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

12 September 2001

Chairman, Mrs Randzio-Plath (PES/D)

I would like to welcome Mr Duisenberg, President of the European Central Bank. We are about to start our monetary dialogue. Of course the circumstances have changed, and we know that in this situation it is very important to remain calm so as to avoid causing further unease. The institutions which have spoken out have already drawn a certain number of conclusions from the terrible tragedy which occurred in the United States. It is clear that today's monetary dialogue takes on a completely different tone to normal, because these events affect the United States, but also the whole world, and we have observed how the stock exchanges that were open have reacted. In this context, I would ask you to make your introductory remarks. Colleagues have many questions.

Mr Duisenberg

Thank you Madam Chairman. Ladies and Gentlemen, in the light of the unprecedented and tragic events that have occurred in the United States yesterday, I should like to be as brief as possible today in my introductory statement. But firstly, I should like to express my deepest sympathy with the citizens of the United States and in particular the relatives and friends of the victims of the brutal attack. Moreover, I should like to emphasise that the European Central Bank and the national central banks are standing ready to support the normal functioning of markets and relevant operational systems if the need arises. Indeed, the ECB has been in close contact with the other major central banks in the world since the events have unfolded. But now, let me report on the recent monetary policy decision taken by the Governing Council of the ECB.

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, Mr President, for this gift. It's a symbol which shows that Europe is able to develop, and I think that we will be able to respond to new challenges, to new questions, and we hope that we will be able to find a fitting place for this star somewhere in this building, so that this star will also be a shining star. I thank you, and now I will give the floor to colleagues who have questions. I would ask that if you have a supplementary question, you should concentrate only on the issue which you raised in your first question. Mr von Wogau.

Mr von Wogau (EPP/ED/D)

Mr President, you spoke briefly about the terrible events in New York and Washington. We are particularly affected by what happened. We express our sympathy to the victims and their families, their friends. We must also ask what will be the repercussions of these horrible events on the economy. Terrorist groups have managed to cause very serious damage and they are also causing panic on the economic front. And when the markets react in a panicky way that is a sign. So I would like to know how you assess these repercussions and in what way the ECB can contribute so that there are no negative effects.

Mr Duisenberg

Thank you. First of all, as I said, yesterday we were immediately in contact with all major central banks in the world. In particular, of course, the Federal Reserve System, to whom we offered any necessary help required. The immediate reaction in the markets was somewhat panicky, there is no denying that, and we saw to it that the payment settlement systems continued to operate properly, and we tried to ensure that if bottlenecks were to appear anywhere in the process of settling, because of the lack of communication in the markets, then we would stand ready to provide help, including liquidity, if such a thing were to happen. Over the longer run, I believe indeed that it is essential that the confidence of consumers and producers is being maintained in the future, and I believe that it is essential that central banks, including the Eurosystem, project an image that they can cope with this situation, and that they can make a contribution by also in future pursuing a stability oriented policy.

Mr Von Wogau (EPP/ED/D)

Yes, you mentioned liquidity. Can I interpret that in the following way, that is to say that the ECB would, if necessary, be prepared to support the dollar?

Mr Duisenberg

That is a question basically about whether the support we would offer would take the form of interventions. I'm not speculating about interventions but the fact that I, on behalf of the Eurosystem, offered help when needed or when asked for, to the American monetary authorities implies that that help could take any form which would be necessary in the circumstances.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Goebbels.

Mr Goebbels (PES/L)

Thank you Madam President. Mr President, following on from what my colleague Mr von Wogau said, I would like to emphasise the fact that financial markets in the real economy have been seized by a great pessimism in recent months. Following these insane attacks in New York and Washington and the feeling of powerlessness engendered among the population, there were the beginnings of a panic reaction on the stock markets that were open yesterday. You made an appeal to governments not to undermine confidence and to continue the policy of stability. But has the time not come for the European Central Bank to restore the confidence of the markets and to strike a great blow? You have twice this year adjusted the base rate by reducing it by 25 basis points each time. Many observers have said that these represented half measures which did not have the desired effect. I think that today, or tomorrow at the latest, the markets await a sign of confidence from you. That is to say a really courageous decision.

Mr Duisenberg

As you know, Madam chairman, our monetary policy is forward looking and medium term oriented, and we do not and should not react to changes in very short term indicators. I think sticking to this stabilityoriented, mediumterm, forward looking policy is the best contribution to maintain confidence of the general public in the monetary authority's policies . The aim of our monetary policy, as you are aware, is to maintain price stability over the medium term, and it is our judgement that, as the current monetary policy stands, we will be able to control inflation, which has temporarily far exceeded the 2% limit, to bring it back down to under 2%, an event which we think will happen early next year. We expect inflation to be just below 2% on average in the year 2002, and also in the year 2003. That is the image of stability which should give

confidence and which is apparently believed by markets, judging by the developments in long term interest rates, taking them as an indicator for low inflationary expectations.

Mr Goebbels (PES/L)

Mr President, you have repeated the well-known theology of the ECB. But we are now facing an unforeseen external shock. And this external shock risks producing consequences not only for the short term, but also for the medium and long term. And I think that the ECB should think twice before repeating what you always say, that it is long term stability that counts. We must also react to the recession which is now approaching.

Mr Duisenberg

It is true that there may be long-term consequences as a result of this event; this external shock that has been dealt to the financial system also. But it is far too early to judge what these consequences are going to be and I think a quick move as implied in your questions would have inspired a reaction of panic rather than one of stability and calm.

Mr Huhne (ELDR/UK)

Mr. Duisenberg, I wonder if I could ask some further details on what is inevitably a very preliminary assessment of the damage and consequences as a result of yesterdays tragic and cruel events. Firstly, could you give us some more information about your first assessment of the security implications of what has happens. Is the ECB security adequate to deal with this sort of potential terrorist threat and do you have the back-up systems, if necessary, to be able to operate full money market operations if you were faced with a similar event? Secondly, could you give us your assessment of the banking system's problems overnight in reaching settlements with counterparties who may have had communications pulled down as the result of the attack on the World Trade Center? Has there been any emergency provision of liquidity that you know of, how serious is the problem of inability to complete transactions and settlements? Are you aware of any potential threats to any part of the global banking system as a result?

Mr Duisenberg

Firstly, regarding the security of the ECB, if you mean the physical security of the ECB, that has been immediately carefully assessed, mainly by the federal government of Germany and they have advised us to continue business as usual. Yesterday, the authorities advised us that it would not be necessary to evacuate our building but we have made it known to our staff that

those who felt uncomfortable continuing to work in the building were free to leave if they so wanted . As regards our backup systems, we are in the process - already for some time - of creating a disaster standby site a few kilometres away from the ECB site. It is not yet ready but we can rely on the disaster standby sites of the participating national banks in the system if necessary. Although we were prepared to deal with it, there have been no problems of settlement. I also want to mention that of course the Federal Reserve of New York, which carries out the money and capital market operations for the Federal Reserve system, has continued to operate from a backup site. They have continued to operate normally and will do so today. There have been no threats to the system or the physical security of the various component parts of the Eurosystem.

