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AUSSCHUSS FÜR WIRTSCHAFT UND WÄHRUNG
WÄHRUNGSPOLITISCHER DIALOG MIT MARIO DRAGHI,
PRÄSIDENT DER EZB
(gemäß Artikel 284 Absatz 3 des Vertrags über die Arbeitsweise der Europäischen Union)
BRÜSSEL, MONTAG, 3. MÄRZ 2014

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI,
PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) of the EC Treaty)
BRUSSELS, MONDAY, 3 MARCH 2014

COMMISSION ÉCONOMIQUE ET MONÉTAIRE
DIALOGUE MONÉTAIRE AVEC M. MARIO DRAGHI,
PRÉSIDENT DE LA BCE
(conformément à l'article 284, paragraphe 3, du traité CE)
BRUXELLES, LUNDI 3 MARS 2014

1-002

IN THE CHAIR: SHARON BOWLES

Chair of the Committee on Economic and Monetary Affairs

1-003

(The meeting opened at 15.20)

Chair. – Mario, this is the last monetary dialogue of this present parliamentary term so today is your last appearance before this Committee on Economic and Monetary Affairs before the end of this mandate, and of course the last one that I shall chair. We have had some good times together, shall we say.

Since the Economic Affairs Committee gave you a favourable opinion for your appointment, we feel responsible for the ECB policy stance under your presidency. This mandate has been by far the most difficult and challenging area in economic and monetary affairs. It is not so long ago that some people were casting doubt on whether the EMU could continue to exist as we know it today. Fortunately – and including actions by the ECB – we are now in a rather better place, but there is still a lot of work ahead and the feeling is that there will be a lot of interest in the actions that you are taking beyond and into the next mandate.

We, the Committee on Economic and Monetary Affairs, have worked very well together with the European Central Bank. I think we were allies in the six-pack and now we are allies on the issue of banking union in order to get a satisfactory and workable response for the future.

I have heard comments from some that we spend a lot of time asking you about things other than monetary policy during these meetings, but with the weight of legislation that we have had and the very significant effect that it has on monetary union, I think we have all felt that it has been proper to have exchanges of views about this ground-breaking legislation and not just ask you questions about interest rates.

But at the same time you have joined with other central banks in the policy of forward guidance, which means, I am sure, that in the future we will be demanding forward guidance for the purposes of this committee.

We have enjoyed many of your appearances here and we thank you for indulging us in giving us responses that often, I suppose, are off the formal remit, but we have valued your contribution to our legislative work, as well as your attendance at the monetary dialogue.

1-004

Mario Draghi, *President of the European Central Bank***. –** Madam Chair, honourable Members, this is indeed my last hearing in the Committee on Economic and Monetary Affairs before the end of this legislature. I would like, first of all, to thank you, Sharon, for the way you have guided this committee throughout a challenging period. As you said, we have worked very well together.

Let me also thank all of you for the frank and fruitful exchanges we have had in the past two-and-a-half years. It has been an invaluable experience for me. In these difficult times of crisis, the fact of accountability being discharged before an assembly with a truly European perspective has been helpful in terms of the public acceptance of our actions. Moreover, the hearings have always been a welcome occasion for discussion between two genuinely European institutions about the state of Economic and Monetary Union, and for debate about the right way forward. I am very much looking forward to continuing this approach with the new Economic and Monetary Affairs Committee from July 2014 onwards.

I would like, at this last hearing, to take stock of the monetary policy the ECB has conducted over the past five years and to review what has been achieved in the euro area over the course of these years. Let me then also offer our assessment of the challenges that lie ahead, and of what will await the new Parliament and the new Commission.

Before I start to go into detail on these three areas, however, let me remind you that the next meeting of the Governing Council of the European Central Bank takes place on Thursday. In view of the so-called purdah period, I am sure you will understand that I will not be able to give detailed answers on our monetary policy stance today.

In the past five years, the ECB has continued to take the necessary measures with a view to maintaining price stability in the euro area. Let me look back to the first hearing of the current parliamentary term, which took place with my predecessor in September 2009: at the time, the economy was just bottoming out in the aftermath of the great contraction which had ensued following the failure of Lehman Brothers. We were witnessing negative inflation rates. In this environment, the outlook was seen to be broadly in line with price stability. Inflation was projected to increase toward levels close to 2%. The key ECB interest rates were kept on hold at the very low level to which they had been brought in several stages since the autumn of the preceding year. Some phasing-out of non-standard measures was announced.

However, in May 2010, sovereign debt markets froze in various euro area Member States. Financial fragmentation took a new and unfamiliar form, with financial conditions and the transmission of our monetary policy varying to a great extent across Member States. We responded by introducing the Securities Markets Programme, focused on purchases of government bonds.

Initially, while the economic impact of the sovereign debt crisis was limited, and largely confined to vulnerable economies, the rapid global recovery put upside pressures on energy prices. This in turn drove up inflation in the euro area. We decided to raise interest rates in early 2011, given upside risks to the medium-term inflation outlook stemming from energy prices and from ample monetary liquidity.

However, the sovereign debt crisis deepened and the euro area entered a second recession. The inflationary pressures that had emerged earlier receded. Therefore, we lowered interest rates in a series of steps. Stress in sovereign debt markets quickly undermined the wholesale funding conditions of banks based in the Member States concerned. To forestall a credit crunch, we introduced refinancing operations with maturities of up to three years, in a context of full liquidity allotment at a fixed rate.

As the mutual exposures of banks and their sovereigns fed an adverse, self-reinforcing confidence crisis, investors started to fear that public and private liabilities issued in certain Member States would not be redeemed in our common currency. A significant redenomination risk arose.

As you know, the integrity of the euro area is an absolute precondition for us to be able to deliver on the mandate prescribed by the Treaty, and in particular to ensure the smooth transmission of our monetary policy. In order to preserve that integrity, we thus announced our readiness to conduct Outright Monetary Transactions with the specific purpose of removing compensation for that risk from the financial pricing of securities. This announcement reversed the destabilising capital flows that redenomination fears had encouraged in spring 2012.

While financial markets had been on a steady course towards normalisation for some months, in late spring and summer of 2013 the euro area money market – not unlike markets elsewhere in the global financial system – became subject to external shocks. We noted a sustained increase in expected interest rates. This was unwarranted, in view of our underlying macroeconomic conditions, and was not in line with the ECB Governing Council's policy intentions. In July 2013 we therefore clarified the orientation of monetary policy going forward: we offered forward guidance on the future path of policy conditional on the evolving outlook for price stability.

