COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI,
PRESIDENT OF THE ECB
(pursuant to Article 284(3) of the EC Treaty)
BRUSSELS, 23 SEPTEMBER 2013

1-002

IN THE CHAIR: SHARON BOWLES,
Chair of the Committee on Economic and Monetary Affairs

1-004

(The meeting opened at 15.20)

1-005

Mario Draghi, *President of the European Central Bank***. –** Madam Chair, honourable members of the Committee on Economic and Monetary Affairs, it is a pleasure for me to be back with your committee, shortly after your assembly's important vote on the Single Supervisory Mechanism (SSM) Regulation. That vote was preceded by intense interaction on the interinstitutional agreement on accountability and transparency, and I would like to thank President Schulz, your committee and the negotiating team for their commitment to the successful establishment of the SSM. Our two institutions share a common interest in the swift and effective implementation of banking union. The draft interinstitutional agreement ensures high standards of transparency and accountability, while safeguarding the protection of confidential information. We will continue working in a similar constructive spirit in the months ahead, and hope that this will allow the Supervisory Board to be set up swiftly.

Today, I will first review recent economic and monetary developments in the euro area. I will then address the two topics that you have selected for our discussion: the impact of our non-standard measures; and the new tasks of the ECB in the reformed European Monetary Union architecture.

Since our meeting in July we have received positive data on the euro area economy. Following six quarters of negative output growth, euro area real GDP rose by 0.3%, quarter on quarter, in the second quarter of 2013. Measures of confidence and surveys of production have given some support to the view that euro area economic activity should continue its slow recovery in the current quarter, despite weak production data for July. Looking forward, economic activity should benefit from a gradual improvement in domestic demand, supported by the ECB's accommodative monetary policy stance and strengthening external demand for euro area exports. However, unemployment in the euro area remains far too high, and the recovery will need to be firmly established.

Annual euro area inflation declined to 1.3% in August 2013, down from 1.6% in July. Underlying price pressures are expected to remain subdued, reflecting the broad-based weakness in aggregate demand and the modest pace of recovery. Medium-to-long-term inflation expectations continue to be firmly anchored in line with price stability. The risks to the outlook for price developments are expected to be still broadly balanced over the medium term.

Monetary and, in particular, credit dynamics remain subdued. The annual rate of change of loans to the private sector, and notably to firms, weakened further in July. Weak loan dynamics continue to reflect not only the current stage of the business cycle but also heightened credit risk and the ongoing adjustments in borrowers' and lenders' balance sheets. The significant improvement in the funding situation of banks since the summer of 2012 has not yet fed through into higher credit provision.

Against this background, the Governing Council has pledged to keep monetary policy accommodative for as long as necessary. In order to re-affirm and clarify this conditional pledge, in a context of volatile money market interest rates, the ECB introduced forward guidance in July, stating that it expects the key ECB interest rates to remain at the current or lower levels for an extended period of time. This expectation, which was reconfirmed in August and in September, is based on a subdued outlook for inflation extending into the medium term, given the broad-based weakness in the economy and subdued monetary dynamics. We will maintain the degree of monetary accommodation warranted by the outlook for price stability, and aim to promote stable money market conditions.

To ensure the adequate transmission of monetary policy to financing conditions in the broader economy, it is essential that effective measures be taken further to reduce fragmentation of euro area credit markets and to strengthen the resilience of banks as necessary. Monetary policy contributes to these objectives, but it can address impairments in transmission only insofar as they are not related to more structural barriers.

By giving unlimited access to central bank refinancing against adequate collateral, our non-standard measures have been pivotal in relieving bank funding stress. The collateral framework has been adjusted as necessary to ensure continued adequate risk protection for the ECB's balance sheet, while at the same time promoting transparency, for example in markets for structured finance products. Ensuring that solvent banks remain liquid has contributed to avoiding an abrupt deleveraging which would have deeply damaged the economy.

The Outright Monetary Transactions (OMTs) announced a year ago have prevented risks of destructive scenarios with potentially severe challenges for price stability in the euro area. OMTs serve as a fully effective backstop, within the ECB's mandate and under formal conditionality, so as to preserve the appropriate incentives for governments to ensure fiscal solvency and adopt those structural policies that can put the economy on a sustainable path.

Over the past 12 months, confidence in the euro area has returned. As a consequence, fragmentation in euro area funding markets has been receding. This improvement is due not only to the ECB's non-standard measures but also to progress by governments in improving the euro area governance and in pursuing reform agendas. Deposit outflows from stressed countries have been reversed. Market access for banks has improved. Reliance on ECB funding support has been steadily declining. These improvements are reflected primarily in the ongoing advance repayments of funds by several banks which had borrowed from the ECB under the two three-year longer-term refinancing operations. While repayment of central bank credit is certainly a sign of normalisation, the resulting reduction in excess liquidity can reinforce upward pressures on term money market rates, and we will remain particularly attentive to the implications that these developments may have for the stance of monetary policy.

Finally, let me address the tasks of the ECB in the reformed European Monetary Union architecture. The Maastricht set-up has been substantially strengthened since the start of the crisis. Europe has reinforced fiscal and macroeconomic surveillance, created a permanent crisis management mechanism – the European Stability Mechanism (ESM) – and improved its institutional framework. It is moving swiftly towards the SSM for banks in the euro area. A key priority on the agenda for the last quarter of 2013 is to complement the SSM by a Single Resolution Authority and a Single Resolution Fund, as proposed by the Commission. The ECB strongly supports the timeline envisaged for the establishment of a Single Resolution Mechanism (SRM) by 1 January 2015, which adequately reflects the urgency.

Let me make a few remarks on the specific role of the ECB in progress towards a fully fledged banking union. Already in 2010, with decisive input from your institution, the European Systemic Risk Board (ESRB) was created to oversee macro-prudential risks in the financial system as a whole. The ECB supports the ESRB by assuming responsibility for its secretariat. This year, a further-reaching step is being taken with the imminent launch of the Single Supervisory Mechanism. The ECB is fully committed to assuming its new responsibilities and to discharging its duty of accountability accordingly. Preparatory work has started to ensure that the new tasks are performed at the highest level of effectiveness and professionalism.

