3-002

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH JEAN-CLAUDE TRICHET,

PRESIDENT OF THE ECB

(pursuant to Article 113(3) of the EC Treaty)

BRUSSELS, WEDNESDAY 21 MARCH 2007

3-003

IN THE CHAIR: MRS BERÈS

(The meeting was opened at 9.15 a.m.)

3-004

President. – Ladies and gentlemen, I propose that we open our working session. Our agenda provides for hearing the address by, and engaging in monetary dialogue with, the President of the European Central Bank, Mr Jean-Claude Trichet. Mr Trichet, something tells me that this must be the thirteenth time that you have appeared before this committee and, according to the custom that has been established for some time now, we have proposed to you two subjects for discussion.

This morning, your opening remarks will therefore relate to monetary policy transmission mechanisms, that is to say a comparison between these mechanisms as they exist in Europe and as they exist in the United States. We suggested a second subject to you: that of wages setting and price stability. I think I am right in saying that you have chosen a slightly different subject and that you have opted, rather, to address the topic of the social benefits of price stability. The choice is yours, and I give you the floor so that you might present us with your opening remarks. You are aware of the ground rules governing the remainder of the exercise. Mr President, you have the floor.

3-005

Jean-Claude Trichet, *ECB***. –** *(FR)* Thank you very much, Madam Chairman. Of course I will be able to reply to all of the questions on all of the subjects.

You have given a good summary of what I intend to say by way of introduction. You know that I am always very keen to appear before you. As you quite rightly calculated, this is the thirteenth time that I have appeared before the members of the Committee on Economic and Monetary Affairs. If we add to that the informal meetings that you have organised in the past, including in the very recent past with the President of the European Parliament, as well as my visits to Strasbourg to present the annual report, there is no doubt that I am in very frequent contact with Parliament, and I am absolutely delighted about that.

I shall begin with an assessment of the economic and monetary situation. *(The speaker continued in German)*

3-006

(DE) I shall then be discussing the differences that exist in the channels whereby monetary policy is transmitted in the USA and in the Euro zone, and the practical effects resulting from them.

I would then like to conclude by saying something about the importance of price stability from the point of view of social policy.

3-007

Let me turn first to economic and monetary issues. Since my previous appearance before the European Parliament in December last year, newly available information has served to confirm our assessment that economic growth in the euro area continues to expand robustly. In addition, the cross-checking of our economic and monetary analyses have underlined the existence of upside risks to price stability over the medium to longer term. Accordingly, on 8 March the Governing Council of the ECB decided to increase key ECB interest rates by 25 basis points. This will contribute to ensuring that medium- to long-term inflation expectations in the euro area remain solidly anchored at levels consistent with price stability, which is a prerequisite for monetary policy to make an ongoing contribution towards supporting sustainable economic growth and job creation in the euro area. Let me explain the assessment.

Starting with the economic analysis, according to Eurostat's first estimate, the quarter-on-quarter growth rate of real GDP in the euro area for the fourth quarter of 2006 was 0.9%, which was above previous expectations. In the US you would say 3.6% annualised. Both domestic demand and exports made significant contributions to this growth, confirming the sustained and broad-based nature of the current expansion. The information on economic activity from various confidence surveys and indicator-based estimates supports the assessment that economic growth has continued into 2007.

Looking ahead, conditions remain in place for the euro area economy to grow solidly. Global economic growth has become more balanced across regions and, while moderating somewhat, remains robust, providing support for euro area exports. Domestic demand is

expected to maintain its relatively strong momentum. Investment is expected to remain dynamic, benefiting from an extended period of very favourable financing conditions, balance-sheet restructuring, accumulated and ongoing strong earnings, together with gains in business efficiency. Consumption should also strengthen further over time in line with developments in real disposable income, with employment conditions improving. This outlook for economic developments is also reflected in the new ECB staff projections, which foresee average annual real GDP growth in a range between 2.1% and 2.9% in 2007, and between 1.9% and 2.9% in 2008.

In the Governing Council's view, the risks surrounding the favourable outlook for economic growth are broadly balanced over the shorter term. In the longer term, risks lie mainly on the downside, relating to the possibility of a renewed increase in oil prices, fears of a rise in protectionist pressures and concerns about possible disorderly developments owing to global imbalances.

Turning to the price developments, annual HICP inflation was 1.8% in February 2007, unchanged from January. The lower annual HICP inflation rates since the summer of 2006 have been predominantly due to lower energy prices. Looking ahead, last year's volatility in energy prices will lead to significant base effects, affecting the profile of annual inflation rates this year. Accordingly and on the basis of the current level of oil prices and oil price futures, annual inflation rates are likely to fall during the spring and summer before rising again towards the end of the year and hovering again at around 2%. The new ECB staff macroeconomic projections point to annual HICP inflation averaging between 1.5% and 2.1% in 2007 and between 1.4% and 2.6% in 2008.

At the policy-relevant medium-term horizon, the outlook for price developments remains, in the Governing Council's view, subject to upside risks. These stem from the possibility of renewed oil price increases and additional increases in administered prices and indirect taxes over and above those announced and decided thus far. More fundamentally, stronger than currently expected wage developments would pose significant upward risks to price stability, particularly in view of the favourable momentum of real GDP growth. It is therefore crucial that the social partners continue to meet their responsibilities and that wage agreements take into account present relative price competitiveness positions, the still high level of unemployment in many economies, as well as productivity developments. The Governing Council will monitor the forthcoming wage negotiations in the euro area countries very carefully.

Turning to the monetary analysis, this confirms the prevailing upside risks to price stability at medium to longer horizons. Annual M3 growth was unchanged at 9.8% in January, remaining at the highest level observed since the introduction of the euro. At 10.6%, the annual growth rate of loans to the private sector also remained strong in January. This reflects the continuation of the upward trend in the growth of borrowing by non-financial corporations seen since mid-2004. Meanwhile, the growth of household borrowing has shown some further signs of moderation in recent months, albeit remaining at rates that are still high.

Taking the appropriate medium- to longer-term perspective, the latest developments confirm the continuation of a persistent upward trend in the underlying rate of monetary expansion. Furthermore, following several years of robust economic growth, the liquidity situation in the euro area is ample by all plausible measures.

To sum up, in assessing price trends it is important to look through any short-term volatility in inflation rates. At the policy-relevant horizon of the medium term, risks to price stability remain on the upside, relating in particular to stronger than currently expected wage developments in a context of robust ongoing growth in employment and economic activity. Given the vigorous monetary and credit growth in an environment of already ample liquidity, a cross-check of the outcome of our economic analysis with that of the monetary analysis supports the assessment that upside risks to price stability prevail over the medium to longer term.

I shall now turn to monetary policy transmission in the euro area and the US. I will try to discuss some differences and some similarities, as the Chairwoman suggested.

