Chair. – Let me now welcome Mario Draghi to the Third Monetary Dialogue of 2018. As you know, this Monetary Dialogue is taking place after the last Governing Council meeting, which confirmed the June position of the ECB on forward guidance, on interest rates, on the planned phasing out of the asset purchase programme, but also on the way in which their investment policy will maintain an ample degree of monetary accommodation.

I would like to welcome these decisions and also welcome – as we are also going to discuss central bank communication at a time of non-standard monetary policy – the way in which the communication of the ECB is being very well received by the markets.

We are also going to talk about abundant liquidity, banks’ lending activity and assessment of the risks and the base paper. Overall, while close monitoring of those risks is warranted, I conclude that so far we haven’t see such a negative development, which also strengthens the positive assessment of the effectiveness of the ECB’s monetary policy.

So thank you very much, Mr Draghi. Everybody is looking forward to the next decision and to hearing from you. You have the floor.

Mario Draghi, President of the European Central Bank. – Chair, honourable Members of the Committee on Economic and Monetary Affairs, Ladies and Gentlemen, it is a pleasure to be back at the European Parliament before your committee. Ten years ago, the euro area entered a severe recession. That crisis exposed structural weaknesses and forced us to address them. The work is not yet over, but we are reaping the benefits of our efforts: growth has been positive for more than five years, and the unemployment rate is at its lowest since November 2008.

In my remarks today, I will discuss the current economic environment and the role that the ECB’s monetary policy plays in it. At the request of your committee, I will also discuss central bank communication, which nowadays forms an integral part of monetary policy.

The information that has become available since my last visit in July broadly confirms an ongoing broad-based expansion of the euro area economy, which grew by 0.4% in the second quarter of 2018. Despite some moderation following the strong growth performance in 2017, the economy continues to exhibit high levels of capacity utilisation, and labour markets are tightening with signs of labour shortages in some countries and sectors. This is reflected in the unemployment rate in the euro area, which stood at 8.2% in July. Since reaching a trough five years ago, euro area employment has increased by about 9.2 million. On account of the improving labour market and overall conditions, households’ disposable income in the euro area is currently growing at the highest rates observed in the last 10 years. Higher income supports private consumption, which is expected to increase by 1.5% in 2018. These factors,
together with business investment being fostered by the favourable financing conditions, rising corporate profitability and solid demand, continue to support spending.

Looking ahead, the latest ECB staff macroeconomic projections confirm the outlook for continued broad-based growth of the euro area economy. Average annual growth is foreseen to be 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020, with a slight downward revision for 2018 and 2019, mainly reflecting weaker global trade. Risks surrounding the euro area outlook can still be viewed as broadly balanced, although the threat of protectionism, vulnerabilities in emerging markets and financial market volatility have become more prominent recently. Fiscal policies in several euro area countries might be less neutral than we expected some time ago.

Regarding inflation developments, Harmonised Index of Consumer Prices (HICP) inflation stood at 2.0% in August, down from 2.1% in July. Headline inflation remains somewhat higher than in the first months of the year, reflecting the strong increase in oil prices. Measures of underlying inflation remain generally muted but have been increasing from earlier lows as domestic price pressures are strengthening and broadening.

Underlying inflation is expected to increase further over the coming months as the tightening labour market is pushing up wage growth. For example, annual growth in negotiated wages in the euro area increased from 1.5% in 2017 to 1.7% in the first quarter of 2018 and to 2.2% in the second quarter. This supports our confidence that the pick-up in wage growth will continue, as wage agreements often last two years or more.

Looking forward, annual rates of HICP inflation are likely to hover around current levels in the coming months and are projected to reach 1.7% in each year between now and 2020. This stable profile conceals a slowing contribution from the non-core components of the general index, and a relatively vigorous pick-up in underlying inflation. Reflecting these dynamics, the ECB projections foresee inflation excluding food and energy reaching 1.8% in 2020.

Overall, recent developments vindicate the Governing Council’s earlier assessments of the medium-term inflation outlook. Accordingly, at our last meeting the Governing Council decided to maintain the significant monetary policy stimulus in its present configuration and, in line with the conditional plan announced at our press conference in June in Riga, to reduce the monthly pace of net asset purchases to EUR 15 billion from October until the end of the year. We anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases.

This doesn’t mean that our monetary policy will cease to be accommodative. For our baseline expectations of a rising inflation path to materialise, we need to remain patient, prudent and persistent in calibrating the monetary policy stance. In line with this approach, we will continue to provide substantial monetary stimulus by combining three policy measures: first, our enhanced forward guidance on the key ECB interest rates, which we expect to remain at present levels at least through the summer next year, and in any case for as long as necessary to ensure the continued convergence of inflation towards our aim; second, the residual net asset purchases that we will be conducting until the end of this year; and third, the reinvestment of the sizeable stock of acquired securities.

Our monetary policy measures have made a very substantial contribution to the positive economic developments in the euro area. If we consider all the policy measures taken since mid-2014, our staff estimates show that the overall impact on euro area real GDP growth and euro area inflation is – in both cases – around 1.9 percentage points cumulatively between 2016 and 2020.

Let me now turn to the topic of central bank communication that you suggested for today’s meeting. Regarding this topic, forward guidance has indeed become an important instrument
for all major central banks as conventional monetary tools have reached their effective lower bound, and the ECB is no exception.

Forward guidance on our policy interest rates has evolved considerably over time, since we first introduced it in July 2013. Roughly speaking, it has gone through three phases. When we first gave forward guidance in 2013, our goal was to insulate euro area financing conditions, and especially the near-term segment of the term structure of money market interest rates, from the heightened volatility emanating from the US money market as a result of the ‘taper tantrum’ episode of May-June 2013.

During the second phase, our forward guidance served to reinforce the effectiveness of the net asset purchases. By expressing the Governing Council’s expectations about the likely future path of interest rates, we ensured that the downward impact that the asset purchases were exerting on longer-term yields was not counteracted by the unanchored market expectations of short-term interest rate increases.

Since June 2018 we have expressed our expectation that, subject to incoming data confirming our medium-term inflation outlook, net purchases will likely end after December 2018. As we had for some time tied the horizon for our rate path to the end of our net purchases – giving indications that interest rates will remain at their present levels ‘well past the end of our net purchases’ – announcing a conditional plan for terminating net purchases by a certain date made it necessary for us to re-anchor the rate guidance.

Steering expectations of the policy rate path was critical because the path of inflation that the Governing Council viewed as moving closer to the objective of a sustained adjustment was – and still is – conditional on a term structure of interest rates that embodies expectations of constant policy rates over an extended period of time after December 2018.

It was important for us to retain firm control over the signalling implicit in our monetary policy announcements. At that critical juncture, we had to reassure investors and the public that the likely change in the course of our asset purchases will not stymie the recovery and frustrate progress toward inflation normalisation.

