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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,
MONDAY, 28 NOVEMBER 2016

1-002-0000

IN THE CHAIR: ROBERTO GUALTIERI

Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 15.05)

Chair. – I now welcome European Central Bank President Mario Draghi to the European Parliament for the fourth monetary dialogue of the year. The previous one, as you remember, took place on 26 September. Last week we also had a debate in plenary with President Draghi, and Parliament adopted, with a broad majority, its report on the ECB annual report, confirming its support for the monetary policy of the ECB and recognising that the measures implemented are consistent with the bank's remit to keep price stability, protect the euro area from inflationary risk and contribute to re-launching economic growth. At the same time, Parliament's resolution emphasises that monetary policy support has to be accompanied by decisive action in other policy areas, namely socially balanced structural reforms and growth-friendly fiscal policies.

Since the last monetary dialogue, the ECB monetary stance has remained unchanged. Further to the decision adopted last March, policy measures continue to ensure supportive financial conditions and underpin the momentum of economic recovery, which is expected to proceed at a moderate but steady pace. Further to the Governing Council meeting of 20 October 2016, President Draghi confirmed that the EUR 80 billion monthly asset purchase programme is intended to run until the end of March 2017, or beyond if necessary. Precisely for that reason, there are strong expectations for the decisions to be taken at the next Governing Council meeting on 8 December, which should evaluate the possible extension of the asset purchase programme beyond March 2017, on the basis of updated macroeconomic projections.

Today, as usual, President Draghi will present the ECB perspective on economic and monetary developments. He will also discuss the two topics selected by the Economic and Monetary Affairs Committee coordinators in preparation for this monetary dialogue, namely the effects of negative interest rate on banks' profitability, and the functioning of the transmission mechanism for unconventional monetary policy in the euro area. We have done some preparatory work on these two items, with the contribution of distinguished scholars. President Draghi will also focus, in particular, on the economic and financial consequences of Brexit for the euro area. So we have a lot of interesting topics to discuss, and we have a lot of expectations as to your presentation, President Draghi. I give you the floor.

1-004-0000

Mario Draghi, *President of the European Central Bank***.** – Mr Chair, honourable Members of the Committee on Economic and Monetary Affairs, ladies and gentlemen, I am glad to be back at the European Parliament just a week after the plenary debate on the ECB's activity in 2015. This will be my last visit this year, so it is a good opportunity to reflect on upcoming challenges.

In 2016 the euro area economy proved to be resilient, in spite of uncertainty stemming from the economic and political environment. Inflation has gradually edged up, and the ECB's monetary stimulus has been a key ingredient of the ongoing recovery. In my remarks today I will first focus on the upcoming challenges at global and euro area levels. Then, at the request of this committee, I will discuss the still uncertain impact of Brexit and its implications from a Single Market perspective.

The global economy is expected to continue its recovery, although growth will remain slower than before the crisis. While showing signs of resilience, the global economy is facing significant political and economic uncertainties. In this context, one of the key takeaways from the 2016 World Bank-IMF Annual Meetings was that monetary policy cannot be the only game in town. It cannot generate sustainable and balanced growth on its own. To increase the effectiveness of monetary policy, fiscal and structural policies are needed that reinforce growth and make it more inclusive.

The euro area economy continues to expand at a moderate but steady pace, despite the adverse effects of global economic and political uncertainty. This gradual upward trend is expected to continue, not least owing to our monetary policy measures. In particular, our very low policy interest rates, the favourable lending conditions in our targeted longer-term refinancing operations and our ongoing asset purchases have resulted in lower borrowing costs. Firms are benefiting from improved conditions when seeking loans from banks and when issuing equity or new bonds. Smaller firms are also benefiting, both via lower borrowing costs from banks and from the increased capacity of banks to grant loans, while larger firms are increasingly seeking funding from the financial markets.

These conditions support higher consumption and investment. This is reflected by the gradually improving supply of loans to households and firms. Still – if supported by decisive action taken by other policymakers – monetary policy measures in the euro area could be even more effective. Low productivity growth, legacy problems in the banking sector and limited progress with structural reforms are all issues that need to be tackled swiftly. This would help close the output gap faster and increase growth potential, resulting in higher employment.

I am aware that the attention of our policymakers has shifted. In the direct aftermath of the financial crisis the need to complete Economic and Monetary Union came to the forefront of the European debate. Since then circumstances have changed. Today Europe's focus is more on security. Both projects require Europe to be united – to act together. However, let us not forget that Europe will be better able to protect itself if it has a strong and resilient economy. And for that purpose, Economic and Monetary Union will have to overcome the vulnerabilities stemming from its incompleteness. One important lesson from the crisis is that a half-built house is not stable, it is fragile. Progress is thus needed in all the unions identified in the Five Presidents' Report.

This committee plays an important role in ensuring greater financial sector resilience in the European Union and in completing the banking union. To this end, solid progress is needed on the current legislative dossiers. The European Parliament will also play a leading role in the context of the proposed revision of the Single Rulebook's legislative pillars: the Bank Recovery and Resolution Directive (BRRD), the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV).

Let me now turn to the repercussions of Brexit, which you have asked me to address in some detail. For both the euro and the United Kingdom, the Single Market has been a fundamental asset and a positive sum game. Bringing together European economies has allowed the European Union to reap efficiency gains and better satisfy demand. For sectors such as financial services, the ability to serve an EU-wide, interconnected market is a key factor of success. The Single Market also makes it possible for firms to benefit from the complementarities of various locations across the EU as part of the European value chains. Moreover, the free movement of people ensures that anyone can seek work where economic activity is concentrated as a result of agglomeration effects. Economic clusters in turn benefit from being able to recruit workers from across the EU.

The United Kingdom has benefited from the strong economic and financial links within the Single Market. In fact, more than 40% of the foreign value-added contained in UK exports comes from the rest of the European Union. Within the Single Market, the United Kingdom has been a major hub for wholesale banking activities. More specifically, the single passport means that UK-based banks can currently serve the rest of the European Union without needing to set up subsidiaries in other Member States, and vice versa. That implies sizeable savings in terms of capital and liquidity.

If, in the long run, the risk of a less open UK economy in terms of trade, migration and foreign direct investment were to materialise, there would be a negative impact on innovation and competition and, thus, productivity and potential output. Such developments would first and foremost weigh on the UK economy. They would to a likely lesser extent also have some limited adverse spillover effects on the euro area. The overall impact would, however, vary across countries depending on their trade links with the United Kingdom.

So far the euro area has weathered the fallout from the referendum outcome with encouraging resilience, also thanks to the preparations of central banks and supervisors on both sides of the Channel. The outcome of the vote led to a pronounced bout of heightened risk aversion, but the market reaction was short-lived and asset prices largely recovered in the weeks thereafter. Also, the euro area Economic Sentiment Indicator and the Purchasing Managers' Index, which declined in August, recovered in September and October.

In the United Kingdom, economic activity has also remained fairly resilient on the back of robust consumption growth. At the same time, uncertainty appears to have weighed on investment and the pound sterling. Economic activity in the United Kingdom is generally expected to slow down.

It is difficult to predict the precise economic implications of the United Kingdom withdrawing from the European Union. They will notably depend on the timing, progress and final outcome of the upcoming negotiations. Thus, it is important to have clarity on the negotiation process as soon as possible in order to reduce uncertainty. However, let me be clear. While the UK referendum did create uncertainty as far as the country's participation in the Single Market is concerned, the Single Market cannot go backwards. It is imperative that its integrity and the homogeneity of rules and their enforcement will be preserved. This also means we cannot take backward steps concerning the regulatory, supervisory and oversight framework for banks and financial market infrastructures, which has been enhanced considerably since 2008.

