

# Mario Draghi, President of the ECB, Luis de Guindos, Vice-President of the ECB,

Riga, 14 June 2018

## INTRODUCTORY STATEMENT

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. I would like to thank Deputy Governor Razmusa for her kind hospitality and express our special gratitude to her staff for the excellent organisation of today's meeting of the Governing Council. We will now report on the outcome of our meeting.

Since the start of our asset purchase programme (APP) in January 2015, the Governing Council has made net asset purchases under the APP conditional on the extent of progress towards a sustained adjustment in the path of inflation to levels below, but close to, 2% in the medium term. Today, the Governing Council undertook a careful review of the progress made, also taking into account the latest Eurosystem staff macroeconomic projections, measures of price and wage pressures, and uncertainties surrounding the inflation outlook.

As a result of this assessment, the Governing Council concluded that progress towards a sustained adjustment in inflation has been substantial so far. With longer-term inflation expectations well anchored, the underlying strength of the euro area economy and the continuing ample degree of monetary accommodation provide grounds to be confident that the sustained convergence of inflation towards our aim will continue in the period ahead, and will be maintained even after a gradual winding-down of our net asset purchases.

Accordingly, the Governing Council today made the following decisions:

First, as regards **non-standard monetary policy measures**, we will continue to make net purchases under the APP at the current monthly pace of €30 billion until the end of September 2018. We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and then end net purchases.

Second, we intend to maintain our policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Third, we decided to keep the **key ECB interest rates** unchanged and we expect them to remain at their present levels at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path.

Today's monetary policy decisions maintain the current ample degree of monetary accommodation that will ensure the continued sustained convergence of inflation towards levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This support will continue to be provided by the net asset purchases until the end of the year, by the sizeable stock of acquired assets and the associated reinvestments, and by our enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Quarterly real GDP growth moderated to 0.4% in the first quarter of 2018, following growth of 0.7% in the previous quarters. This moderation reflects a pull-back from the very high levels of growth in 2017, compounded by an increase in uncertainty and some temporary and supply-side factors at both the domestic and the global level, as well as weaker impetus from external trade. The latest economic indicators and survey results are weaker, but remain consistent with ongoing solid and broad-based economic growth. Our monetary policy measures, which have facilitated the deleveraging process, continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by growing household wealth. Business investment is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the broad-based expansion in global demand is expected to continue, thus providing impetus to euro area exports.

This assessment is broadly reflected in the June 2018 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 2.1% in 2018, 1.9% in 2019 and 1.7% in 2020. Compared with the March 2018 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised down for 2018 and remains unchanged for 2019 and 2020.

The risks surrounding the euro area growth outlook remain broadly balanced. Nevertheless, uncertainties related to global factors, including the threat of increased protectionism, have become more prominent. Moreover, the risk of persistent heightened financial market volatility warrants monitoring.

According to Eurostat's flash estimate, euro area annual HICP inflation increased to 1.9% in May 2018, from 1.2% in April. This reflected higher contributions from energy, food and services price inflation. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around the current level for the remainder of the year. While measures of underlying inflation remain generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening amid high levels of capacity utilisation, tightening labour markets and rising wages. Uncertainty around the inflation outlook is receding. Looking ahead, underlying inflation is expected to pick up towards the end of the year and thereafter to increase gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

This assessment is also broadly reflected in the June 2018 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2018, 2019 and 2020. Compared with the March 2018 ECB staff macroeconomic projections, the outlook for headline HICP inflation has been revised up notably for 2018 and 2019, mainly reflecting higher oil prices.

Turning to the **monetary analysis**, broad money (M3) growth stood at 3.9% in April 2018, after 3.7% in March and 4.3% in February. While the slower momentum in M3 dynamics over recent months mainly reflects the reduction in the monthly net asset purchases since the beginning of the year, M3 growth continues to be supported by the impact of the ECB's monetary policy measures and the low opportunity cost of holding the most liquid deposits. Accordingly, the narrow monetary aggregate M1 remained the main contributor to broad money growth, although its annual growth rate has receded in recent months from the high rates previously observed.

