3-001

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI,
PRESIDENT OF THE EUROPEAN CENTRAL BANK
(pursuant to Article 284(3) of the TFEU)
BRUSSELS,
WEDNESDAY, 23 SEPTEMBER 2015

3-002

IN THE CHAIR: ROBERTO GUALTIERI

3-003

Chair. J We are very pleased to welcome the ECB President, Mario Draghi, for the third Monetary Dialogue of 2015. It is a very important opportunity for us to hear from him the views of the ECB on the outlook for the world economy, which has worsened as a result of the slowdown in emerging market economies, particularly China, and also to hear his considerations and analysis of the interlink between the world economic outlook and the European situation, where economic recovery is expected to continue to accelerate but, according to the ECB, at a somewhat weaker pace. This, of course, has to do with the economic policy stance of the eurozone in the ongoing Semester process, the issue of structural reform and also the broader issue of improving our EMU governance in the framework of the Five Presidents' Report.

So there are a number of very relevant issues. On Monday we had an interesting preparatory meeting for the Monetary Dialogue where, among other things, the interaction between monetary policy and macroprudential policy was discussed. We also expect President Draghi to say something on this. Then, of course, we will also have our usual slot for questions and answers.

3-004

Mario Draghi, *President of the European Central Bank***.** J During the summer break, our Union faced exceptional challenges. First, there was the long and complicated discussion on the new adjustment programme for Greece. And now, in an area very much outside the ECB's competence, there is the challenge of harbouring a large number of refugees who have had to leave their homes. Both these events – although very different in nature – have shown again that Europe can be strong only if it acts in unity on the basis of solidarity and cooperation. This is a lesson we should also draw for the challenges to come.

In my remarks today, I would like to discuss two main topics: first, our assessment of the latest economic developments and its implications for our monetary policy stance; second, the proposals my colleagues and I presented in the Five Presidents' Report.

Turning to the first topic, let me give you an overview of the economic developments since the last hearing in June. Over the summer, industrial production and other indicators of economic activity showed signs of resilience. At the same time, the macroeconomic environment has become more challenging. Our September macroeconomic projections indicated a weaker economic recovery and a slower increase in inflation rates than we had expected earlier this year. The inflation rate will remain close to zero in the very near term, before rising again towards the end of the year. It will take somewhat longer than previously anticipated for it to converge back to – and stabilise around – levels that we consider sufficiently close to 2%.

Slowing growth in emerging market economies, a stronger euro and the fall in oil prices, and in commodity prices more generally, are the main causes of these developments. As a result, renewed downside risks to the outlook for growth and inflation have emerged. For many of these changes, it is too early to judge with sufficient confidence whether they will cause lasting slippage from the trajectory that we initially expected inflation to follow when we decided to expand our asset purchase programme in January. More time is needed to determine, in particular, whether the loss of growth momentum in emerging markets is of a temporary or permanent nature and to assess the driving forces behind the drop in the international price of commodities and behind the recent episodes of severe financial turbulence. We will therefore monitor closely all relevant incoming information and its impact on the outlook for price stability.

Our monetary policy measures in place, including the TLTROs, continue to have a favourable impact on the cost and availability of credit for firms and households. They have so far prevented a measurable tightening in financial conditions for the real economy despite the recent surge in financial volatility. The sustained decline in the cost of borrowing is strengthening domestic demand by supporting durable goods consumption and stimulating investment, particularly by small and medium-sized businesses. This is making the euro area economy more resistant to external shocks.

Should some of the downwards risks weaken the inflation outlook over the medium term more fundamentally than we project at present, we would not hesitate to act. The asset purchase programme has sufficient built-in flexibility. We will adjust its size, composition and duration as appropriate, if more monetary policy impulse should become necessary.

I am aware that many of you closely scrutinise the potential effect of the low interest rate environment on financial stability. The coordinators for the Committee on Economic and Monetary Affairs (ECON Committee) have chosen this as one of the topics for today. Building on what I said during the hearing in March, let me underline that we are closely monitoring risks to financial stability, but we do not see them materialising at the moment. Should this be the case, macroprudential policy – not monetary policy – would be the tool of choice to address these risks.

Here we can build on the recent experience in developing these tools. Over the last two years, national authorities in Europe have been active in introducing macroprudential policies, such as caps on loan-to-value or debt-to-income ratios, to structurally strengthen the mortgage market and to counter growth in real estate prices as well as mortgage loans. Similarly, to strengthen the banking system, countries have introduced systemic risk buffers, in addition to the buffers for globally systemic banks and other important institutions. However, these macroprudential instruments mainly cover lending through the banking sector. As there are signs that the financing of the euro area economy has tended to shift to non-banks, the coverage of the macroprudential framework needs to start being extended to the shadow banking sector so as to address risks in the financial sector as a whole.

I would also like to say a few words about Greece. During the last hearing in June, I called for a comprehensive and fair agreement with Greece. In the following weeks, coming to such an agreement was very difficult and necessitated tremendous efforts from all those involved. But I am grateful that, in the end, an agreement was reached. If it is completely implemented, the new programme will put Greece in a position to grow again and to reap the full benefits of participating in our common currency. The ECB contributed, in line with the provisions laid out in the legal framework, to the negotiation of the programme. In addition, the ECB closely monitored the provision of emergency liquidity assistance by the Bank of Greece according to our rules, taking into account the prospect of a successful completion of the negotiations at any point in time.

Let me say a few word about completing European monetary union and the follow-up of the Five Presidents' Report. The negotiations over the summer revealed again the fact that our institutional framework is still not commensurate with the requirements of sharing one currency. In the Five Presidents' Report that we published shortly after the last hearing, the five authors shared one common conviction, namely that to make monetary union stable and prosperous, a more complete union is necessary. But we did not only outline this common conviction; we also presented a concrete roadmap showing how to attain this objective. This roadmap should now guide our discussions in the months to come.

From our perspective, two elements are of particular importance. First, despite the best efforts of all actors involved, the crisis has shown that monetary union requires a political centre; a centre that can take the relevant fiscal, economic and financial decisions for the euro area as a whole in a swift and transparent manner with full democratic legitimacy and a clear set of responsibilities given to it by the legislators. It is in this spirit that I have called repeatedly for a move from rules-based coordination to sharing of sovereignty within common institutions. The report proposes a euro area treasury as one example. Such ideas now need to be spelled out.

But we should also go further with regard to our policies. The report makes clear that European monetary union will also need to strengthen its tools to manage and prevent the build-up of fiscal, financial and other macroeconomic risks. In the last few years, notably with the reforms strengthening the economic governance framework and the setting up of the ESM, SSM and SRM, we have made important first steps in improving our crisis prevention and crisis management toolkit. But we are not there yet.

Most imminently, we should move towards completing the banking union through a common backstop for the Single Resolution Fund and through a European deposit insurance scheme. Both are essential to create a truly single banking system to mirror our single currency, and both are crucial to underpin the credibility of banking union and finally achieve its initial promise, namely breaking the bank-sovereign nexus, making the financial system more resilient, and protecting the interests of taxpayers. At the same time – going beyond the confines of the banking sector and banking union – we must make progress in developing a capital markets union to enhance further the scope for cross-border private risk-sharing.

In addition, we need to prevent imbalances – whatever their nature – from developing into a crisis environment. Therefore, we need a new convergence process based on the capacity of our economies to withstand shocks and grow out of them quickly. This would imply not only a more robust financial system, as just described, but also stronger governance over structural reforms and a tighter control of national fiscal policies. To ensure that Member States can adjust to shocks, whatever their size, we will also need to add a layer of fiscal stabilisation at European level.

Taken together, these steps towards completing European monetary union would help to make the euro area not only survive, but thrive and prosper. On that note, I look forward to your questions.

