1-001-0000

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE EUROPEAN CENTRAL BANK (pursuant to Article 284(3) TFEU) BRUSSELS, MONDAY, 26 FEBRUARY 2018

1-002-0000

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

(The meeting opened at 16.17)

Chair. – Italy is not a country that is used to snow, so our planes were cancelled or postponed, but we are glad to be here.

I would like to welcome the ECB President, Mario Draghi. Due to time constraints, I will skip an introductory consideration and give him the floor directly. We will also have to shorten our second part with the questions and answers to four minutes, grouping the second round of questions.

President Draghi, welcome. You have the floor.

1-004-0000

Mario Draghi, *President of the European Central Bank***. –** Mr Chair, honourable members of the Committee on Economic and Monetary Affairs, ladies and gentlemen, I am glad to be back at the European Parliament for my first hearing of this year before your committee.

The two issues you have chosen for today's debate are very topical, and I will address them in turn. I will first discuss the euro area inflation outlook and the main factors impacting on the relationship between growth and inflation. I will then emphasise the relevance of financial market infrastructures for monetary policy. In doing so, I will explain why the central bank of issue needs to have the necessary tools to address possible risks in a limited number of areas which are crucial from the perspective of its monetary policy mandate.

First, on inflation, growth and the ECB's monetary policy. As I said in my introductory statement to the European Parliament plenary earlier this month, the euro area economy is expanding robustly. Growth is stronger than previously expected and more evenly distributed across sectors and geographies than at any time since the financial crisis. According to the latest data, the euro area economy grew by 2.5% in 2017, reflecting strong domestic momentum in private consumption and investment.

These positive developments have been fostered and supported by the pass-through of the European Central Bank's monetary policy measures, which have significantly eased borrowing conditions for households and firms, notably also for small and medium-sized enterprises.

Considering all of the monetary policy measures taken between mid-2014 and October 2017, the overall impact on euro area growth and inflation is estimated, in both cases, to be around 1.9 percentage points cumulatively for the period between 2016 and 2020. Our measures have put the euro area economy on a solid growth pathway, driven by endogenous domestic dynamics and thus more resistant to a potential slowdown in global demand.

At the same time, inflation has yet to show more convincing signs of a sustained upward adjustment. After lingering at levels well below 1% for three years, with occasional dips into negative territory, euro area headline inflation has fluctuated between 1.3% and 1.5% since May last year. Annual inflation stood at 1.3% in January. The changes in headline inflation have been driven by movements in the more volatile components, namely energy prices and, to a lesser extent, food prices. Measures of underlying inflation – which we monitor for their information content concerning inflation dynamics – have remained subdued. Inflation excluding energy and food was 1% in January, and has ranged between 0.9% and 1.2% since April 2017.

Let me now focus on the factors behind these moderate inflation developments from a longer-term perspective. The recent period of low inflation may appear surprising from a cyclical perspective given that we have seen positive economic growth over the past four years, supporting a steady and gradual absorption of economic slack. This has raised the question of which factors, cyclical or structural, may have played a role in the growth-inflation relationship.

A comprehensive analysis by the Eurosystem has concluded that adverse cyclical factors have played a crucial role in explaining low underlying inflation. These notably consisted of dampened economic activity and high unemployment in the aftermath of the sovereign debt crisis, and subsequently subdued foreign demand and low oil prices. Yet, these factors are of a temporary nature and should not affect inflation over a medium-term horizon, even though they might impact – and they are impacting in fact – on the speed of adjustment in inflation. Moreover, given the uncertainty surrounding the measurement of economic slack, the true amount may be larger than estimated, which could slow down the emergence of price pressures. This is particularly visible in the labour market, where wage growth has remained subdued despite strong employment gains. Nonetheless, these factors should wane as the economic expansion continues and unemployment further declines. In fact, wage growth in the euro area has already picked up recently and the labour market is expected to improve further.

On the structural side, globalisation may have reduced the responsiveness of inflation to domestic cyclical conditions but empirical evidence for the euro area is not clear-cut. Other potential factors include demographic trends or changes in behaviour triggered by technological developments, which may contain price pressures, for instance through increased price transparency. However, even if these factors are somewhat more persistent, they should still not exert a permanent impact on inflation.

Overall, the analysis indicates that the relationship between growth and inflation remains largely intact, even if it has temporarily weakened in recent years to the extent that the speed of adjustment in inflation towards our aim has been affected.

Looking ahead, we anticipate that headline inflation will resume its gradual upward adjustment, supported by our monetary policy measures. At the same time, uncertainties continue to prevail. In particular, the recent volatility in financial markets, notably also in the exchange rate, deserves close monitoring with regard to its possible implications for the medium-term outlook for price stability.

Therefore, while the strong momentum of the euro area economy has clearly strengthened our confidence in the inflation outlook, patience and persistence with regard to monetary policy is still needed for inflation to sustainably return to levels of below, but close to, 2%. In fact, the evolution of inflation remains crucially conditional on an ample degree of monetary accommodation provided by the full set of our monetary policy measures: our net asset purchases, the sizeable stock of acquired assets and the forthcoming reinvestments, and our forward guidance on policy interest rates.

