AUSSCHUSS FÜR WIRTSCHAFT UND WÄHRUNG
MONETÄRER DIALOG MIT MARIO DRAGHI, PRÄSIDENT DER EZB
(gemäß Artikel 284 Absatz 3 des EG-Vertrags)
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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MARIO DRAGHI,
PRESIDENT OF THE ECB
(pursuant to Article 284(3) of the EC Treaty)
BRUSSELS, TUESDAY, 9 OCTOBER 2012

COMMISSION ÉCONOMIQUE ET MONÉTAIRE
DIALOGUE MONÉTAIRE AVEC M. MARIO DRAGHI,
PRÉSIDENT DE LA BCE
(conformément à l'article 284, paragraphe 3, du traité CE)
BRUXELLES, MARDI 9 OCTOBRE 2012
IN THE CHAIR: SHARON BOWLES  
Chair of the Committee on Economic and Monetary Affairs  

(The meeting opened at 10.35)

Mario Draghi, President of the European Central Bank.  
– Madam Chair, honourable members of the Committee on Economic and Monetary Affairs, it is a pleasure to be back here in Parliament and in front of your committee for our regular exchange of views.

As you know, the European Central Bank has recently taken important decisions to address severe distortions in government bond markets. The ECB stands ready to undertake, under appropriate conditions, what we have called outright monetary transactions (OMTs). These will provide a fully effective backstop to avoid destructive scenarios that might threaten price stability in the euro area.

Our OMT announcements have helped to support financial market confidence. The ECB’s actions can help to build a bridge. But the bridge must have a clear destination.

Reaching that destination involves three processes: first, full implementation of fiscal consolidation and structural reforms to enhance competitiveness; second, full implementation of financial sector reform; and third, completion of a genuine economic and monetary union. The establishment of a single supervisory mechanism (SSM) is a key step in these processes.

Today I will review economic and monetary developments since July. I will then explain in some detail the rationale and modalities of the OMTs, and I will end by sharing my views on one of the four building blocks of a genuine economic and monetary union, namely the financial market union.

Let me start with the economy. Since our last meeting, the ECB has left its key interest rates unchanged: the main refinancing rate stands at 0.75%, the deposit rate at 0% and the marginal lending facility at 1.50%.

Economic activity contracted in the second quarter of 2012. Looking ahead, we expect weak economic activity in the near term and only a very gradual recovery after that. The risks to this outlook are on the downside, mainly related to the tensions in several euro area financial markets.

Average inflation in the euro area stood at 2.7% in September, reflecting indirect taxes and high energy prices. It should decline to below 2% in the course of 2013. Underlying price pressures should remain moderate given modest economic growth and well-anchored long-term inflation expectations. Risks to the outlook for price developments are broadly balanced.

Our monetary analysis paints a picture consistent with price stability. In particular, the underlying pace of monetary expansion remains subdued. Loan dynamics are also subdued as a result of weak demand for credit but also of restrictions on the supply of credit in some euro area countries.

Let me now explain the decision announced by the ECB’s Governing Council in September on outright monetary transactions. The impact on financial and monetary conditions of past reductions in key ECB interest rates differed considerably within the euro area. For example, in some countries, following cuts in key ECB interest rates, the rates charged by the banking system for credit to the real economy have declined only a little, if at all. In other countries, the ECB rate cuts have been fully passed through.

One reason for this difference is that the cost of bank credit to firms is inevitably linked to the cost of market funding for the banks themselves. If there are fears about potential destructive scenarios, the cost of funding for banks can be affected asymmetrically across the euro area. This means that two firms that are otherwise identical and have the same creditworthiness have benefited to a different extent from past cuts in key ECB interest rates, merely because they are located in different countries.

It is that distortion in financing costs that hinders the smooth functioning of credit markets and the transmission of monetary policy. It is that distortion which keeps some countries in what I have previously described as a ‘bad equilibrium’. And it is that distortion which falls clearly within our mandate to address.

To counter the impairment of monetary policy transmission and to preserve the singleness of the ECB’s monetary policy, the Governing Council decided to undertake outright monetary transactions. OMT interventions in government bond markets provide a fully effective backstop to avoid destructive scenarios that might threaten price stability in the euro area. The aim is to ensure that the ECB’s monetary policy stance is transmitted more evenly to the real economy across the euro area.

The ECB will conduct OMTs if and as long as countries comply with strict and effective conditions attached to an appropriate programme via the European Financial Stability Facility and the European Stability Mechanism.

Conditionality preserves the primacy of our price stability mandate and ensures that OMTs will not compensate for a lack of fiscal action. Conditionality in particular preserves the incentives for governments to continue with economic and fiscal adjustments. And only if conditionality is fulfilled will the OMTs be successful in moving an economy towards what we might call a ‘good equilibrium’.
OMTs are ex-ante unlimited but, as I have just explained, they are not unconditional. Exit from OMTs would take place once their objectives had been achieved or when there is a failure to comply with a programme. OMTs would not take place while a programme is under review, and they would resume after the review period once programme compliance had been assured.

Consistent with the Treaty prohibition of monetary financing, the ECB will only conduct transactions on secondary markets, buying from investors and not from governments. Purchases will focus in particular on government bonds with remaining maturities of between one and three years. This is in line with the traditional focus of central bank monetary operations.

The ECB will accept the same treatment as private or other creditors with respect to bonds purchased in the context of OMTs. And the ECB will be fully transparent on its OMT holdings, and monthly on the average duration of our holdings and the breakdown by country.

Let me now turn to the other topic you have chosen for today’s exchange of views, namely the financial market union.

The ECB welcomes the Commission’s proposal for a single supervisory mechanism, which is very much in line with the statement of the euro area summit of 29 June 2012. We are looking forward to working closely with the European Parliament in this field. I am confident that the excellent cooperation we have established so far will continue with matters of financial supervision.

Let me focus here on three issues that are key to setting the stage for the new supervisory framework in the euro area: first, the principle of separation between monetary policy and financial supervision; second, the possible participation of non-euro-area Member States in the SSM; and third, the accountability framework.

On the first issue of the separation of monetary and supervisory functions, we are not entering uncharted territory. Many central banks around the world – including a large majority of the national central banks in the euro system – combine monetary and supervisory functions. Proper arrangements to prevent monetary policy being inappropriately affected by the supervisory role have been devised in several countries. I am confident that we can establish suitable arrangements in the euro area, drawing in part on their experiences.

The Commission proposal provides a solid basis for achieving that goal. By having the Supervisory Board carry out all regular supervisory activities performed directly by the ECB, we will go a long way towards avoiding possible conflicts of interest between the two functions. In addition, we are examining internal procedures that would separate the relevant work-streams supporting the two functions.

The second key issue for the supervisory framework is the possibility of non-euro-area Member States participating in the SSM. Let us first take a step back and remind ourselves that the key reason why we are building the financial market union is because of what is happening in the euro area. We are building it to break the vicious circle between sovereigns and banks, the manifestations of which are much more acute and disruptive in the monetary union. That is why we need the SSM in the single currency area.

