1-001

HOSPODÁŘSKÝ A MĚNOVÝ VÝBOR

MĚNOVÝ DIALOG S PREZIDENTEM EVROPSKÉ CENTRÁLNÍ BANKY MARIEM DRAGHIM

(podle čl. 284 odst. 3 Smlouvy o fungování Evropské unie)

BRUSEL,

PONDĚLÍ 22. ZÁŘÍ 2014

ØKONOMI- OG VALUTAUDVALGET
MONETÆR DRØFTELSE MED ECB's FORMAND,
MARIO DRAGHI
(i overensstemmelse med artikel 284, stk. 3, i TEUF)
BRUXELLES,
MANDAG DEN 22. SEPTEMBER 2014

AUSSCHUSS FÜR WIRTSCHAFT UND WÄHRUNG

WÄHRUNGSPOLITISCHER DIALOG MIT MARIO DRAGHI,
PRÄSIDENT DER EZB
(gemäß Artikel 284 Absatz 3 des Vertrags über die Arbeitsweise der Europäischen Union)
BRÜSSEL,
MONTAG, 22. SEPTEMBER 2014

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,
MONDAY, 22 SEPTEMBER 2014

KUMITAT GĦALL-AFFARIJIET EKONOMIĊI U MONETARJI
DJALOGU MONETARJU MA' MARIO DRAGHI,
PRESIDENT TAL-BĊE
(skont l-Artikolu 113(3) tat-Trattat KE)
BRUSSELL,
IT-TNEJN, 22 TA' SETTEMBRU 2014

UTSKOTTET FÖR EKONOMI OCH VALUTAFRÅGOR
DISKUSSION OM VALUTAFRÅGOR MED ECB:S ORDFÖRANDE
MARIO DRAGHI
(i enlighet med artikel 284.3 i EUF-fördraget)
BRYSSEL,
MÅNDAGEN DEN 22 SEPTEMBER 2014

1-002

IN THE CHAIR: ROBERTO GUALTIERI
Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.05

1-003

Chair. – We shall now commence our monetary dialogue with President, Draghi, President of the European Central Bank. I would like to thank him for being here. He is always here at our regular dialogue. I especially appreciate that he has chosen to be here at this time while an important meeting of the G20 at the level of central banks and finance ministers is taking place in Australia, so I thank him for being here.

Mr Draghi will present the ECB perspective on economic and monetary developments. We have already had our discussion with the usual panel of experts and they focused especially on TLTRO and the consequences of persistent inflation differentials but we expect President Draghi also to cover a broader range of issues because this meeting comes after a meeting of the Governing Council of the ECB where important decisions have been announced.

Let me just remind you of our working method. After a 10-minute introductory statement by Mr Draghi, we will have five-minute slots allocated for each question, including the answer and a possible follow-up.

1-004

Mario Draghi, *President of the European Central Bank***.** – Mr Chair, honourable Members, this hearing today takes place at a moment of change for the ECB. On 4 November, the ECB will become the banking supervisor for the euro area, including the direct supervision of 120 large banks. This marks the biggest step of European economic integration since the inception of the euro. We are well prepared for this step, but we are also conscious of the important additional responsibility we will be taking on.

Additionally, over the course of the coming months, the majority of the ECB's services will move to the new ECB premises at Frankfurt Ostend, while the SSM staff will remain in the city centre. This will also geographically underline the separation between the ECB's new supervisory function and its other tasks. In this context, I wish to inform you that we have published today our decision on the implementation of separation between the ECB's monetary policy and supervisory functions as required by the SSM Regulation.

I know that on 3 November, on the eve of the start of single supervision, you will have ample opportunity to discuss with the Chair of the Supervisory Board. By then, the results of the Comprehensive Assessment will also be known. Against this background, I will today and in the hearings from now on focus my attention on the traditional tasks of the ECB – and in particular on monetary policy.

The economic recovery in the euro area is losing momentum. Following some moderate expansion in recent quarters, growth of the euro area real GDP came to a halt in the second quarter of this year. The early information on economic conditions which we received over the summer has been somewhat weaker than expected. While industrial production and manufacturing orders in July gave some reason for optimism, more recent survey indicators have given no indication that the sharp decline registered in August has stopped.

Looking ahead, we continue to expect euro area domestic demand to be supported by various factors. These include our accommodative monetary policy stance, favourable financing conditions, and structural reforms sustaining private consumption and investment. At the same time, unacceptably high unemployment and continuing weak credit growth are likely to curb the strength of the recovery. The risks surrounding the expected expansion are clearly on the downside. In particular, heightened geopolitical tensions could dampen business and consumer confidence. Risks of insufficient structural reforms could weigh on the business environment.

From a high of 3.0% toward the end of 2011, inflation in the euro area has been on a downward path for a considerable period of time. In August, inflation was estimated to have reached a low of 0.3% but has been revised later to 0.4%. We expect inflation to remain at low levels over the coming months, before increasing gradually in 2015 and 2016.

Given the prolonged period of low inflation that we have already experienced, we will closely monitor risks to price developments looking forward. We will focus in particular on the possible repercussions of dampened growth dynamics, geopolitical developments, exchange rate developments and the pass-through of our monetary policy decisions.

Before turning to our latest monetary policy decisions, let me stress that the ECB has done a lot over the past three years to safeguard price stability. We successfully fought the confidence crisis in the euro that raised interest rates to abnormal levels. We provided the euro area banking system with unprecedented funding. We have continuously lowered our policy rates. Yet, against the backdrop of a persistently weak inflation outlook, a slowing growth momentum, and subdued monetary and credit dynamics, we decided in early September to adopt a number of additional monetary policy initiatives which will complete and complement the measures already announced in June.

First, we lowered the key ECB interest rates by 10 basis points to their effective lower bound. The main refinancing rate now stands at 0.05%, and the deposit facility rate at -0.20%. Second, we announced further measures to enhance the functioning of monetary policy transmission, support lending to the real economy, and provide further monetary accommodation given that we have now reached the lower bound. Restoring a functioning transmission, notably in bank lending, is instrumental in ensuring that the monetary policy stimulus that has been introduced reaches the final borrowers and thereby supports real incomes, spending and price formation.

Following this announcement, under our ABS purchase programme (ABSPP) we will soon start purchasing simple and transparent securities with underlying assets consisting of claims against the euro area non-financial private sector. We will also start purchasing covered bonds issued by euro area MFIs under a new covered bond purchase programme (CBPP3). These measures will effectively complement and strengthen the targeted longer-term refinancing operations which we call TLTROs whose first allotment was just conducted a few days ago.

In this respect, let me provide you with some fresh details on the outcome of the first TLTRO operation. Last Thursday, 255 banks participated in the first TLTRO for an amount of EUR 82.6 billion. This is within the range of take-up values we had expected based on banks' revealed behaviour under previous programmes. In December, banks will have another opportunity to borrow funds in the form of their TLTRO initial allowance, which entitles them to borrow a cumulative amount – between the September and the December 2014 tenders – equivalent to up to 7% of their outstanding stock of loans to the non-financial private sector excluding loans to household for house purchase. By design, the September and December operations should be assessed in combination.

As of next year, there will be additional quarterly allotments in which banks will be able to receive additional funding determined by their recent lending performance. While it is yet too early to assess the impact of TLTROs on the broader economy, their announcement already had a noticeable positive impact on financial market sentiment. Overall, we expect the TLTROs to act as a powerful tool to strengthen the transmission of monetary policy and facilitate new credit flows to the real economy, given the predominantly bank-based financing structure of the euro area economy.

