

# DÁIL ÉIREANN

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## AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ, AGUS AN TAOISEACH

### JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM, AND TAOISEACH

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*Déardaoin, 8 Samhain 2018*

*Thursday, 8 November 2018*

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The Joint Committee met at 3.10 p.m.

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#### MEMBERS PRESENT:

Deputy Peter Burke,	Senator Paul Gavan,*
Deputy Joan Burton,	Senator Gerry Horkan,
Deputy Pearse Doherty,	Senator Kieran O'Donnell.
Deputy Michael McGrath,	
Deputy Paul Murphy,	

\* In the absence of Senator Rose Conway-Walsh.

In attendance: Deputies Colm Brophy, Thomas P. Broughan, John Lahart and Eamon Ryan, and Senator James Reilly.

DEPUTY JOHN MCGUINNESS IN THE CHAIR.

## **European Monetary Policy: Exchange of Views with Mr. Mario Draghi**

**Chairman:** Apologies have been received from Senator Conway-Walsh who has nominated Senator Gavan to substitute for her.

I welcome the president of the European Central Bank, Mr. Mario Draghi. The exchange of views with him represents the joint committee's first engagement with the European Central Bank, ECB, and it is hoped will lead to greater interaction and contribute to a greater understanding of the bank's role in the Irish economy and the wider EU economy. Its central role in managing monetary stability and safeguarding the eurozone from external shocks has never been more essential as Ireland faces the uncertainty of Brexit. This exchange of views will build on a recent meeting between a finance committee delegation and the chairperson of the supervisory board of the Single Supervisory Mechanism, Ms Daniele Nuoy, in Frankfurt at which the issue of banking supervision in Ireland was discussed in depth. This engagement will focus on topics such as interest rates, inflation, Brexit, developments in European Monetary Union, forecasts for Ireland and other eurozone economies and the macroeconomic issues facing the EU nations that use the euro as their common currency.

We have set out the arrangements for the meeting. Each member received an email detailing them. I ask him or her to stick to them in order that we can get through as many questions as possible.

By virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the joint committee. However, if they are directed by it to cease giving evidence on a particular matter and continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official, either by name or in such a way as to make him or her identifiable.

I invite Mr. Draghi to make his opening statement.

**Mr. Mario Draghi:** I thank the Chairman and honourable Members of Parliament. I am happy to be back in Dublin and honoured to be invited to speak to the Oireachtas. On this occasion I am joined by my colleague, Mr. Philip Lane, whom committee members meet regularly in his capacity as Governor of the Central Bank of Ireland. Let me remind the joint committee, as a housekeeping detail, that while the European Central Bank, ECB, is accountable to the European Parliament, we also greatly value our exchanges with national parliaments. In September, as they may recall, some members met the chairperson of the supervisory board of the Single Supervisory Mechanism, Ms Daniele Nuoy, in Frankfurt when they discussed the ECB's supervisory policies.

With full respect for the functional separation between the ECB's monetary policy and its supervisory tasks - this has to do with what I can and cannot say - this is an opportunity to discuss monetary policy and policies to make the euro area economy and its constituent parts more resilient. In that respect, I expect an open exchange which will give us a chance to listen

to and better appreciate each other's positions. I am conscious that I am speaking in a country that went through a severe crisis during which the Irish people made tremendous efforts. Of course, we all and I personally have great respect for them, but we should also acknowledge that those efforts are now paying off.

Ten years after the start of the global financial crisis, the euro economy is performing well. It has been doing so for some time. We have now seen 22 consecutive quarters of economic growth, while over 9.2 million jobs have been created. The unemployment rate has declined to 8.1%, its lowest level since November 2008. The Irish economy has seen particularly strong expansion in recent years. It is now growing at the fastest pace of any euro area country. The rate of unemployment has been falling too and now stands well below the euro area average. It is all the more impressive, given the severe crisis Ireland went through and the legacies with which it is dealing, including high private debt and arrears.

Looking ahead, while some sector specific data and selected survey results have been somewhat weaker than expected, the latest incoming information also suggests the broad based expansion in the euro area, including Ireland, is set to continue. Against this background, the rate of inflation in the euro area is expected to continue to converge towards the ECB's objective of being below or close to 2% in the medium term. Getting to this point has required considerable monetary policy support. The euro area is looking back on several years of exceptionally low interest rates and what we call unconventional monetary policy measures. The ECB's key interest rates have been at unprecedented low levels since 2009 and supported by a series of unconventional measures introduced in the face of a protracted recession and persistently low inflation. While we are now at the point where we anticipate, subject to incoming data confirming our medium-term inflation outlook, we will end net asset purchases at the end of the year, a significant monetary stimulus will still be needed to ensure the continued sustained convergence of inflation towards levels below but close to 2% in the medium term. However, even after we end our net asset purchases, a monetary stimulus will continue to be provided by the guidance we have given, namely, we expect key interest rates to continue at their current level, at least through the summer of 2019, and to maintain the stock of assets on our balance sheet by reinvesting maturing bonds purchased under the asset purchase programme for an extended period of time after the end of our net asset purchases.

The overall favourable outlook and our still accommodative stance should not invite complacency. Although, on the whole, the risks surrounding the euro area growth outlook can still be assessed as broadly balanced, the risks related to protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent. More specifically, we see a growing willingness to question multilateralism which has underpinned global growth since the end of the Second World War. The protectionist trade measures implemented may have had very limited effects thus far, but the escalation of trade tensions is certainly undermining confidence.

The financial stability environment in the euro area overall remains favourable, but it has become somewhat more challenging in recent months. The results of the European stress test published last Friday show that euro area banks are increasingly resilient to financial shocks. This also reflects the continuing economic expansion, which has strengthened private and public balance sheets alike. Still, there are risks. These include liquidity risks in the non-bank financial sector that could be transmitted to the broader financial system. Developments in this area should be closely monitored, and the regulatory and supervisory framework for non-banks needs to be strengthened.

Asset prices also require close monitoring. While there is no compelling evidence at this

stage of overstretched asset valuations at the euro area level, we are seeing some localised risks. However, euro area monetary policy is not the appropriate tool with which to address such risks. They call instead for targeted macroprudential policies, which can be tailored to local and sectoral conditions. The recent decisions by the Central Bank of Ireland are an example of how macroprudential policy can promote financial stability.

The other risk in our minds is, of course, Brexit. With negotiations ongoing and less than five months to go until the United Kingdom's departure from the European Union, it is essential to prepare for all outcomes, including a no-deal scenario. While the direct trade effects of a hard Brexit would be limited for the euro area as a whole, Ireland is more exposed due to its very close trade relations with the UK. We also see limited overall risks to euro area financial stability. Without sufficient mitigating action, however, a cliff-edge Brexit could have an adverse impact in certain areas of centrally cleared derivatives markets.