Let me now move to the relevance of central clearing for monetary policy and the role of the central bank of issue and let me turn to the interactions between financial market infrastructures and monetary policy, which you have also chosen as a topic for today's hearing. This is indeed an important and timely issue.

Allow me to recall the important role played by the central counterparties – or CCPs – in financial markets. By interposing themselves in a network of financial transactions, CCPs reduce counterparty credit risk and increase market transparency. However, under crisis conditions, the disruption of clearing activities can have a significant negative impact on our ability to conduct monetary policy tasks. For instance, it may cause significant liquidity strains for CCP users, which in many cases are also our monetary policy counterparties. In particular, these strains may arise from large and sudden calls to provide additional resources to a CCP under stressed market conditions. In addition, disturbances affecting a CCP active in the money markets can impair normal monetary policy transmission channels. These are just two examples of the links between the operation of CCPs and the transmission of monetary policy.

While these links are not new, they now warrant closer attention for two reasons. First, the financial system has come to rely more on central counterparties. The introduction of mandatory central clearing requirements in response to the crisis has made financial markets safer and more transparent. This is in large part thanks to the European Parliament's push for stronger financial regulation, such as the European Market Infrastructure Regulation (EMIR). While this strengthening is of course welcome, it also means that CCPs have become more systemic. Second, the United Kingdom's decision to leave the European Union means that, under the current legislative regime, several CCPs clearing significant volumes of euro-denominated business will be operating outside the framework of the European Union regulation and the safeguards this provides.

In this context, the Commission's EMIR II proposal, currently being discussed by this committee, is a welcome and necessary initiative. The existing regime was never intended to cope with large-scale euro-denominated clearing activities being carried out in a country outside the European Union. The EMIR II proposal would enable the EU authorities to directly supervise systemically important third-country CCPs on the basis of EU regulatory requirements, using EU supervisory instruments. The proposal provides for an enhanced role for the central bank of issue in this context, reflecting the strong links between clearing and monetary policy.

The indispensable corollary to the EMIR II proposal is the recommendation to amend Article 22 of our Statute, which was unanimously adopted by the ECB's Governing Council last June. The General Court in Luxembourg held in its judgment in 2015 that it would be for the ECB to request the EU legislature to amend Article 2, should the ECB consider that having the power to regulate CCPs is necessary for the proper performance of its tasks under the Treaties. In particular, in order to ensure that we can carry out the tasks foreseen under EMIR II, it is of the utmost importance that we have the relevant powers under the Treaties. Revising Article 22 is therefore a necessary step. Considering the risks the ECB faces with regard to the implementation and transmission of its monetary policy, it is imperative that it be equipped with the necessary tools vis-à-vis CCPs, especially in a crisis situation.

I want to make clear that such measures would aim to address risks in a limited number of areas which are crucial for the implementation of the single monetary policy and the smooth operation of the payment systems, which ultimately affect our primary objective of maintaining price stability as mandated by the Treaties. Areas of particular relevance from this perspective are liquidity arrangements, settlement processes, collateral, margins and interoperability arrangements. Let me add that such measures would only be triggered in the event of a clear threat to the conduct of our monetary policy, and would in no way encroach upon the prerogatives of CCP supervisors or the frameworks established by EU legislators.

The ECB will act only within its competence, which is to formulate and implement the monetary policy of the euro area. Furthermore, any measures taken on this basis would need to be proportionate, and fully justified by the need to fulfil our monetary policy tasks. I also want to stress that, as a rule, the implementation of the regime for non-EU countries should continue to rely as much as possible on cooperation with, and deferral to, local authorities.

Let me also stress the crucial importance of finalising the adoption of key pieces of EU legislation – such as EMIR II – well in advance of Brexit, in order to be prepared for all possible contingencies, including a no-deal scenario. Failing to do so could leave central banks and supervisors without the appropriate tools to handle the risks linked to systemic euro CCPs operating outside the umbrella of EU regulation. Naturally, we are available to provide any assistance in the context of these discussions.

Finally, we should not overlook the systemic cross-border implications of central clearing within the EU. We should therefore also strive to achieve enhanced supervisory convergence within the Union. This would contribute to ensuring the integrity of the Single Market and a level playing field. The European Parliament can play a key role in furthering these objectives.

Let me conclude. Our monetary policy measures have had tangible benefits for the euro area economy. Further policy initiatives are, however, needed to reduce vulnerabilities, strengthen resilience in crisis situations and increase growth potential. Only ambitious policies will deliver concrete benefits for the people of Europe.

This is also what our common history tells us. This year marks the 25th anniversary of the Single Market and the Maastricht Treaty's entry into force. Those were bold decisions and we continue to benefit from them today: goods, people, services and capital can move freely and EU legislation ensures that commensurate rights and obligations apply throughout our Union. With the creation of the Economic and Monetary Union (EMU) we went further by adopting the single currency.

It is in this spirit that I look forward to the coming months and the pivotal discussions we will have on reforming EMU governance. Thank you for your attention. I am now at your disposal for questions.

