

Introductory statement to the press conference (with Q&A)

**Mario Draghi, President of the ECB,
Vítor Constâncio, Vice-President of the ECB**

Frankfurt am Main, 21 January 2016

Ladies and gentlemen, first of all let me wish you a Happy New Year. 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, which was also attended by the Commission Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, and after the recalibration of our monetary policy measures last month, we decided to keep the **key ECB interest rates** unchanged and we expect them to remain at present or lower levels for an extended period of time. Regarding our **non-standard monetary policy measures**, the asset purchases are proceeding smoothly and continue to have a favourable impact on the cost and availability of credit for firms and households.

Taking stock of the evidence available at the beginning of 2016, it is clear that the monetary policy measures that we have adopted since mid-2014 are working. As a result, developments in the real economy, credit provision and financing conditions have improved and have strengthened the euro area's resilience to recent global economic shocks. The decisions taken in early December to extend our monthly net asset purchases of €60 billion to at least the end of March 2017, and to reinvest the principal payments on maturing securities for as long as necessary, were fully appropriate. They will result in a significant addition of liquidity to the banking system and will strengthen our forward guidance on interest rates.

Yet, as we start the new year, downside risks have increased again amid heightened uncertainty about emerging market economies' growth prospects, volatility in financial and commodity markets, and geopolitical risks. In this environment, euro area inflation dynamics also continue to be weaker than expected. It will therefore be necessary to review and possibly reconsider our monetary policy stance at our next meeting in early March, when the new staff macroeconomic projections become available which will also cover the year 2018. In the meantime, work will be carried out to ensure that all the technical conditions are in place to make the full range of policy options available for implementation, if needed.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP growth was confirmed at 0.3%, quarter on quarter, in the third quarter of 2015, supported mainly by private consumption, while being dampened by a negative contribution from net exports. The most recent survey indicators, available up to December, point to ongoing real GDP growth momentum in the fourth quarter of last year. Looking ahead, we expect the economic recovery to proceed. Domestic demand should be further supported by our monetary policy measures and their

favourable impact on financial conditions, as well as by the earlier progress made with fiscal consolidation and structural reforms. Moreover, the renewed fall in oil prices should provide additional support for households' real disposable income and corporate profitability and, therefore, for private consumption and investment. In addition, the fiscal stance in the euro area is becoming slightly expansionary, reflecting in particular measures in support of refugees. However, the economic recovery in the euro area continues to be dampened by subdued growth prospects in emerging markets, volatile financial markets, the necessary balance sheet adjustments in a number of sectors and the sluggish pace of implementation of structural reforms.

The risks to the euro area growth outlook remain on the downside and relate in particular to the heightened uncertainties regarding developments in the global economy, as well as to broader geopolitical risks. These risks have the potential to weigh on global growth and foreign demand for euro area exports and on confidence more widely.

Euro area annual HICP inflation was 0.2% in December 2015, compared with 0.1% in November. The December outcome was lower than expected, mainly reflecting the renewed sharp decline in oil prices, as well as lower food price and services price inflation. On the basis of current oil futures prices, which are well below the level observed a few weeks ago, the expected path of annual HICP inflation in 2016 is now significantly lower compared with the outlook in early December. Inflation rates are currently expected to remain at very low or negative levels in the coming months and to pick up only later in 2016. Thereafter, supported by our monetary policy measures and the expected economic recovery, inflation rates should continue to recover, but risks of second-round effects should be monitored closely. A more comprehensive picture of the impact of oil prices and other external and domestic factors on the outlook for HICP inflation will become available in the March 2016 ECB staff macroeconomic projections, which will also cover the year 2018.

Turning to the **monetary analysis**, recent data confirm solid growth in broad money (M3), with the annual rate of growth of M3 standing at 5.1% in November 2015, after 5.3% in October. Annual growth in M3 continues to be mainly supported by its most liquid components, with the narrow monetary aggregate M1 growing at an annual rate of 11.2% in November, after 11.8% in October.