While synergies between the new supervisory and existing monetary policy functions exist, the ECB will strictly respect the principle of separation between monetary policy and banking supervision, as provided for in the SSM Regulation. Such separation will ensure that the ECB will continue to fulfil its primary mandate of price stability in complete independence, in line with the Treaty.

The effective separation of monetary policy and bank supervision decisions will be implemented both at decision-making level and at the level of technical staff. A separate Supervisory Board will be created to draft and enforce decisions. Furthermore, deliberations of the Governing Council on supervisory matters will be strictly separated from monetary policy decisions. This separation between the two tasks will be underpinned by separate agendas and meetings.

I will conclude with a few words on the involvement of the ECB in the Troika. Back in 2010, we were asked by the Council to provide technical expertise to the design and monitoring of EU/IMF financial assistance programmes. In the meantime, the ECB has been allocated a number of specific tasks under the ESM Treaty and EU secondary legislation. We act in liaison with the Commission to provide technical advice, based on our expertise. As we have been in the past, we remain ready to share with Parliament our views on the situation in programme countries and to explain the advice provided as part of the Troika. However, it is important to remember that the Euro Group is the body which actually decides whether to grant financial assistance and under what terms.

I am now looking forward to your questions.

1-007

Jean-Paul Gauzès (PPE). – President Draghi, following your remarks I could put a highly topical point to you as to what you think will be the consequences of the re-election of Angela Merkel in the Federal Republic of Germany, but I won't ask you that as I find it a bit premature. We must wait for the composition of her government to be announced before putting that kind of question.

I would rather focus on the ECB's role as supervisor. On this issue, Parliament welcomed the fact that an agreement could be reached on the interinstitutional agreement, which provides for greater transparency whilst respecting the necessary basic rules of confidentiality. However, it is now that the most complicated period is starting: the putting in place of the arrangements, which whilst intellectually interesting, involves as far as I understand a single roadmap for both the European Banking Authority and the ECB and the issue now is the appointment of the members of the supervisory board.

You have stressed the need to keep a strict separation, a Great Wall of China, between monetary policy decisions and supervisory matters. Could you give us a more precise timetable for implementing these arrangements, as the establishment of the supervisory bodies is essential for the operation of the banking union?

1-008

Mario Draghi, *President of the European Central Bank***. –** I will take this as a broader question on the state of our preparatory work for the Single Supervisory Mechanism (SSM). Let me just say that we are watching with some satisfaction the fast and sustained progress that is being made towards ECB readiness to assume its tasks under the SSM Regulation. ECB internal preparations are well under way and progress to date has been fostered by the close cooperation between the ECB and the national supervisors.

We have set up specific structures for preparing the SSM. We have the high-level group and the task force on supervision, and a number of work teams, comprising senior experts from the national authorities and the ECB, have been established to conduct the preparatory work. In addition to facilitating this preparatory phase, the national supervisory authorities have seconded a total of 78 people to the ECB cost-free.

There are four key areas in which significant progress has been made: let me list them, and then later I can go into greater detail. The first key area is the development of the supervisory manual; the second is supervisory reporting; and the third is the development of the SSM framework regulation. The fourth important area is the preparatory work to date on the comprehensive assessment, including a balance-sheet assessment, of all banks supervised directly – about 130 banking groups, covering 85% of euro area bank assets. This assessment is based on three pillars: a risk assessment, a balance-sheet assessment and a stress test.

Finally, let me say something on the time frame. The significant progress achieved in recent months owes a lot to the hard work of the ECB and also, as I said, the national supervisors. The time frame allows for the establishment of the SSM within the deadline provided for by the regulation, namely one year from the date of approval of the legislation. We will report to Parliament on the progress we make – through a quarterly report which will also be sent to the European Council and to the Commission.

1-009

Chair. – I have a little note here, which now says that we are aiming for a possible vote in plenary in December on the appointment of the SSM Chair and Vice-Chair if we all can get the procedures done in time. That would be good to get us on our way

1-010

Elisa Ferreira (S&D). – Mr Draghi, I am delighted to see you here, and to be able to welcome you back again. As I already said on previous occasions, I thank you for the intervention, by you and the Central Bank, which made it possible to save the euro through the OMTs. However, as has already been pointed out today, the Central Bank is a member of the Troika, which is a very complicated issue. In the case of my country, Portugal complied with the essence of all the recommendations made to it and ended up with a recession that was double, almost double, what had been predicted, with record levels of unemployment and debt amounting to 130 % of GDP. We should have been able to go the markets today, but our sovereign debt rates are over 7 %. There are a few signs of recovery, but they are extremely slow and weak. So as a member of the Troika, and initiator of the OMTs, what can you tell me about the future? What is going to happen in a country like Portugal? What is the next phase?

My second question has to do with the role of the Central Bank as single supervisor. And there I have two small questions to ask: the first is about the start of operations and I would like to ask whether it is possible to carry out an asset quality review when the resolution mechanism is not yet in place? The second question has to do with the common resolution fund, for which I am the rapporteur, and my question is whether a fund which is going to be financed by the bank within a period of 10-14 years can function without a common backstop able to at least supply it with credit when necessary? And this is credit which has to function from the moment the fund comes into operation, otherwise I think the credibility of the whole process can be called into question.

1-011

Mario Draghi, *President of the European Central Bank***. –** On your question on Portugal, we are seeing, as you said, the first signs of a recovery.

On the fiscal front, the main thing is that countries should not undo the progress they have made on fiscal consolidation. I do not think that now is the time to speak about extensions, but simply to continue. Having said that, fiscal consolidation – and here I repeat something I have said many times – ought to be growth-friendly, which means lower current expenditure and less use of taxation.

Third, there should be full implementation of structural reforms. Some countries need to make structural reforms, mostly in the realm of product and services markets and competition; other countries need to do it first in the labour market. But the continuation of structural reforms is absolutely essential to sustain the recovery and to sustain the redressment of imbalances across countries.

In the case of Portugal, there is also much to do in the realm of privatisations, and this is also an area to keep in mind. But I would say that actually recent history shows that even the slightest signs of the unravelling of progress on fiscal consolidation cause markets to react brutally. You have seen the spreads. The spreads jumped at the slightest sign that something might go wrong and they went back just as fast as they had gone up. So this is not something that we can simply forget. Market discipline is there and will stay there. We have to take that into account in what we do.

