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# COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
# MONETARY DIALOGUE WITH MARIO DRAGHI, PRESIDENT OF THE EUROPEAN CENTRAL BANK
# (pursuant to Article 284(3) TFEU)
# BRUSSELS, MONDAY, 23 SEPTEMBER 2019

1-002-0000

**IN THE CHAIR: IRENE TINAGLI**

*Chair of the Committee on Economic and Monetary Affairs*

*(The meeting opened at 15.07)*

1-003-0000

**Chair.** – Colleagues, I would like to welcome the President of the European Central Bank, Mario Draghi.

This is the second Monetary Dialogue of 2019 – the first of this legislative term, and also my first Monetary Dialogue as Chair of the Committee on Economic and Monetary Affairs. But it is the last for President Draghi, whose term of office ends, as you know, on 31 October.

Incoming information is signalling a more extended slow-down in the euro-area growth dynamics – slower than expected than when we had the last Monetary Dialogue in January. Real GDP growth slowed from 0.4%, quarter on quarter, in the first quarter of this year to 0.2% in the second quarter.

While domestic demand is resilient, persistent uncertainty related to protectionist policies and geopolitical factors is taking a toll on economic sentiment and is clearly weighing on the euro-area manufacturing sector.

The persistent and salient downside risks to the growth outlook have also affected the price dynamic, with a further delay in the convergence of inflation towards the medium-term inflation target. Against this backdrop, the ECB Governing Council announced 10 days ago a comprehensive package of policy measures designed to complement each other in providing monetary stimulus – and I believe Mr Draghi will elaborate on this in his introductory statement.

The Committee coordinators also selected two additional topics for discussion. The first is the global structural factors underlying persistently subdued inflation dynamics in the euro area and worldwide, and a possible strategy to address this issue. The second concerns the monetary policy innovations under Mr Draghi's Presidency and the challenges ahead for the monetary policy architecture.

We have done some preparatory work, with the contribution of our panel of experts and the papers that are available on the European Parliament website but, of course, we are interested in the ECB point of view.

As I said, this is the last Monetary Dialogue with you, Mr Draghi. The members before you today represent the third distinct ECON Committee you have appeared before, following those of the 7th and 8th parliamentary terms. So I would like to thank you for the constructive relations established with us. Over the past eight years, you have appeared more than 30 times before our members, answering more than 600 questions.

The ECB is an independent institution whose decisions have a considerable impact on European firms and citizens. I am sure you share with me the idea that the Monetary Dialogues have represented, and represent, a very special opportunity to improve the accountability and legitimacy of the ECB.

I would like to wish you all the very best for the future, and furthermore, as a token of our appreciation, I would like to offer you a gift – this silver plate – on behalf of the ECON Committee bureau and ECON members of all the political groups except the ID Group.

1-004-0000

**Mario Draghi,** *President of the European Central Bank***. –** Chair, honourable members of the Committee on Economic and Monetary Affairs, I would like to start by congratulating all of you on your election, and you, Chair, on your recent appointment as Chair of this committee.

It is a pleasure to appear before this committee in this new legislative term and before my term as European Central Bank President comes to an end.

The legitimacy, as you just said, Chair, of the ECB's independence, as enshrined in the EU Treaties, crucially relies on our accountability, and the Treaties have conferred on this Parliament a central role in holding the ECB accountable. Hearings before this committee play an essential role here. In my time as President, I have found them to be extremely beneficial.

When I appeared before the ECON Committee for the first time, in December 2011, the euro area was rife with financial instability. It was falling into the second recession, which eventually led to sustained disinflation and, at times, heightened risks of outright deflation.

The euro area has come a long way since the crisis, thanks in part to the support provided by the ECB's monetary policy. The unemployment rate in the euro area was 7.5% in July this year, the lowest level since July 2008.

Over the past years, the ECB has repeatedly and clearly shown its readiness and determination to fulfil the primary objective of achieving price stability, as laid down by the Treaties. This readiness and determination has been critical in addressing the economic crisis and the downside risk to our objective. It was with the same determination that, two weeks ago, the ECB's Governing Council decided to act in response to the continued shortfall of inflation with respect to its aim.

I am happy to be able to discuss these decisions with you today. I will first review the main developments in the euro-area economy since my last appearance before this committee. I will then present the monetary policy decisions that were taken by the Governing Council in the light of the economic outlook. As requested by the committee, I will conclude by drawing some lessons from the past eight years that could be relevant when discussing the policy responses to the challenges that lie ahead of us.

Since my last hearing before this committee earlier in the year, euro-area growth momentum has slowed markedly, more than we had previously anticipated. Real GDP growth is now projected to be 1.1% in 2019, down by 0.6 percentage points from December 2018, and 1.2% in 2020, down again by 0.5 percentage points from the December projections.

This slowdown is mainly due to the weakness of international trade in an environment of persistent uncertainties related to protectionist policies and geopolitical factors. These factors are increasingly weighing on economic sentiment and, in particular, on the manufacturing sector, which is more trade-oriented and exposed to foreign influences.

Of course, countries which have a relatively large manufacturing sector are more vulnerable to any turn in the global economic cycle. Germany, for example, accounts for 28% of euro-area GDP, but for as much as 39% of euro-area manufacturing value added. Accordingly, Germany is today one of the members of the euro area most affected by the slowdown.

While the euro-area services sector continues to be resilient, we should not be complacent about its capacity to remain robust to negative spillovers. The longer the weakness in manufacturing persists, the greater the risk that other sectors of the economy will be affected by the slowdown.

Looking ahead, recent data and forward-looking indicators – such as new export orders in manufacturing – do not show convincing signs of a rebound in growth in the near future, and the balance of risks to the growth outlook remains tilted to the downside. In the context of this more protracted weakness of the euro-area economy, both realised and projected inflation have been persistently below levels that are in line with the ECB Governing Council’s medium-term aim.

Headline inflation remains well below 2%, while inflation excluding the more volatile food and energy components has been hovering around 1% for an extended period of time. Underlying inflation remains muted, as the weaker economic outlook may imply a delay in the pass-through of wages to prices. In particular, firms are absorbing increases in labour costs in their profit margins rather than passing them on to customers. Meanwhile, indicators of inflation expectations stand at low levels. Although the likelihood of deflation remains limited, market expectations of inflation over the medium-term are settling around values that are not consistent with our inflation aim.

Since my last hearing here, we have revised down the inflation outlook over the entire projection horizon: first in the March 2019 staff projections and then again in September, reflecting weaker economic activity and lower energy prices. Inflation is currently expected to average 1.2% in 2019, 1% in 2020 and 1.5% in 2021, which is well below the Governing Council’s aim of below but close to 2%.

So, when the Governing Council met two weeks ago, it was confronted with a more rapid and extended slowdown than previously anticipated, persistent and prominent downside risks to the growth outlook, and a further delay in the convergence of inflation towards our aim. A strong monetary policy response was therefore essential.

In pursuit of our mandate, we decided on a comprehensive package of measures to ensure that inflation moves towards our aim in a sustained manner.

We lowered the interest rate on the deposit facility from -0.40% to -0.50%. This rate provides an anchor for short-term market interest rates, which serve as the reference for many types of loans and financial instruments. Lowering the deposit facility rate helps to further improve the borrowing conditions of households and businesses. Negative rates also encourage banks to lend to the real economy instead of holding onto liquidity, thus supporting the portfolio rebalancing channel of the asset purchase programme (APP).

The impact of the cut in the deposit facility rate is reinforced by our strengthened forward guidance on the likely direction of our monetary policy in the future. Specifically, we clarified that we expect our policy rates to stay 'at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics'. This enhanced guidance provides a clear signpost for rate expectations by linking our policy to more stringent conditions in the inflation outlook.

The Governing Council's statement that we want to see inflation rising to a level that is sufficiently close to, but below, 2% reasserts what we said after the July monetary policy meeting, that the values of realised and projected inflation seen in recent times are too low, and are inconsistent with the Governing Council's medium-term inflation aim. While the new formulation of forward guidance reflects the characteristic forward-looking orientation of the ECB's monetary policy framework, we added two safeguards to ensure that policy rate normalisation only begins once inflation is sustainably on course to reach our medium-term aim.

The phrase 'robustly converge' means that the Governing Council wants to be sure that the process of convergence is sufficiently mature and realistic before starting to lift policy rates. The reference to the inflation outlook being 'consistently reflected in underlying inflation dynamics' means that the path of realised inflation should underpin our inflation outlook.