Sources of risk from outside the EU have increased since May. A stronger US dollar and heightened trade tensions triggered renewed stress in a number of emerging market economies.

Thanks to our collective efforts at the European and national level, we have come a long way since the start of the financial crisis. However, to strengthen our economies and preserve financial stability, we need to go further.

Let me highlight in particular some of the concrete steps in the area of financial integration that we need to take at the European level. First, we need to complete the architecture of the banking union. The benefits of having a euro area supervisor are clear when we look at banks' strengthened balance sheets. However, more needs to be done to reduce the risks for citizens as both taxpayers and depositors, and to break the remaining link between banks and national governments. In addition to the adoption of a banking package which is currently under negotiation among EU legislators, a genuine banking union needs further regulatory harmonisation, for instance through greater reliance on regulations instead of directives. In particular, unwarranted national options and discretions still stand in the way of a level playing field for banks. At the same time, we need to establish a common backstop to the Single Resolution Fund and lay the groundwork for the creation of an effective European deposit insurance scheme. Making significant steps in these areas is a precondition for a truly integrated euro area banking system and single money.

The second thing we need to do is build a true single market in capital. To be robust, the capital markets union needs effective regulation and supervision, for example with investment firms and clearing. Not least given the United Kingdom's imminent departure from the European Union, we need to make concrete progress on this agenda and complement it with an ambitious, long-term vision.

Recent Eurobarometer data show that support for the euro stands at a record high of 77% among euro area citizens and a large majority believe that their country's membership of the EU is a good thing. Support for the European project is particularly strong in Ireland, where with 88% of citizens the single currency enjoys the highest level of support in the Union. Europe has to repay this trust.

We face important global challenges that are naturally causing concern among the people of Europe, especially those who feel left behind. Common institutions and collaboration among member states give Europe a strong voice in the world. More important, they make it possible for us to find effective answers to joint problems; we are stronger together. I thank members

for their attention.

**Senator Kieran O'Donnell:** I welcome Mr. Draghi - céad míle fáilte. I will pick up on two issues. In his statement, he said that without sufficient mitigating action, a cliff-edge Brexit could have an adverse impact. I ask him to elaborate on that. What type of mitigating action would he like to take place? What is his hope for Brexit, whether it is hard or soft? What does he expect its implications for Europe and particularly Ireland will be? As he said, we have a unique relationship through our trading, cultural and social links.

Mr. Draghi spoke about the risks and challenges for the Irish economy. He said we are particularly exposed in the area of Brexit. Our GDP growth rates this year will be three times the EU average. We are seeing a slowdown overall in the EU with a growth rate in the previous quarter of 0.2%. Where are the risks for the Irish economy? That incorporates Brexit; Mr. Draghi may deal with other features. What kind of monetary and macroeconomic policies does he envisage evolving in the ECB for the type of Europe we could have post-Brexit?

**Mr. Mario Draghi:** One thing to keep in mind is that we are not party to the Brexit negotiation. This does not mean that we are not monitoring what is happening. We support the Commission with technical advice in our remit. As the Senator may know, upon the joint initiative of the European Commission and the UK Treasury, a working group between the Bank of England and the ECB is being created. We have been told that we cannot overstep the main negotiators. The working group has identified various areas but has not yet proceeded or been instructed to exactly explain what ought to be done.

The impact on the Irish economy is both direct, through trade, and indirect, through financial channels. It is direct in that the banks and all the financial systems are highly interconnected with the UK financial system. It is also indirect in the sense that the Irish financial and banking system finances firms that also operate in the United Kingdom. The impact is bound to be significant. We can certainly discuss the various channels and we will be in a better position to know this once the outcome is clear. One thing I said in the European Parliament is that the European Union will stand behind Ireland. It will back Ireland. That is quite important in the sense of counting on the closeness and the solidarity of the rest of the EU.

The area where we have identified risk is that of centrally cleared derivatives but, as I said on another occasion, there must be a considerable degree of mismanagement for this risk to materialise. All in all, this seems to me unlikely. In other words, the authorities on both sides will be able to manage these risks in such a way that financial stability would be preserved. The exact ways in which these mitigating actions will be taken will be clear only when we know the outcome of the negotiation. That is why we have been inviting private sector parties, especially on the European side, to take all the mitigating action they can themselves without necessarily waiting for public intervention, because we do not know the outcome yet.

All in all, my perception is that things can be managed. However, if the private sector at some point were to decide there is going to be a cliff edge or an unmanaged process, then the private sector's behaviours could be a source of instability, which is something we have to monitor very closely.

I was asked my view of what is going to happen. I think the most likely thing is a gradual transition which will allow all parties to negotiate in the best possible way for their citizens.

**Senator Kieran O'Donnell:** A soft Brexit.

**Mr. Mario Draghi:** Yes. That is my own perception. I am not-----

**Senator Kieran O'Donnell:** What of the risk to the Irish economy?

**Mr. Mario Draghi:** I am coming to that. I am sorry I am taking so much time. The Irish economy's performance is strong from all viewpoints - growth, employment, consumption and investment, and even housing is now rebounding. There are two sets of risks. One we have just discussed and the other is overheating. It would not be the first time. There are some legacy vulnerabilities, especially the non-performing loans.

What to do? First, rebuild fiscal buffers, and this is a good time because things are going well. Second, take macroprudential action. Here, the committee members know the Irish authority, the Central Bank of Ireland, is one of the most active in the macroprudential area in the whole EU. In terms of monitoring, my advice is to watch debt, both public and especially private debt. Again, action to this extent has been undertaken, for example, loan to income, loan to service values, loan to capital ratios and the counter-cyclical capital buffer. All macroprudential actions that have been undertaken in the past are to address these risks.

I am taking too long to answer. My apologies.

**Chairman:** You are doing fine. I call Deputy Michael McGrath.

**Deputy Michael McGrath:** President Draghi is very welcome. My time is limited so I will get to the point. I want to raise two issues. The first relates to the transmission of monetary policy to the end consumer. As Mr. Draghi knows, in Ireland the end consumer pays very high interest rates on debt. For example, in regard to mortgages, the latest official statistics show the average interest rate paid in Ireland on new mortgages drawn down in the month of August was 3.15%, whereas the average across the eurozone was 1.77%, so there is a massive difference of 1.38%, or 138 basis points in Mr. Draghi's language. Mortgage holders, businesses, farmers and other Irish consumers are paying very high interest rates. One of the purposes of Mr. Draghi's monetary policy was to stimulate the economies throughout the eurozone, but low interest rates are not being passed on to the end consumers in Ireland. Has Mr. Draghi a view on that? What can be done to try to reduce interest rates in Ireland and bring them more in line with rates charged elsewhere in the eurozone?