With this in mind, in June 2018 we said that we expected interest rates to remain at their present levels ‘at least through the summer of 2019, and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path’. This rate guidance, which we reasserted back in July and also this month, actually contains two parts: first, the part that says ‘through the summer of 2019’ formulation is a calendar-based element, which refers to when we anticipate conditions that might warrant a first rate increase; and second, a state-dependent component, indicating our expectation that rates will remain unchanged in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

As it turned out, the realignment of market expectations with those of the Governing Council was immediate and smooth. The new formulation has helped market participants to better understand our reaction function and adjust the outlook on which they base their plans accordingly. Of course, steering financing conditions – by guiding the expectations of market professionals – is only part of our task. We are responsible for ensuring price stability for the 340 million people of the euro area who use the euro and make economic decisions every day.

Reaching out to citizens is the key to maintaining public confidence in their central bank, and in the appropriateness and efficacy of its policies. In this respect, hearings before the European
Parliament are a fundamental – absolutely fundamental – channel through which we can explain to the people of Europe the reasons for our decisions and how those decisions impact their lives.

The ECB and the European Parliament, building on the framework enshrined in primary law, have responded to the demand for stronger scrutiny that arose during the crisis and have ensured a high degree of accountability throughout it. Nevertheless, this should be no reason for complacency. We are well aware that maintaining people’s trust in the ECB calls for tireless efforts on our side.

Facing challenging times, we have sought to enhance understanding of our decisions. For instance, since January 2015 the ECB has been publishing regular accounts of the Governing Council’s monetary policy decisions. As the exchanges and conversations we have in this room testify, this additional set of information enables you – and anyone who is interested in the conduct of monetary policy – to enhance scrutiny of the ECB’s policies. At the same time, this has provided us with greater opportunities to explain our decisions and demonstrate that we are acting in accordance with our democratic mandate.

Over the past few years, we have also stepped up our efforts to overcome the key communication challenges posed by the euro area structure, namely reaching out to citizens in 19 countries, who naturally have different expectations regarding the ECB. We have thus enhanced our communication strategy, directly addressing a wider range of audiences. In addition to our institutional activities, my fellow Executive Board members and I have participated in about 180 events over the last two years, a quarter of them in centres of education.

If I include think tanks, foundations, non-profit organisations and governmental bodies, we delivered more speeches to these fora than at the ECB and the NCBs. ECB staff members have complemented these efforts with a dedicated outreach programme aimed specifically at secondary schools and universities which goes into the functions and purpose of a central bank in an advanced economy, and also explains the financial crisis and the ECB’s role in alleviating its effects on the people of Europe. We have covered similar ground in our expanded website, which now features videos, explainers and charts that describe complex issues in an accessible way. We have started using new tools, such as YouTube and LinkedIn, as well as Twitter, where we have almost 440 000 followers.

Let me conclude. The European Parliament, which represents EU citizens, is the key to fostering people’s understanding of, and trust in, ECB decisions. In this sense, it contributes to the effectiveness of our monetary policy. But your contribution, as parliamentarians, does not end here. You, as co-legislators, have a role to play in making sure that Europe is well prepared if the risks I mentioned in my introduction were to materialise. We have seen that, far from damaging growth, a strong regulatory framework is essential in ensuring strong long-term economic performance.

Today, 10 years since the start of the financial crisis, there is still important unfinished business when it comes to improving the EU financial legislative framework. As we are approaching the end of the legislative term, we need to seize the opportunity now. I thus count on Parliament’s support to make sure that the framework provides the necessary stability to the markets, thus protecting EU citizens, as customers, workers and taxpayers. Thank you for your attention, and I am now at your disposal for questions.

Chair. – Thank you very much President Draghi for your remarks, including relating to the importance of the role of Parliament, both as a forum for enhanced transparency as far as ECB monetary policy tasks are concerned, and also as a co-legislator. I can assure you that we are
going to do our best to conclude as many as possible of our challenging legislative tasks before
the end of this mandate in order to enhance and improve our legislative framework for financial
stability, also in the direction of completing our banking union and our economic and monetary
union.

Now we will start our Members’ interventions. The first speaker, for the PPE Group, is Markus
Ferber.

Markus Ferber (PPE) – Chair, Mr President, I would like to add my thanks for your
explanations. You sketched out a positive scenario for economic development. Yet clouds are
once again gathering above the fields of economic activity. And one of these is in the
European Union (and was also discussed at last weekend’s meeting of heads of state and
government): the question of whether a workable agreement will finally be reached with the
United Kingdom or not.

This of course also has implications regarding your work, even though the UK has never
introduced the euro or had any intention of doing so. Nevertheless, my question is this: How
is the ECB preparing for possible financial market upheavals in the event of a hard Brexit?
Has a procedure been agreed with the Bank of England?
If there is a hard Brexit, what kind of future cooperation with the UK do you think there will
be in monetary-policy and regulatory matters?

Even if there is not a hard Brexit, we have to wonder what kind of future cooperation there
will be with the Bank of England and in particular with regard to the supervision of euro
clearing and the provision of emergency liquidity.
Would you please outline the thoughts of the ECB on this?

Mario Draghi, President of the European Central Bank. – We are certainly monitoring the
developments of the ongoing negotiation, but we should remember that the ECB is not part of
the negotiation itself. So we will have to see what is the outcome of this negotiation before we
can see what is the next course of action. Clearly we wish that any solution will not compromise
the integrity of the single market. Having said that, as you know, we have formed a working
group with the Bank of England and we are examining various parts of the negotiation, but we
depend on the final outcome, and we have no say on that.

By and large, our estimates show that on the real side of the negotiation the impact should be,
in the aggregate, quite muted. On the financial side as well, the impact – we expect – should
not be significant, with one exception. In some areas of centrally cleared derivatives where, if
there is a sudden event, an unprepared hard Brexit of the sharpest kind, we have to see how the
many contractual positions are going to be regulated after that.

So we are monitoring the whole process, cooperation with the Bank of England is good, and
we are continuing. So we have to have everything prepared, but depending on what the final
outcome of the negotiation is going to be.

Markus Ferber (EPP) – We are currently advising businesses to prepare for the worst case
scenario. There is very little time if there is to be an agreement. Businesses must therefore be
ready. Have you also drawn up a worst case scenario in the ECB?

Mario Draghi, President of the European Central Bank. – As I said, we are waiting to see
what the final outcome is. We urge the private parties to make all the necessary preparations,
but we haven’t taken any decision or made any commitment about what the public authorities
might do with regard to this event. Because that is part and parcel of the final negotiation, to which we are not party.

Chair. – Thank you. We of course encourage everybody to do contingency planning. But we were for the baseline scenario, which is a reasonable and fair agreement. That is still possible, and I hope it will take place.

Pervenche Berès (S&D). – Mr. President, thank you for answering the questions we put to you for this dialogue. I would like to come back to two points. The first follows on from our last discussion, when you appeared before the Committee on Economic and Monetary Affairs. We have seen, in the case of the Bank of Latvia, that there may be concerns as to the authority and legitimacy of the head of a national central bank. Although, in the interests of independence, the government should not intervene by dismissing or suspending the head of a central bank, this type of situation ultimately has an impact on the wider environment and the overall governance of the European System of Central Banks. Do you not think that there is a legal vacuum that needs to be filled and that, in particular, the Central Bank should be able to give warnings concerning the governance of a national central bank?

