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

**5 March 2001**

**Chairman, Mrs Randzio-Plath (PES/D)**

I'd like to welcome Mr Duisenberg to the first Monetary Dialogue this year, under the strict conditions that Mr Duisenberg only has 15 minutes for his introduction, so that we can use the time until 5 o'clock for questions and answers. I'd like to point out too that we have got the promised Christmas present from the ECB. In the December report there was a sort of inflation forecast made to us. This present had the problem of giving us something with one hand while at the same time taking something away with the other, but that's presumably how we'll arrive at more transparency in monetary policy. The President of the ECB, I'm sure, will be able to say something about that. On the question of the econometric models, we'll be able to work if we have the bases of the decisions of the European Central Bank made better clear to you to demand steps or to criticise them. President, you have the floor.

**Mr Duisenberg**

Thank you very much, Madam Chairman. I shall try to stick to your discipline. I am happy to be here. The last time was 23rd of November last year and, as usual, I shall try to present first the ECB's analysis of recent economic developments and its assessment of the prospects in the euro area, that is focussing on how to foster the continuation of non-inflationary growth in the euro area. Then I shall report to you on several important decisions taken by the governing council with regard to the introduction of euro banknotes and coins. But before I start, I don't want to let this opportunity pass without also, in this forum and on this occasion, saying a word of welcome to the newest member of the euro area, namely Greece. By adopting the single currency on the first of January this year, Greece has become the 12th member of the euro area, sharing the rights, but also the obligations, of the other member states, which already have adopted or had adopted the single currency.

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

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you very much for your introduction and your presentation. I'd also like to say that in the European Parliament, and in this Committee in particular, we have been delighted to see the commitment with regard to retail payments made by the European Central Bank. We were rather impatient about that, and the ECB has actually shared this impatience, but I think maybe the end result will be that travellers, the general public and so on, will actually realise that the European Union represents advantages for them, and that monetary union is not just going to be a union for large payments but for all kinds of payments. So I'd like to thank you expressly for that. And now we move on to our question and answer session. Mr von Wogau to start.

**Mr von Wogau (EPP/ED/D)**

Thank you very much Mr Duisenberg for your presentation. I'd like to congratulate you for the very calm course that you have steered over the past few months. It wasn't self-evident because of all the commotion that was going on across the Atlantic. I have a question about the rate of inflation. The latest inflation rate over 12 months - you've just mentioned it - is 2.4%, and you said that you were confident that in the medium-term this inflation rate would once again be forced down below 2%. Now my question is, what does "in the medium-term" mean? And also, I'd like to know whether it wouldn't be a negative signal if we were to note at the end of this year that the ECB over two successive years had missed that particular target. Shouldn't we then define medium-term as meaning before the end of this year? That leads me on to another question, and this has to do with our relationship with the United States of America and the level of our lead rates. These have fallen in the States. They have remained stable in Europe. But the question is, who is following whom? Is there any form of automaticity, i.e. if the United States reduces its rates does that mean that Europe is going to do the same?

**Mr Duisenberg**

I expect the rate of inflation, as measured by the harmonised index of consumer prices, to fall within the 2% limit in the course of this year, so not even in the medium term but in the near future. It may however take another 3-4 months before we are there. So I don't expect yet that in the future we will have to record the year 2001 as another one in which we have missed our target. As far as the United States' interest rate level is concerned, it is of course true that there it has fallen. Interest rates have been lowered and the ECB has stayed put and for the time being it will remain that way. We very much await further signals of economic developments before coming to yet another move. So there is no degree of automaticity either way in what is going to

happen to official interest rates for the euro area, for which I can only speak. The only target we are endeavouring to achieve with our monetary policy, and therefore with the use of our monetary policy instruments, is the maintenance of price stability, and I mean internal price stability, over the medium term.

**Mr Goebbels (PES/L)**

President, you've just told us that the interest rates are going to remain stable and I interpreted that statement from you as meaning that the European Central Bank will not be changing its policy with regard to rates before inflation has moved below 2%. Is that interpretation correct?

**Mr Duisenberg**

We have not changed policy and we will not change our monetary policy strategy - to that extent your interpretation is correct. But I would not hang it on a particular figure, whether it is being reached or not, and at what moment in time. So, to that extent, your interpretation - I'm afraid to say - goes too far.

**Mr Goebbels (PES/L)**

Well I'm very pleased to hear you say that, President, because that means that this notorious figure of 2% does not constitute a kind of limit that we can never go beyond. But, if you don't mind, I'd like to ask another question linked to that, because the ECB has just published economic forecasts which, as you explained when you last spoke here, are forecasts by your services. However, does the ECB and the governing council, when it is taking its decisions, rely on the forecasts of its own services?

**Mr Duisenberg**

First of all, I would like to re-emphasise that our monetary policy strategy is of a forward-looking nature and is directed towards the medium-term. Therefore, actual inflation figures, as they come out from month to month, are only being used as one of the indicators to determine our assessment of the policy to be pursued. Now the forecasts, as we have published them, are one of the elements on which we base our assessment of this forward-looking development of inflation and other economic variables. They are one of the elements, not the exclusive one, and also, for our decisions, which we have to take every two weeks, those forecasts, as you know them, and as they have been published, become very quickly totally outdated. So we

continuously reassess the value or the validity of the forecasts as they have been produced three or four or five months ago.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you very much. Mr Huhne.

**Mr Huhne (ELDR/UK)**

Madam President. Perhaps Mr Duisenberg would come back to the question of the US. I'd just ask you whether, given the very strong reaction to developments in the US from the US Federal Reserve and indeed the fact that some other central banks have been reacting in the direction of an insurance principle - by getting some small reduction in interest rates in, in foreseeing potential impact on their economies of developments in the US and other economies around the world - whether you think that there is room for a similar insurance principle in the euro area. Particularly since, as you have said in your introduction, the balance of risks has clearly moved and you point out the fall, both in the observed inflation rate and, indeed, in the first pillar, the slowdown in monetary growth.

