Monetary Dialogue of the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank, in accordance with Article 113(3) of the Treaty on European Union

28 May 2001

Chairman, Mrs Randzio-Plath (PES/D)

Lets move on the next item on our agenda, the monetary dialogue with the European Central Bank. We'll be looking at the annual report of the European Central Bank which was sent to us by the Vice-President Mr Noyer, we have debated this and in the July plenary session we will debate it further, but today we are talking about the current political debate, monetary policy decisions and the whole debate which led to the reduction in interest rates. I'm sure President Duisenberg will give us a very clear explanation today of how these decisions were made and what the implications are. Thank you very much - the floor is yours.

Mr Duisenberg:

Thank you very much Madam Chairman. Because of the time pressure I will do away with the preliminaries. I hope to focus in my few introductory remarks on three issues: first, indeed the current monetary policy stance and the explanations behind it; second, the issue of the coming changeover in terms of coins and banknotes and thirdly, some remarks on the role of central banks in banking supervision.

Introductory statement by Dr. Willem F. Duisenberg, President of the European Central Bank continues as published above.

Chairman, Mrs Randzio-Plath (PES/D): Thank you very much, Mr President, I imagine that there will be lots of questions referring to the points which you have made. First, I give the floor to Mr Von Wogau.

Mr Von Wogau (EPP/ED/D): Mr President, It was very interesting to hear your comments on the development of inflation in the 12 eurozone countries. First of all on monetary growth, i.e. solid but slower growth, and then on the other hand, there are some elements and causes for concern because, of course, there is the unexpected effect of foot and mouth disease and also the effects of the energy crisis now kicking in. So I would like to know whether there are going to be certain effects linked to the introduction of the euro coins because I can see that in some areas there are price increases that are already being pre-empted. I think that during the transitional period this is another risk. My question is therefore the following. We all know that the European Central Bank defines monetary stability at inflation less than 2% and you have indicated once again that you are convinced that, in the medium-term, this aim can once again be attained. At our last discussion I remember that you were presuming that in the second half of this year it would be possible to attain this objective. Are you now taking into account or considering that this is going to take place next year? If that is the situation then we shall have to see whether the recent interest rate reductions have actually sent out the right signals. Could you actually explain why you have had this reduction in interest rates?

Mr Duisenberg: First, the effects of the introduction of the euro itself. The main fear is that enterprises would use the rounding-up exercise to round upwards rather than downwards. We have analysed this carefully. We are aware of this danger. We have not been convinced that it would have a significant impact on the overall inflation figure but we are on the alert, and we do think that in this area the general public also has a task to monitor closely any exercise of rounding-up which is being applied, and to raise the alarm whenever they see something that they should be scared of . We very much agree with the plea made by the Chairwoman of this committee recently to alert the public at large to be very active in closely monitoring any such movement of rounding upwards upon the introduction of the euro. But there again, our analysis and monitoring shows that the impact will be small, if there is one at all, and if there is such an impact on the overall inflation figure then I would like to emphasise that this again is a typical example of a one-off movement in inflation which should not and will not have lasting effects over the

medium-term. Now I hope that I have explained the reasons for our recent moves adequately. We are convinced - and I repeat myself now - that, given the fact that monetary developments, as we see them now, certainly do not pose a risk to price stability over the medium term - one always has to bear in mind that we are looking forward one-and-a-half to two years to vouch for the effects of monetary policy measures - the monetary pillar no longer forms a danger for price stability over that period. The global slow-down of economic growth which makes us revise our, so far, estimates for economic growth over the medium term down to about the upper level of the trend potential rate of growth which we put at somewhere around two and a half percent, does also have the effect of diminishing the upward risks to price stability. Therefore, on balance, we regard our monetary policy stance at the moment as appropriate in light of our expectations of future inflation, and although we have not yet finalised our most recent Eurosystem staff projections, I have no reason to believe that they will differ very much from what you can and have seen from the forecasts of all international institutions which have been working on this subject. Without exception, they put the average inflation rate for the year 2002 below the level of 2%. That is also what makes it justifiable for us to have taken the step we have taken.

Chairman, Mrs Randzio-Plath (PES/D): Mr Goebbels.

Mr Goebbels (PES/L): Thank you Madam Chairman. Mr President, you noted that, following the recent reduction in the European Central Bank's interest rate, the market reacted in rather a mitigated fashion. Some felt it was going too far, others felt it was not far enough. It was too much for those who believed what you and other members of the board of the European Central Bank were saying, to the effect that the main priority was to fight inflationary trends, but it was not enough to satisfy those who were looking for a re-launching of economic activity. One-quarter percent is really a sort of halfway house. I am one of those who takes the view that you should not be a slave to the expectations of the financial markets, but then you are not there to take the markets by surprise either. It seems to me that the call by you on the Central Bank is that its policy must be legible. But the approach of the European Central Bank has been criticised on occasion for being

too hard to read. I suspect that may flow from the fact that you still have not defined your secondary mission. Your main mission, we all agree, is to uphold price stability. Article 105 also says that, without prejudice to that objective, the European Central Bank must support the Union's general economic policy. Now, those who drafted the Treaty obviously did not include this as a superfluous addition, but as an invitation to the European Central Bank to do something to work towards Article 2 of the Treaty ensuring high employment, economic and social progress, sustainable development and strengthening the social and economic cohesion of the European Union. But up until now, you have never defined the second mission as you understand it, although it was vested in you by the authors of the Treaty.

Mr Duisenberg: Madam Chairman, there seems to me to be no need to define the second mission. The Treaty is very clear. It says that the primary task of the European Central Bank shall be the maintenance of price stability and then, secondly, without prejudice to price stability, the European Central Bank shall contribute to the other tasks of the European Community as spelled out in Article 2 of the Treaty. We have always maintained - and we still do - that the best contribution that monetary policy can give to fulfil that second task is to maintain price stability. That is also what was in the back of our minds when we took our last decision on 10 May.

Mr Goebbels (PES/L): Mr President, with all due respect, you have just repeated for the umpteenth time your credo. Once again, we all agree that your primary task is to uphold price stability. But at the same time the Treaty does tell you that you should act towards social and economic cohesion. It is not enough to say that by fighting inflation you are making adequate contribution to the other tasks required of you under the Treaty. Once again, whether you like it or not, you are being compared with what is being done by the American Federal Reserve, and you can see perfectly well that the Federal Reserve is much less concerned about inflation and looks at the bigger macro-economic picture on the market. You will also be judged in relation to general market trends.

