3-002

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH MR JEAN-CLAUDE TRICHET, PRESIDENT OF THE ECB
(in accordance with Article 113(3) of the EC Treaty)

BRUSSELS, WEDNESDAY 10 SEPTEMBER 2008

3-003

IN THE CHAIR: MRS BERÈS

(The meeting was opened at 9.10 a.m.)

3-004

Chairwoman. – Mr President, thank you for coming here today. I propose that you open this meeting of the Committee on Economic and Monetary Affairs, which this morning will have a genuine economic and monetary dialogue, and then Jean-Claude Juncker will take the floor after you. We are delighted that you are here this morning.

One of your very frequent attendances before this committee was exactly one year ago for an extraordinary hearing in order to react to or explain what you qualified at the time as a market correction. Given the news that is emerging each day, are we still, one year on, in a situation of market correction?

You have agreed to answer two questions prepared in advance by all the members of this committee. The first basically concerns the differences in monetary policy on either side of the Atlantic. Are the US and European monetary policies interdependent and, if so, under what conditions? The second question is a question which, to my mind, is absolutely topical given that the inflation challenge involves determining whether we have returned to an era of high inflation.

I know that you are keen to take advantage of this exchange with representatives of Parliament to send out a more general message. However, we of course also expect an answer from you to these two questions that we have prepared. I now give you the floor, in an exercise with which you are perfectly familiar.

3-005

Jean-Claude Trichet, *President of the European Central Bank*. – *(FR)* Madam Chairwoman, members of the Committee on Economic and Monetary Affairs, I am delighted to be having this third exchange of views with your committee this year.

I will start my speech, as you indicated a moment ago, with the usual assessment of the economic and monetary situation, explaining the reasons underlying our recent interest rate decisions. I will then look at the developments in the financial markets, giving you more detailed information on the monetary policy measures that the ECB has applied in order to tackle the tensions existing in the money market.

3-006

(DE) I am pleased, too, to have the opportunity to discuss the issue which you have raised, namely the US-euro area interdependence. I also intend to look in more detail at intra-euro-area competitiveness developments. Finally, I will offer an inflation forecast, also in response to your question whether an upward shift in inflation could lie ahead.

3-007

Since my previous appearance before the European Parliament on 9 July when I presented the ECB's Annual Report for 2007, annual inflation rates have remained at high levels, well above those consistent with price stability. This is mainly the result of both the direct and indirect effects of past surges in international energy and food prices. In addition, upside risks to price stability over the medium term have continued to prevail in a context where the underlying pace of monetary expansion continues to be strong. Looking ahead, inflation in the euro area is likely to remain high for quite some time, moderating only gradually during the course of 2009.

According to the latest ECB staff projections the average annual inflation rate is foreseen between 3.4% and 3.6% in 2008 and between 2.3% and 2.9% in 2009.

It is the Governing Council's view that the risks to the outlook are on the upside. In particular, there is a very strong concern in the Governing Council that higher energy and food prices may lead to the emergence of broad-based, second-round effects in price and wage setting, which in turn could add significantly to inflationary pressures. All parties concerned are called upon to contribute to avoiding broad-based second-round effects, as this is essential to ensure that longer-term inflation expectations remain firmly anchored in line with price stability. In this context, the Governing Council is concerned about the existence of nominal wage indexation schemes, as they involve the risk of triggering an inflationary wage-price spiral. The Governing Council calls for these schemes to be abolished.

Turning to economic activity, in the second quarter of 2008, real GDP contracted by 0.2% quarter on quarter. This reflects partly an expected technical reaction to the strong quarterly growth of 0.7% in the first quarter. It also reflects the dampening effects from global and

domestic factors, including high commodity prices and weaker investment growth in the euro area. The current episode of weak economic growth is expected to be followed by a gradual recovery. In particular, if persistent, the fall in oil prices from their peak in July will help strengthen real disposable income, with the level of employment remaining high and the unemployment rate low by historical standards. Moreover, euro-area activity should be supported by relatively resilient world growth, benefiting mainly from sustained growth in emerging economies.

According to the latest ECB staff projections the average annual real GDP growth is foreseen in a range between 1.1% and 1.7% in 2008 and between 0.6% and 1.8% in 2009.

In the view of the Governing Council, uncertainty surrounding growth prospects is particularly high at the current juncture, with downside risks mainly relating to renewed increases in energy and food prices and a potentially more negative impact of financial market developments than currently foreseen.

The monetary analysis confirms the prevailing upside risks to price stability at medium- to longer-term horizons. While money and credit growth are now showing some signs of moderation, the still-strong underlying pace points to continued upside risks to price stability over the medium term. In addition, available data suggest that the ongoing financial tensions have, as yet, not significantly affected the availability of bank credit.

In accordance with its mandate, the Governing Council of the ECB is resolute in its determination to keep medium- and long-term inflation expectations firmly anchored in line with price stability. This will preserve purchasing power in the medium term and support sustainable economic growth and employment. It is against this background that the Governing Council on 4 September decided to leave the key ECB interest rates unchanged. On the basis of this assessment, the Governing Council believes that the current monetary policy stance will contribute to achieving the objective of price stability over the medium term. The Governing Council will continue to monitor very closely all developments.

Now let me turn to the developments as regards financial stability. Recent developments suggest that the balance of risks in the ECB financial stability assessment remains tilted towards the downside. This is because the persistent, although moderating, decline in US house prices is leading to a rise in loan delinquencies and losses, and commensurate further declines in mortgage-backed security prices. Also in the euro area, economic growth has slowed down and credit risks could have increased in some housing markets and related corporate sector loans. At the same time, however, there is, as I said, little evidence to suggest that the availability of bank credit in the euro area, as a whole, has been until now significantly affected by the financial market tensions.

That said, as we already emphasised, the persistence of the financial market tensions may have made the financial system more vulnerable to the crystallisation of other pre-existing risks. These include the possibility of a more broad-based turn in the global credit cycle, disorderly developments owing to global imbalances, and the financial stability implications of volatile energy prices.

More generally, the outlook for euro-area and global financial stability will increasingly depend on the interaction between macroeconomic developments and the financial systems, and on how banks respond to a challenging operating environment. The financial market correction could be gradually changing its nature and scope and evolve into a more traditional credit-cycle downturn. In such circumstances, it is more likely that the adjustment process will not abate as key participants in the financial system continue their efforts to strengthen their liquidity and capital positions. In an environment where balance-sheet conditions change unexpectedly, there is no room for complacency. I have always said the same, that there is no room for complacency: we are in a situation where we have to be constantly alert – and we have been alert, as you know, since the very first day of the turbulences, 9 August 2007.

In the last three months, the ECB continued to apply three measures it had used so far since the start of the financial market turbulences, with a view to further steering very short-term money market rates close to the minimum bid rate and also to alleviate tensions in the euro money market.

First, the ECB continued to frontload the supply of liquidity over the reserve maintenance periods. This was achieved by increasing the allotment amounts in main refinancing operations (MROs) at the beginning of the maintenance period whilst reducing them towards the end of the maintenance period so that the average supply of liquidity remained unchanged over the entire maintenance period.

Second, the ECB maintained the increased share of longer-term refinancing operations vis-à-vis the share of main refinancing operations, which it had gradually built up since the start of the turbulences. Moreover, on 4 September – a few days ago – the ECB decided to renew the supplementary three- and six-month longer-term refinancing operations that will mature before the end of the year. This will allow the euro-area banks to better plan their liquidity management over the turn of the year.

