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, 6 September 2012

Jump to the transcript of the questions and answers

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by the President of the Eurogroup, Prime Minister Juncker, and by the Commission Vice-President, Mr Rehn.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. Owing to high energy prices and increases in indirect taxes in some euro area countries, inflation rates are expected to remain above 2% throughout 2012, to fall below that level again in the course of next year and to remain in line with price stability over the policy-relevant horizon. Consistent with this picture, the underlying pace of monetary expansion remains subdued. Inflation expectations for the euro area economy continue to be firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. Economic growth in the euro area is expected to remain weak, with the ongoing tensions in financial markets and heightened uncertainty weighing on confidence and sentiment. A renewed intensification of financial market tensions would have the potential to affect the balance of risks for both growth and inflation.

It is against this background that the Governing Council today decided on the modalities for undertaking Outright Monetary Transactions (OMTs) in secondary markets for sovereign bonds in the euro area. As we said a month ago, we need to be in the position to safeguard the monetary policy transmission mechanism in all countries of the euro area. We aim to preserve the singleness of our monetary policy and to ensure the proper transmission of our policy stance to the real economy throughout the area. OMTs will enable us to address severe distortions in government bond markets which originate from, in particular, unfounded fears on the part of investors of the reversibility of the euro. Hence, under appropriate conditions, we will have a fully effective backstop to avoid destructive scenarios with potentially severe challenges for price stability in the euro area. Let me repeat what I said last month: we act strictly within our mandate to maintain price stability over the medium term; we act independently in determining monetary policy; and the euro is irreversible.

In order to restore confidence, policy-makers in the euro area need to push ahead with great determination with fiscal consolidation, structural reforms to enhance competitiveness and European institution-building. At the same time, governments must stand ready to activate the EFSF/ESM in the bond market when exceptional financial market circumstances and risks to financial stability exist – with strict and effective conditionality in line with the established guidelines. The adherence of governments to their commitments and the fulfilment by the EFSF/ESM of their role are necessary conditions for our outright transactions to be conducted and to be effective. Details of the Outright Monetary Transactions are described in a separate press release.

Furthermore, the Governing Council took decisions with a view to ensuring the availability of adequate collateral in Eurosystem refinancing operations. The details of these measures are also elaborated in a separate press release.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Recently published statistics indicate that euro area real GDP contracted by 0.2%, quarter on quarter, in the second quarter of 2012, following zero growth in the previous quarter. Economic indicators point to continued weak economic activity in the remainder of 2012, in an environment of heightened uncertainty. Looking beyond the short term, we expect the euro area economy to recover only very gradually. The growth momentum is expected to remain dampened by the necessary process of balance sheet adjustment in the financial and non-financial sectors, the existence of high unemployment and an uneven global recovery.

The September 2012 ECB staff macroeconomic projections for the euro area foresee annual real GDP growth in a range between -0.6% and -0.2% for 2012 and between -0.4% and 1.4% for 2013. Compared with the June 2012 Eurosystem staff macroeconomic projections, the ranges for 2012 and 2013 have been revised downwards.

The risks surrounding the economic outlook for the euro area are assessed to be on the downside. They relate, in particular, to the tensions in several euro area financial markets and their potential spillover to the euro area real economy. These risks should be contained by effective action by all euro area policy-makers.

Euro area annual HICP inflation was 2.6% in August 2012, according to Eurostat's flash estimate, compared with 2.4% in the previous month. This increase is mainly due to renewed increases in euro-denominated energy prices. On the basis of current futures prices for oil, inflation rates could turn out somewhat higher than expected a few months ago, but they should decline to below 2% again in the course of next year. Over the policy-relevant horizon, in an environment of modest growth in the euro area and well-anchored long-term inflation expectations, underlying price pressures should remain moderate.

The September 2012 ECB staff macroeconomic projections for the euro area foresee annual HICP inflation in a range between 2.4% and 2.6% for 2012 and between 1.3% and 2.5% for 2013. These projection ranges are somewhat higher than those contained in the June 2012 Eurosystem staff macroeconomic projections.