Mr Duisenberg: That will probably happen, but then I think that a comparison with the Federal Reserve is inappropriate because they explicitly have a mandate which differs from that which the European Central Bank received in the Treaty. The Federal Reserve has multiple targets they have to achieve and they can, so to speak, pick and choose. I do not know whether it is true that in practice they are less concerned about inflation than we are, but what I do know is that we are explicitly being charged with maintaining price stability as a sole and primary objective. That is the major difference.

Mr Huhne (ELDR/UK): Mr Duisenberg, you said in your opening remarks that over the last few months the Council has gradually changed its view on the balance of risks to price stability in the euro-area. And yet when you actually announced the interest-rate change, I think you will agree that almost everybody in the financial markets was surprised by the change. So we have an apparent conflict here between a gradual change in the Council's view and a very sudden change in expectations of the markets, as measured, for example, by interest-rate futures. I wonder whether that causes you to reconsider whether the communications' policy of the European Central Bank is appropriate, whether you are actually performing adequately the necessary short-term signalling to make sure that your actions are actually predictable. In that context, I wonder whether you might reconsider the possibility of (a) taking votes in the Governing Council, so that you actually have a vote at each meeting, and (b) actually publishing - even on an anonymous basis, so that you would not necessarily have the problem, which I know you have been concerned about in the past, of pressure on individual national central bank governors - of actually publishing the balance of votes so that we could see over time the gradual change in your view to which you allude in this evidence.

Mr Duisenberg: I refer to a gradual change in the view which is the outcome of discussions which we hold every two weeks in the Governing Council. It does not imply that there are changes in the views of individual members but it is a change in tone, notably. I also do agree that it is not our policy to surprise markets. Certainly not. We would prefer to prepare markets rather than surprise them. It is a fact of life that that is not always possible. We must have the liberty which any monetary authority, anywhere

in the world, has at times, indeed, to surprise the markets, whether we like it or not. We normally do not like it. So that is not a matter of communications policy. Our general policy is not to surprise markets but to prepare them. However, it is not always possible as has been shown in recent months in other large monetary areas as well. I do not believe that the issue, which we for some time have put to rest, of publishing minutes, even in an anonymous form, would add to or subtract anything to this; at the governing Council, I can assure you, we are discussing it from time to time but there is no intention to change that policy. What we do do, however, is to be as open and as transparent on the outcome of the Governing Council's meetings as possible, by holding after every second meeting a press conference in which we give all the considerations which lead to certain decisions or non-decisions, and by explaining it more in full once a month, about one week after the meeting of the governing Council, in our monthly bulletin. The Treaty did not ask this of us but we voluntarily added it to the transparency concept as we see it. The big difference to other monetary authorities anywhere in the world is that we give these explanations immediately after the decisions or non-decisions have been taken.

Mr Huhne (ELDR/UK): Can I just ask whether, as a result of the experience of the last interest-rate change and the reaction of the markets, you think it sensible to review the way in which you announce decisions?

Mr Duisenberg: We are constantly doing that. Reviewing, analysing and evaluating it. We do not maintain that we already have the best possible communications policy. We are a young institution, so we have it under constant review and constant discussion, both in the preparation for Governing Council meetings and at the meetings as such.

Mr Abitbol (EDD/F): Thank you Madam Chairman. Mr Duisenberg, I think there is a consensus in Europe and even further afield now, surrounding the failure of your monetary policy carried out on behalf of the European Central Bank and the Governing Council. It is a failure right across the board. Inflation is shooting up again to a far greater extent than is currently acknowledged. Growth has slowed down and it will slow down even more than you are admitting it. More and more capital is fleeing the eurozone.

There is more going out than coming in. We have heard this expression "stagflation". We have seen that in Germany. I think within the eurozone this reflects the general lack of confidence, either towards the currency or towards the policy. You have no room left to manoeuvre whatsoever. Between confidence and inflation you really have nowhere to go. So has the time not now come quite honestly to recognise that there was a mistake, or that the idea of entrusting monetary policy to what you have called a young institution was a mistake? Six months from the introduction of that currency and the disappearance of the national currencies, would it not be necessary to change this state of affairs before the euro finally comes in?

Mr Duisenberg: I believe, Madam Chairman, that it is far too early to come to a judgement like that. We have to be judged and we will be judged on fulfilling our primary objective over the medium term, i.e. whether we will be able to maintain price stability. In the meantime, we will have to be accountable and explain why it is that current estimates of inflation are above our self-imposed target of 2%. I believe the foot and mouth disease, the oil prices, the past depreciation of the euro and the BSE crisis are all adequate explanations of a temporary nature which bring our price figure at the moment, and for some months to come, over the 2%. Insofar as I will be vindicated, in practice, barring any other temporary deviations such as the ones I have mentioned, that we shall again have price increases under the figure of 2% in the medium term. To that extent, the judgement cannot be other than that the euro and monetary union is a success rather than a failure.

Mr Abitbol (EDD/F): Just a brief supplementary question, Madam Chairman. Mr President, you are refusing to bring in euro-notes before 1 January. I did not realise that the euro was the exclusive property of the President of the European Central Bank. Everyone else is involved. May I ask you. If things go wrong, if there is counterfeit currency circulating, as many of us suspect there will be in France, what is going to happen in the weeks following the introduction because you are refusing to allow citizens some time to get used to the new currency? Who will be responsible? The governments or you? If you make the decision then you must take the blame.

Mr Duisenberg: We will make the citizens of Europe familiar with their new currency - it is *their* currency and not *my* currency - on an unprecedented scale in the closing months of this year. We shall make the citizens familiar with the currency. I myself will - you might say 'at last' - reveal the precise security features and all the features of the new notes to the general public on 30 August of this year, and two days later we shall start the front loading to banks, at least to those banks who want it and, in the closing months of this year and the first weeks of next year, we shall have a very large-scale campaign reaching every individual household and citizen in Europe. So I am very confident that every constituency, including yours, will have a full understanding of what their new currency is and what it looks like in good time and before they start using it.

Mr Della Vedova (TDI/I): Thank you Madam Chairman. Mr President, in the course of your introductory comments, you underlined the factors which led you to the view that you need to maintain or strengthen the role of the central banks in the various countries when it comes to supervising the banking system. It seems that the national central banks have not revised their thinking on how to accommodate their structures following the introduction of the euro. But, do you not feel, for example in the case of Italy, that this role that you want the central banks to retain will, at the end of the day, pose an obstacle to the creation of a truly competitive market in financial services? The central bank in Italy has a life and death role in any transfer of more than 5% of the assets of the institution. This way, they only allow the kind of deals which suit the interests of the Italian Central Bank. Then, if you are looking at banking assets, for example what is going on between EDF and Montedison, you have a public monopoly buying a private company in another country. That sort of situation, and the situations surrounding credit institutions, surely would pose a factor of instability would they not, and consequently would help weaken the euro?