1-005-0000

Chair. – Thank you, President Draghi. I appreciate the patience and persistence you refer to as far as monetary policy is concerned and also as regards our legislative work on EMIR II and Article 22. We are strongly committed to concluding this legislation by the end of the year, exactly for the reasons you have underlined.

We have to limit our slots to four minutes. The first is speaker is Brian Hayes.

1-006-0000

Brian Hayes (PPE). – President Draghi, welcome again to the Committee on Economic and Monetary Affairs. Can I just put on the record my thanks to you for your remarks at the end of the plenary session in Strasbourg, where you spoke about a willingness to visit Member States, including my own. We really appreciate that as a good engagement with policymakers, for future discussions.

I have two quick questions because I know we are stuck for time. This is your first time to be with us since we saw the package of tax reform measures in the United States last December. I wrote to you last January to get your view on the impact that this could have on significant US multinationals and their deposits in eurozone banks. You know that the US are proposing a repatriation tax of 15.5% and I would be interested in your view on what impact, if any, you think this could have on eurozone banks. When I wrote to you last July, you said you would take some time after the proposal to consider the impact, namely the impact on liquidity ratios and the impact on a significant outflow from eurozone banks to the United States to gain this tax advantage. What is your view on that? We would be interested in that.

My second question relates broadly to the Non-Performing Loan (NPL) issue, which I know is an issue in my own country and elsewhere. My question to you, as President of the ECB, is whether the ECB has taken consumer protection into account in its guidance to banks with NPLs. Should Member States do more in terms of consumer protection to protect those consumers where the loan book is being sold?

1-007-0000

Mario Draghi, *President of the European Central Bank***.** – Regarding your first question, the tax reform in the United States has certainly been a significant policy change. It does provide fiscal stimulus over the next decade that will certainly support the US and especially corporates and to some extent global GDP growth. Although it is a bit early yet to assess whether the spillovers of this policy are going to be significant for the euro area, I think you are right that what is going to be significant – and we are already seeing this – are large outflows.

This policy reform will certainly reshape the tax landscape in the world, and the consequences of this are pretty complex to assess at this point. What is clear is that it is certainly going to increase tax competition. We are seeing that the large repatriation flows of these very large corporates and the big tax benefits that these corporates are actually receiving are linked. We have seen money outflows moving from European corporates to US corporates and there has been a considerable amount of commentary and market reports about this.

So for the time being we are observing these flows. It is hard to say what the long-term consequences are because, all in all, now is a good time. The economic situation both in Europe and the United States is actually going pretty well and so it is difficult to assess the consequence of spillovers. As I said, there should be some, but it is not clear yet whether they are going to be significant as far as we are concerned. I am talking about positive spillovers coming from the benefits that are accruing to the United States and therefore to Europe.

On the second point, we are not responsible for consumer protection. The key objective in the whole NPL discussion everywhere is to change the legislative framework – the judiciary and the out-of-court settlement process – in a way that makes NPL disposal as easy and fast as possible. To the extent that this disposal – and I am not saying that this happens – would generate social consequences, it is quite clear that, if a state can do something to mitigate these social consequences, they are welcome, first of all for equity reasons, but also for the very objective that the disposal of the NPL tries to achieve.

1-008-0000

Pervenche Berès (S&D). – Mr President, as you often do, you have referred to the need to deepen Economic and Monetary Union, and to take it forward.

With that in mind, and without beating about the bush, I would like to ask you what you think of the current state of play with regard to the procedure for appointing members of the ECB's Executive Board. You will recall that, on one occasion, the European Parliament rejected the proposal put before it, but that did not affect the European Council's decision. Do you think the discussion in the Council that followed the in camera meeting we held with the two candidates was consistent with the spirit of the consultation that must enable Parliament to play its part in the procedure in one way or another? What do you think about Parliament's call for there to be more women on the ECB's Executive Board? In your opinion, under what conditions should Article 283(2) of the Treaty on the Functioning of the European Union be evaluated? How do we check whether those criteria are realistic? And lastly, what is your take on the issue of a candidate's profile possibly interfering with the independence of the ECB?

1-009-0000

Mario Draghi, *President of the European Central Bank***. –** Let me just go through the constitutional literature about this. The process for appointment of all members of the Executive Board is regulated in Article 283(2) of the Treaty on the Functioning of the European Union and Article 11 of the ESCB Statute. The Vice-President of the ECB, like any member of the ECB Executive Board, is appointed by the European Council on a recommendation from the Ecofin Council in its euro area composition. In line with this procedure, as in previous appointment processes for members of the ECB Executive Board, both the European Parliament and ECB Governing Council are consulted and will issue their respective opinions on the candidate formally recommended by the Council. In our letter, the ECB welcomes the role played by the European Parliament in this context.

So that is what I can say at this stage about the process. Let me also mention here that diversity – and in particular gender diversity – is one of the ECB's strategic priorities where, by the way, we are aiming to do much more than we have been able to achieve so far. We certainly very much support this objective.

