

**Mario Draghi, President of the ECB,  
Vítor Constâncio, Vice-President of the ECB,  
Frankfurt am Main, 7 September 2017**

INTRODUCTORY STATEMENT

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases. Regarding **non-standard monetary policy measures**, we confirm that our net asset purchases, at the current monthly pace of €60 billion, are intended to run until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The net purchases are made alongside reinvestments of the principal payments from maturing securities purchased under the asset purchase programme.

The incoming information, including our new staff projections, confirms a broadly unchanged medium-term outlook for euro area economic growth and inflation. The economic expansion, which accelerated more than expected in the first half of 2017, continues to be solid and broad-based across countries and sectors. At the same time, the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability.

While the ongoing economic expansion provides confidence that inflation will gradually head to levels in line with our inflation aim, it has yet to translate sufficiently into stronger inflation dynamics. Measures of underlying inflation have ticked up slightly in recent months but, overall, remain at subdued levels. Therefore, a very substantial degree of monetary accommodation is still needed for underlying inflation pressures to gradually build up and support headline inflation developments in the medium term. If the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, we stand ready to increase our asset purchase programme in terms of size and/or duration. This autumn we will decide on the calibration of our policy instruments beyond the end of the year, taking into account the expected path of inflation and the financial conditions needed for a sustained return of inflation rates towards levels that are below, but close to, 2%.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP increased by 0.6%, quarter on quarter, in the second quarter of 2017, after 0.5% in the first quarter. Survey data point to continued broad-based growth in the period ahead. Our monetary policy measures are supporting domestic demand and have facilitated the deleveraging process.

Private consumption is underpinned by employment gains, which are also benefiting from past labour market reforms, and by increasing household wealth. The recovery in investment continues to benefit from very favourable financing conditions and improvements in corporate profitability. Moreover, the broad-based global recovery will support euro area exports.

This assessment is broadly reflected in the September 2017 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.2% in 2017, by 1.8% in 2018 and by 1.7% in 2019. Compared with the June 2017 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised up for 2017, reflecting the recent stronger growth momentum, and is broadly unchanged thereafter.

Risks surrounding the euro area growth outlook remain broadly balanced. On the one hand, the current positive cyclical momentum increases the chances of a stronger than expected economic upswing. On the other hand, downside risks continue to exist, primarily relating to global factors and developments in foreign exchange markets.

Euro area annual HICP inflation was 1.5% in August. Looking ahead, on the basis of current futures prices for oil, annual rates of headline inflation are likely to temporarily decline towards the turn of the year, mainly reflecting base effects in energy prices. At the same time, measures of underlying inflation have ticked up moderately in recent months, but have yet to show convincing signs of a sustained upward trend. Domestic cost pressures, notably from labour markets, are still subdued. Underlying inflation in the euro area is expected to rise gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding gradual absorption of economic slack and rising wages.

This assessment is also broadly reflected in the September 2017 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.5% in 2017, 1.2% in 2018 and 1.5% in 2019. Compared with the June 2017 Eurosystem staff macroeconomic projections, the outlook for headline HICP inflation has been revised down slightly, mainly reflecting the recent appreciation of the euro exchange rate.

Turning to the **monetary analysis**, broad money (M3), despite some monthly volatility, continues to expand at a robust pace, with an annual rate of growth of 4.5% in July 2017, after 5.0% in June. As in previous months, annual growth in M3 was mainly supported by its most liquid components, with the narrow monetary aggregate M1 expanding at an annual rate of 9.1% in July 2017, down from 9.7% in June.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations increased to 2.4% in July 2017, up from 2.0% in June, while the annual growth rate of loans to households remained stable at 2.6%. The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – notably for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed the need for a continued very substantial degree of monetary accommodation to secure a sustained return of inflation rates towards levels that are below, but close to, 2%.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively to strengthening the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area growth potential and productivity. Regarding **fiscal policies**, all countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalances procedure over time and across countries remains essential to bolster the resilience of the euro area economy. Strengthening Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing discussions on further enhancing the institutional architecture of our Economic and Monetary Union.

