3-002

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

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

BRUSSELS, WEDNESDAY 25 JUNE 2008

3-003

IN THE CHAIR: MRS BERÈS

(The meeting was opened at 10.30)

3-004

Chairwoman. – Ladies and gentlemen, I propose, in accordance with our agenda, that we begin our monetary dialogue with the President of the European Central Bank. He is here for the first time since we reached the milestone of ten years of the European Central Bank, at a time when important statements have been made and at a time when, as the Committee on Economic and Monetary Affairs, we have suggested to Mr Trichet that we focus on two issues: firstly, on how to maintain legitimacy and public support for monetary policy in periods of tension in the light of the functioning of monetary union as we know it today, and secondly, the international role of the euro.

3-005

Jean-Claude Trichet, *President of the European Central Bank. – (FR)* Madam Chairwoman, ladies and gentlemen, I am delighted to appear before your committee today.

As usual, I will start with an assessment of the economic and monetary situation by explaining the reasons underlying our decisions on rates. I will then provide additional information on the European Central Bank's monetary policy operations in response to the tensions in the monetary market.

3-006

– *(DE)* I should like to go on to further discuss the first 10 years of European Economic and Monetary Union. I shall also be presenting the most important elements of the new Eurosystem Structural Issues Report on labour supply and employment.

3-007

First, the economic and monetary developments: since my previous appearance before the European Parliament at the end of March, annual HICP inflation has remained high, at levels significantly above 3%. This is due mainly to strong increases in energy and food prices. Moreover, upside risks to price stability over the medium term have intensified further over the past few months, in a context of very vigorous money and credit growth. Looking ahead, the Governing Council expects inflation in the euro area to remain high for some time to come, before moderating only gradually in 2009.

In line with this view, the latest Eurosystem staff projections foresee average annual inflation between 3.2% and 3.6% in 2008 and between 1.8% and 3% in 2009. Compared with previous staff projections, this represents a significant upward revision, reflecting higher oil and food prices as well as increasing inflationary pressures in the services sector.

The Governing Council remains particularly concerned that current elevated inflation rates, which have proved higher and more persistent than previously foreseen, may become entrenched in private inflation expectations and lead to second-round effects in price and wage setting. The increased relevance of such considerations reflects the strengthening of upside risks to price stability over the medium term. In particular, wage growth may be stronger than anticipated, given high rates of capacity utilisation and a tight labour market. In this context, the risk of triggering an inflationary wage-price spiral is particularly acute, especially where nominal wage indexation schemes exist. Moreover, price increases, in particular in parts of the services sector that lack competition, may be higher than currently expected.

Against this background, it is imperative that all parties concerned contribute to avoiding the emergence of broadly-based, second-round effects. This is essential to secure that longer-term inflation expectations remain firmly anchored in line with price stability.

Turning to economic activity, in the first quarter of 2008, real GDP grew strongly, by 0.8% quarter-on-quarter. In part, this unexpected positive outcome reflects temporary factors, notably a boost in construction activity, given the very mild winter in many parts of Europe. That being said, the strong growth in the first quarter has to be seen against the usual volatility of quarterly data: in coming to an assessment, it will be more appropriate to view the first two quarters of 2008 together. Looking forward, domestic and foreign demand are expected to support ongoing economic expansion, albeit to a lesser extent than during 2007. The euro area economy has sound fundamentals and does not suffer from major imbalances.

This outlook is also reflected in the latest Eurosystem staff projections, which foresee annual real GDP growth in the range of between 1.5% to 2.1% in 2008 and of between 1% and 2% in 2009. However, it is important to put these figures into perspective: the annual rates mask the fact that, on a quarterly basis, real growth is

projected to reach its trough already in mid-2008, before gradually recovering thereafter.

In the view of the Governing Council, uncertainty surrounding growth prospects remains high, with downside risks mainly relating to a potentially more negative impact of financial market developments than anticipated and further unanticipated increases in energy and food prices.

The monetary analysis confirms the prevailing upside risks to price stability at medium to longer-term horizons. Available data suggest that the underlying rate of money and credit expansion remains strong and that the ongoing financial turmoil has, as yet, not significantly affected bank loan supply to the non-financial corporate sector.

In line with its mandate, the Governing Council is strongly determined to secure the firm anchoring of inflation expectations in line with price stability. Such an anchoring of longer-, medium- and long-term inflation expectations is a prerequisite for monetary policy to make an ongoing contribution towards supporting sustainable economic growth and job creation in the euro area. In particular, the Governing Council remains committed to preventing second-round effects and the materialisation of upside risks to price stability over the medium term. Against this background, on 5 June we decided to leave the key ECB interest rates unchanged. At the same time, we signalled that we are in a state of heightened alertness. Indeed, the Governing Council will continue to monitor very closely all developments.

Turning to our liquidity management, since March, the ECB has continued to apply basically four liquidity measures to alleviate ongoing tensions in the euro money market.

First, the ECB has continued to 'frontload' the supply of liquidity over the reserve maintenance period. This means that we have provided more liquidity at the beginning of the maintenance period, while compensating for this by providing less liquidity towards the end of the period. The average supply of liquidity has thus remained unchanged over the entire maintenance period.

Second, around the end of the first quarter of 2008, when money market tensions were intensifying, the ECB conducted two liquidity-providing fine-tuning operations to address these tensions. The ECB has recently announced that it stands ready, if needed, to contribute to smoothing the market conditions around the end of the semester.

Third, the ECB has continued its policy of providing a higher share of liquidity on a longer-term basis by renewing our supplementary three-month longer-term refinancing operations. Moreover, in April 2008 the Eurosystem conducted a supplementary longer-term refinancing operation with a six-month maturity and announced another one for July 2008. It is to be noted that the total amount of outstanding refinancing remained unchanged, as we reduced the share provided via the one-week main refinancing operations.

Fourth, to ensure the availability of funding denominated in US dollars, the ECB has continued the conduct of term auction facilities in cooperation with the US Federal Reserve. Accordingly, it provided liquidity in US dollars to euro area banks, secured with Eurosystem eligible collateral.

Let me now take the opportunity to say a few words, as you asked, Madam Chairwoman, on the tenth anniversary of the ECB and the European System of Central Banks, which we celebrated at the beginning of June. The creation of the euro has been a historic policy decision for Europe. The ECB has been successful in delivering what it is expected to deliver under its mandate, namely price stability. Importantly, longer-term inflation expectations have been at levels consistent with price stability. This is a great achievement against the backdrop of a series of substantial oil and food price shocks, as well as increases in indirect taxes and administered prices over the past decade.

Price stability is essential, not only because it protects the income of all our fellow citizens – and particularly the most vulnerable and poorest groups in society – but also because it is a necessary condition for sustainable economic growth and job creation.

As regards fiscal consolidation and structural reform, a number of euro area countries have made good progress over the past decade, while others are still lagging behind. Notably, some countries have still to achieve and maintain sound fiscal positions and reduce government debt ratios to more sustainable levels. The ECB is concerned about recent signs of a slowdown or even back-tracking in terms of structural reforms and fiscal consolidation. Ill-designed structural policies, economic rigidities and undisciplined fiscal policies may contribute to increased inflationary pressures or higher inflation persistence, which monetary policy would need to take into account. In this respect, the steady pursuit of prudent and efficient fiscal policies, along with reforms that enhance competition and market flexibility, is crucial to ensure the smooth functioning of Monetary Union.

Within this context, let me now draw your attention to the latest Eurosystem Structural Issues Report, which will be posted this morning on our own website. The report this year focuses on the main developments in labour supply and employment in the euro area countries since the early 1980s.

Let me briefly mention some key developments.

Since the start of Monetary Union, the euro area has witnessed an increase of 15.7 million in the net number of people employed. This compares to around 5 million in the preceding period 1990-1998. The total labour

market participation rate rose to nearly 71%, and the employment rate rose to over 65%.

