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, 15 JUNE 2015

1-002

IN THE CHAIR: ROBERTO GUALTIERI

(The meeting opened at 15.15)

1-002-500

Chair. J The agenda is adopted. We are pleased to welcome today Mario Draghi, President of the ECB, for this second Monetary Dialogue of the year. President Draghi will present the ECB perspective on economic and monetary developments and has been asked, as you know, to focus in particular on the expanded asset purchase programme (EAPP). That programme is proceeding well and has already contributed to a broad-based easing in financial conditions, a recovery in inflation expectations and more favourable borrowing conditions for firms and households. We welcome the reiterated commitment to run the EAPP until the end of September 2016, and in any case until inflation expectations are brought back to the ECB target. We welcome also the opportunity to discuss with President Draghi its impact and implications.

We appreciate the swift and comprehensive reply by President Draghi to the request for clarification from the European Ombudsman about the speech delivered by a Member of the Executive Board on 18 May 2015. Mr Draghi's letter clarifies that moderate front-loading of the asset purchase path was already in place at the time of the speech and had been reported before it. We welcome also the review of the operational procedures in order to avoid repetition of the procedural error which delayed publication of the speech, and look forward to the announcing of further steps to improve the transparency of the ECB's communication channels.

Finally, but clearly last but not least, President Draghi will give us his assessment of the ongoing negotiations between the Greek Government and the European institutions, which are today at a critical juncture. We view with the greatest concern the negative outcome of yesterday's discussion. I would like to urge all sides to resume negotiation with concrete and constructive proposals on the Greek side, and with a constructive approach from all the other parties, and not to listen to the bad advice from some irresponsible commentators.

The current stability mechanism structure and way of functioning gives a special responsibility to Member States. The EU institutions, and first of all the ECB, have been doing for a long time whatever it takes to safeguard the integrity of the eurozone, and now the time has come for all Member States, including first of all Greece, of course, to show the same level of commitment and political will.

Whatever happens in the coming days, it is also clear that we need a bold and swift move to substantially strengthen EMU governance, because only stronger common institutions can prevent the dynamics of national politics from putting at risk the common European interest. Mario Draghi is one of the authors of the incoming Five Presidents' Report, and we will listen with great attention to his views also on this topic.

Before giving the floor to President Draghi, let me remind you of our format: introductory remarks from the President of the ECB and then our five minute question and answer slots.

1-003

Mario Draghi, *President of the European Central Bank***.** J Mr Chair, first of all, many apologies for this delay.

I am happy to be back with the Committee on Economic and Monetary Affairs for my regular hearing. Today, I would like to share with you the ECB's assessment of the current economic and monetary conditions in the euro area. I will then touch on the subject chosen for our exchange of views, namely the risks and side-effects of our asset purchase programme. Finally, I will say a few words about the current situation in Greece.

Regarding the economic outlook and monetary policy, the latest economic indicators and survey data broadly confirm our assessment that economic recovery is proceeding at a moderate pace. While growth has been mainly supported by private consumption in recent quarters, we now see encouraging signs that private investment is also picking up, which underlies our expectation that the economic recovery should broaden.

This will be supported in particular by our monetary policy measures, which are working their way through to the real economy, by the comparatively low price of oil and by improvements in external price competitiveness. This is also reflected in the latest Eurosystem staff projections: we project economic growth to increase from 1.5% of GDP in 2015 to 1.9% in 2016 and to 2.0% in 2017.

After some months with negative or zero rates, inflation in May increased modestly, standing at 0.3% in year-on-year terms, as the negative contributions from energy prices are fading. We expect inflation to remain low in the months ahead before rising stepwise around the turn of the year. Thereafter, inflation is expected to gradually converge toward levels closer to, but still below, 2%. In the Eurosystem staff projections of June, inflation is projected to increase from 0.3% in 2015 to 1.5% in 2016 and 1.8% in 2017.

Over the last quarter, money and credit dynamics have strengthened overall. The growth of broad money in April stood at 5.3% and, in part, reflects the expansion of bond purchases by the Eurosystem. While improving further, loan growth to the private sector, standing at 0.8% in April, has somewhat lagged the pace at which monetary trends have been firming. It remains moderate – atypically so, after such a prolonged phase of credit compression – and uneven across the euro area economies, with new loans to enterprises particularly weak.

Overall, we remain prudently confident that all economic and monetary conditions are in place to support a gradual reflation of the euro area economy, with a sustained return of inflation rates to levels below, but close to, 2%.

This assessment is based on the full implementation of all our monetary policy measures. We need to keep a steady monetary policy course and firmly implement those measures, including our expanded asset purchase programme. It is our clear intention to purchase private and public sector securities of EUR 60 billion per month on average until the end of September 2016 and, in any case, 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.

Over recent weeks, financial markets have registered a measurable trend reversal in prices and a surge in volatility, with the fixed-income market the epicentre of this correction.

Let me make two observations in this respect. First, a period of higher volatility is a phenomenon that is frequently observed not long after the start of a large quantitative programme, when short-term rates are pressed against their lower bound. Price discovery is gradual and complex in a world in which central banks intervene in long-dated securities and markets reappraise prospects for the macroeconomy in exceptionally uncertain conditions.

Second, and notwithstanding these developments, financial market conditions remain accommodative and supportive of the economic recovery in the euro area. For example, given the amount of accommodation that was introduced even before our expanded asset purchase programme commenced in March, bank lending rates – a key indicator of financing conditions in the euro area – are still trending down.

Since the announcement of the Expanded Asset Purchase Programme, the composite bank lending rates for euro area non-financial companies declined by 13 basis points to 2.30% in April, which compares with 2.79% in June 2014. Bank lending rates on loans to households for house purchases declined by 25 basis points to 2.25% in April, which compares with 2.87% in June 2014. In addition, most measures of cross-country dispersion show tangible declines for non-financial corporations.

As interest rates on outstanding loans are reset, and new credit contracts embodying more favourable terms for borrowers replace old ones, financial accommodation reaches a growing number of consumers and investors. This incremental process has not yet run its course. It is still ongoing.

This being said, in the process of price adjustment, the term structure of money-market interest rates has come under intense upward pressure. The expected policy rate path implied by money-market quotes has shifted up and steepened noticeably as a consequence. The very short end of the curve – because of expanding surpluses of liquidity – has remained well-anchored around levels that are broadly in line with our forward guidance over those horizons. We are closely monitoring conditions to detect signs of an unwarranted tightening of our stance, to which we would need to react.

Now a few words on recent side-effects of the asset purchase programme.
Engaging in a large-scale asset purchase programme is not without risks and side-effects. Let me focus here on the financial risks of our own balance sheet, on financial stability implications for the euro area, and on effects on income distribution.

We monitor very closely the risks to the Eurosystem's balance sheet associated with our asset purchase programmes and we manage those risks to keep them at levels that do not threaten our capacity to fulfil our policy mandate to maintain price stability. In particular, we manage credit risk by exclusively purchasing assets of sufficient credit quality, by defining an asset allocation and a limit framework that ensures some degree of diversification, and by applying severe due diligence and monitoring processes.

With regard to the public sector purchase programme (PSPP), we also decided that purchases of government bonds conducted by the Eurosystem national central banks will not be risk-shared within the Eurosystem. This does not hamper the effectiveness of the purchase programme and the singleness of our monetary policy. The Governing Council has full control over all the design features of the programme. The specific risk-sharing agreement takes into account the unique institutional structure of the euro area, in which a common currency and a single monetary policy co-exist alongside 19 national fiscal policies.

