2-001

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH JEAN-CLAUDE TRICHET,
PRESIDENT OF THE ECB
(pursuant to Article 284(3) of the EC Treaty)
BRUSSELS, TUESDAY, 30 NOVEMBER 2010

2-002

IN THE CHAIR: Sharon BOWLES

(The meeting opened at 16.45)

2-003

Chair. – I should like to welcome Mr Trichet, the President of the ECB, to the monetary dialogue.

2-004

Jean-Claude Trichet, *President of the European Central Bank***. –** Madam Chair, honourable Members, since our last meeting in September the euro area governments have been called upon to demonstrate their ability and willingness to safeguard economic stability in the euro area. I refer in particular to the economic and financial adjustment programme which was agreed by the Irish Government following the successful negotiations with the European Commission, in liaison with the ECB, and the IMF, and which the Governing Council welcomes.

2-005

(DE) Against the background of these developments, in my introduction I would like to focus primarily on two subjects: the general economic situation in the euro area and the planned new economic policy framework for the EU and, in particular, for the euro area.

2-006

(FR) The crucial issue of the reform of economic governance is particularly important, I know, for your committee. I shall finally take a brief look at current reforms in the field of financial regulation.

2-007

With regard to the euro area macroeconomic situation, recent surveys and data releases have generally confirmed our view of a positive underlying momentum in the economic recovery in the euro area. Inflation rates in the euro area are currently at 1.9%. Looking ahead, we expect inflation to hover around that level for the next few months before moderating in the course of next year. In the absence of inflationary and deflationary pressures, inflation expectations over the medium to longer term continue to be firmly anchored in line with our aim of keeping inflation rates below 2%, but close to 2% over the medium term.

Our monetary analysis confirms that inflationary pressures remain contained, as reflected in low growth rates of broad money and loans. Developments in recent months suggest that the growth of loans to non-financial corporations has, earlier this year, started to show again an increasing trend, while the growth of loans to households has remained positive.

As regards the Governing Council's assessment of the monetary policy stance, I have to note – I am sorry to say – that, with only two days before the next Governing Council meeting this Thursday, I am in the 'purdah' period. I cannot prejudge, according to our rules, the upcoming decisions of the Governing Council. However, as you know better than anybody, what I can tell you is that all decisions by the Governing Council have been – and will be – taken with a view to delivering on our mandate for the Treaty, which is to maintain price stability in the euro area over the medium term.

Turning to the issues that you raised, let me say a few words on exchange rate developments. The concept of 'currency war' is one which is completely inappropriate to use in my view. We need no 'wars' of any kind, but a strong and renewed commitment to confident and resolute cooperation. There are two main topics that need to be tackled seriously. First, there is the relationship between the major floating currencies of the advanced economies such as the dollar, the euro, the yen, the pound sterling, the Canadian dollar and so forth. These currencies – and, in the case of the euro, the currencies that preceded it – have been floating since the collapse of the Bretton Woods system at the beginning of the 1970s. In this respect, we all consider that excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability.

The second topic is that of emerging market economies which have considerable current account surpluses and exchange rates that are not sufficiently flexible. On this issue, commitments have been made by the G20. A move towards more flexible exchange rates, involving a gradual and orderly appreciation of their currencies vis-à-vis the major convertible currencies, is also in the interests of the emerging economies concerned and in the interests of the international community.

On the reform of economic governance, I would say that the ECB is responsible for the 'M' in EMU – monetary union – but we have our views on the 'E' of EMU. You have asked me to address economic governance in more detail in this meeting. You are working on economic governance. Last week I had the opportunity to mention in the Parliament's plenary that the Commission proposals represent an improvement in the current fiscal and macroeconomic surveillance framework for EU members outside the euro area. However, the Governing Council considers that these proposals are not bold enough to appropriately consolidate and reinforce the functioning of economic and monetary union. Indeed, a better functioning of economic union is crucial for the long-term stability, prosperity and balanced economic

development of the euro area. Now that the Council and the Parliament have started their legislative work, let me – as you have requested – elaborate on the proposed legal acts.

With regard to the fiscal aspects, and the Stability and Growth Pact's preventive arm, the Commission proposals go in the right direction on a number of issues. We agree in principle with the approach of defining prudent fiscal policies on the basis of expenditure growth. However, for the implementation of this approach, some detail needs to be added and we think that the limits for deviations from prudent policies should not be overly open.

Regarding the second main innovation, the operationalisation of the debt criterion on the basis of a numerical benchmark is, in principle, welcome. However, we are concerned that the proposed numerical benchmark may not be sufficiently ambitious. Moreover, to ensure strict enforcement of the provision, it is important that room for interference is limited to the absolute minimum.

Thirdly, the introduction of new and graduated financial enforcement measures and sanctions, along with strengthened decision-making procedures (the right of proposal for the Commission and the reverse majority rule), go in the right direction of a rules-based quasi-automatic regime. However, the ECB has serious concerns regarding the provisions according to which, following a reasoned request by the relevant Member State, or on grounds of 'exceptional economic circumstances', the sanction could be lifted. Such provisions leave considerable room for discretion and weaken the ex-ante effectiveness of the new framework. In the same vein, the ECB has serious doubts whether the proposed exemption clause in case of a 'severe economic downturn of a general nature' should be introduced and specified ex ante.

Moreover, we need more independent assessments. There is a need to reinforce the independence of surveillance by strengthening further the Commission's internal procedures and by setting up an independent body of 'wise persons' at the EU level to provide external assessment of fiscal policies and of the implementation of the surveillance framework. In our view, those issues are not sufficiently addressed in the Commission proposals.

Finally, European commitments are also national commitments, and will naturally continue to be scrutinised within national fiscal frameworks. On this, even if the proposed directive's minimum standards are broadly acceptable, I see the requirements spelled out as an absolute minimum. For example, the directive could be more ambitious on the need for independent forecasts and assessment of fiscal policy, and on the transposition date into national law.

Let me now turn to the proposals on macroeconomic imbalances. The development of a fully-fledged macroeconomic surveillance framework for the EU – and even more so for the euro area – closes an important gap in the current governance set-up. The new mechanism is essential for macro-financial stability.

Overall, internal macroeconomic imbalances should be defined in order to focus on Member States which have experienced persistent competitiveness losses and/or large current account deficits.

Second, the specific nature of imbalances needs clear identification on the basis of both appropriate indicators and thresholds. Otherwise, any relevant discussion could prove meaningless.

Moreover, the procedures should ensure linking the outcome of the indicator-based scoreboard more directly to the conduct of in-depth reviews and surveillance missions by the Commission, in both the preventive and corrective arm, and in liaison with the ECB for euro area and ERM II Member States.

Furthermore, in our view, sanctions under the corrective arm of macroeconomic surveillance would come too late in the process, only after repeated non-compliance by a Member State; they should be applied earlier and more gradually in order to provide clear and credible incentives. Finally, again there are risks entailed in allowing sanctions to be reduced or cancelled on the basis of 'exceptional economic circumstances', which could be interpreted in a loose fashion.

For all these reasons, I would call on the Parliament – and I am sure this will be the case – to be ambitious and timely with this legislative package and to ensure an appropriately effective surveillance framework, both in terms of fiscal consolidation and the surveillance of macroeconomic imbalances, and especially as regards euro area members.