The period since 1999 is also characterised by a change in labour supply composition. Women have entered the labour market in increasing numbers. In addition, older workers have tended to remain in the labour market for longer, which is welcome in view of population ageing. Immigrants have contributed positively to labour supply, helping to fill skills shortages. The share of workers with tertiary level education has increased.

These are encouraging developments, resulting from the implementation of structural reforms in product and labour markets, increased immigration and wage moderation. Nevertheless, progress has been quite uneven across countries and significant challenges remain.

If I look at is from the monetary policy perspective, four conclusions can be drawn.

First, there is a need to further increase the labour market participation and employment rate of all groups of society. We have not yet reached the Lisbon employment rate target of 70%. Lower labour taxes, stricter work availability requirements and reduced incentives to retire early would contribute to stimulating labour supply. Reduced restrictions on labour contracts and well-designed 'work/family reconciliation' policies would, among others, support participation further. Increasing product market competition would also help support employment creation.

Second, there is a need for making labour market institutions more flexible, to facilitate a better matching of the skills of those who seek a job with the characteristics of labour demand. To help match demand and supply, wage developments should reflect local labour market conditions.

Third, there is a need to increase knowledge and the transferability of skills. Bringing unemployed or inactive people into jobs will, over time, enhance individuals' labour productivity and thus real wages. Good quality education is of the utmost importance, and the recognition and incentives for young people, workers and firms to invest in education and training must be enhanced. The efficiency and service orientation of education institutions should be improved. In addition, the labour market should play a stronger role in signalling to education systems and workers which skills are in short supply.

Finally, the euro area should make better use of skills from outside the euro area. Immigration policy should be closely aligned with the skills needed by the labour market, and ensure the successful integration of immigrants into the active workforce and society as a whole.

(Applause)

3-008
Chairwoman. – Thank you, Mr Trichet. I am going to give the floor to those who have requested it, as usual. However, I would first of all like to ask you a question, Mr Trichet, as, in the context of the monetary dialogue that we are having with your institution on a very well-established basis, with a very elaborate agreement between our two institutions, since the beginning of this term of office we have become used to deciding on two topics on the initiative of the European Parliament, which have been agreed between all of the political groups. These are topics that we want to be dealt with in your preliminary speech in order to guide the discussion that we have together. It is on this basis that the members of this committee prepare for this hearing, this monetary dialogue, based on work by experts that contributes to the discussions and assessments by the members of this committee.

Today you have not covered either of these topics. You have referred to the ten years of the Central Bank as one of the topics that I mentioned when I welcomed you, but this was a matter of fact; it was not one of the two topics that were decided on for our monetary dialogue today. I am therefore surprised and I would ask you, Mr Trichet, to explain yourself before I give the floor to my colleagues.

3-009
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* I must say that I was not particularly aware of the fact that what I said did not correspond to what I had to say on the topics that you had mentioned, but I am happy to respond …

3-010
Chairwoman. – Did you mention the international role of the euro?

3-011
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* It is a subject on which, as you know, I am not an expert, I am not an observer, and you are aware of my responses in general on this subject. Therefore, I did not want to tire you by telling you again what I would say if you asked me the question. You are asking me the question, so I am going to give you a very simple answer. As you know, we do not campaign for the international role of the euro, so from that point of view the European Central Bank takes particular care to be clear. My predecessor told you this and I have repeatedly told you. It is a subject on which the position of the Governing Council is very clear. As for the subject that I realise is underlying it – that is, the relationship that we have with the other major currencies – I would say that it is a very important subject.

You are also aware of how much importance I attach to verbal discipline on this subject, and therefore I would simply like to say two things. At times we have seen particularly sharp fluctuations between the main international currencies, and we are concerned about the possible implications of these sharp fluctuations for the global economy and for financial stability. I would also like to add, as I have already said and will of course

repeat, that I have noted in particular, and with great interest, what has been said by the President of the United States, the Treasury Secretary, Henry Paulson, and my colleague the Chairman of the Federal Reserve, Ben Bernanke, on the fact that a strong dollar is in the interests of the United States.

This is what I have to say, Madam Chairwoman, on a subject that is indeed extremely important.

3-012
Chairwoman. – I will not re-launch you into the second subject because I think that my colleagues will have the opportunity to tackle it in their interventions, but I think that, according to the rules of conduct that apply to relations between our two institutions, it is better for the subjects on which we want you to speak in your preliminary comments to be dealt with in the manner that we have agreed.

3-013
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* I could very well have put what I just said into the introductory statement, but I think that this is also a good way of dialoguing on this subject, which is indeed, as you said, extremely important.

3-014
José Manuel García-Margallo y Marfil (PPE-DE). – *(ES)* Thank you very much, Mr Trichet, for being here with us once again.

I have one clarification and two questions.

The clarification is that my party, the Spanish People's Party, does not at all share the opinions of the Spanish Prime Minister on the role of monetary policy or on the independence of the European Central Bank. We maintain the viewpoint that we have always held.

The first question relates to the subject of oil and food prices. There appears to be a degree of agreement among European leaders that much, or a good part, of the responsibility for the rise in prices of these two 'commodities' should be attributed to speculation.

The Portuguese Minister for the Economy said a few days ago that a large proportion of the money that has deserted the sub-prime or equity markets has gone to futures and has caused an increase in their prices.

The former Spanish Prime Minister, Felipe González, in his role as Chairman of the EU's Reflection Group, stated publicly that he was going to ask the EU Economics and Finance Ministers for greater security for futures. In his opinion, it is not possible to buy a rice crop for 5 years, by paying 5% of the final percentage of the price. The same could be said for oil.

I asked the Slovenian Minister this yesterday, and he acknowledged that there is a share of responsibility, but he could not quantify it.

From your perspective, could you tell me to what extent speculation, the speculation component, is significant in the price rises? What does the European Central Bank think and what could the European Central Bank do, given that, as well as being responsible for monetary policy, it is also responsible for the correct functioning of the financial markets?

3-015
Jean-Claude Trichet, *President of the European Central Bank.* – This question is very important. There is no doubt that what we are observing on the oil and commodity markets is a very complex mix of very active demand – probably underestimated ex ante from the emerging world, coming from supply which is, for a variety of reasons including geopolitical ones, lower than what would have been expected ex ante – and an element, not necessarily of speculation, but of reallocation of the global portfolio in the direction of commodities. It is very difficult to disentangle those various factors.

As in the case of some diseases, you have to deal with all factors. We would certainly call for markets to be relieved of the present constraints on the supply side. It is very important that oil producers have said that they will do what they can in order to augment supply. That is absolutely essential. From that standpoint again, the most recent information we have received is important. It is also extremely important that resolute action is taken to save oil and energy wherever possible – certainly in industrial countries but also in the rest of the world – and a lot has to be done in this area for all possible reasons, including environmental reasons.

As regards 'speculation', I would certainly echo that we have to be sure that the markets are functioning as correctly as possible. That is important. Frankly, I am not sure that speculation is the major culprit for what we are observing. It seems to me that the major issues are associated with supply and demand and that we have to ensure that the market functions as well as possible.

But, again, it is not the future market itself which is the problem. The problem, if any, is that across the board there is a reallocation of portfolios that give more weight to commodities in general in the present constellation of motivation for optimising portfolio management. Again we have to deal with all elements, without indicating that there is a particular scapegoat, but the market has to function as transparently and efficiently as possible.

3-016
Margaritis Schinas (PPE-DE). – *(FR)* Madam Chairwoman, you do monetary policy, ECOFIN does economic policy and we do policy full stop. This poses a problem for us because, every weekend, we have to explain things that appear to be logical to people in this room, but are not always logical to citizens.

