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

**BRUSSELS,**
**MONDAY, 17 NOVEMBER 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.** – Good afternoon, colleagues. Welcome to monetary dialogue with the President of the European Central Bank, Mario Draghi. We welcome him and thank him for coming here again to our regular and very fruitful dialogue. We of course expect President Draghi to report to us on the recent decisions of the Governing Council of the ECB, namely the ongoing programme on covered bonds, the ABS programme, the expected impact on the ECB balance sheet, and also the unanimous commitment to use additional unconventional instruments within the mandate of the ECB if needed.

The coordinators have also identified some specific topics which we have worked on: the Eurosystem collateral policy framework, and the unconventional monetary policy measures. As usual we will start with an introductory statement by Mr Draghi and we will have our usual slots of five minutes of questions and answers.

1-004

**Mario Draghi,** *President of the European Central Bank*. – Mr Chair, honourable Members, it is a pleasure for me to be back again in this committee for the last hearing of 2014. This year has once again been a year of profound change for the euro area and for the Union as a whole. It was a year of legislative and institutional progress on many fronts, as 2014 saw the birth of banking union with the agreement of the Single Resolution Mechanism, the start of the Single Supervisory Mechanism and the successful conclusion of the comprehensive assessment of banks’ balance sheets. And it was indeed a challenging year for monetary policy, which saw the ECB take a wide range of measures to respond to the risks emanating from an increasingly sobering economic outlook.

You have chosen two topics for today’s hearing: the relationship of financial fragmentation and monetary policy, as well as the Eurosystem’s collateral framework. I will touch on both these issues, but let me first run you through our current assessment of the economic outlook.

The euro area growth momentum has weakened over the summer months and most recent forecasts have been revised downwards. At the same time, our expectation for a moderate recovery in 2015 and 2016 remains in place. Demand should be supported by a number of factors. Among them are our monetary policy measures and progress made in fiscal consolidation and structural reforms in some countries. At the same time, high unemployment, sizeable unutilised capacity, and the still ongoing and necessary balance sheet adjustments are likely to dampen the recovery.

Risks to the economic outlook continue to be on the downside. In particular, the weakening in the euro area’s growth momentum, alongside heightened geopolitical risks, could dampen confidence and, in particular, private investment. In addition, insufficient progress in structural reforms in euro area countries constitutes a key downward risk to the economic outlook.

Inflation in the euro area remains very low. In October, it stood at 0.4%. We expect it to remain at around current low levels over the coming months, before increasing gradually during 2015 and 2016. Looking forward, we closely monitor risks to price developments.

The latest monetary data point to subdued underlying growth in broad money. Its annual growth rate has increased moderately over recent months. It appears that the turning point in credit growth is now behind us, and credit growth rates, while remaining negative, are gradually improving.

Let me turn to financial fragmentation, the first topic you suggested for today’s hearing. Fragmentation in various segments of the financial market has been a major obstacle to the smooth conduct and transmission of monetary policy, and ultimately to our ability to deliver on our mandate. Also owing to determined actions the ECB has taken, fragmentation has receded significantly since the height of the financial crisis.

Unsecured money market rates are trading again at reasonable spreads over their secured counterparts. Sovereign bond spreads in the euro area decreased significantly from their peaks in 2012. Together, these developments reflect the gradual return of confidence among investors in the euro area.

Yet, we still face a situation where our very accommodative monetary policy stance does not sufficiently reach some final borrowers in the euro area. This is because credit markets in some parts of the euro area are still impaired and show only timid signs of recovery. As a result, credit growth continues to contract and credit conditions – while having eased recently – remain overall tight from a historical perspective. Importantly, costs of bank funding have improved, but are still relatively high in some Member States. Where they are lower, they are not passed on in full to the real economy.

The monetary policy measures decided in June and September this year, the Targeted Longer-term Refinancing Operations and the purchase programmes for asset-backed securities and covered bonds, are designed to overcome these obstacles. They will enhance the transmission of monetary policy, support the provision of credit to the euro area economy and, as a result, provide further monetary policy accommodation.

We see early indications that our credit easing package is delivering tangible benefits. Since the beginning of June, forward money market rates have shown steep declines across the maturity spectrum. Now, the forward curve consistently lies below zero over a two-year horizon. Eonia is not expected to exceed 25 basis points before well into 2018.

The three-month Euribor rate, which is an important conduit of monetary policy impulses to lending rates, dropped to an all-time low and now stands close to zero. And the policy decisions, in particular those announced in September, triggered a compression of spreads across other asset classes, including ABS, covered bonds and sovereign bonds. But more time is needed for the full materialisation of the positive effects of the most recent set of manoeuvres.

In this context, let me emphasise that we are committed to scaling the total magnitude of our measures – lending operations as well as outright purchases – up to a size that can deliver the intended support to inflation and the recovery of the euro area economy. All these measures will have a sizeable impact on our balance sheet, which we expect to move towards its early 2012 dimension. This will ensure that our accommodative monetary policy stance will contribute to a gradual recovery and a return of inflation rates in the medium term to levels closer to our aim of below but close to 2%.

Nonetheless, we need to remain alert to possible downside risks to our outlook for inflation, in particular against the background of a weakening growth momentum and continued subdued monetary and credit dynamics. We therefore need to closely monitor and continuously assess the appropriateness of our monetary policy stance.

If necessary, to further address risks of too prolonged a period of low inflation, the Governing Council is unanimous in its commitment to using additional unconventional instruments within its mandate. In this context, we have also tasked relevant ECB staff and Eurosystem committees with the timely preparation of further measures to be implemented, if needed. Such measures could include further changes to the size and composition of the Eurosystem balance sheet, if warranted to achieve price stability over the medium term.

Monetary policy alone, however, cannot overcome financial fragmentation in the euro area. Fragmentation across national borders also reflects underlying national imbalances and institutional deficiencies.

Overcoming these requires determined structural reforms on the side of national governments to improve the business environment and setting incentives to invest, with the aim of boosting productivity, creating new jobs and raising the growth potential of the economy.

Reducing financial fragmentation also requires tackling remaining shortcomings in economic and financial integration. As already mentioned, substantial progress has been made this year. Banking union should now be completed following the finalisation of the comprehensive assessment and the SSM taking on supervisory responsibility. This means in particular completing the SRM, enhancing the borrowing capacity of the Single Resolution Fund and thereby delivering on the commitment to establish a credible backstop.

Moreover, looking forward, a greater integration of financial markets – also referred to as a Capital Markets Union – would be warranted to further reduce fragmentation of financial markets, improve funding to SMEs, enhance the transmission of the ECB’s monetary policy and, overall, benefit economic growth. We look forward to the detailed elements that the Commission will announce in the course of 2015 and I have no doubt that this Parliament as co-legislator will again play a decisive role in this regard.

Let me now say a few words on the second topic you have chosen, our collateral framework. Since the very beginning, the Eurosystem collateral framework was designed to achieve two goals at the same time: first, to protect the Eurosystem from incurring losses, as is explicitly required by the Statute of the ECB/ESCB; second, to ensure that Eurosystem credit operations can be carried out smoothly by making sufficient collateral available.

Past and recent experience has shown that such a dual set-up of the Eurosystem collateral framework has been indeed very effective. So far, the Eurosystem has never had to recognise a loss stemming from Eurosystem credit operations. In the few cases where counterparties have defaulted, for instance in the case of a subsidiary of Lehman Brothers, the Eurosystem was able to fully cover its exposure by seizing the posted collateral. At the same time, the collateral framework ensured that banks were able to obtain sufficient amounts of central bank liquidity throughout the crisis.

This became most visible in the context of the two Very Long Term Refinancing Operations that the ECB conducted in 2011 and 2012. In these operations banks obtained collateralised central bank liquidity in the order of EUR 524 billion within only 10 weeks.