Finally, a few words on the European Stability Mechanism mentioned by the Euro Group last Sunday. You know that, since 28 October, I had called upon governments to clarify their position and avoid ambiguity vis-à-vis investors, savers and market participants. In stating very explicitly that the euro area will be 'fully consistent with IMF policy' and 'IMF practices' as regards private sector involvement, the position made public by governments last Sunday is a useful clarification.

Let me make a few remarks on financial sector issues. Much progress has been achieved since the latest regulatory reform agenda was adopted. The endorsement of the regulatory reforms by the G20 leaders – Ministers and Governors – and by the meeting of the Heads earlier this month has added to the commitment of all global participants. The reforms constitute an important step forward in strengthening the resilience of the financial system. In this context, I would like to highlight three issues.

Firstly, the new Basel III framework, as endorsed by the Group of Governors of Central Banks and Heads of Supervisors, forms a cornerstone of the financial reform. In order to reap the full benefits of this reform, consistent implementation and application at international level will be essential. In this context, while the CRD IV could address EU specificities, it is of course important that it is fully consistent with the Basel III framework. Let me also underline the importance of the agreed transition period.

Secondly, as regards the Alternative Investment Fund Managers Directive (AIFMD), I would like to emphasise the importance of creating a convergent oversight in the EU and the US, resulting in an international level playing field. In addition, as there are still several regulatory initiatives under way, both internationally and at EU level, it is important to ensure that their overall impact achieves the desired results without hampering economic recovery.

Lastly, the European System of Financial Supervision, which includes the ESRB and the ESAs, will start on 1 January 2011. We are preparing for a smooth interplay between the ESRB and the ESAs. To ensure this goal a constructive dialogue is under way in the areas of systemic risk analysis and information exchange between all parties concerned.

I trust that the ESRB will introduce, as has been decided by the Parliament, a new policy function at the EU level with great potential for enhancing the ability of European and national authorities to safeguard the stability of the EU financial system as a whole.

2-009
Jean-Paul Gauzès (PPE). – *(FR)* Mr President, I am aware that in these times and given the post you occupy, it is not easy to reply to certain questions for the obvious reasons of their potential repercussions on the financial markets. So I shall dream: I shall pretend that there is nobody here and I shall very briefly ask you the three questions that I wonder about and that the citizens wonder about.

Firstly, do you have an answer to the concerns about a 'domino effect' in the euro area? Second question: is the possibility of restructuring the debt of a euro area country still a taboo issue? Third question: what is the position of the European Central Bank on the current debate within the Eurogroup on differences in productivity and competitiveness between the Member States? Thank you, Mr President, my dream ends there.

2-010
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* You have the right to dream but I do not, if I understand correctly!

I will say the following. We ourselves have constantly said, and you are the most constant witnesses to this as we have met on average six times a year in fact, that the Stability and Growth Pact and the close surveillance it provides were fundamental to the Economic and Monetary Union. We were responsible for the Monetary Union, others were responsible for the Economic Union. Those responsible were the governments. The Eurogroup is the meeting of the governments of the euro area. That is what we said when the euro was created and we kept on saying it until 2004.

In 2004, a number of countries sought to weaken the Stability and Growth Pact, including yours, I believe, Mr Gauzès, and others too, including all the major countries. We said that that was an error, a serious error. We said that Economic and Monetary Union required two pillars: a monetary pillar and an economic pillar. We fought, the Commission fought, and we went before the European court, which delivered a Judgment of Solomon. That clearly shows the extent to which we were in a situation of conflict.

We have continued to say the same thing. I myself expressed, on behalf of the Governing Council, our grave concerns in 2005 when the new pact arrived. Furthermore, we continued to say that it was crucial to strengthen surveillance, not only the surveillance of budgetary policies, and what we see now, with hindsight, makes the attitudes of the countries, of the Council, of the Eurogroup at the time totally incomprehensible, but we also said that we should monitor very closely unit costs of production, competitiveness indicators and national imbalances within the euro area. That much is clear, then.

Governments, as far as I can see, aware of what has happened and faced with a difficult situation, are currently taking decisions that they judge to be appropriate and that are perhaps underestimated by observers. I would say in passing: I think that observers underestimate the determination of the governments, the determination of the college that makes up the Eurogroup, and also the college of 27 that makes up the Council. I find this underestimation of their determination dreadful.

This, indeed, is not new: I have always been aware that observers found it difficult to understand Europe's decision-making mechanisms. That leads me to say to you, not as a dream but as a reality, that I do not believe that the financial stability of the euro area, on the basis of all that I know, can be seriously threatened. At the moment, it is clearly posing a problem, but I do not believe that it can be seriously threatened.

Similarly, I would say, as regards the issue of the involvement of the private sector, that I myself had said that it is very important to clarify the situation thoroughly. This situation was clarified last weekend. The people of Europe have at their disposal, no more nor less, rules at global level regarding the involvement of the private sector and there is no European, at this time, saying anything other than that the two countries which have been assisted are countries which are in a position of solvency, but which have a problem in carrying through their adjustment. We should not, indeed, neglect

the serious matter of necessary adjustments throughout Europe.

I believe I have answered your first two questions but I would like to add a comment. I was saying that observers found it hard to assess what is really being done in Europe. I can see perhaps four areas where there is a clear underestimation of what is being done. Firstly the fact that all the European countries are following stabilisation and budgetary recovery programmes, although the points from which they are starting are better than those of other major developed countries, at least in terms of the consolidated euro area.

For example, in 2010, the deficit of the entire euro area was 6.3% of GDP. The United States' deficit was 11.3% of GDP. Japan's deficit, according to the International Monetary Fund, was 9.6% of GDP. Just to give you some points of comparison: in 2011, within the consolidated euro area, we shall be at 4.6%, the United States at 8.9% and Japan also at 8.9%. That is not widely understood, it seems to me.

Second fact, the European economy has constantly been a source of surprise on account of having been somewhat or clearly more dynamic than predicted since its return to growth. That is a fact: I must say that a country like Germany, which, as you are aware, is not one of the most insignificant within the euro area, has the highest level, based on calculations by the Ifo Institute, since the reunification boom. Now Germany makes up 30% of the euro area. So the real economy is working and, as a whole in the euro area, has provided a pleasant surprise.

The third point which, I believe, is also important is the fact that instruments have been introduced and they work. We have just seen this again clearly last weekend. I shall stop there as I do not wish to weary you. I shall simply say that we ourselves produce a currency called the euro which has retained its value better than other currencies over the last 50 years. This is also something that should not be underestimated. We are the ones who produce this currency.

2-012
José Manuel García-Margallo y Marfil (PPE). – *(ES)* Madam Chair, President of the European Central Bank, I am obliged to ask you – although you probably have the option not to answer me – whether or not you are thinking of continuing with the extraordinary liquidity measures in 2012, in other words whether you are thinking of continuing to purchase public debt. If you wish to delay your answer until the Council meeting in two days' time, I would like you to give a little more detail regarding your opinion of the participation of private investors in the rescue operations that are agreed from 2013.

Initially you were opposed to this idea. This weekend the Council decided that it will be done on a case-by-case basis, which in my view multiples the uncertainty, but I would like to know whether or not you are still saying that you are not very keen on the idea due to the effect that it could have on the stability of the markets.