Mr Duisenberg: Madam Chairman, I believe that questions about EDF and Montedison in Italy would better be directed towards Commissioner Monti. The European Central Bank has nothing to do with that. In the paper we published we argued, and we shall re-

argue again and again, the importance - both for the process of banking supervision and for the national central banks and indirectly also for the Eurosystem, the combination of 13 central banks in Europe - of a close involvement of the Central Bank in the supervisory process from an operational point of view. You do not expect me to comment on individual practices in individual parts of the euro-area. In this respect I can only say that I believe that all the reasons for a close involvement of central banks - I do not say a monopoly, in some cases it is a monopoly - are crucial for the functioning of the banking system and of the finance industry in a broad sense and in the interests of financial stability, with which the euro-system is explicitly charged by the Treaty. So I believe we shall re-state and reiterate this view in all cases that are coming up. Some have already come up where the legislative system for the supervisory structure is under review. May I say that it is a peculiar phenomenon, because I know of one country where the movement has been away from the central bank, as far as the supervision is concerned, namely the United Kingdom, with the creation of the Financial Services Authority. I know of another important example where precisely the reverse has happened, namely a closer involvement of the central bank in the field of supervision in the United States. Personally, I regard that as a healthier development than the example I mentioned earlier.

Chairman, Mrs Randzio-Plath (PES/D): Thank you very much. Before I give the floor to Mrs Kauppi, I would like to welcome the visitors group which has come along with Mrs Kauppi, the delegation of the National Coalition Party in the Finnish Parliament. Welcome to our monetary dialogue meeting. I give the floor to Mrs Kauppi.

Mrs Kauppi (EPP/ED/Fi): Thank you Madam Chairman. I would also like to thank you for having welcomed my group of visitors. I have a question for the President of the European Central Bank. In your presentation you referred to the introduction of the euro. You gave us very clear scenarios for the front-loading of coins and notes. I understand your views on that but there are various different scenarios and simulations that we have seen with computers which have shown that with high volumes, using consumer practices, the challenges in the first week after the introduction of the euro, lead to a very high-risk situation. I was also thinking about the amount of cash flow that certain shops

will have and the amount of cash that will have to be transported around the countries. Thinking about it, let us say a restaurant in Hamburg where a lot of cash needs to be ready, perhaps they are going to need 10 to 20 times more euro-coins or notes than are normally planned for. Is it possible that the logistics are not going enable this to work smoothly from the very beginning? Perhaps there is going to be a need for refills during the first weeks. Companies or shops are going to keep as many coins as they can in order to have a lot of change. To go back to front-loading, you have carried out the negotiations with the consumer groups and small companies and shops and I would like to know whether there are any alternatives to solve this problem as far as cash and cashflow are concerned, because this is adding extra costs for the consumers. Are there any other ways to meet these challenges without the front-loading system?

Mr Duisenberg: As I indicated already, Madam Chairman, we have this entire issue constantly under review and in many Member States measures are being taken to ensure as smooth as possible a changeover. This will not be at the same date and time in all Member States but they are also learning from each other. Increasingly we have seen, for example, that in most countries, I believe, it has been decided that in the first few days of next year the automatic teller machines, which are responsible for bringing 70% of the banknotes into the circulation, will be loaded with low-denomination banknotes such as €5 and €10. Other countries have considered that idea and they say they will not do that because they expect the demand to be predominantly for other denomination banknotes. In those Member States where it is still the custom to pay social welfare bills in cash, as is still the case in some countries, it is recommended, or it has already been decided to make those payments in low-denomination banknotes. The logistics for banknotes pose a very different problem from that of coins. Coins are far more difficult to distribute because of their weight and the amounts involved, not so much because of their value. But then, coins are mainly used to provide small change and not as a primary issuance of currency to be provided on demand. I have some understanding - not a full understanding, I must confess - on the subject of frontloading coins to the general public and I think we should give the public the possibility to get familiar with these coins. We believe that we can get the public to know perfectly well the eurobanknotes a few weeks

before 1 January 2002, even though they will not have the banknotes in their hands before that time. For example, I am coming back to the information campaign, it is intended to reach every citizen in Europe from September onwards with a leaflet in which all the banknotes, with their features including their security features, are fully and extensively described. So the public will know what is coming and, as far as other measures are concerned, apart from what you asked concerning front-loading, I cannot think at this moment of what more there is to do. I know that the national central banks in every Member State are doing their utmost and, I must say, are being very inventive in making the operation as smooth as possible. Of course, there may be confusion here and there during a very short period but we shall cross that bridge when we get to it. Both the European Central Bank and all the national central banks and governments will do their utmost to minimise the dangers of the confusion to the maximum extent possible.

Chairman, Mrs Randzio-Plath (PES/D): I would like to go back to the new monetary policy strategy. You were quite right to point out that we have got the two pillars and, as far as we are concerned, I think the majority of us, the interest rate decision even though welcomed by us, was not understandable from our point of view because of the way the price developments were moving. So I would like to know from you what additional data you used to decide upon the medium-term inflation policy, because I think it is quite right that you cannot look at the inflation policy in a short-term period, that you cannot decide on this in the short term. You have to look at the medium-term situation and, in particular, you have to look at the consequences of inflation policy. So last year we pointed out that there was a difference between the indexed and non-indexed line in Germany and I want to know whether you can tell us anything about what we can read from the medium-term inflation rate which would help us to understand better the position taken by the European Central Bank. In preparation for this meeting we had a number of reports drawn up by different experts, which were also made available to you and which we have published on the Internet. In one of these reports a comparison was made between the ECB and the Federal Reserve, using 15 indicators. The conclusion of the report is that, using these 15 indicators, the ECB is more transparent than the Federal Reserve. I must say that your declarations do provide more transparency, but if you want

to be totally transparent we need to know the reasons why certain decisions are made. That allows us to follow your thoughts. So that is why we need to look at the medium-term inflation developments, and in order to do that we need to be able to have more data to completely understand the decision taken by the European Central Bank. So could you perhaps tell us something about that?