This basic set-up of the collateral framework has remained the same since the beginning of monetary union. The three constituent parts of the Eurosystem collateral framework – first, the counterparty framework; second, the basic eligibility criteria for underlying assets; and third, the risk control measures – have remained largely unchanged. The Eurosystem maintains a broad counterparty framework and its eligibility criteria are still based on the same principles as at the beginning. This shows that the design of the

Eurosystem collateral framework is, in general, very robust.

However, some changes were necessary to guarantee a smooth implementation of monetary policy at times of financial market stress that led to a general reduction in access to market funding. A collateral framework must never act in a pro-cyclical manner: restricting banks' access to liquidity in a crisis – for instance, by introducing more restrictive criteria for collateral – might pose a risk not only to the most vulnerable banks, but to the whole financial system. Ultimately, this would increase the risk for the central bank's balance sheet rather than protecting it.

Hence, in order to enable a wide range of counterparties to continue participating in the refinancing operations, the Eurosystem temporarily relaxed some of the eligibility criteria for underlying assets. This was done on several occasions. For example, from 2008 to 2011 and again as of 2012 we accepted foreign denominated marketable assets. In 2012 we created the Additional Credit Claims framework. Credit standards have been changed by accepting lower rated assets compared to those accepted at the beginning, notably for ABS that fulfil certain criteria.

The Eurosystem collateral framework has been quite complex from the very beginning, not least because of the variety of national frameworks preceding it. With the onset of the monetary union, the goal was to provide access to Eurosystem credit operations to a broad range of counterparties, in contrast to some other central banks which rely on a few counterparties.

Therefore, the collateral framework had to take into account the various national banking systems and financial markets. Some national central banks, for example, accepted credit claims as collateral, while others did not. For a collateral framework, a common standard had to be found which embraces all these national characteristics, while at the same time ensuring that sufficient collateral is available.

So now the challenge going forward is to make the collateral framework simpler and more transparent, without impacting the ability of counterparties to access our refinancing operations and I am absolutely confident that we will achieve this.

As I said at the beginning 2014 has been a year of profound change. But what has been achieved so far is not enough. 2015 needs to be the year when all actors in the euro area, governments and European institutions alike, will deploy a consistent common strategy to bring our economies back on track.

Monetary policy alone will not be able to achieve this. This is why there is an urgent need to agree on concrete short-term commitments for structural reforms in the Member States, on a consequent application of the Stability and Growth Pact, on the aggregate fiscal stance for the euro area, on a strategy for investment, and to launch work on a long-term vision to further share sovereignty ensuring the sustainable and smooth functioning of the European Monetary Union. On that note, I am looking forward to our discussion and I apologise if it has taken longer than usual.

1-005

**Chair. –** Thank you, President Draghi, for this very important presentation. I now give the floor to our first speaker from the EPP Group, Mr Pablo Zalba Bidegain. Five minutes for the question and the answer.

1-006

**Pablo Zalba Bidegain (PPE). –** Welcome, President Draghi, thank you for your statement.

I should like to refer back to what you have previously said about increasing the size of the balance sheet by a trillion euro. You said that this was not a target or an objective but an expectation. Could you clarify what you meant when you said that this was an expectation?

With reference to what you have said here today, I could not agree more that monetary policy alone will not be able to boost growth and job creation and – as you rightly said – we need reforms and decisive action by the remaining actors. Can you provide more specific details and say which countries and/or institutions should act, and what practical steps need to be taken – in your view – so that monetary policy will have a greater impact in terms of boosting growth and job creation?

1-007

**Mario Draghi,** *President of the European Central Bank***. –** Between June and September this year we have taken a variety of measures, from the TLTROs to the decision to purchase covered bonds and ABS. We are confident that the measures we have taken will help underpin any inflationary expectations at the level that is our objective: below but close to 2%. If we were to assess that these measures are not enough to achieve this purpose or our medium-term outlook for inflation expectations were to worsen, or if regardless of this our medium-term outlook for inflation expectations were to worsen, then the governing Council, as I have said many times, stands unanimously ready to undertake other additional unconventional measures.

We expect the size of the balance sheet will gradually expand towards the level it had in March 2012. But as I said, we are ready to take other additional measures if our medium-term outlook of inflation expectations were to worsen or we decide that the measures we have taken are not enough to counteract the worsening of inflation expectations.

On the second point, I think it is now pretty clear that both monetary expansion and to some extent also fiscal expansion only have a muted impact on the economy if the economic environment is not prone to make people invest. For this reason we will always say, as we have said many times, the structural reforms are very important. Each country has its own agenda and its own needs. By and large there are two categories of structural reforms. One concerns the market for products, namely competition where one first step there would be to complete the Single Market legislation, and of course much more needs to be done on that front. And the second is the labour market, and we see that countries that have enacted some structural reforms are now actually benefiting from the recovery.

So I think it is early to say that there is an enormously strong correlation between the two things but it is quite clear: it is there. We see that countries that are now growing more or growing faster are also the ones where some structural reforms have been undertaken.

1-008

**Elisa Ferreira (S&D). –** I am going to speak in Portuguese. Thank you for coming to our meeting today, and I apologise for the fact that, on this one occasion, I cannot stay until the end of the meeting owing to another commitment. I should like to ask the following question: monetary policy, and in particular interest rates, which have always been the instrument provided for with a view to revitalising the economy in the single currency, have been exhausted – or are very close to being exhausted – and the current situation is marked by intense imbalances between countries, with massive structural unemployment still affecting some of the economies that carried out structural reforms, making it extremely difficult to boost demand. Are these factors not sufficiently important to warrant a repetition of the action taken in 2012, i.e. for the Presidents of the main institutions to come together – and perhaps the Central Bank could convene this meeting, since its main instrument has been exhausted – so that the Commission, Council, eurozone and Parliament, at the highest level, could agree on a policy to revitalise the European economy, and in particular to revitalise investment, not just at the level of some individual countries but also at eurozone level or across Europe as a whole? It appears to me that we are coming close to a situation that is sufficiently serious for the highest levels of the European Union to come together and speak with one voice, because the Central Bank has done a lot, but it cannot do everything.

1-009

**Mario Draghi,** *President of the European Central Bank***. –** I certainly agree with you. Monetary policy has done a lot. It can do even more if structural reforms are being implemented but it cannot do everything.

So, fiscal policy in the aggregate: structural reforms are the third pillar of this policy framework, but what is needed on top of this is for confidence to return to the economic environment and to the euro area; and what is most important for confidence to return is to have a political economic construct that shows the rest of the world that we are capable of working together and moving together towards further integration. I think this is a major element of confidence that does not necessarily have to do with money itself but has to do with the long-term stability of our concept, of our framework.

1-010

**Elisa Ferreira (S&D). –** As I still have some time, I have a very specific question on another point that emerged from your statement. Can you tell us whether there have been any developments concerning the backstop for the resolution fund, which is a political commitment given by the Member States, and which is absolutely vital to the success of the banking union?

1-011

**Mario Draghi,** *President of the European Central Bank***. –** There have been many changes that, *ceteris paribus*, give less importance to the resolution fund.

First of all, banks now have higher capital levels after the comprehensive assessment. Secondly, the bail-in rules have been changed dramatically so that the loss absorption capacity of the banking system has been greatly strengthened. Thirdly, the Single Resolution Fund is there and if your question is asking whether EUR 50 billion is enough for that Fund or not, I would say it is quite clear, and it has been a very explicit agreement, that the borrowing capacity of the Single Resolution Fund has been enhanced.