My second comes in response to your speech in Berlin last week in which you referred to the need for a stabilisation function for the eurozone economy. From this perspective, do you think that the proposals the Commission has tabled are useful and go in the right direction, and do you think that it’s the Council’s responsibility to work to ensure that they can be finalised by the end of this parliamentary term? Do you have anything to add to these proposals?

Mario Draghi, President of the European Central Bank. – On the first issue, which is about the action that could be taken on the anti-money laundering front, there is no mystery about the fact that the current situation is not satisfactory. What the ECB is doing now is basically to work in a working group the Commission set up so as first to improve the exchange of information between national anti-money laundering authorities and their supervisors. There is more to that, however, namely that certain information should be across supervisors and across anti-money laundering authorities.

The position of the ECB is that there should be – and I think you heard the same being said by Danièle Nouy – a European anti-money laundering authority so as to ensure full visibility on what is happening in the euro area. In the meantime, we have created internally – and we are in the process of beefing it up – a point of entry so that the anti-money laundering issues could actually be seen by the supervisory authority jointly with the legal part of the Bank. These are the actions that we are undertaking, but you should remember that, as the ECB is not responsible for the anti-money laundering – neither enforcement nor prevention – in a sense the capacity of the ECB to change this situation is also relatively limited. So we have to work together with the Commission on this.

The other question relates to the stabilisation function. As you remember, being kind enough to quote my speech in Berlin, I don’t enter into the specifics of the different proposals. There are several and to some extent each one of them has merits and has its complications. So, at this stage, it is very difficult to choose one of them out of the many. However, any proposal in this field should have two features.

The first is that it should be adequate to carry out stabilisation. I will say in a moment what is meant by adequate. From there its size would be assessed. The second feature is that it should not, in a sense, distort the incentives that countries have to run a fiscal policy that is sustainable. In other words, it should not encourage what we call moral hazard.
To be adequate, when we look at how stabilisation is being performed in monetary unions that are more advanced than ours, we see that a good deal of the risk sharing necessary when you have shocks is actually performed by the private sector. This is so because these mandatory jurisdictions and these monetary unions have well-developed banking unions and well-developed capital market unions and the public part is relatively contained.

So in a sense the first conclusion here is that the size of this fiscal stabilisation function will be much smaller, the bigger and better the banking union and the capital market union, and vice versa. What is not defensible is to do nothing: nothing on the capital market union, nothing on the banking union, and nothing on the stabilisation front.

Bernd Lucke (PPE) – Chair, Mr Draghi, you received a letter from Mr Savona, the Italian Minister for European Affairs, who has unusual – one might even say subversive – ideas concerning the necessary reorganisation of the euro area, and this links to comments on the euro area not being an optimum currency area.

Given the unpredictability of what the Italian government might be planning in terms of currency policy, concerns are naturally growing in other Member States such as Germany over what would happen with TARGET claims (for example, Germany’s) – estimated at around EUR 1 000 billion – if a country which, as in Italy’s case, has TARGET debts were to leave the euro unilaterally and unlawfully. You are, I know, about to say that this is not possible in law. But it is conceivable that Italy will simply ignore the legal basis.

And you yourself wrote, in response to a question by two Members of the European Parliament who belong to parties currently governing in Italy: In such an eventuality, Italy would have to repay its TARGET debts. But as far as I know, you wrote that without having any legal basis for it.

My question is this: Should it not be part of the ECB’s forward guidance to send out a message saying what should happen with TARGET claims and TARGET debts if a country leaves the euro area unilaterally and unlawfully?

And if I may also ask: Would it not be possible to reorganise the TARGET system in such a way that TARGET liabilities are debt securities of the central bank concerned, thereby setting them on a legal basis? These might, as far as I’m concerned, be debt securities with indefinite maturity and variable interest, allowing the current system to be copied but with the clear proviso that these debts would become due if a country left the Eurosystem.

Mario Draghi, President of the European Central Bank. – First of all, the issue that you are putting forward would be, to say the least, very complex to assess legally. It is certainly not in the hands of the ECB to do so.

The second part of my answer is that basically any limitation to TARGET2, whether explicit or implicit, would simply destroy the monetary union. TARGET2 is a payment system and so, if we start limiting the amount of payments citizens can make, we will just break the union.

Bernd Lucke (ECR). – I have not suggested limiting the functions of the TARGET system. What I have suggested is that TARGET positions may be converted into debt instruments so that the central bank, the national central bank which has those TARGET debts, would actually be also, in a legal sense, liable for repaying this debt in the case of an exit from the euro system.
This has nothing to do with the functioning of the TARGET system while everybody is still inside the euro system. But, in the case of an exit, we need to be prepared for the possibility that a government would not be willing to service the TARGET positions.

**Mario Draghi, President of the European Central Bank.** – In a sense, it is already this way, because the implementation of monetary policy is decentralised and you have collateral against these positions. This is the current situation.

But we are talking about an impossible situation, we are talking about an impossible assumption, impossible events. The legal grounds and legal case would be pretty clear, and it is there. But to change things by transforming these liabilities into central liabilities for the ECB, this is not what our current framework of monetary policy foresees. This is not what the statute of the ECB foresees. We foresee decentralised implementation of monetary policy.

**Lieve Wierinck (ALDE).** – Dear Mr Draghi, following Mr Juncker’s State of the Union on the possibility of making the euro an international reserve currency, what are the strategic advantages or disadvantages of achieving this, compared to the current situation? Which specific steps would we need to take in order to achieve this, and what role can the ECB play in enhancing the euro’s prominence on the global stage?

**Mario Draghi, President of the European Central Bank.** – Let me first say that the promotion of the international role of the euro is not in our mandate. But having said that, its role has certainly declined over some dimensions of the euro’s international use, more specifically the use of the euro as a reserve currency.

Having said that, the euro remains the second most utilised currency in the world, and the way we have seen the issue is that its international role is primarily determined by market forces. The euro system has neither hindered, nor eased, nor promoted the international role of the euro.

I am pretty sure that if and as we move forward on the Capital Market Union, and on the Banking Union, the international role of the euro will rise. So its role in the world is linked to the determination and the capacity that we have to move along the reform path. Having said that, we are also waiting to see what the Commission will actually concretely propose, and certainly we are there to cooperate with the Commission on that.

**Sven Giegold (Verts/ALE).** – President Draghi, in a speech which was widely recognised 10 days ago, on the occasion of the anniversary of 10 years since the collapse of Lehman, your predecessor Jean-Claude Trichet said that the financial system globally is now at least as vulnerable as it was 10 years ago. He warned of the excessive debt and assets, or as I would put it, the excessive leverage of the financial system in comparison to the real economy.

You justified and announced that you would continue to have a strong stance in what you called an ‘accommodative monetary policy’, but citizens everywhere in Europe now see the growing downsides of that policy. I would say that of course monetary policy had a very important role to play in the eurozone. I was never one of those criticising the general line of your position, and nor was the majority of Parliament.

But isn’t it time, listening to the words of your predecessor, to see the downsides more clearly? Therefore, my question is: do you share the observation of your predecessor? Second, if so, if that excessive leverage of the financial system in comparison to the real economy is a burning problem, what consequences do you take from that observation for ECB policy?
Mario Draghi, President of the European Central Bank. – First of all, let me just nuance that assessment. In the financial system, we have to distinguish between the banking sector and so-called shadow banking. On the banking sector front, there is no question: there has been substantial progress. Today banks have a level of common equity tier one (CET1) capital which is significantly above what they used to have before. So they are stronger as far as solvency is concerned, as far as liquidity is concerned and as far as leverage is concerned.