As regards possible financial stability risks, we assess these risks as being rather contained for now. Looking in particular at housing markets in the euro area, we do not see any signs of general overvaluation. Important indicators for increasing financial imbalances are real estate prices and credit growth, but so far we have witnessed low growth rates for both. For instance, the annual growth rate of prices for houses and apartments in the euro area increased on average by 0.8% in the last quarter of 2014. The annual growth rate of loans for house purchases stood at 0.1% in April 2015. Nevertheless, we monitor developments closely. If needed, macroprudential policy tools should be used to safeguard financial stability.

Finally, large-scale asset purchases – just like any other monetary policy measure – have distributional consequences. In the short run, the current combination of low interest rates, forward guidance and asset purchases is conducive to a change in asset prices and to wealth gains for investors holding a wide spectrum of assets. But this mechanism of asset price changes lies at the heart of monetary policy transmission and is set in motion every time a central bank activates its monetary policy instruments, whether conventional or unconventional, in the pursuit of its objective. Interest rate changes always alter the attractiveness of saving relative to consumption and can influence the debt burden of borrowers.

Likewise, the current accommodative monetary policy stance eases financing conditions throughout the economy, boosting consumption and investment and, ultimately, inflation. This is an absolute precondition for interest rates to return to more normal levels consistent with sustainable growth and price stability. By reducing the cyclical component of unemployment, our monetary policy also contributes to reducing a major source of inequality, particularly amongst the young and lower income groups. In the end, all citizens across the euro area will benefit most from an environment of stable prices, macroeconomic stability, economic growth and job creation in the long run.

Now let me say a few words about the current situation in Greece and about the ECB’s role. As is the case for any member country of the euro area, the ECB, in the context of the euro system, fulfils its mandate as a central bank towards Greece. Furthermore, the Single Supervisory Mechanism (SSM) Regulation which Parliament adopted together with the Council in 2013 made the ECB the supervisor of the Greek banking system through direct and indirect supervision. And in the two-pack, Parliament and the Council asked the Commission to liaise with the ECB when negotiating the conditionality attached to the adjustment programmes and when reviewing their implementation.

When it comes to monetary policy and supervisory action, the ECB will continue to take its decisions in full independence and in accordance with its legal framework. This rules-based approach is what is required from us. This is what we have been following and will continue to follow.

In this context, the Eurosystem has provided support to allow Greek banks to continue financing the economy. Currently, the Central Bank liquidity extended to Greek banks amounts to around EUR 118 billion, more than double the amount at end 2014. The current liquidity support represents around 66% of Greece’s GDP, the highest level as a share of GDP of any euro area country. Last week, the Governing Council decided not to object to a further increase in the emergency liquidity assistance (ELA) ceiling, by EUR 2.3 billion to EUR 83 billion. Liquidity will continue to be extended as long as Greek banks are solvent and have sufficient collateral.

However, in a situation where the Greek Government does not have market access, this liquidity cannot be used to circumvent the prohibition on monetary financing as laid out in Article 123 of the Treaty on the Functioning of the European Union. This, together with supervisory considerations, explains why there is a ceiling on the Greek T-bills held by the Greek banking sector.

For the Governing Council to reconsider the T-bills ceiling, there should be a credible perspective for a successful conclusion of the current review and subsequent implementation which would imply the disbursement of programme funds by euro area Member States. This would also significantly improve the outlook for future market access by the Greek Government.

It should be absolutely clear that the decision on whether to conclude the review of the current programme and disburse further financial support to Greece lies entirely with the Eurogroup, and so ultimately with the euro area Member States. Hence, this is a political decision that will have to be taken by elected policymakers, not by central bankers.

In the meantime, we will continue to provide our advice on the adjustment programmes. It is within this context that we need a strong and comprehensive agreement with Greece, and we need this very soon. By strong and comprehensive, I mean an agreement that produces growth, that has social fairness, but that is also fiscally sustainable, ensures competitiveness, and addresses the remaining sources of financial instability. I can assure you that the ECB is doing all it can to facilitate a successful outcome.

Such a strong and credible agreement with Greece is needed, not only in the interest of Greece, but also of the euro area as a whole. While all actors will now need to go the extra mile, the ball lies squarely in the camp of the Greek Government to take the necessary steps.

The situation in Greece reminds us again that the economic and monetary union is an unfinished construction as long as we do not have all the tools in place to ensure that all euro area members are economically, fiscally and financially sufficiently resilient. To complete the economic and monetary union, we need a quantum leap towards a stronger, more efficient institutional architecture. As you know, my colleagues and I are currently working on a report that will aim at showing a road map for this. We are in the final stages of this process and I hope you understand that, also out of respect for my colleagues, I will not be able to tell you more than what I have already said repeatedly: that we will need to put our institutional framework on a much stronger footing; that we need, as I just said, a quantum leap.

I am now looking forward to our discussion.

1-005

Burkhard Balz (PPE). – Mr Chairman, Mr President, thank you very much for your comments and above all for the work that you have been doing and setting in motion over the last few months. Mind you, what you have said does raise a whole series of unresolved issues. Today I shall confine myself to two questions, as you might then be better able to answer.

You have just mentioned the ELA credit approved to date – EUR 118 billon in all and no cap. I would like to know a little more about the assumptions underlying the ELA credit granted to Greece in particular in recent weeks and months.

Now to the second question: the European insurance watchdog, EIOPA, is increasingly stressing the fact that the current protracted period of very low interest rates is posing immense challenges to long-term investors as well as to the insurance sector itself. I should like to know whether your strategy implies that short-term measures are permanently to take precedence over long-term savings and investments.

1-006

Mario Draghi, *President of the European Central Bank***.** J Mr Chair, regarding the first question on emergency liquidity assistance (ELA), ELA is being given to the banks that are solvent and that are in a position to provide adequate collateral.

The supervisor's assessment is that, at this stage, the major Greek banks are solvent and the collateral that they provide is adequate. The situation is, of course, evolving and so we will have to monitor it very closely – as we have been doing in the last few weeks – to see whether the conditions for assessment of the collateral are still in place and, more generally, to look at the health of the banking system. So there is no pre-set ceiling for ELA. The maximum amount of ELA depends on the solvency of the banks and the collateral that is being provided.

On the second question, we are aware that the European Insurance and Occupational Pensions Authority (EIOPA) has raised this issue. First of all, let me stress that we have a mandate. The mandate is to have a monetary policy that pursues the objective of price stability, defined as an inflation rate below, but close to, 2%. That is our mandate. If there are more specific problems with insurance companies and long-term investors, due to low interest rates, or if, more generally, there are financial stability risks, we will certainly assess them and monitor them. As I said a moment ago, we cannot see much of this yet, but certainly we cannot change monetary policy. It would be a mistake if we were to run what we knew to be a wrong monetary policy for the sake of the insurance companies.

The point is, in a sense, more complex. The insurance companies are not all alike. More specifically, the mismatch between assets and liabilities is much higher for certain insurance companies in certain countries and much lower for insurance companies in other countries. The impact of low interest rates for a long period also depends very much on the specific business models. It is quite clear that insurance contracts that give defined benefits are more exposed to a long-term period of low interest rates. It is also true that EIOPA does not see the materialising of risks anytime soon, but places it in a time horizon of six to ten years. So it is certainly something that we should be concerned about, but it is not immediate.

