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

23 January 2002

Chairman, Mrs Randzio-Plath (PES/D)

Ladies and gentlemen, I would like to welcome the President of the European Central Bank and congratulate him and his colleagues at the ECB, and throughout the European System of the Central Banks, on the very successful transition to euro notes and coins. *(General applause).* I think there is a degree of optimism that has come with the introduction of euro cash, and with that, the investment climate in Europe seems to be getting better. Sometimes, psychological developments linked with such historical events are also good for things like growth and jobs. Today, we are also to talk about current monetary policy, and I give you the floor now straightaway, Mr President.

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

Chairman, Mrs Randzio-Plath (PES/D)

Thank you very much Mr. Duisenberg for that introduction. I am sure that we will have a lot of questions.

Mr Radwan (PPE - ED/D)

President Duisenberg, I would also like to thank you and congratulate you on the introduction of the euro. I don't think anyone in Germany would have predicted half a year ago that the euro would have been so positively accepted. At this point I would also like to thank the banks and the retailers, especially those banks that kept their counters open on January 1st, for contributing to a smooth change-over. I believe the image of the ECB and that of its President have improved through this good switchover. You talked

about the inflation rate and one of the big discussions in Germany at the moment is the question of whether the introduction of the euro has led to an increase in the inflation rate. Some talk about 3%; some bank economists have given a much lower rate. Perhaps you could be a bit more specific about this, and make it clear to the public that the euro has only had a very limited effect on inflation rates? I think you have already made some comments on that and I would be particularly interested to hear how you evaluate current wage demands with regard to the future rate of inflation.

Mr Duisenberg

Madam Chairman, I don't think I can add much to what I have already said in my introductory remarks. We have basically only anecdotal evidence on the impact of the cash changeover on the inflation rates. Many National Central Banks have made, and are making, special inquiries and the evidence we have gathered so far seems to indicate that if there is an impact, it is very small indeed because of the causes I mentioned in my introductory remarks. On interest rates, Madam Chairman, I really cannot add to what I said already in my introduction which is that the governing Council considers, in its assessment of the medium-term outlook, that inflation will come down to a level safely below 2% and stay there for a year, two years to come. In that assessment it considers the current level of interest rates which prevails, with the minimum bid rate set by the European Central Bank at 3¼ %, as appropriate for the time being.

Mrs Torres Marques (PSE/P)

Thank you Madam Chairman. Mr. President, I also would like to congratulate you on the successful introduction of the euro. You had a decisive role in the whole process, as did our Chairwoman. All of us who were in this Committee in the last Parliament have now been able to see not just the creation of a new currency but its distribution in a tangible form so that all citizens now have a bit of Europe in their pocket - I think that has been a remarkable success and you played a decisive role in it. The notes and the coins have been very well accepted but I have now got some specific questions that we all ask ourselves every day. For example, on the coins, you will know that they are all the same on one side but all different on the other side. There have been countries lacking in

imagination which put the same design on their side of all the coins and other countries with a lot of imagination which have a different design on each of them. Now some people are a bit worried by this. So do you think that this first set of coins is going to be above all of interest to numismatists and people who collect coins or are all the coins going to be the same in the future? And my second question, about the notes which have been withdrawn from circulation. Are those notes really guaranteed to be destroyed and withdrawn from circulation?

Mr Duisenberg

As far as the coins are concerned, the European Central Bank is not responsible for them, the Ministers of Finance are. I expect the 'national' sides to remain different, a decision has been taken in the various countries. But then I would like to recall that the design of coins of the legacy currencies of the euro also, even if they were of the same denomination, used to be very different. Coins are also different in the United States, for example, whether you talk about a quarter or a dime or a penny, and that doesn't seem to pose any threat. I do expect there is indeed some numismatic interest in coins, which makes the demand for coins higher than it is structurally likely to be, but I assure you that there will remain a demand for coins. As for notes, all the notes that are offered for withdrawal to banks and subsequently to the central banks will be destroyed.

Mr Schmidt (ELDR/SV)

Mr. Duisenberg, I would like to congratulate you, Mr. Duisenberg, and the ECB on the switchover to the euro. The Liberal group is represented here by two "outsiders" but still we're happy that everything went well. Mr. Radwan asked you a question and I would like to come back to that. Several reports which you yourself talked about showed that rounding up had happened and that it affects inflation. Now, I am not accusing you of withholding any information, the ECB is a very transparent organisation. But perhaps you could be a little bit more specific. In Germany we have had a discussion on this and this has happened in other countries as well. Are there differences, do you see any differences today already among the 12 in the euro zone? The UK, Sweden, and Denmark which are not part of the euro zone at this stage-are there some indications that

we can count on them being part of the euro zone in the near future and having the same money as us?

