aggressively to this suggestion.

Secondly: the ECB has extended reporting obligations for loans, so-called AnaCredits. Previously, this reporting obligation applied only to EUR 1 million and above; you have now lowered the threshold to EUR 25 000. That will involve an awful lot of red tape for banks and small borrowers. I would urge you to reinstate the previous amount, which after all is risk-based, and not to increase it disproportionately.

The third point is about monetary policy which we discussed earlier. You have once again stressed that the inflation target was close to, or below, 2%. This is a target which the ECB imposed on itself, a target which your predecessor Jean-Claude Trichet introduced in inflationary times. But there's nothing to stop you changing the target. And you will be unable able to pursue a successful policy against falling energy prices. We have already discussed that here. It is obvious that buying up government bonds has not created self-sustaining growth. You have just said that if this – in my opinion questionable approach – fails to have the expected results after September 2016, then you will activate other instruments.

My question is: are you willing to re-consider the inflation target? And secondly: what instruments would you then activate?

4-042
EN
Mario Draghi, *President of the European Central Bank.*
J On the first question, I think I have said what I needed to say before, but I could add to it by saying that this is a political issue; it is not a decision of the ECB. However, what the ECB can say is that if this happens, then the euro area members will have to respond to it with a much stronger push towards integration in all the areas that are touched upon by the Five Presidents' report.

The option of witnessing the developments that are being discussed today, on which I do not want to speculate or elaborate, and doing nothing about the euro area is not a viable option. That is where I can safely say that this option of doing nothing would go against price stability. That in a sense is what outlines – and will continue to outline – the ECB strategy for the coming months as far as this issue is concerned.

The second question was about AnaCredit. Let me say just one thing: AnaCredit is a fundamental and very important project both for monetary policy and for supervision – I know that you may not agree with that or at least agree but only partially or not so enthusiastically – but it is an important project for supervision and monetary policy.

Yesterday we published on our website a Q&A on all the possible questions about AnaCredit that we could have knowledge of, so all the questions that I believe can be asked today have been answered on our website. In addition, my colleague Sabine Lautenschläger will come here and will give a more in-depth presentation about the various issues of AnaCredit.

On the other issues, we are confident. As a matter of fact we believe, first of all, that our monetary policy has been very effective, and what we have seen today is in a sense the outcome of the monetary policy decisions that have been taken all through this period of time and which intensified in June last year with, as you will remember, the first TLTRO. Then we moved towards quantitative easing by December, then we made it more specific and

then we even lowered the discount – the rate on the deposit facility. So all these instruments have produced the improvements that we are witnessing today. It is clear that the positive developments are not only the effect of our monetary policy but also of lower oil prices, which have supported real disposable income.

So we have to continue, and our objective of an inflation rate which will go back to our objective, to the level of less than but close to 2%, is predicated on full implementation of our monetary policy. That is why I said in the introductory statement that, if need be, we can continue with our APP programme beyond September 2016.

Then you asked me about other instruments. First of all the APP programme has sufficient flexibility in itself. We can – and we have done it already, although marginally – go back and introduce changes in the design, the size and the horizon of the APP. Then we have other instruments as well. We do not feel we are short of instruments to pursue our objective, and so far I think that, in a sense, if you have to judge from our experience in the last three or four years, we have shown that certainly we could be everything but not scarce as far as the availability of instruments is concerned.

4-043
EN
Costas Mavrides (S&D). – Mr Draghi, there are certainly things for which we criticise you, and at the same time there are many other things for which we stand with you and we support you. I am a recently-elected Member of the European Parliament myself and I could say for certain that at least for two things I admire you: for your position regarding QE and also for your recent change and adaption of our position regarding the European Deposit Insurance Scheme.

Having said that, now it is time to criticise you little bit. First, in your initial statement you mentioned transparency. I have a very short comment about that regarding Cyprus, and I shall be very specific. Do you know that the man you supported, the Governor of the Central Bank of Cyprus, Mr Demetriades, came up with an agreement with a private advisory firm? They set up an agreement where the more the capitalisation needs for the private banks of Cyprus, the higher the fee they would charge. He had the support of the European Central Bank. I could say more about transparency, for example the selling of the Cypriot bank branches in Greece to a Greek bank certainly not at a fair price. The European Central Bank determined the time framework.