1-010-0000

Pervenche Berès (S&D). –Mr President, I have 30 seconds left. I do not think you answered my question. I did not ask you simply to read through the articles of the Treaty, but to interpret the wording and flesh out the criteria laid down in Article 283(2). I have heard that on 21 March the ECB will be making a statement on the candidate accepted by the Council. Are you willing to make public the vote taken in the Council?

1-011-0000

Mario Draghi, *President of the European Central Bank***. –** It is certainly not for me to discuss on this occasion the candidate recommended by Ecofin, but let me also, in a sense, consider that the independence of the ECB is enshrined in the Treaty. From this viewpoint, I am pretty confident that it will be protected by the Treaty, which goes beyond any sort of personal profile.

The candidate for the position will be assessed on their competences because, as you said, the ECB Governing Council will issue its opinion in the coming days – you said 21 March, but it will be earlier, on 8 March. They will be assessed on their standing and professional experience in monetary and banking matters, as required by the Treaty. As you well know, to ensure that the ECB acts in the best interests of the European people – and as I was saying before – the ECB was set up an independent institution and the institutional framework is our measure and our most important shield against political interference.

The independence of the ECB is reflected in the Treaty and consists of five main pillars, including the personal independence of the ECB's Executive Board members. The other four pillars are the institutional, functional, financial and legal independence.

1-012-0000

Sander Loones (ECR). – Welcome, Mr Draghi. I would like to focus on the first part of your introduction today, in which you mentioned the need for close monitoring. In this respect, I wonder if you would consider broadening the measuring methods of the ECB's inflation target by also including asset prices? I would see two different options.

One, you could include only housing prices in the inflation index because they have a large impact on people's purchasing power. I make reference also to a statement by Peter Praet, who mentioned recently that Eurostat is working to include owner-occupied housing in the HICP – though I would assume that the ECB can decide independently to change its methods as well, independently from Eurostat. It would be interesting to hear your views on this.

A second option could be to include all asset prices in the ECB's inflation measurement, to prevent the creation of asset bubbles. Would you consider this? Yes or no?

1-013-0000

Mario Draghi, *President of the European Central Bank***.** – We actually look at asset prices, which are an important source of information, but our primary objective is to maintain price stability as mandated by the Treaty. This implies that we aim to keep inflation in the harmonised consumer price index at levels of below, but close to, 2%.

All in all, we are convinced that our focus on consumer prices can best preserve the purchasing power of the people in the euro area. Of course, as I said, we assess asset price developments with respect to their implications for consumer price developments and not on their own, but they are important, for example through the wealth effects that asset prices might have, and through their impact on financing conditions for firms.

1-014-0000

Sander Loones (ECR). – I understand from your response that you will not be taking into account housing. Does that mean that I need to interpret your answer as meaning that paying rent or purchasing a house does not constitute a big cost which affects the purchasing power of citizens?

From your second answer I noted also that you will not include all asset prices. I see more and more economists agreeing that the 2008 financial crisis was a result of the extremely low interest rate policy of Mr Greenspan's Fed policy between December 2000 and June 2004, which fuelled the housing bubble. Do I need to interpret your answer as a statement in which you say that you do not agree with the more and more economists who have come to this conclusion? Thank you for your answers.

1-015-0000

Mario Draghi, *President of the European Central Bank***.** – I can explain my answer. There are various ways of looking at the reasons for the financial crisis. One is what you said – the expansionary monetary policy. But there is another way of looking at it, and that is the dismantling of the existing financial regulation that had taken place in the 10 years before the crisis.

There are two explanations and there are people who favour one or the other, but one thing this tells us is that now we have an expansionary monetary policy that is justified by the current situation and is, in a sense, required by our mandate, and given that is what it is, the last thing we want to see is a dismantling or a softening of existing regulation. Here I am speaking not only at EU level, but also at world level.

1-016-0000

Wolf Klinz (ALDE). – President Draghi, deepening the economic and monetary union and completing the banking union are two objectives that are being stated at regular intervals. One major road block on the way to achieving these objectives seems to be the non-performing loan level in several of the Member States of the eurozone. When do you think, and how do you think, we can get to the point where the NPL level is not higher than 10% in these countries?

Second question: a German magazine reports that you confronted the Finance Ministers at their last meeting with the fact that you question very much whether Greece will be able to access the capital markets to raise the necessary funds in the near future. Again, when do you think this problem can be overcome? Do you expect that a fourth rescue programme will be needed, and when do you think Greece will apply for that?

The third point concerns the ESRB, of which you are President. When talking about the ESA review with several interlocutors I learnt that very often the ESRB apparently does not communicate its policies well and clearly enough. The ESRB seems to use algorithms and models that are not understandable to outsiders. Do you expect you will be able to improve the communication by the ESRB pretty soon?

1-017-0000

Mario Draghi, *President of the European Central Bank***. –** Let me respond to the last question first. I was not aware of that, but if that is the case then we are certainly ready to improve communication in all possible ways, because in a sense that is the major power that the ESRB has. It does not have decision-making power; it has the power of recommending and analysing. So communication is very important. I will certainly take note of what you are saying and we will do our best to improve.