3-005

Chair. J President Draghi, I particularly appreciated what you said not only about the need for macroprudential framework coverage of the area of shadow banking, but also your words about a clearly and fully democratically-legitimised political centre of economic and monetary union. We share your views and your ambition in this regard.

Now we will turn to the questions and answers. I would like to inform Members that, in line with the coordinators' decision, we will also enforce the new arrangements very strictly in this context. So I will give strictly two minutes for the question and then, if there is time left, there will be the possibility, within the five minutes of the slot, for a follow-up question.

3-006

Burkhard Balz (EPP). – Mr Chairman! Mr Draghi, you have addressed many interesting topics which could now form the basis for discussion. I would like to pick out one topic that particularly concerns me, and indeed our political faction, the European People's Party (EPP). In recent years, a great deal of work has been done – by the ECB, but also by politicians – to curb market turbulence and speculation, particularly in the case of member states with very high levels of debt and poor competitiveness. However, this previously only concerned member states which, from an economic point of view, were not necessarily among the largest in the eurozone. In my opinion, were this to affect larger member states of the European Union, the dimensions would be completely unimaginable. As I see it, the European stability mechanism will not be able to compensate if large member states allow their budgetary discipline to slip.

As the European Central Bank, you are bound by a legal and institutional framework. What does this mean? For this reason, I believe, we have to conclude that the member states themselves must be placed on a firm footing, that the immensely high levels of debt must be reduced and that reforms to improve economic performance are necessary.

At the very start of our discussion today, I would therefore like to ask you, in your capacity as President of the European Central Bank, what response you give to those who are now calling for leeway in complying with the Stability Pact – some even talk of softening.

3-007

Mario Draghi, *President of the European Central Bank.* J We have just finished presenting what is the roadmap towards further integration and what we have called on several occasions – borrowing the term from the United States and its experience – a 'more perfect Union'. To carry on this voyage we need trust. In order to have trust we need to respect the rules that we have given ourselves. We cannot expect further integration, which means sharing sovereignty and responsibilities, towards more common institutions, if we do not re-establish trust. The Stability and Growth Pact is only one of the aspects where trust needs to be re-established. There is also a more general issue about increasing the euro area's capacity to stand alone, on its own feet, before we can agree about a common way to share risks that could hit different parts of that area.

3-008

Elisa Ferreira (S&D). – President Draghi, you have said important things that go exactly to the centre of our concerns. My first question relates to the first area that you approached. You have been doing everything you can to save the euro and you have saved it until now, but now we have got an outside environment that is becoming sluggish, so to speak: the China problem, Latin America's problems and the Fed not increasing rates. For how long can we stand in Europe with only our policies against the crisis without moving into some kind of fiscal policy, as you have been asking over and over again? Your proposal, in the Five Presidents' Report, to have some sort of joint element, a treasury, takes time. What is your vision for the near future?

My second point is clearly on the need to complete banking union. We cannot start a process and then in the middle of the road say: 'OK, we do not want to go further'. It is a game, it is a dangerous game, but it is a game that will save Europe. So what are the blocking elements that we, Parliament, can help to remove so that we have a guarantee on the deposits, minimum deposits, of European citizens, independently of the country where they are located? This is an element basic for trust and I do not understand why we should be hesitant to finish what we have started and start questioning this project.

3-009

Mario Draghi, *President of the European Central Bank.* J As I said before, the deterioration in the growth outlook has increased, obviously, the downside risks, although we say it is still premature to decide if this increase in risks is actually permanent or is just transient, though we think that many of the challenges that many emerging market economies now have are probably going to stay there for some time.

Facing this environment, the recovery is continuing in the euro area, although at a very slightly slower pace – not so much slower by the way, because our projections have been revised marginally – and we do expect that the rest of the year, and the data we have seen today seem to confirm that, will continue at this lower growth rate of the second quarter. But we are certainly very alert to all the incoming risks, and our monetary policy will stay accommodatory, as I have just said in the introductory statement, and we will react if needed.

So the recovery continues to be supported by lower oil prices, by our domestic accommodatory monetary policy. Certainly, for the recovery to transform itself from being cyclical to being structural, countries need to undertake structural reforms. We have always said that monetary policy will certainly help and it did help – I will probably have the opportunity to explain why it helped and why it is helping the recovery in the euro area – but it cannot do everything by itself. It cannot transform a cyclical recovery into a structural one. To do that, countries will need to undertake structural reforms.

A key element of this consolidation in the recovery is the return of confidence. Confidence has many, many different faces; many different elements. One was certainly confidence on the financial markets, which has returned now. After 2012, basically there has been a continuous improvement in market confidence, and in the financial markets' confidence. But then confidence is also based on other elements, one of which is trust – trust that the current rules are going to be respected, but also trust that the blueprint, the agenda for further integration is actually taken seriously, and steps are being undertaken to that extent.

Confidence is based also on trust that what has been committed to will actually be undertaken – namely that the commitment to complete the banking union is there and now it has to be undertaken without waiting for very 'big' Treaty changes, without asking for Treaty changes before the banking union can be completed. That is part of the trust that it is needed for the return of confidence, and it is also part of the trust that is asked for when we talk about respect for common rules.

3-010

Notis Marias (ECR). – Several Members of the European Parliament believe that the European Central Bank often carries out actions which exceed the limits of its mandate, as specified in the Treaties of the European Union. Firstly, I am referring to the letters sent by Mr Trichet to the governments of Ireland, Spain and Italy, on the pretext of allegedly ensuring financial stability.

As far as Greece is concerned, the ECB intervenes in the conduct of the country's financial policy through its participation in the Troika. However, the ECB's participation in the Troika leads to a conflict of interests, since the ECB's independence is thus compromised. Besides, it is a well-known fact that the Troika acts under the political guidance of the Eurogroup. Even as early as the beginning of 2015, the Advocate General of the European Court of Justice, in his opinion on the case regarding the Outright Monetary Transactions (OMT) programme, noted that in order for a programme such as the OMT to be considered as part of the ECB's monetary policy, the ECB should abstain from intervening in any way in the financial assistance programmes agreed in the framework of the ESM or the EFSF, as is precisely the case with Greece. In other words, the Advocate General has asked you to leave the Troika.

Subsequently, on 16 June, the European Court of Justice accepted in its judgment the opinion of the Advocate General and noted that when the ECB purchases government bonds on secondary markets, sufficient safeguards must be built into its intervention. Moreover, in March 2015, the European Parliament accepted an amendment I submitted, asking that the ECB withdraws from the Troika.

I am therefore asking you Mr Draghi: When does the European Central Bank intend to leave the Troika, in order for the judgment delivered by the European Court of Justice to be implemented, in order to end the conflict of interests situation and stop the implementation of the tough Memorandum III that further impoverishes the Greek people?

3-011

Mario Draghi, *President of the European Central Bank***.** J The ECJ has not said anything about that, I am sorry. Second, when will the ECB leave the Troika? The ECB is not going to stay in the Troika for ever, that is for sure. Now it is a time of crisis, but basically the ECB is complying with existing legislation. It is not to up to the ECB to decide whether to leave the Troika or not; it is actually up to you.

3-012

Notis Marias (ECR). – I would like to tell Mr Draghi that maybe he should read again the judgment delivered by the European Court of Justice. In particular, he should read paragraph 102, which reads: 'It follows that, as the Advocate General has observed in point 227 of his Opinion, when the ECB purchases government bonds on secondary markets, sufficient safeguards must be built into its intervention'. These safeguards are described by the Advocate General himself in point 227, as well as in other parts of his Opinion, according to which you may not simultaneously be a member of the Troika and conduct a monetary policy through programmes such as the OMT. You should therefore look into this issue, Mr President, because regarding the participation of the ECB, you...

(The President interrupts the speaker.)

