

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI,
PRESIDENT OF THE ECB
(pursuant to Article 284(3) of the EC Treaty)
BRUSSELS, 23 SEPTEMBER 2013

1-002

IN THE CHAIR: SHARON BOWLES,
Chair of the Committee on Economic and Monetary Affairs

1-004

(The meeting opened at 15.20)

1-005

Mario Draghi, *President of the European Central Bank*.
– Madam Chair, honourable members of the Committee on Economic and Monetary Affairs, it is a pleasure for me to be back with your committee, shortly after your assembly's important vote on the Single Supervisory Mechanism (SSM) Regulation. That vote was preceded by intense interaction on the interinstitutional agreement on accountability and transparency, and I would like to thank President Schulz, your committee and the negotiating team for their commitment to the successful establishment of the SSM. Our two institutions share a common interest in the swift and effective implementation of banking union. The draft interinstitutional agreement ensures high standards of transparency and accountability, while safeguarding the protection of confidential information. We will continue working in a similar constructive spirit in the months ahead, and hope that this will allow the Supervisory Board to be set up swiftly.

Today, I will first review recent economic and monetary developments in the euro area. I will then address the two topics that you have selected for our discussion: the impact of our non-standard measures; and the new tasks of the ECB in the reformed European Monetary Union architecture.

Since our meeting in July we have received positive data on the euro area economy. Following six quarters of negative output growth, euro area real GDP rose by 0.3%, quarter on quarter, in the second quarter of 2013. Measures of confidence and surveys of production have given some support to the view that euro area economic activity should continue its slow recovery in the current quarter, despite weak production data for July. Looking forward, economic activity should benefit from a gradual improvement in domestic demand, supported by the ECB's accommodative monetary policy stance and strengthening external demand for euro area exports. However, unemployment in the euro area remains far too high, and the recovery will need to be firmly established.

Annual euro area inflation declined to 1.3% in August 2013, down from 1.6% in July. Underlying price

pressures are expected to remain subdued, reflecting the broad-based weakness in aggregate demand and the modest pace of recovery. Medium-to-long-term inflation expectations continue to be firmly anchored in line with price stability. The risks to the outlook for price developments are expected to be still broadly balanced over the medium term.

Monetary and, in particular, credit dynamics remain subdued. The annual rate of change of loans to the private sector, and notably to firms, weakened further in July. Weak loan dynamics continue to reflect not only the current stage of the business cycle but also heightened credit risk and the ongoing adjustments in borrowers' and lenders' balance sheets. The significant improvement in the funding situation of banks since the summer of 2012 has not yet fed through into higher credit provision.

Against this background, the Governing Council has pledged to keep monetary policy accommodative for as long as necessary. In order to re-affirm and clarify this conditional pledge, in a context of volatile money market interest rates, the ECB introduced forward guidance in July, stating that it expects the key ECB interest rates to remain at the current or lower levels for an extended period of time. This expectation, which was reconfirmed in August and in September, is based on a subdued outlook for inflation extending into the medium term, given the broad-based weakness in the economy and subdued monetary dynamics. We will maintain the degree of monetary accommodation warranted by the outlook for price stability, and aim to promote stable money market conditions.

To ensure the adequate transmission of monetary policy to financing conditions in the broader economy, it is essential that effective measures be taken further to reduce fragmentation of euro area credit markets and to strengthen the resilience of banks as necessary. Monetary policy contributes to these objectives, but it can address impairments in transmission only insofar as they are not related to more structural barriers.

By giving unlimited access to central bank refinancing against adequate collateral, our non-standard measures have been pivotal in relieving bank funding stress. The collateral framework has been adjusted as necessary to ensure continued adequate risk protection for the ECB's balance sheet, while at the same time promoting transparency, for example in markets for structured finance products. Ensuring that solvent banks remain liquid has contributed to avoiding an abrupt

deleveraging which would have deeply damaged the economy.

The Outright Monetary Transactions (OMTs) announced a year ago have prevented risks of destructive scenarios with potentially severe challenges for price stability in the euro area. OMTs serve as a fully effective backstop, within the ECB's mandate and under formal conditionality, so as to preserve the appropriate incentives for governments to ensure fiscal solvency and adopt those structural policies that can put the economy on a sustainable path.

Over the past 12 months, confidence in the euro area has returned. As a consequence, fragmentation in euro area funding markets has been receding. This improvement is due not only to the ECB's non-standard measures but also to progress by governments in improving the euro area governance and in pursuing reform agendas. Deposit outflows from stressed countries have been reversed. Market access for banks has improved. Reliance on ECB funding support has been steadily declining. These improvements are reflected primarily in the ongoing advance repayments of funds by several banks which had borrowed from the ECB under the two three-year longer-term refinancing operations. While repayment of central bank credit is certainly a sign of normalisation, the resulting reduction in excess liquidity can reinforce upward pressures on term money market rates, and we will remain particularly attentive to the implications that these developments may have for the stance of monetary policy.

Finally, let me address the tasks of the ECB in the reformed European Monetary Union architecture. The Maastricht set-up has been substantially strengthened since the start of the crisis. Europe has reinforced fiscal and macroeconomic surveillance, created a permanent crisis management mechanism – the European Stability Mechanism (ESM) – and improved its institutional framework. It is moving swiftly towards the SSM for banks in the euro area. A key priority on the agenda for the last quarter of 2013 is to complement the SSM by a Single Resolution Authority and a Single Resolution Fund, as proposed by the Commission. The ECB strongly supports the timeline envisaged for the establishment of a Single Resolution Mechanism (SRM) by 1 January 2015, which adequately reflects the urgency.

Let me make a few remarks on the specific role of the ECB in progress towards a fully fledged banking union. Already in 2010, with decisive input from your institution, the European Systemic Risk Board (ESRB) was created to oversee macro-prudential risks in the financial system as a whole. The ECB supports the ESRB by assuming responsibility for its secretariat. This year, a further-reaching step is being taken with the imminent launch of the Single Supervisory Mechanism. The ECB is fully committed to assuming its new responsibilities and to discharging its duty of accountability accordingly. Preparatory work has started

to ensure that the new tasks are performed at the highest level of effectiveness and professionalism.

While synergies between the new supervisory and existing monetary policy functions exist, the ECB will strictly respect the principle of separation between monetary policy and banking supervision, as provided for in the SSM Regulation. Such separation will ensure that the ECB will continue to fulfil its primary mandate of price stability in complete independence, in line with the Treaty.

The effective separation of monetary policy and bank supervision decisions will be implemented both at decision-making level and at the level of technical staff. A separate Supervisory Board will be created to draft and enforce decisions. Furthermore, deliberations of the Governing Council on supervisory matters will be strictly separated from monetary policy decisions. This separation between the two tasks will be underpinned by separate agendas and meetings.

I will conclude with a few words on the involvement of the ECB in the Troika. Back in 2010, we were asked by the Council to provide technical expertise to the design and monitoring of EU/IMF financial assistance programmes. In the meantime, the ECB has been allocated a number of specific tasks under the ESM Treaty and EU secondary legislation. We act in liaison with the Commission to provide technical advice, based on our expertise. As we have been in the past, we remain ready to share with Parliament our views on the situation in programme countries and to explain the advice provided as part of the Troika. However, it is important to remember that the Euro Group is the body which actually decides whether to grant financial assistance and under what terms.