We are now at your disposal for questions.

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**Question: Did you have a preliminary discussion today. Did you discuss options for the future of QE?**

**My second question is on the euro exchange rate, which you mentioned, the volatility of the exchange rate is an economic concern. Do you think at its current level the euro is a problem? Do you think it currently reflects the fundamentals of the eurozone economy?**

Draghi: Well, your questions lead me to give you a pretty short account of the discussion that has taken place today in the Governing Council, so duly will respond to both of your questions. Clearly all members of the Governing Council intervene, speaking as far as the economic situation is concerned. They spoke on three topics; growth, inflation and the exchange rate. On growth there was a general recognition of the progress made by the eurozone recovery. It's robust, it's broad-based and it was recalled six million jobs were created since 2013. This recovery is really the base for our confidence that inflation will eventually converge but also, as I'll say in a moment, that patience is needed. That's why the introductory statement I just read to you says therefore a very substantial degree of monetary accommodation is still needed for underlying inflation pressures to gradually build up and support headline inflation developments in the medium term.

On inflation, as I just read in the introductory statement, there was a downward revision mostly due to the – or mainly due to the – exchange rate appreciation. So there was a certain, I would say, broad dissatisfaction with the inflation, though noting as I said in the introductory statement that core inflation actually is doing slightly better. So there was a broad dissatisfaction I would say tempered by the confidence that inflation will eventually converge to our objective. This confidence, as I said a moment ago, is based on the good conditions and the good and improving

and broadening conditions of the economy. But even looking at growth, how this recovery remains dependent on our monetary policy... Basically, if you look at the drivers of the economy, you see that consumption is doing well. Consumption is doing well because of personal disposable income is increasing because of employment gains and because households' wealth is increasing as well. All this hinges on low interest rates. Investment is doing very well because corporate profits are good, because interest rates are low. Exports are also doing well, although clearly we should expect consequences from the appreciation of the exchange rate.

So now this leads me to report to you what the conversation was about the exchange rate. You wouldn't be surprised hearing me saying that the exchange rate is not a policy target. It's very important for growth and inflation. It's so important that the medium-term outlook for inflation was revised downward in the staff projections mainly due to the appreciation of the exchange rate, which means that we will have to take into account this element in our information set in our future policy decisions. In the last monetary policy meeting there were concerns expressed by a few. These concerns were now reiterated by most members at this meeting. Of course one issue that was discussed was how much of this appreciation is due to completely exogenous factors, how much is simply the natural outcome of the improved economic conditions in the euro area? And opinions diverge.

But there was by and large broad consensus on the fact, as I just read in the introductory statement, that the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook for price stability. Now, the other topic we discussed was basically the calibration of our policy instruments starting with next year. Now, let me say offhand what was not discussed; what was not discussed was the sequence. So interest rates, as it's written here, will remain at their present levels for an extended period of time and well past the horizon of our net asset purchases. What was not discussed was changes in issue or issuer limits to the programme. What was discussed was various scenarios, really. I should say just before you ask me other questions, the discussion was very, very preliminary and was meant to ask questions about the different scenarios and what the transmission channels or different scenarios was rather than expressing policy options or policy preferences. Otherwise I would have reported to you about the policy decisions.

So the discussions about different scenarios concerned the length of the programme, the size of the monthly flows and so it was, as I said, a very preliminary discussion mostly geared to ask questions. The pros and the cons of different scenarios were discussed. But by and large, on this point what the Governing Council will ask for is, will want to see, is the work by the committees; they were tasked to continue working on that so they will have full information. But one thing is clear; the bottom line is that interest rates will stay, as it's written here, at the present levels for an extended period of time and well past the horizon of our net asset purchases.

