Mrs Randzio-Plath:
Thank you very much. We come now to the questions.

Mr Karas:
I would like to thank you first of all. I am very pleased that information on the information campaign of the ECB is going to be handed on to us as quickly as possible. That's what we want. Although you did touch upon this in your introduction, Thursday's decision was nonetheless a surprise for two reasons. First of all the timing of the increase in the guidance of rates was surprising because you were not doing it in connection with a press conference, and also the extent of it was surprising because the experts were expecting either no increase at all or 50 basis points. So can I ask you whether the ECB is likely to be increasing the rates 25 basis points in the future and secondly how do you see the development of inflation in the medium and short term, because there is of course the increase in oil prices and there is a link there? And thirdly, what is the connection with the external value of the euro?

Mr Duisenberg:
I don't think that after the preparatory work we had done on possible future increases in the interest rates that expectations were disappointed. It was very much expected that we would do something and we had indicated that it was not unlikely that something would happen in the near future. We do think that this series of interest rate increases, which have to be seen together, of November, of February and of March, first by 50 basis points and then two steps of 25 basis points have led us to a level of interest rates which can be regarded as appropriate for the present situation and our present expectations for the future. As far as the future is concerned we do see continuing upward pressure on prices being exerted. It is the increase in oil prices which, I must admit, has been larger and more lasting than we had anticipated only three/four months ago, which is working its way through. We do note also that the external value of the euro seems to have stabilised. Now, the level at which it has stabilised is lower also than we had anticipated earlier and that of course has its impact on the future development of import prices and producer prices and this, with a lag and somewhat mitigated, will work its way through into consumer prices. As a result of all this we expect over the medium term that these facts will add to our expectations for inflation by about 0.3 to 0.4 percentage points. The curve of future inflation is expected to have shifted upward by

about that amount, so to speak, thereby bringing inflation very close to the level that we have defined as the maximum for price stability. Our expectations on the basis of current indications, and looking forward, are that we might see a couple of months where the euro area price inflation figure, the HICP, might exceed 2%, to come down later in the year to levels below 2%. What we fear most, and this is what I said also in my introductory remarks, is that this upward shift in the expected path of inflation might itself generate second round effects through wage developments which in our view would not be justified on the basis of the future path of inflation as we see it. Much will depend on further developments in the factors I mentioned. I can assure you that the Governing Council remains as vigilant with regard to the medium term outlook for inflation as it has demonstrated to be in the recent past.

Mrs Villiers:
President Duisenberg, are you concerned that inflation is above the 2% limit now, I think, in four countries within the euro zone, and in three cases quite considerably above 2%? What fiscal measures do you think would best complement your monetary policy in relation to these specific fast-growing economies where the inflationary pressure is stronger than across the rest of the euro zone?

Mr Duisenberg:
We must primarily look at euro-area-wide inflation figures and there the figures have been published just this morning: the latest for the euro-area as a whole, by Eurostat. The February inflation figure was 2% and the January figure has been revised downward by 1/10, so it was 1.9%. That there is a discrepancy amongst the various Member States is, as we made clear in our monthly bulletin a few months ago, a phenomenon which is not astonishing. It is normal that it is not precisely the same in every country. We even came to the conclusion that the differentials inside the euro area between countries actually seem to be smaller than the differentials one can observe in the huge and comparable area of the United States. That of course it runs faster, particularly in some countries - and even considerably faster -, well we do look at this with some concern, the same concern which is demonstrated by the governments concerned which have lost the area of monetary policy to combat this phenomenon but which are responsible for the other policy areas - and that is both governments and, I would say, very much the social partners. I have alluded to this already but the fact that in Italy, Spain and Ireland, in particular, inflation is now higher and sometimes considerably higher than the 2% maximum which we have defined as price

stability for the area as a whole does fill us with some concern and I can only say that we appreciate that the governments in these countries are undertaking measures to counter this development already. I would also like to point out, just to demonstrate how volatile these developments can be, that in two other countries where inflation was also higher than 2%, namely the Netherlands and Portugal, the latest figures indicate that it has fallen below the 2% figure again. I only know one figure by heart. The Netherlands January figure was 2% and the February figure is now 1.5%, so these things do seem to correct themselves over time.

Mrs Villiers:
On the specific case of Ireland, do you think the Irish Government is unwise to be contemplating cutting taxes given current monetary conditions?

Mr Duisenberg:
I d do not comment specifically on the measures that the Irish Government is contemplating but I'm sure that both you and I would hope, in contemplating measures, that they have these national developments very much in their minds.

Mrs Kauppi:
In your opening remarks you emphasise that a moderate wage policy is in the interests of the ECB only from the point of view of price stability. In public, the pressure through verbal interventions in euro-area wage negotiations has been quite hard. Are you also making a political statement in particular when you know that the labour costs in the biggest euro-zone country, in other words Germany, are 50% higher than in the US, and do you see this as one of the reasons why employment rates have improved so slowly in EU compared to the US and our other competitors?

Mr Duisenberg:
My answer to both questions can be very brief. The answer to both questions is yes.

Mr Agag Longo:
I would like to pick up the point that you made on giving absolute priority to the fight against inflation. In my modest opinion I think the monetary policy being applied is correct but you shouldn't just use monetary policy to contain inflation, and you only have to look at the current context with all the inflationary pressure, with a dangerous external factor such as the

price of oil, a context where growth is going to exceed the forecasts. I am not particularly talking about overheating, but the euro-zone is not in a particularly favourable position, despite the budgetary discipline, which is being imposed by the stability pact. We can see that in the United States, for many years, about 8 or 9 years, the economy has been growing, despite all the external factors, without a risk of overheating but also with fiscal discipline, and I agree with Mrs Villiers. I would like to talk about structural reform. You mentioned this yourself and if we want to get around these inflationary risks I think we have to stress liberalisation and structural reform. Could you explain to us what structural reforms are now necessary in the European Union and also ask, recommend, that the structural reforms actually happen?

