EUROPEAN CENTRAL BANK
EUROSYSTEM

Introductory statement to the press conference (with Q&A)

Mario Draghi, President of the ECB,
Vítor Constâncio, Vice-President of the ECB,
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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. Let me wish you all a Happy New Year. We will now report on the outcome of today's meeting of the Governing Council.

Based on its regular economic and monetary analyses, the Governing Council decided today to keep the **key ECB interest rates** unchanged, following the 25 basis point decreases on 3 November and 8 December 2011. The information that has become available since early December broadly confirms our previous assessment. Inflation is likely to stay above 2% for several months to come, before declining to below 2%. At the same time, the underlying pace of monetary expansion remains moderate. As expected, ongoing financial market tensions continue to dampen economic activity in the euro area, while, according to some recent survey indicators, there are tentative signs of a stabilisation in activity at low levels. The economic outlook remains subject to high uncertainty and substantial downside risks. In such an environment, cost, wage and price pressures in the euro area should remain modest and inflation rates should develop in line with price stability over the policy-relevant horizon. Overall, it is essential for monetary policy to maintain price stability over the medium term, thereby ensuring a firm anchoring of inflation expectations in the euro area in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. Such anchoring is a prerequisite for monetary policy to make its contribution towards supporting economic growth and job creation in the euro area. A very thorough analysis of all incoming data and developments over the period ahead is warranted.

The provision of liquidity and the allotment modes for refinancing operations will continue to support euro area banks, and thus the financing of the real economy. The extensive recourse to the first three-year refinancing operation indicates that our non-standard policy measures are providing a substantial contribution to improving the funding situation of banks, thereby supporting financing conditions and confidence. In addition, we are actively working towards the implementation of all the measures announced at our December meeting, which should provide additional support to the economy. As stated on previous occasions, all the non-standard monetary policy measures are temporary in nature.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Real GDP in the euro area grew by 0.1% quarter on quarter in the third quarter of 2011. At present, a number of factors seem to be dampening the underlying growth momentum in the euro area. They include moderate global demand growth and weak business and consumer confidence in the euro area. Domestic demand is likely to be dampened by the ongoing tensions in euro area sovereign debt markets, as well as the process of balance sheet adjustment in the financial and non-financial sectors. At the same time, we continue to expect euro area economic activity to recover, albeit very gradually, in the course of 2012, supported by developments in global demand, very low short-term interest rates and all the measures taken to support the functioning of the financial sector.

In the Governing Council's assessment, substantial downside risks to the economic outlook for the euro area continue to exist in an environment of high uncertainty. They notably relate to a further intensification of the tensions in euro area debt markets and their potential spillover to the euro area real economy. Downside risks also relate to the global economy, protectionist pressures and the possibility of a disorderly correction of global imbalances. With regard to price developments, euro area annual HICP inflation was 2.8% in December 2011, according to Eurostat's flash estimate, after 3.0% in the preceding three months. This decline was expected and reflects a downward base effect stemming from energy prices. Inflation rates have been at elevated levels since the end of 2010, mainly driven by higher energy and other commodity prices. Looking ahead, they are likely to stay above 2% for several months to come, before declining to below 2%. This pattern reflects the expectation that, in an environment of weaker growth in the euro area and globally, underlying cost, wage and price pressures in the euro area should remain modest.

The Governing Council continues to view the risks to the medium-term outlook for price developments as broadly balanced. On the upside, the main risks relate to further increases in indirect taxes and administered prices, owing to the need for fiscal consolidation in the coming years, and possible increases in commodity prices. The main downside risks relate to the impact of weaker than expected growth in the euro area and globally.

Turning to the **monetary analysis**, taking the appropriate medium-term perspective, the underlying pace of monetary expansion continues to be moderate. The annual growth rate of M3 decreased to 2.0% in November 2011, after 2.6% in October. As in the previous three months, monetary developments in November were affected by the heightened uncertainty in financial markets.