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 stood at 3.3% in April 2018, unchanged from the previous month, and the annual growth rate of loans to households also remained stable, at 2.9%.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households and credit flows across the euro area. This is also reflected in the results of the latest Survey on the Access to Finance of Enterprises in the euro area, which indicates that small and medium-sized enterprises in particular benefited from improved access to financing.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that today's monetary policy decisions will ensure the ample degree of monetary accommodation necessary for the continued sustained convergence of inflation towards levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped

up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the ongoing broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. 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 imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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*[Christine Graeff: Before we start with the Q&A, let me thank Zoja Razmusa, who is with us today as representative of the hosting central bank. Ms Razmusa will be taking questions on Latvia in general but will not answer questions on the Governing Council discussions on monetary policy, as she's not a member of the Governing Council. Let me also clarify that we will not comment on the situation around the governor of Latvijas Banka, as this case is pending in front of the European Court of Justice and the ECB never comments on pending cases. With that, I hand over the first question to Mr Speciale.]*

**Mr President, two questions: your statement says that you will expect to keep rates on hold through summer 2019. Does it mean that you expect to be able to raise rates once during your term and - or - more than once?**

**The second question is: in the statement as well you mentioned incoming data as one of the conditions that should confirm the current outlook. Could you describe the assessment of the risks surrounding the economic and political situation in Italy and how that may impact your economic outlook?**

Draghi: Well, frankly, we didn't discuss if we want to raise rates. We said at least through the summer – let me re-read this because it's quite important. I'll come back if I have the opportunity later. We keep them unchanged and we expect them to remain at their present levels at least, at least through the summer of 2019 and in any case for as long as necessary. You see, in a sense this and the other question you asked about “subject to incoming data,” it really tells something about the environment in which we took this decision when news are still good, but they're not as good as they were a quarter ago, but are still solid. We see increasing uncertainty. I think I've said that. The quarterly real GDP growth moderated to 0.4%, so 0.4% is less than 0.7% but it's still high growth.

Then we go through the various causes of this moderation. Basically, it's a pullback from the very high levels of growth in 2017, mostly justified by an extraordinary pickup in exports, which is unlikely to repeat itself now, compounded by an increase – an undeniable increase in uncertainty -

and for a variety of reasons really, mostly geopolitical reasons, and some temporary and supply-side factors at both the domestic and the global level as well as weaker impetus from external trade. The assessment that the Governing Council gave of the current economic environment, of the underlying strength of the economy, while being overall appropriate for achieving the decisions that were taken today, doesn't want to underplay the existing risks.

By the way, we may well have this soft patch being somewhat longer than it is in the staff projections. In some countries, for example, it is foreseen that it may extend into the second quarter, but this at the same time doesn't tell that the underlying strength isn't changed. The underlying strength of the economy in the medium term is what we assess to be adequate.

As far as whether a specific risk may have an impact, we've seen some volatility, then it has receded. At this point in time, we have a variety of reasons – this is just one of them – which we felt is less than it was two weeks ago.

**You've given a date for when you expect the first rate hike to be, but we have no real idea yet about what happens after that. You've also said it's more of an expectation than an intention to leave rates on hold. Do you anticipate, or was there indeed any discussion, about giving stronger guidance on rates or moving to some sort of Riksbank-style model where you offer investors a conditional path for rate hikes?**

**My second question: you've emphasised in the opening statement and also in some of your remarks to Mr Speciale's question that the incoming data hasn't been so good and that the threats to the outlook are on the rise. Yet you still say that the risks to the outlook are broadly balanced, so that's somewhat surprising I think to a lot of economists out there. What exactly are the upside risks? What would it take to have a revision of that to emphasise that the balance is now shifted towards the downside?**

Draghi: Well, to say that we anticipate – because that's what we say – a series of actions, means that based on the current assessment, we are taking these actions. So we have this forward guidance on interest rates which is both state and date dependent. This in a sense shows the environment, as I said responding to the first question, in which these decisions were taken. We've taken these decisions knowing that the economy is in a better situation with an increase in uncertainty and at the same time, probably because of information that came after the cut-off date, probably in some countries this soft patch, as I said before, will continue in Q2 while the projections have revised Q1, but have kept unchanged the Q2, Q3 and Q4 for this year.

