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What do you think of the reaction from investors and economists to both the ECB's strategy review and its new forward guidance?

The market reaction to both announcements was relatively contained, suggesting that both were in line with what investors were expecting. We saw a fairly similar reaction when the Fed announced its new strategy and recalibrated its forward guidance, a little under a year back. Both the market and analysts need time to process all the new features included in our strategy review and to analyse its implications from the standpoint of the ECB's reaction function to respond to changes in the macroeconomic setting. In any event, and although there is some diversity of views, the economics profession has recognised the ECB's determination, contained in this review, to successfully address the main challenges to achieving its objective, particularly in a setting of very low natural interest rates, and with interest rates close to their lower bound.

Against this backdrop, the ECB's announcement that a particularly energetic and persistent response is needed to prevent a persistent downside bias to inflation in the face of adverse shocks is especially important, and this may also imply that inflation could temporarily remain moderately above the target level of 2%.

In this respect, the recalibration of our forward guidance is particularly important to adapt it to this new strategy. The new definition is much more precise and is designed to prevent premature tightening of our monetary policy that could jeopardise our commitment to symmetry with the inflation aim. The fact that we are saying, in a setting such as the present one, with interest rates very close to their lower bound, that they will remain at their present or lower levels until we see inflation reaching around 2% well ahead of the end of the projection horizon and durably for the rest of that horizon, and that progress observed in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term, underlines our commitment to maintain our persistently accommodative monetary policy stance to meet our inflation target. And, again, this could also entail a transitory period in which inflation is moderately above target.

The market now has a set of more precise indications as to when and how the ECB will act in future, and therefore will adapt its standpoint according to these indications and, in particular, to how inflation expectations evolve. In this way, our forward guidance becomes a key automatic stabiliser that will make a decisive contribution to achieving our aim.

The ECB's new forward guidance says inflation needs to reach 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon. The ECB hasn't been close to that goal for years, though. What are the most likely monetary policy tools the ECB will use to try to get closer to that goal?

The new strategy will contribute to increasing the effectiveness of the ECB's main instruments to combat low inflation: the asset purchase programmes and our forward guidance policy. As I mentioned, our new forward guidance is clearer than before, and should therefore be more effective when it comes to anchoring market expectations about the future course of our interest rates. And the PEPP has taught us some important lessons which will be useful when we seek to enhance the effectiveness of our future asset purchases. In any event, our new strategy makes it crystal-clear that we, on the ECB Governing Council, will consider new policy instruments, as and when necessary, to achieve our price stability objective.

Here again I underscore our communication. We understand the difficulties posed by the fact that interest rates are close to the lower bound, and the need for an energetic and persistent response in this setting. Our new forward guidance is the first example of our determination to take action in this respect.

Another element of the new forward guidance says that underlying inflation need to be "sufficiently advanced". What does that mean in practice?

That overall inflation should be durably converging on the 2% objective is key to minimising the risk of premature tightening. And we know that a necessary condition for overall inflation to converge on this target is that its more stable components, i.e. what we call underlying inflation, should also be doing so. It should be borne in mind that the core components of inflation have a considerable predictive capacity in respect of overall inflation in the medium term.

In this respect, the Governing Council monitors several underlying inflation indicators rather than a single one, meaning it is rather impractical to set an ex ante quantitative reference for all or a subset of these indicators. But what is important is to ensure that, overall, these indicators should offer a clear signal of robust and durable recovery in the medium-term price trend that is compatible with our objective.

Bank of France Governor Villeroy de Galhau said last week that 12 to 18 months is the ECB's time frame for "well ahead of the end of its projection horizon" in the new forward guidance, also referred to as the "midpoint". Do you agree?

Yes, I agree. As President Lagarde explained after our meeting last week, a plausible interpretation of "well ahead" is the midpoint of our projections horizon. Depending on the quarter of the year at issue, that horizon covers 2-3 years, so the midpoint is indeed from 12 to 18 months.