**Question: You said the further appreciation of the exchange rate will require monitoring. You mentioned last time that – or it was actually in the account – that it could lead to excessive tightening of monetary conditions. Are we actually at that stage already when it comes to tightening of monetary conditions?**

**Could you right now commit that we would know the decision about the future of the QE programme in October? Or it will be delayed even further until the December meeting?**

Draghi: Following the recent appreciation of the euro, financial conditions unquestionably tightened in the euro area. But they remain broadly supportive of the non-financial companies and enterprises.

The second question is about the date; we had a brief exchange on that. The Governing Council has reiterated it's this fall as the period when these decisions will be taken because the decisions are many, complex and always one naturally sort of thinks about risks that may materialise in the coming weeks or months. So that is the caution about not specifying a date. Probably the bulk of these decisions will be taken in October.

**Question: When you decide about the future of the QE programme, what is your personal preference? Would you envisage then to sort of communicate a full roadmap or would you only communicate the next step ahead? For example in the past you said you will reduce the monthly purchases, for example by €20 billion. Then you will brief us again a couple of months later. Or would you say you expect to reduce it by €20 billion now and then again after three months by another €20 billion so basically, so we have a roadmap until the end of the programme? I am asking about your personal preference, if you have one.**

Draghi: I don't.

**Question: When people discuss the future of your programme, very often the potential scarcity of assets is mentioned. People think you might exit not because the inflation environment is ready, but because there is nothing left to buy. Have you discussed at all changing the rules of the programme just to convince markets that you can do more, if you want to, to dispel these doubts once and for all?**

Draghi: No, we haven't discussed really the scarcity issue because so far we've given plenty of evidence that whenever there were ... by the way these problems, these doubts were present at the very beginning of our programme. We've consistently shown that we've been able to cope with this issue quite successfully. As you may remember, the change allowing purchases below the DFR – the Deposit Facility Rate – and below two-year maturities considerably expanded the eligible universe of our programme, giving it more flexibility. I'm pretty confident that when the policy decisions time comes we'll certainly be able to exploit all the flexibility that the programme has in its construction.

**Question: Some scientists wonder if the ECB runs a risk of kind of falling behind the curve because markets have been expecting a decision for some time now. You don't give us a clue. Is it your task to clarify the road ahead and to stabilise expectations rather than to leave it until the very last second?**

Draghi: Well, expectations are not destabilised at all, in my view. In any event I think policy decisions that have many dimensions and are complex need time to be taken, need the reasonable consensus to be undertaken. As I said, the fall is the date that's been announced. As I said before,

unless a risk that is not seen today materialises, we should be ready to give the bulk or to take the bulk of these decisions in October.

**Question: Do you take national or member state political situations into consideration when you're considering when to announce a policy like the taper?**

Draghi: Our programme is a programme that has been designed in order to pursue, in order to implement our mandate. Our mandate is the pursuing of price stability for the whole of the eurozone. In this sense, that's what determines the size, the design, the composition of our programme, not specific national interest. One can naturally explain very clearly that whenever one has sort of appeared, when people seem to say, "Oh, you bought more bonds of one country and less of another" it's happened because of temporary technical factors that have been corrected in the subsequent months and weeks, weeks, and months. So it's due mostly to liquidity considerations, the rhythm of the reinvestment programme. One can easily explain that, so no; the answer to your point is no.

**Question: I was thinking more about the German election which is in a couple of weeks; whether or not that pushed your decision forward?**

Draghi: No.

**Question: You said that you'd like to take the money from the maturing bonds and use that in the bond-buying programme; will it be used exclusively for that?**

Draghi: Well, certainly we've said that we foresee a reinvestment programme. This reinvestment programme, by the way, will become more and more sizeable of course as our QE programme has been continuing now for years. So the reinvestment programme will become sizeable and will continue. Yes, the use of repayments is for that purpose; to reinvest in bonds.