Mr Duisenberg

It is too early to say whether there are differences simply because we don't have the information yet. As transparent as we are and we try to be, we simply don't have the information and it may take some time before we have it. Also, if you look at the inflation figures in individual countries, like for example the one that is to be published for Germany soon, that is the inflation figure for January, that will reflect increases in prices in certain sectors due to an increase in indirect taxation in Germany in the form of the ecotax which has been further increased as from 1st January, or as a result of the cold weather in January which has made food prices higher than usual for that month, even seasonally adjusted. But in countries which base their national inflation figures on the measurement done around the middle of the month, there will be no indication in that figure yet of the impact of the cash change-over on the inflation figures. So, we simply don't have the information and we and you may have to wait for one or two more months before we have a clear picture.

Mr Schmidt (ELDR/SV)

- Short follow-up question. Mr. Duisenberg, where do the reporters then get their information about the impact on the inflation rate of rounding up the price levels and so on. There is some information anyway and why can't you get it and analyse it, if the reporters can do it?

Mr Duisenberg

I get the information myself. I even made public the information I got. If you park your car in the Hauptbahnhof in Frankfurt, you used to pay 1DM for one half hour, now you pay 1 euro for one half hour. But if you buy a newspaper, like I did, Le Figaro, in France you pay for that 1 euro. It used to cost 7FF, which is a decline in price of about 7%. I suppose that the reporters have the same sources of information.

Mr Mayol i Raynal (Greens/EFA/ES)

Mr. President, along with everybody else, I have seen that the introduction of the euro in the euroland and beyond has been a success, a very considerable success and I am happy about it as everybody else is. Nevertheless, it hasn't gone without a single hitch and there are some people who wondered whether European citizens have actually welcomed the currency with open arms or whether they have simply shrugged their shoulders and got on with it. As far as Catalonia is concerned, I come from Northern Catalonia, I can say that the reception has indeed been enthusiastic. They have welcomed the currency, they have given up the franc and the peseta and they haven't thought twice about it. But that leads me on to my question. Previous speakers have touched on this already. Hasn't the introduction of the new currency had some kind of inflationary impact? You have told us that the harmonised consumer price index has changed last year and that that runs the risk of giving some temporary price rises and making the whole thing a bit difficult to evaluate. I did not quite understand your comments on the trends in the harmonised retail price index last year. Has the contents of the basket changed or something like that or is it something else? And another question, you draw our attention to the need for wage moderation. In most Member States, wages lag behind prices, - If I only have one question Madam Chairman, I withdraw the latter one and if I get the chance to take the floor again, I will ask it then. Thank you.

Mr Duisenberg

My remarks about the month to month movement of the harmonised index of consumer prices have to be understood as follows. When we refer to the index of consumer prices on a 12 month basis, this implies that every month that we go forward, that we have new information, a month twelve months ago, falls out of the inflation figure. Now in the first few months of last year, we have seen rapid rises in the inflation figures. Those months with the rapid rises were particularly January, February, and April of last year. They now fall out of the 12-month comparison and that is the reason why in the coming two months we expect inflation, not to fall further as had been the case in the previous six months. After that period, we expect, also purely because of base effects, inflation to fall further to well below the 2% level.

Chairman, Mrs Randzio-Plath (PES/D)

- Mr. Mayol, you can repeat your second question.

Mr Mayol i Raynal (Greens/EFA/ES)

Thank you Madam Chairman, the second question is on wage restraints which Mr. Duisenberg mentioned as a precondition for growth, saying that we can't have any wages increasing and that in collective bargaining, we need to show restraint. But basically, at least in the French state, the minimum wage varies according to changes in prices and I am sure that Spain, for example, works in the same way. Wages seem to follow prices. So my question is not really a question but a comment, I am not quite certain that wage moderation is actually going to keep prices down.

Mr Duisenberg

Well luckily, Madam Chairman, in most countries the system of price indexation in the wage formation process has disappeared, so it is certainly no longer automatic and the negotiators should be aware, and we try to make them aware, of two things. One is the inflationary prospects; and we try to reassure them, and I have tried it today, that the prospects for inflation in the coming two years are really favourable. Inflation will be below the 2% level which the European Central Bank has set as the maximum that still is tolerable to be called price stability. And the negotiators should be aware of one additional factor, that is that a moderate wage development is the best guarantee they can get for an increase in employment and with that an increase in output.

