EUROPEAN CENTRAL BANK
EUROSYSTEM

Introductory statement with Q&A

Jean-Claude Trichet, President of the ECB,
Lucas Papademos, Vice President of the ECB
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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to today's press conference. We will now report on the outcome of today's meeting of the Governing Council, which was also attended by Commissioner Almunia.

On the basis of its regular economic and monetary analyses, the Governing Council decided to reduce the **interest rate** on the main refinancing operations of the Eurosystem by a further 25 basis points and the rate on the marginal lending facility by 50 basis points, to 1.00% and 1.75% respectively. The interest rate on the deposit facility will remain unchanged at 0.25%. This decision brings the total reduction in the interest rate on the main refinancing operations of the Eurosystem since 8 October 2008 to 325 basis points.

Current key ECB interest rates are appropriate taking into account all available information and analysis. In addition to the reductions in interest rates, the Governing Council decided today to proceed with its enhanced credit support approach. In continuity and consistency with the operations we have undertaken since October 2008, and in recognition of the central role played by the banking system in financing the euro area economy, we will conduct liquidity-providing longer-term refinancing operations with a maturity of 12 months. The operations will be conducted as fixed rate tender procedures with full allotment. The rate for the first of these operations, to be announced on 23 June 2009, will be the rate on the main refinancing operations at that time. Subsequently, the fixed rate may include a premium to the rate on the main refinancing operations, depending on the circumstances at the time.

The Governing Council has decided in principle that the Eurosystem will purchase euro-denominated covered bonds issued in the euro area. The detailed modalities will be announced after the Governing Council meeting of 4 June 2009.

Furthermore, the Governing Council has decided that the European Investment Bank will become an eligible counterparty in the Eurosystem's monetary policy operations with effect from 8 July 2009 and under the same conditions as any other counterparty.

These decisions have been taken to promote the ongoing decline in money market term rates, to encourage banks to maintain and expand their lending to clients, to help to improve market liquidity in important segments of the private debt security market, and to ease funding conditions for banks and enterprises.

Today's decisions take into account the expectation that price developments will continue to be dampened by the substantial past fall in commodity prices and the marked weakening of economic activity in the euro area and globally. The latest economic data and survey information suggest tentative signs of a stabilisation at very low levels, after a first quarter which was significantly weaker than expected. The world economy, including the euro area, is still undergoing a severe downturn, with the prospect of both external and domestic demand remaining very weak over 2009 before gradually recovering in the course of 2010. This assessment incorporates a number of adverse developments which are likely to materialise over the coming months, such as a further deterioration in labour markets. At the same time, available indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council's aim of keeping inflation rates at levels below, but close to, 2% over the medium term. The outcome of the monetary analysis confirms that inflationary pressure has been diminishing, as money and credit growth have further decelerated in recent months. Against the background of these developments, after today's decisions we expect price stability to be maintained over the medium term, thereby supporting the purchasing power of euro area households.

Let me now explain our assessment in some more detail, starting with the **economic analysis**. Reflecting the impact of the financial market turmoil, economic activity continued to weaken in the euro area in the course of the first quarter of 2009, in parallel with the ongoing downturn in the world economy. This weakening in the first quarter appears to have been significantly more pronounced than projected in March. More recently, there have been some tentative signs in survey data of a stabilisation, albeit at very low levels. Overall, economic activity is likely to be very weak for the remainder of this year, before gradually recovering in the course of 2010. In particular, the substantial fall in commodity prices since the summer of 2008 is supporting real disposable income and thus consumption. In addition, external as well as domestic demand should increasingly benefit from the effects of the significant macroeconomic stimulus under way as well as from the measures taken so far to restore the functioning of the financial system both inside and outside the euro area.

Taking all these measures and their effects into account, as well as the pronouncedly negative growth in the first quarter of this year and the most recently published forecasts by public institutions, the risks to this outlook remain broadly balanced. On the downside, there are concerns that the turmoil in financial markets could have a stronger impact on the real economy, as well as that protectionist pressures could intensify and that there could be adverse developments in the world economy stemming from a disorderly correction of global imbalances. At the same time, there may be stronger than anticipated positive effects due to the decrease in commodity prices and to the policy measures taken.