Our enhanced guidance helps to reduce uncertainty about the expected path of interest rates in the short to medium term and will ensure that financial conditions adjust in line with inflation dynamics. Moreover, by maintaining the easing bias on rates, we indicate that we still have space to cut rates further, if needed.

We also decided to restart net asset purchases at a monthly pace of EUR 20 billion from November onwards. These purchases are expected to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

In addition, we reiterated our intention to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start increasing interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The net purchases and longer reinvestment horizon reinforce the accommodative impact of our other measures, thereby further easing the funding costs for businesses and households in the euro area. In addition, these measures help keep down longer-term interest rates by mitigating the undue tightening that would otherwise mechanically arise from the reduction in the average maturity of our portfolio. Finally, net purchases also signal our commitment to use all instruments in pursuit of our price stability objective, which can have a powerful effect on the formation of inflation expectations.

As a complement to the policy measures I just outlined, we also decided to change the modalities of the new series of targeted longer-term refinancing operations – what we call TLTRO III – that we announced in June. Banks can now obtain this long-term funding at lower rates with a longer maturity. This will also help to ensure that our accommodative policies pass through entirely to the funding costs of households and firms.

Finally, we also announced a two-tier system for reserve remuneration, in which part of banks' excess reserves will be exempt from our negative rates. The two-tier system is designed to strike a balance between two outcomes. It seeks to preserve the incentives for banks to pass through the stimulus generated by the negative interest rate on their reserves, while at the same time mitigating the adverse effects that these negative rates might have on banks' lending behaviour by affecting their profitability. The euro area needs financial intermediaries to remain engaged and active in monetary transmission, and the new two-tier system will make sure that the ability of banks to extend loans to their customers at favourable terms remains unimpaired.

The different elements of this comprehensive package will be mutually reinforcing in supporting favourable financing conditions for businesses and households, which will sustain investment and consumption. Greater business and household expenditure, in turn, will support inflation dynamics and make sure that they durably converge to our aim.

Overall, in view of the outlook and uncertainties we are facing, monetary policy needs to remain highly accommodative for a prolonged period of time. The measures we took at our last meeting underscore our determination and readiness to provide the necessary monetary stimulus. We continue to stand ready, of course, to adjust all of our instruments if that is warranted by the inflation outlook.

The conventional and unconventional measures the ECB has taken over the past decade have been successful in addressing the deflationary risks, restoring the functioning of the monetary policy transmission mechanism and providing vital support to the euro-area economy. But the ECB does not operate in a vacuum and other economic policies matter too.

Allow me to recall my first appearance before this committee in 2011. At that time, half of my introductory remarks were about the functioning of Economic and Monetary Union (EMU) and the need for other European policymakers to act.

So I will conclude my final statement to you by highlighting some lessons that have emerged from these eight years, which I hope can help in addressing the challenges ahead.

When comparing the crisis response of the euro area with that of other advanced economies, it is evident that the latter were able to achieve a better macroeconomic policy mix at the time, thanks to more decisive actions in both the fiscal and financial domains.

The Governing Council has reiterated that we are determined to ensure that inflation moves towards our aim in a sustained manner, and that we continue to stand ready to adjust all of our instruments. At the same time, a better policy mix, including fiscal policy, structural reforms and prudential measures, can help achieve this objective faster and with fewer side effects.

We will continue, as we’ve always done, carefully to monitor the possible side effects of the accommodative monetary policy. It is crucial to remain vigilant and to use the available micro-prudential and macro-prudential policy tools as necessary, and I will say more on this during the hearing in my capacity as Chair of the European Systemic Risk Board.

The low-yield environment needs to be understood in the context of the protracted decline in real yields which we’ve seen since the 1980s. This trend is not unique to the euro area. It largely reflects more structural factors, such as the slowdown in productivity growth, which can be reversed with an ambitious structural reforms agenda. In other words, we need a coherent economic strategy in the euro area that complements and enhances the effectiveness of our monetary policy.

That is why there was unanimous consensus in the Governing Council that fiscal policy must make a more decisive contribution. In view of the weakening economic outlook and the continued prominence of downside risks, governments with fiscal space that are facing a slowdown should act in an effective and timely manner. Where fiscal sustainability is ensured, the potential effectiveness of countercyclical fiscal policy is reinforced in the current environment, given that fiscal multipliers are higher in a low-interest-rate environment. At the same time, governments in countries with high public debt should pursue prudent policies and deliver on structural balance targets.

Another key difference compared with other advanced monetary unions such as the USA is the lack of a central fiscal instrument to act countercyclically at the federal level.

I fully acknowledge the political difficulties in building such an instrument in the euro area. Similar difficulties also exist when discussing the completion of the banking union and the establishment of a genuine capital markets union.

At the same time, we should remain fully committed to the goal of achieving genuine Economic and Monetary Union. Ignoring the need to fix the remaining institutional weaknesses of EMU would seriously damage what has already been achieved through the commitment and hard work of everyone involved, and first and foremost of this committee.

As I argued in this committee eight years ago, ‘we need to show a clear trajectory for the future evolution of the economic and monetary union, and thus frame the expectations of both citizens and financial markets’.

Allow me to take a longer-term perspective to draw the last lesson. While the euro area did not have a fiscal policy response comparable to that of other advanced economies, the ECB’s response was fully comparable to that of the other major central banks. Thanks to its independence, the ECB has been able to adapt its policy response and its reaction function.

Preserving this key asset, namely its independence, will allow the ECB to adapt to future circumstances and ensure the effectiveness of its measures. This is all the more important considering that the desirability and relevance of central bank independence are increasingly challenged around the world.

As I argued in my introduction, the best way to preserve the ECB’s independence is to ensure a commensurate degree of central bank accountability. During the past eight years, our accountability practices have evolved, as the Chair recalled a moment ago, and have intensified in response to the quest for scrutiny that emerged from the crisis.

I have always appreciated the ability of this Parliament to react to citizens’ demands, and to support concerns and channel them in a constructive manner during our discussions here. I would like personally to thank all of you for this.

I am confident that this Parliament, and this committee in particular, will continue the good work it has done during my term as ECB President. This, in turn, will further strengthen the effectiveness of the ECB’s actions and citizens’ trust in the EU project.

Thank you for your attention. I am now at your disposal for questions.

1-005-0000

**Markus Ferber (PPE).** – Thank you very much, Chair. I will speak German if I may. Firstly – and also on behalf of the EPP Group – I would like to thank you most sincerely.

On behalf of the EPP Group, thank you very much indeed for working with us over the last eight years. I well remember still, from before you entered office, the hearing we held with you here on this committee. I think we realised that it was not going to be an easy time; and neither you nor we realised how many decisions were going to be taken in those eight years. Thank you very much indeed, therefore, for coming here regularly and explaining your decisions.

Allow me, however, to come back to the monetary policy decisions you took the week before last, in particular the decision to relaunch the asset purchase programme. Major central banks have come out against the move to relaunch that programme. That decision was not a unanimous one, if our information is correct, and about that I am in no doubt. There really were doubts, then, as to the need to relaunch the asset purchase programme, given economic developments and inflation trends. And so my question is this: why, in spite of the considerable differences of opinion on the ECB Council, have you begun to further relax monetary policy, especially given that, in so doing, you have of course also narrowed the scope for action available to Ms Lagarde, who is to succeed you on 1 November, and in view the fact that, an extremely relaxed monetary policy notwithstanding, inflation and inflation expectations in the euro area have not changed? And here again, for that reason, is the key question: why have all the measures you have taken in recent years failed to help stimulate inflation in the European Union and hit the target of close to 2%?

1-006-0000

**Mario Draghi,** *President of the European Central Bank***.** – It's really two questions. First: why we've taken these decisions, and second: are we sure that these decisions are going to work, since our inflation rate is still below the objective?

The first part, in a sense, I dealt with during my introductory statement. Let me first say that the current situation is still a situation in which we see the labour market gradually improving with much less momentum than before. We see nominal wage growth being about the historical average; we see consumption holding; we see business investment slightly moderating; but the overall situation is still one where, as I said, the unemployment rate is at the lowest since 2008. And that is what makes us confident that, at some point in time, our inflation will converge to our aim.

But what has happened is that, as soon as you raise your head and look ahead, you see that the growth outlook has been constantly deteriorating. If we go back to mid-2018, we were told – possibly by someone who also disagreed with these decisions – that the outlook was deteriorating thanks to temporary factors which would be only short-lived. Then we were told that these temporary and specific factors would just be a little longer than expected. Then, in the meantime, geopolitical uncertainties and trade tensions increased and compounded over the specific factors concerning certain countries. Then the temporary slow-down – pretty natural in a sense after 2017, which was quite exceptional in terms of growth – morphed, and became a much more prolonged, shallow sag in the growth path: longer than expected and certainly deeper than expected, six, seven, eight, nine months ago.