Having said that, basically the Governing Council judged the progress towards a sustained adjustment of the inflation rate towards our aim to be consistent with our objective. I think this is the main thing. Now, about risks. By and large, the situation is overall similar and in fact you will notice that they still remain broadly balanced. At some point, we say that so far, because we have an unquestionable increase in the geopolitical global uncertainty, we may also have some increase in the – but less so – in the domestic uncertainty. At the same time, we expect positive surprises. This

is as far as growth is concerned. On inflation it's by and large unchanged. On growth we are going to have positive surprises from the fiscal expansion in the United States and very likely fiscal expansions, but this is more medium term, in the eurozone, in several countries in the eurozone. That's the balance of risk, I'd say.

**Let me start on the reinvestments: is there any more guidance, how long those reinvestments will continue, and also whether they are tied to the interest rate hike; meaning will reinvestments have to start before you start hiking rates?**

**Then one more general question on how the discussions went. It strikes me what we heard from you today is a balance or a compromise between doves and hawks. You keep your flexibility but at the same time we have an end date, we have a phasing out. How did those discussions go?**

Draghi: Well, we didn't discuss the reinvestment policies you have noted; we will discuss it in the future meetings. At this point in time, we believe there was enough to communicate for just one meeting and we will cope with this later on.

Let me just respond to your second question, so we went through a pretty extensive discussion on the existing environment, on the economic scenario now. Then we went through the assessment of SAPI [sustained adjustment in the path of inflation]. We went through whether it's convergent, so we went through what's convergence. There we looked at projections and we compared projections across time and projections with other sources of what is inflation. By and large, these projections over time and compared with other sources showed a remarkable improvement with respect to not long ago. Then we went through the examination of confidence, whether we can call ourselves confident about this. Again we looked at expectations, both market based and the SPF, the ECB Survey of Professional Forecasters. Again we saw that we can declare ourselves confident.

Finally, we went through the assessment of resilience; in other words, is it a durable convergence, self-sustained convergence? The answer to that was positive as well and I think the market reaction to our announcement shows that it is a self-sustained convergence. For two reasons, given the present economic situation, but also we always have to remember that the continuing convergence is conditional on interest rates remaining; on reinvestment for an extended period of time; on all the other decisions we have taken. The general character of the decisions was – basically remains - to be patient, to be prudent and to be persistent. This was unanimously confirmed, so the decision was a unanimous one.

Now, let me draw more carefully your attention of what unanimity means in this decision, in this context of the decision. First of all, on forward guidance: the decision was unanimous about its date and state dependency. You will see that all throughout there is a desire to maintain optionality in each and every part of this decision. In the state, in the case of interest rates, we say at least through the summer. I will point out the various parts where optionality comes in.

Second point about reinvestment; there is unanimity about the extended period of time. The intent there, as you see in the IS [Introductory Statement] is to avoid any sort of tightening of the excess liquidity conditions. Then let's look at the various parts where optionality comes in. First of all, you have, as I said before, at least in other words, "We decided to keep the key ECB interest rates unchanged. We expect them to remain at their present levels at least through the summer of 2019 and in any case, for as long as necessary." The second point where optionality comes in is at the end of the paragraph that says, "In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim." Here it comes, the other part of the option, "in a sustained manner."

The third part where it comes in is when we say that we anticipate that after September 2018, it's subject to incoming data, confirming our medium-term inflation outlook. We will reduce the monthly pace of et cetera, net asset purchases. The other point is where unanimity is also quite an important thing. It basically was an agreement that APP is not disappearing; it remains part of the toolbox. It's a new instrument of monetary policy that will be used for contingencies that we don't see now, and that's what we anticipate. But it remains now as a normal instrument to monetary policy. The fourth part that you will see coming several times in the introductory statement is when we say, "Today's monetary policy decisions maintain the current ample degree of monetary accommodation that will accompany the continuing recovery." That's basically an account of the discussion we had. As you correctly pointed out, the fact that it's been a unanimous conclusion gives special strength to this – to today's monetary policy meeting.