Loan dynamics continued the path of gradual recovery observed since the beginning of 2014. The annual rate of change of loans to non-financial corporations (adjusted for loan sales and securitisation) increased to 0.9% in November 2015, up from 0.6% in October. Developments in loans to enterprises continue to reflect the lagged relationship with the business cycle, credit risk and the ongoing adjustment of financial and non-financial sector balance sheets. The annual growth rate of loans to households (adjusted for loan sales and securitisation) increased to 1.4% in November, compared with 1.2% in October.

The bank lending survey for the euro area for the fourth quarter of 2015 points to further improvements in demand for bank loans, supported by the low level of interest rates, financing needs for investment purposes and housing market prospects. Credit standards eased further on loans to enterprises, notably owing to increasing competitive pressures in retail banking, and

reverted to a net easing on loans to households for house purchase. Overall, the monetary policy measures in place since June 2014 have clearly improved borrowing conditions for both firms and households, as well as 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 effectiveness of the monetary policy measures in place and the need to review and possibly reconsider our monetary policy stance at our next meeting in early March in order to secure a return of inflation rates towards levels below, but close to, 2%.

Monetary policy is focused on maintaining price stability over the medium term and its accommodative stance supports economic activity. However, in order to reap the full benefits from our monetary policy measures, other policy areas must contribute decisively. Given continued high structural unemployment and low potential output growth in the euro area, the ongoing cyclical recovery should be supported by effective **structural policies**. In particular, actions to improve the business environment, including the provision of an adequate public infrastructure, are vital to increase productive investment, boost job creation and raise productivity. The swift and effective implementation of structural reforms, in an environment of accommodative monetary policy, will not only lead to higher sustainable economic growth in the euro area but will also raise expectations of permanently higher incomes and accelerate the beneficial effects of reforms, thereby making the euro area more resilient to global shocks. **Fiscal policies** should support the economic recovery, while remaining in compliance with the fiscal rules of the European Union. Full and consistent implementation of the Stability and Growth Pact is crucial to maintain confidence in the fiscal framework. At the same time, all countries should strive for a more growth-friendly composition of fiscal policies.

We are now at your disposal for questions.

* * *

Question: You said in your opening statement that you could possibly reconsider the monetary policy stance as soon as March. What measures do you still have left, and what do you think they can do if these downside risks do materialise?

For my second question, would it be possible for you and perhaps Mr Constâncio as well to clarify the ECB's position on Novo Banco? We've heard that the ECB wasn't involved in the decision at all. Would it be possible for you to confirm that? And post-1 January, now that we have a new bail-in regime in place, would you expect to be involved in decisions such as those taken by the Bank of Portugal in future?

Draghi: I will ask Mr Constâncio to answer the second question. Keep in mind, however, that we are not the resolution authority in this. I think that's an important point to keep in mind. As far as your first question is concerned, let me just recall my speech in New York, which was actually quoted during our discussion today, saying that, first of all, we have the power, the willingness and

the determination to act. There are no limits to how far we are willing to deploy our instruments within our mandate to achieve our objective of a rate of inflation which is below but close to 2%.

So there shouldn't be any doubt about that, and we have plenty of instruments, as you know. We didn't want to discuss today the specifics of the instruments, but rather to determine and assess the stance that we may have to take in March. Here I'll read again these quite important words: "It will therefore be necessary to review and possibly reconsider our monetary policy stance at our next meeting in early March, when the new projections will become available."

Constâncio: We have already communicated that the ECB had no interference in the decisions regarding Novo Banco, regarding in particular what you asked about the bail-in application. From now on also there is a single resolution authority in Europe, the BRRD, and the rules about bail-in will be applied by that resolution authority, and also if we are talking about smaller banks by the national resolution authorities that exist in all countries. So it's not for the ECB/SSM to implement the rules about bail-in.

Question: You commented at the meeting last month that the monetary policy stance was adequate; now six weeks later you're saying that you want to review it again. What does that say? Is there a sense that that harms the credibility of the ECB, that you have to act again so swiftly?