Optimal monetary-policy actions depend on the nature of the shocks hitting the economy, the present and future expected economic environment and, very importantly, on the transmission mechanisms of monetary policy actions. These elements have a precise bearing on comparative exercises highlighting parallels and differences between monetary policies in various currency areas. For example, in order to compare the monetary policy decisions of the Federal Reserve and the European Central Bank, we must analyse, among other things, the structure of the economies in which they are operating, because economic structures and institutions determine the functioning of the monetary policy transmission mechanisms and, therefore, indirectly influence the design of policy.

Is the monetary transmission mechanism in the United States significantly different from that of the euro area? I shall concentrate on the structural analysis.

First, we have constructed measures of price and wage rigidity: these have been expressed by the frequency of price and wage adjustments. In economies with more rigid goods and labour markets – where, for example, labour practices and contractual institutions hamper a rapid and prompt transmission of shocks to wages and prices in general – the macroeconomic adjustment to shocks takes longer to run its course and, more importantly, falls disproportionately on production and employment. This is something I shall come back to, because the measure of the frequency of price adjustments in general is an important element.

Second, structural analysis has provided evidence of the sensitivity of inflation expectations to past inflation developments. The relevance of inflation expectations to the transmission mechanism is more subtle, but central. An inflationary shock tends to be more persistent if wage and price rigidities are greater, unless inflation expectations are found to be insensitive to the inflation history and more solidly anchored around the objective of the central bank. Again, this has important implications for monetary transmission. A shock to inflation is faster to dissipate – even if prices and wages are relatively more rigid – if inflation expectations are more firmly anchored.

It is interesting, when you look at Europe and the US – two vast continental economies – that we do not see significant differences in the final result. That is because there is some kind of offsetting between the flexibility of the prices, where the US is much more flexible than we are, and the anchoring of inflationary expectations, where we ourselves have solid anchoring – better than in the US. The two phenomena are offsetting themselves. These phenomena are very interesting and there is a lot of literature on them. Our staff have done a lot of work on the issue. As regards the frequency of price changes in the US – for prices in the CPI index – it is every 2.2 quarters, when in the euro area it would be 4.3. The proportion is practically one to two. This is quite a substantial difference. It is because we have a very solid anchoring of inflationary expectations that we can offset this handicap that we have as regards price stability, because of the inflexibility of our price formation.

What are the implications for policy? I will mention two of them, both stemming from the notion that the appropriateness of policy cannot be judged in abstract terms: policy needs to be carefully calibrated to the underlying economic structure. In a relatively rigid economy, the adjustment falls primarily on quantities. So, a central bank is generally well advised to avoid volatile policy paths, which in those conditions can transmit unwelcome volatility to the economy and often necessitate corrective, countervailing action further down the road.

Second, inflation expectations – that look more forward to the central bank's intentions rather than backward to inflation history – call for more persistence in the policy direction. Again, a central bank that moves its policy rate around in response to each twist and turn in the data would under these circumstances have only a limited impact on the economy. When the inflation process is as forward-looking as it is in the euro area, policy shifts that lack persistence have little impact on longer-term interest rates, on expectations and – ultimately – on macroeconomic and pricing decisions.

Concrete policy evaluation is difficult to conduct and necessarily conditional on a long list of technical assumptions. Nonetheless, recently conducted concrete policy-evaluation exercises suggest that since 2001 – and compared with a flexible economy such as that in the US – our policy interventions had a greater stabilising effect on the economy. In tune with the structural conditions prevailing in the euro area, the overall degree of accommodation delivered by the ECB was more ample, albeit back-loaded, because it was more persistent.

Of course, keeping our interest rate at a historically unprecedented low level for more than two years recently would not have been part of a feasible policy without consistent signs that expectations in the euro area were well anchored and the inflationary shocks that were hitting the economy at the time of the downturn were being quickly reabsorbed.

I shall now turn to the social benefits of price stability. I would like to emphasise the critical role of our quantitative definition of price stability in orienting expectations. I have mentioned how persistent conditions of price stability can change the transmission channels in ways that can partly alleviate structural shortcomings of the economy. In the euro area, notwithstanding structural rigidities that impede price and wage adjustments – rigidities that cannot be corrected by a central bank – well-anchored inflation expectations partly compensate for and make the transmission mechanism less inefficient than it would be otherwise. However, welfare analysis has also drawn attention to other, and perhaps even more fundamental, channels through which price stability can enhance growth prospects and contribute to the living standards of citizens.

First, in a market economy, the price system plays a key role in the efficient allocation of resources to alternative uses. Price pressures in a specific market can signal profitable investment opportunities to firms. Price stability improves the quality of the signals that prices convey to both households and firms, which can then easily recognise changes in the relative prices of different goods, allowing them to make well-informed consumption and investment decisions. By contrast, in an inflationary environment, prices only provide blurred signals: price increases in a specific market can either indicate strong demand and investment opportunities, or simply reflect a general increase in the price level. By helping market forces to guide resources to those uses in which they can be used more efficiently and productively, price stability contributes to sustainable increases in productivity and employment, and ultimately higher standards of living.

Secondly, and equally importantly, price stability contributes to lower levels of both nominal and real market interest rates. Inflation erodes the real value of nominal claims and, in an inflationary environment, lenders typically require an inflation risk premium to compensate them for the inflation risks associated with their investments. By contrast, creditors do not require such a risk premium when price stability is ensured. By reducing inflation risk premia, price stability results in lower levels of real interest rates, thereby making more investment projects profitable. By supporting

investment, lower interest rates contribute to higher levels of employment and economic growth.

Third, it is well known that inflation acts like a tax on holdings of cash. Inflation increases the price of the transaction services of money. While this certainly is not a palpable economic phenomenon in the euro area today, with our level of price stability, a handful of hyperinflation episodes in economic history still makes this 'inflation tax' one of the most widely known examples of the undesirable consequences of inflation. By setting the 'inflation tax' to negligible levels, price stability minimises transaction costs in the economy as a whole. This benefits all citizens on a daily basis, and even more so those who are not in a position to protect themselves against inflation.

Finally, and this is perhaps my most important remark, inflation brings about an arbitrary redistribution of income and wealth. The more vulnerable groups in society typically suffer the most from inflation. They have a relatively higher share of their savings invested in cash and savings accounts, the real value of which is easily eroded by inflation. They have limited access to all the various ways of protecting themselves against inflation. That is true for the poorest in our society, as everybody knows. It is also true for the pensioners who have to live on their pension entitlements and savings accumulated during their working lives. They make up a group that is particularly vulnerable when it comes to inflation. Price stability ensures that they are protected against this risk.

