1-001

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, 23 MARCH 2015

1-002

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

(The meeting opened at 15.10)

1-003

Chair. – Colleagues, we are moving to item 3 on the agenda, which is the monetary dialogue with Mario Draghi, the President of the European Central Bank. We are very pleased to welcome him here this afternoon in his capacity as President of the ECB and also, for our next item, as Chair of the ESRB. I would remind Members that we should keep those two debates separate; questions should not overlap and we should stick to the relevant item on the agenda.

The first is monetary dialogue with the President of the ECB. We are particularly pleased to have the opportunity to have this dialogue with President Draghi, which is the first monetary dialogue after the decision by the ECB and the start of implementation of the expanded asset purchase programme. Parliament has already welcomed this new measure of monetary policy, which is already producing a significant improvement in financial conditions and the monetary policy transmission mechanism. Together with other economic policy measures at EU and national level, namely the investment plan, the capital market union, a less pro-cyclical fiscal policy and the intensification in the implementation of structural reform, we expect this policy mix, which was outlined by President Draghi in his famous Jackson Hole speech, to support economic recovery and employment and also contribute to bringing inflation expectations close to the long-term objective of the ECB.

I now give the floor to President Draghi and we will then have our usual question and answer slots.

1-004

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 happy to be back before this committee for my first regular hearing at the European Parliament in the year 2015. A lot has happened since we last met in November last year. With Lithuania, the euro welcomed its 19th member. On 22 January we announced our intention to extend our asset purchase programmes to buying public sector securities; we started the purchases on 9 March. We also moved to a new building, which we officially inaugurated last week; we unveiled our new 20-euro banknote; and, in a milestone towards even greater transparency of our decision-making procedures, we published on 19 February, for the first time, the accounts of a monetary policy meeting of the Governing Council of the ECB. I know this has always been a topic very dear to your committee.

In the remainder of my remarks, I will explain some important aspects of the extended asset purchase programme and present a first assessment of its effects. I will then, as the coordinators have asked me to do, elaborate on the link between price stability and financial stability and will speak briefly about the macroprudential tools the ECB has now at its disposal.

The most recent data and survey evidence show that growth is gaining momentum. The basis for the economic recovery in the euro area has clearly strengthened. This is due in particular to the fall in oil prices, the gradual firming of external demand, easy financing conditions driven by our accommodative monetary policy, and the depreciation of the euro. These more positive developments are also reflected in the recent ECB staff projections. Compared with the projections from December, the outlook for 2015 and 2016 has been visibly revised upwards by 0.5% and 0.4%, respectively.

We expect inflation in the euro area to remain very low or negative in the months ahead, because the recent fall in oil prices will continue to influence the figures until later in the year. However, inflation rates are expected to start increasing gradually towards the end of the year. They will be supported by aggregate demand, by the impact of the lower euro exchange rate and by the recovery of oil prices from their current troughs in the years ahead. The latest ECB staff projections foresee average inflation at 0.0% in 2015, rising to 1.5% in 2016 and 1.8% in 2017.

A key factor for a full recovery of the euro area economy and ensuring that inflation does not remain too low for too long will be the extra stimulus that the Governing Council decided to introduce in January under the ECB's expanded asset purchase programme.

This decision was premised on two considerations. First, the momentum supporting the economic recovery was viewed as too weak and fragile to give us sufficient confidence that inflation would return to levels closer to 2% over a policy-relevant medium-term horizon. Second, the expansive potential of monetary policy measures that had been decided between June and October was seen as uncertain. This was because they were largely dependent on banks' own decisions to borrow Eurosystem funds and lend them on to their customers. The cumulative uptake under the first two targeted long-term refinancing operations stood at around EUR 212.4 billion. Therefore, the monetary impulse had to be reinforced and needed to be quantitatively more predictable and controllable to put the economy and the outlook for price stability on a firmer footing.

On 9 March we started purchasing public-sector securities as part of our expanded asset purchase programme, which also comprises interventions in the ABS and covered bond markets. Overall, our asset purchases will amount to EUR 60 billion per month. The pace of purchases so far puts the overall programme on track to reach a total of EUR 60 billion in March. At this point in time we see no signs that there will not be enough bonds for us to purchase. Feedback from market participants so far suggests that implementation has been very smooth and that market liquidity remains ample.

Our interventions have accelerated a trend that had been evident for some time. A steady process of reintegration across financial markets and jurisdictions had been under way since the summer of 2012. What is new today, however, is that lower interest rates in capital markets are increasingly being transmitted through the entire financial intermediation chain. Lower funding costs for banks have started to influence the cost of borrowing for households and companies. As bank lending rates are being reduced, new investment projects – previously considered unprofitable – become attractive.

In the short run, this should sustain the demand for credit and investment. Indeed, the banks covered in our Bank Lending Survey confirm that the easing of lending conditions is progressing hand in hand with a resurgent demand for credit to finance business investment. In the longer-term perspective, this will increase potential output.

We intend to carry out our purchases at least until the end of September 2016, and in any case until we see a sustained adjustment in the path of inflation which is consistent with our aim of achieving inflation rates below, but close to, 2% over the medium term. The Governing Council will take a holistic perspective when assessing the path of inflation. It will evaluate the likelihood for inflation not only to converge to levels that are closer to 2%, but also to stabilise around those levels with sufficient confidence thereafter. When doing the assessment, the Governing Council will follow its monetary policy strategy and concentrate on inflation trends, looking through any surprise in measured inflation (in either direction) if judged to be transient and with no implications for the medium-term outlook for price stability.

The positive results of our new purchase programme should not distract other stakeholders from delivering their contribution to put the economy back on track. Fiscal policies should support economic growth, while ensuring debt sustainability. A full and consistent implementation of the Stability and Growth Pact is key for confidence in our fiscal framework. Moreover, structural reforms should be implemented promptly and with determination. The combination of improved economic structures and sound fiscal policies indeed has the potential to make our monetary policy more effective by encouraging economic actors to take advantage of improved financing conditions and increase investment.

Let me now turn, as suggested by the Economic Affairs Committee coordinators, to the interaction between price stability and financial stability.

Price stability is, as you know, the primary objective of the ECB and the Eurosystem, and achieving price stability is a necessary condition for financial stability. Clearly, unstable inflation developments can distort a wide variety of macroeconomic and financial fluctuations, to the extent that these distortions become harmful for the economy. For example, unstable inflation developments could complicate the pricing of assets and blur the signals from relative asset price adjustments with detrimental effects on resource allocation.

However, price stability is not a sufficient condition for financial stability. The last crisis proved that financial stability can be at risk even at times when price stability is achieved. And monetary policy decisions also affect expectations and a wide range of asset prices. Our monetary policy measures are necessary to achieve our primary objective of maintaining price stability. But we are nevertheless aware that they may have unintended side effects on the financial system. For example, asset prices may increase to levels that are not justified by fundamentals, while periods of low yields and volatility may invite excessive risk-taking by financial investors. In turn, such developments can act as an amplifying mechanism for any eventual financial instability.

At the same time, financial stability is a precondition for the efficient conduct of monetary policy. To be successful in delivering price stability, monetary policy relies on the effectiveness of the monetary transmission mechanism. In this context, a stable and non-fragmented financial system is important for the smooth transmission of monetary policy signals.

We are monitoring closely any potential risks to euro area financial stability, including those from excessive risk-taking. Currently these risks are contained. And should they emerge, macroprudential policy would be the best suited to address them. Recently, indeed some national authorities in the euro area have decided to implement such measures that go in the direction of preventing financial stability risks from emerging at national level.