It is, in fact, essential to further strengthen and develop the Single Market. In the area of financial services we have made significant progress. The Single Market for financial services is now supported by the Single Rulebook for banks and by common supervisory institutions. Within the euro area we went further with the banking union. As I have said, we are not at the end of this process. For instance, financial integration through a fully-fledged Capital Markets Union could diversify financing sources for European companies. By fostering private risk-sharing, it can also contribute to a more resilient European economy.

Let me conclude. It is encouraging to see that recent opinion surveys show support for European integration increasing since the UK referendum, contrary to the expectations of many. At the same time, there are lessons to be learnt. The key lesson is that the European Union has to deliver on key objectives from the citizens’ perspective if it is to rekindle trust in the European project. And to address the widespread feelings of insecurity, including economic insecurity, the European project needs strong economic foundations. For the euro area economy, this means strengthening the recovery, preserving financial stability and addressing the remaining vulnerabilities of the Monetary Union. Thank you for your attention and I now look forward to our discussion.

1-005-0000

Burkhard Balz (PPE). – President Draghi, thank you for coming here once again. When we had our last dialogue in September my question focused on the consequences of a potential Brexit and your view on the long-term monetary and economic impact. I think you probably agree that uncertainty prevails, and now we are facing the constitutional referendum in Italy next Sunday. Prime Minister Renzi has closely connected the outcome of the referendum to his fate as Prime Minister. As the situation of the Italian banking system is not a comfortable one, to put it mildly, the developments in Italy are being followed closely not only by policymakers, but also by economists and financiers. My question is: are you concerned about the potential impact that a negative vote in the referendum could have on the stability of the Italian banking system?

Then, another prominent issue in recent weeks was certainly the emergence of Donald Trump as winner of the US election – another source of uncertainty and, even more so, unpredictability. There are serious concerns about the impact not only on international trade but also on the European Union’s economic growth and financial stability. Do you share these concerns and, if so, how will economic growth and financial stability be affected?

1-006-0000

Mario Draghi, *President of the European Central Bank***.** – Well, looking at recent events, it is quite clear that geopolitical uncertainty has become the major form of uncertainty about the coming months. But the pattern we have seen so far is one, perhaps, of significant reactions in the very short term, then these reaction have seemed to subside – which leads us to the initial conclusion that markets have been more resilient than one would have expected a few years ago, and that financial intermediaries are also stronger than they would have been a few years ago with this sort of significant oscillation in prices.

Does it mean that we know what is going to happen in the medium term? The answer is no. These changes, all of them really, are quite profound and are going to affect the reality not only of the coming months but also of the coming years, so it is very difficult right now to assess exactly what the final impact will be. However, we know certain things that we should do, regardless of what happens elsewhere, and first and foremost we should continue with our recovery so as to firm it up and consolidate the improvement in the labour markets with job creation.

We have seen several million new jobs created in the past two years and we should continue on that basis. Secondly, we should continue with the single market and continue strengthening this foundation of our Union. Thirdly, we should preserve financial stability. Enormous progress has been made on that front and what we certainly would not want now is to unravel it or go back on it, because we should not forget the lesson of the great financial crisis. It was actually the continued, protracted disruption of all the financial regulation that had been put in place – disruption which occurred, by and large, in the early 2000s – that led to the great financial crisis, and we certainly do not want to repeat that. So: stronger growth, continued progress with the single market, preserving financial stability and the progress we have achieved so far, and continuing to improve the labour market.

1-007-0000

Pervenche Berès (S&D). – Mr Draghi, I sent you a written question on the merger of the London Stock Exchange with the Deutsche Börse, a topic on which it would be useful to have the ECB's opinion. I hope that you pay particular attention to this question.

But I would like to return to the issue that we discussed last week in plenary, and that my colleague Burkhard Balz again referred to: the impact of Donald Trump's election victory and its possible consequences on economic and monetary policy.

Last week, you told us that it was difficult to anticipate and assess, in principle, the impact of the election and a possible rise in interest rates in the USA. Whilst we were in Washington for the annual conferences, it was striking to see that all the emerging countries represented were concerned about the ramifications of such an interest rate hike in the USA, while totally disregarding the economic impact it could have on their own countries.

It seems to me that Europe is more or less in the same boat, that is to say I don't believe the state of the European economy and its resilience to shocks to be determining factors in the US Federal Reserve's decision-making concerning a possible increase in rates.

My question is therefore two-fold: first, what is your assessment of the impact both on monetary policy and on the real economy of a possible increase in US rates and, second, since the election of Donald Trump have you spoken with your counterpart Janet Yellen on developments in US legislation, and in particular a challenge to the Dodd-Frank Act?

1-008-0000

Mario Draghi, *President of the European Central Bank***.** – First, we should note that the recovery in the USA is at a different stage than the recovery in the euro area. They are at a much more advanced stage. In this different situation now, we will have to see what the policies of the new administration will be in order to assess the effects on interest rates. Let me add, however, that it is not only interest rates that matter, but also more generally what we call 'financing conditions', namely a constellation of interest rates, exchange rates and other rates and stock prices, equity values and bond market prices, so we will have to see exactly what happens there. At our monetary policy meeting in December we will assess the various options that would allow the Governing Council to preserve the very substantial degree of monetary accommodation necessary to secure the sustained convergence of inflation towards levels below or close to 2% over the medium term.

In reply to your second question, the answer is no. We have not had a chance to discuss with my counterpart at the Federal Reserve the assessment of the new situation, but we will soon have a way to assess the new administration's stance as far as regulation is concerned because there is going to be a series of meetings, including in the Basel Committee on Banking Supervision, in the coming months where we will see what exactly the regulatory stance of the new administration will be.

1-009-0000

Bernd Lucke (ECR). – Good afternoon, Mr Draghi. I will speak German. Are you okay with that?

I should like to ask you about the ECB's corporate sector purchase programme, the CSPP, which has been operational since June 2016. The ECB announced that data on this programme would be made public: each week the holdings of securities by the six participating central banks, i.e. the six central banks conducting the purchases, would be published.

As things have turned out, on the websites of these central banks the current holdings are indeed published each week, but only the current week's: each week the old data from the previous week is overwritten. And the Deutsche Bundesbank has rejected a request to make the previous data available again upon request. Informed of this, I tried in my capacity as MEP to obtain this 'historic' data, and was indeed able to obtain it without a problem from five of the participating national central banks – but again not from the Bundesbank.

My question to you is therefore: Can you explain why the Bundesbank is unwilling to provide interested citizens with data which had already been made public but which it has overwritten on its website? And will you take steps to ensure that all central banks in the ECB system comply with the same standards of transparency, so that the Deutsche Bundesbank, too, makes information that was previously published available again to interested parties?

1-010-0000

Mario Draghi, *President of the European Central Bank***.** – First, let me say just one thing about the corporate bond programme, which has been quite a success. Today's data show that lending to non-financial corporations, namely firms, is now at the same level as in mid-2011, so it is going up. We are still at levels that are, by and large, what we would call subdued. However, they have been steadily increasing and we have seen a return to the levels of five years ago.

Having said that, I am not aware of the situation you refer to in your question. I will look into it and I will send you a written response if you wish. I will make sure that everything is clear, with the reasons why this is so, and so on.

