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COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH MR JEAN-CLAUDE TRICHET, PRESIDENT OF THE ECB
(pursuant to Article 113(3) of the EC Treaty)
BRUSSELS, WEDNESDAY 21 JANUARY 2009

3-003

IN THE CHAIR: MRS BERÈS

(The meeting was opened at 10.30 a.m.)

3-004

President. – Without further ado, I would like to thank President Trichet for taking part in this monetary dialogue, which we have now established almost as an institution.

I will just remind you of the two themes we proposed for this exchange of views: 'are we at risk of deflation or stagflation?' and 'how can the international financial architecture be restructured?'

I would like to invite you, Mr President, to make some introductory remarks of around ten minutes, and then we will follow the procedure that I am sure you now know by heart.

3-005

Jean-Claude Trichet, *President of the European Central Bank. – (FR)* Madam President, members of the Committee on Economic and Monetary Affairs, I am delighted to be having this first discussion of 2009 with you. This discussion is taking place just a few days after the meeting of the Governing Council of 15 January on monetary policy; on top of that, in Strasbourg last Tuesday, at the plenary session devoted to the 10th anniversary of the euro, I was – and I say this quite honestly and simply – delighted to learn of your Parliament's support for the euro and the ECB.

Today, as is now traditional, I shall begin with an assessment of the economic and monetary situation, followed by an explanation of the reasons underlying our recent interest rate decisions.

3-006

(DE) Following that I would like to say a few words about the outlook for prices in the euro zone. Finally I will look at issues relating to the international financial architecture. This subject is certain to become even more important over the next few months.

3-007

First the economic and monetary developments. Since my previous appearance before the European Parliament on 8 December, the economic outlook in the euro area has continued to weaken and inflation has declined further. In December 2008 the inflation rate stood at 1.6%. Moreover, inflationary pressures and inflationary risks have continued to diminish.

Looking ahead, with the appropriate medium-term perspective for monetary policy and also taking into account our own policy decisions including the most recent one, we expect euro-area inflation to remain in line with our definition of price stability over the policy-relevant horizon. Risks to price stability over the medium term are broadly balanced in the view of the Governing Council.

As regards economic developments, since September last year the financial turmoil has intensified and broadened. Tensions have increasingly spilled over from the financial sector into the real economy. Looking ahead, both global demand and euro-area demand are likely to remain dampened for a protracted period. At the same time, declining inflation rates should support real disposable income in the period ahead, and the euro-area economy should benefit from the broad and far-reaching policy measures that have been decided upon over recent weeks.

However, this outlook remains surrounded by exceptionally high uncertainty. Overall, risks to economic growth remain clearly on the downside. They relate mainly to the potential for a stronger impact of the financial turmoil on the real economy as well as to concerns about the possible emergence and intensification of protectionist pressures and to possible adverse developments in the world economy stemming from a disorderly correction of global imbalances.

To lay sound foundations for sustainable growth, all parties concerned should live up to their responsibility. In this respect, it is crucial to maintain discipline and a medium-term perspective in macroeconomic policy-making. To pursue a stability-oriented and sustainable policy approach is the best way to preserve and enhance confidence. The significant measures being implemented by governments to address the financial turmoil should support trust in the financial system and ease constraints on credit supply to companies and households.

Monetary trends in the euro area support the view that inflationary pressures are diminishing. Notably, the latest evidence confirms a moderating rate of monetary expansion. The Governing Council of the ECB has repeated its commitment to keep inflation expectations firmly anchored in line with its definition of price stability of below 2%, but close to 2%. This supports sustainable growth and employment and contributes to financial stability.

It is against this background that the Governing Council decided last week to reduce the interest rate on the main refinancing operations of the Eurosystem by a further 50

basis points down to 2%, bringing the total reduction since 8 October 2008 to 225 basis points.

I shall now look more closely at the medium-term outlook for price developments in the euro area and in particular the process of disinflation we are currently observing. I will thereby address the first topic that you just mentioned, Madam Chair. It is essential here to draw a clear distinction between disinflation and deflation.

Disinflation is a process of falling inflation rates. This process often stems from cost-saving developments on the supply side or terms of trade improvements. Such events can sometimes go hand in hand with negative demand shocks, as is the case at present. However, they are per se benign in nature. This is because they sustain real incomes. In the current context, we are witnessing a process of disinflation in the euro area, mainly as a result of a sharp fall in oil and commodity prices.

To that extent it is therefore a welcome development. The spike in oil and commodity prices that began in 2007 and lasted until mid-2008 was both inflationary and contractionary. In consequence, the recent decline in these prices is both disinflationary and expansionary. By way of example, car fuel prices have fallen by 15.4% in December 2008 year on year. Their weight of almost 5% in the HICP basket means that this explains a significant part of the recent inflation decline.

If such favourable supply-side developments are especially vigorous, disinflation can even temporarily lead to negative inflation rates in some cases. It is therefore very important in such circumstances to keep medium-term inflation expectations well-anchored.

A deflationary process, by contrast, is a persistent and self-reinforcing decline in a very broad set of prices. This spiral is propagated by anticipation of prices declining further in the future. Such negative inflation expectations mean that investment and consumer demand is postponed, which would cause a second-round demand shortfall and put further downward pressures on prices.

There is presently no threat of deflation. Indeed, the firm anchoring of inflation expectations – to which we are so fully committed – represents the strongest and most reassuring safeguard against any risk of a downward spiral of inflation and inflation expectations.

From all these considerations you will understand that in our analysis we are currently witnessing a process of disinflation, driven in particular by a sharp decline in oil, energy and commodity prices.

I now turn to the second topic which was selected, as the Chair mentioned, namely the international financial architecture. I consider that the fragility of the global financial system, by which I mean its lack of sufficient resilience that has been revealed in the course of the present episode of turbulences, is not acceptable. We must draw all the lessons of the crisis, without any complacency, considering that all the elements of the system must be significantly improved: the quality of risk management, liquidity management, the overall resilience of private institutions, the transparency of the financial markets, and the clarity of financial instruments.

As already underlined on the occasion of previous hearings before this committee, this calls in our view first for much more transparency, without any consideration of vested interests; second, for much less short-termism in the decision-making processes, contrary to the most recent trends; and, third, for a systematic elimination of the pro-cyclical aspects of our regulatory, prudential, accounting and taxation rules, which are amplifying considerably the fluctuations that are inherent in the functioning of market economies.

The Financial Stability Forum has identified the main avenues for such reforms. What we now need is strategic lucidity and, where appropriate, a great deal of political energy to counter considerable vested interests. The G20 and the IMF are and will be decisive in this respect.

But a much better functioning of the financial sphere does not suffice. We also need sound macroeconomic policies that are sustainable in the medium and long run. In particular, we need to avoid the creation of the large domestic and external imbalances which are very much at the root of the present difficulties. An effective surveillance of macroeconomic policies of the major systemic economies is of the essence. Only the IMF can exert this decisive function, provided its mandate is strengthened.

In terms of institutional set-up, we need two major improvements: first, the international financial architecture requires a strengthening of the informal groupings, in particular the Financial Stability Forum (FSF) and the G20. The FSF is unique in that it links all the authorities and institutions that have a systemic influence on financial markets, whilst being very largely decentralised and – for many of them – independent from the political sphere.

The necessary enlargement of the FSF is key. Particularly important in a time of global crisis has also been the new authority of the G20, which is a truly global informal grouping in comparison with the G7, which itself continues to be useful in a situation where the turbulence comes from the industrialised countries themselves.

Second, on top of the IMF's strengthened surveillance mandate, the governance of the international financial institutions, particularly the IMF but also the World Bank, should become more effective and representative. In particular, a full representation of emerging market economies, commensurate with their importance in the global economy, is indispensable.

By way of concluding these short introductory remarks, I would like to stress two points. First, as regards euro-area policies: persistent wage growth differentials, induced by structural inefficiencies or misaligned national policies, including wage-setting policies, might have adverse implications for the cost competitiveness of individual countries. National authorities have the responsibility to address competitiveness losses accumulated over recent years by implementing structural reforms and ensuring more moderate price and wage developments.