Lastly, the insurance companies have, for quite a time now, been reacting to this situation by trying to find investments in assets different from those in which they were investing in the past. It is a slow process. It will drive their investments towards those that are necessarily riskier and perhaps less liquid. At this point we think this is, by and large, a positive development, the aim being to raise the yield on insurance companies' investments. But it is now time to think whether this process of diversification towards different investments is helped or hindered by aspects of the current system of regulation. I think it is time to consider and read about this and to reflect on it.

1-007

Chair. J This Committee has taken a clear and strong position on that, and it is now also recognised in the EFSI Regulation.

1-008

Elisa Ferreira (S&D). – I should like to start by coming back to what you have just told us. The Greece problem must be resolved at political level, but the European Central Bank is often cited as the body that can resolve or help to resolve the matter since, even though you did not mention this, there are EUR 7.2 billion that could be released under this agreement, and secondly, since it has been said that if there were a default for Greece, there would not be any contagion in the rest of the eurozone. I would like you to tell us if from a technical point of view you are absolutely sure that protection is in place against the risks of contagion, since I personally believe that this is not a firm opinion. Secondly, and this is a historical moment, if there were a default, the eurozone could break up because of a disagreement over EUR 2 billion, which amounts to 0.02% of the European Union's GDP, if my calculations are correct. Given that you have also said that people now recognise that there are failings in the architecture of the eurozone, I should like to ask how you interpret your statement, which was so significant, that the euro should be safeguarded whatever the cost, with specific reference to the management of the Greek crisis.

1-009

Mario Draghi, *President of the European Central Bank***.** J Let me first say something that I may actually have to repeat several times today, and which I say almost everywhere. The ECB is not a political institution. That means that the ECB acts according to rules – rules that are pre-existing rules. We do not create rules *ex novo* based on the contingency. That is quite important. Our role is very different from the one performed by the Eurogroup Member States.

(Interjection from the floor: 'They have no rules; these do not exist')

Basically I am talking about the ECB; I cannot speak for the others!

You then made the point about possible contagion. I do not want to speculate. I do not think it is productive to speculate about possible outcomes. Certainly, one good reason for not speculating is that we would be entering uncharted waters – in which we could certainly say that we have all the tools to manage the situation at our best as we have done in other, perhaps similarly dramatic, instances – but what the consequences would be in the medium to long term for the construction and design of the Union is something that we are not in a position today to foresee or, as I said, to imagine or speculate on.

It is quite clear that what is happening shows that our Union is an unfinished construction, and it is quite clear that if we want to cope with the medium-term consequences of any type of unforeseen event that is significant, then we have to conceive a quantum leap in our integration process. I mentioned the areas in which this should take place in my introductory statement.

1-011

Notis Marias (ECR). – President Draghi, in welcoming you to our Committee, I would like to point out that unemployment in Greece is running at 26.6%, while youth unemployment has reached the astronomical figure of 51.7%, according to data from the Greek Statistical Service, published last Friday. 40% of the population lives below the poverty line, 45% of pensioners receive a pension of less than six hundred and fifty euros and the Greek government is facing difficulties in servicing its obligations to third parties.

President Draghi, let me read you Article 7 of Regulation 3603/93 of the Council of 13 December, 1993: 'The financing by the European Central Bank or the national central banks of obligations falling upon the public sector vis-à-vis the International Monetary Fund … shall not be regarded as a credit facility within the meaning of Article 104 of the Treaty.' Given that the Greek government is facing serious liquidity problems in repaying the IMF loans, which it contracted in May 2010, and is in danger of defaulting, may I ask you, as President of the ECB: what will the attitude of the European Central Bank be if the Greek government, invoking Article 7 of Regulation 3603/93, requests the European Central Bank to accord a loan to the Hellenic Republic in order partially or totally to repay its loan obligations to the IMF which, according to recent press revelations, has stymied an agreement between Greece and its creditors? Let me note here that you yourself, as governor, gave your approval in similar cases involving Italy – I have the case here in front of me –, Austria (twice), Portugal, and, as governor of the Central Bank of Italy, with the authorisation of Mr Trichet, you approved a loan to the Italian government to meet its obligations to the IMF (I have the decisions here in front of me).

Given that, under the Treaties, the European Central Bank has the duty of ensuring that national central banks comply with their Treaty obligations, what will be the position of the European Central Bank if the Bank of Greece or any other national central bank of the euro zone accords a loan to the Hellenic Republic so that it can partially or totally repay its debts to the IMF?

1-012

Mario Draghi, *President of the European Central Bank***.** J I am aware, and I completely agree with you, that the economic situation in Greece is dramatic, especially with regard to employment, the labour market and youth unemployment. In answer to your question, we are, as you know, bound by Article 123 of the Treaty, which provides that we cannot undertake any monetary financing. However, let me make just one more general statement.

(Interjection from Mr Marias)

I would not agree with your exceptions. Let me make just one more general comment because it looks as if the economic situation in Greece is the responsibility of the Member States – or at least, to speak for ourselves, the institutions – that have not provided adequate funding. In advance of this discussion I asked for the full account of the financing flows between 2010 and 2015, and we see that bilateral and multilateral loans, plus net transfers from the EU, the Union budget, plus profit transfers from the Securities Markets Programme (SMP) and the ANFA programme, amount, between 2010 and 2015, to EUR 223 billion, which is 125% of GDP.

We have to add to this, however, the Eurosystem support to the Greek banking sector, which now amounts to EUR 118 billion – equivalent to 66% of GDP. We should also add to this the money from the IMF. We should also add to this the haircut explicit in the debt restructuring which took place. The debt volume was EUR 200 billion, and the haircut was 53.5%. So I do not want to overplay the significance of these numbers – although they are significant – but just to say that demonstrating the drama of the Greek situation today does not amount to saying that responsibility for the situation lies with, or only with, 'the others'.

1-013

Notis Marias (ECR). – Mr Draghi, you did not answer my specific question on the Regulation, which you actually applied in the case of Italy. You did not answer my question, Mr Draghi!

1-014

Chair. – You cannot interrupt and disrupt the session, Mr Marias. We all know that this Regulation is subject to limitation under Article 123. You should read the EU legislation.

1-015

Notis Marias (ECR). – I have it with me. I can give it to you afterwards.

1-016

Mario Draghi, *President of the European Central Bank.* – I am ready to discuss this. I have no recollection of this, but we will discuss it since, if you say I was there, then I should have known about it.

1-017

Chair. – This regulation is subject to Article 123.

1-017-500

Notis Marias (ECR). – Mr Chair, this is an exception. You have to read the law and not speculate on an answer.

1-018

Sylvie Goulard (ALDE). – Well, good afternoon, Mr Draghi! I would like to thank you for being with us and for all that you do for us. We follow very carefully what you do for Europe and we support your efforts to be constructive and – if I may say so – to stick to the rules for fairness and for credibility.

But I am worried. You have said again, as you did in Helsinki, and as you did in Frankfurt at the *Süddeutsche Zeitung* Finance Day, that the euro area is unfinished business, an unfinished construction, and that we need a quantum leap. Are you sure that the governments understand what ‘quantum leap’ means, and would you say that they are not doing what it takes to safeguard growth and investment? If we lose a Member State or if there is, at least, a default, I fear that all the efforts we have made to strengthen investment and to support growth will vanish.

1-019

Mario Draghi, *President of the European Central Bank.* – I am still convinced that we need a quantum leap and I am also convinced that the directions in which this quantum leap would happen are, in their very general lines, quite clear. So they are understood.