I am now looking forward to your questions.

1-007

Jean-Paul Gauzès (PPE). – Monsieur le Président, à partir de ces indications, je pourrais vous poser une question d'actualité, mais je trouve qu'il est un peu prématuré de vous demander quelles sont les éventuelles conséquences de la réélection de Mme Merkel en République fédérale d'Allemagne. On attendra donc de connaître la composition du gouvernement avant de se poser ce genre de question.

J'aimerais plutôt revenir sur le rôle de la BCE comme superviseur. À cet égard, le Parlement a apprécié qu'un accord ait pu être trouvé sur l'accord interinstitutionnel, qui assure une meilleure transparence tout en respectant les règles élémentaires nécessaires de confidentialité. Cependant, aujourd'hui commence la période la plus compliquée : c'est-à-dire la mise en œuvre de ces dispositifs qui, intellectuellement, sont intéressants, mais je crois comprendre qu'on prépare une feuille de route unique pour l'autorité bancaire européenne ainsi que la BCE et qu'il est question de la nomination du conseil de surveillance.

Vous avez rappelé la nécessité de maintenir une muraille de Chine étanche entre les fonctions de banque centrale

et celles de superviseur, j'aimerais savoir, d'une façon un peu plus précise, quel est le calendrier de mise en œuvre de ces dispositifs, la mise en place des institutions de supervision étant essentielle pour un véritable fonctionnement de l'union bancaire.

1-008

Mario Draghi, *President of the European Central Bank*. – I will take this as a broader question on the state of our preparatory work for the Single Supervisory Mechanism (SSM). Let me just say that we are watching with some satisfaction the fast and sustained progress that is being made towards ECB readiness to assume its tasks under the SSM Regulation. ECB internal preparations are well under way and progress to date has been fostered by the close cooperation between the ECB and the national supervisors.

We have set up specific structures for preparing the SSM. We have the high-level group and the task force on supervision, and a number of work teams, comprising senior experts from the national authorities and the ECB, have been established to conduct the preparatory work. In addition to facilitating this preparatory phase, the national supervisory authorities have seconded a total of 78 people to the ECB cost-free.

There are four key areas in which significant progress has been made: let me list them, and then later I can go into greater detail. The first key area is the development of the supervisory manual; the second is supervisory reporting; and the third is the development of the SSM framework regulation. The fourth important area is the preparatory work to date on the comprehensive assessment, including a balance-sheet assessment, of all banks supervised directly – about 130 banking groups, covering 85% of euro area bank assets. This assessment is based on three pillars: a risk assessment, a balance-sheet assessment and a stress test.

Finally, let me say something on the time frame. The significant progress achieved in recent months owes a lot to the hard work of the ECB and also, as I said, the national supervisors. The time frame allows for the establishment of the SSM within the deadline provided for by the regulation, namely one year from the date of approval of the legislation. We will report to Parliament on the progress we make – through a quarterly report which will also be sent to the European Council and to the Commission.

1-009

Chair. – I have a little note here, which now says that we are aiming for a possible vote in plenary in December on the appointment of the SSM Chair and Vice-Chair if we all can get the procedures done in time. That would be good to get us on our way

1-010

Elisa Ferreira (S&D). – Senhor Draghi, muito prazer em tê-lo cá, dou-lhe as boas-vindas mais uma vez. Tal como já disse em ocasiões anteriores, agradeço-lhe a intervenção, a si e ao Banco Central, que permitiu salvar o euro com as OMT. No entanto, o Banco Central, como também referiu hoje, faz parte das troicas, que são um modelo muito complicado. No caso do meu país,

Portugal cumpriu a essência de tudo aquilo que lhe foi recomendado e acabou com uma recessão dupla, quase dupla, daquilo que tinha sido previsto, o desemprego com níveis históricos e a dívida a 130 % do PIB. Hoje deveríamos ter podido ir aos mercados mas a dívida soberana está com taxas acima dos 7 %. Há alguns sinais de recuperação mas excessivamente lentos e fracos. Portanto, na sua qualidade de membro da troica, e também de iniciador das OMT, o que é que me pode dizer sobre o futuro? O que é que vai acontecer a um país como Portugal? Qual é a fase que se segue?

A minha segunda questão tem a ver com o papel do Banco Central enquanto supervisor único. E aí tinha duas pequenas questões para colocar: a primeira diz respeito ao início das funções e perguntar-lhe se pode fazer a avaliação dos ativos bancários - a *asset quality review* - sem ter pronto um mecanismo de resolução; a segunda questão tem a ver com o Fundo de Resolução Comum do qual sou relatora, e queria perguntar-lhe se um fundo que vai ser financiado pela banca num prazo de 10 a 14 anos pode funcionar sem um *backstop* comum que, pelo menos, lhe forneça crédito caso seja necessário, crédito esse que teria de funcionar a partir do momento em que este fundo entrasse também ele em funcionamento, caso contrário, penso que a credibilidade de todo o processo pode ser posta em causa.

1-011

Mario Draghi, *President of the European Central Bank*. – On your question on Portugal, we are seeing, as you said, the first signs of a recovery.

On the fiscal front, the main thing is that countries should not undo the progress they have made on fiscal consolidation. I do not think that now is the time to speak about extensions, but simply to continue. Having said that, fiscal consolidation – and here I repeat something I have said many times – ought to be growth-friendly, which means lower current expenditure and less use of taxation.

Third, there should be full implementation of structural reforms. Some countries need to make structural reforms, mostly in the realm of product and services markets and competition; other countries need to do it first in the labour market. But the continuation of structural reforms is absolutely essential to sustain the recovery and to sustain the redressment of imbalances across countries.

In the case of Portugal, there is also much to do in the realm of privatisations, and this is also an area to keep in mind. But I would say that actually recent history shows that even the slightest signs of the unravelling of progress on fiscal consolidation cause markets to react brutally. You have seen the spreads. The spreads jumped at the slightest sign that something might go wrong and they went back just as fast as they had gone up. So this is not something that we can simply forget. Market discipline is there and will stay there. We have to take that into account in what we do.

The second question asked how we can make an asset quality review without an SRM in place. First of all, we

still think that the SRM should be in place by the time the ECB takes up its tasks. We have to give ourselves a pretty tight schedule for approving the SRM but, all in all, in this first stage we have to use mostly – in fact, only – national backstops. I am going to say more about that. For the asset quality review and the stress test to be credible we will have to have national backstops in place. The ECB will make its asset quality review in the way that we can discuss later and will reach its results. If the SRM is there in place, it will be better; if it is not there, it will be up to the national authorities to carry this out, which is sub-optimal, of course.

Finally, on your point about what is going to backstop the SRM while the fund is in progress, let me say that the ECB thinks that the ten years as a time horizon is not ambitious enough, it is too long a period of time. I also agree with you that in the meantime there should be some backstop, some credit line, and it is not going to be a transfer, because it is going to be recouped with the industry and refunded. But certainly it should be there.