Mr Duisenberg: The question is then, what new data emerged between one meeting of the Governing Council and the next? Then we are talking about two or three meetings. Well, the new data over the last month or so, leading up to the decision, were figures about business confidence on a euro-area-wide basis, about the prospects for the impact of the global slowdown on the European economy which we believe and believed will be limited but not entirely absent. It led us to reassess our prospects and makes us confident that we shall not have an overheated situation like we had in the year 2000. Then, although we had expected it, a very important set of new data which became available was that concerning the distortion of the monetary growth figures by non-euro-area resident holdings, as I mentioned. In particular, a new element that I mentioned in my introductory statement, that was new at least to me and to the other members of the Governing Council up until 7 May, is that when we finally got the firm estimates of that distortion it had been increasing from month to month over the last three to four months. That was a new phenomenon making the distortion itself larger and larger. That was a set of new data which contributed to our new assessment made on 10 May. When you get this data you always have the dilemma - and I do not deny that it is a dilemma, also for the policy decision-makers themselves - either to change interest rates at the time when the move was not expected or first re-reading the information and then acting after the public was prepared. I have no hesitation in saying that the first option is regarded by me as the preferred one. If the information available to the Governing Council alters the balance of risks to price stability, it should act in a timely manner. Suppose, Madam Chairman, for one minute that because of the reasons I have just mentioned we had deferred the decision and then on the basis of the same data we had taken the decision four weeks later, we would immediately have been confronted with the question: why do

you only act now if you already knew four weeks ago what you know today? The criticism would have been precisely the same.

Chairman, Mrs Randzio-Plath (PES/D): But is not the first pillar a very unreliable measure, when you see that even with the Bundesbank, in about 50% of all cases every year, the target figure is not actually achieved? How difficult must it be for the European Central Bank to prepare this data Europe-wide? So would it not be more important to actually target inflation rates than to look at the development of M3?

Mr Duisenberg: First of all I want to state emphatically that the quality of our monetary statistics, even without the correction to the distortions to which I shall come back in a moment, is very high indeed. They are fully harmonised across Europe based on fully-harmonised data and they are high quality statistics. We know that we are in a position to make them even better than the already high quality we have attained until now. The fact that we have not yet reached our stated target in the year 2001 is again not due to an undue reliance on monetary data for monetary policy, but is due to a number of temporary factors working their way through. Then I would also state again that we are not targeting a precise monetary development. We are using the monetary data as a reference value, literally, which requires from us that we explain why there is a difference between the actual outcome of monetary developments and the reference value which we agreed and published. So it is not that rigid a policy or formula as might be implied by your question.

Mrs Riis-Jorgensen (ELDR/Dk): Thank you Madam Chairman. Mr Duisenberg, when you look at the value of the euro in relation to that of the dollar you cannot help but find that the euro, as things stand at the moment, has lost value in comparison to the end of last year. So do you imagine the central banks intervening on behalf of the euro? If, as I say, you compare the current value of the euro vis-à-vis the Dollar with what it was?

Mr Duisenberg: First of all Madam Chairman, the exchange rate of the euro is not a target for the Eurosystem. Its development only becomes relevant in as much as it is part of the second pillar of our monetary policy strategy, and its development would have a sizeable impact on inflationary expectations and with that on actual inflation. Then it could become a cause of concern. Secondly, in nominal terms, the euro has depreciated - although not that much - since the beginning of this year. In nominal effective terms, the euro has even appreciated if you correct for the different inflation figures in the different currency areas. Thirdly, on interventions I continue to say it is a weapon that is in our arsenal and that, if it is ever used, I shall inform you fully of it only after the fact.

Mr Radwan (EPP/ED/D): Thank you Madam Chairman, I just want to return to the question which I think is of greatest concern to us today, and that is about the eurozone and what Mrs Peijs mentioned in her intervention, and about how we are going to co-ordinate the leaderships of the central banks. That is the first thing I want to talk about. The second thing is whether there is a possibility for our national central banks to actually take on a supervisory role and that would be cheaper, I think, than if we used the small banks, the business banks. The business banks have told us already that they are going to see a drop in exchanges between the eurozone countries. I would like to know how you as the European Central Bank are going to open up the exchange systems of the banks, and whether there is going to be continual co-operation between the central banks? Are you going to try and bring this co-operation onto a lower level so that the local banks can be involved as well?

Mr Duisenberg: I am not sure I have fully grasped the content of the question. We have published a progress report on cross-border retail services in September and we have devoted an article in our monthly bulletin to this in February this year. At an earlier stage, we stated that most of the seven objectives which were already defined in 1999 were still unfulfilled to a varying degree but we also recognised that banks are committed to reach these objectives at or before 1 January 2002 and we do recognise that they have undertaken substantial preparatory work. The outstanding issues have been translated into four action points which should bring the level of service for cross-border credit transfers

closer to that of domestic credit transfers by the date of the introduction of the euro banknotes and coins. That is the early implementation of standards and, although the banks have still not completed the implementation of standards that allow straight-through processing by mid 2001 as we suggested, encouraging developments are being undertaken. The three European credit sector associations are monitoring the overall process of implementation of standards. Secondly, what has still not been finally eliminated but what we are constantly monitoring is double charging and the introduction of a multilateral interbank exchange fee. Banks have all agreed on a so-called default multilateral interbank exchange fee that should cover all the costs of the beneficiary bank. We are supportive of such a multilateral inter bank exchange fee since it has the potential to lower the cost for the citizens of Europe, provided of course that the European Commission does not say that this does not comply with the competition rules. That is such a uniform behaviour agreed amongst banks. Furthermore, concerning the definition of a standard cross-border credit transfer product with a common name, meeting the Eurosystem's requirements, it has become clear that the banking industry does not share the Eurosystem's view on this matter and will not pursue this initiative which is seen as jeopardising competition amongst banks. However, we shall continue to hammer this point home, and as far as information campaigns are concerned, while considerable efforts are being employed by individual credit institutions there does not appear to be a co-ordinated information campaign at the level of the banking sector as a whole. We would have much preferred that there was such a co-ordinated information campaign. But banks prefer - and who are we to interfere with that - to market their particular products and brand names individually.

So in conclusion, Madam Chairman, banks have made progress but the objective and action points as defined by the Eurosystem have not yet been fully met. I am also not despondent that by the time of 1 January 2002 the major objectives will have been met.

Chairman, Mrs Randzio-Plath (PES/D): Thank you Mr Radwan. Let us go to Mr Katiforis.

