The Economic Club of New York

The Honorable Benoit Coeuré

Member of the Executive Board

European Central Bank

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Good morning. Good morning to all of you and thank you very much for the invitation. And thank you to Terry for the kind introduction. I'm very glad to hear that Europe is still the center of the world. That's wonderful to hear. And consistently I will center my remarks today on the Eurozone, the economic prospects in the Eurozone, and what the ECB is doing about it. And I very much hope that we have enough time for questions and answers.

So where do we stand today in the Eurozone? I would like to focus in particular on developments in the real economy and on the inflation situation which is crucial for us given the mandate of the European Central Bank which as you know has a primary mandate to deliver price stability so it's a slightly different mandate from the US Fed. And so anything that has to do with prices, inflation expectations, is extremely important for us and pretty much motivates everything we've done recently and everything we might do in addition.

I will also say a few words on credit and monetary developments and on the contribution that the comprehensive assessment of Eurozone banks that has recently been completely by the ECB can make to the broader macro-dynamics. The comprehensive assessment is seen not only as a supervisory exercise but also as a contribution to recovery in Europe.

So starting with the economic recovery and the economic situation more broadly in the Eurozone, the key message and the key conclusion when we look at the recent data is that the economic recovery in the Eurozone has less momentum. We've seen some moderate expansion

in the first quarter of 2014, but the Euro area GDP rose by a mere 0.1% in the second quarter of this year and we'll know the numbers for the third quarter tomorrow actually. So we'll see what the numbers will be. But while a part of this slowdown in growth seems to be the result of one factor, in particular weather, the weather, the weather in Germany in particular, which is temporary, it seems also that we are seeing a more general loss of momentum which is of course a matter of concern for us, available evidence suggests that growth in the third quarter is also likely to be lower than previously expected but we'll know tomorrow.

In particular, the hard data for the period between July and September and also the more recent survey results, the soft data that we have, points to a loss of cyclical growth momentum, but it remains consistent with a modest expansion. So in other words, we expect growth to be weak but to remain positive in the second half of 2014 which is not such good news in itself. Higher than zero is better than zero but it's still not enough to solve the problems that the Eurozone is facing. So it's still a matter of concern that growth will be only marginally positive in the second half of 2014, and we have to address it. We'll know more as I said tomorrow when we get the data and also we'll know more in the first week of December when the ECB staff comes with a new forecast which is always an important input in our decision-making process. And last week we had the European Commission forecast which also has marked down growth forecasts for 2014 and 2015. So it's a pretty consistent picture here.

That said, not all is gloomy, so there are also silver linings here. Financial conditions have

improved a great deal in European markets with yields going down across the board in all countries, in all market segments, or nearly all countries and all market segments. And improved financial market conditions are now finding their way into the economy, and that is an important fact that we've seen through this crisis. We've seen a disconnect between financial market conditions in Europe which have been improving steadily since 2012. Since the summer of 2012 yields have gone down by a large extent. But it's only recently that the funding conditions of banks and then the rates of loans to corporate and households in the Eurozone have also started to decrease. So there has been a lag in the transmission of the improved financial market conditions but now we're seeing rates on loans to, in particular to non-financial corporations going down everywhere and we are seeing the dispersion of rates of loans to the real economy also going down. So we are seeing both an improvement and a reduced fragmentation in the financial conditions across the Eurozone which is good news.

Also we are seeing an improvement; I would say a slight improvement of labor markets which is maybe less well known. Employment has been increasing continuously for several quarters now in the Eurozone, and the unemployment rate has continued to decline by around 0.1% per quarter which is not a lot but still is the right direction. We are seeing labor market conditions improving – in particular, in the periphery of the Eurozone and certainly Spain for instance is a case in point where labor market reforms are starting to bear fruit and to materialize in lower unemployment numbers. Here also we've turned the corner and we're going in the right direction.

But that said, this comes against a background of a weaker growth momentum and also with very

low inflation which is my second point. According to the latest flash estimates, inflation which we measure by the Harmonised Index of Consumer Prices, it's true that 0.4% in October on a yearly basis. And you know that the ECB has an objective to have inflation lower than 2% but close to 2% so we are far away from the ECB objective which is enough for us to worry.