Mr Huhne (ELDR/UK)

You said that the emergency site was in the process of construction. Can you give an indication of when it will be completed and whether you now intend to hasten preparations?

Mr Duisenberg

It will be completed in the course of this month. It will be ready and functioning before the end of this year.

Mr Lipietz (Green/EFA/F)

Mr President, I am a little concerned by your remarks. Independently of the shock that yesterday's monstrous attack will cause to the financial markets, and maybe even to the real economy, the European economy was already on the road to a serious economic slowdown. You have attributed this to external shocks that the ECB had badly anticipated, that is to say the Japanese slowdown and the US slowdown. So I would like to know how you explain this error of expertise when most national economic forecasting institutes had correctly anticipated the US recession. But much more seriously, you seem to totally deny the responsibility of monetary policy in this slowdown. The period over which we have had a monetary dialogue covers much more than the medium term. For months, semesters even, you have been telling us that European growth is above its trend growth rate. You have achieved the result you wanted, that is to say you have reduced growth to less than 2.5%. Do you intend to follow a monetary policy that will take us even further below our trend growth rate?

Mr Duisenberg

I want to recall that when the slowdown in the US became apparent, that it was the conviction of all the forecasters, including the authorities in the US themselves, that this would only be a very temporary phenomenon and the catchword used at the time was that there would be a "v-shaped" recovery. This was truly an overly optimistic view, shared by us. We have been too optimistic, it is true. The trough in economic developments, particularly in the US but also in Japan, has been longer and more protracted than anticipated earlier, and that of course has an impact on the European economy, which we have never denied. As I indicated in my introductory remarks, there will be no recession, but the slowdown in Europe is larger than anticipated, notwithstanding factors that are at work which do indicate that the recovery may be on its way already. We expect the recovery to continue into 2002, in a moderate way, but to accelerate in the year thereafter. There is the fact that we get inflation under control, thereby protecting the purchasing power of consumers, which in itself would lead to a resumption in consumer spending and confidence and thereby have its impact on domestic private investment. We think that Europe can withstand this temporary setback.

Mr Lipietz (Green/EFA/F)

So since you admit that the slowdown is greater than expected, and since you maintain a recessionary monetary policy, why do you refuse to allow budgetary policy to reach the maximum authorised level in the stability pact, that is to say 3%? We cannot have two recessionary policies at the same time as part of the policy mix while recognising at the same time that the recession is deeper than expected.

Mr Duisenberg

As far as monetary policy is concerned, we are compelled and obliged to pursue the policy that will restore price stability over the medium term. We firmly believe that that is precisely what we are doing and we also believe that that is the best contribution that monetary policy can make towards the resumption of economic growth and welfare. As far as fiscal policies are concerned, we fully recognise that in a period like this, fiscal deficits will come under pressure. The only thing we plead for is, that those countries that have already reached their stated goal of a budget that is in balance or a surplus can let the automatic stabilisers work fully, whereas those countries which are lagging behind in this process of reaching the goals of the Stability and Growth Pact cannot and should not fully let the automatic stabilisers work. That they can work to some extent is obvious and is no problem for us, but they should not let their medium term goals out of sight. Measures taken today will have an impact for a long time on the fiscal

positions. The automatic stabilisers can and should work, but those countries, may I say, which have failed to use the period of high economic activity and economic boom to use that opportunity to reach a position of fiscal consolidation, those countries now, by necessity, have less room, I am not saying no room, but less room to make the automatic stabilisers work fully.

Chairman, Mrs Randzio-Plath (PES/D)

Before I give the floor to Mr Herzog, I would like to welcome Mr Migaud who is the 'rapporteur général' of the French National Assembly and who is closely following this monetary dialogue. Mr Herzog, you have the floor.

Mr Herzog (GUE/NGL/F)

Madam President, in recent years the Central Bank has not seemed worried by the huge inflation in the prices of financial securities. There has been a stock exchange bubble accompanied by overindebtedness. Today there are huge losses, not only in internet stocks, but also in the telecoms sector where losses are even greater. In addition we are clearly in a situation of overproduction. Which brings me to the following questions: would you now consider policies to tackle the volatility of financial markets? Earlier you talked about supporting financial markets to ensure above all that they function properly. Should we not now consider policies that attack the problem of volatility and at the same time support investment?

Mr Duisenberg

We would not consider deviating from our medium term forward-looking strategy in the course of events. This morning there were signs that there were fears in the market. That there would be a shortage of liquidity, which led the overnight, rates move up to close to the marginal lending rate. Actually when I entered this room, overnight interest rates had risen to 5.15%, the marginal lending rate being 5.25%. I have now just been informed 5 minutes ago that my colleagues at the ECB have decided to a quick tender at a fixed rate of 4.25% in order to calm down the tensions in the market. The biddings on this quick tender are still underway so the allotment will have to wait for another moment. But it demonstrates that we are alert and that we are answering very short-term panicky reactions, I believe, in an adequate way.

Mr Herzog (GUE/NGL/F)

It is very important to ensure the necessary liquidity in a situation as serious as this. But my question concerns the medium term. There are political leaders who propose a tax to tackle the problems of market volatility. Would you be prepared to take an interest in policies that tackle market volatility in the future?

Mr Duisenberg

Well, by having a medium term oriented and forward looking monetary policy strategy giving as much certainty to markets as we possibly can, that, I think, is our contribution to attack or to fight, so to speak, volatility. But fighting volatility in itself is not one of the aims or targets of monetary policy as such.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Abitbol.

Mr Abitbol (EDD/F)

Thank you Madam President. Mr Duisenberg, clearly it is difficult to speak after a number of colleagues who have raised many of the issues I wanted to speak about, such as Mr Goebbels and Mr Lipietz, the day after the monstrous events we witnessed yesterday in the United States. But the day before yesterday, you could feel the nervousness on the financial markets as well as in the population, which we should not forget, since for example in France we have now reached the level of 40,000 euro-job losses, if I can call them that. Because we owe those job losses very directly to your policy. So, Mr Duisenberg, do you think that by continuing down the wrong path, which Mr Lipietz clearly demonstrated you are engaged on, you will eventually reach the truth? Do you think that 4 months away from the introduction of the euro in people's pockets it is possible that the euro could arrive accompanied by recession and unemployment, and do you not think that instead of talking about a Stability and Growth Pact, we should instead talk about an instability and recession pact?

Mr Duisenberg

The answer is no, I don't believe so. Even though we see a slowdown this year in economic developments we still expect employment to grow across the euro area, albeit at a slower pace than the quick pace we had experienced in the previous two years. Employment will be growing, will be positive and unemployment will continue to fall, although more slowly. Our expectation is that the unacceptably high unemployment figures which we have observed and

which were coming down very slowly, that the downward trend will continue this year, next year very slowly and accelerate further in the year thereafter. Where this year and next year the unemployment figure will still start in percentage terms with an eight, two years from now we expect it to start with a seven. But the measures one can take to accelerate that downward trend are not monetary policy measures. They are measures to promote structural reforms in particular labour markets. That is the reason for my plea in my introductory statement to governments to continue to pursue the road to structural reforms in labour markets.