Therefore, to take Mr Margallo's logic a little further, it is true that we now need to explain to citizens that the historic rate of inflation corresponds to inflation imported into the euro area. This comes from food

products and oil. It is inflation that is coming from outside. At the same time, you foresaw a while ago that the remedy for dealing with this inflation was perhaps a rise in interest rates.

The question that I am asking you and that citizens are asking is therefore whether, by acting on rates, as it is imported inflation, we will not continue to have this problem. Sooner or later we need to take a clear and simple decision, and citizens need to understand that action needs to be taken above all on the causes of the inflation that we are importing and that the Frankfurt mechanism underlying monetary logic does not have any political logic, if you like, insofar as it is not seen globally.

I am giving you these thoughts while being aware of your limitations, your constraints, but I would also ask you to make an effort to understand our efforts to explain these things to citizens.

3-017
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* This is obviously a very important issue, and calls for the following comments.

Firstly, our role, our responsibility, is to offer our fellow citizens, 320 million fellow European citizens, price stability in the medium term. It is indeed clear that we are seeing very significant price rises, which are coming from outside, and which we do not have an immediate influence over. We do, however, have an influence over medium-term inflation. Once these rises, these humps in inflation, have been observed, and simply evaporate with the passage of time, what remains is medium-term inflation. We are paying very close attention to this because we are responsible for it and it could develop in two ways.

On the one hand we could return to price stability, which our fellow citizens are sincerely hoping for, I must say, and on the other hand there is a possibility that we will not return to price stability. This is entirely linked to what in our vocabulary we call second-round effects, and this is the reason why we are focusing a great deal on asking businesses to keep in mind the fact that, in the medium term, we need to return to price stability, and also asking the social partners to think about the fact that, in the medium term, we need to return to price stability.

At the moment, because we are credible ourselves, this is indeed what the various economic actors have in mind. The forecasts for medium-term inflation remain in line with our definition of price stability. However, I will say that it is because we are credible, because all of the observers, the actors, know that the European Central Bank is there precisely to provide medium-term price stability. If we were not credible, of course, all the inflation expectations would increase, and we would be in the worst possible situation, because at the same time we would have inflation, not just immediately, but in the long term, and we would be in the same situation that we experienced in the 1970s, for example, and we would also have less growth, less job creation, much higher market interest rates in the medium and long term… I could go on describing all the major problems that there would be if we were not credible.

I would, however, just like to draw your attention to one point. Unit production costs are not linked to the price of oil and they are not linked to the price of raw materials in general, and I must give you the latest figures available to us. The rise in unit production costs, in other words the mix, the sum, if I can put it that way, of the nominal rises and progress in productivity, was plus 1% in 2006, plus 1.4% in 2007, plus 1.5% in the third quarter of 2007, plus 2.3% in the fourth quarter of 2007, and plus 2.4% in the first quarter of 2008. We therefore note, and this explains why we are in a state of increased alert, that from this point of view there are elements in the economy of the euro area that indeed call for a major alert.

3-018
Cornelis Visser (PPE-DE). – I would also like to address oil prices and their impact on inflation in the EU through the exchange rate mechanism. In the Gulf Cooperation Council the Arab states have discussed decoupling their currencies from the US dollar. This could have an even stronger impact on oil prices in the EU, as we have a strong currency at the moment.

Is there any coordination on this issue between the EU – for instance the European Central Bank – and the Gulf Cooperation Council? Which institution should take the lead on this? Should it be the Commission, or could the European Central Bank intervene on this? What are the prospects if the currencies of the Gulf Cooperation Council countries were to be linked to the euro?

3-019
Jean-Claude Trichet, *President of the European Central Bank.* – As you know, the Gulf Cooperation Council has embarked on a reflection process on having, at the appropriate time, a single currency. We are in very close cooperation with the central banks of the Gulf Cooperation Council so they can share in our own experiences and the lessons that might be drawn in their own context, which of course is totally different from ours.

As regards the possibility of a single currency, we had no particular discussion on the denomination of the price of oil in euros instead of dollars, and no particular discussion on this issue in general. I would only say that, from that standpoint, in any denomination you have a global price and then it is translated into all the other floating currencies. Therefore it is a question of arithmetic.

But it is important that the authorities in the United States have said that a strong dollar is in the interests of the United States. It is something that is looked at very carefully by us, as you know, but also by others in the world.

3-020
Chairwoman. – Which brings us back to the international role of the euro.

3-021
Robert Goebbels (PSE). – *(FR)* Mr Trichet, I am a hard-core enthusiast, and the Schengen Agreement and the euro are very good examples of this. For the ten years of the euro, you and your colleagues deserve our congratulations – I think that this was a good demonstration – but I will not be crowning you with flowers for your speech today.

You have just explained to us that there are inflationary tensions, of which we are all aware, and that they are essentially due to the rise in energy and food prices, which places you in an increased state of alert and will undoubtedly lead you to increase your rates in order to combat inflation. This will further cut the spending power of millions of Europeans without any decrease in the inflationary pressure on oil and food. You have just repeated that you fear second-round effects and that you are appealing solely to the social partners as usual.

However, in your speech I did not hear anything regarding the speculative actions of certain major financial actors, which are behind part of these price increases. They are not due solely to the gap between supply and demand, and you are well aware that there is very real speculation and that all of this floating capital is seeking a high return, even if it means speculating on wheat and other very important raw materials.

Does the European Central Bank not need to speak out against speculation, demand greater regulation of the markets and shed light into the black holes of international finance? You cannot simply leave citizens to pay the price, Mr Trichet, and continue to supply the banks on account of genuine liquidity risks. I will conclude, Madam Chairwoman, by saying that you are funding moral hazards and you are making the citizens pay for it.

3-022
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* First of all, in my introductory speech, I pointed out what we all know, which is that price stability enables us above all to protect our most vulnerable and poorest citizens, because they are the ones that have the least protection against inflation. I mentioned this in my introductory remarks, as you know.

Secondly, our call for moderation is not directed only at the social partners. I specifically mentioned businesses, all of those that fix prices, and I do not make any distinction between all of those that fix prices. However, I mentioned the changes in unit production costs, and I could have mentioned the changes in compensation per employee or changes in negotiated salaries from the third quarter of 2007 up to now. We have indications of nominal increases that are not negligible, but significant.

There are, however, also anomalies in some prices, which you are entirely right to highlight, including the prices that we are seeing in the euro area for agricultural products. The lack of competition between the different economic actors means that we have anomalies.

We are very strongly in support of the markets being transparent, systems being totally competitive and competition being established at the highest level so that consumers and all the economic agents can benefit from this competition. This is clear. Our position is extremely clear on this point. We do not show any leniency towards those who profit from the obscurity and poor functioning of the markets. The European Central Bank is in favour of transparency, the highest level of competition, and in general the global level of what we call procyclicality, in other words the amplification of fluctuations, being eliminated as far as possible. This is something that is obviously absolutely fundamental.

Regarding speculation in general, I would like to say that we are against all market anomalies and in favour of the greatest possible transparency. I said that we also needed to be careful, because in some cases we talk about speculators when there are other elements behind these relative price changes, but we condemn any lack of transparency in the markets and we take the most proactive action possible.

In addition, regarding regulation, in general I have always said myself, as have all of my colleagues, that first of all we give private agents the opportunity to say what they think is the best possible behaviour, the paragon of good behaviour, if I can put it that way, in a particular market, and then we look at the result. If we are happy with it, all well and good. If we are not happy with it or they are unable to provide codes of conduct and good practice, there is clearly room for regulation. It is as simple as that. We are not ambiguous on this point.

3-023
Ieke van den Burg (PSE). – I would also like to say something about these moral hazards and the role of the European Central Bank in the system for supervision and regulation of the financial markets. This morning my colleague Mr Dăianu and I presented a report on the follow-up of supervision in particular, but also the lessons to be learned from the credit crisis. We suggest the idea of risk absorbers being created by the markets themselves, to avoid relying on the central banks to provide them with the necessary liquidity and credit, and buying up the risky products that they can no longer sell.