Mr Blokland (EDD/NL)

Thank you Madam Chairman, first of all I would like to congratulate Mr. Duisenberg on the success of the euro. We had heard predictions of disasters but luckily we have come through it. But I did wonder why nobody had predicted supple and easy acceptance by the citizens. You said that the monetary integration which began in Maastricht ten years ago has now been completed with the introduction of the euro. I wonder, isn't the introduction of the euro rather the beginning of monetary integration? We now have to

prove that this currency is a stable currency, and will remain stable; and do you expect that in the future, prices will tend to become harmonised or indeed that taxes and levies will have to be harmonised, so that we will really see benefits from the currency as promised?

Mr Duisenberg

Indeed Madam Chairman, we had of course what we call a base-line scenario ready, that is the scenario that we thought the cash change-over would proceed over the first few weeks of this year. We had all in all, I believe 63 emergency scenarios ready in case something might go wrong somewhere. But indeed, we have forgotten to make a scenario if things would go even better than we hoped and expected, and things did go better. Thank you by the way and your colleagues for your congratulations. I thank you on behalf of the Governing Council and the Staff of the ECB. Now, in terms of economic integration, I believe we should not forget that the euro was introduced on 1st January 1999 and we should also not forget that, however big the operation was, and is, that we are performing, notes and coins in circulation represent only about 5% of the money in the broad sense in circulation. The fact that they are now visible and tangible is mainly of a psychological nature, it does not add anything to the essence of monetary integration. We have now one monetary policy for a single currency area - but we have had that already for more than three years.

Mr Langen (EPP-ED/D)

President, once again a question on the inflation rate. To what extent is the ECB in a position today to develop or to implement a uniform instrument for assessing inflation rates throughout the European Union because, for example, the proportion of foodstuffs taken into account in calculating these changes, varies considerably between the Member States. In Germany it is only 15% of the household budget - so if food costs go up by 7% that would only make 1% difference in the inflation rate, that is just to give you an example. So, do we have a uniform instrument for measuring this? And secondly President, in the introduction, the validity of the parallel currency was only abolished in one country. In Germany alone the Deutschmark lost its validity on the 31st, while in

other countries, currencies are going to remain valid until February. We have heard about technical difficulties arising from this reported from Italy for example and I wonder, therefore, what you think about the Germany model?

Mr Duisenberg

The ECB is not responsible for assessing the inflation figure in the various countries, that is done by EUROSTAT and EUROSTAT depends on the observations in the twelve Member States that participate in the euro. What we have done and what has been done by EUROSTAT is to harmonise the basket of items that is being measured from month to month. So that is the same, the basket, in all Member States and that leads then to the aggregate harmonised index of consumer price developments. That there will be differences is a normal feature. There are differences always, there are differences between the Länder in Germany, there are differences, sometimes large differences, for example between States in the United States, and that is a factor we will live with. Also, there will always be tendencies in the market which will narrow these inflation differentials, but then new impulses will appear which will create some more inflation in one state as compared to the other. So that is a phenomenon which is quite normal and which we shall not fight. The second question was on the date that national currencies cease to be legal tender. Germany has chosen that to be 1st January 2002, other countries have thought it wiser to have a period where the old and the new currencies remain legal tender, so that in the process of withdrawing the old notes, which is a process that will take some time, there should be no doubt in the minds of citizens that they can use their old notes for a considerable time still, but in no country longer than two months. We, as the European Central Bank, have no opinion about what is better or what model is better. That is a matter for the national legislator and we are entirely happy, especially as the European Central Bank, to leave that under the principle of subsidiarity.

Chairman, Mrs Randzio-Plath (PES/D)

Mr. President, I have a request and a question. A lot of consumers are confused and worried about price increases, so would it be possible to have a much more differentiated analysis of price increases and their origin than we have had in the past so that we can see

how much price increase is due to which factor? It would be important, given that your bank in its June and December reports said that the euro introduction should not lead to any inflationary pressure. That was my request, and now a short question: We all hoped that with the introduction of notes and coins there would be a positive effect on the rate of exchange with the dollar, even though we know there is no direct link. Now, the fact that cash has now been introduced and that there is a demand for euros from third countries and the fact that it is now being accepted as a reserve currency by other banks, do you think that will lead to a change in the rate of exchange or will there be a greater influence on the external value of the euro only through its role as an invoicing currency?