I think there is no indicator which has not improved dramatically over the last few years. I would even add there is no part of the risk management of the banking system that hasn’t changed since the crisis started. So from this viewpoint, as far as the banking sector is concerned, banks are stronger than they were before. Does it mean that we can prevent the next crisis? Of course not, but our duty is to make them stronger.

The other consideration, the other part concerns the shadow banking sector. In shadow banking, by the way, as far as the EU is concerned, there has been progress there as well. And by the way, shadow banking has increased very, very rapidly. If I am not mistaken, something in the order of 8% a year for several years, and this is the first year when it has stabilised. Certainly the shadow banking sector has entities which are both very large, very complex, very interconnected, and, to some extent, some of them do bank-like activities.

That is a sector where admittedly visibility is less than in the banking sector, so one conclusion is that much has been done in the European Union, and we should continue. But of course other jurisdictions have not been equally active, and the exposure of the European Union to other jurisdictions is indeed significant enough not to prevent transmission of crisis from there to here. Incidentally, as recalled in a recent event to commemorate 10 years since the financial crisis in the United States, the powers of supervisors have been decreased to some extent. There is a sense that in some other parts of the world they are moving in the opposite sense, decreasing regulation, and the European Union can, and should, maintain its stance, but it still remains exposed to the rest of the world.

On debt and leverage, again I would distinguish Europe from other parts of the world. Private debt in the eurozone at least has gone down and, frankly, leverage has gone down significantly. As for public sector debt, no, that is not the case. Public debt has remained high, but that obviously depends on other reasons.

Having said that, we are certainly monitoring financial stability risks quite intensely through all the various possibilities. We see that in certain sectors of the economy valuations are stretched, if not overstretched, in prime commercial real estate, in the high yield debt valuations are indeed stretched. In some real estate, residential real estate, and certainly in some parts, in some countries, in some areas, but also, all in all, I would say that the real estate sector is now showing price increases which are significant in certain parts of the Eurozone.

But how to respond to that? We concluded quite a long time ago – as a matter of fact when we first designed this policy – that it would not be right to change monetary policy because of financial stability risks. The answer to that should lie in the macro-prudential instruments. There is a vast array of macro-prudential instruments that both the ECB, and, especially, the national competent authorities, could and should use. We have issued warnings, by the way, either directly through the ECB or through the SRB on various of these potentially dangerous situations. The next step would be, as a matter of fact, to increase the tool-kit of macro-prudential measures also for the shadow banking sector.

Miguel Viegas (GUE/NGL). – I am going to ask just one question about the participation of the ECB and its President, Mario Draghi, in the so-called Group of 30. Their participation has
been criticised for a long time. We are talking about a group that brings together the major banks and financial groups, including banks that are supervised by the ECB, and, recently, the Ombudsman published a report which clearly states that this participation undermines the ECB’s credibility and also calls into question the independence of its supervisory role. Against that backdrop, my question is very simple: why does the President of the ECB not follow the European Ombudsman’s recommendations, imitating, to a certain extent, what the Federal Reserve and the Central Bank of Japan already do, and with regard to his participation as a full member and to the requirement for transparency in the disclosure of the minutes from meetings held in camera, without the democratic scrutiny he discussed in his opening statement?

Mario Draghi, President of the European Central Bank. – As you are aware, there has been a certain intense correspondence, and now we have taken note of the European Ombudsman’s decision of 3 July 2018 on the involvement of the members of the ECB’s decision-making bodies in the Group of 30. So we welcome proposals which help to further improve ECB transparency and good governance frameworks.

The ECB has provided explanations of its position on the matter in the past, first in its letter to the European Ombudsman of 31 October 2017 and then in its detailed opinion of 18 April 2018. Both are publicly available on the ECB website. In these replies we also presented the significant steps the ECB took over the past years to further strengthen its governance.

The ECB will respond to the decision of the European Ombudsman in the coming days. As always in the past, the answer will be public. We have also answered the various written questions we have received from MEPs in the past months on this matter.

Miguel Viegas (GUE/NGL). – I’m sorry for insisting, but this means that the President of the ECB will stay on in his position as a full member of the Group of 30. That was my understanding of his reply and I would like him to confirm that.

Mario Draghi, President of the European Central Bank. – I have nothing to add to what I said. We will respond to the decision of the European Ombudsman in the coming days. As always in the past, the answer will be public.

Bernard Monot (EFDD). – Mr President, we learned this month that Danske Bank’s subsidiary in Estonia was reportedly guilty of money laundering on an industrial scale, handling some EUR 200 billion in dirty money between 2007 and 2015. My colleague, Ms Berès, has already mentioned the ABLV bank, so I will not come back to it. But the worst is yet to come: the governor of the Latvian central bank, Mr Rimšēvičs, who is also a member of your governing council, has been accused of racketeering Latvia’s largest banks, asking each of them for a salary of EUR 100 000 per month to ‘supervise’ them with a blind eye. Of course, Mr Rimšēvičs is presumed innocent until proven guilty. Moreover, thanks to the infamous independence of central banks, he remains in office with no intention of resigning. Mr Dombrovskis, the Latvian Prime Minister when these practices were in full swing, and who also saw nothing untoward, is now Vice-President of the European Commission responsible for the eurozone and financial regulation.

So, is the eurozone and the free movement of capital forcing properly functioning national systems to make themselves vulnerable to contamination by countries and systems that are beyond any meaningful control? The ECB is also advocating ever more openness and ever fewer national barriers, as it once more did at the vast meeting of the Eurofi globalist banking lobby, with Mr Praet, a member of your Executive Council.
And what do you propose as a cure for what ails us? Ever more European integration, under the pretext that our efforts to combat money laundering are not working. And you want to take responsibility for fighting money laundering away from certain countries and entrust it to – of course – a new EU-wide federal agency. The victims are citizens and states, and the winners are global investment banks and their shadow banking. So, Mr Draghi, please explain to us what you are advocating to combat money laundering in the eurozone, without undermining, of course, the power of the nation-states, and how do you intend to ensure ethical behaviour from your colleagues in the ECB Council?

Mario Draghi, President of the European Central Bank. I am afraid that your position is a little contradictory because, on one hand, you say that the present system is highly dissatisfactory, a disaster, but the present system is a nation-based system. So to change and improve it what we are suggesting is that there should be more coordination up to having one authority at European level. You can’t have both. You can’t have a nation-based system which is completely uncoordinated. That’s all without a federal authority. So, in this sense, I think there is a slight contradiction in what you said.

But let me repeat here that we are not responsible for enforcing legislation on prevention of the use of the financial system for the purpose of money-laundering and terrorist financing. Having said that, we will do our utmost, for example by pushing for a European authority, for example making a point of entry – again – in the ECB, a federal authority, not a nation-based authority because it is quite clear that the present system doesn’t work.