Third, the ECB continued to conduct US dollar term auction facilities (TAF) in cooperation with the US Fed and other central banks. Accordingly, it provided US dollar liquidity to euro-area banks, secured with Eurosystem eligible collateral. This measure was

adjusted in the period under review. Indeed, in August 2008, an 84-day term auction facility was introduced to supplement the already existent 28-day TAF, however without thereby increasing the total outstanding amount of these refinancing operations.

The Eurosystem's collateral framework has proven robust and efficient over the years, and during the recent episode of financial market turbulence. In particular, the acceptance of a wide range of collateral contributes to the resilience of euro-area financial markets.

While fully preserving this feature, the ECB has – following its usual biennial review – incorporated some technical refinements in its risk-control framework for Eurosystem credit operations. These technical refinements, which were published on 4 September 2008, reflect, *inter alia*, improvements in the methodological framework, the assessment of market and liquidity risk characteristics of eligible assets, the actual use of eligible assets by counterparties and new developments in financial instruments. All of these refinements will enter into force on 1 February 2009 in order to give the banks sufficient time to adapt to the decisions that were made on 4 September.

In concrete, these measures include the application of new valuation haircuts for asset-backed securities (ABS) and uncovered bank bonds and the application of a haircut add-on for ABS without a market price. Furthermore, the existing 'close link rules' for the use of eligible assets were refined.

The overall impact of the new haircuts for unsecured bank bonds and ABS on the availability of collateral is not expected at all to impair the ability of banks to participate in Eurosystem credit operations.

Now let me turn to the interdependence between monetary policies conducted on both sides of the Atlantic. In considering such an issue, it should be clear from the outset that both the ECB and the US Federal Reserve conduct monetary policy with a view to achieving the domestic objectives that have been assigned to them.

The single monetary policy was given the task of maintaining price stability in the euro area and was assigned to the ECB as an independent institution. I would like to stress that public pronouncements made by the US Federal Reserve are pointing out, as we do ourselves, that the delivery of price stability over the medium term is the best contribution that monetary policy can make to sustainable economic growth, job creation and prosperity.

The Governing Council of the ECB – as the Open Market Committee does on the other side of the Atlantic – takes decisions independently, on the basis of its monetary policy strategy, taking into account the structural features of its economy and the nature and amplitude of the economic shocks it has to cope with, and after careful assessment of the risks to price stability in its economy.

Of course, it is important for a stability-oriented monetary policy to analyse developments in external prices, in international trade and financial flows as well as the spillovers of policy actions around the globe. Central banks in general have to take into account the multiple channels through which the major economies of the world are in close relationship, thus constituting a global economy. In that sense, it is very important for central banks to ensure that they exchange pertinent information.

As I have already indicated to you, central bank staff and governors of industrialised countries, as well as of emerging countries, meet every two months under the auspices of the Bank for International Settlements in Basle. Presently, I happen to be the Chairman of the Global Economy Meeting and I can tell you that this meeting in particular is important for all central banks in the world. It is in a very frank and direct fashion and with a high degree of mutual confidence that we compare notes, exchange all necessary information so as to be duly enlightened on the analysis and diagnosis that other central banks are making on their own domestic economies and on their perception of the global issues.

Against the backdrop of the serious market correction recorded since summer 2007, monetary authorities on both sides of the Atlantic have been cooperating to help ensure a smoother functioning of inter-bank markets and help alleviate liquidity drying up in some market segments, as I have just indicated.

Let me turn to the intra-euro-area competitiveness developments. Persistent inflation and wage growth differentials may occur in a monetary union, determined by catching-up processes and/or by sustainable trend differentials in potential growth across countries. However, if induced by structural inefficiencies, misaligned national policies, including price- and wage-setting policies or overly optimistic expectations, such differentials may be worrisome and may have adverse implications for the cost competitiveness of individual economies and countries in the euro area. As national monetary and exchange rate policies are no longer available options within the euro area – by definition of the single currency area – it is important to ensure that the remaining mechanisms of adjustment to shocks function properly and that the build-up of imbalances is avoided.

Rigidities in price- and wage-setting mechanisms or ongoing excessive price and wage developments may delay the necessary adjustments of relative prices to economic shocks and give rise to a prolonged period of relatively high inflation in some countries. This, in turn, could contribute to losses in price and cost competitiveness and an accumulation of internal imbalances within the euro area, which could also dampen output and employment. When looking at unit labour costs, it is also noticeable that a number of

euro-area countries which experienced significant increases in unit labour costs since their entry into the euro area, also show relatively high current account deficits.

National authorities have an important responsibility to contribute to moderate price and unit labour costs developments. It should in particular be avoided that public wage-setting contribute to strong overall unit labour cost growth. As high unit labour costs growth may also reflect an overheating of the economy, the avoidance of a pro-cyclical fiscal stance is particularly important. Furthermore, a key issue is the capacity of goods and labour markets to adjust. Therefore, wage agreements in particular should generally reflect the competitiveness position, and need to take into account the still-high level of unemployment in several economies as well as the sector-specific productivity developments. Finally, the efficient and smooth functioning of economic adjustment within the euro area requires the completion of the single market and thus greater domestic and cross-border competition.

Let me conclude by briefly addressing the committee's concern over whether we are experiencing a new and lasting upward shift in inflation. I would say that the Central Bank is there precisely to prevent such a lasting shift and to deliver price stability over the medium term. On the basis of the assessment of the Governing Council, as I have just said, the current monetary policy stance will contribute to achieving this objective. The Governing Council remains resolute in its determination to keep inflation expectations solidly anchored in line with price stability. At the same time, upside risks to price stability over the medium term, in particular those stemming from second-round effects in price and wage setting, prevail. In this context, in order to avoid that the current high inflation rates become entrenched in expectations, it is of the essence that all relevant parties – price-setters and social partners – meet their responsibilities. I have already said that it is also important that indexation schemes be abolished. This would strengthen the resilience of growth and employment creation in the euro-area economy with regard to the current adverse developments that we have to confront.

3-008
Chairwoman. – Thank you, Mr President, for this half-hour presentation. I propose to move on to the second part of our exercise which, I believe, will be of even greater interest to our members as it is the part during which they can question you directly within the context of this monetary dialogue.

3-009
Alexander Radwan (PPE-DE). – *(DE)* Madam President, I would like to welcome Mr Trichet to the committee. In terms of your position on anti-inflation measures and the independence of the ECB, you have the full support of the European People's Party, as you know.

This so-called subprime crisis has now been facing us for just over a year, and we will be voting today on the van den Burg report, which also deals with the issue of financial supervision in Europe.

One year after the start of the subprime crisis, then, which lessons should be learned, from the ECB's perspective, in order to bring Europe's structure of financial supervision into line with the current needs of the internal market? What still needs to be done?

In the transatlantic dialogue with the US, the European Central Bank's response was outstanding, and I think it is fair to say that everything is running smoothly between the central banks. How, then, can we boost the role of Europe's supervisory and financial market culture in the transatlantic and international dialogue?

The Commission is a disappointment. We should not just copy and paste the rules in force in the US as our default position; instead, we should be making use of our opportunities to put our own stamp on developments.

3-010
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, I think that since the very beginning of the subprime crisis we in the ECB Governing Council have not underestimated the importance of what is happening, and I myself have said since the very beginning that it was a very significant market correction that we had pre-announced, in a way, because we had said before that there was an under-pricing of risk in the global economy, in global finance.