At the same time, it is clear that we have to create the financial market union while sustaining – and even strengthening – the single market. Both the single currency and the single market are key pillars of growth and prosperity in Europe. Both should be maintained – indeed, both should be enhanced.

The ECB welcomes the possibility of involvement of non-euro-area Member States in the SSM. The participation of additional Member States would provide an even stronger boost to the completion of the single market. That being said, for an entity such as the ECB, whose key legal powers and key decision-making fora are limited to the euro area, imposing obligations on – and granting corresponding rights to – non-euro-area Member States raises a number of legal issues. Our legal services – together with those of the Commission and the European Council – are examining closely the possible modalities of participation of non-euro-area Member States within the legal constraints of our Statute.

The third key issue for the supervisory framework is one that I suspect is particularly close to your hearts: how the ECB will be accountable for its supervisory actions to the citizens of Europe and their elected representatives. While the independence of the supervisory function is important, so is its accountability. They are, after all, two sides of the same coin.

Given the nature of the tasks of supervision and the need for operational cooperation with other authorities – notably where fiscal costs are concerned – separate and robust mechanisms of accountability have to be in place to legitimise the high degree of independence. The Commission proposal foresees, in particular, that the SSM will be accountable to the European Parliament and the European Council.

Questions have been raised about the timeline for when we should begin our supervisory tasks. Irrespective of the precise schedule for the performance of supervisory tasks, I believe that it is very important that the Council Regulation enters into force as envisaged on 1 January 2013. This would allow us to start the preparatory work as swiftly as possible.

I have discussed the main aspects of the SSM. But the financial market union would be incomplete without commensurate progress towards a common resolution regime. The lack of such a regime has increased the cost
of bank failures for taxpayers. It has also complicated the handling of bank failures, especially in cross-border cases. A common resolution regime – with an independent European resolution authority at its centre – is crucial for managing crises in a way that is orderly, effective and efficient as possible.

Let me conclude my remarks now. The euro area is making good progress towards achieving stable and sound foundations. I trust that in October and subsequently in December, the Heads of State or Government will reaffirm their commitment to the irreversibility of the euro by agreeing on a long-term vision for our economic and monetary union.

That process has not yet had a fully visible impact on the everyday life of citizens in the countries suffering most from the crisis. I am well aware of the hardship that the current situation entails for many people, especially for those whose job is lost or at risk. The adjustment process towards sustainable public finances and a competitive economy can be painful in the short term, both politically and economically – and humanly, I would say. Yet, the reforms are necessary corrections which will bring countries back on to the path of sustainable growth. And they also contribute to improving social justice, by fostering tax compliance and limiting rent-seeking by vested interests.

I am confident that the euro area and its currently weaker members will emerge from the crisis with stronger and better functioning economies, and that this will be to the benefit of all Europe’s citizens.

2.004


2.005
Elisa Ferreira (S&D). – Eu, antes de mais, gostava de cumprimentar o Banco Central pelas decisões que tomou, em particular de criar as OMT ou de intervir no mercado, porque, de facto, foi um sinal de respiração e de acalmia nos mercados financeiros. Dito isto, gostava de lhe pedir que me dissesse se, em termos de visão de futuro, este tipo de intervenções é suficiente ou se isto será apenas um passo num processo mais completo de salvaguarda da dívida soberana e de manutenção do mercado, tal qual nós o visionamos.

A segunda questão diz respeito à condicionalidade. Isto tem a ver com a minha pergunta anterior, mas quando há a imposição de uma condicionalidade aos países é importante perceber como é que o Banco Central se posiciona aí e eu também concordo que é preciso uma esperança de crescimento, mas quando as recomendações são cumpridas e os resultados que a economia atinge são completamente diferentes das previsões iniciais, eu gostava de saber se o Banco Central revê e aborda a qualidade das suas recomendações, nomeadamente quando faz parte de uma Tróica, e se de facto continua a olhar para a possibilidade de que deste esforço inicial se saia numa perspetiva de crescimento, porque não vejo na Europa, com o peso que o mercado interno tem, de onde virá a dinâmica de crescimento, isto é, a procura, uma vez que a maior parte dos países, quer estejam com excedentes quer estejam com défices, estão a seguir políticas de austeridade. Portanto, num mercado interno, de onde virá a procura?

A terceira questão diz respeito ao burden sharing depois quando se entra na fase de resolução, porque se entramos da supervisão na resolução eu penso que é da maior urgência criar mecanismos de contribuição na mesma base para um fundo de resolução comum, que penso que deve ser separado da garantia de depósitos, mas gostava de saber qual é a posição do Banco Central sobre isto.

2.006
Sylvie Goulard (ALDE). – I am not going to ask the President of the ECB about the composition of the Board because you would give me the excellent answer prepared by your excellent staff saying that, from a legal point of view, you have nothing to do with this, that it is a decision of the Council and that even, maybe, in the future there might be a woman on the supervisory board. I know all this.

2.007
Sylvie Goulard (ALDE). – Vorrei chiedere un'altra cosa a Mario Draghi, non al Presidente Mario Draghi ma all'uomo di buon senso: lei come vede i prossimi sette anni, essendo a capo di un'Istituzione che chiede a tutti in Europa modernizzazione, riforme strutturali e più donne al lavoro? Ma lei rimane il capo di un'Istituzione
del passato only male. Come vede i suoi rapporti con gli economisti che hanno preso posizione ieri su Vox.eu a favore di "less discrimination in the ECB"? Infine, come vede la credibilità dell'accountability – lei ne ha parlato oggi, è una cosa molto importante per noi – della banking union se, come lei ha detto, è importante, ma il Consiglio non tiene minimamente conto delle cose che dice questo Parlamento? Grazie Presidente e grazie a Mario Draghi.

2.008 Mario Draghi, Presidente BCE. – Lei parla italiano troppo bene.

2.009 Mario Draghi, President of the European Central Bank. – On the first question, which concerns the relation between the single supervisory mechanism and the existing supervisory structures, I remember I made reference to this right at the beginning, in my first public statement after the June summit launched the concept. This is what I said then:

We have in place national supervisory structures that, in most situations – I would not say in all cases because that is not true – prove to be competent. They have the knowledge of the country and of history, and they have traditions and good staff. It would be unthinkable for the ECB to replace them.

From that time until now we have worked with them quite actively. What I told them at our last meeting was that we are part and parcel of the same project. We are not splitting supervision into two areas. No, we are actually going to decide together. They will be present on the Supervisory Board and will take common decisions together. It will come quite naturally to decide which banks will perform which tasks, whether they should be performed centrally or locally. But whether they are performed centrally or locally, this does not mean that either the centre or the national supervisors will not have anything to do. In fact, even if they are performed centrally, they will be part of the common decision-making.

That is very important to understand. Otherwise people naturally tend to divide supervision into what Frankfurt will do and what the others will do. It is not going to work like that. It is actually a joint decision-making process. Naturally there will be some operational tasks, for example inspections, which in certain cases will be more naturally designed and run at local level, and others that will be naturally designed and run at central level, but always with the participation of the national supervisors.