Core inflation, that is inflation excluding food and energy, declined again to a historical minimum of 0.7%. This is not unprecedented so we're already seen episodes in the history of the Eurozone where inflation was low and where core inflation was low, but it's still a minimum. And what is also a matter of concern is that we are seeing a decline both in headline inflation and in core inflation which suggests that the underlying causes are more persistent than in previous episodes. Say in 2009, headline inflation was negative. Nobody was talking about deflationary risk at the time, and that was also because core inflation was up. So it was pretty clear that the decrease in inflation was a temporary one and was due to, mostly to energy prices.

Today we are seeing both headline inflation and core inflation being low which is more worrying for us. And the HICP inflation has remained below 1% for one year now which again compares to our objective of below but close to 2%.

So this downward trend in Eurozone inflation started in late 2011. Headline inflation has been primarily driven by global factors such as commodity prices, exchange rate development so the Euro being stronger until recently, until the summer of 2014. And so it is just a food and energy

price component that explains most of the low level of inflation which is of course compounded with the strong Euro.

But since the end of 2013 we’ve also seen a low growth of non-energy, industrial goods, and service prices which has added to downward pressures on HICP inflation and which is more worrying from our perspective because this is not exogenous to the Eurozone. This is something that is coming from the slack in productive capacity in the Eurozone. So that is something we can do something about while ups and downs in global energy and food prices, it’s something that we have to accept. While anything that is coming from that the degree of slack in our economy, that is something that a central bank should worry about and this we are seeing increasingly.

So looking ahead we face a very subdued outlook for inflation over the horizon of the ECB projection which extends until end 2016. This is also confirmed by recently published forecasts; say European Commission forecasts which include a further fall in oil prices which is putting downward pressure on inflation at least in the short term. So inflation dynamics, I expect it to remain subdued. Inflation is expected to remain low for 2014, for the remaining of 2014 and for 2015, and to strengthen only gradually in 2015 and 2016.

It is important to highlight that at the same time in our analysis, the risk of outright deflation remains remote. We are not seeing a large proportion of items with decreasing prices. We are

seeing that in some particular Eurozone countries where there was a need for price level adjustments after the crisis, because that was part of the adjustment process, to regain competitiveness and to absorb imbalances after the crisis. So there was a degree of internal devaluation which was needed in some countries and which was good as an adjustment process but across the board in the Eurozone we're not seeing a large number of items with falling prices as was the case in Japan in the early 90s for instance. So we are not seeing falling prices creeping very deeply into the economic fabric except in a number of countries where it was needed anyway. And we are also seeing long-term inflation expectations remaining relatively well anchored. For instance, a survey of professional forecasters, so private sector forecasters which was published today, shows that inflation in 2019 is expected to be 1.8% which is very close to our 2% objective which is exactly consistent with our definition of price stability, below but close to 2%. So that is what economists expect in 2019. So now, of course, 2019 is far away from today and the question is how do we get there? But the long-term expectations remain ___.

And finally turning to bank lending which is extremely important in the Eurozone which as you know is an economy which is primarily funded by banks. Eighty percent of the funding of non-financial corporations is through banks. So the credit supply matters enormously for the recovery.

And here we have mixed news. There has been a very substantial easing in banks' funding conditions, so the rate at which banks can fund themselves on markets has decreased a great deal

including in the periphery of the Eurozone. Also banks have regained market access in most, in all Eurozone countries and they are much less reliant on central bank funding than they were a couple of years ago. But this improvement in the funding conditions of banks, so on the liability side of banks, has been passed only to a very limited extent to rates charged on bank loans, on the asset side of banks, which just summarizes the issues we are facing with the balance sheet of Eurozone banks not being in a position to pass these improved funding conditions. As I said, we now have evidence that rates to corporates are declining and that the dispersion across countries of these rates are declining which is good but it's very recent so we may have turned a corner also here but it's only very recent.

And so as a result we continue to see a persistent weakness in both the growth rate of money and the growth rate of credit. The recovery in loans to non-financial corporations is slow. They still decline on an annual basis so they decline by a lesser extent so the second derivative is the right one but it's only a moderate matter of, it's only moderately comforting that the second derivative is the right one. We would like to see the first derivative being the right one so we would like to see loans increasing. They are still decreasing but by a lesser extent. And so we may have turned a corner but we need more data to confirm that.