1-012

**Notis Marias (ECR). –** Mr Draghi, from its annual report for 2013, it emerges that the European Central Bank has made an extortionate profit from its bond purchase programme (SMP) by purchasing Greek, Italian, Portuguese, Spanish and Irish government bonds to a total value of EUR 219.5 billion at a substantial discount on the secondary market and then demanding and obtaining their redemption at face value. In my own country, Greece, for example, the ECB purchased government bonds on the secondary market during the crisis for EUR 35 billion, a discount of at least 40%, and subsequently demanded that they be redeemed at face value, that is to say EUR 57 billion, amounting to a profit of EUR 22 billion at the expense of the Greek people impoverished by the memorandums. This year, the Greek Government, acting on the instructions of the Troika, in other words the ECB, was forced to levy swingeing taxes in order to redeem at their face value of EUR 10 billion bonds originally purchased by the ECB for EUR 6 billion.

That is sheer extortion. Please don't try to tell me, Mr Draghi that the ECB is channelling the profit back into Greece, because in fact:

(a) Only a small part of the profit is being returned, not all of it;

(b) All the returned profit is earmarked for debt repayment and is therefore once more pocketed by creditors;

(c) Any returned profit is subject to harsh conditions under the terms of the memorandums;

(d) In order to redeem bonds at their face value under the extortionate terms imposed by the ECB, Greece is each time forced to borrow from the EFSF, thus perpetuating its subjugation to the Troika and the memorandums;

(e) In 2014 alone, the ECB has failed to return profits of EUR 1.7 billion, thereby leaving Greece with a shortfall.

I therefore propose, Mr Draghi, that you agree to redemption of Greek bonds not at their face value but at no more than the price you paid for them on the market, plus legal interest rates. This would make it possible to reduce the Greek debt by EUR 22 billion at no loss to the ECB. Do you agree with this proposal? If not, Mr Draghi, what justification can you find in the EU Treaties for profiteering by the ECB at the expense of the impoverished Greek people and the people of southern Europe? Please stop this.

1-013

**Mario Draghi,** *President of the European Central Bank***.** **–** Well, I would not agree that a debate about that restructuring of that relief is needed or is useful. Greece now needs to focus on the furthering of reforms to restore fiscal sustainability and competitiveness, and reality is showing that these efforts are proving to be useful now and benefits are accruing. Greece was number one in the most recent third-quarter growth rate list ranking. So the evidence is that, if Greece stays on course and fulfils its commitments on reforms and fiscal targets over the coming years, this will continue to be sustainable.

The ECB profits have been returned to Greece, by the way, via national central banks and through us.

1-014

**Notis Marias (ECR). –** Mr Draghi, I asked you a very simple question. This year Greece must pay EUR 10 billion to redeem the bonds held by the ECB. Under my proposal, it would pay only EUR 6 billion, that is to say the amount originally paid by the European Central Bank, while the balance of EUR 4 billion could be used by Greece to combat unemployment. Those are the facts. I asked you a specific question giving specific numbers. Why do you continue to cover up and condone profiteering by the European Central Bank?

1-015

**Mario Draghi,** *President of the European Central Bank***.** **–** So you are saying again that it should be restructured? We do not think that is the right thing to do. We do not think it is needed and we do not think it would be useful.

1-016

**Petr Ježek (ALDE). –** Mr President, on the background of quantitative easing it seems there are some worries about a possible decreased willingness of some Member States to implement economic and social reforms and to consolidate public finances where this is needed. On the other hand, countries with more fiscal space seem to be less willing to use this to spend more and productively invest. The latter may be even more worrying in the short term as the growth probably will not come automatically as the winter comes. It must be created or at least helped, I am afraid. To complete the jigsaw, there are the ECB steps I have already mentioned, namely quantitative easing measures.

By the way, concerning the Governing Council, I was glad to hear your statement on its unanimity as of course the ALDE Group considers the cohesion of the Governing Council important and ECB independence essential. But I would like to know what would be your comments or messages on these somehow interconnected issues.

1-017

**Mario Draghi,** *President of the European Central Bank***.** **–** I am sorry, but I am not sure that I fully understood the question.

1-018

**Petr Ježek (ALDE). –** Well, to pinpoint it more precisely: as there are further measures for quantitative easing in the pipeline, there are some worries that this may either discourage Member States from consolidating public finances or, on the other hand, discourage those with more fiscal space from spending enough.

1-019

**Mario Draghi,** *President of the European Central Bank***.** **–** The argument that our monetary policy removes the incentives for governments to do the right things, be they structural reforms or fiscal consolidation, has been put forward several times. The answer to this argument is, I would say, quite articulated.

The first thing is that frankly, we have our mandate and our mandate is price stability. Price stability now means bringing inflation back to below but close to 2%; otherwise we would become dependent on the governments' action and we really cherish our monetary policy independence.

I would say, legally and conceptionally, that the two issues are separate. But also, factually, is it true that governments have not acted because they have been showered with so much money that they have frankly lost interest in doing any reforms? If we look at recent evidence this is not actually completely true: we have seen and we are seeing countries reforming their labour markets both when interest rates were already quite low.

There is also a set of reforms which frankly have nothing to do with monetary policy – all these reforms that have to do with the political system or healthcare, or any other branch.

There is one area, however, where this connection between monetary policy and incentives might have some justification and that is the budgetary area. There may be some connection between the savings that a country can obtain on low interest rates and the reluctance to change their tax policy or their government expenditure policy. But other than that, I really do not think there is much evidence that countries have delayed their labour market reforms or their single market implementation because interest rates were low, or were high for that matter.

1-020

**Matt Carthy (GUE/NGL). –** Mr Draghi, in recent weeks the ECB released letters between your predecessor, Jean-Claude Trichet, and the former Irish Finance Minister. I would like to ask a couple of questions pertaining to those letters.

First of all in March and May of this year the ECB stated categorically that it did not believe that it would be appropriate to release those letters. I was wondering what had changed in the meantime; what consultations or discussions did the ECB engage in? Were there, for example, any representations or discussions with the Department of Finance in Dublin? If so, what was the nature of those discussions and what timeframe did they take place in? In one of the letters – specifically the letter to Minister Brian Lenihan of 15 October 2010 – the then President Jean-Claude Trichet stated that he 'appreciates the recent commitment of the Irish government to develop, in close cooperation with the Commission in liaison with the ECB, a multi-annual economic and fiscal development strategy'. What exact level of negotiations about a bail-out had already taken place at that stage? Do you know the detail or do you know when the discussions began in relation to that?

And separately I would like to ask if you are aware whether, prior to the letters being sent, the ECB carried out an assessment of the likely impact of any decision by Irish authorities to bond the bond holders, so to speak – what impact that might have on the European banking system. Do you know if the results of any such assessment are available? And would you now accept that it was a mistake for the ECB to direct the Irish authorities not to bond bondholders?

And finally, very briefly, I would like to ask whether you believe now that retrospectively capitalisation of the Irish banks is a realistic possibility and whether you are aware of any indication by an Irish government to make an application and what the ECB reaction would be in such an instance?

1-021

**Mario Draghi,** *President of the European Central Bank***. –** You asked several questions so I hope all my answers will be complete. The first question is on what made us change our mind. It did not really make us change our mind. We did say in the original letter that, while the comprehensive assessment was going on, publication of this letter might prove to prejudge financial stability, so financial stability was the reason why we waited to release this letter.

Let me comment on other points we have made. It is very important to recall that the lead-up to Ireland requesting an EU-IMF Adjustment Programme and indeed the recent release of the whole correspondence – let us not stop at one letter – between the former President of the ECB and the former Irish Minister for Finance captures these developments succinctly but clearly. In essence it was not the letter per se but first the government guarantee of bank liabilities, second the sheer scale of the domestic crisis, third the presence of aggravating external factors and fourth the loss of market confidence which made it inevitable that Ireland would apply for an EU-IMF Adjustment Programme.