The second question asked how we can make an asset quality review without an SRM in place. First of all, we still think that the SRM should be in place by the time the ECB takes up its tasks. We have to give ourselves a pretty tight schedule for approving the SRM but, all in all, in this first stage we have to use mostly – in fact, only – national backstops. I am going to say more about that. For the asset quality review and the stress test to be credible we will have to have national backstops in place. The ECB will make its asset quality review in the way that we can discuss later and will reach its results. If the SRM is there in place, it will be better; if it is not there, it will be up to the national authorities to carry this out, which is sub-optimal, of course.

Finally, on your point about what is going to backstop the SRM while the fund is in progress, let me say that the ECB thinks that the ten years as a time horizon is not ambitious enough, it is too long a period of time. I also agree with you that in the meantime there should be some backstop, some credit line, and it is not going to be a transfer, because it is going to be recouped with the industry and refunded. But certainly it should be there.

1-012

Sylvie Goulard (ALDE). – President Draghi, welcome back to our meeting. I was intrigued by the last part of your speech. Do you intend to gradually withdraw on tiptoe from the Troika? It was rather amusing the way you said, in three phases, that you 'provide technical expertise', 'provide technical advice' and provide 'advice (...) as part of the Troika'. You also said that it is the Eurogroup which decides. This is an important issue for citizens to understand: who in fact decides what measures are taken by the Troika? Are you just an advisor or is the Troika, which incidentally has no legal basis in the Treaties, a decision-making entity? Or if it is the Euro Group that decides, who would it be accountable to?

1-013

Mario Draghi, *President of the European Central Bank***. –** I believe that at the beginning of the crisis, all actors were in favour of the Troika being formed and the ECB has, to the best of its ability, provided abundant advice and expertise to governments, this institution, the Euro Group, the Commission, and the IMF. We believe that the ECB will play this role for as long as the crisis lasts, but we do not see the ECB as a long-term component of the Troika.

1-014

Sylvie Goulard (ALDE). – But in that case who decides? What can I say to the people who say that I say ‘in the long term’? When will the crisis be over and when can we decide that someone else is deciding and not just giving advice?

1-015

Mario Draghi, *President of the European Central Bank***. –** It is true that the Troika does not decide. It is the Euro Group that decides, because it is the Euro Group that decides to finance the programmes. The programmes are financed from national budgets with national contributions: it is national taxpayers who are being asked to pay taxes for these programmes. So it is the Euro Group as the political institution – I think we can call it that – that decides on the programmes. The Troika, at least as far as the ECB is concerned, has an advisory role.

1-017

Sylvie Goulard (ALDE). – I do not know whether you have children, President Draghi, but I have the same feeling with this situation as when I am with a group of children and I do not know who is responsible for the mess in the house!

1-018

Mario Draghi, *President of the European Central Bank***. –** I like the way you compare the Euro Group to a group of children – they would be flattered!

(Laughter)

1-019

Derk Jan Eppink (ECR). – The FED (the Federal Reserve) has decided not to reduce the pace of its quantitative easing purchases yet. It will instead wait for more signs of sustained economic progress before proceeding with tapering.

My question concerns the ECB equivalent of quantitative easing. In late 2011, the ECB started the LTRO programme. This provided roughly EUR 1 trillion in emergency three-year loans to hundreds of European banks at low rates with low collateral standards. Earlier this month the ECB’s Money Market Contact Group called for a renewal of the LTRO loans, as the Wall Street Journal reported. Yesterday Mr Liikanen was quoted in a newspaper well known to you, the *Corriere della Sera*, as saying that the ECB is ready to boost liquidity in the credit market by issuing another long-term loan if necessary. Can you comment on the recommendations of the ECB’s Money Market Contact Group and on Mr Liikanen’s statement? Will the ECB launch a new round of LTRO loans, and under what circumstances? I have the impression that you will not be tapering anytime soon.

1-020

Mario Draghi, *President of the European Central Bank***. –** Your impression is right, but let me say something about long-term refinancing operations (LTROs). Overall total voluntary repayments on both three-year LTROs as of 10 September 2013 stood at EUR 331 billion: that corresponds to 63.5% of the net liquidity injection at the beginning.

On the one hand, this is a good sign because it shows that banks are less dependent on ECB financing and they can actually finance themselves through the market, or via deposits, or by exchanging credit lines between one another. On the other hand, markets watch this quantity called ‘excess liquidity’ and may react, increasing short-term money market rates. We have responded by issuing our own forward guidance, which is different from that in the US and the UK and in Japan, but we are also ready to use any instrument, including another LTRO if need be, to maintain the short-term money markets at the level warranted by our assessment of inflation in the medium term.

1-021
Sven Giegold (Verts/ALE). – Welcome, Mr President. I have a couple of questions concerning the state of implementation of the Single Supervisory Mechanism. Firstly, the regulation makes provision for the strict separation of monetary and supervisory policy. You have confirmed this here in very clear words. May I therefore ask whether, from now on, the ECB supervisory body will meet to ensure that there is real separation in decision-making, too, or do you intend to wait until the Chair and Vice-Chair have been formally appointed?

Secondly, will there be a clearly separate career path within the ECB so that staff on the supervisory side can dare to take decisions which might prove unpopular on the monetary side? Thirdly, the regulation provides for strict asset tests and balance sheet tests. Could you confirm whether government bonds will be stressed as a consequence of this exercise? Lastly, can you say whether the ECB will make sure that national balance sheet assessments will not be carried out by national supervisors alone, but also by independent experts to control not only at the top level of the ECB, but also in the construction of the balance sheet, in an effort to ensure that the results will be free from conflicts of interest?

1-022
Mario Draghi, *President of the European Central Bank***. –** Let me restate that the separation principle is fully enforced. Both our own experience at the ECB and the long-term experience of those central banks which have supervisory competence indicate that the two functions can be carried out without infringing upon one another.