2-013
Jean-Claude Trichet, *President of the European Central Bank***. –** First of all, as I have already said, we will look at our monetary policy in two days' time and, as you will easily understand, I cannot anticipate the decision of the Governing Council. As I said, we are in the purdah period. This is true of the monetary policy stance and the interest rate decision; it is true of the other element of our monetary policy, namely the non-standard measures.

I say this to provide a clarification. We have the monetary policy stance, which is designed to ensure price stability, and we have the non-standard measures that are there to provide a better functioning of the monetary policy transmission mechanism when needed, when you have markets that are hampered and in difficulty, and specifically to channel the interest rates that we decide on.

On the second question, I said a moment ago in the statement on the euro that it was a useful clarification because it deals not only with the situation now but also with the future permanent mechanism. The future permanent mechanism will apply the IMF policies in a way fully consistent with IMF policies and 'fully in line with the IMF practices'.

One of the ambiguities was that Europe would have a new concept that was not the concept which is applied throughout the rest of the world, and that new concept was, to say the least, somewhat frightening for the investors and savers who were looking at their investment in Europe. It was extremely important for this ambiguity, which lasted for one month, to be fully clarified. Again, I consider this a useful clarification. I am on record as saying that I considered it was not appropriate to have a period of one month where things were not fully clarified, but now it is done.

2-014
Werner Langen (PPE). – *(DE)* Madam Chair, Mr Trichet, I would like to ask a question which came up this morning in the hearing during the debate on derivatives and which also relates to the European safety net. This is the question of access to central bank money.

There has been a call for the clearing houses either to have a banking licence or, at least, access to central bank money, so that a risk assessment can be carried out. In the preliminary stages of the euro rescue fund, you bought government bonds worth billions of euros and your actions have been discussed and criticised. The fund is now entering its test phase. The reactions of the market indicate that there is no end in sight after Greece and Ireland. Under the terms of Article 125, which largely prevents the Union from taking liability for or assuming the commitments of national governments, including Eurobonds, as I understand it, do you believe that it is possible for the European Central Bank to refinance the safety net? Do you think that the rescue

fund managed by Klaus Regling will have to make use of refinancing from the European Central Bank?

The US Federal Reserve has opted for a different solution which involves buying government bonds in large quantities and which therefore drastically increases the money supply, leading to the risk of inflation. How would you assess these two things – the clearing houses in the derivatives area and the safety net – with regard to access to central bank money?

2-015
Jean-Claude Trichet, *President of the European Central Bank***. –** This is a very important question – or rather very important questions, because it seems to me that you addressed a lot of different questions or issues. One is the clearing houses and the way they are connected or not, easily or not, to the Central Bank liquidity. This is a question per se, with necessarily a global concept. We need to apply more or less the same rules as regards clearing houses at global level. This is a very important issue which is being discussed at the level of the major central banks of the advanced as well as of the emerging economies.

Then we have your question, if I understand correctly, on our programme of security market purchases. This is one of the non-standard measures that we have decided. I have no other comment; it is a decision of the Governing Council. It has been decided because we considered that the monetary policy transmission channel was impaired in a way that led us to judge that we should help restore this transmission channel.

As you know, it does not change the monetary policy stance because we withdraw the liquidity that is injected through this programme. This morning we again withdrew the liquidity which had been injected. We do that every week. We will see what we decide for the future. It is entirely the decision of the Governing Council, but this programme is ongoing.

You asked whether we would be able to refinance the rescue fund. The existing rescue fund is fully operational. It was decided on in May and is now functioning for the first time, because in the case of Greece it was not the EFSF concept that was applied but direct ad hoc loans. Now we have the EFSF functioning. We do not finance the EFSF ourselves. The EFSF is really the instrument which is in the hands of the governments. That is my response to your question.

2-016
Edward Scicluna (S&D). – You have clearly shown that the policy is divided between the European Central Bank, with monetary policy being its remit, and the economic policy for governance. Unlike the US, the Central Bank's primary objective is inflation and all the others are secondary, but it is very clear that inflation is an objective stronger than it is in the United States, while economic policy – to make up for the other economic objectives – is left to the governments.

We have in front of us an economic governance package which, in a way, is similar to the Central Bank in having one objective, namely economic governance and dealing with the prevention and resolution of debts. So my question is, where do you see economic policy looking at any link with other objectives, such as growth, employment generation and the Europe 2020 package? Even the Commission is telling the Parliament not to look at this new mechanism of economic governance as a Christmas tree but just to focus on what is required, which is dealing with the debt crisis. Could I have your opinion on this please?

2-017
Jean-Claude Trichet, *President of the European Central Bank***. –** The governance concept which is in question – on which you are working right now – is for the very long-term appropriate functioning of Europe, the 27, and of the euro area, the 17. In a month's time there will be 17 of us.

We are drawing lessons from past experience, but it is not a short-term issue. It is a very long-term issue – how to govern correctly the economy of the 27 – the 500 million – and the more than 330 million. That is the issue.

On the other hand, we have this idea of having a permanent system in case the surveillance does not function perfectly. I am making the working assumption that, with the present hard lessons, the probability of individual economies and countries and the college of those who are there to survey them again embarking on very lax behaviour seems to be extremely small, as we have the experience of the present difficulty. So I am making the working assumption that the new governance will function.

We are on record as asking for the maximum level of boldness in the economic governance that you are reflecting upon. It is absolutely capital for us. We can see what happens when we practise benign neglect in this respect. Again, it has nothing to do with the crisis management that we have mentioned, and the functioning of the EFSF and tomorrow the functioning of the new mechanism.

Let me say just one thing in conclusion. All advanced economies are now reflecting on the lessons to be drawn from the crisis. A moment ago I quoted the situation of other major advanced economies. They themselves are reflecting on what must be changed in order to have a better handling of macro policies. This is not surprising, as we are all under the worst pressure since World War II – and perhaps since World War I – but we have avoided the Great Depression because appropriate decisions have been taken.

I have taken too long and the Chair will not be at all happy.

2-018
Elisa Ferreira (S&D). – *(PT)* My main concern is over the financial stabilisation mechanism. It is functioning,

but it is not meeting its objectives and has not stopped contagion spreading to other countries, and it does not seem as though confidence has been restored to the markets. As the European Central Bank has been a stabilising element in the system, I would like to ask the president of the Bank what, in his opinion, were the reasons why this mechanism has not achieved the objectives for which it was devised.

I think that there is a rather un-European, one-dimensional element of intergovernmentalism that I think was very badly handled, namely the participation of private interests. This has opened a can of worms. Then there is a third issue on which I would like your response: in order for countries to pay their outstanding debts and monitor medium and long term debt, they should have conditions, at least in the medium term, for generating a surplus that allows the financing of that debt. This condition is not guaranteed in an integrated area with a single currency and with regions that have had very different rates of productivity and competitiveness from the very outset.

Is this not the time to think about Europe's future in a more radical way?

2-019
Jean-Claude Trichet, *President of the European Central Bank***. –** I think that the main issue, as always, is that the relative competitiveness between the countries has to be followed very carefully. This is what I have always told you in the hearings that you have organised: we are in a single area with a single market and a single currency that has had price stability of less than 2%, close to 2%, over the last 12 years, and is expected to achieve the same level of stability over the next 10 years.

This has to be fully understood by all decision-makers, governments, parliaments, social partners, enterprises, because it is something which is fundamental. We are in the same single economy and we have a benchmark as regards the nominal evolution, because we know in advance that we have price stability in line with what I just said: 1.97% over the last 12 years.