The additional measures we took in September will empower the credit easing impact of TLTROs in three directions. First, we expect that purchases of simple and transparent ABS will strengthen the direct pass-through effect – i.e. the extent to which the funding cost relief for banks will be passed along to their borrowers. We strengthened the direct pass through effect that we can associate with the TLTROs to a measurable extent. This is because the ABS market remains severely impaired – so that the potential for interventions to change market dynamics is high in that particular market – and the link between the spreads at which ABS are traded in the secondary market and the lending rates which banks apply in the primary market of the credits that collateralise these securities is direct and tight.

Second, there will be a portfolio rebalancing channel, as the expansion in liquidity that will result from the combined operations promotes a diversification of investment patterns in the investor community, and thereby an easing of financing conditions more broadly.

Third, we believe that the overall monetary policy package underpins our forward guidance and our determination to accomplish an expansionary stance over an extended horizon in keeping with our price stability mandate and our desire to see inflation stabilise around levels below but close to 2% over the medium term.

Is the market for ABS, in particular, sufficiently ample to allow sizeable purchases? Our purchases will include a fairly wide range of simple and transparent ABS collateralised by loans to the real economy. The total stock of eligible securities which is currently outstanding – held in investors' portfolios or retained by the originating banks – is already sizeable. We are confident that it will grow as a result of our presence in the market. Over time, as our purchases contribute to a normalisation in trading conditions, secondary market and issuance activity will expand in those segments that are currently inactive. As the experience of other central banks that have engaged in outright purchases of structured products can demonstrate, market size and purchasing volumes are to a certain extent co-determined and endogenous.

Will the new initiatives magnify the euro system's exposure to risk? Outright purchases will increase the size of the ECB's balance sheet, but the additional risk exposure will be limited. Under the ABS purchase programme we will be purchasing senior and guaranteed mezzanine tranches. Regarding senior securities, we would buy only those assets that are already eligible for Eurosystem operations. So, we have ample experience with managing and understanding the risks associated with this asset class. The assets to be purchased would satisfy high standards of transparency and of simplicity and are also characterised by low default risk.

The large degree of credit enhancement that originators have to build into a structured financial transaction for its senior tranches to attract the high rating that will make it eligible under our programme will function as a further protective layer against losses. As for the guaranteed mezzanine tranches, their intrinsic credit risk would be comparable to that of the guarantor, be it a national or supranational entity.

Covered bonds share important features with ABS, and therefore are an obvious complement to an ABS-centred programme. First, the link that is established on the issuing bank's balance sheet between the covered bond, on the one side, and the loans that back the covered bond, on the other, is reasonably tight. As the prices for covered bonds are bid up, we expect banks to respond to the market incentives by originating more saleable covered securities, and thus more loans to collateralise them. Second, outright interventions in this market will complement ABS purchases by reinforcing the portfolio rebalancing channels of transmission and generating positive spill-overs into other markets and securities. This will further ease funding and credit conditions and will help the transmission of monetary policy.

The Governing Council has emphasised that the combination of measures announced between June and September will have a sizeable impact on the ECB balance sheet, which is expected to move towards the dimensions it used to have at the beginning of 2012. With the purchase programmes, we are starting a transition from a monetary policy framework predominantly founded on passive provision of central bank credit to a more active and controlled management of our balance sheet.

The Governing Council remains fully determined to counter risks to the medium-term outlook for inflation. Therefore, we stand ready to use additional unconventional instruments within our mandate, and alter the size and/or the composition of our unconventional interventions should it become necessary to further address risks of a too prolonged period of too low inflation.

Let me add, however, that the success of our measures critically depends on a number of factors outside the realm of monetary policy. Courageous structural reforms and improvements in the competitiveness of the corporate sector are key to improving the business environment. This would foster the urgently needed investment and create greater demand for credit. Structural reforms thus crucially complement the ECB's accommodative monetary policy stance and further empower the effective transmission of monetary policy. As I have indicated now on several occasions, no monetary – and also no fiscal – stimulus can ever have a meaningful effect without such structural reforms. The crisis will only be over when full confidence returns in the real economy and in particular in the capacity and willingness of firms to take risks, to invest, and to create jobs. This depends on a variety of factors, including our monetary policy but also, and even most importantly, the implementation of the structural reforms, upholding the credibility of the fiscal framework, and the strengthening of the euro area governance.

Originally, you had also chosen 'inflation differentials in the euro area' as one of the topics of today's hearing. I hope you will understand that, given the important decisions we took in July and September, I have focused my remarks on our monetary policy measures. Nevertheless, I of course stand ready and would be very interested to further discuss the matter of persistent inflation differentials, especially given their link to the structural reform agenda. I am now looking forward to our discussion, and many apologies for having spoken at too great length.

1-005

Pablo Zalba Bidegain (PPE). – Mr Chair, President Draghi, thank you again for being here and I apologise for my late arrival and that I missed part of your address.

I would like to ask you about the first TLTRO auction. I think we can say that expectations were clearly not fulfilled. You have emphasised, once again, that the markets are fragmented, that monetary policy is not being correctly transmitted, and I have the impression that in this case the banks have had the opportunity to access cheap loans but that even though they are able to take out cheap loans, the risk prevents them from lending out this cheap money. What is the solution to this? Have you learned any lessons from this first liquidity auction? I would also like to know whether you think its taking place before the European Central Bank has carried out its much-vaunted stress tests has had any impact on the result.

At the same time, you have said that you are applying a monetary policy which supports growth. I agree with you. And I also agree with you that if countries do not introduce reforms, monetary policy will be of little or no use.

I would like to know whether, now that you have launched this more active monetary policy, you are doing so because you think countries are more inclined to make reforms. I think Spain is an example. It is one of the countries which has made the most reforms and it is the fastest growing country in the euro zone and the one creating the most jobs.

Do you think this movement towards reform is stronger now and is that why you are applying a more active monetary policy?

1-006

Mario Draghi, *President of the European Central Bank***. –** On the first question, we have recently seen some signs of very modest improvement in credit conditions, in that there is still a decline but at a lower speed. Nevertheless, the last bank lending survey shows two things. It shows that credit standards have now softened with respect to the previous bank lending survey and that credit standards are, however, still tighter than the historical average since 2003.

There are other interesting developments in this area. For example, when we asked banks which factors basically hamper the credit process on the supply side, the response was often risk perception – aversion to risk. The importance of this factor has decreased over the last few surveys, but credit standards remain higher than the historical average, and certainly the first factor determining why credit is not developing at this point is lack of demand.

With the TLTROs we want to do two things: first of all, assure banks that they will continue to have funding conditions at very favourable rates, not only in the long term, but also even more favourable rates than they could have expected up until June when we announced this. So when demand picks up there will be plenty of funding to satisfy this demand.

The second point which makes these TLTROs different from the previous long-term refinancing operations which we undertook in 2012 is actually the fact that they are targeted to lending to the non-financial private sector. The first two transactions in 2012 addressed a very serious funding problem which could have generated a series of bank accidents at that time. Thanks to the LTROs we avoided this at that time. The present situation is different. Funding conditions are abundant, but somehow they are not completely – or even to a limited extent – channelled towards the financing of the private sector. So that is why this funding will be available with very good conditions for the banks, provided they lend to the private sector and do not do other things with this money.

On monetary policy, there is one thing that is very important. There are three components for the return of confidence, one of which is monetary policy, with the second being structural reforms and the third a proper fiscal policy – on which we can dwell later. But there is no great bargaining here, with monetary policy only responding if certain things are done. Monetary policy will only be effective if certain things are done, but no negotiations are taking place. That is key. We have a mandate, which is to keep the inflation rate below but close to 2%.