Mr Duisenberg

The price indices are being published and I have here the breakdown, for example, the figure that was published for December, a harmonised price increase of 2.1% in the euro area. It is broken down into things like good prices which are broken down again into unprocessed and processed good, industrial food prices, non-energy industrial foods, energy prices, - of course one can make a further breakdown, and I believe they are available in the end publications, but we would have to indicate what further differentiations you would then want. One can, of course in theory, go down to the individual elements of the basket that is measured. Does the introduction of the notes and coins have any impact on the exchange rate? So far and as we can see over the longer term, it does not. In the first one or two days, the wave of enthusiasm with which the currency was greeted may have caused some upward movement of the exchange rate, but things quickly returned back to normal as they have remained ever since and, effectively, the whole situation around the money circulation is now rapidly normalising and that includes the exchange rate developments.

Mrs Kauppi (EPP-ED/FI)

Thank you Madam Chairman. As you have said several times, the national currencies have been superseded faster than expected and much has already been destroyed but I would still like to hear from you if the ECB has any information whether the use of, for example, the Deutschmark as a reserve currency outside the euro zone is continuing. Is there going to be cash out there that will never come back to the Central Bank and how much money of that kind is not going to come back? Are there any statistics that can tell us that? If you think about the Spanish peseta, there you have a great many coins, probably millions of pesetas, that have vanished into tourists' pockets. There are also countries where there is a very big black economy which implies wide use of cash. Do you have any estimates of how much currency won't come back and what are the differences nationally?

Mr Duisenberg

We don't know how much will in the end come back. We do know how much was circulating outside the euro area in total from national figures. About 30% of the German banknotes circulation represented Deutschmarks which circulated outside Germany. But we also know that most of the currency that circulated outside the euro area already had returned before the 1st January. I quoted the figures, I believe, in my introduction: in the course of last year the currency outstanding total declined by about 100 billion euros and part of that, but only a small part was currency that was returned from outside the euro area. Most of the currency circulating outside the euro area, especially in Central and Eastern Europe, has been converted into regular bank deposits - maybe in euro already, if private banks offered that possibility, but otherwise into a bank deposit in the national currency, and it is expected to be converted into euro; that will explain the demand for euro cash from outside the euro area in the weeks and months to come. But quantitative information from each country, we do not have.

Mr García-Margallo y Marfil (EPP-ED/ES)

Thank you very much Madam Chairman. Mr. President, let me also congratulate you on a brilliant start to the year with the introduction of the euro. You said in your speech, - recovery will start in the second half of the year, which confirms the forecast that you gave us here in December, and you had four arguments, outside context is getting better, more consumer confidence, no major shock, and favourable economic conditions. But there are holes in at least two of those arguments. On the external context you made some optimistic statements, but they need to be compared with what Greenspan has said and with the results that are beginning to emerge in terms of American Company profits. As to the lack of important big fiscal imbalances, there are four countries, Germany, France, Italy, and Portugal, which are running a serious risk of getting off the rails with their public accounts going over the limits. Three of these are important countries economically, Germany, France, and Italy. Three of them, Germany, France, and Portugal, are about to have elections, which makes me doubt seriously whether they are in a position or whether they are prepared to slow down the automatic stabilisers by putting up taxes or cutting social expenditure. This would lead us into a debate as to whether to be flexible or strict in interpreting the stability pact but that, I think, is for a second round of questions. So, of your four arguments for an early recovery, two about confidence and the external balance are reliable but the other two strike me as arguable. Do you have any better arguments in favour of your view of recovery in the second half of this year?

Mr Duisenberg

I don't have better arguments, Madam Chairman, than the ones I gave already but I don't believe there are holes in them. In particular if I take the development of government finance of public deficits, I have said in my introductory remarks, please governments, stick to your medium term targets as published in the Stability and Growth Pact because, if you do that, if you stick to your medium term policy intentions, you will enhance with that the confidence amongst consumers and investors that the governments are following stability orientated policies. But then the outlook for this year is that one, automatic stabilisers are functioning, are working in all countries, and two, the outlook as the Commission has given it for the public deficits is that all countries will stay within the

limits set by the Stability and Growth Pact, within the 3% deficit limit, but that some countries are coming dangerously close to it. And as a central banker, Madam Chairman, in my utterances, I cannot but ignore the fact that elections are coming I believe in five countries.