Mr Duisenberg:

We don't just look at inflation but we are compelled to look, in a forward looking manner, at inflation in a very intensive way because of our primary mandate derived from the Treaty which is to preserve price stability. All other objectives are, so to speak, subservient to that primary objective. In passing since you mentioned the remarkable performance of the United States over a period of 9 years of very high growth, surprisingly high growth - I would like to point out that that growth has taken place and is taking place at levels of interest rates which are about twice the size of what they are in Europe, and that underpins my belief that the level of interest rates at which we have arrived here in no way can hinder the revival of the European economy. On the contrary it will contribute to creating a non-inflationary environment which will be lasting, and thereby contribute to making this period of upswing a period of long-lasting sustainable growth. Now, the structural reforms which are required, that is very difficult to answer in this forum, in particular because the structural reforms - which we all know are necessary in many fields -, are very different from country to country. They all have to be geared in the direction of making the functioning of labour markets more flexibles. In most cases they have to be geared to making the process of hiring and firing more liberal. They have to be geared also to goods markets and services markets, to loosening rules which over generations have tended to become tighter and tighter and which have imposed rigidity on the functioning of various markets. We do, in individual studies of particular areas, point to the necessity to act in various areas, but all we can do is to recommend to governments to take measures in this direction and then, of course, there is the fact that in quite a few countries this process of flexibilization or derigidization has started already a long time ago and in most of the smaller countries with visible success. It is in

particular, I would say, in the larger Member States of the monetary union that they are only in the early stages of this process. At the same time, our continuous hammering on the necessity of further structural reform should not lead people to believe that nothing at all is happening. A lot *is* happening, we do recognise that, but more has to be done.

Mr Agag Longo:
Yes, thank you very much Mr President. And one clarification, perhaps because of the interpretation, what I meant in the beginning of my question was: I agree with you that the main objective is inflation, what I meant is, you shouldn't be left alone fighting inflation. The ECB should be helped, especially by the governments, with more structural reform. But I completely agree with you that the main objective is fighting inflation.

Mrs Randzio-Plath:
In the 90's we had the experience that monetary policy did not contribute to more economic growth, although there was growth. On the contrary, monetary policy led to a slowdown. Do not you think that we could achieve stronger growth if interest rate policy did not lead to further interest rate rises? When is the ECB going to make clear how it interprets Article 105 and the secondary objective of the ECB?

Mr Duisenberg:
I don't think we avoid giving a definition. We did say repeatedly that we think that the best contribution that monetary policy can make to the growth of output and employment is to provide the business community and the public at large with a well-founded expectation that the future economic environment will be characterised by the absence of inflation. That is the best contribution we can make. We have changed the direction of monetary policy to be expected for the future by around the middle of last year, and we have followed that change in direction by now having taken three times a measure to increase interest rates in order to contain future inflation and inflationary expectations to a level below 2%. In this same period, from the middle of last year until today, the signs are that the euro-area has entered into a strong, robust phase of economic growth and increases in employment which is, admittedly only partially so far, reflected in a decline in unemployment. Those signs are there and they can only confirm us in our thinking that what we are contributing to that process is being done rightly.

Mrs Randzio-Plath:

Could I just come back on that Mr Duisenberg? Compared with the US our inflation rates are extremely low. In the Central Bank Council wasn't there any kind of vote against this decision to raise the rates twice, and were there any counter-arguments which also stressed the fact that, in comparison with other regions of the world, here we have extremely low rates of inflation and therefore there is no real need, or was no need, to raise rates in order to have inflation-free growth?

Mr Duisenberg:

Well of course there are always arguments for and against taking a certain decision at a certain moment. Inflation in the euro-area at the moment is, as I said, the latest figure is 2%, in some countries significantly higher, in other countries appreciably lower, but the euro-area inflation is 2%. That figure is to be compared with a United States figure of 3.2%. Now that differential is already diminishing somewhat. But then it is not so much the inflation of today or last month that we look at. We look at future inflation and we try to assess how inflation will look a year and a half, two years from now, and that is what determines our actions and on the basis of that analysis we have come to the decisions we have come to.

Mr Katiforis:

Thank you. Forgive me President but I have a bad cold so I am both deaf and dumb which makes me the ideal interlocutor for the President of the Central Bank, perhaps. But nevertheless let me ask you the following. We have established certain principles at our earlier meetings, those being that the policy of the Bank would abide by the principle of transparency, that any reaction to price stability, as you said just now, would be reactions to anticipated inflation. This suggests that the temporary upsurge, bleep of inflation would not necessarily detonate corrective measures on the part of the Bank. Lastly, that it would be internal developments rather than the exchange rate which would govern the reactions and the policy of the bank. Now, if so then it seems that we are headed for a temporary fluctuation of inflation, a temporary increase of inflation, the forecasts that I have seen indicate that we shall go up during the spring and then we shall come down below the 2% again. That kind of bleep in inflation, how does it justify you taking corrective action? It makes it suspiciously like this being a reaction to exchange rate developments, Mr President, and for sake of transparency I would like to know what exactly is going on?

Mr Duisenberg

As for inflation: we do think that the increase in oil prices, which continued in the last months of 1999 and in the early months of this year has lasted longer and oil prices have remained at a higher level than we anticipated earlier, and that is working its way through over time, with a lag of about five to six months, into the consumer price level. This has caused us to think that the future level of inflation will come closer to the 2% level than we had anticipated earlier, despite the fact that, in the very short term, we expected it even to exceed that level. On average, we expect inflation to remain low, but only just below the 2% level. There are risks and it is these risks which we continuously cite. All these risks point to the upside. These forecasts which I just implicitly gave to you are of course surrounded by factors of uncertainty, and all the uncertainties seem to point in the same direction: that is upwards. That is why in a pre-emptive manner we have taken measures and we remain vigilant also for the future. How long that future will last I cannot tell you. I do not know. The exchange rate has an impact on future inflationary developments through the levels of import prices and producer prices which I quoted. The exchange rate is not by itself causing us to take measures, but if a certain level is prevailing for a very long time and a longer time, in particular, than had been anticipated earlier we have to take that into account as one of the indicators which we include in our broad assessment of the future outlook for price developments. There is no direct exchange rate targeting policy.