Regarding macroprudential oversight of banks in the euro area, this is shared between national authorities and the ECB. The ECB may top up specific national macroprudential measures if it considers these insufficient to mitigate systemic risks.

The ECB and the national authorities have at their disposal macroprudential instruments for the banking sector, as provided in the Capital Requirements Directive and Regulation (CRD IV/CRR). These include capital buffers, such as the countercyclical capital buffer, systemic risk buffer and capital surcharges for systemic institutions. Additional measures may also be used to improve banks' capital and liquidity position, limit their large exposure or increase capital requirements for certain asset classes, such as interbank and real estate exposures.

To make the most effective use of these instruments and strengthen the stability of the financial system, the ECB and national authorities regularly exchange information on macroprudential policies. Processes for formal notifications to the ECB by national authorities regarding intended measures have already been activated. Overall, the ECB will help to identify potential financial stability risks and foster a coordinated stance for macroprudential policies among euro area Member States.

Let me conclude by saying that I have always very much valued the exchange with your House both as an exercise of our accountability obligations and as a source of inspiration. I am therefore very much looking forward to our debate and hope that we will now have time to discuss some of the matters for which time was too short at the plenary debate.

1-005

Chair. – Thank you for your opening remarks and also for having addressed the point we asked on price stability and financial stability, underlining indeed the importance of the role of macroprudential instruments in this regard.

1-006

Burkhard Balz (PPE). – Mr Draghi, nice to have you with us again in the committee!

My first question is, as you can probably imagine, about Greece. The European Commission estimates that the country's financial situation will be critical as from 8 April, that is, in a few days' time. The original timetable, whereby the Greek Government was supposed to submit an action plan for reform by the end of April, should now be shortened and, of course, insolvency must be prevented.

So Greece is now supposed to present a reform plan in a few days' time. I would therefore really like to know how you see the current situation. What can we actually expect with regard to this matter of urgency? After all, some national parliaments have only agreed to supply more funds provided that the Greek Government presents a comprehensive reform plan which ultimately also needs to be implemented.

Secondly, what is your view of the role of the ECB as one of the institutions, as it is now called? Also in view of the fact that you are being asked by the Greek Government to provide more liquidity to the Greek banks, how will this time pressure make a possible rapprochement between donors and Greece more likely?

And thirdly, I would like to comment briefly on one point. To combat low inflation in Europe, in the euro zone, in early March, the ECB – as you've just stated – began purchasing public-sector securities from the Member States. Furthermore, the European Central Bank is maintaining its much-criticised policy of low interest rates. Stock and real estate markets are booming. Shares at record levels, with interest rates and euro exchange rates at an all-time low, are, above all, leading to a loss of confidence in the ECB among European savers.

How, Mr Draghi, do you think you can – at least in the medium term – restore confidence in the ECB's monetary policy?

1-007

Mario Draghi, *President of the European Central Bank***. –** On Greece, I think what is needed first and foremost is a process that restores the policy dialogue between the Greek Government and the three institutions, so that it can yield what we call a 'credible perspective' for a successful conclusion of the review under the existing arrangements. This means there is a programme; some of the measures under this programme are agreed, while others are not agreed. Which measures are going to be agreed has to be specified, and which measures are not going to be agreed and how they are going to be replaced also has to be specified. Thus the policy dialogue begins again. My understanding is that there are discussions in this respect taking place at this very moment, and I am confident that these discussions, with good will on all sides, will produce the outcome of restoring this credible perspective for a successful conclusion of the review process.

The role of the ECB is like that of the other institutions. The ECB actually acts in liaison with the Commission, according to the mandate that was given to the ECB in the 'two-pack' and ESM legislation.

Your other question was about the inflation rate and price stability. We believe that the recovery in inflation – our projections, as I mentioned, are for inflation to be zero this year, 1.5 next year and 1.7 the year after – is conditional on the full implementation of our expanded asset purchase programme. Just as inflation is predicated to go back to a level close to but below 2%, and as recovery firms up, so interest rates will naturally follow. We are fully aware of the situation that savers in the euro area have to put up with because of low interest rates and, as I have just said in the introductory statement, we are certainly aware of the potential financial stability risks that a protracted situation of low interest rates might entail. On the other hand, we have a mandate, and the mandate and credibility of the ECB is predicated exactly on reaching this objective.

I am pretty confident that, as has happened on other occasions with ECB policies, after a stage of criticism there will be a stage of – I would not call it praise because that would be too much, but would at least say – willing acceptance.

1-008

Jakob von Weizsäcker (S&D). – I should like to follow up on Greece. Last week you immediately received perhaps more public attention than Central Bankers in general – and even you – are used to in Frankfurt itself, and to some extent this is a reflection of the fact that in difficult times Central Bank decisions can, to an unusual extent, be of a political nature. That may be particularly true in areas where your mandate is not as clear as it is when it comes to inflation. There your mandate is very clear and I find your policy very convincing.

I want to ask you about emergency liquidity assistance and the difficult decision in the current environment. Is the Greek banking sector experiencing liquidity troubles or is it really a problem of the solvency of that sector? While this is a technical question, the implications of that question are hugely political. Similarly, there is the question of the extent to which one would allow the Greek banking sector to maintain or even increase its exposure to its sovereign, the Greek Government, which again is a technical but also highly political question.

So I have two questions for you: the first is how, in this environment in which you have a lot of discretion but very difficult decisions to make, are you going to navigate the technical as well as the political problems? Secondly, there is the question of what Member States can do to perhaps complement your actions on quantitative easing. You very clearly made the point that Member States should take fiscal action and make growth-enhancing reforms. What are the complementary actions for Member States? These are my two questions.

1-009

Mario Draghi, *President of the European Central Bank***. –** On the first question, the ECB as one of the three institutions has been acting according to the mandate as specified in current legislation, namely the Two-pack and the European Stability Mechanism (ESM) legislation. I was saying before that the ECB acts in the eurozone so it does not have a prominent part in the negotiations in the sense that the Commission is being asked to consult the ECB on several issues. At the same time, as you rightly observed, the ECB is on the other side when funding comes into question. But again, the thing I want to stress is that the ECB is a rule-based institution. We are not creating rules for Greece or with anybody else. We are simply observing existing rules.

So we lifted the waiver, for example. At that point, you know the Greek bonds are below a threshold of collateral so that normally, according to the rule, we could not accept Greek bonds as collateral. However, we had this waiver in place at a time when the conditions were such that a successful review of the current programme was likely; a disbursement was to come very shortly thereafter. So there would have been a technical period where there would be no disbursements and at the same time we all knew that disbursements were to come. That is why we had the waiver. And then, later on, in February of this year, we had to lift the waiver because these conditions were not there.

There is an interesting memory that I would like to share with you and it is the press release of 5 August 2012, when the waiver was actually instated. ‘Staff teams from the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF) concluded today a visit to Greece to discuss with the new authorities the economic policies needed to restore growth and competitiveness, secure a sustainable fiscal position, and underpin confidence in the financial system in line with the objectives of the economic adjustment program that is being supported by the three institutions. The discussions on the implementation of the program were productive and there was overall agreement on the need to strengthen policy efforts to achieve its objectives. The Greek authorities are committed to proceeding with determination in their work over the next month, and the EC/ECB/IMF staff teams expect to return to Athens in early September to continue the discussions.’