1-007

Elisa Ferreira (S&D). – President Draghi, I have often congratulated the ECB, and you in particular, on your role, the role of the ECB, during the crisis and after that. However, I want to put two questions to you.

The first relates to your role. You started your speech by saying that you will be the supervisor within the banking union and I am glad you will be that. However, the ECB was closely involved in the supervision of the most important banks in Portugal in the framework of the Troika programme, and less than four months after the end of the programme the second biggest bank in Portugal, the Banco Espírito Santo, collapsed with a big impact on the real economy, the financial sector, and the whole macro-economic stability of the country. So what went wrong, and what was your role in the Troika? Do you feel now that this situation may put at risk the credibility of the ECB in its future single supervisory authority role in the eurozone? This needs to be clarified, and I would appreciate if you could give some logical explanation of what happened, or shed some light on this.

My second question: again I think you have done a great job injecting liquidity into the eurozone, but this liquidity is not flowing into the real economy. The appetite for the new targeted LTRO has been insufficient. My question is this: is it possible to work as hard as you have worked in monetary policy without the corresponding reaction from the policies that will give us a real sight of the economy joining in? You were quite clear in your Jackson Hole speech, but do you not think it is now more than time for all of us to become more explicit in asking for a change in the economic agenda both by the Union and by Member States? How do you suggest this can be done? Do you think that surplus countries, including Germany, should definitely be addressed in order to change their policy stance? Do you think we can just rely on investment? Supply side economics has been tried, but it is not working so we need some demand. What is your answer to this?

1-008

Mario Draghi, *President of the European Central Bank***. –** On the first question, we should not forget that the ECB is not yet the supervisor of these banks. The ECB had no supervisory responsibility for Portuguese banks or any bank, for that matter. We will not have this until it becomes the actual supervisor.

So the ECB’s involvement in the Banco Espírito Santo was the involvement it had when it was part of the Troika. It was not involved at all with a specific bank. The ECB provided the supervisory institution in Portugal with better standards and has contributed to the Troika’s efforts, through the design and formulation of better standards, better credit analysis. I am told that actually it was thanks to these better standards that the Portuguese supervisory authority was then able to find out about the BES.

On the second point, thank you for your appreciation of our action in trying to comply with our mandate of keeping inflation at below – but close to – 2% and the difficulty that this entails given the present situation. I would say that the reality is not uniformly bleak. Several countries have made a lot of progress and we are starting to see some outcome, some fruit, some benefit from the reforms that they have introduced in the last two years.

But certainly, as I have said on several occasions, there must be an overall policy framework for our monetary policy to be fully effective. Besides the field of structural reforms – on which I have dwelt and commented many times – the other field is fiscal policy. Fiscal policy – if I may repeat what I said in Jackson Hole – has several dimensions. First of all we had fiscal rules in place with the Stability and Growth Pact. To undermine these rules would be substantially to undermine an anchor of confidence. We should not forget what the fiscal situation was four or five years ago.

But, having said that, there are margins and there is room within the Stability and Growth Pact rules for a certain amount of flexibility depending on the conditions in different countries. It is very much up to the Commission to assess what the rule is. More generally, what can the countries that do not have fiscal space do?

First of all they can look at this flexibility. What is more important? For them it is much more important to give new priorities to their fiscal policies through what I have called on several occasions growth-friendly fiscal consolidation, namely to give more priority to productive investment and lowering taxes and less to certain current unproductive government expenditure. That is the key root for countries that have no fiscal space. It is formed by these two features.

For countries that do have fiscal space, I would just say that they should follow the country-specific recommendations as they have been endorsed by all the European leaders in the European Council.

1-009

Bernd Lucke (ECR). – President Draghi, you yourself raised the problem of looming deflation. I believe that this is one of the most serious problems facing us in the eurozone and the European Union as a whole, and it must be taken very seriously.

I should like to put the following question: alongside the remarkably low rate of inflation and the slide into deflation that we are already seeing in some cases, it has become clear that for many years the M3 money supply has no longer been expanding in the same way as before. M3 growth is weak, and it even went into decline for a time. This is in marked contrast to the fact that the more narrowly defined M1 money supply is growing normally. We can see that some of the components of the money supply that distinguish M3 from M1 even have negative growth rates: levels of bank bonds and money market funds are shrinking.

My question is therefore: what significance do you attach to the M3 money supply for the development of price levels and hence the rate of inflation or indeed deflation? Does this observation not inevitably lead to the conclusion that financial investors are shying away from investing in liquid securities issued by banks because the banking system is presumably still suffering from a crisis of trust? After all, financial investors are not hesitating when it comes to other forms of investment – insurance, real estate, precious metals, and so on – but they are steering well clear of the forms of investment included in M3.

If this analysis is correct, we would have to conclude that using ABS or LTRO would have little effect in combating deflation. The underlying problem would be the crisis of trust in the banking sector. I should like to hear your views on this issue.

1-010

Mario Draghi, *President of the European Central Bank***. –** The annual growth rate of the money supply (M3) has effectively been low, I completely agree with you: it has been low for quite a long time, although in July it recovered a little from 1.6% to 1.8%. M1 (cash and deposits) fundamentally remained the only contributor to M3 growth. It increased, not by a spectacular rate, but to 5.6% in July from 5.4% in June. So that is the situation.

Clearly, this is the other side of the weak credit flows that we have observed in the banking system. The issue is: is this due to supply constraints or to demand constraints? It could be due to supply to the extent that the banks had weak capital positions and are therefore constraining credit because they do not have capital.

Much has been done in the last year and a half since we announced that, before taking over full responsibility as a supervisor, we would carry out the asset quality review and stress tests. The banks' reaction at that time was basically to raise capital, and a significant amount of capital has been raised and provisions and write-downs made, in the past 12 to 15 months.

At the same time, it is also quite probable that, in the short run, the asset quality review and stress testing might have caused a slight contraction in credit flows because banks want to be ready to cope with these two tests – the asset quality review and the stress test – and they might have constrained credit. This was an expected reaction from the banks because what is the alternative? If we are convinced that banks are sick, with a lot of non-performing loans on their balance sheets, and we do not do anything, they would become like zombie banks, like the ones we have seen in Japan. They would not lend. It is like a wound that needs to be disinfected immediately, although there may be some more loss of blood: once it has been properly taken care of, the illness will disappear – i.e. the banks will return to lending in a much more robust position.

From that point of view, we see no problem with the introduction of an asset-backed securities (ABS) programme or a targeted longer-term refinancing operations (TLTRO) programme because by the time these two programmes – especially the ABS and covered bonds programme – are launched, the asset quality review and stress tests will be over. Basically there should be no cross-contamination. Even if there were, however, we have to take our decisions as monetary policy decisions. Precisely for the sake of separation between the two areas, we cannot internalise supervisory considerations.

That is the position with regard to supply: however, we also know that credit expansion is limited by demand. As I said at the end of my introductory statement, only with the return of confidence for the private sector to take risks, to invest and to create jobs will we see the end of this crisis. What we can do on the monetary policy side is to make sure that we provide a basis upon which confidence can return.

1-011

Ramon Tremosa i Balcells (ALDE). – Many European SMEs, especially in the south, still lack cheap funding. The recently announced asset-backed securities (ABS) purchase programme tries to address that problem. However, one possibility is that banks are not lending to SMEs not because of their intrinsic solvency but because capital charges for SME lending are very high. Does the ECB have an opinion on the extent to which the high capital charges on SME lending are a deterrent to banks' lending to SMEs? In other words, is it reasonable to expect that the lack of SME funding could be overcome with lower capital charges?