The second issue is in regard to the asset purchase programme, which, as Mr. Draghi said, will come to an end at the end of this year. According to its publications, the ECB has purchased just under €30 billion of Irish Government bonds since 2015, which accounts for about 23% of our national debt in the form of Government bonds, and there is other debt as well. What does Mr. Draghi think the impact will be on peripheral countries like Ireland of the unwinding of that programme? We have about €50 billion of our national debt to be refinanced over the next five years. The concern is that sovereign borrowing costs will increase significantly for countries like Ireland as the ECB unwinds the quantitative easing programme and stops buying new debt. Only a few years ago, 13% of general Government revenue in Ireland was used to pay the interest on the national debt. That has now fallen to 6% to 7% but it is a key risk for the Irish economy.

**Mr. Mario Draghi:** I am aware lending rates by banks to users, be they consumers or mortgage holders, are high. However, one should ask why they are high. The evidence seems to say it is because the banking market is not competitive and there are monopoly or quasi-monopoly situations here. The way to address this is twofold. First, it requires actions to reduce

the degree of monopoly and actions to increase the competition among banks and, by the way, other non-bank institutions that may finance the economy. The second way is basically what the EU is doing to complete banking union and to give a convincing signal to create a genuine capital market so that cross-bank lending, cross-bank purchases and master netting agreements, MNAs, across countries can be undertaken so as to increase the competition. Although it might take me too much time and the Deputy might not approve, we can discuss the benefits of creating a capital market union that would go well beyond the fact that interest rates would go down and borrowers would be in better condition. These are the two types of actions.

As to what can be done at EU level, as I said in my introductory statement, we must try to harmonise the legislation and regulations in different countries, which, by the way, are considered the main barrier to cross-country bank lending. For example, there are different regimes for mortgages across different countries which prevents cross-country lending. Second, countries must take domestic actions geared to increasing competition.

The second point is about whether our anticipation of ending the net asset purchase programme will create an increase in interest rates on sovereign debt. The answer is that we do not think so. We expect our monetary policy to stay very accommodative, even after the end of the net asset purchase programme, because of our formal guidance on interest rates, when we said interest rates will stay at the present level, at least through the summer of 2019. In these years we have accumulated a very sizeable stock of bonds and will continue reinvesting in these bonds as they come due for an extended period of time. As I always remind people, we keep a lot of optionality in our message and monetary policy guidance. If things were to get worse, we could always extend the period and change our forward guidance consistently with the incoming information.

**Deputy Michael McGrath:** I thank President Draghi and come back on one point regarding the interest rates charged to consumers in Ireland. If I heard him correctly, he described the situation here as one of quasi-monopoly, which is a fair statement. Between them, the two pillar banks in Ireland hold approximately 60% of the mortgage market. Competition is limited and we would like to see new entrants join the Irish market. There are opportunities but while there is speculation about engagement with our Central Bank, nothing is confirmed. I emphasise to President Draghi again that with each passing month and each monthly repayment, Irish mortgage holders pay so much more than citizens with comparable loans elsewhere in the eurozone. As such, his monetary policy is not being transmitted to where it matters, namely to the households of consumers. I ask him to consider ways in which he and our Central Bank can help to impose downward pressure on interest rates in Ireland for the benefit of consumers to bring them more into line with the normal situation elsewhere in the eurozone.

**Deputy Pearse Doherty:** Cuirim fáilte roimh Mr. Draghi, Professor Lane agus Johannes Lindner. The Irish people have paid a huge price for bailing out the Irish banking system and the ECB played a very negative role in that regard. Some would say it played a very sinister role in increasing the costs to them. The refusal at the time of the ECB to support the Government's desire to burn senior bondholders has cost them dearly. Even now, the State is being forced to dispose of the floating bonds associated with the odious debt of Anglo Irish Bank at a cost to the Irish people. A decade on, homeowners struggling with their debts and those who are or who have been on arrears are seeing their loans being sold off to vulture funds. When we speak to the banks, they tell us they have to do this as a result of ECB rules. This is a morally unbearable position. Mr. Draghi's colleagues are on record saying the ECB has no preference as to how NPLs are dealt with as long as they are dealt with. What is Mr. Draghi's definition

of a “non-performing loan” given that our banks appear to have different definitions depending on which one speaks to?

My next question relates to an ECB rate rise at a future date. As my colleague said, Irish consumers are paying twice the EU mortgage interest rate average, which is unacceptable. Irish businesses, farmers and mortgage holders are having to bear that. Together with Deputy Michael McGrath, I have published legislation to enable the Central Bank to intervene to deal with a market failure and cap interest rates. The ECB does not support that concept, however. Can the ECB lift the restriction or tell us how we should deal with such a situation and protect our citizens given where we are? Does Mr. Draghi share the view of many in Ireland that the Anglo Irish Bank debt is odious and should no longer be a burden on the people?

**Mr. Mario Draghi:** That is more than two questions but I will try to do my best in the time available. I will dispense with the first question, which was the Deputy’s reconstruction of the past. We can discuss that but I note that the ECB was not entirely negative, surely. Things are going well today. It means the policy advice given in the past was not entirely wrong after all. It is true that much of the progress we have seen today is due to Irish citizens. However, the policy advice was not entirely wrong.

Second, the ECB has supported Ireland quite a lot. The liquidity support the ECB provided during the five worst years of the crisis was unprecedented and, in my understanding, it is still unprecedented. It was 100% of Irish GDP at €140 billion. More generally, there may be other questions about the past and after all I see this conversation between us as a way to mend a relationship which has been fraught in circumstances of several divergences and many disagreements in the past. In preparing for this conversation, I asked myself how correct it is today to judge past events when many things have changed in the interim. That addresses the Deputy’s first point but I am sure we can come back to it.

The Deputy asked if we pressed banks to dispose of their NPL stocks in a fire sale and the answer is “No”. We have guidance for that. There is guidance for all banks in the EU. In some countries, including mine, NPLs are at high levels for different reasons. In Ireland, they are high because of the original crisis in the construction sector and because of the recession. In Italy, they are high because of the recession. What we see today is that the number of NPLs is decreasing without even too much pressure from the ECB. It is simply because the recovery is so buoyant that it allows for the disposal of NPLs at terms and conditions which are, by and large, okay. However, we have to distinguish two types of non-performing borrower. One has the strategic non-performing borrower and then the non-performing borrower who is unable to repay because he or she is too poor. One has the social problems that come out of that. In that case, however, the problem ought to be addressed through the right instrument. That could be social policy. It should not be addressed by destroying the culture of payment between banks and borrowers. I see great scope for countries in which NPLs are a social issue to address that with the proper tool. I am not ignoring the problem at all. It is a serious problem in many countries. The EBA has a definition of “non-performing loan”, which is one that is 90 days due.