I can confirm that the asset quality review and the balance-sheet assessment will be done by the ECB, by the national supervisors and by third party supervisors. In other words, we expect collaboration from other member countries' supervisors, mutual collaboration and collaboration from independent, private sector consultants.

1-023
Sven Giegold (Verts/ALE). – Is this a requirement for all Member States?

1-024
Mario Draghi, *President of the European Central Bank***. –** Yes, indeed. There will be a series of tenders, through which they will hire the consultants at national level. We also launched a tender, by the way, for hiring a private-sector consultant in the ECB. More generally, the asset quality review and the balance-sheet assessments will be useful only if they are credible. We should therefore do everything that is necessary – that is our conviction – otherwise they will be completely useless, if not counterproductive.

One of the outcomes we expect from these tests, from the asset quality review, from the balance-sheet assessment and from the risk assessment, is to dispel the fog that lies over banks' balance sheets in the euro area and in Europe generally. The best way to respond is not to complain about there being too much fog, but simply to shed light, and that is the approach we want to take with these tests.

Let me also say that the outcome is as important as the process, because in order to meet the objective of clarifying this issue we have to be exceedingly transparent in the process and to make sure, as you pointed out, that conflicts of interest are dealt with at each stage. That is how the ECB views this and also, I think, how the national supervisors view it. I referred earlier to the very good relationship that has been created between the ECB and the national supervisors, and it is fundamental to press ahead on that.

You also asked whether we are going to stress government bonds. We have to take decisions on this: it is not being discussed yet. The high-level group has not really dealt with the issue yet but, as I said, we want to be absolutely credible, so the high-level group – which is basically the ex ante supervisory board – will discuss this when we issue a communication on the asset quality review. We expect to issue the first communication by mid-October at the latest, when all these issues will be dealt with.

1-026
Nikolaos Chountis (GUE/NGL). – Mr President, my question concerns a matter already raised by you, the role of the European Central Bank as a member of the Troika. The Greek Finance Ministry has recently announced that Greek government debt has risen to 180% of GDP, substantially exceeding very recent estimates by the Troika - of which, I repeat, the ECB is a part - of 175%, not to mention its previous forecast of 164%. At the same time, representatives of the IMF, which also forms part of the Troika, have issued public statements or disclosed reports expressing substantial reservations as to the sustainability of Greece's debt.

In view of this, and the fact that the Troika is currently assessing the implementation of the Greek programme and seeking to establish the shortfall, what is the expert opinion of the European Central Bank on this matter, bearing in mind that it forms one-third of the Troika? Is Greece's debt sustainable? Secondly, do you concur with the International Monetary Fund that it must fall below 110% of GDP by 2022 in order to be sustainable? Thirdly, what direction is being taken by European Central Bank deliberations? Are you envisaging a rescheduling of Greek debt? Are you considering other options?

1-027
Mario Draghi, *President of the European Central Bank***. –** You are basically asking whether Greece needs a third programme. It is too early to ask this question because the second adjustment programme for Greece runs until the end of 2014 on the European side, and the IMF programme will continue until early 2016. In our view, it is too early to be discussing a possible follow-up programme or an extension of the current one. That decision will also depend, for example, on Greece's access to the market at the end of next year, and this is very difficult to predict in advance.

I think I have commented on the role of the ECB in the Troika before. As we are responsible for monetary policy, in a way it is a good thing that we are part of the Troika in times of crisis. We do not provide financing under the financial assistance programme, but the ECB provides considerable liquidity support to banks in Greece and in other countries. We have an incentive; we have a strong interest in being part of the Troika because this way we contribute with our expertise to the design and the monitoring of the programmes. As I said before, however, this is linked to periods of crisis. So I do not have much to add to what I have already said.

1-028

Nikolaos Chountis (GUE/NGL). – Mr President, allow me to return to my previous question, to which you did not reply, regarding your relations with the Troika and the International Monetary Fund. I repeat, the International Monetary Fund is in various ways intimating that Greece's debt is unsustainable and is proposing a number of options or allowing them to filter through. What is your own opinion on this matter? Is Greece's debt sustainable at 180% of GDP?

1-029

Mario Draghi, *President of the European Central Bank***. –** Frankly, the current assessment is that the debt is sustainable and we see absolutely no reason to change this.

1-030

Chair. – I do not think you are going to get any further on that point: 180% debt appears to be sustainable! Or the current debt, whatever it is, is sustainable – they may not be the same.

1-031

Sampo Terho (EFD). – Welcome back to our committee, Mr Draghi. I should like to ask a question on long-term policy. In the Northern euro countries the interest rate has been low for a long time and you yourself spoke in your opening speech about the expansionary interest rate policy continuing for some time to come. Every time the ECB takes the decision to keep the key rate low, the markets usually reward it. However, if even a slight suspicion takes hold that the key rate will rise, the markets start to get jittery.

I am quite worried about whether the current interest rate has now really become the normal situation – or at least a situation which the markets expect and consider normal. So I would like to ask under what conditions, in your opinion, it would be possible to raise the interest rate again? And is there any prospect of this happening at all, even over a term of years? I am worried that in the North the current interest rate in fact tends to encourages indebtedness, and this at a time when with our political measures we are constantly trying to prevent debt by any way possible.

1-032

Mario Draghi, *President of the European Central Bank***. –** The current forward guidance says that interest rates will stay at the present level or at a lower, level for an extended period of time. This forward guidance is based on our medium-term inflation assessment. As I have already said, inflation in the euro area went down from 1.6% in July to 1.3% in August and is expected to remain below 2% – on the low side of 2% – for an extended period of time, given the weakness of the economy and high unemployment.

Given that this is our medium-term assessment, our monetary policy, which has as a mandate the maintaining of price stability – and I always say that it is price stability in both directions, upward and downward – has issued this forward guidance. So we expect to have the present or lower levels of interest rates for an extended period of time. At the same time, inflation expectations remain firmly anchored. So that is the economic scenario that we will have to face for an extended period.

It is also true – and I think probably this is what is behind your question – that there are risks in having low interest rates for a long time. We are aware of this and have seen it in the past. So we are very sensitive to possible risks to financial stability, stemming from a very low interest rate level. If we were to see such risks, we certainly would have to act through macro-prudential instruments. This is the framework. So far we have seen very limited evidence that this is the case.