3-013

Mario Draghi, *President of the European Central Bank***.** J I am sorry, but again insist that the final ECJ decision does not touch on the OMT programme, so I am sorry, we will have a common reading later on.

3-014

Sylvie Goulard (ALDE). – Mr President, thank you for being with us and also for the work you undertook in the Five Presidents' Report. I see it as a vote of confidence at a critical moment and a vote of confidence for the future.

In particular, you addressed the issue of external representation of the euro zone (Article 138 TFEU); President Juncker has referred to it again. I am responsible for drafting a short report from within Parliament on the European Union's role in the international financial organisations. Therefore, if I may, I would like to ask you about this issue using the rationale you adopted in the Five Presidents' Report, namely: what can we do straight away and what could be turned into a future common goal?

Firstly, if we are attempting to improve transparency and accountability in the short-term, would the ECB be prepared to tell us a little more about what it does on the Financial Stability Board (FSB) and the Basel

Committee on Banking Supervision (CBS)? You stressed the need to complete the banking union, but it also shapes our relationships at international level on issues such as the CRD IV package, TLAC, etc.

Accordingly, I think something needs to be done on the subject of our cooperation.

Secondly, you rightly emphasised the importance of ensuring that the euro zone bodies become fully democratic. This democratisation process should be supervised by Parliament. However, it has been suggested that external representation be provided by the Eurogroup, whose president does not consider himself to be accountable to Parliament.

What is your view on the accountability of the external representation of the euro zone?

3-015

Mario Draghi, *President of the European Central Bank.* J First let me say that the issue of external representation of the euro zone is – except for monetary policy – an issue for the Member States and for the European Parliament to decide. It is not an issue that the ECB can have an independent view on. Of course, as far as monetary policy issues are concerned, there the issue is pretty clear, the external representation stays with the ECB.

On ECB participation in the FSB and in the CBS, as you know, the ECB is present in both institutions, both as the ECB and in its supervisory incarnation, the SSM. There we clearly project the views of the institution in the international organisations; but again, the Member States are also members of these organisations, and right now – and in the past few years – the effort is one where the euro zone tries to have common views on many of the issues being discussed. Sometimes this is possible and has been successful, some other times not. That did not prevent finding an agreement in the end on various issues that was by and large satisfactory for all Member States. But if you ask for a sort of technical judgment about whether things could be improved, the answer is yes, they can be improved. What the improvement should be, that is very much up to you and the Member States to decide.

3-016

Sylvie Goulard (ALDE). – Mr Draghi, if I may, I feel as though you are being very, very modest all of a sudden; you are involved in the work of the Five Presidents, during which you express views on highly political issues. I hope, therefore, that we can try to establish – maybe not today – the extent to which it is possible to bring greater transparency to the workings of the Financial Stability Board and the Basel Committee.

3-017

Mario Draghi, *President of the European Central Bank.* J The ECB stands ready to inform the European Parliament and the ECON Committee about its positions in these organisations and also in any others.

3-018

Fabio De Masi (GUE/NGL). – President Draghi, if I understand correctly, the ECB commissioned external legal studies on the justification for not accepting any more Greek government bonds as collateral at the beginning of this year. Would you be able to share those studies with the European Parliament and this Committee?

Secondly, you indicated the risk of a new financial crisis – as the usually quite optimistic Alan Greenspan did as well. I would like to know what role you see for a bank structural reform in macroprudential policies in Europe, for example the separation of certain investment banking activities from traditional retail banking.

Thirdly, I would like to ask about some media reports that particularly concern me. There are indications that one third of ECB staff suffers from a risk of burnout and another third shows signs of exhaustion. How does the ECB ensure that the rules of the EU Working Time Directive are respected? Do you measure working overtime, and how? What is the reason for the ECB introducing a two-year cap on assignments of managerial and administrative agency staff to the ECB? Why does the ECB not enforce equal pay for all the agency staff it employs after 9 months?

3-019

Mario Draghi, *President of the European Central Bank.* J Let me just answer your third question by saying that all those issues are currently being revisited. We have had our own ECB staff survey. Work is proceeding together, and all these personnel issues are being discussed together with our staff.

On your second question, I am not optimistic and I am not pessimistic; I just look at reality and we – the ECB and the Governing Council – react. Bank structural reforms are an example of where we need to proceed to make our structures more resilient, stronger and capable to resist shocks. So the work on bank structural reforms is continuing. The main issue, given that our banking system is profoundly different from banking systems in other regions, is how we make a structural reform of the banking system where you move forward towards creating stronger institutions and possibly separating the activities, while at the same time taking into account the specificities of our banking system and making sure that our banks are not put at a competitive disadvantage with respect to other jurisdictions, where bank structural reforms are being undertaken in a different way.

The reforms as such leave a certain amount of discretion to the national supervisors which will coordinate their positions in the SSM as well.

I am not sure we have a legal study about not accepting Greek bonds but what I can tell you is that – let me just take this question as an opportunity to review the present situation – the Governing Council acknowledges that considerable progress has been undertaken in Greece, both on the fiscal side and on the implementation of several reforms. Now, discussions on the third

programme have started and will continue through the coming weeks. The issue is when do we reinstate the waiver? That is quite an important measure that we have to consider. In order for a country to get a waiver, it has to be in a financial assistance programme, which is the case. It has to comply with this programme – which is what has happened in the course of the last few weeks, and it is going to happen now even more so in the coming weeks – and has to own the programme throughout several governments. It has to comply with what we call prior actions – namely to give evidence of this ownership through convinced actions which, in this current programme will concern structural reforms, fiscal policy and other important policy decisions.
Now, once that is done, then we still have one step to undertake, which is basically the assessment of debt sustainability. As you know, the Governing Council of the ECB has manifested serious concerns about the sustainability of debt. If you have a strong reform, a strong programme, which will produce growth but also social fairness, fiscal sustainability and financial sustainability, and there is ownership for this programme, then the space for debt relief opens up, which obviously would be important for expressing a judgement of debt sustainability.

When that is in place we should not forget that the QE programme has its own rules, namely first of all we have some limits – issue limits, issuer limit – and, of course, we cannot buy bonds while a review is being undertaken. All this seems to say let us move forward swiftly, implement the programme, take the prior action and conclude successfully the review.

3-020

Fabio De Masi (GUE/NGL). – Mr Draghi, just for your information, Mr Yves Mersch informed me about these legal studies. I do not know whether that was confidential information, but I still would like to see them.

3-021

Ernest Urtasun (Verts/ALE). – Mr Draghi, I will insist on Greece and the decisions that were taken. In the press conference following the July Governing Council, you replied to a question that, although the Greek banks were formally solvent according to the point-in-time assessment of the SSM, the ECB applied a dynamic assessment which put into question such solvency, given the exposure of these banks to the sovereign, and given the impact of policy developments on non-performing loans.

Such assessment explains the behaviour of the Governing Council in not increasing Emergency Liquidity Assistance (ELA) and the decisions on the ELA. It has, however, been reported in at least one instance in Cyprus, and well before the bailout, that the ECB approved ELA to an institution – I think it was the Laiki Bank, the former Popular Bank – which according to the ECB's own assessment had negative equity and was therefore deemed to be clearly insolvent although the point-in-time assessment of the national supervisor deemed that the institution was solvent.

So my question is the following: can we infer from such differentiated treatment, by which two institutions are deemed solvent by their supervisors and where such solvency is put into question by the ECB's own assessment, that the supervisory solvency assessment is not only a necessary condition for authorising ELA but that the Governing Council has fundamentally discretionary powers to define the sufficient conditions for such an authorisation?

That is my first question. I would also like to know if you believe that the rules on ELA are clear enough or not regarding what I just mentioned?

My final point, Mr Draghi, is that you have had major criticisms of your decisions on Greece because they have been too closely coordinated with the decisions of the Eurogroup. Do you think that the independence of the bank has been challenged by the latest decisions during the month of July?

