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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) of the TFEU)
BRUSSELS, MONDAY, 25 SEPTEMBER 2017

1-002-0000

IN THE CHAIR: ROBERTO GUALTIERI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.10)

1-003-0000

Chair. – Good afternoon. I would like to welcome the President of the European Central Bank, Mario Draghi. Thank you for being here at this third Monetary Dialogue of the year.

Since the last Monetary Dialogue took place in May, economic expansion in the euro area has gained momentum, and indeed, the last projection showed a positive acceleration of growth. We know that we also have to pay tribute to the exceptional conduct of monetary policy by the ECB if we are in better shape than before. On the other hand, we still see inflation dynamics at low levels, and this is also an interesting – and even becoming an intellectual – issue on how at the present time we see this low wage dynamic and price dynamic also in combination with increased – not only in Europe but in other jurisdictions – growth dynamics.

Against this backdrop, as we all know, in September the last Governing Council of the ECB decided to keep interest rates unchanged and confirm that the asset purchase programme would continue until the end of 2017, or beyond if necessary, until the Governing Council sees a sustained adjustment path consistent with inflation. We all know that a number of scenarios have been discussed, but still no specific discussion about the length or size of the programme has taken place. We know that it will take place in the autumn, with no specific date as yet. We do not, of course, expect anticipation of a discussion that still has to take place, but we do expect a reflection of the current economic and monetary outlook.

We also submitted, as a topic for discussion, to President Draghi two additional elements, namely the problem of the issue of single monetary policy and its decentralised implementation and also the challenges and prospects of the corporate sector purchase programme. On these two topics we had interesting preparation papers. In particular I consider extremely interesting the reflection on the issue of the decentralised implementation – or, more correctly, we should say execution – of monetary policy and also the issue of some components of this policy, which are not only executed, but rather implemented at the central level. I refer in particular to the ELA, so it is worth asking if in the current evolution of the banking union and the capital market union, a more centralised reassessment on this instrument could be considered. This has also been discussed in this Parliament with President Draghi.

On the second topic, an assessment of the challenges and future prospects of the corporate sector purchase programme has been undertaken. We also had a call for more transparency. Some Members presented a lecture on this, and we have also seen improvements in terms of transparency, on which of course we are happy to have seen further development. We will probably discuss whether further steps would be possible, without of course having negative effects on the very economic logic of this instrument.

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

1-004-0000

Mario Draghi, *President of the European Central Bank***. –** Mr Chair, I am very pleased to be back speaking to your committee for the third hearing of this year.

A year ago, we were together discussing the moderate pace of the recovery in the euro area. We were witnessing a slight loss of momentum and assessing the impact of the UK referendum. Over the past 12 months, however, the recovery has accelerated and broadened, supported by the progress of our monetary policy.

In my remarks today I will discuss the current economic outlook and the impact of our monetary policy measures. At the request of the committee, I will focus in particular on two topics related to the ECB's monetary policy, namely the corporate sector purchase programme (CSPP) and monetary policy implementation across the euro area.

Economic expansion is now firm and broad-based across euro area countries and sectors. Real GDP growth was better than expected in the first half of 2017, coming in at 2.3%, year on year, in the second quarter. The euro area economy has enjoyed growth in 17 consecutive quarters, and the latest information points to continued momentum in the period ahead.

The ongoing recovery is, crucially, driven by domestic forces, and the labour market has improved considerably. The unemployment rate has fallen to its lowest level in eight years. The number of people employed in the euro area has increased by almost seven million since mid-2013. These employment gains, together with increasing household wealth, are supporting the private consumption outlook. Moreover, investment is improving, buoyed by the very favourable financing conditions.

The domestic drivers are making the recovery more robust and resilient to adverse external influences. According to the September ECB staff macroeconomic projections, economic expansion will continue at growth rates above potential over the projection horizon. Annual real GDP is projected to increase by 2.2% in 2017, by 1.8% in 2018 and by 1.7% in 2019. Risks surrounding the euro area growth outlook are broadly balanced. At the same time, downside risks continue to exist, mainly related to global factors and developments in foreign exchange markets.

The firm economic recovery still needs to translate more convincingly into stronger inflation dynamics. As I have reported on previous occasions, deflation risks have essentially disappeared. Nevertheless, measures of underlying inflation have picked up only moderately over recent months. Headline inflation, which was 1.5% in August, is expected to temporarily decline towards the turn of the year, driven mainly by base effects in the energy component. Afterwards, it is expected to pick up gradually, reaching 1.5% in 2019, according to the ECB staff projections.

Overall, we are becoming more confident that inflation will eventually head to levels in line with our inflation aim, but we also know that a very substantial degree of monetary accommodation is still needed for the upward inflation path to materialise. Moreover, we still see some uncertainties with respect to the medium-term inflation outlook. In particular, the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability.

We therefore need to be patient and persistent. An upward adjustment of headline inflation that is durable and self-sustained requires further absorption of economic slack. This, in turn, still requires a very wide degree of monetary policy accommodation.

With this in mind, we will decide later this year on a recalibration of our instruments that maintains the degree of monetary support that the euro area economy still needs in order to complete its transition to a new balanced growth trajectory making for sustained conditions of price stability.

Let me now say a few words about the corporate sector purchase programme. The package of monetary policy measures that we have phased in since June 2014 has led to a significant easing in financing conditions. What is very apparent today, and very difficult to dispute, is that this monetary policy impetus is increasingly leading to stronger economic activity, higher incomes and better employment prospects for people in the euro area.

One key factor has been our ability to activate non-standard instruments that can transmit additional stimulus to the productive sector. Indeed, transmission through the banking system has become increasingly effective since we began adopting credit-easing measures. I am referring here specifically to the expanded asset purchase programme (APP), but the same could be said of our targeted longer-term refinancing operations.

At the request of the committee, let me focus on one component of the asset purchase programme, namely the CSPP. Together with the purchase of asset-backed securities and covered bonds, the CSPP represents an important credit-easing component of the asset purchase programme. By directly lowering the market-based financing costs of non-financial corporations, it facilitates the passage of our monetary policy.

Under the CSPP, the Eurosystem has since June 2016 purchased bonds issued by a wide range of non-bank corporations established in the euro area, including large corporations as well as some smaller companies. So far, corporate bonds worth close to EUR 110 billion, from around 200 issuers, in 20 countries, across all sectors, have been purchased. This information is available on our website and in our publications, and is updated regularly. We are continuing to analyse possibilities for sharing more information, to the extent that this can enhance transparency without undermining the effectiveness of monetary policy.

As a result of our corporate bond purchases, firms in the euro area have witnessed significant improvements in their financing conditions when issuing bonds. But these improvements in financing conditions stemming from the CSPP are not confined to the companies whose bonds are purchased or to the corporate bond market: they are evident across firms and other market segments.

For example, the yield spreads of high-rated corporate bonds that are not eligible for purchase – namely those issued by financial corporations – have fallen by as much as those of eligible bonds issued by non-financial corporations (almost 70 basis points, from 1.25% in March 2016 to 0.57% today) since the CSPP announcement. Spreads of non-investment grade corporate bonds, which are not eligible for the CSPP, have also declined by 262 basis points, from 5.59% in March 2016 to 2.97% today.

For asset purchases to boost activity and inflation, however, these improvements in financial markets need to be translated into credit conditions for the real economy. We have seen very favourable spillovers into credit conditions for small and medium-sized enterprises. As more corporations seek market-based financing, given the attractive funding conditions prevailing in the capital markets, banks are left with greater capacity to provide loans to smaller companies, which are more constrained in terms of access to funding sources. Hence, bank lending rates on very small loans to non-financial corporations have declined by around 50 basis points since the CSPP announcement. Looking at our latest Survey on the Access to Finance of Enterprises, smaller companies are indeed reporting improved financing conditions and better access to finance.