**I have a question on monetary policy; what other tapering options did you discuss in terms of size, base, composition and end date? Was there any other policy option discussed today?**

**Let me allow to, divide the second question in two parts; it's regarding Latvia and the developments about the Latvian governor and the Bank of Latvia. How damaging is that for the Eurosystem's reputation to have a Governing Council member being suspected of bribery?**

**The second part of the question is, the ECB's lawyers said in court, Mr Rimsevics should have his powers reinstated, including other monetary policy and banking supervision excluding Latvia. What are the risks associated with sharing market-sensitive information with a person being suspected of bribery?**

Draghi: Now, of course the second question I will not answer given what's been said at the beginning; that I am not taking questions on a court case that's pending. Let me just tell you about the second question; the ECB isn't taking any side in this. The ECB wants just to be assured by the European Court of Justice about the measures that are needed for the ECB Governing Council to function properly.

On the first question, tapering: we haven't really discussed policy options because this meeting has been in a sense thoroughly prepared through very good and intense work by the committees of the

national central banks and the ECB. When we reached this decision time, we were all quite well prepared. We could easily converge on a set of decisions that, as I said, had unanimity.

**My first question would be on what you mentioned on the state of volatility that we had recently. Now, the turbulence of financial markets has really stunned investors and market players for the rapid fall and the size of the fall of prices of government bonds in the euro area. I think markets were also stunned by the contagion from Italy that went up to France on the spreads. Also the start of it looked like a re-pricing of redenomination risk. I would like to know, what is your assessment? What was your assessment of what has been happening in the markets?**

**If I may go back to reinvestment: just because also in Italy there was a lot of discussion on how the ECB invests in government bonds, we are moving into a policy that will be flexible and timely. This is all we know about reinvestment. We don't know the size and we don't know the amounts. It might be one month or two months and we don't know whether you are going to reinvest on the same maturity that the bonds have had. I know you didn't discuss, but maybe something more.**

Draghi: Now, on your first point, yes, we've seen a significant rise in sovereign yields on the back of political uncertainty around the end of May. Those yields are currently at more elevated levels compared to our last meeting in April, but not as elevated as they were in the immediate aftermath of these events. We haven't seen really any redenomination of risk. Contagion was not significant, if any, if at all, so it was a pretty local episode and so we haven't seen the redenomination risk. There was a discussion, if we go back in 2011 and '12, about redenomination risk but the situation was entirely different. That's quite important to remember; it was a situation that was actually attacking, was a lack of confidence attacking several countries at once. Financial market tensions at that time were much more extreme in scale and in scope.

Also at that time, the institutional framework of the euro was not as developed as it is today. Now we have several new safeguards against redenomination risk, so I don't think this discussion was meaningful today. We certainly monitor financial market developments carefully, but so far we haven't seen contagion, really.

Now on reinvestment: we haven't decided yet but it says something that we said there is unanimity about the definition of extended period of time. Certainly there is the collective intention of the Governing Council members to avoid any tightening of excess liquidity conditions or any unwanted tightening of monetary and financing conditions that may spur from the reinvestment. Then we will discuss this in time; markets have their own expectations as well, they have expectations about interest rates and so, we look at that as well. So far, I wouldn't want to say anything more than that because we, frankly, didn't discuss that other than in the terms that I mentioned to you.

Now, let me just say one thing about the sovereign re-pricing, the sharp re-pricing in sovereign bonds we had some time ago. Just let me say first of all we shouldn't dramatize changes of policies

too much. We have 19 countries; we are bound to have 19 elections every now and then. It may well be that different views from before are being expressed. What is important, however, is that these differences are going to be discussed within the existing treaties. These discussions ought to be carried out within the existing treaties even if these discussions were to contemplate changes because after all, we are talking all the time about deepening our monetary union. This discussion is happening within the existing treaties, within the existing framework.