All our measures, standard and non-standard, have been taken to serve our primary objective of maintaining price stability – and they have delivered. Since June 2009 (i.e. since the start of this legislature), the average inflation rate in the euro area has been 1.8%. In exceptional circumstances, our measures were exceptional but our commitment to our primary objective has not changed, and our strategy has continued to guide our action. Our credible commitment to these core elements is reflected in the fact of medium-to-long-term inflation expectations remaining firmly anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% in the medium term.

The last five years have not only seen effective monetary policy-making in the euro area; we should also remind ourselves that much has been achieved in the field of economic policy-making. Today, four years after the first Member States requested financial assistance, we can safely say that the worst has been averted. The political will of all parties involved has been strong enough to defend the integrity of the euro. Many had underestimated that will.

And more than that: contrary to the bleak picture that some are trying to paint these days, the euro area is – in terms of economic fundamentals and institutional set-up – on a better footing than it was at the beginning of this Parliament's mandate. It is clearly moving in the right direction: the glass is at least half full.

To a large extent, this can be attributed to the correction of economic policies at national level. Imbalances are receding and foundations are being laid for improved competitiveness and stronger growth. This is especially true for programme countries, which have undertaken a remarkable effort to consolidate public balance sheets, repair their financial sectors and reform the structure of their economies.

Beyond national policies, the euro area as a whole has become more resilient. In these turbulent years, when a return to national remedies often looked tempting, the European Parliament, with its truly European perspective, has played a crucial role in ensuring truly European solutions.

I am aware that the institutional approach which had to be taken at certain junctures created some discomfort, especially in this House. But, overall, let us recognise what has been achieved. Firstly, the six-pack, the two-pack and the Fiscal Compact have made the governance framework more commensurate with the challenges of monetary union. This has been an important step towards sound public finances in the euro area.

Secondly, improved financial regulation – as exemplified by the Capital Requirements Directive (CRD) IV package and by the compromise reached on the Bank Recovery and Resolution Directive (BRRD) and the gradual steps towards a true banking union with a single supervisor, a single resolution mechanism and a harmonised framework for national deposit guarantee schemes – will significantly reduce the risk that a crisis of the magnitude we have just experienced will materialise again.

Thirdly, in 2010, there were no arrangements in place to deal with Member States' losing market access. This gap had created major uncertainty in markets about the way forward. With the European Stability Mechanism (ESM) and the two-pack, both a permanent funding instrument and a governance framework have been created. This has been a major step forward and it will ensure that the euro area will in future be better prepared to respond to such crises.

From a historical perspective, five years are the blink of an eye. In less than five years, the euro area has taken a remarkable leap forward that has kept us together. This cannot be highlighted enough in the weeks to come.

I have no doubt that, from July onwards, the next Parliament will continue to assume the important role which this House has played throughout the term that is ending. The challenges that still lie ahead are too important and too complex for us to indulge in complacency. It is too early to claim 'mission accomplished'.

People in the euro area are still suffering from the inevitable adjustment process following years of accumulated imbalances. Unemployment remains unacceptably high. Citizens are judging Europe on its capacity to deliver jobs and sustainable growth. The years to come are about creating a more perfect union that addresses these objectives. First and foremost, this means delivering on commitments made in the past. Member States need to keep their promises to correct imbalances and to reform the structure of their economies. Fiscal policies have to be brought into line with the provisions of the Stability and Growth Pact and the Fiscal Compact. Fiscal consolidation should be designed in a growth-friendly manner, with structural reforms boosting potential growth.

This concerns all Member States, not just those which looked, at some point, into the abyss of losing market access. It also concerns the European institutions. They have to ensure that common rules are thoroughly and evenly applied.

Delivering on past commitments also means keeping the promise made by the Heads of States or Governments in June 2012 to complete banking union. It means swift transposition of agreed directives into national law, and stringent application of the regulatory framework which has been adopted. It also means that a strong second pillar of banking union, in the form of a Single Resolution Mechanism, needs to be agreed before the end of this legislature.

Creating a more perfect union also means filling the remaining gaps in the architecture of Economic and Monetary Union. A genuine and comprehensive Economic and Monetary Union, as outlined in the Four Presidents' Report, should remain our long-term objective – which does not mean pushing integration as far as we can. That is neither economically necessary nor politically realistic. It means aligning Member States' economic governance and policies, where appropriate, to ensure that positive spillovers are reinforced, while negative externalities are minimised. Sharing sovereignty in crucial policy areas is certainly one way to accomplish this.

It is not for a central bank to prescribe solutions. That is a political prerogative. But it is my hope, both as a central banker and as a European citizen, is that the upcoming electoral campaign will serve as an opportunity to engage in a debate on solutions for Europe's common way forward. Thank you for your attention. I am looking forward to your questions.

(Applause)

1-005

Burkhard Balz (PPE). – Many thanks for your exposition, Mr Draghi, and, in particular, for commending the European Parliament for its work. We Germans are well aware that there are institutions which do not always only take that view. Accordingly, I should like to offer my sincere thanks to you.

I have two questions, the first on capital requirements in connection with sovereign bonds. For some time now, the European Parliament has been calling for a risk weighting for sovereign bonds. In negotiations with other EU institutions, however, any wording which establishes linkage between sovereign bonds and risk is systematically rejected. But the fact is that more and more people are advocating such an approach, the German finance minister having recently done so. What, Mr Draghi, is your stance on this, first and foremost as regards initial moves in that direction, especially in the light also of the balance sheet assessments and stress tests to be carried out, and, secondly, as regards further, more far-reaching action?

The second questions relates to the Troika. The ECB is of course a member of it. In the problem countries in which the Troika is active, there is criticism of the programmes implemented despite the fact that they have been negotiated with the respective governments and, in many cases, with national parliaments too. Past experience has proved that the very countries which have carried out profound structural and economic reforms have subsequently benefited enormously as a result. How does the European Central Bank view developments in this connection? How do you view them?

1-006

Mario Draghi, *President of the European Central Bank***. –** On the first point – a risk weighting for sovereign bonds – we have to distinguish several aspects. One aspect is the broad risk weighting of sovereign bonds in the form of changes made in overall world banking regulation. That is an issue that should be discussed by the Basel Committee and should apply equally to all banks in the world, in the form of a global regulation.

Another aspect is how we assess sovereign bonds in our asset quality review. That assessment will follow the current CRD IV and other current EU regulations. A third aspect is how sovereign bonds will be treated in the stress tests. The answer is that they will be treated like all other assets. In other words, they will be stressed according to the stress parameters, like all other assets. We are trying to be as conservative as possible now, given the state of current regulation in the European Union.

