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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,
TUESDAY, 21 JUNE 2016

1-002-0000

IN THE CHAIR: ROBERTO GUALTIERI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.05)

1-003-0000

Chair. – I would like to welcome the President of the ECB, Mario Draghi, for the second monetary dialogue of 2016.

By pure chance, today's meeting takes place shortly after the decision whereby the German Constitutional Court rejects challenges to the ECB's Outright Monetary Transaction (OMT) programme. We welcome the fact that, in substance, the German Court confirms the decision of the European Court of Justice of 2015 that the OMT programme is within the ECB mandate. This is very good, and very timely, news.

In today's meeting President Draghi will present the ECB's perspective on economic and monetary developments. As we all know, in the light of increased downside risk and weaker-than-expected euro area inflation dynamics, at its meeting on 10 March the ECB Governing Council took important decisions to further ease its monetary stance relating to interest rates, on the expansion of monthly purchases under the quantitative easing programme, on the inclusion of the corporate sector purchase programme, and on a new series of TLTROs, which will start, if I am correct, tomorrow. With these measures the ECB continues to ease the cost of credit and contributes to strengthening credit creation.

Mr Draghi will discuss the effectiveness of the ECB programme and also its impact on growth and investment. I believe he will also address the growing concern about the adverse consequences of the present negative interest rates for the profitability of the banking sector.

I have to point out that, among the number of studies that we received for the preparation of this monetary dialogue, one very interesting one makes a counterfactual analysis and computes the level of investment had the ECB decision been different – and the study observed the great importance of the ECB's action in supporting investment and the fact that, without a conventional and unconventional monetary policy, investment in the euro area would have sunk. So I think this is also to be taken into consideration, and, of course, also the need, in order to trigger a full recovery, of a comprehensive set of measures going beyond monetary policy, as President Draghi always reminded us.

Last but not least, we all know that the day after tomorrow the referendum on the United Kingdom's membership of the European Union will take place. We all hope for a positive outcome but, in any case, all the EU institutions and the ECB are ready to face any result and to address any stability concerns.

President Draghi, the floor is yours.

1-004-0000

Mario Draghi, *President of the European Central Bank***. –** Chair, honourable members of the Economic and Monetary Affairs Committee, ladies and gentlemen, I am grateful to be back speaking to your Committee for the second hearing of this year. Let me first say that the ECB takes note of today’s judgment of the German Federal Constitutional Court. This judgment confirms the ruling of the Court of Justice of the European Union, which concluded that the OMT programme is compatible with EU law and falls within our mandate.

In my remarks today I will review the state of the euro area recovery and the recent monetary policy measures adopted by the ECB. Then, at the request of this committee, I will discuss the investment outlook, outlining in particular why more action is needed to boost investment demand in the euro area.

As regards economic developments, the recovery of the euro economy gained momentum at the start of the year. It is expected to proceed at a moderate but steady pace, supported by solid domestic demand and the effective pass-through of our monetary policy measures to the real economy. Consumers are benefiting from still relatively low oil prices and improved employment prospects. Likewise, investment is edging up supported by higher corporate profits and favourable financing conditions. Looking forwards, according to the June 2016 Eurosystem staff macroeconomic projections for the euro area, annual real GDP is expected to increase by 1.6% this year and by 1.7% in the next two years.

At the same time, inflation dynamics in the euro area remain rather subdued. The rate of headline inflation was slightly negative in May and is expected to hover at low levels over the coming months. While lower oil prices continue to act as a drag on the annual headline inflation, domestic price pressures, notably from wage growth, also remain muted, reflecting persistent economic slack. According to the Eurosystem staff projections, inflation should pick up towards the end of 2016. Thereafter, inflation is expected to increase further to 1.3% in 2017% and 1.6% in 2018 as a strengthening economic recovery mobilises unused resources.

Since the start of our credit-easing measures in June 2014, bank lending rates for firms and households have fallen by about 90 and 80 basis points respectively, reaching historical lows in April 2016. The growth rate of bank credit to euro area corporations turned positive in 2015. At the same time, other sources of external finance – the net issuance of debt securities and shares by non-financial corporations – have benefited from more favourable capital market conditions, improving corporate profits and increasing retained earnings.

The easing is especially felt by small and medium-sized companies (SMEs), which are heavily reliant on bank credit. In our recent survey on the Access to Finance of Enterprises in the euro area, SMEs continued to report a further improvement in their access to credit and an increased willingness of banks to provide credit at lower interest rates. New bank credit to companies is increasingly being used to finance investment projects.

Further monetary policy stimulus is in the pipeline. We started our corporate bond purchases earlier this month as part of our asset purchase programme. The programme has started smoothly, with ample purchase volumes. Since the start of 2016, and even more evidently since the corporate bond purchase program was announced in March, borrowing conditions for companies with direct access to the bond market have improved materially. For example, over the first half of 2016 the cost of market-based debt for euro area non-financial corporations has declined by around 75 basis points. We expect more firms, including mid-sized companies, to be able to access this source of external finance over the near future as the market for companies’ debt expands and deepens. Tomorrow we will start conducting the first operation of our new series of targeted longer-term refinancing operations (TLTRO II).

TLTRO II will allow banks to secure long-term funding at very attractive conditions that can be as low as the deposit facility rate. This should further ease the borrowing costs of the private sector and provide an additional impulse to credit creation.

Overall our measures have been instrumental in putting the recovery on a more solid footing and thereby securing the conditions for inflation to rise towards levels closer to 2% over a not-too-distant horizon. They have underpinned the revival in the consumption of durable goods which we have observed since 2014, and are finally showing through in a more robust pick-up in non-construction investment.

Without our policy stimulus, both growth and inflation would be significantly lower.

Our March package, in particular, has mitigated the downside risks to the euro area economic outlook. Additional impetus will come from the measures that are still at an early stage of implementation.

At the same time, uncertainty remains high and downside risks are still significant due to the continued fragile state of the global economy and geopolitical developments.

We will closely monitor the evolution of the outlook for price stability, and we stand ready to act by using all the instruments available within our mandate if necessary to achieve our objective. In particular, the ECB is ready for all contingencies following the UK's EU referendum.

Let me say a few words about investment in the euro area. After the sharp downturn observed during the financial crisis in 2008 and the renewed decline during the European sovereign debt crisis, real investment in the euro area has now begun to recover. In particular, business investment has undergone a welcome recovery since 2013 and public and housing investment have recently broadly stabilised.

Despite these positive trends, the current level of investment is still unsatisfactory. The level of total real investment in the euro area remains more than 10% below pre-crisis levels.

Therefore further action is needed, including at EU level.

The Investment Plan for Europe is a welcome example. While we would support extending it beyond 2018, the success of the current plan also rests on its capacity to improve the investment environment at both European and national level. Only reforms in this area can guarantee its long-term effects.

At EU level – and here of the European Parliament has an important role to play as co-legislator – we should further deepen the single market, notably in the areas of energy, transport and the digital economy. We should also make full use of the potential of existing Single Market legislation by ensuring its complete and consistent enforcement. Strengthening the European dimension of regulatory enforcement would help to lessen complexity, enhance the level playing field and reduce the fragmentation of product markets.

In addition, we should act decisively to make the channelling of savings into productive investment more efficient. The banking union, including the ECB in its micro- and macroprudential role, has an important role to play in ensuring that banking markets efficiently allocate resources to the most productive investment opportunities across the euro area.

Progress on the capital markets union is also essential to develop a favourable environment for productive investment in the European Union. It will help diversify the sources of funding needed to spur investment – notably for SMEs and long-term projects – by complementing bank financing with deeper, more developed capital markets. The legislative acts regarding simple, transparent and standardised securitisation you are discussing are tangible examples of how EU legislation can broaden financing opportunities for EU companies, foster cross-border investment and ultimately have a positive impact on the EU investment outlook.