As regards the supervision question, I would say that, as you know, we are very keen on pushing the authorities in Europe, even if we do not have, in the present legal structure, a direct responsibility in this domain, but the Eurosystem has, because a number of central banks have a direct responsibility in supervision. But we are pushing for the maximum amount of intimate cooperation and exchange of information inside the European Union and inside the euro area. We consider that what has been already agreed upon in principle by the ECOFIN should crystallise in action as soon as possible, and we are making all efforts for that, and we ourselves are ready, of course, to help by all means.

As regards the global issue, as you know, we have a global methodology which consists in the Financial Stability Forum (FSF), which, by the way, was created after the Asian crisis, so it existed before the start of the present turbulences, and we have 67 orientations and recommendations that, in my opinion, we have to put, again, into effective and efficient action on both sides of the Atlantic and of the Pacific, because we all – the international community – agreed on the recommendation of the FSF.

So, in my opinion, it is extremely hard work to do. We know what we should do in most cases – or at least

where we have a consensus – and it goes without saying that each of us has to do the job. I agree with you that Europe, because of the existence of the European Union and of the euro area, cannot do exactly what will be done in the United States of America. I would, nevertheless, insist on the fact that we have to be coherent at a global level; otherwise we will not have a level playing field or the appropriate way of dealing with a global set of challenges, which is a single set of challenges, taking into account the financial interaction.

3-011
José Manuel García-Margallo y Marfil (PPE-DE). – *(ES)* Welcome once again to our committee, Mr President of the European Central Bank.

The other day I read in a newspaper that the objectives of the Federal Reserve are twofold: price stability and growth. The objectives of the European Central Bank are threefold: inflation, inflation and inflation.

I therefore want to ask you a very specific question on the issue of prices. In an article published yesterday in the *Financial Times*, Mr Solbes, Spain's Finance Minister, a former Commissioner, said that inflation will fall in 2009 and that economic recovery will occur in 2010. Do you agree with this analysis, Mr President?

As regards my second question, the crisis has gone from a crisis of liquidity to a crisis of solvency to a crisis of confidence. This crisis of confidence has been accentuated by the vicissitudes of certain banks, on both sides of the Atlantic, as a result of increasing bad debt and inadequate insolvencies. From your perspective, do you foresee any surprises among the European financial institutions during this year?

3-012
Jean-Claude Trichet, *President of the European Central Bank***.** – As regards the growth profile, I would echo what you just mentioned. It seems to me that most of the economic analyses that are being provided say that we will have a gradual recovery over the coming years after the present depressed episode.

Speaking for the Governing Council, we had already said, having the figures, that we would have a very weak second quarter, a weak third quarter – we are in a trough there – and then progressively, gradually, we should see the profile of growth going up again. That does not prevent the average growth in 2009 having been revised down by our staff – as an average – but it does not mean that the profile is not the profile of a gradual recovery.

As regards the qualification of the situation where we are, as regards these very important market corrections, with episodes of turbulences, episodes of high levels of volatility, over-shooting and turbulences that we have been observing since 8 and 9 August last year, it is an ongoing process. I have already responded several times to your questions here since the start of the turbulences, and I would qualify it exactly in the same fashion: it is an ongoing process and we – that is, the central banks, and the ECB in particular, but certainly all authorities – have to remain very alert, permanently. There is no time for complacency at the present juncture. That is absolutely clear.

3-013
Karsten Friedrich Hoppenstedt (PPE-DE). – *(DE)* The interdependence of the markets and between the Fed and the ECB has already been discussed. Indeed, the markets around the world show that there is genuine interdependence.

Yesterday more information was released about what is happening in the US, namely that the state is taking over the reins of the financial world again and the markets around the world are overjoyed. What this means is that when it is a question of money, and indeed sheer survival, glib regulatory principles are rapidly thrown overboard. What else does it mean? It means that in the short term, Mr Paulson's action has of course calmed down mortgage products and the markets, but if this is not successful, he has fired his last shot.

As these interdependences do indeed exist, the question is what could happen now. That may be a question that you cannot, or will not, answer. Nonetheless, how would the guardians of competition in Europe react if state intervention of this kind happened so quickly here? How would our Commissioner Neelie Kroes react? What impression would this leave on the public – in the banking world, among insiders – and what impact might this have? How would the markets react then?

These are, in essence, some general observations framed in the form of questions. It would be quite interesting if this interdependence could be made very clear once again.

3-014
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, let me only say that I will not judge, of course, what is being done by the US authorities and particularly by Secretary Paulson. I will only say that, when I look at the reaction of all central banks around the planet – and I was, as I have already said, chairing the global economy meeting we had in Basle last Monday – I would say that the overall reaction was certainly, again, not to judge what had been done, but to think that it was, in the circumstances – which are, obviously, exceptional – a decision that was welcome.

I have already said that we are experiencing an ongoing correction of great magnitude with turbulent episodes. The tensions are still there and this is no time for complacency. That is clear. On the other hand, you can perhaps draw from what has been done by the authorities on both sides of the Channel and on both sides of the Atlantic, when acute tensions were emerging, that, until now, the authorities had the capacity to take decisions several times in, I would say, a wise and expeditious manner. So we will see again what happens. We have to remain constantly alert. I say all of us, including, of course, the central banks.

Let me also say that financial stability is a major preoccupation at the present juncture, and that I call on all the authorities, without exception – including, of course, European authorities by definition – to have this preoccupation of financial stability, which, in the present circumstances, is of extreme importance. That goes without saying, but I say it because, after all, we are in circumstances that are demanding.

3-015
Karsten Friedrich Hoppenstedt (PPE-DE). – *(DE)* Your alert presumably applies to the European Union's competition policy as well?

3-016
Jean-Claude Trichet, *President of the European Central Bank***.** – Again, I think that in the present environment, which, as I said, is very demanding and calls for constant alertness, all action should take the preoccupation of financial stability into consideration – not, of course, in any way contradicting the laws, the charts and the principles that all institutions have to defend, but incorporating – in terms, perhaps, of time, in terms of implementation of the principle – the need to take into account the preoccupation of financial stability.

3-017
Elisa Ferreira (PSE). – *(PT)* The European Central Bank's sole objective is to control inflation, yet we are seeing an inflation rate that is double the target set. Increasing interest rates has no effective impact in terms of controlling this inflation because, as many have rightly said, its origins are external and, as has just been mentioned, it depends on energy prices and food prices. Under these circumstances, what lessons will the European Central Bank learn from this non-correlation given that, in the meantime, the rise in interest rates, the extremely high exchange rate of the euro in relation to other currencies and the fall in wages are factors which are specifically contributing to the fall in growth.

We must draw some conclusions from this. As regards my first question, is the European Central Bank prepared to revise its inflation targets given that the current scenario is different from the one in which these were set and, in particular, is a scenario of globalisation? Secondly, is it not time to add to the objectives, by including growth and employment, and to use other tools in addition to just interest rates in order to seriously work on the objective of growth, given that the inflation process is somewhat out of our hands?

3-018
Jean-Claude Trichet, *President of the European Central Bank***.** – Let me confirm that we have a mandate which is very clear, and it is a primary mandate. But we have always said – and I think it has been the very clear principle guiding the setting-up of the euro area – that, through credible price stability over time, one was creating the condition for sustainable growth and sustainable job creation. It is absolutely clear that, since the setting-up of the euro, the success in terms of job creation has been exceptional. I already had the occasion to underline that we had created many more jobs than the United States themselves since the setting up of the euro. That being said, we have always said that we deliver price stability in the medium term, and it is clear that, when we have shocks as we have, we cannot deliver price stability immediately. But we have to deliver price stability in the medium term, and we have to be credible in the delivery of price stability in the medium term, which is another way of saying that inflation expectations must be anchored. Inflation, if it is unanchored and if it is at a high level, will act against the poorest of our fellow citizens, against the most vulnerable segment of the population which does not know how to protect itself against inflation, will act against employment and will act against growth. We have to know that (even if in the short term, perhaps it is more difficult to understand): it is clear. It is the lesson of the past. It is the lesson of all the analysis that economists can make. So we will not change our definition of price stability, certainly not. On the contrary, we will confirm that we are confident that the present monetary policy stance, as I said, will contribute to delivering price stability in the medium term.

