1-001-0000

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, 28 JANUARY 2019

1-002-0000

IN THE CHAIR: ROBERTO GUALTIERI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.06)

1-003-0000

Chair. – Good afternoon, it is a pleasure for me to welcome President Mario Draghi to our monetary dialogue. This is a very special monetary dialogue, for two reasons. First, because we are celebrating the 20^{th} anniversary of the euro. We did so in the plenary also, and this is the closest meeting of the Committee on Economic and Monetary Affairs to that celebration, but it is a special meeting also for an additional reason as this is the last appearance of President Draghi in this Committee during this legislative term.

So have we decided to give you a present to thank you for the very close cooperation with this Committee, which has ensured, I have to say, a very high level of transparency and parliamentary oversight of the ECB, which at the same you have rightly defended for its independence.

What we have done here in the monetary dialogue and with the other tools of dialogue and cooperation has shown that we have together strong independence of the European Central Bank and a very open ECB which is transparent and open to dialogue with the European Parliament.

We wanted to thank you for that and to take the opportunity to thank you for all you have done for the European Union, for the Economic and Monetary Union, for our currency that we are celebrating, which our colleagues have recognised many times.

I would like to say now that what you did has been fundamental in saving our currency, in saving the euro, and in preserving its integrity. We would like to pay tribute to you and thank you for that, and so we have this gift for you in homage.

(The President of the European Central Bank was presented with a brass plaque)

1-004-0000

Chair. – We can now move on to the topic of our monetary dialogue. I’ve already spoken a lot, so I don’t need to say anything more. We have all read the conclusions of the ECB Governing Council, the assessment of the economic outlook and the stance on monetary policy, which remains the same, including with its ample degree of monetary accommodation.

President Draghi, I give you the floor for your introductory remarks.

1-005-0000

Mario Draghi, *President of the European Central Bank***. –** Chair, honourable Members of the Committee on Economic and Monetary Affairs, thank you very much for this surprise. I am really honoured to receive this plaque, so thank you. It has been a real surprise.

Ladies and gentlemen, it is a pleasure to be back at the European Parliament and to appear before your Committee. I am happy that you have chosen the euro project and its achievements over the past 20 years as the topic for our discussion today. I will start on the substance without further ado, discussing in turn the internal and external dimensions of the euro area. I will then argue that, building on what we have already achieved, our duty today is to continue to make progress in ensuring that all of the euro's benefits are realised in full.

The euro was introduced to deepen the Single Market and safeguard its integrity. It continued the European project of reducing cross-border barriers through common endeavours and common policies. It followed the spirit that was already imbued in the Schuman Declaration in 1950: building Europe 'through concrete achievements'. As a result, our economies are now integrated to a point that was unimaginable not so long ago.

The euro was designed to be a trusted and stable currency. And the euro has indeed provided two decades of price stability, thereby upholding people's confidence in the value of their savings. Stable prices also facilitated firm investment and the creation of new jobs. Today, there are more than 20 million more Europeans in employment than 20 years ago in the 19 countries that currently make up the euro area. And since the creation of the euro, the labour force participation rate has risen from 59% to 67%, its highest level ever.

The two decades in which the euro has existed have been exceptional. The first decade was the culmination of a 30-year period of macroeconomic stability, also known as the Great Moderation. Inflation averaged close to 2% and the ECB ensured price stability mainly by adjusting its interest rates.

The second decade produced the worst economic and financial crisis since the Great Depression. As I had the opportunity to discuss at length in my remarks at Parliament's plenary debate two weeks ago, as a response to the crisis we had to deploy new instruments to safeguard the effectiveness of our monetary policy and stabilise the euro area economy.

Thanks to the collective efforts of all European citizens, the euro area has emerged from the crisis. The results of their and their representatives' determination have been tangible: 22 consecutive quarters of economic growth, the unemployment rate at its lowest level since October 2008, and wages and incomes on the rise. However, over the past few months, incoming information has continued to be weaker than expected on account of softer external demand and some country- and sector-specific factors. The persistence of uncertainties, in particular relating to geopolitical factors and the threat of protectionism, are weighing on economic sentiment.

At the same time, supportive financing conditions, favourable labour market dynamics and rising wage growth continue to underpin the euro area expansion and gradually rising inflation pressures. This supports our confidence in the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus remains essential to support the further build-up of domestic price pressures and headline inflation developments in the medium term. This will be provided by our forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets. In any event, the Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

The benefits of the euro have not been limited to the European internal dimension. Standing together within the Economic and Monetary Union (EMU) allowed us to retain sovereignty that would otherwise be lost by individual countries in a highly integrated world economy.

As already envisaged at the time of its creation, the euro symbolises the unity of a European continent that is better able to exert global influence. Our togetherness in the Economic and Monetary Union gives us ‘a greater say in international negotiation’ and enhances our ‘capacity to influence economic relations’. These are the words of Jacques Delors in his now famous Delors Report.

Over the past 20 years, the euro has become the second most important currency in the international monetary system. Somewhere between 20% and 40% of global foreign reserves, foreign exchange transactions, international debt and international trade transactions are denominated in euro. And over 50 countries or territories use or link their currency to the euro.

This global standing brings benefits. For one, it lowers the transaction costs of trading internationally, making euro area firms more competitive. It also adds breadth and liquidity to the euro area financial markets, allowing domestic and international investors to allocate economic resources more efficiently. And it lowers the cost of global capital market financing for euro area borrowers, including corporations, financial institutions and public entities, thus benefiting firms, households and taxpayers. Of course, the international role of the euro also brings challenges, such as greater exposure to global foreign financial developments and potential changes to the monetary policy transmission process.

The international benefits of sharing a currency go beyond the monetary sphere. In a world with deep economic and financial interlinkages, international cooperation is essential and we can more effectively promote European ideas and interests by speaking together. Indeed, the euro area’s voice has been crucial in strengthening the international financial regulatory framework after the global financial crisis. Today, the Single Supervisory Mechanism is the largest banking supervisor globally and successfully contributes to shaping the international supervisory framework.

Since the global financial and euro area debt crises, however, the euro’s international role seems to have gradually eroded. While its importance as the currency of invoice for international trade transactions has remained broadly stable, its role in global foreign reserves and global debt markets has declined.

This decline is a symptom of the fault lines in Economic and Monetary Union exposed by the crises. Concerns about the resilience of the Economic and Monetary Union architecture and about the financial fragmentation underpinned this erosion. Indeed, stability, financial depth and liquidity are among the key determinants of an international currency.

European policymakers are now paying closer attention and various calls have been made in recent months for the euro to assume a stronger international role. The Euro Summit of December 2018 encouraged work to be taken forward to this end.

The international role of the euro is supported by the pursuit of sound economic policies in the euro area and a deeper and more complete Economic and Monetary Union. And this requires further efforts along the path of deeper integration.

The past 20 years have revealed beyond doubt how challenging ensuring economic prosperity and stability could be. This was true both inside and outside the euro area. Nonetheless, these years also demonstrated that such a shared challenge is best faced collectively. To realise in full the benefits of the euro, we need to have the same components that made the euro a reality in 1999.

On the one hand, we need national reforms to promote sustainable economic convergence. Under any monetary system, higher growth potential can only be achieved through continuous reform efforts. As the convergence process is primarily driven by structural factors, this is a key responsibility of Member States.

On the other hand, Europe can make a difference by supporting and facilitating such reform efforts. Our togetherness represents a unique competitive advantage, and we should capitalise on it. First, we can build on the synergies between Economic and Monetary Union and the Single Market. The Single Market is indeed one of the most powerful tools we have to unlock the mechanisms that will raise productivity. In particular, a genuine capital markets union (CMU) would not only ease and diversify access to funds for households and firms, thus fostering investment and innovation. It would also enable risk diversification and thus compensate for temporary drops in activity locally – the so-called private risk-sharing – thereby reinforcing the overall resilience of the Economic and Monetary Union.

Second, it is essential to complete the projects that we initiated during the crisis, namely the Banking Union. Together with the Capital Markets Union, a complete banking union would deliver meaningful private risk sharing that is currently lacking in the euro area if we compare it with the United States. But private risk sharing, to be effective, needs to be supported by other policies. We should thus rekindle trust in our economic and fiscal framework, by making it more effective in ensuring sound policy-making at national level. These actions can also be further supported at the European level by the recent decision to launch an instrument for convergence and competitiveness for the euro area.

To tackle future cyclical crises, the two layers of protection against shocks – the diversification of risk through the private financial system on the one hand, and public countercyclical support through fiscal instruments at the national and European levels on the other – need to interact in a complete and efficient manner.