1-012

Sylvie Goulard (ALDE). – Monsieur le Président, bienvenue à nouveau parmi nous. La dernière partie de votre discours m'a intriguée. Avez-vous l'intention de vous retirer sur la pointe des pieds de la troïka, petit à petit? En effet, je trouve très amusant que vous ayez dit, dans trois phrases, que vous avez *provided with technical expertise, provided technical advice, provided the advice as part of the troika*. Vous avez également bien dit que c'est l'Eurogroupe qui décide. Il s'agit d'une question importante pour les citoyens : qui décide en fait des mesures prises par la troïka? Êtes-vous seulement l'un de ses conseillers, ou la troïka, qui n'a d'ailleurs aucune base juridique dans les traités, est-elle une entité qui décide? Et si c'était l'Eurogroupe, devant qui serait-il responsable?

1-013

Mario Draghi, President of the European Central Bank. – I believe that at the beginning of the crisis, all actors were in favour of the Troika being formed and the ECB has, to the best of its ability, provided abundant advice and expertise to governments, this institution, the Euro Group, the Commission, and the IMF. We believe that the ECB will play this role for as long as the crisis lasts, but we do not see the ECB as a long-term component of the Troika.

1-014

Sylvie Goulard (ALDE). – But in that case who decides? What can I say to the people who say that I say 'in the long term'? When will the crisis be over and when can we decide that someone else is deciding and not just giving advice?

1-015

Mario Draghi, President of the European Central Bank. – It is true that the Troika does not decide. It is the Euro Group that decides, because it is the Euro Group that decides to finance the programmes. The programmes are financed from national budgets with national contributions: it is national taxpayers who are being asked to pay taxes for these programmes. So it is the

Euro Group as the political institution – I think we can call it that – that decides on the programmes. The Troika, at least as far as the ECB is concerned, has an advisory role.

1-017

Sylvie Goulard (ALDE). – I do not know whether you have children, President Draghi, but I have the same feeling with this situation as when I am with a group of children and I do not know who is responsible for the mess in the house!

1-018

Mario Draghi, President of the European Central Bank. – I like the way you compare the Euro Group to a group of children – they would be flattered!

(Laughter)

1-019

Derk Jan Eppink (ECR). – The FED (the Federal Reserve) has decided not to reduce the pace of its quantitative easing purchases yet. It will instead wait for more signs of sustained economic progress before proceeding with tapering.

My question concerns the ECB equivalent of quantitative easing. In late 2011, the ECB started the LTRO programme. This provided roughly EUR 1 trillion in emergency three-year loans to hundreds of European banks at low rates with low collateral standards. Earlier this month the ECB's Money Market Contact Group called for a renewal of the LTRO loans, as the Wall Street Journal reported. Yesterday Mr Liikanen was quoted in a newspaper well known to you, the *Corriere della Sera*, as saying that the ECB is ready to boost liquidity in the credit market by issuing another long-term loan if necessary. Can you comment on the recommendations of the ECB's Money Market Contact Group and on Mr Liikanen's statement? Will the ECB launch a new round of LTRO loans, and under what circumstances? I have the impression that you will not be tapering anytime soon.

1-020

Mario Draghi, President of the European Central Bank. – Your impression is right, but let me say something about long-term refinancing operations (LTROs). Overall total voluntary repayments on both three-year LTROs as of 10 September 2013 stood at EUR 331 billion: that corresponds to 63.5% of the net liquidity injection at the beginning.

On the one hand, this is a good sign because it shows that banks are less dependent on ECB financing and they can actually finance themselves through the market, or via deposits, or by exchanging credit lines between one another. On the other hand, markets watch this quantity called 'excess liquidity' and may react, increasing short-term money market rates. We have responded by issuing our own forward guidance, which is different from that in the US and the UK and in Japan, but we are also ready to use any instrument, including another LTRO if need be, to maintain the short-term money markets at the

level warranted by our assessment of inflation in the medium term.

1-021

Sven Giegold (Verts/ALE). – Welcome, Mr President. I have a couple of questions concerning the state of implementation of the Single Supervisory Mechanism. Firstly, the regulation makes provision for the strict separation of monetary and supervisory policy. You have confirmed this here in very clear words. May I therefore ask whether, from now on, the ECB supervisory body will meet to ensure that there is real separation in decision-making, too, or do you intend to wait until the Chair and Vice-Chair have been formally appointed?

Secondly, will there be a clearly separate career path within the ECB so that staff on the supervisory side can dare to take decisions which might prove unpopular on the monetary side? Thirdly, the regulation provides for strict asset tests and balance sheet tests. Could you confirm whether government bonds will be stressed as a consequence of this exercise? Lastly, can you say whether the ECB will make sure that national balance sheet assessments will not be carried out by national supervisors alone, but also by independent experts to control not only at the top level of the ECB, but also in the construction of the balance sheet, in an effort to ensure that the results will be free from conflicts of interest?

1-022

Mario Draghi, President of the European Central Bank. – Let me restate that the separation principle is fully enforced. Both our own experience at the ECB and the long-term experience of those central banks which have supervisory competence indicate that the two functions can be carried out without infringing upon one another.

I can confirm that the asset quality review and the balance-sheet assessment will be done by the ECB, by the national supervisors and by third party supervisors. In other words, we expect collaboration from other member countries' supervisors, mutual collaboration and collaboration from independent, private sector consultants.

1-023

Sven Giegold (Verts/ALE). – Is this a requirement for all Member States?

1-024

Mario Draghi, President of the European Central Bank. – Yes, indeed. There will be a series of tenders, through which they will hire the consultants at national level. We also launched a tender, by the way, for hiring a private-sector consultant in the ECB. More generally, the asset quality review and the balance-sheet assessments will be useful only if they are credible. We should therefore do everything that is necessary – that is our conviction – otherwise they will be completely useless, if not counterproductive.

One of the outcomes we expect from these tests, from the asset quality review, from the balance-sheet assessment and from the risk assessment, is to dispel the fog that lies over banks' balance sheets in the euro area

and in Europe generally. The best way to respond is not to complain about there being too much fog, but simply to shed light, and that is the approach we want to take with these tests.

Let me also say that the outcome is as important as the process, because in order to meet the objective of clarifying this issue we have to be exceedingly transparent in the process and to make sure, as you pointed out, that conflicts of interest are dealt with at each stage. That is how the ECB views this and also, I think, how the national supervisors view it. I referred earlier to the very good relationship that has been created between the ECB and the national supervisors, and it is fundamental to press ahead on that.

You also asked whether we are going to stress government bonds. We have to take decisions on this: it is not being discussed yet. The high-level group has not really dealt with the issue yet but, as I said, we want to be absolutely credible, so the high-level group – which is basically the ex ante supervisory board – will discuss this when we issue a communication on the asset quality review. We expect to issue the first communication by mid-October at the latest, when all these issues will be dealt with.