Mr Abitbol (EDD/F)

Forgive me, but if the governments do not do what you say, are you going to punish their populations because their governments have not done what you tell them to do? One cannot understand that for two and a half years, all the Bank's forecasts have been wrong, and you can still tell us in a monetary dialogue, which is largely a monologue in reality with only one word, stability, that these projections are going to be fine. At what point will you start to doubt yourself, Mr Duisenberg?

Mr Duisenberg

Well I don't think that all our forecasts have been mistakes in the past two and a half years that the ECB has been in existence. What I do believe is that we have achieved what we promised the people of Europe, which is basically price stability. That is the main promise we give to the people of Europe. That has temporarily been broken by external shocks, the rise in energy prices, the animal diseases and their effects on food prices we have gone though, but our monetary policy stands in such a way that we will come through on our promises in the not too distant future. But it takes time to get there. Now, if governments don't do what they promise, will we punish governments? No, of course not. We cannot. But monetary policy cannot compensate for what governments fail to do.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Della Vedova.

Mr Della Vedova (TDI/I)

Thank you Madam President. Mr President, I think that it is difficult to talk about monetary policy without taking into account the effects of the acts of war committed yesterday against American civilisation and civilisation as a whole. I think that it will in particular have effects on

the price of petrol etc. But today, independently of these events, I would like to ask you a question, Mr President: a few moments ago you made an appeal that I fully endorse. You asked the Member States to tackle real structural reform rather than looking for greater competitiveness through monetary policy. But in addition to this appeal, is there a judgement that the Bank can make on the behaviour of governments, independently of choices with regard to monetary policy? Secondly, in Europe we can see a certain argument developing, which says that the policy of the Central Bank leads to recession and higher unemployment. So in your view, what could be the effect of a fall in interest rates, based on the Japanese and American experience in recent years? Should European citizens continue to believe that it will be enough to reduce interest rates to return to economic growth and higher employment? Can we not do more to combat this kind of argument?

Mr Duisenberg

What can the ECB do to convince governments to follow instructions? Well, what we can do is tell governments what our opinion is on what they can do, tell them openly and in public and in our constant dialogue, which we are having in the context of the euro group, whilst in the meantime pursuing our independent monetary policy, geared towards both our primary and secondary objective. As regards your second question, as I indicated we have the conviction that our current monetary policy is the appropriate one to maintain the situation of price stability in the euro area. Can monetary policy by itself stimulate economic growth or the resumption of economic growth? I think in all fairness that it would be an illusion to think that that could be achieved by monetary policy alone. In addition, I would like to say that with the level of interest rates which we now have, the short term interest rates now at 4.25% and long term rates which are more important for economic growth at the level of on average around 5% in the euro area, that that is a level that in no way is a hindrance to economic growth resuming its potential path. Monetary policy is not inhibiting the resumption of economic growth. Financing conditions are favourable in the monetary union.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Agag Longo.

Mr Agag Longo (EPP/ED/E)

Thank you Madam President. Mr Duisenberg, I am surprised at the way this discussion has developed, we are mixing up different issues. So to my question. In recent times, we have heard

in France, in Germany also, that we must be more flexible in interpreting the exceptional circumstances under which we would breach or escape the stability pact. And today in this room, I hear colleagues asking for a relaxation of monetary policy based on yesterday's events. It's true that bad policies are bad when there are no difficulties. But they continue to be bad policies when there are difficulties, and it would be a mistake to allow the terrorists to dictate the monetary policy of the European Union. So I congratulate you when you talk about the future monetary policy, and you say that you will not relax it until certain objective conditions are met in the medium term. I also applaud your declaration of support to our most important ally, the United States. My question is, what is the Central Bank's response to those who, already before what happened yesterday, were calling for the stability pact to be relaxed?

Mr Duisenberg

If there were or if there are moves to relax either the form or the interpretation of the growth and stability pact, the ECB would strongly advise against it and we are doing so. I might add that maybe these are more rumours than anything else. If I may tell an anecdote: the day after the German Finance Minister made some statements in Riga which were interpreted as the first effort to relax the Stability and Growth Pact, I can report to you and I don't think I am telling you a secret or that he would mind, that he went to the trouble of telephoning me whilst I was on holiday in France to assure me that he had been misinterpreted, and that there was no intention on the part of the German Government or the German Minister not to adhere to the Stability and Growth Pact. That was indeed a great assurance.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Katiforis.

Mr Katiforis (PES/EL)

Thank you Madam President. So despite the telephone call in the idyllic conditions of your holidays, Mr President, your conscience was not apparently shaken enough to avert you from making an extremely militant statement in support of the stability pact, one of the most militant statements I've heard, even from you, to this day. So may I ask you, because the implication seems to be clear, at what point of violation of the Stability Pact would the Central Bank raise interest rates, and would you still raise interest rates if the oncoming recession gives you plenty of price stability, as inevitably it will?

Mr Duisenberg

Well to start at the end. There is no oncoming recession. What I said was, there's a slowdown in economic growth which we are going through, which maybe we have gone through. However, signals are mixed, admittedly, going in all directions. Maybe that's a characteristic of a turning point, that signals are mixed, but there are signals that the resumption of economic growth may be underway. And as far as the Stability and Growth Pact is concerned, I don't think I've said anything which deviates from what I said in the past. The Stability and Growth Pact is a pact amongst governments and the ECB plays no role in that, but it's a great help for monetary policy that the Stability and Growth Pact is in place and we plead for it to keep it in place. Now in my previous answer, I quoted only one minister. I don't deny, I'm not blind that the debate on this is a continuing debate, both amongst politicians and in the media. That is why I reacted the way I did, call it militant or not.

Mr Katiforis (PES/EL)

But is the implication right that you would raise interest rates at some point of violation of the Stability Pact, if indeed there was such a violation?

Mr Duisenberg

We will raise interest rates when price stability is endangered, and only then.

Mr Katiforis (PES/EL)

Yes, and you forecast a recovery, but one year ago you admitted, or rather you admitted that you were over optimistic one year ago. What gives you confidence to make a forecast for 2003?

Mr Duisenberg

Well, we published the Euosystem's broad economic forecasting exercise in the middle of this year, which included forecasts for 2003. Now, of course, we continuously reassess and re-evaluate the forecasts made at that time. And at that time already, in the published forecasts which are available to you, a strengthening of economic growth in 2003 was implicit, be it in the form of bands we forecast. Our most recent internal updates, which ultimately will lead to a new publication in December, indicate that we have maybe to lower the range of the band, both for 2001, for 2002 and for 2003. But the trend is not changed.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mrs Riis-Jorgensen.