Achieving these reforms is not idealistic, nor utopian, if we work together. At the Euro Summit in December, leaders renewed their political commitment to strengthen the Economic and Monetary Union. If we want to realise in full the benefits of the euro, we need to capitalise on this commitment and translate it into concrete policy actions.

Chair, honourable Members of the Committee on Economic and Monetary Affairs, I have used the word ‘together’ several times today. As this is the last time that we will be together in this legislative term, let me add a few words to you personally. I would like to thank you all for the role that this Committee has played over the past years. In my first hearing here, I remember saying that was my first exercise in democratic accountability with the European Parliament, and how grateful I was for it. Many more of those hearings would follow and you effectively ensured that the ECB would be accountable and therefore could be legitimately independent in carrying out its monetary policy. But I am also grateful for the support that this Committee always expressed for the actions of the ECB – a sincere support because it built on the voice of European citizens, and an important support that helped the ECB through the many difficult times of the past years. As co-legislators, your role was also essential in delivering crucial reforms that further strengthened our Union.

This Committee, and the European Parliament more generally, has been in my experience an attentive interpreter of the demands of European citizens. It is only by doing so that the trust in the legitimacy of the European Union’s institutions and policies is built, making it possible to achieve a more effective and inclusive Union.

As I have argued elsewhere, citizens demand – and Parliament may help in achieving – a 'more perfect Union'. A Union that will continue providing its citizens with physical and economic security, while also promoting the values of an open, democratic and peaceful society. Thank you very much for your attention. I am now at your disposal for questions.

(Applause)

1-006-0000

Chair. – Thank you very much also for your very kind words on the activity of this Committee and this Parliament. Now we start with the interventions from our members. The first speaker is Markus Ferber.

1-007-0000

Markus Ferber (PPE). – Herr Vorsitzender, sehr geehrter Herr Präsident Draghi! Ich darf mich im Namen der EVP-Fraktion ganz herzlich bedanken für die immer offene Art, die Sie hatten, und für die Möglichkeiten, an vielen Stellen miteinander ins Gespräch zu kommen – nicht nur hier im Ausschuss, sondern auch bei den regelmäßigen Besuchen in Frankfurt und an vielen anderen Stellen in der Europäischen Union, wo es Möglichkeiten der Begegnung gab. Das haben wir sehr geschätzt, und das ist ein Benchmark, den Sie da auch für potenzielle Nachfolger gesetzt haben.

Ich habe aber trotzdem zwei Fragen: Kürzlich hat die Europäische Kommission eine Mitteilung veröffentlicht, in der sie skizziert, wie sie die internationale Rolle des Euros und dabei insbesondere die Rolle des Euros als Reservewährung stärken will. Welche Konsequenzen ergeben sich für Sie aus diesem Vorhaben für die Geldpolitik? Und sehen Sie ein Problem darin, dass die US-Notenbank, die die Geldpolitik des stärksten Konkurrenten des Euro als Reservewährung kontrolliert, eine deutlich restriktivere Geldpolitik betreibt als die EZB? Wann sehen Sie eine Kehrtwende der lockeren Geldpolitik, bevor der amerikanische Zins am kurzfristigen Teil der Zinskurve sie zu sehr unter Druck setzt?

Und dann habe ich noch eine zweite Frage: Der Europäische Rechnungshof prüft die Rechtmäßigkeit und die Ordnungsgemäßheit der Einnahmen und Ausgaben der Europäischen Union sowie die Wirtschaftlichkeit der Haushaltsführung der EU-Organe und damit auch der Europäischen Zentralbank. Vonseiten des Rechnungshofs kamen bei der Prüfung der Krisenreaktionsfähigkeit der EZB und der Aufsichtstätigkeit des gemeinsamen Aufsichtsmechanismus – also ich betone noch mal: Krisenreaktionsfähigkeit und gemeinsamer Aufsichtsmechanismus, was nicht Kerngeschäft einer Notenbank ist – nun bereits mehrfach die Rückmeldung, dass die Europäische Zentralbank nicht in ausreichender Weise die notwendigen Dokumente zur Verfügung stellt, um eine angemessene Prüfung durchzuführen. Können Sie erläutern, warum die Europäische Zentralbank eine angemessene Zusammenarbeit mit dem Rechnungshof verweigert und wie die Situation verbessert werden kann?

1-008-0000

Mario Draghi, *President of the European Central Bank***.** – Chair, I think you asked me two questions. First of all, how would an expanded international role for the euro affect monetary policy?

Well, first of all we have to get there, and we have to ask ourselves why our international role is not as big as one would guess from the strength and the size of the euro area economy. The answer is basically very simple: complete the banking union, complete the capital market union, and at that point we will have an international financial sector comparable with that of the USA and, very likely, an international role for the euro as big, as overpowering, as that of the US dollar.

No, there aren’t any necessary links between the international role of the euro and monetary policy, but certainly we’ll have to take into account, more than we do today, the spillovers from or into other jurisdictions. We do take spillovers into account today, but the link would certainly be more direct in such a future.

In terms of being more or less loose on monetary policy, well frankly, we don’t see that. I mean the USA probably, if you judge by and large, started quantitative easing (QE) many years before we did, and now they have stopped. But they are also in a completely different position in the business cycle, so I don’t think one can compare easily the degree of looseness of a given monetary policy. But certainly the USA started long before us. So that’s the answer to the first question.

The second question was about the European Court of Auditors. You know, I’ll go through the details of this but the bottom line is that we certainly stand ready to cooperate and we have done so. We’ve shown that we have produced something like 500 documents on their request, 6 000 pages. We have held 38 meetings and teleconferences with the European Court of Auditors and we gave them all the information they wanted within the respective remits of the two institutions.

The Treaty defines the European Court of Auditors’ mandate to examine the operational efficiency of the ECB’s management. This boundary to the Court’s mandate was set cautiously by the legislator in order to safeguard the independence of the ECB. Moreover, in 2017 the Commission broadly concurred with the ECB interpretation of the legal provisions of our statutes and those of the Single Supervisory Mechanism (SSM) Regulation.

Having said that, there has been, as I said, plenty of cooperation and collaboration, and we will continue that, but within our mandates.

1-009-0000

Pervenche Berès (S&D). – Monsieur le Président. Au nom du groupe socialiste et démocrate, je tiens, moi aussi, à vous remercier pour la qualité de la coopération qui s’est établie entre le Parlement européen et la Banque centrale tout au long de votre présidence.

La relation a évolué, puisque – vous vous en souvenez sans doute –, lors de ma première audition, lorsque vous étiez candidat à la présidence de la Banque centrale, je vous avais interpelé avec virulence. Certains de mes amis ayant une certaine connaissance des organisations m’avaient dit que votre maîtrise du fonctionnement des marchés financiers vous permettrait d’être un grand président de la Banque centrale. C’est ce que vous avez démontré, je voulais vous en féliciter.

J’en viens à mes questions. Je voulais tout d’abord demander comment vous évaluez la situation, en termes d’impact des politiques budgétaires. Parce que nous avons quand même l’impression que dans le fonctionnement de la zone euro, la politique monétaire est largement déterminée par la sous-évaluation des impacts des politiques budgétaires. Que faudrait-il corriger en ce sens?

La deuxième question rebondit sur celle de mon prédécesseur car il me semble tout de même que la relance du débat sur la dimension internationale de l’euro est présentée par certains comme une échappatoire. Or, je partage avec vous la conviction que c’est parce que l’euro n’est pas une monnaie aboutie, avec une gouvernance en bonne et due forme, ainsi qu’un marché de capitaux et une union bancaire, qu’il ne peut pas exprimer toute sa force sur la scène internationale. Êtes-vous certain que ce message est bien celui qui est compris au sein de la Commission et au Conseil européen?

1-010-0000

Mario Draghi, *President of the European Central Bank***.** – Chair, on the first question, what monetary policy has to avoid – I think everywhere and certainly in our part of the world – is fiscal dominance, because otherwise the central bank loses its independence and therefore its credibility. There have been several instances in the past – not in the eurozone of course, but in other parts of the world or before the euro was in place –where central banks were deeply affected by fiscal dominance, and one can argue that they lost their independence, and the consequences were clear in the inflation rates and the unemployment rates, both of which were very high all throughout the 1980s. So that’s the main thing we have to look at. Having said that, can we improve on the existing fiscal rules?

Let me step back. There’s a big difference between fiscal policy and monetary policy as far as integration is concerned. In the monetary policy area we moved away from the situation of the 1980s, where integration and coordination were assured by a rules-based system; we took note of the failure of that system and the founding fathers of the euro moved towards institution-based integration of monetary policies. This did not come from scratch: it came after 15 or 20 years of failures of a rules-based system. In fiscal policy that transition has not taken place yet. We are still rules based and, with regard to the functioning of the rules, while it’s now quite fashionable to criticise them, they have, in fact, been very, very useful. Just think about how the deficits and debts could have evolved without these rules!