The CSPP, therefore, has ensured that our asset purchases are making themselves felt more strongly in the financing conditions of the real economy and has contributed to the overall monetary stimulus needed to bring inflation rates back into line with our inflation aim.

The supportive impact of our policy measures – including all elements of our asset purchase programme – on financing conditions is therefore evident across firms regardless of their size. It is also evident across sectors and across euro area countries. In other words, we are seeing a smooth transmission of our single monetary policy.

A single currency entails a single monetary policy. Hence, the Governing Council takes decisions to achieve the primary objective of maintaining price stability for the euro area as a whole. It also establishes the necessary guidelines for their implementation.

At the same time, and in accordance with its Statute, the ECB calls upon the national central banks (NCBs) to the extent deemed possible and appropriate for carrying out the operations which form part of the tasks of the Eurosystem. National central banks in turn have a duty to act in accordance with the guidelines and instructions of the ECB.

This decentralised approach takes into consideration the financial structure of the euro area, i.e. a monetary union made up of segmented national financial markets. In such an environment, the close interaction of national central banks with the banks operating in their jurisdiction brings benefits for the implementation of monetary policy. For example, we are able to collect precise information from a wide range of local counterparties, which can be integrated into the rich harmonised information set that the Governing Council needs to design policy. Moreover, national central banks, familiar as they are with the characteristics of their jurisdictions, are well placed to manage assets to be used as collateral in our operations.

This makes our decentralised system more efficient than a centralised approach under the current circumstances. In the absence of a genuine single market for capital, securities markets still depend very much on specific national features and preferences. A successful capital markets union would abolish dividing lines between jurisdictions, with positive effects on the way that we implement our monetary policy. In the end, we should not forget that a fundamental reason for monetary union was precisely to foster more integrated capital markets and reap the benefits in the form of improved financing conditions across the euro area.

Since you asked me to comment in more detail on the issue of decentralisation, let me conclude with one final thought, in particular on the implications for the functioning of Economic and Monetary Union. The fact that the ECB’s non-standard policy measures have been very effective in supporting the financing conditions of companies and households throughout the euro area should not make us forget the situation that we witnessed at the peak of the crisis. For example, institutional weaknesses, structural fragility and excessive risk-taking contributed to a negative feedback loop between sovereigns and banks in some countries, which significantly impaired monetary policy transmission. The resultant contraction in the euro area economy threatened price stability, our primary objective. Overcoming that vicious circle required considerable effort.

The pattern is now running in reverse, with positive spillovers from all countries. They all have benefited from our measures supporting growth across all of the euro area and thus laying the ground for inflation to return lastingly to levels in line with our aim.

But while a cyclical adjustment has been taking place, there are still structural issues which impede sustainable economic convergence. In the years to come, a higher degree of sustained convergence and strengthened resilience will be necessary in order to achieve a better functioning Economic and Monetary Union. This requires, on the one hand, policy actions by national governments aimed at unlocking the productive potential of our economies. Secondly, further decisive steps are needed to make the economic governance of Economic and Monetary Union truly fit for purpose. Thank you for your attention. I am now ready to take your questions.

1-005-0000

Chair. – President Draghi, thank you for that extremely interesting presentation. Indeed, we also look forward to those further decisive steps to make our EMU governance framework fully fit for purpose. Meanwhile, we feel reassured by the patience and persistence that you express as a guiding principle in deciding, later on, recalibration while guaranteeing a very ample degree of monetary policy accommodation.

I find extremely interesting also the consideration on the link between completion of the capital market union and the revision of the decentralisation framework, and also on the spillover effect of the corporate sector purchase programme on non-investment grade financing conditions.

Thank you very much. We will now start with the questions and answers.

1-006-0000

Brian Hayes (PPE). – President Draghi, welcome back to the Committee on Economic and Monetary Affairs and thank you for your presentation. I have two questions, one on the inflation target that you have set for some time, and then a second question on the issuer limit on quantitative easing.

On the first question you recently said that the ECB inflation projections have been revised downwards for 2018 and 2019 due to the strength of the euro vis-à-vis the dollar. We have seen this year a 15% appreciation of the euro against the dollar. Most people accept, I think, that we are maybe 18 months out from a slight US recession. With these two factors – euro appreciation on the one hand and a more sluggish US economy on the other – do you think that it is still possible to achieve the 2% target on inflation which you have set, given the sluggish US economy? I would be interested to hear your views on that, given that the target is real.

And then on the other question on the issuer limit of 33% within the quantitative easing programme, the ECB obviously holds a significant portion of the bonds of issuance in some Member States. In my own Member State, Ireland, in Portugal, and I understand in Germany, we are very close to the 33% limit, and I suppose that my question is how can these countries not be disproportionately affected by this 33% limit on what the ECB is buying and how closely is that attached to the capital key? Has the ECB considered increasing the 33% limit? Or, in the event of a bond sell-off in one Member State or a renewed euro area downturn, do you think that the limit would be justified in those adverse circumstances? So really I'd like to get your views on that, especially for those countries which are very close to the limit.

1-007-0000

Mario Draghi, *President of the European Central Bank***.** – On the first question, yes, there was a slight downward revision, so that now the inflation path that is being projected is a kind of slight 'v': going down in the coming months and then slightly up. But this is due, I would say, mostly to base effects in the oil price, to which certainly the relatively recent appreciation of the euro has contributed.

In asking ourselves what the importance of the appreciation of the euro on the exchange rate is – first of all, I have always said that the exchange rate is not a policy target; I would add that it is important for price stability and for growth – it is not easy to understand the extent of the pass-through from an appreciation of the exchange rate into the projected inflation rate.

There are at least three factors that came into play in this case. One is the unquestionable improvement in the economic situation in the euro area. To that extent, this is what we call an endogenous factor, which would warrant an appreciation of the exchange rate if the rest of the world were not improving at the same speed. But there are also two other factors. One is an expectation of differing monetary policies over the coming months between the different jurisdictions, and the third has to do with the overall improvement in the 'confidence climate' that the rest of the world has towards the euro area. This is partly, or rather predominantly, due to political reasons that we've seen over the last six or seven months. As you've seen today, the exchange rate actually does reflect to some extent the political evolutions of our eurozone, though by and large we are also witnessing an increase of confidence in the eurozone. So it is kind of difficult to distinguish between these three factors. But certainly some of this has had an effect on our inflation path – so much so that the Governing Council said that they would monitor the developments, and the Governing Council members have expressed concern about this movement.

In terms of being possible: yes, we remain confident that, supported by the very expansionary and very accommodative monetary policy we have in place, we will reach our objective, and the inflation path will stably and durably converge to this end, in a self-sustained way, as we have defined it. But we have to be patient. It is going to take time. And we have to be persistent with our monetary policy.

On the second question: yes, we do count all the bonds that we have in our portfolio of these member countries that you mentioned in our 33% limit. And no, the Governing Council has not discussed a change in that limit.

1-008-0000

Pervenche Berès (S&D). – You mentioned the issue – in response to a question from this Committee – of the decentralised implementation of policies.

Last week the Commission published a key proposal on a review of the way in which micro-prudential supervision, and also the ESRB, operate.

I am sure that your institution will adopt a position on that package at some point, but speaking on the basis of your experience, I am certain that you have followed closely the developments in the way in which the agencies operate. What recommendations do you have, and what are your expectations in respect of those agencies tying in their work with that of the ESRB? I am aware that this question is more for the President of the ESRB than for the President of the ECB, but think that you too will be able to answer it.

A second question: I am one of the MEPs who signed the letter concerning the need for more transparency in the corporate sector purchase programme, and I do not regret having done so as I have heard you yourself say, and repeat here, that the idea was for there to be more transparency. The letter was not intended to query the quantitative easing programme, but rather to enable the Central Bank to move ahead and bolster the effectiveness of that programme, including in the way that monetary policy is delivered. Well, you have indicated that you are weighing up the possibility of moving towards that increased transparency. Could you expand on this?