The second question is about the Troika. I fully agree with you that the countries that have been part of the programmes that saw the Troika in action have benefited from these programmes. We can say this now with enough years behind us. It has not been an easy road. It has been very difficult and, in most cases, very painful, but it is now quite clear that those programmes were, by and large, what the countries concerned needed – and still need, because the work is not finished.

I will probably have a chance to talk later about the role of the ECB in the Troika itself later, but the key thing here is that the ECB presence in the Troika was geared to improving the transmission channels of monetary policy, first and foremost. I will probably come back to this in other questions as well.

1-007

Elisa Ferreira (S&D). – Mr Draghi, I have thanked you time and again for being where it was needed when the crisis came, so I will save my time by not going through that again.

I would like instead to ask you not to stop thinking about, and proposing, more substantial missing elements to the architecture of the eurozone. You have to do that.

To concentrate on two questions, I would like to ask you first about the SRM – the resolution mechanism. This Parliament, as you know, has been very engaged in the issue of the banking union in general and, in particular, has made a helpful contribution to the SSM. We are now running against time in very difficult negotiations with the Council. As the rapporteur, and on behalf of the team of rapporteurs and co-rapporteurs/shadow rapporteurs, I would like to ask you to be vocal and clear on the ECB's contribution to this process. You have the legitimacy to do that and your supervision will not be credible if you do not have, at the same time, a similarly robust framework to resolve banks. The issues are well identified and, of course, this is a non-politicised decision-making process concerning specific banks, a credit line and funding for bailout and resolution operations.

My second question is about what happens after the programme has been implemented in countries. I want to spend my time discussing your positive comments, even if, as you know, we disagree on things and public debt has increased, with some Member States leaving the programme with a 30 to 50% higher level of public debt. The growth prospects are not enough to make these extra debts credible. My question, therefore, is whether the OMT announcement is still holding good. Are you able to intervene if need be, and what kind of conditionalities will you impose on countries if you need to step in to protect them from speculative attacks?

1-008

Mario Draghi, *President of the European Central Bank***. –** I would agree with you. It is very important now to reach a swift conclusion in the negotiations on the SRM. The points that the ECB and myself have made since the very beginning of these negotiations stay as they were since being enunciated some time ago – namely, that the SRM should have a form of governance that is effective and adequate to take decisions in situations that are very difficult, and these decisions have to be taken swiftly, so that governance has to be such to allow this is possible.

Secondly, there must be a strict separation between the assessment done by the supervisor – the SSM, the ECB – and the resolution decision from the SRM. The SSM will assess and decide whether a bank should be put into resolution. If a bank is no longer valid in itself, the SRM will decide to put it into resolution, and what sort of resolution, and will basically decide everything else that needs to be decided, on the basis of the assessment by the SSM. It is no good to combine or mingle the two dimensions of assessment and decision. So much so that, while we have been told it would be beneficial for the ECB to be on the board of the SRM, we want to be there only as an observer.

With regard to the third point, on the length of time foreseen right now – i.e. ten years before a common backstop is in place that would mutualise some of the risk – we view this as being too long. We actually argued for a halving of the time, or a doubling of the speed, at which this happens. This does not mean, by the way, that banks will be asked to pay at twice the speed, but it does mean, at least, that a common backstop will be in place during the transitional period, after five years.

The common backstop has to be in place when the bank is in a steady state as well. That common backstop could be of a different shape. It could be the SRM being able to issue on the markets – with, however, joint government guarantees – or it could be in the form of a credit line with the ESM. I think we view these as the key elements for the ESM. I would not say that the SSM is not credible if the SRM is not in place by the time the SSM takes charge but, certainly, if the SRM is not in place there would be a misalignment of responsibilities. In other words, you would have one central body like the SSM taking a decision, and then you would still have national authorities deciding on the resolution, so there could be a misalignment of responsibilities.

On your second question, on OMT (Outright Monetary Transactions): this is a programme which is fully ready to be activated if needed, which is to say when the conditions that originated the design of the OMT are there, and when all the conditions specified in the design of the OMT have been met – namely that the country has to have a programme, and this programme should be of a certain nature, satisfying a list of conditions. As far as that is concerned, nothing has changed.

1-009

Elisa Ferreira (S&D). – I should like to ask about OMT.

1-010
Mario Draghi, *President of the European Central Bank***. –** The OMT arrangements are ready to be activated as originally designed.

1-011
Olle Schmidt (ALDE). – Mr President, since this is the last time I will have the opportunity to put any questions to you, I would like to show my personal appreciation and admiration of the way in which you have been steering the ECB and Europe out of this crisis. I think that a lot of my colleagues would say the same. As this is the last possible time, I will underline that.

I have two main questions, but would first like to ask you a question concerning Ukraine, because this is on everyone's lips today. I think you wanted to comment on it and on how the expectations about what is happening elsewhere in Europe will affect the way you conduct monetary policy.

However, my first real question concerns transparency. You mentioned that we now have five years ahead of us, and that perhaps accountability and transparency could be improved. Will you actually try to get the minutes published during the coming five years?

My second question concerns a divided Europe. As you know, I come from a country outside the eurozone and I have always been in favour of the euro and of my own country having the euro. You were talking about a perfect union. Will what is coming now not be a divided Europe, with the banking union and all these other measures focused on the eurozone countries? My fear is that this could end up in a divided, split Europe?

1-012
Mario Draghi, *President of the European Central Bank***. –** I am sorry, I did not understand what was said about Ukraine. Do you want me to comment on Ukraine? That requires quite a complex answer. It is an answer that one could give in two dimensions. One is the purely technical, but in a sense narrow, economic dimension. From that perspective, we would look at Ukraine's financial and trade linkages with the euro area and we would see that they are rather limited. Ukraine accounts for less than 1% of foreign demand for goods exported by the euro area. Less than 1% of euro-area-based banks' cross-border claims are against counterparts in Ukraine.

All in all, the economic impact on the euro area, as viewed from this narrow perspective, is likely to be relatively limited. On a similar line of thinking, one could compare all this with what happened not so long ago in terms of spillover effects on emerging market economies from monetary policy decisions taken by other jurisdictions, and we saw then that the impact on the euro area was, by and large, relatively limited. However, the geopolitical dimensions of the current situation are completely different from those which applied in relation to these spillover effects or the effects of monetary policy decisions taken by other countries. The geopolitical dimensions of the current situation could, in themselves, have a capacity to affect events disproportionate to the actual links and statistics that I described a moment ago. We should watch this situation with great attention and be aware that it is not only monetary policy decision-making which is at stake but also a broader issue, which could have an impact on the economy inter alia.