1-026

Νικόλαος Χουντής (GUE/NGL). – Κύριε Πρόεδρε, η ερώτησή μου έχει σχέση με τον ρόλο της Ευρωπαϊκής Κεντρικής Τράπεζας ως μέρους της Τρόικα, θέμα στο οποίο αναφερθήκατε και εσείς. Πρόσφατα, το ελληνικό Υπουργείο Οικονομικών ανακοίνωσε ότι το χρέος της κεντρικής κυβέρνησης της Ελλάδας έφθασε στο επίπεδο του 180% του ΑΕΠ. Αυτή η ανακοίνωση καταρρίπτει τις εκτιμήσεις που έκανε η Τρόικα - της οποίας επαναλαμβάνω είστε μέλος - που εκτιμούσε μόλις πρόσφατα ότι το ελληνικό δημόσιο χρέος θα φθάσει στο 175%, για να μη θυμίσω παλαιότερες δηλώσεις, ότι θα ήταν στο 164%. Την ίδια στιγμή το άλλο μέλος της Τρόικα, δηλαδή αξιωματούχοι του Διεθνούς Νομισματικού Ταμείου, με δημόσιες δηλώσεις ή με διαρροή εκθέσεων, θέτουν πολλές επιφυλάξεις για τη βιωσιμότητα του ελληνικού χρέους.

Με βάση αυτά τα δεδομένα, κύριε Πρόεδρε, και το γεγονός ότι η Τρόικα, της οποίας μέλος είναι και η Ευρωπαϊκή Κεντρική Τράπεζα, αξιολογεί αυτήν την περίοδο την εφαρμογή του ελληνικού προγράμματος και θέλει να αποτιμήσει και το κενό του προγράμματος, σας ερωτώ: τι λέει η εμπειρογνομosύνη του ενός τρίτου της Τρόικα, δηλαδή της Ευρωπαϊκής Κεντρικής Τράπεζας; Το ελληνικό χρέος είναι βιώσιμο; Δεύτερη ερώτηση: συµμερίζεστε την άποψη του Διεθνούς Νομισματικού Ταμείου ότι το ελληνικό χρέος πρέπει να πέσει κάτω από το 110% του ΑΕΠ το 2022 για να είναι βιώσιμο; Τρίτον, τι συζητάτε στην Ευρωπαϊκή Κεντρική Τράπεζα; Συζητάτε νέα αναδιάρθρωση του ελληνικού χρέους; Έχετε διαφορετικά σενάρια;

1-027

Mario Draghi, President of the European Central Bank. – You are basically asking whether Greece needs a third programme. It is too early to ask this question because the second adjustment programme for Greece runs until the end of 2014 on the European side, and the IMF

programme will continue until early 2016. In our view, it is too early to be discussing a possible follow-up programme or an extension of the current one. That decision will also depend, for example, on Greece's access to the market at the end of next year, and this is very difficult to predict in advance.

I think I have commented on the role of the ECB in the Troika before. As we are responsible for monetary policy, in a way it is a good thing that we are part of the Troika in times of crisis. We do not provide financing under the financial assistance programme, but the ECB provides considerable liquidity support to banks in Greece and in other countries. We have an incentive; we have a strong interest in being part of the Troika because this way we contribute with our expertise to the design and the monitoring of the programmes. As I said before, however, this is linked to periods of crisis. So I do not have much to add to what I have already said.

1-028

Νικόλαος Χουντής (GUE/NGL). – Κύριε Πρόεδρε, επιτρέψτε μου να επανέλθω στο αρχικό μου ερώτημα, το οποίο δεν απαντήθηκε, σχετικά με το ποιες είναι οι σχέσεις σας στην Τρόικα με το Διεθνές Νομισματικό Ταμείο. Επαναλαμβάνω ότι το Διεθνές Νομισματικό Ταμείο λέει με τον ένα ή τον άλλο τρόπο ότι το ελληνικό χρέος δεν είναι βιώσιμο και προτείνει ορισμένα πράγματα ή ακούγονται ορισμένα πράγματα. Θα θέλατε να μου πείτε επ' αυτού ποια είναι η δική σας εκτίμηση; Είναι βιώσιμο το ελληνικό χρέος όταν φθάνει στο 180% του ΑΕΠ;

1-029

Mario Draghi, President of the European Central Bank. – Frankly, the current assessment is that the debt is sustainable and we see absolutely no reason to change this.

1-030

Chair. – I do not think you are going to get any further on that point: 180% debt appears to be sustainable! Or the current debt, whatever it is, is sustainable – they may not be the same.

1-031

Sampo Terho (EFD). – Tervetuloa jälleen valioykuntaamme herra Draghi. Haluaisin esittää kysymyksen pitkän aikavälin politiikasta. Pohjoisissa euromaissa korkotasoa on ollut jo pitkään matala ja puhuitte omassa avauspuheenvuorossanne elvyttävän korkopolitiikan jatkumisesta vielä pitkään. Aina kun EKP tekee päätöksen ohjauskoron säilyttämisestä matalalla, markkinat yleensä palkitsevat sen. Jos pienikin epäily taas pääsee valloilleen siitä, että ohjauskorkoa nostetaan, markkinat alkavat käydä levottomiksi.

Olen hieman huolissani siitä, onko nykyisestä korkotasosta siten tullut oikeastaan jo normaalitila. Tai ainakin sellainen tila, mitä markkinat odottavat ja pitävät normaalina. Siksi kysyisin, missä olosuhteissa korkotasoa mielestänne voidaan jälleen nostaa? Ja onko tämä ylipäänsä näköpiirissä vuosienkaan tähtäimellä? Olen siinäkin mielessä huolissani, että nykyinen

korkotasohan kannustaa pohjoisessa paremminkin velkaantumiseen, vaikka samanaikaisesti poliittisin toimin koko ajan pyrimme kaikin keinoin ehkäisemään velkaantumista.

1-032

Mario Draghi, President of the European Central Bank.

– The current forward guidance says that interest rates will stay at the present level or at a lower, level for an extended period of time. This forward guidance is based on our medium-term inflation assessment. As I have already said, inflation in the euro area went down from 1.6% in July to 1.3% in August and is expected to remain below 2% – on the low side of 2% – for an extended period of time, given the weakness of the economy and high unemployment.

Given that this is our medium-term assessment, our monetary policy, which has as a mandate the maintaining of price stability – and I always say that it is price stability in both directions, upward and downward – has issued this forward guidance. So we expect to have the present or lower levels of interest rates for an extended period of time. At the same time, inflation expectations remain firmly anchored. So that is the economic scenario that we will have to face for an extended period.

It is also true – and I think probably this is what is behind your question – that there are risks in having low interest rates for a long time. We are aware of this and have seen it in the past. So we are very sensitive to possible risks to financial stability, stemming from a very low interest rate level. If we were to see such risks, we certainly would have to act through macro-prudential instruments. This is the framework. So far we have seen very limited evidence that this is the case.

1-033

Werner Langen (PPE). –Ich habe ja die bisherigen Maßnahmen der EZB immer massiv unterstützt, auch unter dem Gesichtspunkt, dass sie in der Krise die einzige verhandlungsfähige Institution war. Deshalb möchte ich auch den Kollegen widersprechen, die hier immer wieder – jetzt zum zehnten oder zwölften Mal – das Problem der Troika aufwerfen. Ich halte das für absolut notwendig.