And my second question is, after these multiple stimulus programmes – QE and deposit rate and so on – inflation is still almost zero; you think it's going to fall below zero. Is there a sense that central banks don't have as much control over inflation as they used to?

Draghi: First let me say that our monetary policy measures that we've undertaken since mid-2014 have been quite effective. If you look at the pass-through of our measures to the lending rates – the borrowing and lending rates, the financing costs, the improvement in all financial conditions, and how these improvements are now being translated into real economic improvements, I think the pass-through has been quite significant if not spectacular. The measures we decided in December were entirely appropriate and have been effective, but they were entirely appropriate based on the circumstances that were prevailing at that time.

The circumstances were basically – we look at several variables, but certainly we've looked, as I think I've said in the last press conference, at the exchange rate in effective terms; we looked at the price of oil; we looked at the growth prospects of emerging market economies. Since then, these circumstances have changed. Just think about it: the price of oil has fallen by 40% since the cut-off date of the last projections. The same thing we can say about the exchange rate in effective terms. And you can observe the situation of the markets, both financial and commodity markets, and the geopolitical developments since then.

Those measures, by the way, in December, were quite significant. If one goes back, our extension of the APP and the decision to reinvest is going to add €680 billion to the liquidity, and it's an

amount – I don't think people have reflected enough – it's an amount that's about two-thirds of the original size of the programme. So now these conditions have worsened, and I think, to respond to your question, the credibility of the ECB would be harmed if we were not ready to review and possibly reconsider our monetary policy stance when we have full information. As I said before, the Governing Council reiterates that it has the power, the willingness, the determination to act, and the fact that there are no limits to our action, within our mandate, of course. Let me also add one other thing that's maybe relevant in view of the impression: the Governing Council was unanimous in being committed to this line of communication.

There was another question, about the power of central banks to control inflation. I think that's a very important question. It's pretty clear that we are adapting our instruments to the changing conditions, and the conditions change because some global factors are at play, and we are doing whatever is necessary to comply with our mandate, and we are not surrendering in front of these global factors, actions. So we will confirm our determination to continue to comply with our mandate, which is to reach a level of inflation that is below but close to 2%, even – and actually even more so – in the face of adverse developments.

Question: You have said that there are no limits within your mandate to what you can do. I would like to ask you, if you could clarify a bit how this extends the potential scope of your action. Would this mean that you could extend purchases into classes of assets that are completely out of your scope, such as equities or something else? Does it mean that you could lower rates, not just the deposit rate but also the main rate?

And another question is on the refugee issue in Europe: are you concerned by the effects that it can have for the European Common Market and for the European recovery, from the border closures, possibly, and of the Schengen system?

Draghi: I can only reiterate that there are no limits, and in some sense you should see the reference to the technical work: "In the meantime, work will be carried out to ensure that all the technical conditions are in place to make the full range of policy options available for implementation, if needed." Just to make sure that if we are to decide about a specific policy instrument, we want to be absolutely confident that there are no technical limits to the size of its deployment.

On the refugees, I think I've commented on this in the past: the refugees are an extraordinary development which is changing, will be changing, the face of our society in Europe, as we know today. But it's entirely – well, it's not entirely in our hands; it's also in our hands, the opportunity, the capacity, the ability, the might to transform this development into an opportunity for future growth of Europe.

Question: You referred in the opening statement to the financial turmoil, and also yesterday the biggest bank in Germany reported its biggest loss ever. Are you concerned at all about the banking system or about financial stability in light of what's happening in the world?

Draghi: The answer as far as our monetary policy is concerned, if these market developments and this heightened volatility in financial and commodity markets were to persist longer than in the short run, it may well become a factor in unwanted tightening of the financing conditions, and therefore that's one of the reasons why, as I read before, we will review and possibly reconsider our monetary policy stance in March. We are constantly monitoring markets and generally the financial sector, the banking sector, trying to see whether our monetary policies – I should say not only the ECB's monetary policy, but all the major central banks' monetary policies – could become a source of financial instability. And so far we have not seen signs of potential financial instability of the like we've seen in the pre-crisis times.