At national level, reforms to improve business framework conditions and reduce regulatory and administrative bottlenecks also need to be further pursued. It is the whole institutional framework that helps to transform financial resources into productive investments, which, in turn, increase productivity and ultimately create jobs. Inefficient public procurement, taxation systems, judicial systems and insolvency frameworks, identified in some countries, need to be fully addressed. Country-specific recommendations can be a powerful tool to identify and address barriers to investment in individual countries.

Moreover, those countries where public finances allow should undertake public investment in areas conducive to growth. Regarding other countries, let me mention that long-term investment benefits from stability-oriented macroeconomic policies.

Finally, investors need certainty regarding the economic and institutional environment in which they will operate. This is also one of the reasons why, almost one year ago, the Five Presidents' Report set out a plan for strengthening Europe's economic and monetary union.

Allow me to conclude. Looking ahead, we expect the economic recovery to proceed at a moderate but steady pace. Nevertheless, for this recovery to be consolidated, our efforts should now concentrate on strong policy action to improve the business environment, favour investment and raise productivity. Delivering on these objectives will not only create the conditions for inflation to accelerate its return to levels below, but close to, 2%. It will also make a major contribution to improving the standard of living of the people of Europe.

Citizens and markets need to be sure about our capacity to take on the common challenges we face. Our focus should be on making our common home, Europe, stronger.

Thank you for your attention. I am now at your disposal for questions.

1-005-0000

Chair. – Thank you very much for your introductory statement and also for your comprehensive assessment of the policies for increasing our investment level. I now give the floor to our Members for questions.

1-006-0000

Pablo Zalba Bidegain (PPE). – Mr President, I have three questions for President Draghi. The first is on Brexit. You have said on numerous occasions that you will use all the weapons in your arsenal. I have full confidence in the ECB because it always does what it says it will. But my question is: in the event that the UK does leave – something all or almost all of us wish to avoid – would the ECB acting alone be sufficient? What more would need to be done to mitigate the impact of the UK's possible departure?

Second question. With regard to the judgment of the Karlsruhe court, will the obligation of the German Government and Bundestag to monitor any possible OMT have, in your opinion, any direct operational consequences?

And third question. Bernanke recently said that Central banks were bearing too much of the burden in the recovery. Clearly reforms are also needed, and it is evident that not everyone is as committed to reform as we would like. My question is: would the monetary policy you are implementing have a greater impact if all eurozone governments were fully committed to reforms? And a follow-up question: if all governments made reforms, would the European Central Bank have greater scope for action on monetary policy? Thank you very much.

1-007-0000

Mario Draghi, *President of the European Central Bank***.** – On the first question, let me say that it is very difficult to foresee the various dimensions in which the vote in the UK would impact the markets and the economies of the eurozone. It would also be difficult to speculate about one outcome rather than another. So I will just say that we are trying to be ready to cope with all possible contingencies. At this point it would be very, very difficult to be more precise than that. I think we have done all the preparation that is necessary now.

On your second question, let me that just say, first of all, that the OMT programme has preserved the singleness of the monetary policy within the euro area. We always argued that it would fall within the mandate of the ECB, which is to maintain price stability. This was confirmed originally by the European Court of Justice and today by the Constitutional Court in Germany, and we take note of this.

The third point is about reforms and monetary policy. The very accommodative monetary policy we have in place ensures that the cyclical recovery will take place, and it is actually taking place. Will it transform the cyclical recovery into a structural one? The answer is no, not without structural reforms.

The second point is that, as I have said many times, as inflation is a monetary phenomenon, we know that this accommodative monetary policy will allow the inflation rate to return to our objective of an inflation rate of below, but close to, 2%. But the speed at which this will happen will change very much depending on whether the structural reforms are in place or not. It would be a much, much faster and less painful process. Some such reforms have been undertaken in some countries. More work is needed.

1-008-0000

Pervenche Berès (S&D). – Mr President, thank you very much for your thoughts today and for stressing the importance of investment in Europe. That certainly backs up the comments you made a few days ago here in Brussels at the *Brussels Economic Forum*, when you said:

‘I will only note once more the critical need to restore clarity and confidence on the institutional set-up of the euro area. We know that the current set-up is incomplete, progress in this field is necessary for the long term, but it is also relevant for the short term because of the effect on investment.’

From that point of view I would like to ask you two questions: first of all – something which you alluded to – you are one of the authors of the Five Presidents’ Report, which sets out the possibility of a budget for the eurozone. As you know, we have an ongoing report which argues for just such a step forward for the eurozone. How do you see the future steps towards that, whatever the outcome of the referendum in the UK?

Also, the European Union has initiated discussion on the Commission’s work on extending the investment plan known as the Juncker Plan. When you talk about topics that can be mobilised at European level, as well as following up on the Five Presidents’ Report, I think specifically the Juncker Plan is a relevant approach. You mentioned it as an example. Extending that example, would it not be necessary to make adjustments so that more weight is given to public investment, to achieve a leverage effect, on the one hand, and on the other hand to review the proposed risk rate, which clearly leads to a favouring of high-return investments over the lower-return investments which the Union so desperately needs, including to promote the convergence of economies?

1-011-0000

Mario Draghi, *President of the European Central Bank***.** – Regarding the first question, we have seen – and we have said it many times – that the monetary union is still incomplete and, while it is incomplete, it is also fragile. For a monetary union to be fragile means that it is vulnerable to shocks and that the citizens of its members may have to pay a higher price for belonging to the monetary union than they would pay if it were completed.

There are several ways in which the monetary union should be completed, one of which is to make it more resilient. Another one is to enhance labour mobility, another is to increase financial risk-sharing, another is to complete the capital markets union, and still another is to create a shock-absorption mechanism like the one that has been hinted at in the Five Presidents' Report.

I would say that the first thing is not to overburden fiscal policies. We saw, entering into the financial crisis, how many countries had a budgetary situation that basically prevented them from using any fiscal policy. They were without the tools to cope with the crisis because they had overburdened fiscal policy in the preceding years, or had simply made many policy mistakes in the years preceding the crisis.

So I would say that the first thing is to make this fiscal policy resilient, not to overburden it, and then, of course, to address asymmetric shocks in particular – we ought to have this shock-absorbing mechanism. This is what I would say is necessary to complete the European Monetary Union. But we have to remember here that to have this shock-absorbing mechanism we have to have trust between countries. And to have trust in place we need solidarity to come together with responsibility. For that to happen we need member countries to demonstrate at least two important behaviours. One is compliance with the rules, and the second is convergence. We will have plenty of opportunity in the ensuing discussion to discuss this some more, but I think I can give you the sense of how all these things come one after the other, beyond what would be a technocratic response to how to strengthen European Monetary Union.

Having said that, is this the only way to move forward? I think, if one looks at recent experience, there are grounds for optimism because in fact, even without creating necessarily new institutions, resources have been pooled together to cope with common needs. One example is coping with internal and external security, and another example – and we will see more of this in the future, but we have seen it already – is defence. So this is a different route. Rather than creating institutions and then giving tasks to them, the members of the European Monetary Union, but also of the European Union all together, should pool their resources to cope with needs that present themselves and with challenges that, by their nature, cannot be addressed individually.

Your second question is about investment. I have made this point several times. The case for a higher level of public investment is very strong. What happened in the crisis and what happened under the pressure of financial markets is that several countries undertook budget consolidation, but, perhaps doing so under extreme pressure, they took what appeared at the time to be the easiest course of action, namely raising taxes and cutting public investment without lowering current government expenditure.

I think it is very important to restore the level of public investment. I mentioned in the introductory statement that it is still 10% below what it was before the crisis and, by the way, before the crisis it was not high by any historical standard. Public investment had been repeatedly cut in many countries, probably starting from the mid-90s onward. It has also become very important now to be very selective in what public investment one has in mind – focusing on education, human capital, research and the digital agenda, more than simple infrastructures.

