

Question: With your deposit rate cut today are you at the lower bound, or is there more room to cut that rate?

And my second question is, it seems like what you've done is a little bit on the low end of the range of what the financial markets had expected, in terms of your stimulus package today. It seems like the initial reaction in the financial markets bears this point. Why didn't you do more, given how much you've warned about the risks of low inflation? Why didn't you raise the monthly purchase amount? Why didn't you cut the deposit rate more?

Draghi: Let me tell you how we came to take the decisions we've taken. In the last Governing Council we decided to assess whether the degree of monetary accommodation that we had achieved until then was adequate or needed to be recalibrated. This exercise basically showed three conclusions. The first is that we are witnessing a continuing recovery, gradual but continual recovery driven mostly, as I said a minute ago, by consumption. The growth rates in this year have been 0.5%, 0.4% and 0.3% over the last three quarters. The drivers to this recovery are first, our accommodative monetary policy; second, less headwinds to our fiscal policy; and third, very importantly, is the oil prices, of course, which are supporting real disposable income.

But also our policies have been effective also on the inflation front, because if you observe, especially in the last month, we observe – I wouldn't say for the first time, but certainly after a long time – the correlation between our inflation expectations measures and the current inflation or the oil prices has decreased or has just disappeared. So overall, the conclusion about our policies was that they've been effective. I can dwell on that later, to give you a few figures to show how effective these policies have been, in improving the credit conditions, in improving the financial markets conditions, and in supporting what we have seen so far happening in the real economy.

The question then was, have they been effective enough for us to be confident that we would reach our objectives about inflation within the horizon that we have planned? And the answer we gave ourselves was, "Not enough." So we have to do more. So let me say this very clearly: we are doing more because it works, not because it fails. We want to consolidate something that's been a success. And why did we come to this conclusion? Well, you see, we said the last macroeconomic projections implied a downward revision in inflation, very small but still there. This downward revision comes after a long series of downward revisions in

inflation. Also, the projections contained the effect of our policy communications in the last month already, and in spite of that they had a downward revision. Also, after the cut-off date we had another other data point on inflation which was slightly lower than expected. So for a variety of reasons we decided that our monetary policy accommodation needed to be recalibrated so as to have a faster convergence of our inflation objective to our 2017 horizon.

Now, what did we do? Well, we took several decisions, as I've just illustrated, but one of them comes pretty new, namely the reinvestment of principal payments. Now, that is a quite important measure, because it basically says that we intend to maintain the degree of monetary accommodation and favourable conditions for liquidity for a longer horizon than we have been saying so far. Which means that the conditions of quite abundant liquidity and high excess liquidity will continue for a long, long time.

And we shouldn't discount another fact that we have not been discussing so far: that there are a series of factors coming into play in the years ahead which tend to reduce the excess liquidity. And so there are several of these. One is the repayment of the TLTRO; another one is the demand for bank notes; another one is the bonds purchased under the SMP programme that may come due. So we counteract this reduction and we actually may do even more than offset these reductions, which means that the conditions for this liquidity will ensure that the bonds we purchased, and we are purchasing and will be purchasing, will stay on our balance sheet for a long time.

So I think these are very significant decisions. We are confident that these decisions actually are adequate to achieve our objectives. We decided this cut in the deposit rate: we think it's adequate.

Question: You've just explained your reasoning, but nevertheless, financial markets appear to be disappointed. So what is the reason there? Do you think that something went wrong in your communication in the run-up to the decision? Did you perhaps overestimate your ability to convince fellow policy-makers to decide something even more aggressive? Or do financial markets not understand yet how powerful these measures actually are?

The second question: could you perhaps give us an idea about the discussion on the Governing Council and whether all the five decisions today were unanimous?

Draghi: No, they were not unanimous, but there was a very large majority in favour of this package. Very large.

On the first, no, I don't think so. I don't think our communication was wrong. I think these measures need time to be fully appreciated, and we will see.

Question: You have said many times, and today too, that QE is working better than expected. At the same time you have also said that inflation is getting back to where you want it to be slower than you thought? So how do these two things square up? Is this because the euro economy works differently than you thought?