And this recent improvement is confirmed by the bank lending survey that ECB runs for the Eurozone where we are seeing credit standards, so non-price conditions of credit also improving across the board in the Eurozone. Here we can expect a further strengthening of banks' balance

sheets and further improvement of credit standards following the comprehensive assessment of Eurozone banks. The Eurozone banks have been, by and large, in a wait and see attitude for the last two years because they were undergoing this comprehensive assessment and now that the numbers are out they can focus again on their core business which is to lend to the economy. So here also we expect an improvement. So that was the broad picture.

How does the ECB respond? So as I just said, what we see is a subdued outlook for inflation and a weakening in the growth momentum and a continuously sluggish monetary and credit dynamics which confirm, which all confirm the need for a very accommodative monetary stance for an extended period of time. So it's not only about stimulating the economy now, it's also about providing reassurance to economic agents that the stance will remain very accommodative for an extended period of time because this is what is appropriate for the Eurozone economy which is lagging in the recovery, in particular it is lagging the US economy.

So the Governing Council of the ECB has adopted a combination of measures to ensure that. We've reduced the main policy rates including bringing the rate on our deposit facility to minus 20 basis points which we consider as being the effective lower bound for our policy rates. So we are not going to cut rates anymore. The main refinancing rate is 5 basis points. The deposit rate is minus 20 and see that as the lower bound. I can explain why if you're interested. This is it in terms of standard monetary policy measures.

We also decided on a credit easing package with two components. First, a targeted longer term refinancing operation which are repos, four-year repos with a term premium of 10 basis points over the main refinancing rate. So the main refinancing rate being 5 basis points, this is 15 basis points for a four-year loan which is conditional on banks actually lending to the real economy so banks expanding their portfolios of loans. And second, so that's the first pillar, and the second pillar is outright purchases of covered bonds and ABSs on the secondary market, so expanding our monetary policy portfolios through open market operations.

So why did we go for this kind of combination of measures? Because we need to take into account the predominantly bank-based financing mix of the European economy. We want to enhance the transmission of the lower rates of the accommodative monetary policy stance by supporting lending to the real economy and for that we need to act on the bank lending in general because this is how the economy works. And we also need to provide an alternative to the bank lending channels since banks are still facing difficulties to lend to the economy and that is why we are buying ABSs and covered bonds as a way to shortcut the bank lending channel and to develop capital market alternatives to direct bank lending. So it is a credit easing package and it is tailored on the specificities of the Eurozone economy, and because we want to make sure that the liquidity we are creating is reaching the right places and that is non-financial companies.

We also have emphasized that this package of measures, so TLTRO, targeted lending plus buying ABSs plus buying covered bonds will have a sizable impact on the balance sheet of the

ECB, of the Euro system. We expect this combination of measures to move the size of the balance sheet of the Euro system towards the size it had at the beginning of 2012, or in March 2012 more precisely. So we want to regain control of the size of our balance sheets. So far we had relied mostly on repo operations which worked extremely well, but which were conditioning the size of the balance sheet of the ECB on demand for liquidity because this was repos and fixed rate full allotments meaning that bonds could get as much money as they wanted on a weekly basis. But we've seen the demand for short-term liquidity declining recently meaning that the size of the balance sheet of the ECB has declined and we want to regain control of the size of the balance sheet and that's why we are also, in complement we are developing these outright portfolios of covered bonds and ABSs to steer the size of the balance sheet back to where it was in 2012. It's not a name in itself but it's instrumental in reducing the uncertainty as it surrounds the effectiveness of our measures.

An important consideration here is that you've got to make a difference between the long-term direction of the balance sheet of the ECB and the short-term fluctuations. We very much emphasize the direction of the balance sheet expansion. Now there are short-term fluctuations, because in the short-term the size of the balance sheet of the ECB depends very much on weekly liquidity operations. And you can see ebbs and flows in the demand for liquidity on a weekly basis so there will be short-term fluctuations around this long-term path. And this is not something that you should put too much emphasis on. What matters really is the medium-term direction that the Governing Council wants to give to the balance sheet. So don't focus too much

on the weekly numbers for the size of the balance sheet of the ECB. It depends entirely on short-term shocks to liquidity. It can go both ways. What matters here is the direction and the expectation that it will go back to the size that we had in 2012.