Annual HICP inflation was, according to Eurostat's flash estimate, 0.6% in April, unchanged from March. As explained on earlier occasions, the decline in inflation since last summer primarily reflects the sharp fall in global commodity prices over this period. Moreover, signs of a more broad-based reduction in inflationary pressure are increasingly emerging. Looking ahead, base effects stemming from past energy price movements will play a significant role in the shorter-term dynamics of the HICP. Accordingly, we expect to see headline annual inflation rates declining further and temporarily remaining at negative levels for some months around mid-year. Thereafter, annual inflation rates are expected to increase again. Such short-term dynamics are, however, not relevant from a monetary policy perspective. Looking further ahead, HICP inflation is likely to remain positive and below 2% in 2010, with price developments being dampened by ongoing sluggish demand in the euro area and elsewhere. Available indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council's aim of keeping inflation rates at levels below, but close to, 2% over the medium term.

The risks surrounding this outlook are broadly balanced. They relate in particular to the risks to the outlook for economic activity as well as to risks to commodity prices.

Turning to the **monetary analysis**, the latest data confirm the continued deceleration in the pace of underlying monetary expansion. This is signalled, for instance, by the concurrent further declines in the annual growth rates of M3 to 5.1% and of loans to the private sector to 3.2%. The deceleration supports the assessment of diminishing inflationary pressures in the medium term.

Month-on-month developments in M3 and its components have remained volatile, with data for March showing a contraction in most of the respective outstanding amounts. This may partly reflect market participants' investment responses to the past reduction in the key ECB interest rates, which has reduced the remuneration of short-term deposits and marketable instruments and fostered corresponding shifts in the allocation of funds not only within M3 but also to instruments outside M3.

The outstanding amount of MFI loans to the private sector contracted further in March, reflecting mainly a negative flow of lending to non-financial corporations. The reduced amount of financing is again related mainly to loans with shorter maturities, while the net flow of loans with longer maturities remained positive. The decline in short-term lending is likely to reflect to a large extent lower demand in the wake of a sharp deterioration in economic activity and business prospects at the start of the year. Interest rates on short-term and floating rate bank loans to households and non-financial corporations have declined significantly over recent months, indicating that the transmission of monetary policy impulses to the economy continues. Overall, the latest money and credit data support the assessment that both banks and money-holding sectors are reducing their highly leveraged positions built up in past years.

To sum up, the Governing Council's decisions today take into account the expectation that price developments will continue to be dampened by the substantial past fall in commodity prices and the marked weakening of economic activity in the euro area and globally. The latest economic data and survey information suggest tentative signs of a stabilisation at very low levels, after a first quarter which was significantly weaker than expected. The world economy, including the euro area, is still undergoing a severe downturn, with the prospect of both external and domestic demand remaining very weak over 2009 before gradually recovering in the course of 2010. This assessment incorporates a number of adverse developments which are likely to materialise over the coming months, such as a further deterioration in labour markets. At the same time, available indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council's aim of keeping inflation rates at levels below, but close to, 2% over the medium term. A **cross-check** with the outcome of the monetary analysis confirms that inflationary pressure has been diminishing, as money and credit growth have further decelerated in recent months. Against the background of these developments, after today's decisions we expect price stability to be maintained over the medium term, thereby supporting the purchasing power of euro area households.

All in all, since the intensification of the financial crisis in September 2008, the Eurosystem has taken a series of measures that are unprecedented in nature, scope and timing. As a consequence, we have observed a clear decline in key money market interest rates that euro area banks typically use as benchmarks to reset floating rate loans and price new short-term loans. This in turn has led to sharp declines in rates for such loans to households and non-financial corporations. As the transmission of monetary policy works with lags, our policy action will progressively feed through to the economy in full. Hence, with all the measures taken, monetary policy has provided ongoing support for households and corporations.

The Governing Council will ensure that, once the macroeconomic environment improves, the measures taken can be quickly unwound and the liquidity provided absorbed so that any threat to price stability over the medium to longer term can be effectively countered in a timely fashion. Indeed, as has been stressed many times, the Governing Council will continue to ensure a firm anchoring of medium-term inflation expectations. Such anchoring is indispensable to supporting sustainable growth and employment and contributes to financial stability. Accordingly, we will continue to monitor very closely all developments over the period ahead.

Regarding **fiscal policies**, the latest projections for euro area countries point to continued revisions to budget balance estimates and forecasts. Higher budget deficits and the fiscal impact of financial sector support measures will lead to significantly higher government debt-to-GDP ratios. In addition, updated projections by the Economic Policy Committee of the EU show that most countries face a challenging task in dealing with the budgetary costs of an ageing population. Therefore, it is paramount that countries make a strong and credible commitment to a path of consolidation in order to return to sound fiscal positions, respecting fully the provisions of the Stability and Growth Pact. This will preserve the public's trust in the sustainability of public finances and will support both the recovery and long-term economic growth. The credibility of fiscal consolidation commitments will be strengthened if they are part of national policy frameworks oriented to the medium term.