Ich bin aber nicht mit allem einverstanden, was die EZB macht, und deshalb möchte ich in Anlehnung an das, was der Kollege Giegold eben gesagt hat, schon noch einige Bedenken zur Trennung von Geld- und Aufsichtspolitik äußern. Das ist ein echtes Anliegen.

Wenn Sie auch gesagt haben, das werden wir strikt trennen – in der Geldpolitik sind Sie unabhängig, bei der Aufsicht brauchen auch Sie Kontrolle. Die Aufsichtsbehörden brauchen überall Kontrolle, entweder durch Regierungen oder durch Parlamente. Und das scheint mir noch nicht ausdiskutiert zu sein, wie diese Kontrolle vor sich geht, zumal es ja auch Probleme beim Aufbau gibt.

Die Frau Präsidentin hat gesagt, dass wir im Dezember über Präsident und Vizepräsident entscheiden. Sie müssen aber heute schon mit dem Aufbau der Behörde anfangen. Meine erste Frage ist: Wie werden die nationalen Behörden in dieser Aufbauphase eingebunden?

Meine zweite Frage: Wie ist das mit dem Abwicklungsfonds, den Sie für den 1. Januar 2015 zu Recht fordern? Was sagen Sie zu dem Vorschlag Ihres Direktoriumsmitglieds Asmussen, bis dahin den ESM zu nutzen und gegebenenfalls sogar auch den Fonds bei der EZB anzusiedeln? Halten Sie das nicht eventuell für eine gefährliche Machtzusammenballung, bei der nachher Geld- und Bankenaufsicht ineinandergreifen und die Unabhängigkeit der EZB verloren gehen könnte?

Und meine letzte Frage zu einem ganz anderen Thema: Die Geldpolitik der amerikanischen Fed und der japanischen Zentralbank geht auf massive Geldvermehrung hinaus. Niedrige Zinsen auf Dauer. Und Sie haben eben selbst gesagt: Niedrige Zinsen sind eine Gefahr für Pensionssysteme, für all die Dinge, die die soziale Dimension Europas ausmachen. Wird die EZB das einfach so hinnehmen, oder werden Sie in internationalen Gesprächen versuchen, hier eine moderate Rückkehr zu einer zinsorientierten Politik zu betreiben?

1-034

Mario Draghi, *President of the European Central Bank*. – It certainly would be optimal to have this resolution fund completely established not in 10 years' time but within a shorter horizon. I would certainly agree with you that the ECB should have nothing to do with this fund, but I do not know whether this has really crossed anybody's mind. The ECB should not and will not have anything to do with this fund. It is also true that during the period of time that the fund is basically underfunded, there should be the possibility for it to borrow money from some other source. Here a variety of possibilities is open, and frankly I think the process of reflection is still in the early stages. Some people have suggested that the ESM could extend a credit line to the resolution fund. I am not sure that this is possible within the existing Treaty, but certainly the problem exists and will have to be addressed.

On your second point about the members of the supervisory board, I can only repeat what I said before. It is not up to the ECB to appoint the members; it is up to the Member States. So when they have appointed the supervisory board members, the supervisory board can actually be summoned and meetings of the supervisory board can take place.

Concerning lower interest rates, I certainly appreciate the concerns that low interest rates create: not only for financial stability, as I have said before, but for insurance, life insurance, pensions and, more generally, for savers. All savers see their savings being penalised by low interest rates for a long period of time. What we do here is have a monetary policy for the whole of the euro area, so that is one response. The second thing is that I would call on you to watch the behaviour of

interest rates – especially in Germany – in the last three to four months. They have gone up, even though our interest rates have stayed the same. The reason is that interest rates on government bonds have been artificially low for a long time in Germany, because Germany was the safe haven for capital flows from the rest of the euro area. Now, with confidence coming back, flows are not as strong as they were in the past, so we can see that other international movements can actually have the desired effect of raising interest rates on government bonds in Germany.

We have periodic discussions with other colleagues in the rest of the world. These discussions do not reach the level of coordination, however, but there is an exchange of information and there are discussions, especially on issues linked to financial stability.

1-035

Pablo Zalba Bidegain (PPE). – Bienvenido, querido Presidente Draghi; yo creo que hay unanimidad en que hay señales positivas de recuperación, incluso nuestra colega, la señora Ferreira, lo ha reconocido en relación con Portugal.

Estoy también de acuerdo con usted en lo que dijo la semana pasada de que la unión bancaria ayudará a acelerar la recuperación económica, pero tenemos que ser conscientes de que eso será a medio y largo plazo. A corto plazo —como bien ha dicho usted—, el crédito sigue siendo un problema, y en especial el crédito a pequeñas y medianas empresas.

A mí también me preocupa —como ha dicho el señor Langen— el mantenimiento de los bajos tipos de interés, o incluso las posibles bajadas de estos, pero me preocupa por otro motivo: porque yo no creo que vayan a tener efecto real en la economía de algunos países. En mi país el crédito a las PYME sigue siendo un problema. Para el 25 % de las pequeñas y medianas empresas el acceso al crédito sigue siendo el primer problema y eso no significa que para el resto no sea un problema. Y aquellas que se pueden financiar lo hacen cinco veces más caro que el resto de sus homólogas europeas.

El señor Eppink ha hecho mención a las palabras del señor Liikanen de que el BCE está preparado para inyectar liquidez, pero a mí me gustaría saber, en caso de que se llegasen a materializar esas nuevas inyecciones de liquidez, cómo se podría garantizar que esa liquidez llega a la economía real y no se dedica en parte o en gran parte a financiar, por ejemplo, la compra de deuda pública.

Insisto: ¿cómo se podría garantizar que, en caso de que se materialicen nuevas inyecciones de liquidez, esas inyecciones llegan a la economía real?

1-036

Mario Draghi, *President of the European Central Bank*. – Firstly I would agree with you that SMEs are the backbone of our economies, especially in those countries most affected by the crisis. I would also agree with you that, during this crisis, financing obstacles for SMEs have increased.

In part, these obstacles were caused by the deterioration of their financial situation. We should not forget that many SMEs are highly leveraged, meaning that their existing debt is pretty high. But certainly there have been other factors and one of them is risk aversion on the part of banks. The so-called rate of return on lending, adjusted for risk, in many of the stressed countries is just not high enough for banks to be persuaded to lend to SMEs. As you said, some of them buy government bonds instead of financing the real economy.

So basically we have SMEs with weak balance sheets, and risk aversion on the part of banks, but the other reason is lack of demand. There has been a survey of SME credit flows. We carry out two types of survey: the bank lending survey, which asks banks why they do not lend; and, less frequently, a survey on the other side, asking SMEs why they do not borrow. The first reason they quoted for not borrowing was a lack of clients and the second was lack of credit supply from the banks. So the most important factor still depressing credit flows is basically lack of demand.