Today, the level of inflation in the euro area is below the threshold of our definition of price stability, i.e. 'less than 2%, close to 2%', while medium- and long-term inflationary expectations in the euro area are solidly anchored. Against this background, the social benefits of price stability are often taken for granted. I should therefore like to stress here that the undesirable social and economic consequences of inflation that I just listed, including economic instability, lower growth and lower job creation, are the benchmarks against which one has to assess the social benefits of price stability. This is why a credible commitment to maintaining price stability is so important for the living standards of European citizens. It is also why our fellow citizens, according to all surveys, are so profoundly attached to price stability.

Thank you for your attention.

(Applause)

3-008

Alexander Radwan (PPE-DE). – *(DE)* Madam Chairman, I am most grateful to you, Mr Trichet, for your regular appearances before Parliament's Committee on Economic and Monetary Affairs, for reporting to it and being willing to be held to account by it.

I have three questions – or comments – to put to you. As I am sure you are aware, the Group of the European People's Party (Christian Democrats) and European Democrats is highly supportive of the European Central Bank's policy with regard to the stability of the euro. In recent days and months – particularly in connection with the presidential election in your own country – we have come to see more and more discussion, on the part of people from every kind of political party, of the role of the euro and of the European Central Bank. What particularly concerns me in all this is the question as to how the European Central Bank can play a supportive role as well. It has recently been said that jobs – particularly jobs at Airbus – are at risk because of the euro's strength against the US dollar.

My actual concern is with how we might enhance the euro's global role. To take one example – a classic one, but one no longer comprehensible in view of the fact that the euro is now the strongest cash currency in the world – it is still the case that, when a European Airbus aircraft is sold within Europe – be it to Air France, to Lufthansa or to some other airline – the deal is always done in dollars. The first thing to do, then – and this is what I would like to hear something about from the ECB – might be to ask ourselves how we can get more use made of the euro in those areas in which the dollar is currently still predominant, for this would benefit our economy, in that all the various exchange-rate relations would no longer be seen as a threat.

Further to our current debate on adherence to the Stability Pact, I should like to know – and this is my next question – what we are going to do about the debts – and by this I mean both the overall indebtedness and the newly-incurred debts – of the countries that have recently acceded to the EU, which have a quite different economic situation behind them, whose economies are having to do a lot of catching up and whose overall debt is lower than that of some other states in the euro zone. The criticism is frequently voiced that these countries are treated with greater stringency than the states that already use the euro, and I would like to hear from you what you think should be done with these countries – for an interim period, at any rate – as regards the Stability and Growth Pact.

3-009

Jean-Claude Trichet, *ECB***. –** Thank you very much for your question.

In reply to the first question, I understand that you are asking me about the pace of the substitution of euro to other currencies as far as European exports are concerned in order for our own exchange risks to progressively diminish. I can tell you that, according to all research that I have in mind, we are observing a progressive augmentation of the use of the euro in both our import and export contracts. It is true for a large number of goods and services. It is not true for commodities in general that we are generally importing, which remains very much denominated as regards their global price in dollars, and that is perfectly understandable. It might not be that true in some

particular goods markets at the global level, such as the aerospace industry.

However, the trend is that the use of the euro as a currency to be utilised in various contracts, both for exports and imports, augments regularly. Of course, the main advantage of the euro is that there is no more exchange risk at the level of a single economy of 317 million people, which is a little higher than the number of people in the United States of America.

As regards the attitude vis-à-vis acceding countries, we are applying the Stability and Growth Pact exactly in the same fashion to the newcomers and, it must be said, going with that of course are the Maastricht criteria, to the extent that some of them are willing to enter into the euro area exactly in the same manner as before. I think we are in full agreement on that particular point at the moment with the Commission, on the one hand, and with the Council, as has been demonstrated recently.

So, the Treaty, nothing but the Treaty, all the Treaty as far as the criteria, the Stability and Growth Pact, as it is unanimously approved by the European Union Member States and, as you know, we call for the rigorous and fair implementation of that Treaty in all Member States of the Union.

3-010
Piia-Noora Kauppi (PPE-DE). – I would like to ask a question concerning wage dynamics. When you spoke of the risks to a positive outlook, you mentioned the oil prices and global imbalances, but I have the feeling that you still think that wage dynamics constitute the euro zone's biggest challenge internally at the moment.

It is true what you said about labour-market flexibility and how it decreases the time to macroeconomic adjustments. I also agree with you on the social benefits of price stability.

However, I should like to know how you would encourage Member States to carry out these labour market reforms. What is the way to promote, for example, more decentralised wage-setting in the Member States? Are there any ways in which the ECB could further reward those Member States that have done their share?

What do you think about the bond market? That market is still the most important transmission channel and tool. For example, is the public debt in those countries that have carried out reforms diminishing, or are we in a situation where the euro zone is still treated as a zone, rather than a situation in which independent Member States which have failed or which have succeeded are rewarded enough? How do we ensure the good guys benefit from the reforms they have carried out?

3-011
Jean-Claude Trichet, *ECB***. –** In reply to your first question on wage dynamics, I would say that, seen from our own perspective, you are absolutely right. We consider at the present juncture that, at the level of the euro area as a whole, the increase in wages and salaries, and of unit labour cost – if it were not in line with moderation – would create a problem for price stability. That is why we are continuously calling – and I say 'continuously', because I have done so on behalf of the Governing Council at the last three press conferences – on our social partners. It is something that is important at the level of the 317 million citizens.

As regards the recommendation, we are very keen that each country's economy has to be judged on its own current situation. We mentioned three criteria explicitly. There is the criterion of the level of unemployed, and it is absolutely clear that is a major criterion. If mass unemployment is observed, which is the case in some countries and, fortunately, not in others, then wage moderation is of the essence in that environment. You have also to take into account the current level of overall relative competitiveness as regards the current level of unit labour cost. Some economies have a large current account deficit and are losing market share year after year. Then, again, it is of the essence for wage moderation and unit labour costs to increase as slowly as possible in order to regain competitiveness. You also have to take into consideration the levels of progress in labour productivity that are made year after year for all, because it will determine the future level of unit labour costs. Therefore, it is something that has to be examined very carefully at the level of each economy. Moderation is of the essence at the level of the euro area as a whole, and different situations have to be taken into account.

As regards the bond market spreads, as you know, we ourselves are observing these spreads attentively; we consider it is a very important signal that is given by the market observations and functioning to the various signatures. We trust that it is important that fiscal policies and the credibility of the various signatures are judged. We take that into consideration ourselves when we judge the quality of the collateral that we are taking for our own monetary operations, because we take into account the market values and the level of the spreads.

At this stage, I can only say that we call on all countries to respect the Stability and Growth Pact rigorously, and we always draw the attention of all economies and the executive branches concerned to the fact that the level of public spending as a proportion of GDP in the euro area remains higher than average in the industrialised countries – it is higher than the G7 average. We have there structural characteristics which are not good when global competitiveness is of the essence and when we see with globalisation in particular the level of competition increasing. We have there a level of public spending as a proportion of GDP which, undoubtedly, hampers our own efficiency as a competitor.