1-011-0000

Bernd Lucke (ECR). – If I may take this a little further: Do you not agree with me in principle that all participating national central banks should display the same degree of transparency towards the public, and that it is therefore incumbent upon the Bundesbank to publish the same data as is made available without demur by other central banks?

1-012-0000

Mario Draghi, *President of the European Central Bank***.** – I can certainly agree in principle but I will have to see the reasons why this is not being done. I will give you a full and complete answer in writing on this issue.

1-013-0000

Bernd Lucke (ECR). – That would be appreciated.

1-014-0000

Sylvie Goulard (ALDE). – Brexit, Donald Trump's election and all pending issues concerning eurozone governance seem to me to raise, in fact, the same issue, namely eurozone sovereignty; the pooled sovereignty of sharing the same currency in our region. This can be measured both in the degree of oversight we have over instruments that could endanger our financial stability – such as clearing houses, for example – the profitability of banks, and the strategic existence in the eurozone of a banking sector that is independent from the rest of the world.

I therefore have two specific questions: is the ECB is working on this issue and could we perhaps enter into a deeper dialogue with your staff? Could you provide us with some reflections on your strategy? We often have technical discussions with the ECB, something we very much appreciate and from which we learn a great deal, but could we take a more strategic approach to this issue of sovereignty?

Secondly, do you agree that at some point we should draw the attention of the European Council – the Heads of State and Government of our various countries that find it hard to think together as one – to the magnitude of these challenges in, as you yourself repeated, a particularly turbulent global context?

1-015-0000

Mario Draghi, *President of the European Central Bank***.** – In the coming months and during the upcoming negotiations following the outcome of the British referendum, there will certainly be issues of sovereignty in various parts of our payments framework, infrastructure framework, clearing systems and so on and so forth, so we will have to see exactly how to structure all these issues.

One thing, however, should be clear. We have a location policy for payment systems but we do not have a location policy for market infrastructures. However, that has nothing to do with Brexit or with UK sovereignty. It is simply that, under the current European Market Infrastructure Regulation (EMIR), the ECB does not have a remit for such a policy. If one wants to change that, it is basically the legislators – you – who might do that by changing either the legislation or the statute of the ECB.

More generally, however, your point is valid: there are going to be several issues that will pertain to sovereignty. But this is more a general issue and one which, if we want progressively to tackle the many vulnerabilities of the Monetary Union, we will have to address: namely, how countries can respond better to their citizens' needs, concentrating their resources and, to some extent, sharing sovereignty in the areas where they consider it necessary, or going on their own. The answer is that the more supranational the problem is, the more efficient and effective will be a joint response. I think that is the practical, pragmatic perspective that our founding fathers had, back at beginning of the European Union.

1-016-0000

Marisa Matias (GUE/NGL). – Mr Chair, Mr Draghi, we have spoken quite a lot here about Brexit and the impacts it may have on the eurozone, on stability in the eurozone and on the European Union itself.

Since I have this opportunity to put a question directly, I am going to take it, since I believe that we cannot look only at issues such as Brexit but that we must also consider internal issues.

We have seen a huge amount of speculation in recent months centring on the question of whether or not the quantitative easing programme will continue after March. As you know, this programme has been one of the few European policies to stimulate the economy, and unfortunately we also know that its beneficial effects have been sabotaged to some extent by the obsession with budgetary consolidation and procyclical fiscal policies. However, we also know that the involvement of central banks in acquiring government securities has made it possible to finance economies such as the Portuguese economy, which have unsustainable levels of debt.

Whenever the ECB has sent a clear message, it has guaranteed stability. Whenever it has left the situation uncertain, it has had precisely the opposite result – market instability, debt – and in the end it has added to the uncertainties that have in many cases led to the worst-case scenarios becoming a reality.
Mr Draghi, I am therefore taking this opportunity to ask what exactly the ECB's position is, since in earlier statements you have said that the programme would continue for as long as we did not see a lasting rise in inflation, and this would require economic recovery.

At the moment we have neither one thing nor the other. I am asking you as directly as I can: why has the ECB not yet announced the continuation of the quantitative easing programme after March? Because otherwise we could be on the point of ruining peripheral economies, and you know this better than I do.

1-017-0000
Mario Draghi, *President of the European Central Bank***. –** Let me just restate, in answer to your question, that at our monetary policy meeting in December we will assess the various options that would allow the Governing Council to preserve the very substantial degree of monetary accommodation necessary to secure the sustained convergence of inflation towards levels below, or close to, 2% over the medium term. So we will have to wait.

1-018-0000
Marisa Matias (GUE/NGL). – This means that we will have another month of uncertainty.

1-019-0000
Chair. – Please continue, you have time, if you wish.

1-020-0000
Marisa Matias (GUE/NGL). – If Mr Draghi does not wish to reply, it is because there have in fact already been contradictory statements.

Neither of the two conditions that you have said would lead to the programme being discontinued currently applies. Consequently, I fail to understand this delay, I believe that the public cannot understand it either, and it is generating a high degree of instability in the eurozone, as you are well aware. And yet we are still prolonging this uncertainty.

1-021-0000
Mario Draghi, *President of the European Central Bank***. –** We don’t have the same view. This is a Governing Council decision that will be taken in December, and the terms of the decision, if you listen to the words I have said, are what I said before. If you want, I can restate them once again. At our monetary policy meeting in December we will assess the various options that would allow the Governing Council to preserve the very substantial degree of monetary accommodation necessary to secure the sustained convergence of inflation towards levels below or close to 2% over the medium term.

1-022-0000
Marisa Matias (GUE/NGL). – Thank you, Mr President. I asked you a political question and you have answered me with bureaucracy, but thank you all the same.

1-023-0000
Chair. – Your speaking time is up. In any case it is only in a few days’ time so we will see very soon.

1-024-0000
Molly Scott Cato (Verts/ALE). – I should start by saying that I am a British Green MEP and so I have always opposed Britain joining the euro. I did that largely for political reasons because I was concerned that there was not enough political underpinning in terms of a coherent agreement between different Member States to support a strong currency, but the situation with Brexit has caused me to rethink.

As somebody who has always been a fan of sterling, as most Brits are, I think this is quite an important rethink that we need to undertake because it appears that the decision to leave the EU, and especially the decision to leave the single market, has weakened the international credibility of sterling. Standard & Poor’s are threatening to take away the pound’s reserve currency status, Paradoxically, this might enhance the credibility of the euro, although that effect might be counteracted by the withdrawal of the leading European financial centre from the EU.

I maintain my view that the euro will continue to be weak until it has sufficient political underpinning, so I am afraid I think we need to consider the politics of this, even though I understand your remit does not cover politics, while ours clearly does. More specifically, I would like to ask whether there are threats to employment in the City from the possible ending of access to the euro payments settlement system. However, in order to get the political underpinning that we need to make the euro successful, clearly we need to have citizen buy-in to that. I wonder what your position is on that, whether you think we should be doing better as politicians in making that argument, particularly in view of the rise of far-right parties which are threatening not only the European Union but also the euro as a single currency?

Also, what is your judgment about the impact on sterling of the Brexit decision? Do you agree with Standard & Poor’s that the pound should cease to be a global reserve currency? Do you think that Brexit will mean the end of euro clearing in the City, and what will be the practical impact on the UK financial sector if it does?

1-025-0000

Mario Draghi, *President of the European Central Bank***.** – You are asking me many interesting but difficult questions, and also questions that, as you said yourself, I am maybe not exactly the best person to answer in the sense that, as you said, they are a little out of my remit. But to many of the questions you ask, there is one answer which is: we do not know. And the reason why we do not know is that we have to see exactly what the final shape of the negotiations will be, and how long these negotiations will last. It is pretty clear that the longer they last, the bigger will be the uncertainty.