Here are my two very short questions, which are a little more technical. Regarding QE: is there any assessment by the European Central Bank regarding the impact of QE on different markets within the European Union and within the eurozone? The second question is about non-performing loans which, in the case of Cyprus and Greece (and maybe in some other markets), are so far threatening the stabilisation of the banking sector.

4-044
EN
Mario Draghi, *President of the European Central Bank.*
J First of all, again I am thankful for your kind words at the beginning. On the two issues about transparency, let me just give a quick reaction.

First of all I am not aware of this contract of Mr Demetriades'. But the support that the ECB was giving to Mr Demetriades and would give to his successor and to his predecessor, and would give to all national central banks, falls within the support we give for the independence of national central banks. It is a support that addresses the institutional tasks of a governor of a central bank. I would like to stress – because it is not the only case where the independence of the national central banks is often threatened by the climate, the atmosphere, the government and political discussions – that in those cases the ECB will always give support because that is part and parcel of our institutional set-up – I would say of our constitution.

Regarding the other point you made about the sale of banks, I should say that this was an entirely national decision. The ECB had no decision-making role in the sale of these banks, so I cannot comment on whether the price was right or not or whether the time horizon was right or not. You will certainly remember that there were some financial stability issues at that time, so decisive action had to be taken to cope with these issues. But on the technical features of this sale I cannot say anything.

You asked me about the impact of QE on different markets. I will answer in a general way; if you have something more specific, I can then address the specific issue. We certainly have made an analysis of the impact that our QE could have in different markets. Before we designed the QE we asked lots of questions about which markets QE would be most effective in, which markets would be potentially affected in a negative way by QE, what sort of changes we should introduce in the design of our programme so as to minimise these effects. The whole issue, by the way, has been discussed in an article in the last issue of the Economic Bulletin of the ECB – all these issues concerning what effects the APP has had on foreign markets.

Now on the last question you asked me: the NPL. This is a recurring phenomenon. As a matter of fact, today we have spoken about NPLs in three different countries – Ireland, Greece and Cyprus – so it is a recurring fact of any economic and financial crisis that it usually leaves a legacy of NPLs. That is what delays the proper functioning of the banking system. That is what delays, in a sense, the banks going back to their essential function, which is to give credit to the economy. So the more we let the NPLs linger as a problem, the slower will be the recovery, because the slower will be the process whereby credit picks up and will be able to finance households and firms. That is why the NPL issue has to be addressed.

Of course, it has to be done especially when situations have been ongoing for a long time; it has to be done with

a certain sort of judgement. It has to be done in a way that properly targets the most needy sectors of the population. So it has to be done in a way that basically keeps a balance between the need to restore the health of the banking system and, at the same time, to maintain a certain degree of social fairness. But it has to be done – also for a broader reason, namely that the culture of paying back debt has to be re-established, otherwise there cannot be a good functioning of the banking system and the credit process will not work in the end.

4-045
EL
Georgios Kyrtsos (PPE). – Mr President, I also consider that Mr Draghi has a very positive role to play for countries such as Greece that have serious problems. Of course the European Central Bank will not solve our problems. We will solve them ourselves. However, it is capable of creating more favourable or less unfavourable conditions in which to do so and of making life much easier for us. I feel free to make such positive remarks now that my friend Mr Marias is out of the room.

We now have a serious problem, with first homes being auctioned off for non-payment of mortgage loans, something that has never before happened in Greece. They have been auctioned off for debts to the State or to insurance funds, but not for bank debts. In 2015, because of errors by the Tsipras government and, in particular, by Mr Varoufakis, the former Minister of Finance, unpaid loans increased from 35 % to 50 %. Greek bankers inform me that, while 30 % of those concerned could pay up if they chose, 70% simply cannot afford to do so.

It is therefore reasonable to try to make sure that those who can pay do pay, while protecting those who are simply unable to do so. The problem with the Greek market is that it is being distorted in many ways, principally because of the difference between 'objective ' property values taken as the basis for assessment i.e. the basis on which property owners are taxed and the real or market values at which they are auctioned off. As a result, properties are being overtaxed, their objective values being disproportionately in excess of with their real or market values, leaving property owners in serious danger of losing their first homes if they are auctioned off by the banks, while remaining in debt, the meagre proceeds from the sale being insufficient to put them in the clear.
What view do you take of these specific problems, which could undermine efforts to implement the effective policies that are needed in this situation?