1-012

Mario Draghi, *President of the European Central Bank***. –** We have certainly seen that both volumes and terms and conditions of SME lending are higher than other forms of lending. We have seen the significant spreads now for quite a long time between the rates practised in corporate lending and the rates practised in SME lending. We have seen that these rates are also different across countries. But the difference between the two categories of borrowers has always been there; it is nothing especially new. What is new is that the spread widened considerably in 2012 and then it went down in 2013 and now it is actually much lower. This basically underlines that confidence has returned to the financial markets, but it takes a long time for that confidence to translate into confidence in the real economy. So the difference in rates is there, but the difference in volumes is also quite significant.

There are two or three explanations for this difference. One is basically that SMEs often have less capital, are less capitalised, and they are often more leveraged than corporates, but one should also understand when making these comparisons that entire sectors have disappeared in the profound readjustment of our economies, so SMEs operating in certain sectors do not exist any longer. I am thinking, for example, of construction in one country or two countries. But, generally speaking, there is an issue of risk. Risk aversion is no doubt higher for a bank when lending to SMEs comes into play than when lending to a large corporate. Some of the news we got from the Banking Lending Survey is, from this viewpoint at least, a little encouraging in the sense that this risk perception, which is a dominant factor in constraining supply of lending, has gone down considerably in the last year or year and a half or so.

1-013

Marisa Matias (GUE/NGL). – Mr Draghi, thank you for attending our meeting. Exactly a month ago, and again today, you have made statements that, if they were to be taken seriously, could lead to a sea change in Europe, since you said that we need to stop concentrating on austerity and concentrate instead on growth and job creation. I could not agree more, but I cannot see what changes have been made in the ECB's policy, either from the statements you made a month ago or in those you have made here today; I cannot see any changes that might lend substance to these statements.

All the measures being announced continue to address the supply side and not the demand side, where the real problem is to be found. More measures are being announced along the same lines as those put forward before, which have produced absolutely no results, as you all know. They have produced no results either in terms of credit for the real economy or from the point of view of investment.

It is not that I do not welcome a policy of low interest rates or even unconventional measures such as those put forward. I do welcome them. The problem is that in a liquidity trap, without public investment to set things moving, these measures will be just as pointless in the future as they have been in the recent past, since the problem with the European economy is this liberal fanaticism that has taken hold of the institutions and that is blinding them to the strategic role that can be played by public investment policies in a context of deflation or, as you prefer to say, of low inflation.

That said, I should like to put two questions concerning what you have said about budget flexibility. The first is whether this budget flexibility that you have spoken about and referred to again here could be used to provide a budgetary margin for manoeuvre and low-cost financing for economies that need such financing, or whether it will be used simply to continue financing compensation, making public sector workers redundant and making unemployment rise even more.

The second question is whether you are finally prepared substantially to reduce states' financing costs. I know that you will say that this is not possible under the Treaties, so I will make things easier for you and ask: are you prepared to help reduce states' financing costs, for example by granting a banking licence or through a stability mechanism, or through the European Investment Bank?

1-014

Mario Draghi, *President of the European Central Bank***. –** As you said, our measures work by making funds more available to the private sector, and at lower interest rates. We have to acknowledge that 80% or more of credit intermediation in the euro area goes through the bank lending channel. Whether we like it or not, that is how our economy works. So if one wants to expand credit, this has to go through the banks.

Our first attempt to try, in a way, to go around banks – even though they will be important – is precisely with the introduction of the ABS programme. But our system is very different from the capital-market-based system they have in the United States, where only 30% of banking intermediation is carried out by banks.

Your next point concerned how the ECB can help governments' budgets. That is how I understood your question. This is not our task, and I might even go further and say that it is outside our mandate. However, if you look at the amazing savings governments have actually had because of the monetary policy decisions taken by the ECB, just with a price stability objective in mind, then where have those savings gone? That is what I would like to ask – where have they gone?

This is where the awarding of new priorities to components of the budget has been crucial. What has happened from 2012 onwards in public budgets is that a considerable amount of money has been saved from payments for debt servicing not actually used for that objective. In some countries this money has been used for good programmes that will produce yields in the future and contribute to growth. In other countries it has been used simply to continue financing current government expenditure.

1-015

Sven Giegold (Verts/ALE). – President Draghi, the proposals made by the four Presidents and your own proposals on the reform of the eurozone have run into the sand.

While we are sitting here, various government representatives in Germany are meeting Mr Valls. It is hard to listen to the press conferences without flinching. These two countries no longer have any common purpose. No major plans are being agreed, in spite of the crisis. It is painful to see how little is being done by these two countries to give a boost to economic policy: in spite of this serious crisis, there are no signs of a fresh start. Instead, I see that you have been forced yet again to try to bail out the eurozone with a fresh series of measures.

Last time round, it was largely thanks to LTRO that banks bought government bonds, thus ensuring liquidity in this segment of the market and of course enabling undertakings to make profits.

In this context, I should like to ask you the following questions: have you ever attempted to measure the size of the profits that banks were able to make from these carry trades, and will you make these figures available to us?

Secondly, I should like to know whether you have attempted, in parallel with the new measures which you are now proposing and introducing, to urge governments at the same time finally to press ahead with the reforms of the eurozone, with governance and effective leadership, as you have jointly proposed. And I would be interested to know whether you will also buy the riskier tranches of ABS as part of the purchasing programme if there are no state guarantees, or whether you will do this only if state guarantees are in place.

And finally: will you publish the assessment models that you use to evaluate ABS in practice, given that the ECB will be taking a public risk, and will you make these ABS and the associated risks transparent?

1-016

Mario Draghi, *President of the European Central Bank***. –** I am not aware of an estimate of how big the banking system's profits have been from carry trades made possible by the LTRO in 2012, but if we have such an estimate we will certainly make it available.

On the second point – and thank you for the question because it makes me clarify what exactly is the process we have launched – we are going to buy, without guarantees, what is called the senior tranches of asset-backed securities (ABS). Let me make two observations here. The general prejudice against ABS was originated by the perverse role that these assets had in the creation and in the formation of the great financial crisis. But here we have to distinguish between ABS that are transparent, simple and real, and ABS which are opaque and very difficult to price. To give you an idea, the rate of default on residential mortgage ABS in the United States was 20%, for the ABS that were created in 2007 was around 20%, and in Europe it was 0.12%.

So with the same name we are actually indicating two profoundly different things. Our ABS were simple, in the sense that people could actually see what sort of loans they would contain. They were transparent, and we had this category which meant that they had to be real in the sense that they had to contain loans to the real economy. That is one very important distinction.

The second important remark is that we only buy one piece of these ABS, that is to say, the senior tranches. What does this mean? It means that if by any chance the ABS were to default, the loss would be taken first by the owners of equity, and second by the owners of the other tranche called 'mezzanine'. That is where, if we are to expand our purchases in the mezzanine sector, in the mezzanine tranche, then we will need a guarantee, but in the meantime we will go ahead with the senior tranches only and if we get a guarantee – which, by the way, will have to be given according to the state aid rules, so it will have to be compatible with our legislation – then we will go into mezzanine.

Let me add just one more thing. There are several measures to make these ABS transparent, one of which, as I say, is to know what sort of loans they contain. The ECB has already quite independently – it was done a few years ago – created a loan data level register which will be very useful indeed for this. Finally, this is not the first time we have had ABS. ABS are a good important part of the collateral that our banks use to borrow from the ECB, so the ECB management staff and risk people are quite used to dealing with ABS, and senior tranches of ABS especially.