Mr Katiforis:

Mr President, as you said yourself, the forecast or the implicit forecast of inflation is surrounded by uncertainties which you reckon are on the upside. Are you confident that the bank has the tools which are necessary to forecast inflation in such a narrow range of 0-2%, and would it not give you more room for manoeuvre if you relaxed the target, say, made it 0-3%, because 0-2% seems too difficult with the existing means that I know of, unless you have other means that I do not know of. It's too difficult to forecast in such a narrow groove.

Mr Duisenberg:

Yes, you should not forget that it is the Treaty which prescribes to us to maintain price stability. The Treaty failed to give a definition of price stability, so we had to define what should be understood by price stability. The main factor we have to take into account is that in all measurements of price developments in all countries around the world, we know there is a

measurement bias in the figures which makes the actual inflation figures probably overstate the underlying real rate of inflation. We do not know how large, in this new environment of monetary union, this measurement bias is. We have an idea what it was in individual countries, but we live in a new world, so, to my mind, when we adopted the 2% we were certain for ourselves that with that we would encompass any measurement bias that in the future we might be able to estimate or guesstimate in a more fundamental and responsible way.

Mr Perez Royo:
I would like to insist on a point raised by yourself, Madam President, and also on the question of the exchange rate, to complete it with a consideration concerning the attitude of the European Central Bank, vis-à-vis other monetary terrorities and, indeed, the Federal Reserve. One has the impression sometimes that the decisions of the European Central Bank are determined by the moves of the Federal Reserve. Almost all of the decisions taken concerning the interest rate by the Central Bank in its short life have been subsequent to similar decisions of the Federal Reserve. Now, the recent increases in the interest rate in the US was a response to the necessity of cooling an economy that is overheating, has clearly overheated after several years of strong growth. But that is not the case in Europe where the recovery is not yet fully consolidated, at least in some of the countries of Europe. By the way, the attitude of the Federal Reserve during the first half of the 1990s was exactly the opposite. The Federal Reserve already under the direction of Greenspan did not raise the interest rate until the recovery in the US was fully consolidated. Now, my question is the following. To what extent was last week's increase in the interest rate determined primarily by the weakness of the euro or, more precisely, by the alarm of public opinion concerning this weakness.

Mr Duisenberg:
The answer is, to no extent has it been determined by developments in the exchange rate as such. What, in all fairness, I might say, one *could* ask is, if you already thought you were going to raise interest rates two weeks before, why did you not do it then? But one of the reasons we did not do it then was that that would have immediately followed some days' sharp fall in the euro and that would have been regarded, and we take such things into account, as a panic reaction to precisely the exchange rate which we did not want it to be seen as. It is one of the reasons why we waited some time.

Mrs Riis-Jørgensen:

Mr Duisenberg, as I am sure you know, we will have a referendum in Denmark on 28 September about Denmark joining the EMU, and I have some questions for you. How soon after a 'yes' – I hope a 'yes' – can our Danish Krone be linked to the euro, and the Governor of the Danish National Bank participate in the ECB Council? In these circumstances I refer to the Greek application this March and the Drachma's participating from new year this year. I hope you can clarify this matter for me. Thank you.

Mr Duisenberg:

First of all, the link to the Euro is already there, because Denmark in the context of the ERM2, closely links its exchange rate within a narrow margin of ± 2 ¼% to the Euro. There is already a link. But how soon can the Governor of the Danish Central Bank join the Governing Council? That she can do only at the moment that Denmark really has entered into monetary union. She already is a member of the General Council, so we already have regular contacts and, I can add, we have far more frequent contacts than that with Mrs Andersen, but the actual participation in the deliberations in the Governing Council on all issues, that can only happen once Denmark has formally entered into monetary union. The same question applies at the moment to Greece, if Greece gets its way, if in June of this year the European Council of Ministers – actually it is the Council of Finance Ministers which makes the final decision – if the decision is that Greece will be a member of monetary union as from 1 January 2001 then the Governor of the Greek National Bank will only on that date, 1 January 2001, be a fully-fledged member of the Governing Council. This is not to say that in the run-up to that period we would not invite the Governor of, in this case, the Greek National Bank, and you and I hope in the future the Governor of the Danish National Bank, to attend meetings of the Governing Council, when issues of particular relevance to Greece and Denmark respectively are on the agenda. It will be a smooth transition of entry into the decision-making bodies, but up until the formal moment of accession to monetary union there will be no voting rights for the Governor concerned.

Mrs Riis-Jørgensen:

Just a small clarification. Do we need to come in on 1 January as you talked about in the case of Greece, or can we do it in the middle of a year. Assuming that we get a 'yes' in September and then we have the formal decision at the end of this year, could we then join in the middle of next year, or do we need to have it around 1 January?

Mr Duisenberg:
At any time the Danish people so decide.

Mr Huhne:
Can I ask you a bit more about future developments, particularly since a number of market analysts have stressed to us that they do not think they are getting enough information about future intentions on policy. Firstly, given the relatively low level of real interest rates in the Euro zone - I come at this from a slightly different direction to my socialist colleagues – what do you think the neutral level of interest rates is in the Euro zone? You mentioned in your opening statement that you thought that the current level of interest rates was still giving a boost to growth. What would be the neutral level?

Secondly, when you are talking about oil prices, could you expand a little on what you think the impact will be, not just after, when this is fed through, but on the longer-term inflation picture. Do you expect any second round of impact from both the exchange rate fall and the oil price fall?