1-009-0000

Mario Draghi, *President of the European Central Bank***.** *– (microphone not switched on)* ...We certainly welcome the review of the European system of financial supervision, which includes changes to the European supervisory authorities and the ESRB. All in all, the establishment of the EFSF was a significant step towards having this new framework, which has made the overall system more resilient. In a sense, we benefit as monetary policy makers, because we can actually run our monetary policy in a very accommodative way for longer than would certainly have been possible if the overall financing and banking system had been less resilient than it is. So we do support the governance structure of the ESA – the supervisory authorities – and we support this review. As far as the ESRB is concerned, we do not expect big changes from this review. All in all, the task – and my task as Chair of the ESRB – is to make sure that it is really helpful. So we are really open to any suggestions on how to do things better than we have done until now.

('You don't have your own suggestion at this stage?')

Well, we want to discuss the suggestions with the General Board and the Steering Committee. For example, one of the issues that we discussed is giving a more prominent role to the Steering Committee. We have to keep in mind that the ESRB was born not as a decision-making body but essentially as an advisory body through warnings and opinions. That is the main difference between the ESRB and other supervisory authorities. The other thing that the ESRB may well work with – here again, this is my own feeling – is in a sense a table where the Heads of the supervisory authorities, but also the other members of the Steering Committee, can actually join and exchange views on what to do and how things can be improved. That is certainly something that could well be done by the ESRB. In fact there have been suggestions to this effect: enhancing the coordinating function of ESRB – or more than coordination, because that, again, implies decision-making. It is more like a place where the different Heads of the authorities may exchange their views. We also had to make progress on completion of the banking union and the roadmap of the capital market union. All this is going to be the subject of discussions in the ESRB.

On transparency, as I have just said, I think we are transparent, and we have made improvements since mid-June. We have nothing against disclosing information, up to the point where disclosure becomes counter-productive for the implementation of our monetary policy and up to the point where we do not want markets to run against us. That is basically the limit – as I said, 200 different companies and over 1 000 securities. So the whole idea that we can privilege one company or one security is not justified. Disclosing individual holdings would limit the effectiveness of the asset purchase programme, and also revealing bilateral firm-level data could allow market participants to take advantage of the information. But basically, we can certainly continue improving on that, having in mind this broad limit where we want to be sure that our monetary policy measures are effective.

1-010-0000

Sander Loones (ECR). – Welcome, Mr Draghi. We will soon start debating on the ECB Annual Report here in this Parliament. I am this year's rapporteur for the report. I would like to ask you some questions or make use of this opportunity to ask your views on a couple of ideas that are circulating, especially on transparency.

One: there is a proposal circulating – and this is in order to prevent conflicts of interests – stating that the ECB should publish declarations of financial interests for Governing Council members. Two: there is also a proposal circulating to ensure that the Ethics Committee is not chaired anymore by the former ECB President. It would be interesting to know your views on these two points.

1-011-0000

Mario Draghi, *President of the European Central Bank***.** – We will certainly reflect on both things. I don't think there is in principle anything against either of the two suggestions, but certainly both have to be discussed with my colleagues in the Governing Council.

1-012-0000

Sander Loones (ECR). – That is the answer I expected, so I prepared another question – on China! We have all read the BIS Annual Report which states some concerns about China's 'unprecedented debt-financed investment rates and signs of excess capacity and unprofitable businesses'. We are all talking a lot about China these days, but how do you see the economic situation there? What would the impact of a sharp slowdown in the Chinese economy be on our European economies? Is there a risk of a global crisis, and if there is a risk, how likely do you consider that scenario to be?

1-013-0000

Mario Draghi, *President of the European Central Bank***.** – Yes, we have seen the BIS report and also our staff have done work on China. There are two sets of dimensions that we have to keep in mind. One is global financial stability and the other is the impact on the euro zone economy.

We are confident that the monetary authorities in China can cope, and they have started to act on all fronts being analysed by the BIS.

By the way, this is not a remote danger. We had a similar situation at the beginning of 2015, when there were fears of a serious slowdown in the Chinese economy, but the conditions are very different now. At that time, that was one of the reasons why we had to upsize our monetary policy programme. But now the situation is very different. What we have now is, I would say, an economic recovery. The continuing economic recovery is being driven primarily by domestic sources today, by domestic consumption and, very importantly, by domestic investment, to which our low interest rates are certainly a major contribution. Real disposable income is increasing because of higher employment. And so a slowdown, a change, an unfavourable change in external economic conditions is certainly not going to be positive, but it wouldn't have a negative impact of the kind that occurred two years ago.

1-014-0000

Sander Loones (ECR). – Yes, glad to hear you have confidence in the Chinese monetary institutions. Do you also have confidence about what is happening in North Korea? Let's do some geopolitics. We've been talking a lot about monetary bazookas. Now we're talking about rocket men or at least one rocket man. How do you see the confidence on that score ....

1-015-0000

Mario Draghi, *President of the European Central Bank***.** – No, no. When we say at the conclusion of our meetings that the external demand is supportive of the euro area economy, there are still downside risks. That's what we mean by downside risks. They're mostly geopolitical risks.

1-016-0000

Cora van Nieuwenhuizen (ALDE). – Thank you, Mr Chairman. Welcome back, Mr Draghi. I too would like to ask you two questions outside of regular monetary policy. The first one is about crypto currencies. It's a very hot topic. China now prohibits the initial calling offerings and exchanges of Bitcoins and that is causing stress for international markets. And Mexico is introducing legislation to regulate FinTech firms and also those including crypto currencies. In addition, your own Vice-President, Vítor Constâncio, has called crypto currencies an instrument of speculation and compared the sharp rise in exchange rates to the Dutch tulip mania. So what is the ECB doing to mitigate the risk of crypto currencies? To what extent do you think that a regulatory framework is a necessary next step? Where do you stand – are you more on the Chinese side, in favour of prohibition, or on the Japanese side, in favour of regulation?

The second question is about the draft guidelines that the ECB presented last week on FinTech credit institutions. According to those guidelines FinTech credit institutions have to comply with higher capital requirements than normal credit institutions. So my question is: don't you think that with these guidelines the ECB is putting the European FinTech scene at a disadvantage compared with the rest of the world? And secondly, how does this fit in with the principle of 'same services, same risk, same rules'? The new guidelines could be seen as protection of the old banking sector and the incumbents.

1-017-0000

Mario Draghi, *President of the European Central Bank***.** – Well, on the question that we should ask, namely what are the material risks that Bitcoins pose to the economy, there are basically three channels to explore. One is size, another is users' acceptance, and the third is the impact of Bitcoins on the real economy.

Examination of all three channels suggests that it's really too soon to talk of a means of payment for the future. We need to think further. You asked me about what the ECB has decided. We haven't discussed it. It would certainly not be in our power either to prohibit or do something of that sort or to regulate. But we certainly haven't had a discussion about an institutional view. There are various views and you mentioned one.

More generally, and this actually applies to your second question too: our main worry now with these innovations in all fields of finance, Bitcoins along with others, is the potential fragility with respect to cyber risks. That, I think, is where we are really focusing our work now. And this should to some extent apply to other innovations as well.

You asked me why the guidelines make the capital requirements for FinTech higher than for other similar financial institutions. I completely agree with you: same rules, same services and same requirements – provided also that the risks are the same. And the judgment of the ECB guidelines is that at least under certain specific conditions the risks are not the same – under specific conditions. So we'll certainly have to examine that more closely.

1-018-0000

Matt Carthy (GUE/NGL). – President Draghi, welcome, and I also welcome the fact that you recently undertook a visit to Ireland – your first since you became President of the ECB. Some of the remarks you made during that visit which were reported in the media related to property bubbles. You indicated that the ECB has not detected any signs of a new property bubble in the eurozone as a whole because there has not been significant enough growth in credit.