Third point: it's important that these discussions do not destroy the progress that's been achieved after a lot of sacrifice. It's just the beginning of this progress. Some countries have been doing well for many years, but others are just starting doing well. It's important that these discussions are carried out in, with a language that doesn't destroy the progress that these countries have achieved after so much sacrifices.

Four: the euro is supported, is the currency of 340 million people and has – enjoys now - a 74% support across the citizens of the euro area. And more countries want to join the euro today. You can take your conclusions, but one conclusion is that it's irreversible because it's strong, because people want it and because it is of no benefit to anybody, to discuss the [euro's] existence.

**If I listened carefully and correctly to you over the last months or even years, I understood that there are four criteria the ECB council has set up in order to be fulfilled to end the asset purchase programme. I find it a bit difficult to see that any of these four criteria is really so fulfilled that the decisions from today can be justified. Would you please be so kind to comment in the light of these observations?**

**Secondly, you mentioned the 340 million people in the European or in the euro area. I think most of the people are really very interested to know that after these decisions, when they actually will be able to see rates at a more normal level which we're having now. Would you perhaps be so kind to dare a prognosis when we actually will see those [normal] rates?**

Draghi: Well, as I said, the answer to the second question is given by the statement that says, “The Governing Council decided to keep the key ECB interest rates unchanged and we, the Governing Council, expect them to remain at their present level at least through the summer of 2019, and in any case as long as necessary to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path.” Now, as you've seen however these policy rates being what they are, as low as they are, don't imply that what's being claimed very often: that the savers are being deprived of their income, of their interest, because savers can well invest in other assets as well and they have done so.

They don't imply that bank profitability is being affected, as people claimed two years ago, because we see that bank profitability, even insurance companies and even pension funds are actually doing better because the level of these rates was important for the recovery. All these people have actually benefited more from the recovery than they were harmed by the low level of interest rates. Overall the balance is vastly positive, as we see this.

Now, your first question relates really to the criteria for declaring that a self-sustained adjustment has been achieved. Here the Governing Council discussed whether there is enough convergence of inflation towards our objective. If we compare the measures of inflation, both headline and core inflation or underlying inflation, now, today, with the same measures, say, in 2015 or even '16, we see that the progress since then has been truly remarkable.

The second criteria, yes, it's converging, but how confident are we that this convergence will continue? Here the Governing Council went through a first of all discussion of comparing different expectation measures from different sources. The second comparing projections of inflation across time, in other words, how were we projecting the path of inflation, say, two years ago and then a year-and-a-half and then a year ago and then six months ago and then three months ago and then now? You see a progressive convergence of these projections.

Third: we look at what we define confidence intervals around these projections and we see that this confidence interval is narrowing, it's shrinking. In other words, while we were talking quite frequently about three years ago about surrounding uncertainty of our projections, now it's disappeared.

Fourth – and it's very important – the tail risks, risks of deflation, have disappeared. That's very important, because again if we go back two, three years ago we would see that there was a serious risk of, what we call de-anchoring of inflation expectations. That's why the well-anchored inflation expectations together with an economy which is, continues to be strong, make us think that we can be confident about the convergence of inflation because of the improving labour market. If we look at nominal wages for example, we can say now that it's just the data that's come out yesterday, if I'm not mistaken. It shows a 1.9% nominal wage growth compensation per employee for the whole of the eurozone on average, which means that some countries are above that and some countries are less than that, but it's pretty encouraging. That's actually always said; that that was the key variable we would look at for convergence of inflation. It appears that it's self-sustained, as you can see from today's decision and the reactions to the decision.

**Should we assume with the “through the summer” statement that that includes a September meeting, too?**

**I have another question for the Vice President: has the Executive Board distributed already your new responsibilities, such as Mr Constâncio was in charge of macroprudential policies, financial stability and research?**

Draghi: I can answer both questions because distribution of tasks is the President's responsibility. I see that this is a passionate question for many of you. No, they have not been distributed yet and so far they have been reassigned to the same board members as they were before. It's a temporary decision. Very shortly we will discuss the distribution of tasks.