On the first point, this is related to the creation of a common scheme of deposit insurance. People all around the eurozone are saying, and rightly so, ‘if I am called on to underwrite deposit insurance I want to be sure that what I am going to pay for does not expose me to risks that can be avoided before I actually underwrite a contract’. So the ECB’s view is that risk reduction goes together, and should go hand in hand with, risk-sharing. Part of this risk reduction concerns the NPLs, but it is not the only thing. Part of it also concerns the level two and level three assets that are still present.

This last legacy is the legacy of the financial crisis. The other is the legacy of the Great Recession. Both have to be tackled. Whether we want to have quantitative targets or not is an issue that supervisors would be best to discuss. Usually, generally speaking, supervisors do not want to be told what the numerical target is that one wants to apply across all the banks of the euro area, because they want to retain case-by-case discretion depending on the specific bank situation, but certainly qualitative progress reports are absolutely essential, so I entirely agree with you that is an important thing that needs to be tackled.

Finally, on Greece: not really. The report was not correct. We had an exchange, which was also in a sense dramatised a little in the reports that were made, precisely on the NPLs, precisely on the need to reduce NPLs through the electronic auctions of the NPLs and the need to progress. By the way, a lot has been done by Greece, but there are still certain prior actions that we expect to be undertaken in the next two weeks. That was it. We did not discuss any programme or any further programme or anything like that, and it certainly would not be up to the ECB President to say that. It is up to the ESM, to the Member States, to the Commission.

1-018-0000

Chair. – Mr Tsakalotos basically said the same thing in our Financial Assistance Working Group – that this was greatly over-estimated by the press.

1-019-0000

Dimitrios Papadimoulis (GUE/NGL) – Thank you, Mr Draghi, for attending our committee meeting once more. I was particularly pleased to hear you not only confirm previous upbeat assessments of Greek economic prospects but also use exactly the same words as Euclid Tsakalotos to describe what certain media reports back home in Greece referred to as a major spat, not to say a fundamental rift, between the two of you.
Exactly one week ago, at the Eurogroup meeting of 19 February, Mr Centeno, Mr Moscovici and Mr Regling publicly confirmed that Greek economic trends and prospects were indeed very promising, and predicted that, thanks to Greek government initiatives, the country would be well on the way to exiting from the memorandum programmes in August 2018. Over the

past few weeks, the three ratings agencies have also been on the same wavelength, upgrading their assessment of the Greek economy and its future development by a notch or two. Given that the European Central Bank is a member of the institutional quartet, I should be very pleased to hear your own opinion regarding prospects for Greece. Are you also in tune with the views expressed by Mr Centeno, Mr Moscovici and Mr Regling and with the conclusions of the ratings agencies that, with the prospect of a cash buffer in sight, we are on our way to exiting from the memorandum programmes, or does the European Central Bank take a different, less sanguine view?

1-020-0000

Mario Draghi, *President of the European Central Bank***. –** No, I am not more pessimistic. Almost all the agreed prior actions for the third review have been implemented. The remaining two prior actions relate to Elliniko and electronic auctions and, as I was saying before, they are expected to be completed within the next two weeks. In particular, the progress on the e-auctions – the prior action on the e-auctions – requires an assessment to confirm that a continuous and unimpeded flow of electronic auctions is ensured with no geographical restrictions. Therefore, the institutions will formulate a more conclusive assessment of whether prior action has been completed around the beginning of March, after receiving supplementary data from the authorities. That is the current situation.

1-021-0000

Sven Giegold (Verts/ALE). – I have a question on the failure of the ABLV Bank. It was reported that ABLV twice received emergency liquidity assistance (ELA) just before it was found to be failing, and that the last of the two tranches was just on the Wednesday before it failed. The decision to wind down the bank was taken over Friday and Saturday.

So why was the first ELA loan necessary if the bank was already under a payment freeze? Second, why was the second ELA authorised only a few hours before the bank was declared to be failing or likely to fail? What, in your opinion, changed between Wednesday and Friday night? In the end, what lessons have you learned from this affair concerning the interrelation between ELA and banking supervision?

1-022-0000

Mario Draghi, *President of the European Central Bank***. –** Thank you. I am afraid that we don’t comment on details surrounding ELA operations beyond the communications provided by the national central bank. We should not forget the ELA is given by the national central bank, and the governing council objects to ELA only when the provision of the ELA contrasts with the objectives of our monetary policy.

The information flows between the national central bank and the ECB on ELA operations are covered by the ELA agreement. Preventing money laundering activities is obviously very important, but the provision of ELA addresses a temporary aggregate liquidity gap of a bank and not a specific activity. I cannot comment any further.

1-023-0000

Sven Giegold (Verts/ALE). – Thank you for this expected half-answer. May I just ask whether you think that this, or any such cases of doubtful use of ELA, can harm the credibility of the system as a whole, and therefore agree that the ELA policies should be changed?

I have a last question on the Ombudsman’s recommendation to you personally, where she suggests that you end your membership of the G30. Have you considered her recommendation, and will you follow the Ombudsman’s recommendation?