All decisions have to incorporate that, whatever the level of productivity, and there are differences between the various levels of labour productivity. However, whatever your level of productivity, you have to adjust your wages and salaries so your unit labour cost is reasonably competitive. This is what has to be done in all economies in the world and it also has to be done when one belongs to a single currency area, the euro area. It is the unit labour cost that counts with regard to firms' cost competitiveness. Of course you have a number of other elements of competitiveness that are also very important.

2-021
Sylvie Goulard (ALDE). – *(FR)* Mr President, as you know, Parliament is trying to face up to its responsibilities. We are well aware of everything that has been done by the Member States of the Eurogroup, so we are not the ones who need to be convinced. I myself observe the markets. Furthermore, when you say that we have learnt lessons from what is perhaps the most serious crisis since the First World War, I should like to take the lesson a little bit further.

Indeed, you give us consolidated figures on the one hand and, on the other, we are well aware that there are still national policies and that the entire system depends on an integrated monetary union and on political unions, essentially an economic union that has not been achieved.

You say that there is a level playing field, but we have fiscal policies and labour cost policies that are inadequate. Are we going far enough with the current package, recognising of course that it is a step forward, when we merely say that we intend to monitor differences instead of proceeding to a genuine consolidation of policies at European level.

My second very brief question is: I am struck by one thing, namely that the Council is somewhat inclined at the moment to reduce the powers of the European Parliament to the extent that it would wish. I take, for example, the document distributed by the European Central Bank on 10 June, when you came to see us, as a contribution to this package.

In the ECB's text, as in the communication of the Commission of 12 May, there was a 'crisis resolution' aspect. The ECB believed that this aspect was part of the package. The Commission believed that it was part of the package.

We have now just been told: 'Oh no, it is the Council that deals with that.' Do you not believe that we should re-introduce into this package both the issue of the resolution of sovereign debt crises and perhaps even what Mr García-Margallo had suggested with considerable wisdom: the question of knowing how we finally go about achieving the stabilisation of the banking sector in Europe?

Yes, that is all, but it is so interesting, Mrs Bowles. When for once we have Mr Trichet with us, we take advantage of the opportunity.

Finally, we often observe this, but, at the moment, do we not also need to add to the package the stabilisation of the banks which, to my knowledge, has not yet been carried out, which is always decided when backs are against the wall and which costs taxpayers increasing amounts of money?

2-022
Jean-Claude Trichet, *President of the European Central Bank***. –** *(FR)* To your first remark, I shall answer: 'entirely in agreement'. We ourselves consider that the Commission's proposal is insufficient, and everyone knows that the Council was reticent about the Commission's proposal. It is you who are the legislators

and we know that you are going to examine it very closely. I am, in any case, entirely in agreement.

I myself spoke of a budgetary quasi-federation. We have a monetary federation, we need a budgetary quasi-federation. It can be achieved if we have much more surveillance than what is being mooted, because what is being mooted does not correspond to the reality of the situation that we are in, which, yet again, is a situation where we need a budgetary quasi-federation. I am positive about that.

As for crisis resolution, I would be inclined to say, and here I am speaking from the heart, that we have had so many difficulties in obtaining a clarification that I would not very much favour re-opening that Pandora's box, to be frank. I am totally dependent on the judgment of Parliament and its will, but my feeling is to err on the side of caution. We now have clarification, and that is something that I find extremely important.

Regarding the banks, I would say that you have just taken some very important decisions on the review, even if it is not necessarily the best that we had in mind or that you had in mind. However, I would also be inclined to say: 'now let us set up the institutions.' We have the European supervisory authorities. We have the roadmap for the entire prudential surveillance of the system, let us stop there, that is my feeling.

2-023
Derk Jan Eppink (ECR). – *(NL)* Thank you. I will speak Dutch, if you do not mind.

I would like to ask a question about Belgium. As you know, there is a great deal of political uncertainty in Belgium. This country has had a caretaker government for five months already. It does not have a fully-fledged government nor is there any prospect of such a government being formed. The politicians are talking about whether or not Belgium can continue to exist. I have no personal view on that point. All I am doing is stating facts.

However, I would also state the fact that the price Belgium is paying in the international capital markets is higher than in other countries. Germany is paying 2.5% on a bond. Belgium is paying 3.5% and that percentage is now increasing.

My question is: how do you see the relationship between political uncertainty, for example in Belgium, on the one hand – and the survival debate – and, on the other, volatile financial markets where investors are very keen to hedge against such uncertainties?

2-024
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* I shall simply say that we are obviously observing what is going on in every country and we must be humble before the functioning of our democracies. I have no comment to make on the relationship between the current political debates in your country and the markets. I have no comment.

In many countries, we watch our democracies work and there is indeed a problem, one that in my view is very important, and in which the Members have a decisive role to play, both in representing our fellow citizens and, at the same time, in informing our fellow citizens about what is going on, about how the world really works. This need for increased communication seems to me to be considerable indeed in current circumstances.

2-025
Philippe Lamberts (Verts/ALE). – *(FR)* Mr President, thank you for being with us once again. It is evident that in Europe, we are sitting on a mountain of debt, both public and private, and that it is not a healthy situation. It must therefore be rectified.

What I can see is that in 2008, and then with Greece in 2009, and, finally, with Greece and Ireland in 2010, what we have done is to rush to the aid of the banking sector on three occasions. Now, when you are faced with a mountain of debt, borrowers obviously have a responsibility, but lenders presumably have one too. It is the taxpayers who ultimately end up paying, in particular the taxpayers in those countries hardest hit by the financial markets today.

I have two questions in this regard: first of all, do you think that it is fair to keep to solutions of this kind? Then you say that the economy is functioning smoothly, and that the 27 countries of the Union have taken austerity measures. Firstly, I do not think that this is the case: a number of States have not yet taken any measures. Furthermore, the effect of these measures has not yet made itself felt, and where it has we cannot say that the economy is operating particularly smoothly. Therefore my second question is: are these measures not, in fact, counterproductive and, ultimately, deflationary? I also note a difference in your attitude, and this will be my final comment. There is, on the one hand, your call for maximum boldness in terms of economic governance, namely what can be thought of as the domestication of governments. However, on the other hand, I note that you are a great deal more prudent when it comes to the domestication of that other market operator that has behaved rather irresponsibly, namely the financial sector. Indeed, when it is a question of taxes on financial transactions, for example, or even financial regulation, it cannot be said that the ECB encourages us to be extremely ambitious. We must keep to Basel III, without going any further; all other instruments are a nuisance.

2-026
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* I shall answer your questions. I shall start with the last and conclude with the first.

Some economies are not functioning smoothly. They have, so to speak, perhaps functioned a little too well. Let us not forget that we are in a situation that is exactly the reverse of that which prevailed when the euro was first created. The economies that are functioning well, or very, very well at the moment, made at that time great efforts to restore their competitiveness. You might have

said at the time 'it is an albatross round our necks', or something similar. Other economies, which are not in good shape now, were functioning perhaps a little too well. You can obviously see to which economies I am referring. At the moment we are witnessing a readjustment, in a way, between those which were not functioning well previously and which are today, and those which were functioning well or even a bit too well and which, now, must make an effort to adjust.