So this emphasis is good. The Juncker Plan is welcome, but we also have to keep in mind that the process is slow. It does not produce immediate results so it is important that we start changing this important feature of our budgets, but the process is slow and certainly the ECB welcomes its extension beyond 2018.

1-012-0000

Pirkko Ruohonen-Lerner (ECR). – *(FI)* Mr President, there seem to be contradictions between the official inflation target of monetary policy and the ECB's practical actions and developments in the surrounding economy. As we know, you justify an inflation target of just under 2% with the argument that moderate inflation generates economic activity, and correspondingly that a general decline in consumer prices would hamper that activity. According to the interpretation which the European Central Bank has carved in stone, when inflation is too low consumers should hang back and reduce consumption, but the Bank of Finland seems to be of a different opinion regarding this.

The Bank of Finland takes the view that the Finnish economy is reviving particularly because of consumer demand from private households, which means that people in Finland have acted in precisely the opposite way to that which the European Central Bank's schematic interpretation would seem to assume. Consumer demand rises partly as a result of borrowing, because credit is available at low interest rates. This is of course partly thanks to the actions of the ECB.

Ought the ECB to reassess its inflation target in the light of the current state of the real economy? Although the rise in consumer demand is positive, do you perceive a danger that the ECB's current actions could promote excessive indebtedness of private households, and how do you assess the current trend?

1-013-0000

Mario Draghi, *President of the European Central Bank***.** – As I said before, growth is continuing at a steady and moderate pace, unlike other experiences also in the recent past. Growth is driven mostly by robust domestic demand, namely consumption and recent investment. As a matter of fact, business investment was the leading factor in the recovery in the last quarter of 2015.

We believe that this is because of the effectiveness of our monetary policy and the pass-through of the very accommodative monetary stance that we put in place in mid-2014 and possibly even before then. It is also being supported by low oil prices, but, as I said before, there are certain downside risks.

Are we afraid that all this accommodation in monetary policy will cause excessive lending? We do not see this today. We see that credit flows have resumed their growth and have now been growing constantly for almost three years, but their rates of growth are still very subdued. So we do not see any evidence today of excessive lending, and even less so of excessive leverage. We are constantly monitoring the situation because we are certainly aware that financial stability risks have to be addressed at an early stage.

1-014-0000

Ramon Tremosa i Balcells (ALDE). – President Draghi, welcome again to this Parliament. I have just three questions for you. The first one: at the last press conference you stated that financial conditions in the euro area had tightened in February, which resulted in the ECB policy actions in March. It seems that the tightening of the financial conditions has continued so far. Is the ECB concerned that this tightening could have a negative effect on euro area economic conditions?

The second question: eight years after the beginning of the crisis some Member States still have a public deficit which is too high. Does the ECB think that the rules should be applied in the same way to all Member States, not only to the smaller ones?

And finally, the third question: even though the ECB policies have helped to regain credit growth in the eurozone, investment is not picking up. Will the ECB consider targeting more its asset-purchasing programme in order to buy more EIB bonds or other assets that incentivise public and private investment?

1-015-0000

Mario Draghi, *President of the European Central Bank***. –** Financial conditions actually have been tightened since January, and then for a protracted period of volatility. But now the volatility has diminished and we responded to that condition with our March package. So viewed from today we had to let the full effects of the March package propagate and pass through to the economy and we are focusing on the implementation.

As I said before, we still have to implement the second TLTRO operation, and we will do it tomorrow. And we will focus also on the effects that the previously-approved measures are having in their pass-through to the economy. But certainly we will carefully monitor markets and if we were to have an unwanted tightening of the financing conditions that could alter our medium-term outlook for inflation, we would certainly make full use of all the instruments we have.

The second question addresses the deficits and the fact that several countries have high deficits. The point that the ECB has been making is that the rules have to be applied consistently across countries, and in time. The rules' credibility is fundamental, so we will continue making this point. And if there are legal questions asked about the application of these rules, they should be properly addressed.

On the third point you are making, and perhaps we have discussed this before, we have seen investment picking up. It is still at a modest pace, but it has picked up. It is following the strong consumption trend and it has confirmed the increase in consumer durables expenditure that we had seen in previous months.

1-016-0000

Marisa Matias (GUE/NGL). – Thank you for coming here today, Mr Draghi. I am going to return to the subject of investment, because I believe that one of the essential issues in this dialogue is to understand why the ECB's expansionary monetary policy is not promoting increased investment on the scale that might be expected. Like me, you will have studied the contributions on this topic that were distributed in preparation for this meeting very carefully. I must say that I was pleasantly surprised by the degree of pluralism in the analyses put forward in these contributions. They also reflect the real situation described to us by companies in individual European Union countries in response to investment surveys. Moreover, the factors listed by entrepreneurs are systematically linked to the economic situation, and in particular trends in demand, and have very little to do with financing conditions. This shows that the economic situation also determines investment.

This is what I cannot understand: there is a mismatch between the contributions we receive and then, listening to your speech, there is also a degree of mismatch with the ECB's actual policies. We need a policy that is committed to revitalising consumption and above all to public investment, because public investment has a highly significant impact in the medium or even the short term, as well as having positive effects on public accounts themselves, as we know. It is also what has enabled a country like Portugal, even with very modest investment under the austerity policy, to reduce its deficit by 2 percentage points in the first quarter of 2016.

I therefore have two questions for you, Mr Draghi: you spoke of the importance of restoring public investment. The documents we have received in preparation for this meeting also underline this point. Nevertheless, as I said, the structural reforms and the ECB's policy do not tally with what you have just said here, and I should like you to clarify very directly what commitment there will be to public investment, and how you will ensure that structural reforms do not kill off that investment yet again.

1-017-0000

Mario Draghi, *European Central Bank***. –** So first let me try to at least get the record straight up to now and repeat what I said before that consumers are benefiting from the still relatively low oil prices and improved employment prospects. Likewise, investment is edging up, supported by higher corporate profits and favourable financing conditions. Then, more specifically, on investment: after the sharp downturn observed during the financial crisis in 2008 and the renewed decline during the European sovereign debt crisis, real investment in the euro area has now begun to recover. In particular, business investment has undergone a welcome recovery since 2013 and public and housing investment which have been going down until now have recently broadly stabilised. But despite these positive trends, the current level of investment is still unsatisfactory and it's still 10% below pre-crisis level. So our monetary policy is being effective and better financing conditions are being used because we see investment going up. Is it enough? No, it's not enough; more needs to be done. By the way, as I said, the situation is better now because corporate profits are going up, but let me say, however, before I move to public investment that we're talking about the euro area on average, which means that there are parts of it where investment is still lagging behind, and there are parts of where it is actually going much better.

To have a solid take-up of investment – which, by the way, we don't see in general in the rest of the world either **–** in our case at least certainly needs time, and it needs time because real decisions on investment need time because they needed a certain environment. So uncertainty has to be reduced for investment to pick up at a robust pace. We are encouraged by what we see, but would like to see more of it. Public investment will certainly play a role in this, as I discussed before.

Could any country decide to increase public investment? Of course not. Countries that have fiscal space can do it. Countries that don't have fiscal space have to work on the composition of their budget – namely they have to reduce current government expenditure and increase public investment. And the more we study this issue, the more it appears that the composition of the budget is as important as the size of the budget. Especially for countries that have a high level of debt or have reduced market access, it's very important that they rearrange the composition of their budgets to make sure that public investment in the areas that I mentioned before is increased.

1-018-0000

Philippe Lamberts (Verts/ALE). – Welcome, President Draghi. Three quick questions. ELA is currently the prerogative of the national central banks, which was consistent with the fact that supervision was national. Supervision is no longer national. Should we change the legal framework?

Secondly, on TLTRO II. Contrary to the first edition, the conditionality to access TLTRO II is no longer there in terms of financing the real economy, if I'm not mistaken. On TLTRO II, there used to be a conditionality in these programmes, that you had access as long as you basically increased your lending to the real economy. I understand this is no longer the case in TLTRO II, so if that is the case why is that? Because the objective is to increase lending to the real economy.