Bernard Monot (EFDD). Mr President, you are not answering my question, particularly regarding Mr Rimšēvičs. Moreover, I see no contradiction concerning the management and control of money laundering. In France, the Banque de France did so perfectly before the European Central Bank even existed There were also controls that were carried out by the ministries of finance. In France, none of the problems we are referring to arose when this was managed at nation-state level.

Mario Draghi, President of the European Central Bank. Mr Rimšēvičs’ position is one that regards the national judiciary of his country. The ECB cannot do anything other than what it has already done in going to the ECJ and presenting its case, as far as the good functioning of the Governing Council is concerned. The ECJ has pronounced and now there is an appointment of an alternate so, as far as the functioning of the Governing Council is concerned, things have slightly improved. The situation is not something we like, but it is because the case in the judiciary system in Mr Rimšēvičs’ country is ongoing.

The other thing doesn’t say anything. To say that one national authority, or two or three, perform their tasks very well doesn’t mean that the nation-state base is actually the most effective because you have to ask how the money laundering, the weakest part of the union, works. How has this issue been addressed? That’s where there is an argument for having a strongly coordinated system where people exchange information. Without any information exchange there is no hope that you can be efficient on anti-money laundering.

Marcus Pretzell (PPE) – Chair, Mr Draghi, Ten years after the Lehman Brothers collapse – which forced us to adopt zero interest rates – there are essentially two tools remaining to the ECB, as you mentioned earlier: the Asset Purchasing Programme and Forward Guidance.

As a result, the ECB’s balance sheet has increased considerably. Its total assets rose in June 2018 to over EUR 4.5 billion, which equates to some 41% of the euro area’s gross domestic product. Hence my first question: Does the ECB have resources and instruments
which can model and test the risks of the balance sheet which has increased so much in so few quarters?

In addition, a recent story involving Deutsche Bank is particularly interesting, especially as you just said that the banks had improved considerably, or rather the situation of the banks had improved considerably. Deutsche Bank now has a five-year default probability of 7.7%. This is the highest of all the main European credit institutions. It is higher than the risk of the Italian UniCredit was, and it is fairly obvious that the unconventional currency policy certainly did not help Deutsche Bank.

The ECB bought up a large number of Italian bonds, relatively speaking. Hence my question: Is there not, in your view, an imbalance between what has been done for Italy – your country – and what has been done in Germany, to the extent that recourse is made to this instrument? The merger of Deutsche Bank and Commerzbank will be happening soon. This may be a merger between two much-weakened players. The stock-market valuation of both has decreased sharply, and each has dropped out of an important share price index: Deutsche Bank from the Euro Stoxx 50 and Commerzbank from the DAX.

And one final, very short question: You said earlier that any limitation, either explicit or implicit, on TARGET2 would destroy monetary union. Does this mean that any attempt – including by Germany – to impose at least a limit of one billion euros (which we have nearly reached) would also be fatal? Does Germany have to accept that TARGET balances will rise above that level?

Mario Draghi, President of the European Central Bank. – The answer to the third question is yes, it would be fatal. It doesn’t mean anything to have a monetary union in which I can make payments only up to a certain amount and then, above a certain amount, I don’t know what to do. Maybe I will go back to another currency. I just wonder how these ideas will come out.

That was the last question. Regarding the question before last, you don’t seem to be well informed. You say that the ECB has bought Italian loans. No, that is not true. Full stop. No. It has both government bonds and corporate bonds in each and every country, according to its capital key. There is no privileged eye towards any one country. We run monetary policy for the whole of the eurozone and we look for price stability in the whole of the eurozone, not in one country or another.

Your second question is about Deutsche Bank. I don’t comment on individual institutions. Let me say that here in the eurozone banks still have legacy problems. The legacy problems are the problems that have been inherited from the great financial crisis.

In some parts of the Union these legacy problems have the shape of non-performing loans. In other parts of the Union these legacy problems have the shape or level – the so-called level 2 and 3 assets – the valuations of which are extremely important. So in both cases banking union can progress if these legacy problems are addressed and resolved. I won’t comment on individual institutions.

Your first question is about the risks for our balance sheet. We have indeed expanded our balance sheet considerably. At the same time, there are provisions of all types. First of all, there are eligibility criteria which, all in all, make the quality of what we have in our balance sheet quite good. Second, we have limits on exposures. Third, we have provisions for interest rates and exchange rates. So we seem to be well prepared.
But there is also another thing that we have to consider. The ECB, like most, if not all, the central banks – certainly all the central banks of the largest jurisdictions – accounts for its assets not at market value but at their amortised cost. So drastic changes in interest rates do not have an immediate effect on their balance sheet. Most of the assets are not valued at market price, so there is no mark-to-market in the balance sheets of the central banks.

**Fulvio Martusciello (PPE).** – President Draghi, colleagues, when an Italian or EU citizen hears Italy’s Deputy Prime Minister say that, ‘in the next finance bill, the Minister for the Economy will create a slight deficit and then we will try to pay it off in subsequent years’, he imagines that it is the EU, with its strict rules, that is cruelly not allowing any spending.

Can you tell us whether, in your opinion, the 1.6% ceiling can be exceeded, whether it would be expedient at this stage for Italy to break through this ceiling, bearing in mind too that the spread has rising since 4 March by 130 points and that, like all countries in the EU, we are getting ready for the end of quantitative easing? Isn’t asking the Minister for the Economy to take out more debt likely to put the country’s accounts at risk?

**Mario Draghi, President of the European Central Bank.** – As I said at the press conference last week, we have to wait for the facts and the facts are the presentation of the draft budget law and the parliamentary discussion. Both are important and sensitive.

I don’t want at this point to go into this issue or what was said at the level of the government of one individual country. I said last time that words used had been damaging, because households and firms are now paying higher interest rates at the banks than before and the evidence we have regarding this is that from April onwards, following the fall in share prices that occurred then, banks have put up their rates for new loans by around 20 base points, especially for small and medium-sized businesses. Big businesses that issue bonds have seen their costs go up even higher, much higher. We are talking here – if I am not mistaken – about 64 base points on bonds issued by big companies.

But the rise in bank credit rates is not the only issue; conditions for guarantees and contractual clauses have also changed and become more demanding. So this gives an idea of the situation, while businesses in other countries however continue to pay the same rates as before, maybe even slightly lower.

Concerning households, there has been a rise in rates for households, especially in consumer credit, that is for households that take out small loans, and there too, in consumer credit, rates have risen by around 20 base points or even a bit more.

The process is slower for loans, of course.

**Fulvio Martusciello (PPE).** – This situation is the result of the wrong words being said but of course, no serious action has been taken in response, am I right?

**Mario Draghi, President of the European Central Bank.** – I don’t think we should go any further into explanations. The fact is that this is what has happened in Italy and it has not happened anywhere else in the euro area.

**Chair.** – Thank you, President Draghi, some very interesting figures.

**Luigi Morgano (S&D).** – Thank you, President Draghi, for coming to these meetings at Parliament. They are held regularly, which is, I think, an excellent way of making sure that
the ECB explains its actions both to us as MEPs and to the general public, without impinging obviously on the independence of both institutions, the European Parliament and the ECB.