So I could say more about the design, the exact design of this credit easing package but I will be happy to answer any question on either the targeted long-term operations or the ABSs and covered bond purchases. As for ABSs we'll focus on senior tranches of ABSs based on loans to the real economy in Europe. And as far as covered bonds as concerned, we've already started actually. So far we've bought around 11 billion euros of covered bonds which is around half a billion per day so it's not an exact, it's not a target but it gives you the direction that we want to take in terms of building of this new portfolio. And for the ABSs, the Governing Council decided recently, last week, on the parameters and we'll start buying before the end of November in this market.

As a total universe of assets that we can buy given our parameters, given the restrictions we put on the credit quality of the assets is 600 billion euros for covered bonds and 400 billion euros for ABSs. So broadly speaking that's a possible universe of 1 trillion euros that we can buy. But of course not all of it is available on the market so we have to adhere to interact with the market and to understand better how far we can go, how deep we can go into that market to achieve our objectives.

So as I said we've just started. The combination of all these measures including the rate cuts has already led to a considerable easing of the monetary policy stance in the Eurozone even though there is more to come. There will be a second installment of our targeted liquidity operations in December. We'll start building the outright asset purchases as I said. So we are still at the beginning but already this has contributed to a considerable easing of monetary policy conditions in the Eurozone. It has supported the forward guidance that we give on the future course of our key interest rates. This you can see, for instance, when looking at the shape of the money market curve in Europe. When you look at forward money market rates in Europe, the forward curve has been very flat, very low, and very stable which is exactly what we want to achieve. We want to make sure that the financial environment in Europe is fit to the conditions we are facing which is an economy which is lagging the US and the UK in the recovery. We want to make sure that the conditions remain appropriate whatever happens in the rest of the world. So we want to insulate the Eurozone economy from any shock to financial market conditions that would arise in the rest of the world.

So the bottom line here is that you can expect increasing differences in the monetary policy conditions and in the yield curves between the Eurozone and either the UK or the US There will be a disconnect here.

So is that all? Are we done with it? It will depend entirely on the data we'll see and our analysis of the European economy. It will depend on how much, as I said, how deep we can go into

buying assets on these particular markets, ABSs and covered bonds, and here we need to interact with the market to understand how much we can buy.

There can be contingencies as medium-term inflation prospects can deteriorate. What we've seen today from the survey of professional forecasters is not a deterioration. We are seeing inflation expectations being marked down but still close to 2% in 2019. So we are not seeing that contingency materializing today, but it can happen. And we certainly don't want to be in the situation of say Japan in the 90s where inflation expectations would be ___ and would move away from our 2% target because when you see it, it's too late, and it's very difficult to come back. So we'll follow it very carefully. And should the medium-term inflation outlook deteriorate, the ECB and the Governing Council of the ECB is unanimous in its commitment to use additional measures and additional unconventional instruments within our mandate. We've tasked the ECB staff and the Euro system committees which comprise all national central banks in our system to work on it to ensure the timely preparation of further measures to be, for these measures to be ready to be implemented if needed. So we want to be ready to face any contingency here and we want to be able to do more if needed.

So my last remark is on the Eurozone banks and the comprehensive assessment which has been an important milestone and an important step in the recovery of the region. As I said, it is clear that in an economy which is based on bank funding, the monetary policy can have its full impact only if the banking system is in good shape, if it works well.

We disclosed at the end of October the comprehensive assessment of the main banks in the Eurozone which was mandated on us by the European Parliament as a final step before the ECB takes over the direct supervision of the largest Eurozone banks which actually has started on the 4th of November so the ECB is now the supervisor of the largest banks in the Eurozone. But for that we had to, we needed, we needed to know exactly what's inside those banks and that is the purpose of the comprehensive assessment.

It involved more than 5,000 experts at the ECB, national competent authorities, and also independent auditors and experts on some specific aspects. This was both about the quality of the balance sheets and also a stress test to measure the resilience of banks to an adverse shock. We found that the adverse scenario in the stress test would lead to a capital reduction in the Eurozone banking sector by 263 billion euros including a 25 billion euro shortfall for those banks that would fail the minimum regulatory standards under this adverse scenario. We have also found that Eurozone banks would increase their provisions and adjust their asset valuation by a total of 48 billion euros. And we found that non-performing exposures under the harmonised definition that we now want to use would increase by 136 billion in comparison to what banks had disclosed, in comparison to their own definition of banks.