I shall not comment on other points but, again, when we give the message that social partners as well as all price setters (we do not discriminate against social partners: we say price setters and social partners) should be up to their responsibility, it is because it has an immense importance in terms of inflation, but it is also because it has an immense importance in terms of employment, and the surest way to increase unemployment would be for unit labour costs to shift upwards. One of the reasons why we insist on this message, as you could hear, is that we observe a shift upward of unit labour costs which is adverse in terms of inflation and in terms of future employment. To give you only four figures: the average unit labour cost in the euro area increased by 1% in 2005, 0.9% in 2006, 1.5% in 2007, and in the first quarter of 2008 we are at a level of around 2.4%. So, there is something there which indicates that, on top of the price of oil and on top of the price of commodities, we have a phenomenon of our own making and which has to be understood and counted, in our opinion.

3-019
Robert Goebbels (PSE). – A couple of years ago President Duisenberg told this committee that the ECB is not only fighting inflation, but also deflation recession. Looking at the economic data of the European Union now, we seem closer to a recession than to an inflation overshooting. In fact inflation is on the retreat but you just said that the ECB is still on alert warning against the so-called second-round effects on wages and prices. But why does the ECB never react to first-round effects?

Recent inflation was not driven by wages, but by imported higher prices…

(AUDIO UNAVAILABLE)

3-020
Jean-Claude Trichet, *President of the European Central Bank***.** – Thank you very much for your question, which is important. First of all, because you used the

word 'deflation', let me just give you some figures. M3 in the euro area is augmenting by 9.3% in our last reading. 'Deflation' means the contraction of nominal values, the contraction of prices, the contraction of aggregates and the contraction of credit. It is not what we are observing: this goes without saying. The loans to non-financial corporations are augmenting as regards the outstanding loans over 12 months by 13.2%. So, let us put aside the word 'deflation'.

That said, you had a question on the functioning of the market in commodities, and oil in particular. I would say the following: We have to work more – and when I say 'we', I mean certainly the central banks but also all economists – to understand what is at stake exactly and what is the composition of the forces that are making up the prices that we are observing.

We have three potential forces. There is demand – and, as everybody knows, there has been a very big increase in demand, coming in particular from emerging Asia for oil and commodities and, clearly, this push-up of prices has been driven to an extent which was at the very beginning certainly very substantial by demand.

Then we have supply and we see before our eyes a cartel functioning to organise supply in order to get very high prices. This is objectively no good and the stabilisation of prices might be a good thing, but stabilisation at a very abnormally high level is not a good thing, and we have to be fully conscious of that and I would call – which I have already done in front of you – for the highest possible responsibility of the partners who are on the demand side and those who are on the supply side. On the demand side, we all have to be very careful to engage in oil and energy savings and alternative energy and so forth. There is a lot to be done and a lot to continue to be very actively done. On the supply side, we have to call for responsibility.

We have a last point – and it is the point of Mr Goebbels – which is the investment side, and its seems to me that we have to understand better – I will not speak of speculators, because it is not speculators in terms of very short-term speculation, but more the fact that a number of portfolio managers all over the world are considering, for reasons that we have to understand fully, that a normal portfolio consists of commodities, shares, stocks, bonds, real estate and so forth. Of course, this also plays a role. It must play a role, but I have to say that, at the present moment, I think it would be very difficult to conclude scientifically that we know what is exactly the influence of this aspect of the market, and to identify scapegoats and to practise scapegoating.

But I agree with Mr Goebbels that we have to understand better that triangle. Responsibilities are in the triangle. We have our own responsibilities ourselves, both as consumers and as producers, on both sides of the Atlantic – you know that very well. Drilling is something that is a responsibility of those industrialised countries. The green light for new refineries is also something that we are responsible for ourselves, so we should not escape our own responsibilities. But there are responsibilities of the suppliers and responsibilities that have to be better understood at a global level.

3-021
Robert Goebbels (PSE). – *(FR)* Sixty per cent of the transactions carried out every day on the New York Mercantile Exchange involve oil that does not exist, paid for with dollars that are only 10% real. I am citing an editorial in *Agence Europe*.

3-022
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* I would simply say that you see this in all futures markets. It is not therefore specific to the commodities or oil markets and is absolutely normal. I will not draw any personal conclusions on this point.

3-023
Mariela Velichkova Baeva (ALDE). – Mr Trichet, you are most welcome. The analysis of the international market conjuncture brings home concerns – inflation is one of them – constituting a clear-cut danger.

Let me mention some details stemming from the assumption that we live in an inflation-prone system. Feeling the inflationary fever – including in my country – households' buying departing from the norm at the expense of their savings, the failure of the business sector to offset those savings through investment, the increase in demand giving inflation a shove, the increase in the amount of money in the system being usually inflationary and considering those aspects, as well as others, how might a plausible, reasonable inflationary scenario – you mentioned the meeting of various stakeholders – be viewed, and what concrete messages could we send to the players on the demand side and the supply side? I am aware that you mentioned a few in your comments.

3-024
Jean-Claude Trichet, *President of the European Central Bank.* – As you know, of course, I am responding on behalf of the Governing Council, and, taking into account our specific responsibilities as the Central Bank of the euro area, your question was more general, it seems to me, and I fully understand that, in your case, we have evolutions – and, in particular, nominal evolutions – that need to be looked after very carefully.

As regards your question on what we can tell, I think the recipe for countries that are in the euro area as well as outside the euro area seems to me, whatever your monetary arrangement is, to be that you have to have a fiscal policy that is as reasonable and as sound as possible, and that is a recipe for all. You have to take care of your nominal evolutions and be as responsible as possible in the price-setting and the wage-setting. Of course, it goes without saying that, whatever the responsibility of the monetary arrangement, the central bank has to be highly responsible.

If your question was more on the commodity prices, which are the main culprit for the global inflation

episode that we are observing, I would only repeat what I said. I think that a very high level of responsibility on the part of the suppliers, as well as on the demand side, is absolutely of the essence. Nobody stands to gain anything if we continue to have a very high level (and, I would say, an absolute level) of volatility – nobody, certainly not on the demand side, certainly not on the supply side. We have to understand better, as has been suggested, the financial investment side of this triangle, which, again, should not be made a scapegoat. But we have to understand better this phenomenon.

3-025

Eoin Ryan (UEN). – I too would like to welcome Mr Trichet here this morning. Coming back to the point that Mr Goebbels raised, as it is one that I have raised in Parliament myself, I agree with you about oil prices, demand and supply, but it is difficult not to believe – and people at the coal face believe this – that speculation has much more of an effect on oil prices than people are letting on. If you talk to people at the coal face they will tell you that speculation is going on. It is of course not the only reason why oil prices have increased, but it is one of the reasons, and some people would say that it has added maybe USD 25 to a barrel of oil.

It seems to me that this is being ignored to a certain extent. What is stopping speculation from happening again? What is your policy on this and can you see any ways of us minimising that because there is no where else or nothing else you can put down, as Mr Goebbels said, USD 500 000 to buy USD 10 million's worth of any commodity. I would just like you to expand on that. If we are fighting inflation and if this were to come back again, it would be a huge deterrent against all the work that you are doing.