3-022

Mario Draghi, *President of the European Central Bank.* – Let me respond quickly to the first question. No, there is no asymmetry. We relied on the assessment of the relevant solvency and the relevant supervisory authority, which in the case of Cyprus was the National Central Bank and in the case of Greece was the SSM.

On the second point, about the ELA, I think the ELA rules are pretty clear. Those rules never foresaw that liquidity assistance should be unconditional and unlimited, as some of our critics claimed, nor ever foresaw that this assessment of the solvency of banks should be dynamic, as some other critics on the opposite side claimed.

This drives me to the answer to the third question. Look, having critics from the right and from the left, the ECB is being criticised because it did not cut the ELA at a very, very early stage, driving ELA possibly to zero and causing immediate insolvency of the Greek banking system, and it has been criticised when at some point it maintained – not reduced, but maintained – ELA at the level it was. So I guess that, the criticisms being what they are, I am pretty satisfied about the ECB's independence.

3-023

David Coburn (EFDD). – Mr Chair, would you permit me to make a point of order before my two-minute speech?

3-024

Chair. – Tell me the point of order very quickly.

3-025

David Coburn (EFDD). – It is that whilst the UK does have EUR 55 million of share capital held hostage at the ECB, we do not have any vote.

(The Chair cut off the speaker)

3-026

Chair. J Sorry, this is not a point of order, so go to the question. The time has started. You have two minutes.

3-027

David Coburn (EFDD). – Whilst the UK does not have a seat on the what-do-you-call-it on the currency, we do not have to suffer it either. But I think you should allow Mr Flanagan, my friend here from Ireland, who is not on the Committee but would very much like to ask President Draghi about him not appearing before the Irish Parliament, to discuss the very serious allegations that the ECB threatened to send the Irish economy into meltdown if the Irish Government did not take the losses of private French and German banks and impose them on the Irish people instead.

In terms of the ECB subjecting each Irishman with more debt than the Versailles Treaty imposed on each German after the First World War, I think you should allow this gentleman to speak. He understands the matter better than most people. He is Irish, he has had to suffer this, and I think you should allow him to speak.

3-028

Chair. J Just to clarify this point, the Member could have your Group's speaking time.

3-029

David Coburn (EFDD). – No, I am afraid that he is not in our Group.

3-030

Chair. J On the Irish issue, the coordinators made a decision to include this item in the next Monetary Dialogue in November. So in November it will be possible to raise this issue and Mr Draghi will answer.

(Mr Coburn: 'Yes, but that will not be before…')

That is the decision of the coordinators.

(Mr Coburn: 'Yes, but that will not be before the Irish Sovereign Parliamentary Committee…')

Please do not interrupt our meeting. You have had your speaking time.

(Mr Coburn: 'I think it is very important, Sir, to discuss this, because it is a very serious accusation. It will not look good for Mr Draghi. I think you should consult with him.')

As I said, we agreed this at coordinators' level – and indeed we appreciated what Mr Draghi said to the Irish Parliament; it is accountable to the European Parliament – to discuss this item in November.

3-031

Bernard Monot (ENF). – President Draghi, I feel there is currently something of a contradiction in the ECB's policy. I would like you to give us an explanation so that we have a clearer picture.

On the one hand, your institution indirectly supports economic growth, both by the time-honoured method of managing interest rates – currently at a record low – and, since 2012, through a multitude of unconventional tools, namely the TLTRO, LTRO and ELA schemes and your QE 2015 plan. The aim is to encourage banks to lend to the real economy and counter the threat of deflation, as you explained to us at the beginning of the year. That is all very well, but it must be said that despite your policy's aim, up until now it has not worked very well.

On the other hand, the ECB is pushing for a reform of sovereign bond supervisory policies. These bonds currently benefit from zero-risk weighting, i.e. they are not associated with any risk of defaulting on EU Member States' debt. That improves the financial solvency of the banks that hold them. You are now seeking to introduce variable weighting; by definition, however, the associated risk can only worsen when we move away from zero. Solvency will automatically deteriorate and the banks' ability to take other risks – i.e. lending to economic agents – will be restricted as a result. That is the complete opposite of you policy's aim. What is more, it would give the markets and the rating agencies the power to indirectly influence economic policy in the lending countries by indirectly exerting pressure via the banks.

I would therefore like to hear your explanation for this contradiction with regard to the aims.

3-032

Mario Draghi, *President of the European Central Bank***.** J Actually, I do not think there is any contradiction. We ran a very accommodative monetary policy and we will continue to do so in compliance with our mandate, which says that the inflation rate should go close to but below 2%, and we are far from that objective now. Our policies are working, as a matter of fact, because, as much as I presented a fairly clouded outlook for the global economy at the beginning of my presentation, there are some positive developments on the credit side to which I would like to draw your attention: positive developments in the euro zone.

We are seeing a recovery of the credit markets that is continuing now, and it is becoming more and more marked. All the surveys that we have run on both sides, on the bank lending side and on the SME side, the borrowing side, show that lending has picked up – and not only in volumes but, which is also very important, in terms of extension too. In other words lending has picked up in the stress countries as well as in the non-stress countries.

Lending rates have gone down. We use a so-called composite lending cost indicator which shows, for the whole of the euro area, that the lending rates have gone down, on an average composite indicator, by 70 basis points since the announcement of the credit easing measures. On top of this, we also see that the dispersion between big lenders and small lenders like the SMEs has also narrowed down both volume-wise and cost-wise.

So all in all, these developments in the credit markets seem to strengthen the impression that their recovery is continuing. We are talking about gradual recovery. We are not talking about something dramatic yet, but it is continuing and it is steadily moving better. These, together with the very moderate improvement in the labour markets, are the positive aspects of the recovery which – and this is another difference with the past – are predominantly driven by domestic consumption. In a sense it shows that our policies are actually working.

Is there a contradiction with our supervisory policies? I think that is the point you are making. Let me just address this generally, and then specifically on the point you raised about sovereign bonds' risk assessment.

Generally speaking there is no contradiction about an accommodative monetary policy and close supervision of the banking system. If a bank is weak and does not have capital, it will not lend. If a bank has its assets invested in risky undertakings, it will not lend. So, strong supervisory action is needed to make sure that the recovery is accompanied by a strong credit system. That is the experience, by the way, which we had in 2010, 2011 and most all of 2012, when everything from the macroeconomic side – namely the monetary policy side – was in place to prompt a recovery with serious expansion of liquidity, and still the banking system was not providing the economy with credit.

Now, fortunately we have passed that. Why? Because banks strengthened themselves quite significantly before and following the comprehensive assessment of the SSM, and now we see credit that is picking up. So strong supervisory action – and when I say strong supervision it should be based on facts, on a fairly realistic and sober assessment of the risk – is not in contradiction with an accommodative monetary policy, it is actually a condition, a precondition, for this monetary policy to have real effects on the economy.

3-033

Danuta Maria Hübner (PPE). – I would just like to ask you two questions. One is related to the Five Presidents' Report and actually to my frustration when I look at the reaction of some of the core Member States which are not really enthusiastic. This clearly shows that, once again, we might continue to have a piecemeal approach to the reform of EMU, which means that we will again not do what is needed but what is politically feasible.

In this context, my question to you is related to the European deposit insurance scheme. We do not yet know what the Commission will propose, but most likely I think – I assume, I hope – that this will be privately financed by banks with some fiscal backstop. Would you see a possible, feasible justified facilitating factor if this insurance scheme fund were combined with the resolution fund? It would definitely facilitate the building of it.