On the question of transparency and the minutes: as was suggested some time ago, the Executive Board has presented a proposal to the Governing Council and we have started a discussion about the minutes. We have had a first round of discussion; there will be several others. As I have said on other occasions, this is a complex matter because we have to consider various aspects: the need to be fully informative and transparent, and at the same time the need to protect the independence of the Governing Council members. I can certainly guarantee that the discussion will be concluded within five years, and the minutes will be published before then.

(Laughter)

I think I can make a firm commitment on that.

The other issue raised is a very visible one. Are all these initiatives about banking union a cause for division in the European Union?

Firstly, these are, in a sense, natural steps that have to be taken in order for monetary union to sustain itself. Our monetary union was a bold step forward but it is still incomplete, and several steps need to be taken before we can consider the architecture of monetary union solid and robust. One of these steps is the banking union but there will be others.

Turning to the issue of who is not in the euro area: thus far at least, banking union has been presented as having an open design, to enable all the countries that would like to be part of it to do so. And there are, by the way, constant exchanges of information between our Single Supervisory Mechanism and Supervisory Board and the supervisors in the countries that are not yet part of the system. It is an open design. It is not meant to be exclusive.

1-013
Derk Jan Eppink (ECR). – Mr Draghi, in 2012 you used the words 'whatever it takes', which at once turned you into a kind of James Bond of the monetary world. After all, you have a licence to print.

The Outright Monetary Transactions (OMT) programme pacified the financial markets temporarily but then the German Constitutional Court, the Bundesverfassungsgericht, crossed your path. It considered the OMT programme to be illegal and incompatible with German law. Since it has jurisdiction only in relation to German domestic law, however, it referred the matter to the Court of Justice in Luxembourg. I am sure that a busload of complainants, led by the German parliamentarian Mr Gauweiler, one of Mr Ferber's fellow party members, will now rush to Karlsruhe to challenge the Bundesbank's participation in the OMT programme.

So my question is: how unlimited is your licence to print? Does the opinion of the Bundesverfassungsgericht not show that, to do 'whatever it takes', will take you beyond the terms of your licence?

1-014

Mario Draghi, *President of the European Central Bank***. –** In our view OMT falls squarely within our mandate, in our view it is fully legal and the ECB is subject to the jurisdiction of the European Court of Justice. As to what the Bundesbank would or would not do, I think you should ask them, but keep in mind that risk-sharing – and this was a point made during the hearings in Karlsruhe – works for everybody, whether they participate or not.

1-015

President. – I think the answer is that it is carrying the gun but not necessarily firing it.

1-016

Sven Giegold (Verts/ALE). – President Draghi, I have a question concerning the inflation expectations we see at the moment in the markets. I well remember you – but also your predecessors – being very proud that, despite ups and downs at the shorter end of the timeline, long-term inflation was well anchored just below, but near to, 2%. Now the markets fluctuate, at 10-year inflation swaps, between 1.5 something and 1.7 something, but they are certainly not near to 2%.

So I would like to know what the consequence of this is, from your perspective, for the ECB's inflation targets or monetary policy. What are – and please detail – the consequences of the fact that you cannot be as proud as you were before on exactly meeting your own targets?

1-017

Mario Draghi, *President of the European Central Bank***. –** As far as pride is concerned, I do not think we should ever be proud of achievements that are the outcome of the collective efforts of many millions of subjects. However, what we can say is that we can look back with a certain degree of satisfaction when we see that, by and large, the ECB has delivered on this objective over the last 15 years.

If you make comparisons with other central banks in the world, even before the ECB was created, you can see that the ECB actually has had a satisfactory record; but I would not extend our pride beyond saying that it has been a satisfactory record, just for the tone of this.

On inflation expectations: we still view our medium to long-term inflation expectations as being anchored to 2%. What does this mean? We currently have a level of inflation which is way below 2% – is in fact on the very low side of this – and we envisage having this for a protracted period of time and not for a short time.

So first of all we know that the longer it stays at the current level, the higher the risk will be that it will not go back to 2% within any reasonable period of time. In other words, the longer will be the risk that inflation expectations could actually be 'dis-anchored', and we do not want that.

The second point is that if we say that inflation will go up towards 2% at some point, even if this is after a relatively long time, we have to know and say why this should happen. What factors would drive inflation back to 2%? Here we have to look at and examine what the sources and the causes of these low inflation rates are.

First of all, there is a big global component in low energy and food prices. If you compare our rate of inflation with that in the United States, you can see that the United States is not that much higher, even though their recovery is way more advanced than ours. Furthermore, if we go back and look at what the rate of inflation was after the Asian crisis at the end of the 1990s and after the Lehmann crisis in 2009, we can see that, by and large, we are at the same level, so this is not unprecedented.

But there is also another factor that we ought to consider. When you take out the food and energy component and just look at core inflation, you can see that most of the downward path in core inflation – not all, but most of it – is due to the adjustment that has taken place in the four programme countries to how inflation has behaved in these four programme countries.

We view this as partly – not wholly but partly, or even mostly in fact – the outcome of a relative price adjustment. If that is the case, we know that this is a once-for-all factor. This relative price adjustment takes place and then inflation will proceed to move upward.

However, we should also – and here I am giving you the full complexity of our analysis – look at the other part of the story. It is not only a question of supply, but also of demand. We can see that unemployment being so high will keep demand weak for at least some time to come. So we should also look at this factor and see that a fall in unemployment and the increasing and spreading of the recovery from the export sectors to the domestic sector is also very important.

Here let me add one thing with respect to some of the remarks I have made on inflation. The relative price adjustment takes place predominantly in the sectors that are exposed to international competition, namely export sectors.

What happens is that the rest of the economy also has to adjust because otherwise you have lower inflation and higher real wages in the protected sector and the longer this situation continues, the more difficult will be the overall adjustment of the economy. That is why you need an adjustment and why we always insist on structural reforms because these are the sectors where the structural reforms will actually play their greatest role – the sectors that are shielded from competition.

1-018

Marisa Matias (GUE/NGL). – Mr Draghi, thank you for being here today. I would like to raise a question which has not yet been mentioned by my colleagues and which has to do with excess liquidity. We know that this is an endogenous problem and cannot be solved simply by lowering interest rates.

Over the last few days, information has been published about future measures planned by the European Central Bank in this area, and one of the measures put forward is for the ECB to make bank recapitalisation subject to certain conditions, in other words, to also impose conditions on banks to ensure money reaches the real economy.