1-017

Marco Valli (EFDD). – Thank you, Mr Draghi, for coming here today. During the last monetary dialogue with you, we criticised the fact that the ECB's technical document on TLTRO operations failed to lay down any obligations with regard to lending to the real economy. On Friday, strangely, following the initial operations, 19.9 billion of the old LTROs were repaid early. In Italy, we have a saying to the effect that although it is wrong to think ill of others, it often turns out that one was right to do so. In you view, is this just a coincidence, or have some banks used TLTROs to pay back the second tranche of LTROs?

Since the start of the crisis, the ECB has given the banks several billions, but if there are no obligations – and I stress the word obligations – attached, the only recovery we will see is in managers' bonuses and the money pocketed by brokers. TLTRO operations and ABS purchases will only boost volumes on financial markets and increase the systemic risk of a bubble, without having anything more than a marginal effect on the real economy. Inflation figures will therefore continue to disappoint in the long term.

In view of this, I would like to ask what you think about laying down obligations – rather than the recommendations set out in the technical document – for the banks which are receiving money from the institution you head up?

Next, with a view to putting an end to this farce once and for all and doing something really useful for ordinary people, rather than just for your friends in the City and on Wall Street, what are your views on separating banking activities from purely financial activities, in order to isolate speculators? Given that we are continuing to inflate the financial market, we need to lay down some limits and give some real thought to the issues involved.

Lastly, what are your views on using a mix of monetary and fiscal stimuli? When we look at what the United States and the United Kingdom did during the 'great recession' with expansive fiscal policies, both allowed their deficit to rise to 6 to 7% of GDP, cutting rates and increasing spending. The variations in spending and revenue were subsequently reabsorbed. Can we envisage adopting the same policy in the eurozone, or do we have to phone the German Chancellor to ask for permission first?

1-018

Mario Draghi, *President of the European Central Bank***. –** That was a lot of questions!

I can only repeat what I just said: whether you like it or not, 80% of credit is mediated by banks in Europe, so if you want to expand credit you have to go through the banks. We have very little choice. How do you go through the banks? One way is by making terms and conditions easier and the other is through explicit requests, and not merely recommendations. This time, the targeted longer-term refinancing operations (TLTRO) programme is different from the longer-term refinancing operations (LTROs) of 2012: this lending is explicitly targeted at the real economy.

There will be a benchmark in the subsequent operations. There will be a series of quarterly operations for the next two years, whereby banks will be free to borrow at our specially low rates, and they will have to lend to the real economy against a certain benchmark. If they do not lend to the real economy they will have to pay back what they borrow. This applies to the first two tranches, and we will verify that.

Another point: are they substituting one thing for another? Probably. Does it mean they will not lend? No: they may lend later on. So this represents a considerable change from the previous operations, which, as I said before, addressed a specific funding problem and averted a major disaster in the banking system in 2012. The current programme addresses lending to the real economy, so in this sense it is different, and the banks have to comply with explicit requirements.

Of course, we should not judge this programme on its own because it is going to be combined with the asset-backed securities (ABS) and covered bond programmes. That is why we hesitate to look at just one number: it will be the overall interaction of these three programmes that will cause our balance sheet to increase in size, so we have to wait a little before we can pass judgment on that.

Incidentally, when we take monetary policy decisions – when I take monetary policy decisions – I really do not consider my friends in the City or in Wall Street. I consider the citizens of Europe and I consider the objective we have of maintaining price stability, and of raising the inflation rate to close to but below 2%. We consider growth and employment and we consider, especially, unemployment. So, no innuendoes about the City or Wall Street here, please.

You asked about the separation between banking activity and other areas, property trading or market making. The ECB is finalising an opinion on this, which will be published shortly.

Lastly, as regards fiscal policy, I covered that quite extensively earlier, and you can still read my Jackson Hole speech on the Internet.

1-019

Gerolf Annemans (NI). – Mr Draghi, I should like to ask a question about your ABS programme, this being one of the ways in which you are now seeking to compensate for the general failure of the TLTRO and interest rate mechanisms.

You are unable to galvanise the scheme for the simple reason that inertia is hardwired into the very concept of a single currency for an area in which the social and economic differences are far too wide. You have already done quite enough to generate liquidity and cheap cash. This has long ceased to be an issue for the euro area. The real problem is basically a structural lack of confidence. You have been throwing money at the banks while at the same time forcing them back into the danger zone at a time when the sector is still struggling to deal with recapitalisation and risk containment.

You seem to have made it clear that you do not intend to purchase ABS mezzanine tranches unless they are guaranteed by the state. However, if I have understood rightly, neither Mr Schäuble nor Mr Dijsselbloem regard this as an option, since it would yet again pass on the risks to hard-pressed taxpayers already suffering the consequences of the financial crisis (and, in my opinion, the entire euro undertaking as well).

To purchase ABS with state guarantees would thus be adding insult to injury. In fact, it would be going too far altogether, being nothing more than a throwback to the destructive subprime crisis that caused the whole problem in the first place. In a word, you yourself are summoning the demons of the past.

I should therefore like to know whether the idea of ABS with state guarantees is being definitively shelved. How much liquidity do you have available for the ABS scheme? Has the matter been discussed and, if so, with whom? Will the scheme be organised differently and adapted to the situation in the various Member States?

Finally, is it true that you are embarking on the ABS venture together with BlackRock, an American fund manager known to have been among those issuing subprime securities on the eve of the financial crisis?

1-020
Mario Draghi, *President of the European Central Bank***. –** On your first point, as I said at the end of my introductory statement, the crisis will only be over when full confidence returns in the real economy – so we are in agreement on that – and in particular in the capacity and willingness of firms to take risks, to invest and to create jobs. This depends on a variety of factors, including our monetary policy, but also – indeed most importantly – the implementation of structural reforms upholding the credibility of the fiscal framework and the strengthening of euro area governance.

On your second point, I have explained before why we think that the ABS, the type of ABS and the component of ABS which we plan to buy classifies them as safe, and not unsafe, assets. The second point concerns mezzanine. We would not buy mezzanine without an explicit public guarantee.

The third point concerns BlackRock. I do not know whether BlackRock was a distributor of subprime so I cannot really answer that question, but we are using BlackRock as an advisor to help the ECB design this programme. This is not at all strange. The Federal Reserve used several asset managers to design their programmes three or four years ago. We are not using BlackRock to actually carry out transactions, to buy these assets, so their function is purely advisory. We have been extremely careful to forbid any conflict of interest in taking care of that.

1-021
Markus Ferber (PPE). – President Draghi, I do not know whether I should feel sorry for you or whether I should consider the possibility of hearing other speakers from time to time. You have been telling us the same story year after year: the real economy needs to start up again, which means that cheap money needs to be available. Looking at the tools available to a central bank, you are clearly …..

1-022
(Interjection from the floor: 'Green')

I am not from the Greens.

(Interjection from the floor: 'Not yet.')

Thanks for your invitation but that will never happen.

(Laughter)

1-023
You have been arguing for years that cheap money needs to be made available to the economy. Looking at the tools available to a central bank, you have clearly made more than good use of that tool box – one might even have the impression that you have overused it.

You have now put forward and described decisions which other central banks have already implemented with moderate success – such as the Bank of England, to take an example within the European Union. You are only telling us about the advantages, but up until now I have had the impression that you are slightly neglecting the side effects and risks.