Having said that, we have to be respectful of different roles, and our role here is basically to say what is needed in order to finish this construction: to make it more resilient and to remedy its present fragilities, of which Greece is only one. Over the past five years we have had several examples of how fragile this Union was, so our task here is to point out what ought to be done. The task of the Member States – the governments – is to lead. In a sense it is a much more difficult task, because it is to lead these changes through their electorates, to explain them and to explain the potential long-term benefit that would come from a finished construction.

I would go so far as to say that some of the sacrifices, some of the poverty and some of the unemployment generated as a consequence of the great crisis of 2009 was due in part to the fact that this construction was unfinished.

1-020

Sylvie Goulard (ALDE). – I could not agree more, Mr Draghi.

1-021

Mario Draghi, *President of the European Central Bank.* – Thank you. And thank you for the ‘good afternoon’, by the way

(Laughter)

1-023

Miguel Urbán Crespo (GUE/NGL). – First of all, thank you for being here, Mr Draghi.

As you will know, Greek GDP has fallen by 25% since the Memorandum of Understanding conditions were applied, and their impact on the economy has been greater than anything seen since World War Two. We are in a type of economic war in which the sovereignty and liberty of the people of Greece are systematically being violated.

According to the audit on Greece conducted by the Greek Parliament, which will be presented next Thursday in Athens, serious irregularities detected in the management of the debt crisis are attributable to the institutions of the former Troika, in particular.

Since September 2012, the European Central Bank has been able to purchase an unlimited quantity of public bonds from EU Member States via the outright monetary transactions programme. However, not a single Greek Government bond has been purchased via this programme. The Bank has made these purchases conditional on decisions under the European Stability Mechanism, which is a non democratic institution that basically answers to the political interests of the French and German Governments.

Mr Draghi, is this not violating Article 130 of the Treaty on the Functioning of the European Union, which prohibits the ECB from taking instructions from any outside body or institution? Is it not especially serious when, in this case, it is not a democratically-elected institution?

In the same way, your institution has not allowed Greece to access the quantitative easing programme, preventing it since March this year – which just happened to be when Syriza’s won the election – from purchasing Greek bonds on the secondary market.

Could this not be viewed, Mr Draghi, as an act of political discrimination which has diverted the European Central Bank from its course in failing to comply with the principle of neutrality to which it should adhere?

Might it not be that the ECB is being used as a means of blackmailing Greece in the negotiations it is conducting with the European institutions and in the Brussels Group, thereby violating the sovereignty of the Greek people expressed at the urns on 25 January?

Suicides in Greece have risen by 20% as a result of the way that the debt crisis has been managed, while child poverty rate there has doubled – today, two in every five Greek children are living below the poverty threshold – and three million Greeks have dropped out of the social security system and have no access to healthcare services.

Mr Draghi, does this not genuinely look to you like an economic war scenario and the result of the economic war crimes to which the Greek people are being subjected?

1-024

Mario Draghi, *President of the European Central Bank.* J So what was the question?

1-025

Miguel Urbán Crespo (GUE/NGL). – President Draghi, I asked three. If you like, I can repeat them.

1-026

Mario Draghi, *President of the European Central Bank.* J I take the question to be about why we are not buying Greek bonds under the QE programme. There are three reasons – and, by the way, they all pre-date the Greek crisis or have their roots in pre-existing rules, so we are not creating new rules. If you are trying to depict the ECB as a political entity, well we are not a political entity.

We do not respond to this or that government. We are a rules-based institution, and over time we apply these rules in a consistent fashion, as I might explain to you. However, if the question is about why we do not buy Greek bonds under QE, the answer is this: we do not buy the bonds of countries that are subject to an unfinished review by the IMF. This rule would apply equally to other countries under review. It did apply to Cyprus, for example, until a few days ago.

Secondly, we do not buy bonds that are below certain ratings – ratings that would make them eligible as collateral – and this has been consistent and constant through the years, unless the bonds in question had a waiver. It so happens that, while the waiver had been lifted for Greece because of the worsening economic and market conditions, it has been reinstated for Cyprus.

Lastly, there is a rule which is, by and large, the same rule we used for outright monetary transactions (OMT): that we do not buy more than 33% of the bonds of a government whose bonds we already own. In other words, we already own a share of Greek bonds that makes it impossible for us to buy other bonds from the Greek Government.

Having said that, all these three conditions – the fact of being under review, the reinstatement of the waiver, and the need to remain below the limit – could be reverted by a successful conclusion of the review: by reaching firstly a staff-level agreement and secondly a Eurogroup commitment to disburse. So, you see, I do not think we are that far off. It would not make any sense for me to comment on the state of the negotiations, but as soon as these negotiations are taken to a successful conclusion all these requirements would be overcome.

1-027

Miguel Urbán Crespo (GUE/NGL). – In other words, you admit there is blackmailing.

1-028

Molly Scott Cato (Verts/ALE). – Mr Draghi, you may be relieved to hear that I will not be asking you a question about Greece. I am actually asking about the side effects of the asset purchase programme.

Three years into our QE programme in the UK, the Bank of England calculated that the main impact had been to increase the value of shares and bonds, which had actually risen in value by 26% as a result of the policy. Thus, 40% of the gains went to the richest 5% of households, meaning that QE greatly exacerbated asset inequality, using newly created public money to benefit the rich, while the financial crisis and its after-effects were hurting the poor.

We had a very interesting preparatory meeting before this one, when we saw some of the impacts of the ECB QE programme three months in. Two things that stood out for me were, firstly, the suggestion that there were inter-generational transfers, meaning that the older people of our societies were becoming richer at the expense of the younger, and secondly that the programme, as in the UK, had increased inequality.

You said in your remarks that the liquidity arising from the asset purchase programme was working its way through to the real economy, but we do not really see that. I would say we do not see much evidence that it is reaching SMEs, which have been deprived of investment since the financial crisis.

So I have a proposal for you, and I would like to hear your response to it. On Wednesday I am going to be launching a report calling for green QE. It argues that QE should be used strategically, linking direct credit creation to the issue of green bonds by the European Investment Bank. This would mean that the new money would have to be spent on green investment, such as renewable energy or home insulation. The money would create economic stimulus but in a strategic way in order to guide green transition. I would like to know what you think of that idea.

1-029

Mario Draghi, *President of the European Central Bank.* J I shall give the answer in two parts. First, I would like to nuance, or qualify a little, your remarks about the lack of pass-through to the economy of our QE, and the effects on inequality.

Frankly, we do see some pass-through to the economy. We see that banks and other investors, including insurance companies, are selling their bonds, and we see both banks increasing lending and insurance companies and other long-term investors moving towards riskier investments – riskier in the sense of being more linked to the real economy than just buying government bonds. We can see that. We have also seen a significant portfolio rebalancing effect, part of which went through the exchange rate. So we can see that the European economy is recovering with a strength not apparent on previous occasions. Even though this recovery is still modest, it is broader: it is driven by consumption; as I said before, to some extent by investments; and also, more recently, by exports.

This recovery is certainly driven, or caused, by our monetary policy, although one should also mention other factors, such as lower oil prices. However, it is there, so I am not convinced that our monetary policy is not being communicated to the real economy. There is also a good reason why it should be reaching the real economy: by comparison with 2012, the health of the banking system in Europe – in the euro area – is now much better because these banks had to undergo comprehensive assessment, had to go through a balance-sheet health check, and are now in a much better position to transmit these impulses to the real economy.