The annual growth rate of loans to the private sector, adjusted for loan sales and securitisation, decreased to 1.9% in November, from 3.0% in October. The annual growth rates of loans to non-financial corporations and loans to households, adjusted for loan sales and securitisation, both moderated in November, and stood at 1.8% and 2.3% respectively, with slightly negative monthly flows observed for MFI loans to non-financial corporations. Overall, despite the moderation in loan growth, the figures on lending do not so far suggest that the heightened financial market tensions led to a sizeable curtailment of credit in the euro area as a whole in the period to November. At the same time, given that credit supply effects can manifest themselves with lags, close scrutiny of credit developments is warranted in the period ahead.

The soundness of bank balance sheets, supported by the increase in capital positions, will be a key factor in facilitating an appropriate provision of credit to the economy over time. It is essential that the implementation of banks' recapitalisation plans does not result in developments that are detrimental to the financing of economic activity in the euro area.

To sum up, incoming information broadly confirms our previous assessment. Inflation is likely to stay above 2% for several months to come, before declining to below 2%. As expected, ongoing financial market tensions continue to dampen economic activity in the euro area, while, according to some recent survey indicators, there are tentative signs of a stabilisation in activity at low levels. The economic outlook remains subject to high uncertainty and substantial downside risks. In such an environment, cost, wage and price pressures in the euro area should remain modest and inflation rates should develop in line with price stability over the policy-relevant horizon. A **cross-check** with the signals from the monetary analysis confirms this picture, with the underlying pace of monetary expansion continuing to be moderate.

Turning to **fiscal policies**, euro area governments need to do their utmost to support fiscal sustainability by correcting excessive deficits in accordance with the agreed timetables and by moving to a structural balanced budget or surplus position over the medium term. Slippages in the implementation of fiscal consolidation plans of vulnerable countries must be corrected swiftly by structural fiscal improvements. With regard to the new provisions of the EU economic governance framework that recently came into force, it is crucial that all the elements be implemented rigorously. Only ambitious policies to prevent and correct macroeconomic and fiscal imbalances will foster public confidence in the soundness of policy actions, and thus strengthen overall economic sentiment.

The Governing Council welcomes the European Council's agreement to move to a stronger economic union, which was announced on 9 December 2011. The new fiscal compact, comprising a fundamental restatement of the fiscal rules together with the fiscal commitments that euro area governments have made, is an important contribution to ensuring the long-run sustainability of public finances in the euro area countries. The wording of the rules needs to be unambiguous and effective. The further development of the European financial stability tools should make the operation of the European Financial Stability Facility and the European Stability Mechanism more effective. The swift deployment of these tools is now urgently needed. Concerning the involvement of the private sector in financial assistance for indebted countries, we welcome the reaffirmation that the decisions taken on 21 July and 26 and 27 October 2011 concerning Greek debt are unique and exceptional.

To accompany fiscal consolidation, the Governing Council calls for the urgent implementation of bold and ambitious **structural reforms**. Going hand in hand, fiscal consolidation and structural reforms would strengthen confidence, growth prospects and job creation. Key reforms should be rapidly carried out to help the euro area countries to improve competitiveness, increase the flexibility of their economies and enhance their longer-term growth potential. Product market reforms should focus on fully opening up markets to increased competition. Labour market reforms should focus on removing rigidities and enhancing wage flexibility.

We are now at your disposal for questions.
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Transcript of the questions asked and the answers given by Mario Draghi, President of the ECB, and Vítor Constâncio, Vice-President of the ECB

Question: President Draghi, two questions: One, could you please tell us whether today's decision was unanimous and, if not, whether there were some in the Governing Council who called for a change in rates.

And the second question: What is your view of the recent decline in the euro/dollar exchange rate? Is it more likely to stimulate the economy or raise inflationary expectations?

Draghi: As regards your first question, the decision and the whole discussion were unanimous.

With regard to the exchange rate, as you know, I never comment on exchange rates, but I would say that we should keep to the G7 Communiqué of 8 August 2011, in which we reaffirmed our shared interest in a strong and stable international financial system and our support for market-determined exchange rates. Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will consult closely with regard to actions in exchange rates, and we will cooperate as appropriate.

Question: Mr. President, a question on the longer-term refinancing operations (LTROs) that have been introduced: how successful do you think they were? We seem to have some signs that the money market is easing slightly. And how concerned are you that many banks are still taking a "roundtrip" and are depositing the money with the ECB, rather than passing it on to the real economy?