Such a press statement would have been unthinkable in February and that is why we had to lift the waiver. But, having said that, we are ready to reinstate the waiver as soon as the conditions for a successful conclusion of the review of the programme under existing arrangements are there.

At the same time, the provision of emergency liquidity assistance (ELA) has to take account of the existing legislation that forbids monetary financing. So ELA is supplied but there are limitations to the extent that the banks can use this ELA for purchasing treasury bills (T-bills). In other words, ELA is meant to support the Greek banking system and, in order to do so and preserve the liquidity conditions of the Greek banks, they are forbidden from buying T-bills so that this additional liquidity is against the depositors.

Your second question is about the structural reforms and which additional policies are needed to give full effectiveness to our monetary policy. There, as I said in the initial statement – and I have never made a mystery of it – I think that our monetary policy can actually be fully complemented by the Member States undertaking structural reforms. And each Member State has its own agenda.

Here I beg to differ with those who say QE has reduced the incentive of Member States to undertake structural reforms because it keeps the interest rates so low that Member States will have no interest or no incentive to do so. Rather the opposite: QE complemented by structural reforms would produce a dividend, an additional benefit, for the countries that are able to do so. Lower interest rates make investment projects that were previously unattractive, attractive. This is the key benefit. Of course, investment projects will translate into actual investments only if the environment is business-friendly and favourable to investment. That is why the structural reforms become an important component of the final positive outcome that our monetary policy will produce.

1-010

Sander Loones (ECR). – Now, after those more technical questions, perhaps somewhat more political questions, questions more about policy.

On 23 February, Mr Dijsselbloem was our guest here in the Committee on Economic and Monetary Affairs. He said (and I quote):

1-011

'Only Britain has discussed Greece leaving the eurozone. No other country has.'

1-012

Apparently, then, no-one is preparing for a Grexit. A little later on, I read an interview, in the German monthly *Manager Magazine*, with Fernando González Miranda, head of risk analysis at the ECB, according to which he was working on three different models for a Grexit.

My question is not: is there or is there not going to be a Grexit? But it is certainly a simple yes-or-no question. Is it true that the ECB is drawing up contingency plans in preparation for a Grexit? And a second question: can the eurozone survive a Grexit – yes or no?

In addition to Greece, quantitative easing has also been talked about. You are responsible – it goes without saying – for monetary policy in the eurozone. Your main task is to maintain price stability, and you are independent. There is no question about that. At the same time, you are accountable and your actions must take place within the limits set by the Treaty. I again have two questions. Firstly, quantitative easing is tantamount to purchasing sovereign debt. Is it not the case that that is expressly prohibited by the Treaty? Secondly, as a result of quantitative easing, taxpayers in one eurozone country stand surety for the debt of other eurozone countries. In other words, that is a form of euro bonds. Do you consider that to be a monetary policy instrument, or is it not, rather, a policy measure which should be debated and approved in Parliament?

1-013

Mario Draghi, *President of the European Central Bank***. –** On Greece, the ECB employs risk managers to manage risk, so they constantly analyse a range of scenarios. That is normal practice at the ECB. I shall not comment on numbers that have come out in newspapers and magazines recently, and I will say again that Greece and its international partners should now focus on setting the conditions for a successful conclusion of the review – that is the most important part – and the government of Greece should commit to fully honouring its debt obligations to all its creditors and to premise all future policies on this commitment.

In the second question you asked whether QE is a monetary policy instrument or not. We are obviously convinced that it is monetary policy instrument. We buy sovereign debt on the secondary market exactly as the Treaty and the provisions of Article 123 foresee. I would say that this issue has been marginally dealt with also in the opinion of the Advocate General of the European Court of Justice and was found to be compliant – regarding OMT, admittedly not QE – with Article 123. So we continue basically to assess the purchases of sovereign debt on the secondary market as being a tool of monetary policy.

1-014

Chair. – Indeed the Treaty is very clear that it is the primary market which is forbidden.

1-015

Sylvie Goulard (ALDE). – Thank you for coming, Mr Draghi.

I wanted to talk about a political aspect as well, but first of all I wanted to thank you for what you are doing and for the ability you have to think in the medium and long term in the midst of a crisis when most governments are looking only at the very short term.

You recently made quite a remarkable speech in Frankfurt for the *Süddeutsche Zeitung*, in which you placed great emphasis on the need to move forward, to go beyond the rules, which, in any case, are more or less being complied with, to perhaps ultimately reach a point where our institutions could both take decisions, with a margin of discretion, and above all, above all, be accountable.

So, I have a question for you, which will perhaps surprise you: are you really going to carry on with the Four Presidents exercise? Because one of two things will happen: either you have so many far-ranging ideas and the most likely scenario is that they prevent you from continuing to express those ideas, or you will convince them, and in that case we here would be very happy. In any case, might it not be dangerous, in terms of the freedom of expression of the Central Bank, if you find yourself trapped in an exercise in which the other institutions probably do not want to go as far and in which it is clear to see that we are already in a rut which we cannot get out of?

I would like to point out that there has already been a 'Four Presidents' report which resulted in a very good summary by Mr Van Rompuy, but which the Heads of State and Government were quick to set aside in December 2012. So, do you believe that this exercise is more likely to succeed, and if not, might it not be better for you to keep your freedom of expression that we appreciate?

1-016

Mario Draghi, *President of the European Central Bank***. –** I love my freedom of expression very much too, and so far I am quite confident that I will be able to retain it through time and through obstacles, but let me just say a couple of things. One is that the 2012 Four Presidents report actually marked progress that was not only in words but also in substance because, after all, with that report came the banking union and the Single Resolution Mechanism. There was a quantum leap in 2012, so I would say that it was not only words.

As far as the next Presidents report is concerned, I have to say that we are working on this with the other institutions. It would be premature of me to prejudge any conclusion, but the point of fact is that it is becoming clearer and clearer that we should retain collectively the ability to think at two levels. One is the short-term level and the other is the long-term level. In the short term we have to acknowledge that the political feasibility of some of our ideas is not there or it is very limited, but this should not be a reason for not being able to think in the long term and not being able to say things that you know are essential for making our monetary union a more perfect union.

At the present time our monetary union is not perfect, it does not take much to acknowledge this coming out of the crisis. It is fragile, and it is fragile because it is incomplete. There is no question that to make it complete we need further steps on economic union and on fiscal union. Whether these steps are going to be tomorrow or sometime in the future is where the matter of political feasibility comes in – or that is my view at least – but we should not give up our capacity to think in the long term because of the constraint of short-term political feasibility.

1-017

Chair. – I think a good lesson from the first Four President exercises is that they marked progress in the area where the Community method and codecision applied, namely in the financial sector and banking union.

1-018

Marisa Matias (GUE/NGL). – Thank you very much, Mr Draghi, for being here. You are quite right: many things have changed, as you said, since our last dialogue session. I am glad that you are talking about the new ECB building and not about the cost or overspending. Obviously. it is always easier to talk about other people's overspending than about our own.

But I am going to return to the subject of Greece; I am sorry, but there it is. You have said a great deal and are attempting to justify all the operations and instruments set up as such, supposedly with the aim of stimulating investment. But, as far as Greece is concerned, no matter how many names might be used to describe it, there is no doubt that what the ECB has been doing is blackmailing Greece, within and outside its remit.

So my first question is whether you are even aware how seriously the ECB's blackmailing of Greece, beyond the limits of its remit, is undermining monetary policy per se. We should not try to talk in piecemeal terms: the truth is that monetary policy is being undermined by the actions of the ECB, which is sending money to some while it is suffocating others, and that, essentially, is what it is doing to Greece.