On the second point, which concerns non-euro area member involvement, here the position of the ECB has been one of extreme openness. The non-euro area members are invited to be part of this common decision-making process. In our view, they should have the same rights as the members of the euro area. We have to square this with the legal framework, which does not make it easy for this to happen, but that is the direction in which we are all working. Be sure that we will find a solution to this.

With OMT, as I have said on several occasions, we now have a fully effective backstop that removes tail risk from the euro area, provided that certain conditions are complied with.

In a sense, in answer to your question – let me start with the end of your question: where does this growth come from, given that it cannot come from fiscal policy? One of the sources of growth – not the only one – is that it could come from the extremely low level of interest rates. However, this low level of interest rates does not translate itself into a low level of lending rates, which is what matters for the real economy. It does not do so because of the financial fragmentation of the euro area market.

In our view, the greatest contribution to growth in the euro area is to overcome the present state of financial and banking fragmentation in the euro area and to reactivate. When we refer to repairing monetary policy transmission channels, we mean reactivating the monetary policy transmission channels so that lending starts all over again, credit flows are not subdued as they currently are, and the variation in short-term lending rates is not as big as it is today.

Of course growth will also have to come from undertaking structural reforms and overcoming economic rigidities, but in this sense the OMT is designed exactly to remove one cause of financial fragmentation, namely redenomination risk – tail risk.

The other part, as I said at the previous hearing, has to do with this perverse link between sovereigns and banks. That is where the structural part of fragmentation lies. In other words, we have to sever this link. The plan that we have ahead, including having one single supervisory mechanism, one resolution authority and, finally – and I said, eventually – the deposit insurance guarantee is exactly designed to do this: to sever this link between sovereigns and banks. But I think the greatest contribution to growth in the years ahead will come from overcoming the financial fragmentation that has basically affected the euro area in the last three years.

You had a question specifically on conditionality. Let me say that we do not impose conditions. It is not us who do that. We are asking as a necessary, but not sufficient, condition that countries sign on to an FSF or ESM programme, whichever is most appropriate. We will actively seek the involvement of the IMF in assessing conditionality.

Why are we doing this? Because we are convinced that our monetary policy, even extraordinary non-standard monetary policy actions, would be ineffective if the countries concerned do not undertake the necessary reforms. As I have said on other occasions, we start from countries being in a bad equilibrium, which means that there are self-fulfilling expectations that generate
destructive scenarios, no matter what the country’s reform progress is. Therefore the ECB steps in. Is this enough? No it is not enough because we should not forget how these countries found themselves in a bad equilibrium. They found themselves in a bad equilibrium because they pursued the wrong economic policies – or no policy at all – for ten years, while the rest of the world was changing. It is like having two legs. You need both to walk. That is the logic of conditionality.

The third question is about burden sharing. I think this will be one of the key considerations in designing the resolution fund. This is one of the most difficult questions to address, but it should not be the first. The fund as such does not have to be big, because it is not a bail-out fund. It is a resolution fund, which means that it has to finance the process for banks that have been resolved and to finance the period when you decide which parts of the bank to close, what to sell and what to keep alive, which creditors should be bailed in and which creditors should not be bailed in. I think it is more important, certainly at least in the first stage, to address the legislative grounds, the legal grounds, of this fund so that we can finally have a single euro-area legal foundation for resolution.

The fourth question is about myself. I am a hundred percent in favour of modernisation. You know from all my previous experience that I try to look at institutions and appreciate how they worked in the past. I have a great appreciation for the people you yourself called my excellent staff, but also ask how we can improve. I am sure that all of us need improvement and there are many directions in which to do so. One is the one that is particularly close to your heart, namely the gender issue. By the way, I would disagree. There is no gender discrimination in the ECB but, given that, I am sure that the ECB, like all institutions, can do much more to improve in this area. You can count on me being very active on that.

Sylvie Goulard (ALDE). – President Draghi, when you have 23 men deciding it is discrimination. Please stop not looking at the reality as it is – something has gone wrong somewhere.

Mario Draghi, President of the European Central Bank. – But we do not nominate the Governing Council members, do not forget that. It is the national authority that sends us the nominations for Governing Council members.

Sylvie Goulard (ALDE). – Yes, you are perfectly independent.

Mario Draghi, President of the European Central Bank. – I think you can count on that. As I said before at the hearing on the ESRB, where you were not present, I think you are absolutely right. If we look at the last 10 years we are talking about financial crises and if you look at the last 10 years all the financial crises have been handled and managed by men, so I think it is high time to change.

Chair. – There we have it: the crisis was man-made. We all know that! I would just like to remind Mario that we have asked the ECB, as quite an important central bank, to try and hint to other central banks it knows quite well that it would be a good idea if they had a strategy for bringing forward women, so that it was not always male nominees that came before us for the ECB because it was not always men at the top of the central banks.

This requires significant work. We have pressed for this for a long time.

I now welcome Mr Lothar Binding who is here from the German Bundestag.

Jean-Paul Gauzès (PPE). – Madame la Présidente, je voudrais profiter de ce que le sujet semble acquérir davantage d’importance en ce moment, compte tenu de la crise que nous vivons dans l’union bancaire, pour demander quand il sera procédé à la désignation du nouveau membre du directoire de la BCE.

Mario Draghi, President of the European Central Bank. – If I am not mistaken, we are in your hands.

Chair. – And we are in the hands of the Council.

I would now like to welcome a delegation of American Fellows of the German Marshall Fund of the United States.

(Applause)

Derk Jan Eppink (ECR). – President Draghi, we are talking about banks but I would also like to talk about your bank since you are referring to prudence, good governance, and restoring confidence.

With two years to go until staff are due to move in, the cost of the new ECB headquarters has already risen from EUR 850 million to EUR 1.2 billion so you are overshooting the budget by EUR 400 million. The bill will be footed by European taxpayers. So you preach austerity but you do not practise it yourself and I am afraid, Mr Draghi, that you will keep on building in Frankfurt whatever it takes.

My first question is this. As a member of the troika the ECB is lecturing the Greek, Portuguese and Irish governments on the need for tough spending cuts. At the same time, these countries need to contribute more than expected for the ECB’s new headquarters and so my question is: are you leading by example?

If you look at the maquette of this building it is very shiny and transparent from the outside. What about transparency from the inside? When are you going to publish the minutes of the meetings of your bank’s Governing Board? I am sure they are very exciting.
Eva Joly (Verts/ALE). – Madame la Présidente, Monsieur le Gouverneur, je souhaiterais un éclaircissement sur la portée de l’OMT. Dans le communiqué de presse de la BCE du 6 septembre, il est indiqué que l’OMT pourrait s’appliquer aux États membres sous programme d’ajustement, lorsque ces derniers seraient en train de regagner un accès au marché. Cependant, lors de votre dernière conférence de presse, vous avez affirmé que l’OMT ne serait accessible qu’à des pays ayant regagné un accès intégral au marché. Pouvez-vous nous préciser ce qu’il en est, vu cette contradiction apparente?