Chairman, Mrs Randzio-Plath (PES/D)

Yes, that is one of the reasons why monetary policy has been taken away from the hands of Governments and Parliaments so that you can more calmly concentrate on the medium term targets. I want to ask a question. The American economy seems to be recovering faster than the European one. Could that be because of the Federal Reserve's monetary policy, which is running a kind of short-term economic programme with its seven interest rate reductions last year? You said that there was limited scope for fiscal policy but is there not room here for the Central Bank to conduct a bit of its monetary policy? And has it not also to do with the fact that the Federal Reserve doesn't take M3 as the main pillar of its policies as the European Central Bank does? In your monthly report in December it appears that we had an enormous growth in M3 with no effect on price stability, which would surely be another reason to think twice about the relativity of M3?

Mr Duisenberg

I'm not at all certain Madam Chairman that the United States will be quicker out of its deeper recession. According to our expectations, average growth in the euro area in 2002 will be larger than in the United States. I am not at all certain about the euro area but I am even less certain about the United States' economy. It is indeed true that the United States monetary authorities have decreased interest rates last year faster and with more steps than the ECB has done, but one has to remember that they came from a much higher level in the first place, and one has still to wait and see where the effects are of that monetary policy, in terms of economic growth and the resumption of economic growth. It still remains to be seen. I cannot but repeat that the Governing Council of the ECB regards the level to which we have lowered the interest rates in four steps in the course of last year, is now appropriate in the light of the expected inflationary developments for the next year and a half to two years.

The attention for M3, by no means should hide the fact that we look at quite a few monetary aggregates, parts of M3, and of course we look at M3 itself. We also look at M1 and M2, credit to governments, credit to the private sector, the external element of changes in M3. But the fact that M3 as a large aggregate demonstrably shows a steady relationship with the inflation - the demand-for-money-function is, as we call it in our jargon, a stable one for M3 - justifies that we pay special attention to this monetary aggregate and we do that, as you know, in the form of basically comparing the actual developments with the reference value we have set and we are resetting every year, and which is now set at 4½ %. Then we have to make an assessment about the differences between the reference value and the annual growth rate or the annualised growth rate of M3. If we can, let me call it 'explain them away' as being of a temporary nature, and we do that in the current phase, then we do not regard such a difference, even if the difference is increasing over time, as a threat to price stability over the medium term and we will continue to do so. If however, as I said in my introductory remarks, we would turn out to be wrong in our analysis over time that these differences are only of a temporary nature, that is, if it is not being reversed over time, we would have to reassess the impact of that differential on the outlook for inflation over the medium term.

Chairman, Mrs Randzio-Plath (PES/D)

The problem is, if you have really such a high M3 growth, especially last year, 8% on an annualised basis, then of course there is a difference between your targeting and the real situation. You said M3 is a valuable instrument but that in December there was no threat to price stability despite the growth of M3 because otherwise you would have had to increase the interest rates in order to react properly. In order to understand better the reactions of the ECB, wouldn't it be good to include your forecast on M3 developments also in the projections of the ECB?

Mr Duisenberg

I don't think that would be possible, Madame Chairman. We have the reference value for M3. The reference value is calculated, according to the old Fisher formula, as the sum of

the trend potential output growth, the maximum of permissible price increases under the definition of price stability i.e. 2%, and the decline in the velocity of circulation of money which latest studies confirm as estimated between -0.5 and -1%. So, if the economy develops normally, satisfactorily at its trend rate of growth and inflation is under control, then M3 in the long run will grow by a percentage which is roughly equal to that of the reference value i.e. 4.5%, and if we were to forecast a different rate of growth then we would in fact be saying that we have to change our monetary policy at that time. So, we will not forecast it but we will analyse actual developments in the light of the economic circumstances and let me repeat at this time, when the population is living under circumstances of high uncertainty, it is quite normal for investors to keep their assets, if they have them, liquid for a longer period than otherwise would be the case, that they are hesitant to put their money into long term investments, be it portfolio or direct investment, and that they prefer to keep their powder dry in the form of short-term deposits or even currency in circulation for a time, which then leads to higher M3 figures. But to the extent that the uncertainty is fading away and that growth will be resuming and that confidence in the future will be increasing, to that extent the growth figures for M3, we are certain, will come down again.

Mr Schmidt (ELDR/SV)

Thank you Madame Chairman. Mr Duisenberg, a complete monetary policy for the Union is going to require another three members and you and I agree on that. After the successful introduction of the euro, there is a debate going on in my country, Sweden, about when a referendum could be held to join the euro. As you know, public opinion is changing and very fast, and there is now a majority in favour of Yes. The prime minister plans a referendum for February or April of 2003, with entry to the euro zone in February 2004 agreements at the summit in 2004 and then change of the currency in 2006. Now my question, Mr Duisenberg, is this: according to the present rules, you have to be part of the monetary system for two years, for Finland and Italy that was cut shorter, what do you think the possibilities are for us to spend less time within the system too?