But I'd like to finish by picking up on something you said about the viability of the Euro in reply to Pervenche. You said one of the things we need is convergence. I agree with that. But if I look at, for instance, a country such as Italy, which you know very well, after 150 years of unification, you can hardly say that you have homogeneous economic conditions and capabilities in the country. Germany was unified at the same time as Italy, and 150 years later, and 25 years after reunification, we still have major disparities in the economic fabric of the country. So yes, I agree we need convergence. But, well, if I look at it from a political timespan perspective, it can take ages.

1-019-0000

Mario Draghi, *President of the European Central Bank***. –** On your first question on ELA, I think good sense would suggest a step like the one you hinted at, and we are looking at that. It is not a simple decision because it is a further transfer of competences from the national authority to the ECB. These are competences that are often enacted at times of stress, so they are especially sensitive. The Governing Council has been looking at that and we do have discussions and reflections on this, but I do not have anything specific or substantive to tell you about that yet. On TLTRO II, no, I would not agree, we have conditionality there.

The third point is actually very important. First of all, it is a matter of the extent of convergence, and certainly it is going to take time. However, I said that convergence is one of the bases of trust. What you want to see in place is a determined effort to search for convergence which, in the case of the different Member States, means undertaking some key reforms in some key areas and making a genuine effort to do that in order to bring the country and the reform effort to the best practice frontier.

But it takes time, and I would not deny that. The examples you gave are very good evidence that it may take a very long time. However, if this monetary union was predicated not to be a transfer union, then one needs convergence as an essential ingredient because, if you do not have it, then you have permanent debtors and permanent creditors. So the idea would be to aim at having countries that are sometimes debtors and sometimes creditors. But it is a very, very difficult goal to achieve and it does not come in a short period of time. But what you want to see, however, in a realistic time span, is a genuine, determined effort to achieve this goal.

1-020-0000

Marco Valli (EFDD). – I would also like to thank Mr Draghi for his introduction and for having explained things with which I too, in some ways, am in agreement. For example on public investment, if we were to really succeed in investing in research, development, innovation and energy transition, and not in infrastructure, that would be good. The problem is, I have seen the projects the EFSI or Juncker Fund has approved in Italy, for instance, and there is still a lot of unsustainable infrastructure, and hence this is not absorbed into the economy.

I will turn now to my questions, two of them. As far as the Five Presidents' roadmap is concerned, we are now at the step where agreement on the common deposit guarantee needs to be found. What will be the ECB's role in this guarantee scheme? In the United States, the Federal Reserve guarantees current accounts up to USD 250 000, while the ECB cannot guarantee up to 100 000. Can you explain to us why? And why are you now seeking a stupid compromise, as I see it, on risk weighting for government bonds when the fact that some European banks have very risky systemic exposure to third level assets could be used, for example, to counter those calling for this compromise to be included.

With regard then to the step forward, that is the euro area budget, how do you consider this budget should be funded? In fact, there is a bit of a diatribe in committee; we are discussing a file and we would just like to have your opinion on how this should be funded. From my point of view, tied in to pegged exchange rates in the euro to date, hence in a genuine monetary union, countries benefiting from the fact that the currency is undervalued in relation to their economy and building up a surplus that is higher even than EU rules allow, hence they are in breach of EU rules, should in some way re-balance these shocks by transferring more than others in order to fund depressed areas. Hypothetically, in theory it should work like that. So do you agree or do you have another idea?

1-021-0000

Mario Draghi, *President of the European Central Bank***. –** Thank you. On the second question I frankly have no say, because it goes beyond the realm of a central banker. It is it is really something specific to governments, national governments and the Commission, what is the best way to finance the Community budget.

What we can say, however, is to have a macro view of what the fiscal policy is at the present time. And right now it is slightly expansionary, while in the previous years it was not. And so in a sense it does support the recovery, and further action can be taken at national level, revising the composition of the national budgets, along the lines that I mentioned before, or even expanding where there is room for doing so.

On the deposit insurance guarantee the ECB doesn’t have a specific role on that. We have issued opinions about the about the mechanism, but we don’t have a specific view. In the United States if I’m not mistaken it is the FDIC, it is not immediately the Fed. But I’m not privy to exactly what is the institutional setup of the deposit insurance in the US. But now, as you know, the negotiation has come to a halt, because on one side, there is the desire to proceed first to a de-risking of the of the portfolios of the banks, through the request of limits to the holdings of sovereign bonds by the commercial banks, and on the other side the idea would be to move forward and have in place the mechanism, and then check and see exactly how to de- risk. So now that’s the situation. What we can say, however, is that this is the third pillar of our banking union, and it is important that some sort of compromise be found so that deposits and depositors are treated equally across the Eurozone.

We’ve put in place the supervisor that treats all the banks and the bankers equally. But we are not doing the same for our depositors. So there is I think a strong case for moving forward so that we ensure the level playing field to all our depositors in the Eurozone.

1-022-0000

Barbara Kappel (ENF). – President Draghi, a very recent study by the German Bundesbank shows that the ECB’s bond purchase program is actually driving up inflation slightly.

The Bundesbank reckons that inflation in the 2016-2018 period is actually going up by between 0.1 and 1 per cent per year. Admittedly, though perhaps only temporarily, this calculation does not correspond to reality, as prices fell in May by 0.1 per cent. Your bond purchase program worth a total of EUR 1.74 billion has, however, led to many sovereign bonds being valued with historically low returns. Just last week a ten-year German Federal bond with a yield of 0.01% was auctioned, and for the last week and a half the ECB has been buying corporate bonds to the tune of EUR 10 billion per month.

Here, too, we can see that the purchases by the ECB are already having an effect on the returns on corporate bonds. Investors now have to pay for lending money to firms in 16% of issues; on top of that come negative interest rates and the base rate at 0. Other instruments which you employ have their side-effects. Experts are warning that with a turn-around on the bond markets panic selling could be triggered and there could be a risk of a bubble precisely with sovereign bonds, and of course a risk for financial stability.

Last week, Mr President, you said something which I think was very important: in a speech in Brussels you pointed out how important it is to implement structural reforms and to bring monetary policy more into line with economic policy.

My question to you now is therefore: What measures would you suggest to European policy-makers and to the European Commission to encourage the Member States in the euro area to implement more structural reforms? You know that only about 11% of the country-specific recommendations are being implemented and that the incentive to implement structural reforms is low probably because of the cheap finance or the low rates that have to be paid. What measures would you suggest here?

1-023-0000

Mario Draghi, *President of the European Central Bank*. – First, let me say just a few words on our projections of inflation. Our projections envisage that inflation will pick up during the second half of this year. This year, by year-end, the yearly average will be 0.2% but it should increase to 1.3% in 2017 and 1.6% in 2018. Now this upward adjustment of inflation is basically happening because of our monetary policy measures. Given the expected recovery of the euro area, as we see growth firming up continuously we also see the labour market conditions improving, and at some point there will be a moderate increase in nominal wages, which is already taking place in some parts of the eurozone, but it is not extending to the rest of the eurozone.

There will also be some base effects that will come into play by the end of this year due to oil prices, which will basically drive the inflation rate up from zero to 1.3% in the course of next year.

This is basically a mechanism that goes from growth to inflation and it is taking more time than usual. As I think we would all agree, we would all have wished for a much faster recovery of growth and inflation, but that is not surprising because we had such a prolonged recession and such a deep recession that we will need more time. As the economic slack is gradually reabsorbed, we will see the underlying inflation respond.

I think you are also right to say that the pace of structural reforms has been, by and large, especially recently, unsatisfactory – and certainly the national governments will have to respond more on this, although I would not be completely pessimistic looking back at the last two-and-a-half years. We had some structural reforms undertaken in certain countries, so it was not a period of time without action at all. And we completely agree with the nature of the recommendations made by the Commission. The only observation that we have is that these recommendations ought to be put in place and action should be taken to make sure that these recommendations are complied with.