Let me step back. The present situation, and the situation of the last few years, was one where the City of London was able to realise the highest economies of scale for the financial services industry that only New York in the rest of the world actually had. Now, how will this change? We do not know. Will this be recreated somewhere else? We do not know. Would the considerable amount of benefit that such economies of scales have created for the European Union, for the United Kingdom, be repeated elsewhere, or will there be a migration to the United States? We do not know.

These are all issues that we are looking at, but we should also say that we are also looking for a concept by the UK Government, for a concept where the UK Government would in a sense share its views and plans with its own citizens and see what they say about that before we can actually express our views on this.

1-026-0000

Marco Valli (EFDD). – Recently, in addition to the referendum in Italy, attention is turning also to the election runoff due to take place in Austria, on the same day, 4 December. Just last week the Freedom Party candidate – whose approval rating, according to the polls, currently stands at more than 50% – issued statements according to which, if Europe continues centralising its power, Austria will be forced, with him as candidate and subsequently as president, to hold a referendum on its continued membership of the EU.

Faced with these statements from a person who is running at over 50% in the polls, and who therefore has a chance of governing Austria, I wanted to understand whether the European Central Bank was also preparing for scenarios whereby a country like Austria – and so we're no longer talking about the UK here, but about a country in the euro area – were to decide, by referendum in this case, to leave the European Union and therefore, to some extent, break with, pull the plug on, monetary union.

Secondly, as regards – very swiftly – the issue of the Italian banks which, regardless of the outcome of the referendum, nevertheless have a delicate situation to manage, I wanted to understand whether, if the banks have difficulty in recapitalising, we will still have to use some EU-regulated system, because today, unfortunately, we have European rules for managing resolutions and crises. I wanted to understand whether the ECB has also thought of some solution to prevent panic from taking hold, however justified it might be, precisely because the situation is systemic.

1-027-0000

Mario Draghi *President of the European Central Bank***. –** On your first question, let me say that first of all more generally, without focusing on one country only, we see that, in spite of the rise in support for eurosceptic parties in recent years, opinion polls suggest that citizens are not opposed to European-level decision making per se. They appear to say something different: they would like to have the European Union concentrate on their key concerns, to protect them from economic and security risks, and to provide solutions to problems with a clear transnational dimension such as migration, such as security, terror, climate change.

By and large citizens have remained supportive of the single currency even in difficult times. Popular support for the euro has remained high throughout the crisis. However, support for national and European institutions dropped notably over the past few years. So it seems that citizens' criticism is the reflection of a desire for stronger legitimacy/risk links in European level decision making.

As far as the ECB is concerned, first of all we have to see whether these changes in European citizens' views are long-term or medium. What we can do on our side is to do our best to put in place policies that strengthen the recovery, firm it up, improve the conditions of the labour market and preserve financial stability.

Having said that, responding to your second question on Italian banks, the ECB has foreseen no special [measures], nor would this actually fit our remit to intervene. We have our European Union rules, we have the directives, and the best contribution that the ECB can make to the process is to make sure the supervision and regulation is well designed and well implemented.

1-028-0000

Bernard Monot (ENF). – President Draghi, I wish to ask you about two main topics: TLTRO programmes were supposed to boost the productive economy and address shortcomings in the LTRO programme of 2012. Enough time has now passed, we believe, to take stock.

Aside from the gifts the ECB bestowed on banks, do you believe that the objective of increasing funding to companies in the eurozone was met? Do you have statistics on the overall situation and a few specific examples to give us?

My second point concerns the single supervisory mechanism (SSM) and its management. What is your opinion on the new criticism made in the report of the Court of Auditors? It would appear that there are insufficient resources with which to carry out this new supervisory work and your teams are sometimes overworked, and even badly organised at times. The ECB is ultimately heavily dependent on the national authorities in carrying out this oversight. This therefore wholly circumvents the first pillar.

The second pillar of the BRRD is inapplicable, as the Italian crisis or the case of Deutsche Bank show. And the third pillar will never see the light of day, since Germany is against it.

For patriots, the SSM has therefore failed. Why not, therefore, completely shelve the banking union and give countries back their sovereignty over their national banking systems?

1-029-0000

Mario Draghi, *President of the European Central Bank***. –** The first answer is that actually the TLTRO programmes and the corporate bond programmes have by and large achieved their objectives. Financing to the non-financial companies, the corporates, who are the real economy, as I was saying a moment ago, is going up constantly, and now we are back at the levels of five years ago. We have seen that the corporate bond programme has also freed up space. This is often a question I am asked: isn't our policy favouring the large corporates? In fact it is not. The corporate bond programme has freed space in the banks' balance sheets so they can lend more to SMEs. And this is what we see through the data, month by month.

On the other point, concerning the report of the European Court of Auditors, let me first say that we appreciate the report very much, it is actually, as I will say in a moment, helpful to address some of the concerns that have been raised in the report. It basically provides a fresh perspective and it identifies areas where there is room for improvement.

Having said that, we should not forget that the SSM is an extraordinary achievement, because to build up one system of supervision for 19 countries and I don't know how many thousands of banks in two years, well, I think it's an achievement. But of course I am a biased observer, so take it for what it is worth.

We agree with the European Court of Auditors' assessment on the need for resources to the SSM, so that definitely the SSM needs more resources and we are going to have a discussion in the Governing Council very soon, before the end of the year, on this point. I completely agree with the European Court of Auditors' assessment on that.

Now, within this context the European Court of Auditors also raises the issue that you hinted at, showing that the site inspections are mostly run by national competent authorities. Now one has to understand that if you have to hire thousands and thousands of people in a short time, one is bound to make big mistakes. Just now more than a thousand people have been hired. So there is some sort of sharing of the on-site inspections between the ECB and the national authorities. The thing one has to understand, however, is that the SSM is not the ECB only, it is the ECB and the national competent authorities.

Having said that, we can increase gradually the number of on-site inspections done by the central authority of the ECB. But we should not forget that it's all the elements, it's not just one cake in Frankfurt, the national competent authorities have the history, the competence, the tradition and the knowledge to be very effective, and we should put all this together.

Also not to be disregarded is the fact that often the joint inspection teams, even though run by national competent authorities, even though being carried out by national elements, also often have elements of different nationalities. In other words you have inspectors from Germany looking at banks in other countries, as well as inspectors from Italy and France looking at other countries, so you don't necessarily need to have someone from Frankfurt to guarantee that independence. Having said that, as I said, this is another helpful comment that will allow us to increase the number of on-site inspections carried out from Frankfurt.

There are other concerns raised by the European Court of Auditors, but since you didn't make any reference to that, I will not address them now. If I am asked I will have something else to say.

1-030-0000

Danuta Maria Hübner (PPE). – I have two questions. One is related to the capital markets union because this year we might have some initial results, or some legislation already in place, and we might begin the process of contributing to certain changes in the structural financing of the economy. I do not think there will be a rapid shift away from bank-based financing, but a certain evolution, I think, might start. My question to you is – given that you can also take a macro-prudential point of view, looking at the situation from the point of view of the impact on the efficiency and effectiveness of monetary policy, and I do not know whether you already engage in this kind of reflection in the ECB – what the capital markets union might mean for monetary policy?

My second question is related to the fact that, from time to time, we hear, particularly in the media, a rumour that the ECB might run out of bonds to buy, and to my understanding that this rule of -0.4%, this yield threshold, is self-imposed and can therefore probably be reviewed. The question is whether you could shed some light on this process and clarify where we are and what the real situation is?