I am wondering whether the ECB has a view on whether there are signs of property bubbles in individual states, particularly in Ireland. You may be aware there is a serious supply shortage in housing, particularly social housing, which has led to a homelessness crisis in Ireland. There is also massive house price inflation, estimated at more than 12%, but according to the OECD, this year there is also significant growth in credit indicating the potential for an inflationary bubble. I'm just wondering whether the ECB observes these signs and whether you have a view as to what steps are necessary to avoid a new property bubble?

If I have time I would also like to ask a question in relation to the corporate sector purchase programme (CSPP) and particularly its relationship with SMEs. I note that you have often justified the current framework of the CSPP by saying that by purchasing big companies' bonds the ECB is creating space within banks' balance sheets to lend money to SMEs. I'm just wondering if you have a way of quantifying whether or not that is the case – what data you have to prove that the money that is actually injected through the CSPP programme actually reaches the real economy and isn't just simply a mechanism to give preferential treatment to some of the larger multinational corporations?

1-019-0000

Mario Draghi, *President of the European Central Bank***.** – On the possible existence of property bubbles, I should say that we have to distinguish between local phenomena and systemic phenomena, namely generalised ones. We are certainly seeing, in some countries and in some cities, house prices going up. Often they are going up from levels which were very underpriced in the past, though sometimes they are going up from levels which were perfectly OK, so basically we are seeing prices simply going up. What we are seeing, however, is that this is a phenomenon limited to certain cities and certain countries. It has not become a systemic issue.

But before we can talk about a bubble we should also see whether this increase in house prices is accompanied by an equally worrisome increase in credit, in other words leverage. Is leverage going up as well? This was one of the features of the pre-crisis prices and valuations, though not only relative to real estate, and we are not seeinh that. As a matter of fact we are seeing that credit flows are still subdued, although credit flows have been recovering continuously now for several years. But the numbers are still way below anything we saw before the crisis and, at the same time, the real economy is receiving the finance that it needs to continue growing. So we are not observing what we call systemic bubbles.

Second, the reason for these house price increases is often the one which you quoted – basically a supply shortage – especially in the case that you mentioned as far as social housing is concerned. In that case, if these house price increases were to become worrisome, what would we do? Would we change monetary policy? The answer is clearly no because it is not systemic. So with it being local, what is being used are macro-prudential instruments, and the Bank of Ireland has had macro-prudential instruments in place since 2015 and they were reviewed in 2016. Other countries have also put in place similar – not necessarily the same, but similar – macro-prudential instruments, for example the Netherlands. France is thinking about it, and other countries as well. So that is the way in which we should react to these localised valuations.

If we look at different assets and ask ourselves whether the valuations are overstretched, as I said, we may find spots where they are. By and large residential real estate, on average for the eurozone, does not seem to be overstretched. What is actually overstretched is prime commercial real estate and that is where we are see this. Incidentally, the ESRB sent a warning I think almost a year ago to – if I am not mistaken – eight European countries, basically concerning exactly this point about the overstretched valuations of housing, and prime commercial real estate in particular.

We have asked ourselves several times, and at the very beginning of the corporate programme, whether this would actually improve the credit conditions for small and medium-sized corporations as well as improving conditions for large companies that can actually issue bonds. What is really in place is that there has been a dramatic improvement, not only for large corporations, but also small and medium-sized ones and also – and this is the interesting thing – corporations that issue bonds, but ones which are not eligible for our corporate purchase programme. In other words, companies whose bonds we do not buy have also seen their spreads improving dramatically. But then, of course, companies that traditionally access bank credit rather than capital markets have also seen the space in the banks' balance sheets for themselves go up. We may certainly quantify, that but the best measure of quantification of this programme, as well as of the other measures we put in place, is through the lending rates, and the bank lending rates to SMEs have dramatically decreased all over the eurozone countries, regardless of whether we buy more of the corporate bonds of one country's companies, or this is generalised. The rates have in fact improved a lot in Spain, Italy and other periphery countries. I would not claim that this is only the effect of the corporate bond programme since, of course, it is very difficult to distinguish between the various elements of our monetary policy here.

1-020-0000

Molly Scott Cato (Verts/ALE). – President Draghi, during the previous rounds of the monetary dialogue I have raised with you the issue of stranded assets, and we are hearing more and more voices being raised to ask the ECB and other regulators to revise their approach to financial risks and take into account climate risks through macro-prudential policy. In addition, you will recall that my colleagues and I have sent you a written question concerning the role that the ECB has as an EU institution bound by the Paris Agreement, and what role you have to fight against climate change in that context. Indeed, Article 2 of the Agreement sets out the overall aims including 'holding the increase in the global average temperature to well below 2°C above pre-industrial levels and making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'.

In this context, I would like to ask whether you will continue to purchase assets from corporations that have investments in fossil fuels or are mainly directed towards the extraction and sale of fossil fuels? And, as we come to the period of tapering when the bonds reach their maturity but liquidity will continue to be available should you wish to use it to purchase future corporate assets, can you reassure me that you will not be purchasing the assets of fossil fuel companies?

Secondly, does the ECB agree that bonds can gradually be shifted towards investment in green infrastructure? In some sense I can hear your answer in advance, saying that these are political decisions, and I would agree with that. An economist might refer to the kinds of decisions you are making about which corporate assets you buy as economic distortions, but in my view this is now a political role that the ECB is exercising in deciding where the liquidity should flow. In this context, I would like to ask whether you think there is sufficient political control over the decisions that are being made by the Bank and whether the sort of discussion we are having here, which is largely about scrutiny, is sufficient, or whether there needs to be greater political accountability for the decisions made by the Central Bank.

1-021-0000

Mario Draghi, *President of the European Central Bank***.** – We have a mandate, which is price stability, and our monetary policy is geared towards that mandate. But without prejudice to its primary objective of price stability, the ECB supports the general economic policies and the aims of the Union: amongst these, Article 3 of the Treaty explicitly includes the sustainable development of Europe, aiming at a high level of protection and improvement of the quality of the environment. Accordingly, the ECB recognises the challenge posed by climate change and the importance of policies aimed at addressing it.

So we support the ongoing work in various international and European fora aimed at promoting green finance and understanding whether sustainability risks could be integrated into risk management practices and existing regulatory frameworks. At the same time, it is important that any potential changes to regulatory frameworks, or prudential regulation to reflect climate change, are justified from a prudential perspective and do not undermine their primary purpose.

1-022-0000

Molly Scott Cato (Verts/ALE). – Can I come back on the political point? I recognise that you have your mandate, and I suppose part of the question I am trying to ask is whether that mandate is sufficient at a time when decisions being made by the bank about the asset purchase programme and other forms of QE are having significant impact on what national governments are able to achieve, and indeed on the priority of liquidity flows across the continent. In that context, I am really questioning whether politicians, namely those of us sitting in this room, have sufficient influence over how those decisions are made.

1-023-0000

Mario Draghi, *President of the European Central Bank***. –** What we did when we designed the eligibility criteria for our bond programme was to make them broad enough so that we could also buy some of the bonds that you are hinting at. That is what we are doing, and we are supporting, as I just said, the article of the Treaty that explicitly mentions sustainability and the quality of the environment. In principle we are completely in agreement with you, but we have first and foremost our mandate, which is price stability, and that is what our monetary policy should be designed for. If there are political decisions, they do not enter into our competence.

1-024-0000

Marco Valli (EFDD). **–** Thank you President Draghi for the time you are devoting to the Committee on Economic and Monetary Affairs.

I have a direct question regarding the tapering which is apparently going to take place by the end of the year, or in any case in 2018: I would like to understand how the ECB plans to introduce this measure to scale down the purchase of bonds and how it can, to some extent, ensure that yields in peripheral countries do not become unsustainable for national budgets and that austerity measures are not then imposed on those countries to cover these widening spreads and growing interest rates on bonds.