3-012
Werner Langen (PPE-DE). – *(DE)* Madam Chairman, Mr Trichet, you said that fighting inflation secured people's living standards, and that the strength of the euro was a guarantee of this, but differences in

competitiveness mean that there is now far more potential for the euro zone to go off bang. Germany has become almost 10% more competitive since 1999; that is why it does so well in exports. Other countries have lost out; Spain by 14%, Italy by 10%, and Greece by 9%. The fact is that it is this inner tension, combined with the different changes in inflation rates, that has brought about this debate in France and the problem that the European Central Bank's instruments are not actually enough to overcome this handicap. What can the EU do about this? Will you continue to insist on the euro occupying a position of strength vis-à-vis the dollar, or do you see a need for the euro-dollar relationship to be corrected in order to defuse matters?

3-013
Jean-Claude Trichet, *ECB***. –** You have already mentioned the French debate, which Mr Radwan has also mentioned.

3-014
(FR) Perhaps I could say a little in French, Madam Chairman, if I may.

I have already said to your committee that the European Central Bank is independent because that is what the European people want. It is the European people who have made us independent, either via their representatives, or directly. I must point out that in all of the countries it has not just been a multilateral agreement, or a multinational one, but also a bi-partisan or multi-partisan agreement. I should point out that in France, that will was expressed formally, since there has been a referendum, which is the most direct way to do it.

Our mandate is to ensure price stability. That mandate has been entrusted to us by the European people, either directly in a referendum, or via their representatives. That has been done by the French people in particular, in the most formal way possible, a referendum. With regard to these two points, all of the opinion polls confirm that there is strong popular support for independence and for price stability. In France, there is the same popular support as there is in all of the other countries. I have already given you the figure of 73%: 73% of Europeans in the euro zone and of the French – the percentage is the same – are in favour of the Central Bank being independent from the governments, with a view to ensuring price stability. That is an important fact that we should not forget.

One of the elements of the debate was job creation and the criticisms with regard to it. When I gave you the figures, and in France too, it became clear that this was a rather more complicated debate than had been thought. 12 million jobs have been created in the euro zone since the introduction of the euro, or more than 12 million, since less than three million had been created during the eight years prior to the euro, bearing in mind that those eight years before the euro correspond to the time that has elapsed since the introduction of the euro.

I would add that we have created more jobs in the euro zone since the creation of the euro than the United States.

I am not saying that all of these jobs are due to the euro, I am just saying that critics of the euro would do well to give these figures some thought. These figures contradict certain criticisms. In saying that, I am not claiming that everything is going perfectly. We would be the last to say that. I am simply saying that the euro is clearly positive. Having said that, we can do better, and we must do better, particularly in our analysis, by means of reforms, amongst other things.

With regard to the euro-dollar, I am always careful about what I say in this field. It is clearly a field in which trillions, thousands of billions of euros and thousands of billions of dollars, are at stake. That is the world we have been living in for a third of a century. You cannot tell me that you have only just realised it. Since the Bretton Woods system fell apart, we have developed within that world and I must tell you that I myself, as President of the European Central Bank, signed the G7 communiqué, an important text signed by the European, American and Japanese governments, but also by the central banks of those countries, which take account of our assessment. I would mention that we say in English, if you will allow me – I will turn to English: *(The speaker continued in English)*

3-015
'excess volatility and disorderly movements in exchange rates are undesirable for economic growth'.

3-016
(FR) Everybody has signed it. Everybody has also said that we are going to carry on watching the currency markets closely and cooperate if necessary. I am sticking strictly to what I have signed with the European governments and also with the governments and central banks of the United States and Japan. I believe that it is important to look at the system of which we are part and I would repeat that I am not saying that everything is going absolutely perfectly, but that that is the world in which we live.

3-017
Ieke van den Burg (PSE). – After what you have just said, perhaps it would be a good idea to repeat that we in the Socialist Group have never disputed the independence of the Central Bank. We do not dispute the fact that price stability is a very important asset and something to aim for. Recently we have not even disputed your appeals for wage moderation to the social partners. However, what is important for us is that now you also listen and look at the broader picture and I should like you to concentrate particularly on the issue of wage moderation.

Looking at the figures over the last ten years, it is clear that real wage increases have been in line with inflation and even if the increase in labour productivity is taken into account, they have fallen behind the level of price inflation.

Therefore, it is quite right that in the Ecofin Council and in several areas of the political debate now the issue comes up as to whether the share of wage-earners in the total economy is not too low and whether it is not time to redress this.

In this aspect, I also want to bring your attention to the fact that decreasing unemployment could lead to pressures on inflation – the Phillips curve. If you look at recent data, this is clearly not playing this role any more. Therefore, all the signs are there that it is time for a more equal distribution of wealth, and it would be good if you listened to all these signals and gave us a clear answer to this.

3-018

Jean-Claude Trichet, *ECB***. –** Thank you for your question. As I said, we think it is extremely important because it is our responsibility and our primary mandate to ensure price stability at the level of the whole, vast continental economy that is the euro area. I have already said that we have to look carefully at the level of each particular economy. It is not disputable that at the level of the euro area as a whole, as well as at the level of a number of economies, including the big economies in the euro area, unemployment is still too high. I am sure we all agree that it is unacceptably high. Therefore, that simple observation would call for moderation, both at the level of the euro area as a whole and at the level of those particular countries which still have a high level of unemployment. I would say that the past is speaking in favour of this analysis, because it is absolutely clear that the progress which has been made in job creation in a number of economies and in the euro area as a whole is due in part to the wage moderation and unit labour cost moderation, namely the combination of nominal wage increases and progress in productivity. So I draw your attention to that, which seems to me to be indisputable.

You can increase the wage and salary volume which is distributed in two ways. It is a caricature, of course, but you could expand the number of workers and employees and then more wages and salaries would be distributed, or you can concentrate on those who have a job at the moment, and then, of course, you might have the same volume, the same results, but, of course, with more unemployment. So, again, we would very much insist on that.

That being said, I think that also on the distribution of wealth, there are differences on a country-to-country basis. It is clear that they are not necessarily in the same situation. I would also say that it is undeniable that we have to examine very carefully some very high packages that are not understood by the people in our democracies, whether it is on this side or the other side of the Atlantic, and that needs to be thought about.

3-019

Dariusz Rosati (PSE). – Mr President, when we look at the variations in the short-term interest rates in the euro area over the last five or six years and see them against the changes in the structural deficit in the euro area, then we see that monetary policy displays a clearly procyclical pattern, i.e. higher interest rates were always associated with lower levels of deficit.