Mrs Riis-Jorgensen (ELDR/DK)

Thank you Madam President, thank you Mr Duisenberg. At your last press conference after the cut in interest rates of 30 August, you said that you had underestimated the scale of the slowdown in the United States, and you have repeated this today. At the same time you have said that you did not think it would have consequences for the euro zone, and this statement no longer holds water either. So I would like to know what has led you to conclude that the developments in the US do after all have great significance for the euro zone? I would also like to know what the effect will be for the future of our monetary policy. And of course, there are the events of yesterday which will play an important role. You said of course in your introduction that it is too soon to judge what the long term consequences might be, but I would like to know what the relations between the US and the Central Bank will be in future, following these events.

Mr Duisenberg

I do not recollect that I said that an underestimation of the protractedness of the duration and depth of the US slowdown would have no impact. Of course, it has an impact also on Europe. So I did certainly not say that it would have no consequences for Europe. What you seem to be referring to is that at an earlier stage - maybe 6 months ago when we still were led to believe that the slowdown in the US would be short-lived and that there would be a v-shaped recovery, at that time I said that in such a situation the consequences for Europe would be limited. But this time, I certainly did not say there would be no consequences, as I made clear in my introductory statement. And I believe I was consistent with what I said in the press conference on 30 August.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Lipietz.

Mr Lipietz (Green/EFA/F)

Mr President, I fully understood your earlier reply. Indeed, every country will have the right to use the margin of manoeuvre which it has within the framework of the stability pact, and of course those which have a zero per cent deficit or a surplus will have a greater margin than those

which have a 1.5 % deficit. So I am rather in agreement with you on that point. But it does mean that a precedent is being set, because this is the first slowdown that we have experienced since the birth of the euro, in which the Central Bank maintains a relatively tight monetary policy and it is up to fiscal policy to play the stabilising role by allowing the deficit to grow. This policy, I must say, worries me. It is not in line with the lessons we have learned from the 1980s, which are that it is rather a rigorous fiscal policy and a loose monetary policy which constitute the best solution in the face of an economic slowdown.

Mr Duisenberg

Well Madam Chairman, I don't accept the adjective that monetary policy is restrictive. If you look at the level of interest rates, given the level of both current and expected inflation, by no means can one qualify such a policy as being restrictive. Moreover, if you look at the developments of credit to the private sector, which for 24 months has been running at an annualised rate per month of about 10% and it is only since about 3 months that that pace has come down somewhat. Now I do recognise that credit to the private sector in large part, or in considerable part, has also served to finance the capital outflows out of Europe in the process of mergers and acquisitions with companies and take-overs, particularly in the United States. I also know, although it is not definite yet, that the pace of capital outflows is diminishing, actually we have for the first time in 12 months, we have in June seen a sizeable net inflow of portfolio equity investment into Europe of 19.8 billion . This is net inflow of equity investment and not in the form of capital flows for mergers and acquisitions but related to regular equity investment in the Euro area. So those are the reasons why I say I don't accept the burden or I don't share with you the description of monetary policy being restrictive.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Brunetta.

Mr Brunetta (EPP/ED/I)

Mr President, in recent months you have faced many criticisms. I would like to assure you of our support for your very clear position on the Stability Pact. I think it is the only way to ensure the credibility of our economic policy and our currency. That is my first remark. Secondly, you have spoken of wage restraint. As you know, it is a question of achieving non-inflationary growth, and so wages must follow productivity. But when one calls for wage restraint, one is implicitly admitting that productivity growth will be lower. But lower productivity means lower

growth full stop, and less competitiveness. So would it not be better to go back to the golden rule that wages should follow productivity growth?

Mr Duisenberg

That would be not only better - it would be good. First of all, thank you for your words of support as regards the Stability and Growth Pact. Second, indications so far for this year, also the judgement on wage contracts that are being concluded, is that we see no deviation from the pattern that we have observed over the past couple of years of a moderate development of wages, in line with the golden rule as you just described it. I don't say that there are no instances where there is a deviation from that - my own country not excluded to my regret - but for the euro area as a whole, the indications are that the much needed process of moderate wage developments is being continued. Which was one of the reasons why we felt free or in a position to lower interest rates at all, because as you well know earlier we were rather fearful of second round effects of the increases in energy prices and food prices on wages. That has not happened. The public has recognised that those were temporary factors which should not influence the medium- or longer-term behaviour.

Mr Brunetta (EPP/ED/I)

I welcome your reply of course, but why continue to use the term wage moderation, which has no meaning on a purely economic level? Wage moderation means that there is inefficiency at the level of the labour market. If wage moderation means a wages policy in which wages grow less than inflation, I think we need to say so clearly.

Mr Duisenberg

But it's a phenomenon, a variable that we observe. And one we cannot influence directly with our own policy, except with words.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mrs Beres.

Mrs Beres (PES/F)

Thank you Madam President. Mr President, I will not return to the ritual question which we address to you, which is to what extent do you take account of article 2 of the Treaty? It’s just that thinking evolves on this, and you are always reminding us of the need for stability and to

maintain a policy of stability. I think that from that point of view you have scored some points. But regardless of the instability which risks being caused by the dramatic events of yesterday, the question of financial stability arises. Mr Herzog raised this point in his own way, and I would like to come back to it. Do you not think that the issue of financial stability is one factor that needs to be taken into account in defining a good policy mix for the euro zone? And therefore what do you think of the idea that the question of financial stability could be integrated by the Central Bank into its monetary policy objectives?

Mr Duisenberg

Well I don't know whether I quite can encompass all the aspects of your question. To promote stability of the financial system is one of the secondary tasks of the European system of central banks. I think its far too early to judge what impact of the events of yesterday will have be on the medium-term developments and we have to wait and see and evaluate. We will react accordingly if there are monetary policy repercussions. But I don't see what I can add more to this what you call ritual question on the second objective of monetary policy to contribute to Article 2 of the European Union Treaty. We continue to believe, and I'm ready to give you a ritual answer to a ritual question, that the ECB will support the general economic policies of the European Union, including the promotion of economic growth and employment as long as there is no danger to price stability. That comes first.

Mrs Beres (PES/F)

Thank you Mr Duisenberg. Again, my question was not driven by the events of yesterday, I was raising it in a much broader context. With regard to article 2, your policy is always under the spotlight, and is naturally compared to the policy of the American Federal Reserve. Can you in your own way analyse the differences in terms of monetary policy? Because more and more assessments conclude that there are two relatively different monetary policies being conducted by the two banks. What is your assessment?