Some questions have already pointed in this direction: are the banks behaving in line with your expectations, or is the money in fact once again flowing into areas that have nothing to do with the real economy and job creation?

I have the feeling that perhaps too little attention is being paid to the side-effects of these political decisions and too much of the focus is being placed on the possibilities and opportunities. We are also seeing that there is no great demand for credit in the real economy in certain countries. If there is no corresponding demand from the real economy, this means that the availability of capital is not the problem.

This brings me to my question – you will not tell me anything about the side-effects now either, but: is it possible to create useful structures on the demand side to ensure that the money which you are making available on conditions that are more favourable than ever before actually flows into the real economy? Otherwise we will not escape this vicious circle.

1-024
Mario Draghi, *President of the European Central Bank***. –** *Certainly, while* we continue with this very accommodative monetary policy – and we will do so for a long time – one should also consider that, comparing our monetary policy with those of other jurisdictions and other countries, it is clear that our monetary policies are on increasingly divergent paths. In other words, we will continue to remain expansionary for a long period of time.

At the same time we are very alert and very aware that this could fuel financial stability risks. So we ask ourselves whether we see these risks, and whether there are any signs of them in the eurozone. There was an interesting analysis in the course of a discussion at the Bank for International Settlements in Basel two weeks ago, showing that volatility is indeed at a historic low. The risk premia and spreads have narrowed down beyond any expectation.

At the same time, we do not see in the euro area – we may see it in other jurisdictions but not in the euro area – the growing leverage, caused by substantial increases in bank credit, which, combined with low volatility and low risk, could actually be the beginning of a bubble in various sectors. We do not see that. And, looking at various segments of the financial market in the euro area, we do not see especially significant signs of excesses. If we were to see them, they would at least be localised phenomena. To cope with such localised phenomena we would have to use our macroprudential instruments rather than our monetary policy instrument, which is for the whole of the euro area. But we have not seen the need for that so far.

That is one point. Did you ask me something else?

1-025

Markus Ferber (PPE). – The question was whether there is really a chance that there will be growth in loans and credits on the demand side. Because I do not think we have a problem of money available, we have a lack of demand.

1-026

Mario Draghi, *President of the European Central Bank***. –** You are absolutely right. We have a problem of demand. We want to make sure that there are financing conditions which, when demand picks up, will be ready to cope with this. We have also seen, on the positive side, that these better financing conditions have found their way through the economy. We should not forget what happened before mid-2012. What happened basically was one funding crisis after another, with interest rates that had reached amazingly high levels. Basically, the fragmentation we have seen of the banking markets in the euro area has its origins in the crisis that took place in 2012, and is still with us. We have seen a series of indicators which are encouraging in terms of the reduction of this fragmentation, but we have to see more on the demand side. This is where monetary policy just creates the conditions, and then it is up to other policies to play the key dominant role and stimulate demand.

1-027

Jakob von Weizsäcker (S&D). – I will ask you a question about banks, Mr President. You talked earlier about how to give incentives to banks by making specific requests. In March 2010, as Governor of the Bank of Italy, you made such a specific request, sending a letter to Italian banks urging them to cut dividends and strengthen their capital base. While, technically, the ECB will only take on the supervisory role for large European banks later this year, it is a puzzle to me that the ECB has not pressed hard in negotiations for a dividend freeze for large European banks while we are still in the middle of financial sector leveraging. Why has the ECB not done that? Why has the ECB not tried to impose a dividend freeze?

I am asking this especially in the context – I do not have the numbers, but you probably do – of relatively limited efforts by banks, to date, to raise fresh capital in the run-up to stress tests. That is my first question.

My second question – and I am probably boring you here but I do want to come back to it – is on the asset-backed securities (ABS) programme. I have a confession to make. I still do not really understand it. Basically, if the ABS tranche you are buying is essentially risk-free, I do not see how this will help in the credit channel. At the same time, because it is a relatively limited segment, I do not see how it could reach volumes that would act through other channels, like the exchange rate channel. So I am left somewhat puzzled as to how this is meant to work. These are my two questions.

1-028

Mario Draghi, *President of the European Central Bank***. –** On the first question, the powers of the ECB in doing this are not those of a supervisor. When the ECB takes full supervisory powers, it will be in a position to ask for cuts in dividends and cuts in salaries, as I did at that time – you are right – in the Banca d'Italia, and to use profits to strengthen its capital base. But until then the ECB as such does not have that power. So for the time being it is up to the national supervisors. Incidentally, some of them did do exactly what you are arguing for. Others did not. It depends very much on a variety of national and insitutional situations.

You addressed two points. Your first question was: how can the purchase of only senior tranches, until a country or governments give a guarantee, free space in the banks' balance sheets? That is partly – but not entirely – true. The capital charges on the less risky part are much lower than those on the mezzanine part, but are not zero. So to some extent that has an effect on the capital side. On the funding side the effect will complement the TLTRO effect. There is no doubt that on the funding side the effect is going to be big depending on the size of the market.

But it is not clear exactly what size the market that we will be facing will be. If you take it at face value, there is a fairly sizeable market. But then we have decided that we do not want to take a series of ABS which do not respond to our prerequisites because we want them to be simple, to be transparent, and to contain lending to the real economy and so on. So then we reduce this and ask ourselves how much of this portion – which is still sizeable – is in the secondary market and how much is retained by investors. And in fact a sizeable portion of this is retained by investors. So will our step into this market enlarge the secondary market and convince investors to trade on their retained portions? That is the question. We believe that the size of this market is endogenous, in the sense that it does respond to our role and to our initiatives.

Finally you asked about the effect of this on the exchange rate. As you know, any comment on the exchange rate is especially delicate because in the G20 we have committed ourselves to treating the exchange rate as a matter of common interest. As I have said several times, the exchange rate is not a policy objective but is very important for price stability and growth. We have seen the exchange rate weakening in the last six months.

1-029

Alain Lamassoure (PPE). – Mr President, a G20 meeting has just been held. The G20 was set up six years ago, in response to the crisis sparked off by the collapse of Lehman Brothers. Can you tell us, very briefly, in which areas the international community in general and the European Union in particular have made significant progress since then thanks to efforts made by the G20? In which areas is there still much to be done? Are we better placed today to head off systemic risks such as those that arose in 2008 and to anchor the financial sector to the real economy?

1-030

Mario Draghi, *President of the European Central Bank***. –** It is a funny coincidence that you are asking this question to someone who did not go to the last G20, but the emphasis at that meeting was basically on completing the global financial regulation that was started at the beginning of 2008. I understand there was quite extensive discussion on how to restore growth in the G20.

On the first point, I should say that the G20 was an especially fruitful group to promote progress in the design of a new financial regulation that would make financial markets and the intermediation and banking industry more resilient to an oncoming and always possible crisis. Considerable progress has been achieved on that front, but while there was a lot of progress on the design, there was only some progress on implementation and, with the return of confidence to the financial markets, the sense of urgency that would move all the supervisory regulatory jurisdictions to converge and give themselves a global financial regulation has waned to some extent. So this was the key achievement of the G20, and it is very good that this group continues to discuss these issues and pushes for progress on this front.

The other issue that was discussed, in Australia I think, was growth, the right economic policies for growth and, related to that, the coordination of economic policies across major areas and spill-overs – consideration of spill-overs of our policies into other parts of the world, which is becoming an issue of increasing importance in the G20 discussions.

1-031

Alessia Maria Mosca (S&D). – Thank you, President Draghi, for this opportunity.