Thirdly, very much on that theme, to what extent do you share Mr Greenspan's optimism about the impact of the new economy on the prospects for growth, particularly since at the peak of the last cycle in the euro-zone we were looking at an unemployment rate which is not that much below where we are now, about 8%, so how much further can unemployment get down this time, do you believe, as a result of structural measures which you outlined under the new economy?

Mr Duisenberg:
First of all, we do not know the neutral level for interest rates. We also do not follow Taylor-type rules for our monetary policy as you know. We do not precisely know what rate could be regarded as neutral over the medium-term and over the cycle. On a previous occasion in November when we raised interest rates, I was so courageous as to say although we do not know what the neutral rate is, in an answer to a question by a journalist, we are sure that this move takes us somewhat in the direction of the neutral rate, whatever it may be. I would be less sure today to say similar things about the two recent movements that we have had, since we simply do not know what precisely the neutral rate is. Are we afraid for second-round

effects? Do we see them happening? To that the answer is 'no'. Up until today, as I said in my introductory statement, wage development and the outcome of current wage negotiations can still be characterised as moderate. We do see signals here and there that wage demands might be on the rise. Under the influence, in some areas, of both signs of an economy being, or becoming, overheated - under the influence of price developments in the energy sphere and we warn, or we caution, wage negotiators all across Europe to be aware that these effects are supposed, and hoped, to be only temporary. On the new economy, that is a very difficult one. We do hope, of course, that the remarkable phenomenon of the penetration of information and communication technology throughout economic society in the United States - which has changed the character of that economy to a significant extent, thereby leading to productivity increases which were unheard of recently -, will penetrate also in Europe and we see some signs that it will. But in Europe it is coming later, and one hindrance to its coming is precisely the rigidities in all markets that we perceive, and that are significantly more often present here than on the other side of the Atlantic. But it is, I believe, too early to be able to speak about a new economy as being born.

Mr Theonas:
Mr Duisenberg, I have a question. You said that despite the increase in interest rates the rate of growth is probably going to go up, or we are going to have a stepping-up of growth. Now, about a year ago the reduction in interest rates was also being held up as a factor for growth. Is this not something of a contradiction that both an increase and a decrease in interest rates has the same effect? Secondly, what are the workers supposed to expect of this increase? How are jobs going to be increased? How is unemployment going to be brought down? Third question on the Greek economy, as far as the entry of the Drachma is concerned, into the Euro, until 1 January 2001 the long-term interest rates have to be brought down from 8 ½ to 9% to around 4% which is the Euro rate. If you are worried about the 2% inflationary rate, what are the Greek workers going to expect in Greece with such a sudden extremely rapid reduction in the long-term interest rates in Greece.

Mr Duisenberg:
A year ago, in April last year, we saw signs, and they have been confirmed in practice, that we were entering into a phase of approaching deflation and we always have maintained and we have made it true in practice that the ECB, as it is popularly called, hates deflation as much as it hates inflation. So, when we saw those signs developing we relaxed monetary

policy - but not, as you say, for monetary policy to stimulate growth as such. It were the risks of deflation which quickly receded and by around the middle of the year we came to other conclusions. Maybe partly as a result of our measures we changed course. So there is no contradiction. The measures taken last week were not measures to foster growth. I simply maintain that they will not hinder growth and the continuation of growth. On the contrary if we can deliver a climate over the medium-term of stable prices, we do believe that that gives the best chance to business, to entrepreneurs, to workers also to anticipate as correctly as they can the future. It is in a climate of stability in which they can take responsible investment decisions and spending decisions in general. On the Greek drachma, first of all in the Euro area long-term rates are not as you say 4%, but, on average today for the 10-year German Bund, for example, the rate is 5.25%. The long-term rates in Greece are still considerably higher and that differential will diminish. It has to diminish. In the short-term end of the market it has to diminish even further. There you might say that last week's measures by the European Central Bank should have been very welcome to the Greek National Central Bank, because it further diminished the gap which still exists between the Greek short-term rates and the Euro area short-term rates, but it still exists, so it is inevitable that in the process towards entering monetary union Greece will go through a period of loosening monetary policy. That in itself has, or could have, dangers for inflation. That is the reason why we continuously urge the Greek Government, and I believe they listen, to take the measures which are in their power to counter that threat, but they do not have monetary policy at their disposal.

Mr Schmidt:
I would like to ask a question about the Euro. Since the introduction of the Euro it has lost value, not just compared to the US dollar but also against other EU currencies which are not part of the Euro, and also vis-à-vis other non-European currencies. I have various pieces of information, from the press for example, and people who are also working in this sector are saying to me that the ECB and the Bundesbank probably are going to take measures in order to stop the fall in the value. Is this true that they are going to make purchases to support the Euro? Has it happened? What kind of impact has it had on the Euro and what is the justification of this kind of supporting purchases?

Mr Duisenberg:
Although the ECB has the power to intervene in the foreign exchange market, it has up until today not used that power at all. The only interventions that have taken place in the course of

last year were interventions made at the request of, on behalf of and for the account of the Central Bank of Japan. Those interventions were at their expense. The ECB itself has not intervened in the foreign exchange markets and the developments of the exchange rate. The exchange rate, not being a direct target for us, has so far not given rise to us to contemplate doing anything like that.

Mr Abitbol:
Mr President, I imagine that you have felt the scepticism on the benches of this committee about your policy and I am struck to see this is across all groups. I will try to put this into an image. It reminds me of Dino Buzzati's book "Le Désert des Tartares". He is fighting an imaginary enemy. He goes onto the offensive against a totally imaginary enemy. In your case it's inflation. You bring out your armoury, 25 basis points every three months, but the only result is that it causes the Euro to depreciate. There is no real enemy. It brings the Euro down every time you leave your castle. Now, do you not feel mainly responsible for the devaluation of the Euro, which I welcome? There is a 1% increase in economic growth because of this. The stock exchanges are going up with the dollar and down with the Euro in the Europe and we owe the beginning of economic recovery to this. My question is; are you not the main person responsible for the devaluation of the Euro? You say you are combatting it by increasing your base rates.