Turning to the role of the Eurosystem, let me stress that for several years prior to the commencement of the EU-IMF Adjustment Programme, as well as in the subsequent period, the level of liquidity provided by the Eurosystem in support of Ireland's banking system had been extraordinary. At the moment the letter we are discussing was sent, it accounted for around 85% of Ireland's GDP and one fourth of the total provision of liquidity by the Eurosystem.

While the Governing Council of the ECB always acted within its remit and in line with rules established for the whole of the euro area, there are limits to the support that the Eurosystem can provide to banks in the Member States. Such limits are governed by the widely accepted rules and were recalled in the letter of the former ECB President, dated 15 October 2010, to the former Minister for Finance.

By early November 2010, and as outlined in the subsequent letter sent by the former Irish Minister for Finance to the former ECB President on 4 November 2010, the situation in Ireland had rapidly deteriorated and the Governing Council of the ECB had a duty to address this situation. Consequently the letter that you referred to was sent by the former ECB President to the former Irish Minister for Finance on 19 November 2010. In his reply on 21 November 2010, the Irish Minister for Finance stated that he fully understood the concerns raised by the ECB Governing Council in that letter.

1-022

**Ernest Urtasun (Verts/ALE). –** Welcome, President Draghi, thank you for coming here today. I should like to highlight this last matter that you have just mentioned and the letters that have been published in relation to Ireland.

In my group's opinion – and this appears to me to be the crux of the matter – what happened was not a dialogue between the Bank and the Irish Government, as you described it in the latest press conference after the meeting of the Governing Council. In my view, it was nothing less than a threat that you would let the Irish banking system fail if the Irish Government did not accept the bailout. In my view, this is a further chapter in the series of cases in which the Bank has all too often exceeded its mandate. The secrecy with which these matters are handled also gives rise to deep concern among the public, as does the fact that even the members of this committee, who are supposed to be monitoring the Bank's work, find these things out at such a late stage.

I should like to put two questions in this connection. Firstly, as a member of the Bank's Governing Council in 2010, could you say under precisely which article of the Bank's Statute you decided to act to force Ireland to request financial assistance, because my group does not consider that you had any mandate to do so?

Secondly, could you say whether you consider it right and proper that the Bank should take all these steps behind the backs of public opinion and of this committee?

1-023
**Mario Draghi,** *President of the European Central Bank***.** **–** I am sorry, what is the question exactly?

1-024
**Ernest Urtasun (Verts/ALE). –** The question, Mr Draghi, is under which capacity did the Bank ask for the Irish Government to ask for financial assistance in exchange for supporting the banking system? Under which capacity did the Governing Council take that decision?

1-025
**Mario Draghi,** *President of the European Central Bank***.** **–** I can go through the letter again and give the answer I gave before. When you support a country with 85% liquidity, 85% of the country's GDP and one quarter of total Eurosystem liquidity, you want to be sure that there is no systemic threat for the stability of the entire Eurosystem. Do you not think that the ECB should actually worry about that? Do you not think the ECB should ask to have in place the policies that will guarantee that the situation would then later be stabilised? Do you not think the ECB has a duty towards all the other countries that are providing that liquidity?

I think that is what the ECB has done and I went through the various steps before in answering that this was not some sort of irrational act on the ECB's side, or some authoritarian act, but it was part of an overall policy dialogue between the ECB and the Irish authorities, so much so that the Irish authorities at some point asked for an EU-IMF programme.

1-026
**Ernest Urtasun (Verts/ALE). –** Mr President, I should like to put another question on the inflation target.

The Treaty establishes price stability as the ECB's primary objective, but the Governing Council has the discretion to decide on the precise level, which is currently – as everyone knows – set at close to, but below, 2%.

Could this operational translation of the objective set by the Treaty be amended in the current circumstances and context, and has this been discussed in the Governing Council?

1-027
**Mario Draghi,** *President of the European Central Bank***.** **–** No, there is no likelihood that the Council might amend it. It will stay.

1-028
**Marco Zanni (EFDD). –** Mr President, dear colleagues, I should like to ask President Draghi three questions. The first involves the 'LuxLeaks' scandal of tax avoidance in Luxembourg. Given that the ECB is now responsible for supervising the largest European banks, what view did the President take of this, given that European banks were resorting to such schemes on a massive scale to avoid payment of billions of euros in tax? More specifically, what efforts will be made by the ECB to contain this problem and what will be its role in this respect?

The second question concerns stress tests and asset quality review. I was not fully satisfied by the answers given by Ms Nouy. I should therefore like to know your opinion also, particularly with regard to the stress test and asset quality review methodology. Do you not believe that it has failed to allow for major risks inherent in European bank balance sheets, that is to say, derived risks?

Do you believe that, once the identified capital gap has been filled, the European financial system will be able to resist further crises such as the Lehman crash? Furthermore, according to analyses, it would seem fair to say that a bank such as Deutsche Bank, which has an estimated derivative exposure of EUR 75 000 billion, is a less risky proposition than a bank such as Intesa San Paolo which is engaged in more traditional operations. I should like to know your view on this.

Regarding derivatives, I should like to know what you think of the possible creation of a public body similar to the OCC set up in the United States after 2008, with the task of publishing a quarterly report evaluating and seeking to quantify the derivative exposure of major European banks.

My final question concerns the euro. It is clear that many Europeans are disillusioned by the single currency, to the extent that sooner or later one or other country may decide to leave the euro area. On 25 May, millions of European Union citizens voted for parties or political movements whose manifestos included a referendum or exit from the euro. I should like to ask whether the ECB considers that it would be fair and democratic to fill the legislative vacuum in the EU treaties regarding exit from the euro and seek to create necessary mechanisms for Member States who decide in a duly democratic manner to follow this path.

Commissioner Dombrowski, who is to be responsible for the euro, said during his hearing that, a country wishing to leave the euro area could not be prevented from so doing and that the Commission would provide the necessary technical support. The following day he issued a communiqué retracting this statement. I should like to know your own views on this.

1-029
**Mario Draghi,** *President of the European Central Bank***.** **–** I will go through the various questions. First of all on LuxLeaks: we have no role. It does require tax harmonisation; it does require tax treatments in different countries. The ECB, as you know, is already very

powerful there but they have not given us tax authority yet.

Second, on the methodology used in the comprehensive assessment and the stress test. All in all, and I will probably have a chance to comment on this later, the comprehensive assessment has been a rigorous, credible, transparent exercise and has been welcomed, I would say, by most of the public opinion and market people as progress in strengthening the largest banks' balance sheets in the euro area. And from this viewpoint it will carry many benefits, one of which is to strengthen the transmission of monetary policy but the other one is that it will be a strong basis for an improvement in the credit flows in the months to come.

Is the work finished? Your question can in a sense be rephrased as saying: do we have a completely level playing field in the banking union right now? The answer is, not yet. A lot of progress has been made but we need to make further progress. I will give you a few examples. First of all, why do we not have a level playing field? Because many different countries have different legislation and this is national legislation which has been acknowledged by the European legislator. So for the time being these are in place and the comprehensive assessment and the stress test have to take these into account.

A few examples: the treatment of goodwill is one example. It differs from country to country. Second, the use of deferred tax assets. That is another example. And third – I am coming to your point – harmonisation of the risk-rated assets or by and large similar or level-playing-field treatment of the internal graded models. So further work is needed to grant a level playing field and, as they have stated on several occasions, the SSM and Ms Nouy and Ms Lautenschläger and the whole Board are deeply committed to doing this.

Will this be enough against any crisis coming from any part of the world, due to and produced by any source? Of course not. In all the work to repair financial crises the perspective of all the people who worked on this has not been 'let us try to guess what the next crisis is going to be and work in view of that crisis' but rather to make the system stronger and more resilient across the board, which means that if another crisis comes the system will be stronger.