My second question is related to monetary policy. I believe that the loose monetary policy will have to be adjusted one day, with a likely negative impact on growth. Your quantitative easing was unprecedented and my feeling is that the tightening of monetary policy might also require an unprecedented approach. So the question is about the risks for your monetary policy of this period of leaving the low interest rate environment. What risks do you see globally in terms of fiscal adjustment, in terms of the banking sector? How do you see the future?

3-034

Mario Draghi, *President of the European Central Bank.* J The completion of the banking union, as we discussed at the very beginning, does require steps forward towards the creation of a European deposit insurance scheme and does require the putting in place of the single resolution fund. So these measures are part of the commitments that Member States quite solemnly entered into when they created the banking union. It would be wrong to underestimate the complexities – political complexities before economic complexities – of both initiatives, but there have been commitments, there have been undertakings, so they must now be complied with.

The European deposit insurance scheme has clearly several advantages over national deposit insurance guarantee schemes. One is that it would strengthen them, certainly, but the second one, which is in a sense one of the goals of all our policy reforms in the last five years, would be to weaken the nexus between banks and sovereigns. So the banks are now a true part of a banking union. After all, we now have one supervision, we now have a single resolution fund, and so we are treating the banks at the same level everywhere. Why should not depositors be treated exactly in the same way all across the Union? I think there is an issue of principle here that we will have to consider.

Now you are asking me questions about the exit from this monetary policy we are having right now. Clearly, I would suggest, we have the tools, we have the instruments and I would simply say that this is a high-class problem.

3-035

Paul Tang (S&D). – Of course it is a high class problem, and it is too early to talk about an exit I would guess. Let me at least ask you two questions.

This week's *Economist* had on the front page Jeremy Corbyn taking the Labour Party back to the 1960s – going 'Backwards, Comrades!' – which is, of course, not really fair because which political leader was talking about quantitative easing in the 1960s? I do not think anyone did in the 1960s, but Jeremy Corbyn did. He says what we need is QE for the people and not for banks. This is an interesting idea and some economists tend to agree with him, which makes it even more interesting. I think in this Parliament there have been some ideas, like could the ECB not finance at least some of the investment in EFSI?

Like I said, some economists tend to agree with him. I also saw this week Willem Buiter who says well, if

Citibank is projecting that we are going into a global recession, what we need now is helicopter money – this is not the same as QE for the people – we need helicopter money not only in the euro and in the UK but also in the US and in China.

I am happy that you go into the efficiency of the asset purchase programme, of your QE programme, that it lowers interest rates, but there are still some criticisms from economists, and non-economists, on the efficiency of your programme and I would very much like to hear what your programme, if I may say so, also contributes to, let us say, investments by SMEs and other firms?

3-036

Mario Draghi, *President of the European Central Bank.* J Well, the answer to your last point is, yes the programme is effective and we will see more and more of it. We see now, as I said, credit recovering. We see the growth rates in some of the stress countries have been revised upwards for the first time in I do not know how many years, but especially comforting are the developments on the credit market which means that there is new lending taking place. Because now – and we are talking about net flows here – it is gross flows less the coming-to-the-end of past loans. This process is more gradual but it is there. It is gradual because in many situations there are still bad loans which are weighing on the banks' balance sheets and make the renewed lending more difficult. But it is there. Let me also add there are interesting episodes here that show the effectiveness of our programme. For example, the TLTRO programme now reached EUR 387 billion and we have evidence that the ones that most access this programme are also the ones that lent more, and lent more to the SMEs, and they are also the ones where the lending rates went down most, so there are interesting correlations between our programmes and their effectiveness.

The second consideration is that for hundreds of years central banks have injected money in the economy through either banks and/or markets. That is what we know, and so we will certainly consider these ideas that are being discussed; they are being discussed everywhere and the ECB is part of these discussions in academic fora and in other circumstances.

We should also not underestimate the legal aspects that would apply to the euro area and to the ECB, so one should ask the question whether this helicopter money is consistent with the Treaties and so on. I saying this not as a way to prejudge decision-making one way or another, but the gravity of the challenges right now basically would demand that we use all available instruments within our common knowledge, and that is what we know now.

3-037

Pablo Zalba Bidegain (PPE). – Mr President, I agree with your statement that confidence is absolutely key to consolidating the economic recovery. I also agree that monetary policy is not capable of transforming a cyclical recovery into one that is sustained, and sustainable over time. However, I am also concerned by the current uncertainty on the markets – firstly, the uncertainty that threatens America's monetary policy, which some experts say is actually having more of an impact, principally on other countries, than the rise in interest rates, and secondly the uncertainty that is developing in China owing to the instability of its markets.

I would first like to ask whether you think that this uncertainty will remain on the market for a prolonged period.

If the uncertainty does continue, I understand that you will go ahead with the Quantitative Easing programme, but my question is: if the uncertainty continues, would you rule out taking more ambitious action or more aggressive action with regard to monetary policy? We have already heard about one of those aspects. I would like to know if you would completely rule out the possibility of taking – and I emphasise – additional action, to be more aggressive, or more ambitious, or whichever term you would prefer to use.

3-038

Mario Draghi, *President of the European Central Bank.* J It is quite clear that we have now been – and will be – for some time in a situation where monetary policies are on divergent paths across the world. In other jurisdictions, the recovery is gaining strength and in some, like ours for example, the recovery is continuing but it is still gradual, it is still in its early stages. We talk about the medium-term inflation outlook – as I have just said that has been revised downward in the macroeconomic projects in September. So this uncertainty is there.

Now your second question is to what extent this uncertainty will prompt monetary policy action from the ECB. What I have stated on various occasions is that if the uncertainty is – as it is – a source of volatility, and if this volatility is to create an unwanted tightening of the monetary or the financing conditions that would worsen our medium-term inflation outlook, then we would react, and we would react by taking – as I just said – various actions that are possible.

3-039

Pablo Zalba Bidegain (PPE). – May I ask a very brief question, which is what kind of actions would consider taking, if you decide to react?

3-040

Mario Draghi, *President of the European Central Bank.* J Our present accommodative monetary policy is, we think, effective, and so we will stay with that before we vent the hypothesis of different actions. But as I said, we stand ready, we are ready, willing and capable to act if needed, and we said that our programmes, our projections, are predicated on a full implementation of this programme, which will end in September, and if needed will go beyond September.

3-041

Peter Simon (S&D). – Mr Chairman! Numerous discussions with small regional banks indicate that, from their perspective, they are experiencing difficulties due to the interest rate policy of the European Central Bank, combined with the costs of regulation. The expense hits the small banks significantly harder than the large ones and includes the direct costs of regulation, in terms of resolution funds and contributions to deposit protection, but equally the indirect costs. There are small banks which tell me that, with ten, fifteen or twenty employees, they are forced to create entire positions to deal with the regulation requirements. With this approach, this mix, the interest rate policy that is greatly reducing the margins of these local institutions operating with low risk, while at the same time costs are rising markedly, how do you intend to prevent us from ending up in a situation where the next banking crisis is a home-made one affecting precisely the banks that proved to be particularly stable in the last crisis?

A second question along the same lines: As far as regulation is concerned (something to which this house has contributed greatly, with the EBA at the second level and you with regard to implementation), can we also make a contribution: Do you see opportunities for us to establish separate regulations for small and medium-sized banks, for example with AnaCredit where, for loans in excess of 25,000 euros, we currently require the banks to fill out up to 150 data fields? We have had Ms Nouy in the committee here multiple times, we have asked her about this issue twice, and my colleague Mr Giegold and I have written to her. She assured us that relief measures should be coming for small and medium-sized companies in this respect, but she did not name these measures. I would be interested to know whether you see any opportunities here.