However, we have taken many measures. People often compare our programmes with the Funding for Lending programme in the UK. A wide variety of counterparties, a wider variety of collateral and long maturity are the three components of the Funding for Lending programme, and these are also the three components of our long-term refinancing operations (LTROs). We have had these in place since the end of 2011.

Among the measures we have taken, we decided more recently on a lowering of rating requirements for some asset-backed securities (ABS), including those assets backed by SME loans. We decided to set up additional credit claims so that banks can take the credit they extend to their clients as a form of collateral when they come to the ECB to borrow money.

Very recently, in July 2013, when we discussed – and we have these discussions periodically – the permanent collateral framework, we decided to introduce measures to support SME financing, like a reduction of haircuts on ABS, besides a reduction of ABS rating requirements. Finally, we are still working with the European Investment Bank and the Commission on structuring and revamping the ABS market so as to support SMEs further. For the time being, this is an area in which the ECB has a purely advisory role.

1-037

Αννυ Ποδηματά (S&D). – Κυρία Πρόεδρε, κύριε Πρόεδρε, θα μείνω στο θέμα των χαμηλών επιτοκίων δανεισμού. Έχω και εγώ ανησυχίες, διαφορετικές από αυτές του συναδέλφου Langen. Ο συνάδελφος Zalba Bidegain μίλησε για την κατάσταση στην Ισπανία. Εγώ θέλω να σας πω ότι, σε αντίθεση με τις ανησυχίες του συναδέλφου Langen, σε πολλές χώρες υπάρχει τεράστιο πρόβλημα έλλειψης ρευστότητας και υπάρχουν τεράστιες αποκλίσεις στα επιτόκια δανεισμού μεταξύ των χωρών της ευρωζώνης. Στη Γερμανία οι επιχειρήσεις μπορούν να δανειστούν με ένα επιτόκιο

γύρω στο 1%, ενώ στη χώρα μου και σε άλλες χώρες οι επιχειρήσεις δανείζονται, όταν βρουν χρηματοδότηση, με επιτόκια κοντά στο 7% και το 8%. Αυτή ακριβώς είναι η κατάσταση, συνάδελφε.

Μίλησαμε πριν για τις μικρομεσαίες επιχειρήσεις. Επιτρέψτε μου να σας πω, κύριε Πρόεδρε, ότι τον τελευταίο χρόνο τρεις από τις μεγαλύτερες επιχειρήσεις της χώρας μετέφεραν την έδρα τους στο εξωτερικό για να βρουν χρηματοδότηση. Τελευταίο παράδειγμα, την περασμένη εβδομάδα η μεγαλύτερη επιχείρηση της χώρας, η 'Βιοχάλκο', ο μεγαλύτερος μεταλλουργικός όμιλος, μετέφερε την έδρα του στο Βέλγιο για να μπορέσει να δανειστεί.

Επειδή θεωρώ ότι το πρόβλημα αυτό συνδέεται ευθέως με αυτό που είπατε, την ομαλή μεταφορά της νομισματικής πολιτικής - δεν είναι ελληνικό πρόβλημα, ούτε ισπανικό, ούτε πορτογαλικό-, θέλω να σας ρωτήσω τι μέτρα μπορείτε και αν σκοπεύετε να πάρετε για να μην φθάσουμε να θεσμοθετήσουμε δύο ταχύτητες στην ευρωζώνη σε ό,τι αφορά τη μεταφορά της νομισματικής πολιτικής.

1-038

Mario Draghi, President of the European Central Bank.

– Let me try to give a picture of what fragmentation looks like today. We have to look at fragmentation from both sides: funding and lending. At the beginning of the crisis we had both. We had banks based in stressed countries that had funding costs way higher than banks based in core countries, and we had liquidity flows which were way lower in stressed countries than in other countries.

That situation has now, by and large, been overcome. What we have seen over the last six months is that, with a return of confidence, domestic deposits are returning to domestic banks. What we do to assess this is look at how deposits have grown in each country and then compute the dispersion coefficient. We have seen that this dispersion between the growth rates for deposits in different parts of the euro area is now at the same level as it was in 2007. The bottom line is that, in the case of deposit funding, fragmentation has by and large ended. In the case of other forms of funding – when banks have to access wholesale markets, issuing bonds – it is not completely gone, but we have certainly noticed a shrinking of the funding spreads.

On the lending side, progress is admittedly much slower, and even though we have seen a decrease in dispersion between lending rates in different parts of the euro area, we can see that the conditions still differ. There are good reasons for that. If one considers the risk premium involved in lending to a firm based in a stressed country as compared to the risk premium involved in lending to a firm based in a non-stressed country, there is in itself a big difference. Secondly, government bonds yield different rates, as some of the previous speakers hinted, and rather than lending to the economy, banks often simply buy government bonds. These carry much less

risk and give a return which is ok in terms of profitability.

There are these types of issues, but the key reason is demand. We can see how our economic and monetary policy is gradually feeding into the economy and how the system is gradually recovering. As that recovery proceeds, we will see fragmentation on the lending side shrinking as well, and it will become less risky to lend to companies.

1-040

Astrid Lulling (PPE). – Madame la Présidente, Monsieur le Président, votre collègue au directoire, qui est aussi mon compatriote, M. Mersch – et je me réjouis, au passage, qu'il mette son expérience au service de la Banque centrale après l'obstruction à laquelle il s'est heurté dans cette maison – vient de faire des déclarations très intéressantes à la presse au sujet de la mise en place de la supervision bancaire unique. La supervision, qui concernera d'abord les 130 banques, sera bientôt opérationnelle, vous l'avez confirmé, mais il reste un problème important à régler, celui du *backstop*, pour reprendre le terme consacré. En clair, il conviendrait de déterminer comment s'opérerait la répartition des recapitalisations nécessaires entre les différents gouvernements si de graves lacunes apparaissaient dans le bilan d'une banque donnée. En fait, j'aimerais que vous expliquiez plus en détail l'enjeu du problème.

En ce qui concerne la question d'un fonds de résolution européen, qui est à l'ordre du jour, je voudrais également que vous m'éclairiez sur l'articulation entre la question du *backstop*, d'une part, et le fonds de résolution, d'autre part. Sont-ils complémentaires? S'agit-il *in fine* de la même chose ou, au contraire, de deux choses foncièrement différentes? Pour ma part, je n'ai pas encore très bien compris.

Autre question: dans un livre très intéressant qui vient de paraître, le journaliste économique François Lenglet explique que la mondialisation est en net recul. Il en veut pour preuve que les flux des capitaux internationaux baissent considérablement, en particulier dans la zone euro depuis 2007. Si ce phénomène se confirmait, j'aimerais savoir si la diminution des flux de capitaux internationaux dans la zone euro serait un problème en soi, notamment pour la gestion de la monnaie unique.

1-041

Mario Draghi, President of the European Central Bank. – I will answer the second question first. We are not experiencing a reduction in globalisation and, looking at what has happened to capital flows since the beginning of the year, it is quite the opposite: capital continues to flow freely in different parts of the world, creating different monetary conditions, generally changing interest rates and exchange rates. Look at what has happened since the Fed has been discussing whether or not to taper. Previously, there were massive flows to emerging markets and significant flows into the euro area. Then, when the Fed mentioned the possibility of tapering, massive amounts of capital flowed out of emerging markets, though the euro area was not affected too much. Capital flows are still extremely mobile and there is no reduction in globalisation.