We have seen lending rates go down. Even more importantly, we have the results of two recently-undertaken reviews or surveys. One is the so-called Bank Lending Survey, which is carried out by the ECB and asks various banks how they see their credit standards – are they lending more or less than in the past and what are the reasons for lending? The answers we received are that lending standards have improved, and that the reasons for lending are no longer based on risk perception. In other words, banks are not declining to lend because they are worried that lending is too risky. This factor has disappeared.

Another survey has been undertaken by the Commission – jointly, I believe, with the ECB – in which SMEs in quite a broad sample have been asked how they think the credit situation is going. The answers are very encouraging. I am not saying that this is the outcome only of QE, though it may be. Actually, I think it is also the outcome of previous monetary policy decisions that we have taken, but, all in all, we see that this is happening.

The ECB cannot buy bonds directly from the EIB for the same reason that I gave before in the case of Greece and in response to the last two questions, namely that this would be monetary financing. But we could buy EIB bonds on the secondary market. So, to the extent that these green bonds you have described comply with our rating standards, certainly the ECB can buy them.

1-033

Marco Valli (EFDD). – Europe and the euro are at a crossroads: integration and solidarity or disintegration and a return to nationalism. It seems paradoxical that a country like Greece risks default for a payment deadline of EUR 1.5 billion at the end of the month, when, on 18 March, the ECB inaugurated its new building in Frankfurt, which cost EUR 1.3 billion.

It is paradoxical that there are such restrictive conditionalities being imposed on those countries that have a euro that is too strong for their economy, that there is solidarity only for banks that have speculated, that there are countries in northern Europe, such as the Netherlands and Germany, which are benefiting from trade imbalances and surpluses, infringing the treaties, with the Commission having virtually nothing to say on the matter; that there are banks and multinationals that are able to influence policy decisions whilst at the same time using illegal tricks and well-oiled anti-competitive systems, such as the Luxembourg model created by Juncker, to avoid taxes or, in the worst cases, launder mountains of money from the black economy, as revealed by Mr Falciani, while in Greece it is permissible to sell out-of-date food and medicines and half of Europe is being asked to carry out reforms involving blood, sweat and tears that will never resolve the problems.

President Draghi, you are not appreciated by the poor and by those who have a shred of intellectual honesty, but you have become the icon of the new generation of financial operators, who have grown up with quotes by Gordon Gekko, who, sitting behind their twelve monitors, just wait for a word from you to start speculating. We must bring human beings and common sense back to the heart of the economy, and not human greed.

LTROs, TLTROs and quantitative easing are measures that have been launched without imposing the necessary conditionalities on the banks and that are doing nothing but increase the greed of a market that is already overly addicted to money. The data are obvious: you are giving away billions to speculators and the banks are lending only to those who have guarantees, or a low propensity to spend, while the poor remain empty-handed, as usual. And however much money you put into the system, too little reaches those who need to spend to live. The successes of the luxury market and the super-discount stores are testament to this. The gap between the poor and the super-rich is widening in the euro zone and across the world. This stalemate in Greece could be Europe’s chance to show it cares about citizens and not speculators.

So now we come to the question: why, instead of continuing to focus on the financial system to boost consumption and inflation, with poor results and the risk of creating bubbles, do you not reach brave but necessary agreements with other Eurocrats - Juncker, Tusk and Dijsselbloem - whom you have recently been meeting to review the treaties and the rules of the ECB?

You could, for example, immediately propose granting some fiscal leeway to Member States to combat poverty, or even introduce quantitative easing for people, which is always better than quantitative easing for speculators, before it's too late, because, as I say, we are at a crossroads in Europe. Soon you will not have to deal only with Greece and Britain, but with many other countries and governments who will not be willing to negotiate with those who endorse the paradoxes I have just mentioned.

1-034

Mario Draghi, *President of the European Central Bank***.** J The answer is that, whether we like it or not, banks and markets exist and are the only channels we have for our monetary policy to be transmitted to the real economy. Some of these policies may, on the one hand, increase inequality but, on the other hand, if we ask ourselves what the major source of inequality is, the answer would be unemployment. So, to the extent that these policies help – and they are helping on that front – then certainly an accommodative monetary policy is better in the present situation than a restrictive monetary policy.

Let me ask you a question: are you arguing that we should raise interest rates in the present situation? We do not think so, and in this sense we believe that we are seeing improvements in the real economy. Therefore, this is the best contribution to a reduction of inequality.

On the other point, as to why we do not make agreements with others, as a matter of fact we do have the Four Presidents' Report, which for the first time is an attempt to bring together the minds of heads of institutions and the President of the Eurogroup – and so basically the minds of those at the centre of Europe. The Four Presidents' Report has been quite successful in the past. Its conclusions were endorsed by the leaders in the European Council and we had a concrete movement towards banking union. That is what we are trying to do again here. We are well aware of the problems as you have described them.

1-034-500

We are already well aware of these problems. They are nothing new. We shall do all we can to solve them and, if we fail, at least we will have tried.

1-036

Bernard Monot (NI). – Mr President, the Troika is engaging in emotional blackmail, using the threat of 'Grexit' to exert pressure on the Tsipras government and continue to subject the Greek people to cruel and needless austerity. As a sovereign state, however, Greece has the option of going back to the drachma and gradually paying off its public debt, which has been fuelled, among other things, by the Eurosystem's Target2 payments system. In line with what you have been saying, in order to keep Greece in the eurozone, why not simply keep on providing emergency liquidity assistance to Greek banks until a final agreement is reached with all the creditors?

My second question is about the destabilising effect of quantitative easing. We French patriots are in favour of national central banks printing money, but only, of course, if it is done for the purpose of monetising debt and paying back the principal and the interest. In other words, if it forms part of a proper debt reduction plan. Your quantitative easing plan, on the other hand, is already having a number of serious repercussions: firstly, it is refinancing capital markets and private banks, but nothing is going in to the productive economy, and nothing is being done to boost employment; and secondly, it is resulting in extreme volatility in long rates and bond prices which is being exacerbated by high frequently trading.

Therefore, in order to correct these failings and restore the ECB's credibility, would you be in favour, from a technical rather than a political standpoint, of revising Article 123 of the Treaty so as to allow quantitative easing to be used in future to monetise Member States' public debt directly in order to stabilise the eurozone?

My final question is about ethics at the ECB. I am referring specifically to the announcement made in May 2015 by one of the members of your executive board, Mr Benoît Cœuré, in what I have been calling the 'Cœuré affair'. In reply to a question at a conference attended by a select group of private investors, Mr Cœuré said that the central bank was going to step up its asset purchasing programme before the start of the summer. The impact was immediate, with nominal rates going down, stock markets rising sharply and the euro falling. However, Mr Cœuré's words were not made public until the following day. This meant that the fund managers who heard the news before everyone else were able to use this inside information to their own advantage. This raises extremely serious ethical questions, and the ECB has a duty to do something about this scandal. Will you be carrying out internal enquiries, or will there even be a criminal investigation, to shed light on the matter? In your view, was this lapse by one of your senior executives intentional or not? Should the bank take disciplinary action against Mr Cœuré?

1-037

Mario Draghi, *President of the European Central Bank***.** J Let me respond quickly to the first question and take longer in responding to the second question.

On the first question, we certainly may have our views about the Treaty, but it is not our task to change the Treaties. It is the task of governments; it is the task of elected legislators; it is not the task of institutions.

On the second question, let me very carefully go through what you called a scandal. Let me state the facts and rectify any misperception regarding what happened. Mr Cœuré said: 'We are aware of seasonal patterns in fixed income market activity, with the traditional holiday period from mid-July to August characterised by notably lower market liquidity. The Eurosystem has taken this into account in the implementation of its expanded asset purchase programme by modestly frontloading its purchase activity in May and June.'