Mr Duisenberg

It is not up to the European Central Bank to take a decision or to even speculate on such a decision. It's in the hands of governments and in particular the Heads of State and Government to judge, when the moment comes to make a judgement, whether the convergence that will have taken place in the individual countries concerned can be regarded as adequate. What the ECB will do - when a country applies for membership of monetary union, is to make a convergence report and the ECB will, in its convergence report, apply all the criteria that are mentioned in the Maastricht Treaty. It will make a fact-finding tour and conclusion. What the ECB will not do is make the final judgement.

Mr Schmidt (ELDR/SV)
But, Mr Duisenberg, can you today have a personal view on this issue?

Mr Duisenberg
Oh yes, I have a personal view, but I won't give it here. *(Laughter)*

Mr Schmidt (ELDR/SV)
Could you give it to me afterwards? *(More laughter)*

Mr Mayol i Raynal (Greens/EFA/ES)
Thank you Madame Chairman. Mr President, my question is inspired by an economist at the CNRS. On the 21st of this month in "Libération", he wrote that what is at stake with the euro is the ability of your bank, the ECB, to conduct a monetary policy that is acceptable to all countries in euroland, and he stresses that this may well be a difficult task, because despite cohesion policy there are difference which remain very large, and he takes the example of the unemployment rate. I had a look at the figures and for last year that rate was 2% of the active population in Luxembourg, 2.6% in the Netherlands, but 12.8% in Spain. Now, these differences are liable to lead to different monetary requirements and he says this is a policy matter, it can't be just technical. Now the Central Bank, because it is independent, is supposed to be strictly technical. So his conclusion is - should we not go back to the original premises and say that the central bank should remain under the control of politics and of the euro group - I think so too,

which is why I pass this question on to you. I think that monetary policy should be political. Look at what is happening in Argentina. It isn't just the consequence of a monetary policy, I think the dollarization policy contributed to it.

Mr Duisenberg

If you have a single currency in a large area, you need to have single monetary policy, and a single monetary authority guarding over that single currency. That there will be differences in economic development in various parts of this monetary region, which is the euro area, is, in itself, inescapable, and is normal. There are differences and there have always been differences in individual countries as well, and there still are within the countries. There are huge differences in economic developments, including employment and unemployment developments in the United States, in Germany, in Italy and I assume also in Spain. One region will develop faster than others. Still, in all these areas I mentioned, there is one monetary policy. But I would like to add one remark, that is your question and the article you mentioned - ascribes a great influence to monetary policy on real economic developments. And, we know for sure, monetary policy in the short run can have an impact on the development of growth and with that the development of employment, but in the long run, the only impact that monetary policy has is on nominal values, on inflation. In the long run, monetary policy is as far as growth and employment is concerned, to be considered as neutral. So, I also would like to urge you: don't ascribe to monetary policy or give monetary policy tasks which it simply cannot fulfil seen over the longer term and it is the longer term that we have in mind when taking monetary policy measures.

Mrs Villiers (PPE-ED/UK)

I have two very short questions for you. If Germany does breach the 3% limit, will that alter your policy in any way, how would you react to that? That is my first question. And secondly, the press reported when you were first appointed that you didn't expect to serve your full term and anticipated that you would certainly serve out your term to see the physical launch of notes and coins. Now we've seen the physical launch of notes and coins, I'm sure the committee would be interested whether you plan to continue to the end

of your term or whether you intend to retire early and if so, when you might plan to do that?

Mr Duisenberg

To the last question I can be very brief. I can only repeat what I said when I was appointed and what I said here. I said that I was happy with the appointment and I warned the appointers that in view of my age, I regarded it as unlikely that I would serve the full term. But, the decision on when is mine and mine alone - and I haven't made up my mind yet.

The 3% limit is, for the European Central Bank and for the Governing Council, not a relevant factor in determining its monetary policy stance. The 3% deficit limit is part of the Stability and Growth Pact, and in that pact the ECB is not even mentioned.