1-033

Werner Langen (PPE). – I have always given my full support to the measures taken so far by the ECB, not least because in this crisis it has been the only institution able to negotiate. I would also like on this occasion to contradict the colleagues who are constantly raising, perhaps for the tenth or twelfth time here, the issue of the Troika. I think this is vital.

I do not, however, endorse everything that the ECB does, and in support of what Mr Giegold has just said I should like to express some reservations regarding the separation of monetary and supervisory policy. This is a matter for genuine concern.

You responded that there would be a strict separation of the two but, even so, while you are independent as regards monetary policy, as far as supervision concerned you too are subject to checks and controls. Supervisory bodies everywhere need this control, whether by governments or by parliaments. And the issue of what form such control will take has not yet, it seems to me, been fully discussed, especially in view of the fact that there are also problems with setting it up.

Our Chair has said that we will be deciding on the appointment of the Chair and Vice-Chair in December. But you have to make a start on setting up the SSM well before then. My first question is: will the national authorities be brought in to decision-making in this initial phase?

My second question concerns the resolution fund which you rightly call for by 1 January 2015 and the way it is set up. What do say to the suggestion by your Executive Board colleague Asmussen that the ESM should be used in the meantime and that the fund should be established within the ECB? Do you not consider that to be a potentially hazardous concentration of power in which at a later date monetary and banking supervision would overlap and the independence of the ECB might be lost?

My last question is on a completely different topic. The monetary policy of the US Federal Reserve and Japan's Central Bank is based on massive injections of capital. With low interest rates indefinitely. You yourself have just said that low interest rates are a risk, for pension systems, for all the things that make up the social dimension in Europe. Will the ECB simply accept that as a fact, or will you be trying in international talks to push for a modest return to a rate-oriented policy?

1-034

Mario Draghi, *President of the European Central Bank***. –** It certainly would be optimal to have this resolution fund completely established not in 10 years' time but within a shorter horizon. I would certainly agree with you that the ECB should have nothing to do with this fund, but I do not know whether this has really crossed anybody's mind. The ECB should not and will not have anything to do with this fund. It is also true that during the period of time that the fund is basically underfunded, there should be the possibility for it to borrow money from some other source. Here a variety of possibilities is open, and frankly I think the process of reflection is still in the early stages. Some people have suggested that the ESM could extend a credit line to the resolution fund. I am not sure that this is possible within the existing Treaty, but certainly the problem exists and will have to be addressed.

On your second point about the members of the supervisory board, I can only repeat what I said before. It is not up to the ECB to appoint the members; it is up to the Member States. So when they have appointed the supervisory board members, the supervisory board can actually be summoned and meetings of the supervisory board can take place.

Concerning lower interest rates, I certainly appreciate the concerns that low interest rates create: not only for financial stability, as I have said before, but for insurance, life insurance, pensions and, more generally, for savers. All savers see their savings being penalised by low interest rates for a long period of time. What we do here is have a monetary policy for the whole of the euro area, so that is one response. The second thing is that I would call on you to watch the behaviour of interest rates – especially in Germany – in the last three to four months. They have gone up, even though our interest rates have stayed the same. The reason is that interest rates on government bonds have been artificially low for a long time in Germany, because Germany was the safe haven for capital flows from the rest of the euro area. Now, with confidence coming back, flows are not as strong as they were in the past, so we can see that other international movements can actually have the desired effect of raising interest rates on government bonds in Germany.

We have periodic discussions with other colleagues in the rest of the world. These discussions do not reach the level of coordination, however, but there is an exchange of information and there are discussions, especially on issues linked to financial stability.

1-035

Pablo Zalba Bidegain (PPE). – Welcome, dear President Draghi; I think there is unamimous agreement that there are positive signs of recovery – even our colleague Ms Ferreira has recognised as much in relation to Portugal.

I also agree with what you said last week, that banking union will help speed up economic recovery, but we have to be aware of what this will mean in the medium and long term. In the short term – as you so rightly said – credit is still a problem, particularly credit for small and medium-sized businesses.

Another thing that worries me – which was mentioned by Mr Langen – is the continuation of low interest rates, or even a further drop in interest rates, but I am worried for a different reason: because I do not believe they are going to have a real impact on the economies of some countries. In my country, credit for SMEs is still a problem. For 25 % of small and medium-sized enterprises, access to credit is still their biggest problem – and that does not mean it is not a problem for the rest. And for those who do manage to obtain funding, it is five times more expensive than it is for the rest of their European counterparts.

Mr Eppink referred to Mr Liikanen's comment that the ECB is ready to inject liquidity, but what I would like to know is how, if these new injections of liquidity do materialise, it can be guaranteed that they will reach the real economy and not be partly or mainly used to fund – for example – purchases of public debt?

I repeat: if new injections of liquidity do materialise, how can it be guaranteed that they will reach the real economy?

1-036

Mario Draghi, *President of the European Central Bank***. –** Firstly I would agree with you that SMEs are the backbone of our economies, especially in those countries most affected by the crisis. I would also agree with you that, during this crisis, financing obstacles for SMEs have increased.

In part, these obstacles were caused by the deterioration of their financial situation. We should not forget that many SMEs are highly leveraged, meaning that their existing debt is pretty high. But certainly there have been other factors and one of them is risk aversion on the part of banks. The so-called rate of return on lending, adjusted for risk, in many of the stressed countries is just not high enough for banks to be persuaded to lend to SMEs. As you said, some of them buy government bonds instead of financing the real economy.

So basically we have SMEs with weak balance sheets, and risk aversion on the part of banks, but the other reason is lack of demand. There has been a survey of SME credit flows. We carry out two types of survey: the bank lending survey, which asks banks why they do not lend; and, less frequently, a survey on the other side, asking SMEs why they do not borrow. The first reason they quoted for not borrowing was a lack of clients and the second was lack of credit supply from the banks. So the most important factor still depressing credit flows is basically lack of demand.

However, we have taken many measures. People often compare our programmes with the Funding for Lending programme in the UK. A wide variety of counterparties, a wider variety of collateral and long maturity are the three components of the Funding for Lending programme, and these are also the three components of our long-term refinancing operations (LTROs). We have had these in place since the end of 2011.