The first question actually was: does it mean “through the summer,” does it mean September? Well, if it had meant September, we would've said September. As I said at the very beginning, it tells that this decision has been taken in the presence of a strong economy with increasing uncertainty.

**A quick question about our local market: As of yesterday our Latvian ABLV Bank has started the voluntary liquidation process. How close will the ECB monitor this process? What will the ECB specifically pay attention to?**

De Guindos: Well, just a recollection of the facts. First of all, the bank was declared failing or likely to fail. Secondly, in the test of public interest it was negative, so it wasn't subject to the traditional resolution procedure according to the resolution directive. The bank was put under the insolvency proceedings and this is local regulation. I think that I have to say that with respect to insolvencies and insolvency regulations that there are gaps and differences among different countries. I think that this is something that we have to make progress.

Now, the information that we have is that one of the alternatives of the Latvian law on insolvency is the possibility of self-liquidation. I think that now the authorities have given the go-ahead to this possibility and it's going on. Here perhaps the lesson that we can draw is that in order to have a level playing field, we have to make progress in terms of consistency and coherence among different countries with respect to insolvency regulation.

**You said that the euro is strong and irreversible, but still many populist parties have a big success in the country and doubting the euro, and also in Italy, which is the third-biggest country. What do you respond to these people that doubt the euro? Why do you think this political message is still very strong to put the euro in doubt?**

**My second question is about the fact that it is irreversible. There has been a discussion among German economists that ask that there should be the possibility to exit the euro. Very, very important economists like Clemens Fuest say if you have the possibility to exit the EU, why shouldn't you have the possibility to exit the euro in a better way?]**

Draghi: I think actually you asked two questions to get one answer; that it really doesn't pay at all to discuss the existence of something that's irreversible. It can only create damage and this holds true both ways, really. That's it!

**I'm sorry, I got lost with your “at least through the summer of 2019:” shall I understand you can't move the rates until the end of the summer? Or shall I understand it can be any time in the summer?**

**Regarding the reinvestments, shall we assume that you will discuss and announce details in July, or will it be too early?**

**Last question regards not Italy, but Germany. Germany seems to be on the verge of a political crisis with fights between CDU and CSU and Mrs Merkel's authority being called into**

**question in her own party. Are you worried that there may appear some political instability in the biggest euro country and that it might lead to difficulties reforming the euro area?**

Draghi: Well, the first question is really, I can only respond reading again what this means, “We expect them [key ECB interest rates] to remain at their present level at least through the summer of 2019, and in any case for as long as necessary.” Here the intention is to give a time dimension but not a precise one, for a variety of reasons. One of which is that it's both state contingent; in other words, we have to look at the general situation of the convergence process and its state. It would be very difficult to say that at the precise, at 3:00 pm of that day, of that month we've actually reached exactly the convergence that we have been aiming at in the last six years. That's what it shows, basically. As I said at the beginning, it also shows the general uncertainty that has increased over the previous weeks.

The other point, the other question was whether we discussed reinvestments in July; we haven't decided yet. We haven't decided, so we are going to discuss it in one of the future meetings. It's an important decision again. It's not a marginal one at all. As I said, we have to be very mindful of the excess liquidity conditions in the markets. It's another of our monetary policy instruments now. We have the remaining net asset purchases of this year. We have the forward guidance on interest rates and we have the reinvestments of the stock of bonds that we purchased so far. It is another important decision that we'll take in the months ahead. I can agree with you that the certainty about this last dimension is important, so we'll have to cope with this.

Now, your last question is too difficult for me or in other words, it does require a political judgement which in a sense goes out of the task of a central banker now.