1-031-0000

Mario Draghi, *President of the European Central Bank***.** – On your first question, one of the experiences we had from the great financial crisis is that it would be much better to have different channels for the transmission of our monetary policy to the real economy, and not rely exclusively on the banking channel as we had to do during the crisis, because the banking channel used to represent more than 80% of total intermediation at that time – now it has gone down a little. But certainly, to have also the possibility of using the capital market channel from a monetary policy perspective would also be very important.

Of course we have to keep this in mind – we may actually come back on this during the SRB hearing – as we move from banking to capital markets. We are moving from the banking to the non-banking sector, or shadow banking, and as we do this, we should think about what is the prudential regulation there, what is the regulation framework there? But that is different, not necessarily relevant to the transmission of monetary policy, so I completely agree that it would be better to have a well-functioning capital market provided it is not fragmented. And that is where steps are needed in the coming months, the coming years: to create one capital market we have to overcome fragmentation that still is there.
On the second question, the scarcity of bonds, I think I have said many times we are in a position to address this problem. We are not bound, our programme is sufficiently flexible that it can be revisited to, as I said before, preserve the substantial degree of monetary accommodation necessary to achieve our objectives.

1-032-0000

Pedro Silva Pereira (S&D) – Mr Chair, Mr Draghi, the European Central Bank has made insistent calls for a more growth-friendly fiscal policy at European level. Mr Draghi has again stressed this point today, when he said that monetary policy cannot be the only game in town and we need fiscal and structural policies that reinforce growth.

As it happens, there is a new development: the Commission has just proposed a moderately expansionary fiscal policy for the coming year.

I should like to ask you whether you consider this to be a positive development, whether it corresponds to the calls made by the European Central Bank, and whether you consider the proposed volume of 0.5% of GDP to be sufficient to stimulate growth.
I would also point out that the Commission recognises that the budgets that it has just assessed for the coming year do not point to this expansionary fiscal policy but to a policy that is still restrictive, and it has invited Member States to go further in their fiscal policies.

Do you believe that it would be desirable if Member States with more fiscal space could respond to the calls made by the Commission?

1-033-0000

Mario Draghi, *President of the European Central Bank***.** – We take note of the Commission communication entitled ‘Towards a positive fiscal stance for the euro area’. We have said, and you reminded us a moment ago, that in order to reap the full benefits of our monetary policy measures, other policy areas must contribute much more decisively, both at national and European level.

Fiscal policies should support the European recovery, but they also have to remain in compliance with the fiscal rules of the European Union. We agree with the Commission's emphasis on the composition of fiscal policies; several times we have said that countries should strive for a more growth-friendly composition of fiscal policies.

The concept – and that is part of the Commission's proposal – of the euro area fiscal stance, if correctly interpreted, can be a useful input into our policy discussion. However, it is not a legally binding constraint on Member States, which continue to be bound by the Stability and Growth Pact.

Member States' draft budgetary plans for 2017 imply a broadly neutral euro area fiscal stance, which appeared to strike a balance between aggregate stabilisation and sustainability needs. As stressed by the Commission, the contribution of individual Member States to the area-wide stance as outlined in the draft budgetary plans is sub-optimal. So Member States whose plans are at risk of non-compliance need to take additional measures to ensure compliance with fiscal rules, while other Member States have scope to use available fiscal space.

The Governing Council supports the Commission's call for further enhancing the European Fund for Strategic Investments – the extension of the Juncker plan – and looks forward to the Commission's White Paper on deepening MU scheduled, for March 2017.

1-034-0000

Markus Ferber (PPE). – Thank you, Mr Draghi. I have two short questions. The first concerns the handling of non-performing loans (NPLs). In your latest Financial Stability Review, from November 2016, you state that the European banking sector is suffering from the very large stock of non-performing loans. A key reason for this, you say, is the fact there is no functioning market for NPLs in the European Union. Can you explain a bit why that is so? What can be done about this at a regulatory level? And why did you not launch a consultation procedure on this until September 2016? The problem has been known about for a long time.

My second question is as follows. We note – I can see here from the current chart from your website – that the TARGET balances have almost returned to the level of spring and summer 2012. Do you see it as a cause for concern that the TARGET balances are back at such high levels? Or do you consider this to be appropriate, partly in the light of the fact that the balance sheets show that your largest debtor is the country of Italy, followed by Spain?

1-035-0000

Mario Draghi, *President of the European Central Bank*. – On non-performing loans (NPLs) I would agree with you. First of all it is a problem, and needs to be addressed convincingly and firmly. If it is not addressed it simply hampers the banks' profitability and their capacity to give credit to the real economy.

There are several changes that need to be introduced in order to create a market for NPLs where it does not exist, and as these changes require legislative changes, how to create a market to best sell and price NPLs. There must be changes in terms of out-of-court settlements, the participation of intermediaries that are competent enough to deal with this, changes in the judiciary procedures. But more generally, the NPLs are a legacy problem. When we see some of the legislative changes that have taken place they only address NPLs for the future, not for the past. So in that case clearly their usefulness is pretty limited, so improvements are needed there.

On TARGET2 it is true that TARGET2 balances have gone up, but they started going up since the beginning of our asset purchase programme, and there are some technical reasons why this is so, namely almost 80% of the bonds that are being purchased by national central banks within this programme are sold by parties that do not reside in the same place as the purchasing national central bank, and roughly half of them accessed the TARGET2 system via the Bundesbank. And so naturally you see TARGET2 balances going up in Germany. But there is also another a reason, namely that the purchasing of assets induces portfolio rebalancing effects on the part of the sellers of these assets, and in recent times, some of them have sold bonds and are buying other securities, not the domestic securities but other securities, or other forms of investment.

So we see the TARGET2 balances going up, but I would not say that this has something to do with the experience we had in 2012. The two phenomena are inherently different, there is no crisis of trust in the euro at the present time that would justify such increase in target balances.

1-036-0000

Costas Mavrides (S&D). – Mr Draghi, I will speak in English. Regardless of the UK participation in the single market, and whether there are going to be any changes after Donald Trump's election, you stated – correctly, I think – in your initial statement, that certain things in the eurozone must proceed, including the completion of the banking union. I would like to ask you two specific questions about the banking union, this time not about the third pillar.

Firstly cooperatives – on the basis of the EU Treaty, cooperatives are legal entities with particular operating principles.

Cooperatives – I am reading straight from Article 54, cooperatives, yes – are 'primarily groups of persons or legal entities with particular operating principles that are different from those of other economic agents'. Fair enough?

Meaning cooperative institutions, including credit institutions.

I am reading straight from Article 54 of the EU Treaty: 'groups of persons or legal entities with particular operating principles that are different from those of other economic agents'. Do you think that the banking union, as it stands, is fair to institutions of this type? Are these different, particular operating principles being acknowledged in a practical way within the banking union? That is my first question.

My second has to do with different decisions being made by national competent authorities regarding regulations and European legislation generally: about terms being used by banks in contracts – unfair terms and practices by banks.

1-037-0000

Mario Draghi, *President of the European Central Bank***.** – Well, answering your second question: if I understand correctly, that has to fall under consumer protection, namely making sure that the terms and conditions are fair and equitable as far as the bank's clients, are concerned. I think that falls within the remit of national competent authorities right now.

On the other point about cooperatives, the issue is whether the current terms of the banking union – meaning supervision, meaning the capital regulation – treat cooperatives in accordance with the terms of the Treaty, is this the question?