Secondly, a comment on the elections in Germany: I should like to ask you whether you believe that this could somehow have any influence on a sort of faster winding down of the purchase programme.

1-025-0000

Mario Draghi, *President of the European Central Bank***. –** On the second issue, I cannot really answer because it is very premature and it is outside our remit to comment on the political elections in Germany.

It is outside our remit to comment on political elections in all countries.

On the first issue, first of all, the Governing Council has not yet taken any decision. We said that we are going to discuss the stance of our monetary policy in the future, in the autumn, and I said that, probably, the bulk of these decisions are going to be taken at the next meeting in October. So I would say that certain questions are premature.

It is premature to wonder what the effect of the changes will be on bond interest rates in the peripheral countries.

But we have to keep in mind that the mandate of the ECB is price stability for the whole of the euro area and, more specifically, whether inflation is converging in a durable and self-sustained way to our objective of an inflation rate which is close to, but below, two percent.

Our mandate is to pursue price stability, that is, in particular, an inflation rate that is close to, but below 2% and to ensure that this convergence is durable and can sustain itself without, therefore, needing our monetary support. So, in a certain sense, defending interest rates in peripheral countries is not our key objective. Our main objective is price stability and attaining an inflation rate that achieves our objective.

1-031-0000

Marco Valli (EFDD). – Given that core inflation, especially, is struggling to grow, I was wondering whether it was right to think of tapering the bond purchase measures and whether we could not, rather, consider continuing these measures, even in 2018, over a long period?

1-032-0000

Mario Draghi, *President of the European Central Bank***.** – You are asking me what we are going to decide in the next Governing Council meeting. As I said, it is a little premature to ask these questions. Let us deliberate and then we can discuss them at the next hearing of the Committee on Economic and Monetary Affairs.

1-033-0000

Bernard Monot (ENF). – The treaties state that the euro is to be the currency for the whole of the European Union. All countries are entitled to join the euro – and even, in theory, are obliged to do so. This applies to seven Member states outside the euro area, with the exception of Denmark, which enjoys a special status.

Commission Moscovici has spoken on this issue, and President Juncker was very clear in his State of the Union address two weeks ago: it is indeed the Commission's policy objective speed up the rate at which all Member States join the euro, and even to create, in Mr Juncker's words, 'a Euro-accession Instrument, offering technical and even financial assistance'.

What we seem to be seeing is – yet another – classic headlong rush into greater European integration. But in fact there are genuine macro-economic constraints, and the theory behind having an optimum currency area states that one can only adopt a single currency when the macro-economic fundamentals are completely aligned. That convergence, which was already incomplete on the launch of the euro in 1999, certainly explains the growing macro-economic divergences and imbalances of the current euro area, including Germany's huge balance of trade surplus.

I have several questions for you, President Draghi. Would not an early and botched accession of those seven countries, and hence the irrevocable aligning of their exchange rate with that of Germany, be liable to exacerbate the disparities within the euro area and create additional risks from fresh crises? Does the ECB sanction the Commission's policy objective of compulsory adoption of the euro, the single currency, or does it feel that ensuring macro-economic convergence must be the sole priority? If the overriding concern has to be the objective of enlarging the euro area, do you think that Member States should be set a schedule for accession to the euro area? Lastly, some of those Member States, such as Poland, the Czech Republic, Hungary and Sweden seem to be very happy to keep the monetary and exchange rate policy levers they have at national level. Do you think that those countries should be compelled to join the euro area?

1-034-0000

Mario Draghi, *President of the European Central Bank***.** – Of course not. As you said, all Member States, with the exception of Denmark and the United Kingdom, are expected to join the euro once they fulfil the necessary economic and legal requirements, but national governments have also to achieve the political will to apply to join the monetary union.

Having said that, the adoption of the euro by these Member States is decided by the Council of the European Union, taking into account the assessment of the Commission and the ECB regarding the fulfilment of economic and legal requirements. This assessment is fully and solely based on the convergence criteria that are clearly laid down in Article 140 of the Treaty on the Functioning of the European Union.

The European Central Bank provided its last assessment on the matter in June 2016, according to which none of the countries fulfilled all of the criteria as laid down in the Treaty, and following which the Council of the European Union did not take any decision to the effect that a Member State fulfilled the criteria for the adoption of the euro as laid down in the Treaty. The European Central Bank will again provide an examination of the convergence criteria in line with its obligations under the Treaty – which will therefore be based on the criteria as laid down in the Treaty – in its next report on this issue to the Council of the European Union, which is due next year.

1-035-0000

Chair. – I would like to indicate that Mr Juncker never spoke about 'forcing' but about an instrument to be discussed that might provide support, when there is the political will.

I would now ask Mr Langen to make way, if he agrees, because Mr Lucke then has to leave.

Mr Lucke, you have the floor.

1-036-0000

Bernd Lucke (ECR). – Thank you, Mr Langen. Mr Draghi, I will speak German.

Mr Draghi, the German Constitutional Court has submitted a list of questions on the European Central Bank's PSPP to the European Court of Justice. One of these asks whether the PSPP violates Articles 119 and 127 TFEU and Articles 17 to 24 of the Protocol on the Statute of the ECB, because the accumulated volume of the PSPP will after a time be so large that it can no longer be in line with the European legal framework.

My question to you is this: do you believe that there is a maximum volume for the PSPP, beyond which it will be in contravention of these legal provisions? And if you do believe that there is such a maximum volume, would you please tell me how this might be determined? In other words, what criteria are used by the ECB to identify a maximum volume? If you believe that there is no maximum volume – i.e. that the unfettered purchase of government bonds by the ECB is in line with the legal framework – would you please state that this is indeed the case. I would ask you to answer my question, which is structured fairly simply, with a 'yes' or a 'no' when you reply, and then to give your reasons.

1-037-0000

Mario Draghi, *President of the European Central Bank***.** – The ECB has taken note of the decision of the German Constitutional Court, and the extended asset purchase programme is, in our opinion, fully within our mandate. We have issue and issuer limits. We do not comment any further on pending proceedings. The extended asset purchase programme remains fully operational, in line with previous Governing Council statements.

1-038-0000

Bernd Lucke (ECR). – Chair, I did not ask Mr Draghi to comment on an on-going procedure but to comment on the PSPP and its conformity with the EU's legal framework.

You must know, Mr Draghi, whether the PSPP – set up by yourself – is compatible with the framework conditions of the European Treaties in the long term, even if it is pursued with no restrictions or limits. I would like you to answer this question.

1-039-0000

Mario Draghi, *President of the European Central Bank***.** – The extended asset purchase programme is, in our opinion, fully within our mandate. So it is in line with the Treaty. The limits I mentioned are the issue and issuer limits.

1-040-0000
Bernd Lucke (ECR). – So, Mr Draghi, you believe that no volume limit is necessary for the PSPP (we are talking here only about the PSPP, not the whole APP) and that the ECB can, where necessary, pursue the programme with no restriction? Do I understand you correctly?

1-041-0000
Mario Draghi, *President of the European Central Bank***.** – No, I said there are issue and issuer limits.

1-042-0000
Bernd Lucke (ECR). – But that is the only restriction you envisage – that you have issuer limits? You have no basic volume limit?

1-043-0000
Mario Draghi, *President of the European Central Bank***.** – I said there are issue and issuer limits. Period.

1-044-0000
Chair. – I think the issue has been fully clarified, Mr Lucke. You have repeated the same question.

1-045-0000
Bernd Lucke (ECR). – No, certainly not.

1-046-0000
Mario Draghi, *President of the European Central Bank***.** – You keep saying things because you want me to say certain things that you would like to see in the headlines in tomorrow's newpapers. I am sorry...