1-024-0000

Markus Ferber (PPE). – Thank you, President Draghi, for being with us again for this question and answer session.

I would also like to come back to the fact that you began to buy up corporate bonds on 8 June and are thus continuing to pursue the quantitative easing course. The primary beneficiaries of this decision are larger companies with direct access to the capital market, which already enjoy favourable financing conditions. At the same time, the extremely low rates on borrowing result in the prices for risks on the financial markets are becoming very distorted in the area of corporate bonds, too. Here, too, the function of the interest rate as a risk indicator looks likely to disappear completely.

In this context, I should like to know what criteria determine the ECB's purchases of corporate bonds. How do you assess the risks of the corporate bonds you purchase? What risks is the ECB prepared to take on? Is the distortion of risks on the financial markets a factor that you consider in your decisions? How will the ECB respond when the supply of bonds with the right profile starts to thin out?

My second question is about something you have already referred to a couple of times, but which is of great concern to me. On Thursday, a referendum is due to be held in one of the larger countries of the EU. A short while ago, it was reported that the ECB and the Bank of England are working on a joint plan for calming the markets in the event of a decision in favour of Brexit, in other words if the British people decide to leave the EU. What obligations does the ECB in fact have to take action on behalf of the UK?

1-025-0000

Mario Draghi, *President of the European Central Bank***. –** The first question is about our corporate bond programme. We have a risk framework in place and so we make sure that our purchases of corporate bonds do comply with that risk framework. Thus we buy corporate bonds only of a certain rating, we protect our balance sheet and, at the same time, we are also market-neutral in our purchases. We make sure that we minimise the distortions that our programme would entail. The programme started smoothly and continues to be smooth. We started with fairly ample volumes so we are not encountering a special list now, we are not encountering any special obstacle to undertaking the programme.

Second, would this favour large companies and not SMEs? No, I think that what we are observing is actually that large companies' financing is making room in bank credit for SMEs. So the SMEs would have more room in the bank lending space and, since they do depend on bank lending more than large corporates, they welcome that. We have in fact seen the spreads on SME lending with respect to large corporates going down. Even though this movement started before our launch of the corporate bond programme, it is continuing to do so. Meaning what? Meaning that basically the cost of bank lending to SMEs has gone down more than the cost of bank lending to large corporates. So this programme only enhances a movement that was already there. I have a few figures here regarding bank lending rates for very small loans: even though they remain higher than for large loans, the spread between these rates had declined to 159 basis points by April 2016. The latest survey on SMEs' access to finance reported for the third consecutive time an improvement in the availability of bank loans for SMEs and also in the willingness of banks to lend, up to March 2016. That is the latest results we have.

On the second question, no there is not any plan to work with the UK. There are extensive consultations between all central banks in the world and the IMF, but no plans or anything like that, no commitment of any sort.

1-026-0000

Jonás Fernández (S&D). – Mr President, the eurozone current account surplus continues to grow by the year, something that obviously makes it harder to meet inflation targets given the appreciation pressure on the euro. Discussions on how to manage the various Member States' current account surpluses and deficits are being held in the European Semester. Do you think the European Semester should have any vehicle better able to rebalance current accounts so as to improve investment in the whole eurozone, among other benefits? The IMF has conducted impact assessments of their rescue plans in countries such as Greece. I would like to ask whether the European Central Bank believes it should also carry out independent studies of its conduct in rescue plans. And lastly, in a previous answer you said that the rules of the stability and growth pact must be met on time; I'm not sure whether or not that was veiled criticism of deferring the decision on what to do with certain countries such as Spain. I would appreciate some clarification on that matter.

1-027-0000

Mario Draghi, *President of the European Central Bank***.** – On your last question, I would only say that the rules make sense if they are applied consistently across countries and consistently in time. The benefit of rules is there if they strengthen the credibility of the overall fiscal framework, which we consider to be a part of the stability – I think the wording is an anchor of stability for the euro area. Also, if there are legal questions about the application, these questions ought to be properly addressed. That is what I said before and I am repeating it now.

On the point on whether to commission an independent study of the Greek bailout, I think it is certainly something we can reflect on. As a matter of fact, we have not taken any decision or discussed it yet.

On the EU Semester and the large current account surplus, the eurozone has had a large current account surplus for some time now – for many years in fact. Certainly an ideal composition of the overall – let us call it – aggregate demand of the eurozone would be one where the current account surplus is less and the internal demand, both public and private, more. For a variety of reasons this has not happened, but also for the reasons that I think I mentioned in the introductory statement, namely the solid domestic demand which underpins the recovery. It may actually happen in the coming years. So it is to be foreseen that with a strengthening of domestic demand, both for consumption and investment, the current account surplus would also be moderated by itself and especially so, of course, if the public investment component of the demand of the euro area were to go up.

1-028-0000

Esther de Lange (PPE). – Time and time again you tell us here that, despite the big debates we are having on monetary issues, monetary policy can only do so much and you point towards the need for investment and the need for structural reforms. Could you tell us, regarding the latter, what you think is most urgent – which reforms and in which fields – for us to have a real relaunch in the eurozone?

Secondly, you said that more monetary stimulus might be in the pipeline. Picking up on that remark, could you be a bit more specific? There are some in this House who would love you to get into your helicopter. I do not know how good you are in the air or if you have a helicopter license, but I for one would not be a big fan of helicopter money, but what kind of monetary stimulus are you talking about? How long can we go on providing additional monetary stimulus if this anchor that you speak about, which are the reforms – or you could say the safe landing ground for your helicopter – time and time again, is not in place or not being put in place enough?

1-029-0000

Mario Draghi, *President of the European Central Bank***.** – With regard to structural reforms, each country has its own agenda. It is very difficult to specify what these structural reforms should do. It is not ‘one size fits all’. There are countries that have an economic structure that needs certain changes to be competitive, to generate growth and to create jobs, and there are other countries where the changes needed are different. Some countries need more reforms that increase and enhance competition in the product and services markets; other countries need more in the labour market; many countries need better education systems – one should ask the question why is unemployment so high? Is it only due to insufficient demand or is it also down to structural reasons? If we go back to the years before the crisis, in 2007, the unemployment rate for the eurozone was not that distant from what it is today. If I am not mistaken, it was around 9%.

This shows that maybe it is not only a problem of demand but it is also a problem of structures. The other question one should ask is ‘why is youth unemployment so high?’ That is probably due to some pieces of legislation in the labour market that were introduced in the early 2000s by some countries, but it is also due to the fact that some of the education systems do not produce the right skills. Another question to ask is why are real wages for new entrants so low? In some countries they have gone back to the levels of the late 1980s. The answers again would suggest another list of changes and reforms that would have to be introduced. In other countries, again, it would be the judiciary: if it takes many, many years to go through a case in court, all the costs related to the implementation of the rule of law would simply be very high and would be paid by society as a whole. These are just examples of the many reforms that would be needed in many countries.

On the second question, when you asked me whether there is more monetary stimulus in the pipeline, I only meant TLTRO. As I think I said before, now it is time to focus on implementation. Viewed from today, the actions that are in place and the actions that will be implemented are sufficient for steering the inflation rate to a level below, but close to, 2% and, eventually, also expectations. So that is what I meant before.

1-030-0000

Peter Simon (S&D). – President Draghi, you spoke at length about the deposit insurance guarantee earlier in response to the question from Mr Valli. Among other things, you stressed how important it is that we set the same rules for all. That is exactly what the Commission is now trying to do. The success its attempt is enjoying at the moment in the political debate is limited. We see that there is a blockage in the Council and that there are big differences of views here in Parliament. Should we not therefore call into question this approach and instead set ourselves a common goal – that the amount insured by Europe should be secured with the same guarantees in all countries in Europe and that everyone everywhere should have the same (high) level of confidence in precisely this insured, guaranteed amount?