This is in contrast to what has happened in the United States, where there was a reversal of the situation, i.e. higher rates were associated with deeper deficits. In other words, the policy mix in the US was more supportive to economic growth and to the economy in times of recession. Could you comment on that? Was it a deliberate policy or was it associated with this transitory period linked to the introduction of the euro?

Let me now turn to my second question. You mentioned that the euro economy is now in a phase of robust growth. In your opinion, to what extent is this expansion of a cyclical nature only and to what extent does it reflect the change of the underlying potential growth trend? The answer is important because if this is a cyclical phenomenon, then, of course, the monetary policy would have to respond sooner or later to that via tightening of interest rates. But if this is a change in the underlying potential growth trend, then we probably would not need to resort to a more restrictive monetary policy.

3-020

Jean-Claude Trichet, *ECB***. –** In my introductory remarks I mentioned the work we have been doing in comparing the two vast continental economies on both sides of the Atlantic. I have not drawn the same conclusion from those analyses that you have. I cannot agree that, taking everything into account – the situation on both continents as regards the shocks they have both had to weather and the structure of their economies – we were less supportive over the last eight years in Europe than was the case in the United States. In the document I have submitted to you, I refer explicitly to the studies that back up my remark.

I should mention in passing that having had the boldness to maintain interest rates at the level of 2% for 317 million inhabitants for more than 2 years – the lowest level for Europe in history – does not call for extraordinary and blind attitude of the ECB. On the contrary, it was something that we did. I think we could do that, which was obviously extraordinarily bold, because, as I said in my introductory remarks, we had a level of credibility enabling us to anchor inflationary expectations that permitted us to go through that period with this obvious support for the economy, at a time when the economy needed support, in a way that totally preserved price stability. It is remarkable that it is entirely associated, as I said, with our credibility, permitting the anchoring of inflationary expectations. That is why we are so inflexible on our credibility.

On the very important question of whether we can now document an increase in the growth potential of the euro area, I would tell you, on behalf of the Governing Council of the ECB, that we cannot do that. As regards the growth potential, we are sticking to our previous

analysis: as I have already said, it will be 2% or a little more – perhaps 2.25%.

It is true that the last quarters have signalled an increase in labour productivity that is more favourable than before. However, taking everything into account, it could well be due to cyclical evolution: the fact that in the fourth quarter of last year we were in a much more favourable episode in the cycle might be explained mainly by the cycle itself. We also expect that, to the extent that we engage resolutely in reform, we will in time have a real increase in labour productivity in structural terms and not in cyclical terms.

The consequences to draw on the interest rates are very complex. You also have to take into account that the 'neutral' rate, if it is of any help in the thinking of economists, would go up, together with the growth potential of any economy. I would draw your attention to that, because one has to be wary looking at it too simplistically.

However, that being said, I cannot say that at the moment there is any sign that the growth potential of Europe is increasing. If there is a success in Europe, it is in job creation and not in progress in labour productivity, which remains as an average, since the creation of the euro, at the level of 1.1 to 1.2% each year, when, during the same period in the United States, it is more: 2.3%, 2.4%, 2.5%. In this field too the order of magnitude is in the proportion of one to two.

3-021

Wolf Klinz (ALDE). – Mr Trichet, China is currently holding more than 1000 billion in foreign exchange reserves – mostly dollars. The yield of those reserves is fairly low. Therefore, there is a certain temptation that China might put part of those reserves into a huge fund and then use it like a private equity fund to go shopping in Europe or elsewhere in the world. Do you see this as a high probability and, if so, would you consider this to be a threat? On the other hand, is it actually rather positive, because it will strengthen the ties between China and the rest of the world?

Secondly, what do you think of guaranteed minimum wages? Are they an element of stabilisation or are they rather reducing the flexibility of labour market and increasing the risk of the growth of a shadow economy?

Thirdly, we are currently having a positive economic cycle. Are the Member States of the euro zone using that positive cycle to really build reserves for the future as foreseen in the Stability and Growth Pact, or are they letting this possibility go?

3-022

Jean-Claude Trichet, *ECB***. –** Thank you very much for your questions.

On the first question on China, firstly, I have no comment to make on China's decision. Those are questions to be put to the Chinese themselves.

We ourselves are not campaigning for the international use of the euro as a reserve asset. I should like to take this opportunity to say that we are not discouraging it either; we are neutral and we have *never ever* engaged in a campaign to promote this particular use of the euro.

As regards the question on minimum wages, I shall go back to what I said before: when there is mass unemployment, particularly when it is in the unskilled labour sector, in a market economy it is not advisable to increase minimum wages, because although it will benefit the insiders it will prevent the outsiders from entering the labour force and having a job. Therefore, we must know what we want. It is a question which has to be decided upon by the social partners and, in some cases, by governments and by Parliament, but, in all cases, the economy is behind. A market economy will destroy jobs if the level of wages and salaries is such that the private sector cannot offer jobs corresponding at that particular level of labour productivity and skill. Therefore, I cannot say anything but that. This is, unfortunately, something that is very true, and then you have to make a permanent decision. What do you want, exactly?

As regards the position of the cycle and the conclusions to be drawn from that, our own recommendation – and I have to say that we are in full agreement with the Commission on this – is to tell all the governments concerned to leave the past in the past. In the past, in the good episode of the cycle, we were not sufficiently aware of the absolute necessity to put aside what would be very useful in the less-flattering episode of the cycle. Therefore, it is a permanent reminder of what is necessary in the current period, which is, undoubtedly, an episode of growth which is flattering. Last year's economic growth in the euro area was 2.8%, as you know, and this, as I said earlier, was over and above our growth potential. We are in a good episode of the cycle. Let us pave the way for a future that will be as good as possible.

3-023

Guntars Krasts (UEN). – Mr President, in the majority of euro candidate countries, wage-setting is currently inflationary and the growth in labour costs is higher than the growth in productivity. This is mainly caused by high domestic demand, and fuelled by cheap euro borrowings – which are now accessible to euro candidate countries – and by the immigration of workers, which reduces unemployment. That is a good thing, but, nevertheless, those inflationary pressures are increasing or are stable in their trends, aiming at levels which are not acceptable in the terms of the Maastricht Treaty. The central banks can do little to influence those processes, which aggravate chances for those candidate countries to join the euro. I have already mentioned inflationary pressure and so on. What are the Central Bank's considerations vis-à-vis those processes and your expectations from the candidate countries?

3-024

Jean-Claude Trichet, *ECB***. –** Firstly, I have already said that, as far as we are concerned – and we are in full

agreement with the Commission and the Council – we shall stick to the Treaty and the criteria of the Treaty, as well as to the provisions of the Stability and Growth Pact.