In the wake of which I have just mentioned, but especially taking into account your introduction and the dialogue with those colleagues who spoke before me, I would like to ask you a few questions that might seem a little unorthodox. What do I mean by this? In our meetings here, the views exchanged and the language are clearly those of people who are experts in or at least knowledgeable about economic policies, and monetary policy in particular.

Perhaps this has not been sufficiently stressed but during the worst moments of the crisis the ECB, and you in particular, President Draghi, ensured the euro area remained strong and, as a consequence, safeguarded the European project. Conversely, we know that some national leaders were all too often too national or insufficiently European. I am thinking, for instance, of the lack of discussion on the European deposit guarantee or of EU-level anti-cyclical budget instruments in managing the crisis and the post-crisis period, and so I come to my questions.

Looking back over recent years, I would like to ask how you would sum up the ECB’s actions for citizens who do not sit on the ECB’s executive board but who live every day with the effects of the work and decisions it takes? Still imagining talking to them, in particular, what would you highlight concerning the state of the EU economy today and, if possible, what threats can be glimpsed on the horizon – not because you haven’t already mentioned them but what effects might they have on monetary policy?

Why am I asking this? Because this is ever more often – perhaps because we are coming towards the end of the five-year EU period that concerns us – what quite a lot of people, a lot of our fellow citizens ask, to understand whether a more prosperous economy is possible, given too the shifting international context, with and without duties, and therefore whether a better future for the EU is possible.

Mario Draghi, President of the European Central Bank. – Monetary policy measures have had a substantial impact on the euro area economy and the ECB estimates that in the four years between 2016 and 2020 they have contributed to over 1.9% in growth – I said that too in my introductory statement – and the figure for inflation is similar.

But in general I would say that the ECB’s monetary policy was central to bringing us out of the euro crisis in the years in which there were no other policies; from 2012 onwards to the QE measures that were taken, to the forward guidance on interest rates and to the promise to reinvest maturing securities.

I am, of course, a partisan observer in all this, so in a sense this judgement should be confirmed by all the other citizens in the euro area too, as does indeed seem to be happening a bit.

Brian Hayes (PPE). – Thank you, President Draghi. Welcome once again to the Committee on Economic and Monetary Affairs (ECON).

I know that earlier you answered a question from my colleague, Markus Ferber, on the issue of a hard Brexit. I wonder if I could just probe that a bit further. Christine Lagarde recently said that a no-deal Brexit would have very serious consequences, not just for the UK, but also for the eurozone. Would you agree with that assessment?

Secondly, while I know that you are not part of the negotiations and you obviously work with the Bank of England in terms of the working group, do you recognise that there are some
Member States – my own especially, Ireland – which could be disproportionately affected by a hard Brexit in a circumstance where, as you rightly pointed out earlier, we have very high levels of public debt in our own Member State and as well as across the eurozone system?

I suppose my two questions are, firstly, if one country is badly affected – such as my own or others – what do you think the bloc should do in trying to ease the pressures that could follow such an outcome? Secondly, what advice would you give to the national competent authorities – to public authorities – in those Member States that are exposed to the potential of a hard Brexit, in terms of creating buffers or reducing deficits further in that circumstance of very high levels of public debt? What advice would you give as the President of the ECB, the person directing monetary policy across the eurozone? The euro is our currency. It belongs to the eurozone Member States and it is as much an Irish currency as it is a German currency or a French currency, but there are circumstances where some countries would be disproportionately affected by a very hard Brexit. It would be important for citizens of my Member State to hear what you believe is the right and appropriate response to these situations if a hard Brexit were to emerge.

Mario Draghi, President of the European Central Bank. – Thank you. In a sense, it is a question that it is very right to ask, but it is a little early to have a full and satisfactory answer. First, regarding the impact, I said before that the impact through trade and, by and large also through the financial channels, would not be – or at least doesn’t appear to be – sizable with one specific exception. I hinted at that earlier. I am speaking for the whole of the eurozone, which doesn’t mean that individual countries might not be exposed significantly to a hard Brexit. Ireland is one case, perhaps the case in point.

It is very hard to see how this would happen, because we don’t know exactly what the final outcome of the negotiation is going to be. Would the rest of the Union leave the country to cope with this alone? It seems to me very unlikely given the fact that our values include solidarity. I am expressing a purely personal view in saying that. Nothing like that has been discussed. We still think it is an unlikely event, but if we are to speculate about unlikely events, this seems to me to be the conclusion.

Chair. – Brian, you know better than anybody that Ireland would be disproportionately affected if the Union did not negotiate strongly for an operational backstop. We are having tough negotiations exactly because the EU is standing behind Ireland on the issue of a backstop as a condition for a deal.

Paul Tang (S&D). – Welcome, President Draghi. I would like to think that the ECB is on top of developments, and preferably in the lead, but I fear it is falling behind on the topic of sustainable finance.

The European Parliament adopted an own-initiative report in which it says that we want a mandatory due diligence framework requiring investors to identify, prevent, mitigate and account for ESG factors after a transitional period. Investors include insurers, pension funds and asset managers, but could also include the ECB.

Mario Draghi, President of the European Central Bank. – Could I ask you to restate your question, because I lost some of it.

Paul Tang (S&D). – Fine. Is the ECB on top of sustainable finance? The ECB is also an investor through the asset and collateral policy, and the European Parliament expresses the wish
that investors take into account ESG factors through a mandatory due diligence framework, making sure that they identify, prevent, mitigate and account for these factors in their decisions.

In fact, there is an interesting working paper by David Schumaker, which goes into one of these factors, the ‘E’ for environment, called ‘Greening Monetary Policy’. His claim is that the euro system could support the EU’s climate policy by greening monetary policy operations. The paper shows that it can be done without interfering in the smooth conduct of monetary policy, so it doesn’t collide with the objective of price stability. He writes that the real question is whether central bankers are prepared to cross the Rubicon. You have heard the European Parliament’s opinion. We are very much in favour of mandatory due diligence frameworks, which require investors to take into account these ESG factors. Is the ECB willing to do the same? Will it get on top of the curve?

Mario Draghi, President of the European Central Bank. – Well, let me say that everything I am going to say is without prejudice to our primary objective, which remains price stability. Having said that, the ECB supports the general economic policies and the aims of the Union. Among these, Article 3 of the Treaty includes the sustainable development of Europe, aiming at a high level of protection and an improvement in the quality of the environment.

The ECB recognises the challenge posed by climate change and the importance of the policies aimed at addressing it. The ECB supports the ongoing work in various international fora, and has recently joined the Network for Greening the Financial System, which brings together central banks and supervisors committed to developing common supervisory and macroprudential practices to address climate related and environmental risk.

Turning to our corporate bond programme, the eligibility criteria of our corporate sector purchase programme have deliberately been broadly defined and do not positively or negatively discriminate on the basis of issuers’ economic activity. Let’s never forget that they are guided by our primary monetary policy objective, which takes into account financial risk and measuring consideration. But when we come to the actual action that the ECB has undertaken through its corporate bond purchase programme – and this is something that I have never had the opportunity to communicate before – the ECB has actually purchased a quite significant amount of green bonds. As a matter of fact, the percentage of green bonds out of the total portfolio is the same as the percentage that the green bonds have within the eligible bonds set-up framework. I do not have the exact amount here. I will find out and tell you in a moment. It is quite a significant amount. At the same time, the ECB has bought EIB bonds, which itself is a very large purchaser of green bonds as well. So within the limits of our mandate, we are certainly taking this very seriously.