In response to this, or at least foreseeing this, the ECB has revised its growth projections several times, and this is the first reason why the ECB Governing Council decided to act. The second reason has to do with the outlook for inflation. The current U-curve already reflects expectations of policy action. In spite of this, we foresee a 1.5% inflation rate by 2021, the end of our projection horizon, which is way below our objective, so we needed to act. If we had not acted, we would have had to downgrade our long-term projections again, and we would not have complied with our mandate of price stability. So that's the first answer.

The second answer to why we continue acting since measures have not actually produced ... Well, let's go back for a moment. I think I'll come back to this, but let's go back for a moment. If we go back to 2014, the first time it was hinted that QE would take place – in December – the probability of deflation was 30%, and the inflation rate was -0.6%. Since then, we've done quite a bit, as I was recalling: the unemployment rate now is the lowest since 2008, and by and large, more than 11 million jobs have been created over less than six years – more jobs than in the United States, for example. To a great extent, I believe that was the monetary policy, because there weren't many other policies in the game in all these years. At the same time, and

I agree with you, the inflation rate – because of the intervening factors and because geopolitical uncertainty has gone up – is not yet at our objective, and that is why we are acting today with the same confidence we had in the past that our inflation aim will converge to our objective.

1-007-0000

**Jonás Fernández (S&D).** – First of all, and in the name of my Group, I would like to thank you for the cooperation in recent years. I was not here when you took over your position, as was the case of my colleague Mr Ferber, but in any case, during the past five years we have been able to engage in sincere cooperation, obviously within the bounds of the ECB's own independence.

I would like to ask you about the review of the monetary policy framework. The current framework dates back to 2003. Since then, we could say that, in some way, you have acted within this framework, but that you have also implemented some innovations within the framework itself, albeit without an explicit review of that framework.

You recently spoke of the symmetry of the current price stability objective, a symmetry which, in its current definition, I consider to be somewhat lacking in clarity. This is also tied to academic discussions on the necessary or possible fixing of price stability, not in terms of inflation, but in terms of price levels, possibly including the price of assets, perhaps real estate, in a broader price level objective.

You are also aware that there has been talk of the possibility of issuing digital currency, the possibility for the Central Bank to allow citizens to hold accounts with the monetary institution itself, while also allowing a broadening of monetary policy instruments which are now beginning to be quite restricted.

Finally, I understand that the next President will drive this revision of the framework forward, and I would like to ask you not so much about the decisions adopted in recent weeks, but rather for a certain forward-looking vision of how you see monetary policy in Europe in the coming years.

1-008-0000

**Mario Draghi,** *President of the European Central Bank***.** – It is a difficult question. First, let me address the point you made about symmetry. We stressed symmetry as being a key feature of our reaction function because the definition of price stability has been 'close to but below 2%', which might have induced a certain misperception that we would react with a greater energy to inflation rates which were above 2% than how we would react to inflation rates which were below 2%. Regarding the idea that we would have a kind of bias against high inflation more than low inflation, the clarification – because it's not more than that – about symmetry says that we would react with the same determination, the same strength, the same decision and the same commitment whether we are above or below our inflation aim, which is 'close to but below 2%'.

That is the meaning of that clarification, which means basically that inflation can go above 2% or below 2% – it's not a price level target, by the way. It simply says that we would react with the same determination. It's about our reaction function.

It's very difficult to say how monetary policy will shape up in the future. For one thing, I think I made it clear in my introductory statement that monetary policy has done its job and will continue doing its job. When I argue for having a greater role for fiscal policy, I don't intend at all to say that monetary policy has exhausted either its instruments or their effectiveness at all. Monetary policy will continue doing its job, but if fiscal policy is active, monetary policy will act faster and with less side effects, which is what we are monitoring continuously.

1-009-0000

**Luis Garicano (Renew).** – Mr Draghi, in your last testimony before the Parliament, I want to start by thanking you for your key contribution to saving the euro. In 2012, when the markets were mercilessly attacking the euro, your famous three words on 26 July 2012 at Lancaster House – 'whatever it takes' – turned the tide, and your conservative actions turned the tide in favour of the single currency. I think you did not let European citizens down, and I – as I am sure do many of my colleagues – want to thank you for doing all that.

However, you will understand that nobody likes to have a currency that needs rescuing, and you talked in the second half of your introductory remarks about how structural weaknesses remain in the eurozone, and I wanted to ask about that second part of your intervention. There are things that we need to do to avoid future crises and to avoid having to rescue the eurozone again, and there are four things that are on the table – some of them in the Committee, some of them from the Commission. I wanted to have your thoughts. What are your priorities? Are these initiatives sufficient, etc.?

The first one is a common deposit insurance scheme, which is right now languishing in this committee; second, a eurozone single asset, the SBBS, that the Parliament itself approved and which is languishing in the Council; the third is the eurozone budget, potentially including the eurozone unemployment reinsurance – do you think that is the adequate tool to do the kind of things you mentioned, to have a more federal or broad union level countercyclical policy? Mrs von der Leyen suggested this policy. And finally, how do we diversify the sovereign bank portfolios to reduce home biases? What are the initiatives on the table and which one do you think is feasible? So the question here is, are we going to have to rescue or not, and of these things, which are the ones that you see as necessary?

Finally, many of us are still concerned about one big eurozone country that you know well: Italy, which hasn't grown in 30 years. What is going on in Italy? How worried should we be? Why is Italy not growing? What does it need to do in order to grow, as it is probably the biggest risk to the zone?

1-010-0000

**Mario Draghi,** *President of the European Central Bank***.** – Let me answer your first question.

It's quite clear that there has been progress since that time you recalled in 2012: progress in the construction of the Economic and Monetary Union has been substantial. It's quite important that when one underlines the current weaknesses, one does not forget that significant progress has taken place. Just think that, in the very same year, 2012, at the June European Council, the Banking Union was launched.

Much of what needs to be done over the relatively short term, in the next six or seven months to a year, would be to complete what's already been approved – namely to complete the Banking Union, deposit insurance and other parts of the Banking Union, and certain things have been approved and that need to be made more operational. There are certain other issues that are still lacking in the resolution process, like liquidity and resolution and a few others things, but first and foremost we need to complete what has been approved.

The second area is the creation of a capital markets union. I think that project is a most important one. When you often argue for a greater international role for the euro, and with the initiatives to promote the euro's international role, the very first thing to do is to create a capital markets union.

We ask ourselves: why has the dollar such a prominent role? The answer is because there is a capital market and there is one safe asset.

So all these things you mentioned come together. It’s a package. It’s a difficult package and it will take a long time but the very first thing, as usual, is to do what has been approved or designed. So, for example, as far as the capital markets union is concerned, more harmonisation of national insolvency laws is a further step that needs to be addressed.

The other steps are also fundamental but, clearly, are more ambitious, so they may take a longer time. And incidentally these steps are important not only for the long-term construction of Economic and Monetary Union, they are very important to stimulate confidence – confidence in businesses and confidence in households so that they can have a positive effect, an immediate positive effect, on the economic situation in the euro area. And the other steps that you mentioned – the presence of a common safe asset, the reinsurance mechanism, the eurozone budget, and so on – are fundamental in addressing the weaknesses of monetary union. There isn’t a monetary union in the world which does not have a fiscal policy.

So, the progress has been significant, the eurozone today and the euro are much stronger, and acceptance of the euro in public opinion is probably at its highest ever, if I’m not mistaken, according to all the European Union polls. But, as I said, these things need to be done and this is not a short-term political journey. It can be done in the medium or long term, and that is why an early political commitment is so important.

Now, the second question is very complex and it really concerns too many aspects for me to be able to answer it at this stage. But certainly – and this holds not only for Italy but also for a variety of other countries – it really concerns the structural reforms agenda.

Each country has its own agenda of structural reforms, and not necessarily just to fix the budget. Structural reforms are a much broader concept, a much broader category that encompasses usually, and one thinks of this, reforming the labour market. That may be important at some point but reforming the product market to increase competition is just as important, if not more so, and probably, sequentially, should come before addressing other things. Other areas include the judiciary, the education system, research, and so on.

These are just what each country should be doing if growth is the priority – as it should be.