Very briefly, you were talking recently about the pre-crisis state and saying there is going to be a 'new normality'. Could you explain more about the new normality that you expect to see in the market?

3-026

Jean-Claude Trichet, *President of the European Central Bank***. –** I think that those who say there is absolutely no influence of financial investments in commodities on the price of commodities are clearly wrong. I do not myself use the word 'speculation', because there has always been speculation on the futures market – on any futures market – and in a way you need counterparts. So one has to understand exactly what is happening.

What is happening is not the emergence of speculation but rather the emergence of a new behaviour across the board of portfolio managers that consider that, from zero proportion of commodities in their portfolio, a certain positive level of proportion would be more appropriate. This is a phenomenon which is more, I would say, sustainable than pure speculation – that is more important, that has to be better understood and that has, in particular, to be better understood in terms of the impact on prices. But those who say, obviously, the interplay of the demand which has been exploding during recent years and the cartels which can clearly be seen to exist, are much more important than this shift in the proportion of global portfolios that is invested in commodities. Those who say we should look first to supply and demand are probably right, too – it is pure common sense. So I would echo what you say. I think we have to understand much better and not practise, I would say, the very simple exercise of scapegoating, saying that all this is the fault of speculators. That would be much too simple and, I would say, unfortunately much too simple; it is much more complex and complicated and perhaps it is a structural change, because it is likely that the global managers of a global portfolio will continue to think that a certain – even modest – proportion of commodities in their portfolio might be appropriate.

So, again, I call for responsibility from all parties and a much better understanding of what is going on. I will not rule out the possibility that we could improve the functioning of the futures market in a number of cases and, as you know, each commodity has its own way of dealing with futures prices.

On what an end to the turbulences would mean – if I understand the last question rightly – I would say that it would be naive to think that we will simply be back to the *status quo ante*. First of all, because it would be very bad to be back to the *status quo ante*. The *status quo ante* was in itself full of risks that have materialised. The ECB and the community of central banks, had in the *status quo ante* said publicly – I, myself, as Chairman of the G10, for instance, said publicly that the sentiment of my colleagues is that there is an under-pricing, an under-assessment, of risks in global finance. We said that in 2006 and again at the beginning of 2007, long before the start of the turbulence. So what we need is not to go back to the *status quo ante* but to a situation where we would have made a lot of progress in trying to eliminate obscurity in financial instruments, institutions and markets – a situation where we would have introduced a lot of transparency (and that is precisely what is in the recommendation of the FSF), a situation where we would have eliminated a great deal of the pro-cyclical elements that are present in global finance at the moment I am speaking, a situation where the private sector itself, the market participants and the institution concerned, would have adapted themselves to a situation which, obviously, would be different from what I call the '*ex-ante status quo*'.

I would say only that we will see this coming progressively. I do not expect, for instance, on the money market that we would be in a situation where the spreads between the three-month deposit and the overnight swap rates would be as low in the future in a steady state as it was two years ago. I expect that we will see some structural changes, even if I do not expect at all that the present level, which is very high, will continue for ever.

3-027

Piia-Noora Kauppi (PPE-DE). – I would like to ask what is your assessment in the ECB of the Fannie Mae/Freddie Mac government-sponsored entities in the US and their nationalisation. It is, after all, an operation that is 30 times bigger than Northern Rock in the UK, and it might also have influenced EU debates about lender of last resort. What is your short-term and long-term assessment of this decision?

3-028
Jean-Claude Trichet, *President of the European Central Bank***. –** It is not my principle to comment on actions that have been taken by authorities across the Atlantic. They have their own responsibilities and they have to be up to their own responsibilities. I have already said that I could say, on behalf of not only the ECB but also the community of central banks, that the community of central banks has welcomed, taking into account the complexity and the acuteness of the circumstances, the decision that was made, which is, of course, a very important one. Again, for the future, we will see what happens…

(AUDIO UNAVAILABLE)

... are in the realm of government and taxpayer action and we are not in the realm of the lender of last resort but we are in the realm of subsidisation of mobilisation of capital and, again, this is taxpayers' money. Clearly in the case of Freddie Mac and Fannie Mae it was taxpayers' money which was at stake, not, as you know, the Fed money.

3-029
Gay Mitchell (PPE-DE). – I would like to join in welcoming Mr Trichet…

(The chair cut off the speaker.)

3-030
President. – May I interrupt you, because everybody is welcoming Jean-Claude Trichet. It is just normal that Jean-Claude Trichet appears in front of us.

3-031
Gay Mitchell (PPE-DE). – It's a matter of courtesy and, if I may so, Madam Chairperson, I have a mandate from my constituency and I will exercise it in the way I judge best myself. So I would like to welcome Mr Trichet, as I have said.

Mr Trichet, there is a school of thought that says the ECB should have similar terms of reference to the Fed. But there is another school of thought which says that the relative price stability targets of below or near 2% will reach the objectives that you say you wish to reach, but in the current environment, for example, it may cause or contribute to a recession on the way. There is a school of thought which says that the wording could be changed to 'around 2%' to allow for some loosening of the criteria in that regard. I am asking you this as a question – this is not a statement, nor am I seeking to prompt a change in the rules, but would you address that? Because it is being addressed with us when other people come to see us. Would that be a total loss of discipline, or is there a case to be made for reaching your objectives without contributing to recession on the way?

3-032
Jean-Claude Trichet, *President of the European Central Bank***. –** It is a good question, certainly, and I hear this analysis here and there. I would say the following: first of all, it is clear that we say that our definition of price stability is below/close to 2% and it is clear that we say that we will deliver price stability 'in the medium term'. We do not say that we will deliver price stability 'immediately' when we have a shock of the type that we have to cope with. That is my first observation.

My second observation is that when I look at the expectations, the interpretations – by market participants, observers, economic agents in general, financial markets – of what it means that we will deliver price stability in the medium term – less than/close to 2% – I see that they are obviously extremely close to 2%, to say the least, and recently we have seen a certain tendency to see this shift of expectations going upward from, I would say, a level which, when you withdraw from the various parameters that you can extract from the financial markets in particular, the insurance premia to reach the ultimate inflation expectations, we have seen, again, a shift upward, particularly, I have to say, in the five years forward, five years break-even. So, we look at that very carefully.

If we were to give the message that after due meditation we think that the definition of price stability should be changed ourselves with our own credibility, our own responsibility, the anchor position that we have in all the euro area, what would happen? Say that your goal was to be more, I would say, loose in your monetary policy upward. I could caricature the situation and say that we say, finally, 3% is better than 2%: we, in the Governing Council, have been reflecting – we are under exceptional circumstances, after all – to have a better arbitrage between price stability, on the one hand, and the short-term pressure on growth that we have, then we will call for 3%. What would happen?

Immediately all interest rates – medium and long term – first would shift from less than 2% – but very close to 2% – which is the case at the moment I am speaking to 1% higher, so immediately there would be, by virtue of a declaration in front of Parliament or by virtue of a declaration in the press conference, an immense augmentation of all market interest rates, because absolutely all market participants all over the world would say themselves that they will deliver price stability now at 3% instead of less than 2%. On top of that, they would say that if we are able to say in such circumstances that they change the anchoring of expectations for inflation, then we have to add to the 1% risk premia, and I do not know what that risk premia could be – perhaps 75 basis points, perhaps another 100 basis points – to take into account the fact that if we did that once, we could do that a second time or a third time;

there is total uncertainty. So it would be the worst possible attitude from us.