And the other question concerns our former Finance Minister, Mr Steinbrück, who said in an interview that it was high time that both politicians and the ECB gave up the idea that they could not overstep the limits as they have already done; that the ECB was the only functioning European institution, and that you would have to step into the fray, maybe for years, before the European institutions could take over as the lender of last resort.

Draghi: The more time has passed since we had the first 3-year LTRO, the more we see signs that it has been an effective policy measure. In fact, since the last monetary policy-setting meeting of the Governing Council, we have seen several positive developments. The fundamental issue is that the decision provided all banks in the euro area with an insurance against the risk of being without liquidity. And as the operations have a much longer term, the decision also gave all the banks time to appropriately determine liquidity and manage their assets and liabilities in a more effective, way. Since then, we have also seen the reopening of some unsecured bank bond markets, which had completely shut down. Let us not forget that in the first quarter of this year, more than €200 billion of bank bonds fall due. So this decision certainly prevented a potentially major funding constraint for our banking system, with all the negative consequences this might have had on the credit side.

We also saw interest rates declining, substantially, if not dramatically, all along the yield curve **,** initially very much in the short part but, with today's declines, now also in the medium and long part. So we are really seeing clear signs that this money is not simply staying in the deposit facility, but is circulating in the economy.

We also have other signs of what was obviously the first question we had, namely if what we had decided was going to make any difference. We have other signs that this money is actually flowing through the economy. For example, the bidding behaviour in the access to the LTRO is also dependent on the amount of bonds coming due for that specific institution in the first quarter of this year. Also, in terms of this roundtrip redeposit in the deposit facility, it is actually quite interesting to see that, by and large, the banks that have borrowed the money from the ECB are not the same as those that are depositing the money with the deposit facility of the ECB.

But, generally speaking, we have to understand that the more liquidity you inject into the system, the larger the ECB's liability side becomes. So the issue is: what about the real economy, what about the credit part? And it is very hard to assess this by looking at the balance sheet of the central bank. Moreover, there is certainly a lag between the decision to concede to the banks, to give the banks this facility, and the time when this money will actually be used for lending.

But having said that, we do think that this decision has at least prevented a credit contraction that would have been more serious, far more serious. On the credit conditions, as I said in the Introductory Statement, I was referring to the average condition of the euro area. There are parts in the euro area where the credit contraction is already visible and parts of the euro area where the credit contraction is not yet fully visible. So I gave an average view, but we should nonetheless be aware that there are parts of the euro area where the credit contraction is visible and certainly the LTRO, the 3-year LTRO that we have decided on, has come at the appropriate time to avoid a further credit contraction.

I do not know how to comment about Mr Steinbrück's assessment, other than saying that obviously we are always very pleased when people say that the ECB is the only institution that works.

Question: First, both Chancellor Merkel and President Sarkozy have said that the ECB must have a different and more important role in the future with regard to the EFSF and the ESM. Please could you tell us a bit more about it and what you believe the ECB could do in this sense?

Second, yesterday Prime Minister Mario Monti said that Italy must no longer be considered a source of infection for the euro area. What do you think about this?

Draghi: In answer to your second question, I do not comment on other people's statements, because there are so many made about the ECB between one Governing Council meeting to another that we would basically spend the whole time commenting on them. However, I would say that there is no doubt that some of the stressed countries are actually making very significant progress in terms of fiscal consolidation. Furthermore, I think that, to some extent, the markets are actually showing some appreciation for this. As I have said many times before, however, it goes without saying that, if one only undertakes fiscal consolidation measures, one is bound to experience a fiscal contraction in the short run. Such a fiscal contraction ought to be mitigated. First of all, one has to understand that fiscal consolidation is often unavoidable and essential. But, in order to mitigate a subsequent fiscal contraction, one has to undertake structural reforms that are geared towards enhancing competitiveness, growth and job creation, and then confidence will come. Moreover, confidence will come from a speedy and steady completion of the fiscal compact. There are basically three actors in this process. First and foremost, there are the national governments, which need to undertake fiscal consolidation measures and structural reforms. Second, in terms of euro area governance, the fiscal compact needs to be completed in an unambiguous and effective way. By the way, it would be highly welcome if this fiscal compact could be signed by the end of this month rather than waiting until March. The third element is financial and price stability in the euro area.