1-047-0000
Bernd Lucke (ECR). – I am an elected MEP, and I think you owe the MEPs an answer to the question of whether there is a quantifiable volume. You do not need to keep saying that there are issuer limits. There is one question here: is there a quantifiable limit for the PSPP?

1-048-0000
Mario Draghi, *President of the European Central Bank***.** – I am sorry. I have answered: there are issue and issuer limits. You can calculate by yourselves what the limits are in terms of volumes.

1-049-0000
Werner Langen (PPE). – Thank you, Chair. I too will speak German. I will continue from Mr Hayes's question. He asked you whether the 33% limit was up for discussion, and you replied: 'No, not yet'. So, is it being discussed (and here there is a link to Mr Lucke's question)? Is that a fixed limit in your view, or do you think exceeding it would be reasonable? That is my first question.

My second question: economic growth is positive, inflation dynamics are low, there is no deflation trend, the euro is strong: what is the right time for an interest rate reversal, given that the ECB's balance sheet has grown enormously?

My third question is linked to questions which have already been asked: we have had many discussions, and you and I were both of the opinion that improving the framework conditions was a political decision. President Juncker has made some suggestions: a euro budget, a European monetary fund, a European finance minister or increased powers, then the euro for all. My question to you is this: is this the right way for political reforms such as you are suggesting?

And my final question on the Target-2 objectives: at the start of the year you told Mr Ferber and myself that the main Target-2 balances were established not on the basis of structural problems – the financial market crisis – but on the basis of a normal development. Could you tell us what 'normal development' is in this context? Thank you.

1-050-0000

Mario Draghi, *President of the European Central Bank***. –** Sorry, can I ask you to repeat the last question?

1-051-0000

Werner Langen (PPE) – The Target-2 objectives fluctuated to a high of EUR 700 or 800 billion before going back down, and now they are back at their original level. And you replied: 'They are going up again not because of the structural problems of the financial market crisis; this is a normal development.' I would like to know what a 'normal development' is in this sense.

1-052-0000

Mario Draghi, *President of the European Central Bank***. –** On your first question, we have the 33% limit and we have not discussed changing it, so there is no news there.

The second point is when we are going to change it. Well, we have our criteria there, which is a durable and self-sustaining convergence of the rate of inflation to our inflation aim. We are not there yet. If anything, as I have mentioned before, inflation is projected to go down next year in a 'v' shape and then go up again the year after. When we look at underlying inflation – because this 'v'-shaped profile depends mostly on changes in the base effects of oil prices and, to a lesser extent, exchange rate developments – excluding food and energy, we see that it has actually ticked up a little in the last few months but has not yet really shown a convincing sign of moving upward. The reason is that, until now, we have observed quite subdued behaviour on wages, which are the primary driver of underlying inflation. So that is the objective. We have to achieve self-sustaining durable convergence of inflation to our objective.

On the third point, I mentioned TARGET2 developments. It is true that TARGET2 developments are not the outcome of the developments we saw during the financial crisis. Much of what we see in the TARGET2 developments – not entirely, but much of it – is due to the same asset purchase programme in our QE programme implemented through the purchase of bonds. To some extent, this is why we are seeing higher TARGET2 developments. More generally, with the increase in confidence in the euro area and with improving economic conditions, as we have now seen all across the euro area, these developments should be less and less a source of worry, but simply a source of a functioning of the payment system in the euro area.

1-053-0000

Jonás Fernández (S&D). – Mr Chair; first of all, welcome, Mr Draghi. I must point out that my colleague Mr Langen did not change places with Mr Lucke, but that Mr Lucke leapfrogged everyone who came after him on the list of speakers, and I feel I must complain about this because there was not an exchange of time slots: in fact, Mr Lucke simply overtook everyone else.

After this first remark, I must say that, looking at the revision of the inflation forecasts that you commented on in the ECB's macroeconomic report, and looking at the forecasts and appreciation pressure on the euro, while also bearing in mind that, even with growth above the potential, the negative output gap in the eurozone is still wide and we will have this – negative – output gap for at least another two years, and even though in the end we will wait for the press conference after the ECB's next meeting, it seems difficult to understand some of the pressures on the ECB's monetary policy management that we have seen at this meeting.

My question: you spoke of the decentralisation of monetary policy, and I should like to put a direct question to you about the decentralised implementation of the provision of emergency liquidity assistance (ELA), as I believe that this is creating some problems for the consolidation of the banking union. This summer, the deputy governor of the Bank of Spain, the vice-president of the Bank of Spain, said that Banco Popular had assets of sufficient quality to continue to have access to ELA assistance. The criteria used by the Bank of Spain appear to differ from those used by other national banks when deciding whether to accept assets as collateral for the provision of emergency liquidity, and this difference in the criteria may have played a significant role in the decision to cut the liquidity available to Banco Popular. I should therefore like to raise a question concerning the proper functioning of the banking union. It seems entirely possible that, if Banco Popular had come under another jurisdiction whose central bank implemented the ELA using different criteria, the bank could have been saved.

To conclude: do you not think that, bearing in mind what you said about the decentralisation of monetary policy – which would probably bring many benefits – we need to make progress towards applying the ELA with clearer, consolidated criteria?

1-054-0000

Mario Draghi, *President of the European Central Bank***.** – You are touching on an issue which has been discussed on several occasions by the Governing Council. It would seem natural that, having a single supervisor and a single resolution institution, we should now have a single ELA. But as you know ELA is now decentralised and its decisions and its implementation pertain fully to national central banks, and the agreement amongst all members of the Governing Council is one where no objection is raised to ELA unless its implementation goes against the objectives of the single monetary policy.

We had one discussion, about a year ago I think, about that, but we do not have any change in the agreement, as far as I can see, coming in the near future on that.

1-055-0000

Jonás Fernández (S&D). – The current application of the ELA is a real problem to the consolidation of the banking union, do you not think so?

1-056-0000

Mario Draghi, *President of the European Central Bank***.** – At some point in the future, we will have to examine this. People have seen this as one issue especially after we had the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB). It will be something that we will have to discuss. It is also true that the national central bank often has all the information, much more than another centralised institution, and that is why national central banks are reluctant to concede this national power. It is pretty clear that it would be natural at this point to have one decision maker for emergency liquidity assistance (ELA) as well.

1-057-0000

Gunnar Hökmark (PPE). – I would like to come back to one of the questions from Mr Langen. *(Words inaudible as microphone switched off.)* A lot of things in life are not as they were earlier. Regarding inflation, we see that very clearly: it is not as foreseeable in following this cycle as we thought we could determine. The digital economy is changing, as is globalisation etc., and you are waiting for the inflation to come back.

At the same time, you have said a number of times here that there are risks and advantages with a unique monetary policy such as the one we have, and that these risks are increasing over time, and the advantages are in the same way decreasing because the economy is getting used to this unique monetary policy, this very extraordinary situation.

How do you look upon that? The problem is that the risks of the consequences emerge some time after you can take such a decision. Maybe we are just now facing the risks of bubbles bursting in 12 months' time or 18 months' time. Now is the time to act. Isn't it very difficult having your eyes on the inflation rate rather than on the risks of the rather extreme monetary policy you are performing?

1-058-0000
Mario Draghi, *President of the European Central Bank***. –** No, let me assure you, we have our eyes on the risks as well and we are continuously monitoring. As some of the questions I answered actually show, we are keenly interested in all markets to see whether either valuations or credit are having abnormal developments. We are quite sensitive to that danger.

At the same time, we also have to be sensitive about the danger of halting a recovery through a hasty monetary policy decision-making. We have to balance these two sides of the issue. One thing that has changed, with respect to earlier years, is that the many policy measures that have been undertaken in response to the great financial crisis in terms of regulatory, supervisory, macro-prudential decision-making and even institutional decision-making through the creation of new institutions, have made our banking system and our financial sector more resilient.