4-046
EN
Mario Draghi, *President of the European Central Bank.*
J Your question actually shows that often the presence of an excessive level of NPLs comes with some structural weaknesses that need to be addressed. To some extent I think the current programme contains some actions to address these structural weaknesses and, from this viewpoint, will certainly help.

More generally I can say that as far as these NPLs are concerned – and especially when the NPLs are focused, centred on housing and on households – well-targeted (and here I insist on well-targeted) protection of citizens is justified; but it should be well targeted, namely the real needy have to be identified, and this protection should not be extended to the whole community of debtholders, because it is basically fiscally unsustainable and it would not be good from, I would say, a sociological, cultural viewpoint for the country itself.

Also the terms of this protection ought to be carefully balanced, and special attention should be given to avoiding excessive protection. But what I should say is that all this is being discussed at this very moment between the government and the institutions and the Eurogroup. It is a very important discussion, because a successful conclusion of this discussion would allow recapitalisation of the Greek banks. And it is so important that this step is going to be made possible now, because this way, first of all, recapitalisation will happen this year, and second, the sooner this happens, the sooner capital controls can be mitigated and then relaxed, and that is also very important for the recovery of the Greek economy and its return to growth.

4-047
EN
Elisa Ferreira (S&D). - Mr Draghi, thank you for being with us once again and thank you for what you have done. I do not have enough time to repeat what has been said. I would like to go into detail, and banking union is at the centre of our agenda. It was one of the most successful decisions in the aftermath of the crisis. You mentioned the four conditions for the ESM to comply with, the political compromise and commitment that the ESM should directly be able to capitalise banks. This was a promise from 2012 for when the SSM was fully functioning, which it is. But we did not get the same answer from and Mr Regling and Mr Dijsselbloem, who were here two days ago. They said – and I am quoting by heart – generally that the conditions for the ESM to be able to do that were not politically guaranteed, which raises a very important issue. In the follow up, now that we have SSM, if we manage to have this directive recapitalisation, will the conditionality be on banks, or will the conditionality associated with the SSM rely on Member States? It does not make sense any more.

Secondly, the resolution mechanism will be operational in two months, and the credit bridge line for the initial period is not there. According to the conditions, it should be a common bridge. I am not using the word backstop because it may create other misinterpretations, but the bridge financing is not guaranteed. Apparently Ecofin is doing it on a national basis, which is not the solution –

obviously – because it again creates the previous link between banks and sovereigns.

Thirdly, thank you for your clear statement on the compromises on the government guarantee of deposits. But is it true that a substantial part of the banking system may be exempted from these? What will be the consequences for the banking union as such?

4-048
EN
Mario Draghi, *President of the European Central Bank.* J I do not know exactly what Mr Regling or Mr Dijsselbloem actually said on this and, in any event, I am not prepared to discuss these statements. What I can tell you is that we will answer your question in writing.

I listed the four conditions for direct recapitalisation, but you are asking that in the context of a possible programme. Your question is: will the country have to have a programme again to access direct recapitalisation of the ESM? I will answer this in writing.

4-049
EN
Elisa Ferreira (S&D). – My question is: is it functioning actually – if a bank needs this support, does the ESM provide it or not?

4-050
EN
Mario Draghi, *President of the European Central Bank.* J In the bridge financing: yes.

On the second point there are just two things that I want to say. First of all, the European deposit insurance scheme is the third pillar of the Banking Union. It should be done, and it was therefore agreed that it should be done. It is also rather strange that we should treat all banks in the same way. Why should we treat depositors differently from one country to the next? That is a strange kind of asymmetry. But I want the discussion to be non-ideological. If we take a non-ideological approach we can see that we can have a variety of designs for the insurance scheme that can actually address some of the concerns. For example, if there is a class of banks that is particularly safe and they think that, because they are absolutely safe, they do not need any scheme, then the answer is simply to have a system whereby, as we say, the polluter pays. In other words, the insurance premium would be proportionate to the safety of the banks. If a bank were very safe, it would pay a low deposit insurance premium. If it were not safe it would pay a higher deposit insurance premium. I think that if one approached the problem with this sort of design proposal – though I am not saying that it is the only one – the solution would, I am pretty sure, be easy to find. The important thing is to be fairly pragmatic and not ideological on that point.