1-011-0000

**Philippe Lamberts (Verts/ALE).** – Good afternoon Mr President, I was just elected as an MEP when you took charge, so we had the pleasure of spending those eight years together, so to speak, and I’ll see the first half of Ms Lagarde’s term of office. So thank you for having defended this common good that is the euro. Whatever its design flaws, and they are still there, letting the euro disappear would be a major catastrophe and I think you did your part. No one can accuse you of indecisiveness: my compliments for that.

Now that doesn’t mean that we agree with you on everything, as you can imagine. Basically, you drowned the crisis under a tsunami of liquidity and, of course, you used the standard method. You drowned the financial system under that tsunami of liquidity and you counted on the financial system to allocate it efficiently. Well, we do not share your belief that the financial system does that. I’m not saying that it cannot do it, but it does not do it. If we look at the status of inequality and, more importantly, of our ecological footprint and the climate crisis, no one can say that the financial sector has been seen as an efficient allocator of finance.

After the financial crisis you might have thought that they had learned a lesson. Absolutely not!

Other methods could have been envisaged and one of them is helicopter money. I know that, in answer to Jonás Fernández earlier, you said you had to see whether this was fiscal policy or not, and you have concluded apparently that it is. If you have any studies confirming that, I would like to see them because, actually, when I look at the kind of policies you have been performing, you might call them helicopter money for the rich.

I know you dispute the fact that quantitative easing is driving up inequality: you say the counter-fact is that if we don't do this we will get into a worse economic situation and that will drive up inequality. But it's as if the alternative is between doing nothing and doing quantitative easing – while the alternative would be to perform quantitative easing in various ways. And this is where we should compare the effect on inequality. I'd like to have your thoughts about that.

One aspect is inequality, and the other is driving up investment to address climate change and our ecological footprint. There you have said 'It's not for me to decide.' But the fact is that you have seen those liquidities going to places where they are not just a distraction but actually detrimental to fighting climate change.

1-012-0000

**Mario Draghi,** *President of the European Central Bank***. –** About inequalities, as you rightly recalled, we discussed this several times and there is pretty good evidence that quantitative easing (QE) has actually improved on that front, because of reduced unemployment, which is the major source of inequality. It's quite clear that when asset prices go up, the ones who own the assets are usually wealthy and therefore immediately there is a distribution effect. At the same time, house prices too will have gone up. But all in all, when the dust settles and you look at unemployment and see 11 million jobs created, then that means lower inequality because, as I said, unemployment is the largest source of inequality.

In a sense, when you do monetary policy – and this holds not only for the eurozone but for every central bank in the world – you do it by injecting liquidity through the channels that exist at that point in time. In Europe, you have a dominance of banks, so it's a bank-based economy, and our monetary policy works through the lending-transmission channel of the banking system. In the United States it works more through the financial markets, but basically that's what you have now.

Is this, as you said, the best way to allocate liquidity if you have in mind objectives like climate change or reducing inequality in a more forceful, more effective way? Well, probably not. Probably there are different ways to do it. In fact, some of the new ideas about monetary policy – like MMT (Modern Monetary Theory) and recent papers presented by various authors, including Professor Fischer and others – would suggest different ways of channelling money into the economy.

These are, objectively, fairly new ideas. They have not been discussed by the Governing Council and so we should look at them. But they have not been tested either, and, when you look at them closely, you realise that the task of distributing money to one subject or another subject is typically a fiscal task. It's a government decision. It's not the central bank's decision. And you certainly wouldn't want the central bank deciding who should receive the money.

So, there are several issues that need to be explored with these new ideas, but one key issue is the political governance of these ideas, which needs to be addressed.

1-013-0000

**Antonio Maria Rinaldi (ID). –** President Draghi, I personally have no doubt that one day you will go down in history as the man who saved the euro. Had you not introduced an extraordinary monetary stimulus package from the outset, we would undoubtedly be in a worse situation today. In saying this, I am simply giving credit where it is due.

Again, on a personal level, in availing yourself of the terms of your remit and the Statute of the European Central Bank, I would even make so bold as to say that what you have achieved is nothing short of a miracle. This leads me to my following question. How long can a central bank, such as the European Central Bank, continue in the absence of suitable fiscal policies in each Member State? Whatever its merits, the entire euro system needs to be fully reformed.

Mr President, if I may now ask a provocative question: Can you tell us what sort of European Central Bank we will need on 1 November, in other words *the morning after,* to achieve a euro area that may not be ideal but comes close to it? The fact is that all the other central banks are structured differently. For example, in addition to their role as last-resort lenders, they also have targets other than inflation, such as employment, for example. Furthermore, employment is, in many cases, a pivotal indicator in constitutional terms.

I must also point out that other central banks have an additional advantage in that they are able to control the exchange rate. Unfortunately, the euro resembles the famous earthenware jar in the company of many iron pots. I believe that QE has helped in this respect, since reinvestment of the resulting liquidity prompted many to switch to other currencies, thereby holding down the euro exchange rate.

In view of this, will you be telling us something more after 1 November?   In other words, what would you have liked and what would still like for the ECB?

1-014-0000

**Mario Draghi,** *President of the European Central Bank***.** – First of all, thank you so much for your praise. Second, I really don’t know what I’ll be doing after 1 November! But let me say something now, today.

First of all, there is a strong case for having a fiscal policy tool in the eurozone – or, better and more generally, there is a strong case for having better fiscal coordination in the eurozone. This means two things. The first is that fiscal rules at country level have to be less procyclical: the experience we have had over the last 15 years has shown that they have been very procyclical.

In good times, before the crisis, many countries expanded their budget deficits and did not build buffers. When the crisis came, the countries that had buffers could actually use these buffers in a stabilising way, and especially to bail out their banks. We forget that some countries’ banks were technically ‘bust’ in the first part of the crisis in 2009/2010, and they were greatly helped by governments’ budgets and by taxpayers’ money because there were buffers in those budgets. Other countries had no buffers and could not help their banks, which then started a protracted crisis that lingers even today. And then, during the crisis in many of these countries, fiscal policy was highly contractionary, both because of the absence of the buffers and for other reasons. So that’s the very first thing that needs to be done. Obviously, it’s not the ECB who can really help with this: it’s mostly your task – Parliament’s task, the Commission’s task – to do that.

The second point is about the creation of a fiscal tool that could have as its main goal the stabilisation of the euro-area economy. That’s a long term project, as I said, because it is clearly politically challenging. And that is where, even though one may not have completely clear the way ahead, it would be so precious to have a political commitment now. But basically, for that tool to be effective, it should be aimed at stabilisation; it should be of adequate size, otherwise it will not be credible; it should be almost automatic, and it should be used in a timely manner. That is why the automacity of this instrument is so important. Again, examples from other monetary unions could be very useful. That, after all, is probably what is in place in the United States. So that’s the sort of fiscal revisitation that is needed to strengthen the economic and monetary union.

The second question you had is about our mandate. Wouldn’t it be better if we had a dual mandate, rather than having only price stability? This question has been addressed – you can imagine – many, many times, and we certainly are not part and parcel of writing mandates. We comply with mandates; we don’t write the mandates. It is you who write the mandates: you, the legislators.

From a practical viewpoint, there has been some research in the past few years, showing – if you look now, I don't know how up-to-date it is, this research – that if you look at things exposed, by and large, whether you have one mandate or two mandates, the bottom line is pretty much the same. There isn't much difference: if you look at our reaction function you may well see, for example, that we are reaching now almost full employment in the euro area even though we are far from price stability, which means that we have created the conditions for price stability to be reached in the future.
Now we have a nominal wage growth, which is at about historical averages, but we don't see that pass through to prices. It's going to take time for a variety of reasons, which we may dwell on in a moment. But, basically, you can see that it would be hard to distinguish between the results of having a dual mandate and having one mandate as we have now.

Finally, the point about the exchange rate: as far as the exchange rate is concerned, we – the United States, the United Kingdom, Japan, all the major central banks – are all in the same framework. We don't intervene. Or better, we are bound by the G20 consensus, which forbids competitive devaluations, which we respect and so far everyone else also fortunately respects. So I don't think the euro is especially weak in comparison with other countries as far as this aspect is concerned.

1-015-0000

**Johan Van Overtveldt (ECR).** – Thank you, Mr Draghi, for being here, and I certainly wish you already all the best for whatever comes for you after your mandate as President of the European Central Bank.

I would like to make three statements, on which I would very much appreciate your comments afterwards. First of all – going further on the issue of the exchange rate – when I look at the decisions taken in the last Governing Council, it's hard for me to imagine a really significant impact of those measures on investment decisions and consumer behaviour, whereas your concern, rightly, about economic growth has been very much put into perspective by you. So indeed, I suppose that there is some other objective that has something to do with the exchange rate, maybe anticipating that other central banks will also start to move again in the direction of more quantitative easing and more expansionary measures, and that you proactively react to what might happen to our exchange rate when those actions are about to be taken.