Mr Duisenberg

Well first of all, I don't think our policies are all that different. There are no signs that inflation is moving in the United States beyond what the authorities think is acceptable. But don't forget that they have come down with their interest rates from a level, which was far in excess of the level prevailing in Europe. They have come down from around 6% to slightly over 3% as a

result of economic conditions in the United States and secondly, it is a fact that the mandate of the Federal Reserve system differs from the mandate of the European Central Bank. The mandate of the European Central Bank, being that price stability is the primary objective to be achieved, and without prejudice to price stability, to support the aims of the European Union as embedded in Article 2 of the Treaty. The mandate of the Federal Reserve is to, at the same time, and at its choice you might say, pursue price stability, maximum economic growth, equilibrium on the balance of payments, etc. A multitude of targets from which they can, I wouldn't say pick and choose, but upon which they make a judgement about the appropriate policy stance for the United States. It may lead to different results. In practice, its not all that different, I can assure you, and I can assure you last weekend we had a long dialogue with the American colleagues and we came to this same conclusion. The mandate may be different, sometimes it may lead to different policy actions but at the end of the road, the differences are not all that significant.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Huhne.

Mr Huhne (ELDR/UK)

Thank you Madam President. Mr Duisenberg, I'd like to return and clarify this issue of how much flexibility would be allowed to each of the euro area countries in fiscal policy if they are to respect, as obviously my group very much wants them to do, the Growth and Stability Pact. First of all, you said, and I think this is important in terms of the implications for public finances, that there will be no recession but you didn't define your terms, and if a period of rising unemployment is not to be defined as a recession, presumably there were no recessions in Europe between 1945 and 1973, but it would be useful to have your definition there. Secondly, you said that some countries clearly are not in a position to allow the full operation of the automatic stabilisers. Could you specify please, which of the euro area countries in your view are not in a position to allow the full operation of the automatic stabilisers? And thirdly, you said in an answer earlier on that those which were not in a position to allow the full operation of the automatic stabilisers would have less room, I quote you, less room but not no room. So there is clearly in your mind, they are able to pursue, continue pursuing the ultimate target of getting an abnormal cyclical position into a position where they are close to balance or in surplus. But they are allowed to have acceptance of the cyclical consequences. My question there is what should that compromise be? Clearly in the euro area, when the stability

programmes were set this time, the overall projection for growth was about 3%. It's now if you look at the latest IMF forecast 1.9% so there's been a substantial reduction in the growth forecast for this year and that obviously has an impact on public finances. How much should the extra flexibility be for those countries which cannot fully allow the automatic stabilisers to work? So please specify the countries and how much flexibility they should have.

Mr Duisenberg

The countries which we most closely watch in this respect, let me put it that way, are quite specifically Germany, France, Italy and Portugal. As to the extent to which they have a degree of flexibility, I take the 3% ceiling as serious. So you can count for yourself, to the extent that their budget deficits were to approach the 3%, if it were purely for cyclical reasons I would make no problem. But to the extent that part of that approach is linked to a relaxation in the expenditure cutting plans or new expenditures being contemplated which have a long-term effect, then I would be concerned, as they would had structural implications. As I said in my introduction, in this context there seems to be no room for discretionary measures, especially on the expenditure side, because expenditure measures have a long-term afterwave of being in existence, even if at the moment they are taken, it is thought that it is only a one-off thing.

Mr Huhne (ELDR/UK)

If I can just have a supplementary on that, Chairman, which is just to ask: would it be useful in that context, in a year like this one, where there's been a substantial deterioration in the growth outlook and therefore an increase in the projection for deficit, would it be useful to have an operational target of say a primary cyclically adjusted balance rather than having this rather fudged solution?

Mr Duisenberg

I am aware of that discussion. For a variety of reasons, but mainly for reasons of the credibility of the Pact which was agreed only 3 years ago, to change it and to fudge the definitions, would to my mind already undermine the credibility and with that the confidence in the Stability Pact.

Mrs Villiers (EPP/ED/UK)

Mr Duisenberg, I completely agree with you that we all need to act calmly in this moment of crisis. I agree that structured reform is the key to a healthy economy and it's much more important than monetary and fiscal management. I am the last person to say that governments

can spend their way out of a recession, but I can't help looking back to 1998, when the world stood at the edge of the precipice looking down at the prospect of recession, and only Alan Greenspan with a combination of political acumen and rate cuts pulled us back from that precipice. Now we must now be standing a whole lot closer to that precipice, not only with the appalling tragedy that we've just seen yesterday in the heart of Wall Street, but also with the economic slowdown which you've just acknowledged is more serious than you expected. I mean, in those circumstances, isn't it worth at least thinking about viewing the Stability Pact with more flexibility, even as a short-term measure just to try and head off recession? Can we really be sure that the Stability Pact holds all the answers in good times as well as bad? I really urge all of us in this room, and you Mr Duisenberg, to think about whether in these particular circumstances applying every single precise letter of the Stability Pact is what is going to be best in order to prevent the world economy from falling over that precipice, which we all very much hope that it's not going to do.

Mr Duisenberg

First of all, it is remarkable how short-lived the slow-down in 1998-99 was. Much more short-lived than everybody or anybody, including Alan Greenspan, had anticipated. I am sure he would most gracefully accept your compliments without maybe entirely sharing it, but he would certainly accept it. But in these particular circumstances, to react to a disaster as has happened and which is still being absorbed and the ramifications of which we cannot at all be sure of, I think it is of particular importance that we stick to our medium-term strategies and goals, while fighting the consequences of the disaster in any appropriate way possible. But whether that would be a reason to change our structural polices is a question I'm inclined to say no to.

Chairman, Mrs Randzio-Plath (PES/D)

Mr President, in light of your replies, I would like to ask another question which is raised elsewhere in the economic and financial world: what is the role of monetary policy and what should its role be in future, when one considers that the reductions in interest rates have not had the desired effects, or at least the effects desired by the President of the US Federal Reserve? When one considers that the measures taken by the Bank of Japan have not had results enabling Japan to get out of its crisis, one has to ask questions. We can wonder whether the central banks are all going in the right direction. I would like to talk about the future, about the future role of the central bank, and in particular of the European Central Bank. I ask this question because the very precise definition of the task of the European Central Bank has still not been clarified.

When in your view will the time come for the European Union's employment policy and economic policy to be effectively supported by the European Central Bank?

Mr Duisenberg

That moment is already there and we will support it and we are supporting it by preserving price stability. Because it is our strong conviction, and I know it's an almost ritual answer, but preserving price stability and now bringing it back, that is the best contribution that monetary policy can make to let all economic agents, consumers and producers take their decisions on an expected environment of stable prices to take away uncertainty, to convince them that prices will remain stable, then they can make investment decisions, spending decisions as far as consumers are concerned, in a most responsible way. And so with that, it remains the best contribution. The question is, is this debate going on in the heart of the governing council? The answer is no, because we are very happy and satisfied, both on theoretical and empirical grounds, with the mandate that we got. And the mandate being maintaining price stability and without prejudice to price stability, fostering the goals set out for the European Union in Article 2 of the Treaty. We are very satisfied with that and in no way can you expect from this governing council an initiative to change the Treaty.