Among the measures we have taken, we decided more recently on a lowering of rating requirements for some asset-backed securities (ABS), including those assets backed by SME loans. We decided to set up additional credit claims so that banks can take the credit they extend to their clients as a form of collateral when they come to the ECB to borrow money.

Very recently, in July 2013, when we discussed – and we have these discussions periodically – the permanent collateral framework, we decided to introduce measures to support SME financing, like a reduction of haircuts on ABS, besides a reduction of ABS rating requirements. Finally, we are still working with the European Investment Bank and the Commission on structuring and revamping the ABS market so as to support SMEs further. For the time being, this is an area in which the ECB has a purely advisory role.

1-037

Anni Podimata (S&D). – Mr President, to return for a moment to the subject of low lending rates, my own concerns are somewhat different to those of Werner Langen. Further to Zalba Bidegain's observations regarding the situation in Spain, I should like to stress that, contrary to the fears expressed by Werner Langen, many countries are facing massive liquidity shortages with lending rates varying widely between the countries of the euro area. In Germany, companies can take out loans at interest rates of around 1%, while in Greece and other countries interest rates on loans for companies, assuming they can be obtained in the first place, vary between the 7% and 8% mark. That, my friend, is the situation.

We have been talking about small and medium-sized enterprises. But allow me to point out, Mr President, that this last year three of the biggest companies in Greece have relocated abroad in a bid to secure financing, most recently its largest metallurgical company 'Viochalko', which last week moved its headquarters to Belgium for this very reason.

In my opinion, this problem relates directly to your own observations regarding the smooth transmission of monetary policy - this is not a Greek, Spanish or Portuguese problem - and should accordingly like to ask you what measures you are able and willing to take to avert the risk of a two-speed transmission of monetary policy becoming established in the euro area?

1-038

Mario Draghi, *President of the European Central Bank***. –** Let me try to give a picture of what fragmentation looks like today. We have to look at fragmentation from both sides: funding and lending. At the beginning of the crisis we had both. We had banks based in stressed countries that had funding costs way higher than banks based in core countries, and we had liquidity flows which were way lower in stressed countries than in other countries.

That situation has now, by and large, been overcome. What we have seen over the last six months is that, with a return of confidence, domestic deposits are returning to domestic banks. What we do to assess this is look at how deposits have grown in each country and then compute the dispersion coefficient. We have seen that this dispersion between the growth rates for deposits in different parts of the euro area is now at the same level as it was in 2007. The bottom line is that, in the case of deposit funding, fragmentation has by and large ended. In the case of other forms of funding – when banks have to access wholesale markets, issuing bonds – it is not completely gone, but we have certainly noticed a shrinking of the funding spreads.

On the lending side, progress is admittedly much slower, and even though we have seen a decrease in dispersion between lending rates in different parts of the euro area, we can see that the conditions still differ. There are good reasons for that. If one considers the risk premium involved in lending to a firm based in a stressed country as compared to the risk premium involved in lending to a firm based in a non-stressed country, there is in itself a big difference. Secondly, government bonds yield different rates, as some of the previous speakers hinted, and rather than lending to the economy, banks often simply buy government bonds. These carry much less risk and give a return which is ok in terms of profitability.

There are these types of issues, but the key reason is demand. We can see how our economic and monetary policy is gradually feeding into the economy and how the system is gradually recovering. As that recovery proceeds, we will see fragmentation on the lending side shrinking as well, and it will become less risky to lend to companies.

1-040

Astrid Lulling (PPE). – President Draghi, your colleague on the Executive Board, Yves Mersch, who is my compatriot – and may I say in passing how pleased I am that he is now putting his experience at the disposal of the Central Bank after all the obstruction he faced from this House – has recently made some interesting statements to the press about the establishment of the Single Supervisory Mechanism. Supervision, which will initially involve the 130 banks, will soon be in operation. You have confirmed this, but there is still an important issue to resolve, the 'backstop', to use the hallowed term. This means deciding how the split of any recapitalisation needed would be made between the different governments if there were serious shortfalls in the balance sheet of a given bank. Could you explain in more detail what is involved in this?

As for the other topical issue of the European resolution fund, could you also explain the links between the 'backstop' on the one hand and the resolution fund on the other? Are they complementary? Are they ultimately the same thing, or two fundamentally different things? For my part, I have not yet come to understand this very well.
My last point: in a very interesting book just published, the economic journalist François Lenglet claims that globalisation is slowing down sharply, citing as evidence the fact that international capital flows have shrunk, in particular in the euro area, since 2007. If this phenomenon continues, do you see the reduction in international capital flows in the euro area as a problem, particularly for the management of the single currency?

1-041
Mario Draghi, *President of the European Central Bank***. –** I will answer the second question first. We are not experiencing a reduction in globalisation and, looking at what has happened to capital flows since the beginning of the year, it is quite the opposite: capital continues to flow freely in different parts of the world, creating different monetary conditions, generally changing interest rates and exchange rates. Look at what has happened since the Fed has been discussing whether or not to taper. Previously, there were massive flows to emerging markets and significant flows into the euro area. Then, when the Fed mentioned the possibility of tapering, massive amounts of capital flowed out of emerging markets, though the euro area was not affected too much. Capital flows are still extremely mobile and there is no reduction in globalisation.

The first question was about the SRM. The ECB was formally consulted on the SRM proposal earlier this month and will publish an official ECB opinion. Let me reiterate that the SRM is a necessary complement to the SSM. It is important that the levels of responsibility in decision-making for supervision and resolution are aligned in order to achieve a well-functioning financial market union. The ECB therefore welcomes the Commission’s proposal for the SRM which contains the three essential elements: a single system, a single authority and a single fund. We also strongly support the envisaged timeline for the application of the SRM from 1 January 2015.

I have also had the opportunity to comment on the two roles of assessment. Assessing a bank’s viability and taking care of its resolution should be separate. The ECB, as a supervisor, will do the assessment, but everything else would have to be done by the SRM. As regards the role of the ECB and the SRM, the ECB’s view is that it should act as an observer only.