The Deputy made the same point on interest rates and the answer there is increased competition. This action can come from two sources, namely the domestic government and the European Union. Any support one can express in the EU to move forward on harmonising legislation is especially delicate but the issue has to be resolved. We have been discussing this for years now. The insolvency laws are an example. If we have different insolvency legislation in different countries, banks will always hesitate to lend money in jurisdictions where they do not know what the insolvency law will be. That is one of the many actions. Certainly, things have



improved with the creation of a single supervisor. Progress has been made but it is admittedly much slower than I would like. I have been saying the same things for years now.

Finally, the Deputy asked about the Anglo Irish Bank debt issue. We can discuss it in more detail, but I note for now that the eurozone treaties cannot accept monetary financing. That is a case of monetary financing, basically. This is just the bottom line of very complex reasoning. The Government created bonds to recapitalise a bank and these bonds are in a portfolio in the Central Bank of Ireland. They pay out interest. If one does nothing and does not sell, that interest goes back to the Government, which means financing takes place at zero cost. That is not possible given the treaties. Article 123 prohibits monetary financing.

**Deputy Pearse Doherty:** The reality is those bondholders should have been burnt and the ECB did not support the Government when a Cabinet decision was taken to burn senior bondholders. It is now the policy of Europe if such an event were to happen that there would be a bail-in of senior bondholders. All the advice was not correct.

Indeed, not everything is great in Ireland. The GDP figures are going well, the recovery is going well, but Michael was the 27th person to die on the streets of our capital city in the past 16 months.

**Chairman:** Sorry, Deputy.

**Deputy Pearse Doherty:** Let me finish. There are 4,000 children who will not have a home and will wake up in emergency accommodation on Christmas Day. Not everything is going well.

I ask Mr. Draghi particularly about the European Commission's proposal for a suite of legislative measures on non-performing loan, NPLs. One proposal includes the rules for establishing a vehicle to buy non-performing loans without breaching state aid rules. I am sure the ECB will be familiar with NAMA that was established here.

**Chairman:** Can the Deputy come to the question?

**Deputy Pearse Doherty:** Would a NAMA for mortgages be permissible for the ECB as a way of Ireland dealing with the NPL issue and avoiding the sales to vulture funds? What are Mr. Draghi's views on MEPs' proposals on the legislative proposals, especially the refusals that their loans would be sold to another institution?

**Mr. Mario Draghi:** We have seen the Commission proposal. There are different options. Frankly, we do not have a preference among different options. We will have to see the exact details.

Let me add something which does not apply to NAMA as such but applies to the sets of issues that arise from these agencies. These initiatives involving the creation of specialised agencies have taken place in many other countries of the European Union. In our view, that is not the main issue. If it helps, why not? The key is whether this can be done without violating the state aid rules. It always looks quite difficult. However, it is not in our domain.

**Deputy Joan Burton:** I welcome Mr. Draghi. Ten years after 2008, does the ECB admit errors in its own conduct after the crash? The IMF, one of the ECB's sister organisations, did and published new guidelines. What of the ECB, not least in its conduct in Ireland, where it was probably the most rigid and most conservative of all three troika members? I appreciate

Mr. Draghi was not president then. We are all aware Mr. Draghi did not make threats about bombs going off in Dublin. However, Mr. Draghi's tenure of the bank is passing. While he might be described as something of a Keynesian, and all the better for it, I am not so sure about his successors.

I ask Mr. Draghi about effective housing market failure which is a real threat to our democracies, here in Ireland and in many European countries. Does Mr. Draghi recognise that effective housing market failure is happening in a number of European countries? People and families on low incomes or state support are struggling to get affordable rent or to pay it, or to buy or lease a home long-term, which has been a hallmark of European economic progress over a long time. Mr. Draghi referenced a 2% inflation rate. It is a bit low. It might be better if it was approximately 3% and that was reflected in higher wages, particularly for those on low pay. Those on low wages who cannot get housing are the so-called left behind that Mr. Draghi referred to in his opening remarks. Mr. Draghi also talked about the slogan, "Stronger together." In Gaelic, in Ireland, there is a similar phrase, *ní neart go cur le chéile*. Can Mr. Draghi give expression to the fine sentiments in his opening remarks that might give hope to those who do not have houses, who do not have affordable rents, and who do not have a job which pays a decent amount of money and gives them some security?

**Mr. Mario Draghi:** Deputy Burton asks a lot from the ECB. Our policy has now kept the interest rates at such a low level for an unprecedented period of time. We complemented this policy with the purchases of assets, both Government and private corporate bond assets. In a sense, it has been a policy that has helped debtors and helped entrepreneurs. It helped the private sector, helped Governments, and to the extent that it engineered the recovery, it also helped banks, insurance companies and pension funds which complain a lot about low rates. They should complain less, thinking that if the recovery had not taken place, the exposure of the banks would have been much higher, the NPLs would be much higher, and there would be many more clients who would not be able to pay back. This policy is now producing a concrete result.

As I stated at the beginning, the economy is improving everywhere. The main drivers are consumption and investment this year more than exports. Last year, it was more exports. In my view, there are two most important data. The first is the employment data. The number of jobs created, as I stated, is 9.2 million. There were never so many jobs being created in five years in the European Union. The second is the dispersion. At the beginning of the crisis, we had countries which were doing relatively well and countries which were not doing well at all, and the dispersion in growth rates was high. Currently, the dispersion is at the lowest level historically. That also gives a sense of comfort. This has been achieved through low rates.

Often we are told that our asset purchases are benefiting those who own assets, namely, the wealthy part of the population. As a matter of fact, we went through a quite elaborate search here trying to assess the distributional effects of our policies. Certainly, asset prices go up and assets are, by and large, owned by rich people, but also there is the reduction in unemployment. The most important cause for income and wealth inequality is unemployment. The two effects offset each other and, by and large, the monetary policies being pursued have not increased and if anything, have improved distribution. Also, one must consider that gain has two sides. The increase in the value of houses has improved mostly the low-income house owners in many countries. Specifically here, there are issues that the ECB cannot do much about because there are the sorts of constraints to supply that constrain the housing market. This is my understanding. These constraints, however, are getting less and less bidding, if I understand well, in that

construction supply is increasing. All in all, we should be waiting for less price pressures on housing. It is also true that, thanks to the recovery, demand is also buoyant in the housing market. All in all, our policy has helped people.

One of the parameters we always look at is exactly what Deputy Burton mentioned, namely, wages and what is happening to nominal wages. We look at that because, for us, it is the best predictor of inflation which is our objective and is in our mandate. Data in the past six to 12 months show that wages are gradually going up. They are not going up because of temporary effects but more and more because of permanent effects. Wages in Germany and in the euro area have been going up. In Ireland it is 2.5% which is slightly higher than the euro area average and certainly higher than in many other countries. It has been a big crisis and it has taken a long time to get out of it.