Mr Katiforis (PSE/EL)

Mr President, I for one, am so satisfied with your management of the European Central Bank and the introduction of the common currency that I wish you eternal youth. Now, my substantive question is in a different sphere. Until recently there was, so to speak, a unity of dogma on the two sides of the Atlantic about fiscal policy. The United States insisted on fiscal orthodoxy, on the limitation and the abolition of fiscal debts. And Europe did the same and you continue insisting on that. But in the United States now, it's deficit financing 'til the eye can see. Does this change influence you at all? Or influence the central bank at all in modifying its opposition to an expansionary fiscal policy, especially in times of recession or slowdown. You have spoken optimistically about the end but in fact we don't know whether it is ending and whether there will be a recovery this year or next or whether that recovery will be worthwhile, will be strong enough to revive economic activity.

Mr Duisenberg

Our monetary policy strategy is complicated, but very clear and we explain it day after day. In the two-pillar strategy, under the second pillar, we certainly come to a judgement

about fiscal developments as we see them – it is one of the indicators we look at in determining our policy stance. And, the current economic developments do not change in any way our long-term oriented reasoning nor our long-term oriented stance. Only as a side remark - I would like to remark that for this year for example the fiscal deficit of the euro area aggregated, is expected to be1.4% of GDP. This is a Commission estimate. And the estimate the IMF made for the United States is a deficit of 0.5% of GDP. So there is still some way to go.

Mr Katiforis (PSE/EL)

But this is a rather static way of looking at things and in the United States it is clear that we have shifted very rapidly from a forecast and a policy indeed supporting fiscal surpluses to a changeover which is dramatic. So in dynamic terms, and I thank you for those figures, but in dynamic process, the United States has turned around very quickly whereas it seems to me that in a period of economic slowdown, not recession because you won't accept the term, some greater flexibility is of importance - not in order to frame a monetary policy but in the general climate you create by your advice to governments.

Mr Duisenberg

The general climate I create is to tell governments 1) we are not yet in a recession and we will not be in a recession as the United States is, and 2) what we suffer most from is the lack of confidence of consumers and investors in their own future. And we have to do everything in our power to restore the confidence of the consumers and investors all around Europe. Our reasoning is that if the European Central Bank sticks to its forward-looking, stable and stabilisation-directed policy, and if governments do the same, if they convince the public that their medium-term oriented policy will not be disturbed by short-term developments, then we think that both the European Central Bank and the governments will make a big contribution to the restoration of confidence amongst the people. In the same breath we say, in Europe, to the extent that you are adhering to the Stability and Growth Pact, that is you have already sanitized your public finances so that there are surpluses or at least balanced budgets, you can also let the automatic stabilisers in the fiscal sphere do their work fully. To the extent that you, governments, have not

used the previous period, when we had a boom in the economy, to an adequate extent so that you are safely below the 3%, you can also let the automatic stabilisers function but there are limits there. You can not let them function fully in all likelihood.

Mr Tannock (PPE-ED/UK)

Madame Chairman thank you. Mr President, first of all I too would like to congratulate the sheer professionalism in handling the logistics of the launching of the euro notes and coins by the ECB, Commission and national central banks. Frankly, coming from a country which is out and a party which is opposed to joining, I was expecting more glitches and popular resentment at the imposition of an unfamiliar currency. Nevertheless, as an MEP I found it quite useful to be able to travel between Brussels and Strasbourg using the euro. *(Laughter and applause)* I'm still unconvinced, however, that the 500 euro note will do anything other than serve the interests of tax evaders, money launderers and other criminals, and I found the one and two cent pieces an irritant in my pocket and I do hope they are phased out as soon as possible. But my question, Mr President - In the event of an asymmetric shock to one country in euroland, which may require a large bailout, for which presumably the risk will become even greater after enlargement, do you think that the existing EU budget, at 1.27% of GDP, will be large enough to fund this through transfer payments, or will it require a much larger EU budget and therefore direct EU levy taxes? After all, the USA federal budget is of the order of 20% of their GDP, and there of course labour mobility is much larger.

Mr Duisenberg

One brief remark on the 500 euro note. I do want to recall (I've said it before in this parliament) that six out of the twelve countries for a long time had notes in circulation of a value of between 500 and 600 euro. If you were not to issue this note, criminal elements undoubtedly would find other bearers of value in which to invest the proceeds of their criminal activities, let alone that there always will be the 1000 Swiss franc note. On the transfer, I believe that is a question to be asked to the European Commission and finance ministers. In principle, for the effect you prescribe, the requirement of a large bailout if there is an asymmetric shock, the Treaty of Maastricht prevents such bailouts

taking place. But the question basically is, are the Structural Funds of the EU budget large enough, and I believe that I have to indeed leave the answer to that question to the fiscal authorities together with the European Commission.