In short, yet again, I have not the slightest desire to give you the impression that I am complacent. It is not a time for complacency, times are very hard. However in the area of the real economy, all I can say is that until now, since the return to growth, we have, after the most important recession since the Second World War, two 'good' surprises compared with the forecasts. There is nothing brilliant in all that, but it is a little better than what was forecast, month after month. We shall publish our next forecasts in two days' time, and we shall see where we are. However, until now, that was how it was.

As for your comment just afterwards, it concerned the fact that we shall demand efforts from some and not from others. There I think that we must be clear, and that is why clarification is absolutely necessary, to avoid any kind of ambiguity. When you say 'creditors must pay and have haircuts', what does that mean? It means that those who are in the market for the long term, that is, who have been bold, must lose money and those who are in the market for the short term, that is who go against you, must make money.

So, everything is always more complex, and things which are complicated should not be excessively simplified. Markets today include long-term people and short-term people and, if you promise to reward the short-term people, you might not be working in the direction of stability. It is as simple as that and that is why it is extremely important that governments have said 'we are applying the rules that are in force at global level'.

There are two possibilities: the country may be viable and an analysis of the country is carried out. The International Monetary Fund carries out the analysis of the country. If the country is viable, the Fund supports it and, of course, the people of Europe also support it, if they so wish. If they do not wish to, they do not support it, but if they do so wish, they support it.

There is another scenario, which we consider very unlikely. Governments have stated, and I quote the terms they have used:

2-026-500
'In the unexpected event that a country would appear to be insolvent'.

2-026-750
(FR) This is exactly the same as at global level. This is a different case but, yet again, we need clarity because we cannot send out contradictory signals. That is why I find the clarification which has been made useful.

2-027
Nikolaos Chountis (GUE/NGL). – *(EL)* Mr President, I am delighted to see you here with us once again. I am particularly pleased that you are here at this meeting at this precise moment. Allow me, therefore, to raise a topical question which concerns us in Greece at the present time.

Following the Ecofin Council decision the other day, on 28 November, to consider the possibility of extending the deadline for repayment of the loan made to Greece by the International Monetary Fund and the countries in the euro area, such an extension is taken as given by the political powers that be in Greece until 2021-2024.

However, the problem than concerns Greek society and the media – I have most of the newspapers here – is this: would an extension to the repayment deadline mean an extension to the austerity measures set out in the Memorandum between Greece, the European Union and the International Monetary Fund? Bearing in mind, Mr President, that, according to the Commission forecast, certain indicators – such as public debt – will not do well, does this mean that we shall have a *de facto* extension to the Memorandum? Or, to put it another way, do you consider it possible that this sort of austerity memorandum will exist for Greece even after 2013?

2-028
Jean-Claude Trichet, *President of the European Central Bank***.** – As you know, we have our responsibility in the ECB. All the questions you are asking are questions for the governments and for the IMF so I would not like to multiply what is one of the problems of Europe: a lot of voices that very often speak on the basis of their own mandate and their own responsibility. We have to be very responsible.

The question is for the governments that are making the loans, and for the IMF and the Commission, who are looking at the programme and judging the programme. All I can say is that it is in the interest of the Greek people, it is in the interest of the Greek economy, to go back on a permanent basis to what I would call a normal functioning of the economy.

What is called austerity is austerity in comparison with a period where there were such enormous amounts of abnormal behaviour that they have to be corrected. I prefer not to quote the figures that come to mind to illustrate the level of difference which had been accumulated in terms of some nominal evolution.

So we are on the way to going back to normal. It is normal to have wise and sound medium- and long-term policy; this is what is expected of all economies and all countries.

2-029
Marta Andreasen (EFD). – In an interview with *Le Progrès* earlier this month, you said that the Westphalian concept of sovereign nations no longer corresponds to the real world. I would like to know whether you see this philosophy influencing your tenure as President of the

ECB and, if so, whether you could give us an example of how this would work. I have to say that I personally believe that the sovereign nation state is the right arrangement.

2-030
Jean-Claude Trichet, *President of the European Central Bank***. –** Because this is a very important issue, I said that we have created new entities that are pertinent at global or continental level. At the global level, we now know that there is a real global economy; a single event in the US, namely Lehman Brothers, can change all decision-making processes all over the world. We have to establish appropriate governance at global level that is commensurate with the existence of this new entity, namely global finance and the global economy. This has to be coordinated with what remains the foundation of sovereign states – the Treaty of Westphalia – which created in Europe this concept of sovereign states.

This is also true for the European states, which of course have much more ambition than is found at a global level. However, we have a single European economy and a single market – this has been the ambition of the founding fathers of Europe since the start of Europe – and we also have a single market with a single currency. It is this combination of new entities and the Westphalian concept of sovereign states which is extremely pertinent now. You yourself are the incarnation of the fact that entities exist which are in between Westphalian sovereign states and the necessity of governing much larger entities, namely at the level of 500 million people and 27 Member States.

2-031
Hans-Peter Martin (NI). – *(DE)* Madam Chair, it is in the nature of your office, Mr Trichet, that sometimes the things that you do not say are more informative than those that you do say. I recall clearly the situation a year ago in the case of Greece. Today, I would like to look in detail at Spain. Can you please explain the position to us? We know that Spain has a relatively low level of national debt, but that nevertheless in recent weeks the returns on Spanish government bonds have risen dramatically to 24 or 28 base points. The information that we have about outstanding property loans also does not seem to be particularly alarming, unless other people know more than we do. An amount of around EUR 100 billion has been mentioned which could still be owing. Of course, we also know that the arrangements for write-off facilities and even for entering these items in the books are quite different in Spain than they are in central European countries. This means that if these amounts only have to be included in the books after five years, we may not really know until 2012 or 2013 what the situation is.

I have a specific question for you: do you have a realistic estimate of the extent of the troubled property loans in Spain? If you do, could you give us an idea of this estimate? If one of the savings banks or one of the large merged banks, such as Santander or BBVA, were to go under, do you think that this would be allowed to happen or do you see these banks as being of systemic importance?

2-032
Jean-Claude Trichet, *President of the European Central Bank***. –** I would remind us all that, under the terms of the Treaty, we are called to provide and deliver price stability to 16 countries and 330 million people. That is what we are called to do and what we have done over 12 years, with 1.97% average yearly price inflation.

Price stability is better delivered in the euro area – fully in line with the Treaty and with what you have asked for – than was the case previously in a very large number of economies that are 'founding fathers' of the euro area. We are expected to deliver the same price stability over the next 10 years. That is our mandate.

Some of your questions are totally outside our mandate and responsibility and addressed to other entities. I want to be very clear on that. We should not speak *à tort et à travers*.

2-033
(FR) A disciplined approach to what we say is essential, absolutely essential. I am not responsible for the policy of any particular country. We are not responsible for the surveillance of different countries. We collaborate with the authorities responsible for that – the Commission, on the one hand, and the Council, on the other.

So I simply repeat what we have always said, to all countries 'you should manage yourselves as wisely and reasonably as possible', and that is what you have heard us repeat time and again.

2-034
Having said that, I also said that a number of observers were probably underestimating the soundness of the euro area as a whole and the soundness of a large number of countries. That is something that may have resulted from ambiguity in communication; we may need to get back to a more precise concept of communication. I have already mentioned useful clarification. To my knowledge, your working assumption concerning the Spanish banks is not at all appropriate.