Regarding fiscal policies, we welcome the European Council's reconfirmation of its full commitment to sustainable public finances. The current economic situation calls for prudence with regard to the adoption of extensive fiscal stimulus measures, taking into account the particular situation on the fiscal side in each country. As I have said before, countries can use all the room for manoeuvre provided by the Stability and Growth Pact but only that room for manoeuvre that is in the Pact. The significant fiscal loosening and the implied increase in government debt should in no case risk undermining public confidence in the sustainability of public finances, thereby detracting from the effectiveness of the fiscal stimulus itself.

I would also like to say a word on the financial supervision issues. The financial crisis has heightened the importance of addressing issues relating to financial supervision in a comprehensive and coordinated manner, both globally and at European level.

As regards European level, the crisis has highlighted the need to analyse long-term solutions to the structure of supervision. The proposal which will be put forward by the High-Level Group chaired by Jacques de Larosière will certainly be an important contribution to the policy discussions as well as the proposals which have been envisaged by the European Parliament.

Considering the possible options and as underlined in particular by a number of Members of Parliament, Article 105(6) of the Treaty explicitly mentions the possibility for the Member States to decide to confer upon the ECB specific tasks in the domain of financial supervision. Reflections have started on the specific role that could be played by the ECB and its Governing Council, should the provision of the Treaty be activated. At this stage the Governing Council has not yet taken a position on this topic. I will certainly not fail to report to you the outcome of its reflections.

3-008
President. – Thank you, Mr Trichet.

Article 105(6) gives the European Parliament the right of assent in this field, and we will therefore be attentive partners.

3-009
Jean-Paul Gauzès (PPE-DE). – *(FR)* Mr Trichet, thank you for your comments. I would like to draw your attention to three points, and ask you three questions. The first is that you mentioned last week's ceremonies for the 10th anniversary of the euro in Strasbourg, and the recent headlines: 'will the euro explode under the crisis?' Is it possible to send a strong message, simply to reinforce what was said a week ago and to avoid rather sterile debates?

My second point is that I was very interested to read your contribution to the conference held in Paris on 19 January on the under-pricing of risks in the financial sector. Could you tell us what, in your view, characterised this blindness, or what caused it, since you and others highlighted the risks in this domain?

My final question relates to the fact that, currently, there is a blockage in the distribution of credit. Despite the considerable efforts undertaken by the ECB, and then by the Member States, credit is not being distributed, which is a serious problem for the economy and for businesses, particularly for small and medium-sized businesses. Do you think there are ways of achieving a more immediate effect for the measures that have been taken and, if so, what are they?

3-010
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* On the first question, I would, of course, say that the euro and the euro zone have, in fact, shown a level of resistance and resilience to the crisis that have been noted by all observers. It is true that all global currencies are under pressure due to the circumstances and the financial turbulence, and I would say that all currencies in the world, without exception, will be put to the test, if I may say so. This applies to all the sister currencies with which we have relations, and certainly to the dollar, sterling and all other currencies. I would therefore say, quite simply, that the comments you have echoed would appear to be completely unfounded. Of course, we must continue to manage things to the best of our ability; for our part, we need to manage the monetary policy of the euro, and all the governments concerned must manage their own economic policy. They are responsible for structural reform policies, pricing policy within their economy – in so far as they can influence prices – and also, naturally, for budgetary policy.

On the second question, I do indeed believe that we went through a bit of a phase before the financial turbulence started in August 2007. We went through a period of under-pricing, characterised both by the volume of risks in the international financial economy and by the price of the risk; this was, indeed, stated publicly on several occasions by a number of authorities, including the central banks, and by myself in my capacity as president of the group of ten central banks and the Global Economy Meeting, where I and my counterparts meet to examine the problems in the global economy.

We stated publicly that we had the feeling that these risks were being under-priced. There are a great many reasons for this, and there is not one single cause, but rather a great number of causes, including the

sophistication of the financial instruments and their lack of transparency – which is why I have put so much emphasis on the need for transparency. There has been an explosion in certain markets, which are themselves not transparent and which therefore made it easier to take these extraordinary risks. There have also been a number of global macrofinancial and macroeconomic phenomena, in particular the rises in the prices of oil and raw materials, that have created additional savings – forced savings – elements in the global economy and that have encouraged a large proportion of investors to look systematically for high returns and, thus, for high risks. In short, those are a few of the factors, but it is not an exhaustive list. There are many other reasons and, of course, there has been a certain blindness on the part of all the players on these markets, market participants and the institutions concerned. The causes are totally multidimensional, which is why I have put so much emphasis on the need for complete reforms. We must leave no stone unturned, and avoid scapegoating, because that would result in concentrating on certain aspects and ignoring others. Therefore, everything needs to be examined closely and, in my view, everything needs to be fixed.

Turning to your final point, there is indeed a big question mark with regard to the normal operation of the financial sector. The European Central Bank and the other central banks have made significant efforts; the governments, too, have acted promptly and worked hard, and I think that is very important in the current circumstances. I am not sure whether all operators have truly realised the extent of what has been done, and is still being done, since we certainly need to remain very alert in this field. As I said, I think it is important for all the institutions, all the operators, to face up to their responsibilities: this applies to the banks in particular.

3-011
Gay Mitchell (PPE-DE). – It seems to me that the recent interest rate decline was very cautious, though this is mere speculation and I have no way of knowing that, but we are fortunate to have an institution like the ECB in place to manage the situation. I believe – and you mentioned it in your comments – that restoring confidence is the key. For this it is crucial that banks show that they have confidence in each other, reflected in the interest rate they charge each other. This should become a key component of your strategy and I would be interested to hear about your confidence in that.

You spoke earlier this month about recovery – and I was delighted to see you talking about recovery. It is time we started talking about recovery. There will be recovery. We do not know when it will come, but if we do not talk about it we will not prepare for it and we will not hasten its arrival. There will be an opportunity for us when that recovery comes, and I think we should be talking about how we intend to position ourselves for that recovery in terms of competitiveness, for example.

Yes, we must manage the crisis, but also let us indicate that we have some vision of what is going to happen when that recovery comes. I hope that it comes sooner rather than later. I think what will help it to come will be for the banks to start showing confidence in each other.

3-012
Jean-Claude Trichet, *President of the European Central Bank.* – In response to your first question, as I said earlier in these hearings, we are looking very carefully at the money market and the functioning of the money market. I have said several times that the Governing Council and the Executive Board would look very carefully at the Euribor in particular and the transmission of our own monetary policy to the interest rates actually practised in the money market. From that standpoint, I have to say that what we have observed over the past few weeks as regards the Euribor three-month interest rate is heading in the right direction, so that we have seen the level of this interest rate coming down progressively and approaching our own vision of an interest rate closer to our policy rates.

So, from that standpoint, I see some signs of improvement in the money market. However, we have to remain very alert and we know pretty well that it is not functioning as it should in so far as, for a number of reasons, there is still some hesitation between the banks themselves when they engage in transactions.

Again, as regards Euribor – and we are following this index very carefully – we have made progress and I expect that this progress will continue.

As regards the time needed for the recovery: I have said – though I am very cautious and the level of uncertainty is extremely high (as all institutions, whether international or national, are saying) – that we nevertheless have the feeling that after 2009 – which we obviously see as a year of great slowing down and difficulty in terms of growth – 2010 is seen as the year in which we will go back to positive figures, the year of pick-up after the difficult years of 2008 and 2009.

This observation seems to be valid for the euro-area economy, just as it seems to be valid at the level of the global economy as a whole. When comparing notes with all my colleagues from the other major systemic economies – including the emerging economies – it seems to me that we had the feeling that 2010 could be, as I said, the year of the pick-up of global economy, as well as of each particular economy, because we are now synchronised. Clearly, all the economies in the world, including the emerging economies, are in synch at the present period.

So, again, I would echo what you said. There was an incredible under-appreciation of the volume and of the price of risk in the past years, and that was at the root of the turbulences and of the difficulties we are experiencing. However, under-assessing the capacity of the global economy to pick up again could also have a very adverse effect, because then a number of institutions – particularly private ones – could miss the time for the appropriate new investment to be made

when the pick-up occurs. So, I have to say that all decision-makers, boards of directors, the world over have to be fully aware of that.