Chairman, Mrs Randzio-Plath (PES/D)

You have drawn our attention to the fact that in the United States there are no risks for price stability, but the US has a very different definition of price stability. It is not as narrow as that used by the ECB. In light of this, should the ECB not think again?

Mr Duisenberg

You can have many definitions of the average price developments.We chose and defended here in this building the concept of a harmonised index of consumer prices, and you can pick others, but once chosen, given the right grounds, I would think it would be unwise to start trying to manipulate the definition in order to create more room for discretionary measures. And so I'm not very much inclined, to say the least, to start redefining our definitions or redefining our concepts of price movements at a stage when the economy is developing in a way that is less satisfactory than we had hoped for.

Chairman, Mrs Randzio-Plath (PES/D)

Why is the ECB the only central bank in the world which has such a strict, narrow definition of price stability?

Mr Duisenberg

I don't know whether the definition is so narrow and so much more narrow than that of other central banks. I would have to look into that. But there are central banks which have a precise inflation target, point target, and they do that on the basis of one definition which they can use. I would have to look into that, Mme Chairman, and to see whether your statement that we have the strictest or most narrow definition of price movements,to what extent that statement holds water.

Chairman, Mrs Randzio-Plath (PES/D)

Mr President, we would be delighted if you could give us an answer to that. Thank you. Mr Tannock.

Mr Tannock (EPP/ED/UK)

Madam Chairman, Mr President, I'm not sure how wise it was for you, from a security angle, to publicly admit to Mr Huhne the fact that the ECB's emergency contingency plans are not yet operational. Is this not putting your bank in jeopardy during this period? On security matters, it is also reassuring that the internet and e-mail communications throughout the period yesterday of disruption to landlines and mobiles remained fully operational, and I think that's actually interesting as the Pentagon, ironically in this case, specifically designed it with redundancy in mind for this kind of event. I personally am particularly concerned on a specific question about the euro 500 note, which I think will be a gift to organised crime, tax avoiders and counterfeiters. Can you just reiterate again the justification for the production of such a high denomination note in euroland? On a monetary issue, I note that the July figures have accelerated for annual broad money growth in euroland from 5.3% to 5.9%, which is well above your target or your announced target of 4.5%. In view of your 25 basis point reduction on August 30, does this mean that you are now abandoning money supply figures as an indication of future inflation in the euro zone? Thank you.

Mr Duisenberg

Madam Chairman, we are creating a disaster standby facility for the ECB, but then its not the ECB alone that implements monetary policy. It's the Eurosystem. That's 13 central banks,

including the ECB, and many of which, if not all, already have their disaster standby facility operational for years. So for the Eurosystem as a whole, which is implementing monetary policy measures and market operations every day, that I would say have no fear. The thing is already there. Only our own is not yet operational and it costs time to build create a thing and money, I must say. On the internet, e-mail question, I don't know what to answer. I'm also very pleased, I was very pleased up until and including this morning that I could use those instruments to communicate with those with whom I wanted to communicate. Why the € 500 note? Don't forget that denominations of such a magnitude are freely floating and have been issued for years - in Germany, the Netherlands, Austria and one or two other countries. We have the 1,000 DM note. We have the 1,000 Guilder notes. We have the thousand shilling notes in Austria, all equivalent to such a note. So it's nothing exceptional. And don't forget, if you see it as a means of hoarding or of putting away money whether legally acquired or illegally acquired, that if we wouldn't have such a note, the money would be hoarded in other currencies. The Swiss have a 1,000 FR note which is worth a lot more than € 500. The M3 developments. As I indicated, we have to adjust and we are increasingly in a position to adjust the M3 figures, which contain money or assets held by non-euro area residents, i.e. shares in money market funds and money market paper and debt securities with a maturity of up to two years. We have to correct for that and purely statistically it's - I can assure you - a hell of a job. We are increasingly in a position to eliminate those figures from the observed statistics and by the end of this year, we will be in a position that we can fully publish new ranges of M3 figures which exclude all the elements that are held by residents outside the euro area. But already doing that preliminarily, we come to a figure of the three months average M3 growth figure of, I believe, 5.1%, which is - let me put it that way - and now you permit me to correct you - not close to our target of 4.5% but close to our reference value of 4.5%. Monetary developments did not stand in the way the lowering our interest rates by a quarter per cent, based on other considerations contained in the second pillar of our monetary policy . So in no way are we abandoning as an element of our monetary policy strategy the analysis of monetary developments. We continue to believe that ultimately inflation is a monetary phenomenon, so that it remains worthwhile to analyse monetary developments as one of the main elements determining inflation over the longer-term, and in no way are we abandoning the first pillar in our analytical strategy.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Goebbels.

Mr Goebbels (PES/L)

Mr President, at a recent press conference you said that the automatic stabilisers should only be allowed to come into play fully in the countries where the budgetary situation is close to balance or in surplus. We know that the logic of the stability pact is a long term one, while the current slowdown calls for short term measures. So for what reasons should some countries be condemned to lead restrictive budgetary policies? You seem to think that the markets are not capable of understanding that an anti-cyclical policy will in fact facilitate long term stability through short term measures. In other words: if the automatic stabilisers are able to produce results for some countries, why not accept these for all countries?

Mr Duisenberg

The automatic stabilisers are something different from taking discretionary measures. Those countries that already have achieved this position of structurally having their budget in balance or surplus simply have more freedom to let the automatic stabilisers work. They also have the task that they should maintain their balanced budgetary position over the medium-term and over the cycle on average. And they have all the liberty they need and they want. They don't want anything more. Even to quote an example, which I know best because it is my own country, the largest deviation from a stated budgetary target that a recession has caused - and we have had many in the Netherlands in the 50 years since the war - was between 2% and 2.5% of GDP. It is for that reason that the 3% ceiling leaves, in my opinion, for that country - but I think it holds for all - ample room and adequate room for the automatic stabilisers to work. So for the inevitable rise in unemployment benefits, if that were the case, for the inevitable disappointments in tax revenue which could coincide with a slowdown in economic developments. But not in those countries where the stated goals for the medium-term and the intermediate term have not yet been reached, because all the countries have in their stabilisation programmes announced more or less the date or the year in which they will have achieved their position of having their budget in balance or if necessary, in surplus. Now what we are, what I am pleading for, is to not make this date, which for some countries is 2003, for other countries its 2004, a moving target but to stick to the plans as they are. And that implies that the possibility to let the automatic stabilisers work, to let deficits for cyclical reasons deviate from their stated objectives, are more limited in one country than in another.

Mr Von Wogau (EPP/ED/D)

Mr President, can you confirm that the European single currency is the only currency in the world which is supported by a Stability Pact? This stability rests on two pillars: the Stability Pact and the independence of the Central Bank. And this Stability Pact has the aim of protecting the currency from national finance ministries. This is all very positive, but today we hear that these two pillars should be extended. I am a little surprised by this situation, especially by the question raised by our Chairman. I think it would be very dangerous, because it would mean sending a signal to the markets, and in the wrong direction. You have indicated that long term interest rates have stayed very low, and I think that in this kind of debate this could be interpreted very differently. So to my question: when one speaks of recession there are different definitions which are used. Some say - recession means that growth falls. Others consider that there is a recession when growth is negative over two quarters. Growth is currently falling - so what is your definition of recession?