**Question: Starting as well with one on the capital key: looking at the recent data for August it shows that you have bought over-proportionally Italian and also French bonds. So my question is, going forward are you going to buy the others which you have bought under-proportionally a lot more in the coming months?**

**The second question would also be on what we have been hearing from a couple of bank CEOs, Mr Cryan of Deutsche, Lloyd Blankfein of Goldman. They were all warning of potential bubbles in markets, so how concerned are you about them? They were also attributing those bubbles to a certain extent to the ultra-loose monetary policy stance – not only of your institution of course – but also worldwide.**

Draghi: On your first question, as I said before, there are temporary deviations from the capital key. There have always been temporary deviations from the capital key for the simple reason that some countries do not participate in the QE programme; Greece and Cyprus. So no wonder of that, there is no mystery or no surprise there. There have been deviations, there will always be deviations from the capital key due to the liquidity conditions due to the fact that we're going to be as market neutral as possible in our purchases. So if you have very tight liquidity conditions in one market, you just

slow down with purchases. Also there are natural times of the year, like it happened in August, it's going to happen in December again. So it's just when you slow down with purchases. So these deviations from the capital key don't indicate anything else from what I said.

Now on the potential financial stability risks stemming from monetary policies that are very accommodating for a long time, it certainly is a danger, but do we see that now? No, we don't see systemic danger coming from bubbles. If you look at the various markets – the stock market, the bond market – the prime commercial real estate is the only area where you actually see stretched valuations. But even in the residential real estate you see situations where prices have been going up pretty fast in some large cities, in some countries, but not on average and not in other cities in the same countries or in other countries at the same speed. The other important consideration to make is, even though we see stretched valuations in some markets – as I mentioned before, the prime commercial real estate market is one – we don't see the other component of a bubble which accompanied in the pre-crisis time; namely an increase in leverage. We see that credit remains pretty subdued all across the board.

Also one has to consider that were we to see such situations at the local level, the answer to that should be macroprudential instruments by the national governments and not changes in monetary policy. That's as far as these issues have been raised in this conference.

**Question: Is it possible that at some point in the future you could widen the type of assets that you buy under your programme even as you pare it back, for example in the field of stocks or non-performing loans?**

**Second question on the question of global investment banks who want to come to places like Frankfurt after Britain leaves the European Union. What steps do you think supervisors need to take to ensure that they are under close supervision, because of course big investment banks bring big risks?**

Draghi: On the first question, it was not discussed so I am not in a position to comment on that.

On the second question, if Mr Constâncio wants to answer there?

Constâncio: Yes, it's very simple. Of course we are prepared; the single supervisory mechanism is prepared to deal with those types of institutions, some of them similar to institutions that already exist in the euro area. So no problems, specific difficulties will come from that development.

**Question: If the exchange rate is a source of uncertainty, as you said, what can you really do about it if it continues and if there are over-shootings?**

**My second question somehow relates to that. The ECB is in a period of high uncertainty about its monetary policy. Other central banks, for example in Norway or Sweden, try to reduce uncertainty by publishing also forecasts on interest rates; why don't you do the same?**

Draghi: On the first, you see, there are two sentences in the introductory statement, “At the same time, the recent volatility in the exchange rate represents a source of uncertainty which requires

monitoring with regard to its possible implications for the medium-term outlook for price stability.” Then you have another sentence that says, “This autumn we will decide on the calibration of our policy instruments beyond the end of the year, taking into account the expected path of inflation and the financial conditions needed for a sustained return of inflation rates towards levels that are below but close to 2%.” Now that says all.

Now, on the second point, I don't think we are in a period of high uncertainty; I think we are starting what to do next year when the present programme expires. Also let me add that these changes published in the forecast are not new. They've been made several years ago, as a matter of fact. I don't know if they have been very successful in helping the central bank to get out of the uncertainty. If the uncertainty is the element and the metrics, sometimes they've been successful, sometimes they've been judged not to be as so successful. So we have to be extremely cautious. The way staff projections are produced, the way they are communicated, even all our communication is the result of many, many years and the work of many, many people. So we learn from our history, from our experience, from other central banks' examples as well. But it's not something we can go lightly trying to experiment. This issue, by the way, had been discussed by my predecessor – the one you mentioned about the Bank of Sweden, Bank of Norway at that time.