Okay, then I can give you half an answer, in that the application of the proportionality principle is soundly rooted in the supervisory practices and regulatory practices. The other half of the answer I will give to you in writing, because I think it is a good question and needs to be checked.

1-038-0000

Werner Langen (PPE). – Thank you, Mr Draghi. We would be grateful if you could give us your arguments for the higher TARGET balances that Mr Ferber asked about again in writing and explain what the reasons are. I am afraid I have not quite understood it. Especially since this is an additional risk factor.

If I remember the figure right, the ECB balance sheet now stands at EUR 2.8 billion. We have been discussing the risk assessment of government bonds for some time, not only in the Basel Committee, but also among the wider public. Where will things go from here in the USA? Compared with Brexit, I think in terms of the financial markets the problem is far more serious for Italy because it is more short-term. The ECB has already purchased a lot of Italian government bonds; the threshold of 33% that was set has almost been reached. How do you assess the prospects for getting Italy out of the debt trap? Who could take responsibility for that?

I come to my second question. If interest rates rise in the USA, is it not going to be extremely difficult for the ECB to maintain its current policy? Could an about-turn – as your Executive Board member Yves Mersch has said – come sooner than has been predicted and asserted in all the analyses so far? To what extent is the ECB still free to press on regardless if the dollar rises and the euro continues to fall?

1-039-0000

Mario Draghi, *President of the European Central Bank***. –** To answer the first point, the risks of our asset purchase programme fall 80% upon the national central bank. So from this viewpoint, the European Central Bank is protected for 80%.

It is quite clear that a protracted period of time with low or negative interest rates and ample liquidity are a fertile terrain for financial stability risks. They can come from some other large foreign jurisdiction raising rates, they can come from other sources. What we can say is that we are monitoring these risks very closely, we have the instruments to cope with these risks, and right now the greatest risk comes from impaired growth. The greatest risk comes from the possibility that our recovery does not firm up and stalls. That weakening of growth prospects could be the most serious risk we face today. But having said that, we certainly do not ignore financial stability risks, we continuously monitor them and we are aware of the complications of this protracted period of great liquidity expansion.

1-040-0000

Werner Langen (PPE). – In the Brexit context we hear talk of what could be unfair tax competition being announced in the UK. Since tax competition is already a very serious problem within the EU, especially on the part of smaller countries against large countries, how do you assess this risk arising from Brexit, even if it only arises in the longer term?

1-041-0000

Mario Draghi, *President of the European Central Bank***. –** Well, you often say that we have so many competences that we become too powerful, but we are not yet the tax authority.

(Laughter)

1-042-0000

Werner Langen (PPE). – I was not asking you about your authority on this issue, but about your views as to whether it was a risk for the euro area and for economic growth.

1-043-0000

Mario Draghi, *President of the European Central Bank***. –** No, but I think that you would all tell me that we are out of our remit if we were to express views on tax policies in other countries. That does not really fall in our remit now.

1-044-0000

Jonás Fernández (S&D). – Mr President, I am going to ask you two questions. The first is about Brexit. We have practically said it all at this session, but there is one point which I would like to stress, and it also relates to the debate on the Commission's fiscal stance. How do you view the new fiscal package which the British Government intends to adopt in order to cancel out or contain the adverse effects of a possible Brexit and how much does this forthcoming adjustment, or fiscal stimulus, in the United Kingdom have to do with the stimulus that the Commission is seeking to provide? The question is how far the Commission proposal might be dwarfed by the British fiscal stimulus, taking into account also the aims of monetary policy as regards the effects on the exchange rate.

My second question is about Trump's victory in the United States. It seems that in the short term the Fed might raise interest rates sooner, but the fact is that in just over a year's time there will be a change at the Fed, which might mean, given what the President-elect has said about the Fed's independence, that someone more unconventional will be chosen to head the Fed and that person could rethink interest rate policy as a whole, which might in turn cause the value of the euro to rise, thus making the medium-term monetary policy goals more complicated to achieve.

1-045-0000

Mario Draghi, *President of the European Central Bank***.** – On your first question, exactly what is the impact of the budgetary plans of the United Kingdom upon the euro area, I do not have enough knowledge to assess this impact. But in all these discussions we should never forget that, no matter how relevant economically, and especially financially relevant, the UK is, it is a smaller reality than our euro area.

It will certainly have an impact, but first of all I would not know how to assess the direction of it right now; and second, the size of this impact is by definition bound to be contained, given the disproportion in size of the two entities. This holds true for lots of other things, lots of other questions, in terms of how worried we are about the developments in the UK as they can affect our reality.

On the other question, I must confess I am not privy to the programmes of the new US administration as far as the Fed's personnel or the Fed's Chair is concerned. More generally, I can say that undermining the independence of central banks is not in anybody's interest – first and foremost in the interest of the jurisdiction where the central bank is located.

1-046-0000

Siegfried Mureşan (PPE). – President Draghi, the first issue I would like to raise is Italy, and I would like to follow up the questions asked by colleagues Balz and Langen to which you have not yet found the time to answer. The question is: next year Italy will have to refinance about EUR 300 billion of its debt. Is this a reason for worry for us, and also for you as central banker, and should the interest rate at which Italy will be able to refinance be above the 3.4% or so which is the average interest rate of the bonds which come to maturity? Do you see a need for the ECB to act, to intervene, and should the OMT programme be a part of the solution? Do you expect from the Italian Government a readiness to commit to an ESM type of reform programme?

The second issue which I would like to briefly bring up is the collateral shortages. Basically, since the financial crisis we have seen of course an increased demand in collateral which was not necessarily met by an increased supply of high-quality assets. What thoughts and updates do you have on the securities lending arrangements and what is the ECB's approach to improving collateral availability in the repo market?

1-047-0000

Mario Draghi, *President of the European Central Bank***. –** On Italy's public debts – and by the way, you seem to have all the answers yourselves, so I actually wonder whether I can add anything – by and large the sustainability of a country's debt should primarily be gauged from its willingness and ability to pay its debt obligations, and on both counts the Italian debt is sustainable. With regard to the ability to pay, let me note that Italy has one of the highest primary surpluses among euro area countries. The borrowing costs have normalised in recent years and Italy's growth is gradually recovering.

That does not mean, as we say, that there is room for complacency. It has one of the highest debt-to-GDP ratios amongst the euro area countries and therefore it is vulnerable to shocks. So it is important that the country lives up to its commitments under the Stability and Growth Pact, including running sizable primary surpluses and especially persevering in its structural reform effort.

Of course it is very important to raise, to lift, the growth potential of Italy and therefore durably improve the sustainability of its public debt. Having said that, there have been some encouraging steps in terms of both fiscal governance and the banking sector and so some improvements have taken place but as I said before, there is no room for complacency here.

On the second point, as far as collateral is concerned, we have a risk framework for collateral and this risk framework is being revisited. I think we had one revision. It has been revised with varying frequency, but at least once every year-and-a-half to two years if I am not mistaken. We had one revision recently and so far everything is in good order.

Excuse me, just one point on the securities lending programme, you asked me about that. That is very important. It is very important for the good functioning of financial markets. In the previous weeks it was falling short of what would be optimal. It is also very much in the hands of national central banks, by the way, so we are gradually upgrading this and it is recognised by the Governing Council as a 'need to do'.