À la lumière des réformes en cours vers une union bancaire, vous avez à plusieurs reprises évoqué la nécessité impérieuse d’assurer une stricte séparation entre la politique monétaire et la politique de supervision bancaire. On a, à ce sujet, beaucoup insisté sur le potentiel conflit d’intérêts que les tâches de supervision représentent pour la mise en œuvre de la politique monétaire.

Je voudrais vos éclaircissements sur les risques allant dans l’autre sens. Quels sont, à vos yeux, les potentiels conflits d’intérêt que pourraient impliquer les missions en matière de politique monétaire pour la politique de supervision, en l’absence d’une séparation stricte? Pouvez-vous, par ailleurs, nous éclairer sur les conséquences que pourrait avoir une délégation intégrale – pour reprendre vos propres mots – des tâches de supervision du Conseil des gouverneurs de la BCE au profit d’un nouveau conseil de supervision au sein de la BCE, en termes de responsabilité démocratique? Est-ce que, d’après vous, les dispositions de l’article 130 du traité s’appliquent aux prérogatives d’un éventuel futur Conseil des superviseurs? Ou, au contraire, voyez-vous une possibilité, pour les législateurs, d’exercer un contrôle démocratique plus serré, en cas de délégation complète des tâches de supervision, y compris et entre autres, en termes de nomination, de contrôle budgétaire et de pouvoir d’enquête? Que faire, par ailleurs, pour régler un éventuel conflit d’intérêts? Qui serait l’arbitre? Vous?

Je voudrais aussi profiter du fait que j’ai la parole pour soutenir la requête de Sylvie Goulard en disant qu’il est très important d’assurer l’équilibre entre hommes et femmes au sein de la BCE. La situation actuelle est proprement scandaleuse, et cela aurait l’avantage d’assurer le recrutement de personnes qui ne viendraient pas de Goldman Sachs.

Mario Draghi, President of the European Central Bank.
– On the first question on the cost of the building, there are two sources of increasing costs. One is the inflation that has taken place in the construction industry and the materials, and this accounts for EUR 300 million of the difference between EUR 1.2 billion and EUR 850 million. The other part, the EUR 50 million, is to do with the legal overhaul of many contracts in the meantime. So the cost overrun should actually be judged only on the EUR 50 million.

As regards the minutes, I am sure they are going to be very exciting but I would not say that the lack of minutes implies lack of transparency. The ECB is a transparent institution judged simply from the number of public statements, meetings, speeches, bulletins and press statements; it is way more transparent than any other central bank in the world. Is there a case for publishing the minutes? As I have said, I have an open mind about that but it is not an easy thing to do. You cannot really do this tomorrow. It needs to be thought through because our institutional set-up is not the same as in the United Kingdom or the United States: we are not a country, and therefore this ought to be taken into account in order to avoid the renationalisation of monetary policy. All the Members of the Governing Council are there in their personal capacity. They do not represent their countries and this ought to be taken into account. There are other dimensions of this kind which would suggest that, if we are to do this, we have to do it with common sense in a pragmatic spirit but at the same time to be transparent. The bottom line is that we are collectively thinking now about this.
On the question of OMT availability, OMT cannot and will not be a replacement for lack of market access. Countries must do whatever they have to in order to regain market access, because OMT is not going to replace it for the simple reason that this could be viewed as being close to monetary financing and therefore not allowed by the Treaty.

Concerning full accountability for the new supervisory tasks, as I said at the beginning, a greater task means greater accountability: we have to have greater accountability if we are to be entrusted with these tasks, and we are 100% in the hands of the legislators to tell us what standards they would wish, but in terms of preparation we are prepared to comply with the highest standards on that.

The final question is about whether adjustment is working or not. We have had this question many times. You ask me whether there is any progress, whether there is any meaning given that the sacrifices are concrete, are real; they have been there now for quite some time, and so the natural question to ask is: where is the progress?

We are seeing some progress now, there are signs of this. We are seeing a lower unit labour cost in many countries, we are seeing gradual signs of regaining competitiveness, we are seeing current account deficits going down, we are seeing exports going up, so we are seeing signs. We saw Portugal for the first time issuing a bond on the market a week ago, and Ireland – which, by the way, is the country where progress was probably first and most significant.

I think one should acknowledge the extraordinary sacrifices that have taken place and address the concerns, as I have said many times. At the same time one should also acknowledge the extraordinary progress that has been undertaken, both in data and on economic reform.

**Marta Andreasen (EFD).** – The ECB has come up with this OMT programme to defend the euro by purchasing bonds in the secondary markets. What expectation do you have of how big the use of these OMTs is going to be?

My second question is how are you going to sterilise this liquidity? In other words, what is the funding source going to be?

My third question refers to your comment that conditionality is imposed on governments, whereas you are buying bonds from investors. Where are you going to put the pressure to get governments to comply with the conditionality? There is a dichotomy here. You are buying from investors, whereas you are putting pressure on governments.


Frage 1: Stimmen Sie zu, dass es sich dabei um ein Ungleichgewicht von einer Billion handelt, und dass bei einem Auseinanderbrechen der Union genau das schlagen würde – also mit anderen Worten – allein auf Deutschland Hunderte von Milliarden Euro an Haftung zukämen, also den Betrag, der vom Deutschen Bundesgericht auf 190 Milliarden beim ESM eingegrenzt worden ist, weit übersteigend?

Die zweite Frage ist: Warum wird nicht ein Ausgleichssystem wie in den USA vorangebracht, wo wir es ja auch mit einer zentralen Fed und untergeordneten Nationalbanken zu tun haben, und wo wir bei diesen nationalen Feds jeweils einen jährlichen Saldenausgleich haben? Warum gibt es so etwas nicht auf europäischer Ebene, bzw. werden Sie sich dafür einsetzen?

Die dritte Frage ist: Stimmen Sie der These zu, dass gerade durch dieses weithin unbekannte Tage-2-System eigentlich die Zahlerländer dahingehend erpressbar sind, dass sie unter keinen Umständen einem Auseinanderbrechen der Eurozone zustimmen können?

**Pablo Zalba Bidegain (PPE).** – Señora Presidenta, señor Presidente, la Unión Bancaria está despertando pasiones en toda Europa.

Desde siempre usted ha sido un defensor de la misma y esta Casa también. El objetivo de la Comisión es ponerla en marcha el 1 de enero de 2013 para aquellas entidades que estén sometidas a un programa de asistencia financiera. Usted mismo se ha marcado ese objetivo pero cómo, seguramente haya leído en los periódicos, algunos lo consideran imposible.

Me gustaría, señor Draghi, que nos dijera si nos puede usted confirmar que el Banco Central Europeo está preparado y tiene capacidad para hacerse cargo, en menos de tres meses, de la supervisión bancaria tal y como plantea la Comisión Europea, y también me gustaría saber, señor Draghi, si nos puede dar algún detalle sobre cómo se organizaría.

Por otra parte, las operaciones monetarias de compraventa, OMT en inglés (outright monetary transactions), junto con las reformas y la consolidación fiscal, son la solución para la fragmentación de los mercados financieros.

Mi pregunta es: ¿el Banco Central Europeo puede hacer algo diferente de las OMT para desfragmentar los mercados en caso en que no se den las condiciones para poner en marcha el proceso de las OMT?