I would like to ask your view on this and also on the idea of creating a small tax on financial transactions, which might also be a way of creating that type of risk absorber and might act as a disincentive against overly speculative movements in the market.

With regard to the architecture of supervision, one of the elements that we propose is to make a clear link between micro and macro prudential supervision and the Central Bank's supervision of the monetary and macroeconomic

system and try to create a kind of rapid reaction force – a body with financial oversight which could also be more proactive in signalling undesirable movements in the market. Maybe you could also say something about that.

3-024
Jean-Claude Trichet, *President of the European Central Bank.* – We have just received your proposal and we have to look at it very carefully. I see it is a very comprehensive suggestion to restructure what we are doing in this domain, so I will not give you a definitive response because we have to study it very carefully.

On the one hand, at a global level, we have the proposal from the Financial Stability Forum, which is the key informal institution as regards the global methodology for drawing all the lessons from the present turbulences – and we have to draw all the lessons. We should not be complacent in any respect – I am fully in line with you on that – and we should not put on one side any element that might be given the privilege of remaining untouched. We have to see absolutely everything, because what has happened clearly shows that we are vulnerable in terms of booms and busts and amplification of fluctuations.

So we have this global methodology and the 67 proposals by the Financial Stability Forum at a global level, and this has been approved by the international community.

At European level, we have meditations and orientations adopted by Ecofin at its last meeting, and a lot of things have to be implemented now. I see from what you have said and what I have read of your own proposals that you would like to go much further. I do not dispute the fact that we will have to go further.

At this stage, what I would like to see in practical terms during the next few months is the Council and the Commission being as active as possible in putting into effect what has been decided in principle, including this network of surveillance authorities that has been decided in principle to follow progress of the various institutions. From a pragmatic standpoint it seems to me that we already have a lot of hard work to do, taking into account what has been decided in principle at European level and at a global level.

Concerning your idea of the links between the central banks and the surveillance authorities being as close as possible, I fully agree with you. Since the very beginning of the Eurosystem and the ECB the Governing Council made it very clear that they thought that very close links between the central banks and the surveillance authorities were necessary. The recent turbulences have demonstrated very clearly that this was a lucid way of looking at it. I think that there is now no dispute about that: our thinking from the outset has now been confirmed as right and appropriate.

Concerning the tax on financial transactions, as you know we are not in agreement with this proposal. We think that we have other means to discipline markets, including by appropriate regulation and transparency. We have been very clear on that in the past and I would maintain that position.

3-025
Mariela Velichkova Baeva (ALDE). – Mr Trichet, I would appreciate your sharing with us your reflections on issues of financial instability that we have all pondered at certain times. Financial markets not driven by the conquest of actual markets but by expectations move ahead and stumble back, rise and fall and, against the background of persisting dynamics of cycles, the economies of some new Member States are in a catching-up regime.

I mention all these aspects because, as you might presume, it is a matter of considering and communicating our prospects as well as challenges over the long term.

3-026
Jean-Claude Trichet, *President of the European Central Bank.* – I would certainly agree with the fact that, first, a market economy is an economy where there is the free formation of prices, and the prices – including asset prices – go up and down. We have to accept that, if we have an economy where there are no fluctuations in prices, we know that is not a market economy. We have known an economy in which there were none of these fluctuations, but the final result was dramatic – the final collapse of this economy.

That being said, I also fully agree that we have to review all the functioning of global finance – and European finance, as a part of global finance – with a view to eliminating as much as possible all the elements of our own making, that are amplifying the fluctuations. There are spontaneous fluctuations that are associated with the free functioning of a market economy but paradoxically they are fluctuations that perhaps we are responsible for – extra fluctuations which are due to the procyclical behaviour of a number of institutions, including public institutions. We have to eliminate procyclical behaviour by surveillance authorities in general. We have some rules that might be procyclical, so we must look at those rules and try to eliminate them or at least to attenuate the element of procyclicality.

Perhaps we also have procyclicality inbuilt in accounting rules; perhaps we have procyclicality inbuilt not only in the banking surveillance rules but also in the insurance surveillance rules, and so forth.

Therefore if we want to understand the lessons that the Financial Stability Forum in particular has suggested from the present turbulences, I would say that two ways of reading what is proposed are appropriate. One is more transparency in all domains – because the absence of transparency also augments boom and bust and contagion effects – and the other is to eliminate the elements of procyclicality that we ourselves are responsible for.

It is easy to say this, but it is not easy to implement. However, we must do it and we must do it very actively. I fully share with you the sentiment that, particularly in interaction with our own people, with our fellow citizens, this amplification of boom and bust is a very adverse element – that is absolutely clear.

3-027
Eoin Ryan (UEN). – We have listened to you many times and many of us have supported you when there was a lot of pressure on you to reduce interest rates. Most of us supported you when you explained that the reason for this was to control inflation, but there seems to be some confusion from the ECB on this. You have stated quite clearly that the reason you have raised it is to control inflation, but at the same time there are other mutterings from the ECB that this is a one-off and there will be no further rises.

I think it is very important that the Bank speaks very clearly with one voice, because markets are very volatile and, as we all know, they are influenced by rumour. If you are raising it to control inflation and inflation is not controlled, obviously you are going to raise it again. I would just like to know what your comments are on that. If it is to control inflation, we cannot just say that it is a one-off and there will be no more, because, if it does not work, you are obviously going to try and increase it further.

The second part of my question relates to the fact that you are assuming that the economy is going to grow in 2009. On what basis are you assuming that, considering that you have raised interest rates, which might have a knock-on effect? Also, what is your comment on the fact that the Governor of the Bank of England has said that raising interest rates is an unnecessary risk?

3-028
Jean-Claude Trichet, *President of the European Central Bank.* – First of all, I never comment on what colleagues say and, as I have always said, together we are a brotherhood of mutual admiration.

(Laughter)

3-029
Chairwoman. – As we are among politicians.

3-030
Jean-Claude Trichet, *President of the European Central Bank.* – I am sure!

As regards the Governing Council of the ECB, there is only one *porte-parole*. It is as simple as that. So there is pure clarity and I said, on behalf of the Governing Council, that we were monitoring all developments very closely and that we were in a state of heightened alertness. I also said – as I said here – that it is our strong determination to secure a very firm anchoring of inflation expectations – medium- and long-term – in line with our definition of price stability. You know that – less than two, close to two.

I have nothing to add and nothing to withdraw from what I said on behalf of the Governing Council on 5 June, when I reported on our view. I said we could decide to move our rates by a small amount at our next meeting in order to secure the solid anchoring of inflation expectation. I said that it is possible. It was of course noted by all observers as something important.

I did not say that we would envisage a series of increases. That being said – as you said – we never pre-commit. The observers, the market, know that pretty well. It is a fundamental position of this institution. We never pre-commit. I guess that it is because we never pre-commit that we are deemed credible. We are credible – as I said, we can demonstrate it even in very difficult circumstances. We are anchoring inflation expectations, even in very difficult circumstances, and we consider that we have to be alert in order to maintain credibility and the solid anchoring of inflation expectations.

3-031
Eoin Ryan (UEN). – I would just like to hear your reasons for thinking the economy is going to grow in 2009. Can you tell me why you are optimistic about economic growth in 2009?

3-032
Jean-Claude Trichet, *President of the European Central Bank.* – I would not say that we are optimistic in this respect because, as you know, our staff projections of the system mention a range of one to two. I said that we considered that the risks were on the downside, and I mentioned the various risks associated with that. You can draw what conclusion you want, but this is what we said and I can only repeat it.

