

PRESS CONFERENCE

**Mario Draghi, President of the ECB,
Luis de Guindos, Vice-President of the ECB,
Frankfurt am Main, 24 October 2019**

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 Commission Vice-President, Mr Dombrovskis, and the incoming President, Ms Lagarde. Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

As decided at our last meeting in September, we will restart net purchases under our asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. We expect them to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The Governing Council reiterated the need for a highly accommodative stance of monetary policy for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. In particular, the Governing Council's forward guidance will ensure that financial conditions adjust in accordance with changes to the inflation outlook. In any case, the Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

The incoming data since the last Governing Council meeting in early September confirm our previous assessment of a protracted weakness in euro area growth dynamics, the persistence of prominent downside risks and muted inflation pressures. At the same time, ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy.

The comprehensive package of policy measures that we decided at our last meeting provides substantial monetary stimulus, which will contribute to a further easing in borrowing conditions for firms and households. This will support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, the sustained convergence of inflation to our medium-term inflation aim.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP growth was confirmed at 0.2%, quarter on quarter, in the second quarter of 2019, following a rise of 0.4% in the previous quarter. Incoming economic data and survey information continue to point to moderate but positive growth in the second half of this year. This slowdown in growth mainly reflects the ongoing weakness of international trade in an environment of persistent global uncertainties, which continue to weigh on the euro area manufacturing sector and are dampening investment growth.

At the same time, the services and construction sectors remain resilient, despite some moderation. The euro area expansion is supported by favourable financing conditions, further employment gains in conjunction with rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

The risks surrounding the euro area growth outlook remain on the downside. In particular, these risks pertain to the prolonged presence of uncertainties, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets.

Euro area annual HICP inflation decreased from 1.0% in August 2019 to 0.8% in September, reflecting lower food and energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline slightly further before rising again at the end of the year. Measures of underlying inflation remained generally muted and indicators of inflation expectations stand at low levels. While labour cost pressures have strengthened amid tighter labour markets, the weaker growth momentum is delaying their pass-through to inflation. Over the medium term inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and robust wage growth.

Turning to the **monetary analysis**, broad money (M3) growth increased to 5.7% in August 2019, after 5.1% in July. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The growth of loans to firms and households remained solid, benefiting from the continued pass-through of our accommodative monetary policy stance to bank lending rates. The annual growth rate of loans to non-financial corporations increased to 4.3% in August, from 4.0% in July 2019, while the annual growth rate of loans to households remained unchanged at 3.4% in August. The euro area bank lending survey for the third quarter of 2019

indicates a slight easing of credit standards and increasing demand for loans to households, while demand for loans to firms remained broadly stable. Our accommodative monetary policy stance will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to 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, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of **structural policies** in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost. Regarding **fiscal policies**, the mildly expansionary euro area fiscal stance is currently providing some support to economic activity. In view of the weakening economic outlook and the continued prominence of downside risks, governments with fiscal space should act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies and meet structural balance targets, which will create the conditions for automatic stabilisers to operate freely. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances.

Likewise, the transparent and consistent implementation of the European Union's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further 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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The IMF just at their last meeting raised concerns about the effects of low interest rates on the financial system, so my first question would be: what makes you so confident that more of negative rates and quantitative easing or asset purchases is doing more good than harm?

My second question would be on your legacy and whether you feel it's been tarnished by the recent discussions, which were unusually public, about the rift in the Governing Council and the disagreement about the policy action taken?

President Draghi: Well, the IMF didn't say that the negative rates are ineffective. As a matter of fact, the overall assessment of negative rates is generally positive. For us, it's very positive; it's been a very positive experience. Negative rates have stimulated the economy and affected positively employment, and so all in all we're exactly in the direction we

wanted them to be. But the IMF also raised concerns about potential side effects of very negative rates for a long time. The discussion really didn't go into too much detail, but we are also aware of that and we are monitoring these risks. I should say that first of all we should distinguish different categories: banks, insurance companies, pension funds and other intermediaries. The overall assessment has been clearly positive. In other words, the improvements in the economy have more than offset negative side effects from low rates. The fact that we are monitoring this constantly is shown by our decision in early September of introducing a tiering system, which basically partly compensates the banks from the negative rates.