1-024-0000

Mario Draghi, *President of the European Central Bank***. –** With respect to your last question, we have certainly taken note of the letter from the Ombudsman and we will provide the

Ombudsman with an answer within the foreseen time which, if I am not mistaken, is by mid-April.

On the first point, I agree with you. The ELA policy should be changed and I personally have argued several times for a centralisation of ELA. This is a remnant from a past time, but to change it we ought to have the agreement of all the members of the governing council, namely all countries in fact. They have to decide that they would abandon this remnant of national sovereignty in monetary policy, because that is what it is.

That is what I can say at this point.

1-025-0000

Marco Valli (EFDD). – Mr President, I have three questions for you. The first concerns quantitative easing. As you have said, you must naturally comply with the Treaty and accordingly seek to maintain inflation at around 2%. However, aside from the fact that core inflation remains very low and far removed from this benchmark, I wonder whether quantitative easing might need to go on for longer, even beyond 2018, if targets have not been achieved by that deadline. I should be very grateful if you could confirm once more what has admittedly already been said several times.

While the comment made last Thursday by Commission President Juncker with regard to Italy was rather unfortunate, it did highlight the continued vulnerability to speculation of government bonds issued by countries on the periphery of the euro area. A number of proposals have been tabled, including the issuing of European safe bonds. However, I wonder whether it would not be preferable to focus directly on a sovereign debt risk sharing instrument rather than opting for securitisation schemes without risk-sharing mechanisms, bearing in mind that the risks involved would then be of a different nature.

Thirdly, do you consider that level 2 and level 3 illiquid assets are now covered adequately by bank capital or do you feel that something more needs to be done in this regard to avoid systemic risks?

1-026-0000

Mario Draghi, *President of the European Central Bank***. –** Thank you. Let me first answer the first question. The possible extension of QE has not been discussed by the governing council.

What I’ve been saying, even in my introductory statement, is that, in the presence of an economic situation that is constantly improving, we need the right blend of three features. We are generally more confident that inflation is proceeding towards our objective. But we also have to be persistent and patient, because the underlying inflation has not shown any convincing sign of an upward tick and because headline inflation is still not within our objective. That is really going to be the key measure of our monetary policy in the coming months.

Let’s not forget that the effects of our monetary policy are now being produced by a combination of several measures. One is certainly the net asset purchases, but the other one is the considerable stock of assets that have been accumulated by the ECB in these years of purchases.

The governing council has said that it will keep on reinvesting the bonds that come to maturity for an extended period of time after the end of the purchase programme. Finally, let me also say that the guidance on interest rates is very important and will continue to be so well past the end of the asset purchases, and a key concept of our monetary policy stance.

The second question relates to the long-term developments of our Union, namely fiscal convergence and the creation of a safe bond. We have now commented on that several times, but especially at the most difficult point of the crisis. I remember that many questions were asked at that point, focusing on the need for more solidarity in the Union so as to enable countries to better survive the crisis.

Solidarity comes with responsibility and responsibility means convergence: convergence of economic policies, convergence of economic structures and convergence towards the best practices as far as institutions are concerned. That's probably the most important type of convergence. Convergence by itself will generate the trust that is necessary to have one common, safe asset.

Regarding the third question, we certainly believe that there is sufficient capital to protect against these risks and, in any event, the ECB has now launched a programme for the extensive, intrusive assessment of the internal rating models that are used to price level-two and three assets. It is on its way and should get off the ground this year.

1-027-0000

Chair. – Good. This Parliament has been recommending this for a long time.

1-028-0000

Barbara Kappel (ENF). – Chair, Mr Draghi, thank you very much for being here today despite these difficulties. In my questions I should like to focus on non-performing loans. You are familiar with the most recent progress report from the Commission on the elimination of NPL, which is basically positive. A total of EUR 950 billion in NPL still exists, even though the trend is downward. The volume is still large, though. But I consider it a particular cause for concern that such disparities in NPL ratios exist between Member States, from 0.7% to 46.9%. The ECB has now issued an Addendum to its Guidelines which is applicable to new NPLs, in particular putting forward a new assessment of the quantitative expectations of supervision with reference to the minimum level of prudential risk prevention, i.e. how long a loan is non-performing, how big it is and assessment of collateral. For the old NPL, there is supposed to be a catalogue of measures by the end of the first quarter of 2018, to be made available by the ECB, that is, by the supervisory authority.

And as regards the fact that convergence is either inadequate or non-existent: Italy and Greece are of course major problems, although over the last year Italy has done a great deal to stabilise the sector and it will also take further measures this year, for example by merging cooperative banks. And Greece — this has been touched on: here too, in January the Bank of Greece published a review which called upon the banking industry to be 'more ambitious' as regards the introduction of new accounting models and stricter rules on exposure.

In the light of the Addendum to the guidelines, I would therefore like to ask you for your assessment of the current situation with regard to the banks, what view you take of the measures to be proposed at the end of the first quarter to address the NPL problems and how you assess the situation in Italy and also in Greece?