1-048-0000

Georgios Kyrtsos (PPE). – I have two questions. Firstly, in Greece we hope that there will be short-term measures concerning the country's public debt that will further reduce the cost of servicing the debt during the coming years. These measures will be in accordance with Eurogroup decisions taken in May 2016. On the other hand, in the European Union we face an environment of gradually increasing costs to finance the public debt of certain European countries, due to developments in the United States of America and some kind of political instability in the European Union. So what should Greece expect in terms of short-term measures concerning our public debt?

Secondly, President Draghi, you keep underlining the point that for the monetary policy implemented by the European Central Bank to be successful it has to be combined with a constructive fiscal policy and progress in structural changes. Nevertheless, a lot of European Union governments face political difficulties or crucial elections. It seems to me that we will have to wait until the end of 2017 to find out how many Member States will be able to contribute to formulating and implementing a comprehensive and effective economic policy. Do you think that the ECB's monetary policy will be able to cover the gap I just described during the next 12 months?

1-049-0000

Mario Draghi, *President of the European Central Bank***. –** The first thing is that, looking at the discussions taking place among the various stakeholders in the Greek adjustment programme, it is clear that there are still serious concerns regarding the sustainability of public debt in Greece. So it is in the interest of the euro area as a whole, and of Greece itself, to find a lasting solution that would ensure the sustainability of Greece’s public debt, both in the short term and in the longer term.

We know that, following the Eurogroup meeting of 7 November, the first set of short-term debt measures is being prepared and we look forward to an agreement on such measures in the context of the next meeting. So we are looking forward to a solution that could restore full confidence in the sustainability of public-debt dynamics and address the many risks surrounding the programme.

1-050-0000

Jakob von Weizsäcker (S&D). – President Draghi, I have two questions for you. The first one has to do with Donald Trump’s infrastructure plan, which might be a bright light in the post-election darkness in the USA. Apparently, just today, his plan received strong backing from the OECD, which predicted that it would increase US growth, combat inequality and energise discouraged workers. That is what the OECD is saying. Let us hope that the plan fulfils what the OECD predicts, but my question is different. If, for example, the German Government were to come up with a similarly ambitious infrastructure investment plan after the election in 2017, would the European Central Bank’s endorsement of such a plan be even more ringing, given that the euro area is lagging behind the USA in the business cycle?

Furthermore, how would you assess the failure, at least to date, of a great idea to organise a macro-economically discernible European push for investment against this background? What would your recommendation be for the European Fund for Structural Investments 2.0, which we are currently discussing? That is my first set of questions.

Secondly, the ECB is increasingly also arguing that Europe may be over-banked in some areas – which may include our two countries, who knows? If that were the case, how, in your view, should the necessary consolidation be organised? Should it be accelerated by finally ending regulatory forbearance? I personally consider that to be excessive at the moment. Or should it be delayed by continuing regulatory forbearance and watching how ailing banks without a business model are gambling for resurrection?

Also, in your view, how should such a process of consolidation be organised? Would you favour consolidation along national lines or pan-European consolidation?

1-051-0000

Mario Draghi, *President of the European Central Bank***.** – Let me respond first to the second question. It is true that the European Central Bank and the Single Resolution Board have repeatedly argued that we live in an over-banked continent. But we have to move to a more granular level before we can see exactly what to do and where and how to do it.

There are parts of our banking system where the players are numerous but they are very efficient and very effective, their cost-income ratios are amongst the lowest and they serve their economies very well. And there are parts where the opposite is true: there are few players but they are highly inefficient, with the highest cost-income ratio and poor risk management, and they serve their economy very poorly. So when we say Europe is over-banked, we have to sit down and see closely what we mean by that. And it is quite clear that the ultimate objective of the effort is to have a banking system that is not only strong and resilient but also serves the real economy well. These should be the guidelines in trying to design a consolidation process.

Secondly, how to do it is not obvious. There are two ways of doing things like that – i.e. inducing large structural changes in the size of any industry. One is to rely on self-incentives and individual initiatives and on the capacity of those involved to find the best synergies and prospects and then, moved by self-interest, to find the best configuration. Another way is through something of a grand design, and it is not clear right now which direction will have to be taken – in part because it is not easy to keep a grand design in mind, and much of our own national European legislation is actually relatively new. So it is not clear that we have, at the moment, a climate conducive to a consolidation process.

Basically, once we have understood, or once we have argued, that there may be over-banking, progress would be to determine exactly what we mean by that – where is this being effective and where is that being effective – and I would not be in favour of forcing through abstract designs for a banking industry. The key question is: how do these banks serve their clients and the real economy and what is their operational efficiency?

Should we have consolidation along national lines or not? I do not see why: not necessarily. Sometimes this would be beneficial for the real economy and other times it would not be. So I do not see any reason why we should consolidate along national lines, and it should not, in any case, be a primary factor in our decision-making.

On your other question – the first question – it is certainly true that public investment has fallen considerably in the last 15 years. There is no question also that an increase in public investment has positive demand effects and can contribute to the potential output of the country that has undertaken it, because it would basically increase its capital stock and, if it is well targeted, it is certainly conducive to higher potential output.

Well targeted investment is important because one of the reasons why public investment has fallen so low has been that, in many cases, it was just pure waste. We have to target public investment towards those activities that do most to boost productivity and potential output. In so doing, one thing that I have said many times is that we should find a way to work the composition of our national budgets towards a more growth-friendly design, reducing current expenditure and increasing properly targeted capital expenditure.

On your point about the extension of the European Fund for Structural Investments (EFSI), the ECB is certainly in favour of that, precisely for the reasons I said, namely that an increase in public investment in a well-targeted area is certainly positive for the euro area economy.

1-052-0000

Sander Loones (ECR). – Mr Draghi, I refer to your closing remarks in Strasbourg last week. You mentioned then that the reaction in the markets to the US election was at the beginning pretty significant, but then it became muted, and then you added that markets had shown their resilience – and that is the point that I am interested in – thanks also to the preparation of the Bank of England on the one side and the European Central Bank on the other side. You repeated this statement also in your introductory remarks today and I was wondering if you could elaborate on this. Could you explain what these preparations were, and could you please tell exactly what you did before and after these elections?

1-053-0000

Mario Draghi, *President of the European Central Bank***.** – Of course these preparations by the Bank of England and the ECB would apply to the UK [referendum] outcome, not to Trump, not the US elections, that is different.

No, we simply made sure that in facing the wild changes in asset prices that characterised the three, four, five days after the referendum, there would be no major dislocation of any financial intermediaries. So, for example we made sure that banks would have access to proper liquidity lines, that their liquidity position all across the board was strengthened, that there was enough supervision before the event to make sure that, if there were positions arising that would create concerns, they would be promptly addressed, that is the sort of preparation.

1-054-0000
Sander Loones (ECR). – Just a follow-up: are these measures being stopped now, or do you predict that those kind of measures remain necessary in the near and mid-term or longer future?

1-055-0000
Mario Draghi, *President of the European Central Bank***.** – No, as far as we are concerned there is not any special measure at the present time in place other than continuing the strengthening of our supervisory and regulatory framework.

1-056-0000
Sander Loones (ECR). – On another subject there was a recent report, on 1 November, by Deutsche Bank, called 'the Dark Sides of QE' which mentioned that monetary policy stifled the reform momentum that you very rightly are looking for yourself: you keep on insisting on the fact that Member States need to introduce and implement structural reforms. This paper mentioned that, precisely because of your loose monetary policy, this momentum has stopped. If you look at the stage until July 2012 you saw high interest rates, refinancing threats which forced governments into reforms. If you look at before 2012 and the OECD recommendations, more than half of them were implemented. Now if you look at 2015, only 20% were.