3-033
Gay Mitchell (PPE-DE). – Mr Trichet, you inform us that 16 million jobs were created in the euro area in the past 10 years, compared to 5 million in the period from 1990-1998, which is a very impressive record I have to say.

You also mentioned your concern about recent signs of slowdown, or even backtracking, in terms of structural reform and fiscal consolidation in Member States. Member States are under pressure because of global economic and national economic performance, so it is easy to blame the European Union. We have just come through a referendum in Ireland, and one of the problems I find is that national governments of whatever hue claim responsibility for all that is good and blame the European Union for all that is bad. I think when Member States have to meet this discipline, it is very easy for them to say 'it is because we are part of the euro' and therefore create this bad image.

I want to ask you a different question from the sorts of questions we have been dealing with so far. Will you take steps to improve monetary literacy among citizens so that they know the objective and the purpose you are seeking to achieve and that, in particular, they will know that, if we meet these objectives, the sort of employment

good news which has come about will continue? I note from your speech that the Lisbon Objective is 70% employment, and we have already risen to 65%, so could you say something about this? Could you communicate to people the objective you are setting out to achieve and how this will relate to them in their everyday lives?

3-034
Jean-Claude Trichet, *President of the European Central Bank.* – You have asked a question which is very pertinent for us, for the European institutions, for opinion leaders and for politicians. That is absolutely clear. It seems to me that communication, tireless explanation and pedagogy are absolutely essential.

As far as we are concerned, what we understand from our fellow citizens is that they are extraordinarily attached to price stability. There is absolutely no doubt of that, and I have always observed it. All surveys and all interpretations of the position of our fellow citizens indicate that they do not buy the argument that if you have higher inflation you are better off because you have more growth or more jobs. They do not buy that: they want both. It is fortunate that this corresponds to the mainstream analysis of economists, namely that there is no trade-off in the medium and long term between inflation and job creation and growth.

It seems to me that we permanently have to improve communication and to explain what we are doing and why we are doing it. From time to time we should also explain our successes. I myself discovered that, even if we consider job creation to be an obvious, indisputable success of the euro area since its beginning – because of the 15.7 million jobs, because of the fact that it was even a little ahead of the US during the same period and not merely much greater than before – nevertheless it was not sufficiently well communicated because we in Europe might have been teased for being ultra-orthodox, obsessed with inflation and playing against job creation. This was not true – it was proved to be not true with facts and figures – but perhaps it was not sufficiently well communicated. You are absolutely right. I share your view entirely.

3-035
Gay Mitchell (PPE-DE). – Does that mean you are taking steps to improve the communication, Mr President?

3-036
Jean-Claude Trichet, *President of the European Central Bank.* – First of all, my colleagues and I are trying to do our best in our own 'constituencies', and all our colleagues and the national central bank governors are in communication with their own parliaments. The Executive Board – I myself, the Vice-President and the members of the Executive Board – are in direct contact with the European institutions, and I am happy to be here and to respond to your questions. We consider this absolutely essential. However, each of our colleagues also has to communicate within his own environment, to his own public opinion and institutions.

We have launched – at the level of Europe as a whole – an education package for schools, aimed at 14-year-old children, which is sent to schools throughout the euro area. We are thinking about other such packages so as to have, as much as possible, single education packages that would be in all languages and adapted to the different cultures in the euro area, but with a single message and a single explanation, which we trust would be as effective as possible.

Those are examples, but what your question is suggesting is very important – as important for the European institutions themselves. Each time you have to change rapidly – and we are in a historical period when we have to change extraordinarily rapidly – these changes might harm some vested interest, and it is easy in some cases to say: it is not my fault, it is Europe's fault. Which is totally unjust, of course, but it is a natural reaction in some cases. Again, we have to take care to totally avoid this scapegoating which is, in my opinion, absolutely stupid.

3-037
Chairwoman. – And one of the best ways to do this would be to have the minutes published.

3-038
Zsolt László Becsey (PPE-DE). – Mr President, the European Central Bank is one of the European institutions and, according to the suspended Lisbon Treaty, maybe you will have higher responsibility and legal status. You are responsible for anti-inflation price stability and, if it is necessary, you increase the rates, the cost of which is paid by the taxpayer.

But on the other side, when I look at the Council and the Commission, I can see a lot of inflationist movement within the internal market. You can consult them. What I mean is that new taxes are coming – energy taxes and emission-trading-system issues instead of technical regulations which create inflation. Now most recently, instead of decreasing VAT on diesel oil and abolishing the very stupid regulation of 2003, we instead introduce a 'Robin Hood' tax and increase social redistribution, which also has a tendency to create inflation. If I look at the labour market and the service market, there is no country of origin principle. In the service issue, in the Posting Directives, there is no free movement of labour with the Member States who joined in 2004. This goes against wage moderation and increasing competitiveness which again, in my judgement, is indirectly an inflationist tendency.

Do you, as the Central Bank and a European institution, try to persuade the Member States to change their attitude and to avoid this type of inflationist attitude in the internal market?

3-039
Jean-Claude Trichet, *President of the European Central Bank.* – I would certainly confirm that we are permanent advocates for eliminating inflationary risks wherever they are, and I can also tell you that there has been some discussion on this issue between governments

in the Eurogroup, in particular. Of course, one has to look at what is really done, and you gave a number of examples.

However, concerning the general orientation, it seems to me that all the areas you mentioned, including indirect taxes, administrative prices, keeping wage developments in line with productivity progress in order to maintain unit labour costs at a very moderate pace, and the functioning of the product and services market: all this is part of our discussions and seems to me, at least in principle, part of the orientation of the Eurogroup.

But again, as you said, what counts is implementation, and we have an obligation in our screening of future risks for inflation. I mentioned a new, unexpected augmentation of administered prices and of indirect taxes, for instance, and experience has demonstrated that we have to be fully conscious of that risk.

Madam Chairwoman, you mentioned the minutes. You know our position. We issue a currency for 15 – and tomorrow 16 – different Member States in the euro area. You know better than anybody that we are in a very special political institutional framework. We in the Governing Council consider that we have full transparency with the production of our own judgement on the situation in real time and with the introductory remarks of the President after the meeting of the Governing Council, and we all report on that and communicate on that. We are not the United States, which is a fully fledged political federation; we are not the UK, which is a centralised nation state; we are in our own institutional framework.

We trust that what we do is exactly what is called for in the present institutional framework. The Governing Council is united, the pertinent entity is the Governing Council. The Governing Council is transparent. To make a difference between the position of X, Y and Z is not, in our opinion, the right and appropriate approach in the present institutional framework. I am ready to discuss that again when your leadership has created a fully fledged federation in Europe.

3-040
Chairwoman. – This is an ongoing debate because the result is that the members of the Governing Council have their own interpretation of the decision after the meeting. After meetings of the Council we read different interpretations in all the newspapers of the nature...

3-041
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* No, no, no, you read what is said and reported by the whole of the media, but each of my colleagues talks about the texts that we have agreed on together. Of course, it is not easy to communicate in 12 or 13 different languages, with subsequent translation into English and the interpretation of the differences in translation. However, I must say that there have not been any problems, and from a distance, and perhaps close up, you find differences here and there, but there really is one voice, and from that point of view we are an extremely united Governing Council.

3-042
Ján Hudacký (PPE-DE). – *(SK)* Mr Trichet, I would like to express my gratitude to you above all for the European Central Bank's positive position with regard to accepting Slovakia into the euro area.

Evidently Slovakia met all the conditions and all the criteria, and I am convinced that it fulfils them and will continue to do so, including the inflation criterion. Alas, Slovakia is temporarily being shaken by a scandal involving a leak of information prior to the change in central parity. Even the Slovak National Bank conceded that there could have been a leak of information prior to that change in parity in view of the fact that the volume of financial transactions saw a marked rise to a level of USD 1.2 billion, and clearly large financial groups were the main beneficiaries of this. Even the Minister of Finance himself came under certain suspicions with regard to this information leak, as just a few days before this change in central parity he met representatives of a large financial group on their yacht in Monte Carlo.