Obviously our mandate is a mandate to reach price stability, and it's not exactly a mandate to protect banks' profitability, or for this matter insurance companies' profitability. But of course we are aware of the consequences of this, and the best answer to these concerns is to make sure that the overall economy returns to growth, to sustainable growth, with price stability, and that's the best answer for the stability of the financial and the banking sector as well.

Question: One of the constraints on your purchases is of a political nature rather than technical, and that is the capital key. Now, could that constraint also be relaxed, or would that generate a political problem?

My second question relates to banks once again. We've seen turmoil in financial markets: have you spotted any sign, or at least the potential for any stress when it comes to depositors' and investors' confidence in the banking sector?

Draghi: The first question is really, we never addressed that. We've designed our programme according to certain parameters; so far our programme is proceeding smoothly. If there were constraints of any kind, as I said, we'll have technical work making sure that we can use all the instruments up to their full availability.

On the second point, the best answer to these recent developments in financial markets is to make sure that the banking sector is resilient, and I'm confident – actually it's more than confidence; it's a factual statement – that all the actions that have been undertaken, both in Europe and as well elsewhere in the world, have actually produced a much stronger banking sector than it was before the crisis. In a sense – but one should be very cautious here about not being too self-complimentary – but certainly the gyrations that we are observing in financial and commodity markets, on other occasions, in other times, would have severely tested the resilience of the banking and the financial sectors at that time, and so far we've seen actually that they stand pretty resilient.

Question: I have two questions referring to risks. Only two risks, because I have two questions, but there are a lot more. First, China: there is a kind of lack of visibility at this time, how the Chinese government will deal with the question of the “soft landing” of the economy which could turn to a “hard landing”. There is a risk, so that makes a lot of people

nervous. I wanted to hear from you how this topic was discussed today, because I read in the minutes from the former meeting, if I understand, that China's risk was more understated.

The second question refers to refugees, but from the German perspective. Here Chancellor Merkel is taking a big risk with her policy, and that leads to a lot of criticism inside her party. If the situation worsens, some people guess that she could maybe leave the Chancellery. So my question is, how do you assess, or was it a discussion, this domestic policy crisis in Germany regarding the question of refugees?

Draghi: On the first question, first of all let me make clear that the reference to China in the accounts of our meetings last time ought to be read for what it is, namely the accounts reflect the opinions of some participants in the discussion. Now coming to the substance of your question, there have been at least three main developments in recent weeks in China. The first was a PMI which was weaker than expected; the second was the overall situation in the forex market; and the third was the situation in the stock market. All this generated sizeable capital outflows.

So we are carefully monitoring these developments, and so far all the economic indicators show that there is a gradual deceleration, by and large in line with our expectations. The outlook, however, for the euro area following these developments has been, as I was saying before, revised downward, and the effect of these developments on the commodity markets is quite visible. There has been a renewed decline since mid-October, with both oil price and commodity prices having reached lows by, especially, around the end of 2015 and now.

So as far as oil prices are concerned, we have both supply and demand factors. Clearly what's happening in China is contributing to the demand side of this development. Let me, however, give you a line which has surfaced in the discussion: "What are we going to expect?" And it was recalled that the Chinese authorities have a reputation for acting responsibly, and what they have done in, I would say, the last two weeks, shows that they are gaining control over their policy-making.

On the refugees, the nature of your question is certainly important, but there is very little I can do about how the refugee issue is being viewed in one specific country. I can only give general impressions of how we view the whole phenomenon, which, as I said, is an important structural, socio-political change, but also it could become an opportunity.

Question: I'd like to pose a question on the oil price. Wouldn't it be better to more or less ignore the impact of the lower oil price on inflation? History shows that oil prices go up and go down, and they will go up again: that's for sure, I guess. So why not just be patient and wait for the oil price to rise and then get the higher inflation rate as a free lunch, maybe? Well, it would be a perfect world like this, but why is it so important to look at the oil price?