Should it not also be our aim to ensure that, if the confidence level in many states rises as a result of these common measures, the confidence in no country be allowed to drain away, stability be withdrawn, security be lost? If we could agree on something like that, then I doubt that we would ultimately need the same rules for all in all areas.

The present Commission proposal, for example, does not provide for something which contributes considerably to stability in many countries: preventive measures, measures that prevent undertakings from going bankrupt. Measures in place in many Member States – in Germany it is the institution guarantee scheme, in other countries it is called something else – would no longer be possible under the current proposal. At the same time it would also not be possible to carry over to other countries these measures that work well in some countries.

If we really create the same rules for all and do not set ourselves the same goal for all and try to achieve this goal, whether by varying methods or the same, and perhaps with a somewhat different approach from that taken by the Commission, how would you, Mr President, prevent this bringing about destabilisation in the Member States, where ultimately investors would have less confidence than they do today?

1-031-0000

Mario Draghi, *President of the European Central Bank*. – Let me say that, more generally, both risk sharing and risk reduction are really two sides of the same coin. They are mutually-reinforcing pillars and they should not be preconditions for one another. Both contribute to the same goal, which is strengthening the banking union. Actually, we have made very satisfactory progress in the last two years on strengthening our banking union, with the creation of the SSM and with the comprehensive assessment. So now most of the eurozone banks meet the fully-loaded capital requirements.

Perhaps the objective now is to make sure that the EDIS is not postponed indefinitely. There should be a list of milestones that should include the most important elements for strengthening the banking union. The list should be limited to matters with a clear material link to EDIS and should not refer to ongoing discussions for which the timeline is unclear.

So priority should be given to the full implementation of the DGSD and the BRRD and the harmonisation of the ONDs and then further legislative work on the ONDs within the CRD4. There is time for this as the gradual phase-in towards EDIS provides time to make further progress on creating a level playing field and reducing the risks in the banking sector. So we are talking now more of a process. What could be the process ahead in the next few months to make sure that we do not delay this indefinitely? I think that is where the attention could be focused now.

1-032-0000

Gunnar Hökmark (PPE). – First of all, isn't the main and primary step in order to complete the monetary union to get everyone to respect the rules? My second question is about the UK referendum. You told us that the ECB is prepared, but it will be interesting to hear what we should be prepared for. Seeing, with a vote to leave, long-term uncertainty regarding trade and the internal market, but also financial markets, seeing a number of financial institutions in London City that are important for Europe, but also in Europe that are weak or vulnerable, and also seeing a time perspective that is not only a matter of some months – maybe for the most immediate reactions it's about that – but long-term uncertainty, it would be interesting to hear your view, not your forecasting as outcome but your view, on the problems we need to be prepared for. I think it's important that the OECD as well as the IMF and others are forecasting a long-term recession, and of course that could hurt all of our economies quite much.

Finally, about the monetary policy, I must say I have difficulty understanding why low oil prices and lower prices by the digital economy causes a problem for the European economy, making for a rise in inflation, while at the same time, we need to compete with a global increase in supply with low wages, and to compete with the low wages by increasing European wages. I have never seen the logic in that, but I would be happy to hear that, not the least in the perspective of the risk of financial bubbles.

1-033-0000

Mario Draghi, *President of the European Central Bank***.** – About the Brexit, as I said before, I don't want to speculate about the outcome or the consequences of the referendum. We monitor basically all the relevant economic, financial, legal and also political developments, so that we can assess and manage the ensuing risks. We will be prepared for all possibilities. Mostly, as far as we are concerned, this means being able to stabilise markets, providing liquidity. We have existing swap lines with other central banks and we have, basically, existing liquidity arrangements. I mean they are there and so we kind of make sure that they are usable, active and adequate.

It's quite clear that the event will have both short-term and long-term effects, and they are very hard to spell now and to tell exactly what sort of action we would take face in each different contingency. So I'm sorry for this answer, which I'm sure you will find unsatisfactory.

On the other question, which was basically about oil prices, please keep in mind the amount of fall in oil prices. It used to be about USD 100 per barrel in 2014. Then, because of supply changes we had a heavy decline. At the beginning in 2014 we and everybody else said that low oil prices are good for European growth, but then in 2015 demand factors started playing a role as well – namely oil prices would go down not because of supply factors but because demand was insufficient, and that was naturally supportive of growth in the eurozone.

Since touching the 12-year lows at the end of January, Brent crude oil prices have witnessed a strong rebound of about 80%. This is again a combination of the supply factor, because we had a decrease in – especially – US shale oil production and non-OPEC output, but also because we have higher demand.

So in this sense the increase in oil prices being produced by higher demand is a positive for the eurozone, and with this increase in oil price we also do expect a return of inflation, as I was saying before, towards our objective in the course of 2016, 2017 and 2018. So all in all it's a positive development the one we've seen today.

Now people are asking – and we have a recent analysis by the IMF on this, and the IMF and our institutions are in a condition to measure exactly the impact on growth – why has the recent fall in oil prices not produced such a boost in world growth as one would have expected a few years ago? The analysis is pretty complete and elaborate, but one of the reasons is basically that the share of world output of oil-producing countries today is big – much bigger than it used to be in the past. That is why lower oil prices and lower commodity prices more generally do have an effect on world output that is bigger than they used to have in the past, but there are also other reasons for that.

1-034-0000

Andrea Cozzolino (S&D). – Mr Draghi, thank you for being here with us. I want to stress one point: the relationship between monetary policy and the upturn in investment. As you have just reminded us, the undoubtable value of the monetary policy's efficiency is not at issue. However, it does not seem to be causing investments to expand; growth in the availability of credit is limited and, much more importantly, demand for credit for investments is still very weak. How do you explain the fact that there has not been any incidental effect on the internal economy in terms of growth in investment, including demand for credit, and an impact on gross domestic product too?

To what extent does the current situation differ from the ECB's impact forecasts in terms of GDP growth and the euro-area inflation rate? To bring the intervention in line with the Treaty, which calls for a level of inflation close to 2 %, what if, in addition to taking account of just the average inflation rate in the euro area, inflation rates in individual Member States were to also be taken into consideration?

Finally, what areas or economic macro-areas or sectors are considered to be the levers that will support growth in the medium term and resilience of investment, with the consequent development of the regions and employment levels?

1-035-0000

Mario Draghi, *President of the European Central Bank***.** – On your first question, I think I answered before, but I will elaborate further on that. If we look at investment over the last few years, we see that business investment has been very subdued in the euro area. The main reasons were basically the low demand and low levels of corporate profitability, high spare capacity, high corporate debt, uncertainty and, in the case of the SMEs, of course, we had a credit constraint, because for a few years there was no credit at all. So now we actually see a recovery in business investment which started in early 2013. In the last quarter of 2015 that was the main driver of the recovery.

So what is the main reason? Well, certainly our monetary policy. Certainly, in general, the recovery of demand. To some extent, a lower corporate indebtedness, and certainly the very low level of interest rates. But there are also some structural impediments that slow down and adversely affect investment plans. The first, and probably the most important of these effects, is the lower level of potential output growth. That essentially depends on the fact that the countries have to – and here I am sorry I have to repeat it – undertake those structural reforms that raise the level of growth of potential output. Again that is another reason for looking with increased intensity at structural reforms.

The other point you made is basically to ask why we do not consider different inflation rates in different countries. Here I think I can respond – as I should have responded to a previous question – that we have our objective of inflation, which is a real inflation below, but close to, 2%. The reasons why that objective of inflation was chosen in 2003 are still valid today. So there is no convincing argument for changing an objective which was basically chosen, by the way, by all the largest central banks in the rest of the world in the early 2000s. I would simply add – but we can discuss it further – that making changes in the objectives of a policy when one does not reach that objective does not really strengthen the credibility of the institution.