2-035
Diogo Feio (PPE). – *(PT)* Mr President, thank you for your rousing speech. In the first speech that you made for us, referring to the package presented by the Commission on economic governance, you said that the European Central Bank had doubts about some of the proposals because they would allow discretion and weaken the *ex ante* position on the control of debt. You spoke specifically about the possibility of the penalties being withdrawn if the Member State in question makes a reasoned request, or in the case of exceptional economic circumstances.

I would like to know whether you advocate the removal of these references of alternative solutions to these. The second issue that I would like to put to you concerns competitiveness. I come from Portugal, a country which has very strict labour standards. Do you believe that it

would be appropriate to make the labour market more flexible and effect a change in the current labour standards for states that are in difficulty at present?

2-036
Jean-Claude Trichet, *President of the European Central Bank***. –** I was very clear on the fact that we are calling for even the Commission text to be made stronger as regards governance; I was as explicit as possible on examples where we trust we could make it stronger. That is my answer to your first question. I cannot go into detail because it is work in progress and I know that you are working very actively in this direction.

It is absolutely clear that in all countries without exception, even those which are behaving extremely well in a real economy today, structural reforms could improve the growth potential of our economies. This is the case in Portugal. I fully share your view that structural reforms in Portugal, including in the labour market, could permit Portugal to surmount its problems much better, because it is absolutely clear that growth of the real economy through structural reforms is essential on top of sound policies that are pursued with resolution over the medium to long term. Yes, I would echo what you said.

2-037
Corien Wortmann-Kool (PPE). – Mr Trichet, it is good to see that you fully recognise the co-legislative role of Parliament in the governance package. I must admit that the Council is still adapting to this new position of the Parliament and, as rapporteur on the preventive arm of the Stability and Growth Pact, I will take serious note of your remarks.

I have two questions. The first is that it is clear that there is still severe unrest on the market and it is not clear whether Ireland is the last country which has to be rescued. Secondly, this weekend the picture of the European stability mechanism became clearer, but it is not fully clear. My question is: do you think that the package of legislative proposals is robust enough, given the continuing turmoil, and secondly, do you think there is a link with the new European stability mechanism? Should we for instance wait and see how this develops further? Should we link it in the legislation? – but then it might take more time to finalise this legislative package. I am very interested to hear your comments on that.

2-038
Jean-Claude Trichet, *President of the European Central Bank***. –** I understand your question pretty well. I will tell you what my feeling is. We are, of course, very humble before our democratic institutions and particularly, as far as we in the ECB are concerned, before the European Parliament.

On your second point, my feeling is that what is complicated in the present period – seen by the observers, market participants, investors and savers – is the ambiguity and the fact that things are not clarified. I consider that there has been a useful clarification but I would not suggest that we reopen Pandora's box at this stage. Perhaps it is not necessarily a good idea, even if I understand your implicit position.

On the reinforcement of both the preventive and the corrective part of the two pillars – the fiscal pillar and the pillar for surveillance of macro policies, I would say that, if you could go as far as possible in the direction of this quasi-federation – which I am fully aware that we do not have; this is the 'stretching' between what I called the Westphalian constellation of sovereign states and what we do here – you should go as far as possible and be as strong as possible. We were not happy with the Commission proposal and it has been weakened by the discussion. You are the legislator. Perhaps it is not something that is easily understood now because it is new, but I am sure that you will be up to the challenge. I have no worries on that score.

2-039
Burkhard Balz (PPE). – *(DE)* Madam Chair, Mr Trichet, I have two brief questions for you. The first is: how does the European Central Bank (ECB) envisage its future role in the EU crisis mechanism? Until now the ECB has done an excellent job, as stated in our report on the ECB annual report. However, we now have to take into account the fact that the ECB has bought up a whole series of government bonds from euro Member States with struggling economies which, very importantly, amounts to a huge sum of money and that the banking sector is heavily dependent on this central bank money. What will happen next in this area? What will be the role of the ECB in the crisis mechanism?

My second question concerns Eurobonds. This is once again a hot topic for discussion in political circles. The supporters and opponents of Eurobonds are in the throes of presenting their arguments. The opponents, to whom I definitely belong, rightly refer to the constitutional obstacles in some Member States. On the other hand, the supporters say that Eurobonds would only be used to refinance debts amounting to up to 60% of the relevant gross domestic product. Beyond that level, national bond issues would have to be launched. How practicable do you think a divided market of this kind would be from a theoretical perspective?

2-040
Jean-Claude Trichet, *President of the European Central Bank***. –** As I said, our own securities market programme is not quantitative easing; we withdraw all the liquidity that we are injecting. It is to help restore a more normal transmission of monetary policy impulses. When you have a risk-free benchmark in a particular economy that is behaving very improperly, of course it is an issue.

Having said that, I will not comment on the ideas here. There are a number of ideas. As you know, we have not been promoting the so-called euro bonds. Of course you should never say never, but it is not what we thought necessarily appropriate. The governments have committed themselves in another direction up till now. I have no opinion on the idea of having 60% and so forth.

2-041
Liem Hoang Ngoc (S&D). – *(FR)* Mr President, the crisis makes greater integration of budgetary and monetary policies an urgent matter. The Central Bank no longer confines itself to fighting against inflation and its president, as we have just seen, never fails to give his own recommendations for budgetary policy, even though he is not responsible for budgetary policy. We could, moreover, discuss these recommendations but we do not have the time here.

We could, however, applaud the monetary pragmatism of the Central Bank, which has avoided a liquidity crisis, which has allowed growth to be re-launched and which has, in the past, allowed private banks in particular to buy back sovereign debt. When the rates were hiked on this sovereign debt, the Central Bank itself bought back this sovereign debt in the case of Greece and, if I understood the papers correctly this morning, the Central Bank has done the same thing for the peripheral countries. Moreover, we should like to learn more on this point.

I should like to ask two questions. The first is that if the problem of sovereign debt extended to Portugal and Greece, would the Central Bank buy back this Portuguese or Spanish sovereign debt like the US Federal Reserve has done, insofar as this is perhaps the most effective way of seriously easing tension on interest rates on the State bond market?

Second question: you referred to the problem of exchange rates just now and, on a number of occasions, declared that exchange rates should reflect the equilibrium point of currencies. The experts put this equilibrium point at approximately EUR 1 = USD 1.17. Today we are above that point. Would the Central Bank intervene if the Council asked it to, as it is authorised to do under the Treaty of Lisbon? Perhaps one day, if this monetary debate were up for discussion, the Central Bank, like the US Federal Reserve, would be compelled to intervene. What is your opinion, Mr President?

2-042
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* On the first question, I would simply like to say that the decision of the Governing Council was to commit itself to this programme with the aim of allowing it to help and to contribute to a smoother functioning of the transmission mechanisms of our monetary policy. We have given no information other than the weekly amount of our contributions, and the total amount of our contributions which is extremely visible, given that we take back the total injection of liquid assets that is being made through these contributions. I do not intend to say anything further concerning this programme and we believe that, given the circumstances, this is the right way to proceed.