Mr Trichet, I would be glad to know how you feel about this matter, and how this matter could influence the transparency of future processes linked to the acceptance of Slovakia into the euro area, or what impact this might have on the setting of the exchange rate, which we are expecting on 8 July this year. Clearly this situation needs to be judged from the aspect of accepting other Member States into the euro area, and how such situations can be prevented and avoided, so that such speculative trading does not happen and the whole process of taking on the euro is not debased in this way.

3-043
Jean-Claude Trichet, *President of the European Central Bank.* – Concerning your first remark: as you know, mention was made in our convergence report that all the Maastricht criteria were met. If you take an overview of the situation you will remember us saying that we had considerable concerns over the inflation criteria to be met in a sustainable fashion. You mentioned that you were convinced that this would be the case. I only mention for the record what we said in our report.

On the second point, I would only say that any discussion on realignment within the mechanism is totally secret until it is announced publicly. That is the absolute rule. That being said, I have no particular information concerning the information you gave. We will see exactly what happens, but this information and these discussions are totally secret, for obvious reasons.

3-044
Ján Hudacký (PPE-DE). – I would like to know what we can expect with regard to the fixed exchange rate which is going to be decided on 8 July. What does the fixed exchange rate relate to?

3-045

Jean-Claude Trichet, *President of the European Central Bank.* – All I can say is that in all previous cases it was the cross-pivotal rate which was the appropriate one. That is all I can say.

3-046
Antolín Sánchez Presedo (PSE). – *(ES)* Mr Trichet, congratulations on these ten years.

I am going to ask two questions: one relating to legitimacy and another to monetary strategy.

Regarding legitimacy, independence is really further strengthened by control, responsibility and transparency. We live, so to speak, in a deliberative democracy.

Today you have raised a series of issues here that I think are of great interest, especially regarding employment. Pay and the employment markets are very important for price stability. In order to strengthen this legitimacy, I think that relations, communication and dialogue with the social partners, both workers and employers, are very important.

The question is how the European Central Bank is dealing with these issues and whether it is going to strengthen dialogue with the social partners, which is so important for the development of monetary policy.

Secondly, monetary strategy. Monetary strategy began to be defined in 1998, was reviewed in 2003, and in 2008 it is almost time to analyse or review it.

There is a quantitative method, which appears to have been right, and an analysis based on two pillars: the monetary pillar and the economic pillar. You have already mentioned them today. However, it is obvious that these two pillars are not separated. There is an arch joining them and that is the financial markets.

Therefore, what this crisis has demonstrated is the need to examine this interface between monetary policy and the real economy through the financial markets, and consequently we will need to incorporate into your analysis an examination of liquidity, credit trends, how informational asymmetries are dealt with, what happens when derived products can be purchased by the funds of the producers themselves, and what happens with risk concentration.

Another issue is that it is obvious that you are global actors and that in your strategy you need to make reference to your responsibility in mutual cooperation with other global actors.

3-047
Jean-Claude Trichet, *President of the European Central Bank.* – Concerning the first observation, I fully agree with you that an independent institution is certainly in the last resort accountable to the people and has to be in close contact with the various institutions. Our dialogue with Parliament is part of this.

I mention in passing the fact that, when I count the number of contacts I have with the European Parliament, it is, de jure and de facto, equivalent or superior to what is done on the other side of the Atlantic.

3-048
Chairwoman. – Yes, but you do not have the same power as the Fed!

3-049
Jean-Claude Trichet, *President of the European Central Bank.* – In this respect I am absolutely convinced that accountability is a result of this contact. I could also mention – as you have mentioned – the contact with the social partners, the institutional dialogue within the European framework and all kinds of informal participation that my colleagues and I have.

As regards monetary policy strategy, when we launched our monetary strategy with the two pillars, which was very much in line with the previous experience of the European central banks which had a monetary pillar – not only the Bundesbank but also the Banque de France had a monetary pillar, as did a large number of others, directly or indirectly – we were teased a little at the very beginning.

At the present time, it is recognised that the two pillars complement each other. The monetary pillar gives information that is very important in a longer-term perspective. It complements and permits the cross-checking that we operate in a way which gives us more information and could enlighten our own decisions. All this is better recognised than before, and we are now much better understood. I can testify that the monetary pillar helped us considerably in a very important period to take what appears to be, with the benefit of hindsight, a correct decision. Those are my comments.

We do not envisage changing our monetary policy strategy. We consider it has served us very well, and we are working on this strategy with a view to complementing and enriching both analyses – the economic analysis on the one hand and the monetary analysis on the other. Our researchers and the staff of the Eurosystem are working very actively to constantly update and improve both analyses.

3-050
Dariusz Rosati (PSE). – Mr President, at a press conference some two week ago you said that there would be a need to raise interest rates in order to counteract the mounting inflationary expectations.

However, today you gave us figures for the next year and you predicted that inflation will go down. Actually, according to your forecast, the level of inflation in 2009 will be between 1% and 3%, which means it is very broadly close to the price stability target.

How should we reconcile these two pieces of information? If you expect inflation to come down without any action needed from the Central Bank, then

why did you say two weeks ago that there would be a need for a further rise in interest rates? You also underlined today that you are in a state of heightened alertness. If, by contrast, you think that inflation will go up or at least will stay at this high level, why do you not give us more evidence to confirm this scenario?

3-051
Jean-Claude Trichet, *President of the European Central Bank.* – What I said is what I said: on both 5 June and today. I said we could decide to move our rates by a small amount at our next meeting in order to secure the solid anchoring of inflation expectations. It is possible. It is what I said a moment ago, and what I repeat right now.

The figures are the figures also. In our last projection, the range in which we place the average yearly inflation for 2009 is between 1.8% and 3% – not 1% and 3% – and this is not satisfactory, either for us or for our people, our fellow citizens. It is, by the way, 0.3% higher than the previous range that we published in March. Between March and June, for reasons that are obvious, the ranges have been displaced upwards.

We consider that we have to be credible in delivering price stability over the medium term – that is pretty clear. There is absolute consistency between the figures we displayed last time – I am repeating myself here – and the position of heightened alertness that the Governing Council has taken.

3-052
Olle Schmidt (ALDE). – I am coming back to the introduction and the role of the euro, perhaps from another angle. With the euro as a global reserve currency that has continuously strengthened against the dollar and other currencies, the calls for the ECB to take global responsibility for the growth are being put forward as an argument to not only look at inflationary pressure, and perhaps in that sense give the Fed some more room to manoeuvre. I would like to know how you view your and the ECB's responsibility in that regard.

My other question is that only one colleague, Mr Mitchell, mentioned – in a sub-sentence – the 'no' vote in Ireland. What do you think of that and the problems for the implementation of the Lisbon Treaty and the effects on the euro and the ECB? Why do you think the euro actually strengthened its position when the Irish voted 'no'?

3-053
Jean-Claude Trichet, *President of the European Central Bank.* – Concerning the second question, I would not say that the Irish vote had any influence on the euro, which is not too surprising because it did not impact in any respect on the ECB, the EMU or the institutional framework in which we are functioning. Therefore I am not surprised that it had no impact on our currency – and the currency of Ireland, of course.

Concerning the lessons to be drawn from this situation, I entirely agree with the position taken by the European Council. As President of the European Central Bank, I hope that what has been mentioned by the European Council will be implemented.

As a citizen, I hope very much that an appropriate way will be found to overcome the present difficulties, and I am convinced that will be the case.

Concerning the primary mandate of the ECB, this has been decided by the people of Europe, and the exemplary democracies that make up Europe have decided to give us this primary mandate. Therefore for us, as the child of the will of European democracy, we have nothing particular to say: we apply what has been given as a mandate to us.