Your other question relates to the relationship between the ECB and the EFSF. As you know, the ECB will act as an agent for the EFSF. Substantial progress has been made since the ECB was tasked with this undertaking and we are close to signing the agency agreement with the EFSF. We have to understand that the EFSF has a different task from the ECB. The ECB has the task of maintaining price stability and making sure that monetary policy works. This means making sure that the monetary policy transmission channels are, and remain, unclogged. The EFSF has a completely different objective, but we are certainly ready to put all our – I think the word used by my predecessor was "techno-structure" – at the disposal of the EFSF.

Question: I have three questions for you. Well, two and a half. First, looking at recent market developments, at the economy and at political commitment, how confident are you that the crisis will actually stabilise very soon or has already stabilised?

In connection with that, on Greece it looks like the discussion on the restructuring of Greek debt is moving more towards a deal and more towards higher haircuts. I was just wondering what your position was on that? The position of your predecessor was quite clear.

Second, previously it was quite clearly communicated that an interest rate of 1% is the floor for the ECB's benchmark and I was just wondering if that is a somewhat reasonable conclusion to draw in this situation as well?

Draghi: The first question is about confidence in whether the crisis will stabilise. I said in my Introductory Statement that we are seeing a weakening in euro area economic activity, as well as significant downside risks and a very high level of uncertainty. Some survey data seem to indicate that there may be some stabilisation at low levels. However, it is actually impossible to express a judgement on confidence. Some survey data are positive, but the hard data do not yet show this. A relatively new element of the crisis is that there is a lot of heterogeneity in the euro area. There are countries that, all in all, seem to be living through the crisis with lower growth rates, but are experiencing no sizeable developments that you would call a recession. Then there are countries that, because they are stressed and vulnerable to financial tensions, are in fact experiencing an ongoing or incoming recession. To give an average judgement of this very complex, heterogeneous situation is actually very, very difficult at the moment.

With regard to public sector involvement and Greece, I think that when people say that more is needed – let me use this general wording "more is needed" – one should always bear in mind that there has to be a debt sustainability assessment. One was carried out last October. Such an assessment should be based on a variety of factors, including growth rates, fiscal policies, structural reforms and various other fiscal consolidation measures. It is quite complex. One thing is clear, namely that Greece has to bring its fiscal action back on track. It has to complete its structural reforms and basically has to move forward on the fiscal consolidation front.

On your third question on interest rates, we never pre-commit in such situations of high uncertainty. We really look at all factors, monitoring all developments, and then we decide.

Question: I was just wondering whether you had any news from Greece, given that you usually have your ear on the ground, whether you can confirm that you know that the talks are going okay?

And I would also like to give you an opportunity to rule out that something like what happened to Mr Hildebrand at the Swiss National Bank could ever happen at the European Central Bank.

Draghi: As regards your first question, no, I have no news. As you know, one has to also keep in mind that the negotiations in Greece are taking place between the Greek Government and the creditors. The ECB is not a party to the negotiations. It is part of the "Troika" – the Commission, the IMF and the ECB. So, we need to, in a sense, bear this in mind when we comment on these negotiations. I have no news that I can comment on.

The answer to your second question: is "yes". I have to say that we all regret the developments that led to Mr Hildebrand's resignation, because I think that we will miss a very, very good central bank governor. But I also have to say that the ethical code that we have in place at the ECB – which is, by the way, public – prevents anything of the kind from happening. Let me read to you this: "The members of the Governing Council shall not use confidential information to which they have access for the purpose of carrying out private financial transactions, whether directly or indirectly via third parties, or whether conducted at their own risk and for their own account or at the risk and for the account of a third party." And I am actually very proud to say that the ECB's Code of Ethics has actually served as a model for the codes of ethics of other central banks.

Question: Italy has done its so-called "homework", but despite this, the stress still is very high. How do you explain that? That was my first question.

The second is: I know that you don't comment on the assessments of other people, but Mr Monti said today that, with the fiscal compact, the ECB would be more "relaxed". How do you interpret this?

Draghi: As I have said, I have no comments to make on the second question.

With respect to the first question, you can see that the markets are appreciating what has happened and what is happening in Italy.