**Question: As President of the ECB you cannot say which is the correct level of the exchange rate. If I ask to Professor Draghi, when the exchange rate can become a problem, which is your answer?**

Draghi: My answer is that I don't comment on levels of the exchange rate. I left university many years ago, more than I want to remember.

**Question: What is the exchange rate you took for these projections, for the inflation projections and also growth projections?**

**Also could you explain us why you've decided to announce the bulk of the decisions or to take the bulk of the decisions in October and why not in December, since you may have new hindsights on growth and inflation projections in December?**

Draghi: Well, the answer to the second question is really, we will announce when we are ready. We think we are going to be ready for much of what we have to decide by October. But as I said, the Governing Council is kind of reluctant to commit to a precise date. The sense is that in October we should be ready but if we are not, then we will postpone. The second thing is that we don't know exactly if any serious risk materialises which warrants such postponement. Right now, judging from the way the work is going, we should be ready when I said.

The rate that was used in the projections is around \$1.18 vis-à-vis the US dollar.

Constâncio: Yes, as you know, the exchange rate is fixed, is treated in the projections all the time as a constant. The value in the market of the cut-off date of the projections is the one that is inserted and considered in the projections, so it was mid-August.



**Question:** The euro seems to still be trading above the rate which you've just referenced there, the \$1.18 rate, despite your comments. So does that concern you at all or would you care to comment on that?

For my second question, there seems to be a little bit of a change in the way people are perceiving the ECB's reaction function. Investors are increasingly betting that you'll leave interest rates unchanged until 2019 and that these will be the primary tool to bring inflation back to target, one of the reasons being that there are concerns that you'll run out of assets to buy and that bond buying is more something you do to fight deflation and perhaps boost growth rather than fully return conditions to normal. So I guess my second question is, would you broadly agree with that assessment that increasingly, interest rates do become the primary tool?

Draghi: Well, I'm not in a position to say that because as I said, we haven't discussed the first part; namely the actual numbers for what the APP programme is going to be in next year. But I said one thing here; I said that we expect the interest rates to remain at their present levels for an extended period of time and well past the horizon of our net asset purchases. Then I agree with that.

About the exchange rate, I don't know how much it's trading but we're talking about the \$1.18. It's roughly around \$1.18 and was August 14<sup>th</sup> so we will have to see. Now I'm told it's \$1.20, okay, but I don't comment about levels of exchange rates anyway so...

**Question:** The first one is, you mentioned before the reform of the eurozone. But there are many, many ideas about this and especially about the ministry of finance. There are very different ideas coming from France or from Germany. Should you have a sort of intervention power in the finance – in the balance sheet of the countries? Should it have a budget for growth and so on? There are even many ideas about the ESM, how it should be reformed. What is your idea about this, about the reform in the eurozone and how should it be and the new ministry of finance be?

The second question is, there is a discussion going on between and among economists about this risk of a low-inflation era. Because the growth is robust, you said that the unemployment is going down and there is much liquidity in the markets. But still the inflation is very weak. So should we be prepared to this risk? What do you think about this discussion of a low-inflation era?

Draghi: Now, the important aspect of the current discussion, that's your first question, about the European monetary union, its reforms is that the member states have realised how incomplete is our monetary union at the present time and how such incompleteness has made the crisis that we are just coming out of more serious than it would have otherwise been. So it's to be welcomed, the fact the member states – because you see, the task to discuss and design the reform of the monetary union is not the ECB's task; it's the member states' task. But it's welcome that they actually start this discussion. It's going to be a certainly complex discussion that will take place in the coming months. The ECB of course stands ready to help in this discussion but we are not party of this.

Now, your second question is, should we be resigned to low inflation? The answer is absolutely no. I said many times that inflation will eventually converge to our aim. What makes us confident that this happens? Essentially two factors; first, the fact that we keep in place the extraordinary degree of monetary accommodation, and the second is the broad, robust, solid recovery that we see across countries and across sectors now. This recovery is having a profound effect on the labour market. I mentioned before about number of jobs being created since 2013; six million. But there are many other indicators that are given to you on other occasions showing the strength of this recovery that also now touches upon investment and the strength of consumption. This recovery gradually will close and it's actually closing the output gap and will gradually close the labour market's slack.