And I am also grateful that you have made it so clear that the ECB is preparing for the 'Grexit' or at any rate has a group of specialists looking into it. Nothing is being done to keep Greece in the euro area, except by the Greek Government. We have all realised this, but it is good that you have admitted it.

My final question relates to a more general point. You, Mr Draghi, invariably describe financial stability as a precondition, but, to be quite honest, I am increasingly confused about what financial stability means. Aggregate demand is not rising, and economies are drifting further and further apart. In Portugal and other countries on the fringes of the euro area we are forever being subjected to indignities, as was the case this week, when the Portuguese Government told us that the coffers are full for meeting obligations to creditors. Meanwhile the country is getting poorer and poorer, and inequality is growing. What do you really mean by financial stability, Mr Draghi?

1-019

Mario Draghi, *President of the European Central Bank***. –** Let me disagree with you about almost everything you said. First of all, are we blackmailing Greece? Well that is a bit rich when you look at the exposure that we have with Greece. The ECB has EUR 104 billion of exposure to Greece. That is equal to 65% of Greek GDP and it is the highest exposure in the eurozone. So what sort of blackmail is that? It is up to you to judge.

We have not created any rule for Greece. I did say this before. Rules were in place and have been applied: the waiver rule, the threshold rule, they have all been applied. Simply they were in place. There will be a time – and I am still confident because you mentioned we are talking about the exit of Greece when in fact we are not talking about that – when we will be able to reinstate the waiver and when we will be able to do QE for Greece, but several conditions have to be satisfied and they are not there yet. However, we are confident they will be if this process of policy dialogue is being reconstructed.

So, finally, let me say that Portugal has reached the stage where it can actually fully reap the benefit of the policies that have been undertaken in the past few years. It has reconstructed financial stability, it has market access, it can finance itself and you can see that unemployment is going down in Portugal, and vastly. It is one of the countries that is becoming a witness to the recovery of the euro area.

1-020
Marisa Matias (GUE/NGL). – President Draghi, unemployment is being reduced at the same rate as people are having to leave the country, which is more than 300 000 people so far. That is why unemployment is falling; it is not because we have less unemployment.

1-021
Mario Draghi, *President of the European Central Bank***. –** I would say that Portugal is actually reaping the benefits of the policies that it has undertaken. I think it still faces some significant challenges that have to be coped with but, frankly, it is a country that has passed beyond the trough.

1-022
Philippe Lamberts (Verts/ALE). – President Draghi, just as an aside, I would refrain from declaring success until you have examined the distribution of effects of policies because indeed not everyone sees the recovery the way you seem to indicate.

I would like to continue in the vein of Jakob von Weizsäcker on the rules-based system and discretion, because if indeed the ECB operation were just a rules-based system we could replace you with a computer and I am not sure that we are at that point yet and I am not sure it would be desirable. So there has been quite a lot of discretion in your role and that of the Board of the ECB. Jakob already started on that but I will continue.

Different members of the ECB Board and Council of Governors have commented that the T-bills ceiling and also the ELA ceiling are fixed with a view to sticking to the rule of no monetary financing of the Greek Government. But one might then ask why the amount of EUR 15 billion has been selected for the T-bill ceiling – why not 5 or 25? In the same way, why is it that back in time the Irish promissory notes were accepted or at least not refused as collateral – in a similar way to the treatment of the T-bill ceiling in Greece?

You also mentioned the decision when the waiver was granted to Greece, but actually it was a point in time when there was still no agreement on the programme. There was an agreement in sight but we did not have an agreement in place, which is not exactly the same thing. This is where I again sense that discretion is being used in deciding whether or not to instate or to withdraw the waiver. I would like to ask: what are the criteria that guide your discretion? As a corollary to my question: what are the conditions that need to be fulfilled by Greece and its creditors for raising the T-bill ceiling which is, of course, a crucial question at the moment?

1-023
Mario Draghi, *President of the European Central Bank***. –** First, the EUR 15 billion ceiling is not an ECB ceiling, it is the programme ceiling set by the Euro Group members. This was not an ECB decision.

Second, you are absolutely right: the assessment of the likelihood of a successful conclusion – not the assessment of the conclusion, but the assessment of the likelihood of a successful conclusion – is not at every point in time. It is a dynamic assessment. We have often given this dynamic assessment exactly as a forewarning towards the country concerned. The conditions for such a positive dynamic assessment were in place in 2012, as this press statement clearly shows. They were not in place in February.

The communication by the government through its most prominent ministers was a communication based on two words: default and insolvency. It was a communication which basically, if taken at face value, would immediately weaken the Greek banks and would lower the collateral. The more this communication created volatility, the more the collateral would be affected, the more Greek banks would be weakened, and the more difficult it would be for us to continue providing ELA. Incidentally, speaking again about the ECB stance, the exposure of the ECB is now, as I said, EUR 104 billion to Greece. It was EUR 50 billion in December, so it has more than doubled since then. All this certainly does not speak in support of the ECB having blackmailed Greece or anything like that.

1-024
Marco Zanni (EFDD). – I wanted to concentrate still on quantitative easing, and especially on the ECB's new growth forecasts and outlook for the euro area. It seems to me that the forecasts for the effects of the ECB's monetary policy are slightly too self-referential, and dangerously so.

The ECB – as you have reminded us, Mr President – has issued new forecasts for the euro area outlook, positive forecasts which however take positive effects of quantitative easing into consideration. At the same time, the ECB tells us that quantitative easing and other monetary policies are working because future expectations for the economy and inflation in the euro area have improved.

Do you not think that basing these outlooks and optimism on what is fairly self-referential reasoning is dangerous and misleading at such a sensitive point in time? Particularly with regard to inflation forecasts where, in recent press conferences and speeches, you have expressed optimism about future inflation expectations. However, even this optimism is based on an indicator, the 'five-year, five-year forward inflation expectation rate', which has not proved to be very good over the years at getting future inflation forecasts rights. From this point of view too, I would ask whether it would not be better to use indicators more in keeping with the period of time in which monetary policies have their effect and which have a more consistent anticipatory track record in respect of the five-year five-year rate, for example the two-year or five-year inflation swap rate or the 'two-year, two-year forward inflation expectation rate', which show today that in the future inflation expectations will still not be pegged to the ECB's statutory objective.

One final point on the transparency of quantitative easing: can you give us information concerning, especially, the fact that with this monetary operation you are going to clean up balance sheets or make the private banking system make profits and therefore, for the sake of democratic accountability, a truly transparent policy on this operation would also be important.

1-025

Mario Draghi, *President of the European Central Bank***. –** There is no circularity in the reasoning. It is pretty one-directional reasoning. It basically says that an expansion of monetary policy will raise inflation expectations in the medium term: that is it. When inflation expectations go up, with zero nominal rates real rates go down, and when real rates go down, investments and economic activity improve. That is the reasoning. It is not circular.

This is actually what did not happen in the months before the QE decision; exactly the opposite happened. At some point in time inflation expectations did worsen, so real rates have actually gone up and this was equivalent to an unwanted tightening of monetary policy. The decrease in medium-term inflation expectations that took place between November and December was equivalent to tightening to the level of the last decreases in nominal rates that we had undertaken. In other words it nullified our more expansionary monetary policy decisions when we decided to lower nominal rates beforehand. So that is how it works.