We are observing a level in the price of oil, commodities and energy which is much lower than before. As I said in my introductory remarks, this is disinflationary and expansionary. So this is, so to speak, in the pipeline at the level of the global economy and it is an expansionary aspect. Of course, there are a number of aspects that are much less flattering, but this is one of the reasons why there will be a pick-up.

3-013
José Manuel García-Margallo y Marfil (PPE-DE). – *(ES)* Mr President, it is quite clear that the top priority at the moment is to restore credit. I am going to ask you three questions.

Commissioner Almunia told us yesterday that public guarantees are being underused, even in countries central to the system. He also said that several banks prefer to deposit funds with the European Central Bank rather than put them into the real economy. My question is, why?

The next question concerns the President's allusion to the Capital Requirements Directive. There is a growing view that increasing the banks' capital at the moment would be procyclical and, therefore, inadvisable. This is in line with that opinion.

Lastly, I have a suggestion. I have often pointed out that the ECB lends over both the short and the long terms, where the long term means six months, yet this is much shorter than the term over which the US Federal Reserve lends, which is three years.

Many financial institutions have told me it would be good if these periods could be extended, given that they have to lend over the long term and they also need certainty and longer terms to meet their credit needs.

I would like to hear your views on this. Thank you very much.

3-014
Jean-Claude Trichet, *President of the European Central Bank*. – Depositing of funds by commercial banks with the ECB is something which we are observing. It is associated with the fact that we are very keen to avoid any systemic liquidity risks, so we are providing liquidity on an unlimited basis to commercial banks in the euro area on a one-week, one-month, three-month or six-month basis. It is also associated, as was mentioned by a previous speaker, with the fact that the banks themselves have a tendency not to have an active money market – even if it is gradually reviving – but to take the liquidity from the Central Bank, and when there is extra liquidity to put it back in the window of the deposit facility that we offer.

As I said, we are doing all we can to revive this money market. We have observed the level of Euribor rates, particularly the three-month rates that I have mentioned, which shows that there is a progressive revival of the market, and we recently decided – and this is operational right now – to enlarge the corridor, which is a further means that we have of contributing to the activation of the money markets. That was in response to your first question.

On your second question, I think it is very important to say that it is certainly not the intention in the present situation to increase the capital requirement. This would be pro-cyclical, and I have said that it is very important not to be pro-cyclical in any circumstances, and certainly not in the present circumstances. Having said that, a number of institutions are creating buffers, on top of the capital requirement, with a view to dealing with potential losses they think they may incur in future.

This is of a different nature. This is not an augmentation of the capital requirement, it is prudent behaviour to have the appropriate buffers in case they are necessary, but your question is very pertinent. It is extremely important that right now, with all these financial tensions, but also in the future, in the long term, we are not pro-cyclical. As I said, we have to be very clear on that. This is absolutely essential.

As regards what the ECB is doing, I have already said that we are supplying unlimited liquidity on a one-week, one-month, three-month, six-month basis. We have to help the market to function better again by any means we can, and I have to say that, while we are seeing some elements that might be a sign that a progressive improvement is there, we have to remain extraordinarily alert. This is no time for complacency in any respect, so the ECB remains very alert.

3-015
Elisa Ferreira (PSE). – For quite a long time we were raising interest rates in order to control the inflation rate, but the inflation rate continued to rise on the basis of speculation in the global markets. Now we are reducing the interest rate in order to stimulate growth, but growth is not increasing because we have a problem of trust: both trust in the markets and trust in the future. Therefore, is this not the right moment to address more globally whether we have the right targets and the right instruments? This is a long-term issue.

Secondly, in the medium term, we expect things to be better in 2010, as you said, but we cannot forget that in December 2008 the Bank was forecasting a decrease in growth of 0.5% and the day before yesterday we had the new prospects for 2009 of -1.9%, with more than a 9% fall in employment. At the conference of 15 January 2009 you mentioned the possibility of 'the ECB using "non-standard tools" to boost the economy'. Could you elaborate your thinking on that, please?

3-016
Jean-Claude Trichet, *President of the European Central Bank*. – Concerning your first remark I fully agree with you that trust and confidence are of the

essence in the present period: trust and confidence in private institutions, in market participants.

We experienced something which was rather extraordinary in mid-September. We were already in a period of financial turbulence and we know that better than anybody because we observed the start of that turbulence on 9 August 2007.

You will remember that we engaged in very large-scale lending to our commercial banks in order to be sure that the market would function normally: it was an enormous amount of EUR 95 billion.

After the period where we had these financial tensions, in mid-September there was an event which created absence of confidence simultaneously in the public sector and in the private sector, in the industrialised world and in the emerging world. It was something quite unique and of enormous magnitude.

Since that period we have cut our rates by 225 basis points, which has no precedent. A decrease in rates of such rapidity, such amplitude, over three months, has never been observed in the euro area, nor in the time before the euro was set up, not since the Second World War; so this was an extraordinary set of decisions taken in the light of the alleviation of inflationary pressures, threats, risks.

We correctly anchored inflation expectations throughout the period when we were fighting against possible risks of inflation in the medium term; we maintained order in this inflationary expectations sphere, as it were, and we are doing the same now. It is very important, as I underlined, that inflation is solidly anchored, in line with our definition, at below or close to 2%. If you want to understand what we are doing, you can see that it is with this in mind.

In the medium term we were already saying in December, at staff level, that we were at between -1% and 0%, so we were in negative territory. The Governing Council already said at the time that it felt that the risks were on the downside as regards growth. I was very clear on that, on behalf of the Governing Council, in December.

In January I said that we considered our decisions justified because we felt that there was a further slowing-down of the European economy and of the global economy which was further alleviating inflationary pressure. We have to do all we can to help the revival of the financial sphere and of the real economy.

I have mentioned the fact that we were constantly reflecting on what we could do to respond to events that are obviously very demanding. The fact that we are supplying liquidity on an unlimited basis is, of course, per se non-standard behaviour for any central bank. It was unthinkable, before the intensification of the tensions, to do that on a permanent basis.

The fact is also that our balance sheet has increased considerably, meaning that, taking into account the situation, we have engaged in risk-taking ourselves at a level which is very significantly superior to what we had done before.

At this stage I only mention this to show that – as is clear from our past actions – with full respect for our mandate, full anchoring for inflation expectations and full respect for the integrity of our monetary policy, the ECB is able when necessary to take decisions that are, admittedly, bold. We are still reflecting on the situation. I cannot be more specific than that at this stage.

3-017

Robert Goebbels (PSE). – *(FR)* Mr President, I would like to ask three questions. First of all, you have just reiterated, strongly, that the ECB has reduced its interest rates significantly, by 225 basis points. This measure was certainly welcome, but it should be noted that the banks are balking at passing these rate cuts on to their customers. In reality, the banks are improving their margins, while credit is still expensive for consumers, particularly for businesses. What needs to be done to ensure that the real economy can benefit from the rate cuts that have occurred?

Question two: the ECB has also fulfilled its role by providing liquidity to the commercial banks. In response to Mr García-Margallo's question, you said that you were currently seeing a slight revival in the interbank monetary market. Does this mean that requests from the banks for one-month, three-month and six-month loans are on a downward trend?

Finally, in your introductory speech, you said at least twice that the financial crisis had had an impact on the real economy. Does that mean that the European Central Bank does not see the banks as part of the real economy, but as part of an unreal, virtual world?

3-018

Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* As regards the translation of the very significant reductions that we have decided upon into the current market rates, this is in fact a never-ending subject. What we are doing is completely transparent. We have reduced our rates by 225 basis points. Our current rate is there for all to see and is common knowledge; our rate for refinancing all the banks is perfectly clear. I must say that we are continually asking banks to do this, and governments, moreover, are doing it for their part, and national central banks are doing it for their part. The entire Eurosystem has a message that is very clear and that says to all our banks: 'Faithfully pass on the reduced rates that we decide'. We are not convinced that everything has been done in this area, your remarks do not always appear to me to be justified, but sometimes they are very well justified, and therefore these exhortations should continue to be given. Quite simply, we must keep our eye on the ball because we cannot accuse the banks of having taken totally ill-considered risks in the past and at

the same time ask them to take any potential and conceivable risks at present. The function of banks in a market economy is to spread risks and it is by respecting this fundamental function of risk spreading that the banks must carry out that we must encourage them once more to be as active as possible in financing the economy. The only fundamental objective of what has been done by the Central Bank and by governments is the financing of the economy itself by the banks whose function this is.