Now, your second question: frankly, the answer is no. We have discussions, everybody has discussions, all jurisdictions have disagreements when monetary policy decisions come to be discussed. These disagreements are often made public, often they are not, so I think it's not been the first time. I've taken this as part and parcel of the ongoing debate and discussions.

I have two questions. The first one is about the fact that the Governing Council tasked the relevant Eurosystem committees with examining options for the size and composition of potential new net asset purchases. Taking into account eventual committees' options and even if the Governing Council did not discuss this topic, given that the markets consider the APP's firepower crucial, what is your opinion on the options that could be considered in enlarging the APP?

My second question is looking forward: what do you see are the main risks on your risk radar that you can foresee for the European economy and for the financial markets? In other words, what should we all worry about the most on the short-term and long-term horizon?

President Draghi: Since you're going back to the issue of voting and committees, let me just give you a few highlights. First of all, I will read sentences from the public account; the account you've seen. First, all members agreed that the further easing of monetary policy stance was warranted. Then we had an open discussion about the choice of instruments best suited to address current challenges. We give account of these discussions. Then we start going bit by bit, saying what sort of majority was for each part of the discussion. We say a clear majority of Governing Council members supported the broad package of measures that was ultimately decided upon in September. A large majority of members agreed to change the modalities of the new series of TLTROs. All members concurred with continued reinvestment. Members generally agreed with the proposal to enhance the state-based component of the Governing Council forward guidance on interest rates. A clear majority of members agreed with the proposal to restart net purchases under the asset purchase programme, with the modalities that I've just explained. A very large majority of members agreed with the proposal to lower the rate on the deposit facility by ten basis points. Finally, a majority of members went along with the proposed introduction of the two-tier system for reserve remuneration. This comes straight from the public account that you've seen.

No surprise that today, basically, the proposal of the chief economist – namely, to maintain the monetary policy stance – went, basically, through and was

approved with unanimity. So it's not surprising, given these majorities. Now, coming to your point about the committees, let me again go back to the Introductory Statement in July, where we tasked the committees with examining options, including ways to reinforce our forward guidance on policy rates, mitigating measures such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new asset purchases. This is the introductory statement in July. Then, we have already gone through this on other occasions, but the function of the committees is to provide technical advice to the Governing Council and that's what they did. Then the Governing Council of course decides as it deems appropriate. It's not the first time that the Governing Council has a different mind; it's happened many other times, so no surprises there. It's all in a sense confirmed by maintaining the monetary policy stance today.

What are the main risks? Well, the main risk from all viewpoints, but especially also from a financial stability viewpoint, is a downturn in the economy. Whether it's global or it's the eurozone, that I think would be the main risk from all viewpoints: from the side of convergence of inflation to our objective obviously, from the angle of maintaining a high level of employment and of economic activity and of nominal wage growth as we have seen today, and from the angle of financial stability itself. Because clearly one of the great benefits that the banking sector – actually all players in the financial system – had from this accommodative monetary policy was the extraordinary improvement in the quality of their credit, of their assets more generally, which comes with a recovery, which basically affected positively the profitability of the banking system.

Did Christine Lagarde take part in the discussion? Did she express views on monetary policy and was she in full agreement with the ECB's policy stance?

Second question is about what's been happening on the market since your September meeting. Interest rates have gone up, market-based inflation expectations have gone down. Are you worried about this? Is the market misreading your policy? Or are you comfortable with what the markets are pricing in?

President Draghi: No, Christine Lagarde didn't take part in the discussions, but she was there without taking part in the discussions or the deliberations.

On your second question. Basically, let's ask ourselves: what was the main goal of the September monetary policy decisions? It was to cement the accommodative monetary policy stance that was embedded in the expectations as they had been affected by the regularly, continuously weakening medium-term outlook. In the Governing Council today, the discussion felt that this has been very largely achieved. In other words, we saw the flattening of the yield curve, we saw the now complete transmission of a lower deposit facility rate into lower short-term rates. What we have observed there is partly due to the fact that there may be a part of these expectations which was not warranted by the weakening economic outlook, which went in a sense beyond the economic developments which might have been disappointing. But that's a very small part. The second and probably more important reason for the developments we've seen is the overall uncertainty. In one way, one has the

sense that somehow the lower likelihood of a hard Brexit over a cliff edge has improved the overall situation. On the other, the uncertainty is still there. And by the way, on this specific point, it's true that it's improved in the short term. The likelihood of having a cliff edge has gone down.