**Deputy Joan Burton:** Sometimes the next crisis arises from the failure to deal with the current crisis which may not be as big as 2008. Housing and the affordability of a place to live is a factor in many European cities. As Mr. Draghi knows, next Sunday is the 100th anniversary of the end of World War One and I mention the failure to allow people to have dividends in their ordinary lives in the aftermath of that. Mr. Draghi said that nobody should be left behind and I agree with him.

I ask him how, as an economist and as the head of the European Central Bank, notwithstanding monetarism, he gives effect to those dividends for the young people who do not have jobs and are not included in the employment statistics and the young people and families who cannot afford to either rent or buy a house, particularly in Ireland but also in many other European countries.

**Mr. Mario Draghi:** As a matter of fact, the last time I was in Dublin I gave a speech on employment and on youth unemployment. There are many causes, of course, but the European Central Bank can consistently and firmly pursue its mandate. We call its mandate price stability and it indirectly captures a variety of dimensions much broader than that. That means we should fight deflation and all the causes that would lead to that or to inflation that is too low. Our mandate came to be as a result of the crisis and that is how it still is.

**Deputy Paul Murphy:** The last time I had a chance to question Mr. Draghi was in the European Parliament in December 2011. At that time I asked him about the ransom note that he and Mr. Trichet had sent to the then Italian Government-----

**Mr. Mario Draghi:** What note?

**Deputy Paul Murphy:** The ransom note. The letter which contained the whole series of-----

**Mr. Mario Draghi:** Yes, it was a letter.

**Deputy Paul Murphy:** It is not the only ransom note which the ECB has sent. It had the character of a ransom note. It was a series of requests for austerity measures with a clear implication that the ECB would not buy bonds if they were not implemented. I asked about that letter to explore the undemocratic role which the ECB was then playing in the service of a model of authoritarian neoliberalism, which was strengthened with the process of European economic governance.

Mr. Draghi did not answer me on that day because there were many questions so thankfully

we have space today to return to that question. In the past seven years there has been a lot of evidence to prove that the European Central Bank has been playing a fundamentally undemocratic role in the service of bankers as opposed to in the service of ordinary people. That ranges from its role in the removal of elected governments in Italy and in Greece in November 2011 and its role in foisting European bankers' debt on people in this country, for which we are still seeing billions of euros burned by the Central Bank of Ireland on an annual basis as a consequence of that, and it includes the strangulation of the Greek banking system in 2015 in order to try to ensure an outcome of a democratic referendum.

I return to that question today and ask how Mr. Draghi defends the role the European Central Bank has played over the course of the past decade and its fundamentally undemocratic character and does he intend for that kind of role to continue.

**Mr. Mario Draghi:** I thank the Deputy because he makes the ECB seem very powerful and more powerful than it is. Removing governments is not the task of the ECB but it is the task of the voters of the different countries which elect them. It is the task of parliaments but certainly not that of the ECB.

The Deputy is referring to the fact that under certain conditions the ECB cannot continue to support a country through bond purchases or the provision of emergency liquidity assistance, which is a decision of the national central bank by the way and not of the ECB. The ECB has rules. It lends money against collateral to solvent banks. If banks are not solvent the ECB cannot lend money. If the collateral quality drops below a certain level, that collateral can no longer be accepted and often this collateral is formed by government bonds. To the extent that the policy of a certain country affects the value of these government bonds, the policy of a country becomes important for maintaining the support of the ECB. That has been the rule according to which the ECB has behaved in the many instances the Deputy mentioned. Of course the relationship between different countries and liquidity support can take different shapes but the substance of it amounts to what I have said before. The policy affects the quality of the collateral and the collateral is fundamental to maintaining the liquidity support but it is not that the ECB wants to dictate a policy.

By the way, in answer to a previous question I was asked, I should say that recently the ECB has been carving a different role out for itself in the policy dialogue with countries. It is much more limited to the financial stability part of the policy dialogue, unless it is extended to other parts such as the fiscal part. In other words, it is concerned with the financial stability and it is only concerned with fiscal sustainability only insofar as it affects financial stability. The ECB will not talk about different structures and operations or other such issues which we used to do in the past in the early versions of the Troika.

**Deputy Paul Murphy:** I do not agree with Mr. Draghi's assessment of what the ECB has done. It is a fact that the ECB-----

**Mr. Mario Draghi:** The Deputy would like to see an ECB which provides unlimited and unconditional liquidity support to countries no matter what. Is this what the Deputy would like to see?

**Deputy Paul Murphy:** I would like to see an ECB that is under democratic control as opposed to the illusion of independence, which in reality means that it acts in the interests of the big banks.

Mr. Draghi said that the ECB is not into dictating policy. He should read the letter he wrote to the Italian Government at the end of 2011 or the letter his predecessor wrote to the Minister for Finance here which was published a few years ago. That letter was from Mr. Trichet, the then head of the European Central Bank, and it was very clear about threatening the withdrawal of emergency liquidity assistance and one day after, the Governor of the Central Bank and Financial Services Authority of Ireland, who sits on the governing council, went on the radio without informing the Government to announce that a bailout would be needed. That was clearly designed to push Ireland into a bailout and into saving the European banking system, for which people have paid the price.

I refer to the present because this continues to happen. I mention the situation the Italian Government is in today. It is a government that I have nothing in common with in terms of politics and a government whose racist politics I abhor, but it is a government which is elected and has a right to set a budget. What is currently happening is that it has set a budget and the European Commission is saying that it does not accept that budget. The ECB has added pressure onto the Italian Government against the budget in his comments that have been reported in the press today.

**Mr. Mario Draghi:** No.

**Deputy Paul Murphy:** Mr. Draghi can respond to that.

**Mr. Mario Draghi:** That is not true. I would be grateful if the Deputy could quote these comments.

**Deputy Paul Murphy:** Yes, I will.

**Mr. Mario Draghi:** Please quote them.

**Deputy Paul Murphy:** It was reported by Reuters today.

**Mr. Mario Draghi:** Did I say something? It is not true.

**Deputy Paul Murphy:** It says that the Italian Government could face fines-----

**Mr. Mario Draghi:** Not true.

**Deputy Paul Murphy:** -----if it does not accept the diktats of the European Commission.

**Mr. Mario Draghi:** No, there are no diktats. Let me say two things. When the Deputy says that the ECB acts in the interests of bankers, just ask them whether they like the low interest rate policy or the monetary policy, or read about that in any German newspaper.

The second point is that the Deputy would like to see the ECB providing unlimited, unconditional, eternal liquidity support, no matter what. That is what he is saying. That is not consistent with our rules.