As far as your second question is concerned, I can see the gradual and slow start-up elements of the money market, as I said, quite broadly with respect to the current interest rates on the money market and the one-month, three-month and six-month Euribor rates in particular. I have mentioned several times the three-month rate, which is important because it is a key index for many loans in a very large number of economies in the Eurozone. At this stage, it would be an essential indicator. I am not in a position to tell you that, with regard to quantity, we have elements that are sufficiently significant to be considered as substantial. It is an attempt that is currently being made and, once again, we are extremely vigilant in this area because it is a fundamental objective.

With regard to semantics, it is easy to speak of the financial economy on the one hand and the real economy on the other. You are certainly right; the financial economy is extremely real, there is not a shadow of a doubt, and I completely share your feeling on the fact that this is probably not the correct distinction. In any case, the financial economy itself represents a very large number of jobs, the financial services represent – you know better than anyone in your country – an essential section of the economy, full stop. Therefore, let us perhaps speak purely of the economy; that would perhaps be better.

3-019
Wolf Klinz (ALDE). – *(DE)* Mr President, over the last few days we have heard about one disaster after another: Royal Bank of Scotland, Lloyds, Deutsche Bank, Bank of America. The bad news has been on a quite unforeseen scale. Are the central banks, together with the supervisory authorities, able to tell us whether this trend will continue or whether it has come to an end?

My second point concerns the fact that there are different programmes for tackling or at least moderating the consequences of the recession in the different Member States. In Great Britain a reduction in VAT has been introduced, in Germany and France a scrapping bonus for cars, consumer vouchers, tax relief and so on. Do you believe there is a risk that the different approaches will cause increasing divergence between the European economies and that, as a result, the spreads on government bonds are more likely to widen rather than narrowing, in other words, that convergence will be reduced?

One final point: Various currencies have fallen in recent months against the Euro. This has been particularly marked in the case of the sterling, but Britain has specific difficulties, for example because of the housing crisis. The Swedish krona has also fallen by 15% since August. The question from my Swedish colleague is as follows: as President of the Central Bank, what is your explanation for this development and are you concerned about it?

3-020
Jean-Claude Trichet, *President of the European Central Bank.* **–** We have been convinced since the first day, 9 August 2007, when we decided at Executive Board level to lend EUR 95 billion to our banks on a 24-hour basis, that we were embarking on a period that would be very demanding. I have never told you that we are out of this period. I have been asked that question very often. So I would say that we must continue to be permanently alert.

A decisive moment in this necessary state of alertness occurred in mid-September, because, again, more than one year after the start of the turbulence, there was an intensification of the tensions which called for extraordinary decisions which were taken by us, by sister institutions in central banking, and by governments.

As you say, there have been many programmes in various Member States. I would only say, first, that it was necessary for the governments to take action to organise a line of defence against what I would call the systemic solvency risk, after we had ourselves organised a line of defence against a systemic liquidity risk. But, that said, it is an ongoing process and there is an interaction between the economy itself and the financial sphere that we can see operating on both sides of the Atlantic, as you very rightly mentioned.

Therefore, what I would call for under these circumstances is for absolutely all authorities – whether private or public – to be as alert as possible, able to take the appropriate decisions. Appropriate decisions need a lot of judgement, because it is not enough to engage in fiscal accommodation of the first magnitude. If you have no room to manoeuvre, then you aggravate rather than help the situation. That is the reason why you will not be surprised to hear the European Central Bank say that all the room for manoeuvring is in the Stability and Growth Pact; there is nothing but that room for manoeuvring.

In any case, this is not a just legal consideration: it is also backed by observations in the financial markets, and in the economic grid, of the Ricardian effect. If you lose the confidence of your household and of your enterprise, whatever you do on the fiscal side will be immediately cancelled by this additional loss of confidence. So, it is a matter of judgement, respect for the Stability and Growth Pact, and taking into consideration the various financial and economic constraints.

I will not comment on the floating currencies. We can see what the relationship is between the euro and other currencies. Going back to the first question, I would only say that, since the start of the turbulence, we have observed that the euro has clearly functioned as a protection for 329 million people.

3-021
Alain Lipietz (Verts/ALE). – *(FR)* Mr President, the objective of the Central Bank, its primary objective, is to ensure a growth in prices that is less than but close to 2%. However, we are now moving quite quickly away from this objective. Disinflation, as you say, is taking us to about 1.5%. We can assume that this is going to continue. We can say that the reduction in the inflation rate has been greater than the reduction in the interest rate set by the Central Bank since September. Therefore, actual interest rates are currently increasing, and you cannot, obviously, go below 0%. Therefore, what do you think of the plans that would lead to an acceleration in this reduction in prices, this disinflation, through reductions in VAT and how, in this context, can you say that it is necessary to question mechanisms for increasing salaries because they accelerate the rise in prices, even though we have the impression that it is decreasing?

Second question: since, as we have said on several occasions, the recovery plans implemented to date by the banks have not produced a recovery in other sectors of the economy, do you not think that the Central Bank should rather have a direct refinancing policy for prices in the real economy, possibly by going through the European Investment Bank?

3-022
Jean-Claude Trichet, *President of the European Central Bank*. – *(FR)* Our definition of price stability is, in fact, less than 2%, but close to 2%. When I spoke of the sound basis for the anticipated inflation, I was thinking at the same time of a rate below 2%, but close to 2%. Our main concern, during the period of very high inflation – it went up to 4% as you may recall – was to be credible by being able to provide price stability, and one of the ways of measuring this credibility is to measure the anticipated inflation.

We have kept the basis for the anticipated inflation at less than 2%. Close to 2%, this is one of the current topics, because in fact, we can see a quite considerable reduction in inflationary pressures, but as I speak, I must say that we have in fact anticipated inflation that remains close to 2%, and from this point of view there are very substantial differences between countries. If I look at some of the indicators that we take into account, particularly the inflation manifested by the index-linked and non-index-linked bonds on both sides of the Atlantic, we will clearly be in a very different situation to that of the United States over the next five years on average from the point of view of the basis for the anticipated inflation, for example.

If we base the anticipated inflation directly on our definition of price stability – as I said earlier, the disinflation that we are seeing is good, it is the distribution of purchasing power to households and to business operators in general. If the price of oil – and this is very important – and energy remain, fortunately, at a much lower level than in the past, we should have a continuous reduction in inflation in the Eurozone. Negative figures could be achieved in some countries, which should not be interpreted as negative, if I may say so; on the contrary, it is the distribution of purchasing power, which is far-reaching. Then, the figures will increase again because all this is linked to the basic effects; in the medium term it will be necessary for us to have inflation below 2%, close to 2%.

As far as the action of the European Central Bank is concerned, I must say that I am totally in favour of what the European Investment Bank could do by allowing the banks to refinance in the medium or long term in order to make loans to small and medium-sized enterprises. It is a trend that has been retained, it seems to me, in principle, and it appears to me, personally, to be completely appropriate under the present circumstances.

3-023
Sahra Wagenknecht (GUE/NGL). – *(DE)* Thank you, Madam Chairman. I have two questions. One relates to the subject which has already been discussed on several occasions of the obvious discrepancy between the interest policy of the European Central Bank and the interest rates which private borrowers in the euro zone are actually being charged. Mr President, you mentioned previously that you are calling on the banks to pass on the reduction in interest rates. However, it is quite clear that your call has fallen on deaf ears. In Germany we have recently been informed that, on the one hand, the existing situation remains unchanged and that small and medium-sized businesses are almost completely unable to borrow money. However, on the other hand, the interest rates for instalment credit and overdrafts are significantly higher than they were a year ago. In a situation where the market is failing to resolve the problem, do you not think that the state, which is pouring billions into the financial system throughout Europe, should perhaps also intervene to try to regulate loan terms and interest rates.

My second question relates to developments on the other side of the Atlantic and their impact on the euro zone. We get the impression that the Federal Reserve, in contrast to what you have said, is very concerned about deflation. What the Americans are currently doing is nothing more than printing money on a truly incredible scale. I believe that it will definitely be possible to prevent deflation in this way. However, it is equally certain that at the moment when the crisis has been overcome and economic recovery is in sight, very rapid inflation will be almost unavoidable. It is not possible to print money on a scale like this without reaping the consequences. It almost seems as if the Americans have adopted this as a deliberate strategy, because in the face of their enormous debt – private debt, state debt and foreign debt – it would be an elegant solution which would allow them at some point to start again at zero.