Finally, I understand from the ECB Legal Service that Article 1(14) of the Treaty is indeed an appropriate possible legal basis for the proposed ESRM regulation. I understand that this view is shared by the legal services of the other EU institutions. The Legal Service of the Council has also informed us that Article 1(14) is suitable.

The word ‘backstop’ is being used for many different things. In the context of the SRM, a backstop is required because this fund – the single fund of the SRM – will take 10 years to be completed, so the question is what happens if, before the end of the 10 years, we need this fund. The possibility for this fund to borrow money – not money for free, but to borrow money from another source – ought to be there. That is what we call the SRM ‘backstop’: the option of having a credit line for the SRM on which can be drawn if there is not enough in the fund itself.

1-042
Emilie Turunen (S&D). – First of all I would like to make a comment. I think that what you said about your relations with other central banks was interesting. You basically said that you have discussions but not really any formalised decision-making structure. I think the fact that we have still not put in place a global financial architecture points to a major flaw in our cleaning-up after the crisis.

My question concerns your new role as supervisor, which was one of today's topics. Something that I have asked others before, but to which I have still not had a good answer, is about the asset quality review. Mr Djisselbloem said, when he was here some weeks ago, that the quality of the asset quality review was very important. We of course agreed to that: that is clear, and you have talked about credibility today. But he did not have any concrete proposals on how to ensure this – not only the quality of the methods used but also of the independence of the expert used.

So my question is: how you will ensure high quality, especially in light of the criticism after the last stress tests carried out on methods? Secondly, how will you ensure independence, especially among the private sector experts, and how do you define independence in this case? You referred to backstops and said that there should be national backstops in place. Are they in place? Is this realistic for Spain, Greece, maybe even France?

1-043
Mario Draghi, *President of the European Central Bank***. –** Firstly, let me say that the comprehensive assessment will be based on a thorough and rigorous methodology. That methodology is currently in preparation in the context of the SSM preparations. Those preparations, as I said before, will be supported by advice from experienced external consultants. The ECB has launched a tender and has hired an external consultant.

Secondly, a carefully crafted, centrally-led – that is key – project management function will be established to ensure that this robust methodology is applied consistently and independently across all banks that fall within the scope of the exercise. It is important that it be centrally-led and that this principle be consistently and independently applied to ensure it does not become fragmented and that the results are fully comparable. This effort will be supported by experienced external project managers. Critical process management and quality assurance will be interwoven with every step of the methodology to guard the credibility of the process and its outcomes.

As regards the backstops, we have to take into account, first of all, that the banks in the meantime have raised considerably their level of provisioning. There is therefore a role for the national backstops and these are also realistic for the countries mentioned.

1-044

Chair. – I thought, Ms Turunen, that Minister Dijsselbloem was quite categoric about the use of consultants throughout and also about the bail-in hierarchy. Maybe one could poke holes in some of his responses but I thought he was quite strong on that point.

1-045

Marianne Thyssen (PPE). –I should of course like to thank the President of the European Central Bank for coming here today.

I have the following concern and question, Mr President. We have all come a long way together in the European institutions. Many laws have been passed. Many political decisions have been taken. Many standard and non-standard measures have been taken and we have made a great deal of progress towards preventing a still worse crisis and getting the train back on the rails so as to prevent such crises happening again and to promote the growth of confidence.

But our legislative work is not yet over. We have spoken a number of times here about the SRM. Our work is not yet over. People are not yet seeing the result. Indeed, it is not yet possible for all the results to be visible.

My question is this: if you now start your asset quality review and other quality tests for banks, there is always a risk – for which we must be prepared – that some problems will still crop up here and there. So the question that arises for me is: how can we prevent the first negative story that emerges from causing panic reactions and leading again to chaos? How can we prevent that? Are we aware that the shaky confidence, which is only just there, is not big enough to be totally resilient both on the financial markets and in the real economy? Who is responsible for guaranteeing this? Has there been any discussion about this among the institutions?

I also put this question to Commissioner Barnier. He told me that at the last meeting of the Ecofin Council he too had said to the Finance Ministers that there needed to be communication about this. People must be aware of this and not be taken by surprise if a negative message emerges. But is the ECB also preparing for that? Can communication make us more resilient? Who, in your opinion, is responsible for ensuring this? Or am I worrying unnecessarily?

1-046

Mario Draghi, *President of the European Central Bank*. **–** Your concerns are not unfounded at all. We share them and are aware that we have to cope with them and be prepared. Past experience is also quite instructive.

Things may be slightly better this time, because banks have significantly increased their provisioning and raised a significant amount of capital, which means that, generally speaking, there is much more confidence around than at the time the previous stress tests were carried out.

Our assessment will be comprehensive and stringent, because we need a clear overview of all the significant entities for which we will be performing the task of supervisor. It is too early to say what figure may emerge. We believe that this assessment and increase in transparency will actually increase confidence, provided we are ready to cope with the shortfalls.

That is why I have been insisting on the importance of national backstops since the very beginning. These are absolutely essential to ensure the credibility of the asset quality review and the stress tests. If there are no national backstops, the world will say that the figures have come out the way they are because of the fear of coming out with worse figures in the absence of national backstops. That is why they are absolutely essential to give credibility to the exercise. So we are trying to be as transparent as possible, stringent and consistent across the board, with independent application, but also standing ready to intervene.

1-047

Ramon Tremosa i Balcells (ALDE). – President Draghi, I have two questions. The first concerns banking union. The ECB is going to supervise some European banks, and for me, as a Catalan MEP, it is good news that all Spanish banks will be under European supervision. But the question is: who should pay for the mistakes in supervision of the ECB?

The second question concerns ECB supervision. I believe that there is no supervision credibility without failures. Credibility requires that some banks fail. The ECB should have the red button to force the failure of a bank, because now we see that in some Member States there are banks that are declared too big to fail, which means huge losses for taxpayers and social cuts, and in other Member States there are quite large banks, for instance in Germany the Westdeutsche Landesbank, that are forced to fail. So who should have the red button to force the failure of a bank?

1-048

Mario Draghi, *President of the European Central Bank*. **–** On the first question, I do not even want to think about who should pay if the ECB makes a mistake, but the second point is actually very important.