In so doing, this gave us the possibility of continuing with our monetary policy until we reach our objective. We are perfectly conscious about the time lags with which our monetary policy decisions will have their effects, and about the risks, as you said.

1-059-0000
Gunnar Hökmark (PPE). – But if so, it will be interesting to hear how you look upon the risks, how they are developing. Are they the same today as one year ago or have they increased? But also, what is happening with the advantages? Because the longer time we have this monetary policy, I guess the less effect it will give. One question is the simple fact that investments have not really taken off in European economy. We have an increasing demand and a recovery, but the investment gap is still there, in spite of the fact that you can finance investment for nearly zero.

1-060-0000
Mario Draghi, *President of the European Central Bank***. –** One year ago, actually, the risks were higher, but the risks to financial stability were coming not from our monetary policy but from the potential deflation. That is a risk for financial stability as well, and that is what we are observing now: we are moving from that situation into a new one.

On the benefits, we have seen – for the first time in many years – in the last six, seven, eight, nine months, a pick-up in private investment, which had not been seen for a long time. This is mostly supported by low interest rates and, with the recovery of course, by higher profitability of some investments. We see that corporate profits are actually increasing.

Thirdly, I am not entirely sure the benefits decrease as we go on, because the other question one should ask is whether this recovery has to be a self-sustained recovery in the inflation path. We say that it is not self-sustained yet, which means that it still needs our monetary policy, which in turn means that if we were to withdraw the stimulus, we would go back with inflation to where we were.

We have to balance all these elements in our assessment and, as you said, we have to balance the risks of financial stability and the benefits in terms of increasing inflation in the medium-term outlook. Let me assure you that we have our eyes on both sides of the coin.

1-061-0000
Pedro Silva Pereira (S&D). – President Draghi, I must say that you came here with a very clear and powerful message in favour of the necessity of continuing with a substantial package of monetary policy stimulus. We will, of course, never know whether your message would have been so clear if we were having this discussion before the German elections, but today I have to recognise that we have got the message loud and clear. I think you are absolutely right. The ECB’s unconventional monetary policy has had a very positive impact

on the European economy, but the recovery we are now witnessing is far from sufficient. As you have said, inflation is expected to decline this year and will continue to be far from the target until 2019. So we need the support of monetary policy, taking into account the situation and also the risks that we face.

I have two questions on those risks and on the current situation. First, I am of course not going to ask you to comment on the result of the German elections, but the European Central Bank also has to take into account political risks in designing monetary policy. Would you say that the political uncertainty in Germany is one of the reasons that would call for prudence in the design of the revision of monetary policy by the ECB?

Second, you will surely know that two rating agencies have announced important decisions in the last few days. Moody's decreased the United Kingdom's rating in the light of Brexit and Standard & Poor's increased Portugal's rating to investment grade due to the positive results of the Portuguese economy. I am not, of course, going to ask you to comment on the decisions of rating agencies, but I would like to have your comments on the situation underlying these decisions. At this stage, how do you assess the risks and the impact of Brexit negotiations on the European economy and how do you see the recovery of the Portuguese economy? What does it tell you about the situation in the eurozone?

1-062-0000

Mario Draghi, *President of the European Central Bank***. –** To answer the first question, rather than referring specifically to one political event but more generally, we obviously do not take political developments into account in our decision-making. To the extent that political developments affect our objective of price stability in the medium term, then they enter into our information set when we take our monetary policy decisions. Otherwise we simply, as we say, look through them. That is how we assess whether certain events, be they political or non-political, have an influence on our monetary policy.

On your second question, the revision by Standard and Poor's as far as Portugal's rating is concerned reflects the general improvement in Portugal, the reforms carried out and, more generally, the general improvement in the economic situation of the eurozone, from which all countries benefit. As I said in my introductory statement, we are now having a period of positive spillover from all countries to all countries. In this sense it is self- reinforcing. If a country does well, it helps the others and vice versa. That is what we are witnessing.

The risks of Brexit are quite complex to assess and very much will depend on the final agreement. What we can say, however, is that as time passes, economies will increasingly adapt to the new situation, and more and more financial intermediaries will take their decisions as to whether or not to relocate, and make adjustments accordingly. In other words, it looks as if, given enough time and assuming that there are no serious management mistakes, the risks are going to be manageable.

1-063-0000

Anne Sander (PPE). – I would like to ask you about your longer-term vision of the issues connected with the euro area. I would firstly like to ask you how one reconciles interest rates, which reflect the financing needs of the real economy, and the remuneration of savings, which will allow us to cope with the ageing of the population?

My second question concerns the cash requirements of failing banks. The Single Resolution Fund, which will not be primed with EUR 55 billion before 2024, is liable to be too limited in scope and to be dependent banks' capacity to refinance it. Do you not think that the central banks, starting with the ECB, should provide that cash support until such time as a bank is back on its feet?

1-064-0000

Mario Draghi, *President of the European Central Bank***.** – In answer to the second question, the ECB cannot do that, because there would be monetary financing. Support for the Single Resolution Fund is a task for governments, and not for the ECB. On your first question, the low interest rates have certainly proved difficult for savers, for pension funds and also for insurance companies. Having said that, it can be seen that more and more pension funds and insurance companies have, in a sense, partly adjusted their business models and, like banks, are to some extent continuing to do so.

Let's not forget that our policy rates are policy rates, namely very short-term policy rates. The rates that are being paid on savings or to savers are not necessarily very short-term, and those rates have gone up, in fact. With the improvement in economic conditions those rates have naturally gone up. So, from this viewpoint, the problem for savers is still there – I do not deny that – but to a lesser extent than a year-and-a-half ago. There is a note of hope that as economic conditions improve, so will these rates naturally continue to increase. Of course, that does not alter the fact that when we observe that in the medium term there is self-sustained and durable convergence of inflation towards our objective, our policy rates will likewise certainly go up at that time, as has been said in the introductory statement by the Governing Council.

1-065-0000

Jakob von Weizsäcker (S&D). – President Draghi, I think you argued convincingly that we need to be careful when it comes to the timing of a monetary policy reversal. I do not want to put you in a difficult situation by asking about the details of that timing – I am sure we will have other opportunities to discuss that – but I do want to ask you a related longer-term question: how big do you think the ECB's balance sheet should be in the long run? That point was discussed in, for example, Jackson Hole, not this year but last year, when Ben Bernanke argued that in the long run the Central Bank's balance should in overall terms be larger. He gave many good arguments in favour. He mentioned one downside, when he said that there were fiscal risks, and he added that in the US context we should perhaps not take them too seriously when considering the EU context. Perhaps those fiscal risks might be a little bit more delicate. So, against the backdrop of that discussion, I would be interested to know – this is a long-term question – what you think, once monetary policy normalises, the size of the ECB's balance sheet should be.

My second question is very specific to a subject that I am working on: CCP recovery and resolution. Last week you published your opinion and pointed out that central banks do of course have an important role to play when CCPs get into trouble. But, at the same time, you seem very much to accept the idea that CCP supervision, as well as recovery and resolution, should still be dealt with by a college of regulators' approach. Given the systemic nature of larger CCPs, which are much more systemic than many of the banks that you are supervising in the context of banking union, I am wondering whether that is a tenable position. In particular, if one adds the legitimate interests of central banks to the number of stakeholders assembled for the purposes of supervision and recovery and resolution, it can become quite a mess. So would it not be simpler to move to a single supervisory – and a single recovery and resolution – approach for CCPs of such cross-border systemic importance, for the reasons that have made us do so for banks?

1-066-0000

Mario Draghi, *President of the European Central Bank***.** – I will answer your second question first. As you have seen – and the amendment of Article 22 goes in that direction, in conjunction with the proposed revision of EMIR by the Commission – there are certain binding powers for the central bank of issue. These binding powers would, in particular, incide on the recognition of a CCP in a third country, on possible relocation, and on certain supervisory decisions concerning CCPs.