Are we entirely sure that the system will now be completely immune to crisis for the future? Of course not. The key thing is that we have to be absolutely sure that the system is stronger in different parts and on this too further work is needed. So far we have concentrated our action on the regulated part of the banking system. Of course, as we all know, there is what is called a shadow banking system, which is another regulated part and it is growing very fast.

Next point is on Deutsche Bank. I do not make any comment on individual banks of course. On the euro, well you are very convinced and it is quite clear to you – it is not clear to me – that countries may actually leave the euro or not. As far as we are concerned: number one, we have no legislative power. We are powerful enough already. If you also want to give us legislative power to authorise countries to stay or leave the euro I do not think we are going to be thankful for that, but in any case we do not have that power. As far as the ECB is concerned, I have said many times that the euro is irreversible and the ECB will do and will continue to do whatever it takes within its mandate.

1-030

**Chair. –** I would just like to clarify that Vice-President Dombrovskis gave a very clear witness statement about his commitment to the integrity of the eurozone. I consider it irreversible as well, so that is an important clarification which we received from Vice-President Dombrovskis.

1-031

**Barbara Kappel (NI). –** Mr President, Mr Draghi! One of the most controversial measures taken by the ECB to stabilise the financial markets was the OMT Purchase Programme of August 2012. It now appears that similar measures are being envisaged for the coming year, encouraging further quantitative easing through the purchase of government debt, bringing the ECB balance sheet to its 2012 level – that is to say over EUR 3 000 billion, as you yourself have pointed out.

However, not all Member States have in the past introduced reforms corresponding to the programme, which has, in the final analysis, only bought you a little time. Despite annual reminders by the Commission, many Member States are proving slow to implement structural reforms and follow stable budgetary policies. My question to you is therefore the following: in view of the above, do you agree that ECB purchases of government debt might send the wrong message to countries that are unwilling or unable to reform, since they will no longer have any incentive to make the necessary structural budget reforms if they are be able to finance further borrowing on favourable terms.

Please allow me a second question regarding the private sector. The Basel III standard imposes more stringent conditions on financial institutions in terms of capital adequacy and liquidity levels. Development of the banking union has involved additional supervisory, operational and deposit insurance costs. Systemically important financial institutions will henceforward need a substantial additional foreign capital buffer. This is something new. Following the entry into force of Basel III in January 2014 and given the additional costs to banks of implementing the banking union, the question now arises as to whether the ECB is observing any adverse effects on SME funding of Basel III and other new banking supervisory requirements and, if so, how this might be remedied.

1-032

**Mario Draghi,** *President of the European Central Bank***. –** On the first question, as I said in my statement, between June and September the ECB took several measures – the TLTROs and the decision to move forward with the purchase of covered bond programmes and ABS. We are confident that these measures will help underpin inflationary expectations in the medium term and we expect that they will have a sizeable impact on the size of our balance sheet, which is expected to move towards the level it had in March 2012.

Having said that: if these measures were to prove insufficient to move the inflation expectations objective in the medium term towards below but close to 2%, or even to address a possible worsening of the inflation expectation, or if the inflation expectation outlook were to worsen by itself, the Governing Council is willing and stands ready to act.

As I said before, it is unanimous in its commitment to undertake other unconventional measures beyond the ones that have been decided. It also wants to be ready to act, in the sense that in its last meeting it explicitly asked ECB staff and the relevant committees formed by national central banks' staff to prepare these other unconventional measures and study them.

Having said that, we have a mandate. The mandate states that the objective for inflation has to be below but close to 2%, so – and I have answered a similar question before – we consider what happens to the governments of other countries as a separate question.

The fact that they have incentives to move or not is important but it does not exactly fall within our mandate. The ECB has not been created to make sure that governments actually do the right things. We are aware of this, this is important for the effectiveness of our monetary policy. As I have said before, structural reforms make our monetary policy more effective, but we have a mandate. Having said that, the other unconventional measures might entail the purchase of a variety of assets, one of which is sovereign bonds.

1-033

**Werner Langen (PPE). –** Mr President! You have repeatedly stressed that monetary policy is not a panacea and quite rightly pointed to the need for structural reforms, budgetary consolidation, higher productivity, etc. However, Mme Lagarde has brought to public attention a number of other issues relating not to the past but to the future. I am accordingly asking you for an answer to the following question: is it not necessary to adjust the 1995 deficit rules in the wake of the banking crisis that has led to a 25% increase in debt levels worldwide, a figure that was once the ten-yearly average, compounded by additional borrowing in line with growth? Should the debt limit not be increased and new borrowing margins reduced? It is also necessary to consider inflation rates. Does the ECB really intend to pursue its current policy in view of falling oil and gas prices? Budget intervention can do nothing to alter what is a de facto situation that is in fact boosting productivity. That is my first question.

My second question relates to quantitative easing and other measures taken by you that have, despite their multiplicity, been unsuccessful to date, prompting public debate. By assuming the risk of banks and relieving the burden on governments, is the ECB at risk of becoming a bad bank without enhancing liquidity and thus facilitating loans? In my opinion, the problem is more probably related to the higher standards that must be met than to liquidity

To turn to the third and most recent proposal this weekend, economic divergence is fundamentally a question of real pay trends. The Troika programmes have already caused an excruciating fall in productivity. In theory, we have only three options: inflation, deflation or devaluation. In practice, devaluation is not an option and further proposals possibly including a corrective mechanism are now once again on the table. What do you think of these proposals?

1-034

**Mario Draghi,** *President of the European Central Bank***. –** I think I have understood only two questions out of the three, I am not sure that I understood the third question but let me first answer the first point. Our rules are the anchor of confidence. As such, they have to be respected and they have been written with a certain amount of flexibility that can be used.

Let us ask ourselves what went wrong in 2003 and 2005. These rules had been changed because of the interests of some countries – not out of a collective community process. The changes in these rules raised indebtedness so that by the time the great financial crisis erupted the levels of debt were already very high and they rose further after the financial crisis.

So the issue here is: should we overhaul the rules altogether, as the IMF seems to suggest, and start an overall discussion, or should we simply keep to the rules, thinking that it is more important for reciprocal trust and credibility to comply with the rules which, as I said, are written carefully enough? The ECB view is for the second rather than the first. The ECB is not favourable to having an overall discussion that would change the rules now.

I am not sure that I entirely agree with you when you say that our monetary policy has not been successful. I would say the opposite actually: our monetary policy has been extraordinarily successful. All our interest rates are lower than they were, and the lowest are even lower than they are in the United States – and without doing QE. They are lower across all maturities, all horizons. We have successfully fought the confidence crisis in the euro in 2012. We have lowered our interest rates and we have even lowered our deposit facility rate so that banks now have to pay if they want to park their money with the ECB instead of lending it to the real economy.

But certainly, has our monetary policy been equally successful in relaunching the real economy in the euro area? The answer is no. We need time for this monetary stimulus to go and carve its way through to the economy. And of course we have said several times that you need two other pillars: the structural reforms and a proper fiscal policy.

So I would say we have been very successful on the financial markets side and very successful in strengthening the banking system and, whether you like banks or not, they still intermediate 80% of the credit flows to the real economy.

So to answer a question which I did not really answer before when we explained what we planned to do to lend more to the SMEs: one of the major things we have done is the comprehensive assessment, namely making sure that the banking system is now healthier and stronger and can lend to the SMEs because they have more capital.

I am sorry but I did not understand the last question about real wages.

1-035

**Werner Langen (PPE). –** President Draghi, the last question was prompted by considerations of a political nature also endorsed by economists, arguing that the reluctance of certain Member States to introduce reforms cannot be remedied by lower interest rates or extensions. A 95% debt level will be reduced to 60% in 2050. Political proposals are not the way forward. Therefore my question is the following: is a corrective factor conceivable and is one being proposed to adapt retroactively the percentages set 15 years ago in May 1998?