Mr Duisenberg:
I did not say that I was combatting the exchange rate of the Euro by increasing interest rates. I repeatedly said our real enemy is inflation and it is the only enemy which we are supposed to fight. That is our mandate. On the exchange rate itself, we can say that in the first three months of 1999 the exchange rate of the Euro returned to the level which had prevailed throughout 1997 and 1998 and it was only a blip around the introduction of the Euro itself in January 1999. In September a further fall admittedly occurred which, in normal circumstances, is not inexplicable at all, given the differential between economic developments in the most important economic region in the world and the second most important economic region in the world, given the differential in cyclical circumstances between the United States and the Euro area. That also leads me to believe into potential for a change given the fact that we do now see what I characterise as a robust recovery of the Euro area, and expecting growth rates in excess of 3%, both in 2000 and 2001, and given the fact that sometime, someday, the extraordinary high growth figures of the United States must

come back to more normal levels. If there is indeed a new economy, they may stay at higher levels than we have seen in the long-term past, but they must some day, and they will, come down in the direction of what Europe will be demonstrating. Those are the fundamental reasons why we in the Governing Council and the Council of Ministers see the Euro having a strong upward potential, but it is not a target for us.

Mr Abitbol:
Another question along the same lines, what do you think of the French Government's decision to use its extra revenue to bring taxes down rather than the deficit?

Mr Duisenberg:
As I said in my introductory remarks, this robust recovery is a golden opportunity for governments to reach the targets which they have set for themselves in the context of the Stability and Growth Pact as soon as possible, and with that I believe I have said enough about the French Government as well.

Mr Blokland:
I would like to pursue this conversation with Mr Duisenberg and I wish to refer to the structural reforms. The OECD report which was published at the end of February about the economy of the European Union, speaks a very clear language about the efforts the member states should make. It speaks about structural reform, stricter monetary policy, strengthening the internal market legislation and control of government expenditure. It speaks about sustainable financial management with the aging of the population. So my question, Mr Duisenberg, is; in your view are the member states making enough effort to do what the OECD report says they should do and in which areas are they acting satisfactorily and where could they do more? Secondly, what do you think about the development, that despite the good economy the governments in most EU countries are still increasing right now strong economic growth. Is this not a risk for the sustainability of public finances in the long-term or is there no need to be worried?

Mr. Duisenberg :
With the OECD recommendations the ECB to a very large extent, if not totally, concurs (they are however more country-specific than anything the ECB would do in approaching Euro area wide problems). As I said earlier already, the structural reforms that are necessary across

Euroland can differ very very much from one country to another. I am not in a position, since I have to approach the Euro area at large, to give specific advice, such as the OECD can do, but I also want to underline: let us not fall into the trap of under-estimating what is happening already. I can give a specific example nevertheless. The fact that the German Minister of Finance succeeded in getting a huge and significant tax reform on track, has to be interpreted very positively in this respect. In other areas where more can be done it would be a very long list, it would be very country-specific because circumstances differ so much from country to country and I am not in a position to do that here and now in this context with individual countries. Does structural reform by itself endanger – as your question as I understood it – government finance? I do not think so. I think it would, and could, help government finance. We see that in all countries where it is occurring. We see the opportunity to consolidate government finance coming earlier and stronger than had been expected at an earlier stage. We see the strong increase in economic growth thereby helping government finance. We only do hope that the yield that this delivers to governments will be from a long-term point of view, in the first instance, directed towards diminishing the public debt, especially in those countries where public debt is still a huge share of GDP, to make room for the costs that inevitably all European governments will have to face in the long-term future owing to the aging of the population which inevitably will increase the costs of health care and of pension rights in the long-term future. It would be wise already today to start saving so that those costs can be met in a responsible way when the moment comes maybe ten years from now - but it will come.

Mr Karas:

Mr President, I know you have already said a lot but I would like to ask whether there is any change in strategy for the base rates, because over the last few years you said that it is your objective to take measures less often but more clearly. Over the last few weeks it has gone up less high but more often, so is there a change in a strategy on your part or on the part of the Council? You talked about the information campaign. You know that the external value of the Euro is important for the information campaign and for the psychology of people. It is the foundation of trust in the Euro. As far as your information campaign, what are you planning in order to respond to this psychologic issue?

Mr Duisenberg:

There is no specific strategy for either the frequency or the size of interest rate moves. They will be determined on the moment that it is thought appropriate to do so and be of a size which also is appropriate. Sometimes we want the signal to be, now we have increased interest rates to a level which we think will prevail over a relatively long time. Such an increase then is more likely to be 50 basis points than 25. When you do not want to send that signal then you choose amongst other instruments, that is words - also you choose maybe other magnitudes. In the current economic climate it is a matter of *Fingerspitzengefühl* to determine that in the current economic climate and given the robustness of the economic upturn which we are in the midst of, it would, to my mind, be pretty sure that with whatever magnitude we had increased interest rates, if we wanted to do that, we would not have been successful in then creating a climate which would have given rise to the expectation that no further increases should be expected. It is a matter of taste and, as I say, *Fingerspitzengefühl* to do that. The information campaign I talked about, we will come back with that to your committee in due course. Actually, I hope to sign the contract with the company that is executing this information campaign early next month and very soon after signing that contract, which is a huge contract, we will be able to present to you the outlines of the campaign. It is exclusively directed to the euro banknote introduction and alongside with the Commission partially also to the coins. That is all that the information campaign is about and it is certainly not about the exchange rate.