At the same time, the medium-term uncertainty is considered with concern, and the rest of the geopolitical uncertainty has continued to affect markets. I would read the market developments in this way. Actually, I don't think the market misread; actually, the market showed that they understood perfectly well our reaction function.

The Bundesbank has recently said that they see a chance of a German recession this year. Given the discord among Governing Council members, do you feel that you have the same number of options should Germany pull other countries into some kind of a downturn?

The second question is: given that central bankers have become less popular with their governments – and I'm thinking about the US as well – we've talked over the years about the G20 cooperation, linking together monetary policy, fiscal policy, inter-country and intra-country. Given what's happening in the US, given the difficulties that central bankers are having with their own governments, can that cooperation be duplicated if there's another global downturn?

President Draghi: Now, on your first question let me say this: unfortunately everything that's happened in September since our monetary policy decisions has shown abundantly that the Governing Council's determination to act in a substantive manner was justified. We had all kinds of survey indicators and now also some – few, but some – data showing further weakening of the economy. Just one number that I remember is the PMI in manufacturing is now at the lowest level since 2012. Another point of observation that I would say not only we – but everybody – use to assess the resilience of the economy, is to look at what extent the weakness in the manufacturing sector is actually spreading to the services sector. Until a month-and-a-half, two months ago, we could say the service sector was fully resilient. Now we're seeing the PMI in services also declining sharply. I think it was in September, really. Then we have many other indices pointing in that direction. Now, regardless of the developments in the German economy, I think that the decisions taken in September fully justify the continuation of an accommodative monetary policy stance and the maintaining of favourable financing conditions for the non-financial corporations, companies, and the small and medium-sized enterprises.

Now the second point, it's quite clear that central banks ought to continue to cooperate, no matter what happens in other parts of our institutional system. Cooperation of central banks within their mandate is essential and a forum like G20 or other multilateral fora are more important, more essential than ever.

Please allow me to raise personal questions on this particular day. Your colleague, Peter Praet once told me that by the time he and you are leaving, you both would prefer to have monetary policy back to a kind of normality. We know that this unfortunately hasn't happened. Can you give us some insight? How do you feel about it and do you perhaps also feel that politicians could have helped you a little bit more?

The second question: we have read now in the last weeks a lot of German reviews of your time in office and a lot of speculation. I think what the population would like to know is how you actually feel about this term. Thank you very much and all the best.

President Draghi: Thank you for your wishes. I think it's just one question, really. Well, first of all let me just refer to Peter Praet's words. It is true that during 2017 we gradually changed our monetary policy stance and we were preparing to exit that stance of monetary policy. But then conditions changed and what prevails over everything else is the determination to pursue the mandate for which this institution was created and for which we work. Therefore we had to change course and get back into the present stance. Let me also add one thing: that if there is one take from the recent IMF meetings, it's that the paradigm of reference has changed. Until not long ago, the IMF and all the observers would say that, yes, interest rates are low and they may stay low for some time, but then they will go up. Now, the sense of many discussions at the IMF is actually that they will stay low for a long time because the real rate of interest has also declined. This implies that the exit from unconventional monetary policies has shifted forward in time. The way I feel? I feel like someone who tried to comply with his mandate in the best possible way.

A couple of similar questions in the same kind of vein. First question is: what's your biggest regret, Mario?

The second one is: what advice are you giving to Christine Lagarde – that you can tell us about anyway?

President Draghi: Well, I'm sorry I can't answer either question. Saying that, I always focus on things that can be done, not things that you can't change. You can't change the past unless you're a historian, so I focus on what's being done and assessed by facts.

Well, the second question I'll answer immediately: no advice is needed. She knows perfectly well what she has to do. By the way, she has a long period of time ahead during which she will have to form her own view, together with the Governing Council, about what to do. But I'll stop here, really, because this question is going to pop up again and again; how do you judge the past? If nobody is asking this question, I'll come back to you later.

I have a question on the issuer limit. Many people think that the limit will be reached quite soon with the new purchases, especially for Germany. Philip Lane recently said according to the ECB's calculations, this may not become a problem for an extended period of time. Could you maybe explain why the ECB's calculations are more optimistic than other calculations?