1-036-0000

Danuta Maria Hübner (PPE). – I would like to ask you two questions. One is related to the fact that recently international data has been released showing that there seems to be a shortage of international assets, meaning high quality assets that can be accepted for transactions between all states of the world. These are usually assets issued by central banks, supranational organisations or governments with AAA-rated bonds. Measured in this way, international liquidity has actually fallen between 2009 and now from 60% to 30%. There are some ideas about how to increase access to this type of asset with high-quality private bonds or with SDRs, special drawing rights issued by the IMF that then would also be accepted by central banks. I do not know what your view is on this approach to international liquidity, because it is believed that this international liquidity fall is in fact behind international trade's slow growth and also the general growth of global demand.

My second question is related to another issue. This data has come from the Bank of England, but it is also a global phenomenon, namely that there has been, over the last few decades a strong decline in the natural interest rate across the world, whereby over 30 years it has fallen by five percentage points. My understanding is that deflation plus this global phenomenon of a structural nature have also been factors neutralising the efforts of your rate-cutting policy in recent years. My question to you is, do you factor this structural long-term global phenomenon into your thinking about future monetary policy when you are finally on an upward trend? I think this will also have an impact on the efficiency of monetary policy.

1-037-0000

Mario Draghi, *President of the European Central Bank***.** – The shortage of safe assets is certainly an issue that has been discussed, especially, I would say, in the European framework. There have been several initiatives and we are going to discuss on Thursday of this week in the ESRB one hypothesis that has been studied by the advisory scientific committee of the ESRB. So at this point it would be premature for me to comment on that, but this simply shows that this need is perceived and we will see whether we can address that. Certainly it is especially present in the euro area. As we have seen, at any time of stress, the absence of a real risk-less asset creates complications of a serious nature.

On the other issue, it is true that we have had a decline in real rates over the last few years. There are several theories about that, one of which is the secular stagnation that we have been told about and we have read a lot about. It is not clear whether this theory would apply to the euro area, for one reason: we have so much to do in terms of productivity gains before we can compare our situation with that of the United States where this theory was created. So, to the extent that the real rate reflects the conditions of growth and the conditions of potential output growth, it is certainly taken into account in our monetary policy decisions.

1-038-0000

George Kyrtzos (PPE). – Mr President, a question for Mr Draghi about the situation in Greece. I think he contributed to stabilising the situation, and the picture today is completely different than it was a year ago. But stabilisation is not enough for us, because, as we mentioned earlier, while investment in the European Union is 10% below pre-crisis levels, investment in Greece is more than 50% lower. I would therefore like his opinion on how to make up for this enormous investment shortfall in Greece, because we know that banks are in difficulty, 60% of loans to SMEs are non-performing and then there is over-taxation. In other words, it is a very fraught overall situation.

But what does the European Central Bank propose, because if there is no great increase of investment in Greece, in six, twelve or eighteen months, we will again be discussing the Greek crisis.

1-039-0000

Mario Draghi, *President of the European Central Bank***.** – First of all, let me acknowledge the significant progress that has been achieved in Greece in stabilising a situation which was indeed very, very difficult. The prior actions that had been agreed upon have been taken, and a decision by the Board of Directors of the ESM about the disbursement has been taken.

All this is a combination of macroeconomic policies and structural reforms that have produced – and will continue to produce – a stabilisation of the situation, and their return will certainly create the conditions for the return of confidence. Together with the return of confidence, we will also see a better financial situation all round. Certainly, as you hinted, there are certain fragilities that are still there, one of which is the fragility due to the presence of NPLs in the banking sector. That is why legislation is so important because proper legislation would allow the banks to manage the NPLs and to free themselves from this factor that slows down credit, weakens the banks and basically hampers their function of supporting the private sector in the Greek economy.

We should also be mindful that the liquidity situation, in spite of the improvement, has seen considerable deposit outflows for several months. At the same time, Greek banks have managed to reduce their dependence on the ECB, which is also a good sign. So it is a combination and now it is, in a sense, a situation which can improve if the proper policies are put in place.

In due time, I would also suggest that, with the return of confidence, capital controls can gradually be reduced, although this is a decision for the government and certainly not for the ECB. But that factor by itself would also contribute to strengthening the economy and also could recreate the conditions for market access which were in place not long ago, I think a year-and-a-half ago.

1-040-0000

Jakob von Weizsäcker (S&D). – Mr Draghi, it is a pleasure to have you here. Against the background of a slower balance-sheet-repair of banks in the euro area, I am asking you whether monetary policy, at this juncture, should worry about its impact on bank balance sheets, including with regard to the impact of negative central bank interest rates which, in principle, can have an ambiguous effect. Either they encourage banks to lend more, or in fact banks which cannot lend have an additional negative impact on their balance sheet. I am just wondering what you feel about this. More broadly, of course, there is the question of which additional steps we should take in the banking union to accelerate balance sheet repair which, despite stress testing and everything, is still uneven across the Union.

My second question relates to an answer you gave to Peter Simon on EDIS. You argued that any pre-condition in the context of EDIS with regard to risk reduction should have a clear link to EDIS itself, which I find a very good idea. Now earlier, a couple of weeks ago, we had a hearing on EDIS in this committee where Bruegel was arguing that such a clear link was present with regard to undiversified sovereign holdings in bank balance sheets. I am just wondering whether you would care to comment on that observation.

1-041-0000

Mario Draghi, *President of the European Central Bank***. –** Let me just perhaps give the state of our analysis as far as negative interest rates and their impact on balance sheets are concerned.

2015 was the first full year with negative interest rates, and the net interest margins actually held up well in 2015. They actually went up. But we are pretty sure they are going to be negatively affected in 2016. The reasons are that there have been accelerated prepayments and the fixed rate high-yield assets that were in the portfolio of the banks and that compensated the low rates through capital gains are now expiring and can be rolled over only at much, much lower yields. A third limiting factor is that there are difficulties in transferring the negative rates to depositors and to other clients. It is also true that in other countries with rates more negative than they are in the eurozone, their experience so far has not been very negative, or at least not that negative. We also have to consider that, although negative rates actually could and do, in due time, squeeze the balance sheets of the banks, they do not seem to affect credit flows. So one way of looking at it is to say that basically increased lending volumes might compensate for the negative impact of low rates on margins.

Banks forecast robust credit growth for 2016, but we will have to see and we will have to look at that with a fairly pragmatic eye. It is true that we have seen credit to households increasing by 2.2%, in the last 12 months terminating in March, while lending to corporates, for example, advanced only by 0.8% and remained negative in some large jurisdictions such as the Netherlands, Italy and Spain.

Regarding our surveys with the banks, when we do this the banks tell us that they expect lending to corporates to pick up in 2016, actually going faster than in other credit segments. Also consider the TLTRO operations because they could also contribute in mitigating the adverse impact of low rates. This is because, in general, TLTRO basically for the banks that actually lend this money and can show that they have lent more with respect to a certain benchmark, will actually pay the deposit facility rate, which is negative, so de facto they are actually being paid to lend.

But in general any improvement in the economic condition of the eurozone would be an improvement in the banks' balance sheets. The banks' profits would be positively affected because credit losses would be lower. In 2015 we see that decreasing credit losses have more than compensated for the low growth in interest margins, and the result of this was a moderate increase in banks' profitability. Banks themselves forecast that the same trends could continue in 2016.

In this landscape, however, we should be aware that it is not a uniform reality. There are intermediaries that have been more negatively affected by negative interest rates and others that are less. For example, banks with large stocks of MPLs or banks that have low spreads on their mortgage lending are going to be more affected by negative interest rates because their lending rates are being indexed to the Euribor, for example, and therefore will go down with negative rates. I am saying all this partly to represent all the evidence that we have in its completeness, but also to say that we have to be mindful that the situation is complicated and we are aware of the complexities of this arrangement, when it is going to last a long time.