Are you also of the opinion that this may be a direct strategy? Secondly, how can we decouple the euro zone from this strategy? Do you believe it is possible and sensible to do so?

3-024
Jean-Claude Trichet, *President of the European Central Bank*. – As I have said, it is extremely important that the decisions we are taking – which are without precedent since the Second World War in terms of scale, amplitude and rapidity of the decrease of rates – should be channelled into the economy. I would certainly echo what you said. It is important, and I will renew our call for the financial sector to take into account fully what we have decided.

We should not, however, see this from an entirely negative standpoint. I am speaking now to MEPs from a number of countries where mortgages in particular depend enormously on the Euribor three-month rate. A big decrease in the Euribor three-month rate has been observed and should normally, taking into account the existing contracts, be channelled to the households in question in those countries.

You mentioned the exit strategy. You are absolutely right. Whatever we do today – and it is valid for all of us, central banks on the one hand, and the executive branches and Parliament on the other hand – should be done with the clear idea that this is temporary, this is targeted, this comes at a certain moment in time, but we must have an exit strategy, otherwise we would be in permanent oscillation, as you have suggested, between the downward episode of the cycle and then a boom which would itself be the best recipe for future problems.

I very much agree with what you said. We must bear in mind that what counts is medium- to long-term stability. This is true for the Central Bank, but it is also true for fiscal policy. It is true that what we need most, the most important ingredient in the present circumstances, is confidence. Our people will not have confidence if they see that we are not in a sustainable position in the long run. The exit strategy is extremely important.

3-025
Eoin Ryan (UEN). – Could I just briefly come back to the interest rates and banks passing them on or not passing them on?

We are living in a time when the citizens of Europe are demanding more transparency. I know you are saying that you are urging them to decrease their interest rates, but does anybody ever write to them and ask them why they are not decreasing their interest rates and get them to give an explanation? I think that most citizens would wonder why that has not been done. There may be logical reasons, but, considering what many banks have put us through, it is time that they explained fully why they are not passing on the benefit to citizens.

In the area of supervision, you say that the long-term solution to structural supervision is being looked at by a high-level group. But, in your own personal view – and, obviously, you cannot go into what is in that – how do you see that supervision as being beneficial, or to what extent would you like to a role to play in it?

Thirdly, do you think it is time for you in the Central Bank to have a wider mandate so that you can get more directly involved in stimulating the euro-zone economy?

3-026
Jean-Claude Trichet, *President of the European Central Bank*. – Again, I have to make the point, because I do not want to give the impression that I am underestimating the change in the environment in terms of interest rates for households, for housing and so forth.

In all those countries where mortgages are based on short-term interest rates, in most cases the index is the three-month Euribor, or the three-month Libor in areas that have a currency other than the euro. From my observations, this index has fortunately diminished considerably, in line with our own views, calls and decisions.

So there are areas in which the transmission has operated in a relatively satisfactory fashion. In other areas, it is much more complicated. Of course, the argument of the commercial banks is very often: 'But you have to take into account the risks that we are taking in delivering the new credit and we have to protect the integrity of our own institution against these possible risks'.

It is complex, and we should not oversimplify it. Nevertheless, I have to say that, as you do, we would certainly call for maximum transparency. We always benefit from maximum transparency, including in this area.

As regards banking supervision, I would say that we, as the President of the ECB and the Executive Board of the ECB, stand ready. The founding fathers who negotiated the Maastricht Treaty explicitly mentioned in Article 105(6) that there was the possibility of enlarging our own mandate. We have always said, at the level of the Governing Council of the ECB, that we trusted that a close relationship between the Central Bank and the banking supervision authority was of the essence. We always felt that a very strict separation between banking supervision and central banking was not necessarily a good idea. We went public on that, so I am not telling you something new: we went public on that.

So we will see what use is made of this possibility offered by the Treaty. Of course, the great advantage is that it has already been ratified. There is an ex ante ratification, which has already been done. What is necessary is to have a decision-making process which involves Parliament, as the Chair has said, and which calls for the unanimity of governments, i.e. of the executive branches. As far as I am concerned,

personally, I stand ready. However, as I said, we do not yet have the position of the Governing Council.

Concerning a wider mandate in this domain: yes, but I would not call for any change in the mandate of the ECB as regards monetary policy. We have a mandate to deliver price stability in the medium run, which is a precondition – a necessary condition – for sustainable growth and job creation.

By the way, I recalculated job creation over the first 10 years of the euro. I have already told you that, from that standpoint – which is not say that the situation today is satisfactory, of course – we have created many more jobs than the US in the first 10 years of the euro. I mention that in passing; it has to be known.

3-027
John Purvis (PPE-DE). – I wonder whether you are concerned in the ECB about the incipient trend to downgrade Member State sovereign debt, and whether you have contingency plans in place in case this were to gather momentum, even to the extent of potential default or even bankruptcy by Member States. If the ECB is restricted in what it can do because it is a monetary authority but not a fiscal authority, are you happy that there is some contingency plan at EU level, or preferably even at global level, to deal with such situations?

You stressed the importance of the IMF in your speech. Are you happy with the progress towards revamping the IMF to be able to meet any such contingencies on a global level?

You tend to be against exchange rate policies: you like to see things just float, and concentrate on stability of prices as far as the euro is concerned, but do you think – now that other currencies are floating away and perhaps causing competitive problems for the euro zone – that there should be some sort of coordinated global scheme to try and consolidate and stabilise exchange rates?

3-028
Jean-Claude Trichet, *President of the European Central Bank.* – In reply to the first question, you know that our position has always been crystal clear: governments are responsible for their fiscal policies. They must stick to the Stability and Growth Pact.

You will recall that at one time we were under enormous pressure to demolish the Stability and Growth Pact. I remember that this was not at all the position of this Parliament: Parliament was not happy with that. I have to tell you that we ourselves were saying: we are in a single-currency area, the Stability and Growth Pact is part of the EMU. It is the 'E' in EMU. We represent the 'M'. The 'E' is mainly the Stability and Growth Pact.

I would say that governments remain responsible. They have to do everything necessary to cope with the situation. I have already said that it is not just the Stability and Growth Pact which underlines the rules that they should follow: these are also – and this is what you were referring to – underlined by financial markets and by the Ricardian effect of the confidence channelled into each economy.

I stick to that, and I count on the Commission and on the Council to exert peer supervision in a convincing fashion. Having said that, I am not particularly worried: I have already said that the idea that it calls into question the euro area, or the euro, seems to me to be totally irrelevant to the real issue. That issue is to return a number of governments to a more sustainable policy: this is a traditional, long-standing issue.

As regards the IMF, I said very clearly that I think that the surveillance function or mandate of the IMF should be stressed much more, it should be enhanced, because we need a very strong IMF in this domain. I would certainly echo what has been said – not for Europe particularly, and certainly not for the euro area, but for the world as a whole – that it is necessary for the IMF to be able to cope with situations which are demanding, and I must say that, taking into account what has been done in the emerging world in particular, the IMF is already very active.

On the exchange-rate policy I have nothing to add.

3-029
President. – There are some things that change and some things that do not change.

3-030
Kurt Joachim Lauk (PPE-DE). – *(DE)* Thank you, Madam Chairman. Mr Trichet, I have three brief questions. One of them has, in principle, already been asked, but I would like to ask it again more precisely.

3-031
The credit split between Greece and Ireland, on the one hand, and Germany and the Netherlands on the other hand, is widening within the euro area. Do you see that as a danger for the euro, and how much stretch is the euro able to maintain and to sustain?

Secondly, there is a lot of discussion about a global 'bad bank'. Do you see that as a possible resolution to the solvency crisis internationally? How would you structure such a bank? Or, perhaps to make it easier for you: how would you not structure such a bank?

My third question concerns the derivatives market. We have a huge volume in derivatives. If that market collapses, I think it will be too big to save. The question is: do you currently see a risk of the derivative markets defaulting or falling into significant danger? Going on from there, would you be in favour of derivatives being traded on the stock exchange – either OTC or an open exchange?