My second question is on Germany: in Germany there is more open discussion about the so-called debt brake, which restricts the Federal Government deficit to no more than 0.35% of GDP, unless a downturn hits. Do you think such a rule makes economic sense? Thank you for that and thank you for all the other questions over the last eight years.

President Draghi: First, let me respond to the first question. Yes, that was raised because it's open-ended and so naturally people ask: when are you going to bump into these limits and then what happens? The answer is, Philip Lane is right. It's going to take quite a bit of time before this issue will

realistically present itself as a problem. But all estimates, by the way, have to assume something about the issuance of bonds and clearly, there you make certain assumptions about what fiscal policy is going to be. Under reasonable assumptions, not extreme either way, there is enough time. Frankly, what I think I said in the last press conference; I don't see this problem coming up again any time soon. That's the answer. Different calculations may reflect different assumptions about issuance, so that's one part of the answer.

The other part of the answer is that clearly, these limits – and I've said this again many times – these limits first of all are self-imposed and, second, are specific to the contingency in which they were originally stated. So the ECJ has granted ample discretionary power to the ECB within its mandate. Finally, there is one other part to my answer. We have capital key rules in the way we purchase bonds and the relevant key is the stock of capital. Even though we may observe deviations in terms of flows, it's the stock that we have to look at. There, frankly, we don't foresee substantial material deviations in the aggregate, in the months and years to come.

Now, your second question, I'm afraid I can't answer; I would never dare to judge fiscal policies in one specific country. Thank you very much for your kind words before.

You have been asked about something that you regret, with no answer. Maybe you could tell us one thing that you are proud of.

Another question: I would like to go back to your famous London speech. After all did the euro bumblebee, as you called it then, graduate into a real bee?

President Draghi: Well, I think about the first question I have the same answer; there isn't anything specific... Actually if there is one general thing I'm proud of, it's the way in which the Governing Council and myself have constantly pursued our mandate. This is something we collectively should be very, very proud. Now, we can talk about legacy and all this later, but in a sense this is part of our legacy: never give up.

Now, the second question is about the bumblebee. I should say, I can't really answer this question because there was someone of great authority who said immediately that this was dubious biology. So I would not really develop this concept any further.

After the previous meeting in September, governors Weidmann and Knot expressed very publically how they felt with these decisions. What was your reaction or did you contact them to say, stop this cacophony, please? Or was it your duty then as President of the ECB to bring calm in this Governing Council back? Maybe you can say; what was the flavour today during the meeting?

The second question regarding maybe your future: the question was asked to your predecessor, what you will do after being the ECB President. Mr Trichet said, "I have four children and want to take care of them and I want to read some poetry" Can you tell us, maybe share with us, what you will do in the next future?

President Draghi: Now, there was no reaction on my side, so there was no reaction at all, and today as I said before, the discussion was basically

supportive of the chief economist's, of Philip Lane's proposal. As a matter of fact, some of the dissenters, one of the dissenters called for unity and the full implementation of the policy package. Another dissenter said, "Bygones are bygones." One thing you can get out of this meeting, besides the various substantive issues being discussed, was a sense of a general call to unity.

On the next question, as you know generally speaking, I don't have any set idea about that, but if you want more information, just ask my wife. She would know. I hope she does.

In March 2012, you got a so-called Prussian spiked helmet, a *Pickelhaube*, and what do you plan to do with it now that Bild-Zeitung has claimed it back today? Will you leave it here? Will you take it with you?

Really how glad are you to finally leave Germany and all those fierce critics behind you? Is there maybe one last thing you want to tell them, especially here, but maybe also with a view to those former ECB Council members who recently published a very negative memorandum on ECB policies?

President Draghi: Well, on the gift I received way back in 2012 in March, I think there is an old German saying that says: "Geschenkt ist geschenkt", so I plan to keep it.

The other issue, I think ultimately it's the reality that speaks more strongly than any other voice. It's the reality together with the conviction that we did what we did always in pursuing our mandate. If anything, that's a distinctive thing. Very often, criticism addresses issues that really are not pertinent with our mandate, and we stayed firmly on this course, on pursuing our mandate. That's the only thing I feel like saying today.

Just to follow up on this comment about the helmet that you're keeping. Clearly, you do have a number of critics in Germany. Do you think you could have spent longer trying to address those criticisms in Germany? Is that something that perhaps Christine Lagarde should prioritise?