Our present attitude consists in saying: you can trust us: we have proved that we take our responsibilities seriously; we will deliver price stability in the medium term, and you have to incorporate in the medium- and long-term market rates that are making up the financial environment of an economy the fact that we ourselves are the guarantors of this level of price stability in the medium and long term. When I am speaking of the medium term, I could also speak of the long term, as I have just said – and do not forget that some governments in Europe are borrowing on the basis of 50 years and it is on the 50-year interest rates (that is, the interest rate at which those treasuries are borrowing) that they are incorporating our own credibility to deliver price stability over a very long period of time.

3-033
Kurt Joachim Lauk (PPE-DE). – *(DE)* Mr Trichet, you have used the nice phrase *ongoing turbulences* several times to describe the current situation. I myself would agree that this phrase sounds very nice. The alternative, perhaps, would be to say that this is actually the worst financial crisis since 1930, especially when we consider that 50% of the mortgage market in the US has now been nationalised, at least for the time being. It is a sensation!

I have two questions here. Firstly, how many banks have ended up undercapitalised as a result of the crisis and need to be rescued? In Europe, this applies to Northern Rock and IKB. Do you anticipate other banks becoming so severely undercapitalised that they have to be nationalised or rescued through a coordinated effort by the state, and which banks would you identify in this context?

Secondly, we have also discussed the causes of the crisis on various occasions here in the House. So far, the crisis has been weathered fairly successfully, which – thanks to your own efforts – is largely due to the ECB. However, if one lesson to be learned from this crisis is that banking supervision in the euro area has to be strengthened and the mandate for banking supervision is passed to you, in other words, the ECB, would you object to that?

3-034
Jean-Claude Trichet, *President of the European Central Bank***. –** As you know, at the very beginning of the episode of turbulence, we were *the* central bank that immediately considered that what we had in front of us was a very, very serious materialisation of very grave risk. For three weeks there has been some kind of criticism that perhaps we were over-assessing the gravity of the situation. With the benefit of hindsight, everybody says that we had at that moment an appropriate assessment. I will not comment on the present qualification of the situation and compare it with the previous crisis. I think that in the post-war area…

(AUDIO UNAVAILABLE)

…been some suggestions that the ECB should play a more important role in terms of banking supervision and I can see such ideas not only in the academic world but also in Parliament. We would certainly have to look at it very carefully in the Governing Council. At this stage I cannot say that we have a position of the Governing Council on such matters. But I observe, of course, what has been proposed with great care.

3-035
Benoît Hamon (PSE). – *(FR)* Good morning, Mr President. I should like to make an observation, or at any rate ask you to comment, and then I will ask you a question.

My initial observation concerns this remarkable example of the socialisation of losses, as represented by the nationalisation of Freddie Mac and Fanny Mae. I understand that you do not want to pass judgment on the decisions of the US Treasury. However, could you tell us whether you would suggest such a decision to the Economic and Finance Ministers of the Eurogroup if such an industrial accident were to occur in Europe and also whether this is, in your opinion, a plausible and genuine solution within the euro area.

My second comment is that you are the co-architect of and therefore, in theory, jointly responsible for European economic policy which is not made in isolation. For four years now I have been listening with great interest to your extremely wise comments and analyses. The day before yesterday I was in the Pas-de-Calais, in your country and mine, where a thousand employees have lost their jobs due to the fact that their company was no longer competitive enough. This afternoon, I will be visiting citizens whose hospital is being closed due to budgetary restraint policies. I should like to ask you the following questions.

It is now several years since structural reform policies were implemented in Europe, and in particular in the euro area, on the initiative of the European Commission and with your support. The aim was to improve the competitiveness of our economy and create growth. However, growth has not yet materialised and we are significantly lagging behind our main commercial rivals. It is also several years since we recommended wage moderation so as to avoid inflation. We now have wage moderation but we also have inflation. We therefore have structural reforms, but no growth, wage moderation and inflation. What should I say to the European citizens who ask me: 'Whose fault is it?'. What should I tell them? You are not obliged to answer this question as you are independent and therefore not accountable either to me or to the European citizens. However, I should like you to ask yourself this question. So, at any rate, what can I tell them?

3-036
Jean-Claude Trichet, *President of the European Central Bank*. – *(FR)* Many thanks. If you will permit me, I should like to comment on your remarks.

Firstly, what are the figures? I said just now – and no one can contradict me on this point because these figures are available to everyone – that, since the introduction of the euro, we have created in Europe substantially more jobs than the US has created. When I said this for the first time around about a year, eighteen months ago – because we were being heavily criticised in this respect – a number of people said to me: 'That's absolutely impossible. Everyone is saying the reverse'. They then looked at the figures and discovered that, not only was it possible, but that it had also been done. We must not therefore lose sight of the real figures. That does not mean that everything is going well, that we are satisfied with the level of unemployment in Europe or that there is not a huge amount of work to be done, just that the figures once again show that, in the initial years of the euro, we have witnessed a period of major job creation.

One of the reasons for this has been that, throughout the euro area, we have had, during this period, good control of unit production costs. As a result, by reducing certain prices and ensuring nominal growth in unit production costs, we have had the capacity to create a substantial number of jobs. That is my first observation. My second observation is that the world is changing at a dizzying rate. If we take India and China, you only need to go and look at what is happening there to be convinced that we are witnessing an incredibly rapid and impressive structural transformation. Moreover, China does not represent the whole of emerging Asia in the Far East: there are around 500 million people in the world who live in the ASEAN countries, five of which are themselves experiencing extraordinarily rapid development. It is therefore undeniable that we must adapt in Europe and also throughout the industrialised world. If we were to fail to adapt, we would fall into a situation of extremely weak growth and, in particular, falling standards of living. It is true, and I do not deny it for a moment, Mr Hamon, that it is not easy, certainly not for our citizens, for the 320 million citizens in Europe, to be in a world that is moving so rapidly. However, we still believe that higher inflation is not the way to improve growth and create jobs, and our citizens agree with us. Our citizens regard inflation as their primary concern at this moment in time. I do not know whether you have noticed that in your constituency, but it is the conclusion coming from all the opinion polls that have been conducted in all the European countries. We are doing everything we can to maintain credibility in a medium- and long-term perspective and, within our area of operation, this is the responsibility that of course rests with us. Just imagine what interest rates would be like if the various governments within the euro area, currently 15 and tomorrow 16, had to rely only on their own credibility in order for the markets to determine the right 10-year, 20-year or 30-year interest rates. We are therefore doing everything we can in accordance with the mandate given to us by the sovereign European people, either with the aid of their representatives or by voting directly. We respect our mandate and we are convinced that the European democracies were not mistaken when they said: 'If we have a Central Bank that is credible and that gives us medium- and long-term price stability, we will create one of the necessary conditions for more jobs and more growth which is, once again, sustainable'.

3-037

Antolín Sánchez Presedo (PSE). – *(ES)* I very much appreciate the opportunity to exchange views with you, Mr Trichet.

I wish to raise the issue of divergences in the effects of monetary policy and also to refer to the situation of the United States and the European Union. At some point I believe that I heard you say that the divergences in terms of monetary policy are not really any different from those existing in the United States. I should like you to confirm this point.

However, in reality, US monetary policy is not just an isolated policy, but goes hand-in-hand with a federal fiscal policy that has a budget which is more than 20 times higher than that of the European Union. These two policies therefore work together.

On the other hand, European monetary policy falls within the Economic and Monetary Union in which it is the Member States that assume the fundamental burden of the balances resulting from orchestrating the whole policy which also covers growth and employment because, while inflation is certainly the primary objective, it is not the only objective and the monetary policy must also contribute to these elements.