Secondly, you started a repurchasing programme to the tune of EUR 20 billion a month for as long as necessary, and you also point out that we, the bank, can go further. Does that mean that you consider that the ECB could eventually go in the direction of buying more risky private assets and/or lifting the self-imposed limit on sovereign debt holdings?

And thirdly, you referred to the consensus in the Governing Council on the larger role of fiscal policy. But of course we all saw different news reports on the vote that happened two weeks ago within the Governing Council, and that was rather, how should I say, an unusually diversified vote within the Governing Council. How do you look back on that one?

1-016-0000

**Mario Draghi,** *President of the European Central Bank***.** – First of all, are our policies effective? One actually wouldn't need specific numbers: just look at the number of jobs being created over six years, as I just a moment ago recalled, or look at the unemployment rate, or look at other things. But we do have specific numbers, as a matter of fact: considering all the measures taken between mid-2014 and those decided upon in June 2019 – so, not the last ones – the overall impact on euro-area real GDP growth and euro-area inflation is estimated to be, in both cases, around 2.2% cumulatively between 2016 and 2021. So, we are reassured that our measures are effective.

Second, when the ECB staff downgraded the projections before the Governing Council and that downgrade in growth and inflation led to the monetary policy decisions, these projections were based on a yield curve – on a set of interest rates that was already reflecting some expectations of our monetary policy actions, as well as the deteriorated economic outlook. So, if we had not acted, we would have had to downgrade further – as I said a moment ago – not only on inflation, but on growth as well, and this would basically have led us further away from our mandate.

The third point concerns the discussion in the Governing Council: there was a clear majority in favour of the measures we have taken.

1-017-0000

**José Gusmão (GUE/NGL).** – Two comments and two questions: firstly, I think the part that monetary policy played in preventing the collapse of the eurozone is now agreed. I think it is not possible to say that the ECB, with its mandate, behaved in a similar manner to other central banks with different mandates. This could even be said somewhat fairly about its mandate at the ECB, but it could not be said in relation to the ECB's response, its immediate response to the crisis, for example, in comparison with the Fed's response.

The second point that I'd like to stress is that it is very positive that we are starting to talk about counter-cyclical fiscal policy, particularly taking into account the eurozone's response in the wake of the crisis, but it is a little disappointing that this response is being restricted to countries with a margin for manoeuvre for that policy area. For example, the country that I come from reduced its public debt by 10 percentage points and it did it, essentially, through the positive effects of growth on its public accounts. In addition, fiscal policy is not simply a means to achieve macroeconomic stability; it plays an important role in equality policies, environmental policies, development policies and policies intended to resolve structural problems. Therefore, I would like to understand better why Mr Draghi considers that over-indebted eurozone economies do not have to also use today's low interest rates to introduce counter-cyclical fiscal policies.

My second question and to wind up: I would like to know – because I have already seen contradictory ECB documents on this matter – whether the recent labour-market developments and the recommendations given to Member States that they should make their labour markets more flexible and scrap collective hiring and bargaining mechanisms have contributed to the considerable difficulty we are having with increasing salaries and, therefore, the proper implementation of monetary policy.

1-018-0000

**Mario Draghi,** *President of the European Central Bank***.** – On your first question: it is quite clear that countries with high debt should pursue prudent fiscal policies in order not to destabilise the overall situation, which is today one where they have market access. We've gone through this a few years ago, and it was certainly not good for growth or employment. That's why I said fiscal rules should be revisited. The fiscal rules we had in place until now had been sensible and effective for quite a long time. Now, they are sensible in the sense that they avoid excessive accumulation of debts or deficits, but they are clearly not as effective as a countercyclical stabilisation rule. So there has to a re-visitation of these rules. But that's why – especially for countries with prudent fiscal policies – a central fiscal stabilisation tool of the type I mentioned before is so important: countries might have asymmetric shocks, in which case they should find the buffers that could help them to overcome their situation, and then more generally there are destabilising shocks in the overall eurozone economy, where a central fiscal tool can be very important.

Having said that, we tend to forget – because very little progress has taken place in the last few years – that structural reforms are the only tool that economies have to raise output growth in the long-term. I'm not referring, as I said before, specifically to labour market reform; I'm referring to competition and to reforms of the judicial system and of the educational system, and that's where –especially in countries where the growth process is more fragile – it is very important to undertake these structural reforms.

Specifically on your question about whether there was a proposal to dismantle: I don't know about that. I didn't hear that.

1-019-0000

**Chair.** – Now we have the second round of questions. Since we took more time for the first round and we are short of time, I would remind you of these time constraints. I will give four-minute slots now for each question: one minute for the question and three minutes for the answer. Otherwise, we will not make it. I'm sorry.

1-020-0000

**Luděk Niedermayer (PPE).** – Chair, I would like to join the other speakers in thanking Mr Draghi for his excellent work. I was impressed by his competence and decisiveness and the courage he has shown in the past few years.
Let me take three points from your speech, Mr Draghi. First of all, I listened very carefully to your new forward guidance communication and it seems to me it's very close to the inflation-targeting communication that I consider good for policy transparency. Can you confirm that?

Secondly, you mentioned that there is a fair amount of space for monetary policy, if needed, because it's possible that we may move this way or that way, and the space could be important. I assume that you are also talking about more negative interest rates, that would be functional, as you have mentioned. I wonder, in that case, to what extent the cash, coins and notes in circulation could present a certain obstacle in implementing the policy of negative interest rates.

And last, but not least, I am also puzzled by the coincidence of an extremely strong labour market, very high employment, very high wages and such subdued inflation. I know that this is not a general phenomenon but I wonder to what extent you are concerned that asset price inflation could be a missing variable in some cases – in relation to some European countries' very high house prices, and countries with very high financial prices, like the USA, and so on.

1-021-0000

**Mario Draghi,** *President of the European Central Bank***.** – Yes, to the first question. Certainly, it is inflation targeting and that, in a sense, has always been our target. What we did was to clarify the symmetry of our reaction function and to enhance and strengthen our forward guidance, moving from calendar-based forward guidance – where we would say that interest rates would stay at the present or lower levels until such and such a date – to state-contingent forward guidance, as we call it. Here we say that interest rates will stay as at present, or at lower levels, until we see inflation converging robustly towards our inflation aim.

On the second question: we don't see, so far, any conflict between cash and negative rates. We don't see that so far. Also, the introduction of a tiering system should provide banks with conditions in which the need to pass the negative rates on to customers should be less urgent for them in terms of maintaining their capacity to lend to the economy.

The third point is about pass-through. Nominal wage growth now is at or above historical averages in all countries. And, by the way, another interesting aspect – a positive aspect – of the current situation is that the dispersion index in value-added growth across the eurozone countries, and/or in nominal wage growth across the eurozone countries, has been at historical lows now for some time.

We still don't see a pass-through from higher nominal wage growth to higher prices. One of the reasons for that, in the ECB's estimation, is that firms are absorbing these higher wage costs in their profit margins, and that's why it is so important to keep demand holding.

If you look again at the USA, you see that consumption is holding very well because employment is also holding very well: the labour market is stronger than ever. We want to make sure that the same thing happens in the eurozone, where we have seen the labour market losing momentum. It is still improving in the aggregate but it has a slower momentum, and in some countries it is actually not improving at all, it is reversing. That's why we are monitoring this point with close attention, because the pillar of the recovery, in the end, is consumption.

1-022-0000

**Costas Mavrides (S&D).** – Mr Draghi, I believe that future generations will remember you chiefly for your resolve in facing the financial crisis and your skill in rescuing the euro. I also believe that this would explain the motivation of a number of your detractors since, by saving the euro, you have effectively saved the European project.
However, I must now temper my words of praise. When I became an MEP in 2014, the first question I asked you was: 'When will the European Banking Union be completed with a deposit insurance scheme?' I remember that your reply was to the effect that the politicians needed to move forward on this. We now expect Mario Draghi, with his hallmark skill and resolve, to say where he stands on the matter, aside from any technical issues.

Please allow me briefly to mention another issue that you have already raised. Do you share the view expressed by US Federal Reserve governors that the connection between employment levels and pay increases has been shown to have weakened in practice? We need to re-examine this question and consider whether the financial crisis was possibly precipitated by the alarming weakness of the trade unions.