Draghi: Let me refer to what we are looking at when we have these dramatic movements in oil price, but also other commodity prices. We look at basically three factors. The first is the persistence of these changes. It's quite clear that if it were to be a short-term effect, as you seem to

hint at, we would look through. But that's not been our experience over the last two years, at least. We look at the materiality, namely the size, and when you look at that, as I said before, since the cut-off of the last projections in December, oil prices fell by 40%. And we look – and that's also very important for us – we look at second-round effects, namely whether low oil prices and low commodity prices do feed into other prices, and then that could generate exactly what we want to avoid, namely a spiralling downward phenomenon.

So far we don't have that, but we have seen, we've got to be very vigilant about that, and even when we look at recent developments in the non-energy inflation, the so-called core inflation, we don't have many reasons to be optimistic about that. When we look at the wage development, we don't have many reasons to be optimistic about that. So we have to take seriously the fact that low oil prices, low commodity prices for a long period of time may actually have second-round effects that we definitely want to take action against.

Question: You mentioned, as an illustration, I guess, the three major factors that you take into account, namely the exchange rate development, the oil prices, and the emerging markets effect, or slow-down of emerging markets. I was just wondering if you can give us a sense of the combination of all three at the moment, given the slowdown or deflating China effect on both financial market volatility and oil prices. That's my first question.

The second question relates to the global sell-off on equity markets that creates a lot of free liquidity, and as an option of a safe haven maybe the assets that are purchased by the European Central Bank might be a target for the free money, so aren't you worried that this development, should it continue, would jeopardise the targets of the ECB?

Draghi: Well, I mentioned those three; in fact, we look at many other factors. And by the way, let me state once again that the exchange rate is not a policy target. But it's pretty clear our actions have an effect on the exchange rate. I was pretty clear also about specifying that the exchange rate I'm referring to is an effective exchange rate, so it reflects the actions taken by a variety of other countries. So that, the oil prices, and the growth process in the emerging market economies were three of several factors that we look at, and we have to look at, as changing the outlook for the euro area economy, and the medium-term outlook for inflation. So that's what we are looking at, what we are monitoring, and that's why I said we will review and possibly reconsider our monetary policy stance.

Your second question is very difficult to answer. It's quite clear that we see major movements in the marketplace, and what could be the source of these movements, the causes of these movements? It's very, very difficult to assess. Whether they're going to be transient, short-term movements, or whether they're going to be persisting; whether the markets will adjust to a different level or not: these are all questions that probably market analysts are better positioned to answer.

Question: I would like to go back to the question of the stability of the financial sector. There was this wave of selling in stock markets in recent days, and especially on bank shares, and if

I may say, also, especially on Italian bank shares. You are also the supervisor of all these entities, and you've conducted a comprehensive assessment last year, then a so-called SREP, which has just concluded, I believe, and more or less given a clean bill of health to most of the banks. The markets seem to disagree completely with your assessment, as they keep selling bank shares. I wonder what your assessment is on that.

The other question is about NPLs, which is an acute problem in various banking systems, and you've just advanced a request for information about NPLs to a number of banks, I think a few dozen banks. Could you explain what is the purpose of this exercise, and if these banks are singled out for further action on top of what they had to take after the comprehensive assessment and the SREP?

Draghi: That's a good question, because it allows me to clarify what is a significantly confused perception. I think there are very good reasons for returning to normality. First, let me make a series of statements. First of all, the NPLs we talk about were fully identified and assessed by the comprehensive assessment. So there's nothing new here. Second, the provisioning against these NPLs was fully determined by the comprehensive assessment, which means that no new unexpected provisioning, nor new unexpected requests for more capital will be made by the supervisor. Specifically on Italy, the overall reading is that Italian banks have on average a level of provisions similar to what is prevailing in the euro area, and have also a fairly high level of guarantees and collateral.