Therefore, my question would be as follows: when monetary policy is defined, it is clear that a middle ground is sought between the various European inflation requirements. This can have an expansive effect in some countries and a contractive effect in others. Those countries experiencing an expansive effect can correct this through fiscal policy. However, in those countries experiencing a significant contractive effect, this is much more difficult to handle due to the limitations of the Stability and Growth Pact. Would it not be appropriate to consider trying to optimise this aspect?

3-038

Jean-Claude Trichet, *President of the European Central Bank.* **–** I would say, first, that it is clear that each central bank has to take into account, as I have said, its own mandate, challenges, nature and structure of the economy, and amplitude of the shocks it has to cope with.

As you know, interest rates in Europe and the US are not the same, but they are also not the same in Europe and in the UK, they are not the same in Europe and in Sweden (Sweden has just augmented its interest rates), they are not the same in Europe and in Australia or in a number of other countries. Each central bank has to cope with this.

All central banks – and I can really say that because we frequently discuss precisely that between us – are aiming at solidly anchoring…

(AUDIO UNAVAILABLE)

…responsibility, by definition, of the national economies and I trust that governments in particular should not underestimate their own responsibility in this respect, because they fix up a number of prices in all economies. They are, of course, determining the price of the wages in the civil service. They are giving recommendations implicit or explicit for social partners, and that is important.

3-039
Daniel Dăianu (ALDE). – Mr President, as always you mention price stability as the paramount mission of the European Central Bank. I am pretty sure that you and your colleagues in the Governing Council think that financial stability is also something that is increasingly important to you. So I am asking myself – because I heard the question posed by Mr Lauk and Mr Radwan – there seems to be a certain reluctance – and I remember Mario Draghi who alluded to whether the European Central Bank or central banks should take on more responsibility in this regard – I am asking myself if financial stability, which is clearly important, could cripple price stability in the end. Someone has to take the lead – just betting on better cooperation on the current arrangement, in my view, is not going to be sufficient. That is one question.

Secondly, the myth for decoupling is gone, so are you satisfied with the current arrangement – whether the Financial Stability Forum is enough? Should the international architecture be changed for the sake of securing more stability?

Lastly – and it is only a comment – think about what the Asians are thinking about right now: the moral hazard, which is spreading out all over the world by the rescue operations, which are substantiated and well-grounded, but let us think about it.

3-040
Jean-Claude Trichet, *President of the European Central Bank***. –** First of all, I fully agree with you that financial stability is a very important preoccupation. I would say that the way we have acted since the very beginning of the turbulences – the decision we took as regards the handling of the refinancing of commercial banks, the utilisation of up-front allocation of resources to the commercial banks without changing the overall liquidity allocation but changing the allocation over time in order to help the market function in a smoother fashion – all this demonstrates very clearly that we wanted to be up to our responsibility in this respect – we, the Governing Council of the ECB; we, the Executive Board of the ECB.

We have worked out the mechanism that would permit, if needed, to practise emergency liquidity assistance on the basis of the concept that had been tested with all members of the euro area, all national central banks and so forth. Now we have not a direct responsibility, as I said, in terms of banking surveillance, and that was not the decision of the European democracies. If there are new ideas that are emerging in that particular point, again, they will be examined by the Governing Council of the ECB with extreme care. I know I have said already that some ideas are emerging out of Parliament as well as the academic world. We will look at it. At this stage, I will continue to say that we have not exploited all the potentialities of the Lamfalussy framework. We still have a lot to do to exploit those potentialities and go along with what has already been decided…

(The Chair interrupted the speaker.)

3-041
Chairwoman. – Please allow me to interrupt you there because you said this a year ago. If we truly want to exploit the Lamfalussy potential, then, as Mr Dăianu said, someone at some point must obviously decide to play a leading role and get rid of some of the deadwood in the Council.

3-042
Jean-Claude Trichet, *President of the European Central Bank***.** *– (FR)* I take note of what you are saying. I am talking to you as President of the European Central Bank and, once again, we will examine the whole situation, but ...

3-043
If you permit me, I shall continue to respond to your question, because there were other elements in your question.

As regards the moral hazard question, it is a permanent preoccupation. We ourselves, in the realm of central banks, as I explained, had to deal with liquidity issues on the basis of a framework, which is a framework for our emergency liquidity assistance. We do not see, if our judgement is correct, a moral hazard issue there, because we have precisely to check very carefully that we have a liquidity problem.

If taxpayers' money is at stake, which is the next step, if I may, solvency problem, then, of course, the moral hazard seen from the taxpayers' standpoint is of extreme importance. But I accept fully that in this domain of moral hazard we certainly have to be very careful, because one of the consequences of a number of decisions that have been taken was that the decision which had been taken had, as a consequence, the fact that we had elimination of strong diminishing of the value of the stocks and shares but not of the value of the credit. That is, of course, something that has to be looked at very carefully, because we might miss an important point if, when dealing with these exceptional circumstances, we introduce an element of punishment only for stocks and shares and absolutely not for those who took the risk of having credit given to the institution concerned.

3-044
Chairwoman. – Thank you. I welcome the arrival of the other Jean-Claude, namely Jean-Claude Juncker, which will enable us to duly proceed with the debate on Economic and Monetary Union. However, with your

forbearance, we will continue our exchange with Jean-Claude Trichet.

3-045
Margaritis Schinas (PPE-DE). – *(FR)* Mr President, yesterday I read the IMF report on the assessment that you have just made and on the forecasts. This report, to put it simply, in particular indicates a bad year in 2008, a gradual recovery in 2009 and then even better in 2010. It is strange that the press agencies, in covering the IMF report, used the headline '*Optimistic speech by IMF office*', whereas I am sure that, following these two hours of dialogue, the media will not draw a feeling of optimism from your speech today.

Therefore, the question I want to ask is whether a decision of the European Central Bank prevents it from being optimistic at any time. For the voters who are experiencing difficult times and who understand the problems, can they not be reassured by a signal of optimism at any point? Can we not clearly say to them that this will all be over in 2010? The IMF is trying to say this. I would love, at the weekend when I return home, to also be able to say this, but you must help me out a bit.

3-046
Jean-Claude Trichet, *President of the European Central Bank***.** – *(FR)* I usually say that I am neither an optimist nor a pessimist, but rather a realist. I have said that we ourselves and our staff have the feeling that, after this period of very weak growth, as we have seen in the second quarter and will probably see again in the third quarter, we will see a gradual recovery. As a result, in terms of the growth profile, I believe that there is no doubt that we will see this gradual recovery throughout 2009. In my opinion, there are no changes to be made to our basic scenario in relation to what you have just mentioned, which will of course make 2010 better than 2009. This is a simple consequence of the profile and I can therefore confirm this.

I also said, on behalf of the Governing Council, that we predict a return to price stability, in line with our definition, following a gradual fall in inflation in 2009 which will continue in 2010. In that respect too, if you make a more positive reading of the situation, that will give you an element of confidence which is very important. I said, in response to a previous question, how important it was that we ensure medium-term price stability, and this is precisely the medium term. I did not say anything other than that, but I did also mention that we should be aware of the fact that the turbulent correction which we are seeing is ongoing. I said that this was not the time to be complacent in any respect and I said that we should all, without exception, remain alert.