Mr Duisenberg

I believe the Euro is indeed the only currency in the world which is in its monetary policy backed up by a Stability and Growth Pact, but then I would be inclined to state it a little bit differently. We are the only monetary authority in the world which does not have, as a natural counterpart, one fiscal authority. And basically, the Stability and Growth Pact is a substitute for having one fiscal authority as a natural counterpart in the process of policy formulation. The Stability and Growth Pact admittedly ties the hands of 12 fiscal authorities in the euro area. I must admit, Mr Von Wogau, that as a Governing Council we haven't even discussed it, but we do not have a very fixed definition of what is a recession. We are inclined to use the word recession indeed as you indicated, which is two consecutive quarters of negative growth. But that's in our thinking, without having it formalised.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Radwan.

Mr Radwan (EPP/ED/D)

Mr President, before the summer break the Commission made a proposal for a regulation concerning cross-border payments in euro, and recently one of your Central Bank colleagues strongly criticised this proposal. At the beginning of this year a European Parliament report called on the Commission to play a co-ordinating role in the banking world so that progress would be made on cross-border payments. I have already raised this with you at a previous

monetary dialogue. At the time, you said that the Central Bank could not play this co-ordinating role. I do not think that you should criticise the position of the Commission on this issue, but now that the Central Bank has made a certain number of criticisms, do you intend to take certain measures to accelerate the process and to achieve standards which would render the proposal for a regulation superfluous?

Mr Duisenberg

The Commission has, as you all know, prepared a draft regulation on cross-border retail payments. Our inclination is to applaud and support the contents of this draft regulation, basically with one proviso. We think that the ambition of the Commission to have this regulation implemented by the banking system already by the 1st of January 2002 may be too ambitious. So we would be inclined, because major changes in software etc and in behaviour are necessary, to grant the banking system somewhat more time, a couple of years more, to achieve both what the Commission wants and what we support. That's the only major difference in view.

Mr Radwan (EPP/ED/D)

Yes, but there is this proposal to equalise the cost of domestic and cross-border payments . Do you support these proposals? I would like to know what is your objective for 1 January 2002, and what are the chances of achieving this objective? I would like to know if we can achieve this objective. What objective could we achieve by 1 January 2002 to equalise the cost of cross-border and domestic payments in euro?

Mr Duisenberg

I want to emphasise, Madam Chairman, that the pricing of services is left over to the market mechanism itself. The Commission proposal is already shoving the market mechanism, to some extent, aside, which is a thing that any Central Bank in the world is very hesitant to do, to prescribe the tariffs which banks have to adhere to in order to cover their costs and maybe to make a profit. So we do not have an objective in terms of prices of services, but we recognise that in a single currency area, with a single currency and no borders, with no distinction of the currency used in one part of the region Europe as in another part of the region Europe, it would be rather incomprehensible for the public and not very good for the popularity of the euro, if it was more difficult to transfer a euro from A to B than from A to C. And it is for that reason that we ideologically support the goals that the Commission has set. On the other hand, I do not

deny that we are happy that the initiative on this point, I know that the European Parliament would have liked it otherwise, but that the initiative to propose such a regulation is with the European Commission whereas we support the goals. But we do not have a precise goal about what has to happen or will happen on the 1st January. On the 1st January, our only goal is to have as smooth a changeover to the money embodied in this star as is humanly possible.

Chairman, Mrs Randzio-Plath (PES/D)

I think that the committee shares the view of Mr Radwan. There must be a change with regard to cross-border payments and transfers. In fact we are about to return to this issue to debate it. A supplementary question?

Mr Radwan (EPP/ED/D)

I am glad that you support the objective of the Commission, I am just a little surprised that you criticise the means. But with regard to the objectives of the Central Bank, you appear to have no proposals in this area. Could the Bank not play a role in co-ordinating and accelerating the creation of cross-border payment systems by the banks?

Mr Duisenberg

We are in a constant dialogue with the various elements of the banking system, both with the savings banks, with the Federation of European Banks, to promote and to stimulate, to the maximum extent possible, the goals to be achieved which we have set out in our letter - I quote by heart - of, I believe, September 1999, what has to be achieved by 1st January 2002. And we exert peer pressure to the maximum extent possible and, so far, I must say the banking system has shown a remarkably co-operative attitude in this respect. Although I do admit that developments still are, may I say, disappointingly slow.

Chairman, Mrs Randzio-Plath (PES/D)

Mrs Torres Marques.

Mrs Torres Marques (PES/P)

Thank you Madam President. Mr Duisenberg I would like to insist on a point which is vital for the credibility of the euro. The European Parliament has intervened several times on this issue. Each time, the Central Bank has said that all these issues can be dealt with without legislation. But I can see for myself that prices instead of falling in the euro zone, are going up, which

undermines the credibility of the euro. Now, you say that you agree with the regulation which will be directly transposed into Member State laws on 1 January 2002. I think this is a fundamental step. We have tried to do it in the past and it didn't work, but now it should work and I would like the Bank to strongly encourage this measure, which is truly revolutionary for the euro zone. This will mean a real internal market with one currency for which there will be the same charges everywhere for payments, transfers etc.

Mr Duisenberg: To the best of my knowledge, the European Parliament is involved in the adoption of this proposal. What we do consider is that to impose equal charges for cross-border and domestic payments in order to achieve the objective of a single payment area is not the optimal solution. Firstly, it would interfere with the price formation mechanism and it would contradict the principle of an open market economy. And as long as all the conditions for price equalisation are not there, maybe that the same processing channels can be used for both domestic and cross-border payments, the draft regulation will force the banks to adopt cross-subsidisation practices. And secondly, from the micro-economic viewpoint and in contrast with the arguments put forward in the explanatory memorandum to the draft regulation, the ECB takes the view that the proposed draft regulation may eventually trigger a counter-productive and undesirable reaction by decreasing the supply of cross-border payment services, as banks would not find it appropriate to invest in that business. And then, ultimately, consumers would suffer from shrinking supply. In addition, in some countries, domestic credit transfers are free of charge, but in other countries, charges, also domestically, are quite high. So, an undesirable effect of this regulation could be that the current disparities between countries are frozen, and that important price differences for cross-border payments would remain throughout the euro area, because there are differences in domestic charges.

Mrs Torres Marques (PES/P)

Yes, but that is precisely the situation that we wish to overcome, Mr President. The Commission has had the courage to propose this regulation so that the euro finally becomes a single currency in a single market. If this proposal is applied in full, it is a good thing which we must applaud. The banks will just have to adapt. If they do not, the situation will remain as it is and we will not have a single currency.