From the very beginning we have said that assessing the viability of a certain financial institution and taking care of that institution should be kept separate. These are different tasks and should be performed by different institutions. So the ECB will tell the SRM that a certain institution may not be viable. Then it is up to the SRM – very much as it is with the FDIC in the United States – to decide what to do with this institution. It can be sold, recapitalised, merged or dissolved. There are many different courses of action, but since all of these different possibilities may have an impact on national budgets and on taxpayers' money, the task should be completely different to the supervisor's task. That is how it works in different countries nowadays. You have the supervisor, who basically tells the budget authority, the Finance Ministry or the Treasury that a certain institution is not viable and ought either to be resolved or taken care of, namely sold or merged with others. As far as I am aware, the two tasks are kept separate in all member countries.

1-049
Chair. – These are some of the issues we are also discussing in the trialogue on the Bank Resolution and Recovery Directive, in terms of how much flexibility there should be for different banks to be resolved in different ways. Parliament wants a presumptive path for investors and rather fewer different outcomes, but that is something still under negotiation.

Mario, I have a question for you about macro-prudential policy and the ECB. Obviously, macro-prudential policy – which as you know is an important new tool – can be exercised by the ECB when it takes over as the competent authority in the SSM, but there is also a side to macro-prudential policy that would impact on the monetary policy side in terms of trying to cope with the fact that one interest rate for all Member States does not work; therefore pressing on the banks and bank lending and such like is another way of doing it. Who is going to be doing this and how is the macro-prudential policy going to be dealt with when it does bridge the supervisory side and the monetary policy side and you have not got a middle body that would be calling the shots? With the Bank of England, there is a kind of middle body looking both ways. How will you cope with that situation within the ECB?

1-050
Mario Draghi, *President of the European Central Bank***. –** We are working on this. Macro-prudential policy is basically going to fall both within the Supervisory Board tasks and the Governing Council tasks. We are in the process of finalising ways of cooperating, with special meetings on this point and with an inter-change of information, so we are in the process now of finding the right arrangements for this. Also keep in mind that in the ECB we have the financial stability part that will also deal with this. So this is a concern that is present in our minds and we know we have to be ready to provide you and provide the euro area with a reasonable way of handling this.

Admittedly it is a grey area, but in our case the task of keeping monetary policy separate from macro-prudential policies is in a sense made easier by our treaty. You know that our primary mandate is to keep price stability in the medium term, so that makes our task easier because we know that – no matter what – the primary mandate is the first and foremost mandate that we have to comply with. Having said that, there may be localised problems. We view macro-prudential policy in an area as complex as the euro area as a way of coping with localised problems such as localised bubbles in different parts of the euro area, but that does not impact directly on monetary policy.

1-051
Chair. – Would that then be the ECB proper doing that or would it be the ECB through the supervisory mechanism?

1-052
Mario Draghi, *President of the European Central Bank***. –** We are discussing exactly who does what at the moment.

1-053
Chair. – Sorry to put my finger on a difficult point.

1-054
Lajos Bokros (ECR). – In July 2012 you made a historic statement, saying that the ECB would do whatever it takes to save the euro. We can call it forward guidance because it had a tremendously positive impact, but on monetary rather than fiscal policy. It saved many sovereigns from going bankrupt, although at the same time – as has been discussed already – the monetary transmission mechanism is not perfect because there is very little credit growth and very little real growth in the economy. Is it not an irony of history that these kinds of forward guidance statements are much more effective as a backstop to fiscal policy rather than helping the real economy in terms of monetary policy?

1-055
Mario Draghi, *President of the European Central Bank***. –** I would agree with you that the OMT has been extremely effective, but I would not agree with you that it has been effective as a fiscal backstop at all. OMT is an instrument of monetary policy. We should remember that, at the time, the risks that we were addressing through OMT were the risks of redenomination, which was a euphemism for indicating highly disruptive scenarios for the very existence of the euro. Some of the interest rates that we were seeing prevailing in the euro area were not justified by fundamentals but simply by this self-fulfilling expectation of a dissolution of the euro.

That is what the OMT addressed at that time. This was a monetary policy objective, because such disruptive scenarios were impairing the achievement of our primary mandate, namely price stability in the medium term. So that was the objective. Having said that, there are stringent conditions for activating OMT on the macro-economic programme, with the possibility of a primary market purchase by the country that is asking for it.

So there was no intention at all to address the fiscal problems of different countries. The underlying conviction is – and was – that, if a country has an unsustainable fiscal position, there is nothing that can be done to make it sustainable other than by the country itself. Sustainability ought to be valued at interest rates that reflect the underlying fundamentals. I think that was at the root of the OMT design.

1-056

Philippe Lamberts (Verts/ALE). – President Draghi, you mentioned that lending to the real economy did not match the rate of return expectation of the financial industry. Would you agree with the fact that the financial industry has been addicted to rates of return that are incompatible with a stable economy?

1-057

Mario Draghi, *President of the European Central Bank***. –** Yes indeed. And just to follow up on this point, part of what we are seeing today is that all the regulation we have been putting in place since the financial crisis – and we are continuing to do so – is meant to make the banking system, and the financial system generally, less risky than it was before.

One would indeed expect the rates of return to be lower today than they were before because – as we said – they were addicted to a rate of return which was not sustainable over time. However, with a lower rate of return you also have a lower risk nowadays, but it is taking time for the markets and for the financial industry to appreciate the fact that rates of return are going to be – and stay – lower. At the same time, risk is also lower, and it is this different combination of risk/return that people should start appreciating.

The situation today is way better than it was three years ago. As you have seen, banks can now raise capital on the markets again and the overall situation has improved from a confidence viewpoint. So it seems that the shareholders are gradually beginning to understand this new configuration of lower rate of return and lower risk, and they are responding accordingly. But here, as I was saying before, the asset quality review comes into play, and this is very important because firstly, in order to convince the private sector to invest in the banking industry one not only needs lower risk, but also to see what is on banks' balance sheets. That is why the asset quality review may turn out to be very important in reactivating credit flows from the banking sector to the real economy.

1-058

President. – That concludes the monetary dialogue.

(The meeting closed at 17.00)