With QE we see now that, with inflation expectations, you pick up an indicator – whatever you want – but it has to be medium-term. Inflation expectations have actually improved. But it is going to take time. The improvement is low, gradual; it can go back and then up again because we have had low inflation for such a long time that there is an inborn inertia in these indicators. In fact, all our projections are medium-term projections.

As I think I said, we need a sustained adjustment in the inflation path. We will not be taking decisions for temporary blips in the inflation rate and we will not take decisions based on figures at each point in time. Our projections are conditional on the full implementation of this programme. I would say that what we see in the markets so far is on the positive side.

I should also say that there are good reasons for forecasting that inflation expectations will move back towards 2% – but below 2%. As I said, the first is, of course, a monetary policy decision; the second is the changes in the exchange rate. We should not disregard this factor. The third is a somewhat underlying projection that oil prices will recover towards the end of the horizon. But as I said, the fulfilment of this forecast is based on the full implementation of our programme, which foresees purchases of EUR 60 billion a month until September 2016 at least.

On transparency, the second question you asked, I frankly do not understand the question.

1-026

Bernard Monot (NI). – Mr Draghi, I have two questions: after using up all your ammunition by conventional low interest-rate measures, your monetary policy has now definitively become non-conventional, first with its TLTRO programmes and now, by purchasing securities based on the sovereign debts of the Member States. In this you have followed the ultra-loose policies of the Fed, the BoJ, etc., resulting in the destruction of the value of the paper currency, the euro. Capital markets alone are being boosted, with a European stock market that is breaking records, but there is virtually nothing for the productive economy.

On 9 March you therefore launched, at the supranational level, your QE plan, which is to create EUR 1 140 billion for at least 18 months. This last-resort intervention does not comply with at least three of the Tinbergen principles that define monetary union in the Treaty on the Functioning of the European Union: no use of monetary policy for a purpose other than price stability (Article 127(1)); no state funding by the ECB and the Eurosystem (Article 123); no use of monetary policy for exchange rate policy purposes (Article 219).

Moreover, it has not escaped anyone’s notice that the terms of your QE plan, which decentralises 80% of debt buybacks by the national central banks, is evidence of a renationalisation of the ECB’s monetary policy, which confirms the French National Front’s analysis of the issue and its suggested solutions. In my party’s view, this political intervention technically marks the end of the euro as a single currency, which is also reflected by a sharp drop in the value of the euro against the dollar.

First question: since, sooner or later, the ECB will have to announce the end of the single currency, why not continue this process openly until there is a concerted transition to national currencies, to try to save the euro as a common currency?

Another point: another dangerous consequence of opening up the liquidity trap that is the QE plan is the quality of the assets purchased: government bonds, of course, but also private asset-backed securities, covered bonds and other CDOs. You said last December that you would include all possible paper assets in the QE plan, except for gold. It is strange to ignore the only valuable asset – gold. So, to improve the solvency of the balance sheets of private banks in the euro area, you have deliberately inflated the balance sheets of the ECB and the banks of the Eurosystem with toxic assets. It is easy to start a money-printing programme, but it is much more difficult and complicated to end it. For proof of this you need only see the ‘moonwalk’ by the President of the Fed, Ms Yellen.

My second question, therefore, is: when, you eventually want to reduce liquidity and raise interest rates, have you considered carrying out an impact study on the financial consequences of quitting this programme – at what price and to whom you are going to sell these toxic assets? Thank you.

1-027

Mario Draghi, *President of the European Central Bank***. –** First of all let me say that our monetary policy is gradually finding its way to the real economy. It has taken time, but we are seeing that this is happening now. So it is not only limited in its impact to the financial markets, as it was in 2012. After the August decision on OMT, the financial markets certainly regained confidence, which was extremely important of course, and confidence in the euro was strengthened. At the same time, it has taken a long time for those impulses to translate themselves into the real economy and now this is happening.

We are seeing this through a variety of indicators. The lending rates by the banking system have gone down, credit is still subdued but is increasing, and financial flows to SMEs are also still subdued but they are increasing. So, as I said, we should not be excessively optimistic, but we are certainly more optimistic and more confident than we were three, four or five months ago.

Secondly, you raise the issue of the mandate. Your point is a little contradictory because, on the one hand, you say that we are renationalising monetary policies but on the other hand, you are saying that we are financing member countries. You have to decide which one. My view is that we pursue the price stability rule, under our mandate, and stick with our mandate and have no fiscal policy in mind. I think all our legal analysis seems to confirm that we are fully in the right.

The third point is about the exchange rate. You were saying that this policy is geared to the exchange rate, but nothing could be further from the truth. The exchange rate reflects the different position countries have with respect to their business cycle, and the monetary policies are on a different cycle themselves, so our monetary policy will stay accommodative for the foreseeable future. In other jurisdictions, monetary policies are expected to become tighter and tighter because the recovery is stronger in those jurisdictions than it is in our case.

The fourth point is on ABSs. I think you should read the Fitch Rating Agency report about the type of ABSs that we are buying. These are considered absolutely safe, and so from this point of view they are neither rotten assets nor ones where there will be any problems in selling them back. Why not gold? Well the answer is obvious. ABSs are meant to supply financing to the real economy. It is not clear that buying gold actually immediately produces the same effect.

1-028

Fulvio Martusciello (PPE). – President Draghi, you have said that structural reforms should be pursued with determination and timeliness. The same timeliness and determination that in 2011 led you to co-sign a letter to the Italian Government setting out in black and white what reforms our government should implement in order to come in line with the economic policy required by the European Central Bank.

The European Central Bank rapped Italy over the knuckles once again a few days ago, intervening on the issue of our country’s inability to reduce its debt and pointing out, once again, that structural reforms have to be pursued. I would like to ask you, do you not think that the time has come to set out in writing the structural reforms Italy must bring in, as was done in 2011, listing them clearly and precisely so that the Italian Government cannot then try to avoid the issue, as the Minister for the Economy did recently, claiming that the first adjustment to the ECB’s requirements had already taken place on the labour market through the so-called Jobs Act. Should there not be ‛scripta manent’ – so dear to our forebears and still valid – specially for a government which has so often been seen to shirk the commitments asked of it?

1-029

Mario Draghi, *President of the European Central Bank***. –** Each country has a list of reforms that are the most suitable for that country’s economic environment. By and large, these all fall into three categories. The first and foremost is the implementation of the single market. Let us not forget that having a common currency produces economies of scale, with benefits coming from the economies of scale of having a much larger market only if the single market is being implemented. In this case, the benefits of having one currency and having one market would add up and they would produce additional benefit.

The second point falls in the category of creating a business-friendly environment where it becomes easier to start a new business and where taxation is by and large lower. This links in with so-called growth-friendly fiscal consolidation, which is something we have discussed on other occasions together here – namely lower taxes and lower current expenditure. This means that basically there are fewer barriers to entry in each industry. We are talking about a series of measures that would make investment less difficult than it is today.

The third category is labour markets, and here again we have countries like Spain and Italy where progress on labour market reform has been undertaken. So that is how things stand. Right now, frankly, we do not plan to send any letter to anybody.

1-030

Pervenche Berès (S&D). – Mr Draghi, when you launched quantitative easing, everyone was well aware that it was in the spirit of what you said you would do – i.e. that you would do everything to ensure the euro area worked, and this afternoon you also had a lot to say about the ‘structural reform’ aspect. But when we talk of structural reforms, is there not also a question that is not usually asked – the question of demand and the support of business by demand in all the Member States?