A second question was about, I suppose, the political pressure on central banks and also inversely the way that the ECB seems to be also putting pressure on governments. Does this suggest that in future there should be closer ties between governments and central banks or the ECB? Should it become more of a political act given that it's the eurozone's main federal institution?

President Draghi: Sorry, the first question is about the political pressure?
About the criticism in Germany.

President Draghi: No, that's why I don't remember the question; because I have no answer to that. No, I have no advice for Christine; as I said, she knows better than anybody else what to do and what to say.

Now, on the second point, is there political pressure on central banks? True. You can actually see more political pressure in the last year than in many years before. But is this equally true for the ECB? Much less so, frankly. I had occasional exchanges with this or that finance minister, but it never became anything comparable that you see in other countries today.

Now, what's the relationship between the ECB and governments? Now, especially at this time, in this instance, this question is quite important because I said last time, I repeat it today: monetary policy will continue to do its job; so don't think that monetary policy just relaxes and stops working. But it's quite clear that with fiscal policy, the objectives of monetary policy will be reached sooner and with fewer side effects. The reason lies mostly in what I said before: with the real rate, the natural rate of interest declining, that's where the space for fiscal policy comes in. So if one was to see higher rates sooner, fiscal policy should be active; although probably monetary policy will continue to be accommodative even if fiscal policy will become more expansionary in the early stages of this expansion at least.

Given that's the situation, that's probably going to stay like this for some time in the future, what is the relationship? In some of the speeches I gave, I said that central banks are independent but they are independent in an interdependent world. So to the extent that their inactive fiscal policy doesn't prejudge the objective of price stability, there is no contradiction, there is no threat to the monetary dominance of the central bank.

My first question was on fiscal policy again, I'm afraid: how confident are you that your pleas for greater fiscal policy action are actually being listened to and will be acted upon in a timely fashion in Europe's capitals? Do you have an idea of how much stimulus would be needed in the next couple of years in order to meet the ECB's inflation objective?

Then secondly, with the UK, Japan and the US all doing their own QE programmes in a public reverse auction format, and financial markets' best practices moving to a greater level of transparency, why does the ECB continue doing its PSPP programme in a primarily opaque fashion, with minimal transparency?

President Draghi: Well, the answer to the second question was part of the design when the PSPP was introduced years ago. At that time, it was deemed that to follow the other channel, the reverse auction system, would not be proper, would not be suitable in the situation present in Europe, in the eurozone. So, there isn't any special policy reason, but it was very much a matter of technical convenience.

On the first question, I don't want to make anticipations on whether fiscal policies will react sooner, also because the issue is far from being simple. We know, we say in the introductory statement that the countries with fiscal space should act and countries without fiscal space should create the conditions for their automatic stabilisers to operate freely. Now, what does this mean exactly? Would there be stimulus which spills over outside the countries that actually undertake fiscal policy if they do so? How much of this would go into the countries that need it? This is very much intertwined with the progress that the EMU – the Economic and Monetary Union – will make on designing a central fiscal capacity with genuine capacity to stabilise the economy over the cycle, which doesn't exist yet. So it's far from being a discussion like you might have in one country or jurisdiction, where the issue is whether to expand the deficit today or not. It has to do with governance of the institution.

By the way, the previous question I had about the debt brake makes sense. You asked me that. It's part of the same question, really. In this part of the world, to have an active fiscal policy of the size that might be required... By the way, the present fiscal stances might be expansionary, but if a broader fiscal action were to be required, it's the governance issues which are the most important ones.

My question is: I have heard a lot about you talking to economists. We journalists define you as Super Mario. But my question is what are you taking with you, not as Super Mario, but as Mario Draghi, a person who had a very important job? What are you taking with you, with this experience as President of the ECB?

On a more personal note, my friends tell me that following monetary policy is boring, but with your presidency, it wasn't boring at all; I have learned a lot. Thank you.

President Draghi: Thanks for the compliments. That's one of the most important things; that one should attempt to be not boring. No, the other question is really very deep and not easy to answer. Certainly this experience has been very intense, profound and fascinating; I take this with me. Then how much of this will get into personal reflections is too early to say. Thank you.

I will try again the question about the future, because one year ago I asked Christine Lagarde what you would do after the IMF, and she told me, "I will be a grandmother." It didn't exactly go like this. I would like to ask you if you would exclude any political role on the future, for example. There is much, of course, discussion in Italy about you coming back as President of the Republic in two years or maybe any political role.