Mrs Kauppi:

Even though you had the opinion that the brave new economy does not exist in Europe, I have to disagree on that, but I think that it could be even stronger (the new economy in Europe) if the full implemention of Risk Capital Action Plan, which is now on the agenda of the Lisbon Summit, does happen. Would you say that the common interest rate is an increasingly appropriate or a less appropriate tool in the new economy? It seems to me that the interest rate decisions have only a small effect on the blue chip stock market prices where the bubble is – if there is a bubble – in the new economy.

Mr Duisenberg:

I do not know if there is a bubble and even if I knew it I would not say it. I do not deny that signals of this information technology penetrating in the economy are visible here and there in

Europe. In Finland, it is certainly the case. In Ireland, it is certainly the case. I believe in the Netherlands it is the case. In other countries it may take a little longer for it to penetrate the entire society and to turn the society more or less upside down like it has done in the United States. But it is not absent. I repeat what I have said earlier. It may be on its way. The intensity we are not sure about. One thing we are sure about, the existing rigidities in markets are diminishing also throughout Europe, not everywhere with the same intensity and this is in itself a factor which may delay somewhat the full penetration of this productivity-increasing phenomenon. Interest rates do not seem to have hampered the emergence of a new economy in the United States if such a thing exists. Therefore, I do not expect them to hamper the further penetration of new technologies in Europe as well.

Mrs Randzio-Plath:
I would like to ask a question, Mr Duisenberg, on the financial markets. The ECB is independent of political instructions. How independent is the Central Bank of the financial markets?

Mr Duisenberg:
In theory we are fully independent, but, of course, we watch closely what is happening in the financial markets, both the short-term and the long-term markets and the derivatives: all financial markets, and both in Europe and the United States. Then we come to an independent judgement about whether we should do something to try to influence financial markets. We are fully independent also from markets but we are certainly not neglecting the signals they are sending us and the public about future developments.

Mrs Randzio-Plath:
What is the impact of share prices on your decisions, for example, on inflation?

Mr Duisenberg:
It is difficult to quantify: we of course also watch the developments of the stock exchanges. We watch the developments in the real estate market, but I cannot quantify what precise impact they have. For example, I quoted the consistently high growth of credit to the private sector which has taken place throughout 1999 and up until today of around 10% per annum. In part this credit to the private sector has financed the activities in the financial markets.

Mrs Peijs:

Mr Duisenberg you said you must do what you say and say what you do and I think that is a good point of departure for politicians as well. It is important not only that communication and policy are in line but that they are clear. Now if you listen to Giorgos Katiforis this afternoon who has a cold but who could be understood, then it's not always unambiguous, there is an unclear policy from the ECB which sometimes leads to uncertainty and a lack of confidence which we could have done without at the beginning of the euro. Just take the external value of the euro. Last time we were here, we were just talking about the inflation figures and you said that the real value of the euro, certainly in the future the euro will achieve its fundamental value but you didn't say when and how, but couldn't you be reactive rather than preventive because if you look at the external value of the euro it seems to be below the dollar value. Haven't we reached the psychological level where, haven't we missed the opportunity if you like to become a real reserve currency in the world?

Mr Duisenberg:

I believe that the signals that we are sending out and that we have sent out are fully consistent also over time. As far as the exchange rate is concerned the fact that we have gone through parity with the dollar in itself has no significance. I do admit, if the movement had continued that could have had a self-reinforcing psychological impact which we certainly wouldn't have liked. Why not? For two reasons: such a movement would affect the credibility and the confidence of the people in their Central Bank and, because of the impact it might have, and then I am back at my starting point, on domestic European inflation over time. I really do not agree that we have sent confusing signals. I think that we have sent and are sending in our press statement every month, in our bulletin every month and to the maximum extent possible in as far as there are 17 Members of the Governing Council, 11 Ministers of Finance, all speaking out on the same subject, we make the maximum effort to send out consistent signals. And they have to speak out. I do not want for a moment to silence them but what we do want to ensure is that with all those voices we all say the same thing and we don't add to confusion but rather take it away.

Mrs Peijs:

Just a supplementary question. The Central Bank is responsible for the payment system. Are you satisfied with the way the cross-border payment directive which came in in August, are you satisfied with the way it works?

Mr Duisenberg:
I cannot answer that question in great detail because I am not an expert on these things. I have not had signals that we should be dissatisfied with the execution of this new directive. All in all we are very satisfied with the functioning of TARGET for the large cross-border payment systems. We are, like you, still less satisfied with the cross-border payment system for the retail sector, for the private consumers. That still can be improved. We have published action points which should be undertaken by the banking system to improve the cross-border small payment system across the euro-area.

Mrs Randzio-Plath:
Mrs Peijs is the Parliament's rapporteur on that area and I can say that all Members are daily confronted with complaints both from small and medium-sized companies and also from private individuals and the fact of double costs is very much on the agenda in many Member States.

Mr Radwan:
Thank you very much. The Greek position has been mentioned a couple of times. I would very much like to know what the Greek application is thought of by the ECB and also the Central Eastern European countries that want to enter in the euro as soon as possible?

Mr Duisenberg:
We are working hard as I have said in my introductory remarks on preparing the convergence report on Greece which is to be finalised and will be presented to the Council of Ministers on 3 May. I cannot prejudge today what precisely will be in that report although I begin to get a pretty good idea because we have been working on it for some time already. On 3 May the European Commission will also present its convergence report on Greece, that's the procedure. Then it will be up to the European Parliament to give advice on the basis of the two convergence reports which will go to the Ministers, to the European Council, in the composition of the Heads of State or Government who in turn will - strangely enough, to my mind - will also give their opinion on the basis of all these reports to the Council of Finance

Ministers who will presumably in June come to their final decision. It is the Ecofin which will make the final decision on entry. If that decision were to be, entry is okay on 1 January 2001, but that's a hypothetical situation today, then presumably on 31 December of this year there will be the final decision on the conversion rate of the Greek drachma into the euro to be valid as from 1 January. So there is still 6 months between the decision to permit entry and the establishment of the conversion rates.