**Deputy Peter Burke:** I thank Mr. Draghi for taking time to attend our committee meeting. I have two brief questions. First, Deputy Michael McGrath mentioned the capacity of our economy to grow in terms of servicing our national debt. Our national debt for 2018 is approximately €205 billion. Percentage wise, it is somewhere in the mid-60s in terms of our GDP ratio. The amount of our national budget required to service that debt is quite significant. In 2007-2008, it was just over 3% and peaked at around 15%. Twenty-five per cent of our national debt

is made up of banking debt in terms of rescuing the banking system. How aware is Mr. Draghi of how vulnerable we are in terms of that liability on our balance sheet? In his view, what are the implications of the asset management programme coming to an end?

Second, €500 million from the budget and €1.5 billion from our investment bank was put into a rainy day fund established by our Government this year. The Irish Fiscal Advisory Council made a point about the fiscal rules being unable to deal with the countercyclical nature by which a rainy day fund would be deployed. In other words, when it comes to spending the money in that fund, the fiscal rules are imperfect in terms of dealing with that. I would like to hear Mr. Draghi's views on that.

**Mr. Mario Draghi:** I thank the Deputy. We do not comment, generally speaking, on the details of the fiscal agenda of the individual countries. However, the fact is that Ireland has gradually improved its fiscal position in recent years, recording primary surpluses, supported by some favourable cyclical factors and low interest payments, and it continues to improve. I understand the budget discussions taking place in this committee are showing that the improvement continues. The draft budget plan foresees a balanced budget in 2019 and, for the first time since 2007, there will be a fiscal surplus in 2020 and beyond. Given the current buoyant economy, it is time to rebuild fiscal buffers. That is the best way to deal with the incoming risk we mentioned previously, namely, overheating and possibly Brexit. That is my answer to the Deputy's first question.

I do not know enough to answer the Deputy's question on the rainy day fund. If it falls into the category of building fiscal buffers for the situations where things will not be as good as they are today, that is a wise thing to do.

**Deputy Peter Burke:** The Irish Fiscal Advisory Council issued a paper expressing its concern about our capacity to release the fund in a countercyclical manner without being in breach of fiscal rules. Mr. Draghi's office or the bank might examine that.

**Mr. Mario Draghi:** I thank the Deputy.

**Senator Gerry Horkan:** I thank Mr. Draghi for coming here for our special meeting. He is very welcome. I was impressed by his opening statement and responses in terms of his knowledge of the Irish economy, and all the points have been covered. The select committee is currently dealing with the Finance Bill. The budget was relatively uncontroversial. We have low interest rates. As was alluded to, our national debt is costing less. It might be that we have extra corporation tax coming in at a rate that was never predicted, but we have a good deal of public and private debt. Mr. Draghi is looking in on us but we are here all day, every day.

In terms of the challenges we face, we have a very significant dependence on a small number of foreign direct investment, FDI, companies contributing to almost half our corporation tax receipts. Mr. Draghi is not responsible for it but in terms of the common consolidated corporate tax base, CCCTB, digital taxation and so on, we have been told the CCCTB is not a bad thing for the EU as a whole. However, we do not have any country-by-country analysis of how that would work. The top ten companies contribute up to 40% of our corporation tax receipts. I have a concern that if any of those companies were to change their location or move to a different jurisdiction, we would be exposed very quickly. Does Mr. Draghi have any thoughts on that?

**Mr. Mario Draghi:** I thank the Deputy. In the spirit of the previous questions, the ECB

should refrain from dealing with taxation issues, especially with composition of taxation. My remarks, naturally, will be fairly general. Clearly, when the tax revenue comes from a highly concentrated source, by its nature it is very vulnerable to changes in the economy and in the composition of the taxpayers. Initiatives that tend to increase the diversification of the tax revenues are only to be welcomed because they make tax revenues more stable. That is the general remark.

I should refrain from going into more detail, in the spirit of an ECB which does not want to deal with all the details of an economy as we might have done six, seven or nine years ago. Things change.

**Senator Gerry Horkan:** I respect Mr. Draghi's honesty about our quasi-monopoly in terms of our pillar banks. Does he see any way in which we can increase competition? Is it all about integration and making the rules more equal across the eurozone? Currently, we do not have the ability to source a mortgage in Germany or France where interest rates are much cheaper. Does Mr. Draghi see that as a possibility? How can we help dismantle those barriers so that I can source a mortgage in Germany or France to buy a house in Ireland?

**Mr. Mario Draghi:** What the Commission is doing to this extent is going to be the future for the banking system in Europe. Completing the banking union and creating a capital market union will certainly lead to opening up the Irish financial services to competition. My perception is that this will change for the better in the future, coming also from domestic competition and from the non-banking sector, so that the natural course of events is one where people will find it easier, not more difficult, to access credit.

If there is one sector where the barriers to entry will be overcome, it is the retail banking sector. It seems to me that the whole business model is changing fast. The Senator will recall that we used to have banks with many branches and many people working in them. By and large, all of that is gone now. The sector is changing fast. It is changing in the direction of providing services to clients. That is the way to address this problem.

**Senator Gerry Horkan:** I thank Mr. Draghi. I led the delegation to the ECB and the Single Supervisory Mechanism, SSM, and we found the visit very useful in terms of the interaction. However, I would encourage this committee, Mr. Draghi and his successor to participate in dialogue with the national parliaments. It has been useful and the more of it we have, the better.

**Senator James Reilly:** Mr. Draghi is very welcome. I thank him, and the EU, in a general way for his support during the Brexit negotiations. I ask him to excuse me as I have to leave shortly to attend a vote in the Chamber but I want to ask a question which other members have put to him and bring the argument beyond what he said in his reply. It refers to the reason we cannot access lower interest rates in Europe for small and medium businesses and mortgage holders. What domestic action would Mr. Draghi advise? He has spoken of harmonisation, so I would prefer it if he did not go down that road. Is there some specific EU action and specific domestic action he could speak to from his knowledge of where we are at in our country? Like other speakers, I have been to see German-----

**Mr. Mario Draghi:** May I ask the Senator to repeat the question? He spoke about specific or domestic action.

**Senator James Reilly:** It relates to small and medium enterprise, SME, or business borrowers and mortgage holders and if they can access the lower rates available in the rest of Europe.

**Mr. Mario Draghi:** The answer is really increased competition in banking services. Credit being rationed, especially to SMEs, was pretty common in the entire eurozone until three or four years ago and then things started to improve.

**Senator James Reilly:** I apologise but is there any specific action we can take here through our Government or which the European Union can take to help address this immediately?

**Mr. Mario Draghi:** Increase competition between banks. My understanding is that here SMEs have a hard time getting credit because of the presence of a monopoly or quasi-monopoly. There are probably other parameters like the default history of the economy and probability of default, which leads to increasing difficulty in giving credit to small and medium enterprises. This will wash out with the recovery, as the probability of default will go down and the amount of credit being offered should naturally increase. The big limitation here is the presence of a monopoly, which should be dealt with. There is a natural way of doing this, which is to wait, but that is slow, so if the Government can take action to reduce the degree of monopoly, it would be welcome.