I would like to ask, first of all, whether it is true that this is one of the measures the bank intends to propose. If so, I have to say that I totally agree. I am sad to see this only happening six years after the start of the financial crisis in which we find ourselves and it makes me very sad, as I find it shameful that this action is being taken six years into the crisis. But better late than never! And if this is going to be proposed, what form will this conditionality take? Will it, for example, be through increasing credit to small and medium-sized enterprises or how will it be? Because it could help to improve the economy, or it could help to increase the recession, which would obviously be an undesired effect..

1-019

Mario Draghi, *President of the European Central Bank***. –** I certainly agree with you that we have to find a way whereby the changes in our monetary policy and interest rates will be passed on to the real economy. Let me say that we have seen considerable progress since July 2012 when James Bond actually said what he said – this has happened!

On the funding side: banks – basically fragmentation is over. If we look at the deposit base for banks, we are at the same levels now as we were in 2007, so fragmentation of bank funding from deposit sources is basically over. There are great improvements in the bond market: bank bond issuance is also proceeding.

On the lending side, progress has admittedly been much slower. We are starting to see some progress now. We see that credit flows are still subdued but they are declining at a lower rate. We also see progress on that front from the bank lending survey. It is still limited but the main point here, the crucial point, is that in order to see a serious pickup in lending, we need two things.

On the supply side, the banks' risk perception needs to decrease. So far the countries where the credit crunch was at its highest were also the countries that had the biggest recession, so lending had become risky – much riskier than it was under normal conditions. That is one of the key factors on the supply side.

You also have the demand side. For credit flows to pick up you need SMEs that actually ask for credit and they ask for credit if they have clients to whom to sell. In one of the SME surveys that I think was run by the Commission some eight or nine months ago, SMEs were asked the primary cause of the difficulties that they saw in doing business. The answer was, first, we do not have clients and, second, we do not have credit. So it came in second place.

On the banks' side, you can see that it may be difficult for a bank to give credit to a company that does not have clients. Fortunately this picture has improved a lot. We are starting to see better signs both from the surveys and, to some timid extent, from the data on credit and M3 data as well that seem to indicate some improvement.

You hinted at linking further credit to the banks from the ECB to their lending to the real economy. I think you were hinting at a Funding for Lending Scheme, as was run in another jurisdiction. Let me say that this is certainly one of the instruments that we have in our 'artillery' – that we have in our catalogue – and we are still thinking about and reflecting on this instrument.

1-020

Sampo Terho (EFD). – Thank you, Mr Draghi, for coming here again to let us put questions to you. I should like to stay with the same subject as the previous two questioners, although looking at things from a slightly different angle.

As you said in your own intervention, the main objective of the ECB has been price stability, and the Bank has undeniably been very successful in pursuing that – in the eyes of some, indeed, too successful. For example, at the moment if one compares the situation in Finland with that in Sweden – Finland being my home country, incidentally – the two are very different, and many people believe that Finland is at a clear competitive disadvantage because of the very strong euro, for instance in comparison with Sweden.

The issue is of course far broader, and does not just concern two Nordic countries. The competitiveness of the whole Eurozone and of many Member States is poor by international standards, and many people are complaining that the euro is too strong.

I should like to pursue this issue which has also been raised by the Greens. Do you share this concern, and, in your opinion, ought the euro perhaps to be weakened, and what obstacles to that are there at the moment? What risk is there, why should a more active effort not be made at least to attain that 2% inflation rate?

1-021

Mario Draghi, *President of the European Central Bank***. –** The exchange rate is not our policy target. Our policy target is price stability: that is what we are mandated to pursue. However, the exchange rate is important – first and foremost in relation to price stability because when we talk about price stability we mean price stability in both directions. Whenever we are distant from 2%, or close to but below 2%, we set ourselves a problem with achieving price stability. So the rate is important for price stability and growth. It is certainly an important part of our assessment in determining monetary policy with a view to the medium-term price outlook.

1-022

Sampo Terho (EFD). – But are there then really any obstacles which make it impossible to adopt a more rapid timetable for achieving this 2% inflation target, rather than aiming for the medium term?

1-023

Mario Draghi, *President of the European Central Bank***. –** Our monetary policy is currently very accommodative and it has been so for a long time. As I said in my introductory statement, over the past two-and-a-half years we have taken a pretty significant number of monetary policy actions, all tending in the direction of making monetary policy increasingly accommodative and increasingly responsive to economic developments.

Inflation is currently on the low side of 2%, and I have just explained the reasons why this is so and why we think that, in the medium term, it will actually pick up and converge with expectations, which so far remain firmly anchored at 2% in the medium to long term.

1-024

Pablo Zalba Bidegain (PPE). – Mr President, if today we were to have 3% inflation, robust growth and credit in full expansion, I have no doubt that you would be taking action and undoubtedly with the applause of this House. Today's situation is quite the opposite. Growth is weak, credit is falling – at 2% – and inflation, according to the IMF, will remain at 1.5% until 2018.

I would like to ask you three questions:

First: Do you believe this forecast from the International Monetary Fund? If so, do you believe it would fall short of your mandate?

Second: What negative element, or non-positive element from an economic viewpoint, would have to enter the picture – apart from falling credit, low inflation and fragile growth – for the ECB Governing Council to be convinced of the need to take unconventional measures in order to meet the European Central Bank's objectives?

And thirdly: Mr Weidmann has said that he would favour an end to the sterilisation of bond purchases. Do you think this is enough, or does more need to be done?

1-025

Mario Draghi, *President of the European Central Bank***. –** Unfortunately, your questions come under the prohibition against my discussing monetary policy in the 'purdah' period, but I can tell you generally that all the instruments, including the ones you mentioned, are in our catalogue.

The key thing is to look really at these instruments as responses to different contingencies. In other words, it is not the case that instruments are perfect substitutes and that it does not matter which instrument is used. Their use would respond to specific contingencies in the economic and financial situation.

I cannot go beyond these generic comments at this point because it would impinge on our monetary policy meeting on Thursday.

1-026

Pablo Zalba Bidegain (PPE). – And concerning the IMF's forecast for inflation, which it has said will stay at 1.5% until 2018, do you consider this valid?

1-027

Mario Draghi, *President of the European Central Bank***. –** The staff of the ECB will publish its projections on the occasion of our monetary policy meeting on Thursday. This will be the first time that ECB staff will have published projections up to and including 2016. So I will be able to answer that question on Thursday.

1-028

Chair. – You may be in purdah, but we are not. We are pushing, as you might have understood. The low inflation rate is troubling a lot of us.