**Mario Draghi, President of the European Central Bank.** – Now, how big is the OMT? Its size is, ex ante, unlimited. So it has to be seen as of a size adequate to reach its objectives. The liquidities being created will be sterilised, very much as we do with the SMP, so there is no net creation of liquidity coming from this programme.
as such. The conditionality is part and parcel of the programme. We are convinced – we have the experience of the SMP – that the OMT without conditionality would not work.

On Target 2 imbalances, I think there are at least two reasons for these imbalances. One is the different degrees of competitiveness within the euro area – i.e. certain countries have current account surpluses and others have current account deficits – and the flows within the euro area that come from the different degrees of confidence that investors and savers have in different banking systems. So you have deposits and capital outflows from certain countries into other countries.

The second reason is the one we are trying to address now. If we restore confidence in the euro area, if we restore confidence in the banking systems of the euro area, then we outline the three steps that are important and outline the programme that we are undertaking to remove redenomination risk, we do expect these imbalances to diminish, to decrease. Because money will not have a reason to move from certain banking systems into others because of lack of lasting confidence. And in fact in the last two or three months we have already observed – for the first time in a long time – deposit inflows into some of the vulnerable countries. This shows that the regaining of confidence is producing its beneficial effects on decreasing or stabilising the Target 2 imbalances. To this extent the measures that we have announced and decided are actually reducing the risks of certain countries.

This second reason has to do with current account surpluses and different degrees of competitiveness. I am convinced here that unless countries regain competitiveness, it will be very difficult. You cannot have a Union where you have a set of countries that are permanent creditors and a set of countries that are permanent debtors. So part of this rebalancing will be achieved through regaining competitiveness, and regaining competitiveness is the outcome of structural reforms in the products, services and labour markets.

Now the ECB is not supposed to take over supervision in three months time and just do it. There is a phasing-in time. We foresee that one year will be needed to adopt all the structures for this reason. The important thing is that the Council regulation enters into force on 1 January 2013 and then we can start officially to work with the national supervisors to put in place this system; by and large we have given ourselves one year to come up with a concept here.

On conditionality, I am not sure I have actually got the sense of your question but if the conditions are not in place, the OMT cannot work. Having the conditions in place is a necessary but, as I said before, not sufficient condition, because the objectives of the ECB are to repair the monetary policy transmission channels, that is to say we need to have an assessment of the impairment of the monetary policy transmission channels in order to have a sufficient condition in place.

I very much appreciate that, as you say, when you are looking at non-euro-zone Member States’ involvement in the banking union, you are looking at legal questions.

But there are of course very many practical questions. All lenders in the Czech Republic are offshoots of euro zone banks; Sweden is a home supervisor to most banks in Estonia and is not a euro zone state; Nordea are headquartered in Sweden but they are the largest lender in Finland.

So really my question is about what practical issues you are going to look at – effectively, as the Swedish Prime Minister has said, what is in it for non-euro-zone members to join the banking union? Will you extend automatic liquidity and deposit guarantees to members outside? Is there a risk that banks may move their headquarters to the euro zone? Is there a risk in fact that consumers may move accounts to euro zone banks?

I think there are a lot of practical questions that need to be answered, not just the legal questions of rights and obligations.

First of all, on the banking union. You consider a deposit guarantee scheme an essential part, an essential leg of a banking union, but it seems fairly obvious that Germany is not ready to move in that direction. You seem to consider that it may eventually be created, but how realistic is this expectation, and what does it mean if it does not materialise?

Secondly I was curious to hear your views on the statement of the three hawks, as they are called, the Netherlands, Germany and Finland, that legacy assets must remain a purely national responsibility and that they see no link with, for example, the ESM.

My final question. This week the IMF does not seem to share your optimism, if I may call it that, about growth prospects. They call for further integration including a banking union, but they also interestingly call for higher inflation rates for countries like Germany and the Netherlands of up to 3% and 4% and to stop wage moderation. Now 3 to 4% would be contrary to your inflation targets, and I was wondering how you feel about their statement.

My question is whether the ECB has considered the potential negative impact of breaking off OMT once started – for example, if a recipient country breaks the conditions. Would this not result in a huge negative impact? You understand the question, Mr President?

Secondly, I have a question about Bankia. Yesterday we held discussions with competition Commissioner

Arlene McCarthy (S&D). – I just have a very brief question.

Sophia in ’t Veld (ALDE). – First of all, on the banking union. You consider a deposit guarantee scheme an essential part, an essential leg of a banking union, but it seems fairly obvious that Germany is not ready to move in that direction. You seem to consider that it may eventually be created, but how realistic is this expectation, and what does it mean if it does not materialise?

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Almunia, and my fear and my general impression is that Spain has merged these seven regional banks in order to create one big bank that is too big to fail.

But around this bank there are companies like Iberia or El Pais, or even Real Madrid. They have lots of loans with Bankia which they do not repay because they think Bankia will be saved by somebody.

My question is: are these toxic assets not going to produce a backlash, because once Bankia is saved there are still many problems in the Spanish economy. It is like taking a mirror off the wall and then the wall collapses.

Mario Draghi, President of the European Central Bank.
– On the first question, it is clear that in the cases that you mentioned, work is needed. But it is not actually the case that there is nothing on the ground. How is supervision working today in these cases? You have supervisory councils, namely councils of supervisors and the new single supervisory mechanism is going to be part of these supervisory councils. So from this viewpoint, there is not going to be much of a change in the structure by which supervision is being undertaken today.

I am referring here to subsidiaries of foreign banks in non-euro-area Member States, and of euro area banks in non-euro-area Member States. Right now supervision actually takes place through supervisory councils where you have both the supervisor of the host country and the home country, and they deal with this. Now the supervisor of the home country will be the SSM and possibly the national supervisor concerned. So purely from a framework point of view, the framework is in place and the difference is that the SSM would be a member of the supervisory council.

On access to liquidity, the answer is obviously no, because monetary policy is monetary policy for the solvent banks residing in the euro area member countries.

On the deposit insurance guarantee, as I said it is an essential pillar but there is a question of time. When we talk about a deposit insurance guarantee, we are actually talking about mutualisation of bank risks. In other words, certain savers of certain countries are being asked to take on their shoulders the risks that lie on banks of other countries. Now, before you do that, you want to know very well what is in these banks. That is why the three pillars – supervision, resolution and deposit insurance guarantee – are equally important, but the timing of their implementation is going to be different. You want to have a single supervisory mechanism in place that actually looks at the banks, at the risks, and produces an assessment of what is there. Only then and later on do you decide about mutualisation of these risks.

So it is a complex political process but it is also something that you want to take gradually because you do not want to destroy the national deposit insurance guarantee schemes which are in place. So by the time you have transferred the risk to some new entity at the centre, you will know exactly what you are buying into by doing this.

On the legacy assets, I do not want to comment on what constitutes legacy assets but certainly the sooner the doubts about what is legacy and what is not legacy are resolved, the better. This distinction surprised many and now it has to be clarified. It is very important that this gets clarified.