3-042

Mario Draghi, *President of the European Central Bank***.** J Let me respond to your first question. The current monetary policy is what it is because we have a mandate of reaching price stability in the medium term, namely of having an inflation rate which is close to, but below, 2% in the medium term. That is our mandate. Our mandate is not to make sure that banks are profitable, so from this viewpoint we should keep this in mind. We are not going to raise interest rates because some small banks in some parts of the euro area have a problem with profits. Of course, we are aware of the financial stability risk that this might imply, but again this should be addressed through other instruments.

This second point is on AnaCredit. Let me say a few words about this project because it intends to collect granular data on credit and credit risk based on harmonised requirements for all euro area member states. Now the granularity of the information from this programme and the possibility to have a complete and harmonised set of data across jurisdictions is very, very important. It is key for several central banking policy functions; it is what they have in any well-functioning monetary jurisdiction.

Let me give you few examples. AnaCredit can be used to better address a number of issues relevant for monetary policy – for example the provision of credit to different borrower categories, especially SMEs. Right now we know what is happening with the SMEs and the banks because we have surveys and the Commission has its own surveys, but it would be a big difference to have actual data. It would help support the direct use of credit claims in monetary policy operations. So from this viewpoint, it would enlarge the collateral, it would lead to an enlargement of the collateral pool that can be used for monetary policy.

It would help to calibrate different risk control and collateral management measures of the euro system, so it would help us to price, to assess credit risk, to assess the right haircuts, based on data. It would support the financial stability surveillance and it would provide a basis for economic research. The degree of knowledge that we have of the euro area economy is quite high, but it should go up, we should learn and know more about our economies. Their complexity, their diversity is such that we ought to continue working on improving our knowledge. It would also help us to monitor financial stability risks.

So all these benefits that this project would entail will come with some costs, and I am pretty sure these costs can be tailored in such a way that they do not become unbearable for certain categories of banks, I am absolutely confident. By the way, the banking industry as such would benefit from this project as well. It would have access to more information, would give the banks an increased possibility of benchmarking their options, also considering cross-border institutions, cross-border realities in other countries.

So all this leads me to say that we have to go on with this project in spite of its costs, which are indeed relevant, but we should be able to tailor them according to banks' possibilities.

3-043

Luděk Niedermayer (PPE). – Mr President, first of all let me wish you all the best in your job, which is not very easy.

I have two simple questions. First of all, during the Greek crisis, the ECB played a very important role at certain moments because it was basically granting liquidity to the Greek economy. It was a time where the solvency of Greek banks was based on the assumption that the Greek Government would be able to negotiate a new programme.

My question is as follows: I consider the position of the ECB a highly political position, so I wonder to what extent you think that the current rules on ELA are good and feasible, and would you mind if the ECB adopted such a position again in the future.

The second question concerns China. China had a very strongly performing economy for several decades, and now it is the weak spot of the global economy, exporting the slowdown to other BRICS countries, among others.

Firstly, I would like to ask you how you see the actions of monetary policy in China, and notably exchange rate policy, in the effort to stimulate some part of growth in China. Secondly, to what extent do you think that this is consistent with the ambition of the Chinese authorities to see the renminbi as the future reserve currency.

3-044

Mario Draghi, *President of the European Central Bank***.** J I will respond to the second question first. We have taken note that China, like all the other G20 economies, has committed itself to respecting the G20 agreements as far as exchange rate policy is concerned. The policy measures that have been taken in China, as well as in other jurisdictions, are directed, argued and motivated towards objectives of the domestic economy. The fact that they then have some effects on the exchange rate is a result of these policies, but not the primary purpose. Having said that, it is very important that China continues its action towards greater convertibility and fully market-determined exchange rates. This is quite important because it is of course complementary to this that China continues with its structural reforms.

On the first question, I would deny that our ELA decisions have been political. Let me repeat why that is. Emergency Liquidity Assistance (ELA) is liquidity assistance given to solvent institutions which have sufficient collateral. The collateral of Greek banks happens to be mostly in Greek government paper, namely Greek government bonds. So the economic policy decisions of the Greek Government have an impact on the value of these bonds, and therefore on the collateral and on our decision to continue or increase or decrease ELA.

What has happened is that for some time these economic policy decisions were, I would say, collateral-value-improving and, after a certain time, they became collateral-value-destroying. At some point we decided that the decisions and the events were such that the collateral value was not enough to grant an increase in ELA. Let me remind you that we decided not to decrease ELA but we maintained it at the current level which, by the way, is the highest ever reached in any country in the euro zone. Then, when the decisions were such that that situation could be overcome – and these decisions had a positive effect on the value of this collateral – ELA was increased and the Governing Council did not object to the requests of the National Bank of Greece.

This shows that it was not a political decision and that it was based on our rules. Our rules never said that the ELA should be unlimited and unconditional, nor that these decisions about the solvency of the banks should be given immediately and that we should speculate on whether they would be solvent in the future or not.

All in all, let me make a general point. The ECB is not the institution that decides whether a member should stay in the euro or not. The ECB works, acts and decides on the assumption that all members of the Union will continue to be so. It is other institutions that have this responsibility.

3-045

Pervenche Berès (S&D). – Mr President, in your introductory statement you mentioned the discussions on a euro zone treasury; I imagine you intend to speak about a euro zone budget. I would like to ask you about this, as you also referred to the issue of democratic responsibility. However, to my mind, you cannot have one without the other. Given the current state of the euro zone, it is no good talking about a euro zone parliament if it is not closely linked to a euro zone budget; it is this capacity that will generate democratic need. Apparently both proposals would require a revision of the Treaties, however.

And yet, as regards the state of the euro zone, considering the limits of what you have been able to achieve in the field of monetary policy – you have done a lot, but clearly you will not be able to do everything – budgetary capacity has become an important issue, including for the purpose of foreseeing countercyclical movements. Accordingly, in terms of what you agreed in the Five Presidents' Report, given the economic situation of the euro zone, and in view of the current outlook – the global economic climate, but also the economies of certain euro zone Member States – do you think we have time to address this matter? Do you not think it would be better to speed things up, and that this situation in which we take a considered, step-by-step approach, in which we prioritise accountability, the carrot and/or the stick, in other words in which the tool for investing is always postponed until tomorrow, could spell the death knell for the euro zone?

Lastly, I have one small question. I note that the IMF has reopened the discussion on the subject of debt, in particular sovereign debt. In your response to one of our colleagues you stated that, before dealing with sovereign debt, Member States must shoulder their responsibilities. Do you not think that, in the current climate of low inflation and low growth, there is an intrinsic problem with the rules we have drawn up to enable the Member States to meet their commitments in the area of debt repayment?

3-046

Mario Draghi, *President of the European Central Bank***.** J I could not agree more with your first point. In a sense, the Five Presidents' Report message is basically that there are certain – what we call short-term – commitments that must be undertaken, but they are not simply short-term commitments, they are actually the ones that pave the way for having a long-term vision. The long-term vision is characterised in a fairly broad way by the second part of the report, by the long-term targets and commitments.

This is not a simple matter, but it is really where the challenge will be fought in the coming months. In other words, are Member States ready to first undertake the short-term commitments, but second to present their constituents, their citizens, with a long-term vision that they embrace now. Then, of course, many years will be needed to do all those things that are being suggested in the Five Presidents' Report, but the political challenge is going to ne now. That is the key message of the Five Presidents' Report – the key challenge in a sense that the Five Presidents' Report presents the Member States with.

As to your second point, well you have low inflation but you also have low interest rates, so especially for public debt this is somewhat rebalanced, and in many stress countries much of the debt is variable rate anyway. So I do not think that we can change the rules depending on the inflation rate. I think that the best way to repay debt for countries that under certain conditions have debt which is sustainable is to grow out of debt, and so to undertake all the actions that would enhance growth.