And my second question is, at the 'Alte Oper' here in Frankfurt last month, you said that you want to bring inflation back to close to 2%, without saying "just under 2%". Can this be read as a sign that you would tolerate some overshoot to avoid the risks of too-low inflation for too long?

Draghi: Now, the answer to the second question is that our inflation rate ought to go close to 2% but below 2% over the medium term, and one should certainly take into account the fact that it was well below 2% for a long time.

On the second point, we do say, and we just said, that our QE has been quite effective. Let me give you a few figures. The market-based financing conditions showed a fairly significant success of our policies. Euro area 10-year government bond yields fell by around 120 basis points between June 2014 and now. We have the same - decline in yields on bonds issued by firms and by banks, and basically the declines, the cuts in the deposit facility rate have enhanced the power of our transmission channels. But the most important thing is the fall in the cost of credit. The cost of credit for the euro area, for the whole of the euro area bank lending rates, fell by approximately 80 basis points.

Just think about that: to achieve that under normal circumstances, one needs a reduction in interest rates by 100 basis points. And the transmission channel of this reduction to lower lending rates has been faster. For so-called vulnerable Member States, such a reduction was up to 140 basis points, so credit has become much cheaper. Credit volumes have become much broader and more significant for both households and firms all across the euro area. Spreads have been going down, between large borrowers and small borrowers, and between borrowers in the vulnerable countries and in the non-vulnerable countries.

So all in all, all these measures have had an effect on the economy. So let me give you a figure produced by our staff: in the absence of our measures, inflation would be at least half a percentage point lower next year, and about a third of a percentage point lower in 2017. But also the impact on GDP is very sizeable. Our measures are contributing to raise GDP by almost 1% in the years 2015 to 2017. So I think we rightly claim that our policies have been effective.

Question: Why has QE been more effective than you thought?

Draghi: Because in January 2015 we calibrated QE on the basis of certain conditions, and these conditions have changed through 2015 and in particular during the summertime, because of changes in the external factors: the weakening of emerging market economies, the appreciation of the exchange rate and so on. All this produced lower inflation and so we had to recalibrate, and we are going to do this on and on, if the external conditions will put at risk the achievement of our objectives.

Question: I think some of the disappointment that we're seeing in the market can be tied to the lack of movement on the size of monthly purchases. Can I just ask you if you did talk about increasing that size, and whether somewhere in there we can tie the decision not to, to the prospect of diminishing returns, given how low sovereign bond yields already are?

And you did talk about the deposit rate: you said it was adequate at this moment, but can I ask again, are we at the lower bound for the deposit rate, please?

Draghi: We have a menu of options. Fortunately, or monetary policy has many tools. Our asset purchase programme is flexible. We can always adjust its horizon, its size, its design. And we are not going to be hampered in doing this by technical issues. As a matter of fact, we are going to revisit or review some of the technical parameters of our programme in the spring. This time we decided that the extension of the horizon, and especially the introduction of the reinvestment, would be the right thing to do, and the new calibration that was achieved after that, would tell that we would be able, we are confident, to reach our objectives within the horizon as we planned. Which means basically we are not excluding the use of all other instruments if we were to decide that they were the right ones to do.

Question: And the lower bound for the deposit rate?

Draghi: I said before that the cut we decided today is adequate. Period.

Question: You've noted on many occasions that QE has had quite a big impact on lending conditions, on credit markets, yet we've seen very little change in core inflation since January. Is that what you would have expected when you first announced QE? And if not, why do you think it's happened, and why will what you've announced today address this seeming contrast between the impact of QE on credit markets and on the real economy?

Draghi: Well there are many, many factors that affected the core inflation projections as we had it since January 2015. The most important ones I've just mentioned: it's the oil prices, and the situation in the emerging market economies. What we've done since then is to create very favourable financial and credit market conditions so that firms and households, even though burdened by these external factors, could find credit easier to access and more abundant.

And we've seen this. We've seen this through, especially, mainly through higher consumption and higher real disposable income. And the interesting thing to see is that now, for the first time this year, the recovery is becoming broader and is actually driven mostly by consumption rather than exports. And the other interesting thing to see is that consumption and real disposable income move together, namely the savings rate is flat, which is also a good sign. So we see that gradually our QE is translating into improving economic conditions in the euro area.