Mr Katiforis (PES/Gr): Thank you Madam President. President, I am a bit worried about the timing of your statements. If indeed, as you say in your opening statement today, over the last few months the Governing Council has greatly changed its view on the balance of risks, is that consistent with you, yourself, having stressed on April 28th that you are principally worried about inflation and you either said or implied - I am not sure which - that you did not expect lower rates. Is that consistent with the gradual change of view over a few months, and also today is it consistent with the slowdown of the economy which is certainly getting worse in the United States and no better in Europe? Is it consistent to insist so strongly that economic growth lower than that which is established in the stability pact as interpreted officially - because there can be a more flexible interpretation, but your interpretation is quite rigid - should not be a reason for countries which remain in fiscal imbalance to miss their budget targets, and is that not pointing again in two different directions? You point monetary policy towards a more relaxed stance, but you point fiscal policy to a more rigid stance. Is that consistent?

Mr Duisenberg: On your first question, where you say you do not know whether I said something or implied something. I really cannot answer. I am not aware of ever having used words different from the ones I used in my last but one press conference, which were words carefully prepared and carefully guarded over by the entire Governing Council, and they fully reflect the monetary policy stance at that time, which ended up in an attitude at that time of literally wait and see. We had to wait and we had to see further evidence and then finally you come up after some time with a new conclusion. Now on fiscal policy, if you have a situation where the expected performance of the euro area economy is one that lets the output growth be at the top rate of what we see as the trend potential growth rate of the economy - we always have said that is about 2 to 2.5 percent, I say now we expect it to be at the top of that range - then there seems to be no reason to cyclically (or periodically) deviate in your fiscal policies from your structural standards. There is no reason, for example, for automatic stabilisers to start working when the stabilisation itself is not in danger. Then there is every reason to keep calling on every single government, but in particular those who still do not comply with their self imposed

targets, to over the medium term reach a situation of balance or even a small surplus. There is no reason to deviate from that endeavour.

Mr. Katiforis (PES/Gr): But nevertheless as things stand now monetary policy and fiscal policy are not pointing in the same direction. Isn't that the case?

Mr Duisenberg: If monetary policy, of which we regard the stance as appropriate in the current circumstances and based on the current evidence, is reflected in a short term interest rate level of 4.5 percent, that is to my mind fully consistent with the fiscal policy stance that is required to lead to a movement of budgetary results in the direction of continued movement in the direction of balance or surplus. I see no need at the current moment in time for fiscal policy currently to deviate in a pro-cyclical sense or in an anti-cyclical sense to stimulate economies which are still operating euro area wide on, I emphasise, what we call a robust base. So I really see no conflict between the two major policy areas.

Mr Langen (EPP/ED/D): Mr President, I have got a two-fold question on the present discussions on the subject of the euro, and the declaration that the French Prime Minister, Mr Jospin has made. One is the question of co-ordination of economic and financial policy. In the new proposal it is suggested that the old model of an economic monitoring body should be recreated. I would like to know how you feel about how the co-ordination of financial policy is being managed so far. Do you feel that there is a need to go beyond the present situation, and, secondly, there is a question of tax harmonisation within the European Union. We know that the proposals in the USA for a huge decrease in taxes would lead to an increase in purchasing power for every household, but also a part of the growth prediction which has been revised downwards would occur in Europe. I would like to know what you think about a reduction in taxes across Europe or a harmonisation of taxes in the Euro zone.

Mr Duisenberg: On policy co-ordination, Madam Chairman, I think a clearer awareness of the euro area dimension in the process of co-ordinating economic policy making

between the Member States is certainly useful, and the ideas that have been brought forward by the European Commission on this aspect are therefore welcome, but I cannot emphasise strongly enough that the European Central Bank cannot be expected to enter into any co-ordination or any commitment which would compromise its primary responsibility, given to it by the Treaty, that is to maintain price stability. Our contribution to any process of economic policy co-ordination is already well known: monetary policy will always primarily be geared towards achieving price stability. That means that monetary policy decisions cannot be subject to any form of prior consultation or could not be subject or guided by predetermined rules of behaviour. On the proposal to hold regular meetings between the ECB President, the euro Group President and the competent Commissioner that seems acceptable also in the light of the Commission's emphasis on what they call "respect for the independence of each party". The Commissioner and I can speak for, respectively, the Commission and the Eurosystem. It remains to be seen to what extent the euro group President of the time can always speak on behalf of his 11 colleagues in the euro group. But that is his problem not mine. On taxes, Madam Chairman, I will not touch on the issue of tax harmonisation, that goes beyond my area of competence; what I can do is re-emphasise what I also said in my introduction today; tax reforms are in some countries urgently called for, mainly to enhance the structural reforms which are necessary for the functioning of a less rigid labour and product market infrastructure. But they always should be made in a responsible climate, namely if tax reforms imply tax reductions, they should not be without prejudice to the other goals that governments have, namely to achieve the aims of the growth and stability pact, that is to achieve the situation of a balanced budget or slightly in surplus of that. So if there are such tax measures to be taken they should be accompanied by adequate measures on the expenditure side of the budget.

Mrs Beres (PES/F): Mr Duisenberg, I am sorry but once again I am going to come back to the question of the introduction of euro bank notes. Other colleagues have already taken the floor on this, but I do want to come back to this point because it is part of your responsibility to distribute the notes and it seems to us that above and beyond the technical arguments put forward by the Central Bank, there are other more political or

psychological arguments which would warrant our asking you to give fresh consideration to your decision. We feel that there is still a window of opportunity remaining with a meeting of the euro group on 4 June. I must say that hitherto none of the logistical or technical arguments you used really convince me. You talked about the risk of fraud, but I am not honestly sure that the distribution of a paper document will allow people to acquire a sufficient level of awareness. We can see very well that a lot of people are waiting to the last moment to switch over. Psychologically speaking there is an ideal period between the Christmas holidays and New Year during which individuals could go along to their banks and get used to handling small bank notes. Another aspect of practical implementation of the euro comes from the principle of subsidiarity, it is up to the Member States to organise that and you, yourself, stressed how well things seem to be organised in a varied and broad way, so on this issue of frontloading of small bank notes is it not conceivable that an option should be left open, subject to the responsibility of commercial banks, for small quantities to be frontloaded in this way? Could you elaborate on that?