1-036

**Mario Draghi,** *President of the European Central Bank***. –** I think that is something we will work on and discuss. We do not have a view on this as such at this point in time. On the question of whether our monetary policy removes the incentives for governments to act and make the right reforms, I have answered before. I said that there is one area where this is true and that is the budgetary area where, if they pay lower interest rates, they feel as though they can sort of delay measures and can reduce government expenditure. However, in all other areas we do not have evidence that there is a strong correlation between inaction on the structural reform side and the level of interest rates.

1-037

**Renato Soru (S&D). –** President Draghi, it is always extremely useful and edifying to hear what you have to say and you have in fact answered one of the questions I intended to ask. In Europe, where 80% of funds reaching companies are channelled through banks, do you believe that the ECB monetary policy is in fact more effective when banks are much less involved and corporate financing requirements can be met directly?

The recent assessment of the European banking system has shown adequate bank capitalisation. However, sometimes monetary policies leave small and medium-sized enterprises with insufficient access to credit, particularly because this type of financing involves greater mobilisation of capital by the banks and undercapitalised banks in particular tend to be more reluctant.

Finally, let us return to the usual question: monetary policy has done much to reduce interest rates but is by itself insufficient. As you have pointed out yet again today, more could be achieved if reforms were introduced leading to greater competitiveness on the labour market and other markets but above all if overall confidence could be increased. What is still lacking, however, is an injection of public and private investment and anything resembling a common fiscal policy. The nearest thing we have to this might be the major EUR 300 billion investment programme which is being spoken of, although no one seems to know how it will be funded. Over the last few days we have heard talk of a new five or ten times leveraged investment fund that might finally provide the necessary backing for public and private projects in Europe.

Do you believe the ECB can indeed, as you said today; do 'whatever it takes' to finance the Juncker plan? We must do 'whatever it takes', not only to firmly consolidate the euro but also to achieve economic recovery and renewed growth, reinvigorate the labour market and alleviate the harsh social problems facing many countries in Europe at this moment.

1-038

**Mario Draghi,** *President of the European Central Bank***. –** The euro area is very different from the United States in the sense that 80% of total credit flows are intermediated by the banking system, and just the opposite happens in the United States where only 30%, and probably even less, is intermediated by the banking system.

Which of the two systems is best? Well the lesson we have learnt from recent years is that, if banks for some reason enter into a state of prolonged weakness, they stop intermediating credit. No matter what monetary policy operated is by the central bank, no matter how expansionary it is, credit does not reach the real economy because the banking lending channel is impaired.

Incidentally, during this period of time, in the last three to four years, we observed a very strong decline in credit flows in 2011 and 2012, and in 2013 especially. Now, fortunately, we see that the trough seems to be behind us and the comprehensive assessment may actually be positive and may have a positive effect on credit flows for the coming months.

However, if we consider not only bank credit but also capital markets credit, corporate bond issuance and equity financing, and we consider all the financing sources together, we see that in fact the last two sources – capital markets financing and equity financing – have more than compensated for the fall in bank credit over the last three, four years. Which leads us to two conclusions, to two reflections.

The first is: is this a satisfactory state of affairs? No, it is not, because typically SMEs do not have access to capital markets and so this situation has actually continued to provide financing to the large corporates, but certainly not to SMEs, and SMEs account for between 70% and 80% of employment in the euro area.

The second conclusion, on the other hand, is should we aim our policies towards creating a much stronger capital market than we have now, so that our economies will rely less on the banking systems in the future? The answer is 'yes, definitely'. It is in this sense that we very much welcome the proposal put forward by the President of the Commission for a capital market union, on which the Commission and you will be working during 2015.

On the specific investment project presented by the President of the Commission: we certainly welcome this very much but the ECB will not have a role in financing this. We have to wait for the Commission presentation to know more in detail about the plan itself.

1-039

**Danuta Maria Hübner (PPE). –** Mr Draghi, when you announced the ECB's intention to start with the ABS you made it very clear that your intention is to begin with the purchase of senior tranches and also of the guaranteed mezzanine tranches. You then called, in a number of instances, for these mezzanine tranches to be guaranteed by the Member States and as far as I understand the reactions so far, the reactions of the Member States have clearly shown that there is very little appetite at all for this type of guarantee.

So, in the context also of what you have said today – that the ECB continues to do whatever it takes – my question to you is what will you do? Will you be prepared to just give up on mezzanine tranches and assume that the senior tranches will be sufficient or will you go on with mezzanine without the Member States' guarantees to fully exploit the potential of the asset-backed securities?

My second question is related to macroprudential policies because we know that the SSM – and we heard this also from Ms Nouy – is a macro-microprudential supervisor and we also know that the mechanism has the right to impose higher capital buffers and also to apply more stringent measures targeted at reducing the macroprudential risk. And then of course we know that the European Systemic Risk Board (the ESRB) remains the main body of the European Union tasked with this macroprudential supervision.

So if we think of the SSM in the future, how will this macroprudential policy be handled between you and within the SSM and the ESRB which also has this as a task?

1-040

**Mario Draghi,** *President of the European Central Bank***. –** The second question is for the next session, but on the first point let me say one thing because there was a reference to the ECB becoming a 'bad bank'. I really have a hard time in understanding how this idea came about. Let me just explain what we are doing with the ABS. The first thing one has to bear in mind is that we call things that are completely different by the same name.

In the United States ABS was mostly sub-prime. Sub-prime mortgages do not exist in Europe. If we take all the structured finance between 2007 and 2013, the default rate in the United States was 18.4%. In Europe it was 1.5%, so we call two different things by the same name. But we do not buy all ABS, we only buy certain ABS. For example, the residential mortgage-backed securities have a default rate of 0.1%. We buy ABS that are based on consumer loans. They have a default rate of 0.04%, but we are not happy with that either. We only buy the senior tranches, which have an even lower rate of default. What I am saying is that the use of the term 'bad bank' for the ECB is not right, to say the least.

Let me now come to the mezzanine. The mezzanine part is the riskier part, not the riskiest but the riskier part of an ABS, and that is why the ECB said we would buy them only if there is a guarantee. We have not changed that: we are going to buy only if there is a guarantee. I know prima facie the answer by some governments was not positive but in fact it was not so. Some governments are definitely against but other governments are actually in favour.

Incidentally, most if not all governments already offer guarantees to their mezzanine via their specific agencies, namely the Caisse des Dépôts in France, the Cassa Depositi in Italy, and there are similar bodies in Spain, Germany and so on. They already do this, so the issue there is probably a problem of coordination, learning to work together. It is going to take time. We will start with the senior programme purchases and then we will see.

1-041

**Peter Simon (S&D). –** Mr President, despite ECB interest rates falling to almost zero and the continuous liquidity flooding the market, the funds are unfortunately not reaching the real economy, in particular small and medium-sized undertakings. My question therefore is this: what measures can the ECB take or recommend, so as to ensure that funds reach the businesses that need them? How would you assist us as a European legislator? What measures would you take, in addition to the structural reforms to which you have repeatedly referred, to help Member States fill the vacuum created by frequent failure to request, or indeed offer, funding that is actually available in banks?

I have a second brief question also related to this but concerning another development, that is to say the Capital Markets Union, the aim of which is to improve corporate financing and make it more independent of banks. I should like to know what you personally consider to be the core components of the Capital Markets Union in its completed form and the specific role of the ECB in this connection.

1-042

**Mario Draghi,** *President of the European Central Bank***. –** First let me say that the situation has also been improving for the SMEs. There are two surveys; one is the current periodic bank lending survey run by the ECB and the other one is a survey on the SMEs that is run, I believe, by the Commission itself, the so-called SAFE. The two surveys show that the situation has improved, that certain lending standards have become less tight than they were in the past, that the risk perception by the banking system has improved considerably.