Based on the figures covering the first part of May, reported in the weekly publications of purchase data on the ECB website, published in the afternoons of 11 and 18 May 2015 – i.e. before the speech in London, the start of the moderate frontloading of purchases in May, to be continued in June, was already clearly visible, and there was no acceleration in the purchase path in the second half of May, relative to these slightly higher volumes. So a moderate frontloading – i.e. a slight adjustment of the purchase path to avoid possible market tensions in August – obviously does not constitute a change in the ECB's policy stance, and therefore should not be interpreted as an announcement of a change in the ECB policy stance. Moreover, as I indicated in the letter to Ms O'Reilly, while the speech was meant to be published on the ECB's website on the evening of its delivery, it only went live the following morning, owing to an error.

Specifically, internal miscommunication at an operational level on the timing of its publication during out-of-office hours explains the delayed release. So the ECB has reviewed its related operational procedures in order to prevent a repeat of such an error. There will be extra checks internally and balances to ensure timely publication in every case.

1-039

Esther de Lange (PPE). – Mr President, thank you for taking us through your expectations regarding a number of key figures. I would like to focus on inflation and what you said about expecting this to rise, but still moderately.

Looking at the development of German bonds, which actually decreased in value lately, you pointed to high volatility to explain this, but we all know that this might actually be an indication of markets' expecting higher inflation in the future. There might be more going on than just volatility. My question, therefore, is linked to quantitative easing (QE). You have clearly stated that you intend to continue until September 2016. What if these market expectations are actually right, and inflation does rise more quickly? Will you continue until September 2016 even if inflation reaches 2%?

At what point do you foresee stopping, and is inflation – as this is your core objective – the one and only reason for QE and for reaching close to, but below, 2%, or are there other goals, or maybe just side-effects to QE that are very useful in this situation and that might justify continuing the programme, even if it is no longer necessary from the point of view of inflation?

1-040

Mario Draghi, *President of the European Central Bank***.**
J One can figure out different reasons for this repricing in government bonds recently, one of which would be anticipation of higher inflation. That is just one of the many reasons that have been produced recently. Now if this were so, it would mean that QE is proving highly successful, that basically markets foresee exactly that we will reach this objective. Also, if the programme that were to run until 2016 were to be judged by the markets to be too much, they would even anticipate a much bigger success than we ourselves are anticipating by then.

In any event, at this point in time, we see the achievement of our objectives in 2016 and 2017, with 1.8, as conditional wholly on the full implementation of the programme as it has been designed. In other words, we projected this higher inflation for the next two years because it is based on the programme being fully implemented.

You asked also whether this is the only reason we are actually doing this, and whether price stability is the only reason? Well, the answer is yes; we are bound by the mandate. The mandate speaks only of price stability. However – and this also says something about price stability being a more all-encompassing objective than one might assume *prima facie* – in pursuing price stability we also know that our accommodative monetary policy affects unemployment positively, helps to narrow the output gap and supports economic recovery. So, in this sense, the pursuit of price stability comes together with objectives more closely related to the real side of the economy.

1-042

Jakob von Weizsäcker (S&D). – President Draghi, it is always a pleasure to listen to you even though you did not elaborate on the future of the euro area. I am afraid, though, that my question is about Greece and it is about your organisation, as a rules-based organisation.

If Greece were to stop servicing its international creditors, one would of course like to know what would happen to emergency liquidity assistance (ELA) for Greek banks, and in particular, what would be the legal basis for the ECB ending ELA in such an event? I am asking this in view of the fact that Greek banks have a particularly strong exposure in short maturities, T-bills, which will not necessarily be hit if long-term international debt is not being serviced.

Along similar lines, I would like to ask you what would need to happen for the haircut on Greek government debt to be increased, and how such a change might occur, differentiating between short maturities and longer maturities. Finally, I would be interested in your view regarding the idea of Greece borrowing from the ESM to deal with outstanding SMP bonds.

1-043

Mario Draghi, *President of the European Central Bank***.**
J Let me give you a general answer first. I do not want to speculate on possible missed payments. The Greek leaders have given us their word that these payments will be met fully and on time. So it would be pointless for me to speculate on what we would do if these payments were not met at this stage.

The second point is about emergency liquidity assistance (ELA) and how the decision-making process works there. The ELA decision is a national central bank decision and not an ECB Governing Council decision. The national central bank presents its request to be authorised to increase ELA to the banks – to the Greek banks in this case – and the Governing Council may only object with a two-thirds majority. This is because, when emergency liquidity assistance was designed in the early stages of monetary union, there was a sense that one should retain some of the national central banks' discretion. At that time we did not have a single supervisor, so the idea prevailed that one might have failing banks in different countries, and that these bank failures would better be addressed through national central banks' decisions. So the framework basically owes much to that period of time. But it is quite important to recall that it is not an ECB Governing Council decision, and there is a special majority requirement to object to a decision on ELA.

The point about Greece borrowing from the ESM so that the SMP bond holdings would be purchased by the ESM is something that has been debated and discussed. I am not sure – and I have to be very cautious here – that the current ESM Treaty allows for this possibility. I have to be quite cautious as I am not 100% certain on this point.

Having said that, is there no other possibility to resolve SMP holdings restitution and repayment? Yes, there are other channels that can be used. It is quite important – and it has always been quite important, but is especially so at this stage – to focus on the essentials that are required to find an agreement, rather than on the financing technicalities that would translate this agreement into facts.

There are two essential categories. One is to reach a staff-level agreement about the policy measures that are to be undertaken in Greece for this agreement to be the basis of a decision by the Eurogroup Member States. If the Eurogroup members were to decide favourably, based on this agreement at staff level, then the disbursements for the next 12 months could follow, and a very large chunk of that disbursement is the IMF's money. If I am not mistaken, it is something like EUR 16 billion out of EUR 21 billion.

But the IMF is saying that it can disburse this money only if it has sufficient reassurances about the financing of the follow-up programme, because it believes – and I think this judgment is shared across the institutions – that further financing is necessary. That is the second set of requirements, namely that the Member States have to address this issue and they have to give an answer in order for the IMF to be able to disburse today. That is important – and not easy, as we can all imagine – but it is essential. So these two sets of requirements have to be met.

1-044

Chair. J Indeed, there is a strong responsibility on the Greek side, but also for the other Member States.

1-045

Markus Ferber (PPE). – Mr Chairman, and welcome to you, Mr President. I have just two brief questions. Firstly, on the subject of quantitative easing: in a speech at the International Monetary Fund not long ago you described this as a policy that can work only when encompassed within a combination of mutually complementary coordinated policy measures. These apparently include the right kinds of fiscal stimulus and, in particular, ambitious structural reforms. Research on similar monetary policy measures in other parts of the world has invariably shown that such interactions exist. However, as you have repeatedly pointed out today, you are not a political institution, but the central bank. How does the interaction actually operate in this instance? Or is it not the case that by pursuing a monetary policy along these lines, you are producing the opposite of the desired effect by making reforms less urgent?

The second question relates to capital injections for Greek banks or what is known as emergency liquidity assistance. Speaking in an interview today, the Chair of the Single Resolution Board described the dividing-line between ELA and respite from insolvency as fluid. Any additional injections would, in other words, almost inevitably be considered to be merely putting off insolvency. How do you view Ms König's assertions on that point?

1-046

Mario Draghi, *President of the European Central Bank.* J I am not sure I can make any comment about Ms König's statement. However, on the first question, let me say what monetary policy can do and what it cannot do.