Can they be improved? Surely, surely they have to be improved, they can be improved and I’m pretty sure the coming months and years will show further improvements. But eventually, and I’ve said this on other occasions, the ultimate form of better coordination will be one based on institutions, as is the case with monetary policy.

On the international role of the euro, naturally it’s a good discussion because it constrains us to focus on what happens in jurisdictions where the currency, the US dollar being the prime example, has a big international role. Looking at that union (the USA), we see that it has not only a well-functioning capital market and a well-functioning banking union but also one budget and one government. However, we are not one country, we have several countries, and so we have to move in the direction of making our currency area a better currency area, because it’s not yet an optimal currency area. It has many fragilities – we’ve just experienced these during the crisis – but, gradually, consistently with the political developments in the different Member States, we are moving in that direction.

1-011-0000

Bernd Lucke (ECR). – Herr Vorsitzender! Herr Draghi, ich möchte Ihnen ebenfalls danken für die freundlichen Worte, die Sie an diesen Ausschuss gerichtet haben, auch wenn ich Ihnen mitteilen muss, dass Sie mich nicht zu denjenigen rechnen dürfen, die mit Ihnen zusammen an der Finalisierung des Euros und der Euro-Zone arbeiten werden, weil ich nach wie vor nicht der Auffassung bin, dass der Euro eine geeignete Währung für die Euro-Zone oder für die EU als Ganzes darstellt, und weil ich auch nicht Ihrer Auffassung bin, dass die EZB sich an ihr Mandat hält, sondern es tatsächlich überschreitet, wie Sie wissen.

Insofern stehen wir auf verschiedenen Seiten eines Kampfes, bei dem ich bedaure, dass Sie ein guter Kämpfer sind, aber ein Kämpfer für die falsche Sache. Dessen ungeachtet möchte ich Ihnen persönlich dafür danken, dass die Art und Weise, wie Sie den Währungspolitischen Dialog hier geführt haben, zu dem Besten gehört hat, was ich in diesem Parlament von Gästen des Hauses erlebt habe. Die Art und Weise, wie Sie argumentieren, der Informationsgehalt, den Sie bringen, die Stringenz Ihrer Argumentation – alles das war vorbildlich, und ich danke Ihnen dafür, dass Sie doch wirklich einmal einen fruchtbaren Austausch ermöglicht haben.
Ich habe zwei Fragen an Sie. Die eine Frage betrifft die Eintrübung der konjunkturellen Situation, die Sie hervorgehoben haben. Die EZB hat ja bekannt gegeben, dass das PSPP zwar jetzt zurückgefahren worden ist und keine Nettoneuankäufe stattfinden, aber angesichts der

Tatsache, dass das PSPP nach wie vor ein Instrument der EZB sein soll: Halten Sie es für denkbar, dass die Nettoankäufe im Laufe dieses Jahres – 2019 – wieder aufgenommen werden, um weiteren Stimulus zu erzeugen? Und welche Gründe würden dies möglicherweise aus Ihrer Sicht nötig werden lassen?

Die zweite Frage, die ich habe, ist ein Themenfeld, über das wir oft miteinander gesprochen haben, nämlich die Target-Salden. Sie haben wahrscheinlich zur Kenntnis genommen, dass es eine Studie von den Professoren Fuest und Sinn gibt, die argumentieren, dass nationale Zentralbanken im Innenverhältnis des EZB-Systems insolvent werden können, wenn eine Staatsinsolvenz stattfindet in Zusammenhang mit darauf folgender Kapitalflucht. Dabei spielen die Zahlungsverpflichtungen aus den Target-Salden – unterstellt, sie werden mit dem Hauptrefinanzierungssatz finanziert – eine zentrale Rolle. Ich möchte Sie gerne fragen: Können Sie das bestätigen beziehungsweise können Sie ausschließen, dass eine nationale Zentralbank in einem solchen Szenario, wie es von Sinn und Fuest entworfen worden ist, im Innenverhältnis des Systems der Europäischen Zentralbanken zahlungsunfähig wird?

1-012-0000

Mario Draghi, *President of the European Central Bank***.** – Chair, I'd like to thank Mr Lucke for his thanks, which are especially appreciated because they come, exactly as he said, from someone who has opinions very different from those I would defend and speak about.

Let me touch first on a point about our mandate, because that's linked to the rest of the answer. One can have subjective doubts as to whether our action is within the mandate or not, but the point is that the highest court in Europe has sanctioned the fact that we've been operating within our mandate, and the tools we've used are a legitimate part of the toolbox that we have and may be using in the future.

Now, to come straight to your question, Mr Lucke. As I just said, we have several tools. We have the forward guidance about interest rates, which is both date contingent and state contingent, and we are stabilised now, we are no longer purchasing on a net basis. We are stabilising the stock of the balance sheet of the European Central Bank. However, we'll certainly continue purchasing bonds in order to stabilise the stock as these bonds come to maturity.

So we have the forward guidance and we have the reinvestments of stock, which, by the way, are going to be pretty sizable this year – we are talking about EUR 15 billion a month in that ball game – and then, of course, if things go very wrong we can still resume the use of other instruments in our toolbox, one of which is what you referred to. There is no objection to that possibility. The only point concerns the contingency in we would do that. And, at this point in time, we don't see such a contingency as likely to materialise this year, certainly not this year.

The second point is about 'what if'. I wouldn't want to speculate on contingencies that may arise in the future, but I can say a few words about the underlying worry that your question reveals, namely the increase in TARGET2 balances. We have discussed this on other occasions, but the main fundamental factor behind the increase in TARGET2 balances is the decentralisation of the implementation of our monetary policy.

So this quite remarkable increase in TARGET2 balances essentially depends on our monetary policy, on quantitative easing (QE) and on the net asset purchases. Whenever payments by central banks for the securities purchased are settled across borders, TARGET2 balances can be affected.
I think we should look at these balances from this perspective: the fact that they go up, by and large, most of the time reveals, I would say, our monetary policy. We then monitor increases that deviate from this trend, which is accountable and accounts for the largest increase in

TARGET2. We certainly have to look at that and we monitor that, but on that basis we had increases in certain countries' TARGET2 balances and then decreases by year end last year. So you see it's somewhat difficult to assess whether these balances are actually following trends or capital flows.

More generally, in any monetary union you have countries that are in a deficit position and countries that are in a surplus position and, again, if we look at what happens in the USA – which is a more complete monetary union than we are – you've had this state now for hundreds of years, 400 years or whatever, since the beginning of their existence, and the monetary union works well.

I understand we have different perspectives here, but the key point, as far as I'm concerned, is not so much to ask the question 'May a country be insolvent?' or 'May a central bank be insolvent?' but rather the other question: 'Is the payment system of this monetary union working efficiently and effectively?' And the answer, as far as this is concerned, is yes.

1-013-0000

Caroline Nagtegaal (ALDE). – Chair, I would like to thank President Draghi for being here and I have two questions. The first relates to the new economic forecast that flowed into my newsfeed last week, and a potential slowdown in trade – which you mentioned as well – that is partly caused by the protectionist moves of Brexit and also the Trump administration, which might have an effect on global economic growth. Could you reassure Parliament, Mr Draghi, that the European Central Bank has enough room for manoeuvre in the event of a substantial economic downturn? That's my first question.

The other one is a little more technical and relates to the benchmarks. The ECB provides the secretariat to the Risk-Free Rate Working Group, and I'm happy to note that this working group has made good progress and that reform of the new benchmark is in sight. Could you elaborate a little, Mr Draghi, on the transition from Eonia (the Euro Overnight Index Average) to Ester (the Euro Short-Term Rate), the new overnight benchmark provided by the ECB? And are you confident that market participants will use the new index and that potential problems with legacy contracts will be limited?

And there is a further part to that question. For now, the Euro Interbank Offered Rate (Euribor) will be transformed into a more hybrid version, still based to some extent on the subjective panels. And, given the limited room under the Benchmarks Regulation (BMR) for the mandatory contribution, is it, in your opinion, feasible to come up with a permanent solution that is completely data driven?

1-014-0000

Mario Draghi, *President of the European Central Bank***.** – As you said, the last Governing Council acknowledged that the balance of risk for growth has moved to the downside, and acknowledged the size and the persistence of the slowdown, and some of the reasons at least are among those you mentioned.