As for exchange rates, we have, as I just said, two main problems: one, which is not new, is the problem posed by the generalised flotation of the major convertible currencies in the developed countries. In this case, we are in a situation of free flotation, as you know. I can only imagine that discussions will go on within this small group of authorities: central banks and governments of the major convertible currencies – it is through these that the heart, if I may say, of the flotation of major convertible currencies is managed. I shall therefore keep to what we decided within the framework of our dialogues with our other partners from the United States, Japan of course, the United Kingdom and Canada.

As for the currencies of those emerging countries which have large surpluses, I have already indicated that we had a consensus in believing that it would be a good idea to have greater flexibility.

2-043
Robert Goebbels (S&D). – *(FR)* Mr President, the European Central Bank allows banks to refinance themselves at historically low rates. Do you have the impression, Mr President, that the banks really allow their customers to take advantage of this facility? On the one hand, they plunder savers with remunerations below the inflation rate; on the other hand, they appropriate for themselves record margins for the loans that they grant.

Question two: can you confirm that, since the beginning of the year, China has no longer been purchasing dollars but has been selling them, and has, on the other hand, been buying euros?

2-044
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* No, I cannot confirm that. In relation to your second question, I think the question should be put to the Chinese authorities themselves.

As for the banks, we believe that it is very important for us to be able to obtain the smoothest possible functioning of our market economy. Until now, and yet again I cannot give an opinion on what the Governing Council will decide in the future, we have considered that our interest rates are at the right level for price stability.

As for our banks, yet again, we have a system of bank surveillance, and consequently there are national supervisory bodies. They now have their pan-European organisation, you have decided on this, and this is all due to be inaugurated in January.

Furthermore, there is the functioning of the market economy. You say: 'The banks earn too much money, after all, and do not sufficiently pass on the low re-financing interest rates that they obtain.' Other honourable Members mentioned the fact that they were perhaps in a much more difficult situation and that their profitability and own funds were insufficient.

I believe that, in this area as in all others, we need to be sensible. We are faced with a complex market economy. We must strengthen all the surveillance tools at our disposal and that is what you have just decided to do.

2-045

Ramon Tremosa i Balcells (ALDE). – Mr Trichet, in the last few days liquidity in European debt markets has dried up massively. In fact several economic agents recalled the similarities between the current situation and the seizing-up of covered bond markets in 2007 and 2008. What is your opinion on this?

Another question: in the last week Commissioner Almunia said that the Spanish Government should clarify the existing doubts in the markets about the effective implementation of the reforms needed in the Spanish economy. What is your opinion on this?

2-046
Jean-Claude Trichet, *President of the European Central Bank***.** – As you know, I do not comment on the functioning of the market on a day-to-day basis. I will only say that it was quite possible that observers and some of the market participants were under-assessing a number of points. I said this in response to a previous question and I mentioned the three or four points where there could be an under-assessment of the situation, for all countries without exception.

Structural reforms that would permit the elevation of growth potential are very important. I said that in response to a question from an honourable Member of Parliament from another country, but it is true for all countries and I would say it is also true for Germany. It is remarkable how Germany bounces back. This was overdue, taking into account the progress that has been made in terms of competitiveness. It remains true in the countries that are behaving properly as well: elevating growth potential through structural reforms is of the essence. This is a general observation for all countries without exception. It is very serious because we could all be better off if we had these structural reforms.

2-047
Vicky Ford (ECR). – Mr Trichet, thank you very much for reminding us that there is actually some positive news out there about the economy. We hear so much negative concern that one can forget that. Clearly the markets are still extremely volatile and there is a lot of concern. I agree with you that we need to pick our words very clearly and send clear messages and I certainly do not want to speak beyond my mandate.

I also think there is an obligation not just on politicians, but on journalists too, to make sure that they are giving very clear messages and translating our words clearly. Could I give you an example from today's press, the *Financial Times* Lex column? To me the Lex column is as close to the gospel of financial markets as you get, but in this morning's *Financial Times* they describe the deal over the weekend and they say that post-2013 the 'mechanism will not involve haircuts for holders of sovereign debt, unless the rest of the eurozone's finance ministers unanimously agree that the government involved is insolvent'.

When I read what was agreed on Sunday, it clearly says that the solvency test is one that is now going to be carried out by the Commission and the IMF, in liaison with the ECB, not a unanimous decision of 27 different finance ministers, or indeed just the 15 different finance ministers. Passing over the solvency test to independent hands is, I think, a major step forward in trying to stop this political wrangling. If that is the decision that was taken by the finance ministers, that should be strongly sent out as a positive message to the markets about independence.

Please can we make sure that, when a decision is taken, it is translated very clearly and that, if the journalists in this room have any questions about the messages, they ask the question before they go to press.

There are still a few other questions about this weekend. First of all you said the SMM loan will enjoy preferred creditor status. Is that only post-2013 or does the preferred creditor status also apply to the deals for Ireland? Then on the subject of collective action clauses, we could do with some explanation for the markets on what happens to the bonds dated post-2014 that are already in the public's hands, or the bonds that are issued between now and 2013. I would rather not speculate on how those different tranches are treated, but we do need to answer the question.

2-048
Jean-Claude Trichet, *President of the European Central Bank***.** – I fully agree with your first remarks. This is no time for complacency and we need clarity, clarity, clarity. I myself have said that this is a decision for the governments. They have their statement and that statement is a useful clarification. I said it is a poem. A poem does not change, it is there now and you have to communicate as clearly as possible on the text that you have just agreed. I would very much agree with that.

That being said, all governments are communicating, so I do not think you should necessarily accuse the press. We have a particular issue, which is that of multiple voices. That is absolutely clear. Verbal discipline is of the essence. I fully agree with you.

2-049
Gay Mitchell (PPE). – Mr Trichet, first of all thank you for your advice. I am only sorry you were not in Strasbourg last week to tell people to be careful with their words. We do not need a loose cannon or bulls in china shops at this particular time in relation to taxation or anything else.

There are two questions I want to ask you and I would appreciate it if you would answer them. The first is that a source in Ireland claims that you pressurised the Irish Government into accepting the package and that you will now move on to pressurise Portugal. I would not dream of raising this with you if it were not for the fact that the person who raised this is a minister. I would appreciate it if you would confirm that you have not pressurised anybody to do any such thing.

Secondly, you know that for two and a half years I raised with you here that, whereas you have been successful with price inflation control, which was one of

your main objectives and the interest rate was used to keep price inflation under control, the same instrument contributed to asset inflation, that is, property inflation. I raised this with you for two and a half years. I told you that the country I knew best was overheating in the property market, what could be done about this? In fairness you started to mention this issue yourself. Do you accept some of the responsibility for this situation in relation to asset and house price inflation, and what lessons for the future have been learned by the ECB in relation to this matter?

2-050
Jean-Claude Trichet, *President of the European Central Bank.* **–** It is very clear that when a country belongs to a single currency area which has the dimension of a continent and which unites 330 million people – which is more than the United States of America – and when you have a central bank with a mandate to deliver price stability at the level of this immense set of economies as a whole, it is up to the various economies, in the same way as the state in the United States of America, to know that they are in a universe where monetary policy is optimised to deliver price stability at the level of the set-up of countries as a whole.

We cannot adjust our monetary policy – and in the past we could not adjust our monetary policy to take into account the need of Germany, which at a certain moment would probably have required much lower rates, thus creating additional difficulty in other countries. We certainly could not adjust our single monetary policy to take account of the problem of Ireland or of Spain. We had to take into account the equivalent of Alaska, California, Florida, and Massachusetts and deliver what we are called to do, namely provide price stability at the level of 330 million people.