3-047
John Purvis (PPE-DE). – Mr Trichet, you have been reluctant to get involved in the Fannie Mae/Freddie Mac issue, because you say that is not really your business, and yet Mr Paulson indicated that one of the main reasons was the very high number of foreign owners of bonds involved in this. I suspect a large number of those foreign owners might well be European institutions or investors, and even the slight downgrading or down-rating of those bonds would have had a pretty disastrous effect on, let us say, financial stability and a lot of other things in Europe. So, surely, it is your interest to be involved in that. I would be interested if you had any estimate of the scale of the danger that we possibly ran if that had not been resolved by Mr Paulson.

My second question refers to your intra-euro point in your speech earlier on. You shake a finger at, let us say, the 'bad boy' countries of Europe that are not keeping their houses properly in order. What if that was to get really bad? I mean, it is politically difficult to move jobs, to do all the hard things that have to be done. If some of our Member States are not very good and really end up in a very major problem – we see the spreads rising in the bond rates on some countries' bond issues – if this were to get really serious and out of hand, is there a contingency plan – a plan 'B' – to deal with that situation?

3-048
Jean-Claude Trichet, *President of the European Central Bank***.** – Again, I am very clear that all authorities have to be up to their responsibilities, of course, and it is the responsibility of the US Treasury and, ultimately, of the US Congress because, again, the decision of Secretary Paulson was taken on the basis of an authorisation by the legislative branch, and the legislative branch will have to go back.

I fully subscribe to what you say about the fact that not only the domestic creditors of Fannie Mae and Freddie Mac but also the international creditors of Fannie Mae and Freddie Mac were at stake. Certainly the European investors. But I think that Secretary Paulson probably thought also very much about the Asian creditors – and you know that in Asia there is an immense amount of reserve assets that are invested in various securities, in particular in the US – and he was probably also thinking of the immense reserve assets that are also in the oil-exporting countries in the Middle East. From that standpoint, it is clear that, had he not taken the decision he took, we would be in a totally different universe at the moment I am speaking – that is clear.

I take note of your appreciation of the difficulty of running economies when times are demanding. I would only say that inside the euro area it is clear that the credibility of the currency and of price stability over the medium and long term allows to enormously limit the impact of the real difficulties that a number of countries are encountering. As I have already said, if you had to add to the premia that you see between the various signatures and that are representing the appreciation by the market of some credit risk, the currency risk, which fortunately does not exist, of course you would have multiples of this spread. So, we have to understand that, in the present circumstances, all authorities have to be up to their enormous responsibility – and I am speaking in front of the chairman and president of the so-called governmental authorities, and he knows better what it

means! But I have also to say that the euro itself helps considerably to ease the pressure of the difficult times all economies in the euro area have to cope with.

3-049
Pervenche Berès (PSE). – *(FR)* Mr President, I should like to ask you two questions.

Firstly, you said that there would be no return to the *status quo*. It seems to us that, in that regard, the issue of the link between financial markets and monetary policy is one of the key elements. How do you assess this shift and this need to take into account, on a radically different basis, the challenge of the financial markets for monetary policy rather than the reverse.

My second question is, being responsible for monetary policy, you say to the governments: 'Reform, carry out structural reform'. However, today, in this public debate, some speakers, and not just the most iconoclastic, have said that, given the recession or pre-recession figures, in the absence of other figures, within the European Union and in particular within three of the most important economies in the euro area, questions are being asked about a more offensive budgetary policy. Although this would not depend solely on the monetary policy, it does raise the question of the policy on interest rates, and this also concerns Jean-Claude Juncker. Therefore, what question do you think we should put to Jean-Claude Juncker?

3-050
Jean-Claude Trichet, *President of the European Central Bank*. – *(FR)* Firstly, I cannot give you any advice on the last point. On the first question ...

3-051
Jean-Claude Juncker, *President of the Eurogroup*. – *(FR)* But what response, Mr President, would you suggest to me?

3-052
Jean-Claude Trichet, *President of the European Central Bank*. – *(FR)* I am neither an adviser to the President nor to Parliament but, on the first point concerning 'financial markets and monetary policy', we have said from the beginning of this turbulent period that we would very strictly distinguish between monetary policy and the interest rates that we set. Our objectives are to ensure medium-term price stability and to be credible in medium-term price stability on the one hand and, on the other, in our actions on the money market through the various tools that we have to hand.

I have also already said that, up to 4 September, we have not changed the collateral system that was set up at the beginning. We have continued to use precisely the same tools as before. I do not therefore believe that it can be said that we should conclude from all our current experience that the monetary policy itself must be changed. I and all my colleagues are absolutely determined to continue being very firm on what we term the anchorage of medium- and long-term inflation expectations. Throughout Europe, of course, but also around the world, I have referred to this consensus. This does not mean that we should not all think about the financial markets themselves, and I actually said that I did not believe that we could return to the *status quo*. I believe that would be a mistake, but I will not say any more on this as I have already spoken about it.

With regard to structural reforms, I would not say that we said: 'Reform, reform, reform'. We encouraged the decisions that have already been taken. Following a report from the Commission, the governments decided to reform. They decided themselves, and no one else to my mind, on the Lisbon Programme and the successive follow-ups to the Lisbon Programme. We encouraged them but, in that respect, the decisions and the fundamental guidelines were made and laid down by them, although we believe that they are right.

As regards budgetary policy, I said, Madam Chairwoman, that current experience shows how lucid the Stability and Growth Pact is when it says: 'Prepare for the bad times'. Those who are prepared for the bad times, and there are some of them in my opinion, at least according to the Commission and the Eurogroup, are in a better situation because they can leave the automatic stabilisers to work. Those who have not prepared are effectively in a worse situation. This is yet another argument for the application of the Stability and Growth Pact.

In any event, I would remind you that the Stability and Growth Pact, in the view of the European Central Bank, is indispensable because we have no federal government or federal budget. It is therefore very important that we have a set of principles which will enable us to respond to the Americans when they say to us: 'Have you not put the cart before the horse? You have a single currency, but you have no federal budget'.

3-053
Toine Manders (ALDE). – I also welcome the President. I have a very brief question. We are talking about job creation and economic growth. We are discussing now the top-down solutions, but I have a question about a bottom-up instrument.

Commissioner Kroes is collecting billions of euros for breaches of competition law and this money is sent back to the Member States. Would it be an idea to label this money? Perhaps you could convince the ministers of finance to label this money and to invest it back into the economy, for example risk capital for young, innovative entrepreneurs because we need new economy, and perhaps this is a bottom-up solution. What do you think about this idea, and are you prepared to convince the ministers of finance on this? Perhaps Mr Juncker could also give an answer.

3-054
Jean-Claude Trichet, *President of the European Central Bank*. – I think it would be a very nice question for Jean-Claude Juncker!

As far as we are concerned we would only say: at national level respect the stability and growth pact; at

European Union level optimise the budget of the European Union. I shall have to look at it, but I have no idea whether you can really say that there are additional resources that have to be optimised, but it seems to me that it has to go through the Commission meditation and, of course, the ultimate decision by governments.

3-055
Chairwoman. – Mr President, we will see you again on 8 December. You will know that, when a survey is carried out among the European people, for them the primary sign of Europe's existence is the euro. However, sometimes we have the impression that this euro is a bit disembodied, that it is not vibrant enough as a symbol. Last week I had the pleasure of inaugurating and welcoming within these walls a very beautiful exhibition on the theme 'Euro and culture', on this symbol of our European heritage, and I am happy to suggest that you take a look at this exhibition in order to see whether it could not be displayed within the walls of the European Central Bank. As I have the privilege of having the two Jean-Claudes with me, I am going to give you a game that has been made from this cement of European culture for the 21st century.

(The meeting was closed at 11.10 a.m.)