Mrs Villiers:
I would like to ask you, President Duisenberg, about another out country, the United Kingdom. Gordon Brown has consistently said that he does not intend to take the United Kingdom into ERM2. If the UK was to make an application to join how would you envisage the required exchange rate stability being achieved? Would the UK have to go into ERM2 despite what the Chancellor of the Exchequer said?

Mr Duisenberg:
If it ever comes for the European Central Bank also to make a convergence report on the United Kingdom then the European Central Bank has no option but to give a judgement on all the convergence criteria, the extent to which they are fulfilled. Membership of ERM2 is one of the convergence criteria. It is up to the EU Council to decide what weight they will give to complying or not with any criterion. But that is up to the people high up to make that ultimate decision, not to the European Central Bank.

Mr Purvis:
My point is even more parochial. This is a £5 Scottish banknote. This is by the Royal Bank of Scotland. All the Scottish banks issue their own bank notes. It is a thing which has survived even the Union with England in 1707. Sir Walter Scott and many other Scots fought for this through the years and it still exists to this day. But apart from the historical and sentimental aspects of this, it also has practical advantage. These only have to be backed, pound for pound, with Bank of England notes if the money is an issue outside of the bank branch. The money in the bank branch does not have to be backed, the money in the ATM does not have to be backed and this makes a very major difference to the economics of running bank branches in a sparsely populated country such as Scotland. Is it not possible, if ever the UK does apply to join - this will become a political issue in Scotland, it already is to some extent – is there not some way in which it would be permitted to local banks, such as the Scottish

banks, to continue issuing their own notes backed euro for euro by ECB notes in their vaults for local use?

Mr Duisenberg:
I think the Treaty does not permit those Scottish banknotes then to be regarded as legal tender throughout the euro area. So, independent of whether the ECB would do nothing to prevent such a thing from happening, I would hope that Scottish people would in that future be as proud of their euro notes as they are today of their Scottish notes.

Mrs van den Berg:
I have a different question. Every time the bank makes a statement where you speak about price stability and the need for structural reforms in the Member States in the euro and it would be nice if you could tell us something about new developments in this area, the extra summit which is going to be held at the end of this week by the Portuguese presidency. There will be talk about structural reform and other subjects but what is important to us is that they adopt a broad economic and social agenda. The European Commission has given a good example through a working party which was chaired by Prodi and the different DGs and it has made a contribution to this summit. It is broad based, it is not restricted to specific subjects but there is a connection between many different subjects including social policy and it would be nice to hear from you what you think of this sort of development? The Government leaders have stressed their responsibility in giving this social forum in cooperation with each other and the European Central Bank?

Mr Duisenberg:
I have to be very careful as central banker not to exceed my areas of competence. We are not participating in this upcoming summit as central bank, the European Commission is, but we closely watch and follow what is happening. We try to make our contribution to it by also emphasising time and time and time again, as you correctly say, the necessity to bring Europe on a higher growth path through structural reforms and then we do by no means shy away from entering into a dialogue, not only with Governments but also with the social partners. We participate in the macro-economic dialogue which is a dialogue between all governments, the European Commission, the European Central Bank and the representatives of unions and employers. We are actively participating in that but our instruments are of course limited - our only real instrument is the interest rate weapon and the liquidity provision to the economy

at large and the only additional instrument we have is, to say it politely, to let our voice be heard.

Mrs van den Berg:
A supplementary question. What do you think of the continuation and change which the Portuguese presidency is bringing into its agenda? You could have an opinion on that?

Mr Duisenberg:
The Portuguese presidency very much emphasises the need for structural reforms in all euro-area countries. We regard that as very positive. I also regard as equally positive the intentions, I have at least heard of them, they have told me so directly - of the upcoming French presidency to very much continue on this road to put the main emphasis of that Presidency period also on the continued necessity for structural reforms in the euro-area and we are very much in agreement with that.

Mr Caudron:
Mr President. I respect your competence but I do wish to be provocative on two fronts. Firstly are you aware that since the introduction of the euro as a European currency the citizens awareness of the currency has tended to decrease? It is talked about less and when people do talk about it they don't have much good to say about it. This includes the problem of payments from one country to another in the euro zones. So that is my first question, do you feel responsibility for this situation and secondly picking up from what my colleague just said you refuse to say anything in detail about what you mean by structural reform but every time you are asked a question you say we have to be careful about inflation, we have to reduce deficits so you have a view of these structural reforms which are very liberal. You do not take employment into account much as a priority, quality of life, public services and its budgetary costs so allow me to be provocative, I do apologise, what gives you the right to judge those Governments who were directly elected in this way?

Mr Duisenberg:
I have not the impression that the awareness of citizens since the euro has been introduced has decreased. On the contrary the signs I personally see and which are confirmed by polls hold regularly across Europe is that the awareness is on the increase. The euro's popularity is a different thing. The popularity may not be increasing to the extent that I would have hoped. I

do admit that, and I experience it as a great handicap that we have to wait so long before the actual banknotes are in the hands of the people. I certainly wish it could have been earlier but it cannot, but it's only now a year and a half or a little more away from that moment of truth. Therefore, we will overcome that handicap as time proceeds. What gives me the right to speak out about the need for structural reforms? I would simply say, the Treaty does because as Mrs Randzio-Plath so often tells us we do have a secondary objective. We have as primary objective to maintain price stability. Secondary objective is, inter alia, to promote growth and employment without prejudice to price stability. Well, promoting growth and employment we believe, can only be effective if in all countries, to differing extents, governments and social partners execute structural reforms. Structural reforms in labour and goods markets and services markets and also as we are consistently urging the private sector to do in as far as the acceptability of the euro is concerned to make it easier for medium-sized businesses and individuals, the people at large to perform transactions accross borders than it still is at present. There is progress in that field but it comes very slowly I admit.