1-029

Markus Ferber (PPE). – Mr Draghi, the impact now is very positive. Contrary to what Mr Eppink said, southern European sovereign bond interest rates have now fallen to the levels obtaining prior to the onset of the financial crisis. In this connection, how does the European Central Bank propose to develop its balance sheet? Will the ECB divest further securities from its portfolio, or has a level now been reached at which you say that assets can remain on the books?

My second question. You are in the midst – in your bank supervisor capacity – of making intensive preparations for stress testing. From what I hear, some banks are to be assessed on the basis of closing balance sheets, others on the basis of balance sheet projections. For me the question is, simply, whether a reasonable outcome will be achieved if a distinction is made between banks assessed on the basis of closing balance sheets and banks assessed on the basis of forward-looking balance sheets..

1-030

Mario Draghi, *President of the European Central Bank***. –** On the second question, all banks are going to be looked at in the same way. So there will be an asset quality review which is basically a snapshot of the quality of the balance sheets of all banks taken in exactly the same way, not with some of them being forward-looking.

This is something I have said since the very beginning – as a quality review this is only useful if it is transparent and if it is rigorous. Because the purpose of this is to give a credible representation of the balance sheets of our banking system in the euro area so that the private sector will find it convenient to invest in the banking industry.

The private sector rightly hesitates to invest in things it does not know and that is why the asset quality review is so important, but it is important and it is effective only if it is transparent and only if it is consistent across all the banks in the euro area.

When I say all the banks, I mean the banks that are under the direct supervision of the ECB, but small banks are also subject to the same supervisory regime. The difference in the supervision of large banks and small banks is the intensity with which national competent authorities will be involved in this supervision.

For the largest banks, the 128 to 130 banks, this will be the centre, with the help of their national competent authorities and independent parties, and the joint inspection teams will be formed by supervisors coming from different supervision jurisdictions in the euro area, so as to ensure the greatest degree of independence and transparency.

The involvement of national competent authorities will be bigger for the smaller banks of course, but the ECB – the centre, the supervisory board – has the right to ask any questions, have any information and possibly intervene itself. All banks will be on the same level playing field as far as asset quality is concerned.

Can I ask you to repeat the first question, because I did not quite catch it

1-031

Markus Ferber (PPE). – Is the ECB prepared, to put it very briefly, to make further reductions in balance sheet assets, i.e. in particular to bring sovereign bonds to market again, now that interest rates have markedly fallen to levels relatively close to each other?

1-032

Mario Draghi, *President of the European Central Bank***. –** There are two cases. The first is a real case – that of the Securities Markets Programme (SMP) holdings, the bonds that were bought following the inception of the SMP. In that case the commitment made – in 2010 if I remember correctly – was to hold these bonds until maturity. The bonds decline in the meantime as they reach maturity, so the programme downsizes itself until maturity is reached. In other words, the bonds are not replaced.

The other case, which is a hypothetical one and has never arisen, is that of bonds being purchased under the Outright Monetary Transactions (OMT) Programme. In that case, they would be bought and sold, so there would be no commitment there.

1-033

Liem Hoang Ngoc (S&D). – My questions concern the activity of the Troika. Your presentation clearly summarised the action of the European Central Bank over the past five years and, as you said, when the decision was taken on the Outright Monetary Transactions (OMT) Programme, the ECB successfully faced up to speculative pressure in relation to sovereign debt.

My first question is: do you think that if the OMT Programme had been activated sooner, the ECB could have avoided the spillover effect of the Greek crisis onto Cyprus and Portugal, for instance?

Secondly, you said that the situation is better than it was in 2009, but when we look at the macroeconomic figures we are entitled to worry, because the ratio of debt to GDP in the four countries concerned is over 120%. The IMF has said that if it is over 120% it is not very sustainable; and in the case of Greece, in particular, Ms Lagarde has called for debt restructuring now. My question is: if there is a primary surplus in Greece and if it is decided that debt restructuring is needed, would the ECB take on its losses in that case? In the first debt restructuring, the ECB did not take on losses, and we know that the ECB currently has EUR 34 billion of Greek sovereign debt. If the ECB takes on its losses it can avoid a haircut for Greek banks and citizens, and such a monetary arrangement can then be useful today, in the absence of inflationary pressure and inflationary expectations. What is your position on that?

1-034

Mario Draghi, *President of the European Central Bank***. –** Let me first respond to your first question. The general answer is that we could certainly have done better. That is always true. But in a sense there is a deeper answer.
When we ask ourselves which factors brought back credibility to the euro and rebuilt world confidence in the euro, we would have to focus on three sets of facts.

The first was the response that many countries – especially the stress countries – gave in changing their economic policies for the better. The very strong reform effort took place, in many countries, before July 2012 and, in some cases, it continued afterwards.

The second factor, which often tends to be forgotten, was the European Council that took place in June 2012, and which actually launched the banking union. The third factor was the launching of the OMT Programme. So you can see that the three factors were in a sense intertwined in playing this very effective and successful role in bringing back confidence in the euro.

Your second question concerned the current situation. I said that the situation is better but not that it is good. It is better than it was before, but it is certainly not good. Unemployment now stands at 12%, though on the unemployment front, by the way, there are a few timid positive signs, as it has now been stabilising for a few months and in some stress countries it is actually declining. Portugal is an excellent example, as unemployment there went down by two percentage points. Also, employment stopped falling.

So there are a few positive signs, but we should nevertheless ask why unemployment has gone up so much in certain countries and much less in others? We suspect that there is in fact a very high level of structural unemployment underlying this 12% so that, in order to see a very significant decline in unemployment, not only will economic activity have to pick up, but also serious structural reforms will have to be undertaken in several member countries of the euro area.

Finally, regarding whether the ECB will take on losses or not, I consider it premature to speculate on debt relief. However, let us keep in mind something that still applies, which is that monetary financing is not possible. Article 123 prohibits any monetary financing. It is too early to speculate about debt relief. At the present time, as far as Greece and other countries are concerned – especially Greece – I would say that the focus should be on full implementation of the programme.

1-035

Chair. – I think we have asked before whether there is a difference between direct monetary financing and incidental monetary financing, which perhaps is what Liem was hinting at.

1-036

Gay Mitchell (PPE). – There are two brief questions I would like to ask. One is in relation to the bank lending survey and SMEs. You mentioned instruments in your 'catalogue' or your 'arsenal' – I cannot remember which word you used – and I would like the institutions of the Union to collaborate to get banks off automaticity in one area where they are still on automatic – and banks and financial institutions being on automatic when buying and trading things they do not understand sometimes is part of the problem – certainly in my country, where I do not believe there is any such thing as a traditional bank manager any more.