Secondly, we have already experienced the entry into the European Union and into the euro area of countries with a level of GDP per capita that was substantially lower than the average. This also has to be understood when you look at Spain and Portugal, or even Ireland, which is now far above the average. When Ireland joined the European Union it was only at the level of 60% of the average as regards GDP per capita. Therefore, we are not in the presence of something that is entirely new in Europe. We have already experienced that, and I was struck that when calculating the overall GDP when Spain and Portugal entered the euro area with the level of standard of living at the time, which was far away from the average, their overall GDP represented 8% of the GDP of the10 then previous members of the European Union. Therefore, 8% of new GDP was entering into the European Union. When the 10 – I am not speaking of the 12 – newcomers came, the overall proportion was around 5% of the previous 15.

Therefore, again, we are not in the presence of unseen phenomena. Now there are various strategies for those countries. There are those who accept the progressive appreciation of their currencies, so importing this inflation and having inflation taken into account which is lower than those which are, on the contrary, very much anchoring their own economy on a nominal anchor for their own currency, including those who have a currency board.

Therefore, you have to look at each particular economy on its own merits. However, what remains true in each economy is that sound fiscal policies are paying off; sound and reasonable competitiveness policies in terms of unit labour costs are paying off, and, equally, wrong policies as regards fiscal behaviour and competitive behaviour are punishing the economies in question. Therefore again, you have to look very carefully at each particular case, but sound and reasonable policies in all areas are of the essence and are rewarding these economies.

3-025

Gay Mitchell (PPE-DE). – Madam Chairwoman, I wish to begin by thanking Mr Trichet for a hopeful oversight. The performance of individual euro members could have an impact on the future. Ireland is a small euro member, but might illustrate potential concerns, which may be replicated in some other areas in some other form, perhaps.

Mr Trichet, you referred in your speech to the continued strong property market development in many parts of the euro area. For Ireland, the issue I refer to is asset inflation, specifically house prices, which I have raised with you in the past. You will be aware of my concerns about the issue from previous exchanges. Is the current interest rate regime within the euro area contributing to a slowdown in price increases for the Irish market or has it bottomed out? Has the ECB kept abreast of the situation? As you will be aware, a hard landing for the construction industry in Ireland would have very serious implications for the economy. How closely do you monitor this sort of situation in Member States, and do you expect the much-hoped-for soft landing? If so, what do you base your expectations on?

3-026

Jean-Claude Trichet, *ECB***. –** It is a very important question. It is not the first time that we have addressed this issue. I have already said that we had a very different situation on a country-to-country basis. I have already mentioned that for eight years the German real estate market has been quite permanently depressed, while there were very dynamic developments in a number of other countries.

As regards Ireland in particular, it is one of the economies that is in a very good situation. I compared Ireland's level of GDP per capita to the average at the moment of its entry. Now it is remarkably higher than the average.

Let me only tell you that what we are observing as regards the influence of our past rate increases in a number of economies is that it is transmitted to the real estate sector in a number of economies where we had previous rapid increases and it is contributing to cooling it down. But I remain very cautious in this respect. I would say that we have to be cautious. To give you the order of magnitude of what we are observing, the loans to households for house purchases at the level of the euro area as a whole in January 2007 was at 9.3%. Therefore, it remains very dynamic, in fact much more dynamic than the growth of GDP in the euro area in value terms. So we still have a very dynamic development. But there are some signs that this development is slowing down in a number of economies.

3-027

Kurt Joachim Lauk (PPE-DE). – I have three brief questions. Let us bear in mind for a moment the Maastricht criteria. If you look at the euro zone Member States now, they do not fulfil the Maastricht criteria any more, for example, when it comes to debt levels, they exceed the criteria significantly. Are you concerned about that? Let us take that one step further. We are asking the new countries, who aspire to become members of the euro zone, to adhere to the Maastricht criteria, as I agree we should. However, on the outside this gives the appearance of double standards. Are you concerned about that?

Secondly, many states have a legal obligation to pay for their citizens' pensions and healthcare. That is OK, but those things are not on a country's balance sheet. It is not added officially to that level of a country. This is the case in Germany, France and Italy. Would you not be in favour of cleaning up the statistics in this respect and finding out the true debt level of those countries? Would that not be an advantage?

Lastly, do you think it would strengthen the euro if the 'weak' countries in the economic sense – such as Greece and Italy – were to leave the euro zone?

3-028

Jean-Claude Trichet, *ECB***. –** On your first question, I would say that the debt level – the 60% threshold – is a key parameter in the criteria. You are absolutely right to say that. Nevertheless, you will remember that the wording is not exactly the same for the 60% threshold and for the 3% threshold, which in the past made it possible for the criteria to be judged on the basis of the speed at which the outstanding debt was decreasing as a proportion of GDP. This was applied in particular in the country in which we find ourselves today.

Our position is that each and every country which is over and above the 60% threshold must have a coherent programme to reduce that level year on year. At the moment, I would say that all countries are claiming that they are moving in that direction. There is not a single country that would say that it does not accept the recommendation and that it will not follow that route. As you know, three years ago there were countries that would say they did not want it, and that we would have to review the rule, and so forth. Now that is over. It is accepted. Of course, one has to judge in each case whether the speed of this reduction is sufficient, but our own recommendation is clear cut: to move as soon as possible back down below the 60% level, which is connected to the 3% level.

As regards the pensions and all the implicit or explicit liabilities on any particular economy that are associated with the full commitment of the state vis-à-vis its own people, I think we should be fully aware of that: have a calculation on the level of commitments in order to make appropriate comparisons. That is extremely important.

On your third question, I totally exclude the possibility of any country getting out of the euro area. I have already said that these were assumptions that I could not make, and I even qualified them as absurd!

3-029

Gunnar Hökmark (PPE-DE). – Mr Trichet, how important do you think the deficits of some Member States are for the ECB's interest rate policy?

We are placing a great deal of emphasis on developments in the American economy. It is obvious why we are doing that, but I think it would also be interesting to look at the Asian economies, because we are seeing a growing interdependence and a growing level of investments on the financial markets in both directions. How exposed is the financial stability of the European financial markets to developments in markets with less transparency, and maybe also less stability? How exposed are we today? Could you elaborate on that, please?

3-030

Jean-Claude Trichet, *ECB***. –** In reply to the first question, I would say that at the level of the full euro area – the 13 countries and the 317 million people – we are responsible for stability and price stability in that vast continental economy. We take into account all the positions of each economy, including the level of deficit and the level of debt outstanding, because they have a bearing on our own policy: they might complicate the delivery of price stability. Therefore, we have to take all of that, each for its own importance, to be sure that we do the best for the euro area as a whole.

The Stability and Growth Pact was devised to permit peer surveillance to ensure sound policies everywhere, because if a policy is not correct, it has a bearing on the whole of the zone. If country X has an incorrect policy, then it touches A, B, C, D and all the other countries that have a sound policy, but would be hampered by the bad policy of country X. Therefore, peer surveillance and appropriate respect for the Stability and Growth Pact are integral parts of the correct handling of EMU – Economic and Monetary Union.