**Mr Duisenberg**

Yes, and then I concluded that the balance of risks had become more even. A few months ago we thought that the balance of risk was still, so-called, on the upside. We don't conclude yet that the balance would now be on the downside, but it has become more even and there is, as I answered to Mr von Wogau, no automaticity, neither is there an insurance policy in monetary policy as a sort of reaction to monetary developments outside the euro area. We remain exclusively committed to maintaining, over the medium-term, price stability inside the euro area. External factors, of course, play a role. External developments play a role, also in our assessment of what the likely development is going to be. But that's about all I can say about this particular aspect.

**Mr Huhne (ELDR/UK)**

Can I just follow up on that - the numbers for merchandise exports from the euro area to the United States suggest that they're about 2% of GDP. Presumably there's also an impact through exports of services, although I know it's difficult sometimes to get that from the numbers, and other possible avenues of transmission as well. Would you expand a bit on how you see the influences working? And I wonder too if you're taking what seems to be a very relaxed attitude

towards developments in the United States, whether there's something of greater concern you're not expanding on within the euro area, and I'm particularly thinking there of recent wage developments? Perhaps you'd tell us a bit more about wage developments going on within the euro area and if that is a matter of concern. You gave the ritual warning here that there should be wage moderation, but you didn't go into too much detail about what's actually happened.

**Mr Duisenberg**

To answer the last question first, the indications, as we have them, are that for the euro area as a whole, the wages policies are still being executed in a moderate manner. Wage moderation seems to be continuing, with the exception of some pockets where there is some acceleration visible and it may be induced by changes in taxation or administered prices which may have second round effects here and there. On the whole, all signs as we get them, still point in the direction of a continued restraint in wage developments, which is gratifying, but it is crucial that it remains that way. Therefore I make the ritual reassurance, as I did it in my introduction. The impact of the slow down in the United States or indeed in world output growth on the euro area does not give rise to any relaxation of my attitude. We monitor it closely, but we have to realise that the impact on the euro area, through the transmission mechanism of trade in merchandise, or indeed also trade in services, is rather limited. The total exports to the outside world are only about 18% of GDP. Direct exports to the United States are only a fraction of that as you just said yourself. To a very large extent, the euro area can be considered as a relatively closed economy, comparable to that of the United States or, indeed, Japan.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you very much. Mr Lipietz.

**Mr Lipietz (Verts/ALE/Fr)**

President, I'd just like to come back to the point about price trends in the medium-term. I think that you were very clear in the past and you've been very clear today. You interpret the excess of 2% as a transitional factor, or a transitional phenomenon because of changes in oil prices and the difference in parity between the euro and the dollar. So you're not changing your policy because you consider that this effect is only temporary, and maybe you're right in that. But it seems that as far as you're concerned, the interest rate policy should be determined by medium-term prospects, which you've determined essentially by the difference between the potential growth rate of the European Union, or the European economy, and its current rate. I think that

the current stability policy is in line with your analysis here. However, you repeatedly told us that in December you'd be taking a decision on whether or not to revise the potential growth rate. Now, you've made a statement today that there has been no change in productivity growth, and you feel that in the future the growth rate in the European economy would not exceed the level of the past 20 years, that is 2½%. Can you comment on that?

**Mr Duisenberg**

The decision in December was the decision to leave the reference value for M3 growth unchanged, based on the analysis that there was no change in the trend rate of growth for the euro area discernible. Indeed, we estimate that still to be in the neighbourhood of 2½% per year. We continue to estimate that, for statistical reasons, the velocity of circulation keeps its downward trend of between ½ and 1% per year. So, in other words, there is no sign yet that we in Europe are already experiencing a phenomenon, which was so prevalent in the United States for many years, of a higher rate of growth of productivity than in the past. It's not here yet.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you. Mr Herzog.

**Mr Herzog (GUE-NGL/F)**

President, you are basing your strategy on two pillars, but it seems to us there's a large pillar and a small one - a Gulliver and a Lilliput, if you like. You're justifying your reference to the M3 indicator by the fact that the main risk is an inflationary one, but you're talking about uncertainty as well with regard to a slow down in growth and its impact. I think that every word you say is chosen with care, so if you're right and if there is no real risk of a slow down in growth, then my question is this: when are you going to reassess your point of view more specifically, and on the basis of which indicators? You may disagree, but I think that you've got a very specific indicator and a range of other indicators, that only you can interpret, and I believe that you are giving a different weight to each of these indicators.

**Mr Duisenberg**

We have a strategy basing our monetary policy on two pillars. There is no way that one can compare these two pillars in one being large and the other one being small. It is a matter of judgement, of assessment, what weight you give to developments under the one and under the other, every time. Now, if I have to be more precise, our expectation for economic growth still

is, for 2001 and 2002, that it will be close to, but just under 3% per year, which is in excess of the trend rate of growth we have observed in Europe over the past 25 years. There are no signs, we see no reason, also in the latest assessment we made last week, to come to a conclusion that the slowdown in growth, which is a slowdown, because last year we recorded 3.4%, and for this year and next year, we expect close to 3% is so large that we no longer expect what we call a robust rate of growth.

**Mr Herzog (GUE-NGL/F)**

A supplementary question, if I may. Do you not think that the euro should play an active role in the international economic arena ? Currently, the arguments are that we should watch what's going on in the USA but then go on to say that, in the light of the interest rate in relation to GDP growth in Europe, we can do alright. I mean, I think we are heading towards a slow down, so what shall we do?

**Mr Duisenberg**

I think, and I know I am repeating myself, that the most important contribution that the ECB can make, also in the current circumstances, is to reassure the public at large, and that is the world, that we will maintain price stability, thereby contributing to the best of our ability to a rate of growth, which one can qualify as being robust, at least in a historical perspective.

**Chairman, Mrs Randzio-Plath (PES/D)**

Mr Abitbol.