What do you think about the comments from some of your colleagues on the Governing Council that the ECB's new forward guidance makes a long-term commitment to loose policy that the ECB can't be sure it will be able to honour because of financial stability reason, for instance? One of your colleagues said he argued for an "escape clause" in the guidance. Why was that not adopted?

I would start with the simple idea that forward guidance is state contingent, so it demands a commitment to reacting in a certain way to a certain inflation outlook, not a commitment to setting policy rates at a certain level unconditionally. If the inflation outlook warrants keeping interest rates at particularly compressed levels for longer, under our forward guidance we will do so in the service of our price stability objective, which is our primary objective, subject always to a rigorous proportionality assessment. If the outlook improves more than anticipated, also thanks to a refocusing of expectations around the new 2% target which should facilitate reflation, our new forward guidance can show us the way to an orderly process of policy change.

Moreover, the medium-term orientation of our monetary policy, as explicitly reflected in the new strategy, affords the ECB sufficient flexibility to include considerations on financial stability, and also the level of employment, as and when necessary. Accordingly, I do not think it is really necessary to add any escape clause.

On this occasion, as was always so in the past, we have conducted a proportionality analysis ahead of the decision to alter our forward guidance, so that the decision taken ensures that this is indeed the most appropriate action to achieve our objective.

The ECB's new strategy says the central bank needs a forceful or persistent approach to get inflation to target if the economy is at the lower bound. What do you think the ECB should do that is forceful and what do you think the ECB should do that is persistent?

Acting forcefully means committing to an early and resolute response to any disinflationary shock posing a significant threat to the proper functioning of our monetary policy with a view to achieving our price stability objective. This may imply an early and pre-emptive cut to our policy rates at the start of a recession and disinflationary phase, or a particularly creative and aggressive response while already close to the lower bound if the economy is hit by a renewed recessionary shock. The launch of the PEPP on 18 March 2020, and its subsequent extensions, are a good example of this latter response.

Persistence comes into play when the economy has already spent time at the lower bound with uncomfortably low inflation and risks of de-anchoring of inflation expectations. Acting persistently means maintaining a sufficiently accommodative stance for as long as necessary to ensure that inflation expectations are re-anchored around our medium-term objective, and we receive consistent signs that actual inflation is increasing and will most likely stabilise around the new target. The recent recalibration of our forward guidance on interest rates is a good example of persistent action. It induces persistence by requiring us to go down the list of three conditions before we hike: those conditions are meant to ensure that, when we raise rates, we do so on the basis of sufficiently solid evidence that reflation is actually on course.

When do you expect the Governing Council to start to discuss the future of PEPP?

It is still too soon to say. We link the end of the PEPP to the course of the pandemic and its effects on the economy. Against a background of still very high uncertainty as at present, we should not get ahead of ourselves with this discussion. In any event, our decision will depend on how the health crisis evolves, on financing conditions in the euro area economy and on the inflation outlook.

What do you think needs to happen to APP as PEPP comes to an end next year? Do you think it's likely that some elements of PEPP could be included in APP?

In the case of the PEPP, since last December we have set ourselves the target of maintaining favourable financing conditions that allow us to counter the effect of the pandemic on the inflation trajectory. The PEPP should remain in place while the pandemic and its effect on the economy persist. Post-pandemic, we will have to define our monetary policy so as to ensure that we manage to reach our new inflation target. The specific measures this will require will depend on the macroeconomic setting we face, in particular on our inflation outlook.

In this respect, our asset purchase programmes (APP) and forward guidance will continue to be fundamental instruments. It will moreover be important to draw lessons on the functioning of the PEPP during the crisis. In my view, the main lesson to be drawn from this programme is that flexibility in the distribution of asset purchases has notably increased not only the effectiveness but also the efficiency of our asset purchases. It would therefore be desirable to discuss the possibility of our future purchase programmes retaining some of the flexible elements of the PEPP.