1-023-0000

**Mario Draghi,** *President of the European Central Bank***.** – On your first question, I think that the ECB – although here it's not the ECB only, it's the ECB and the Commission upon initiative of the European Council – has given significant impetus to the creation of the Banking Union through the creation of the Single Supervisory Mechanism (SSM). Just think: this institution, which now supervises the banking system for the eurozone, has been created over a very short time; it will reach thousands of employees, from zero, in a very short time; and it's working with all the national supervisory systems. So this is probably a very important contribution to the creation of the Banking Union.

But there is much left to do. To have a true banking union, we have to reduce what are called national options and discretions – which make the Banking Union, still nowadays, fragmented – and that is entirely in the hands of national governments. So there is a big part of the completion of the Banking Union which is still in the hands of national governments. However, as far as the ECB is concerned, we will continue improving on the supervisory situation.

The second question relates to the relationship between unemployment and inflation. Clearly, the relationship has changed in the past 15 years for a variety of reasons: the weakening of inflation expectations, the long-term crisis, the presence of globalisation, the pressure that globalisation exerts on price levels, and so on and so forth. But the relationship stands. We – the ECB and its staff – stand behind what we call the Phillips Curve. The Phillips Curve is still a concept that finds evidence in all the empirical research and it's basically at the basis, the foundation, of our confidence that inflation will converge to our inflation aim.

1-024-0000

**Stéphanie Yon-Courtin (Renew).** – Madam President, Mr Draghi, thank you for what you have accomplished during your term of office.

First of all, you recently indicated that European citizens, on the whole, appreciate the benefits of economic integration provided by the European Union. Similarly, you pointed out that 75% of people in the euro zone are in favour of the euro and monetary union.

However, public opinion is much more sceptical of the political structures of the European Union, starting with the monetary machine represented by the ECB. The ECB serves as an illustration of this and seems very distant and incomprehensible, both for citizens and companies, but especially for the citizens we represent.

In your opinion, how can we better involve public opinion in the ECB's decisions and make them easier to understand? How can we communicate better? How can we in the European Parliament become more involved in this educational process? That is my first question.

Then I have a second quick question, to which I would ask you to answer in brief. It's time for a review, Mr Draghi. After eight years as President, what are you most proud of, and what are you least satisfied with? In brief, please.

1-025-0000

**Mario Draghi,** *President of the European Central Bank***. –** Let me respond to the first question.

The euro is the most tangible representation of European integration that our citizens encounter on a daily basis. Over the years, elected representatives and leaders, here and in other parliaments, have rightly recognised that ensuring prosperity and stability over the long term is a challenge we have to face collectively, and we are stronger together.

Today our economies are integrated to a point that was not imaginable when the euro was designed, and people understand that. Intra-EU exports have risen from 13% of GDP of the European Union in 1992 to 20% today. But more importantly, value chains are everywhere, as we can see, unfortunately, from the fact that when one country goes into a recession, this immediately spreads to other countries as well.

Secondly, the euro, if you look at two decades, has delivered price stability, and, by and large, citizens understand that.

The point about communication that you made has two dimensions. The first is that ECB communication in specific countries relies very much on the national central bank communication. When the national central bank supports the ECB policy, communication is very good, very positive. Public opinion is very positive, and that is something that should be cherished and kept throughout.

The second point is, more generally, that one should not speak to markets and bankers only, one should also have the language of the people. I couldn't agree more, but I will express a degree of caution here. It's important that the language being used maintains the subtle distinction between the central banking system and politics. It's easy, in order to use the language of the people, to enter terrain that is not that of central banking but becomes politics, and that would be detrimental to the ECB's independence.

So I completely agree with you, subject to that caution.

1-026-0000

**Enikő Győri (PPE). –** Mr President, you have to know that the policies run during your mandate were praised not just in the eurozone, but even in the non-eurozone – I'm representing a non-eurozone country, Hungary. You may remember that my country was the first to be bailed out, so it was not a very nice story, but for the second consecutive quarter my country has been growing faster in the European Union at the moment. So your policies, combined with efficient structural reforms and fiscal policies, can work: I think it's an important lesson.

My question would be about your opinion about the situation of the non-eurozone countries. We opt for different policies: we decided to converge first, and when we are strong enough and resistant enough we prefer to enter the eurozone a bit later, maybe, but I think we learned the lessons from the crisis, and this was one of the important lessons. So how do you see the situation, and what is your opinion about the conditions for entering the eurozone? I see that there is a new condition – entering the banking union – but of course I don't think it would be fair to bring up newer and newer conditions: when we are strong enough we definitely would like to enter, but at the right moment.

1-027-0000

**Mario Draghi,** *President of the European Central Bank***.** – Entering in the euro means going through two steps. The first is being part of ERM II, and the second is to realise that nowadays a country enters not only a monetary union, but also the beginning of a banking union. While the first is a decision that has been taken by the Member States, by the European Council and by the ECB as well, the second essentially has to do with the ECB.

What's usually done is that the country will apply to enter into a close cooperation agreement. To get to the close cooperation agreement, the country must have a comprehensive assessment run by the ECB-SSM of its banking system. If the comprehensive assessment identifies that certain fragilities ought to be addressed, then the countries are asked to undertake certain actions, upon the conclusion of which – and upon the approval of these actions – there would be a clinching of the close cooperation agreement and the process continues. I think that's the key point: to enter into a monetary union with banking fragilities is certainly not advisable.

1-028-0000

**Pedro Silva Pereira (S&D).** – Mr Draghi, as others have done, I would like to thank you for everything you have done in compliance with your mandate to save the euro, which was very important. Not only because you were wise enough to do it, but because you had the determination and courage to face all the resistances inside and outside the Governing Council.

Once again, I welcome the new expansionary measures that you have announced, but once again we are seeing some resistance. I would like to have your comment on the fact that some members of the Governing Council have made public statements against the decisions taken by the Governing Council, and I would like to ask you if you agree that it would be better to have more solidarity inside the European Central Bank regarding the development of monetary policy?

The second issue, on fiscal policy: your message in favour of a more expansionary fiscal policy is indeed very important. You're asking for a more expansionary fiscal policy from the countries who have fiscal space, but it looks like the message is no longer delivered to Germany and the Netherlands as before. Would you agree that the list of countries that have more fiscal space for a more expansionary fiscal policy is now longer, and so we now have conditions for a more expansionary fiscal policy at the level of the eurozone?

1-029-0000

**Mario Draghi,** *President of the European Central Bank***.** – Let me answer your first question: policy disagreements are pretty common. If you see even the most recent decisions taken by the Federal Reserve, they were taken with a certain dissenting minority – dissenting for different reasons between them. It's also sometimes common that some of this dissent may become public, although I always wish to remember that in my six years as Governor of Banca D'Italia – and I think the same was true for my predecessor, Jean Claude Trichet as Governor of Banque de France – I can't remember ever saying anything dissenting on the monetary policy pursued by the ECB. However, the form in which this dissent is made known is very important, especially in a situation where we have a multicountry currency union, and this communication ought to be carefully drawn in order not to undermine the effectiveness of our decisions. That’s very, very important: that’s the only comment I would say.

Your second point is about fiscal policy. It’s up to the Commission and up to the rules; there will be a revision of fiscal policies in the oncoming euro groups, and the Commission will express its views. I don’t want to enter into identifying countries that have fiscal space. This examination now is based necessarily on the existing fiscal policy rules and on the basis of the existing reading of the stability and growth pact. So that’s what we said: that countries with high debt should pursue prudent policies, and countries that have fiscal space should act in a timely and effective manner. As I said, all this area will probably be revisited, and we are confident that the rules that are redefined will be effective and sensible.

1-030-0000

**Stasys Jakeliūnas (Verts/ALE).** – Chair, Mr Draghi, I come from a small country. I am a new MEP from Lithuania. I have tried to research the crisis – why it hit so hard in our country, with a 23% drop in GDP.

I would like to thank you, Mr Draghi, for your very professional comments here and for your work.

I would like to comment on two conclusions from one of the papers written by Claudio Borio and Anna Zabai from the Bank for International Settlements: two conclusions from that paper and your comments on them.

Firstly: ‘The balance between benefits and costs tends to worsen the longer they stay in place’ – ‘they’ being ‘unconventional monetary policies’, which is also the title of the paper. The authors’ second conclusion is that unconventional measures are generally best regarded as exceptional, for use in various specific circumstances.

Now you hinted at the side effects and the negative interest rates, and the fact that they could disturb the situation because people are conservative savers – that was discussed during our previous meeting here – and they could start saving more instead of spending. That could be one of the effects.