Beyond the requirements relating to structural reforms, which are difficult in many Member States, how much importance do you attach to the recovery of business and of demand even outside of this structural reform, and thus to changes in a number of guidelines laid down at EU level, which lead to measures described by some as 'austerity' in the Member States?

My second question is about your contribution to the Four Presidents report. You reiterated it this afternoon: rules count, but you also said recently that over and beyond the rules, it was sometimes necessary to use the strength of the institutions. Looking at how the euro zone is getting on at the moment, something tells me that the rules are not enough, or are no longer enough, and that we should perhaps also start thinking about the functioning of the institutions. In this regard, what would be your contribution - without disclosing any editorial secrets - and in what spirit would you like the Central Bank to contribute to the drafting of the Four Presidents report?

1-031

Mario Draghi, *President of the European Central Bank***. –** On the first question, our QE, if successful, will raise medium-term inflation expectations and therefore lower real interest rates and therefore contribute to price stability and the recovery of the euro area. The more this is being complemented by both fiscal and structural reforms, the stronger will be the effect.

On the structural reform side, I have already made comments on what is needed for the euro area.

On fiscal policy it would not come as a surprise to you if I say that what is needed is growth-friendly fiscal consolidation, namely a fiscal consolidation that reaches both outcomes: debt sustainability on the one hand but also support for the recovery on the other. What I am suggesting is more work on the composition of the expenditure in the national budgets. Give a close look to capital expenditure versus current expenditure. Give a close look to the level of current expenditure and the level of taxation.

We know by now what sort of expenditure is more growth-producing and what sort of expenditure is less growth-producing. We know that a certain type of taxation is not growth-producing and that other types are and certain levels are. I always say that this part of the world has the highest taxation in the world. It would be very difficult to find any other part of the world with this level of taxation.

On the second point, yes indeed I made a distinction between rules-based integration and convergence and institutions-based convergence. My sense is that if we acknowledge the fact that our Union is imperfect and is fragile, and if we accept the fact that we have to move forward and make it stronger and more perfect, we also should ask the question: which of the two methods for convergence has been the most successful? We have examples of both. In the monetary policy area, before the euro, we were in a sense a rule-based monetary policy system. We had the Exchange Rate Mechanism (ERM), various versions of ERM, and they all collapsed. And in the end we moved to an institution-based system where our leaders created the ECB, created the one currency, created the banking union and the single supervisor and the single resolution mechanism.

On the other hand we had another example which is the fiscal example, where we have the Stability and Growth Pact. That is an example of convergence in the fiscal area that is based on rules, not on institutions. I think I could ask you which one of the two has been the more successful.

To move forward in the fiscal area, perhaps even in the economic area, would require Treaty change and so, until we have that, the rules have to be in place. Respect for the rules is also important because it creates that reciprocal trust that could be the basis for the next step, which is the creation of new institutions. That is a possibility but so far, certainly, the experience in the fiscal area has not been as successful as has been the experience in the monetary policy area. That is why I said before we should be able to ask these long-term questions without losing sight of what is politically feasible or not. These are two different planes but we certainly have to keep alive the long-term reflection.

1-032

Romana Tomc (PPE). – The monetary policy being carried out by the European Central Bank is just one of the means of support to help generate economic growth.

But economic growth is not an end in itself, nor should it be, and that goes even more for inflation projections and the level of the interest rate. Those are merely indicators of success. The ultimate goal is not a policy making for price stability, but people's quality of life. And the money that your measures are pumping into circulation must first reach the economy and then get to people. Otherwise it will be wasted.

And I agree with you that structural reforms are important, but they are a matter for the Member States themselves. I also accept that the European Central Bank is built on its own scale and his limits to its action, but how can you help? My question follows on primarily from Mr Martusciello. Not just which reforms are needed, but how can Member States be dissuaded from making one promise after another, whereas in reality reforms have never gone as far as they should have done?

In short, how can the ECB help to ensure that this common policy will be oriented towards people's quality of life, for successful reforms are, to put it in a nutshell, synonymous with the success of your monetary policy?

1-033

Mario Draghi, *President of the European Central Bank***. –** The undertaking of structural reforms would complement the implementation of our expansion in monetary policy and would certainly have a multiplicative effect on growth and recovery. The question you are asking and, as you said, perhaps was also mentioned in the previous question I was asked on this point, is: up to what point should the ECB indicate what the necessary reforms are?

Basically the ECB has always maintained a point of giving a certain indication, but beyond a certain point this is a completely national agenda. The ECB has a mandate to indicate which reforms are important because a lack of them could be an obstacle to achieving price stability. For example, in a situation where you have to raise inflation expectation towards the medium term of 2%, you want to have an accommodative monetary policy and at the same time you know that the more structural reforms are being undertaken, the more this monetary policy will be transmitted to the real economy. But the final responsibility of undertaking these reforms lies entirely with the national governments.

On the other side of the spectrum, you have lots of people who are actually criticising the ECB for going beyond this and for suggesting too much. So it is a very delicate balancing act that we have to undertake at each point in time, which is basically saying that they are needed and also saying which categories they follow, and sometimes also giving more precise indications – but never to the point where we forget that the responsibility for these structural reforms is entirely national.

1-034

Chair. – The well-established position of Parliament and this committee is that country-specific recommendations are, and have to be, issued by the Commission and endorsed by the Council and nobody has ever tabled amendments saying that it should be the ECB which issues country-specific recommendations – not so far at any rate.

1-035

Alessia Maria Mosca (S&D). – President Draghi, thank you first of all for the value you have placed on these discussions with the European Parliament. We are very aware of and feel strongly the weight of our responsibility at a time when there is no sign of any reduction in Euro-sceptic feelings throughout the whole of Europe. Therefore, even if we ask you questions which often go beyond the Central Bank’s mandate, we are aware that we are all united by the necessity of changing drastically the opinion held of the EU’s policies and institutions by our citizens, because nothing we do will succeed otherwise.

My question is along these lines. Many here have raised the issue of the importance of the Central Bank’s current policies and all the institutions’ policies impacting the real economy. My question focuses on the timing too, because we need this impact to happen soon, because we will soon be facing changes in governments, elections in individual Member States, which may even radicalise some positions and therefore, all medium-term views, including for example on advances in fiscal policy, could be crippled by the fact that there is even less political will for it. I would also like to ask for further thoughts regarding other actions being undertaken in this respect, precisely to ensure that there is an effect on consumption and investment, particularly on the Strategic Investment Fund and on the Capital Market Union, because all these policies together can contribute to changing trends and a rapid rise in public opinion of EU policies and the institutions in general.

1-036

Mario Draghi, *President of the European Central Bank***. –** The ECB strongly and warmly welcomes both developments: the launching of a capital market union and the launching of the investment strategy by the European Commission.

The first point is important because there is one lesson we learned from the crisis, which is that a financial system that is predominantly based on banks is fragile. If banks are impaired, then monetary policy, no matter how accommodative it may be, is not transmitted to the real economy. So from this viewpoint, if the capital market union can create a broader and better functioning capital market, then this is highly welcome.

From this viewpoint also we welcome the securitisation initiatives which fall under this umbrella. The bottom line on this is to be able to assure access to credit flows separate from the bank lending channel for those not at present able to issue on the capital markets – namely SMEs. At present, SMEs, which are in a sense the basis of the euro area economy, must borrow from the banks and do not have the possibility of issuing on capital markets because capital markets are designed predominantly for large corporations.