4-051
IT
Fulvio Martusciello (PPE). – President Draghi, first I should like to thank you, because yesterday, at the Open Forum on markets in England you made us feel proud to be Italian; I should like to truly thank you, therefore, for your statement yesterday. I have two questions for you: first, the Italian Finance Minister Padoan, talking of quantitative easing, said he thought that this measure, in actual fact, was only a partial factor in the Italian recovery and did not, therefore, attach huge importance to the measure itself. First of all, I should like to ask whether, from your vantage point, you think that Italy can be regarded as a country that is recovering, and if so, whether quantitative easing is, in fact, playing a predominant role in the economic recovery?

My second question is: can you clarify what the ECB's intentions are, in keeping with recent legislative measures aimed at halting the oligopoly of the major US credit rating agencies, in terms of ensuring that assessments given by the new European rating agencies are accepted by the ECB under the ECAF?

4-052
EN
Mario Draghi, *President of the European Central Bank.* J On the first question, we know and have evidence that our QE has been effective, and all our evidence and studies and research say that we will be able to reach our objective of price stability only if the QE programme is fully implemented. And as the downside risks that I mentioned in my introductory statement materialise or become more serious, the QE programme design will have to be revisited so as to make it adequate to cope with the new challenges.

But is this the only factor behind the recovery of the euro area? Well, certainly not. We have other factors. One, for example, is the lower oil prices. That certainly has supported real disposable income. The third factor, however – and that is why I have always said that monetary policy by itself is not enough – is the structural reforms undertaken by Member countries.

I will repeat it once again. Monetary policy can help to have a cyclical recovery. To transform this cyclical recovery into a structural one and into long-term sustainable recovery, one needs to have structural reforms. National governments have their own national agendas. The structural reforms list is different between countries. Certainly they have to address their structural weaknesses. I have also said, and I will add once again, that it is easier to make structural reforms when monetary policy is accommodative and interest rates are low. It is easier than it is when interest rates are high and the financial conditions are fragile. I know that goes contrary to what people are saying: that we remove the incentive for governments to undertake reforms with our policy of low interest rates. We think just the other way around. We have seen progress on the structural reform side in many countries now, and that is also a factor for recovery and for growth.

But there are also other factors. One of them is that this year we will not have the so-called fiscal headwinds that come from budget consolidation which we had in the past few years. This is because progress has been

achieved on the budgetary consolidation front in several countries in the euro area.

I did not answer the other question about the rating agencies. This is an ongoing discussion. On the one hand, we would like to have a sort of European rating agency that would basically free the Member countries from the private and, if I am not mistaken, non-European, rating agencies. On the other hand, we should ask the question: what use would markets and investors worldwide make of the judgment of a European rating agency which may be viewed as non-independent from the national governments of the euro area?

So we have to think about both sides. We know what the weaknesses of the rating agencies have been during the crisis. We should say that a lot of progress has been made on that front too, but to some extent there is room for improvement there. But also, on the other hand, we should ask ourselves what use the investors and the markets are going to make of a European rating agency because, in the end, the issue is that rating agencies are for investors, pension funds, insurance companies, banks, savers, and they have to produce a judgment about the credit quality of that particular issuer. So a natural question to ask is: how do we design this European rating agency? Is it completely independent from the governments that want it?

4-053
EN
Jakob von Weizsäcker (S&D). – Mr Draghi, your courage has already been duly praised in this session, and of course it is much appreciated that you expend so much effort on encouraging governments so as to create better institutions that would perhaps require less courage with your successors. One of the reasons why we have had to have so much courage is the absence of a suitable fiscal capacity at the level of the euro area.

This brings me to my question related to deposit insurance. In your reply to Elisa Ferreira you have already pointed out that you are not so worried about the particulars of whether to design a suitably-priced reinsurance mechanism or full-blown deposit insurance, but of course the real question, as we know, in extreme situations is: are we going to have a suitable fiscal backstop that makes the whole system credible? There is a danger, of course, that we would have a similar situation to the one we had with the Single Resolution Fund, where we spent a lot of time talking about the details of the fund and did not really give an answer to what would be the suitable fiscal backstop.