Mr Duisenberg: Before answering the question, may I restate what was foremost in our minds about a year and a half ago when we decided and made public the decision not to frontload to the general public. What most of all seemed important to the entire Governing Council is that the banknotes would be issued at the same moment, simultaneously, in all twelve member States, and not first in one Member State and then in another.So there was agreement, and it seems to me still to be very important, that we start with one big offensive, so to speak, of a changeover in all Member States at the same time. Now indeed, the closer you get to the actual date of the lst of January, the less convincing becomes the counterfeiting or fraud argument as you mentioned. I fully agree with you. Nevertheless, we think there are adequate other measures, and I mentioned already some of them, to get the low denomination bank notes into circulation in a very speedy and efficient way, which is also not without cost, by loading the ATMs almost exclusively with 5 and 10 euro bank notes. Now not all countries do that, I admit, but most countries will do that and have already agreed that with their national banking systems. I also want a little bit to counteract the notion that there is a general and

widespread feeling amongst retail organisations that frontloading to the general public is a necessity. I know it is true in some countries, but I can assure you that we at ECB are also being approached by large retail organisations from other countries who tell us that we should please not frontload. That is also an element, and they say that for the same reasons that we say it. Make the introduction of banknotes uniform, make the money as well known as possible, make the people to the maximum extent familiar with the new banknotes; just don't cross this one border line: frontloading some banknotes. We say all banknotes should be put into circulation one day, and that is lst January. But then we also say: banks play ball; be open on lst January. And most banks in most Member States have already decided to do just that.

Mr Goebbels (PES/L): Mr Duisenberg, you have just told us that 70% of the euros will be put into circulation by ATMs , you said that during the course of your introduction. But now you have just said that the ATMs will have 5 and 10 euro notes put into them mainly and that is simply inconceivable. Ordinarily speaking, cash machines tend only to have 2 boxes within them, if you are going to fill them with 5 or 10 euro bank notes rather than bigger denominations, you can't have 70% of the euros circulating.

Mr Duisenberg: According to my information, if I go country by country- this information comes from the monthly monitoring of the European Commission- how many ATMs will have been converted on the first day of circulation? In Belgium, Germany, Luxembourg, Austria it will be 100%. They all will have been converted. Then it is up to the individual bank to say which notes do I put in that ATM; now I have understood indeed, there you are right, some banks are using machines which can carry, so to speak, two bank notes, others are using machines which can carry three bank notes. That seems to me a minor problem. we are also talking about the first couple of weeks or even days of the changeover. Then in Greece, Spain, Italy and the Netherlands, the number of converted ATMs varies between 90% and 100%. It is only in France where the figure is significantly smaller at 62%. And ss far as things look now, also in Portugal and Finland, where the figure is significantly smaller. But if you look a few days further, in France for example, I talked about the first day, when 62% of the ATMs will be

converted, the figure is already up to 85%, after the end of the first week. So it is only a matter of days that we are talking about, with respect to the full conversion of all ATMs.

Mrs. Villiers (EPP/ED/UK): Mr Duisenberg, I really would like to press you on this changeover issue. We have heard extensive things about what you are asking of small retailers, of ordinary people, of businesses with the changeover to the euro. What I would like to ask you is, have you and the ECB, or has the Commission, ever actually done an estimate of the total cost of this transfer, because it seems to me really unfair to ask people to undertake this course if we haven't even made an estimation of it. I mean, are there figures for the euro zone as a whole, or for individual countries? Secondly, I know obviously you will be concentrating at the moment on the changeover, but also we must not forget that enlargement of the euro zone is likely within the foreseeable future. What sort of preparations are you doing pending that enlargement process in terms of work and statistical analysis, obviously you got Greece in fairly quickly but are you actually doing further sort of pre-preparations on administrative and statistical work pending possible applications to enlarge the euro zone?

Mr Duisenberg: The available estimates of total costs of the changeover range between 0.3 and 0.8 percent of GDP. These areone off costs, of course. But I would also in this context, when we talk about the changeover and frontloading again, like to point to one aspect which we should not enter into my consideration but at least, I think, should enter into your considerations, and that is if you frontload to the general public, possible ahead of lst January, it will cost the general public money. Assume that the general public would be able to get the banknotes, but would not be permitted to use them, that is a cost. They would then have to invest part of their monthly or weekly income, at least in the sums available for them to spend, in particular, in the rather costly month of December to invest in an asset which they could not use, and it would in general only be the more well to do people who could afford to be frontloaded. The others could not even afford to do that, because they would have to use the money, the hard won income from their labour, for other means. Now on enlargement we are in close contact with all the accession countries and have almost permanent contact at various levels, to prepare them for

accession, that is on the legislative level, on statistics, on financial infrastructure. Those are either multilateral contacts, but there are also many bilateral contacts; mostly, we at the ECB, of course with the bentral banks of the particular countries, to prepare them. But then you have also to bear in mind that there is a difference in timing between accession to the European Union, accession to the exchange rate mechanism and accession to the euro area. But we are already now in very close contact and co-operation with all the accession countries on these various issues.

Mrs. Villiers (EPP/ED/UK): A supplementary are those contacts being maintained with current members of the EU as well? I mean obviously we are very much aware of your work with the accession countries, but enlargement of the euro zone doesn't just relate to those who are applying to join the EU, it relates obviously to those current members of the EU who are not in the euro zone.

Mr Duisenberg: Yes, I almost tended to forget that there were those countries as well, but I can confirm we are in close contact. Do not forget that in the case of the three countries of the European Union that are not yet members of the Monetary Union, at least their Central Banks are members of the European System of Central Banks, so the contacts are intense and extensive and indeed it is the case that we carry out most of our co-operation amongst the central banks of the European Union within a committee structure. We have, all in all, 12 ESCBCommittees and the Budget Commitee, and on some of those committees also the so-called 'out countries' are included already today in most of the practical work in the committees.

Mrs Torres Marques (PES/P): Mr Duisenberg, I would like to say that the replies you gave to Mrs Beres and Mrs Villiers would lead me to the exact opposite conclusions to what you said. All the arguments you gave to oppose people being able to get hold of euro coins and notes in their hands, but at least it would be an option open to the people if they wanted actually to get hold of them and this will build confidence in the new currency. Anyway, let's say something about the cross-border transfer costs. The banking authorities have just said, despite what you have said, that there is this commitment to

ensure that all the costs will be the same as on the domestic market. But we've just been told that cross-border transfers charges would be somewhere between 10 and 12 euros, the banks felt that that was a good price range. But if you look at 12 euros, it is far from being the same figure which applies to domestic transfers, it is a very high figure. Mr. President, it seems to me that it is quite incredible that the credit institutions are behaving in this way. I also find unbelievable the outrageous percentage charged on credit card payments within the euro zone. There are measures that have to be taken if we are to make sure we have a real internal market.

Mr Duisenberg: Chairman, I must simply confess I am not familiar with the 12 euro figure. I thought that for the inter-bank transfers the figure was 3 euro. That does not mean yet that it will be the same figure for every client, but at the moment I think it would also be unrealistic to expect completely equal costs within a few months after the changeover without cross-subsidisation between cross border and domestic payments. Cross border transfers are currently a hundred times more costly than domestic ones; the domestic ones of course being extremely cheap because of the full automation and very high volumes involved. But we do expect a significant reduction in prices, but that will ultimately be assessed after some experience in the course of 2002. In the medium to longer term, prices for domestic transfers and cross border, be it intra-European or intra euro area, transfers should be the same.