Monetary policy can deliver and help to deliver a cyclical recovery, namely a recovery for the next two years, a recovery in which the cyclical components, for example, of unemployment, will be addressed and will hopefully disappear. By and large, however – and there are indirect effects in relation to which this statement has to be qualified – it cannot yield a structural recovery. This means that once the cyclical impact of monetary policy is over, and if there is no progress on the structural side, we will have downward pressure on price stability again, or pressures on price stability that cannot be addressed by monetary policy.

Structural progress can be achieved only through what we call structural policies, not through monetary policy. That is why I insist so often that for monetary policy to yield a full recovery it will have to be accompanied by convinced and ambitious structural action. When we look at the unemployment rate, it is now over 11% as an average across the euro area, and that conceals huge differences in national unemployment rates. But if we go back to pre-crisis times, to 2007, do we think it was much lower? The answer is no: it was about 9%, and it was about 9% for a long period of time. This says something. It was about 9% for a long period of time during which cyclical policies changed: they were not the same. For many countries, the 10 years before the crisis were years when current government expenditure went up very significantly, financed essentially by increasing taxation and by cuts in public investment, which reached the very low levels of the mid-1990s, by and large. Still, in spite of this huge increase in current government expenditure, we did not see any dramatic decrease in unemployment. This says basically that the situation of the labour market – and the same would apply, and even more so, I would say, to the products market – is a situation which monetary policy cannot do much to address. It is a situation that should be addressed by structural reforms: by structural policies that would, first and foremost, increase competition in the products and the services markets, which, by the way, would increase the real purchasing power of wages and salaries, and secondly, would address the major imbalances in the labour market.

1-048

Jonás Fernández (S&D). **–** I would like to begin by thanking Mr Draghi for the written answer sent in response to the question I put at the last hearing. Today, I would like to point out that, according to information provided by Parliament and the Commission, five of the Member States who are not yet part of the Monetary Union are in a position to fulfil the qualifying criteria for membership of the ERM II and, obviously, to receive the relevant legal approvals. In other word, five states – Bulgaria, Poland, the Czech Republic, Romania and Sweden – could already ask to join the euro area if there was the political will to do so. It is not just me talking about political will; it is stated in the Treaties!

Articles 119, 133 and 140 of the Treaty on the Functioning of the European Union stipulate that national governments must work towards achieving the convergence criteria and, once they have achieved these, should apply to enter the euro area. There has been much debate in recent months on how to improve the governance of the euro area. You talked, Mr Draghi, of the Five Presidents' report – which we look forward to receiving – and have again mentioned the need for a 'quantum leap' in the design of the euro area in order to improve its governance.

However, I would like to see more emphasis on the need for those countries which must enter the euro area – i.e. all of them apart from Denmark and the United Kingdom – and which have met the economic criteria, to genuinely move forward in the process of joining the euro area in order to give solidity to the banking union, to the capital union, to the fiscal pillar we need and, of course, also to the democratic functioning of this Parliament, which should be the Parliament of all the countries of the euro area.

1-049

Mario Draghi, *President of the European Central Bank.* J Going back three or four years, we have seen countries joining the euro and other countries, in an equally determined fashion, saying that they would never join the euro. So, even though these countries that you mentioned would fulfil the economic criteria for convergence, their political will is not there, or has not yet reached the stage at which they would apply to the Union to do so. I think that we should basically respect their will.

We thought initially that broader monetary union would be our ambition – and it still is our ambition – but today, if we had to decide between expending our energies on enlarging the union and expending them on making it stronger, in such a way that we expand integration in the fiscal area, the economic area and the political area, I would certainly choose the second option.

1-051

Pablo Zalba Bidegain (PPE). **–** President Draghi, I wish to return to the matter of Greece. Minister Varoufakis stressed the need for debt restructuring. Do you view debt restructuring as a priority – bearing in mind that the interest Greece is paying as a percentage of GDP is lower than other countries in the euro area – or do you believe that priority should be accorded to growth?

We all know that reform holds the seeds of growth – my country, Spain, is an example of this – even though it is true that it may have an adverse effect in the short term.

Would the Greek Government not be better advised, rather than obsessing about debt restructuring, to obsess about finding a solution to the short term adverse effects of reform, with the aim of rekindling growth?

Secondly, you replied to Elisa Ferreira that were something unforeseen to arise – which none of us want – then we would have to conceive a 'quantum leap' to progress surely and resolutely towards the much yearned for and necessary economic union and, finally, political union. While it is true that it is the Member States that have to do this, and not you, it is also true that you could grant more time – as was the case in the summer of 2012 – for Member States to do what they have to do.

In the hypothetical case of something unexpected arising – and let us hope it does not – what else could the European Central Bank do to allow Member States time to make this 'quantum leap'?

1-052

Mario Draghi, *President of the European Central Bank.* J Let me say that I do not want to take any position about whether debt restructuring is needed or not, because that is not within the Central Bank's competence, and we are talking about taxpayers' money.

However, allow me just to elaborate on what you said earlier. The implicit interest rate on the EFSF loan is currently 0.5%. The average maturity is about 30 years. The current debt servicing costs for Greece over the next four years are about half of those of other member countries that are not core countries, not stress countries, so that is pretty good.

Whether this should be the focus or not, I leave it up to you to decide. Certainly growth is necessary, and what I have said several times is that there should be – and there could be – a strong agreement where growth comes together with social fairness, fiscal sustainability and financial stability, addressing the problem of NPLs in the Greek banking system.

Fiscal sustainability is important because, if I present a package of legislation that promises to give people a certain – and let me be very general because I do not want to enter into the specifics of the programme – income stream for the next hundred years, this will have an immediate positive impact on today’s demand if people understand that it is fiscally sustainable. But, if people think that it is not sustainable, the effect on today’s demand is going to be much lower. By the way, this is the experience of many countries in the euro area which have come out with expenditure legislation that was not sustainable, or which have changed their mind several times about what sort of laws they were putting forward. So they injected uncertainty into the prospective income streams, and this had a depressing effect on today’s demand.

I made the point in a fairly general way so as not to be identified with any specific discussion in Greece today but, at the same time, to be quite clear. So you ought to have growth and social fairness, together with fiscal sustainability and, certainly in that case, also financial stability.

The second question is about giving more time for this ‘quantum leap’ and giving more time in general for the structural reform process or for changes in the governance of the euro area. In a sense, this is part and parcel, from a monetary policy viewpoint, of what I was saying before – namely that monetary policy helps a cyclical recovery and helps with navigating through certain difficult conditions, but it cannot yield a permanent, structurally higher level of potential output.

1-054

Alfred Sant (S&D). – Quantitative easing certainly seems to be helping to consolidate economic growth within the eurozone, yet we are frequently warned that this growth can be fragile, that it is not going to be as strong as one would like, and that it will not be creating as many jobs as we all would like. To which the reaction by the ECB, among others, has been that the eurozone needs to carry out more structural reforms – a mantra that has been followed for the past few years.

Yet, with that strategy, the productivity improvements that have been secured have mostly resulted from the drop in unit labour costs due to the shedding of labour, which has depressed demand inside the eurozone and made job creation problematic. Could it be that, with the current policy mix, we might be heading towards a steady state – stable yes, but sub-optimal in output and social welfare terms. Is this not then serving to widen economic divergences between the different regions of the eurozone?