Fourth, or fifth, point: the SSM, the European supervisor – I'm commenting on these things, but we should be aware we have a separation principle, so before preparing this answer I widely consulted with the chairman of the SSM, Madame Nouy. Fourth, or fifth: the European supervisor, the SSM, is fully aware that to deal effectively with the NPLs, it takes years. It's not something which can be urged and resolved in a very short period of time. A good example is what's happening in Ireland, which is one of the most successful countries as far as recovery is concerned, and regaining market access, and they're dealing with the NPLs gradually.

And we come to the questionnaire that was sent by the SSM: it was sent to several banks in the euro area. It was not sent only to the Italian banks. What is this questionnaire? It's an inquiry on how the banks are doing, are managing their NPLs. In other words, it is an inquiry on the governance of the NPL process management. What's the purpose of this questionnaire, of this inquiry? It's to look at different national practices, with a view, finally, in due time, to get one best practice. Nothing more. It's not an initiative that would push the banks to deal with the NPLs urgently, and as I said, we know very well that it takes a long time. I think I've answered all your questions.

Question: What about the discrepancy between your view as supervisor and the market?

There is no discrepancy. The market behaviour with respect to banks depends on the confusion that was originated by the account of what this questionnaire was and what's going to happen, and of course all the discussions about the bad bank, and different valuations – you know about that as

well, of course. When we value NPLs, we have to be aware that a single number doesn't mean anything. There are NPLs vis-à-vis corporates; there are NPLs vis-à-vis SMEs. There are NPLs of different kinds, and each of them might have a number. And there are practices differing from bank to bank. So when we have a valuation of an NPL, this valuation will necessarily be affected by "What sort of NPL is this? What's the other party? And what sort of bank is actually managing this NPL?"

So the process of valuation has necessarily to be a granular process. On the other hand, if one has in mind, say, a wholesale disposal of NPLs, then one will come out with a number, with a different number. And that's what the difference is: between a wholesale valuation and a granular valuation of NPLs. So I don't think the markets are actually disagreeing with the assessment made by the SSM, but there has been a significant amount of confusion, and I hope that this exchange will help.

Question: If this inflation is becoming a mid- to long-term problem while the ECB is far from achieving its mandate, what's your message for countries like Spain, whose painful internal devaluation is less effective with this average inflation?

And the second question, if I may: you said in December that we have to rethink the fiscal stance of the euro area, and the European Commission is telling us another message, which is that it's not necessary to rethink that. You have talked in your introductory remarks of the necessity of infrastructure investment. Do you think that we need a change in fiscal policy in the eurozone?

Draghi: On the first point, I think Spain is one of the countries that has really achieved the most significant progress in its reform, and its structural reforms especially. The figures that Spain has enjoyed in terms of output, recovery, growth, and by and large all sectors, are simply remarkable. And so the country is now on its way to continue the recovery, to continue on its process of structural reforms, and it's quite clear, what you said, it's absolutely true: with very low inflation rates for a prolonged period of time, the internal revaluations become much more difficult. That's one of the reasons, by the way, why in a monetary union like ours, the objective of a rate of inflation close to but below 2% makes a lot of sense – makes even more sense in a monetary union like ours.

The second point, I don't think there is any disagreement between the Commission's view about fiscal policy and the ECB. What the ECB has insisted – obviously in its own competence, because we are not the guardian of the fiscal policy in the monetary union; that role is the Commission's – what we always said is that fiscal consolidation should be growth-friendly. Namely, based on tax cuts, current government expenditure control, and possibly public investment with a high return, and accompanied by the structural reforms which will make potential output grow.

Question: In October last year the statement said that the Governing Council would re-examine the monetary policy stance at the next meeting, and that was seen as a strong signal for further action, at the December meeting, and indeed that was the case. The statement

today is slightly different: it says it will therefore be necessary to review and possibly reconsider the stance. Is there any difference between these two sentences when it comes to substance and commitment?