Turning to **structural policies**, it is crucial that the focus is now on strengthening the adjustment capacity and flexibility of the euro area economy in line with the principle of an open market economy. This calls for an accelerated implementation of labour market reforms to facilitate appropriate wage-setting and labour mobility across sectors and regions as well as product market reforms to foster competition and speed up restructuring.

We are now at your disposal for questions.

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Transcript of the questions asked and the answers given by Jean-Claude Trichet, President of the ECB, and Lucas Papademos, Vice-President of the ECB

Question: *I have a couple of questions. The first one concerns longer-maturity repos, I notice that the first repo will take place after the next Governing Council meeting, does that mean that you are considering reducing rates further before introducing this implicit rate floor?*

Trichet: It is at the main refinancing rate at the time.

Question: *I understand that, and so my question is why will it not take place any earlier, does it mean that you are still considering taking rates lower? That is the first question.*

And the second question is, what did you mean when you said that you, in principle, agreed on buying bonds. Did you mean that the Governing Council will actually vote on it again at the next Governing Council meeting? Or is it a done deal, with only the technicalities to be discussed next time?

And finally, if I am not mistaken, the Survey of Professional Forecasters (SPF) is now available, and I was wondering whether the results surprise on the downside in any way, and if so, enough to cause you any concern?

Trichet: To your first question, it should be noted that we did not decide today that the new level of our policy rates was the lowest level that can never be crossed, whatever future circumstances may be. At the same time, with regard to the present situation, the Governing Council considers the present level of interest rates to be appropriate, taking into account all available information and analyses. In particular the fact that the first quarter was much less flattering than projected by all observers and institutions, and that we already know that the new staff projections, which will be published in June, will be revised down significantly compared with our previous staff projections three months ago and will very likely be in line with the most recent projections published for 2009 growth, in particular by the Commission and the IMF.

To your second question, we have agreed in principle. This is therefore a clear agreement and we will present the details and technicalities of this purchase of covered bonds at our next meeting. I would say, at this stage, that we expect to engage in a programme that could be around €60 billion.

Question: *There will be no vote on this again?*

Trichet: There will be a decision on the technicalities.

As regards your third questions the SPF, it was very much in line with most of the analyses currently being produced. We are heartened by the fact that the medium-term expectations remain solidly anchored at levels consistent with our definition of price stability. Let me also take advantage of your question to mention once again, that, according to the SPF, these medium-term inflation expectations have oscillated between 1.7% and 2% since the setting-up of the euro. This is a very small range for this anchoring of medium-term inflation expectations, and at the moment, they stand at 1.9%, which is something that illustrates our very solid anchoring of longer-term inflation expectations, in line with our definition of price stability in the medium term.

Question: *Again about the rate decision and the rate levels: there is a perception in the markets that there is a fundamental reason why the ECB would not want to go to zero interest rates, no pre-commitments on this score, I am not talking about that, but is this perception in the markets right that there is a fundamental opposition of the ECB to ever go to zero?*

Trichet: I stick to what I have already said. We consider the present level to be appropriate, taking into account all available information and analyses. As regards the issue of future rates, we did not decide that the new level of our policy rates was the lowest level that can never be crossed, whatever future circumstances may be.

Question**:** *Did you discuss any other non-standard measures beyond the ones you have just announced? And can you rule out any non-standard measures?*

Another thing I would like to know is, are other asset classes an option for the ECB and what were the positions in the Council when discussing these non-standard measures?

Trichet: First of all, let me say that all the decisions mentioned today – one decision on interest rates, two fully fledged decisions and one in principle on the non-standard measures – were taken unanimously, after very profound analysis and duly weighing, as always, the pros and cons to be sure that we were taking the right and appropriate decision.

As regards the purchase of assets we have decided to engage in the purchase of covered bonds. I gave you already the order of magnitude of what we could do in this domain.