Mr Duisenberg

In Germany when I make a payment, I'm being charged for making a domestic payment, at least by the bank I'm working with. So I see what costs I have to make. That's a domestic payment I'm talking about. In the Netherlands, where I also make domestic payments, I'm not being charged - I think - but I am being charged of course because processing the payment takes a long time. The interest covered by the bank in the period between the payment I make and the moment the money reaches the recipient , that's basically the charge that the bank imposes on me. Now what this regulation does is to force the banks to equalise the practices and I'm not convinced whether this is really the appropriate way forward. I'm in principle for making real costs visible, but were you to make visible the real costs of making transfers also domestically, I know in my country you would cause an outcry. Because the people tend to think that the thing is "gratuite". But then we all know that it is not. To make it visible and therefore transparent has in principle its attractiveness, but why interfere in market practices and market mechanisms if they are accepted so well by the various parts of the population in Europe?

Mr Marinos (EPP/ED/EL)

First of all I would like to say that Mr Duisenberg was right to react calmly to what happened yesterday in New York. If the President of the ECB starts to express his unease then the consequences could be catastrophic at world level. Its a fact that what happened yesterday will probably change the history of the world. It shows that the whole planet is exposed to terrorists, including banks. I was surprised to hear that the German government wanted to give assurances, guarantees to Mr Duisenberg. How can we be sure of anything in such a situation? Before the events of yesterday, inflationary tendencies were already on the increase, which was of course contributing to a slowdown in economic growth. Its clear that there are inflationary tendencies, that's confirmed, and it is also clear that some speculators are going to get rich. We are on the eve of the introduction of the euro on 1 January and before we reach that date, Eurostat tells us that most Europeans are worried about the speculation that could be caused by the introduction of the currency. So my question is the following: after the introduction of the euro, and given everything that has happened, do you not think that those who are going to speculate in the framework of the introduction of the euro are going to get rich? Doesn't the ECB's goal of stability risk being compromised?

Mr Duisenberg

First part of the question - do I feel safe in my bank? Of course, that's not just a feeling. That's a feeling that is supported by careful analysis by competent authorities about the physical

security of our personnel and to what extent that might be endangered. That comes first and foremost before any other consideration. But that's not a judgement that I'm competent in making. One thing is sure. We will not let these barbaric attacks that have been executed yesterday destroy the functioning of our democratic institutions. But we have to make sure that the life and health and well-being of those who man our institutions are guaranteed to the maximum extent which is humanly possible. Given that, I feel safe in my bank. The second part of the question, Madam Chairman, is based on the starting point that inflation is increasing. Well, inflation is not increasing - inflation is declining and it will continue to decline – although, as I have said repeatedly, there may be hiccups in the process. But that it will continue to decline is our firm belief and expectation and conviction, so that we will have inflation under 2% in the course of the first half of next year. And certainly on average for the year as a whole. So that being given, I cannot answer a question which, to my mind, is based on a false hypothesis.

Chairman, Mrs Randzio-Plath (PES/D)

Concerning prices I would also like to ask a question. Lots of citizens are complaining about the fact that there are constant changes in the price of the housewife's basket of goods, notably the price of a jar of jam as well as clothing, bread, milk, yoghurt and other foodstuffs. And this is confirmed by information provided by consumer associations. I think that the problem needs to be taken into account when we are approached by our citizens. Statistical institutes have said that they have no indications of price increases. However, if the man on the street, in shops, in hotels, asks the question and wonders why prices are different in euro, people say it is the fault of the euro . And on a psychological level this is damaging for the acceptance of the euro. So would it not be wise to come back to this problem, both at a political level and at the level of the central banks in co-operation with the European Central Bank, so that we can send a different message on the euro to our citizens?

Mr Duisenberg

I'll do that immediately, Madam Chairman. We are monitoring, both the ECB and the national central banks and the national statistical offices, the process very closely. So far, we have observed little or no evidence of an upward move of prices ahead of, or at the time of, the conversion into euro. We don't deny that the tendency may exist. We are very pleased with the results and the declaration of the Ministers of Finance of the eurogroup who have declared, I believe on the 9th July last, that the governments - the central governments - will round off the conversion of the national currencies into euro to the benefit of the consumer, that is either

neutral or to the down side. And we call on other parts of government, i.e. local authorities, provincial counties, to follow this example of the central governments. And we call on the consumer to be very vigilant in following, observing and, wherever possible, signalling deviations from this principle. And I know that in some countries, for example, consumer organisations are extremely active in precisely monitoring the conversion process and they are publishing whenever they see a deviation which is significant enough to hit the consumer in a negative, or even unacceptable, way. So I fully share your concerns and I herewith - may I repeat myself - I applaud what the Ministers of Finance have decided for the central governments. I call on local governments and other public bodies to follow this example. And I call on the consumers to remain vigilant and help us and themselves in containing this process wherever it were to enlarge.

Chairman, Mrs Randzio-Plath (PES/D)

Mrs Villiers.

Mrs Villiers (EPP/ED/UK)

President Duisenberg, I'd like to raise a point made by a UK citizen, a Mr Chester, but I think relevant to all people in and outside the euro zone. Are there any arrangements being made to take account of the fact that people from their holidays may have small amounts of currencies which are not their own. Say, someone in France, may have a small amount of deutschmarks left over from a holiday. Will they be able to exchange those deutschmarks in a bank in France with the launch of the euro notes and coins as easily as they can exchange their French francs? Will they have to pay an extra charge if they are exchanging not their own local currency but someone else's? And on the same basis, in the UK is there any arrangement made for UK citizens to be able to change say deutschmarks or French francs into euro when the changeover happens? And do you anticipate charges being made in the euro zone or indeed outside the euro zone for those types of small transfers?

Chairman, Mrs Randzio-Plath (PES/D)

The last question is for Mrs Thyssen. If you could be so kind?

Mrs Thyssen (EPP/ED/B)

Madam President, I wanted to raise some questions about cross-border payments, in view of the discussion on the Peijs report which will follow this point on the agenda, I wanted to raise a

number of questions in the presence of the President of the ECB. I won't raise them however because indirectly I have heard his answers in response to the questions of others.

Mr Duisenberg

Thank you very much then. I'm not aware of all the arrangements that have been made. We try, first of all, to make the exchange of notes free of charge., In as far as it is in our power we ask the co-operation of the banks to make it free of charge. As far as the United Kingdom is concerned, I believe - I'm not 100% sure - that the possibility to change Deutsche marks and French francs and Dutch guilders into sterling will remain for some time - not free of charge but then these changes are never free of charge - if it is into sterling. It was also a striking fact for me to learn that for one of the banknote printing works that are operating, significant orders for euro banknotes did originate with UK clearing banks. So they are preparing for the event as well.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you Mr President. We thank you for the monetary dialogue which has just taken place and we hope that we will have answers to a number of other questions, and I wish you every success for a smooth passage to the introduction of the euro, which will shortly become a reality in the form of notes and coins.