**Mr Abitbol (UEN/F)**

Thank you Madam Chairman. President, it would appear that the Central Bank is not satisfied with watching over price stability and making sure that that happens, which is something we've been talking about for a while. No, you decided to, in a sense, advertise the euro to the public at large. There's a campaign with the slogan "The Euro - Our Currency", which is going to run in parallel to a French government campaign, which is quite surprising. Perhaps that might lead to complications - I don't know. So what I'd like to know is who is behind "The Euro - Our Money"? If it's the Central Bank, and quite frankly I don't see who else might be behind it, then, obviously, public opinion won't take the word "our" to mean "theirs". Maybe the advertising agency might have advised you better. Now anybody in the media will point out that rather than a campaign called "The Euro - Our Money", it would have been better to have a

French campaign made by a French advertising company or a Belgian one in Belgium, and so on. So is it the Central Bank behind this? Aren't you afraid that this campaign will further increase the unpopularity of this currency? I mean we saw this in the Danish referendum. They made it pretty clear what they think of your currency. According to surveys in France and in Germany , and I am talking here of the Economic and Finance ministries' survey, for the first time in 3 or 4 years the euro is viewed more negatively than positively in public opinion. And in Germany the euro is doing even worse. Mrs Randzio-Plath will correct me if I'm wrong. I mean, look at the Swiss yesterday. That's a good little litmus test of opinion. Obviously, there were other factors at play in Switzerland, but anyway... So what I'd like to know is, have you prepared for a situation where public opinion rejected the euro? In other words, in the case that people don't start using the euro the way you're trying to force them to do? I mean, the decision and the choices have been made, but is there a risk of this sort of thing happening? Has the Bank considered a solution? I'm not saying turning the clock back, but do you have some kind of fallback solution? I think you ought to. Thank you.

**Mr Duisenberg**

This gives me the opportunity, Madam Chairman, to emphasise once again that the campaign we have launched is not a campaign to sell the product or to advertise the euro The campaign is specifically directed towards the public at large to make the public familiar with the new bank notes, and to make their face known, to make their security features well known, to make their size and colours known. It is to familiarise the public with the new notes, nothing more but also nothing less. This campaign is a campaign of the European central banks, as united in the Eurosystem. Indeed it is a campaign by the ECB and the 12 national central banks of the Eurosystem. The national central banks, in addition, will formulate national campaigns and so will governments. They will have also, for the changeover process, additional national campaigns and all these campaigns are being closely coordinated and monitored. There is a great deal of cooperation there. Because you mentioned the French public in particular, it is perhaps reassuring to know that the campaign being launched by the French government is entrusted to the same public relations advertising company that is preparing the ECB campaign, namely the Publicist agency in Paris.

**Chairman, Mrs Randzio-Plath (PES/D)**

As is the German campaign, by the way.

**Mr Abitbol (UEN/F)**

Well thanks. Well, you know, you can make a mistake twice, after all. I worked with this company before, and I can confirm the fact that they are a very good agency; of course they still can get things wrong. My question is not who's behind it, I mean obviously it's the banks - fine. I'm not at all convinced that the idea of bank as state is something that has really taken root in French minds. No, the question is, in your reasoning, in your gameplan, as it were, have you provided for the possibility of the euro being rejected in a particular country, in countries where people decided to boycott it, you know? Let's imagine that that happens - what would you do then?

**Mr Duisenberg**

Well I have not considered an alternative, Madam Chairman, because in my experience as a central banker and associated with central banks, which is an experience of 30 years, I have never encountered the phenomenon that a central bank had any problem in selling its product!

[*applause*]

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you very much. Mr Della Vedova.

**Mr Della Vedova (TDI/I)**

Thank you President. You said the budgets in a few euro zone countries were not very ambitious. There were some consolidation measures carried out, but not accompanied by firm commitments concerning sufficient cuts in expenditures. I very much agree, and I am thinking in particular of the Italian budget. We must also confront the problem of the ageing of the population which creates a problem for pensions, which is one of the most serious risks for inter-generational inequality in Europe. Has the European Central Bank looked at what will happen if the pensions systems are not reformed in euro zone countries? What will that mean for interest rates and economic growth? I think that it will be an important matter to be taken into account. I'd like to ask a follow-up question. In Nice, majority voting was rejected in terms of transferring special supervision powers to the European Central Bank. Do you think that the fact that we still have national control bodies, who are perhaps looking for a justification for their existence, for instance anti-trust and competition authorities, don't you think that that this will in the long run be a factor which will make the euro financial markets less efficient?

**Mr Duisenberg**

What the European Central Bank closely monitors is the extent to which governments adhere to their self-imposed targets with regard to budget deficits and those self-imposed targets are partially promoted by the prospect of the exploding cost of the ageing of the population. The endeavours to reduce, over the medium-term, the budget deficit to close to zero, or even to create small surpluses, are very much inspired by the fact that that will create room for the budgetary costs of the ageing of the population to be borne, starting already in a few years time. We closely monitor that and we give our judgement about actual developments to the specific governments in the context of our participation in the Economic and Financial Committee and in the meetings of the Euro Group. That is what we are doing about it. Then the result of Nice: it still has to be ratified as a change in the Treaty. That may be a process which can take up to two years but the fact that, on most issues, the unanimity rule has prevailed, is something that the ECB as such has nothing to do with. I'm not prepared to comment on the position of the European Parliament vis-à-vis the national parliaments in this context. The only consequence of Nice for the European system of central banks has been that there will be introduced an enabling clause in the Treaty to enable the governments to adjust the institutional set-up of the governing bodies of the ECB if and when the need arises to do so, that is, if and when the expansion of the Member States is about to be accepted. And that being still some time off, we have ample time to prepare such a change, if it is deemed necessary.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you. Mrs Kauppi.

**Mrs Kauppi (PPE-DE/Fi)**

Thank you Madam Chairman. Mr Duisenberg, you said in your remarks that economic activity in the euro area is dependant on internal demand and internal developments. You also said that in the euro area there is a general confidence in economic development. But last Friday there were worrying figures on consumer confidence published. It appears, as far as private consumption is concerned, that confidence is the lowest for two years and industrial confidence is low too. Do you think, Mr Duisenberg, that this drop in consumer confidence is significant for euro area growth, taking into account events in the US, which means that Europe is more and more dependent on domestic demand?