Having said that, we have to also cope with the fact that – yes – credit is two things: it is both supply of credit and demand for credit. That is where I have to be cautious about the constraints on supply of credit because, even though they are less and less tight throughout these surveys that we have undertaken in the last year and a half, they are still tight in historical terms if we consider them with respect to long-term averages. But they have become less and less tight. On the demand side we have to see some revamping of demand for credit for investment, and that is one thing that we see is still rather sluggish. We have to be overly cautious here but we have a certain amount of confidence that the credit cycle is now turning for the better, but we still have to see a clear impact on SMEs.

There are also two other considerations relating to SMEs. It is not easy to extend credit to SMEs because traditionally, or at least let me put it this way, in some countries SMEs are historically overleveraged. Equity is very scarce in SMEs. Second point, are all SMEs to be treated equally? Not so. Even in the stress countries all the SMEs that work for exports are actually doing very well right now. So it mostly a problem of internal demand and the SMEs that work for internal demand are still weak, are still overleveraged, do not have enough equity and express very little demand for new investment.

So we believe that our monetary policy stance gradually will work through to the economy, will find its way through the economy and, together with other factors like the low price of commodities, this will support demand but it is a slow process, as we have seen so far.

On the capital market union you asked what the ECB role could be. Certainly the ECB is very favourable to reducing the reliance of the euro area economy on banks and increasing the role the capital markets might have and we stand ready to collaborate and work together with the Commission on this very important project.

1-043

**Luděk Niedermayer (PPE). –** Mr Draghi, let me start by wishing you all the best with your assignment with SSM. I believe it is exciting for the ECB to take over the supervision but that does not mean it is exciting for management to have more power, as you mentioned a few minutes ago.

My first question relates to your introduction where you mentioned that you would like to see some concrete short-term reforms by many countries that would make the economy better, and you also mentioned, if I am not mistaken, that you would like to see more long-term vision that would make Europe better. Firstly let me ask you if you could give me a few concrete examples of these short-term commitments that you would like to see, and also how would you like to see the economic governance system evolve in Europe.

The second question relates to QE to some extent. At the beginning you mentioned that you had to react to the situation of the interbank market by easing the conditions for the open market facility, which I guess was obviously correct and you did an excellent job, but my question is: how do you see the emergency liquid assistance facility evolving in the future in the environment of the banking union?

1-044

**Mario Draghi,** *President of the European Central Bank***. –** On the first question it is true that there are short-term commitments and long-term commitments that have to be undertaken. The short-term commitments relate really to the structural reforms that we have talked about and discussed many times in the past, both the completion of the single market legislation, increasing in competitiveness and labour market reforms. But, as I said, these are very broad categories. Each country has its own structural reforms agenda.

The point I am making here is very simple. We have been thinking and thinking and thinking and analysing before starting these reforms; I think there is very little that is not known by now and it is now time to actually do it. It is time to take these decisions. I am fully aware that these are difficult decisions because sometimes they change deeply the way society has been organised and managed for many years. But it is quite clear that these decisions have to be taken.

The second point is long-term commitment. If one goes back and examines the experience of the last, I would say, thirty or even forty years, one cannot but conclude that our process of integration has moved through the ages, through the years, on one basis, namely, sharing sovereignty. We gradually continued to share sovereignty in different areas. For example, in the case of monetary policy: before the existence of the euro, most countries in the euro had completely lost their monetary policy sovereignty – completely – for a variety of reasons. With the creation of the euro and the ECB, all of them today share monetary policy sovereignty within this institution.

It is the same with the banking union. Markets were such that sovereignty over individual banks was largely lost to markets. Now with one single supervisor this is different, more so in the budgetary union where, from having no common rules, we now have a fully-fledged budget discipline made up not of institutions but of commonly shared rules. And so on and so forth.

It is quite clear that this has been our experience and it is on this experience that we should build the next steps. These are what I meant by long-term commitments in two ways. First, extend the areas of common rules whereby we could include some common governance of structural reforms, where we end up sharing sovereignty on that. The second and more complicated thing is to move from rules to institutions, and here I stop because it is not my duty or within our remit to indicate the next steps.

1-045

**Alfred Sant (S&D). –** President Draghi, let me start by expressing my admiration for the way in which you have balanced the contradictory political calls on the decisions you needed to take. You took them with determination and clarity. You have no elective political responsibilities, neither national nor European, yet you are called to take decisions that have huge political repercussions and you have made statements with deep political significance, even now.

It has also happened that political decision-makers wait to take their cue from you and they want changes in the direction of the euro area. You lead a central bank that has limited powers compared to those of equivalent institutions worldwide so that you have been constrained to rely on declaratory statements – you made them again this afternoon – that arguably exceed your powers, in order to come to grips with emerging problems. You have been successful in this but increasingly less so. You have advocated as a matter of urgency the strengthening of the eurozone's monetary institutions, not least by deepening economic and monetary union. This should mean political federalisation of the eurozone's transnational political structures. Yet, it runs counter to a further paradox. While European peoples are in favour of the euro they do not approve of a federated Europe.

Meanwhile economic divergences within countries and regions have been growing, not declining. Deepening EMU under such conditions will likely accelerate divergences. From a strategic perspective, should these contradictions be tolerated for much longer? Up to now most policy options adopted have hardly been better than muddling through. Has the time come for a strategic reappraisal of the options available for the future development of the eurozone, given too that it has been consistently underperforming economically compared to other monetary areas? What are your strategic views about this?

1-046

**Mario Draghi,** *President of the European Central Bank***. –** Well, thanks first of all for the many compliments that you have addressed to the ECB and to the ESCB. It is actually a compliment that should go to the founding fathers of this policy framework more than to the current members.

Let me add that we are extremely careful to express ourselves within our mandate. There are several aspects of our policies, of the policies of other subjects, that affect either financial stability and/or, firstly actually, price stability. In this sense the ECB has spoken out and must speak out.

But let me just make one point in responding to one of your most important observations, when you say that deepening European monetary union would accelerate divergences between countries. Well, we certainly agree that the euro area has to grow more. The current performance is dismal and the unemployment rate is unacceptably high and within it the youth percentage of unemployment is also, I would say, socially quite unacceptable.

So we agree that the euro area has to grow more. But do you really think that it does not grow because of the euro? That is where I think I find it hard to follow the reasoning. If we look at the last quarter's GDP data we see that 14 countries show positive growth. For some of them this is between 2% and 4% on an annual rate. We see two countries in recession and we see two countries, if I am not mistaken, in stagnation.

1-047

**Brian Hayes (PPE). –** President Draghi, the last time you were before our committee I asked you about the Irish inquiry into the circumstances surrounding Ireland's bail-out and the circumstances that involved the ECB. I welcome the publication of the letters that the ECB has put into the public domain. I think it is important that the Irish people saw those letters and that they also read them in the context. I also recognise that none of this happened on your watch; it pre-dated your involvement with the ECB. And I also accept that by 2010 a programme of financial assistance to Ireland was a reality because of the two years that led up to that crisis and the financially impossible decision that Ireland faced at the time.

My question is not so much about the past; it is about the future. As you recall, I asked you this on the last occasion about the involvement of the ECB in the upcoming Irish inquiry which is taking place from the Irish Parliament. This inquiry is not a witch hunt; it is important that the Irish people are given the truth. Concerning the ECB, it is also important, as you rightly said in reply to other colleagues, that there is some accountability as to why up to 25% of the emergency liquidity assistance was invested in one small country at that particular time, given the disastrous decision to guarantee the entire banking decision in 2008. So can you confirm to the committee that you are in correspondence with the inquiry that is looking into the ECB involvement? Can I also ask whether you will appoint a senior official within the ECB to act as a communication channel between the inquiry and the ECB? And thirdly, will key documentation that the ECB has in respect of all of these matters from 2008, 2009, 2010 be made available to the inquiry if the inquiry so needs it?