Risks to the outlook for price developments continue to be broadly balanced over the medium term. Upside risks pertain to further increases in indirect taxes owing to the need for fiscal consolidation. The main downside risks relate to the impact of weaker than expected growth in the euro area, particularly resulting from a further intensification of financial market tensions, and its effects on the domestic components of inflation. If not contained by effective action by all euro area policy-makers, such intensification has the potential to affect the balance of risks on the downside.

Turning to the **monetary analysis**, the underlying pace of monetary expansion remained subdued. The annual growth rate of M3 increased to 3.8% in July 2012, up from 3.2% in June. The rise in M3 growth was mainly attributable to a higher preference for liquidity, as reflected in the further increase in the annual growth rate of the narrow monetary aggregate M1 to 4.5% in July, from 3.5% in June.

The annual growth rate of loans to the private sector (adjusted for loan sales and securitisation) remained weak at 0.5% in July (after 0.3% in June). Annual growth in MFI loans to both non-financial corporations and households remained subdued, at -0.2% and 1.1% respectively (both adjusted for loan sales and securitisation). To a large extent, subdued loan growth reflects a weak outlook for GDP, heightened risk aversion and the ongoing adjustment in the balance sheets of households and enterprises, all of which weigh on credit demand. Furthermore, in a number of euro area countries, the segmentation of financial markets and capital constraints for banks continue to weigh on credit supply.

Looking ahead, it is essential for banks to continue to strengthen their resilience where this is needed. The soundness of banks' balance sheets will be a key factor in facilitating both an appropriate provision of credit to the economy and the normalisation of all funding channels.

To sum up, the economic analysis indicates that price developments should remain in line with price stability over the medium term. A **cross-check** with the signals from the monetary analysis confirms this picture.

Although good progress is being made, the need for structural and fiscal adjustment remains significant in many European countries. On the **structural side**, further swift and decisive product and labour market reforms are required across the euro area to improve competitiveness, increase adjustment capacities and achieve higher sustainable growth rates. These structural reforms will also complement and support fiscal consolidation and debt sustainability. On the **fiscal front**, it is crucial that governments undertake all measures necessary to achieve their targets for the current and coming years. In this respect, the expected rapid implementation of the fiscal compact should be a main element to help strengthen confidence in the soundness of public finances. Finally, pushing ahead with European institution-building with great determination is essential.

We are now at your disposal for questions.

* * *

Question: My question regards the vote today. Was it unanimous and, if not, what does it mean? Thank you.

Draghi: Well, it was not unanimous. There was one dissenting view. We do not disclose the details of our work. It is up to you to guess.

Question: Mr Draghi, you repeated that the euro is irreversible. What gives you the democratic legitimation, the authority to say that? Because I have looked it up in the Treaty. It does not say anywhere that it is the role of the ECB to decide what kind of currency the European countries have. Thank you.

Draghi: What I said exactly is that – and I repeat what I said in London the first time – we will do whatever it takes within our mandate – within our mandate – to have a single monetary policy in the euro area, to maintain price stability in the euro area and to preserve the euro. And we say that the euro is irreversible. So unfounded fears of reversibility are just what they are: unfounded fears. And we think this falls squarely within our mandate.

Question: The FAZ warned the other day about what they have called – pardon me – the "liraisation" of the euro, moving away from a Deutschmark culture to a lira culture. The FDP wants to protest the decisions you have taken today, because they say they are in breach of Article 123 of the EU Treaty of financing governments. Can you explain to us why they are wrong?

Draghi: As far as the "liraisation" or whatever goes, I think that the voting today speaks for itself. It shows that it is not only the decision of former lira members or others, it is basically the almost unanimous decision of the Governing Council. So, first of all, I would not identify with this caricature of it being a southern cabal or an Italian thing. No, it is not. It is the Governing Council that, in its almost unanimous decision, has taken this measure. Second, no, we are sure that we are acting within our mandate, that we are not violating Article 123. It is pretty explicit: it says for purchases on the primary market, this is a violation, not for purchases on the secondary market as I have stated this programme will work. And incidentally, outright purchases of bonds are identified, in Article 18 of the Statute of the ECB, as one of the various possible tools that our monetary policy has and can use. So we are not creating anything new here.