Question: Mr Draghi, does the ECB have any position on whether Spain, as the euro area's fourth-largest economy, should always send somebody to be on the Executive Board?

Draghi: No, the ECB does not have any position on this.

Question: First, did the Governing Council discuss cutting the interest rate on the deposit facility to discourage banks from parking funds at the ECB overnight?

Second, Lorenzo Bini Smaghi said that he sees no obstacle to a quantitative easing that is tailor-made to fit the specific characteristics of the euro area should deflation risks emerge. Do you share this assessment and what would tailor-made euro area quantitative easing look like: would you perhaps try not to spend as much money on public debt?

Draghi: With regard to the first question, no, we have not discussed decreasing the rate on the deposit facility.

As for the second question, I do not really comment on Mr Bini Smaghi's views and I really do not know what a tailor-made quantitative easing for the euro area could be. You should ask him, really. But, more seriously, the route that the ECB has taken is based on enhancing the bank lending channel, given that banks and banking systems basically represent 80% of our credit markets, which is a different situation than in other parts of the world, where capital markets represent a much higher share of the credit markets. That was one of the reasons why this was done.

Question: First, given the success of the 3-year LTRO that you talked about, does this now mean that the ECB can further step away from its purchases of government bonds? Assuming that the 3-year LTRO has answered some of these questions about the transmission and monetary policy; can the ECB pull back even more from, if not actually stop buying, government bonds?

Second, the ECB has been critical of Hungary's central bank legislation. Legislation was passed at the end of last year to address some of these concerns. What specifically do you think Hungary needs to do to address the ECB's concerns about its central bank legislation?

Draghi: In answer to the first question, you will certainly remember that the main rationale behind the Securities Markets Programme was the unclogging of the monetary policy transmission channels. We can see, even nowadays, that the interbank market is still not functioning. It is rather comforting to see that some opening of the unsecured bond market is actually taking place, but we are really at the beginning of this process and let's hope it will continue.

On Hungary, I have to say that we are really very concerned, because the ECB is extremely careful in identifying signs of pressure by the decision-making bodies of any Member State on their NCBs. I think that these pressures are inconsistent with the spirit of the Treaty as far as central bank independence is concerned. We made clear our concerns about this piece of legislation. Some of our concerns have actually been taken care of, but others remain. Therefore, the details of this legislation, which was passed on 30 December 2011, will now be examined with a view to reflecting on it in the ECB's forthcoming Convergence Report for 2012. I am also confident that the European Commission is looking into this issue. So, yes, we are concerned about that.

Question: First, an increasing number of economists say that, besides private sector involvement, you also have to think about official sector involvement in Greece in order to stabilise the situation, and that basically one has to be prepared to accept a write-down of 100%, including by the ECB, with the possible exception of the IMF. What are your thoughts on that?

Second, there are calls to increase the firewall in case of a crisis or an escalation of the crisis, and some people think it would be good to have the EFSF and ESM co-exist and thereby increase the size of possible funds to nearly a trillion euro. Do you think this is a useful proposal?

Draghi: Let me answer the second question first. I have said several times that, in order to have a firewall that is really effective, it has to be operational in an effective way, but also fully equipped to face the scale of the challenges that are in front of us. So, from this view point, I think that anything that the governments are able to do to increase that firepower is to be welcomed by the ECB.

On the first issue, as I said before, I really am reluctant to comment on negotiations in which the ECB is not a direct party and that are actually taking place at this point in time. It is clear, however, that no amount of relief is sufficient, whether it is from private creditors and/or official sectors, if you do not have in place fiscal consolidation and structural reforms. That is something that we have to keep in mind. As usual, we focus on the relief side, but I think we should focus first on the progress or lack of this on the fiscal consolidation front and, in the case of Greece, of course, on structural reforms; both of them really.

Question: Two questions: firstly, your predecessor was always keen, whenever possible, to prepare financial markets for interest rate moves. Given that you have noted some signs of stabilisation in the euro zone and you have not said anything to make people think a rate cut is in the pipeline, would I be correct in concluding that rates will remain unchanged at your next meeting, which is only a few weeks away from now?

And the second thing, just coming back to Greece, I would just like to know exactly what the ECB's position is on its own bond holdings. Again, Mr Trichet said that the ECB would not take part in PSI as far as Greece is concerned. Would you confirm that that is still the position?