Question: At the last meeting, you told us that expert groups were analysing the functioning of APP [Asset Purchase Programme]. Can you tell us something on the outcome? So especially what channel worked best, the portfolio rebalancing or expectation?

Draghi: The measures that the Governing Council decided today had been discussed in a quite detailed fashion by all the relevant committees, and basically our decisions do reflect their discussions. Responding to the question I was asked before, why have we chosen to widen the horizon, why have we chosen to introduce this reinvestment factor? Also this was analysed by the committees, and we basically followed their views in taking these decisions.

Question: Could you quantify the impact of your purchases in the municipal bond market, just how big this market potentially is for the ECB? And in the future, there are very many other securities which are potentially there to be bought: could you perhaps shed some light on other potential areas where the asset purchase programme could be extended to? For example, in the area of non-performing loans, there would be the possibility of extending asset-backed security purchases to instruments that would include at least some element of non-performing loans in the future, perhaps.

Draghi: I would say, first, it's too early to say the extent of our purchases of regional bonds that I've just stated in the Introductory Statement. It's too early to say, but it's also too early to say in which direction we're going to extend, if we ever need to extend. Because so far we don't have to. We have the overall situation – it's been said several times that we wouldn't be able to buy the bonds, and in fact bonds are there to be bought in good supply. So it's just too early to project further extensions. It would be also premature.

Question: My first question is on the deposit rate. What is the main intention behind this lowering? The experience seems to be quite mixed in countries like Switzerland. Is it supposed to push down the exchange rate of the euro?
The second question is on the ANFA [Agreement on Net Financial Assets] agreement between the ECB and national central banks. Some national central banks seem to have bought quite large amounts of assets during the past years, whilst others have not. Is that a cause for concern for you?

Draghi: On the second question, ANFA purchases are entirely a matter for national central banks. They decide their investment policy in complete independence. Often it's very hard to understand the purposes as to why they buy certain bonds. Often, for example, very often it's for their pension funds. I would exclude completely – you didn't say that, but you may have thought about this in your mind – I would exclude completely any possibility of monetary financing. They are not buying from the primary market, and their investment policies are pretty broad-based. So it's a question that I think you should ask them.

On the first point, we simply observed that cuts in the rate on the deposit facility vastly improve the transmission of our monetary policy. Vastly improves the transmission of our monetary policy. For example, some of you ask, or are about to ask, why we left the MRO rate [Main Refinancing Operation rate] unchanged: we left the MRO rate unchanged mainly because all the short-term interest rates now follow the rate on the

deposit facility, which has become really the driver of our monetary policy. And then this will have consequence, of course, positive consequences on the real economy.

Question: The level of ECB accommodation over the last year or so has put some pressure on the central banks in other countries – Switzerland, Denmark, Sweden. I'm just wondering the extent to which the ECB considers the plights of its neighbours when it's doing monetary policy, and what if anything it communicates to them?

Draghi: This is actually a very important question that we ask ourselves all the time, not only with respect to other countries here in Europe, but also with respect to the monetary policies and the central banks of emerging markets. We really have to think and to reflect that we are bound by our mandates. Our mandates are national mandates; our mandates are based on our own national jurisdictions. This holds for the ECB, it holds for the Fed, it holds for the Bank of England: for all central banks. But would this mean that we don't talk to our colleagues? No, certainly not. So there is a fairly extensive, I would say, habit of consultation, of discussion – of explanation more than consultation, of explanation of the reasons why we do certain things. So we have what we call the spill-overs and the effects of the spill-overs in mind, certainly, but as I said, we are bound by our mandates.

Question: By increasing the asset purchases until 2017, we must have in mind that then the balance sheet of the ECB could reach roughly 40% of the global eurozone GDP. Is it not a burden that at one level could be too heavy to bear, and that could play a role in the discussion when you decide to extend or not the amount of this programme? And secondly, can you explain to us the rationale behind this answer you gave today to the Ombudsman of the European Parliament, imposing a quiet period for all Governors, one week before a meeting like today?