Question: Mr Draghi, how can you be sure the fact that the monetary impulse of the ECB seems not to be reaching a big part of the euro area is really a problem of "monetary transmission" and not maybe a problem of "liquidity trap"?

Draghi: We have substantial, significant and important evidence that the European monetary area is now fragmented. We see this from a variety of indicators: not only the level of yields, the yield spreads, but also volatility, and especially liquidity conditions in many parts of the euro area. So, the actions we decided on today are geared to repairing monetary policy transmission channels in a way that our standard monetary policy can address its primary objective, i.e. maintaining price stability. In other words, these decisions are necessary to restore our capacity to pursue the objective of price stability in the euro area and to restore the singleness of monetary policy in the euro area.

Question: Mr Draghi, on the maturity of the assets that you would intend to purchase under the OMTs you said between one and three years. Could you explain: does this involve bonds that have a residual maturity of that amount of time, i.e. a ten-year bond that has two or three years left to run as well as ones whose face maturity is that time? And my second question is about the conditionally aspect: you mentioned that the OMTs would be suspended if countries did not fulfil the necessary conditions set out in the MoU. Given that these purchases are explicitly for monetary policy purposes, does this mean that you will suspend the ECB's independence if the countries do not fulfil the conditions? I don't quite understand this contradiction; maybe you could elaborate on that for me?

Draghi: On the first question, the "three years" is to be understood in the way you mentioned. And it is three years because it seemed to us the maximum most effective maturity to target: it is close to our short-term policy rates; it affects also the medium-term yield curve; it is close to the rates that are being used to lend to the private sector; it is, in a certain sense, similar to the maturity we used for the LTROs; and also, in a very indirect way, it decreases concerns about our seniority over the bond holdings. So, there are many good reasons for choosing the "three years".

On "conditionality", the assessment of the Governing Council is that we are in a situation now where you have large parts of the euro area in what we call a "bad equilibrium", namely an equilibrium where you may have self-fulfilling expectations that feed upon themselves and generate very adverse scenarios. So, there is a case for intervening, in a sense, to "break" these expectations, which, by the way, do not concern only the specific countries, but the euro area as a whole. And this would justify the intervention of the central bank. But then, we should not forget why countries have found themselves in a bad equilibrium to start with. And this is because of policy mistakes. That is why we need both legs to fix this situation and move from a bad equilibrium to a good equilibrium. If the central bank were to intervene without any actions on the part of governments, without any conditionality, the intervention would not be effective and the Bank would lose its independence. At the same time, we see that we are in a bad equilibrium and, therefore, policy action, though convincing, does not seem to produce – at least not in the relatively medium term – the results for which it is geared. So that is why we need both legs for this action.

Question: I also have a question on the conditionality. In your statement, you say that "the involvement of the IMF shall be sought". Does that mean that the involvement of the IMF is a firm condition or is it just the preferred scenario? My second question is: am I right in understanding that you will retain your senior status for bonds bought under the Securities Markets Programme (SMP) and for all other bonds held by the Eurosystem? And finally, did you discuss a change in interest rates at your meeting today?

Draghi: The involvement of the IMF is sought for the design of the policy conditionality, but we cannot dictate what it should do. It is an independent institution, but if the Board of the IMF, its management and its Managing Director want to participate in the programme, they would be more than welcome. This is definitely the preferred scenario. However, because I can read the question on your mind – is this a condition sine qua non? – it is important to explain how the ECB is retaining its independence in all this. We have provided governments with a broad framework for conditionality, but it is very much up to the governments themselves, the European Union, the European Commission and the IMF to decide on the precise nature of this conditionality. It is important that the Governing Council retains full discretion and full independence when deciding on issues relating to monetary policy. What we have put in place today is an effective backstop to remove tail risks from the euro area, and the ECB will retain its independence throughout. With regard to seniority, the statement on outright monetary purchases does not apply to the SMP holdings.

Finally, yes, we discussed interest rates today, but it was decided that it was not the right time to make a change. The reason for this is, in a sense, given in the introductory statement. When we last decided to reduce rates, we had anticipated this weakening in the business cycle.

Question: Mr Draghi, will the purchases be unlimited in amount and time? And my second question is: Spain is facing a huge refinancing hump at the end of October. Will the ECB's new programme be up and running in time for this?