This is a really important point. Two people can go into a bank, they can be of the same sort of age, they can both own a property and they can both have about the same income. One could spend his day between a bookie shop and a pub, while the other could be very industrious, but it goes to a committee and they tick the boxes. Can we get back to bank managers who will make a decision based on character, track record and business model? Can you do anything to encourage that as part of the banking survey, and in all of the contacts you have with the banks? Surely it is time to let this happen.

Secondly, I just want to ask you about this very briefly. I questioned your predecessor for a number of years about asset inflation – house price inflation – particularly in the country that I know best, my own. I see signs again in Dublin – not in the rest of the country but in Dublin – of house price inflation. Do you now have the instruments to deal with this? Can we head this off? Is this going to become a problem again?

1-037

Mario Draghi, *President of the European Central Bank.* **–** If I may answer the second question first, there are signs of increases in house prices in some parts of the euro area and we are paying close attention to this. This time, however, there are certain features which distinguish this from the situation last time. One big difference is that credit flows are very subdued. At that time, when we had the huge increase in prices, credit flows were, to say the least, heady and ebullient.

So it is too early to speak of a house-price bubble, but we are certainly paying close attention to this. What is the answer to this? The answer is certainly not to change monetary policy, because monetary policy is geared to price stability for the whole of the euro area. The answer is to have an instrument that could address local bubbles.

Local bubbles must be addressed by local instruments, namely macro-prudential instruments. That is why the development in the design of macro-prudential instruments is so important, because it is part and parcel of maintaining financial stability in the euro area and it frees monetary policy from pursuing objectives that do not fall within its mandate.

The other question concerns the behaviour of bankers. You are absolutely right that credit lending has become in a sense – as the industry says – a commoditised industry where, as you said, people are on automatic pilot rather than exercising their best judgment, as a good banker would have done not long ago.

This is something that is not without cost for the banking industry. It basically means that credit analysis becomes much less geared to the specific client and much more process-driven, and so the outcome of this might sometimes be to give credit when it should not be given or to deny credit when it should be given. This has an effect on the profitability of banks, to say the least, if not on their risk position in their loan books.

There are many reasons why banks behave like this, but I think most bankers understand this now. This was, by the way, a development that took place from the early 2000s up to 2010, after the crisis. The behaviour of banks really changed in these ten years. There has been a rethinking in the banking industry. Part of this credit-driven process had been made easy by the heady conditions before the crisis. Now, we have the impression that they are actually thinking about how to proceed and how to have less process-driven credit.

By the way, there are certain sectors of the economy where the process, by its very nature, is process-driven. For example, the mortgage industry presents a uniform set of parameters across the board within each country. But credit for SMEs, industrial credit and other forms of credit can hardly be run on automatic pilot.

1-038

Leonardo Domenici (S&D). – In this, your last appearance of the parliamentary term, I should like to ask you a general question. You see, in a way I feel that the Central Bank has overstepped its remit; I am not saying this to be provocative, and it is not that the Bank has violated the Treaties or that I think you are acting like James Bond. The reality is that the Central Bank seems to have been doing other people's work too, because it is the institution – and perhaps the only one, or at least more than any other – which has consistently defended the integrity of the euro area and which has therefore kept alive a European Union project at risk of disintegration.

Very often, you and other Central Bank representatives have said there is a limit to what technical measures can achieve, and that political measures should be taken. So the question is very simple: what type of message would you, as an EU citizen who believes in the EU institutions, like to see emerging from this European electoral campaign? I am not talking about policies or institutional architecture or structural reform at national level; I am talking about a common culture, and about regenerating a koine. How can we reinject verve, vim and impetus into a project leading to the more perfect political Union you referred to?

1-039

Mario Draghi, *President of the European Central Bank***. –** That is not a simple question to answer for a humble central banker and bureaucrat, but I will try to do so from my narrow perspective.

The euro area, indeed the Union, has to get back to being an island of prosperity, an island of job creation, a place of growth in the world, a place in the world where it is fun to be and where youth has hope. I would not speculate on what sort of general political change has to happen in order to achieve that, because it is beyond my means to say anything interesting on that point. Certainly, however, there are matters to be addressed, such as structural reform, such as stability in political systems, such as a common will to grow, and to grow not on the basis of debt – because if there is one thing that has been discovered, one lesson that the Union and the euro area especially have learned, it is that endless debt creation does not produce sustainable growth. At some point there is a recession and, as we have seen over the past few years, recession is extremely painful, not only in its immediate consequences but also in the disruption of hopes, especially among young people.

So that is what I would say. The message is a message of reconstructing the European Union as an island of growth and job creation, hope and freedom.

1-040

Astrid Lulling (PPE). – Madam Chair, Mr Draghi, firstly, please excuse me for being late, but I had a very important meeting to attend in Luxembourg.

Mr Draghi, I would like to ask you three small questions. When I was at university studying political economics, I was taught that low inflation was a good thing. It is true that this was almost sixty years ago, and I am sure that I am a little behind the times. However, I have to say that I am very happy that in my country, the Grand Duchy of Luxembourg, inflation has finally dropped to below 2%, owing to our wholesale indexation. There will be some very positive consequences in terms of our competitiveness if in 2014 we can avoid paying out a 2.5% adjustment applicable not only to the legal minimum wage, but also to all higher-end wages – salaries and remunerations, including civil service pay and, in short, all pay – and to some prices.

The Central Bank – and in particular your predecessors, especially Mr Trichet – has, since its inception, always told us that we should abolish this wholesale indexation. Do you not feel, like me, that this indexation is essentially beneficial for us, and that one should refrain from talking about deflation whenever there is low inflation like this of under 5%?

This leads me to my second question, which is that the value of the Chinese currency has, fortunately, increased against the dollar and the euro; I think I even read that it has risen by over 25% in recent years. However, in the past few days it has fallen. Can you explain why? Do you think it will continue to fall and do the Chinese monetary authorities want this to happen?

My last question is whether, in view of the Council legal opinion on the tax on financial transactions, you do not feel that the Commission should withdraw its unsound proposal to introduce this tax through enhanced cooperation when the proposal in its current form would drive many financial services, and especially UCITS, out of Europe? You have just said that the aim is to generate more growth and employment in the European Union. Well, a proposal such as this would clearly have certain opposite effects. .