3-032
Jean-Claude Trichet, *President of the European Central Bank.* – The first question concerns the diversity of the euro area. We have been living with this observation since the very beginning of the euro area. There is a diverse level of convergence, a diverse rate of growth, a diverse rate of inflation and diverse evolution

of such and such indicators. We have looked at this very carefully since the very beginning; we have compared it with the US and we have observed that, in a vast continental economy, it is not abnormal to have diversity. We observed that the standard deviation of growth, the standard deviation of inflation, even differences in unit labour cost, were no different in the United States of America than they were in Europe – from state to state in the US and from country to country here.

So, what you are alluding to is the fiscal situation of a number of countries. I have to say that there are difficulties in all countries now, and that is the reason why I said the exit strategy is important for all. You quoted four countries; I would say that even for the two countries that are in our minds as exemplars of good behaviour, the exit strategy is still important!

I would say it is absolutely clear that we have to make the executive branches and the parliaments in all countries as responsible as possible. I would not say at all that this is something which calls into question the euro area or the euro. But I would say that it is an additional argument – a very strong argument – that we can bring against them, because we have said that since the very beginning. Since the first day we have said: you are responsible, there is no bailing out, you are responsible, and you must behave properly.

The Stability and Growth Pact is not an abstract framework somewhere up there in the air – which, you will remember, some people were saying only three or four years ago. No, it is a very important framework and we have to be aware of the fact that it is backed by very solid financial and economic underpinning.

But, that being said, I am confident that the pressure of the circumstances and of the reality will do their job, as it were.

I do not consider that a global 'bad bank' would be an appropriate concept. I think you are absolutely right to say that, in the domain of derivatives, where we have had an explosion of the notional amounts – I am speaking of all derivatives, but particularly of the credit default swaps (CDS) – we have to be aware of the fact that there are risks there. They have already been identified.

I myself have mentioned that regularly; it is also mentioned in all the financial stability reviews I know, including the ECB Financial Stability Review. It is important to back the central counterpart initiatives that are taking place. I would not say that they will solve all the problems, but it is an important step in the right direction and we are fully backing that.

3-033
Margaritis Schinas (PPE-DE). – *(FR)* Mr President, in the same connection, you are up-to-date and, as you have seen recently, there is an outbreak of rumours, criticism and speculation emanating from Eurosceptic circles where the euro is attacked by targeting the spread. It is done in such a way as to leave no doubt as to the real target, and the real target is the euro.

My country, Greece, has been particularly targeted in this context and yesterday, Mr Almunia, who was very categorical before this committee in responding to a question from our chairman, said that we were all in the same boat. He said, as you have just said, 'I am confident. I am not worried' and added 'We have to do what we have to do', but in the Eurozone, it is not a matter of resorting to external instruments or international organisations, and as he said, we are not going to play this game by responding to those who never wanted the euro and to those rating agencies who saw the iceberg approaching the Titanic during the subprime crisis, but who did not see anything, who did not do anything and who suddenly discover that Spain and Greece are now experiencing problems. Well, I would like, in one way or another – but you have already responded – to obtain confirmation that is a bit more accurate on your part.

3-034
Jean-Claude Trichet, *President of the European Central Bank*. **–** *(FR)* I confirm totally what I said and, as it concerns your country and may concern others, I would say that it is clearly Athen's responsibility to introduce policies that are sustainable and convincing in the long term by means, of course, of budgetary policy, and I must also say by means of the relative competitiveness of unit production costs.

This is very important and it is the constant message which we have delivered ourselves to all the Eurozone countries, without discrimination, to all the Eurozone countries.

Therefore, the strength of the Eurozone is not in doubt for a single second. Furthermore, if the euro were not strong, it would be obvious. No one doubts it. I would say that all currencies at the moment are in a situation that is obviously very difficult; that is indisputable, it is very visible and it is the case for all the currencies in the world that I know. I do not wish to name any currency in particular, but everyone knows what is going on. Therefore, everyone is aware of their responsibilities; that is our constant message. 3-035
Ieke van den Burg (PSE). – I have listened with interest to your strong messages on supervision, and I welcome the fact that there is now clearly a reflection within the ECB on its role on the basis of Article 105(6) of the Treaty.

However, I tend to disagree a little with what you said about the FSF, about the global level – that the FSF has all the relevant and important authorities and institutions – because I have the impression that it is only part of the financial world, the one which deals with the banking sector. One of the elements of the crisis has been that a lot of problems have occurred particularly outside the banking sector, in the derivatives sector, which has been

mentioned here, the shadow banking sector as it is sometimes called, the OTC market.

So I think it is important to have experts from the financial markets included not only in a global system but also in a European supervisory system. That is why I would ask you whether you see the ECB's role as an exclusive role, or do you think it should be part of a broader system in which these financial market experts would also be present? 3-036

Jean-Claude Trichet, *President of the European Central Bank*. – I have not forgotten what you proposed, several months ago, and this is present in our minds.

As regards the FSF, the FSF is the informal grouping that comprises not only the Basel Committee – which, by the way, is chaired by the Governor of the Central Bank of the Netherlands – but also the insurance committee, also the SECs of the world, the IMF, the World Bank, the accounting boards, the treasuries, the central banks, so it is really an informal grouping where it seems to me that you have all those who are able precisely to make a synthesis in the way that you suggested.

I fully agree with you. The regulated commercial banks are by no means the whole of the problem, so the FSF is looking at everything. It has to improve, particularly by enlarging itself. This is a process which is ongoing, but it is inevitable, if you take into account the fact that it includes both the executive branches, as well as the international financial institutions and authorities that are largely independent from the political sphere like the Basel Committee or other such committees, plus the central banks themselves.

It seems to me that it is really an informal grouping which is able, at the level of the experts, to identify the appropriate course of action; then it is up to the strategic lucidity and political energy that I mentioned earlier to enable the reform to be carried out, whatever the vested interests are.

3-037

Ieke van den Burg (PSE). – I just wanted to say that I think that central bankers alone do not fully cover the whole field we are concerned with, and that is also relevant for the European discussion because we need also to include the securities sector, the insurance sector and things that happen there, because we have seen that this is also systematically relevant.

3-038

Jean-Claude Trichet, *President of the European Central Bank*. – No, you are right, but the central banks are, nevertheless, unique in their own position. The fact that they have no vested interests, that they are called by law, by constitution, to have a medium- and long-term sense of stability, makes them quite unique. When I look at all the institutions in the world, those that have been the most lucid on what we are experiencing today were the BIS – which is the sanctuary, as it were, of the central banks – and the central banks themselves. So they are unique, in my opinion, in terms of preserving a sense of medium- and long-term stability.

3-039

Antolín Sánchez Presedo (PSE). – *(ES)* Thank you, Madam President. I have three points to raise.

Mr Purvis asked you about exchange rates and you refused to comment. Bretton Woods, however, the first agreement, introduced agreements on monetary stability. Is the new world financial architecture not going to entertain any ideas on this matter? Does it think that it is irrelevant to the financial system? That is the first point, particularly in relation to protectionism.

The second point is that I would have liked your exposé to have included some mention or some consideration about global finances. The financial crisis has probably hit the poverty issue hardest, and the least developed, non-emerging countries are the ones that have suffered most acutely. I believe, therefore, that a structure that attempts to tackle the problems of global finances ought to take this fact into account. Europe should put something forward in this respect, as I think the G-20 and the Financial Stability Fund alone are not enough.

There is a G-192, and some kind of more open formula should be considered.

My third point is that, if liquidity is the friction between movements of assets and liabilities, why does the US Federal Reserve give its financial institutions six months longer to pay? Do our European financial institutions perhaps have a liquidity risk six times lower than those in the United States?

3-040

Jean-Claude Trichet, *President of the European Central Bank*. – Concerning the first question, I have already said that I had no particular comment to make on the exchange rate.

To make it very clear, let me just say that we discussed that within the G7, between the major floating currencies (as you know better than anybody), and we have issued communiqués which enshrine the consensus between the participants, namely the central banks and the governments. We also have issued messages – as we have done in the past – and we certainly stick to the messages we sent to some emerging economies, where we thought that we had something to tell them, in particular China. I mention that in passing. That is how we proceed. Do not expect me to depart from the G7 consensus in this domain.