The first question was about the SRM. The ECB was formally consulted on the SRM proposal earlier this month and will publish an official ECB opinion. Let me reiterate that the SRM is a necessary complement to the SSM. It is important that the levels of responsibility in decision-making for supervision and resolution are aligned in order to achieve a well-functioning financial market union. The ECB therefore welcomes the Commission's proposal for the SRM which contains the three essential elements: a single system, a single authority and a single fund. We also strongly support the envisaged timeline for the application of the SRM from 1 January 2015.

I have also had the opportunity to comment on the two roles of assessment. Assessing a bank's viability and taking care of its resolution should be separate. The ECB, as a supervisor, will do the assessment, but everything else would have to be done by the SRM. As regards the role of the ECB and the SRM, the ECB's view is that it should act as an observer only.

Finally, I understand from the ECB Legal Service that Article 1(14) of the Treaty is indeed an appropriate possible legal basis for the proposed ESRM regulation. I understand that this view is shared by the legal services of the other EU institutions. The Legal Service of the Council has also informed us that Article 1(14) is suitable.

The word 'backstop' is being used for many different things. In the context of the SRM, a backstop is required because this fund – the single fund of the SRM – will take 10 years to be completed, so the question is what happens if, before the end of the 10 years, we need this fund. The possibility for this fund to borrow money – not money for free, but to borrow money from another source – ought to be there. That is what we call the SRM 'backstop': the option of having a credit line for the SRM on which can be drawn if there is not enough in the fund itself.

1-042

Emilie Turunen (S&D). – First of all I would like to make a comment. I think that what you said about your relations with other central banks was interesting. You basically said that you have discussions but not really any formalised decision-making structure. I think the fact that we have still not put in place a global financial architecture points to a major flaw in our cleaning-up after the crisis.

My question concerns your new role as supervisor, which was one of today's topics. Something that I have asked others before, but to which I have still not had a good answer, is about the asset quality review. Mr Djisselbloem said, when he was here some weeks ago, that the quality of the asset quality review was very important. We of course agreed to that: that is clear, and you have talked about credibility today. But he did not have any concrete proposals on how to ensure this – not only the quality of the methods used but also of the independence of the expert used.

So my question is: how you will ensure high quality, especially in light of the criticism after the last stress tests carried out on methods? Secondly, how will you ensure independence, especially among the private sector experts, and how do you define independence in this case? You referred to backstops and said that there should be national backstops in place. Are they in place? Is this realistic for Spain, Greece, maybe even France?

1-043

Mario Draghi, President of the European Central Bank. – Firstly, let me say that the comprehensive assessment will be based on a thorough and rigorous methodology. That methodology is currently in preparation in the context of the SSM preparations. Those preparations, as I said before, will be supported by advice from experienced external consultants. The ECB has launched a tender and has hired an external consultant.

Secondly, a carefully crafted, centrally-led – that is key – project management function will be established to ensure that this robust methodology is applied consistently and independently across all banks that fall within the scope of the exercise. It is important that it be centrally-led and that this principle be consistently and independently applied to ensure it does not become fragmented and that the results are fully comparable. This effort will be supported by experienced external project managers. Critical process management and quality assurance will be interwoven with every step of the methodology to guard the credibility of the process and its outcomes.

As regards the backstops, we have to take into account, first of all, that the banks in the meantime have raised considerably their level of provisioning. There is therefore a role for the national backstops and these are also realistic for the countries mentioned.

1-044

Chair. – I thought, Ms Turunen, that Minister Dijsselbloem was quite categoric about the use of consultants throughout and also about the bail-in hierarchy. Maybe one could poke holes in some of his responses but I thought he was quite strong on that point.

1-045

Marianne Thyssen (PPE). –Dank uiteraard aan de president van de Europese Centrale Bank dat hij hier vandaag aanwezig is.

Ik heb de volgende bedenking en vraag, mijnheer de president. Wij hebben een lange weg afgelegd met alle instellingen samen. Er zijn veel wetten gemaakt. Er zijn veel politieke beslissingen genomen. Er zijn veel standaard- en niet-standaardmaatregelen genomen en wij hebben een heel stuk weg afgelegd om een nog ergere crisis te voorkomen en om de trein weer op het juiste spoor te krijgen ten einde te voorkomen dat wij in de toekomst dit soort crisissen krijgen en ten einde het vertrouwen te laten groeien.

Maar ons wetgevend werk is nog niet af. Wij hebben het hier al verschillende keren over SRM gehad. Ons werk

is nog niet af. De mensen zien het resultaat nog niet. Alle resultaten kunnen ook nog niet zichtbaar zijn.

Mijn vraag is de volgende: als u nu begint aan uw *asset quality review* en andere kwaliteitstesten van de banken, dan is er altijd een risico - wij moeten ons daarop voorbereiden - dat er hier en daar toch wel een probleem opduikt. De vraag die bij mij dan rijst is: hoe gaan wij voorkomen dat het eerste negatieve verhaal dat naar buiten komt, aanleiding geeft tot paniecreacties en opnieuw aanleiding geeft tot chaos? Hoe kunnen wij dat voorkomen? Is men zich ervan bewust dat het gebrekkige vertrouwen dat er nog maar net is, niet groot genoeg is om voldoende weerbaarheid te hebben, én op de financiële markten, én in de reële economie? Wie moet daarvoor instaan? Wordt daar tussen de instellingen onderling over gesproken?

Ik heb die vraag ook aan commissaris Barnier gesteld. Hij heeft mij gezegd dat hij tijdens de laatste bijeenkomst van de Ecofinraad aan de ministers van Financiën ook gezegd had dat hierover communicatie moet zijn. De mensen moeten zich daarvan bewust zijn en niet verbaasd zijn als er een negatieve boodschap komt. Maar bereidt de ECB zich daar ook op voor? Kan communicatie ons weerbaarder maken? Wie moet daarvoor volgens u instaan? Of maak ik mij ten onrechte zorgen?

1-046

Mario Draghi, President of the European Central Bank. – Your concerns are not unfounded at all. We share them and are aware that we have to cope with them and be prepared. Past experience is also quite instructive.

Things may be slightly better this time, because banks have significantly increased their provisioning and raised a significant amount of capital, which means that, generally speaking, there is much more confidence around than at the time the previous stress tests were carried out.

Our assessment will be comprehensive and stringent, because we need a clear overview of all the significant entities for which we will be performing the task of supervisor. It is too early to say what figure may emerge. We believe that this assessment and increase in transparency will actually increase confidence, provided we are ready to cope with the shortfalls.

That is why I have been insisting on the importance of national backstops since the very beginning. These are absolutely essential to ensure the credibility of the asset quality review and the stress tests. If there are no national backstops, the world will say that the figures have come out the way they are because of the fear of coming out with worse figures in the absence of national backstops. That is why they are absolutely essential to give credibility to the exercise. So we are trying to be as transparent as possible, stringent and consistent across the board, with independent application, but also standing ready to intervene.