Draghi: On the first point, the balance sheet of a central bank is an instrument. As such, it should be used to reach the objective, which is price stability, as we have defined here. So there isn't a size that is better than another size. The only gauge to this is to reach the objective of price stability. But I would say the other part of your question is, if need be, would we be able to sort of drain this liquidity in? Do we have the instruments? The answer is yes, we have the instruments. We have the instruments.

On the other question, now, it's not the Ombudsman of the European Parliament. There is the Ombudsman, and then there is the question by the European Parliament. We have updated our guiding principles for external communications to clarify and amplify what is already practised. During the quiet period there will be no discussion of monetary policy with representatives from financial institutions. So the exact text, which was updated on 3 December, now reads: "The members of the Executive Board re-affirm their adherence to the quiet period principle, whereby speeches and public remarks, given in the seven days prior to each scheduled monetary policy meeting of the Governing Council, should not be such as to influence expectations about forthcoming monetary policy decisions. Similarly, the members of the Executive Board will not meet nor talk to the media, market participants or outside interests on monetary policy matters during that period."

So we greatly appreciate the constructive dialogue we had with the Ombudsman on all aspects of transparency, which we value highly, and by the way we just received a letter from the Ombudsman, a highly congratulatory letter.

Question: You said that the public asset purchase programme would go on until March 2017 or further if necessary. How close is this commitment to basically open-ended asset purchases? "As long as necessary" means this could go on and on, right?

Draghi: Not really. There is a date, but there is also a condition, and the condition is – and it's part and parcel of our forward guidance – until we see a sustained convergence towards our objective of a rate of inflation which is below but close to 2%. So we give a date, and then we say if that is not enough, we can continue. And today we said that we are going to reinvest the principal of the bonds that we purchased. It's quite important to understand that this reinvestment started before March 2017 but now will certainly continue after March 2017. So the bonds will stay on our balance sheet after March 2017.

Question: Last year in Jackson Hole, you advocated for a policy mix with monetary policy reforms, investment and fiscal policy, and today you have emphasised the role of fiscal policy. Do you miss more fiscal stimulus in countries with margin, like Germany, for example, and do you consider that the neutral fiscal stance that the European Commission is advocating for the eurozone as a whole is adequate now, in a sort of liquidity trap?

Draghi: We had a brief exchange on this issue, and our conclusion now is that, first of all, the first answer should be given by the Commission. The second point is that we'll continue reflecting on this, and we will have a view on what is the degree of appropriateness of the fiscal stance; whether we have a view about the aggregate fiscal stance; what is the degree of compliance with existing rules; whether the flexibility which has been exercised before all the terrible happenings of this year – so before the recent terrorist attacks, but also before the refugees events – whether that flexibility would be justified. So there are lots of factors in play altogether. How do we assess the fiscal stance today given the presence of the previous flexibility, the refugees, the need for security of the euro area? It's a very complicated question, so we are going to reflect on that.

Question: I would like to come back to the issue of the securities purchases by national central banks you just mentioned. There have been some calculations published in a German Sunday newspaper that the Italian central bank bought up to €100 billion, and the Banque de France also had a similar volume of securities purchased under the ANFA. You mentioned yourself, it's very hard to understand these purchases. How can you be so sure that they are not bordering on monetary financing of the states, if they're so hard to understand?

And my second question, why don't you publish these documents of the ANFA to make it more clear to every observer what they are about?

Draghi: As I said, you should ask them. That's the answer. But I can exclude completely any monetary financing, that's for sure, because they would be compelled to communicate this to the ECB. So there is no monetary financing in these purchases; other than that, the national central banks decide their investment policies based on their needs, and it's their competence and their autonomy. Some of them communicate, by the way, and some others don't. You have central banks that don't tell anything about ANFA, so you wouldn't be able to know how many bonds they purchased. So the question that you may have about ANFA should be asked to the national central banks.

When I said it's very hard to understand, I'm sorry, I don't want to be misunderstood: it's very hard to understand what is the investment policy of the national central banks, because each one of them has an investment policy. It's not that we have a say in their investment policy. We don't have a say in their pension funds, for example.

Question: Is the conclusion of the first review the only precondition for the reinstatement of the waiver and the inclusion of Greece in the QE programme? And how easy could it be to close the first review, since the pension reform is already raising fears for political instability: do you share those fears?