**Mr Duisenberg**

First, Europe is overwhelmingly dependent on domestic demand, both investment and consumption. Therefore, to a large extent, Europe is isolated, but not entirely, I admit, from developments elsewhere. I'm not aware of any figures of confidence that are to be interpreted as low. Both consumer confidence and industrial confidence across the euro area - while they may be somewhat lower than the historic highs they reached in the second half of last year both indicators I'm almost inclined to say, remain close to record high levels. So that is my information Obviously it does include last Friday, and even the weekend, but I differ somewhat from you in the assessment of those figures.

**Chairman, Mrs Randzio-Plath (PES/D)**

May I ask a question? The European Central Bank reacted wisely and sustained its policy though the external shocks caused by increased oil prices better than national central banks did in the past. I'd just like to ask whether it wouldn't be wiser, in the current situation, looking at the growth perspective for the euro zone - even if you're more positive as regards growth than many institutions because monetary policy has a lag of 18-24 months - shouldn't we take steps to have a clearer perspective as to how the European Central Bank should pursue the secondary goal, which is also a task under the Maastricht Treaty? You all know that the FED has three equal goals to pursue: price stability, employment and growth. The European Central Bank should only contribute to European economic policy as long as the goal of price stability is not endangered, or rather is safeguarded, and that this medium term definition, which you mentioned Mr Duisenberg, is relevant. Nonetheless, if we see that the European growth is being given a boost by exports and possible negative external shocks caused by a weakness in external demand, shouldn't we be preparing now for an increase in internal demand and what, then, would be the perspective this year, perhaps with regards to the middle of the year?

**Mr Duisenberg**

I repeat, Madam Chairman, we do look forward at least 18-24 months, and in that context I already did indicate, in response to another question, that we expect economic growth to remain at close to 3% both in 2001 and in 2002. Internal assessments even lead me to say that that can be expected to be maintained for the period after that as well. Then, monetary developments: they are more moderate than they have been since the introduction of the euro. Still, monetary growth is above - although it is not a reason for concern - above the reference value. In particular, I would like to say that the development of M3 is not the only monetary indicator

we look at. We still see month after month credit to the private sector growing at an annual rate of around 10%, and that we have seen since January 1999 and it is still continuing. Also, the latest figures continue to be that credit to the private sector continues to grow at the rate of 10%. It leads us to think that, by no means, can one think or say that the liquidity situation of the euro area economy is in any way a hindrance to growth. Therefore, we do foresee a period of steady but robust economic growth accompanied by gradually falling unemployment ahead of us.

**Chairman, Mrs Randzio-Plath (PES/D)**

A supplementary question, President. You have criticised the stability programmes of certain Member States as regards their budget and debt levels. I'd like to know when and how you will fulfil your second commitment under the Treaty, because here there is no transparency. Rather there is great "unclarity" because just emphasising price stability is not enough, because the Federal Reserve also has the goal of price stability but, nonetheless, gives signals as regards full employment and growth.

**Mr Duisenberg**

We pursue our secondary objective every day, Madam Chairman. Again, we do believe that maintaining price stability, and our efforts to achieve that, is the best contribution that monetary policy can make to a period of sustained economic growth. No monetary policy action to specifically influence growth could come without paying the price that we would not reach our primary objective and, therefore, you cannot and you should not expect us to do more than what we are doing, namely, maintain price stability, thereby creating the best possible conditions for economic growth.

**Chairman, Mrs Randzio-Plath (PES/D)**

Mr Maaten.

**Mr Maaten (ELDR/NL)**

Mr Duisenberg, a question or two about the introduction of the euro and the way that's got to be done by the Central Bank and by everybody, in fact. It's important to avoid any chaos on D-day, the day when the currency first starts to circulate. That obviously has to be a priority. We've got to avoid a nightmare, you know, which some people seem to be thinking of - not least of all the Dutch railways and the huge queues they are foreseeing . Large problems have been envisaged for SMEs in particular when it comes to the introduction of coins and notes.

Now a lot of these fears should be assuaged by the information campaign, but we do fear that there is a lack of cooperation between banks and insurance companies, such as, for instance: adaptation of electronic payment methods, the cash flow to shops , SMEs especially will have problems dealing with two types of currency, opening times for banks on the first of January, banking charges and so on...So what role can banks play in this? What can banks do to try and help out SMEs in particular?

**Mr Duisenberg**

We, of course, closely monitor and cooperate in the preparations of the changeover process for which there is no historical precedent. There is no experience we can use. I think it is useful, as your question already indicates, to make a distinction between the actual changeover to the new banknotes and coins on 1 January 2002 and the changeover that is required in the minds and administrations and the thinking of the people, which is a process which is already underway. It is taking place at different speeds in the various European countries. The ECB and the national central banks, and the European Commission, and the national changeover authorities which exist in the various countries, are closely monitoring and accompanying this process. It is our impression that, although in some countries the transition to the new world has been rather slow in the beginning, there is some acceleration. What specifically can banks do? Let me first say that banks are very cooperative with all the national central banks and with the European Central Bank, in preparing the public for the changeover, also preparing their own organisations for the changeover. The best thing they can do is urge their clients, and that mainly is small and medium-sized businesses, to sooner rather than later effectuate the changeover process in their administration. On the whole, I have no complaints on the role that banks are playing in this changeover process.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you. Mr Lipietz.

**Mr Lipietz (Verts/ALE/F)**

Mr Duisenberg, if I have understood correctly you think the potential growth rate for Europe is going to remain at 2.5 for a period of time and the real growth rate will until the end of 2002 and beyond be 3%. In order words, today you are announcing sustainable high interest rate policies

and high financial yields. And of course this is in line with your original statement where you said that among the factors that contribute to prices - there are many - but you are just talking about stability for wages. Why are you insisting on stability only for wages and not for the other components that influence prices, such as profits and financial yields? Today we have the first numbers for 2000. It would appear that in France, shareholder profits and the like have increased far more than wages. Do you think that this way of sharing out benefits and profits is favourable and fair for Europe?

**Mr Duisenberg**

I am not only talking about wages. I am talking to both social partners, employers and unions. I am talking to governments when I talk about budget deficits. So they receive advice as well. I am talking about achieving price stability - that is effectively saying to entrepreneurs "do not increase your profits by increasing your prices". So there is a message. I do not think in any way that my advice is lopsided to any part of society.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you. Mr Tannock.