As regards global financing and poverty, I fully agree with you. It is absolutely clear that those least-developed countries which did not produce any energy or commodities favoured by the global economy were in a very grave situation a few months ago. Nevertheless, let me just mention that the decrease in the price of oil and energy in general has in some cases slightly alleviated their pain, even if they are under stress and, of course,

they are paying a very high price for the global slowdown.

One could always say that the G20 does not represent the full body of the global economy – that is absolutely true. The G20 is an informal grouping, where you can have a maturing of consensus on a number of important points. It played a very important role after the Asian crisis. It will certainly play an important role right now as a process for maturing concepts.

But then it has to go through the normal, official mechanism. To the extent that the IMF is involved, then it goes through the IMF institutional framework, and there all countries are represented by definition in the IMFC or on the Board of Directors. So this is the way the system operates, but your question was extremely important.

As regards what we are doing: again, we were the first central bank in the world to have this commitment to three-month refinancing. With three-month and six-month refinancing, we are doing things that were not thought of before the turbulence. What you are alluding to are special operations of the purchase of tradable securities, direct purchase of tradable securities by the US Central Bank. I do not comment on that. At the present time, we trust that this is not something that we should engage in. But, as I said, we are permanently alert.

3-041
Margarita Starkevičiūtė (ALDE). – For many years you have argued for these structural reforms in inefficient sectors of the economy. Right now we have one very inefficient sector of the economy which is producing huge losses: the banking sector. Do you consider that it is necessary to implement certain structural reforms in the euro-zone banking sector and in large cross-border banking groups? Mr Volcker, the former Fed Chairman, came with proposals on how to separate investment banking from retail banking and a lot of proposals about the structural reform in the banking sector. Do you consider that we in Europe should also have such types of proposals?

3-042
Jean-Claude Trichet, *President of the European Central Bank*. – As I said, we have to be without any complacency as regards any part of the global financial system, and certainly our own financial system. The functioning of the market economy will in any case trigger a large amount of restructuring and reshaping of the industry. We have observed this happening, and it is certainly absolutely necessary. We have not only to help the appropriate reshaping and restructuring go in the right direction; you are right to say that this industry has to behave much more properly.

We have ourselves to modify and improve rules, regulations, prudentials. I do not yet have the capacity, on behalf of the Governing Council, to comment on this report, which we are looking at very carefully.

The separation between investment banks and commercial banks was very much a US separation, and you have seen how this separation has collapsed, before our very eyes, without any decision being taken, because it appeared that, under the present circumstances, it was not at all appropriate.

There is a different concept of banking in Europe, with no strict separation between the two, and with banks generally having both activities – an investment bank activity and a commercial and retail banking activity – which was considered to be perhaps a better concept. Clearly, I trust that it is a better concept, when we see developments in the US, in Europe and in the rest of the world. We will continue to work very actively.

But, again, as I have said, this is a global discussion, a global reflection, and we must find very bold ways to be sure that the market economies are not so fragile and that they have sufficient resilience. This situation must not occur again. So, it is a test of real magnitude. We have to be energetic in finding the appropriate way to avoid that, by introducing the appropriate cautions and buffers into the global economy in order to be much more resilient.

3-043
Zsolt László Becsey (PPE-DE). – I have a short warm-up question which relates to the accession of Slovakia to the euro zone. What is your first evaluation? Do you think that it will help the internal market, the four freedoms, to be stronger? Do you think – considering principally the free movement of labour and the introduction of the Services Directive – that we shall see a positive impact?

My second question, my main one, is this: How do you think the European Central Bank can help non-euro-zone Member States in their current payment liquidity problems, in the event of crisis, by means of various agreements? This is something that concerns us very closely. Do you think that in crisis situations a system for blocking the free movement of capital between subsidiaries and parent companies should perhaps be established at European Union level, for instance?

My third remark is that I hope that the Union can solve the non-euro-zone Member States' current payment problems and that we can avoid a situation such as occurred last week with the IMF, for instance, when Mr Dominique Strauss-Kahn appeared in an EU Member State, in Hungary, behaving as though he were a governor or a new prime minister. This is a very dangerous situation which we should try to avoid.

3-044
Jean-Claude Trichet, *President of the European Central Bank*. – As regards Slovakia, all I can say is that the changeover went extremely well. The technical preparations were impeccable and all the information I have – which I had on the spot, because we participated actively in this changeover – is encouraging; I am sure that Slovakia will be a success. By the way, it is very impressive to see that, only 10 years after the setting up

of the euro, with the entry of Slovakia, there are now 16 countries in the euro area.

As you know, we have a relationship with the non-euro-zone countries, including your own, and I will not elaborate more on that. In some cases, it appeared that it was useful to have a way of cooperating intimately with the central bank and in other cases it appeared that it was not necessary. But we will continue to be in close contact with all the central banks concerned in the European Union.

As regards the IMF, I take note of what you have said. As you know, in some cases the presence of the IMF has been considered useful by the government of the country in question. That being said, I guess Commissioner Almunia has said all he could say on the European Union's contribution through the facility that the Commission and the Council have been able to activate. These are also important contributions which can be made within the European Union. But I take note of your remark.

3-045

Astrid Lulling (PPE-DE). – *(FR)* Madam President, Mr President, we are in the process of examining here, mainly in isolation, a large number of directives redesigning the architecture of financial and banking supervision in Europe. Even if the latter cannot be accused of all the wrongdoings, it will not emerge stronger from the events we are experiencing.

We are facing a problem here, namely that we must take decisions on an ad hoc basis without knowing where we are going. In short, we are craftsmen working without an architect. Therefore, you can imagine what state the final building could end up in. While your institution emerges stronger from these months of turbulence because it has at least kept on course, others – I will not name them – cannot say the same thing.

I would like to know if you think that the European Central Bank could be persuaded to enlarge its area of responsibility, particularly with regard to supervision. Much official opinion is in favour. There remains of course the problem of size: what to do with all the countries outside the Eurozone? That was my second question.

Finally, my third question. Would you not like to take charge of the rating agencies? Because delegating this responsibility in this way leaves me a little perplexed for the moment. 3-046

Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* I am obviously taking due note of the complexity of the situation and of your remarks on the difficulty that you mentioned in seeing craftsmen doing their work as conscientiously as possible, but if I have understood correctly, without the architect's drawings. I think the metaphor speaks volumes.

With regard to supervision, I stated exactly our position and some deliberations are in progress: your deliberations in the European Parliament, the deliberations of the committee chaired by Jacques de Larosière. For our part, we are working to respond to the questions we have received. There is in fact clearly a possible route that has already been marked out in anticipation, as it were, by the authors of the Maastricht Treaty and that has already been ratified by all the parliaments and by all the peoples, when the ratification was confirmed by referendum.

Therefore, all that already exists and we can consider it, knowing that we were already in favour of a close relationship between the Central Bank and the banking supervisory authority.

As far as the rating agencies are concerned, we already have many responsibilities, perhaps we will have more in future... It is a big subject, which is already under consideration. It is clear that it is one of the points which we need to improve very substantially and it is one of the points, I repeat, on which we need to obtain a trans-Atlantic agreement because we are in a globalised system and it is very important to find solutions that are not different – or even conflicting – on either side of the Atlantic. Having said that, however, it is a very big subject that you are raising.

3-047

Pervenche Berès (PSE). – *(FR)* Mr Trichet, I would like to ask you several questions. I share Mrs Lulling's view that we are working without an architect. This is why we have just challenged a proposal put to us relating to the governance of the IASB. I think that you will share this attitude.

However, we are considering a very important draft banking directive, namely the CRD directive, on which, moreover, we still await the Central Bank's view. I think it is important that we have that opinion as we examine this document. I get the impression that, in this matter, we are working both without an architect and in a slightly old fashioned way, because we have always been told that a review of the CRD was needed to take account of the off-balance sheet issue, supervision problems and liquidity problems. I would add that it may also be necessary to deal with the problems with the CDS, and even the issue of capital requirements for hedge funds. Why not, if we are looking to take a more intelligent approach to the financial markets? What do you think about the draft legislation we are considering, and about which we are committed to take a fast decision before the end of this mandate?