The second question is: Germany appointed a new member of the board now, it's Isabel Schnabel, and there are rumours about the fact that the German government might have understood that it's a weakness to have lost so many members of the ECB in these years. How do you view the fact that in the last, I think, ten years Germany had three German members of the board that stepped down? Is it a weakness? Is it strength? Is it something that signals an anomaly in the ECB?

President Draghi: Your first question is, I don't know. I said this many times and for much part of what I'm going to do next, as I said before just ask my wife. She'll know better, I think.

On the second question, Isabel is an excellent economist and she will do very well. She has all the capacities to do very very well: enhance the discussions, outside, inside the ECB, actively participate in the work of the ECB, so we would welcome her appointment very warmly.

A recent survey by the Bank of America reveals that impotence and ineffectiveness of central banks, including the ECB, are the second risk perceived by investors. My question is: do you think that these investor concerns are justified? In other words, is there a risk of financial bubble?

President Draghi: I'm sorry, you asked whether the expansionary monetary policies of central banks is the second-largest risk. I can answer for the eurozone; in the eurozone, and it's a question we ask ourselves every day, many times a day, and I'm saying this because we monitor the market developments very closely. We see some segments of financial markets where

valuations are overstretched. One case is real estate, for example, and especially prime commercial real estate. Now, the causes of these overstretched valuations often don't lead directly to our monetary policies. For prime commercial real estate, it's the action of international investors who are investing heavily in that. For real estate, certainly the low interest rates are important. However when we go and look at how the mortgage market is behaving, in other words if there has been a spike in mortgage lending, we don't see that. We see some increase in mortgage lending in the new mortgages, but overall if you take the aggregate figures, still they really show a solid expansion but nothing... We may have other segments to watch, but frankly, all in all we don't see bubbles.

When we see some bubbles, they are local bubbles that should be, for example, some segments of the bond market, the high yield leveraged bond market – which by the way is not a big issue in Europe. It's more of a big issue in another jurisdiction, but we have to make sure that our banks don't invest into this market, as they used to do before the financial crisis, when they bought lots of stuff that then didn't perform well. For that, the remedies, the answers for many of these potential local bubbles are macro-prudential policies, supervisory policies. Certainly the other important issue is that much of this danger, much of this risk, much of this search for yields happens in the non-banking sector and more specifically in the so-called shadow banking sector. Unfortunately there, the perimeter of macro-prudential policies does not include that sector.

We have some visibility, pretty good visibility, into what happens in the banking sector, which by the way still is about 80% of credit intermediation in this part of the world. But we don't have much visibility for the rest of the financial sector. I'm talking for the non-banks, so for the shadow banking sector.

First of all, I just wanted to say thank you for your candour and composure over the years, and patience with all of our questions. A couple of last questions...

President Draghi: I will say something about that in a moment. I'm sorry, go ahead.

When you started this job, Greece was at the centre of a debt crisis, completely frozen out of the debt market. There was a big restructuring and then a couple of weeks ago, Greece sold short-term debt at a negative yield. Do you see that as a success or a risk?

Then second question: if there's one thing you could fix about the way that the eurozone functions, what would that be?

President Draghi: Well, on the first question, it is clearly a success, and it's a success of first and foremost Greece, of the policies that the Greek governments have undertaken together with the solidarity and under the advice of the IMF, the ESM and, to a limited extent, the ECB as far as the banking and financial sector is concerned. But the main effort is being done by the governments and by the Greek citizens that certainly had to pay a very high price – a terrible price as a matter of fact, especially in the early stages – of a debt deficit financed bubble. So this is a success. It's also in a sense a risk

if these policies are not continued, but we see all the developments there. Greece basically is targeted to continue these policies. So it's a good time for Greece now and frankly, if you compare with three, four years ago it's a good time for Europe, for the eurozone countries. We often tend to be rightly anxious about our objectives when we consider them now. In fact some historical perspective, especially when we judge countries and governments, is very important.