Now, before I go on to the policy response, the discussion in the Governing Council has indicated that the key factor we have to look at is the persistence of all these various causes, various geopolitical factors – protectionism, for example. Many Council members said explicitly that if, all of a sudden, there were clarity and peace in trade relations between the USA and China, much of this slowdown would probably wash out.

Another source is the anxiety surrounding the Brexit negotiations. It is quite clear that, even though – as we have said many times before – for the aggregate of the eurozone this may not be a big problem in real terms (although I hasten to say there are certain counties that are very exposed and others less), there is another element which I want to remind people of, namely that value chains across the Union are very difficult to spot. So one cannot exclude, at all, local examples of uneasiness following this. However, the very fact that these negotiations have been so protracted feeds into anxiety, and that is another issue.

Then, of course, there are political developments all across the euro area, the slowdown in China – again, we are confident that the Government is taking appropriate action there, so we are confident about the policy response – and the waning effects of fiscal policy in the USA. There are lots of factors like that.

The answer, as far as our policy is concerned, is yes: we have instruments, and in fact these instruments have already started functioning thanks to the enhanced forward guidance we have, which says that rates will stay at the present level at least through the summer and … Let me read this: ‘We continue to expect key ECB interest rates to remain at their present levels at least until the summer of 2019 and, in any case, for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.’ Not only that but also, when we go to the investment part, we say we intend to continue reinvesting in full the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

So the forward guidance is actually chained into the reinvestment horizon in this way, and we’ve seen how this has functioned immediately. When we announced the end of the net asset purchases, way back in June last year, markets did not react and, in fact, since then, if anything, interest rates have gone down. The term structure of the interest rates flattened and, as we say, moved to the right, basically placing the expectations of further hikes in interest rates in the more distant future than at the end of the summer. This in itself is already a reaction to the weakening of the growth momentum. So the bottom line is that not only do we have tools in our toolbox but those tools have already started reacting to the slower momentum.

On the benchmark, as you said, Euribor’s administrators are working on this reform to bring it into compliance with the requirements of the EU Benchmarks Regulation. We will know the final outcome of all these efforts in the course of this year. In the meantime, the working group is also considering a scenario where the reformed Euribor might not be compliant. We cannot comment on the likelihood of such a scenario, but we can say that it’s appropriate it should be analysed, considering that the identification of potential solutions lies with the private sector, together with the relevant authorities, DG FISMA and the European Securities and Markets Authority (ESMA).

On the potential production of the term rate by the ECB, I have to be clear: we are not – the ECB is not – in a position to provide reference rates beyond the overnight maturity using a purely transaction-based methodology, due to an insufficient number of transactions. This implies that, at times, expert judgment may be required for the production of such rates, but this judgment cannot come from a central bank. It should reflect the credit institutions’ borrowing costs under the prevailing market conditions. At the same time, there could also be a conflict, or a perceived conflict, of interests if expert judgment executed by a central bank were interpreted as being related to the monetary policy stance. Rather, the development of suitable solutions will come in response to the challenges that only the private sector is equipped to identify.

1-015-0000

Philippe Lamberts (Verts/ALE). – Good afternoon President Draghi. It is always a pleasure to have you here, and hopefully we’ll talk again before your term of office expires. I intend to come back in the next Parliament.

Let's continue with a discussion we have already had a few times. I like the way you presented the story of the euro as a pooling of sovereignty, and I would to some extent agree with you, in the sense that, before the euro, you had the two levers of monetary policy and budgetary policy covering the same geographical area, namely the Member State, the nation state. We decided to pool monetary policy but without pooling the budget levers at the same level. By that I mean that if you implement a monetary policy in a homogeneous state – which most states are – of course the monetary policy will never be perfectly appropriate for all parts of the country, and this is where you need the budgetary policy instrument to rebalance your country. And of course if you transfer, if you pool the monetary policy without pooling to a degree the budgetary policy, what you do is to lose some sovereignty in the process.

I have never seen the European integration process as a loss of sovereignty, but in this case it is a fact that you do not find at the level of the federation – that is the European Union – the same quality of sovereignty that you had at national level.

Of course, there are two answers to this conundrum. Either you find coherence again at national level, i.e. you exit the euro, which I'm sure you know is not our policy, or you bring the missing links or missing elements to the federal level, i.e. through a eurozone budget together with the ability to levy taxes. By that I mean a real fiscal authority, able to levy taxes and to spend. That is our view and I respect the views of those who say no to it and consider that we should do conversely, i.e. step out of the euro.

However, I'd like to have your thoughts about that because I do not believe that a construction which is just rules based can really work.

1-016-0000

Mario Draghi, *President of the European Central Bank***.** – Well, it's not an easy question, but let's look at monetary policy first. Until the Maastricht Treaty, each country claimed to have its own monetary policy. In fact, most countries didn't have any sovereignty over that monetary policy.

(Comment from the floor: 'Germany had')

You're right, Germany had. For all the other countries there was a choice: either pegging their interest rates to the German rates or devaluing progressively and then claiming sovereignty over monetary policy. But, in fact, even the ones that were devaluing regularly didn't have sovereignty because, when you look at how you measure this sovereignty – namely price stability and control over inflation and unemployment – those countries fared even worse than the ones that were pegging the interest rates, if you look at the numbers over a 15-20-year time span.

That situation was overcome by the creation of the institution of the European Central Bank, whereby even those countries that didn't have any sovereignty before, had lost sovereignty or didn't have any credibility, regained sovereignty and credibility. In the fiscal space this same progress was considered more difficult because of the intrinsic political essence of budget decisions and the parliamentary control over such decisions, which is exercised at national level. In a sense, one may argue that the same parliamentary control was not being exercised as far as monetary policy was concerned, even before the euro, but historically this was different – sometimes it did and sometimes it didn't happen. But basically that was the situation.
Given this fact, the rules route was chosen. Under a rules system, when is it that you do not lose your sovereignty? Well, when the rules are not binding. When the rules are not binding – on average, of course, as there will be times when they are binding and times when they are not binding – basically the country retains its sovereignty. But how is that? Well, a country loses

sovereignty when debt is too high and, when debt is too high, there is not even a need for rules to limit the country's sovereignty, that is done by the markets. Markets tell the country what is affordable and what is not, what is credible and what is not. So the country loses its sovereignty – regardless of rules or institution – when debt become so high that each policy action has to be scrutinised by the markets, i.e. by people who don't vote and who are outside the democratic accountability process. That's why there is such resentment, but that's a fact of life. The debt has been produced by political and policy decisions taken by these countries' governments. I think that's one of the reasons.

What is the beneficial effect of rules? It is that, if they are complied with, they foster convergence, and that's the other part of sovereignty. In a monetary area, you can't have sovereignty if your country's economy diverges regularly or constantly, if the country is lagging behind in terms of reforms and competitiveness and, on top of that, has high debt. Again, I think I would agree with you that the reasons for losing sovereignty certainly have to do with the framework and with rules – and by moving from rules to institutions this issue would probably be partly addressed – but, long before that, they have to do with policies. Sovereignty is lost because of wrong policies.

1-017-0000

Philippe Lamberts (Verts/ALE). – We don't need a eurozone budget?

1-018-0000

Mario Draghi, *President of the European Central Bank***. –** No, I think it's a combination of things that we need, first of all because of what I said in my introductory speech.

1-019-0000

Chair. – We had another slot scheduled at this time but, since it is interesting and if it is very short, we will recover, don't worry …

(Interjection from President Draghi: 'I have forgotten where I was.'

(Laughter)

I am sure there will be another question on EMU that will allow you to conclude elaboration on the eurozone budget.

1-020-0000

Bernard Monot (EFDD). – Monsieur le Président, je voudrais également vous dire que j'ai apprécié le dialogue monétaire durant cette mandature. En revanche, je serai beaucoup moins enthousiaste que vous sur le bilan de la BCE et sur les bénéfices de l'euro, monnaie unique. Les résultats socioéconomiques des vingt dernières années sont plutôt terribles dans mon pays, en France, tout comme dans votre pays, en Italie, mais je parlerai d'autre chose aujourd'hui.

Le 14 décembre dernier, le sommet de la zone euro a entériné une série de propositions qui concernent le futur Fonds monétaire européen (FME). Parmi ces propositions figure l'engagement de réformer les clauses d'action collective, les CAC, qui sont contenues dans les titres de dette publique de la zone euro. Cette réforme porte sur la constitution d'une minorité de blocage avec un seuil unique global à 25 % au lieu de 33 % pour chaque ligne de titres. L'idée sous-jacente est de rendre la restructuration des dettes plus facile.