As regards financial stability and Asia or the emerging world in particular, we are really experiencing globalisation: we are in a single world, we are on a single planet, and we have highly integrated global finance. That is not something we have just discovered: you will remember how the Asian crisis had a bearing on all of us and on the economy of the entire planet. It started in a particular Asian country at the time. It therefore calls for an appropriate understanding of the underlying functioning of global finance. That is what we are doing at different levels, including at the level of central bank discussions within the BIS, the G10, the global economy meeting; it is also discussed in the Global Financial Stability Forum.

3-031

Benoît Hamon (PSE). – *(FR)* Thank you, Madam Chairman. Hello Mr Trichet. Since we are coming to the end, many questions have already been asked and I personally would like to have asked you, amongst other things, about the strong euro, but I believe that you have already answered them. Mr Radwan will say that monetary policy is not a 'body-building competition', and having the strongest economy in the world is not in itself an objective, because the competitiveness of the European economy is affected by it.

Having said that, I would like nevertheless to return to your – forgive me – somewhat brief analysis of the debate in France on the European Central Bank. You were right when you said that the French people formally approved the creation of the euro and the independence of the ECB, but I would urge you to look at this a little more carefully, or at least to analyse the French people's most recent message. By rejecting the European Constitution, the French people cast a shadow over the appreciation of the economic results for which you are one of the people responsible. I simply want you to understand the way things are.

If you are to exercise your right to assess the merits and failings of certain policies or political choices of the governments of the euro zone, you must in turn allow those same political leaders to exercise the same right to assess your judgments. I would like to make it clear to our colleagues that the debate in France is focussing less on the independence of the European Central Bank than on the issue of its mandate and, sometimes, on the Council's exercise, or lack of exercise, of the competences accorded it by the Treaties, particularly in the field of exchange policy.

I wished to make that clear and to put a final question to Mr Trichet on the social benefits of price stability, which he believes to be beyond question. What do you say in response to the fact that, despite everything, when you speak in favour of wage restraint, when you say that a minimum wage may be an obstacle to job creation, and when you encourage flexibility of the labour market, all of that has social consequences that inevitably lead us to question your judgments?

3-032

Jean-Claude Trichet, *ECB***. –** *(FR)* In a word – as requested by the President - I do not want to return to the subjects either of the European Central Bank's mandate or of its independence. I take note of what you said about independence. Where exchange rates are concerned, the treaty is in place and is extremely clear, and I have to say that it is practically in France alone that it is constantly being asked how everything operates. Everywhere else in Europe, it is known how everything operates. The Treaty is extremely clear from that point of view. It describes how things work when exchange rates are fixed, the circumstances in which a fixed exchange needs either to be put in place or modified and how things work when there is a floating exchange rate.

On the subject of the remarks I made, it is most certainly not my aim to have the European Central Bank take the kind of decisions that are the preserve of governments and parliaments. The fact is, I totally respect a position that consists in saying that, in the end, we prefer to favour what are referred to as insiders over outsiders. That is, indeed, an eminently political stance. I merely believe that we have a duty to emphasise the economic consequences of each scenario. In no way do we intend to take the place of the legitimate decision makers.

Might I point out that I myself reply to your questions on an ongoing basis. I am very proud of the fact that the European Central Bank makes itself more readily available to the European Parliament than does the Federal Reserve on the Hill to your Washington counterparts. I am proud of the fact, and I think it is perhaps a state of affairs of which our fellow citizens are not sufficiently aware, possibly because what we do here does not have a very high profile. What is more, I am happy for there to be a much wider awareness both of your questions and of my answers.

We attach huge value to ongoing dialogue, whether it be with Parliament, the Commission or the Eurogroup president as representative of the executives. I would point out that I myself invite the latter to our meetings every fortnight. Contacts are, then, more frequent than equivalent contacts in the United States of America. It needs to be borne in mind that Europeans are not really aware of these facts.

3-033

Elisa Ferreira (PSE). – Mr Trichet, data published this week on the Portuguese deficit brought good news, because the estimated deficit that was to breach the Stability and Growth Pact adaptation of 4.6% for 2006 was just 3.9% and probably will be about 3% this year. This was achieved through some changes in social security and public administration, but also through a rise in taxes and a reduction in public investment, which was very important. Therefore, citizens see this not as a success but as a kind of procyclical policy. Growth is absolutely stagnant, there is insufficient labour and insufficient investment. There is also the problem of exporting goods that are denominated in dollars.

Therefore, I should like you to touch upon two issues: firstly, in general terms, the asymmetric transmission mechanisms across European regions – a one-size-fits-all policy; and, secondly, the prospects concerning interest rate developments as they have been affecting disposable income of households and investment by private investors.

3-034

Jean-Claude Trichet, *ECB***. –** One has to know that in a vast continental economy there is a dispersion of growth and a dispersion of inflation. All the research that we have been doing demonstrates that we have approximately the same level of dispersion. The standard deviation of inflation and growth is about the same on both sides of the Atlantic on the level of the two big economies: 1% for the standard deviation of inflation, 2% for the standard deviation of growth.

We have a responsibility for 317 million citizens. Portugal is Portugal and Spain is Spain. Of course the figures are very different; still, you are sister countries on the same peninsula. In the US too you can have South Carolina being in a very bad situation when California is booming, and Massachusetts has different kinds of problems. We have to accept that we are in a vast continental economy.

As far as the information I have is concerned, I am sure the work that is being done in your country is going in the right direction. I do not dispute the fact that there are demanding issues at stake, issues that are not the same as those that are being experienced in other countries, including your neighbouring country. However, past policies were not the same and one has to take the situation into account. That is why I said on wages and salaries that one has to take into account all the parameters: the level of unemployment, the level of labour productivity and the level of cost competitiveness.

3-035

Lapo Pistelli (ALDE). – *(IT)* Madam Chairman, ladies and gentlemen, I should like to put two rather political questions to Mr Trichet.

1. At a time when the debate on the process of European integration is being re-launched, in your opinion, Mr Trichet, how much progress can be made in the Euro zone by a common monetary policy that, as you said, is managed without being accompanied by suitably coordinated economic policies?

2. What do you make of the fact, Mr Trichet, that the number of rating agencies responsible for the national debts of the EU Member States is very small and predominantly American and the fact that, generally speaking, it is so difficult for European agencies to be admitted to the US rating market?

3-036

Jean-Claude Trichet, *ECB***. –** As I have said, we do not want to take over the responsibilities of the other democratic institutions – governments, parliaments. The Eurogroup is the institution where you would put the responsibility of coordinating economic policies, and I guess that the question could be *(sound missing)* the President of the Eurogroup.