So this confirms that the vast majority of Eurozone banks are now in a position to support the recovery. And on average the capital level of Eurozone banks exceeds regulatory requirements

by a large margin. And those banks which face a capital shortfall have undertaken remedial action or we've undertaken remedial action to reach these required levels.

We also see that the comprehensive assessment has been instrumental to restart the market for bank assets by removing the cloud of uncertainty that was hanging over the valuation of bank assets in the Eurozone. So it's also an exercise in setting a market price and making the market, allowing the market to restart which creates room for a significant restructuring of banks' balance sheets so that it can recreate room to extend loans to the real economy. So that is not a static exercise, it's also an exercise in setting a market price so that banks can now manage more activity in their balance sheets and recreate room to lend.

It is not the end of the story. We see it very much at the beginning of the story. We've opened the lid of the box. We now know what's inside the box. And we'll use the unprecedented amount of information that we got through this comprehensive assessment to enforce a stricter and more even-handed supervision across countries. And we'll use it also to carry forward the harmonisation effort across member states and this applies in particular to the definition and to the quality of bank capital where we've uncovered significant differences across countries. We now know the differences and we now have a harmonisation agenda which we can do partly through supervisory instruments but which may at some point also require changes in Europe to ensure harmonisation in the definition of capital. So it's also the start of a process.

So let me wrap up. The recovery is ongoing but it has lost some of its momentum and there was a need for the action. Time will be needed for the positive effects of our credit easing package to fully materialize, especially as some of the measures will be built up over a number of months, in particular these new long-term lending operations and these new outright purchases will build up only over a number of months. We are confident that we'll reach the expected objective including bringing the size of our balance sheet back towards its 2012 levels. We also, we are ready to do more as needed and we've tasked our people to look into it.

Now what we really should bear in mind is that the effect of all these monetary policy measures would be enhanced in an environment where Euro area governments would take forward structural reforms and would make their economies more flexible and would make the single market in Europe work better, also to reduce fragmentation and to allow liquidity to flow where it is needed which is not only about monetary policy. This is also about the functioning of markets. And this is not something that we can do alone so we need action by governments to make markets work better. We need action by governments to recreate confidence in their own economies. We need action by governments to support investment so that aggregate demand is not supported only by monetary policy but also through other elements of macroeconomic policies.

So we need a consistent action by all parties, monetary policy independently, and as I said we are committed do what we have to do, but we need combined action also to support aggregate

demand coming from governments. And we need action to support total factor productivity, to lift the long-term prospect in the open economy. Terry mentioned the Washington meetings. The catch word in the Washington meetings was the "new mediocre." That was an expression that Christine Lagarde used repeatedly in Washington. So we don't want the Eurozone to be part of the new mediocre. We don't want it to be the 1% economy – 1% inflation, 1% growth. So 1% inflation, that's our job, and we'll take care. But 1% growth, that is not our job. Growth in the long term can be supported by reforms and by joint action by governments to support total factor productivity.

So this is what's being discussed today in Europe and we expect very much that European leaders when they meet in December at the European Council can deliver a strong package of reforms and a strong package of investments, and that will make our life easier. And that's my conclusion.

Moderator: Thank you for that very comprehensive assessment and you ended on precisely the right note. We'll open it up for questions now. I'm sure there will be many.

QUESTION AND ANSWER PERIOD

QUESTION: Hello, I'm Jaime Valdivia from Blue Crest Capital. I wanted to ask you a question about forward guidance. It's clear, I think, at least on the rate side of the standard measures, your

forward guidance is very clear. But you also waded into non-traditional policies which I don't believe you guys have been clear enough in terms of your guidance. So aiming at around a 3 trillion balance sheet, you know there's disagreement. I mean we've seen it in the commentary from the members of the board. But could you guys reinforce perhaps that guidance? Bringing it to 3 trillion is merely bringing it, it's not really too much given that inflation expectations are seemingly unhinging as we speak. Also the other point is that the expansion seems to be a bit slow so we don't really have an idea of how quickly you guys intend to get to that size of the balance sheet. So could you elaborate and perhaps give us a better sense of that forward guidance on non-standard...