And on the slightly technical but obviously very important question, there was this movement to include collective action clauses retroactively in Greek bonds, which would obviously affect the Eurosystem's holdings of Greek bonds. Would you be prepared to accept collective action clauses retroactively in your bond holdings?

Draghi: On the interest rates, since you have quoted my predecessor, he used to say we never pre-commit. Let me make three statements and you can then make the best of them that you can. The first is that inflation has to be in line with price stability in the medium term. The second is that the monetary stance remains and will remain accommodative. And the third is that uncertainty is very high and we will monitor all the developments and will stand ready to act.

As regards Greece as I said, I am reluctant to make any comment about our intentions because really we are watching this negotiation and then we will make up our mind. But may I ask the Vice-President if you want to add something on the ECB's stance on Greece?

Constâncio: Just to confirm that the stance is the same as it was before. PSI, by definition, is private sector involvement so we are not involved in those negotiations.

Question: Mr Draghi, the ECB gave a lot of liquidity to the banks, but they seem to be very prudent. They seem to be worried about the rules of the European Banking Authority in terms of capital. Do you think these rules are mandatory or is some flexibility possible?

Draghi: I think there are usually, by and large, three reasons why banks may not lend. One is a lack of funding and we have certainly addressed that, and will continue addressing it, by the way, with the second 3-year LTRO in February. The second reason is a lack of capital. And the third is risk aversion. So your question is about the second, a lack of capital. Now, the EBA exercise was in a sense right in itself, but it was decided at a time when things were very different from what they are today. There would be an optimal sequencing of events here. First of all, the governments should have had capital in place in case the EBA stress test was to show a need for capital, but they did not have it by the time the EBA actually performed the test. Second, the EFSF should have been in place, because that would have had a positive impact on the sovereign bond market through its operations. But the EFSF was not in place by the time the EBA completed its exercise. So the capital needs that have been found are basically on the basis of prices of government bonds, which are under conditions of extreme stress. And in the meantime the overall economic situation has changed. So in itself under these circumstances the EBA exercise has turned out to be pro-cyclical. I am confident that there is no likelihood at all that the same exercise is going to be repeated in the future. We doubt the conditions that I mentioned before. You will remember that the US Government had the stress test two years ago, but they had capital in place by the time they completed the test, so they were able to recapitalise their institutions according to what had come out of the stress test.

Question: Mr Draghi, you are now pushing for growth in countries such as Italy, but, since your rules forbid spending money for investment, you are pushing for no-cost growth therapies, such as liberalisations of pharmacy licences and taxi driver licences. Do you really think that adding a few more taxi cabs in Rome would cause a recovery in Italy? What is your answer to the open letter from a taxi driver to the Financial Times saying that you want to turn Italy from a democracy into an oligarchy?

Draghi: I'm sorry to say that I did not read the letter. I think that structural reforms are needed, as I said, to enhance growth, competitiveness and job creation more than anything else. Let's not forget that the unemployment rate in the euro area is now creeping towards 10.3%, so job creation is first and foremost one of the main objectives of economic policies, and should be such in all countries.

Question: Has there been any discussion in the Council about enhancing or tightening insider rules for its members after what has happened in Switzerland?

Draghi: No, there was no discussion, but I think I answered the same question before. We have a Code of Ethics, from which I read out a passage, which I think is very good, very tight and very appropriate. And this Code of Ethics has actually – as I said before – become a model for the codes of ethics adopted by many NCBs within the euro area.

Question: The first question is about the balance sheet you have referred to. How worried are you about the risks/losses to you because of the expanding balance sheet, and do you think that you should put a cap on it?

Relating to that, how much of an update are you expecting in the second 3-year-tender coming up in a few weeks?

No PSI on Greek bonds, but would you under any conditions be willing to accept losses on the Greek bonds that the ECB holds? Or would you even be willing to sell them at the same amount that you actually paid for them, or do you expect to get the full amount, the face value, back at maturity?