But this labour markets slack is turning out to be bigger than was previously estimated and we went through this on another occasion, why this is so. Nominal wages, which are a primary driver of inflation, are also lagging behind what one would've expected from such strong recovery across the board. They're lagging behind for a variety of reasons. I've discussed this on another occasion and some of you were there when I gave a speech on that. But basically, it had to do with backward-looking wage negotiations, trade union strategy geared mostly about stabilising the job rather than going for wage increases, about low productivity, about other factors like the global value chain in a supply of factors. So there are lots of these factors. Now, some of these factors will disappear – none of them disappears quickly. Some of them will disappear first as the labour market's slacks close.

Some others will stay for a longer time, but there's no question that with the ongoing recovery in the end the inflation rate will converge to our aim in the way we want; namely in a doable fashion and based on a self-sustained path where there is no need for our monetary policy any longer. So confidence, patience – because we have to be patient for that – and persistence, however; that's very important. We shouldn't sort of either change the definition because we don't reach the target, or change or lose trust in our monetary policy, lose confidence in our monetary policy. That's the answer.

**Question: Estonia is a eurozone country. Its government agency has promoted the circulation of a cryptocurrency. What does the monetary policy authority think about this?**

**So in Italy it was said that the parallel currency can be introduced in the form of tax credit; what is your opinion in this matter?**

Draghi: I won't comment on the Italian intention, but I will comment on the Estonian decision. No member state can introduce its own currency; the currency of the eurozone is the euro.

**Question: The eurozone might enjoy a growth rate this year of about 2.x%, which is the highest growth rate we've had since 2007 – 2.2% even. So I'd say the situation today is much better than 2007, much better than 2010 or 12. But still – and that's my question – the monetary policy is more loose than during the financial crisis; that's hard to understand for me and for the general public. Maybe you could try to explain it to me.**

Draghi: First of all, we have a growth-based recovery where growth is solid and robust and I said before across countries and sectors. But there is still a big labour market slack that needs to be filled. But the key point is that we don't have a dual mandate like the Fed, where we can sort of look also at conditions of unemployment in the labour market. We only have one mandate, which is price stability. Price stability for us is defined as a level of inflation that is close but below 2% which should be reached in a self-sustained and durable fashion – and we are not there yet. The Governing Council wants to get there and there is nothing that will derail its will to get there. By the way, this anxiety should be also based on facts because so far, everybody benefited greatly from this monetary policy, all countries benefited greatly. So this angst so far has no evidence that could justify it.

**Question: In the minutes of the last meeting there was this interesting sentence saying that it was suggested that the stock versus flow effects of asset purchases be considered; was this aspect discussed today even preliminarily? What does that mean when the level of the monetary policy stance is at stake? If you downscale the QE, these stock and these flow effects will maybe have an importance; maybe you can elaborate on this.**

**The second question is on France. It is processing now a flagship reform on the Macron presidency which aims to liberalise the labour market. The effect will be to foster job creation but maybe a lot of jobs created will be precarious or maybe low paid, so the opinion of a lot of people. So these reform efforts are maybe important and good for any country in the eurozone. But that means maybe Macron will make with this reform the inflation case of ECB maybe much harder to achieve?**

Draghi: Well, the first question, we didn't have a discussion about the relative importance of stocks versus flows.

On the second question, we have full confidence that the French government knows exactly what to do to undertake the needed structural reforms and amongst the targets that all structural reforms of the labour market had - now, whether they achieve that or not is another issue - but certainly one of the main targets was the elimination of dualism in the labour market because one lesson we learned from the crisis was: All the jobs that have been created in some countries which had very rich labour markets, - these jobs disappeared with the crisis. They were the first jobs to disappear. In the early 2000s some countries facing very rich labour markets created or passed legislation which allowed the new entrants in the labour markets only if they were based on labour contracts which were very, very flexible with respect to the ones that were already in the market, the already employed.