Luděk Niedermayer (PPE). – Thank you, Chair. It is good to have you here and let me thank you once again for the job you do.

I will refer to the topic that you discussed at length at the beginning, namely the question of communication and forward guidance. I have two issues on which I would like to know your opinion. The first is that obviously forward guidance on interest rates can help you to deliver the message on monetary policy and so influence the longer end of yield curve. At the same time, one can argue that if the forward guidance is extensive and there is, in the meantime, a change of circumstances, you can get into a situation where monetary policy reaction is not optimal. If the central banks react too late, the cost of adjustment would then be higher. So the first question is: how do you see a balancing of these two goals?

The second is: how do you see forward guidance in the future? On the one hand, we can say that this is a commitment, but if it is commitment, then the issue of the optimality of monetary
policy is there. On the other hand, if this is a conditional commitment, it depends on the future development of the economy. It can be argued that more transparency in inflation forecasting can deliver exactly the same result. So I wonder how you see that second point.

Mario Draghi, President of the European Central Bank. – I think that our forward guidance has served us quite well. Each time you express forward guidance, there is an expectation that can be tightened up to a firm commitment. In our case, I would like to give the actual words that I used, namely that ‘interest rates are expected to remain at the present level’. It is based on the current information set, and it contains an ample degree of optionality, so it covers contingencies that may arise later on.

With this in mind, in June 2018 we said that we expected interest rates to remain at their present levels at least until the summer of 2019 and, in any case, for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path. In this way, in a sense you steer expectations about interest rates upon which the projected inflation path is conditional.

This rate guidance, which we reasserted back in July and again this month, actually contains two parts. First, it is a calendar-based guidance until the summer of 2019. This refers to when we anticipate conditions that might warrant a first rate increase. Second, there is a state-dependent component indicating our expectation that rates will remain unchanged in any case for as long as necessary, in order to ensure the continued sustained convergence of inflation to levels that are below, but close to, two percent. So you see that there are various parts here which should be adequate to cope with different scenarios and different contingencies.

Luděk Niedermayer (PPE). – It could be argued that more transparency and inflation forecasting can deliver exactly the same result, because this is what transparency and inflation forecasting is about, but I fully agree with this approach. I guess that to have too firm a commitment on the future path of monetary policy would have worked in the last few years, but maybe not in the future, and it could undermine credibility. So I am happier with this approach. I would just argue that more transparency in the forecast would do the same job.

Mario Draghi, President of the European Central Bank. – Well, I am not entirely sure. If we look back, it might, depending on the credibility of the central bank. If the central bank is perceived to be 100% credible in a sense that it is enough to announce an objective, people would understand that this objective or target would definitely be reached 100%, then it’s the same thing. There is always a certain variance around that.

Jakob von Weizsäcker (S&D). – Welcome, President Draghi. My first question concerns the lessons one might like to draw from the past decade for the ECB system. In particular, I would like to ask you whether we have already reached the optimal degree of centralisation, especially with regard to national central banks in the ECB system. With hindsight, it would appear that the responsibilities of national central banks for ELA, ANFA and PSPP ought to be reviewed. Similarly, some of the debates we have with regard to TARGET 2 could be defused in a much more centralised system. I would be curious about your take on such steps. They would of course require legal changes.

My second question concerns the concept of SBBS. The ESRB did an excellent report on the subject. I am sorry to talk about something to do with the ESRB already, but this is my speaking slot. Following that report, the Commission proposed legislation to help the introduction of ESBEs. However, there is one major difference between the ESRB proposal and the Commission proposal. It concerns the question of the treatment of the junior tranche in bank balance sheets, in particular whether it should be treated as risk free. I am concerned that, if the
junior tranche were to be treated as risk free, this would defeat the entire purpose and of course the idea is really to create a very safe asset with the senior tranche. I would be curious to know your take on that matter, which we are currently discussing in Parliament.

Mario Draghi, President of the European Central Bank. – Thank you. On your first question, it’s true that in the past I referred to the centralisation of ELA. I would prefer different terminology, which is provision of ELA as a euro system task because, after all, as far as ELA is concerned, it doesn’t really matter. The important thing is that the decision-making process is a euro system, and not a national, decision-making process. This terminology would provide some possible analogies. For example, when we consider the way we conduct monetary policy operations, where monetary policy decisions are taken centrally but the actual liquidity provision is conducted via the NCBs. I admit that the concept is still very much open to discussion and, at this point in time, I certainly wouldn’t comment on the question of risk sharing.

Currently, the responsibility for the provision of ELA, including any associated costs and risks arising from this provision, is at national level with the NCBs concerned and reflecting the respective national legislation. So the ECB’s role is limited to ensuring that the ELA provision doesn’t conflict with our monetary policy objectives. We could envisage, as I have suggested in the past, a shift of responsibility for the provision of ELA from the NCBs to the ECB, but, as we know, there are a number of legal, institutional and political obstacles that would need to be overcome.

On your second question, first of all let me make a general point about safe assets. To have a safe asset is essential. Safe assets are vital to the functioning of the financial system and the efficiency of bank intermediation. They can take many forms. The first is SBBS. The goal of sovereign bond-backed securities was to create an asset that gained safety from euro area wide diversification via pooling and tranching of the pool.

As you said, the Commission is different from the ESRB’s report. All the SBBS tranches would be treated identically for capital liquidity and large exposure purposes. While this provides more incentives for investment into this product, it could raise prudential concerns due to the riskiness of non-senior tranches. Moreover, the Commission proposal favours the private issuance of SBBS. I view all these attempts – so far only two, but you can elaborate and have other proposals as well, and in fact, there were some proposals even before SBBS on this front – as very experimental first steps that address a real fundamental problem of our Union. We used to view government bonds as safe assets and they are no longer considered so. Now we have to find another safe asset of the same breadth, capacity and space that we had before, and we are not there yet.

Jonás Fernández (S&D). – The President, in his opening statement, talked of strong growth in the euro area economy in clear growth, but with some uncertainties on the horizon, probably the most serious of which are the so-called geopolitical risks. In those risks we are seeing the lure of protectionism, primarily in the United States, but we are also seeing the effects of the Federal Reserve’s monetary policy resulting from the largest fiscal deficits in the United States, which this summer just gone caused a major crisis in emerging economies: Brazil, Argentina, Turkey. In that light and taking advantage of the fact that I am one of the last to ask a question, meaning that the questions that I had noted down have already been asked by the MEPs who spoke before me, I would like to ask the President about those geopolitical risks, the risks that we are witnessing in Turkey, Brazil and Argentina, which may affect the euro area, and about the risks of that protectionism or an about-turn, a reversion of the expansionary monetary policy in the US faster than expected in view of the biggest fiscal deficit expected in that country.
Mario Draghi, President of the European Central Bank. – Thank you. Let’s look at this list of potential risks. The first is emerging markets and the risk coming from some emerging market countries. You mentioned Turkey and Argentina. Again, in the aggregate, these risks don’t seem to be material for the growth prospects of the eurozone. However, you may have individual institutions that are especially exposed to credit risk in these countries.