Mrs. Torres Marques (PES/P): I am going to give you the figures because they are here, and it says that is 10 to 12 euros everywhere in Europe. But you did not answer about credit cards - the cost of transactions with credit cards in Europe.

Mr Duisenberg: May I then ask you to repeat your question. I did not get it.

Mrs. Torres Marques (PES/P): I said it is very expensive to pay with credit cards. It is a percentage of the payment in the euro zone. There is no risk, no exchange risk, so what are you doing to do about it?

Mr Duisenberg: Well, I would have to look into that, Madam Chairman, because I do not have a precise answer at this point in time. Whether we would be in a position to do something about that, whether that falls within our competence or into the competence of other authorities. We at the European Central Bank can act as a catalyst, we can exert pressure, but what we cannot do is directly intervene in the market structures and market practices.

Mr Maaten (ELDR/NI): Thank you very much President Duisenberg. Your position on the frontloading of notes before l January, I see that your position has not changed and your answer is still unsatisfactory for us. There are some new elements in your decision but it seems that some retail organisations, local authorities, consumers and even the Prime Minister of France have actually started to express their concerns about the question of frontloading and counterfeiting of notes as well. Concerning this argument about actually giving the notes too early, before 1 January, of course you would need somebody to accept this money before 1 January for there to be a problem. If there are no transactions, I think there is a very limited risk compared to the problems that we are hearing from retailers about the safety of having all these coins and problems and calculation mistakes as well. I think would be possible to get for example 100 euros beforehand a couple of days before 1 January and that would help a much bigger group of people. Now I quite agree with you that of course after a week or two everything will be fine. But our concern is that people are not going to be very knowledgeable about what the euro note actually look like, and that is our concern. So the question is: is it so difficult to change your thinking, your plan on this if you could get some effective solutions before the 1st of January, because this answer is really not satisfactory in particular from a safety point of view.

Chairman, Mrs Randzio-Plath (PES/D): Mr. Maaten is of course the rapporteur for the European Parliament's report on the preparation to the changeover to the euro.

Mr Duisenberg: It would not be so difficult to change the thinking, what is difficult is to change the policy and why. We have, as ECB or as Governing Council, announced our

policy one and a half years ago. That gave certainty to market participants. They knew what to do and when to expect what. Do not underestimate, I plead with you, that if we were to change our position and make frontloading possible, be it for part of the bannknotes or for the entire bank notes, say a week or two weeks before the date of introduction, this would require a significant change of plans with our counterparts. It would also make them incur significant further costs. All their logistical plans are being based on the hypothesis that there will be no frontloading to the general public, I repeat, only to the general public. You mentioned the backing that in some quarters recently had risen to the idea of frontloading even for small amounts. You mentioned the name of Prime Minister Jospin and some others. May I counteract by also mentioning that at their informal ECOFIN in Versailles, the Ministers of Finance of all Member States explicitly endorsed the decision not to frontload. That I do also regard as some political backing.

Mr. Abitbol (EDD/F): Mr. President, Mrs. Villiers asked about the cost of the changeover. You talked about 0.3 to 0.8 a percent of the GDP, well that still amounts to an awful lot of money, something like 40 million euros if I am not mistaken, so who is actually going to pay that cost for the changeover?

Mr. Duisenberg: In the end, we all together.

Mrs. Peijs (EPP/ED/NI): If you listen to Mr Duisenberg, it seems that we just started talking about frontloading yesterday, but in fact there has almost been a 5 year war. We have been talking to you about this for about 5 years. There was a hearing and Mr Duisenberg of course you are not sitting in an ivory tower, you speak to everyone, but you don't listen to us and you are not listening to what society is telling you. You are speaking, but you have got two ears to listen to us as well. Well, everyone who is sensible is actually talking about this problem of retail trade. Now, have you ever tried to go to the supermarket on a Saturday, think about the people at the cash tills, and listen to us. In the Netherlands, the president of the central bank said that he does not want to hear about this, but I am actually thinking about the example of public transport. From the 1st of January, public transport in the Netherlands is saying that we will only be able to pay

with euros, so why are you not taking on board the concerns of the private sector? Do listen to people that know what is going on. I know that you've got a video which talks about the problems in the cities, so listen to us because it is going to be a real disaster. I am in the opposition, Mr. Zalm finds himself in a very sticky situation because a few weeks later there are going to be the elections, I would not worry about this but this is a real concern for everyone. We do not want the euro to get a bad reputation, so do mull this one over. Could I please add some comments not about the frontloading but about the payment system? You've got a very clear role here and this was a clear task laid down for you in the Treaty, where it said that you have to make sure there are flexible payment systems. Everybody is talking about what the banks have to do, but there is a very clear task for you as well. In 1997 there was a Directive that was adopted and this Directive applies up to 50,000 euros, and it is my conviction that the statistical reporting requirements for the national accounts need to have a similar exception up to 50,000 euros, because otherwise we are never going to get the prices for small value cross-border credit transfers down in time. Apparently this is not going to be accepted because this will mean that the prices will actually go up.

Mr Duisenberg: I can assure Mrs Peijs that I can listen and I do listen, but I am also claiming the right to come together with my colleagues in the Governing Council to come to a judgement which may be different from what you plead for, but I can assure you that we all listen carefully and we keep on doing that. Now as for your first specific question, when was the last time I was in a supermarket on a busy Saturday, the answer is 2 days ago. As to the reference that Mrs Peijs made to public transport in the Netherlands, who have publicly announced that they will only accept euros as from the lst January and no longer guilders, I share the question with Mrs Peijs, whether that even is legal, and I have my doubts, I must confess. I am not condoning that situation either, but as long as the guilder or any other national currency remains legal tender in the sense of the law, I think the receiving party is obliged to accept the legal tender; I think it is for one month in the Netherlands. I am sure that you in the Netherlands will be able to solve that problem. Now finally, I know that the plea to increase the reporting threshold from 12,500 euro to 50,000 euro, so as to further reduce the costs involved for banks, is not new. The

exemption threshold of 12,500 euro for balance of payments reporting was only agreed upon recently and it will take effect as from 1st January 2002. In addition, statistical authorities have harmonised the list of economic codes for balance of payments reporting. This already should considerably reduce the administrative burden for the large majority of cross border retail payments without greatly diminishing the meaningfulness of balance of payments statistics. Naturally, there is trade-off between a loss of statistical information for the authorities and low reporting costs for the banks. We have the feeling that the current trade-off seems to be well balanced and we do not want to re-open the issue at this stage. Let us first analyse the impact of the new threshold on both the quality of the statistics and the level of retail cross border prices and once we have a clearer picture, that is also once we have some experience, we might be in a position that we could reconsider the level of this threshold.