Mrs Weiler:
Very briefly can I come back on that final comment that you recommend that the Member States carry out structural reforms. You will be aware that in the Member States your voice is being heard and taken seriously but if, by structural reforms you for example mean what our colleague from Spain said at the beginning of the debate that it would be necessary in the labour market to be able to hire and fire more quickly, then I think that would reduce acceptance by workers and by unions quite considerably. This would reduce it. So could I ask you where you are able to exert influence that you operate in such a way that the scope that the Member States have should be put into qualifications and training because there are deficits and it is important in public terms that this be exploited so I would be very grateful if you would be able to support us on that.

Mr Duisenberg:
Well, where can I exert influence, the answer is amongst others, here and today by speaking out loud on those subjects. In particular areas one can do that by publications, by making speeches and in particular in the regular exchange of views the ECB has with the Ministers of Finance in the context in particular of the euro-11. And there we do speak out and we say what we think and we hope that they do what we say.

Mr Huhne:

Two quick questions if I may Mr Duisenberg. One, could you give us a quick progress report on the progress you are making on your commitment to publish forecasts and to publish econometric models. And secondly, could you also say whether you will be making any proposals or intending to push for proposals to change at all the arrangements for the running of the ECB in the light of enlargement, in the context of the IGC, and particularly bearing in mind that if the Council goes to its full size with all of the candidate members and with the out members there will be 34 people on the Council and that you in Frankfurt will have fallen from a proportion of 35% to just 18%, so the centre will be much much smaller and the proportion of those thinking of the whole euro-zone will be much much smaller. Do you have any comments on that?

Mr Duisenberg:

On forecasts we are working hard on it and I still hope as I promised somewhat spontaneously here in Parliament last October, I believe that we will be in a position to publish responsible forecasts in the second half of this year. We are really working hard on it and it is not easy. It is not so difficult to make them, it's difficult to get them into a form which is responsible and in which they will be understood also by the public at large. What they mean, and most of all how limited their meaning actually is - but that will come. We are not directly engaged in the accession negotiations. The intergovernmental conference on institutional arrangements or rearrangements in the light of accession recently started and that is a conference in which Governments and the European Commission are actively involved. We watch closely what is happening. If there are EMU-related issues on the agenda we will see to it that we are there. Certainly there is the obligation to consult the ECB. As far as the ECB itself is concerned we have come to the conclusion that the accession as such of a number of new members, which in itself will be a process which will take a very long time, does not at this stage seem to make it necessary that the institutional arrangements of the ECB itself are adjusted. Then I would like to, if I may, make one general remark. When the new countries become a member of the European Union, the Governors of their central banks will immediately become a member of the General Council, which is a council in which now also the so-called "out" countries participate, and which has a limited mandate. It certainly does not have a mandate to exert any influence on the day-to-day policies of the system. So at a later stage, and I think it will be much later, these accession countries will also become members of the exchange rate mechanism. Then the situation still prevails that the Governor will be a member of the

General Council only. At an even later stage these countries will adopt the euro as their currency and become a full member of monetary union provided they fulfil all the convergence criteria precisely the same way as the founding fathers have fulfilled them. At that time, and I do not know when it will be, the Governing Council will be automatically enlarged, but I do want to remind Parliament that all the Members of the Governing Council are there in a personal capacity. They are not representing their country or their central bank. At the moment there are 17 members of the Governing Council. We are all equals and no-one is more equal than another. That will also be the case in an enlarged Governing Council. Never is there a block within the Governing Council, of the Executive Board versus the 11 national central bank governors. We do not want it and to be quite honest, I see to it that that never occurs. We should be there as one homogeneous body making the decisions so that no member of the Governing Council has a fear that the position of the Executive Board will be undermined if the number of non-Executive Board members who are members of the Governing Council is greatly increased. So that is the basic reason why, for the time being I say, we see no need to change the institutional set-up of the European System of Central Banks.

Mrs Bordes:

I can see the use of the Central Bank for industrialists, big companies and the employers in Europe. That is only a minuscule percentage of the european population but for wage earners the policy of your institution contributes to increasing unemployment. We have a monetary policy which exclusively takes into account the interests of the main industrialist and banking groups. You must know that these people fire people or scrap jobs even when their profits would be enough to absorb unemployment. European and national institutions only perpetuate this crazy, scandalous situation. We are the richest countries in the world yet there are 18 million unemployed and 50 or 60 million poor. So my question is, don't you think by continuing in this way you will end up by provoking the anger of people who work, who underlie the whole economy and are being forced to work under the threat of unemployment and poverty?

Mr Duisenberg:

Well in as far as our policies and those of national governments will result, for the two years to come, in a growth of output which I would like to point out is above trend, is above what we have perceived on average over the past 25 years, and which at long last is to make a dent

in the unacceptably high unemployment level, I do not see the danger and the fear that you just expressed.

Mrs Randzio-Plath:

That takes us to the end of the speaking time allocated. Mr President I think we will aim to spend an extra half hour at the next meeting in order to be able to tackle all the questions. Thank you very much for this open dialogue and I hope that the questions on any secondary objectives will continue coming in and I think today that we have shown that there are counter arguments against certain interest rate decisions and one thing I want to stress is that this is important for those who want to get to grips with the underlying reasons behind these decisions and in Parliament we have to make sure that the arguments for and against such decisions are received by the Central Bank. It is a long path which we have to go along until we get notes and coins in circulation but I do hope that the information campaign that the European Commission and the Member States and the European Parliament are conducting but also with the European Central Bank and the national Central Bank we will have such trust in the system that once people get the notes and coins in their hands we will all be able to say with confidence that the same money, the same good money, is being used everywhere. So thank you very much for today.