3-047

Fulvio Martusciello (PPE). – Mr President, several days ago, Bloomberg published details of a confidential letter allegedly written by Fabio Panetta, the Deputy Governor of the Bank of Italy, to the Supervisory Board of the ECB. According to the report, Mr Panetta's letter highlighted the risk of making unwarranted and arbitrary decisions over capital demands in the Supervisory Review and Evaluation Processes (SREPs), warning that a significant increase in capital requirements at the current juncture could jeopardise the recovery. I am not asking you to confirm or deny the existence of this letter; I would merely like your view on the point raised: could an increase in capital requirements really jeopardise the recovery?

Then I would like to ask you another question: two Italian banking giants, namely Unicredit and IMI, have recently come to the aid of two cooperative banks in the Veneto region which were having great difficulty with recapitalisation. Do you believe that small banks, cooperative banks, still have a future?

3-048

Mario Draghi, *President of the European Central Bank***.** J I will not comment on leaks to Bloomberg no matter where they come from.

Let me make just a few remarks about the current supervisory action concerning the Supervisory Review and Evaluation Processes (SREPs). First of all there has been a discussion, a general discussion, and this discussion needs to be completed. It is not complete. In the course of this completion all the banks will be heard and their points will be taken into account if needed. All efforts have been made to try to keep the supervisory action on the same ground as has been done in other jurisdictions, namely the UK. So there is no will to put the banks at competitive disadvantage with respect to banks located in other jurisdictions.

The amount of capital, on average, that is required is not exceptional, it is 33 basis points and if you add the buffer it would go to 55. Of course this is an average, and you may have banks for which this increase in minimum capital requirements may be more challenging to meet. Of course banks are different because they are individual, their initial conditions are different because the national supervisor may not be as tough in its supervisory action as is needed now, and because the reason why the supervisory action is being taken is really threefold. First of all a risk assessment; second, compliance with the Basel 3, that is quite important; and then compliance with the other requirements like Total Loss-Absorption Capacity (TLAC), like the leverage ratio, that have been agreed in the international framework. So I think that is the situation.

Now most banks already have capital levels which are way above what is being required by the SSM. So in this sense the threat that this could undermine the recovery is not grounded for these banks, because these banks' lending will not change because of the higher minimum capital requirements.

More generally, I have to repeat what I said before: to have strong banks is better for the recovery than having weak banks. So supervisory action that is conducive to stronger banks is to be welcomed, even though maybe for the banks that have no capital, in the short term it may have some negative consequences. You will be able to ask these questions in much greater detail to the chair of the SSM when she comes here.

Your second question about whether there is a future for small banks is very hard for me to answer. If the bank is well run, if the bank is well capitalised, if the banks lends well and if the bank manages its risks well: yes, sure. Size by itself is not a limit for banking activity. Under certain conditions scale is important, and a large scale may be better than a small scale, but the conditions are not always the same.

3-049

Jonás Fernández (S&D). – Mr President. Thank you very much, Mr Draghi, for coming here today. In truth there are many questions raised by what you have said, and I will now attempt to summarise these.

With regard to my first question, in your initial speech you said that the challenges we have faced this summer mean that it will take longer for inflation to go back towards 2 %. If more time is needed and we do not take action along the way, I understand that the period of time agreed upon by the ECB for launching QE, or in other words the period that was set for inflation to return towards 2 %, has been extended – but even with this extension there is still no action being taken. I would like to ask why.

My second question concerns the capital markets union and the flow of finance from banking channels to shadow banking institutions, and other financial institutions. The whole of the EU wishes to avoid an increase in the size of the financial markets, to see how finance can be channelled through non-banks. However, and as you have stated, these non-banks do not come within the ECB's own remit of supervision as they are not purely banking institutions. I think that we need to try and push forwards with this capital markets union, but I would also like to emphasise the potential risks involved when finance is increasingly moved out of the channels in which the common supervisor is able to intervene directly.

My third and final question concerns the Five Presidents' Report. The second stage mentions a countercyclical instrument. My question is whether this countercyclical instrument could be a form of insurance against unemployment.

3-050

Mario Draghi, *President of the European Central Bank***.** J As I said before, we believe our QE has been effective, we see some improvements in newer areas, especially in the credit banking sectors and banking markets, and we see some improvements, though gradually, in the labour market.

Having said that, we have acknowledged that downside risks have increased and that we will monitor – closely monitor – all these risks, and the Governing Council is ready, willing and capable to act if needed. I mentioned the possibility that our QE programme could extend beyond September and I mentioned the possibility that it could be adjusted in its size, composition and design.

As a sign, by the way, that the Governing Council is ready to adjust the programme following, or reacting to, possible… well, let me put it this way, one sign that the Governing Council is ready to revisit the programme, so as to make sure that its full implementation is in place, was the decision to change the issue limit from 25% to 33% that was taken by the Governing Council last time.

On your second question, let me be absolutely clear here, the fact that some of the activity, the intermediation activity moves out of the banking system into some non-banks, is not necessarily a negative development, it is partly natural because the banks have deleveraged quite substantially, and so other institutions are picking up this business, but it is also a positive development because we are not going to rely only on the banks, there will be also greater reliance on the markets. We have seen how much exclusive reliance on the bank lending channel has proved, all in all, quite an obstacle to a speedy recovery, in our case in 2011 and 2012.

So all this is a positive element. Of course as the new shadow banking sector increases in size, so will the risks, and especially some that need to be addressed both through macro-prudential instruments, and so there is a case for having one supervisor for non-banking, for shadow banking institutions, more generally for market institutions. So I think we certainly share that view.

3-051

Dariusz Rosati (PPE). – Thank you Mr Draghi for being with us. I would like to ask you a question about the lender of last resort function for the Central Bank. Back in 2012 you announced the programme of outright monetary transactions, and you managed to calm the situation in the financial market without spending one single euro. I know that this decision was not unanimously taken in the Governing Council, and I would like you to elaborate maybe in favour of arguments for the Central Bank – in a currency union like ours – fulfilling this function of lender of last resort, against the arguments that run against this concept and are mostly voiced by a representative of one single bank but one that plays a very important role in the Council.

3-052

Mario Draghi, *President of the European Central Bank***.** J I have a certain difficulty in answering this question because for us – and for me – the function of lender of last resort was never in doubt.

3-053

Dariusz Rosati (PPE). – For governments.

3-054

Mario Draghi, *President of the European Central Bank***.** J The lender of last resort for governments is not allowed by the Treaty. We have Article 123 that prohibits monetary financing. So that is why both the OMT and the QE programme are formulated as having the ECB buying bonds on the secondary market, so that when a government does not have market access it needs to have a waiver – a special waiver – and even in that case we always buy from the secondary market.

3-055

Dariusz Rosati (PPE). – If I may I will clarify my question because I have not been clear enough. What I have in mind are the situations in which we have an episode of a market panic, which can indeed put pressure on the bonds of a country which is fundamentally solvent, but this country may run into difficulty with liquidity. So we may have a situation in which, in a financial market, so-called bad equilibrium establishes itself.

My question is to what extent you see a role for the Central Bank in the currency union to take preventive action in order not to allow this bad equilibrium to settle?

3-056

Mario Draghi, *President of the European Central Bank***.** J Well, what we did on that occasion in August and September 2012 was exactly what you are suggesting. The ECB would be ready to buy bonds on the secondary market of that country, provided the country itself were to run credible policies. The mistake not to make is to buy bonds when the policies are incredible, because in that situation the ECB ends up buying all the bonds in the market, because everybody sells the bonds because this country's policies are incredible. That is why at the time the OMT did require that the country undertake special financial assistance programmes from the ESM and IMF and so on. So it is a function of the lender of last resort within the limit of the credibility of the economic policies and, more generally, within the Treaty.

Incidentally, you probably do not need to be reminded that the consistency of the OMT policies with the Treaty has been sanctioned by the European Court of Justice.