1-029-0000

Mario Draghi, *President of the European Central Bank***. –** Let me say first that the case for tackling non-performing loans (NPLs) in a determined manner is clear. NPLs weigh on the balance sheet of banks and there is plenty of evidence that banks with high stocks of NPLs have consistently given less credit to the private sector and to the economy than banks with better credit quality and low levels of NPLs. Therefore, high NPLs mean less support to firms and households, harming growth.

The recovery will also be faster if the level of NPLs is lower. However, one should observe that, in many cases, NPLs are themselves the effect of a protracted recession. So, the improvement in economic conditions goes hand in hand with the lowering of the level of NPLs. As you were saying, in the countries you mentioned – but also in others – NPLs have gone down considerably, and the level of provisioning has also increased. Capital solvency and the profitability of the banking system have improved.

We now also have a Commission proposal to address NPLs under pillar one, and we certainly welcome this proposal that is now to be considered for consultation. This proposal is about the introduction of statutory prudential back-stops for a minimum level of provisions for newly originated NPLs, so-called automatic pillar-one rules. But this is different from our addendum. The two documents are different.

The addendum expresses supervisory expectations as a starting point for a supervisory dialogue to assess the risk to which an individual institution is, or might be, exposed. In contrast to the addendum, the statutory provisioning back-stop presented by the Commission is a binding requirement and applies automatically to all institutions. The supervisor is obliged to assess the bank's individual risk profile and the adequateness of the provisioning for these risks.

This means that, if the accounting provisions and the legal requirement for prudential provisions treat all risks related to the NPLs in an individual institution, then a supervisory dialogue based on the addendum would show no remaining risk and there would be no room for pillar-two measures. On the other hand, if the first two conditions are not verified, the addendum comes in and becomes relevant. So, the two initiatives really complement each other.

1-030-0000

Chair. – It would be good if the expectation were aligned with the statutory requirement, because if it were different in terms of years, our curve would be a bit confusing for supervising entities.

Unfortunately we now have to merge a group of speakers since we have to conclude at 17:25 at the latest. This is because we have to perform our constitutional duty with a hearing of the candidate for the vice-presidency of the ECB. We have interpretation which will finish, so we need to conclude at 17:25. This means that I will now ask a group of colleagues to put their questions for one minute.

1-031-0000

Gabriel Mato (PPE). – Mr President, a few days ago we had the opportunity to discuss the European Central Bank's annual report. I think it was made very clear that your position, the role that the ECB has played, has been crucial for the economic recovery, but also that monetary policy on its own is not enough to guarantee a sustainable and more balanced economic recovery. With that in mind, therefore, with monetary stimulus being withdrawn, how can the necessary reforms be pursued?

And with regard to the issue that has become known as the 'currency war' – about which a number of the members of the ECB's Governing Council have expressed concern – I would be interested to know your opinion on the situation. What possible measures are under consideration, what can we expect from those, and how can the situation be dealt with?

1-032-0000

Jonás Fernández (S&D). – Mr President, I have a quick question on the option of using the ECB's profits as an EU own-resource. As you know, that option is covered in the Monti report, and was also mentioned in the report that the ECB adopted recently. The Commission also included it in its budget plans for the coming years, and the European Parliament's Legal Service has stated that such a reform could be brought in without a major change to the Treaties. In order to bring about this reform to the eurozone budget, it needs the backing of a political majority. The ECB has made statements in favour of other initiatives that are likewise designed to enhance integration in the eurozone, and I would like to hear your opinion.

1-033-0000

Tom Vandenkendelaere (PPE). — Thank you, Mr President, for being here this afternoon. At the end of last week, the National Bank of Belgium presented its annual report for 2017. One of the causes for concern was the development of the housing market in Belgium. 5 in every 10 Belgians are currently borrowing more than 80% of the value of the homes they purchase. Banks have become too lenient about extending residential loans, we observe , and therefore Belgian banks are to be obliged to create an additional capital buffer of EUR 1.5 billion. The riskier the mortgage portfolio, the larger the buffer that needs to be created. My question is therefore: do you share this concern and will the ECB approve this measure in the way that the procedure requires? Will measures also follow at European level to bring this situation under control? Thank you.

1-034-0000

Jakob von Weizsäcker (S&D). – President Draghi, I have two questions for you. The first is about central clearing counterparties. You made the case for why the ECB needs to be involved, and I share the notion that a central bank needs to be involved in this.

The question is, if in the future we pool supervision – and this is something I think we need urgently to do – in one European agency, say ESMA, and in addition there is the European Central Bank, on which matters pertaining both to decisions inside the Union but also externally – you have swap agreements and so on – should the ECB take the lead, and in which areas should ESMA or another single European supervisor, take the lead?

I think there is a little bit of confusion in that debate, and I would be very keen to get more precision from you on where you think there should be leadership, and where others should take the lead.

1-035-0000

Georgios Kyrtsos (PPE). – I have two questions for President Draghi. In Greece we need an inflation rate as close to 2% as possible in order, among other things, to help us manage our huge debt. Unfortunately, inflation in January was negative on an annual basis in Greece. This is the first time since the end of 2016 that this has happened. So, has the ECB analysed the inflation situation in Greece? Are there any ideas on how we can be helped to increase our inflation rate towards 2%?