Ma première question est la suivante: la BCE ne peut pas détenir plus de dette d'un pays de l'eurozone que le seuil de minorité de blocage, afin de ne pas se retrouver en position de voter en faveur d'une restructuration. Le fait de voter pour une restructuration équivaudrait en effet à du financement monétaire direct. Or, la BCE et l'Eurosystème détiennent actuellement environ 25 % des encours de dettes de l'eurozone suite au plan de quantitative easing (QE). La décision de mettre fin au QE et de stabiliser ces encours à 25 % est-elle une conséquence de cette réforme attendue des CAC? En d’autres termes, la fin du QE est-elle liée aux seules perspectives d’inflation dans la zone euro ou bien également à la réforme des CAC?

Ma deuxième question concerne directement le FME. Les conclusions adoptées au sommet de l’eurozone prévoient que le FME puisse négocier directement une restructuration avec les créanciers privés. Ne craignez-vous pas que ce nouveau dispositif de restructuration des dettes souveraines crée une panique des investisseurs, qui aura un effet d’ailleurs procyclique et autoréalisateur, précipitant ainsi un défaut de paiement? Ainsi, l’existence et les prérogatives du FME ne vont-elles pas constituer potentiellement des perturbations importantes pour votre conduite de la politique monétaire de la BCE?

1-021-0000

Mario Draghi, *President of the European Central Bank***. –** I think that the answer to the first question is no. We decided to discontinue net asset purchases back in June, not because we were bumping against the limits – that we ourselves actually set on our own action – but because, as a matter of fact, I think we do have space. But the main point of this decision is that the stock we have achieved which, as you said, is now about 25% of total government long-term eligible debt in the euro area – is so large that the net additions to this stock were having a more and more negligible effect. So we were confident, with the stock we had achieved, that we would continue producing the monetary accommodation – the stimulus – that was and is necessary for inflation to converge to our aim. What we have also seen since June, as I was saying earlier, is that interest rates have gone down and the whole term structure of interest rates became more accommodative. All this told us that this decision was not monetary tightening, and that monetary accommodation was in place and would be kept in place.

The second question was about the role of the European Monetary Fund (EMF). Actually there is no explicit mandate to the EMF to be the renegotiator of debt with countries: the relevant words were very carefully crafted, saying, if I’m not mistaken, that it would be a facilitator, precisely for the reasons you mentioned, Mr Monot.

It’s quite clear that high debt stocks in some countries are a problem, but it’s also clear that any consideration of this should take account of financial stability because you don’t want to have a remedy which is worse than the illness. It’s also true that these high stocks have been there for 20 years and longer. So it was a very careful and cautious attempt basically to say that the EMF would have a role in the event of some sort of general renegotiation, but I don’t think anybody would have thought that the EMF could initiate such a renegotiation.

By the way, the IMF itself can be a facilitator for debt renegotiations when the country decides, under a programme, that it has to renegotiate on its debt.

1-022-0000

Danuta Maria Hübner (PPE). – Chair, I have a word of thanks to President Draghi: I would like say that, for me, these dialogues with you have been an irreplaceable source of knowledge, President Draghi. So thank you very much for that.

I have two short questions. Firstly, I would like to follow up on this issue of the end of the net asset purchases and the shift to this phase of reinvestment, and you talked about the rationale behind that. My question to you is this: do I understand correctly that, in this period now, you, as the European Central Bank, are paying attention to different parameters in decision making than was the case in the years when you were purchasing net assets under the programme, that you are looking at different parameters in relation to reinvestment? Or is it the same story, but perhaps with different intensity?

My second question is: are you already now in a position to look back at the whole period of quantitative easing and to see if there is evidence as to whether or how the mechanism for the transmission of monetary policy has evolved or changed in this period of quantitative easing?

1-023-0000

Mario Draghi, *President of the European Central Bank***.** – What happened with the discontinuation of the net asset purchases, which, as I said, stabilised, rather than reducing, the existing stock, was that there has been what we call a rotation of instruments from the net asset purchases. Now the main instrument of our monetary policy is the forward guidance so the focus is on interest rates and reinvestment. And a natural question that people used to ask before the end of the net asset purchases was: yes but for how long are you going to repurchase the bonds that come to maturity? In other words, when are you going to reduce the size of the balance sheet the way the Fed has been doing now?

The answer to this was to chain the horizon to the first interest rate hike, which is itself determined by date – as we said, at least through the summer – or by state, depending on whether it is necessary to continue, as I just read a moment ago. So there has been a rotation of instruments from the previous set-up to now.

The evidence of the contribution that quantitative easing (QE) made to the resolution of the crisis is actually quite overwhelming. If we consider as a reference time 2014, then from mid-2014 onward we have a long reference list of indicators showing the impact of QE in resolving the crisis: from interest rates, from bank lending, and we also have a number which basically shows that over three years, between 2016 and 2019 only, QE contributed to 1.9% more growth and 1.9% more inflation. That is a very summary statistic and I wouldn't really make too much out of it, it's just a matter of trying to capture this. But take any aspect of the financial system. Let's not forget the financial fragmentation we had in 2014, when we were going lower and lower on interest rates and there was no response by banks in many countries in terms of lowering lending rates, though in some countries, yes, they were lowered. So this meant financial fragmentation: within the same corporation, two companies, or two branches, one based in a vulnerable country, another in a core country, would pay quite different rates when they went to borrow from banks. Now, thanks to QE and other monetary policies, not only those that we have undertaken, this has really become a distant memory.

1-024-0000

Paul Tang (S&D). – Thank you, Chair. Thank you, President Draghi, it's always good to have you here answering our questions. I appreciate that.

I think the resilience of the eurozone is always a topic of debate and I hear you emphasise – not just you, but many central bankers – resilience in the eurozone that comes from private risk-sharing. We must also conclude – I'm always a bit surprised – that private risk-sharing in the eurozone is still limited and, in fact, the progress in the capital market union has not been tremendous: I think three out of 13 proposals have been adopted. So what do you make of the actual progress in the capital market union? Has it contributed to the resilience of the eurozone area? That's my first question.

The second is related to sustainable finance. I was pleased with the speech by Benoît Coeuré in Berlin, where he set out what role the ECB has in sustainable finance. I was pleased because I think that, if we want this change in sustainable finance – and we do want this change – that supervisors play a leading role, especially the ECB. This is also a matter of resilience. We will have a transition to a sustainable economy with shocks and there will be a demand for monetary policy to react to it. Do you think that currently climate change risks and climate change policy are priced in or can we still expect a bumpy ride along the way as countries try to implement the Paris Agreement?

1-025-0000

Mario Draghi, *President of the European Central Bank***. –** I agree with you that the capital market union and the conclusion of the banking union would be powerful from a risk-sharing viewpoint. In a sense this makes the case for having a budget less compelling, though still important. As we see in the United States, a much larger percentage of the shocks are being absorbed through financial markets, by the private sector, than in the euro area and correspondingly a much larger part of the shocks are being absorbed by the national budgets in the euro area than in the US or in other currency areas.

Still, progress is slow. However, I think what is becoming increasingly clear and increasingly unacceptable is no action on both fronts. One has to make up one's mind and decide: if it is 'I don't want a budget', then one must proceed with the banking union and the capital market union.

Of course it's easy to say that there are political issues and political problems – and I think especially we, as central bankers, have to be humble about that, because in the end these are important political decisions – but the clear line of action is to go forward with risk reduction and risk-sharing together, and there it's a matter of finding the right pace. I would say that the December summit has shown some intention of moving forward: some first steps have been taken, some mandates have been given to further study certain issues that have not been looked at for a year or longer. So there has been a movement, and of course we should work faster but it will go at its own momentum, I think. We have to be hopeful there.

On climate change, it's quite clear as we move forward that climate change-related risks are becoming more and more apparent: more so than they were not long ago, even five years ago. Rather than the banking sector, let's consider the insurance sector. I think all insurers are much more aware of climate change-related risks than they were four or five years ago. So it will become something that, certainly, supervisors will have to look at, but to say that it's going to be an easy transition, I think there is a cultural change that has to take place here, and so we all have to work in that direction. I completely agree with what Mr Cœuré said in his speech.

1-026-0000

Werner Langen (PPE). – Herr Vorsitzender, Herr Präsident! Ich möchte das Lob, das einige Kollegen vorgetragen haben, hier auch ergänzen. Sie haben hier im offenen Dialog auch schwierige Zeiten überstanden, da wurde viel kritisiert, und man kann heute sagen: Der Euro ist ein Erfolg. Und ich erinnere mich noch an die Abschiedsrede des US-Notenbankpräsidenten Greenspan im Kongress – da waren wir damals mit dem ECON-Ausschuss –, als er gesagt hat: Der Euro wird scheitern. Heute kann man sagen: Das war alles falsch. Daran hat die EZB einen wesentlichen Anteil, das kann man so sagen. Sie haben eben gesagt: Wir müssen die Mängel beseitigen, die nationalen Reformen, die Projekte abschließen. Die drei Stichworte habe ich mir aufgeschrieben. Ich habe drei Fragen dazu.