Finally, you said recently, and I agree with you, that the ECB is accountable to the European Parliament. Can I also say that the ECB is accountable to all citizens within the European Union and having an Irish inquiry without having the ECB would be a bit like having Hamlet without the prince.

1-048

**Mario Draghi,** *President of the European Central Bank***. –** As you said, the ECB as a European institution is accountable to you, the European Parliament. So as such we will not formally participate in a national parliament's inquiry. We have not discussed yet what sort of shape this informal participation could take. We will certainly think and reflect on this.

Also note that 10 days ago, as you said, the ECB published on its website a broad range of documents with regard to Ireland, and these include not only the exchange of letters between Mr Trichet and Mr Lenihan but also a number of ECB legal opinions, speeches, interviews and a dedicated Q & A. So for the time being we have published this, we will reflect on anything else and we will see.

1-049

**Brian Hayes (PPE). –** Can I just seek some clarity on this issue? You say you will not formally participate in the inquiry but, on the issues of having a point person to cooperate with the ECB and having documentation available to the inquiry if that is their choice, can both of those conditions be satisfied – with respect?

1-050

**Mario Draghi,** *President of the European Central Bank***. –** You are asking what shape our informal participation might take. I think I have answered that already but I will say it again. We have not yet decided anything about that. We have neither decided whether we will have a point person nor what sort of further documentation we could make available.

1-051

**Chair. –** We appreciate your words about accountability to the European Parliament, the representative of course of the European citizens.

1-052

**Pervenche Berès (S&D). –** President Draghi, now that we have European banking union, a debate has begun on banking structure, and I should like to know how you assess the significance of this possible reform of banking structure with regard, of course, to the aspects that fall within the mandate of the Central Bank, i.e. systemic risk.

Secondly, there is a question that is bothering me, since you yourself have said that there is little doubt that the European economy is over-reliant on banks as a source of finance; Member State economies have had to mobilise a large amount of funds to safeguard the banking system, including European funds. Much has been done to save the banks, and would this not be too high a price to pay 'simply' to head off the systemic risk that they may represent, were it not for the fact that they finance the economy?

And if you will allow me a third question: Christian Noyer recently said that the Central Bank could purchase government debt if necessary. Could you comment on this statement?

1-053

**Mario Draghi,** *President of the European Central Bank***. –** On the first point the ECB has not yet adopted an opinion on the very important point you made, about the structure: what is the ideal structure of a bank in the euro? This opinion should anyway be adopted very soon and we will certainly inform you as soon as it is ready.

The reason why it is not an obvious matter to decide upon is, in a sense, the response to your second question. We certainly want to have a situation where the systemic rates are being reduced and not expanded by the structure of our banks. At the same time we have to be very careful about what activities do expand the systemic risk and should therefore be segregated from the rest of the banking system, and which activities do not.

I am only saying this to show the difficulty of this and why we have not yet come out with an opinion, which, by the way, should be out any time soon because many discussions have already been undertaken about this opinion.

On the last point you made the answer is yes. It is within our mandate and, as I said before, the Governing Council wanted to make clear not only that it has a unanimous commitment to act, that is to say to take other unconventional measures if the medium-term outlook for inflation expectations were to worsen, but it also wants to be seen as being ready to act in asking the relevant committees and the ECB staff to study or prepare documentation on that front.

1-054

**Pervenche Berès (S&D). –** President Draghi, put simply, when you say that we need to look at those banking activities that may entail most systemic risks, I cannot imagine that bank lending to businesses to finance their expansion could lead to systemic risks if this is done within the rules that we have all helped to put in place.

The capital markets union, i.e. a different way of financing European businesses, is often presented as an alternative. However, what is the use of a bank that does not lend to the real economy to finance investment?

1-055

**Mario Draghi,** *President of the European Central Bank***. –** I think you are right. The lesson we have learned is that banks can find themselves in a situation where they stop functioning and we do not want to repeat this lesson; we do not want to relive that. We will achieve this objective of not wanting to see this again in two ways. First of all, we have to make these banks stronger, more resilient, better capitalised, better risk-managed, and with a proper structure. Second, even so, we do not want to rely entirely on them and we should have another channel of financing for the economy. So that is the future strategy because the experience, as you have said, has been pretty painful.

1-056
**Fulvio Martusciello (PPE).** **–** President Draghi, above all I should like to thank you for choosing Naples this October for the meeting of its Governing Council. I trust that my city has shown itself worthy of the honour of hosting such an important event.

I should like to ask a number of questions. Following the poor showing of the Siena Monte dei Paschi Bank in the stress test and asset quality review, it has recently announced a possible capital increase of around EUR 2.5 billion. Given the volatility of the financial markets, would it not be a good idea to set a firm deadline for the long-awaited response to this proposed capital increase?

A further question: 19 credit institutes that have passed the stress test still present a degree of vulnerability because of problematic exposures on their balance sheets. If the economic crisis continues, these institutions could find themselves in great difficulty, particularly as a result of new capital adequacy requirement under the Basel III standard. How could this be resolved? Would the sale of problematic loan portfolios be conceivable?

Finally, we know that six major international banks were last week fined for foreign exchange market manipulation involving enormous amounts, exceeding $4 billion in total, with high-level traders exchanging information about clients' activities, thereby affecting currency rates. To what extent is the ECB able to respond to attempted manipulation of foreign exchange rates and how can it identify and foil attempted manipulation of the markets from outside the euro area?

1-057
**Mario Draghi,** *President of the European Central Bank***.** **–** The proposal is now being analysed and assessed. It is being studied at the present time and the work will be known when it is finished. I am not sure we have an explicit deadline when we have to respond to this. As far as the implementation time is concerned, it is clear that the bank has six months if the capital shortfall has been identified by the AQR, the Asset Quality Review, and nine months if it has been identified by the stress test. I am not entirely sure if there is actually a deadline when the SSM has to respond as to whether the capital plan is actually viable, feasible and credible. These are the three conditions that need to be satisfied.

On the third question, certainly the ECB is working both at institutional public level and at private level to promote the enactment of xn interest-rate benchmarks that are based on actual transactions and not on models or individual guesses. We will continue working on this point in close cooperation with all the other major central banks in the world and the FSB as well. I did not get your second question so could you just repeat it for me.

1-058
**Fulvio Martusciello (PPE).** **–** We know that at least 19 of the institutions that were successful in the stress test have an extremely high level of vulnerability because of problematic exposures on their balance sheets. We know that, if the crisis should subsequently worsen, they could find themselves in great difficulty, following the introduction of the Basil III standard, for example. Is this correct? What can be done to remedy matters? Is it conceivable for problematic loan portfolios to be sold by advisors?

1-059
**Mario Draghi,** *President of the European Central Bank***.** **–** The institutions were assessed above all on the basis of asset quality review and stress tests. Stress tests are based on particularly adverse scenarios, especially in those countries where the recession has lasted longest, envisaging the possibility of a further recession and another major collapse. Their banks have accordingly been subjected to particularly stringent tests, bearing in mind the possibility of things getting worse.

1-060
Very sorry, I just forgot to speak English and I just jumped into Italian but that was the instinct of course. Anyway the substance of what I was saying is that banks have been tested severely against severely adverse scenarios and have been found to be complying with this at the present time. Would this exclude any banking accident for the near future? Of course not. In which case the single supervisor, together in collaboration with the national supervisor, will undertake all the necessary remedial action.

1-061
**Chair.** **–** Our thanks to President Draghi and to Members and we now conclude the monetary dialogue, and the monetary dialogues for 2014. The dates of the next dialogues for 2015 will be communicated to Members soon.

*(The meeting closed at 17.05)*