**Senator James Reilly:** Is there any specific action that Mr. Draghi recommends?

**Mr. Mario Draghi:** No. Each country has its own.

**Senator James Reilly:** I thank Mr. Draghi. I apologise for having to leave.

**Chairman:** The Senators are leaving for a vote in one of the Houses but they will return. I put it to Mr. Draghi that we must learn from history and our mistakes. At one session here we had an employee from an Italian bank, Mr. Jonathan Sugarman, and I know Mr. Draghi is familiar with him. The case was put in the European Parliament by Mr. Luke “Ming” Flanagan and perhaps others. It was never seen that Mr. Sugarman was acknowledged in any way for bringing forward the serious wrong-doings in that bank. Nobody knows publicly whether it was addressed. For all and sundry looking at this, it appears the honest whistleblower working with appropriate legislation and reporting a bank with sizable difficulties was ignored.

The issue of bondholders was raised. Bondholders are in the business of taking risk and they apply an interest rate based on the kind of risk they take. Why would they not be burned, or at least a certain number of them? We are talking about Irish banks and we can see their profitability today. It will perhaps be €1.5 billion in two cases when the final figures come out. They are certainly at a high level of profitability. I acknowledge we have had help from Europe and the argument is that we must repay that trust. The question now is if there is a policy of “together we are stronger”, we must consider the people. We must go beyond the institutions that the Government in Ireland, both at that time and since, as well as the EU have helped. We must consider how to help the individual citizen in these states.

Our immediate problem is that the banks are almost outside of control, I am afraid to say. They are making their money and selling non-performing loans while blaming Europe for that. They are selling to vulture funds that are not regulated. I understand from a recent exchange with some European Union officials that it intends to introduce a form of regulation similar to what we have in Ireland, which is essentially light-touch regulation for vulture funds. Meanwhile, ordinary Irish citizens and others living in this country are being thrown out of their homes. Thousands of acres of Irish agricultural land is now held by vulture funds. As a result of what happened way back then, we are still paying a price. We speak about the recovery and we have seen a certain amount of recovery going on around us but it has not benefitted a sig-



nificant number of people who are still finding it difficult to put their lives back together again.

There are Central Bank rules about credit and reporting and this has affected the ability of small businesses to raise money. Deputies Michael McGrath and Pearse Doherty and others have raised the question of the interest rates. Mr. Draghi has argued interest rates are a function of the banking market, with rates being reduced according to competition. There is so much bad debt in banks arising from the crash that they will not reduce rates. They could do it because of the amount of money they make but we can see them throwing people out of their homes and dragging them, kicking and screaming, through the courts in Ireland. No society should tolerate that.

We look to the Central Bank and the European Central Bank to acknowledge in some way the plight of ordinary people faced with difficulties in their lives. They are part of the European Union and they deserve to be recognised and supported by the Union and the Irish Government. It is a real difficulty here that there is no competition between banks because of what happened in the past and the interest rates are not right because of that. People in their homes are now being threatened because of past events and the system seems to want to ignore them. It would be unfair not to bring all of that to Mr. Draghi's attention today. The European Central Bank may not have the power to deal with all that but I must say to Mr. Draghi on behalf of the people I represent that they are not experiencing as much of a recovery as the European Union tells them is happening. It is not happening. The banks here are a disgrace.

I am sure Mr. Draghi is familiar with the tracker mortgage issue. It is outrageous how banks ripped off the ordinary people in this country who were their customers but they are still dragging their heels to this day, refusing to recognise the plight of people and the position in which they have put people.

**Mr. Mario Draghi:** Thank you. The Chairman raised many issues but the ECB cannot do much about most of them. Again, our duty is to go with our mandate and try to deliver it. We are doing this with our monetary policy and interest rates that are as low as they have ever been.

The Chairman mentioned non-performing loans, NPLs, and the ECB is not pushing that disposal. There is a dialogue that is going very well between banks and the ECB all over the eurozone about disposal of NPLs. The Chairman mentioned that if these NPLs did not stay on the balance sheet of banks, they could lower their lending rates because costs would be lower. In a quasi-monopoly or monopoly position, if costs are lowered, it would also be possible to lower rates. We said before that disposal of NPLs is not a simple matter, and it is not simple from a social viewpoint either because many of the NPLs are with people who cannot pay. They are poorer people. That social problem should be addressed with social or budgetary measures rather than interfering with the interest rate-setting mechanism, as that would probably sometimes undermine banks' stability. That is the first rough answer that I feel like giving.

More specifically, I am grateful for the question on Mr. Sugarman. There is a good opportunity for me to say everything about that. I already discussed this matter in a written answer to a Member of the European Parliament, Mr. Flanagan, dated 22 December 2016. This letter is published on the ECB's website, so if people want to know, they can look at that.

The case of UniCredit, which the Chairman raised in line with the established principle of separation between monetary policy and banking supervision, falls in the competence of the chair of the ECB supervisory board, Danièle Nouy. I cannot comment on supervisory measures taken with respect to an individual bank. I will address the Chairman's questions by first clari-

fying what powers the ECB banking supervision has to address breaches by significant banks. We have a variety of supervisory tools at hand, including sanctioning powers. I will save the committee from the list of all the powers that we have because it is a long list, but I reassure members that in my previous capacity as governor of Banca d'Italia, I was never notified of the issue the Chairman raised. I understand, as was stated publicly before this Parliament, that the Central Bank of Ireland carried out an in-depth investigation into this case and considers the matter to be closed. It has been discussed, it is on the website, everything has been done and measures have been taken. I cannot comment on the specific measures. As the governor of the other side of the bank, I was not notified and did not know anything. The Central Bank of Ireland fully inquired and declared the matter to be closed.

I completely agree that we have to look at people. We are doing that in pursuing our mandate to the best of our ability.

Vulture funds are a big development in the euro area. The size of the EU non-banks financial sector increased on average by 83% annually between 2012 and 2015. Bond funds, which the committee calls vulture funds, have increased liquidity transformation, credit and interest rate risk taken. The European exchange-traded fund sector remains small compared with traditional mutual funds, but further regulatory work is needed. Until recently, people used to say that since the non-banking sector does not have deposits, it is different from banks and does not need to be regulated. This is not true any longer. These non-banks do exactly the same things as banks. They finance the economy, take deposits and give credit. They are very interconnected with other institutions. They deserve to be regulated. The ECB recommended that this work would proceed further and especially that macroprudential tools would be extended to the non-banking sector, including what the Chairman mentioned before, the vulture funds.