Erstens: Wenn die Zuverlässigkeit der Fiskalpolitik immer wieder in Frage stand, was würden Sie vorschlagen, welche zusätzlichen Kompetenzen sollte der Währungskommissar erhalten, um die Einhaltung der Fiskalregeln durchzusetzen? Eine Wirtschaftsregierung oder einen europäischen Finanzminister werden wir nicht kriegen, insofern sind die Dezemberbeschlüsse ja eher enttäuschend im Hinblick auf das große Bild, das gezeichnet wurde.

Die zweite Frage ist die Konstruktion der EZB. Gehört das zu dem Reformpaket? Es ist immer wieder beanstandet worden, dass in der EZB jeder Mitgliedstaat eine Stimme hat und nicht nach Kapitalanteilen abgestimmt wird, weil zum Beispiel die Target-Ziele und andere Aufkaufprogramme natürlich im Endeffekt nach Kapitalanteilen abgerechnet werden. Können Sie dazu etwas sagen?

Und das Dritte: In den letzten Tagen ist aufgrund der konjunkturellen Probleme und der weltweiten Turbulenzen mehrfach von Wissenschaftlern über die Frage des Weges zurück von den Aufkaufprogrammen Richtung Fed oder des Weges hin zu der japanischen Regulierung gesprochen worden. Die japanische Notenbank hat keine Beschränkung, was den Aufkauf von Staatsanleihen und Unternehmensaktien angeht. Wie sehen Sie den richtigen Mittelweg, Herr Präsident?

1-027-0000

Mario Draghi, *President of the European Central Bank***. –** I am sorry, I'm not sure I have understood the first question.

1-028-0000

Werner Langen (PPE). – Ich will das kurz ergänzen. Die erste Frage war: Sollte der Währungskommissar im Rahmen der Reformen mehr Rechte erhalten, weil die Mitgliedstaaten die fiskalpolitischen Dinge, die sie selbst unterschrieben haben, nicht ausreichend eingehalten haben?

1-029-0000

Mario Draghi, *President of the European Central Bank***. –** Thank you. With regard to the future, you are asking me a question I'm actually quite biased about answering. I will answer the second question first.

You are asking whether the European Central Bank should be part of this reform package in the future. As I said, I'm a biased observer in this, but we are pretty satisfied with the current statute. My sense is that, if we were to reopen a discussion about the statute of the ECB, we would do so under two conditions: firstly that the European Court of Justice had found behaviour in violation of the statute, or reasons to update the statute, but we haven't seen that; and secondly that the ECB had not complied with its mandate under the present statute, and hopefully we are not in that position either. I can't rule out any development in the future, but we seem at present to be rather far from any reopening of a discussion about the Treaties of the scale and extent that you suggested, Mr Langen.

On the first question, I'm sorry, what is the 'Currency Commissioner'?

(Chair: 'There is a Finance Commissioner. How can we enforce the fiscal rules?')

OK, it was translated as the 'Currency Commissioner' and I couldn't understand what the Currency Commissioner was. We are at a stage where, if we look at the past 20 years and compare how the integration of monetary policy has performed with how the integration of fiscal policy has performed, I think all of us would agree that the first has performed better than the second.

So we will move on that. How this institution will work is an open question. It's a big question. In other words, some of us are convinced that this is the arrival point, but I don't think any of us would know with absolute certainty how the governance of this institution would work.

Let me add one thing that is actually relevant. When we look at how the Eurogroup works – discussing each other's budgets, including budgetary plans, with the help of the Commission and possible scrutiny of the measures in advance, during the discussion and ex post – well, we aren't that far, as the Eurogroup, from a potential embryo for an institution like that. That is all I can say at this point in time, but it's a very broad topic.

1-030-0000

Peter Simon (S&D). – Herr Vorsitzender, sehr geehrter Herr Draghi! An dieser Stelle – nachdem wir schon einiges über die letzten Jahre und die Politik der EZB zur Bewältigung der Krise gehört haben – möchte ich auch meinen Teil noch dazu beitragen, indem ich Ihnen etwas sage, was ich Ihnen im persönlichen Gespräch schon einmal sagte: Es ist meine feste

Überzeugung. Dafür, dass Sie damals, als die Politik in den Hauptstädten nicht in der Lage war, Politik zu machen, als einziger die richtige Politik gemacht haben, die uns heute alle noch Mitglieder der Euro-Zone sein lässt und die den Euro aus damaliger Sicht gerettet hat, sind wir Ihnen alle zu großem Dank verpflichtet.

Ich habe eine Frage hinsichtlich der Vollendung der Bankenunion, die Sie als alternativlos angesprochen haben, wenn man denn einen europäischen Haushalt nicht wolle. Sie haben nicht das Wort „alternativlos" benutzt, aber Sie haben gesagt: Man muss sich entscheiden – entweder ein gemeinsamer Haushalt oder die Bankenunion. Nun befinden wir uns in einer Situation, wo das Vertrauen der Mitgliedstaaten zueinander in den letzten Jahren leider nicht zu-, sondern abnimmt. Und wenn wir uns anschauen, was wir am meisten brauchen, um die Bankenunion zu vollenden – Sie sprechen jetzt hier natürlich die gemeinsame Einlagensicherung an, die fehlt ja noch –, dann es ist das Vertrauen in die handelnden Akteure, dann ist es das Vertrauen in die Banken, die angeschlossen sind, aber auch das Vertrauen in die dahinter stehenden Staaten. Wenn wir jetzt überlegen, wie wir ein solches Vertrauen aufbauen könnten: Gibt es aus Ihrer Sicht Wege, die wir hier noch nicht beschritten haben, die aber vielleicht schon einmal durchdiskutiert waren? Wir haben einmal einen Altschulden-Tilgungsfonds in der Diskussion gehabt. Er ist verschwunden. Welche Wege, Altschulden-Tilgungsfonds oder andere, können wir einschlagen, um losgelöst von Sanktionen – das war der Ansatz, den der Kollege Langen eben in die Diskussion geworfen hat – hier im Sinne eines Anreizsystems voranzukommen, um tatsächlich das Vertrauen aufzubauen, das wir für jeden weiteren Schritt benötigen?

1-031-0000

Mario Draghi, *President of the European Central Bank***. –** I agree with you and I think I've made this point many times. Trust and convergence are the two pillars upon which progress is being made in deepening the Economic and Monetary Union. Convergence is achievable through buoyant economic growth, and also through structural reforms. It's both things, not only trust. And, no matter what the intentions are, there can't be trust if there is no convergence and if the country becomes weaker and weaker. So both pillars have to be there.

If we limit our attention to the policy actions, trust is regained – gained or regained, depending – certainly by addressing the standing issues that have made such progress so difficult. These are, for example, legacy issues, the issues around non-performing loans (NPLs) in some countries, the level 2 and 3 assets in other countries, the level of debt in certain countries, and the sovereign debt present on banks' balance sheets in certain other countries. All this should be addressed and action to address it should be accompanied, on a clearly identified and specified policy path, by good intentions and commitments to proceed on the risk-sharing side. The ECB position has always been that the two things go hand in hand and there should be a well-specified calendar for things to happen, with the relevant figures.

I think the December summit has given some impetus to this. There is a high-level working group that has a remit to work on the European Deposit Insurance Scheme (EDIS), and the fact that its remit has to be broad has been accepted. As far as the ECB is concerned, the ultimate end-point of this process should be a system that is mutualised across countries. It may well take a long time to get there but, in this area as with many other aspects of the deepening of the monetary union discussion, having the end-point clear gives enormous energy to both sides, in terms of both risk reduction and risk sharing. That should be – in our view, at least – the way to move forward on both sides.

1-032-0000

Fulvio Martusciello (PPE). – Presidente Draghi, io La voglio ringraziare come italiano, perché Lei ci ha fatto sentire orgogliosi di essere italiani in un periodo in cui nel nostro paese c'è davvero penuria di classe dirigente. Quindi La ringrazio davvero per averci dato l'onore di averci accompagnato in questi dialoghi monetari.

