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# Draghi resists calls for 'exit strategy'

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By Ralph Atkins in Frankfurt

Mario Draghi has dismissed as premature Bundesbank demands for an "exit strategy" to unwind the European Central Bank's crisis-fighting measures, even as he seeks to head off German fears of surging inflation.

With eurozone unemployment at a euro-era record high, and the impact of massive injections of ECB liquidity into the eurozone financial system still to be felt, discussion about an exit strategy "for the time being is premature," the ECB president said on Wednesday.

However the ECB would "pay particular attention" to any signs of high oil prices feeding through into wage and other costs, Mr Draghi said – a warning apparently aimed at German trade unions pushing for inflation-beating pay deals.

The Bundesbank has called publicly for an exit strategy to be drawn up and has fretted about mounting price pressures – as well as the negative side effects of €1tn in three-year loans provided by the ECB to eurozone banks. But southern European economies remain fragile, with financial market nervousness about Spain increasing significantly on Wednesday.

Mr Draghi's mixed messages – after an ECB governing council meeting which left official interest rates unchanged – hinted at a swirling internal debate among its 23 members, yet to be resolved, about the direction of the central bank's next policy steps.

The result was a "strange brew", said Peter Vanden Houte, European economist at ING in Brussels, of reassuring messages for financial markets while "at the same time trying to alleviate the German fear of an up-tick in inflation".

Although the ECB's "non-standard" crises-fighting measures were temporary and action against any emerging inflation risks would be "firm and timely", Mr Draghi also revealed that the governing council had not discussed near-term interest rate changes at Wednesday's meeting. "It is like a fire alarm test when you are told to stay at your desks because it is only a test," said Julian Callow, European economist at Barclays Capital.

As well as providing unprecedented three-year loans, the ECB cut its main interest rate to the record low of 1 per cent late last year, when the eurozone debt crisis was at its most intense. Eurozone unemployment reached 10.8 per cent of the workforce in February, according to data earlier this week – and is almost 24 per cent in Spain.

Mr Draghi forecast a "moderate recovery" in eurozone economic activity this year, although the outlook remained "subject to downside risks". But he went further than before in acknowledging divergences in performance across Europe's monetary union.

ECB monetary policy was aimed at controlling inflation across the eurozone, he said. "It is up to national policymakers to foster domestic developments which support the competitiveness of their economies." He insisted that that did not mean stronger economies – such as Germany's – should allow prices to rise faster than in other countries. The ECB's goal of an annual eurozone inflation rate "below but close" to 2 per cent could be achieved "without the need to inflate the good performers", Mr Draghi maintained. Although eurozone inflation, currently 2.6 per cent, was expected to remain above 2 per this year "with "upside risks prevailing", price pressures were under control and inflation would fall within the ECB's target range "over the policy-relevant horizon".

The ECB president denied confidence effects of its three-year longer term refinancing operations were wearing off. Investors' nervousness about Spain showed that "markets are asking these governments to deliver" on fiscal and structural reforms. He was adamant that eurozone banks had not become "addicted" to ECB liquidity.

Despite dismissing "exit strategy" talk, however, Mr Draghi confirmed the governing council was considering the future of a €40bn scheme launched last year to support Europe's market for covered bonds, debt backed by pools of assets favoured by some institutional investors. With market conditions improving, purchases had been deliberately scaled back, he said and "we will monitor the programme to judge whether it is appropriate in the present market conditions".

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