You mentioned the fiscal effects of the allocation of liquidity – the allocation of money. In a sense, that is entering the fiscal and, therefore, the political area, and that could be one of the side effects. What do you think about that?

And about the exit from this unconventional policy: is it feasible at all now to exit, bearing in mind what is, in my opinion, quite a dangerous equilibrium of these negative real rates, asset prices, and also the expectations that have been created in the business realm and the public realm?

1-031-0000

**Mario Draghi,** *President of the European Central Bank***.** – The point is, first of all, that there is no evidence that savings go up when we have negative rates. All in all, we don’t see that happening – or there is no evidence that banks are reducing their lending as a consequence of negative rates on the deposit facility, which implies that we are not at what is called the ‘reversal rate’ – when this happens.

The second point is about when the exit will happen. Well, the exit will happen when the economy improves to the point where one can exit without causing a contraction in the economy itself.

If we go back to the end of 2017 and early 2018, at that time the medium-term growth outlook would have suggested that we were moving comfortably towards an exit from this extremely accommodating monetary policy – so much so that we could take some moderate measures in the opposite direction without seeing any tightening in financing conditions. That's the key: being able to take some normalisation measures without causing any tightening in financing conditions, because they are accompanied by the improvement in the economy.

You may remember a speech I gave in Sintra in June 2017 exactly along these lines.

We are not there now, we are not there. As I said at the beginning, we see a growth outlook which is gradually and continually deteriorating.

So, again we come to fiscal policy. If fiscal policy jumps in as the other leg of economic policy in the euro area, certainly monetary policy will have a lighter task. But in the meantime monetary policy will continue to work, and we will still be monitoring the side-effects of it.

1-032-0000

**Gunnar Beck (ID).** – I think the previous speakers all took about two minutes or slightly more. I hope I'll be indulged similarly. I'm holding a strawberry here. According to the painter Hieronymus Bosch, the strawberry is the symbol of transient pleasure and earthly delight. Now, some may say QE (quantitative easing) is a bit like that. If I may, I'd like to continue in German.

– Chair, since 2011, as head of the ECB, you have printed more money and broken the law more enthusiastically than anyone else has ever done. Christine Lagarde herself, before this committee, openly acknowledged your breaches of the law. Yet since 2011 the EU has grown more slowly than the developed world, apart from Japan, and the euro area even more slowly than the rest of the EU.

And in many countries, as a result of your zero-interest policy, it is a racing certainty that there will be poverty in old age on a scale now completely unimaginable to us. At your most recent press conference, you denied all responsibility for the appalling mess in the euro area, which you claimed can be put down to the state of the global economy, trade wars and Brexit. And because it didn't help at all the first time, you have now doubled the dose of your medicine for the euro although we know for a fact that QE only makes the rich richer and almost everyone else poorer.

Well, your compatriot Niccolò Machiavelli observed that half our successes are ascribable to skilfulness and half to Dame Fortune. Are you therefore not oversimplifying a little by blaming all of the appalling mess in the euro area on the caprices of fortune? After all, the global economy affects us all.

1-034-0000

**Mario Draghi,** *President of the European Central Bank***.** – No, no, we're not blaming Fortune. You can relax on that.

But let me state upfront that Ms Lagarde did not consider the ECB's monetary policy actions as violation of the Treaty. The conventional and unconventional measures that the ECB has taken have all been taken in pursuit of its objective of price stability. As I've said several times, including today, we needed to resort to unconventional policy measures to provide additional accommodation, in view of subdued inflation pressures and the ECB policy rate approaching its lower bound.

These measures included purchases of government bonds on secondary markets – and they helped, as I demonstrated earlier. They helped in reaching the convergence of our inflation to our medium-term inflation, and these instruments have respected the boundaries of our mandate.

This has been confirmed by the Court of Justice of the European Union in two pronouncements: one concerning the outright monetary transactions and, more recently, one concerning the public-sector purchase programme.
The Court has also reasserted the proportionality of these measures – meaning that these measures were exactly the measures that ought to be taken in those circumstances, in relation to the specific monetary policy objectives. This confirms that the ECB has used monetary policy tools, which are suitable for attaining the legitimate objectives pursued, to an extent proportionate to the need to correct the inflation shortfalls and address the risks to price stability. Furthermore, purchases of government bonds under the public-sector purchase programme are also compatible with the prohibition of monetary financing as laid down by Article 123 of the Treaty.

So, I think I've responded to your questions.

1-035-0000
**Eugen Jurzyca (ECR).** – I too wish you all the best in your future life, Mr Draghi.

I have two brief questions. The first concerns the fact that the balance sheet of the ECB has more than doubled in 10 years to almost EUR 5 trillion, over 40% of the eurozone's GDP. My question is: do you see any risk in such a huge expansion of the balance sheet?

The second question is: why did the ECB decline to provide the European Court of Auditors with some information which was necessary to assess the supervision of Europe's largest banks? It seems to me that this led to a certain lowering of the ECB's credibility.

1-036-0000
**Mario Draghi,** *President of the European Central Bank***.** – On the first question, I agree with you. Given the size that the balance sheet has reached, we certainly monitor all the possible risks that changes in interest rates, or in the economy, may cause to the balance sheet of the ECB.

However, let me say that, as far as market risk or interest rate risk is concerned, the balance sheet of the ECB is not directly exposed to market fluctuations and interest rates because it's not market-to-market: it's valued at impairment and amortisation costs. So that is one thing.

But let me add to this. There are all sorts of provisions that have been built in through the years against exchange rate risk, against credit risk, against a variety of contingencies – I don't even remember how many there are at this point in time. As far as credit risk and market risk go, I should add, that when we move to collateral, which is also, in a sense, part of the balance sheet of the ECB, there are eligibility criteria, which – even though the collateral rules have been expanded during the crisis – ensure that the quality of collateral remains high. There are haircuts as well, to the same purpose.

So, from this point of view, risk ought to be monitored and that's why we have an extensive risk management department in the ECB, but many protections have already been put in place.

Now, on the European Court of Auditors, I think there is now a memorandum of understanding (MoU) that has normalised quite significantly the relationship with the ECB, both the monetary and the Single Supervisory Mechanism (SSM) part. So some of these worries should have been overcome. The key point, which has been addressed by the MoU, used to be whether the audit by the European Court of Auditors could go into judging not only the operational management aspects but also the effectiveness of the policies undertaken.

1-037-0000

**Eva Maydell (PPE).** – President, glad to have you with us. I have three brief questions.

First of all, I would like to join most of my colleagues by saying that the ECB has emerged as a stronger institution from the crisis. However, I would like to see the Central Bank more often preventing crises rather than managing them, and I think some of the latest policies you have put in place actually aim at that. But it is also more than clear that interest rate policy has reached its limits to a certain extent, and many in our continent actually doubt the Central Bank's ability to influence inflation significantly. So in this regard, and in the context of being at the end of your very successful mandate, what additional powers do you consider necessary for the ECB to safeguard the value of the euro more effectively and keep price stability, or what powers would you have wished the ECB to have had during your term?

I don't think I've heard any of the colleagues questioning you on Brexit. We might be approaching a no-deal Brexit, and I think it's still unclear how EU legislation on banking and monetary policy would apply in the UK. There might, for example, be differences in the application of the prudential provisions. So, in this regard, has the ECB taken any steps to ensure overall euro area financial stability in the case that this scenario happens in the next couple of weeks?

And, finally, banking union: you've mentioned a little bit on that, but perhaps if you have any thoughts or you want to share anything in terms of guidance for European leaders to more effectively complete it, that would be much appreciated.

1-038-0000

**Mario Draghi,** *President of the European Central Bank***. –** Excuse me, I missed what you asked me about Brexit and financial stability. I'm sorry, what was the question?

1-039-0000

**Eva Maydell (PPE).** – To put it very directly, how is the ECB prepared for a no-deal scenario?

1-040-0000

**Mario Draghi,** *President of the European Central Bank***. –** Thank you. First of all, let me say that I agree with you about the nature of our most recent measures and their pre-emptive content. We are reacting to a downgrade in our medium-term outlook. We are not reacting to something that has already taken place, and, as a matter of fact, the still relatively good current economic situation gives us confidence that inflation will converge if we act now at this point in time.