1-047

Ramon Tremosa i Balcells (ALDE). – President Draghi, I have two questions. The first concerns banking union. The ECB is going to supervise some European banks, and for me, as a Catalan MEP, it is good news that all Spanish banks will be under European supervision. But the question is: who should pay for the mistakes in supervision of the ECB?

The second question concerns ECB supervision. I believe that there is no supervision credibility without failures. Credibility requires that some banks fail. The ECB should have the red button to force the failure of a bank, because now we see that in some Member States there are banks that are declared too big to fail, which means huge losses for taxpayers and social cuts, and in other Member States there are quite large banks, for instance in Germany the Westdeutsche Landesbank, that are forced to fail. So who should have the red button to force the failure of a bank?

1-048

Mario Draghi, President of the European Central Bank. – On the first question, I do not even want to think about who should pay if the ECB makes a mistake, but the second point is actually very important.

From the very beginning we have said that assessing the viability of a certain financial institution and taking care of that institution should be kept separate. These are different tasks and should be performed by different institutions. So the ECB will tell the SRM that a certain institution may not be viable. Then it is up to the SRM – very much as it is with the FDIC in the United States – to decide what to do with this institution. It can be sold, recapitalised, merged or dissolved. There are many different courses of action, but since all of these different possibilities may have an impact on national budgets and on taxpayers' money, the task should be completely different to the supervisor's task. That is how it works in different countries nowadays. You have the supervisor, who basically tells the budget authority, the Finance Ministry or the Treasury that a certain institution is not viable and ought either to be resolved or taken care of, namely sold or merged with others. As far as I am aware, the two tasks are kept separate in all member countries.

1-049

Chair. – These are some of the issues we are also discussing in the dialogue on the Bank Resolution and Recovery Directive, in terms of how much flexibility there should be for different banks to be resolved in different ways. Parliament wants a presumptive path for investors and rather fewer different outcomes, but that is something still under negotiation.

Mario, I have a question for you about macro-prudential policy and the ECB. Obviously, macro-prudential policy – which as you know is an important new tool – can be exercised by the ECB when it takes over as the competent authority in the SSM, but there is also a side to macro-prudential policy that would impact on the monetary policy side in terms of trying to cope with the fact that one interest rate for all Member States does not work; therefore pressing on the banks and bank lending and such like is another way of doing it. Who is going to

be doing this and how is the macro-prudential policy going to be dealt with when it does bridge the supervisory side and the monetary policy side and you have not got a middle body that would be calling the shots? With the Bank of England, there is a kind of middle body looking both ways. How will you cope with that situation within the ECB?

1-050

Mario Draghi, President of the European Central Bank. – We are working on this. Macro-prudential policy is basically going to fall both within the Supervisory Board tasks and the Governing Council tasks. We are in the process of finalising ways of cooperating, with special meetings on this point and with an inter-change of information, so we are in the process now of finding the right arrangements for this. Also keep in mind that in the ECB we have the financial stability part that will also deal with this. So this is a concern that is present in our minds and we know we have to be ready to provide you and provide the euro area with a reasonable way of handling this.

Admittedly it is a grey area, but in our case the task of keeping monetary policy separate from macro-prudential policies is in a sense made easier by our treaty. You know that our primary mandate is to keep price stability in the medium term, so that makes our task easier because we know that – no matter what – the primary mandate is the first and foremost mandate that we have to comply with. Having said that, there may be localised problems. We view macro-prudential policy in an area as complex as the euro area as a way of coping with localised problems such as localised bubbles in different parts of the euro area, but that does not impact directly on monetary policy.

1-051

Chair. – Would that then be the ECB proper doing that or would it be the ECB through the supervisory mechanism?

1-052

Mario Draghi, President of the European Central Bank. – We are discussing exactly who does what at the moment.

1-053

Chair. – Sorry to put my finger on a difficult point.

1-054

Lajos Bokros (ECR). – In July 2012 you made a historic statement, saying that the ECB would do whatever it takes to save the euro. We can call it forward guidance because it had a tremendously positive impact, but on monetary rather than fiscal policy. It saved many sovereigns from going bankrupt, although at the same time – as has been discussed already – the monetary transmission mechanism is not perfect because there is very little credit growth and very little real growth in the economy. Is it not an irony of history that these kinds of forward guidance statements are much more effective as a backstop to fiscal policy rather than helping the real economy in terms of monetary policy?

1-055

Mario Draghi, President of the European Central Bank.

– I would agree with you that the OMT has been extremely effective, but I would not agree with you that it has been effective as a fiscal backstop at all. OMT is an instrument of monetary policy. We should remember that, at the time, the risks that we were addressing through OMT were the risks of redenomination, which was a euphemism for indicating highly disruptive scenarios for the very existence of the euro. Some of the interest rates that we were seeing prevailing in the euro area were not justified by fundamentals but simply by this self-fulfilling expectation of a dissolution of the euro.

That is what the OMT addressed at that time. This was a monetary policy objective, because such disruptive scenarios were impairing the achievement of our primary mandate, namely price stability in the medium term. So that was the objective. Having said that, there are stringent conditions for activating OMT on the macro-economic programme, with the possibility of a primary market purchase by the country that is asking for it.

So there was no intention at all to address the fiscal problems of different countries. The underlying conviction is – and was – that, if a country has an unsustainable fiscal position, there is nothing that can be done to make it sustainable other than by the country itself. Sustainability ought to be valued at interest rates that reflect the underlying fundamentals. I think that was at the root of the OMT design.

1-056

Philippe Lamberts (Verts/ALE). – President Draghi, you mentioned that lending to the real economy did not match the rate of return expectation of the financial industry. Would you agree with the fact that the financial industry has been addicted to rates of return that are incompatible with a stable economy?

1-057

Mario Draghi, President of the European Central Bank.

– Yes indeed. And just to follow up on this point, part of what we are seeing today is that all the regulation we have been putting in place since the financial crisis – and we are continuing to do so – is meant to make the banking system, and the financial system generally, less risky than it was before.

One would indeed expect the rates of return to be lower today than they were before because – as we said – they were addicted to a rate of return which was not sustainable over time. However, with a lower rate of return you also have a lower risk nowadays, but it is taking time for the markets and for the financial industry to appreciate the fact that rates of return are going to be – and stay – lower. At the same time, risk is also lower, and it is this different combination of risk/return that people should start appreciating.

The situation today is way better than it was three years ago. As you have seen, banks can now raise capital on the markets again and the overall situation has improved

from a confidence viewpoint. So it seems that the shareholders are gradually beginning to understand this new configuration of lower rate of return and lower risk, and they are responding accordingly. But here, as I was saying before, the asset quality review comes into play, and this is very important because firstly, in order to convince the private sector to invest in the banking industry one not only needs lower risk, but also to see what is on banks' balance sheets. That is why the asset quality review may turn out to be very important in reactivating credit flows from the banking sector to the real economy.

1-058

President. – That concludes the monetary dialogue.

(The meeting closed at 17.00)