**Mr Tannock**

Madame President, Mr Duisenberg, thank you. I'm extremely worried about the statement from Mr Noble, the new American head of Interpol, based in Lyon, France. He has expressed formal concern that Europol, which I understand is charged with overseeing the co-operation and co-ordination of measures by national police forces against counterfeiting of the Euro, has no formal right or duty to disclose information or work with Interpol. Interpol will have to deal with euros being forged outside of the European Union, which in many ways is the most likely place for this to event take place because of ridiculously strict data protection laws. This is in my opinion severely and gravely remiss. What will the Union and the European Central Bank do to redress this obvious breach of security? Otherwise, not only might we see notes being hijacked in transit to the national central banks, but also counterfeiters flourishing in third world countries, flooding euroland with absurdly high denomination bills, such as 300 euro denomination bills, which perhaps should be withdrawn anyway. This would cause further lack of confidence and weakening of the currency, as well as damage to euroland's economy, and therefore also, from my perspective, to the UK's trade patterns and its own economy. What will be done about that Mr President?

**Mr Duisenberg**

I was not aware of that problem, Madam President. I'm only aware of some very useful contacts the ECB has with both Europol and Interpol and with the European Commission. On the issue of potential counterfeiting, we have had no complaints about co-operation on whatever side of the balance sheet.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you, Mr Huhne.

**Mr Huhne (ELDR/UK)**

Thank you very much President. I wonder if I could ask you to speculate on some rather longer term issues within the euro area. Obviously the introduction of the single currency has been widely expected to lead to increased competitive pressure downwards on prices, and therefore perhaps some change in the normal relationship between price expectations and inflation and domestic demand growth. I wonder if you can discuss if there is any evidence yet of that sort of emerging competitive pressure actually happening. Secondly, the other aspect is the easing of capital flows within the euro area. I noticed that last year Portugal had a current account deficit on the old terms of 10% of GDP. Is there any reason why that should be a source of worry, or is this the normal development one should expect within a monetary union?

**Mr Duisenberg**

As to the last question, I think it is normal. One should expect it within a monetary union such as the euro area, and one can measure it. For example in the United States, there are also huge differences in the current account deficit, in other words in the capital flows from one part of the country to the other. The same is happening in Europe, and that is in itself normal. I would speculate that a country like Portugal, given the state of its development in relation to the rest of the euro area, is almost entitled to have a current account deficit. It should have one.

**Mr Huhne (ELDR/UK)**

And the first part of the question on inflation?

**Mr Duisenberg**

Yes. On that we think that we have some signs, although it is too early to judge, that indeed the euro, by increasing the transparency across the euro area, has contributed to keeping inflation down. It is a factor which does increase competition across Europe, and in that way it contributes to keeping inflation within permitted limits. But it is too early to come to a more specific judgement for this young currency. Let me say that we think we see some signs that it is indeed happening.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you. Mr Herzog.

**Mr Herzog (GUE-NGL/F)**

I'm accepting your assumption for growth for the next two years, and I would like to ask you whether you're worried about expenditure structures for this growth rate you predict and the way the money is spent. What about that? You've expressed concern about public debt. You want to see a decrease. But you have also said that private debt is currently increasing. Is there not then a risk that private debt leads to a lot of speculation and thereby growing inflation? Take telecommunications, is what is happening in the telecommunications sector of little importance to you, or are you going to be able to act? Because this is the kind of problem that can't be solved simply by tweaking the interest rates.

**Mr Duisenberg**

The particular composition of national expenditure over consumption and investment, or public consumption and public investment, is a matter which, I am afraid to say falls outside the competence of the Central Bank, and the Central Bank cannot influence that. We can say something about it if we think that certain movements point in the wrong direction We can give warnings, say: 'please governments, the problem of the ageing of the population brings with it costs that have to be borne, whether you like it or not'. Let me speak only from my experience. In the Netherlands it has once been calculated that 15 years from now, the extra costs of the phenomenon of an ageing population through increased pension payments and the rising costs of health care simply because an older man or woman has to go to the doctor more often than a younger person, would be equivalent to 5 percent of GDP. That has to be borne at that time by someone, and we think it is very likely that it is the government that has to bear the bulk of those costs. Well, if you see that coming, then it is very wise to already create the room in your budget to be able to bear those costs at the future date. One example of that is, I'm again

speaking about the Netherlands, the Dutch government pays in interest payments on the public debt roughly the equivalent of 5% of GDP. So, if you were to eliminate the public debt in time, you would already have created the room that is required to bear the burden of the ageing of the population. On private debt and the example of telecommunications, that is a matter for the banks to judge. I do admit that there have been some auctions of licences in the telecommunications sphere that - well to put it prudently - were rather extraordinary. And I also see a development in that sector because of these enormous debts that have been built up that point in the direction of a great deal of consolidation and concentration. But those developments do not by themselves endanger the ECB in its endeavours to fulfil its mandate.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you, Mrs Villers.

**Mrs Villiers (EPP-ED/UK)**

I'd like to turn very briefly to one of the points that Mr Abitbol made on the euro information campaign. I hope that you won't emulate the French government which published a rather misleading leaflet which actually said that transaction costs for travellers would be completely eliminated with the launch of the euro. As you and this committee know, that's not the case. I'd like to ask you if you have an estimate within the ECB as to the launch cost of the euro to those participating in it - the cost to business and the cost to government, regardless of how you divide it between government and business? It would be interesting to know if you have a figure as to how much the logistics will actually cost. And lastly, to return to a subject which I raised with you before on Ireland and tax. It's always going to be the case, isn't it Mr Duisenberg, that smaller economies on the periphery of the euro zone won't necessarily have an interest rate which suits their economy. Isn't it important for them to retain a lot of flexibility over their fiscal strategy in order to offset the possible damaging effects of having the wrong interest rate for their particular circumstances?