The other thing has to do with electronic auctions. I believe that electronic auctions will start in several weeks, which is a positive development, but I don’t think that the situation will be easily normalised because there are radical left-wing groups, including what used to be the left wing of the governing Syriza party, Popular Unity.

So, have you allowed for a transitional period? How do you expect performance to be? It is one thing starting the process and another thing performing well, so we need a transitional period.

1-036-0000

Paul Tang (S&D). – On sustainable finance, we can expect an action plan by the Commission, perhaps via an initiative by this House. I wonder what the role of the ECB is.

If you look at the corporate bond purchases, these go mainly to manufacturing and gas and oil production. This means that about 60% of bond purchases go to these sectors, which generate more than 60% of the eurozone economy’s CO_2 emissions, while accounting for only 18% of the value added. This is shown by a study, among others, by the London School of Economics.

So does the ECB consider its role in sustainable finance? Do you take into account the impact of the bond purchases on the climate, and are you willing to be more open and public about this?

1-037-0000

Mario Draghi, *President of the European Central Bank***. –** I will try to take note and answer all the questions. I may fail to do so but I will try.

The first question asks whether monetary policy is the only main tool for the recovery and for consolidating existing growth. The answer is no. I guess you must be tired of hearing me say this, as I have saying it for the last five years. The structural reforms are of key importance to consolidate growth on a sustainable basis.

On the second point, I don't think we can talk about a currency war. The worries of the governing council are about increasing volatility. They are worried that this increase in volatility might cause an unwanted tightening of financing conditions in the eurozone.

The other point is about the use of profits by the ECB. This is a political decision. What is meant is that the direct transfer of profits from the ECB to the Union budget requires an amendment to the ECB Statute. One of the options proposed by the Commission in its communication on the multiannual financial framework is to transfer to the EU budget an amount corresponding to a share of the net profits arising from national central banks' shares in the euro area monetary income paid out to national treasuries.

In other words, the ECB makes the profits, the profits are distributed to the national central banks and the national central banks give these profits – not to the same extent and not in the same way – to the national budgets. What is being suggested is that the national budgets transfer this to the EU budget. This represents national contributions by Member States of the EU budget, in a manner not related to the ECB's policy of allocating its profits as defined in the Statute of the ESCB and of the ECB.

Regarding the macroprudential measures undertaken by the central bank of Belgium, we support these measures a hundred percent. We have been in favour of macroprudential measures to address non-systemic situations where asset valuations are overstretched. The central bank of Belgium has been at the forefront of this action and the ECB supports it.

On central clearing counterparties (CCPs), the question is what role do we see for them. ESMA is the dominant supervisor here. The ECB needs to monitor the specific risk the CCP poses to the transmission of its monetary policy and the functioning of the payment system.

In responding to your specific question, this would include specific reporting requirements, information requests and ad hoc stress testing that would differ from those conducted by the prudential supervisors, including ESMA. We would coordinate closely with ESMA to eliminate duplication and ensure appropriate information sharing. As I said, ESMA remains the predominant supervisor.

In exceptional situations, the ECB would need to be able to intervene quickly and directly. Situations of acute market stress are when CCPs are most likely to channel or amplify liquidity stresses in the financial system and volatility on bond markets. Notwithstanding the existence of robust regulatory frameworks, such as EMIR, with which CCPs must comply, CCPs typically enjoy a lot of discretion in their risk management, especially in crisis.

Given their potential systemic impact on financial stability and monetary policy, this discretion shall be exercised under the control of supervisors and central banks, including the ECB, for euro-denominated clearing activity. So the ECB should have the powers that are necessary to undertake this action, of course always strictly within its mandate.

On the questions about Greece, it is pretty clear that the longer and the more dramatic the recession has been, the slower inflation's progress towards its objective has been. This is true in Greece and it has been true in other countries.

The continuing improvement in the situation, however, should strengthen confidence that this objective will be reached. But we should remember that the ECB's objective does not concern a country's rate of inflation, but rather inflation for the eurozone as a whole – the HICP. On the e-auctions, the institutions will assess progress, as I said, in early March, in two weeks' time.

On sustainable finance, we are party to the Paris climate agreement, and the ECB supports the general economic policies and the aims of the Union. It recognises the challenge posed by climate change and the importance of policies aimed at addressing it.

Even from a central bank's perspective, the increasing frequency and severity of natural disasters could pose a considerable risk to financial stability. We thus consider the correct pricing and supervision of climate-related risk as key to preserving financial stability and promoting sustainable growth.

So we support the ongoing work in various international fora and we welcome the recently published final report of the high-level expert group on sustainable finance. We are also supportive of the proposed development of a common EU sustainable finance taxonomy.

But at the same time, it is also important that any potential change to regulatory frameworks or prudential regulation to reflect climate change is justified from a prudential perspective and does not undermine our primary purpose, namely the achievement of our objective.

1-038-0000

Chair. – President Draghi, thank you for this very interesting and important exchange of views. Our next monetary dialogue will take place in around May, the exact date is yet to be confirmed. The hearing is now concluded.

1-039-0000

(The meeting closed at 17.31)