My question – a question which is not new, but I still would like to ask it again – is: do you agree with this assessment of Deutsche Bank? Do you agreed that the European Central Bank intervention has curtailed the prospect of that momentum of structural reforms that are highly necessary in labour markets, in the legal system, in welfare, in tax policies and so on?

1-057-0000
Mario Draghi, *President of the European Central Bank***.** – The answer is no, I do not agree. I have made this argument several times. It is not obvious that high interest rates would somehow stimulate the reformatory spirit of our policy makers. For example, if you look at recent experience we had changes, important structural reforms, in the labour markets especially, but also in other sectors of the economy, when interest rates had already been low for quite a time.

The second point is: let us look at what structural reforms we are talking about. If we think that there is a connection between the level of interest rates and structural reforms, we probably have in mind structural reforms that are somewhat related to the budget. The budget needs financing: the more difficult the financing of the budget, the more incentive I might have in rationalising the budgets. For example pension reforms often take place under such stringent conditions. But are these the only structural reforms we talk about? Of course not: we have reforms in the judiciary; we have reforms in the educational system; we have reforms of our political system, electoral law, constitution. Do we seriously think that countries carry out these reforms if interest rates are high and not if they are low? I doubt it.
So it is only logical; but also research by the ECB shows that in fact low interest rates are an incentive to carry out reforms because reforms traditionally hurt the interests of some and benefit the interests of others, and so you need to have resources to somehow indemnify or compensate the categories that are most hurt by the reform effort.

But there are several other arguments why I would not buy this idea of having removed incentives with, as I said, one exception of those things that are intimately linked to the budget financing of a country.

1-058-0000
Fulvio Martusciello (PPE). – Let me try again; Mr Balz has already asked you this question.
A few days ago, a headline in the Financial Times stated that if 'No' were to win in the Italian referendum, Italy would abandon the euro. Do you think it is possible that a country can leave the euro without wishing to, but merely because of the outcome of a referendum?

My second question – I'm not sure whether you can answer it, given your previous response to my colleague Mr Valli: this morning again, according to headlines in the British and Italian newspapers which reported the news, eight Italian banks are apparently at risk should the 'No' vote win in the referendum. Put yourself in the shoes of a saver with these banks: what would you do? You would run to the bank, this very morning, to withdraw your deposits so as not to be a victim of 'bail-in'.

The other day, the President of the Bundesbank said that the real problem was that sometimes, the presidents of central banks were also politicians. I, on the other hand, think that this is a great merit and we would expect you to give some kind of 'political' sign to calm the markets and especially investors, because really, today's headlines in Italy are causing a huge amount of unjustified panic and, of course, are really a tool for distorting competition between banks.

1-059-0000

Mario Draghi, *President of the European Central Bank***.** – I am sorry. You said you were uncertain whether I would answer this question, and you were right to be uncertain because I am not going to answer. I am not going to speculate on either of the two questions.

1-060-0000

Fulvio Martusciello (PPE). – I understand your reply Mr Draghi, but you must realise that when an economic newspaper says that unless the referendum is won Italy will leave the euro, I would at least expect a reply to this.

Can a country leave the euro without wishing to, but merely because a referendum is lost? This is a question I believe the President of the European Central Bank ought to answer.

1-061-0000

Chair. – Yes, your question seems linked also to the campaign and the discussion in our country but ...

1-062-0000

Mario Draghi, *President of the European Central Bank***.** – I am not going to comment on other people's comments on other people's articles, so I am repeating what I said before.

1-063-0000

Michael Theurer (ALDE). – Thank you. Mr Draghi, you have referred to the need for structural reforms at national level. Can you say something about the timing, how much time we have for this? If we compare the dollar currency area in the USA and the euro area, I would say the two central banks have pretty much the same powers. The difference lies rather in the political institutions and in bringing things into line.

Should you not make it clearer in this context that central banks can above all influence the short-term interest rates, but that the long-term rates depend on other factors, including prospects for growth? And if the long-term rates are low at this precise moment despite the changes on the bond markets, surely that is also connected with the fact that international financial markets assess these growth prospects as lower in Europe than elsewhere?

1-064-0000

Mario Draghi, *President of the European Central Bank***.** – You are absolutely right. What I have said many times is that monetary policy – and our extraordinarily accommodative monetary policy – will help the cyclical recovery but, for this recovery to be sustainable in the long term, one also needs other policies, and first and foremost structural policies which lift potential growth and potential output growth. From that standpoint I agree with you.

1-065-0000

Pervenche Berès (S&D). – Mr President, you clearly want to comment further on the Court of Auditors report on the single supervisory system. I would like to give you the opportunity, and ask you to set out what you think of this report, which, in my view, is more concerned with politics than the accounts. But that's another matter entirely.

1-066-0000

Mario Draghi, *President of the European Central Bank***. –** First of all, let me say once again that we appreciated the report, and some of the points raised in the report have been very helpful because this will inform our Governing Council discussions when the head count for the Single Supervisory Mechanism (SSM) is discussed by the Governing Council.

The report claims, however, that there was not full collaboration by the European Central Bank, whereas the ECB perception is that we actually spent a lot of time collaborating with the European Court of Auditors (ECA). But one thing has to be clear: the ECA mandate is to audit on operational efficiency, not everything else, and that is where we cannot cooperate. In any event, the Commission will review the ECA mandate pretty soon.

The other point is about separation. The fact that the SSM and the ECB share some activities – services such as IT, human resources and some others – is being read as lack of separation. It has nothing to do with that. The separation that is enshrined in principle is separation between supervision and monetary policy. These are shared activities that in no way impinge on that separation: we simply want to avoid duplication and avoid waste as much as we can.

1-067-0000

Dimitrios Papadimoulis (GUE/NGL). – Mr Draghi, I was very interested to hear your reply to our colleague, Mr Kyrtsos, to the effect that, at its next meeting, the Eurogroup would be examining short-term and long-term debt relief measures - I believe those were your words - for the public and private sector. There are those who say that this is not necessary, that it is good for neither the euro area nor Greece and that we should wait for two years before discussing it.

How would you respond to affirmations that we should refrain from taking any action since this would be good for neither Greece, nor the euro area? Also, what are your views regarding observations by the OECD that additional debt relief for Greece is necessary?

1-068-0000

Werner Langen (PPE). – Mr Draghi, you have repeatedly and rightly pointed in the past to the need for structural reforms. Since today we are looking for specific answers, I would ask you what are the most important structural reforms you consider necessary in the three largest euro area countries, Germany, France and Italy?

1-069-0000

Mario Draghi, *President of the European Central Bank***. –** The answer to the first question is that, if we look at the situation now, we can see that a lot of progress has been achieved by the Greek people over the past few months and it is very important not to unravel that progress. The best thing that can happen now is successfully to conclude the present review, and there are good prospects for that so it is important not to lose momentum and to carry this to its conclusion.

On the second question, Mr Langen, it is very difficult: each country has its own list and the catalogue ranges from reform of product markets, to competition and services. Completion of the single market would, for all three countries, be a big step forward – that is one thing that would apply homogeneously to all three countries. And, as I probably mentioned, the labour market. But in some countries, you also have judiciary, you have education – to upgrade skills to the demand of the market – and so on and so forth. It is a very extensive list but it is different from country to country, with the exception of the single market that is pretty much the same across the various countries.

1-070-0000

Chair. – Thank you very much. We conclude this first part of the monetary dialogue. President Draghi will come back in a few minutes for the second part in his capacity as Chair of the European Systemic Risk Board.

(The meeting closed at 17.00)