Io Le vorrei fare due domande. La prima riguarda la situazione del nostro paese, l'Italia. La Banca d'Italia prima, e il Fondo monetario internazionale poi, hanno detto che si preannuncia una forte frenata della crescita nel nostro paese e che le stime vanno riviste, appunto, dall'1 % programmato dal governo allo 0,6 %. La stessa cosa l'ha detta il Fondo monetario internazionale, sottolineando come le preoccupazioni sui rischi sovrani e finanziari hanno di fatto schiacciato la domanda interna e sostanzialmente ci si deve aspettare quindi una diminuzione della crescita. Nella giornata di oggi, invece, il ministro Savona, in audizione alla Camera, ha detto che queste analisi si fondono su strumenti obsoleti e bisogna credere a lui che ha titoli *ex cathedra* e che, naturalmente, ne sa più della Banca d'Italia e del Fondo monetario internazionale.

Lei ritiene che, se fossero questi davvero i dati che dobbiamo aspettarci, l'Italia debba prepararsi ad una manovra correttiva, dal momento che, a quanto pare, non sono state effettuate le riforme promesse e non è stato messo mano a quanto ci si doveva aspettare in termini di riforme? Questa è la prima domanda.

La seconda è una curiosità. Oggi si finisce di stampare la banconota da 500 euro, una misura che – è stato detto – serve appunto a contrastare in qualche maniera la criminalità. Le volevo chiedere se si prevede uno strumento di controllo per chi depositerà anche una sola banconota da 500 euro negli istituti di credito successivamente, cioè se questa misura va accompagnata poi ad una misura di controllo che deve essere chiesta alle banche.

1-033-0000

Mario Draghi, *President of the European Central Bank***.** – Let me say just a few words about Italy. The conclusion of the dialogue with the Commission about the budget was, I think, positive news. As you've seen, the spread has narrowed a little. So, all in all, everything that contributes to the dialogue, and to compliance with existing rules, narrows the spread and makes financing conditions better for everybody.

The external environment, as I said before, won't be as buoyant as it has been in the past and Italy's economy is growing less than it used to – and significantly less than was expected. This has happened to most, if not all, countries in the eurozone. It has been more marked in Italy, inasmuch as, when everybody was growing, Italy was growing less than the other countries.

It's too early to think about whether the budget is going to be in need of a correction or anything like that. We have to see, too, what the budget outlays are, and we have no number, nor indeed any view, of that. We also have to see how the tax revenues will behave. So it's very early to make any sort of projection.

On the EUR 500 notes, honourable Members may remember that on 4 May 2016 the Governing Council decided that the EUR 500 banknote would be excluded from the Europa series and the issuance of this denomination would be stopped around the end of last year or the beginning of this year. The national and central banks would provide their customers with EUR 500 banknotes up until and including 26 January 2019.

Why are we saying that? It would be only natural, after all, to regard discontinuation of the EUR 500 banknote as normal, if we think who the users of these banknotes often are, because there are certain parts of the eurozone where the use of these banknotes is actually cherished. So the decision was taken. It was widely applauded in some parts of the Union, widely controversial in other parts of the Union, but basically the decision has been taken.

To ensure a smooth transition and for logistical reasons, the German Bundesbank and the Austrian National Central Bank will issue EUR 500 banknotes up until and including 26 April

2019. After the issuance stops, the EUR 500 notes will remain legal tender and therefore they will continue to be used as a means of payments and a store of value.

So that's the answer to that. We are treating this like any other any other banknote. Well, not 'we' as a matter of fact: the national and central banks will treat it like any other banknote.

1-034-0000

Νότης Μαριάς (ECR). – Κύριε Πρόεδρε, θα σας υποβάλω δύο ερωτήσεις που έχουν σχέση με την Ελλάδα. Η μία ερώτηση αφορά τα κόκκινα δάνεια, τα οποία, όπως αντιλαμβάνεστε, στην Ελλάδα δεν μπορούν να αντιμετωπιστούν με κατασχέσεις και πλειστηριασμούς κατά των Ελλήνων, οι οποίοι έχουν φτωχοποιηθεί από τα μνημόνια. Ούτε, βέβαια, αποτελεί λύση το ξεπούλημα των κόκκινων δανείων από τις τράπεζες σε διάφορα funds, τα επονομαζόμενα «κοράκια», σε εξευτελιστικές τιμές. Επανειλημμένα έχω προτείνει να δημιουργηθεί ένα Ταμείο Σωτηρίας Δανειοληπτών ύψους 5 δισεκατομμυρίων ευρώ εκ μέρους του ελληνικού κράτους προκειμένου να αγοράσει τα κόκκινα δάνεια στην τιμή πρώτης προσφοράς που κάνουν τα funds, δηλαδή περίπου κάτω από το 10% της αξίας τους, και εν συνεχεία να καλέσει τους φτωχοποιημένους δανειολήπτες να εξοφλήσουν τα δάνειά τους στο ίδιο ποσό. Πώς θα έβλεπε αυτό το σχήμα η Ευρωπαϊκή Κεντρική Τράπεζα, καθώς από τη μια θα υπήρχε η προστασία των δανειοληπτών που πράγματι αδυνατούν να πληρώσουν και αφετέρου θα υπήρχε απαλλαγή των τραπεζών από κόκκινα δάνεια ύψους περίπου 50 δισεκατομμυρίων ευρώ; Η δεύτερη ερώτηση αφορά την ποσοτική χαλάρωση. Η Ελλάδα έχει αποκλειστεί από την ποσοτική χαλάρωση, ενώ η Κεντρική Τράπεζα της Ελλάδος συμμετέχει στην ποσοτική χαλάρωση και έχει πληρώσει, μέχρι το 2017, 62 δισεκατομμύρια ευρώ. Το ερώτημά μου είναι πότε θα εντάξετε τα ελληνικά κρατικά ομόλογα στην ποσοτική χαλάρωση; Είχατε πει τον Ιούνιο ότι εσείς ο ίδιος, ως Ευρωπαϊκή Κεντρική Τράπεζα, θα κάνατε τη δικιά σας έρευνα και έκθεση βιωσιμότητας του ελληνικού χρέους. Το έχετε ολοκληρώσει αυτό; Και δεύτερον, πότε θα δοθεί η δυνατότητα ομόλογα των ελληνικών εταιρειών να ενταχθούν και αυτά στην ποσοτική χαλάρωση και να μπορούν να αγοραστούν από τις κεντρικές τράπεζες ή και από την Τράπεζα της Ελλάδος, δηλαδή την ελληνική Κεντρική Τράπεζα;

1-035-0000

Mario Draghi, *President of the European Central Bank*. – The answer to the second question is that we will do it when they will become eligible. Right now they are not eligible. We have criteria and they are below these criteria. On the first point – and, by the way, I can't really comment about this because all this is the object of negotiations taking place right now in Athens – certainly, in reducing the stocks of non-performing loans (NPLs), we should be aware that part of the debt, that of a proportion of the debtors, is part of a much broader social problem while, on the other hand, another part is just the debt of strategic borrowers. So what I understand the Government of Greece has done is that it is trying to distinguish between the two categories.

But in addressing the poor debtors, there are two ways of doing it. One way is basically to postpone the problem and create a problem for the banks, and the banks then will not be able to lend or to support the private sector as they would otherwise have done.
The other is basically to get rid of this, in other words to maintain the culture of payments so the banks are not affected, but directly to help the poor debtors who are owners of these bonds.

I think the Greek Government has made substantial progress on this, but we have to remain alert to the fact that Greek banks have just emerged from a protracted period of time where they were not able to support the private sector in Greece. Now they are well capitalised. Now they can be of real support for the economy, and we have to be mindful about not affecting them negatively for the future.

1-036-0000

Notis Marias (ECR). – Chair, do I have ten seconds?

1-037-0000

Chair. – No. I see you have speaking time and I'm sure you will follow up on this.

1-038-0000

Pedro Silva Pereira (S&D). – Thank you, Chair. President Draghi, so we are facing a slowdown in the economy? According to your forecast a new recession is not likely to happen in the near future and you remain confident that inflation will continue to converge to the medium-term target, but anyhow we are facing a slowdown and economic growth is weaker than expected. So the obvious answer is, what can we do and what should we do about it? Certainly not only cross our fingers.

We take note of your answer regarding monetary policy. You say that monetary policy remains supportive enough and, if necessary, more will be done by the European Central Bank. But, as for the rest, I have two questions.

The first is on the political risks beginning with Brexit.

Would you agree with the British central bank that the no deal scenario is the worst scenario and, in fact, eight weeks from this timetable of Brexit, would you say that the first thing we should do to improve conditions for economic growth is to avoid the no deal scenario?

My second question is on economic and fiscal policy. In the Annual Growth Survey for 2019, the European Commission is calling for more high-quality investment and more expansionary fiscal policy in the surplus countries. Would you agree that high-quality investment and more expansionary fiscal policy in the surplus countries should be part of the toolbox to promote economic growth and face this economic slowdown?