Mr Radwan (EPP/ED/UK): Unfortunately my question earlier on was not answered. I do not share you optimism Mr Duisenberg that for cross-border payments it is going to be easier to reduce the costs. I would like to go back to the question of the regional banks in Germany, which already today have clients that can make cross-border transfers because they have small limits of 0.80 euro. Who is going to be able to allow the clients in Germany to continue to make these transfers abroad from Germany? Are the regional banks going to be able to this? I would really like to know what the situation is. You said that the ECB has not got the possibility of intervening in matters of this type, but I think that you could, because you could co-ordinate things. I do not share your optimism when we hear about all the figures for the future, and I am not sure that the ECB is really reacting properly. I think we saw what happened in Germany after the war, the way in which the central bank in Germany intervened then to stabilise markets, I think the ECB could do that in Europe now.

Mr Duisenberg: I think we can try to persuade, I think we can try to catalyse, it is a matter of whether there is the competence for certain measures. In this instance, for the payments system, it is certainly not with the ECB, and for the rest of that matter I must

confess Madam Chairman, I am less familiar with the structure of the German banking system than with German supermarkets.

Chairman, Mrs Randzio-Plath (PES/D): That was a convincing answer, but I think that we will come back to this question again. Now the final speaker, Mr Tannock.

Mr Tannock (EPP/ED/UK): President Duisenberg, can you re-confirm that in the unlikely event of a UK Labour Government victory, and if the British people were to endorse the euro at the promised referendum in 2 years time, that the UK, as you seemed to suggest also applied to the candidate countries after joining the Union, would have to spend two years in ERM II as suggested by the Treaties, which in our case will take the joining date right up to the campaign period before the next general election of the next parliament, and secondly what is it the exact mechanism to ensure that if we were to enter the euro, that the right exchange rate will be achieved. We all remember the ERM débacle under John Major back in 1992. Currently the pound-deutsche mark rate of 3.22 is very high, Jaguar motor cars suggest that 2.7 DM to the pound is the right for them. Can you spell out to us whether the UK Government has an absolute autonomous right to determine this rate or is it the ECB, or is it the Council of Ministers who are the correct authority for this matter? As the British Government will clearly want a low rate to remain competitive but the 12 others will not want to be disadvantaged by cheap British exports. Can you clarify where the exact authority lies for determining a future UK pound-euro rate were we ever to join? Thank you.

Mr Duisenberg: For the European Central Bank, and I am speaking only for the European Central Bank, if the request is there to enter into the Monetary Union, what the European Central Bank has to do is to apply the convergence criteria as spelled out in the Maastricht Treaty, to the UK as well as to any other entrant into Monetary Union. There will be equal treatment. So we will write a convergence report based on the criteria as laid down in the Treaty. Subsequently, I want to emphasise that whatever convergence report the ECB may write, it is not the ECB who decides upon eventual membership of

the UK or any other country. That is a purely political decision, and that is a decision which ultimately has to be taken by the Heads of State and Prime Ministers in the European Council, and not the ECB. As material to underpin the decision, they will have amongst others the convergence report of the ECB in which, in so far as membership of the European Exchange Rate Mechanism is concerned, the ECB can do no other thing than state, for example, that it appears that in the period between X and Y the United Kingdom has been a member or has not been a member of the Exchange Rate Mechanism without devaluing its currency. That is a statement of fact. To what extent the political authorities will subsequently use that fact to say either 'yes' or 'no', I have no idea.

Mr Tannock (EPP/ED/UK): That doesn't actually answer my question, Mr President. Who actually determines the exchange rate - the Council of Ministers or the UK government?

Mr Duisenberg: The UK Government in the run up to membership, if they were to want it, will itself form an idea of what the appropriate exchange rate for the UK economy is likely to be. They will, I am sure, formulate their economic and financial policies, including their monetary policy, in such a way that the pound sterling will approach the rate which is likely to be the desired rate for the UK economy and which could be sustainable for eternity, once they became a member.

Mr Karas (EPP/ED/D): I just wanted to ask one question, more and more often the different policies between the FED and the ECB are being given as a reason for the different economic developments in America and in the European Union. This is superficial, so I am asking you really because even you have a number of answers, you have actually pointed out the different situation in these two groups of countries and used this as your argument between the USA and the European Union. So do you think that the different foundations of the European Union are a reason for the weaknesses in the ECB or in the European Union, or do you think that there should be a reform of the Treaties to strengthen your position?

Mr Duisenberg: From me you will hear no urge to reform the Treaties. I work with the Treaties as they stand, as they have been ratified by all the Parliaments in Europe, that is our constitution for the ECB. That Treaty gives us the single mandate, the primary mandate of maintaining price stability, and we take our decisions based exclusively on an analysis of euro area wide developments, and not in a comparison with whatever national central bank elsewhere in the world, whatsoever.

Chairman, Mrs Randzio-Plath (PES/D): Mr Duisenberg, my final question looks at the instability and volatility of the financial markets and your monetary policy. If we look at the international financial markets we can see that they are moving further away from the goods and services market, and I wonder whether the financial policy can really influence growth and employment, or is the dominance of the financial markets really what sets the tone? I think we should also say that the American interest rate policy seems to look more at the assets market than the growth and employment levels in the country, so is there a danger in that for monetary policy, and should we perhaps rethink the store that we put by monetary policy?

Mr Duisenberg: It is true Madam Chairman, that it is simply a fact of life that developments on financial markets are increasingly having an impact on exchange rate development, much more than was the case say, 20 or 30 years ago. But we have to take that in our stride, that is how markets develop, and that is how their impact develops. As far as assets prices are concerned, I can only comment on what we do with it, that is, and not on what other monetary authorities do with them or the degree to which they are influenced by them. For us, developments on the stock markets, equity prices, are one of the range of indicators we take into account under our second pillar of the monetary policy strategy. Only one, not an unimportant one, but there are many more that we look at simultaneously.

Chairman, Mrs Randzio-Plath (PES/D): Mr Duisenberg, let me thank you most sincerely for today's monetary dialogue, and we wish the European Central Bank not only

to have the wherewithal to fulfil its monetary policy, but we also wish you good luck on this path, and we are looking forward to our debate on the annual report from the European Central Bank. Thank you very much.