I should like to come back to the concerns that many people have voiced here today about the effectiveness of the monetary policies being implemented and the impact those policies have on politics and the real economy, and in this connection to draw attention to the need for greater coordination between monetary policies, the structural reforms carried out by individual Member States and policy action on aggregate demand.

I should like to ask the following: we are currently at the start of a new phase in EU policy in this area, with the announcement of an investment plan on which we will be given more details in the coming weeks. What priorities, in your view, should be set for those investments, with a view to ensuring that monetary policy measures have a more immediate effect?

Secondly, in the speeches you gave in Jackson Hole and then in Milan, you emphasised the fact that high unemployment rates lessen the effectiveness of monetary policy. In this connection, in the light of the fact that the action taken to date to tackle the unemployment problem has had little effect, would it not be a good idea to change tack, and what are your ideas on the proposal for a European unemployment insurance scheme, which takes a very different approach in that it will also have an impact on disparities between Member States?

1-032

Mario Draghi, *President of the European Central Bank***. –** These questions are very wide-ranging and, to some extent, outside the realm of competence of a central banker. One of the casualties of the crisis was certainly investment, both private and public. Overall investment today, as an aggregate in relation to GDP, is at a level we have not seen for decades.

Public investment has also become very low for one simple reason, which is that countries whose governments needed to consolidate their budgets did the two things which are the easiest to do in a hurry, in an emergency situation, namely raise taxes and cut investment.

All these things combined, at a time of crisis and loss of confidence by the private sector, have created serious unemployment. In a sense, that is the cyclical component of unemployment in the euro area. We always say that it is structural and that we have certain serious impediments to job creation in the euro area. This is true to a great extent, but there is also a cyclical component which ought to be tackled and dealt with.

So the return to investment is very important. That is why I very often speak of growth-friendly fiscal consolidation. However, this return to investment should go hand in hand with actions that are geared to strengthening the confidence and trust of the private sector in the prospects for the economy.

1-033

Werner Langen (PPE). – President Draghi, two years ago you put an end to speculation against countries from one day to the next with your clear statement in London. That was the right thing to do. I do not want to ask any questions on M1 and M3; these are indicators of a lack of confidence or of cyclical weaknesses – no more than that.

I should like to know your assessment of the different direction taken by monetary policy in the US and in Europe. While the Fed wants to raise interest rates and scale back its purchasing programmes, you want to – or already have – cut interest rates further. The effect of that is modest, and now you intend embarking on purchasing programmes.

My question partly concerns the international repercussions of such a divergent policy: it could give rise to significant turbulence, at least during a transitional period. What is your assessment of the situation?

Secondly: is the ECB considering ending its loose monetary policy sooner rather than waiting until 2016 as you have said?

And thirdly: how do you assess the continuing weakness of the euro against the dollar? Its value has after all suffered a double-digit fall in the past three months. Even though it may not yet have reached the equilibrium price between dollars and euros, in combination with low interest rates it could nevertheless cause investors to move into the dollar area. I should like to hear your comments on these long-term effects, which go beyond simple assessments of the money supply. What are your fears, what are your expectations, what is your assessment?

1-034

Mario Draghi, *President of the European Central Bank***. –** Concerning your first question, when different areas of the world, and especially very large areas like the US and the euro area, are on a diverging path of monetary policy, we should – and we do – watch with great attention, on both sides of the Atlantic, that our decisions and the communication of those decisions do not cause unwanted movements in the markets and unintended consequences which could entail – and indeed did entail not so long ago – some disruption in market conditions. Both we at the ECB and all our colleagues throughout the world are very aware that these decisions ought to be taken with great attention and, likewise, communicated with great care and attention. The intention certainly is to avoid all unwanted and unintended turbulences and market disruptions, and so far things have seemed to go the way we wanted.

Your second question was when will we end this loose monetary policy. The answer is when we have complied with our mandate, which is to bring inflation to 2% – close to, but below 2%. That in a sense is the primary, if not the only, objective we have now and certainly it feels, under the Treaty, like our primary mandate. Given our projections, our monetary policy will remain loose and, as we say, 'very accommodative' for a long period of time. I have discussed before the potential side effects that this policy might entail, especially in terms of financial stability risk, so I will not repeat this, but we also watch this carefully. We do not want to be complacent.

Your third question is about the exchange rate. As I said, it is always very difficult for a central banker of a very large jurisdiction to comment on exchange rates. We have collectively framed our language in the G7 and G20 statement on exchange rates, where we treat this as a matter of common interest, so it is very difficult for me to comment on this. However, going back to your first question, our monetary policies are on a diverging path and they are going to stay like that for a long time as the recovery in the US proceeds and inflation in the US goes up towards the objectives, while in our case everything is much slower.

1-035

Olle Ludvigsson (S&D). – It is nice to have you with us, Mr Draghi. You have recently focused on the impact that unemployment has on monetary policy; you mentioned it, for example, in your speech at Jackson Hole. I am delighted that the unemployment factor has received more attention as a result. We know that unemployment in the eurozone currently stands at 11.5%. Structural unemployment is very high.

Do you think the ECB will be able to hit the inflation target of below or close to 2% with such high levels of unemployment? Or does unemployment need to be cut drastically to make it possible to hit the target in a sustainable way? How significant is it for inflation that unemployment is exerting downward pressure on wages and demand?

1-036

Mario Draghi, *President of the European Central Bank***. –** This is a very important question for the conduct of our monetary policy. There are at least two answers to the question which complement each other.

In 2011 inflation was 3% and now it is 0.4%. We asked what the causes of this decline were. Certainly two thirds of this decline – for the first part of the period, between 2011 and 2012 – were essentially caused by the decrease in the oil price and, later on, in food prices.

There was also a third reason which developed only slightly later at the end of 2012 and 2013. This was the fact that in many countries – all countries under a programme – the relative price adjustment and the regain of competitiveness called for a decrease in prices that had been too high for a long time. This was also significant in bringing down the rate of inflation. This effect was later compounded, even though in dollar terms the price of oil and food and other prices did not go down much, by an appreciating exchange rate which continued to drive down inflation.

In the meantime unemployment became very high in the euro area at aggregate level. So it is quite clear that unemployment and the weak level of demand that comes with debt contribute to keeping inflation low. More specifically, we are often asked why our models have overestimated inflation on several occasions. Basically this is because all these models make certain assumptions about the oil price, food prices and the exchange rate. So these overestimates were caused by assumptions about these factors which were not correct.

So when we look back at our mistakes, until not long ago we would have said that these forecasting mistakes were mostly due to mistakes in our assumptions. More recently we have said that a certain percentage – not the majority, I think it is around 20% of our mistakes – is due to other factors as well, one of which is unemployment. This is a further reason for agreeing with you that unemployment does play a role in keeping inflation low.

1-037

Brian Hayes (PPE). – President Draghi, I would like to welcome you back to our committee. I have two questions. My first question is whether you could give some clarity on ABS and its usefulness to banks which, as you rightly say, represent 85% of all lending across the system, including to those banks that have come through stress tests which have proved them to be well capitalised. My fundamental question is whether mezzanine finance can include tracker mortgages, because you referred earlier to mortgages. Can tracker mortgages be included as part of mezzanine finance?

