



## What Will it Take to Move the ECB?

**The ECB press conference yesterday was yet another exercise in creating confusion about what the ECB intends to do next.**

European Central Bank (ECB) President Mario Draghi's press conference yesterday was wordy and frustrating. Maybe what he referred to as a unanimous consensus in the ECB council is not really there or maybe the consensus is simply to keep arguing that there are risks to both sides, that the data is not clear enough, that it can be interpreted in so many ways and in the absence of certainty it is better not to act.

His answers looked like the perfect parody of an economist that will always play it safe by starting with one argument and then arguing that "on the other hand" we could also be doing the opposite.

Here is the best example of this:

*"... my biggest fear is actually to some extent reality, and that is the protracted stagnation, longer than we have in our baseline scenario. Right now, it's pretty severe, with levels of unemployment that – even though they have stabilised, and we see marginal improvements here and there – are very high. And the longer they persist, the more likely it is that they will become structural, namely much harder to lower through conventional policy measures. So that's my biggest fear, and that's why monetary policy is important, but it's not the only thing. To respond to this fear, one needs a complex package of policies and, as we always stress, structural reforms come first,*

*because many of the problems of the euro area are structural."*

So his biggest fear is that cyclical unemployment turns into structural unemployment, so I guess this means that the ECB is ready to act to ensure that this does not happen. Wait! Not so fast, because his biggest fear is also that monetary policy is important but **not as important as structural reforms that are the first priority**. So I guess all the cyclical unemployment turned into structural unemployment so we are too late to act.

And he recognises that low inflation is bad and it is below the ECB target. But low inflation can also be good.

*"...but there are also some positive aspects (of low inflation) in the sense that it supports the real disposable income especially of those people who have a fixed nominal income."*

Interesting argument to justify low inflation (should we lower the inflation target?).

And even if inflation is low it is not fully under the control of the ECB.

*"This is being caused by exogenous factors. In fact, if you see what is the inflation rate in other countries, for*

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*example in the United States, where they are much more advanced in their recovery than we are, or in Sweden, you can see that the low inflation contains a high percentage of global factors."*

Yes, inflation in the US is also low but Janet Yellen's words and actions are very different from those of Draghi. She does not simply find excuses for why inflation is low, she is committed to make it go back to its target.

So I guess that we are left with "protracted stagnation". We will wait for the April inflation number that Draghi thinks will be higher than the one in March and if it is not, we will continue feeling very good about the fact that long-term inflation expectations are still anchored. What the ECB is showing these days is that its obsession with inflation is even worse than we thought. It is hard to imagine how low inflation has to get before they pay some attention to their mandate.

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