You asked me about what other powers might the ECB have had. I think right now, if you look at the powers the ECB has, they aren't much different from what other central banks in equally large or larger jurisdictions have. In this sense, the ECB has profoundly changed its toolbox, and also, in a sense, the way it reacts to the contingencies – always in compliance with its mandate and in pursuit of price stability. Whether these policies are effective or not – and we think it is, as I said a moment ago, quoting the cumulative response in inflation and growth over the last five years – is a general question that often should be asked to all central banks in the world. We're now in a world of great liquidity everywhere. More or less similar expansionary monetary policies have been pursued by all central banks. Often, if one looks at the arguments and the heated polemics that surround many of our policy decisions, you'd think that these are exceptional measures taken in the eurozone, but in fact its exactly or more or less the same that has been done in the rest of the world.

So the question whether this monetary policy has reached its limits is a general question. We think it is still effective, but as I said before, the side effects are growing together with its effectiveness, and that's why it's high time that fiscal policy comes and complements monetary policy. This has happened in other jurisdictions, and you can see the difference in outcomes, both in inflation and in growth. The global factors which depress inflation and depress inflation expectations everywhere are in action everywhere else. Still, the numbers of inflation and outlook still decreasing come from a higher level than in the eurozone.

On Brexit, the ECB and the Bank of England have worked together for almost three years on trying to address all the contingencies, and a hard Brexit certainly is one of these contingencies. Again, the pronouncement of the Commission for a temporary equivalence is crucial for the centrally cleared derivatives. The mitigating actions by the private sector have also been quite effective. There has been a constant relation with the private sector in trying to inform and follow their actions. Whether the private sector is fully pricing in this risk or not is something that we have to see. Sometimes people say that it’s not fully pricing in this risk; that it is still underestimating this risk. I have no direct evidence of that, but that’s what I’m told.

1-041-0000

**Billy Kelleher (Renew).** – I have two questions, Mr Draghi. Firstly, I would like to say that you are a household name, including in Ireland, and I can assure the committee members that if the central bank president is a household name in your country it means you have difficulties. Thankfully, we’ve come through them because of the policies pursued by governments and the ECB.

I have a number of questions. Firstly, in terms of the Stability and Growth Pact and the fact that, at 60% of GDP and 3% of budget deficit, there are so many constraints on governments, how can you incentivise them to become anticyclical in terms of spending? In other words, countries can only spend when they have it, and when they most need to spend they simply can’t. So how do you reward or incentivise national governments? Germany in particular comes to mind, for example, being the largest eurozone economy: why would it start spending as a stimulus measure, therefore making its exports more expensive to other eurozone countries?

How do you square all those potential circles and pitfalls with regard to the Stability and Growth Pact?

On the issue of the Banking Union and the Single Supervisory Mechanism, it was indicated some time ago that it may restrict lending practices to small and medium-sized businesses. You spoke recently, or last year, in Ireland, at a parliamentary finance committee, where you said that Irish banks were working in a quasi-monopoly. That relates to my question: is the sluggish economy across the eurozone, due largely to the lack of credit to small and medium-sized businesses, because of the restrictions imposed – with good reason, I accept – by the Single Supervisory Mechanism? And have we now got a situation, like in Ireland, where they are repairing their profit-and-loss balance sheets by excessive interest rates rather than lending to small and medium-sized businesses?

1-042-0000

**Mario Draghi,** *President of the European Central Bank***.** – On fiscal rules, as I said before, the experience has been of rules that have been effective in limiting debt and deficit growth. In that sense, they are sensible rules but they are not effective now. And their revisitation should answer precisely the question you asked. I am confident that the Commission and, certainly, the ECB if asked are available and will undertake this.

When we talk about spending, however, we should be careful about what sort of spending we have in mind. It’s pretty clear, even in countries that have fiscal space, that the spending to be undertaken should be the spending that raises potential growth, i.e. productivity – spending on technologies, digitalisation, IT and education – raising the long-term potential of the country itself.

This would also address your objections in terms of making exports more competitive because they are technologically more advanced. And this holds true for all countries, by the way. Revisitation of their budgets in a growth-friendly way is key.

Now the second worry, which I have heard expressed several times, is that the creation and completion of the Banking Union might imply a reduction of lending to SMEs.

We don’t have that evidence. We have evidence that credit growth is still buoyant. It keeps on growing, both to households and firms – but which firms depends very much on which countries. By and large, the evidence we have is that there is no lending contraction to SMEs. If anything, and if I remember correctly, the lending spreads between SMEs and large corporates have actually narrowed down in recent times.

However, if the Banking Union implies larger dimensions, with cross-border mergers, it’s quite clear – and this is very important – that the larger dimensions, with economies of scale and all the positives, should not also carry negatives, namely a lack of attention to small clients. That is quite important.

There is another sector, which is different, and that’s the application of the Basel III requirements. The Basel III requirements effectively ask for capital charges against types of lending that require, or have a history of, higher risk. And if there is something that may depress lending, it is this, not so much the Banking Union by itself.

1-043-0000

**Piernicola Pedicini (NI). –** Thank you Chair and thanks to Mr Draghi for being here to answer our questions. Mention has been made several times of structural reforms at national level but never at EU level. You have said that this is a political issue, a matter for politicians and I agree. At the same time, however, we need authoritative technical opinions such as your own in order to guide our policy making more effectively.

It appears that a number of countries are failing to do their homework, something we have heard before, the implication being that the offending countries are those with the highest public debt, in particular Italy. It was Mr Garicano who first raised this point. Perhaps not everyone is aware that Italy has been maintaining a primary surplus since 1992, which means tax paid by Italians far exceeds public spending, to the tune of around EUR 30 billion per year. In other words, we are doing our homework. However, the net budget deficit is still over twice the primary surplus owing to enormous interest payments on the public debt, the total interest paid to date being twice as high as the debt itself.

Who among you would be willing to buy a car for EUR 10 000 and then pay interest of up to EUR 30 000? This is a great injustice of which due account must be taken. It is necessary to distinguish between fair interest rates and speculation and we cannot allow the markets freely to determine interest payable on government bonds.

Therefore, my question is the following: What is your position on the argument that the ECB should be empowered to intervene on the primary market to keep interest on government bonds below inflation? Inflation above interest on government bonds would facilitate automatic debt settlement without the need for the austerity policies that have destroyed our internal market, something that would therefore be in the interest of not only Germany and the northern countries but also Europe as a whole.

1-044-0000

**Mario Draghi,** *President of the European Central Bank***. –** Neither the Treaty establishing the ECB nor the other European Treaties make any provision for this. The objective of the ECB is to ensure price stability and not budget deficit financing for individual countries.

What I said is that this is not provided for: namely the pegging of interest rates for single, individual countries. It is not provided for by the Treaty establishing the ECB or the European Treaty. The objective of the ECB is price stability and not the financing of countries' budget deficits.

You change the treaty, and you get what you want.

1-046-0000

**Eero Heinäluoma (S&D). –** Mr President, may I endorse what other Members here have said who greatly appreciate your work? In the northernmost EU Member State, Finland, your name is associated with a successful monetary policy and with the rescue of the euro area.

But I would like to bring up two points relating to the question you have already mentioned here as to what the major conclusions of your term in office have been. One concerns inflation and the other the rules governing Economic and Monetary Union.

On inflation, is it possible that we are still living in the past, still fighting the previous war, in which inflation was a real problem? And is it possible that, in the era of globalisation, we have once and for all moved on into a new period in which the risk of high inflation is significantly smaller than in the past, while at the same time the risk of neglecting employment is greater than in the past?

Then another thing. I am delighted that, on the subject of EMU rules, you have said that we need changes and that we should not pursue a procyclical policy. You have spoken warmly in favour of fiscal responsibility. However, our rules are so constructed that, as you are well aware, we face barriers to indebtedness, but we do not have any indications as to how economies in surplus should use their money to support growth in their country and in the euro area as a whole. Should we also have some rules on this question? How can those countries for which things are going well assume their share of responsibility for growth in the euro area as a whole?

1-047-0000

**Mario Draghi,** *President of the European Central Bank***. –** I think that the answer to your question lies in the creation of a centralised fiscal capacity: a fiscal tool that can be used to stabilise the economic cycle across the eurozone for different member countries.

As I said before, to be effective this fiscal tool must be of adequate size, and it must operate in an automatic fashion so that it is timely. But this fiscal capacity will have to be supported by all the member countries, and that's probably the point your question is addressing. That's the way in which solidarity comes into play on the part of all countries, but of course it has to come with responsibility on the part of each individual Member State. And that's why it is so difficult to find agreement on the creation of this fiscal capacity.

You want to have this – it makes a lot of sense from a rational point of view – and at the same time you need to overcome the lack of trust there may be between different countries about the responsibility with which they carry out their budget policies.

1-048-0000

*(The meeting closed at 17.20)*