As far as I am concerned, I would only say that you have to bear in mind two elements. There is the coordination of economic policies in certain areas, but let us not forget that there is a vast domain of national responsibilities where one has to behave at the national level as efficiently as possible. This is a *very* important responsibility. Again, as regards the progress that could be made in terms of structural reforms, I take it that it remains very much a national responsibility, as we all know, and the same applies to fiscal responsibility. I have also said that at national level you see exactly what would be a good recommendation for wages and salary moderation. Therefore, all this has to be borne in mind.

As regards the rating agencies, I would say that we have in this area what we are also observing in the area of accounting firms, for instance, for reasons that are probably very profound. We see the top economy in the world taking the lead in a number of such areas. If I am not mistaken, it is not entirely true that all rating agencies are under American ownership. However, I accept your remark – there are only a few of them and they have this specificity you mentioned.

3-037

President. – What, then, of the fact that they evaluate Member States' sovereign debts?

3-038

Jean-Claude Trichet, *ECB***. –** The markets are assessing the debts of the various states, and we have a market mechanism which is important. I mentioned that market discipline was something that was important as regards the various signatures of the world, including the signatures of the various states.

3-039

John Purvis (PPE-DE). – Mr President, I should like to ask you about your observations on the situation of the mortgage market in America at the moment. I have two points about it.

Firstly, are you concerned at all that there could be any systemic implications for the European economy, European finances, from what is occurring in the mortgage market in America at the moment?

Secondly, you mentioned your concern for the more vulnerable and the less able. It seems that the people who are suffering most in the States at the moment are, indeed, the most vulnerable, because it is the sub-prime mortgage market that is particularly under stress.

Looking at the mortgage market in Europe, where we would, I suppose, aspire to house ownership extending to the more vulnerable elements in society as well, I wonder whether that would also cause you concern, if, indeed, it was to stretch and there was this problem with our finances ultimately in the sub-prime mortgage market in Europe. How do you see it developing?

3-040

Jean-Claude Trichet, *ECB***. –** On the judgement on this particular area of the market in the US I will very much rely upon the diagnosis which is produced by the Federal Reserve. It has a very good way of analysing the situation.

I would be very cautious in Europe. We do not have an equivalent market segment, so perhaps we are less vulnerable to similar developments, even if lending for house purchases is very high. I mentioned earlier in my response to the honourable Member from Ireland that we could see some moderation. In January we had 9.3%, in December 2006 we had 9.5%, so a slight drop in overall loans for house purchases can be seen. I am very cautious on this, but my feeling is that we would not normally have the same kind of segment of the market, rather, a continuum. We could pretty well have phenomena that would first hit the poorest and less affluent segment of the borrowers. That is absolutely clear.

3-041

Cristóbal Montoro Romero (PPE-DE). – *(ES)* The question I would like to ask very briefly is, if we are facing the interest rate rise that the European Central Bank is promoting, and you have explained that again this morning, firstly, why does the market not believe that interest rates are on the rise in the long term, over ten years? Why are long-term interest rates so stabilised if we are really facing the risks that you have laid out this morning in your speech and in your text? If there is an expectation in Europe of solid growth and significant job creation, why is the market so stabilised in the long term, Mr President?

3-042

Jean-Claude Trichet, *ECB***. –** I was very clear in my introductory remarks as regards the way in which the Governing Council sees our situation. Our monetary

policy as far as we see it continues to be on the accommodative side, with the key ECB interest rates moderate, money and credit vigorous, and liquidity ample by all plausible measures. I have already said that I use the word 'moderate' and not the word 'low' – there is a slight difference. It has of course been noted by those who are observing us. I said that we were on the accommodative side. It seems to me that this speaks for itself. It has been pretty well understood by all observers, investors, savers and market participants, and I will not comment further on it, I am afraid, because it speaks for itself.

3-043

Pervenche Berès (PSE). – *(FR)* Thank you, Madam Chairman. I shall ask you the last question on behalf of the Socialist Group in the European Parliament. I should like to return to the issue of exchange rates. You said that we were concerned here with a debate that had first been launched in the country I know best. I do think, however, that, according to the spheres in which the various euro zone countries are productive, this debate also takes place in other Member States in relation to other currencies, for example when worries arise about the rate of exchange between the euro and the yen. Perhaps the debate does not take place at the same time or in relation to the same currency but, at the end of the day, everyone looks to see precisely where they are competitive in relation to the segment concerned and in the light of their export capacity.

On this subject, you said that, basically, we are neutral in terms of monetary policy and that our only strategy consists in making sure that we are faithful to what we subscribed to within the framework of the G7. You say that we have no strategy designed to make the euro a reserve currency. In reality, however, the euro is in the process of becoming a reserve currency in one situation or another or in one Member State or another. Do you not think, therefore, that this fact probably needs to be integrated into the thinking on monetary policy? How, in future, do you see the debate on this issue of exchange rates getting under way, given the various strategies of the Member States?

3-044

Jean-Claude Trichet, *ECB***. –** *(FR)* Thank you very much. Allow me to make a few remarks. Obviously, this is an important issue, but let us remember how everything works. Firstly, the Treaty is very clear. Above all, there is a keen awareness of who is responsible for what and in which circumstances. When, moreover, I compared different cultures, it is mainly, I think, in relation to such differences that the issue needs to be clarified. The Treaty expands fully on that issue. Secondly, I myself constantly call for people to choose their words carefully because, obviously, all sorts of things can be stated. For example,: countries A, B and C may say that their problems are, respectively, the yuan, dollar and yen, and so on. Country D, meanwhile, might say that their problem is sterling. We are in a system of floating exchange rates. A disciplined approach to what we say is essential, and for obvious reasons. As I said, there are trillions of euros and trillions of dollars in play on the exchange markets.

For the purpose of discussing these issues, we have, at the moment, the G7, in which the main currencies are represented and in which both ministers and governors of the central banks participate. That is why I myself make a point of saying very clearly that I want to stick to what we decided together as terms of reference. The discipline needs to be accepted of knowing that some issues are real, that there are procedures for talking about them and that the people mainly responsible for resolving them are able to meet to do just that.

All that is fairly clear, I think, but it obviously needs to be understood and accepted by us all.

Allow me to add one last word. There have been personal attacks in the run-up to elections. There have been very important elections in Germany, Italy and the Netherlands. There are elections in all of what, without exception, are great and exemplary European democracies. Having observed that personal attacks were made from time to time, I simply wanted to say that, in point of fact, these were beyond anyone's understanding.

3-045

President. – Thank you, Mr President, for having participated in, and contributed to, this new monetary dialogue. We shall meet again on 11 June within the framework of this dialogue in which you participate and in which you always display such spirit and conviction in championing your policy as head of the Executive Board of the European Central Bank.

(The meeting was closed at 11 a.m.)