The second question is on inflation expectations: how worried are you about the recent drop in inflation expectations, for example the five-year/five-year, in parallel to the oil price? Especially given the fact that in December you emphasised that the correlation between the ECB's inflation expectation measures and the recent oil price has decreased or just disappeared.

Draghi: Answering to your second question, first of all let me say that we use a variety of inflation expectation indicators, not only the five-year/five-year. But certainly all inflation expectation measures, whether it's five-year, one-year, whatever, they have declined. They have declined, and I would say, more worryingly, their correlation with current inflation has increased, and therefore their correlation with the oil price has also increased. That's why, as I was saying before, second-round effects are especially important. And as I said before, the Governing Council has the power – and this answers your first question – the power, the willingness and the determination to act. And there are no limits to how far we are willing to deploy our instruments within our mandate to achieve this objective. And this is what I said in the New York speech after the last press conference.

Question: What is your assessment of the results in the recent Spanish Parliament elections, and the current negotiations? Could they have an effect on growth in Spain?

Draghi: I'm sorry, but I'll have to abstain from making political comments. It's not in our mandate.

Question: Before the 3 December meetings the markets got a little bit ahead of themselves based on statements on 22 October. Is that a risk or a concern now? And what, if any, caution would you offer so that people don't get a little overheated ahead of the March meeting?

Draghi: That's a good question. They're all good questions. Let me say that our communication – well, you probably notice that as far as I myself am concerned, I abstain from making comments about markets, abstain from blaming markets, as such. And why is that so? Because communication is a two-way affair. So it's very hard to put the blame of some disappointment on one side only. That's what I want to say. In substance, I think the Governing Council is open to use all the necessary instruments to cope with a situation which is materially different from what it was in the beginning of December.

Question: You're making very bold claims that the ECB is ready to act in its next, March meeting. The last minutes have shown that the Governing Council seems to be divided and was kind of pulled down by its more conservative members. My first question would be, how confident are you that you can pull together a majority for further easing measures?

I have a second question about the target of the ECB, the 2% target. The ex-Chief Economist of the ECB, Mr Issing, is proposing today in *Börsen-Zeitung* that the target should be achieved in the long run and not in the medium run, because it harms the credibility of the ECB to fail to reach this target. What do you think of this proposition?

Draghi: First question, let me disagree with your reading of the minutes. They don't show such divisions as you've hinted. Let me restate that this line of communication today was unanimous. And finally to your more specific question, "How do you think you can put together a majority for taking monetary policy decisions?" Well, that's what we've done over the last four years, on and on and on. So one shouldn't have any doubt that the Governing Council in its collective wisdom not only has the power, the willingness and the determination, but also the cohesion that's necessary to take the actions that are needed.

The second point, about the objective of inflation: first of all, it's remarkable that at a time when you have people suggesting that we should revise the inflation objective to something lower than 2% – by the way, incidentally, you also have people who are saying that we should strive to have an inflation rate above 2% as well, so the camps are divided – Professor Issing confirmed the validity of the objective of an inflation rate below but close to 2% as the Governing Council definition of price stability. He also confirmed the validity of taking not the core inflation but the HICP inflation as its objective. The horizon over which this objective is going to be reached is the argument of his interview.

Here the view of the Governing Council is that we should absolutely reject any suggestion that we may do less than what's necessary to achieve the objective of the inflation rate of below but close to 2% without undue delay. In other words, the Governing Council is firm in assessing the necessity of reaching this objective without undue delay, namely to deploy all the instruments that are necessary to achieve this objective without hesitation; and mind, it's an objective in the medium term. So there is substantial agreement on this point. On the other hand, we have to understand each other what "medium term" means, how long it is.

So the stance of the Governing Council and the ECB is the following: there are global developments; sometimes they're adverse – very often, recently, they're adverse – to us reaching this objective. Is this a good reason to give up? No, it's not a good reason to give up. How do you give up? Either accepting a lower objective, which we don't do; or saying that this objective will be reached in a certain very large number of years, and we don't do that either. We don't give up.