**Chairman:** I accept what Mr. Draghi says about Mr. Sugarman and the complaint that he made. It may be closed but arising from that complaint and what happened, nobody went to jail and nobody is being pursued. We are constantly told that the regulations are being strengthened but the citizens that we represent, Jonathan Sugarman, and I do not see it that way. While we measure things here with regard to the financial circumstances of the country and the European Union, the social devastation caused in Ireland by the crash and the vulture funds is horrific. It continues to this day and it is wrong to say that we are experiencing a recovery. We are not. Certain parts of the country are but a vast number of people are still caught in the courts, trying to deal with the banks. Their homes are being taken from them. There may be a need for a social policy but the consequences of the financial policies are causing all of this to happen. While Mr. Draghi says the vulture funds should be regulated, between now and the time they are regulated, people will have died by suicide. That has happened in this country. People will have lost their homes and we continue to burn money in the Central Bank every month. I think it is wrong that a bank or institution which represents the people of the European Union would not at least flex its muscle and say that the social consequences are too much and that countries need to intervene. The European Central Bank should in some way tell the banks in Ireland, through Professor Lane at the Central Bank, that they will not get away with it any more. They continue to get away with it.

Community banking has been mentioned. Credit unions and community banking should be given a special place to perform. That type of business structure has saved people on the lower end of the ladder, borrowing small amounts from credit unions and banks such as Sparkasse. The only place in which one can get money for the small and medium enterprise sector in Ireland is from the funds which are charging astronomical rates for it. They are engaging with

people around the country, providing loans and creating further risk for the economic development of Ireland. I have to say that about those I have engaged with and their experiences.

We have been joined by Deputy Eamon Ryan who asked me for a few minutes earlier. With Mr. Draghi's indulgence, I will allow it.

**Deputy Eamon Ryan:** I enjoyed listening to Mr. Draghi's contribution earlier. One of our pillar banks, AIB, had to be rescued by the State in the middle of the financial crash, which took 100% equity. Two or three years ago, the Government sold in an initial public offering, a quarter of the stock at a price of €4.40 per share. The shares today are trading at a 10% discount on that. The bank recently lost its CEO and CFO. I know the European Central Bank does not get involved in micromanagement but this is not a small issue with regard to what strategy this State should pursue with the ownership of such a bank. Are we better retaining it in public ownership? How do we manage that situation? It would be hard to issue a share price below what we issued two years ago. The bank has a long history and important record in this country. As Mr. Draghi says, it is in a market where the whole world is changing. It has many branches but how does the branch system now work? Does the European Central Bank look at such issues or does it have any advice for a Government which has to come to decisions on the ownership of such a bank?

**Mr. Mario Draghi:** Unfortunately, I cannot really comment on that. I never comment about individual institutions and I would not know what sort of advice to give because I am not in that business.

**Chairman:** We agreed to conclude at 4.45 p.m. and have reached that time. I thank President Draghi for attending. Can he take a question from Senator Gavan, who went out for a vote?

**Mr. Mario Draghi:** Yes, certainly.

**Senator Paul Gavan:** I appreciate it. Mr. Draghi is welcome. He is responsible for the supervision of Europe's banks. Unfortunately his job is to protect the banks and not the people. For example, many of us are very concerned that the European Central Bank, ECB, has always relied on the Single Supervisory Mechanism statute to shift responsibility for any kind of protection for consumers and distressed borrowers to the national competent authorities, which in my view often fail to ensure that protection. Mr. Draghi will be familiar with the tracker mortgage scandal, for example.

The ECB says that another bailout of the banks should never be needed. I would like to put it to Mr. Draghi that there is an ongoing bailout of Irish banks. He will be aware of the exorbitant interest rates they charge, which have been mentioned several times today. Is he aware that the banks here do not have to pay any tax for up to 20 years? They have been given political permission to sell bad loans rather than work through them. Tax breaks like the help-to-buy scheme have been introduced to keep the price of houses, and therefore mortgages, up. Rural communities have seen their banking services closed down with no comment from the Central Bank or the Government. It is the Irish people who pay for this ongoing bailout in higher interest rates, their loans being sold to vultures and denial of banking services. Mr. Draghi has the facts now. He can see the pattern. Will he act to stop the Irish people paying for the banks and their problems for another decade and more?

**Mr. Mario Draghi:** First of all let me say that there is a separation. The president of the

ECB does not comment on supervisory issues. The Senator said that I am its head. Yes, technically and legally that is true but in fact we never comment, because we do not want to pollute or confuse the two areas of monetary policy and supervision. Second, many of the issues Senator Gavan mentioned have to do with misconduct. To this extent, they really pertain to the area of consumer protection. As such, they do not really pertain to what the ECB or the supervisory area of the ECB can do. It is not in our remit.

Third, this question, and many others, concerns the social consequences of a banking system which, as I said before, is in a monopoly or quasi-monopoly situation or performed badly during the financial crisis. To the extent that is possible, of course the rules should be devised so that the banking system is stable and provides credit to the real economy and not just to the financial sector. However, the first and foremost instrument that governments have to deal with all of these social problems is social policy. The two areas should be kept separate, at least to the extent that is possible. One intervenes with the best instrument to achieve the objective in the most effective way. If there are socially distressed borrowers, there should be a social policy intervention. This has been done in other countries, by the way.

**Senator Paul Gavan:** I thank Mr. Draghi for his answer. Just to clarify, is he aware that the Irish banks do not have to pay tax for the next 20 years?

**Mr. Mario Draghi:** I may be wrong on this but my perception is that because of the gigantic losses they had in the past, they are allowed to take them as a kind of tax credit.

**Senator Paul Gavan:** There is no “kind of” about it.

**Mr. Mario Draghi:** I am sorry?

**Senator Paul Gavan:** Yes, exactly.

**Mr. Mario Draghi:** Is that correct?

**Senator Paul Gavan:** Yes. Mr. Draghi has no view on that.

**Mr. Mario Draghi:** Again, this really pertains to the fiscal and budgetary policy of the Government and not so much to the supervision side of the ECB, and even less to its monetary policy side.

**Senator Paul Gavan:** My final point is that the Irish Government has adopted a banks-first policy which undermines all other policymaking concerning the banking sector. The citizens and residents of the State are not well served by this policy and indeed are often victims of it. Is the ECB happy to ignore this ongoing bailout or will it investigate it? That is my final question.

**Mr. Mario Draghi:** Let me put it the other way around. The Senator is asking for many things that may have to be done. Perhaps they are right. They probably should be done, but he is asking the ECB to take charge of all this. Imagine an ECB that took charge of all the things the Senator is asking me to do. The ECB would be kicked out of Ireland immediately. Ireland would not stand-----

**Chairman:** Not if it did all of what we asked it to.

**Senator Paul Gavan:** It would be just fine.

**Mr. Mario Draghi:** I understand that these are very important issues but there are things

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that the ECB cannot do. That is it.

**Chairman:** I thank President Draghi. The select committee will resume at 5.30 p.m.

The joint committee adjourned at 4.55 p.m. until 10 a.m. on Thursday, 15 November 2018.