**Mr Duisenberg**

I don't have an estimate of the total costs of the transition to the euro notes and coins. I know that there are some estimates in some countries. We don't have an overall estimate. It's something that's going to happen, and the basic principle is that every single sector will have to bear the burden of its own costs, and every single sector will also gain the fruits and have the

benefits of the introduction of the single currency. On Ireland, I don't know whether it is necessarily true that it is for small countries only that the single monetary policy may not always yield the results that would be the most appropriate for that single area. That can happen to any economy. I do think that having a single monetary policy and no regional differences is simply not possible. Having a single monetary policy does place an extra burden on other areas , that is on fiscal policy, on wages, to show the necessary flexibility in order to achieve goals that in the past were, amongst others, also contributed to by monetary policy. So, added flexibility may be necessary, but what is also necessary is that if you have certain rules of the game for these other policies in a European context, that you adhere to these rules of the game.

**Mrs Villiers (EPP-ED/UK)**

A short supplementary - Mr Duisenberg, what do you think of the Nobel Prize winning economist, Robert Mundell's comment, that the criticism of Ireland had nothing to do with macro economic policy and everything to do with the agenda to harmonise taxes across the European Union?

**Mr Duisenberg**

Well I disagree with him whether he has won a Nobel Prize or not.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you. Mrs Beres.

**Mrs Beres (PES/F)**

Now clearly in all the capital cities of euroland, your optimism about the possibility for the euro zone to maintain its level of growth is not necessarily shared, and one wonders how the Central Bank understands its twin role. That is essentially the question that the chairman of the committee asked you, and obviously it has an effect on individual countries of the euro zone. The Ecofin Council recently adopted a decision which at least theoretically means co-ordinating economic policies, and that is of course something one can only support as it is only applying measures outlined in the Treaty. However, this decision is based on a definition of what is a tolerable inflation rate as set by the Central Bank. Doesn't that mean that we have to reopen the debate on defining the inflation rate which is to be targeted by the Central Bank? My second question relates on how the governing board going to be organised following enlargement. The central bank is a young institution so we didn't really ask this before. Nice has been and gone, it

will be ratified. The way things have gone for the Commission following on from Nice doesn't make us terribly optimistic. One wonders if the same sort of solution might be used for you as the Commission. Would you accept a possibility of some kind of rotation in the same way as for the European Commission?

**Mr Duisenberg**

First question - is there a necessity to redefine the concept of price stability - I wouldn't think so. The Treaty does not define price stability, it only says that the ECB should ensure that price stability prevails, but it has not defined what is to be understood by price stability. We did that ourselves you might say. We said we regard price stability as a situation where the rate of increase of prices is below 2%. Thereby taking into account that there will always be a measurement bias in the price indexes which we do not know precisely. We did want to make clear that we are as opposed to deflation as we are to inflation. By talking about the rate of increase, we did want to emphasise that we did want to have the movement in prices always to be positive, and not negative. I don't think there is a need to redefine price stability. The ECB has three decision-making bodies - the executive board, the governing council and the general council. For the first and last, there is no need to change anything in the composition, however big the euro area might become. The governing council currently consists of eighteen members who all sit there in a personal capacity. They do not represent their countries, they are forbidden to seek or accept instructions from any private or public body. They have to be completely independent and that independence has to be respected by the European Community. For the governing council there might be a problem, that it could become too unwieldy to take effectively decisions were it to consist of say, 25 or 27 members, or it might even reach 30 members in the longer but foreseeable future. We are currently thinking about various models which could be used. You could use rotation, which is the most likely outcome, but then immediately the question arises - would it be for any country acceptable not to take part in the decision making on monetary policy for some time? Or do you treat countries differently? These are questions which are very sensitive, but still they are sensible questions to ask. So we are thinking about that. I think that the rotation model, but now I am speculating, will be the most likely outcome of that discussion. Another model would be for example to form constituencies to group countries together, but then you would violate the principle of total independence of the individual participants, because a representative of a constituency would have to defend the interests of his constituency in the governing council. That would run counter to the total personal independence as it is presently formulated and experienced.

Fortunately, we still have some time to go before we come to a decision, or until the heads of state come to a decision on this.

**Chairman, Mrs Randzio-Plath (PES/D)**

Mr Purvis.

**Mr Purvis (EPP-ED/UK)**

Mr Duisenberg, in your introductory statement you mentioned the continuing need for structural reform, including removing barriers to investment in the new technologies. As you know, the Lisbon summit committed the Member States to making the European Union the most dynamic and competitive knowledge-based economy in the world. Are you satisfied that the structure of Europe's capital markets, its stock exchanges, its provision of venture capital, development capital, is adequate or at least heading in the right direction of being adequate and competitive with other economies within an acceptable timeframe? Or would you have some suggestions for the European Council about to meet in Stockholm, which is to be concerned with following up Lisbon, as to where it should place its priorities in this area?

**Mr Duisenberg**

We see capital markets developing. We see that it is making progress but it goes very slowly, because in most cases it also requires changes in national legislation on the form of contracts which are being traded on the capital markets. That is by necessity, alas, a cumbersome and slowly-developing process. We do what we can by having contacts with the players, that includes the stock exchanges to promote the process of coming to one deep and liquid capital market in the euro area. But actively participating in that is something that we cannot do. But we give it as much peer pressure as we possibly can. As for the upcoming summit in Stockholm in June, at the moment I am not aware that we have any particular subject that we would ask to be placed on their agenda.

**Mr Purvis (EPP-ED/UK)**

Would it be worth your while, because they are going to be discussing the follow up to Lisbon, to get the point across to them that it is a high priority? Also, is the downturn in the American stock exchanges, Nasdaq and so forth recently, is that going to be detrimental to peoples' attitudes in Europe to investing in equities and so forth?

**Mr Duisenberg**

I shall try my best to answer that question, because thinking about it, it would be sheer speculation if I did so. I do believe that the developments of the stock exchanges, both in the Nasdaq and in the broader Dow Jones, are having some impact on the appetite in Europe to invest in equities. Looking at the development of the exchanges in Europe you can see that it reflects, but only to a limited extent, what is happening elsewhere. But on the macro economic impact one has to realise that a huge difference between the euro area and the United States is that European enterprises to a much lesser extent than in the US are dependent on equity financing. On top of that, the distribution of equity, particularly shares, is very much smaller in Europe than in the US. So the macro economic impact of movements in the stock exchanges is much more limited indeed than in the United States.