I do not think there is much of a difference between the IMF growth forecasts and ours. We said that we are coming out of a second quarter with very weak activity, probably the third quarter is going to be weak as well and the risks are on the downside, so I do not want to be characterised as unduly optimistic about growth. So we see eye to eye on that.

On the inflation issue, let us not forget that the mandate for the ECB is to have inflation for the euro area that is below but close to 2% for the whole of the euro area. That is our mandate. The level of inflation within the single countries in a sense is not necessarily an immediate concern for the ECB, but, especially if this inflation stems from sectoral price developments, it is more a task that should be addressed through macroprudential instruments most of which will be designed, have to be designed, at national level with a central input. So I would say our primary mandate is for inflation at euro area level.

The third question was about OMT but I cannot remember the question.

Derk Jan Eppink (ECR). – The question was: once you have carried out the OMT and you are forced to cut it off because of the conditions, what will be the backlash? Would you even be able to cut it off?

Mario Draghi, President of the European Central Bank.
– I think this problem has in a sense been addressed by our last Governing Council meeting, and I will read you the statement I made when I read the introductory statement to our last press conference, ‘OMTs would not take place while a given programme is under review and would resume after the review period once programme compliance has been assured’.

In other words, it is fairly natural that you do not want to undertake OMT transactions while you have a review on the ground, because a lot of negotiation and incentives could be altered by the undertaking of the OMT. But, as I said, if the assessment is positive, then we would take it up again.

On Bankia and the Cajas, your question is about the risks that are being piled up, as it were. As you know, the Spanish Government and the Commission and the ECB are at this moment holding negotiations and discussions on the creation of an asset management company to which some assets of some banks, including Bankia, are going to be transferred. I do not think it would be proper for me now – and I may not even be
well enough informed – to discuss and comment on negotiations that are taking place right now.

Mario Mauro (PPE). – Presidente Draghi, ritorno sul tema della condizionalità, rinanziandola peraltro per i chiarimenti già forniti, con una domanda molto diretta. Mi sembra innegabile che l'aspetto della condizionalità implichìl comunque di fatto una cessione di sovranità, seppur su base volontaria, che chiama in causa non tanto l'aspetto della legittimità giuridica quanto quello della legittimità democratica. In questo senso le chiedo: non se le sbrèrebbe opportuno che i paesi membri legittimino appunto queste dimensioni contenute in questo tipo di procedura con una modifica dei trattati, invece di ripiegare sul fatto che con la condizionalità abbiamo una variazione costante dei trattati dovuta al fatto che si opera su materie che non sono formalmente oggetto di una piena integrazione europea? E poi, velocemente, come intende la BCE preservare il ruolo in materia di supervisione delle banche pubbliche di investimento, tipo Cassa depositi e prestiti o Caisse des Dépôts et Consignations, che investono a lungo termine e detengono tali asset in bilancio?

Udo Bullmann (S&D). – Herr Präsident! Ich kann nahtlos an die Ausführungen vom Kollegen Mauro anschließen mit der Frage der Konditionalität. Wenn wir etwas wie ein neues, effektives, europäisches Regierungssystem in der Wirtschaftspolitik bekommen, dann kann die EZB für sich reklamieren, dass sie ein ganz wesentlicher Teil davon geworden ist und viele Verdienste darum hat, dass es so gekommen ist. Es bahnt sich eine Arbeitsteilung an, die EZB, der ESM, die Frage der Konditionalität, die Gemeinschaft der europäischen Staaten. Und das ist gut so, wenn es so kommt. Es gibt auch keine Zweifel daran, dass es Konditionalität geben muss, aber es gibt ein Kernproblem, und Sie sind Teil – nicht Sie als Person, sondern Sie als Institution – sind Teil dieses Kernproblems.


Ich will Sie fragen, was wir eigentlich machen? Wir sind ja nicht in der Expertenherrschaft. Wir sind in der Demokratie, und da gibt es einen ganz wesentlichen Unterschied, dann gibt es einen Souverän, und der Ausdruck eines Souveräns ist ein Parlament, das darüber entscheidet, ob es richtig oder falsch ist und auch Korrekturen vornehmen kann.

Wann sind wir endlich so weit und würden Sie es befürworten, dass dieses Haus, dass dieser Ausschuss etwas Erhebliches zu sagen hat bei der Frage, wie Konditionalität aussieht, wie ihre Implementation überprüft wird und ob sie zur Korrektur ansteht im Interesse der Länder, um die es geht. Denn wir verteilten Wohlfahrt supranational und politische Auflagen supranational. Darum brauchen wir ein supranationales Parlament, was darüber befindet.

Astrid Lulling (PPE). – Madame la Présidente, Monsieur le Président, la campagne pour une présence féminine dans votre directoire, qui vous prive pendant des mois de M. Mersch – dont, d'ailleurs, les compétences ne sont pas contestées – a encore été abordée.

Je voudrais dire que ce Parlement aime bien les légendes et les mythes. En ce moment, ce serait plutôt le mythe de la femme vertueuse face aux hommes parés de tous les défauts. Je me rappelle que Mme Reding, vice-présidente de la Commission, a d'ailleurs dit, il y a longtemps, que s'il y avait eu Lehmans Sisters au lieu de Lehman Brothers, on n'aurait pas les mêmes problèmes.

En ce moment, nous venons encore d'entendre une légende selon laquelle les femmes n'avaient rien à voir avec la crise financière de 2008. Or, malheureusement, ce n'est pas le cas. En effet, ce sont deux femmes qui sont au centre des scandales de Lehman Brothers et de Goldman Sachs, que vous connaissez mieux que moi. Je pourrais citer leur nom et décrire ce qu'elles ont fait. Je n'en ai pas le temps, mais je vous recommande à tous de lire le texte qui reprend tous les détails. Tout cela pour dire qu'il vaudrait mieux examiner un minimum les faits, avant de faire des généralisations hâtives et, finalement, de raconter n'importe quoi.

Vous savez, je lutte depuis le début de ma carrière politique - qui a commencé en 1963 - pour l'égalité des chances entre hommes et femmes, mais je crois qu'il faut se baser sur des faits, et rétablir les faits, car un combat noble doit se fonder sur la vérité et non pas sur des mythes.

Ceci dit, en ce qui concerne ce problème, je voudrais quand même, Monsieur le Président, vous poser une toute petite question parce que j'aimerais bien que vous nous parliez un peu plus du principe de décentralisation qui sera mis en œuvre dans le cadre du mécanisme de surveillance bancaire unique. Comment la BCE pourrait-elle s'assurer que les autorités nationales travaillent bien pour le système, et ne servent pas les intérêts exclusifs des États membres où elles sont établies? Car si je comprends bien les choses, ne doit-il pas y avoir un dialogue très étroit entre la BCE et les autorités nationales de supervision, tout en sachant tout de même que la BCE est responsable en dernier ressort, et qu'elle doit bien disposer des moyens de cette responsabilité?