3-057

Costas Mavrides (S&D). – Regarding the question about the ELA during 2012 and 2013, especially with Laiki, I think the right question is this: who had the legal responsibility for the decision-making at that time? Was it the local supervisory unit, at national level, or was it at the level of the European Central Bank?

On 14 September – just a few weeks ago – the Vice-President of the ECB, Mr Constâncio, answered a question on Reuters regarding the Greek turmoil in the following way: Legally no country can be expelled. The actual prospect of that happening was never for real. So was it for real or not? Given your initial introduction, was it a fair agreement from Greece or was it a bluff?

Given that I have time, I have one more point about the Five Presidents' Report. Some of us, believing in a level playing field, rely on European institutions to provide us with the necessary protection. That is why I strongly believe that the European Deposit Guarantee Scheme should have been in place a long time ago. Hopefully this time we learned through the crisis and we rely for that on the ECB as well.

I also have a complaint to make, but I do not have much time. Last time when I had the chance to speak I put a question through the Chair and I received an answer to the wrong question. So, please give me the right answer so that I do not have to do this again next time.

3-058

Mario Draghi, *President of the European Central Bank.* J I apologise if that was the case. Anyway, it was not deliberate.

On your first question, the answer I gave before is the following. At that time in Cyprus, the competent supervisory authority that would make the solvency assessment was the National Bank of Cyprus. In this case – in Greece – we had the creation of the SSM in between. The SSM has become the one supervisor in the euro area. So the solvency assessment in the Greek case was done by the SSM, the relevant service. Of course, the information from the national central banks was very important and the national central banks still provide all the information about liquidity, but the actual assessment the Governing Council relied upon in the decision on the ELA came from the SSM.

Regarding the second point about Mr Constâncio's statement at Reuters, I would simply repeat that the ECB is not the institution that decides who should be in or who should be out. The ECB has always acted – and continues to act – on the assumption that all the current members will stay as members. Whether expulsion is legal or not is for someone else to decide. I have no idea and so do not want to dwell on this.

I completely agree with your last point about the European deposit insurance scheme. It is very important and it is also important for having the perception that there is – as you said – a level playing field for all.

By the way, as I said before, we created the SSM, we basically created the Single Resolution Fund and the Single Resolution Board. So the message is that we basically treat all the banks and the bankers in the same way. Why should depositors not be treated in the same way?

3-059

Costas Mavrides (S&D). – I do have a few seconds. I am still confused. Who had the responsibility for the ELA? Was it the national central bank or the ECB?

3-060

Mario Draghi, *President of the European Central Bank.* J The ELA decision is a decision that pertains to the national central bank. The solvency assessment is an assessment that was done in the case of Cyprus by the national central bank and in the case of Greece by the SSM, because the SSM had been created at that point in time. But the ELA decision is still – right now – a prerogative of the national central bank, which presents the request, and the Governing Council can object to the request.

3-061

Chair. J We only have time for two catch-the-eye questions but, before that, I owe a very short follow-up to Mr Urtasun because I made a mistake in the calculation of the times.

3-062

Ernest Urtasun (Verts/ALE). – I will insist precisely on that because the SSM for the Greek banks said that they were solvent. But then in your answer to one of the Board of Governors you said there was another assessment – a dynamic assessment – made by the Central Bank on the collateral. That did not happen in Cyprus. You just did it for Greece. Why? Is that not very discretional, Mr Draghi? That was my question. Is not the decision absolutely discretionary, regarding what you did?

3-063

Mario Draghi, *President of the European Central Bank.* J No, no absolutely not. In Cyprus the country was complying with an assistance programme. It had accepted an MOU. The policy was in place.

(Mr Urtasun: 'It was an ELA')

Well we can check that, but I mean that the dynamic assessment we give – and we do not often give it by the way – is based on the fact that we see the oncoming developments as being collateral-value-improving. This was not the case at that time in Greece – and it was the case before, by the way. So if you take this into account, you will see that all our decisions have been motivated either by the relevant supervisory authority's assessment and/or when a dynamic assessment was given, by the evaluation that the developments were conducive to an improvement in value of collateral and therefore for the solvency of the banks.

3-064

Ernest Urtasun (Verts/ALE). – But the assessment was necessary?

3-065

Mario Draghi, *President of the European Central Bank***.** J If a dynamic assessment is not needed, what is needed is simply the point-in-time assessment. If a dynamic assessment is needed, clearly it entails an assessment about the future developments, whether they are improving the value of collateral or they are not improving the value of collateral. Depending on that we decide in the end what is the overall solvency assessment, but it is not political.

3-066

Marco Valli (EFDD). Mr President, thank you for this opportunity. I have two very quick questions. The first concerns the incorporation of the Bank Recovery and Resolution Directive (BRRD) into Italian law. According to the Council of Ministers, if a bank fails while under the direct control of the national authorities, the latter are able to classify these resolution proceedings as officially secret. I would like to ask if you agree with Member States having the option to classify this information, given that as regards the Single Resolution Board it is also possible to designate this data as classified. Is this a fair practice to adopt in these circumstances?

My second question concerns the roadmap presented in the Five Presidents' Report. I would like to know whether you have a plan B in mind, given what was said yesterday, for example during the debate with Mr Schäuble, regarding a hypothetical fiscal union necessary for creating a successful monetary union, and thus a successful euro. Mr Schäuble has publicly admitted that Germany's national parliament, controlled by the regions, has shown opposition even as regards simple things such as the Shareholder Directive and the country-by-country report. Given that this is the attitude of the national authorities in Germany, the biggest shareholder in the European Union, and in view of these statements, is it worth continuing? What is the point? Should people believe in these statements? Should they believe in this Five Presidents' Report, or not? Because otherwise we need to seriously think about a plan B and create a framework which would allow for a country to leave the eurozone, because we cannot continue to make fun of people. I am sorry that you will perhaps lose your job, but maybe many others would find one as our countries regain their fiscal and monetary sovereignty.

3-067

(Chair) J Thank you, but the European Union is not a company limited by shares, as we know, it is a union of citizens and Member States.

3-068

Mario Draghi, *President of the European Central Bank***.** J Now on your first question I have no answer, I know nothing about that.

On your second question no, there is no Plan B. This is a roadmap and it is presented as the Member States' discussions and ultimately deliberations, and it is the European Parliament, together with them, that will trace the road in its details.

3-069

Kay Swinburne (ECR). – Thank you President Draghi for coming here today. I get the chance to pick up on some of the comments you made earlier, which started in the Five Presidents' Report, and on your remarks today about the need for a more complete Union being necessary for the euro area, including a political centre that can take swift and appropriate actions for the euro area as a whole in order to make the euro area more prosperous.

I wonder whether you can help me with some of the issues I am grappling with at the moment, and maybe suggest some ideas as to how we ensure fairness in the governance of the euro area, alongside fairness for those who are in the single market but not necessarily in the euro area.

3-070

Mario Draghi, *President of the European Central Bank***.** J Well that is an important issue that we have to bear in mind. On one hand the euro zone members should be free to step up the integration, as is required from sharing one currency. Sharing one currency implies sharing a number of responsibilities, decision-making in a variety of areas, which is a more extensive process than anything that concerns the non-members of the euro area. So in a sense there should be a stance of collaboration between non-members and members, so as to let the members be free to continue the progress towards a more perfect Union.

At the same time the members should be aware that there are interests that are inclusive of the non-members and should take these interests into account. I would single out the most important one of our constructions that should be maintained, improved, and that is the single market. It is quite clear that decisions by the members of the monetary union could only be constructive, positive, towards the single market and towards the progress of the single market. As we all know there are still many progresses that need to be made on that ground.

3-071

Chair. J Thank you very much, President Draghi and to all the Committee members. It has been an interesting and fruitful exchange of views.

The next Monetary Dialogue will take place on 12 November 2015.

(The meeting closed at 17.00)