It is very important to understand this, and to understand that fiscal policies, macro policies in general and – to the extent that they also depend on national decisions – surveillance policies have to be adapted to take this into account. You know in advance that you have to design national policies taking into account that in the medium run you have less than 2%, close to 2%.

That is the point. It is the way we have constructed it and we cannot work otherwise. Working otherwise would not permit us to have what is necessary. We would permanently go from one part, or a very small part, of the euro area to another.

So it is extremely important; it is as important as what I said in terms of unit labour cost, wage and salary increases and so forth. We all have to take into account what we know is the benchmark for the next 10 years.

I will not comment on anything. We always tell all governments: do as well as possible, try to avoid major blunders, go in the right direction. The right direction is structural reforms and fiscal soundness.

2-051
Astrid Lulling (PPE). – *(FR)* Mr President, one of the questions which will divide our committee here over the coming weeks concerns the appropriateness of introducing Eurobonds. I am aware of the institutional problems that these tools can present, however I do not wish to dwell on these at present. I would rather hear from you why these Eurobonds might be inappropriate in current circumstances. Are they really likely to encourage laxity, when what we need, on the contrary, is greater rigour in the management of public funds by the different Member States?

On the other hand, I should like to know if the European Stabilisation Mechanism does not already meet some of the criteria for Eurobonds. We have a guarantee, certainly for bilateral loans, a global rate of interest. So where does the fundamental difference lie?

I should also like to thank President Trichet for three things. Thank you for having made the very clear point that the euro has retained its value better than other currencies. I hope that this message will be heard. Thank you also for having recalled your grave concerns in 2005 over the Stability Pact, and for having identified those responsible for these serious errors, the Eurogroup. Finally, thank you for your performance in the area of price stability, as it is the best social policy for the most impoverished sectors of our societies.

2-052
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* Thank you very much, Mrs Lulling. I obviously appreciate your thanks. I would simply say that we have a problem which is really extremely important and has to do with the determination of our governments to take totally into account this need, not only to behave appropriately at an individual level, but also to monitor others in a responsible fashion. That is brave. It is never easy for a government, for governments, to say to another government 'you are not behaving appropriately'. However, that is what is obviously expected from the surveillance which must be exercised. Thank you very much.

In relation to Eurobonds, I have already replied to that question: we ourselves have never been in favour of them. My understanding is that Eurobonds are essentially, in the spirit of those who support them, bonds in which the different countries have joint and several liability, that is that there is a joint guarantee, if you like. You are quite right to say that the European Financial Stability Facility itself provides a European signature which is clearly working because the decision has been taken for the first time.

However, as I said in answer to a previous question, we do not have a stance on the appropriateness of having joint and several liability loans – this is naturally always possible, but it is a decision purely for governments – and even less so on the 60% already mentioned, because there are proposals at the moment.

2-053
Antolín Sánchez Presedo (S&D). – *(ES)* Mr President, I agree with you that a currency war is undesirable. If this is the case, we need to step up international cooperation and achieve a monetary system that gives consistency to the actions of the various authorities. I therefore have three questions.

Firstly, in relation to the G20's conclusion that there needs to be an in-depth reform of the international monetary system, how is the European Central Bank going to contribute to this task?

Secondly, in relation to the emerging countries, they need to make their monetary policies more flexible, moving towards convertibility, and they need to do so gradually. Doing so gradually does not mean doing so slowly: the process can be both gradual and swift. Do you agree with this view?

Thirdly, regarding the quantitative approach of the United States: does it affect inflation? Does it endanger our price stability or the instruments of our monetary policy? Could it be compatible with the conventional and non-conventional measures that may be adopted by the Central Bank? Also, does there need to be better coordination with the North American authorities?

2-054
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, on the international monetary system, what counts is the complex nature of the issues that are at stake and I have already said that I saw two different issues. One is the issue of the major floating currencies and the organisation of their relationship, which is a permanent regime since the explosion of the Bretton Woods system at the beginning of the 1970s, and we have the issue of the emerging economy currencies.

That was your second question. I would say: yes, depending entirely on the decision taken by the countries in question, my understanding is that it could be a gradual and orderly process, to let their money progressively express their flexibility and appreciate. But again there is a global consensus. The G20 mentioned that point and I think we have to echo the present global consensus, even if it is easy to say and much more difficult to do because of the issues at stake, which are all delicate.

On the third point, we always had a very confident relationship with the Federal Reserve, a very friendly relationship. Without our cooperation with the Federal Reserve, we could not have the capacity to resist the crisis as we did in 2008 and 2009, including the possibility given by the Federal Reserve to supply dollar liquidity here in Europe on the basis of the swap agreement that we had with them. I consider it a very important feature at global level that there are confident relationships between major central banks. This is true for the central bank of the United States. It is true for the central bank of England inside Europe. It is true also for the central bank of Japan and more generally the systemic central bank in the world, including in the emerging world.

2-055
Sharon Bowles (ALDE). – I am going to do something that I do not often do, which is to say something at the end of our session. Mr Trichet, you have more than once said that you do not wish to unpick where we have got to, or where the Council has got to, on a permanent financial stability mechanism. This is something that has been very much at the heart of the concerns of many members of this committee. You may not wish to make any further comment on what I am about to say, but, in the context of the facilities that are actually being used at the moment, I am quite surprised at the balance in the drawer down from the budgetary-funded mechanism and from the financial facility and the fact that it seems to mean that we will be going to the market for a very small amount of money from the facility, which is going to make it rather expensive and potentially set the wrong kind of precedent.

It concerns me, when one looks at the kind of interest rates that have been bandied around, that we may have created a system that at least in those terms is less favourable than the IMF. I query the wisdom of that, though I obviously understand very much the need for European solidarity.

I would hope that we could try to address some of the concerns in future meetings because otherwise I think there will be various people who will raise their voices in concern, especially when the process by which these decisions have been made has perhaps necessarily not been entirely transparent.

I do not know whether you wish to respond, but those are some of my thoughts. It remains for the actual mechanism of the interest rates to be sorted out next week.

2-056
Jean-Claude Trichet, *President of the European Central Bank***.** – We trust that every authority, every institution is able to live up to its responsibilities. It is what we have said very clearly. We try to live up to our responsibilities and we explain to Parliament what we are doing and what kinds of efforts we think we can make. This is the case for all authorities, all institutions.

Our permanent advice is that, as soon as you decide to have a facility, in this case the EFSF, try to be as flexible as possible and as helpful as possible. This sounds like common sense but we fully respect the fact that governments and parliaments, including national parliaments, have their own rules, their own way of looking at it. As I said, we have to be humble in the presence of our democracies, but our advice is very clear: if you decide to go, be as helpful and as flexible as possible, because it is what the situation requires.

More generally I would say that more than ever in the present circumstances, which are demanding – this is no time for complacency – we need a sense of direction.

More generally, and I am speaking about the ECB and the Parliament itself, we have to reinforce the authority of the public authorities, because it is through the authority of the public authorities that we can construct the resistance to a very demanding environment, which will continue to be demanding for some time.

2-057

Chair. – That ends this session of the monetary dialogue. Mr Trichet, you have a bit of respite from us now until March next year, though we will probably see you again in another venue much sooner than that, as you well know.

(The meeting closed at 18.35)