Draghi: On the first question: there is no doubt that by expanding the collateral eligibility rules, as we have done to increase access to the 3-year LTRO to a much larger variety of banks, we are also expanding the potential risk that we are taking onto our balance sheet. But our risk management is actually very, very careful and we have a very well developed system of haircuts, of risk-pricing and another risk reduction rules. So, even though I think we are making a substantial contribution to the real economy in accepting this new collateral, we are also quite confident that we will manage the risks entailed. We would not have decided that unless we were sure of this.

The answer to the second question is that we do expect substantial demand in the second 3-year LRTO.

And on the third question, let me say something about the PSI because, if we go back, the PSI was, I would say, an understandable political response to the indignation of the people of Europe in the face of selfish behaviour by some governments, when making their fiscal policy and their budgetary policy. But this had several, serious unintended consequences, and we are living through them now. I really welcome the commitment the leaders made at the European Council of 9 December 2011 to never undertake another PSI in future. In this sense, it can be said that Greece is unique.

Question: You have just mentioned that job creation should be first and foremost for all national governments. Is that a "green light" to programme countries such as Ireland to show greater

flexibility in the near future on their programmes – away from solely concentrating on austerity and towards greater flexibility for job creation?

And secondly, you have some new faces at your meeting today. Particular regarding the new French and German colleagues, one of the German newspapers said you made a very "Salomonic" decision in dividing responsibility, particular for the bond buying exercise, between France and Germany. Could you explain your thinking in re-dividing competences within the Executive Board?

Draghi: Well, it was not a "green light" in the sense you mentioned. Job creation must be a primary objective, but it does not mean that there are no equally important objectives. You have to have job creation through structural reforms – that is the key thing – accompanied by price stability and fiscal consolidation. That it is in the sense the "green light": a "green light" to undertake the necessary structural reforms that could enhance competitiveness, job creation and growth.

On the second question, much has been made of this, but in fact our decisions are collegial and all decisions were taken by unanimity: suggestions were put forward, the interested people were asked what they really wanted to do, and then we easily agreed about the sharing of tasks and responsibilities.

Question: When you speak of PSI, there are some economists that say the PSI was a mistake. What is your impression or judgement on that? And some economists also say it would be better to "roll back" with this. Do you agree? In your view, is what is going to be decided for the ESM starting from July enough?

Draghi: As I have said already, the PSI was an understandable political response to the situation. But it had unintended consequences, the measure of which went over and above any expectation at that time. I think everybody has realised that we certainly do not want to have any PSI in the future. And I think the leaders committed to this at the 9 December European Council. So, one cannot really say whether it was a mistake or not. It was, as I have just said, an understandable political response that had consequences that were unintended. And it has now been dropped by the leaders.

Question: …and what about the calls for dropping the PSI in Greece?

Draghi: We have negotiations taking place. It is not clear to me what is meant by dropping the PSI in Greece now.

Question: What do you consider about the measures approved by the new Spanish government?

Draghi: Well, as I have said, I do not usually comment on single countries – and this holds for Spain as it held before for Italy, Ireland and so on. But the general judgement that I gave before of the countries that are undertaking serious fiscal consolidation efforts and serious structural reforms is confirmed. The progress we are seeing in the euro area from this viewpoint is really extraordinary. What we have seen in the last four or five months all over the euro area is really extraordinary.

Question: We saw a very successful Spanish bond auction today and I was wondering: do you see this as a sign that the "Sarkozy trade" is working?

And secondly, in reference to your earlier comments on the collateral changes: is there a deadline for the collateral changes? When do they come fully into effect?

Draghi: On your second question, work is under way to make these changes in time for banks to be able to benefit from the new eligibility rules for the next 3-year LTRO in February.

On the first question, the auction was favourable and, in general, we observed declines in the yields all across the spectrum in several countries today. We sense this has been a trend: before it was focused on the short-term part of the yield curve; now it is also moving to the medium and long-term part. Is this evidence that the trade is actually in place or not? Frankly we do not have enough elements to say that. We have to appreciate – and I have one specific reason for saying this – that the institutions that bid at the bond auctions and the government bond auctions are not exactly the same as the ones that can borrow from the ECB. You have several institutional actors that are not banks and therefore cannot borrow from the ECB, but can bid at the treasury auctions. And on top of this, you may have foreign investors as well, which certainly do not borrow from the ECB, but can bid at the auctions. So, we are not now in a position to assess the relative importance of the two types of actors.

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