Of course, to make a capital market union a reality, substantive and significant work has to take place to try to harmonise legislation across different member countries. For example, bankruptcy legislation has to be harmonised; foreclosure legislation has to be harmonised so that we can have a European or euro area mortgage market. So several initiatives have to be undertaken, and we certainly welcome the main line of work that falls under this initiative.

On the second point too we welcome the initiative of the Commission of launching this investment strategy. We have said several times that it is absolutely essential that governments of Member States participate in this initiative and, of course, speed is of the essence because the European economy, the euro area economy, needs such an élan and such an effort to re-launch investment. Both public and private investment are now at historical lows, and it is quite clear that higher levels of investment are an essential ingredient to make what looks now like a cyclical recovery into a structural recovery, or in other words a recovery that can be sustained through time.

1-037

Chair. – You are committed to a quick conclusion of the negotiations. We would welcome also your assessment in replying to Mr Fernández’s question on eligibility of the EIB/EFSI bonds for the asset purchase programme.

1-038

Tom Vandenkendelaere (PPE). **–** President Draghi, I have two questions for you. It is often argued by those against QE that this would have a negative impact on incentives for governments to pursue structural reforms. I am convinced, however, that it can in fact assist governments in carrying things out through the necessary economic reforms and budget conciliation efforts. Not being an economist, I would be grateful if you could once again clarify why you consider that structural reforms and budget consolidation alone are insufficient to address the economic problems faced by the eurozone, enabling us to create a 'business-friendly environment' as you called it. Thus my question: why is a policy mix, including QE, the most sensible thing to do today?

My second question is the following, and relates to your introductory remarks. Observers have expressed their concerns over the fact that the ECB, in its ambition to buy up to 60 billion per month, will run into trouble in the short term as not enough assets will be available. You said you do not to share this concern. Can you elaborate further on this, please?

1-039

Mario Draghi, *President of the European Central Bank*. **–** On the first point, first of all we thought a lot about where there is a relationship between the level of market interest rates and the incentives that governments have to undertake reforms. There is a relationship but it is very dubious and it really depends on which reforms we talk about. For example, do you really think that a high level of interest rates in the markets would prove an incentive for a government to reform its educational system, or its judiciary, or its electoral system, or its constitution, or even its labour market? If we look at labour market reforms they have taken place by and large when interest rates had already very much gone down.

But, at the same time, there may be a relationship between the budget size of a government and the interest rates. So we have to distinguish; it is not as clear cut as we often hear as an argument. One could also, by the way, have the opposite argument: to the extent structural reforms are being undertaken, they actually increase the expansionary effect of monetary policies. This is the one I just hinted at before. So the relationship can go either way; it is not clear cut, as I said.

Then the question is: are not structural reforms and fiscal-friendly consolidation enough for the recovery? Well you know this would be true if our problems were only structural, but in fact they are not only structural: they are both cyclical and structural. So from this viewpoint, lower real rates are important to relaunch private investment. They allow the expansionary effects of monetary policy to propagate to the real economy through a variety of channels. That is why we deemed that our expansionary monetary policy is needed to bring back inflation towards our objective of being close to but below 2% over the medium term.

The second point about whether we will find enough assets: I find this observation quite interesting because, if there is one market that is big, it is the market for sovereign debt, certainly in this part of the world. We have spent a good number of the last few years saying that it was simply too big, that it should go down, and now we are worried about not being able to find enough assets. Also, we should consider that there are two broad categories of debt holders: the euro area resident debt holders and the non-euro area residents, in other words the rest of the world. While it might become difficult to find bonds in one category, certainly there is not any shortage that we can foresee in the rest of the world. So far, as I said, any market feedback seems to show that we have no difficulties.

1-040

Jonás Fernández (S&D). **–** President Draghi, your statements during Finance Day 2015 on the need for greater institutional convergence and further sovereignty sharing within common institutions in the euro area came at the same time as the news that the European Central Bank had made a profit of nearly EUR 13 billion since the crisis began.

As stipulated in Article 33(1)(b) of the Statute of the European Central Bank, after deduction of the amount that has to go to the reserve fund, which Article 33(1)(a) sets at 20% at most, these profits are to be distributed among the ECB shareholders, i.e. the national central banks, which must in turn transfer them to the Member States.

However, according to Article 40(1) of the ECB's Statutes and Article 129(3) of the Treaty on the Functioning of the European Union, the European Central Bank may take the initiative, in accordance with the ordinary legislative procedure, to alter Article 33(1)(a) – the one which fixed the percentage of the profits that must go to the reserve fund – opening the door to the possibility of another use being found for these profits.

In that sense and with a view to improving coherence in monetary union, something you have spoken about this afternoon and during other public hearings, the ECB could, for instance, take the legislative initiative to redirect part of the profits to the Community budget.

Keeping this thought – the need to improve coherence in monetary union and fiscal union – in mind, together with the fact that the articles referred to and their possible review come within the competence of the European Central Bank, they are fully in line with the current Treaties, do you totally and absolutely rule out some kind of initiative in this regard which could improve the functioning and coherence of the economic union?

1-041

Mario Draghi, *President of the European Central Bank*. **–** Your question is both interesting and difficult. My impression is that it is not up to the ECB to take such a legislative initiative but that it is up to the member countries, which may decide on the profit. Rather than going through the national budgets and be directed somewhere else – for example the Community budget – it is up to them in a sense.

Frankly, we are purely actors who execute a legislative mandate rather than taking an initiative that would affect national budgets. So it is up to the member countries to start this process if they so wish. There would be a change in the statute and, by the way, I suspect this would imply a change in the Treaty as well. But the basic point is this: it is up to the member countries to take this initiative.

1-042
Jonás Fernández (S&D). – President Draghi, Article 40(1) of the ECB Statutes states that the ECB may take the initiative in this matter and my question is, do you rule this out absolutely.

1-043
Mario Draghi, *President of the European Central Bank***. –** As I said, your question is too difficult for me at the present time and I am not able to answer on this point. I will have to check and let you know about this, and will convey the answer in writing at a later stage if it is possible.

1-044
Chair. – The ECB can in fact issue a recommendation on the proposal.

1-045
Werner Langen (PPE). – I too would be like to be informed about the figures in the previous ECB term of office, divided by the current number of shareholders. That would certainly be an interesting figure.

I have three questions. First, you said that monetary union and fiscal union are incomplete. You have not said, however, what measures should be taken as a priority, in your view. We would be interested in knowing what exactly needs to be done.

Second question: the risk of inflation in some Member States – much has already been said about that, and you have also explained the reasons for it. But are there not already in some markets, such as real estate markets, the first signs of overheating which might need to be re-evaluated when assessing inflation and in connection with monetary policy?

Thirdly, the euro has fallen significantly in the last year against major international currencies. What impact is this having on international economic relations? What is your opinion on this, particularly with regard to the emerging markets? We have just been to South-East Asia with a delegation, where we certainly heard concerns that the relationship between the euro and dollar has changed to this extent at such short notice. How do you view international problems in connection with the euro's nosedive against major currencies?

1-046
Mario Draghi, *President of the European Central Bank***. –** On the first question, I had opportunity to observe that we have two types of convergence that we have to work on to strengthen our Union. One is economic convergence and the other is institutional convergence.

Economic convergence is important because we are not yet one country. Each country has to be able to stand on its own feet. To this extent it has to become competitive and stay competitive, and to this extent countries have to converge economically, through structural reforms, towards best practices.