Question: *Just two general questions. First, just to come back on rates, because if I understand the incentives that would be built in here, you need to have some assurances that the main refinancing rate remains stable, otherwise if there is an expectation that it would fall in the future, then that reduces the incentives to participate in the longer-term tenders. Is that logic correct? And if so, would you expect some clear sort of communication next month regarding where the main refinancing rate will remain?*

The second question comes back to the covered bond issue. I wondered if you could explain your general rationale behind this specific asset class? And in that vein, if I can recall correctly, covered bonds are mainly used by the banks in which a lot of German is spoken for refinancing, and not so much in the rest of the euro zone. So are you not implicitly delivering an advantage here to banks that use this particular asset to refinance?

Trichet: On your first point, I have no expectations for the next meeting. We will have our next meeting and we will examine the situation. We will decide on the technicalities for the purchase of these covered bonds. We have a clear rendezvous for that in June. I stick to the two messages I have given today. We have not decided that the new level of our policy rates was the lowest level that we could never cross whatever the future circumstances could be. And at the same time we have incorporated in today's decision all available pieces of information and analyses, including the fact that we know in advance that we will have a level of projections, concerning growth in particular, that will be substantially lower than the previous staff projections and in line probably with what we see as the overall analysis based on the already known facts and figures.

On the covered bonds, I remind you that we are in the euro area of 329 million people, this is a single market with a single currency, and what we are doing is what we judge appropriate for the single market with a single currency. All of us in the Governing Council are striving to take the right decisions expected by the 329 million fellow citizens. Covered bonds were considered by the Governing Council as a segment of the private securities markets that in general has been particularly affected, more so than others, in terms of the impact of the financial turbulences.

Question: *Firstly a question on the covered bonds. Can you tell us how you came to the figure of around €60 billion? Is that some estimate of the amount of stimulus you feel you ought to be injecting into the economy? Is that what your thinking was?*

And secondly how are you going to pay for this? Will the purchase be sterilised or can we write that you are going to be printing money?

And then on the main interest rate: I wonder if you would be prepared to give an assurance today to the 329 million citizens of the euro zone that interest rates, your main interest rate, will remain at the current level or lower for any length of time?

Trichet: On your first question, I give you a rendezvous for the next meeting when we will discuss all the technicalities for this operation, which is new for us and which calls for appropriate handling. Around €60 billion is only an order of magnitude, appropriate for attaining our goal, to help to revive this particular segment of the market.

With regard to sterilisation, it is included in the question of the exit strategy. I mentioned in the introductory remarks that we consider this issue as absolutely decisive. We have to be up to the present exceptional circumstances. And I don't want to repeat all the areas where we were the first central bank to act and to take bold decisions. Whether it was the longer-term refinancing of commercial banks, or at the beginning of the turmoil being the most forthcoming central bank as regards its collateral framework, or when we had to take bold action in particular at the very beginning of the turbulence on 9 August 2007. As regards today's decision taking into account all elements we considered that we could and we should go beyond what had been until now our main channel for enhanced credit support mainly by the refinancing of commercial banks which has, by the way, produced important results. I would like to mention *en passant* the figures which show that thanks to the decisions we have taken so far - they don't incorporate of course the new decision taken today - our one-year money market has lower interest rates than in the sister central banks' money markets. This is also the case at least with one sister central bank for the six- and the three-month money market interest rates. One has to take into account everything, and in particular our handling of our own money market with our full allotment, fixed interest rates procedure, the very forthcoming attitude we have as regards longer-term refinancing, which has even been enlarged today and the collateral that we accept. That being said the Governing Council considers sterilisation and the exit strategy absolutely essential to maintain the maximum amount of credibility in the medium and long term. The public debate emerging on whether or not some central banks are paving the way at the global level for future inflation is extraordinarily counterproductive. We, central banks – and I'm sure that we are all in agreement on this – are determined to solidly anchor longer-term expectations and eliminate these fears about future inflation.

As regards the main interest rate, I have nothing to add to the two messages I gave you a moment ago.

Question: *You said that the level of interest rates is now appropriate. Given the severe recession, interest rates in the euro area, should already be negative, even deeply negative. Can you elaborate a bit on this difference in the 'appropriateness', in light of the traditional measures taken.*

And one question to the Vice-President, Mr Papademos: in your view, what are the reasons for the banks not taking the assistance from the governments so far? Do you think these measures are effective then?

Trichet: As regards your first question, you could put the same question to all central banks in the world, couldn't you? In any case central banks cannot manipulate the three-month, six-month and one-year market interest rates with administrative decisions. We are coping with the means we have to handle the money market, with the credibility of this handling and with the liquidity and credit risks incorporated in the money market interest rates. And I already mentioned the comparison with other central banks - in the view of the Governing Council, the present level of our policy rates today is appropriate.