THE HONORABLE BENOIT COEURE: Well, I think the way you framed the discussion is exactly the right one, that what we are doing now is extending our forward guidance. We had forward guidance on rates and it has been extremely successful in stabilizing, in pinning down the money market curve and so there was no need to change it on that side which is about rates, about prices. And now that we've hit the lower bound and we are saying that we are not going to cut rates anymore we have to extend our forward guidance to include volumes. So it's just an extension of the forward guidance. We had forward guidance on prices. We're now going to need forward guidance also on volumes because when you hit the lower bound you have to use the balance sheet of the central bank as an instrument of monetary policy which we are doing. Now this is, one caveat here is that this is not only about the size of the balance sheet. The size of the balance sheet does matter but it's also about the composition of the balance sheet because we

have to do it in a way that makes sense and in a way that is appropriate to the European economy. And by the way, that is why it has to be different from what has been done in the US and it has to be different from what has been done in the UK or in Japan. But the economy is not the same; we are not facing the same challenges. So the composition matters a lot and this is why we've focused on ABSs and covered bonds as a way to steer liquidity towards companies. So we now have this forward guidance on volumes. It cannot be phrased in a very different way that we do now. It has to be an expectation. It is not a commitment to outcomes. And this is for a practical reason that there are many elements on the balance sheet of central banks that you don't control on a daily basis. We have liquidity operations. Liquidity can go up and down depending on autonomous factors in the market, depending on the behavior of banks, depending on the general risk aversion in the market. We've got to be able to react to that and to provide liquidity when needed to the market and that's why we are in fixed rate full allotment, but for the same reason we cannot commit to a, you know to a week after week path of liquidity provision because a lot will depend on what's going on in the market. And we also want to be in a position to react to economic news, good or bad. I think I've been clear enough that if there are bad news we will react, but this is very much data-driven. So the way we phrase it is an expectation that the combination of our measures will steer the size of the balance sheet where we expect it to be. And if this is not enough or if it doesn't work, we'll do more. So we are absolutely pragmatic here. The pace, for the same reason we cannot be specific over the pace, week after week or month after month because there will be, there will be hiccups, there are shocks that you can already predict to the size of our balance sheets. Like just to give you an example, we still have

these very long-term refinancing operations that were extended in 2011 and 2012. They will be fully reimbursed in February '15 so you will see an impact on the balance sheet in February '15 whatever happens through other instruments because this money will be reimbursed. So you have, there are reasons why the balance sheet will go down and you have to look through it and have a medium-term perspective here. You should not focus too much on short-term developments.

QUESTION: I'm Dick McCormack, CSIS in Washington. We had a painful problem with our mortgage-backed security program many years ago where the people who made the mortgages didn't keep any skin in the game and we wound up with a lot of junk in our system. How do you avoid that same problem with your asset-backed security program where you're buying up loans from banks who may make imprudent loans knowing they can dump them onto you?

THE HONORABLE BENOIT COEURE: No, we certainly don't want the ECB to become a bad bank, and we've taken all the necessary safeguards for it not to happen. I mean the first one being that we only buy senior tranches of ABSs, so the junior tranches and the mezzanine tranches when they exist, they have to be distributed to the market. We've said that we would be, we've indicated that we will be ready to buy mezzanine tranches insofar as there will be a government guarantee on them. So just to show you how much we protect ourselves in a sense. It's only with senior tranches and generally there are retention rules so there are skin in the games rules for Euro bank securitization under the new FSB, the new G20 commitments, so

there is skin in the game anyway. It is, I think it is, so it's not that much a question for us because we buy only the senior tranches. It is more a question that we want to encourage the new securitization market in Europe. We want the securitization market to be much bigger than it is today. And we've worked on that with the Bank of England. We had a consultation paper together with the Bank of England before summer and if we want to achieve that, we certainly, we probably need changes in regulation to make capital charges on securitized products less stringent under certain conditions. That securitization has to be transparent – simple, transparent, and consistent. But then we also need to think harder about skin in the game to make sure that if this new market develops as we want it to develop, it develops in a sound way without creating more hazard. So I think that's a relevant question but the ECB is protected by our decision to buy only senior tranches.