My second question: some politicians in Greece say that the shareholdings of the Greek State and the pension funds in Greek banks have become worthless because of the recapitalisation method imposed by the institutions. What is your view?

Draghi: Well, on the pension issues, really this is an issue for the institutions to discuss with the government as part of the review in January, and I have nothing else to add.

On the recapitalisation of the banks, I'll give the floor to the Vice-President, but let me just say that all those decisions have been decisions by the banks themselves, and the government to some extent.

Constâncio: On this, there are of course investments, public investments, in the banks. They have been done, for instance, in the previous round of recapitalisations, with shares with limited voting rights but with full economic rights, meaning the same rights to dividends as any other. So there is in that respect not a problem of valuation of those public shares. They participate, of course, in the economic results of the banks, but they are limited in terms of their voting powers. And this time, as you have seen, in the case of two banks, they were able to fill all the shortfalls with private investors' money, and there are another two that were not able to do so. They were able to do so in what regards the shortfall for the baseline stress test and asset quality review, but not for the adverse scenario, and for that they will require some money, which will be public money, which may be invested into the banks in a proportion of 70% to 30%. 70% in CoCos and 30% in shares, which of course will benefit from any profits or dividends that the banks will get in the future.

So that's the situation. So the statement, that those public investments are worthless, is not correct. Regarding the waiver and the participation in QE, you said everything you wanted to say?

Draghi: No, not really. Go ahead.

Constâncio: Because it's well known, by the way, the policy that we have regarding the two things. So in what regards the waiver, the main condition is that the Governing Council will be satisfied that the country under a programme is complying with the programme, and that could

even happen before the conclusion of the review, if we would be close enough to that end of the review and we would be convinced that the review would become successful. So it's not a date; it's an assessment of compliance with the programme. Regarding the participation in QE, it's more complex and it does not depend only on the successful completion of the review.

Question: You said a large majority of the members were for the new measures. Did you discuss this time the side effects or risks of the additional measures in the Governing Council? If yes, what kind, and how can you avoid those risks? Was this also discussed in the Governing Council?

Draghi: No, this time I wouldn't say that we've discussed the side effects and risks, but it's a discussion that we have ongoing anyway. We are closely monitoring these risks; we are aware that these risks might be there. So that's why, first of all, try to know and learn as much as one can about these risks all the time. Second, do we have evidence about these side effects? No, so far we don't have evidence. Especially the growth in credit accompanied by leverage, the phenomenon that we've seen pre-crisis, we don't see that. I've just given to you figures about credit: credit's picking up, it's coming back, but it's very, very subdued yet, and we don't see especially systemic risks. We may have localised risks in different parts of the financial system, and they should be addressed by macroprudential policy measures, certainly not by changes in monetary policy.

Question: You've alluded to the recent terrorist attacks. I wonder if the possible effects, if there are any, of the terrorist attacks on the economy were already included in your macroeconomic projection, or what is your assessment of that?

Draghi: My frank answer to this is, "We don't know." We certainly have in mind that the situation ahead is full of geopolitical risks, and that's why we have to be alert. That's why we have to be certainly continuing our effort to pursue and achieve the price stability objective, well aware that the surrounding conditions may actually get worse because of these geopolitical risks. So I should say, in these present measures, the measures we've decided today, there is confidence but there is no complacency.

Question: One of the side effects I think that's very clear from your measures has been that the euro has lost value against the dollar. It could get close to parity pretty soon. I know that the currency rate is not a policy goal, but it does seem to have been a fact. My question is, is there a point when the euro gets so low against the dollar that the negative effects start to become a concern? Is there a point when the euro would lose so much value that you would start to worry about it?

Draghi: I've said this: for us, the exchange rate is not a policy target. But of course it's important, for price stability and for growth. So when we decide our monetary policy measures, we have in mind as objectives, inflation and the path to our objective. At the same time, it's quite clear that whatever we do, and whatever everybody does in the world, every central bank does in the world, affects the exchange rate, and this in turn will have effects on price stability and growth. So it's very difficult to respond to your question whether we have in mind a level of the exchange rate. We have in mind only our objectives of inflation, and to a secondary extent growth.