Mario Draghi, President of the European Central Bank. – On the first two questions, which I think have many points in common: we have repeatedly argued for a sharing of sovereignty at supranational level in the fiscal and budgetary areas and now increasingly in the area of
structural reforms. So there is in a sense no need to
convince us. We are completely in agreement on this.
That is very important, and anything that can be
achieved in this field is a major improvement in the
governance of the euro area and the ECB will always be
on this side.

On the specific reference to OMT activation, I will say
again that it is not us, we are not imposing conditions,
but we want to make sure that our programme is
effective, is within the mandate and does not replace
government action or lack of action.

So from this viewpoint, the conditionality that is
associated with OMT is fundamental. We know that
OMT would not work without it: we know this from
experience and from just thinking, reflecting on the
situation. It would not be beneficial to the process
because it would destroy the incentives – as it did last
year in specific cases. It would destroy the incentives
for governments to act and to undertake the necessary
reforms.

But with an eye to the future, the sooner we have in
place a supranational sharing of sovereignty in these
areas, the better. Our countries are now too inter-related
and intertwined to undertake economic policy decisions
that might have spillover effects – often negative ones –
on other countries. So I think we have to overcome this
purely national perspective in the design and in the
implementation of our economic policies.

On the last question, I am sorry but I am not sure I
understood the question so if I could ask you…

Astrid Lulling (PPE). – Si vous ne m’avez pas compris,
je veux bien répéter ce que j’ai dit. J’ai une question
précise. J’ai fait une déclaration en ce qui concerne le
mythe des femmes qui n’auraient rien eu à voir avec les
déboires de Lehman Brothers et de Goldman Sachs.
Cela, vous l’avez compris. Vous n’avez pas compris la
question. Je vais donc vous la répéter parce que j’aurais
vuolue que vous nous parliez un peu plus du principe de
décentralisation qui sera mis en œuvre dans le cadre du
mécanisme de surveillance bancaire unique. Comment la
BCE pourra-t-elle s’assurer que les autorités nationales
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autorités nationales de supervision, tout en sachant que
la BCE est responsable, selon moi, en dernier ressort, et
qu’elle doit donc disposer des moyens de cette
responsabilité? Capito?

Mario Draghi, President of the European Central Bank.
– I apologise for not having understood the question.
You are absolutely right. It is a concern that needs to be
addressed, and it will be addressed through peer pressure
exchange.

In a sense this system, when it is fully operational, has to
be conducive to a very open exchange by the supervisors
about the state of health of the institutions they
supervise. So, in this sense, there is going to be a peer
pressure exchange, common decision-making which
should probably overcome the tendency that you
mentioned for national supervisors to take care of
national interests.

By the way, as I think I was saying before in the
previous hearing, I would say the stance of the national
supervisors is very open and very constructive in
building together this new single supervisory
mechanism, which is a good and reassuring surprise.

Peter Simon (S&D). – Frau Vorsitzende! Ich möchte
mich kurz fassen mit zwei unterschiedlichen
Themengebieten.

Erster Themenbereich: Gehen wir davon aus, dass wir
in der Aufsichtsfrage tatsächlich dazu kommen, dass die
EZB diese Rolle wahrnimmt, und kommen wir dazu,
dass auch für die anderen Nicht-Euroländer hier
tatsächlich eine Lösung gefunden wird, sei es etwas, was
der EZB zugeordnet ist, ihr vielleicht nicht direkt
unterfällt, sei es wie auch immer. Meine Frage geht
dahingehend: Die Rolle der EZB im Gesamtzusammen
und ihre Bedeutung hat sich doch gerade in den letzten
Wochen gezeigt, wo allein ihre Ankündigung, notfalls
Staatsanleihen in unbeschränkter Höhe zu kaufen, das
erreicht hat, was die Staats- und Regierungschefs in über
zwei Jahren nicht geschafft haben: Ruhe auf den
Märkten und niedrigere Zinsen.

Meine Frage ist: Wenn Sie jetzt die Aufsicht an dieser
Stelle übernehmen – und dort arbeiten nur Menschen,
und Sie sind auf die nationalen Behörden angewiesen,
von denen vielleicht die eine besser und die andere
schlechter funktionieren wird, wird es auch vorkommen,
dass diese Aufsicht Fehler macht. Es wird weitere
Bankenpleiten geben, und es wird auch in der Zukunft
Krisen geben, vielleicht aufgrund verbesserter Aufsicht
weniger als bisher, aber es wird sie geben. Folge dessen
wird sein, dass mit dem Restrukturierungsfonds genau
die Menschen, die Ihnen jetzt vertrauen, mit dem Bail-in
direkt und sofort in die Haftung einbezogen werden.
Haben Sie nicht Angst, dass Sie in einem nächsten
Schritt dann, wenn Sie währungspolitische Maßnahmen
ergreifen, genau das Vertrauen dieser Investoren, dieser
Anleger nicht mehr haben, die aufgrund vielleicht
menschlich nachvollziehbarer, auf jeden Fall jedoch
geschiedener Fehler zuvor viel Geld verloren haben?

Diogo Feio (PPE). – Senhor Presidente, gostaria de o
cumprimentar, respondeu há pouco a perguntas de
colegas meus relativamente à situação de Portugal e
referiu a existência recente de um leilão de dívida, que
foi um sucesso. Temos também a quinta avaliação da
Tróica, que foi positiva, aliás como a outra tranche que
foi concedida a Portugal. Com estes dados entende que
será possível a Portugal voltar aos mercados em
setembro de 2013, tal qual estava previsto inicialmente?
Está Portugal no bom caminho para que isso possa
acontecer?

A segunda questão que lhe queria colocar tem a ver com
algumas críticas que têm sido feitas ao modelo de
ajustamento da Tróica e gostaria de uma ajuda para
responding to these criticisms: they are levying a new recession, a new re-engagement, a new contraction from the core, a new realignment of our demand, a new demand towards a more export-oriented economy, so what is your response to these criticisms? Mr. President Draghi, as the government to the citizens of the Member States that will be the other leg is in place.

On Portugal, I would say that the progress, the adjustment, is actually taking place faster than expected. The economy is rebalancing from being purely domestic demand-based to a more export-oriented economy, so you see competitiveness improving, unit labor costs going down, current account deficits going down. All these are signs of progress. Deficit is expected to fall below 3% of GDP in 2014. The ECB stance with respect to Portugal is basically to acknowledge this progress and strengthen, if anything, the reform process in certain structural areas such as the wage-setting mechanism.

The good news is that Portugal issued a bond last week – the first – I think it was a three-year bond. The sense is that the government is well poised to regain market access within the horizon that is forecast. So that is very important.

More generally I think that, like Ireland, Portugal is an example showing that sacrifices are not an end in themselves. Sacrifices are something different, and in our debate you have been so kind as to remind us of the words I used on this subject. Sacrifices have brought many countries into the midst of this river where there are still strong currents, still strong headwinds but, when we first discussed that, one of the points I made was, when you are in this position, you have to make sure that you see the other side of the river.