Papademos: As regards your question on the assistance banks received from governments. The government support that has been provided to European banks has been substantial, both in the form of recapitalisations and in the form of government guarantees. If I recall correctly, in the euro area the total amount of capital injections from governments so far is about €110 billion and the total amount of guarantees on new bank debt that has been provided is about €300 billion. However, at the same time the actual support provided to banks is considerably below the amount of committed support. There are several reasons for this and they differ in terms of their importance across countries. On the whole, the take-up rate is relatively low for government guarantees. The take-up rate, according to the latest available data, is less than 20%. However, in most countries, including countries where the take-up rate is on the low side, it is considered to be adequate overall in the light of the needs of banks – not in all countries but in most countries. For example, banks' needs for government guarantees depend on the time profile of the maturity of their debt and they also reflect the relatively subdued demand for bank loans of the private sector. In the light of these conditions, the demand for guarantees in some countries has been relatively low. With regard to guarantees on short-term bank debt, one explanation is the amount of financing provided by the Eurosystem, which has reduced the demand for these guarantees on the part of the banks. I would add, however, that in some cases perhaps other factors are discouraging the use of government guarantees by banks, and this may have to do either with the pricing of the guarantees on long-term debt or with some specific factors that are discouraging their use.

As regards your question on the measures' effectiveness, I have two remarks. First, overall, these measures have been effective in stabilising the banking system by strengthening banks balance sheets, as well as by improving conditions in the wholesale bank funding market. They have also bolstered confidence in the financial system. Second, with regard to their effectiveness in fostering the provision of an adequate flow of credit to the economy, there is not enough evidence to make a definite assessment. As you know, the provisions of guarantees, in particular, and the other measures have been implemented gradually over the last few months. So we do not have sufficient evidence to answer this question. An additional reason is that it is difficult, given the limited evidence, to disentangle the positive effects of the government measures on credit provision from the negative effects of other factors that are affecting the provision of credit, such as the de-leveraging process of banks or the weakening of the economy.

Question: *I have a couple of questions. One to clarify: it was not clear what your answer was when you were asked whether or not your decision in principle to purchase covered bonds meant that you had in principle ruled out the purchase of other assets. Does this now mean that the ECB is not prepared, if the situation warrants, to purchase other types of assets? Have you limited yourself now to the purchase of covered bonds?*

Secondly, I also want to clarify, you have said that your policy rates are now not at their lowest level or do not have to be….

Trichet: I said we did not decide today that they were at the lowest possible level. I did not say at all that they were not at the lowest rate. I said we did not decide. That is very important.

Question: *I realise, I misspoke. But my question is actually whether or not that includes the deposit rate? And thirdly, you talked about the SPF medium and long-term inflation expectations and, as you point out, the medium and long-term expectations are probably a reflection of the ECB's own credibility in maintaining inflation at your definition of price stability, but perhaps you could give us some insight about what the shorter-term inflation expectations say because they might have more of a bearing on what would happen to inflation or what the inflation expectations are across the horizon of the ECB's own definition of price stability?*

Trichet: As regards your first question on the covered bonds, I have been clear, we have taken the decision in principle to purchase covered bonds. We have not taken any other decision on any other purchase whether in principle or not. So take my response as simple and clear as that.

As regards your question on the deposit rate, the deposit rate is part of the overall rates, and I make no distinction from that standpoint between the various rates.

As regards your question on the medium to long-term inflation expectations, it is clear that we are experiencing a phenomenon of low inflation and foresee negative inflation for a number of months around mid-year. We consider that this does not correspond to a generalised and sustained negative evolution of prices. It is very much concentrated on the base effect coming from the price of oil, energy and some other commodities. It is not generalised and it is temporary, because all the projections that we have indicate that it will go back in the positive territory at the end of the year and will remain there in the next period to come. So I would draw your attention to the fact that from that standpoint, and taking into account that inflation expectations at present are solidly anchored – and I have to say very well-anchored in comparison with other economies – we are in a situation where purchasing power is given to the economic agents, to households, which is good. It is purchasing power for the economic agents, for households in particular, that is now given back after the previous increase in prices. So it has both disinflationary and expansionary effect, as is natural in such cases. That being said, we will remain permanently alert, we will follow very carefully the evolution of expectations. This capacity to continue solidly anchoring inflation expectations, which is really one of the major successes of the ECB, will continue to be fundamental in our eyes. We believe that it is fundamental not only because it makes it possible to avoid either inflation or deflation, but also because it solidly anchors the confidence of our fellow citizens and of economic agents. And confidence is absolutely of the essence at the moment in Europe as well as everywhere in the world.