Draghi: Well, on the first question, there are no ex-ante limits on the amount of Outright Monetary Transactions. And the size – as I think it said in the first press release or the introductory statement – is going to be adequate to meet our objectives. As regards Spain, we have designed a *parcours*, a path, and it is now in the hands of the government and the Eurogroup – in the hands of the government of Spain and the governments of the euro area.

Question: Mr Draghi, do you foresee the ECB possibly buying Spanish bank debt in the near future, and maybe even corporate debt?

Draghi: Frankly, we have just taken a very important decision with a view to tackling the crisis. As I have said, this is a fully effective backstop removing tail risk for Europe, and I would not want to speculate on other measures for the time being at least.

Question: I have two questions, Mr Draghi. First of all, was there any discussion in today's meeting regarding any other liquidity programmes, like an LTRO? And my second question is: All global markets were waiting for this today. Even the Turkish central bank was waiting for it. Does this put pressure on you when deciding things?

Draghi: No, there was no discussion on LTROs. And we are obviously all under pressure. It is not just me; the whole of the Governing Council has taken very important decisions today – also for the ECB as an institution – so we are fully aware of that.

Question: Mr Draghi, I think I am right in saying that in the statement, you are explicitly not providing any kind of level at which you think a bond yield of a country that applies for this is excessive. In fact, the language seems to basically say "you will know when it is there and then you will do it and you will tell us about it afterwards" – is that broadly it? Is there any more detail you can give us in terms of the work that the experts were doing over the last few weeks to try and figure out how you decide when a bond is suffering from convertibility risk?

And the second question is, since this is all designed to protect the transmission mechanism or repair it, would you say that the transmission mechanism is also broken in a sense in Germany, where perhaps the bonds are suffering from a sort of convertibility premium, and will you be doing anything to fix that?

Draghi: The answer to your last question is, if bond markets are distorted in the euro area, they are distorted in all directions. And this is one of the causes of the impairment of monetary policy transmission. And that is really the objective of this programme: it is to repair monetary policy transmission and to recreate the singleness of monetary policy for the euro area. Now, on the specific question you had whether we had in mind a specific yield target – the answer is no. No, just because the repair of monetary policy transmission is a complex concept, so we will be looking at a variety of issues. The level of yield ceilings is one, but there are also spreads – CDS spreads, bid-ask spreads – and more generally the conditions of liquidity, so we have a variety of indicators. Volatility is also very important, in terms of the indicators that we plan to take into consideration in planning our interventions.

Question: Under the new OMTs, will the purchases continue to be conducted by the national central banks according to the capital key, and will they take the risks associated with these purchases according to the capital share that they have of the ECB?

And my second question is, this is kind of the third attempt at making a bond purchase programme work: you did it in May 2010, you did it again in August 2011, and they did not seem to work. What makes you think and why should people be convinced that this third attempt will work?

Draghi: Well, the answer to the first question is yes. And the second is actually very, very important. We certainly discussed that. I would, by the way, disagree that the other two programmes have not worked in such a kind of decisive way, but let me talk about the present programme. The present programme is very, very different from any other programme we had in the past. First of all, we have this conditionality element. That is, I would say, the most important difference, because it really puts together our intervention with an ownership of the economic programme that a certain country has, by the country's government, but also by the other governments that have to vote in favour of the EFSF interventions. That is one of the differences, and I think it is probably the most important. The second one is that there is going to be much greater transparency: as I said before, we will publish the OMT holdings, the duration, the issuer, the market value. So there is going to be much more transparency. The third is that the duration is different. And the fourth is the explicit statement that we will accept *pari passu*treatment with the other creditors. So, there are very many differences with the previous ones, which lead us to think that it will actually work.

Question: Two questions, please. Some analysts thought that you would remain vague today, not giving details, because there are some important issues coming up in the next few months. The first is the expected decision of the Constitutional Court in Karlsruhe regarding the claim against the ESM. To what extent has this topic or issue influenced the decision taken today? And my second question is: Unlimited bond purchases are something very new. The SMP is in the past. Now, we have unlimited purchases. What is the rationale for this? Is it to say: "Look guys, we have spent more than €200 billion buying these bonds and still monetary policy measures are not being transmitted."? Is it to ensure better transmission of monetary policy that you have decided this, which is a big step?