Secondly, I will only say that the mandate corresponds very fully to the analysis of most economists the world over, considering that the period of stagflation and great inflation that we experienced in the 1970s demonstrated that you cannot substitute inflation for price stability and be rewarded in terms of growth and job creation.

So there is a large consensus the world over that price stability is a precondition for sustainable growth and sustainable job creation. As you know, it is the belief not only of the Europeans in the euro area, or of the mainstream economists the world over, but also of all the inflation targeters, whether they are in industrialised countries or in the emerging world, and it is an overwhelmingly dominant feeling. So Europeans were not particularly original in their own reasoning and in the way they looked at the primary mandate of the ECB.

3-054
Gunnar Hökmark (PPE-DE). – Mr President, I would like to put two questions to you. Firstly, in your presentation you noted, and I quote, 'Some countries have still to achieve and maintain sound fiscal positions and reduce government debt ratios to more sustainable levels'. You then proceeded to speak of the risks of a lack of discipline for inflationary pressure and the ability to control inflation.

Would you, in the future, perhaps be even clearer about the responsibility of those governments regarding their overall stability on financial markets and monetary policy? I am saying this not least because today we are having a debate about financial stability and challenges to it from a number of other sources, yet in some ways this problem is sometimes seen as the white elephant. You mentioned it here in a more general way, but in my opinion it is a responsibility that should be discussed a little more.

Secondly, how are we to look upon the development of commodity prices in the future when we discuss inflationary pressure? I say this because we see today a change of global demand that is not a consequence of the business cycle but a consequence of a more far-reaching change in the structure of the global economy. I think it is fair to say that the high oil prices today, taking that as the most concrete example, are not the

consequence of inflation but rather of a change in global demand. As such this will influence the European economy, having a more contractive effect. To look upon that as an inflationary pressure is to chase your tail all the time. How will you look upon this development when you are discussing interest rates in the future?

3-055
Jean-Claude Trichet, *President of the European Central Bank.* – Regarding the first point: our constant position has been to advocate rigorous implementation of the Stability and Growth Pact. As I said earlier, we are not a fully fledged federation. We do not have a federal budget. We are in an institutional framework which calls for the stability and cohesion of EMU for a Stability and Growth Pact, because it is a substitute for a federal budget at the level of a fully fledged federation.

It is extremely important that we have full and rigorous respect for the Stability and Growth Pact. Not only do we, as the European Central Bank, have the usual attitude of the central bank in any fully fledged federation or centralised state, where it is important that there are sound and reasonable fiscal policies directed by the executive branch and the parliament but, on top of that, we are in an institutional framework where today we have 15 and tomorrow we will have 16 different countries. The Stability and Growth Pact is essential for the cohesion of the system.

I am struck each time I look at the fiscal policies – in addition to the rigorous implementation of the Stability and Growth Pact, which goes without saying – by the difference that can be seen between the level of public spending as a proportion of GDP in the various countries. This suggests that, if they were all benchmarking on the best performers in each domain of spending, we could make enormous progress and certainly increase quite substantially the growth potential of Europe.

So from that perspective I fully share the view that you have expressed: that it has to be very clear that, for the sake of European Monetary Union, it is very important that each country behave in the best fashion possible. Otherwise there is a price to be paid by the full body of the Monetary Union for the bad behaviour, if I may say so, of those who are not behaving properly. In my opinion it goes far beyond the rigorous implementation of the Stability and Growth Pact, because it is part of the structural reforms.

On the second point, I fully agree with you that we are witnessing structural changes of major importance. As you said, the cycle does not entirely explain the commodity and oil price increases we are witnessing; what does explain it is the fact that the emerging world is developing at a very rapid pace, and at a global level that changes what I would call relative prices. It is the duty of central banks, taking into account the fact that relative prices are changing quite rapidly at global level, to ensure that the average level of prices remains in line with price stability.

Reference is very often made to the first oil shock. We are not in the same situation. It is not an identical situation, but there are some similarities. It is clear that those who maintained their own economies and price stability in appropriate order – or such price stability as was observed in this period – were rewarded in comparison with those who thought they could protect their own economic agents from these changes in relative prices and had a very high level of inflation, a very poor level of growth and a very poor level of job creation.

3-056
John Purvis (PPE-DE). – Mr President, I have one technical question and one question following up this macroeconomic discussion you have had with Mr Hökmark.

First of all, you mentioned the funding denominated in US dollars that you have been doing through cooperation with the US Fed. It says that you have been providing US dollars secured with Eurosystem eligible collateral. Does that mean the collateral is euro denominated and you are actually providing US dollars? I wonder how you deal with the foreign exchange risk in that, or whether you see that as an issue.

Secondly, are you actually also providing funding of this type for non-eurozone EU banks in the rest of the European Union, and are you doing that in euros, local currency, dollars or what, and what are the currency risks there?

Following up on the macroeconomic point about this fundamental restructuring of the world economy, are you not becoming almost Malthusian about this, so that if there is not enough oil in the world, there is going to be a permanent high price for oil and all these commodities and food and so on? Therefore, there has to be a complete rethink about where the price levels have to be for everything. How can you achieve price stability in that circumstance? Or, alternatively, maybe the Chinese will also experience – and apparently they are experiencing – extremely high inflation and other things and they will come into balance with the rest of the world – they will not go on being so excessively growth-oriented.

So how do you see it balancing out after this phase of restructuring? Will it come back down to normality, as we have seen before, or are we going on a step change into a completely different pricing environment?

3-057
Jean-Claude Trichet, *President of the European Central Bank.* – Concerning the first set of questions: we have a swap with the US Fed, which is financing this delivery of US dollars; we are fully acquainted with the way the tender is monitored in the United States, and the interest rates we apply are given to us by the US Fed. It is a very close, intimate relationship.

I am happy that you mentioned this particular point, because I think it is a first: I think this is the first time there has been such intimate cooperation between two central banks, in the present case on both sides of the Atlantic.

We apply exactly the same rules to this dollar liquidity framework as we apply to the euro framework. You must, of course, be part of the euro area – you have to have an activity in the euro area – but you can, of course, have owners who are foreigners. There is absolutely no difference between this framework and the domestic euro framework.

Concerning your very interesting questions on the general price of commodities, on these very rapid changes in prices the world over: what we have been observing for quite a number of years is a permanent increase. It is not a one-shot operation – it is not 'one shock', if I may put it like this – but a regular, more or less abrupt increase in prices year after year. That fits better with the idea that it is very much a demand-driven phenomenon rather than a supply-driven phenomenon, where there would be a shock, followed by stabilisation.

I have seen so many experts making so many mistakes when claiming that they could foresee the future that I will be as pragmatic as possible. We will see exactly what happens. All we know is whether it appears that prices are much too high – and I do not exclude the possibility that we are far above an equilibrium price and that we will see prices going down to a much more appropriate level that will be more sustainable and that will permit a lot of investment on a basis which will be much more secure than the present very high level. I exclude nothing, including that, and, of course, we would be very happy if such events occurred. But we have to take the situation as it is, knowing that at any particular period of time we have to cope with the situation as it is.

We remain responsible, whatever happens, for price stability in the medium and long term. That is something that we cannot deny: it is the responsibility of the central banks the world over to deliver price stability. Again, there is an element which can measure that capacity in the eyes of economic agents, which is the anchoring of medium- to long-term inflation expectations. We have various ways of measuring that and looking at the risks of anchoring these inflation expectations.

3-058
Pervenche Berès (PSE). – *(FR)* What you regularly used to say when we questioned you about the mandate of the European Central Bank a while ago was that the FED and the ECB perhaps had different mandates, but that fundamentally you were conducting the same monetary policy. Will you continue saying that today?