QUESTION: Thank you very much. Paul Schaeffer from Standard & Poor's. I'd like to press you a little bit more on the size of the balance sheet issue. In your speech, Benoit, you mentioned that the ECB wants to regain control or gain control over the size of its balance sheet. That's kind of reminiscent of a sort of quantitative easing logic. The Fed adopted that in December 2008 in saying, okay, we're now going to control the size of our balance sheet. But then in your remarks you sort of indicated that this was really much more related to an expectation about where the TLTROS, the covered bond purchases and the ABS would sort of, would lead you to end up. So I just want to ask whether there is some sense here of some kind of, you know, size, volume target independently in the sense of the credit easing measures or whether this is really,

this 3 trillion euros number, is sort of coming from an estimate of you know where you want to be and you know that you're going to get there by these credit easing measures, and you've sort of calibrated to say the amount of stimulus we need to give through these measures would imply a balance sheet of about 3 trillion euros. They're two slightly different things so if you could tell us that, that would be great. And just second, if I could ask about the new measures that the Governing Council has asked the staff to come up with? Could you talk a little bit more about what kind of things might be in there? And of course you know where I'm going here, is there some consideration, do you think, or what is your thinking around sovereign bond purchases in that mix? Thank you.

THE HONORABLE BENOIT COEURE: Well, strangely enough I kind of expected that question on sovereign bonds. Well, you know, if we knew already where we want to go, we wouldn't need to task our committees and to look into it. So it's pretty...I'm starting with the second question...it's pretty obvious what are the options. That's about extending the outright programs into other market segments so there can be other market segments in the private universe and at some point we can also buy publicly-sponsored papers. So what we want to do here is to have a principled or an informed discussion in the Governing Council on the pros and cons of all options. It's not so easy. There are pros and cons for all options. So it's not enough to say, oh, but the Fed has done QE, why don't you do QE? Because our situation is entirely different and the challenges we face are different and the starting point is different. It is extremely different because we are in 2014. We're not in 2008. So the starting point in terms of

the structural ___ in particular is extremely different from 2008. So we want to know the economic advantages. We want to know how this is impacted by fragmentation that we still see in the Eurozone and which is very much underpinning the logics of credit easing that we have so far, that as liquidity is not flowing freely across market segments and is it not flowing freely across countries even more so, we cannot just buy any kind of assets expecting that there will be spillovers to other market segments because it doesn't work, or it works only to a limited extent. So in a fragmented monetary union, it has to be credit easing and it has to be targeted. And that's why I'm saying that the composition of the balance sheet matters a lot, it's not only about the size. And so we want to have an informed discussion based on facts, on sound and very good analysis, and I don't want to pre-judge that discussion. On the first one, I would very much like you to understand that this is, the way we phrase it, it's a practical consideration more than a theoretical discussion. We've just started buying covered bonds and ABSs because we very much feel that this is what is useful given the conditions and the fragmentation, etc. We've calculated the program in a certain way in terms of risk parameters, in terms of allocation across countries, etc. It is just starting. We have to know where we are going. We have to know how much we can buy. We have to know how much of the retained bonds will be available on the market for instance. We have to know how much of the bonds today held by insurance companies, pension funds, investment funds, can be floated on the market and how much will be retained by those institutions, etc. So there are many unknowns here and we need an interaction with the market. So we set this expectation which is where we want to go and then we'll continuously assess whether the pace of expansion of our balance sheet is consistent with this

expectation. And if it's not, we'll do more. It's a totally practical consideration.

MODERATOR: Last question.

QUESTION: Thank you so much. You've covered a lot regarding the pace and the flexibility that you needed to allow the ECB in implementing the purchases. That I can understand despite us already wanting a target for the actual numbers. But my question is really more what type of landmarks are you looking for to see the efficacy of your purchases? So recall this as a pace, the market's ability to absorb the purchase amounts that are being executed. Are we looking for just changes in the second derivative in lending to other segments? What are the landmarks that we're looking for there to gauge whether the pace is appropriate or not?

THE HONORABLE BENOIT COEURE: Well, for any kind of monetary policy measure you have to think of its impact in terms of the transmission channels of monetary policy and ultimately of the impact on inflation expectations which was what matters ultimately for us. So what we ultimately want to see is inflation expectations going back towards 2% also at medium-term horizons, not only in 2019 which is nice to see but very far away. So we want the forward inflation curve to steepen in a sense, both market-based and based on surveys. And that is what we ultimately want to see. And to achieve that, we need to see that our measures exert traction on the real economy and I guess the primary indicator will be credit. So we want to see an acceleration of credit to non-financial corporations and to households. That's what we want to

see.

MODERATOR: Thank you. Thank you very much.