You had a second question about what to fix in the eurozone. There is one thing that all the successful monetary unions have, and that's a central fiscal capacity. In other words, whether this should be a budget or should be a system of insurance... So it's very important to have something of that nature of an adequate size, something that can be used counter-cyclically, something that basically would take care of the fact that the national fiscal policies have, in my view, limited spill-overs on the rest of the eurozone. So one needs to have a central fiscal capacity and of course this should be designed in a way that doesn't create moral hazard. I think that's one of the main reasons for the slow progress on that front: it is the risk that the mechanisms would be used for increasing moral hazard. So the design of the rules is very important. I think that's the main thing.

The question is about the quality of the ECB staff; how important has it been, and how important will it be for Mrs Lagarde, who doesn't have experience as a central banker?

President Draghi: Believe me, it's been important for me a lot, so even though I've been a central bank governor before – for six years I had the privilege of sitting in the Governing Council under the presidency of Mr Trichet – the quality of our deliberations owes so much to the quality of the work of the staff. So it's important and I think in my view, that's the main ingredient of everything we've done and it's the main ingredient in the success of the ECB in its being a credible central bank. It's the main ingredient in the big changes that the ECB had in the past. I think we ought to be very, very grateful to our outstanding staff.

You have been widely credited with saving the euro with three very simple words at a time when many people were betting on a break-up. At the same time, the ECB's policies, your policies, are widely criticised across the region. There is a risk that one day, one country might decide that the euro is not irreversible and will decide to leave. Have you paid too little attention to reaching out to the public, to the people behind or beyond financial markets?

I have a second question for you and I would like to read something to you. It's from a speech that Joerg Asmussen, a former Executive Board member, gave in late 2013. He said, "Italy is too big to be rescued from the outside. It has to make the turnaround on its own. Its fate will critically determine the fate of the euro area. In this sense, the future of the euro area will not be decided in Paris or Berlin or in Frankfurt or in Brussels. It will be decided in Rome." What do you think of this statement, and do you think that Italy will ever fix itself?

President Draghi: When was he saying that?

It was in late 2013, in Milan; a speech in Milan.

President Draghi: Exactly, he was absolutely right. Would you say the same thing today?

I'm asking you.

President Draghi: No, of course not. Things have changed completely and frankly, everybody now in Italy said and stated that the euro is irreversible. So while there may have been hypothetical doubts in one part of the governance of the country, there aren't any more, so it's been accepted. Also, you see, it's part of the normal eurozone developments. The popularity of the euro, you said – the first question – the criticisms are across the region. Well, in a sense they are across a region, but the point is that at the same time, the popularity of the euro has never been so high. So what's happened in Italy is actually where the euro popularity had gone up. It's also part of the general phenomenon.

On your first question, that's an important question. Of course I've tried to do as much as one can do in here, but I think that more can be done, should be done, and one should never be tired of doing it. We here, in a multi-country monetary union, have a difficult... Many things are better here than they are in other jurisdictions, in one-country monetary jurisdiction. But there's one thing that's clearly more difficult; namely to reach to the public of 19 different countries. Clearly, here national central banks are key for communication and they can do, and they do, much more in a sense than a single president or board member can do, because it's a constant communication. So in this sense, it's very important what you said.

There is one other aspect I would just dwell a moment: the natural counterpart of central bankers are the ones who have to implement the monetary policy decisions. They are naturally the banks and the financial markets and other financial intermediaries. At the same time, the independence of a central bank is also based on the support that it enjoys. Therefore, what happened in communication by central banks over the last ten, 15 years is a complete transformation. Nowadays, nobody would pride himself or herself saying: if you have understood me, you are stupid. Nobody would say that today. We all strive for transparency and as you see, as you just – thank you for having said that – for candour. So that has changed, but would we be naturally speaking to the large public? One has to be cautious about that because as soon as you change your audience, you change your language and you naturally step into a different realm: the realm of politics. So yes to an open, broader communication, certainly, but it should be done with caution. Thank you.

President Draghi: So, I should thank you and the thanks are actually substantive; they are not formal only, because of what I just said about communication. Communication has become a tool of monetary policy, so your interaction has been essential in our monetary policy decisions all throughout these eight years. The other thing, frankly, is that with your inquisitive questions, you have stimulated our striving towards greater transparency and greater candour. Again compare to the last 20 years – communication in central banks, and how it changed. I think it did change for a great part because of your role. I don't think that by themselves, central bankers would

have changed communication if left free to be opaque. So thank you for that.
Thank you very much and all the best to all of you.