As regards the G20, do you share the view that, in essence, what happened last quarter was fine, except that a little more could have been done on the macro level? You have mentioned the challenges in terms of supervision. I believe that if we come out of this crisis without having dealt with its fundamental cause or, as we have termed it, these global imbalances, we will not have made any progress. Now, today, there is great pressure on the United States to bring in recovery plans, but this will not solve the issue of global imbalance that

is at the root of the excesses in the financial markets. Do you share this view?

3-048

Jean-Claude Trichet, *President of the European Central Bank.* **–** *(FR)* We are currently working very actively on our opinion on the capital requirements directive and you will have it very soon. I would just like to draw your attention to one issue. We are in the middle of world-wide discussions, I have just said, about what is required to draw all the lessons from the present circumstances. These discussions are taking place within the Basel Committee and the Financial Stability Forum.

The financial system is global and the current experience shows, more than ever, how important it is to manage the financial system in its entirety. Otherwise, we are all at the mercy of an explosion that could occur in any part of it. Inevitably, then, this directive arrives at a time when matters remain unfinished – and, especially, we should not draw the wrong lessons from the current situation. I believe, therefore, you should know that work on this business, if I may put it like that, ought probably to be deferred. I mention this in passing and, of course, it is also true on the other side of the Atlantic, it is true everywhere. Globalisation of the international economic and financial system is such that we are all faced with on-going problems of adjustment, if I may put it like that.

As for the G20, I fully share your view, but, again, as we have just said, the institution that is the key to the exercise of authoritative supervision and that has a real ability to change things would be the International Monetary Fund, carrying out macroeconomic and macrofinancial supervision from a position of renewed authority. It is clear that if everything that we are doing merely restores the *status quo ante,* with the same constellation of deficits and internal and external imbalances, we will be in exactly the same situation and will be confronted, unfortunately, with new problems. It is, then, very important for us considerably to strengthen macroeconomic supervision at world level. I believe only the IMF is able to do this efficiently and effectively.

3-049

Mariela Velichkova Baeva (ALDE). – Measuring the temperature of the economy in the present circumstances, whatever policy we pursue, whether inflation-targeted or stagnation-targeted, will not deliver immediate results. Nowadays the slowdown trend is more alarming. Do you think the easing up of the money supply will have any dramatic, positive effect on the employment aspect?

Could you make a brief comment concerning the growth potential of the new economies of Central and Eastern Europe against the background of the global downturn?

3-050

Jean-Claude Trichet, *President of the European Central Bank.* **–** Your question is very pertinent and very important. As I said, at global level we live in a world which remains a world of uncertainty and we have to take that into account and be prepared for this uncertainty. Having said that, we feel that 2009, as the Commission recently said, will obviously be difficult at global level, as well as at European level. The pick-up should take place in 2010, after a difficult 2009.

What we should do is to stabilise inflation expectations, introducing that element of stability for economic agents, thus reinforcing confidence that they have a solid anchor on which they can count. The reduction of interest rates which accompanied the major alleviation of inflationary risk is also contributing to sustainable growth and job creation.

As regards job creation, the first 10 years of the euro have been a great success from that standpoint – and I do not say that to underestimate the difficulty of the present time. We are in a difficult period from the employment standpoint, we should not be satisfied in any respect, we should not be complacent; but over 10 years, when one has the benefit of a sufficiently long period, what we have been doing is impressive and to be more precise, according to my most recent calculations I think that we have created at least 3.6 million jobs more than our sister economy on the other side of the Atlantic which has approximately the same number of citizens.

As regards the growth potential of new member countries of the European Union, I think that their growth potential in the medium and long run is not touched. They have a formidable level of potential. Of course they are affected by the slowing down of the global economy, and of Europe in particular, but if they continue to engage in the structural reforms which are absolutely necessary, and in sound macro-policies, they will certainly continue to catch up and have very positive results.

In conclusion, do not forget that the price of oil and major commodities is now much lower. Earlier, when it was very high, it acted as a brake on growth; we are paying a very high price now for that extraordinarily high level of energy prices. Now its effect is in the other direction. Even if it takes time to materialise, this is an element which we should not underestimate.

3-051

John Purvis (PPE-DE). – Do you see any likelihood of a change on the other side of the Atlantic due to the new regime taking control today, either at the Fed level or at the national government level?

3-052

Jean-Claude Trichet, *President of the European Central Bank.* **–** As regards the Fed level, I see that the Open Market Committee remains the same and the Chairman of the Fed is the same. We have a very good relationship. I appreciate enormously the relationship that we have with the Federal Reserve. I have mentioned a number of important decisions that the ECB has taken: we also made a joint decision with the Fed, in particular the fact that we are supplying liquidity in dollars on this

side of the Atlantic, which is really the mark of an exceptionally intimate relationship.

As regards the executive branch in the United States of America: we will see, obviously. It is clear that this change of administration is very significant, but I expect that the United States of America will continue to play its own role in defining its own vision and its own concepts and principles.

So we have to be prepared to continue to be in very close cooperation at global level, to learn all the lessons from what has been observed. It is true that the United States plays, and has played, a very important role in the most recent period, so it is extremely important that we continue to have as intimate a relationship as possible with the new administration, to learn all the lessons, including on surveillance of macroeconomic policies.

3-053
Pervenche Berès (PSE). – *(FR)* Mr Trichet, if we were to draw up the Maastricht Treaty today, among the objectives for monetary policy, would we not add the issue of financial market stability?

Everyone seems to think that, when this crisis is over, the Central Bank will have greater supervisory responsibilities. As there are countries outside the zone, the challenge is one of defining a bridge. In any case, though, you will have extra power. Now, we already have a situation where the 'E' in EMU is out of balance. What do you think we should do to boost the 'E' so that the whole stays more or less balanced?

A final question on the G20: too often, I find that the battle against tax havens is forgotten. What do you think about this question and how do you think, with the new US administration, we could make progress in this domain?

3-054
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* As for your first observation, I would say that all the central banks in the world consider that they have a responsibility for financial stability, but this does not mean that this responsibility should change monetary policy. The reasoning of the world's central banks – and all of their related organisations – holds that credible medium-term price stability is an important factor, a necessary condition for financial stability, which, although on its own insufficient, is nevertheless necessary. There is, then, no contradiction between paying particular attention to financial stability and having a mandate for price stability, as have all the inflation targeting institutions, and which we ourselves have.

All the central banks that I know publish reviews of financial stability, which means that they make a judgement, make an assessment of the situation, the risks, the dangers for which they must prepare, and this is what we ourselves do. Moreover, I have to say that all central banks, as institutions, each in its own country or in its monetary zone, its political federation or confederation, are deemed to have particular responsibility for financial stability.

I think this is a fundamental issue. I am not sure if amendment to the treaty is necessary. Be that as it may, changing a treaty today is, apparently, no easy matter. That is why Article 105(6) has the great advantage; ratification has already occurred. Some of us know that is how things are.

As for the last question on tax havens, the term 'tax haven' seems to me too short. We rather think of those financial markets that do not comply with world rules on prudent supervision, in terms of market stability, institutional transparency and financial instruments, markets that do not meet the standards on earnings from crime or on financing for terrorism, as defined by the international community. That is how we understand it.

I must say that we are very favourable to reinforcing the application of these rules at world level. It is also true to say that the same concepts should be accepted on both sides of the Atlantic; without this we would be in a completely disorganised world. It is also true, evidently, for all these financial markets. The concept of a tax haven is a little complicated because not all tax regimes are equivalent, even in Europe and even within the euro zone. We need, I believe, to be fully comprehensive in the qualification of these financial markets, which, we feel, should follow the rules on prudence, transparency, sincerity and integrity, which are today's world rules.

3-055
President. – Thank you very much, Mr Trichet, for this major, informed discussion at this moment in the history of Economic and Monetary Union.

We will have occasion to meet again on 30 March for the last session, during this mandate, of monetary dialogue, and perhaps you will then give us an assessment of how this dialogue is working. In any case, thank you very much for your participation today, we will see you again on 30 March.

3-056
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* I am already saddened by the idea that we will have our final meeting at the end of March. However, I do not know how you will judge the monetary dialogue with the Central Bank, but the Central Bank values these opportunities for exchange enormously.

3-057
(The meeting was closed at 12.30 p.m.)