My second question: you mentioned the work of the Financial Stability Forum. I think that everyone welcomes the conclusions of this Forum but, quite simply, not everyone is around the table, and no one knows how to implement them. Do you have any ideas about this? How do we implement the conclusions of the Forum? How can we ensure that the different stakeholders in this discussion have the means to implement these conclusions effectively and to ensure that they can also inspire the members that are not around the table, and here I am obviously thinking of the Chinese?

In your reply to Mrs van den Burg, you said that Commission initiatives would be welcome for making progress in strengthening the three level 3 committees. In your mind, does that mean that the Commission should table a legislative proposal that would enable us to move along a stage?

The enlargement of the Governing Council: you know that the European Parliament has always criticised the future mechanism. Do you still consider it appropriate or have you begun to think about eventually reviewing what was proposed?

3-059
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* I would call that a multiple loaded missile. It is quite a feat.

Firstly, all the central banks around the world, to my knowledge, have the objective of anchoring inflation expectations as solidly as possible in order to ensure price stability in the medium and long term, and I would certainly add that, if my American colleague were here, he would confirm that this is also his objective.

With regard to the Financial Stability Forum…

3-060
Pervenche Berès (PSE). – *(FR)* Does that mean that now, as you have always said to me, you are conducting the same policy?

3-061
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* No, we are not conducting the same policy because we are in different economies with different impacts to absorb, with different degrees of flexibility and different economy structures. We therefore have to conduct different policies because we are not dealing with the same impacts, the same economies or the same degree of flexibility. However, the idea of solidly anchoring inflation expectations is, I think, the common objective. Having said that, as you know, we also do not have the same concept of monetary policy. We ourselves have given our definition of price stability, less than 2%, close to 2%. For reasons that are perfectly explicable, we are not in the same situation as the United States.

With regard to the Financial Stability Forum, we have a methodology. The International Monetary Fund's International Monetary and Financial Committee has taken on the Financial Stability Forum's 67 recommendations and the Financial Stability Forum itself includes a whole series of groups, such as the

Basel Committee on Banking Supervision, the committee that coordinates careful supervision for insurance companies on a global scale and the one that provides global supervision for the share markets. In reality we therefore have a forum and a methodology that is truly global, and I think that from this aspect we of course also have the G20, whose job is also to observe and consider the application of the concepts that have been created in the Financial Stability Forum. The experience of the Asian crisis has shown that in terms of all of the emerging countries as well as the relevant industrialised countries globally, the G20 was capable of doing some remarkable transformation work at global level, which has been so efficient that, as you know, the emerging countries have – in my opinion, because some good lessons have been learnt from the Asian crisis – been very much protected against the turbulence that we are seeing at the moment.

Regarding my position in relation to the report prepared for us by Mrs van den Burg, I would say that we are going to look at it very closely, as I said, but our tendency, my tendency right now as I am speaking, would perhaps be to say: let us first do what has already been decided in principle and has not yet been applied. I would therefore tend to say that the new legislative proposal should, if anything, be presented once we have done everything that we have to do, because if not, that could be a pretext for saying that we will not do what we have already decided to do and then we will see later on because there are other ideas in progress.

3-062
Pervenche Berès (PSE). – *(FR)* Does that mean that, regarding the level of functioning of the three level 3 committees, there is no need to do anything and we already have everything that we need on the table to make them function in an optimum way tomorrow?

3-063
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* Once again, we should not overcomplicate things. We already have a lot of institutions in Europe, with Parliament, the Council and the Commission. At the stage we are at, in my view – and of course, I did take part in this ECOFIN – we have a degree of consensus. There are a number of operations that can be carried out. We need to carry them out! Therefore, I would not want the pretext of a new request for new legislation to be used to block what has already been decided, which I am not sure is going to be implemented.

Having said that, once again I cannot say for definite. I have not yet read Mrs van den Burg's proposal in detail.

On the last point: again, let us not complicate things. We have found a good way to change things. The Commission did not agree, Parliament did not agree, the Council did not agree, etc., but no one has found a better way, quite frankly. Therefore, we will apply the rules that we have decided on. I am convinced that this is not the best solution, but it is certainly by far the least problematic.

3-064
Daniel Dăianu (ALDE). – Thank you again. It has been a very interesting discussion. You put a lot of emphasis on anchoring inflation expectations. I fully agree with you that this is critical, but I am wondering about this, because you also mentioned that it is demand driven, although there are also supply-side constraints. There are signs of panic and fear. You mentioned volatility, uncertainty. The Dow Chemical Company has announced a tremendous rise in its prices. You also alluded to the need to have responsible social and also business partners. They should not rush. We talk about coordination failures. What should be done to improve the dialogue, clarity and communication so that people should not, as the French would say, 'foncer en avant'? If it is demand driven, presumably there will be a flow of shocks in the future. What should be done to arrest a dynamic which could be very detrimental?

3-065
Jean-Claude Trichet, *ECB.* – First of all, I fully agree with you.

Responding to Mr Purvis, it seems to me, as I said, that we had a phenomenon that was obviously demand driven in comparison to previous oil shocks that were much more supply driven by the curtailment of production. But we should not, nevertheless, consider that it is only demand driven. In my opinion, it is, again, demand driven, plus supply driven, and driven also by this vast change of portfolio allocation at the global level. Those are the three elements, and we have to be as attentive as possible to disentangling the three elements.

I was very happy with the decision taken by Saudi Arabia. It is an important contribution. We will see exactly what the consequences will be, how it will be engineered and what the procedures will be. But we should bear in mind that we have to cope with the problem by all possible means, without excluding anything – including full transparency and appropriate functioning of markets.

But, again, whatever happens we believe that we are responsible in the medium and long term for price stability. We are observing important changes in relative prices, but the absolute level of prices depends on our own alertness.

Let me also say – I am also referring to the question by Mr Goebbels – we have a message for everyone: we do not target our message particularly to employees or the unions, we are also targeting enterprises. I fully agree with you that they have to be responsible. In the medium and long term they have to know that we will be attentive to price stability. Our message is for absolutely all partners and for appropriate competition to take place everywhere and for markets to be transparent everywhere. That is absolutely clear.

I would not deny that these times are very demanding for all of us. That is absolutely clear. I do not underestimate the level of responsibility that we all have, because, of course, I am talking for the Governing

Council of the ECB and for the system. But I do not deny that it is a heavy responsibility for the unions, executive branches and parliaments, and for the European Parliament too. So, again, we have to try to live up to our responsibilities. You can count on us to live up to our responsibilities.

3-066
Chairwoman. – We are coming to the end of the meeting. However, Mr Trichet, we have talked a great deal about the increase in the price of commodities and their role in inflation. May I ask one last question? In your assessment, what proportion of the increase in the price of commodities are we currently experiencing in the rate of inflation?

3-067
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* As I said, as far as the consumer price index that we are currently looking at is concerned, this inflation is very largely due to energy, very largely due to the prices of food products, but also due to the prices of services, which are going up too quickly. This is not surprising, because in the prices of services, you essentially have unit production costs, and unit production costs, as I have already said, are increasing faster right now and I note now that they were not increasing six months ago or nine months ago. May I remind you: third quarter of 2007, 1.5; fourth quarter, 2.3; first quarter of 2008, 2.4. In 2006 we were at an average of 1% and in 2007 at an average of 1.4%. If I take negotiated wages into account, we have moved from 2.2% in the third quarter of 2007 to 2.7% in April, and for the first quarter of this year to 2.8%. The same applies to compensation per employee. Therefore, we have to consider that there are not only very rapid and, of course, abnormal changes in the prices of oil and agricultural products, but that we need to be alert about everything.

3-068
Chairwoman. – Thank you, Mr Trichet. We will continue this discussion when we look at Mr Schmidt's report together in plenary on 9 July. Meanwhile, we will meet again in this format on 10 September.

(*The meeting was closed at 12.30)*