Would you not agree that the first policy priority, before any quantum leaps are attempted, should be to ensure that steps are taken to contain and reverse these regional and national divergences, rather than allowing them to widen, even if, by so doing, stability is put at risk?

1-055

Mario Draghi, *President of the European Central Bank***.** J I could not agree more with what you said. Monetary policy can help a cyclical recovery.

Could it help to increase productivity? No. That must be generated by other factors: education, skills, competition in the products and services markets, and so on. There is a long list of factors which, by the way, change from country to country. But is this a good reason to change the course of monetary policy? No. Because this is the monetary policy course that will yield price stability, defined in the way that I have explained before, and it is not a good reason for changing monetary policy.

Are we entirely sure that our monetary policy will deliver 100% of what we are after: namely, not only price stability but also a stable and lower unemployment rate? No. Many other things are necessary.

Should we wait to have what I called earlier a ‘quantum leap’, or invest our energies in better future governance of Europe, because we have not yet achieved improvements in productivity and economic structures? Well, my feeling is that the two are not at all mutually exclusive. We should move towards greater convergence and, at the same time, we should ask ourselves whether the design of this monetary union is solid and resilient or, as I hinted before, still quite fragile, and we should address the fragilities. It is quite clear that the two things can go together. We cannot improve governance and design, and imagine a different monetary union with countries that are widely divergent. At the same time, convergence among countries will make it much easier to address the fragilities of our union.

1-057

José Manuel Fernandes (PPE). – I welcome President Mario Draghi’s presence here today and would like to think him for the work he has done and the credibility he has given to the institution, so thank you for this work that is widely recognised.

I have two questions. Some Member States have been recording historically low interest rates for government bonds. My country, Portugal, has even recorded negative interest rates, which has never happened before. What role has the ECB’s bond-purchasing programme played in this, and what role has been played by the reforms implemented by each individual Member State to make this possible, since I believe that these reforms have also made a contribution?

You have said little about the necessary reform of the economic and monetary union, but I should like to put two questions: whether you consider a European monetary fund to be a positive and possible factor in the short term, and also whether you consider a budget for the eurozone to be possible and desirable, perhaps not as a medium or short-term prospect but as a long-term option, which would be my view.

1-058

Mario Draghi, *President of the European Central Bank***.** J The current level of interest rates for the majority of the countries – even for what used to be called the stress countries – is, in a sense, the joint product of three factors: the reforms and successful government policy programmes they have undertaken; the present market conditions; and, thirdly, of QE and, more generally, our accommodative monetary policy. The second and third factors are, of course, intertwined. The levels which we saw recently – in February and March – have changed, as you have seen. There has been a re-pricing with big fluctuations. But that is the essence of the explanation.

However, if we ask ourselves what is going to deliver a permanently lower cost of debt, the answer lies less and less in monetary policy or QE. At some point QE will terminate, and the answer will lie more and more in the capacity that these countries will have generated, by then, to produce growth, to raise productivity and, where necessary, to achieve this through the proper reforms.

I should not forget another aspect of this: namely, fiscal consolidation. One of the reasons for our current recovery is also that the fiscal headwinds which characterised our economies last year are no longer here. This is partly because substantial progress was made on fiscal consolidation. It is thus quite important that, in the medium term, we restore fiscal soundness so that there will not be upward pressure on interest rates as a result of the perception that certain fiscal positions are unsustainable.

Let us not forget that, at the beginning of the big crisis, this was one of the problems: that the fiscal positions of several member countries had been judged by the markets as unsustainable. It was not the whole problem but it was one of the problems. We have to make sure that, in the medium term, this problem is being addressed so that, by the time monetary policy has exercised all its impact on the cyclical conditions, the economies will be resilient – both on the structural and on the fiscal side – and capable of generating productivity, growth and lower interest rates.

1-059

Chair. J We only have time for one catch-the-eye speaker. I apologise to the other Members, but Mr Draghi has another important meeting after this. First on the list is Mr Olle Ludvigsson.

1-061

Olle Ludvigsson (S&D). – You often talk about structural reforms as a necessary complement to monetary policy. It may well be that I have missed something, but I do not think I have ever known you to talk about gender equality as an important factor in this connection. I must say that that surprises me somewhat.

Effective reforms to increase quality could boost the European economy. A series of research projects have shown that increased equality is good for growth. Gross national product could grow by a good deal more than 10%, according to some estimates – and some calculations suggest an even higher figure – if the European labour market were made more equal. Both the supply side and the demand side would be strengthened, and productivity would probably improve if a larger proportion of the total pool of talent were exploited.

We know very well what instruments could do the trick. So I ask you: why do we not talk more about equality in the context precisely of this issue of growth and potential for growth? Growth is after all an extremely important topic for Europe.

1-062

Chair. J Apparently there was a mistake in the order of speakers, so if you could ask your question in just one minute, Mr Kyrtsos, we will try to accommodate it.

1-063

Georgios Kyrtsos (PPE). – Mr President, my question inevitably concerns Greece. I consider that you play a very positive role in the European Union and in southern Europe, especially in Greece. Nevertheless, the negotiations between the Greek side and institutions, are not going well, as we all know. Since you are a man of great influence and prestige, what are you thinking of doing during the last crucial stage of the negotiations? Because there are three or four factors that have the potential to shape developments and prevent a negative outcome.

You could for example – if not in person, then through the team of the European Central Bank – propose to the Greek side to highlight two or three points; you could become somewhat more flexible in the final phase as European Central Bank; because I am afraid – I am criticising the government, I belong to the opposition – that we will all suffer a lot if we continue like this, because in trying to close the black hole in Greece, we will open up a bigger black hole for other eurozone countries. I believe Ms Ferreira raised this issue in her own way.

In the light of what I have said, do you intend to take any last-minute initiatives?

1-064

Mario Draghi, *President of the Central European Bank***.** J Let me first respond to the first question. I completely and totally agree with you. All the evidence shows that, where we have gender equality objectives, productivity is higher, labour participation is higher and aggregate demand is higher.

Having said that, is it the typical task of a central banker to discuss this when economic policy issues come up? You are aware that I have already been told I should not talk too much about structural reforms, and that central bankers should not go around talking about these things everywhere. We think we have to do so, of course, because whenever there is a situation that is hampering the pursuit of our mandate – the price stability mandate – the Central Bank must speak up.

Incidentally, I can give you many examples of cases where, in the 1970s, 1980s and 1990s, central banks spoke about various issues that were not strictly related to monetary policy. However, let me give you an opposite example. In the years between 2000 and 2005, the regulation of financial stability was being destroyed in some major jurisdictions. At that point, we did not take it for granted that financial stability would fall within the competence of central banks but, looking at things with the benefit of hindsight, would it not have been reasonable for the central banks in those jurisdictions to have spoken up about financial regulation and about how it was being destroyed? Having said that, I can only add that I fully agree with you and I think we should have this in mind when we list the structural reforms that are needed in specific countries to increase productivity and potential output.

On the other question, I do not want to go into the details of the negotiation. I think both parties are now being called upon to do their utmost to find a compromise which yields – and I apologise for repeating myself – a strong agreement that generates growth, with social fairness and fiscal sustainability, and addresses some potential financial stability issues.

Let us not forget my earlier response to Mr von Weizsäcker. We need two sets of elements: one that concerns the substance of the policy agreement and the other addressing the financing issues.

1-065

Chair. J Thank you, President Draghi. This has been a really important exchange of views. We thank you for your contribution and for your openness to discuss these things. I support what you have said and I hope that all parties have listened carefully to your wise words.

(The Monetary Dialogue closed at 17.10)