It has been accepted that the central bank of issue cannot be the direct supervisor of the CCPs and that CCPs should stay under a different supervisory regime. That is the idea. The central bank of issue basically has, in line with what you are saying, acknowledged that there are certain dimensions of CCPs, especially if they are systemic, that may affect monetary policy. That is why the ECB would like to have these powers recognised but would not enter directly in the supervision of CCPSs.

On your first question, it is hard to say how big the balance sheet of the ECB should be. It really depends on the state of the economy and whether the objectives are being reached. What is happening in response to the crisis – and Ben Bernanke was the first to do this – was to make the balance sheet of the Central Bank a monetary policy instrument. It should be used as such and we do not ask whether there is a specific level of interest rates beyond which we cannot go, or a lower level. Recently, it was even negative. So, there is no pre-set size for this. What we know is that such an instrument should be calibrated according to whether we are heading towards our objective, or we are far from it, on whether the convergence is durable or not, and whether the convergence is self-sustained or not.

Certainly the size of the balance sheet is one of the instruments. Its size will also depend on what we do with the other instruments as well. I think it is very difficult to assess one long-run size which is good forever 'under any state of nature', as economists would say.

1-067-0000

Tom Vandenkendelaere (PPE). – Good afternoon Mr Draghi. I should like to ask a question about ECB communication policy, which is, of course a very important instrument, making it possible to influence projections regarding inflation and hence economic activity and the financial markets. However, in order to have any credible impact in this respect, the ECB must state its policies clearly and transparently. In view of this, do you believe that ECB communications regarding cutbacks to economic stimulation programmes are sufficiently clear? Many believe that this is not the case, bearing in mind that credible inflation projections are conducive to both price and financial market stability.

Take the US central bank, for example. It has already announced three interest hikes for 2018. During the crisis, the Fed agreed to keep the rate unchanged until the unemployment rate was 6.5% or lower and Janet Yellen has announced her intention of rolling off its balance sheet, starting in early October.

It's not that I am in any way attempting to compare the ECB and the Fed, at least as far as their policies are concerned, since they are totally different. I am simply wondering why the ECB is failing to make optimal use of such an important policy instrument or at least whether you believe that communications policy could be made to work more effectively.

1-068-0000

Mario Draghi, *President of the European Central Bank***.** – You are asking me whether we can improve on communication, and the answer is certainly yes, we can always improve on communication. But so far the impression is that the ECB has been communicating pretty effectively on several occasions. By the way, in terms of size, we have a flow of communication through various channels: the speeches of our Governing Council members, bulletins, press conferences and press statements, so communication is pretty substantial. The impression that one has, by and large – of course, I am biased – is that this communication has been pretty effective.

Looking to the months ahead, the ECB Governing Council has taken the necessary time before moving on to the next phase. As I said, probably in the autumn, at the next monetary policy meeting, the Governing Council will discuss the bulk of decisions concerning the monetary policy stance for the months ahead. Why has the Governing Council waited until October – could it not have decided, for example, in June? That was one of the questions we discussed ourselves. Overall, the uncertainty that looms ahead and which we see every day, with new events and surprises of different kinds, is so great that the Governing Council members thought that the more information they had before their deliberations, the better.

1-069-0000
Chair. – And of course the monetary dialogue with Parliament is part of that information.

1-070-0000
Mario Draghi, *President of the European Central Bank***. –** It is part of it, yes. I am sorry, I forgot.

1-071-0000
Paul Tang (S&D). – It is good that you are here, Mr Draghi. On an ECON delegation visit we had a frank discussion with Stanley Fischer about the inflation puzzle. He explained why it was a puzzle, came up with an explanation and wondered whether it worked. It was a very open and interesting discussion. I am wondering how you see the adjustment in the eurozone, as it is going on now and in the medium term. We have the difficulty, you could say, that in the eurozone we do not have a policy mix. We have monetary policy, but we do not have fiscal policy. That is a disadvantage. How do you see the developments in some countries, especially countries with a current account surplus? In those countries – in Germany and in the Netherlands – there is a discussion on wage developments. Wages are not picking up and I suppose it does not help the adjustment in the eurozone. It is an interesting situation we are in, because in these two countries there is still a government to be formed. What can those governments do to help wage developments that will not only help these countries but also the adjustment in the eurozone?

1-072-0000
Mario Draghi, *President of the European Central Bank***. –** Indeed, wage behaviour has been more subdued at this stage of the business cycle than it would have been on other occasions in the past. There are a variety of reasons for that, and most of them have to do with the functioning of the labour market. I will simply now list some of them.

First of all, we are coming from a protracted period of labour market slack. There is a sort of legacy from the past, and this legacy from the past translates into a situation on the labour market where unemployment is probably greater than is shown in the official figures – the so-called U6 figures of the labour market, where you see that many employed people have temporary contracts or low-quality jobs and are basically in situations that are not conducive to asking for higher wages. A second reason is that the presence of temporary contracts is such that the strategy of trade unions in countries where trade unions are significant is not so much geared towards a higher wage but to guarantee stability of employment. Another reason, as I said before, is that there is this legacy, so wage negotiations are backward-looking to what inflation has been in the last three or four years, therefore asking for lower nominal wage increases than they would otherwise. Another reason, and this does not only relate to the labour market, is low productivity. Productivity is low quite uniformly across various sectors – less so of course in the less-protected industries, namely the export sector, but otherwise we are observing low rates of productivity. All these factors contribute to the behaviour of nominal wages being pretty subdued, which, in terms of policy consequences means that we have to be patient. We are confident that inflation will ultimately eventually converge in a stable and self-sustained fashion with our objective, because we see that economic conditions keep on improving. In the end, the labour market slack will close and the output gap will close, but we have to be patient, because there are all these factors which slow down the response of wages to the closing of the output gap. Therefore, we have to be persistent with our monetary policy. We can’t afford hasty moves. We have to be prudent.

1-073-0000

Georgios Kyrtsos (PPE). – Both Greek private corporations and the Greek state are eager to take full advantage of the asset purchase programmes of the ECB to cover their financing needs and to reduce the cost of borrowing. When and under what circumstances could this positive development materialise?

And then another question: Do you think of taking any new initiative to help Greek banks overcome the negative effects of the 2015 crisis? It seems that during the last months the Greek banking sector is under increasing pressure from the IMF, which does not exclude the need for a new – the 4th – recapitalisation of the Greek banks. How do you plan to address the situation?

1-074-0000

Mario Draghi, *President of the European Central Bank***.** – If I may answer the second question, the SSM will take its decisions in full independence. And what the SSM plans to do next year is to have the stress tests, and possibly frontloading the stress tests, and the SSM has sent a letter to the IMF concerning exactly this expected line of action.

On the first question I have to ask you to repeat the question, because I missed it.

1-075-0000

Georgios Kyrtsos (PPE). – Both the Greek private corporations and the Greek state are eager to be included in the asset purchase programmes of the ECB in order to cover their financing needs and to reduce the cost of borrowing. When and under what circumstances could this positive development materialise?

1-076-0000

Mario Draghi, *President of the European Central Bank***.** – As you can imagine, I have been asked this question several times. First of all the key point here is that the ECB will have to go through a debt sustainability assessment. And the debt sustainability assessment will be possible when we have clear information about the extent and the calibration of the debt measures by the Eurogroup Member States.

The debt sustainability assessment will have to take into account downside risks. That will be the time when the Governing Council can actually discuss the extension of the asset purchase programme to Greece.

1-077-0000

Chair. – This has been an extremely interesting monetary dialogue. I would like to thank President Draghi and all the colleagues who contributed to this discussion, which will continue; we look forward to the next monetary policy decision of the European Central Bank.

(The meeting closed at 17.05)