**Chairman, Mrs Randzio-Plath (PES/D)**

Thank you. Mr Ettl.

**Mr Ettl (PES/D)**

President, let me try once again to link price stability and full employment. I do understand your ambition to combat inflation, but I'm more concerned at the moment about the point of view of the employees and the possible cooling down of the economy, and the policy of the ECB that's linked to that. And if I put that in the context of European price developments and core inflation, and if I take out external factors, then we're still looking at ECB growth rates of 1.8 - 2.8 or 2.2 and 3.8% for 2002. It seems here that real interest rates are being kept above European growth potential. And in the short term, that would curb investments in Europe to a massive extent. So the ECB response to this seems unsatisfactory. Do we really have to lag behind the US, new economy and old economy? Could we not come up with something more original, something that would not curb growth to such an extent?

**Mr Duisenberg**

Allow me to remark, Madam chairman, that interest rates in Europe are lower than in the US. Interest rates are lower, and growth is now finally higher in Europe than in the US. Monetary conditions cannot by any means be regarded as a hindrance to further growth of investment and output in general. Monetary policy is not hindering economic growth. We do expect economic growth, I repeat, to be close to 3% both this year and next, and I added we see no reason why it should be different even in the year thereafter. Therefore, although I do understand the concerns

that you have about employment, I do agree that the process of getting unemployment down is very slow indeed, there's nothing monetary policy can do to change the speed of that process. We have to remind ourselves, however, that when the euro started, the unemployment figure for the euro area as a whole was over 10%, it is now over 8%, and we expect that within the next year and a half, the unemployment figure will begin with a 7. The movement is continuing, admittedly very slowly, but there is nothing that monetary policy can do to accelerate that.

**Chairman, Mrs Randzio-Plath (PES/D)**

Mr Langen.

**Mr Langen (EPP-ED/D)**

Thank you very much chairman. I think that the ECB has done very good work despite adverse circumstances. You said the rate of inflation, stable growth rates have a good impact on the labour market, but as Mrs Kauppi has said, the confidence of our citizens is falling, and that causes me great misgivings in particular with regard to the process of transition to the euro. Several mentions have been made of counterfeiting, I think in this transitional phase everything that can be done should be done, not just under national responsibility, so that national agreements or government agreements can be reached also with the national banks of Eastern European countries, as well as with the ECB, so as to ensure that we prevent as far as possible counterfeit notes and coins coming into circulation. I know how sensitive this area is. Do you think that enough has been done about this in the banking sector, or will further measures be necessary? Because this could become an issue of confidence amongst our citizens. On the stability and growth pact, Ireland got a rather nasty letter about this, and there is also the point about the expected inflation rate in Ireland and its potential impact. Is Ireland being made an example of as a small state, or was it really necessary to send them this letter.

**Mr Duisenberg**

On counterfeiting, it is my firm conviction that enough has been done and that we are doing enough on all sides, both as the Central Bank and the producers of the bank notes. So the public should be convinced that they will have in a few months time the most sophisticated and counterfeit-proof money in their pockets which is imaginable. There is always the fight, historically also, between the speed with which producers can produce even safer banknotes and the counterfeiters' ability to copy them. However, I think the European public will have the most sophisticated and well-protected banknotes in the world. Ireland has been reprimanded by the

Council of Ministers, I'm keen to say, and not by the ECB as is sometimes thought in Ireland. It is not for being a small country. I believe first and foremost that if Ireland had not been reprimanded, that it would have created a pretext in the future not to reprimand potential, but even larger, sinners as well. Therefore I do believe that this a precedent which is good rather than bad.

**Chairman, Mrs Randzio-Plath (PES/D)**

Mrs Torres Marques.

**Mrs Torres Marques (PES/P)**

Mr Duisenberg, I'd like to talk about a few practical issues relative to the euro. In the past we discussed the question of the euro having a different value from country to country and the question of banking transfer costs. We were told that competition would help the banks solve this problem. That hasn't happened. For example, if you go into a bank here in the European Parliament it pays MEPs with 15 different cheque books. I'm Portuguese, sometimes I'm given a Portuguese cheque, sometimes a French cheque, sometimes a Belgian cheque, all in euros. But we all know that costs are different. This much is clear from my experience. I wonder if in 2002 when our single currency will be in existence as such, we will continue to need 15 different cheque books, or will there be completely free bank transfers within the euro zone?

**Mr Duisenberg**

We do believe that progress is being made, also in the banking sector, but also there it is rather slow. We closely monitor the practices in particular, as far as cross-border retail transactions are concerned, and as you know we have recommended that the banks should strive towards a payments system which makes cross-border retail payments as easy as domestic retail payments within the borders of any single country. The banks have assured us that they are endeavouring to reach that stage by 1 January 2002. Whether they make it or not I don't know, but it is something we are concerned about. We do believe that progress is being made. **Chairman, Mrs Randzio-Plath (PES/D)**

Mr Karats.

**Mr Karats (EPP-ED/A)**

First of all I'd like to welcome the fact that the ECB council has made the decision as regards what will happen in the non-euro countries. One questions is open which we are faced with all

the time - is there a possibility that notes will be distributed before the end of the year, for example on 15 December - this is the wish of the economic affairs committees of the national parliaments. The Ecofin council continually says to us "we could do that if the ECB were to give the green light". Is there a possibility to distribute notes therefore in advance? Secondly, we've spoken about growth a lot. You've told us about that. A few weeks ago there was a hearing with representatives from five economic research institutes. In this hearing there was a reason why the growth forecast in Europe had been reduced, which was the economic situation in the US and the related strengthening of the external valuing of the euro. That's slightly in conflict with the explanation that you've given i.e. the independence of this development for our situation, so how do you see this conflict? Third point, I also think that the ECB at the moment is conducting a most compact information campaign. I have two questions in terms of policy. In the campaign of the ECB, is the success of the euro up to the present day important and do you think that the national parliaments and the public could be confronted with the success of the euro to-date?