1-039-0000

Mario Draghi, *President of the European Central Bank***.** – On your question about Brexit, I'm kind of wary about answering because we never wanted to interfere in a debate, in a discussion which is already quite complex. And on top of that we should remember that the ECB is not party to the negotiation. We certainly monitor, we cooperate with the Bank of England, trying to be prepared, as far as financial markets are concerned, for any scenario. We've done substantial work with them. We've been having a working group, working for several months on that. Beyond that, I don't think we would probably discuss the pros and cons of different outcomes regarding the present political debate in the United Kingdom.

Our main responsibility is really to make sure that, as far as we are concerned, we have identified the contingencies under any scenario and we have identified what action is needed. Which means that many of these contingencies don't need any action by the public authorities but the private sector itself can cope with them through mitigating actions. But, as I think we've discussed on another occasion, there are certain areas where it's important that we know what to do in advance and certainly the recent statement by the Commission about the equivalence and the conditional temporary equivalence has been of great help.

On the second point, yes, I agree with you and I agree with the Commission. We talk a lot about the size of the budgets in different countries. We talk much less – because it's much more difficult – about how growth-friendly a budget should be. What we have seen, I would say in the many years before the crisis– in seven, eight, nine years before the crisis – in many countries we've seen a sizeable increase in current government expenditure, a strong dramatic decline in public investment and a significant increase in taxes. Now, it's no wonder that, when the crisis struck, certain countries that had been pursuing this policy, which is exceedingly growth-unfriendly, were more vulnerable to the crisis. On top, they had piled up a sizeable amount of debt which reduced fiscal policy space to react to the crisis. The instance of finally focusing on the composition of the budget is very, very welcome, and we can only agree with that.

The second part of the Commission recommendation is about a symmetric application of the macroeconomic imbalance procedure and we are on the same side on that as well. But we have to take one step further and ask ourselves what it means. What does it mean for a country which is at full employment – and has been at full employment now for a certain number of years – and experiences labour shortages by and large in many parts of its economy, to suggest that more expenditure should be undertaken? I think that's a relevant question. If this takes the shape of investments in digitalisation, in technology and in infrastructure, where this is needed, it's certainly welcome. But it's only the first step. We should ask ourselves how could this further expenditure be materialised and how could this greater expenditure by surplus countries spill over into the rest of the eurozone countries? This is not at all obvious.

1-040-0000

Wolf Klinz (ALDE). – Chair, Mr Draghi has been asked a number of what he termed not-so-easy questions. Let me ask you two very simple questions, Mr Draghi.

The first concerns membership of the eurozone. Twenty-six of the 28 Member States of the EU committed in a legally binding way to introducing the euro eventually. Now, seven are still not yet members of the eurozone, even though one or two would meet the conditions for membership. How do you see this developing?

Would you say it's desirable or even necessary that, eventually, those Member States, since they have committed in a legally binding way, be forced to join, and what development do you foresee in that regard? Do you see that one or two, at least, over the next two or three years might apply for membership?

Question number two concerns the fact that, when I was chairing the special committee on the financial crisis, with Pervenche Berès as rapporteur, we looked, inter alia, into the role and performance of the credit rating agencies and we came to the conclusion that it would be desirable for the European Union to have a European credit rating agency that was not dependent on US influence. According to our ideas, it should be a private, not a public, rating agency, invested with private money, and it should be an agency that eventually could also change its business model, by being not issue dependent but maybe also investor dependent, etc.

Now, I personally made this a pet project and I tried to find investors to participate in such a project. At the time, the effort was unsuccessful. In the meantime, I realise that a number of agencies have come into existence and one is particularly successful, working in more than six countries, with more than 200 employees of more than 30 nationalities, and it has been accepted, for example, by companies and by institutions like the European Investment Bank.
However, they tell me that the European Central Bank still does not consider them – their name is Scope – to be equivalent to the three big ones. What is the reason for that?

1-041-0000

Mario Draghi, *President of the European Central Bank***.** – Firstly, the first question. The euro area has strengthened and, although we would like to see a faster pace, progress has been made, especially if we take as our starting point the beginning of the crisis.

This process is not over but it is sufficiently advanced actually to reverse your question, Mr Klinz. As recent expressions of interest, to which you have referred, confirm, the main emphasis is no longer on whether the euro area is fit for further enlargement but on whether a new applicant country is fit to enter.

We do expect all the Member States of the Union without an opt-out clause to adopt the euro sooner or later, and what's going to happen depends essentially on two factors: their willingness and their readiness.

Their readiness is now a pre-established procedure, but with one big difference: now, unlike in the past, these countries have to be aware that they are joining a banking union as well, so there is a process whereby, in joining the euro area, these countries have to ensure that their financial institutions – their banks – are going to increase the strength of the banking union and not, instead, open up new frailties or fragilities.

I guess that is the answer to the first question. In other words, we are in a different position vis-à-vis, say, 10 years ago when, you remember, we were asking ourselves: is this enlargement going to make sense; isn't this going to weaken the existing union?

Now many things have changed since then, and, as I said, many other things will have to change for the Union to become stronger. But, judging from where we are today, we are strong enough to have new members.

The next question was about the credit rating agencies, and we can discuss whether credit rating agencies are perfect or not. I remember when I was chairing the Financial Stability Board, in providing the first response to the financial crisis in April 2008, the role that the credit rating agencies had played during the financial crisis – and especially during the formation of the financial crisis – was nothing that one would recommend, and I remember saying, and probably writing, that we have to learn to do without them.

The point of fact is that, since then, it has been very difficult to create any valid replacement. When I say valid replacement, I mean a replacement that gains, and has, the same level of trust among the main institutional investors, namely pension funds, and all the other main actors in the financial sector, because it is they who give the credit rating agencies credibility.

During the financial crisis they seemed very close to losing this credibility because they advised their investors by giving ratings to products that certainly would not deserve those ratings. But it's very difficult: clearly if an agency is private it will command greater credibility than if it is public, certainly so. But it's also difficult to enter this market from outside now. We certainly wish to have as many assessments of credit ratings as we can, and we are trying, at the ECB to do that now.

I don't know about Scope, I will have to see. We are using a variety of things. Credit rating assessments are certainly the most important one, but we are also using other assessments. Some central banks have their own rating. There are also internal rating assessments. Certainly we are open to widen and broaden the spectrum as we see fit.

1-042-0000

Stefan Gehrold (PPE). – Thank you Chair and thank you President Draghi. You referred to the north and the south of Europe being united and unified by the euro, but deeply divided economically. I understand that your tool of choice for the cohesion of the eurozone is to keep interest rates at a low level. However, this strategy doesn't come without effects for those with debt and it was intended to be that way. However, it works to the detriment of those with savings, particularly after you impose negative values on the deposit facility. I wonder if there were more adjustment screws than simply the interest rate and the deposit facility.

So my question to you is, if you personally wish for another tool – one more decision capacity –for the independent European Central Bank to have control over, what would it be?

1-043-0000

Mario Draghi, *President of the European Central Bank***. –** Thank you. First of all, low interest rates – and even the negative ones we have – are not there for keeping the eurozone together. The motivation is not, as I think you call it, collegiality of the eurozone members. The motivation was – and is – price stability. It was clear at some point of the crisis in the last few years that that instrument would be very effective and it was indeed very effective. Our experience with negative rates has been quite positive in the sense of stimulating the economy, increasing lending and overcoming financial fragmentation. So that's the main logic behind the negative rates.

We'll have to assess the effect on savings because what is negative is the very, very short-term deposit facility rate, but whether savings are being remunerated at that rate is actually questionable. Some savings – for example, corporate savings – are actually getting a negative rate now. Some, not all of them. But non-corporate rates – I am talking about deposits – are remunerated at a zero rate. But the point is that, when your savings are being invested, they are not necessarily invested into short-term assets like a deposit. They are also invested in other assets, which are all along the yield curve.

In judging the fitness of that policy measure, one should have a broader consideration. In other words, one should ask whether savers are better off from a strong recovery, from a strong economy; having their savings in a strong economy, where unemployment has gone down and where in fact because of this, and because of the nominal wages that are now increasing, they are actually saving more. Are they better off or would they be better off in an economy with a higher interest rate, high unemployment rates, fewer jobs being created, lower wages and so forth?

So when we give this overall assessment, the answer is basically that negative interest rates have performed a very useful role as far as monetary policy is concerned and as far as compliance with our mandate is concerned.

1-044-0000

Chair. – Thank you. We now conclude the monetary dialogue with you as ECB President.

(The monetary dialogue closed at 17.08)