That was the first question. The second question was about EDIS. I am sorry, what was the question?

1-042-0000

Notis Marias (ECR). – Mr President, Mr Draghi, the issue of conflict of interest in the European Central Bank is arising more and more frequently, because the ECB cannot be both a supposedly independent monetary authority, a supervisory authority for the systemic banks, a lender to the EU Member States through government bond purchase programmes on the secondary market and a member of the Troika under the political control of the Eurogroup. I have repeatedly asked you when the European Central Bank will leave the Troika, as the European Court of Justice suggested to you in June 2015 in its judgment in Case C62 / 2014, a judgment that you have referred to and which was also mentioned today by the German Constitutional Court in Karlsruhe. Indeed, in your reply to an oral question I asked you here in the Committee on Economic and Monetary Affairs on 23 September 2015 about when the ECB would finally leave the Troika, you stated that the ECB would not remain part of the Troika forever. I therefore ask you once more, Mr Draghi: has the time now come for the ECB to leave the Troika?

My second question relates to investment in Greece. In February 2015, at a plenary sitting of the European Parliament in Brussels, you answered a question I raised by stating that the profits made by the ECB and Central Banks in Greece, namely SNPs and ANFAs, would be - this is what you said at the time - refunded after completion of the evaluation. The evaluation has now finally been completed and the issue is that the Eurogroup has nevertheless decided not to return the profits of the Central Banks and the ECB to Greece. The ESM will keep them until 2018. Do you agree with this view of the Eurogroup or should those amounts be returned to Greece in order to be part of public investment so as to boost growth in the country?

1-043-0000

Mario Draghi, *President of the European Central Bank***.** – Let me just recap. At the beginning, the decision was to involve the three institutions in the euro area adjustment programme. That decision was taken in 2010. The monetary union was not equipped to deal with Member States losing market access, and so Member States saw an advisory role for the ECB alongside the Commission and the IMF. This framework was created to draw on the different competences of the three institutions and in particular, as far as the ECB is concerned, its competence in the financial sector, the banking area and the debt sustainability area. There was also a good reason for the ECB to participate in this work, because successful programmes help repair the monetary policy transmission channels, they help safeguard financial stability and basically they prepare the ground for a return to sustained growth.

In the meantime, the ECB’s role was established in EU secondary legislation, notably in the context of the Six-Pack and the Two-Pack. The Two-Pack establishes under EU law the ECB’s functions under the ESM Treaty and the ESM guidelines. I am saying this because, whatever the decision, we are not going to be the only ones to decide. As I said, the ECB may not be part of the troika forever, but I do not think that now is the right time to change the set-up of the troika and it not up to us alone to decide because of the enshrinement of the role in the secondary EU legislation.

On the second question, I think you should ask the Eurogroup Member States, not us, what use they make of the ANFA money.

1-044-0000

Fulvio Martusciello (PPE). – A few days ago the Italian Minister for Development Carlo Calenda attacked the President of ‘Consob’ – I will say it in full for the interpreters: the ‘Commissione nazionale per la Società e la Borsa [the Italian Securities and Exchange Commission] – accusing him of having removed probability scenarios from prospectuses. The

President of Consob defended his actions by saying that it has been agreed since 2012 that the final terms, in which the characteristics of publicly offered securities are described, can only contain the information set out in the regulation, information which does not include probability scenarios.

President, do you not think that it would be only fair to know precisely when the European Commission will decide on the joint proposal of the three EU financial sector supervisory authorities, with a view to the definition of the key information document on packaged financial products for retail customers? Do you not think that having a sure and certain date would be fair?

And on a second matter, President. Italian public opinion has just been informed of events at the Banca Popolare di Vicenza involving the so-called loans-for-shares scheme – which the ECB has gone through with a fine toothcomb – wiping out over one billion in capital. Do you think this loans-for-share scheme could also exist in other Italian credit institutions?

1-045-0000

Mario Draghi, *President of the European Central Bank***. –** I am sorry but my answers will not be satisfactory. I think I will respond to the first question in writing. It is quite clear offhand that it is better to have a fixed date for the response, but I will give you an answer in writing to the specific question you have. I certainly do not have any comment to make about the rest of your question concerning the concept. Also, the second question should be asked to the SSM, not the ECB.

1-046-0000

Costas Mavrides (S&D). – Mr Draghi, last week on the bench where you are sitting now there was Lord Hill, the Commissioner. In reference to banking union, he made a comment, as far as I understand, about the importance of trust and fair competition in banking. I have two specific questions with regard to trust and fair competition about EDIS, and that might also help my colleague, who ran out of time before about EDIS.

First of all, quite correctly, you made a comment about the equal treatment of depositors and the lack of a level playing field, but I think the same argument applies to the lack of a level playing field with regard to private banks and the way they raise capital through deposits, because they face very unfair competition. Raising capital in an environment with non-guaranteed deposits in a small Member State is quite different and more costly than in another Member State. My two questions are as follows.

As it seems now, the time horizon is for the full implementation of the deposit guarantee, of course with all the speculation that we all know about in 2024. Do you think that the risk of postponing until that time is worth more than pushing, as an independent institution, for implementing it as soon as possible – the systemic risks of that?

My second question is this. Certainly, the banking union was a matter of a compromise and the Member States all agree on three pillars: supervision, resolution and deposit guarantee. Theoretically – of course now it is too late – we could have worked it out in any other way. We could have worked out, for example, as first the deposit guarantee and at the end the resolution. My question is this: is it fair for all of us who accepted that compromise in a timely fashion now to have any thoughts about postponing it even longer?

1-047-0000

Mario Draghi, *President of the European Central Bank***. –** From an ECB viewpoint, there is certainly no doubt that the completion of the banking union comprises a very important set of actions, one of which is the completion of EDIS as a fundamental pillar of the banking union. So the ECB's answer is that we should move forward, find a compromise and agree about the deposit insurance guarantee.

I am not sure I would agree with the fact that we could have done it in any order. One reason is that, if we want to put in place a deposit insurance guarantee, we have to trust that we are going to pay – we banks or we citizens – a premium for insuring deposits of other parts of the eurozone of banks that are not ex ante liable to fail. So, from this viewpoint, the creation of the one supervisor was logically a step that would come before the deposit insurance guarantee. So that was the succession, but it does not really decrease the first point you made – namely that it would be desirable to continue to try to find a compromise so as to complete the banking union.

1-048-0000

Costas Mavrides (S&D). – Yes, a private bank, for example, in the European periphery, let us say in Italy, Cyprus, Greece or Portugal, raising capital through deposits and being exposed to a higher risk has to pay a higher interest rate. That is not fair compared with any other bank, let us say, in a large Member State.

1-049-0000

Mario Draghi, *President of the European Central Bank*. – Excuse me, what do you mean exactly by raising capital through deposits. In what sense do you raise capital through deposits?

1-050-0000

Costas Mavrides (S&D). – Depositors deposit their money in a bank and the bank pays an interest rate.

1-051-0000

Mario Draghi, *President of the Central Bank*. – Yes, but that is not capital, that is deposits. Those are the liabilities of a bank.

1-052-0000

Costas Mavrides (S&D). – Yes, but because there is no pan-European deposit guarantee scheme...

1-053-0000

Mario Draghi, *President of the European Central Bank*. – Ok, then you have to pay higher interest rates on these deposits. I am sorry, yes.

Well the deposit insurance guarantee is primarily addressed to depositors and it is not clear that all banks would pay the same premium. It is actually likely that they would pay different premia because of their, possibly, inherent different riskiness in different parts of the euro area. But we have to see how the details of this plan would unfold. But surely the ones who should be treated at the same level are the depositors, and this would be the right thing to do for them.

1-054-0000

Chair. – Thank you President Draghi.

(The meeting with Mario Draghi, President of the European Central Bank, closed at 17.10)