By and large, what we have seen is that contagion – of course contagion could become a problem – from these two or three countries to other countries follows a precise path. The countries that are affected are also the countries that have weak fundamentals, namely a very high current account deficit, a high budget deficit and high inflation in some cases. We have seen that this contagion has spread only to a limited degree to other emerging market countries so, all in all, this doesn’t represent a material risk for the aggregate of the eurozone.

We have to arrive at a different conclusion when we look at protectionism or the threat of rising protectionism. There we have to consider that the final assessment will be possible when we know the extent of the escalation that policy actions will take in the coming months. There are two dimensions connected with that. One relates to confidence. Protectionist measures are very complicated and it is very difficult to understand their impact on GDP in different parts of the world. They are usually negative when all is assessed, but at this point in time we only see the protectionist measures that have been announced and implemented, and their impact is not very significant for the time being. However, other measures have been announced, although not yet implemented, and we have to see what the response of other countries is going to be. All this has – and perhaps has already had – some negative confidence effects on growth.

The other dimension that we have to consider is that the value chain today is much more complex than it was years ago. So these protectionist measures have a completely different impact depending on the global value chain of production. These effects are very important and potentially very serious. So for the time being we don’t know what the final size of all this will be, but we know that it is going to be big and we should do our best to be prepared. It’s going to be big if what has been announced is implemented and because of what may follow later on.

Finally, you mentioned the risk of a sharp repricing in financial assets following the changes in monetary policy in other jurisdictions. That is certainly something that we are monitoring closely. All in all, banks today seem to be prepared for a rapid increase in interest rates in the sense that these models – we have done some simulations and banks have done their own simulations – show that, when interest rates go up, the net interest margin also goes up. Therefore banks are, by and large, better off, although you have to see what the consequences are on their portfolio of assets. But I would be cautious about drawing conclusions here which are too complacent because the models upon which these conclusions are drawn are models that were designed after a period of very low interest rates – a long period of time – and they assume that the adjustment of deposit rates is more sluggish than the adjustment of lending rates, which is not necessarily going to be the case after a prolonged period of very low rates.

Notis Mariaς (ECR). – Mr President, a few days ago, European Central Bank economists published a study entitled ‘Learning about fiscal multipliers during the European sovereign debt crisis’. I have here a copy of the study, which states in so many words that the harsh budgetary austerity policy decided by the Eurogroup and the troika, in particular spending cuts in MoU countries such as Greece, proved disastrous owing to miscalculation of the fiscal multiplier. In fact, the consequences were dire. The countries concerned were plunged into an even bigger crisis, as evidenced in Greece by spiralling unemployment, thousands forced into poverty, pay and pension cuts, etc. The European Central Bank economists have now acknowledged their error regarding the multiplier, the IMF having drawn attention to it as early as 2015. I myself issued frequent warnings to you in the chamber that the continued spending cuts imposed by
the troika were a mistake, simply driving the country still further into recession. In view of this and of the decisive role played by the ECB in formulating and monitoring these programmes, the question facing us, now that the true extent of the error and its calamitous consequences is out in the open, is the following: Is the European Central Bank is willing to compensate Greece for the enormous economic damage it has sustained? As you know, Mr President, the Greek people have been reduced to poverty and their economy is in tatters.

Mario Draghi, President of the European Central Bank. – I have just one point to make. The paper you are referring to is not the ECB official position. It is the ECB research paper that is published under the responsibility of its authors, and there is a disclaimer written there. Having said that, the ECB will certainly come out with an assessment of the experience of our programmes in Greece and in other countries, but keep in mind that the best contribution to the eurozone that the ECB has made is to achieve price stability.

I will stop here and we will come back to this when we have our own assessment of the programme. I won’t base my conclusions on a research paper, although some of the conclusions they have about multipliers being different in prolonged recessions, being different across expenditure and taxes, are not unique to that paper.

Notis Marias (ECR). – Mr President, now that you in the European Central Bank have reviewed the situation in the light of the above economic study, may I assume that you will consider the payment of damages to Greece, should it emerge that mistakes were indeed made by the troika? I realise that you find yourself in a very difficult situation and that it is not easy for the ECB to reply. No matter, we can come back to this in the future. My second question relates to pensions in Greece. Following your visit to Greece in September as part of the troika, from which it emerged that pension cuts were unnecessary, the question is whether you nevertheless intend to insist on this measure, although the current economic situation in Greece clearly does not warrant pension reductions.

Mario Draghi, President of the European Central Bank. – In its recent review of its participation in programmes, the ECB has carved out for itself a different policy space related essentially to the macro-financial aspects of an economy. As such, the ECB will no longer say anything about pensions, about structural reforms, about privatisation, about lots of things on which the ECB, at least in these past few years and admittedly as a junior partner, had said something.

Chair. – Let me say something as a Chair of the working group on the financial system. As you know, the additional one per cent fiscal measure on pensions, as well as the additional one per cent tax measure, had been asked by the IMF and not by any European Union body. As you probably know, the European Union participants were not particularly happy about this, so you should address this question to other interlocutors. By the way, I agree that we are not the Eurogroup.

Catch-the-eye procedure

Steven Woolfe (NI). – Mr Draghi, I appreciate your time coming to this committee and explaining the position of the ECB. The post-Bretton Woods global financial system, I would say, is struggling under the current financial crises that we have had historically, whether from the 1975 banking crises, the oil shocks, the Nordic crises in the 1980s. The crises that we are facing are becoming shorter in time. Of course, the euro was created because of the post-Bretton Woods scenario, and it is wanting to defend itself against the dollar and the US pulling out of the gold standard at that time.
Where we have crises now, I have four considerable figures that I’m looking at. The unwinding of the unparalleled central bank balance sheets, yields on central bank asset inflation, as adjusted to GDP and government debt as percentages of GDP, are at historical negative levels. We have extreme levels of global imbalances and across the globe that is also impacted by low levels of economic growth.

Two questions. Has the ECB taken a crash calculus of the impact of bonds and stocks? If so, what conclusions can you draw on the timing and asset depreciation? And secondly, bearing in mind that we have a potential crisis coming on, what weapons will be available to the ECB, considering that much of that has already been used up in the past decade?

Mario Draghi, President of the European Central Bank. – We have done simulations about the potential effects of a sharp repricing of assets, and I have hinted at that before. Banks today are considerably stronger, so in a sense they can withstand some of this effect. But I also have cautioned against excessive optimism coming from models that have been estimated based on a long period of low rates, because the parameters of these models may actually be affected by the unprecedented contingency of the last 10 years.

But again, this limited confidence does not necessarily extend to the shadow banking sector, where the visibility we have is less and where the institutions, that are both large, complex and interconnected, have acquired a great importance. They actually carry out bank-like activities much more today than they used to do in the past.

The ECB itself has the instruments that we would use to pursue price stability and it has the instruments that are necessary. We are not short of instruments today.

(End of catch-the-eye procedure)

Chair. – I would like to thank President Draghi for this very rich, lively and interesting exchange of views in this monetary dialogue.

(The meeting closed at 17.00)