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***Monetary dialogue with Mario Draghi,
President of the European Central Bank***

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I would like to ask three questions:

First on shadow banking: The shadow banking system seems to be developing extremely fast, while macroprudential restrictions are addressing banks only. Moreover, these restrictions can even end up pushing more financial activity into the shadow banking sector. Is the ECB working on a mapping of the shadow banking sector and should policymakers pay more attention to it?

My second question concerns the coordination between monetary and macroprudential policies. Macroprudential supervision aims to moderate the financial cycle and manage external shocks which threaten financial institutions. Monetary policy affects systemic risk by controlling incentives. There is a possible conflict between short-run macro stabilisation policy (monetary policy) and financial stability however, as the two face different pressures. These pressures are particularly evident today, in a world of low growth which makes low interest rates necessary. These interests in turn however can generate risks and lead to a misallocation of resources. If monetary policy has to stay exceptionally loose for longer, there will be an even bigger effort required from the side of macroprudential policy to mitigate potential risks.

When will interest rate policy have to be used to address the building up of imbalances? Is monetary policy a substitute or a complement for macroprudential rules?

My third and final point concerns the on-going stress test and asset quality review. The tests, much stricter and more comprehensive than their predecessors, might reveal troubling capital shortfalls, which will have to be addressed. The information on recapitalisation needs will however only reach banks at the very end of the process of stress testing. Banks may struggle

to find funding from private sources to make up capital shortfalls themselves. If a substantial number of banks need to raise capital, there could be a congestion in equity markets and consequent difficulties in recapitalising in a short timeframe, also due to market pressures and uncertainty. How can we anticipate this concern and deal with it?