Draghi: On the first question, we really have taken these decisions with total independence, and we will be processing the requests when they come in. There was no discussion at all regarding decisions taken by other institutions, which they will obviously take with complete independence.

On the second point – yes, we think that having it, ex ante, unlimited in size is adequate to reach our objectives.

Question : I have a question relating to Ireland. Are you in any way concerned about the tensions and infighting in the Irish coalition over the forthcoming budget? And secondly, what remains to be done in order for Ireland to secure a debt relief deal?

Draghi: I think you are asking me too much. I think the Irish government has so far been a model of compliance with the macroeconomic adjustment programme. And I am confident that whatever the tensions, this will continue to be the case. On the second question, I have no real news to give you.

Question: When I listened to your words, I thought that there was quite a lot of Weidmann in it. I was quite surprised. But outside, there is a lot of pressure on you to put less Weidmann in your statements in the future. I fear that that will happen. What do you think?

Draghi: I am what I am, really. I think one thing that is required for this job, for me and my colleagues in the Governing Council, is that you have to think with your head, and external pressures do not really have a role to play in your decision-making.

Question: Especially, Mr Weidman – I mean, Mr Draghi – all the conditionality. You have talked constantly about conditionality. Every second word was "conditionality". I am a German. I really think your approach is great, but you know the markets. You know all these markets are putting pressure on you and your colleagues. In four weeks we will be sitting here again at another press conference. I hope that this conditionality will stay and you will not give ground regarding this issue of conditionality.

Draghi: Certainly, certainly. And as I have said before, you know, all of us are convinced, all of the Governing Council is convinced, that really you need two legs to make it work. We are all convinced that having just one leg does not work. As you have said, Brian, we have had previous experience of this, and that was basically one leg and did not work. We need both to make it work. And I think that is a general conviction. Again, I think there is unfortunately a misconception – especially, I would say, in this country – about how the Governing Council works, and this is not accurate.

Question: The SMP was of a temporary nature. Are the new OMTs here to stay forever, or is there a limit on them? Secondly, there were some voices in the markets yesterday saying that there was a "North-South" discussion within the ECB, in that one person would like to have very strict conditions and another would like to have lenient conditions. Could you please explain if this is true or not.

Draghi: First, in terms of the size, I said there is no ex ante quantitative limit to these interventions because we want this to be perceived as a fully effective backstop that removes tail risk from the euro area. But, at the same time, if we achieve our objectives, why should we continue making these interventions? If governments or countries do not comply, why should we continue doing so? These are the two conditions for exiting. This is pretty clear now. As I said, we always go back to the reasoning that we have to have two components for this backstop to work. On the "North-South" question, I think that was an unfair characterisation. There were discussions about conditionality, but they were not dramatic. People had different views but, in the end, we converged. As I said, an overwhelming majority of the Governing Council were in favour of the concept that I have just described to you.

Question: I wonder if the fact that you have systematically had one person opposing most of the decisions you have taken lately is a source of discomfort. Do you think it is appropriate that the same opposition is then expressed publicly, sometimes almost simultaneously or immediately after the decisions are announced by this party?

Draghi: I think that, in my job as president, I have been blessed by almost having unanimity on the very important and fundamental decisions that we have taken in the last few months. There is nothing I would wish more than to have total unanimity, of course. So I am looking forward to having that.

Question: Mr Draghi, would you agree with the statement that the ECB can only buy time with its OMT actions, in order that politicians resolve the crisis? And are you confident that political leaders in the euro area will use this time effectively? Secondly, polls show a lack of trust on the part of the German public in you as President of the ECB. How will you regain this confidence?

Draghi: Regarding the first point, as I have said several times today, governments have to undertake the policy reforms. We are convinced that no intervention by this or any central bank is actually effective without concurrent policy action by governments. And frankly, if we look elsewhere in the world, we see exactly that. We see that if there is no concurrent action by governments, the effects of these kinds of intervention are not very strong.