**Mr Duisenberg**

There is the possibility inside the euro area to make the banknotes available to banks, from 1 September. The same applies to certain professional clients of the banks, retail organisations, on the same date provided they can assure the authorities that they will not distribute the banknotes to the public. Outside the euro area, this possibility is being created 3 months later, as from 1 December. There should be no uncertainty about that. On the different outcomes for the forecast exercises of various institutions, I cannot comment on any particular institution. I could comment on another international organisation, the IMF, and its forecasts for economic growth for the euro area are almost precisely identical to our internal assessment. They vary from one year to the other by no more than 1 decimal point. They are virtually identical, and that of course gives me great satisfaction. On the balance of the euro so far, yes I believe that it is very positive. When we make a total account we see that the introduction went as smoothly as one could wish. The money market developed into one euro area wide money market in a matter of three days. The payments systems after about three weeks functioned flawlessly, and I now refer in particular to the payments system that has been developed by the ECB under the name TARGET. I believe its daily turnover is the largest in the world. In the United States, there are two payments systems functioning and the sum of those two would be larger than the European one, but singly TARGET is probably the largest payments system in the world. But the most important success in my mind of the euro is that the participating countries - now 12 - have

enjoyed for two years for roughly four fifths of their “old” foreign trade, complete price stability, namely no exchange rate fluctuations or exchange rate risks. That is of course not something the public at large realises everyday, but the simple fact that, for example, the explosion of oil prices in the course of last year has not caused any ripples in the European pond thanks to the fact we have eliminated exchange rate risk, is to my mind the greatest benefit because it creates a high degree of stability for the European citizens. That is an accomplishment of the euro.

**Chairman, Mrs Randzio-Plath (PES/D)**

Mr Goebbels.

**Mr Goebbels (PES/L)**

Mr Duisenberg, according to a European Commission document, cash machines in the EU can't be reprogrammed to distribute certain euro notes, of 5 and 10 euro. Won't this put the small scale retail trade in a very difficult situation, because as of the 1st of January they will be confronted by large denomination notes but they won't be able to give change to customers? So would you be able to frontload the small retail trade, especially with 5 and 10 euro notes, so as to avoid that kind of situation?

**Mr Duisenberg**

I am not a technician, but I am not aware that the ATMs would not be able to handle small denomination notes. We have provided the vendors of cash machines with a facility already nearly a year ago to test their machines on the real banknotes. They are the only ones who handled the banknotes. We have used that extensively. They have used that facility extensively and currently it is being spread. First we did it in one place, somewhere near Frankfurt, now we are preparing to do it across Europe and so far our experience has not been that they could not handle the smaller denominations. It even is the case in some countries for example that banks intend to supply their automatic teller machines with very small denominations in the beginning, the 5 euro and the 10 euro notes, so as to spread these notes as quickly as possible across the public at large, and we have been assured that these machines work.

**Mr Goebbels (PES/L)**

Please check that information because I saw it in a document from the European Commission.

**Mr Duisenberg**

I will.

**Chairman, Mrs Randzio-Plath (PES/D)**

Mr Marinos.

**Mr Marinos (EPP-ED/Gr)**

Before I ask a question, I'd like to thank President Duisenberg because he comes to our committees very regularly and listens to our questions very patiently and gives us detailed answers, and mixed with humour which makes the whole thing a pleasure. I'm a representative of the last Member State to join the euro. I'd like to say something about Greece. I'm not sure if you know, if the President of the Greek central bank has informed you of some worrying developments, for example there is a doubling of the trade deficit, and there is a collapse of the stock exchange in Athens. There have been enormous losses and people are looking for guilty parties. Therefore there is a decrease in state incomes because of the collapse in the stock market, but also because companies are seeing reduced earnings according to nominal conversions. The structural reforms were not necessarily carried out in the manner we were told by the Central Bank, so what do you say about all these events? Have you got any comments or advice perhaps? And what would you recommend to us to do about our problems? Perhaps you could speak about other problems too, such as the insurance area or public administration. And that leads me into a second question. What about the economic crisis in Turkey? Will that have after-effects for the European Union?

**Mr Duisenberg**

On the first question regarding Greece, I can assure you that I have listened carefully. I have also listened carefully to my colleague Lucas Papademos when I met him three days ago. I can assure you that he has not mentioned in that conversation those problems that you set out. Had he done so, I would still not comment on any individual Member State in this context in this room. If I had advice I would give it to him. On Turkey, our impression is that the after-effects of the financial crisis some weeks ago in Turkey that made the Turkish currency depreciate in a matter of days by about 30%, has had and will have virtually no effects on the euro area economy. There may have been some fallout to Latin American economies temporarily, which is over. We carefully checked what is the exposure of the euro area private banks to Turkey and we found that although it is not insignificant, it is insignificant in relation to the balance sheet

total of the credit institutions concerned. So we do not fear any contagion or spill-over effects from the Turkish economic developments to the euro area.

**Chairman, Mrs Randzio-Plath (PES/D)**

We have come to the end of our first monetary dialogue of 2001, and I think once again it has become clear how important transparency is. Despite the criticism of the information policy of the ECB, this monetary dialogue should be seen as a part, an element which can lead to clarity about the backgrounds to monetary policy. We won't tire of seeking the arguments for monetary policy decisions. We won't tire of asking for the publishing of minutes in the long term, and we'll try to conduct this monetary dialogue and give it its full weight, because monetary policy is more and more important for the confidence of the public and markets, especially when you look at the knock on effects that can result from stock market collapses in terms of jobs and peoples' plans for the future. Therefore it is good that the ECB is entering into economic co-operation and co-ordination, even if it doesn't have any formal position as such in this area, but it will be important that your policy can be reckoned with and we can understand it. Thank you Mr Duisenberg, and we wish you every success with the concrete preparation work for the introduction of the euro notes and coins. Although we haven't so far experienced a successful changeover in 1999 or in 2000, the changeover in 2002 will be extremely important because the introduction of notes and coins is a very important expression of monetary union in real life. Thank you very much.