So my question to you is: what is your view of the nature of the fiscal backstop we should have for whatever the deposit insurance mechanism will turn out to be?

4-054
EN
Mario Draghi, *President of the European Central Bank.*
J It is a difficult question to answer: rather than answering a small question, I am going to answer this simple question by asking a much more difficult question.

I agree with you, but that is the question that is behind almost everything we do or say when we talk about further integration. My sense is that we go step by step. We could design a system which is basically viable under most circumstances and then as time goes by we will cope with this bigger issue: what is the fiscal backstop? I mean the question of what is the fiscal backstop, as I said before, is behind lots of other issues really. We have not asked that question on other occasions, so why should we make so much out of that now?

My suggestion is: let us sit down, let us work on a system that is financially viable, that is viewed by markets as relatively stable and relatively solid, and then if the citizens of the euro-area member countries want, we will address the larger question of the fiscal backstop, which of course implies discussions about fiscal capacity or fiscal union.

But just let me also add to what I said. If we consider the system that we have created in the last three years, there are enough shelters, enough layers of protection before we have to ask the big question. I think markets and investors all around the world would view this – would view a pragmatically wise system of a deposit insurance scheme – as something viable. If you think of it, we now have one supervisor, also we have the bail-in, the BRD rules, also we have stronger banks, much stronger than they were two years ago. And then we would have a pragmatically wise deposit insurance scheme as a final layer. So there are many steps before we may need to consider a fiscal backstop.

4-055
ES
Pablo Zalba Bidegain (PPE). – Mr President, I say to President Draghi: your adviser Benoît Cœuré has just stated that the ECB finds it unacceptable for inflation to remain at 1%. I understand this as meaning that new measures will be announced in December; and you have not denied this. Among these new measures, is the ECB considering purchasing regional and municipal bonds?
Moreover, the economic data shows that the economy is slowing down and that inflation and investment remain low, which points to a prolonged period of low interest rates. Are you worried that persistently low interest rates could affect the financial system?
The economic data are therefore not unalloyed good news, although they remain positive, and I agree that the ECB's monetary policy cannot be the only source of growth; it must also come from structural reforms and fiscal consolidation.
My question is: is there a lack of ambition concerning structural reforms? Do some countries need to invest more and do certain countries need to do more to boost domestic consumption?

4-056
EN

Mario Draghi, *President of the European Central Bank.*
J Let me make a general point about low interest rates. I said it before, but I can comment again on that. It is quite clear that low interest rates make life for banks, insurance companies and pension funds more difficult than in the past. For banks, low interest rates affect their profitability; for insurance companies and pension funds with the defined-benefit sort of liabilities, they clearly make life harder.

Incidentally, low interest rates were present in other economies as well, for example in the United States, and there were problems, but they were not voiced with the same drama as they are being voiced here, and it would be interesting to know why this is so. Part of this has to do with the nature of the contracts between the pension funds and insurance companies and their clients, which are often fixed in nominal instead of variable value. And part of this has to do with the limitations that these companies have because of regulation in investing in other activities with higher returns.

But basically it is quite clear that low interest rates make life for these actors more difficult. It also makes life for savers more difficult. The answer to this is that we monitor these difficulties, and if and when they cause problems for financial stability, we will certainly look at macro-prudential instruments that cope with this. But we should remember that it is not in the mandate of the ECB to make the banks profitable, to make the insurance companies viable and to guarantee a certain rate of return to savers. It is important to keep that in mind.

Linked to this is the need for structural reforms and whether greater ambition is needed. The answer, in a sense, in our conversation today, shows it amply: it is a big yes. The world – our world – is changing profoundly. We discussed briefly the issue of migrants. The world of the banking sector is changing profoundly through digital banking. This means a very deep restructuring in the banking sector. All aspects of our societies are changing profoundly and very fast, so structural reforms are the only answer to these profound changes. That is why we have to be ambitious. There is no option for doing nothing.

4-057
EN
Chair. – Our thanks to President Draghi. We now have a suspension of five minutes before we have our second public hearing with President Draghi in his capacity as Chair of the European Systemic Risk Board (ESRB). Let me thank him for this very fruitful exchange of views, which I think shows the high degree and quality of accountability and scrutiny that this Parliament is able to provide and that the ECB is ready to give to the European citizens through the European Parliament.

(The Monetary Dialogue closed at 11.40)