This way, between 2000, 2006 millions of jobs were created in some of these countries and by 2008 most of these jobs had gone; it's simply the crisis destroyed all of them. By the way, the flexibility that was introduced with these contracts fell disproportionately on the young sectors of the working population. So I think this has been well understood by everybody and I think all reforms or labour markets should aim at decreasing or eliminating this dualism.

**Question: My first question is on inflation beyond 2019. You will only publish a projection for 2020 in December. But given the time lag of monetary policy and given that medium term in your definition of price stability does not necessarily mean two years, I guess you already had a discussion also or views today on how inflation will evolve after 2019. So maybe you can give us a first insight; what is your expectation for 2020? Will it be higher than the 1.5%?**

**The other one is, the Fed is widely expected to make an announcement on the balance sheet reduction at its next meeting. How would this influence your decision on recalibration of monetary policy? For example do you see a risk that if the Fed reduces its balance sheet in 2018 and you try to recalibrate and maybe taper your QE programme that there will be sharp increase in the longer-term yields?**

Draghi: With respect to the second question, our mandate is defined on the basis of our jurisdiction. So what other jurisdictions, especially large jurisdictions, do is certainly part of our information set, but in a sense doesn't affect our monetary policy strategies other as a source of information. Also we have to see what this will imply for interest rates, what this will imply for financing conditions in general. They, if anything, may be part of our information set that defines our monetary policy. So I would be sort of cautious about imagining that we coordinate our actions, that we place strategic games in between us.

My expectation of course in 2020, our inflation rate will converge to our objective, but we didn't discuss it today.

**Question: You mentioned that there was a discussion about whether the currency volatility is due to exogenous factors or internal factors. I wonder if you could maybe just give us a little flavour of that discussion, if there was any consensus on how much is temporary geopolitical factors and how much might be sort of permanent eurozone fundamentals.**

**You said that most of the decisions will probably be taken in October; I'm paraphrasing you. That suggests that you have in your head a certain set of decisions that have to be made and I wonder if you can just give us a little bit of detail on what those decision are.**

Draghi: In answering your question, based on the conversation we had, I said that what was discussed was a set of different scenarios. We discussed the length of the programme. We discussed the size of the programme or better, we discussed the trade-offs between different possibilities about length and size and the pros and cons of different scenarios and the transmission channels of that. That is what we discussed today.

We had a staff projection here that basically revised downward the inflation rate by some amount based on the appreciation of the euro. Now, when the exchange rate changes and the change is purely exogenous, you have a pass-through on inflation, which is – I think it was 0.5%, something like – I gave this number a time ago. It's actually published in a paper by the ECB. When the change in the exchange rate is not entirely due to exogenous factors, the pass-through is lower. Now, the sense of the discussion we had is that there were differing views about what is the intensity, how much is exogenous, how much is endogenous? How much is going to be persistent

or not? But there was a general, as I read in the introductory statement, concern that the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring with regard to its possible implications for the medium-term outlook of price stability.

Also consider another factor to this; that in judging the medium-term impact of a certain change in one of the financing conditions variables – and the exchange rate is indeed one important one – one also takes into account the credibility of our monetary policy. That is also a factor that plays a role and as I said before, the Governing Council is firmly committed to this monetary policy.

**Question: Do you have any information on negative side-effects of the quantitative easing programme yet that you can tell us?**

Draghi: The negative side effects of the quantitative easing programme I don't have. It's not that I don't have any information; we don't see negative effects of this programme. We've discussed several times the potential side effects. But they are vastly overwhelmed, offset by the positive effects so the answer is no. Of course the negative interest rate is a different thing; it's not the QE. There, there are obviously side effects to the negative interest rates; we've discussed them many times. But again they are vastly offset by the continuing increasing evidence of the effectiveness that negative interest rates are having on – and the positive effects that negative interest rates are having on growth and therefore on the recovery and therefore on price stability in the medium term.