Some of the fog that was obfuscating the other side of the river is now being cleared by some progress in euro area governance. You remember we were discussing what is going to happen to the euro in ten years time. And I think much of the progress has taken place since the time we had this hearing – that was before the June summit, five or six months ago. So I think all in all, one has to be not necessarily unduly optimistic, as I said, but somewhat more confident that we have made progress in the last five to six months, at national level and at European level and at the euro area governance level, both on national economic policies and in terms of designing the new framework for the long-term horizon of the euro area.

On SMP profits, the profits that the ECB makes are distributed to the NCBs that are members of the ESCB, the European System of Central Banks. They are distributed according to their capital key and then it really depends on what national arrangements the different Member States have in place. They are usually transferred to the government, to the national government budget, and it is up to the national government to decide what they want to do with these profits. For example, in some cases the national governments accepted the idea that these profits could be reused in financing adjustment programmes of euro area programme countries, or in other cases they simply go into the budget, into the national budget.

What about Spanish rates? I do not want to speculate on what happens as I have made very clear. The OMT is a fully effective backstop mechanism meant to reduce or eliminate tail risks from the euro area. Its size is, ex ante, unlimited but it is not unconditional. Its size will be adequate to remove these risks and all the conditions will have to be in place for the OMT to begin but they are, as I said before, necessary conditions.
If I may take just one example: the discussion about mutualisation of debts above 60%. This is a little bit paradoxical, because we are trying to establish credibility for the new stability pact, and on the one side trying to state this as the new situation, while at the same time trying to create an institution to resolve the fact that we think that a lot of Member States will not be able to deal with those rules, which rather undermines what we are seeking to do. To my mind it seems we maybe have too many balls up in the air to create real credibility for the institutions we have.

The second thing, which touches upon the theme which has been discussed here, is that if we look upon the macro-economic context for the European Union, most Member States and all the big economies will have to deal with a debt burden that will take at least until 2020 until some of the biggest are in line with the 60% level.

This means that the next coming eight years will be, from a macro-economic point of view, a time of contraction. At the same time we are introducing banking legislation regarding capital requirements, which I mainly think are sensible but which are taking place at the same time, so we are risking a double contraction, a double credit crunch. I wonder how you look upon that and on what we can do either to avoid that or to balance it with some other things?

Chair. – Arlene McCarthy already asked you about the issue of cross-zone groups, those where there are parties inside the euro zone and parties outside (Sweden is one of the examples which she gave), and also when you were responding about Vickers and Liikanen, you said euro zone banks were entirely different from – I think by implication you meant – the United States and the United Kingdom, and that is true in the sense that they are places that have large international banks.

So what is for obvious reasons concentrating my mind quite a lot is how we are to hold the single market together and have a common set of rules that will work from the ECB inside the euro zone, or greater euro zone, and will also work for what you have said are larger international banking groups outside it. There is the potential for migration both ways to happen from this and that is absolutely what we want to prevent. We want to keep the single market together.

Now I think that the proposal of the common handbook is one very good step towards helping resolve that, and maybe that is going beyond the rulebook and into the more detailed risk methodology which was mentioned in the Commission communication and which I know Andrea Enria is very interested in and has already talked about and of course EIOPA are already bringing forward one on insurance.

The other point – among many – that is troubling me and all of us who are working on the banking union, is the fact that we are not getting all three parts all at once. This is a little bit of a worry in that there are implications for common supervision if you do not have the common backstops. It is very difficult legally to put in place a piece of legislation as if the next phase is coming along when we do not know for certain it is coming. If there is no backstop, then you need to build in more layers of accountability back to the national level because the backstops are not there, and we have to do that if we do not get all the pieces all at once.

It is no good us legislating for something assuming something else is coming along. It is not legally sound and so that is a little bit of a fly in the ointment for us. I am just wondering what you thought about that.

Mario Draghi, President of the European Central Bank. – On the first question, if I understand it, I think your main concerns are about the most difficult part that arises in all our economic policy, namely the mutualisation of risks.

To many this is essential for making progress. At the same time, to many it is essential that it comes – to put it perhaps in extreme form – at the end of the progress that has already been made. I think we will have to find a compromise here but – as in the banking system that we were discussing before, to have a common deposit insurance guarantee – mutualisation is based on trust and on the conviction that all Member States consider their economic policies a matter of common interest.

It is based on sharing sovereignty, especially I would say in the fiscal and budgetary areas – but not exclusively, also in the structural reforms – because it is quite clear that Member States have to be able to generate growth. This will become part of the common contract upon which trust can be built and the problems linked with mutualisation of risk could be overcome. It is a process and it is a sequencing. It is going to take time and it is going to take determination, but especially it is going to take political will to share national sovereignty – here again I referred to this in my answer to a previous question – to share national sovereignty at the supranational level.

The second point you made is also well-founded. We made mistakes in the past in trying to enforce regulation or special supervisory assessments which turned out to be highly pro-cyclical, which made things much worse. We have discussed this in the past. Many things are very good in the abstract, but when they come into actual policy implementation they have to be implemented in the proper sequence. Often a good thing which is out of sequence becomes a very bad thing owing to the consequences it produces, so that is why – and you know this because we have exchanged views on this several times – we have always insisted on the proper sequencing of these things. When we design regulation
and new legislation of a regulatory character we should ask ourselves what has to be in place before we introduce this new regulation. I completely share your concerns about this.

Gunnar Hökmark (PPE). – May I just make a short clarification, because my first question aimed at the fact that a lot of the discussion about mutualisation of debt stresses that we should mutualise debt burdens above 60%, while at the same time the stability pact underlines that there should be no debts above 60%.

The new stability pact underlines that 60% is the upper limit for debt burdens, and this creates a paradox regarding credibility.

Mario Draghi, President of the European Central Bank. – Sorry, I was addressing the general issue here. I would not want to discuss specific solutions about this mutualisation because there are many ideas on the table, and I think they all share the problems that I have outlined.

The question that really needs to be reflected upon substantially is what is going to be the final response. I think we have come a long way, so I am sure that one can find – as has in fact been done – solutions to contradictions between different views on this.

On the single market, I think you are absolutely right. We have to make sure that we do not create a system where you have either migration or regulatory arbitrage that would in the end weaken the single market. The proposal to work out a common handbook is actually very good sense, it is a very good proposal and I think all parties should be working on it.

This new single supervisory mechanism by itself, it seems to me, is not going to cause more problems to the single market than there were existing before. It is clear that the banking realities that are being supervised are different, and so what we need is either a regulation and/or a common handbook which is able to achieve its results while respecting the fundamentally different business models that you have in different parts of the Union. So again, from this viewpoint the proposal to work on a common handbook is a well-formulated, well-designed proposal which deserves our support.

On the legislation, you are right: from a viewpoint of legislative technique, it would be much better if we could – if you could – legislate the three pillars together. Certainly this step-by-step approach, which is probably very realistic, is also technically complicated, it makes your life and other legislators’ lives much more difficult and the process will certainly be much slower. But that is in a sense the reality we have to deal with.

Chair. – ‘Slower’ will of course make 1 January 2013 quite difficult.

Thank you, Mr Draghi, for all your answers. We always enjoy having you here in committee and I am sure that you are going to go back reinforced with all kinds of vigour on various issues, including gender balance!

(The meeting closed at 12.27)