Mrs Van den Burg (PSE/NL)

Thank you Madame chairman. Mr Duisenberg, you just mentioned something about the psychological effect of the introduction of the notes and coins, which had quite an impact on people compared to the earlier introduction of the single currency. It struck me as well that public opinion has been affected greatly by that psychological effect and there is much greater awareness now of the link between the monetary project and the greater project of European integration, that's the case anyway in the Netherlands and we've seen that being expressed in publications there. And this with the convention which will prepare for the future of the Union, we are going to see a continuation of that political break and over the Christmas break I had the pleasure of reading a book written by one of your former colleagues, André Szász who also said that in Maastricht the monetary union had been dissociated from the political union but clearly now we are seeing the two being associated and linked again and Mr Wellink also said that he felt monetary union to be a part of that greater political project. I'd like to know what you think about the fact that this discussion has been restarted.

Mr Duisenberg

Is monetary union possible without political union, that basically is the question, and will the introduction of notes and coins do something to bring political union closer? I always find it very difficult to define what does it mean - political union? Which field of politics are we talking about, is it fiscal politics, social politics, foreign policy, defence, law, everything? I am of the opinion that the psychological impact of the cash changeover, at least I have that impression, has given a great boost to the feeling of sort of fraternalization ('Verbroedering') in Europe amongst the population. The public will start to exert pressure on their elected representatives to also come to further harmonisation of policies or even integration in some cases in various other fields, because the public will not understand that policies can be so different in the various

areas of a region, and we are no more than a region in the euro area, which uses one currency, which daily goes through our hands. But then in practice, it is my conviction that in certain policy areas, for example tax harmonisation, the single currency will, by making prices transparent and easily comparable in the various countries, pressure will arise to come to a greater harmonisation e.g. of indirect taxes, of excise taxes, of income taxes. That pressure will undoubtedly be there. I also believe myself that it will happen without saying that in the end the systems will be equal everywhere. There can very well be differences and there is no attack on national sovereignty in all these areas. At the same time in, for example, the fiscal structure or the social benefits structure, the gap is narrowing. But it will also be a long time before we can say: now really we have an integrated or harmonised policy in all areas. We may talk about decades rather than about years.

Mr Purvis (PPE-ED/UK)

Mr President, it seems quite premature to me but there appears to be some disappointment among politicians and journalists at the relatively meagre take-up of the euro as a reserve currency around the world. Is the ECB actively promoting the euro's reserve role or intending to promote that role, and if so, why is it such a good thing to be a reserve currency. Would you like to see the euro as a major reserve currency and what, if you do is, the time frame? If not, what will you do to discourage it? Would it be more relevant to work towards the use, the denomination in euros of international trade of commodities such as oil, pulp and paper, major EU agricultural products and other commodities in euros and what do you feel is the potential here, and can this be achieved separately from the role as a reserve currency or are they inevitably combined?

Mr Duisenberg

The ECB neither encourages or discourages the use of the euro as an international reserve currency. At the moment, the euro represents roughly 13% of world reserves and the major reserve currency undoubtedly is the US dollar. But we are not in competition with the US dollar in that respect. So, the answer to your question is no. We observe that the

use of the euro as a reserve currency is increasing - we see that from the statistics that are being published by the BIS for example. It is increasing but it is a slow process and it is in all likelihood going to remain a slow process. I don't have to remind you that in the past big central banks have made quite some efforts to discourage the use of their currency by other authorities, as they would be too far away for their monetary policy to reach. But in the end, all central banks that have tried to discourage the use of their currency as a reserve currency, the Bundesbank is one example, have given up the discouragement because it was ultimately the market that determined the outcome, and we expect the same for the euro. Now I often give the example that around the turn of the last century, around 1900, the United States already was by far the largest economic power in the world. But it took the dollar about 60 years to replace sterling as the world most important and the internationally most-used currency. The other part of the question, our stance on invoicing, we are also neither encouraging nor discouraging that. What we are encouraging people to do, but in the euro area, is to do as much as their invoicing as possible in euros so that they can avoid the exchange rate risks with third countries, including the "outs", and they can thereby lower their costs by avoiding having to pay a risk premium in the price for the goods they deliver. It is likely that the habit of invoicing in euros will spread, also in the light of the accession of at least ten new countries to the European Union and ultimately, some time later, to the euro area.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. That concludes our first monetary dialogue. President I hope that the introductory phase can be successfully completed and that this year will be characterised by price stability, low interest rates, better growth and more employment. That would be a very good first year for the euro for Europe and I hope that the euro will become the keyword for 2002. Thank you.