1-041

Mario Draghi, *President of the European Central Bank***. –** On the first question, as to what is driving the recovery now: in the initial stage, the recovery was driven predominantly by exports; now the effect is gradually spreading to domestic demand. Other drivers of the recovery are an accommodative monetary policy and the return of confidence. I would agree with you, however, that a further driver of recovery is the fact that the purchasing power of salaries, wages and pensions – and we should not forget that the percentage of retired people in the euro area is quite high – is being kept high by low inflation. So from that point of view, the fact that we have low energy and food prices – or at least that inflation in those areas is lower than it was in the past – certainly supports real disposable income. The other side of the coin, however, is the high unemployment rate, and the fact that the real income of the young sectors of the population and/or the unemployed in general is actually low. This is not supporting the recovery.

Your second question concerned the renminbi. Frankly, I have no idea: I have to confess my ignorance about why the renminbi has gone up and then down. The Chinese economy is very complicated and very big.

On the third point, regarding the financial transaction tax, the ECB does not want to comment on this because it falls one hundred percent within the competence of governments and political authorities. However, there are certain aspects of the financial transaction tax which could hamper our monetary policymaking, and we have been working with the Commission to amend the relevant aspects of this proposal.

1-042

Antolín Sánchez Presedo (S&D). – Mr President, thank you for your cooperation over these years. It is true that you have taken important initiatives and have managed to ensure that Europe is not in a worse state today. But also, as you yourself have said, European citizens measure the EU by its capacity to provide jobs and growth. In that respect, we are still far from being in the best possible situation.

At present there still seems to be a wide margin for monetary policy and I would therefore like to ask two questions:

The first question concerns the transmission of monetary policy: Do you still see a need to do something to improve its transmission to small and medium-sized enterprises, since there seems to be some margin available to monetary policy?

The second question concerns how monetary policy contributes to the Union's objectives. The Chair of the Federal Reserve, in her address to the Senate, mentioned the concept of 'maximum sustainable employment' compatible with monetary policy objectives. Are we going to find out here what is the maximum sustainable employment compatible with monetary policy objectives in relation to price stability? Is any objective going to be set in relation to employment?

1-043

Mario Draghi, *President of the European Central Bank***. –** I really cannot comment on monetary policy decision-making at this point in time, but let me just respond to the other parts of your questions. Monetary policy has done a lot in the last two and a half years. It is still very accommodative. It cannot, however, do the work that should be done by others and it cannot replace governments in their action. At least now we are out of the most urgent stage of the crisis, so far.

What governments could do is rethink their budget consolidation efforts, not in the sense – let me immediately hasten to add – of unravelling the progress that they have achieved and that cost so much effort and so much pain, but in the sense of pursuing what the ECB has called a 'growth-friendly' consolidation effort. This means, basically, focusing on lowering taxation rather than on cuts in current expenditure; possibly increasing capital expenditure, in infrastructure, and public investment. Let us not forget that capital expenditure, both in core countries and in stress countries, has never been so low, in I don't know how many years, certainly in the last 10 years at least. So there is a clear need to improve infrastructure, especially in the service sector in some countries, and in other sectors in other countries and, at the same time, because it is part and parcel of this growth-friendly consolidation, to undertake structural reforms. I have to use these generic words 'structural reforms' because they are different according to which country we are talking about, so each country has its own list of reforms to undertake, which could increase competitiveness, increase growth and create jobs.

1-044

Nils Torvalds (ALDE). – A week ago the Committee voted on the Troika report. Going around the crisis countries, we got a picture of a driver, a co-driver and a backseat driver: the driver was the Commission, the co-driver was the IMF, and the backseat driver was, I am sorry to say, the ECB.

We have spent quite a lot of time discussing the proper role of the backseat driver. We would probably prefer an Aston Martin with a very small seat for the backseat driver, but I would be glad to hear your comments on it – and do not go into Goldfinger!

The second question concerns the fact that the Chicago VIX is up a little. Usually that means a strain on liquidity, and a strain on liquidity usually means that SMEs get less money.

1-045

Chair. – I am glad you chose an Aston Martin because that is appropriate for James Bond.

1-046

Mario Draghi, *President of the European Central Bank***. –** Please let us not carry this parallel too far. Anyway it was he who said that, not me. You are right, the ECB sits in the back seat. It is there for the specific contribution it can make in the financial sector and the banking sector. This will be more and more the case in the future.

There is a reason for the ECB being there, which is that if the bank lending channel – which is the predominant lending channel we have in the euro area – does not work, then our monetary policy does not work and is not effective. So, one of the reasons for the presence there of the ECB is to improve on the functioning of the bank lending channel so that the transmission of monetary policy can be implemented. Very often this improvement is not restricted only to the banking sector, but does require actions also in other fields, but that is the perspective and the angle from which the ECB has been there. As regards the future, it would be premature to think about the ECB's other roles for as long as the crisis lasts. When we are able to say convincingly that we are out of the crisis then we will think about this.

The other point you made was about liquidity. We are certainly watching the liquidity situation. Excess liquidity moves according to a variety of factors, and it is not easy to establish a stable relationship between excess liquidity and the EONIA rate, which is what markets always look at.

One of the factors that often makes the VIX go up is what happens to excess liquidity at the end of the month. There you have changes that could affect the VIX, and have affected it in the past, and which are often reversed in the subsequent cycle.

1-047

Peter Simon (S&D). – Mr Draghi, I wanted to ask you about something completely different, namely the Commission's proposals on the long-term financing of the European economy. For example, a European bank account, the notion of taking in funds, of taking in deposits, with the Commission (or an agency attached to the Commission) setting a fixed interest rate in order to lend to the economy. I come from a country with a banking sector organised in small units. And in Germany, as the Federcasse does in Italy, mutual and cooperative banks and small savings banks provide much of the financing for small and medium-sized enterprises, for the economy.

Do you not see a risk that, in markets where deposit taking in the bread-and-butter business – and that applies to all savings banks, as well as mutuals – and which finance the economy, the Commission's thinking in this area will undermine what is actually a healthy mechanism, and that possibly the economy will in fact be given less support because a lack of deposits will prevent those institutions from lending? And, conversely, do you not see a risk that in markets where, as it is, banks have been in a poor position to date, where there has been more of a risk of runs on them, they might get into even greater difficulties because their deposits will decline further?

1-048

Mario Draghi, *President of the European Central Bank***. –** I am not sure that the Commission's long-term financing plans will be on such a scale as to have these huge consequences for the rest of the banking system. I would see this proposal as one of the measures to beef up long-term financing, but hardly as something that would compete with other sources of funding in the banking industry as a whole.

So, I am not sure that there is anything to fear. To the extent that these plans offer certain marginal improvements in the economy, they would also benefit deposits in the rest of the banking system.

1-049

Chair. – That concludes the monetary dialogue.

(The meeting closed at 17.10)