The second convergence is the institutional convergence which I hinted at before, and that concerns both the economic and the fiscal side. When I referred to economic institutional convergence, what one may have in mind is that the process of structural reforms could become more European-centred, rather than being exclusively national-centred. We have made quite some progress in making our budgetary process more European-centred, through a set of rules. One might well think about making the same process applicable to structural reforms, to economic convergence.

Finally, institutional convergence takes us towards a greater convergence on the fiscal side. This is not a medium-term or short-term proposition. It should be based on a variety of steps, and it should become easier in the end if there is economic convergence in place. The fear, of course, that citizens naturally have here is to find themselves in a position where there will be permanent creditors and permanent debtors. That someone will have to pay for someone else all the time. This happens in a one-country set-up, as in the United States, but we are not there yet. We are not a union like the United States; we are different countries. That is why I always insist on saying that countries should be able to stand on their own feet, because this Union was not created to have permanent debtors and permanent creditors.

In your second question you hinted at two dangers that our monetary policy might entail. The first danger is financial stability, and the second danger is sudden movements in the exchange rate that could create problems for other countries.

First, let me state once again that we have a mandate and our mandate asks us to reach price stability as an objective, which is defined – as I mentioned before – as having an inflation rate close to but below 2% in the medium term. At the same time, we are alert to the possibility of financial stability risks, and the answer is that so far we do not see these risks in the real estate market. We certainly monitor all these risks, and the answer to these risks should be found in the proper macroprudential instruments, not in changing the monetary policy stance, which is based on reaching our objective of price stability, in fulfilment of our mandate.

The same consideration could be applied to the concerns expressed by many emerging market countries about potential volatility in the exchange rate. We all – and by this I do not just mean the ECB but also the Federal Reserve, the Bank of England and the Bank of Japan, which run their monetary policy according to their mandates, which are national mandates and global mandates – consult each other very frequently and exchange views and information with all the partners in monetary policy-making at global level, but we have to take our decisions according to our national mandates, and these do not make provision for other jurisdictions in the application of the mandate.

1-047

Neena Gill (S&D). – President Draghi, on the initial impact of QE you were quite optimistic. Interest rates, as you said, are extremely low in the EU and mortgage markets are attracting new borrowers. However, what do you expect the impact will be at the end of September 2016? Is there a possibility, depending on the situation in September 2016, that you may have to extend QE? Following on from the point made by my colleague Mr Langen, what impact do you foresee on the European economy given the changes in the US where the tone of the Federal Reserve seems to be becoming more and more moderate and possibly anticipating an increase in interest rates in the coming months? Will this trend risk breaking our investments in the EU – and I am referring to mortgages and SMEs again.

The second point I wanted to raise was on the CMU. You said earlier that speed is of the essence, and I am quite concerned that the Commission is only proposing this by 2019. The CMU, as you said, will be complementary to banking finance and SME financing via securitisation, but I want to ask you whether it will be beneficial to – let us say – an SME in Spain or Portugal as compared to German SMEs, given the different profiles they have, and how do we avoid creating new bubbles in the future?

1-048

Mario Draghi, *President of the European Central Bank***. –** As regards your first question, the purchases are intended to be carried out until the end of September 2016 and will in any case be conducted until we see a sustained adjustment in the path of inflation that is consistent with our aim of achieving inflation rates below but close to 2% over the medium term. This means that we are not going to change our policy because of an observation at each point in time or because of changes that are not sustained through time. These are the requirements, so we shall continue and our projections are conditional on the full implementation of our programme at this point in time.

There should be a sustained adjustment in the path of inflation, which means that it will be the path of inflation, not its value at any point in time, and a consistent, steady move of inflation, not a reversible blip in either direction, that will speak for a change in our strategy.

Can you repeat the second question?

1-049

Neena Gill (S&D). – It was really around CMU: you were saying that speed is of the essence and that the Commission is proposing 2019 for a capital markets union. It was also around concern about how we avoid creating new bubbles, and the difference in profiles between, say, an SME in Germany and, say, one in Spain.

1-050

Mario Draghi, *President of the European Central Bank***. –** We are monitoring any risk to financial stability at the present time. We are aware that very low interest rates carry this inherent risk, and so we are certainly alert to that. But as I said before, the response to these risks should come from the use of macroprudential instruments, not from a change in our monetary policy stance, which is geared to reaching our price stability objective. I just want to reassure you that we monitor financial stability risks.

We also have to say that our banking and financial system is more resilient than it was a few years ago. The recent gyrations in the exchange rate and the changes in some specific bond market conditions would, on other occasions and at other times in the past, have produced some sort of wave of instability, but now they seem to have been absorbed pretty well by the financial markets.

The capital markets union is a development which we welcome very much. It will further strengthen our financial market union and will make it less dependent on the banking system only. In principle, it should bring the SME structure of our industry closer to the financial markets, making SMEs more able to get credit when needed.

1-051

Siegfried Mureșan (PPE). – The last questions are, of course, always the most difficult to answer as everything has already been asked by colleagues. My first question is: do you for the time being foresee a risk of a bond market bubble? I remember very well your statements from the end of last year – October, November – where you did not see that risk. The question is: would you still stand by your statement from last year or would you say circumstances have changed? Do you see bond prices still reflecting economic reality or rather having lost touch with reality, and do you see enough bonds on the market from the banks, insurance companies and pension funds for you to purchase?

My second question is linked to the timing of quantitative easing. Of course, quantitative easing is most effective when financial markets are in turmoil, and that is the question for you. Do you feel that quantitative easing is starting at the right moment in time? Should it have started earlier in order for its positive effect to be maximised? Has the economic governance of the eurozone prevented you from moving to that measure earlier?

My last, very short, question is: did we understand you right earlier when you answered the question on the end of quantitative easing? Did we understand you right that, if the path of inflation is not in line with the objective of the ECB, you foresee the continuation of quantitative easing beyond 2016? Is that something that you can imagine?

1-052

Mario Draghi, *President of the European Central Bank***. –** The answer to the third question is yes, indeed. In answer to your second question, in April 2014 in the course of a speech, I presented three contingencies that would make the ECB act. One was an unwanted tightening of money markets. The second – in succeeding order of importance and also time-wise – was an impairment in the bank-lending channel that would translate itself into an impairment of our transmission mechanism for monetary policy. The third was a medium-term worsening of inflation expectations.

At that time we had already acted to cope with the first contingency. We would act shortly thereafter to cope with the second contingency, through the decision on the TLTROs, which targeted the banking system so that this could actually produce more lending to the real economy through the beginning of purchases of ABSs and the covered bond programme, with the same goal of trying to channel financing towards the real economy.

By the way, these decisions had produced considerable effects at the price level in the sense that both ABS spreads and lending rates to the real economy went down considerably as an effect of these two decisions, but size-wise they were not enough. So by the beginning of August we saw medium-term inflation expectations start to edge down. That is when we had the Jackson Hole speech and that is when we basically started with the QE in mind. Thereafter we moved along that path, so it was because of this timing and not so much because of – as you kindly called it – the structure of our institutional environment.

On the first question of whether there is a bond market bubble, we see that there are different liquidity conditions for different types of bond markets, and for distinguishing between corporate bonds and government bonds. We do not see an especially illiquid situation for government bonds and we are confident, as I said before, in smooth execution of our expanded asset purchase programme.

I have just realised that I did not answer a question put by Mr von Weizsäcker some time ago, but I can answer this question on the solvency of Greek banks in the ESRB session. We can rightly address it during that session because it is, after all, an ESRB topic as well.

1-053

Chair. – Our thanks to President Draghi.

(The Monetary Dialogue closed at 17.05)