**Since the last press conference, the US has imposed steel and aluminium tariffs on the European Union. The European Union is getting ready to retaliate. I wonder if you could maybe just give us a little more detail about how you see that affecting the real economy. You've mentioned uncertainty, but I wonder if you could maybe give us a little more detail.**

**Then the second question is, a number of private economists have done estimates of how much QE contributed to GDP growth in the eurozone. There was a report from UBS a couple of days ago estimating 0.75% additional GDP since QE began. I'm curious what the ECB's own estimates say about that and whether you can share those with us.**

Draghi: Well, the first question relates to what's happening on the trade front between US and, well, not only European Union, actually; it's the US and the rest of the world. In this sense, it's important to know that the projections do not contain the effects of trade measures that have not been implemented yet. They only contain the effects of the measures that have been implemented already and the direct effects of these measures are pretty limited. Of course to the extent that there is going to be a general retaliation or a further implementation of further measures, the effects can be more significant.

I think in another press conference I stressed an effect which is in a sense harder to quantify, but it's probably the most important one. It's the effect of general confidence, that a round of measures and retaliations may produce on the world economy. It's more urgent than ever that these discussions, again in a sense like other discussions I pointed out to before, are being run within the existing multilateral framework. In a sense that is as important as the nature of the measures that are being discussed because if we undermine the multilateral framework that has accompanied our existence since the war, since the Second World War onward, and has accompanied the very long prosperity that the world enjoyed since then, then we are going to create a very serious damage. We've gone through this – not we – but our ancestors have gone through this already, so no need to repeat the experience and we've seen where this has driven all of us.

Now, the estimate of the ECB as far as the effects of the various policy measures, - but mostly it's QE, of course – over the last three, if I'm not mistaken, cumulative effect over the last three years: it's 1.9% additional GDP growth, if I'm not mistaken, and 1.9% additional inflation.<sup>[1]</sup>

**A question on the rates: by pushing back the first rate hike to at the earliest during summer 2019 or maybe after, do you want to avoid the same mistake that was made in 2011 when your predecessor – at two times during that year - hiked rates. Then we know the story, how it ended.**

**The second question brings me back to Italy. What do you answer to the criticism from Italy that the ECB bought less Italian bonds, especially in May, and that this contributed to this spread tightening on Italian bonds? That was a hard criticism at that moment. Can you maybe elaborate on this? The relation was made between less bond purchases and the moment when a new anti-European government was elected in Italy.**

Draghi: Well, on the first question, the rates will be changed depending on what is the state of the convergence process. As you can see again from this sentence, it says, “at least through the summer of 2019”, but then it says, “in any case for as long as necessary these rates will not be changed to ensure that the evolution of inflation remains aligned with our current expectations of a sustained adjustment path.” That is what the sentence says and I hope that in the next year we will be giving an assessment of convergence that is positive and confident.

Now, the other point was about the bonds. By the way, the ECB communicated already last week on this topic. First of all, one shouldn't get obsessed about weekly figures of flows because one is bound to get confused, the first remark.

The second remark is that in that month, in May, it was not only Italy but also France, Austria, Belgium, so their share in net purchases went down. By the way, this is nothing new; it's the result of rules that have been communicated a long time ago and agreed. Now, the reasons why one shouldn't be obsessed with the weekly or monthly figures is that there are redemptions and redemptions are very hard to foresee on a monthly basis. We have to have a little flexibility, a month, between two months at least, to compensate – which is exactly what happened in this case.

Also there is another interesting data point here. In May the ECB purchased €3.6 billion of Italian bonds, but this was higher than what it purchased in March; it was €3.4 billion and what purchased in January, €3.4 billion, so no conspiracy here!

*[Razmusa: I would like to thank you, our colleagues, from eurozone central banks, the Governing Council of the ECB, and President Draghi for having the meeting in Riga. Also I would like to thank you, my colleagues and the counterparts from the ECB, for the contribution on organisational matters, and the Latvian authorities for assisting us to have this successful meeting. Thank you.]*

<sup>[1]</sup>Considering all the measures taken since mid-2014, the overall impact on euro area real GDP growth and euro area inflation is estimated by the ECB to be – in both cases – around 1.9 percentage points cumulatively in the period between 2016 and 2020.