Secondly, since our last meeting in Strasbourg, you have probably seen a decision of the Irish Parliament to have a public inquiry into the events surrounding the bank guarantee and the financial collapse in Ireland, which date back some years. Obviously, the inquiry will call witnesses – politicians, regulators, the banks and also the ECB. How will the ECB play any meaningful role in such a public inquiry in the circumstance where your predecessor, Mr Trichet, has refused to attend the inquiry and refused to give evidence to this inquiry, which will shortly be established by the Irish Parliament? Could you set out your views on that, given the fact that Mr Trichet was a public official at the time and the enormous EUR 64 billion of debt that was ascribed to the Irish taxpayer as a result of the bank guarantee. What will the ECB do in terms of facilitating that inquiry when it takes place?

1-038

Mario Draghi, *President of the European Central Bank***. –** On the first question, I do not know whether we include tracker mortgages. I will provide you with an answer. Certainly the ABSs we are going to purchase do include residential mortgage-based securities. Here the question is whether, by doing so, we are going into feed into a residential bubble. The answer is no, not necessarily, because the freeing up of space – making room in the bank's balance sheets because we buy this residential mortgage-backed security – does not mean that the banks will immediately fill their balance sheet exactly with the same loans and the same lending to the residential sector. So it does not necessarily follow that they will do so.

On the second point, I must say that we have no answer at this time. We will certainly reflect on it and we will have to discuss this in the ECB Governing Council. We have not discussed this yet.

1-039

Brian Hayes (PPE). – What is your view of the stated position of Mr Trichet that, as a public official who was central in the decision-making process at the time, he intends not to appear before that inquiry? What is your view on that?

1-040

Mario Draghi, *President of the European Central Bank***. –** It is not my view that matters; it is the ECB Governing Council's view of this. We have not really discussed this issue yet. I will perhaps be better equipped to answer this question at the next meeting.

1-041

Hugues Bayet (S&D). – Mr President, Mr Draghi, I have three small questions. I should like to come back to the speech you made recently in Jackson Hole, where you said that a strategy to reduce unemployment must involve both demand-side and supply-side policies, for the eurozone as a whole as well as at national level.

As to the supply-side issues, the situation is relatively clear. We are all aware of the structural reforms that are required in order to boost business competitiveness, but could you provide further information on the demand-side policies? I should like to know what and who you are thinking about. Would you not agree that Germany has some useful room for manoeuvre in this connection?

For example, aside from wage negotiations that could result in higher wage rises than in the past, could the German Government not take steps to alleviate the pressure on incomes and boost household consumption, for example by index-linking tax brackets and raising the lowest pension levels? I should like to know what you think, as I expect that your statement is backed up by a concrete set of recommendations and proposals for each EU Member State.

My second question is linked to that put by my colleague, Ms Mosca, in particular as regards public investment, on the subject of which you have told us that what most States have been doing is increasing taxes and cutting public investment. Although I can see what you are saying, I believe that this is partly due to the EU's statistical rules, in particular the obligation to comply with Eurostat's ESA 2010 standards. This is because, when you look closely, you realise that in practice nothing can be recorded as an asset and the rules take no account whatsoever of any surpluses built up by local and regional authorities.

If we look at the situation in my own country, Belgium, and at the public investments made by local authorities alone, we see that they account for close to 50% of public investment in Belgium as a whole, but for only 7% of overall public debt. Would you not agree, in particular if we wish to make sure that the EUR 300 billion investment plan – at least the public part of it – is a success, that a distinction needs to be made between productive investment where local authorities or central government provide funding for business parks, multimodal platforms, social housing and so on, and current expenditure, which must clearly be classified as debt?

My third question is a little more technical, concerning as it does the bail-in obligations for senior creditors, which will not come into force until 1 January 2016. I should like to know whether you are not concerned that the various Member States will adopt different approaches to senior creditor bail-ins, which could clearly result in continued financial fragmentation if the scope of the bail-in is broader in the financially most fragile Member States. Is that not likely to be a problem in the future?

1-042

Mario Draghi, *President of the European Central Bank***. –** Monetary policy in itself is not enough to reach the objective of raising inflation back to close to 2% but below 2%. We will need other policies. I hinted at that in the previous speech, as you will remember. Some of these policies have to do with giving new priorities to the budgets and with increasing investments. Here one has to distinguish between countries that have fiscal space and countries that do not have fiscal space. As I said before, the European Council has recommended the so-called 'country specific' recommendation and did recommend policies to this effect, and the countries that do not have fiscal space had to give new priorities to their budgetary composition with a view to stimulating productive investment while, at the same time, cutting current and productive expenditure and taxes.

On the bail-in of different categories of debt, starting with 2016 – if I am not mistaken, though I am not entirely sure whether it is 2015 or 2016 – the Bank Resolution Recovery Directive (BRRD) will lay down all the rules for the different categories to be bailed in, so that will be the last word on it. It seems to me that markets and banks are actually assessing this with relative confidence. We have not seen any market panic arising from the introduction of these new rules.

1-043

Georgios Kyrtsos (PPE). – I too would like to thank Mr Draghi for being with us. I have two questions, one dealing with the situation in Greece and the other with wider European interest.

The Greek Government argues that Greece does not need a new loan package from its eurozone creditors, and that the country is ready to follow the path of Ireland and Portugal and cover its refinancing needs in the international market. From what I read in the press, it seems to me that Mr Draghi would prefer a new package of support along with continued strict control of the economic policy implemented in Greece, and that he requires more policy guarantees from the Greek side in order to help the Greek banking sector provide more liquidity to the private sector of the economy.

Regarding Europe, is there a united front between the ECB and most – if not all – eurozone governments concerning the increase in the rate of inflation towards an annual 2%, sliding the exchange rate of the euro, the risk associated with purchasing securities and covered bonds and other major objectives you have set, or should we expect a lot of political and economic friction in the near future that could reduce the effectiveness of the policy described?

1-044

Mario Draghi, *President of the European Central Bank***. –** First of all let me stress once again that in Greece, but also in all other countries, there is no bargaining, there is no negotiation, between the ECB and the governments. We follow our mandate and the governments follow their mandate.

This idea of bargaining crops up in a variety of ways. For example, sometimes we are told that we are reducing the incentives for governments to reform, to make structural reforms. This argument forgets one thing which is that we have a mandate. The monetary policy is not a substitute for structural reforms. So it is up to the governments. Frankly I am quite puzzled at governments that would react to interest rate incentives – so if interest rates go down, they do not reform – and yet do not react to the millions of unemployed people they have in their countries. I think that should be a much more powerful factor pushing these governments to reform themselves than 1% less in the interest rate. So there are no negotiations, which indeed would not be proper for a central bank or the ECB.

Secondly, the ECB acknowledges, and the Governing Council of the ECB acknowledges, the significant progress made by Greece in undertaking a variety of policy measures on the budgetary front, on the financial sector front, on the structural reforms front, and this has certainly been noted not only in the ECB; the markets have noted it too, and have awarded Greece quite extraordinary financing conditions. These financing conditions are predicated on Greece continuing the structural reform effort and undertaking all the structural reforms that are being envisaged in the current programme, remembering that the current market situation, not only for Greece but for everybody, should not be taken for granted. So I suggest we all use this moment in time to continue our reform effort without being prey to complacency.

Finally, the issue of frictions. Are there frictions here? Frictions would assume that there is some sort of bargaining there. There is no friction there, because we have our mandate and the governments have a different mandate. We are going to pursue this mandate. Let me just re-read one part of the statement I made at the beginning: 'With the purchase programmes, we are starting a transition from a monetary policy framework predominantly founded on passive provision of central bank credit, to a more active and controlled management of our balance sheet'.

1-045

Chair. – This has been a very fruitful dialogue.The next monetary dialogue will take place on 17 November. So we can thank President Draghi and look forward to our next meeting.

(Applause)

(The meeting closed at 17.00)