Question: *Just again on covered bonds. I understand that you are not ready to answer the question of how these purchases will be financed, but perhaps you could give us an idea of the reasoning behind that decision. Are you doing this to lower any credit spread between covered bonds and the risk-free interest rate, or is the main motivation behind it to inject more liquidity into the system?*

Trichet: No, the idea is to revive the market, which has been very heavily affected, and all that goes with this revival, including the spreads, the depth and the liquidity of the market. We are not at all embarking on quantitative easing.

Question: *Has the Eurosystem conducted any bank stress tests recently, or does it plan any in the future?*

Trichet: This is done at the level of the various decentralised surveillance authorities, and of course we are following this and are very alert in this domain. Let me only say that we rely upon the extreme vigilance of all national surveillance authorities, and we have always encouraged them to be in as close cooperation and collaboration as possible.

Question: *First, I wanted to ask a little more about the exit strategy. You said yourself that confidence is of the essence, and I think it would improve market confidence if you announced your exit strategies now instead of a month from now.*

And, second question: some recent economic data have been better than expected, especially the sentiment. Do you see green shoots in the eurozone economy at the moment?

Trichet: On your first question, everybody knows to what extent we are attached to the exit strategy. Everybody knows to what extent we are prudent making a balance between the short term and the longer term considerations. Our credibility is totally intact. We are not in the position that we would have to defend ourselves against the fact that we could not get out of the non-conventional measures taken. That being said, we have a rendezvous as regards the new purchase of assets for the month of June.

On your second question, today in Germany we had an encouraging indication. For the first time after a long period positive hard data followed a number of encouraging soft data in particular PMI and confidence surveys. In both cases we could see what I would call the ‘second derivative’ changing its sign. The sign of the second derivative has changed. It was negative. We were in a free fall, and now we see that there is some kind of a stabilisation. But as I said, we have to be realistic: it is stabilisation at a low level and we continue to be in negative territory. But of course the fact that the second derivative has changed its sign is important. However, we have to be fully aware of the present situation. Behind us we have a very bad first quarter which was much weaker than expected by most observers and institutions. It is behind us, but it has a bearing on the average for this year. Clearly, the second quarter will be less negative, though still negative, and we will see what I called the second derivative operating – fortunately, I have to say. So, the situation is complex and you have to take it with its complexity. But it depends on us, on our capacity to improve the level of confidence of all economic agents that these ‘green shoots’ will be greener and greener, and that will permit what we all want: the recovery to operate as well as possible and without hampering in any respect the long-term future of stability and the long-term confidence of economic agents. It is this balance that we are permanently trying to find. What we have done today gives you an idea of what we believe the appropriate balance should be in the present circumstances with all their complexity.

Question: *Did the Governing Council manage to take all its decisions today, including the purchase of bonds, by consensus?*

Trichet: All the decisions were taken after a very detailed and deep discussion of the pros and cons, the assets and liabilities associated with each of our decisions, but the decisions were taken unanimously.

Question: *Just a short question: What made you embark on this unconventional measures track? Was it more the dip, the economic dip, or was it more the still ailing banking sector here in Europe?*

Trichet: We have been concentrating on non-conventional measures of extreme boldness - fully successful, in our opinion - through the channel of bank refinancing that accounts for more than 70% of the financing of the euro area. After all we have done and improved thus far we also took an important additional decision today. At this stage we concluded that it was appropriate to help a channel of financing in the economy that we saw was obviously in a difficult situation. We thought that it would appropriately complement our main channel of financing for the economy, the channel on which we had previously concentrated our efforts and where we have also taken today an important additional decision.

Question: *One question for clarification because I obviously mistook something for what it isn’t. When I heard about this covered bond programme, I mistook it for quantitative easing. Can you explain to me why it isn’t?*

Trichet: If I might use our own vocabulary, it is part of our “enhanced credit support” operations. We have used this expression for quite a long period of time because we consider all the non-conventional measures we have taken in connection with the refinancing of banks as enhanced credit support. If you wish, you could call that credit easing, because it is a way of improving the functioning of the market that had been affected particularly markedly by the financial turbulences.

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