As to your second question, well, the proof is in the pudding, and if the action of the European Central Bank under my presidency continues to maintain price stability, as it has done so far, and as my predecessor did during his eight-year term, I think trust will be regained. I have only had one year so far, so of course it is too early.

Question: Mr Draghi, I want to ask if the inclusion of the precautionary programme was decided on with countries like Spain or Italy, who have refused the idea of undergoing a full macroeconomic adjustment programme, in mind?

Draghi: No, no, the answer is no. It was basically the common view that in addition to the precautionary programme you also have the possibility of a full macroeconomic adjustment programme, and I would consider that the two forms have broad conditionality and require involvement of all the other euro area governments.

Question: Yes, but Mr Draghi, does this not mean a soft bailout fear?

Draghi: Oh no, not at all, you should look at the conditionality of the ECCL [Enhanced Conditions Credit Line]. It is a full macroeconomic conditionality and it would also see the involvement of the IMF.

Question: Mr Draghi, I just wondered if I could ask you about what you see as the long-term implications for European Monetary Union (EMU) as a result of the steps that you have taken today? You wrote a week or so ago about the future structure of EMU – with these steps, are you in effect pushing governments in the direction that, in order to get relief from the ECB, they really have to push towards a more integrated European Union?

Draghi: I think that would be a very ambitious objective. We are trying to do something which we believe is very important for the euro area and for price stability, which is to repair monetary policy transmission channels in the euro area. That is our job and we are trying to do it to the best of our ability. Whether this will have implications for the broader political destinies of the euro area is very much in the hands of our leaders and much less in the hands of central bankers.

Question: I am wondering if you could comment when the OMT programme will be launched? For example, in Portugal and Ireland, are you ready to start buying under the OMT programme today and do you anticipate that you will be in a position to buy bonds in Spain before the end of the month so that we can avoid a Moody's downgrade?

Draghi: The answer is the same as before. It is in the hands of governments. As far as Portugal and Ireland are concerned, the press statement says that Outright Monetary Transactions “may be also considered for Member States currently under macroeconomic adjustment programme when they will be regaining bond market access”.

Question: Since you were talking about a pretty downbeat economic outlook, do you think the OMT will have an immediate impact on credit growth and the real economy in terms of the borrowing rates that businesses are paying in the periphery and the contraction in lending growth that we have seen there. On a related note, in view of that situation, was there any talk of not sterilising purchases, given that that would have an impact on credit?

Draghi: The answer to your second question is no. In answer to your first question, the objective of the OMT programme is to repair monetary policy transmission channels, which today are hampered, and to recreate a single currency area, which today is fragmented. We should therefore see some improvement on the credit front. However, we should not forget that credit flows are sluggish for several reasons, one of which is low demand.

Question: The ECB already has a lot of sovereign bonds on its balance sheet, by some estimates amounting to some 33% of euro area GDP. Once you start throwing in the OMT bonds, are you concerned that the market will start questioning the integrity of the balance sheet of the ECB?

Second, would you say that the high yields on government bonds, in particular in Spain and Italy, are based on unfounded fears? It is almost like a self-fulfilling prophecy. But you have to admit that economic data suggest that some of these high yields could in fact reflect reality.

Draghi: First of all, the figure you quoted about our SMP holdings is way off mark. We are talking about around 3% of total euro area GDP, not 33%.

On the yields, you are absolutely right. As I said at the start, the programme needs two legs. We should not forget how these countries found themselves in a bad equilibrium to begin with, namely because of incorrect policies and policy mistakes. So to this extent, the yields that are currently in the market reflect this fact. They do not reflect only unfounded fears of possible reversibility, they also reflect the quality of the outstanding credit of these countries.

Question: Will all national central banks participate in the purchases in the OMT programme? My second question is, if the OMT programme is operational, could it create an incentive for countries to issue short-term debt instead of long-term debt, and what are the countermeasures to address that?

Draghi: On the second question – the first question I have already answered – certainly, there could be such an incentive. We will monitor the situation very carefully, but, at the same time, one assumes that countries would like to keep a structure of debt issuance which is balanced across all maturities. So there is a danger, there is a risk, but it is not at all clear that debt issuers will actually move in this direction because it has a cost, namely of unbalancing a maturity structure which was probably balanced to begin with and has taken many years to achieve.