3-001

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH JEAN-CLAUDE TRICHET,

PRESIDENT OF THE ECB

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

BRUSSELS, 14 SEPTEMBER 2005

3-002

IN THE CHAIR: MRS BERÈS

(The meeting was opened at 9.35 a.m.)

3-003

Tribute

3-004

President. – Ladies and gentlemen, as this is our first meeting since the death of Wim Duisenberg, who played such an important role for our committee, I would like to ask you to pay tribute to him in the presence of my predecessors and in the presence of his predecessor. I believe this is an opportune moment.

Mr Trichet, your predecessor as President of the Central Bank had an altogether exceptional relationship with our committee. We know that he played an outstanding role in the progress towards the single currency, then in the introduction of the euro, as President of the European Monetary Institute in July 1997, and then, following negotiation of a kind known only to Europe, as the first President of the Central Bank, from June 1998 onwards. In the history of great Europeans, I believe that he played an altogether exceptional role in establishing what is today the credibility of the European Central Bank. I believe that few men – and no women – have held such a degree of responsibility in the history of the European Union: creating, from nothing, a central bank, a credible institution.

I would like here to emphasise the quality of the relations he established with the European Parliament. They are long-standing relations since they date back to the time when Wim Duisenberg was Chairman of the Committee of Governors of the Central Banks at the beginning of the 1990s. They have constantly developed in the context of the work carried out by the Subcommittee on Monetary Affairs chaired by Christa Randzio-Plath, and by our committee, under the chairmanship of Karl von Wogau and Christa. It was he who, within this committee, pioneered the practice of monetary dialogue, which we devised together, by constantly showing his concern to reconcile the independence of the Central Bank with democratic control.

Showing his willingness to participate in a new exercise within Europe, with conviction and courtesy, he contributed to enlightening us on the monetary environment and the decisions taken by the Council of Governors. At the same time, he had to endure the initial outbursts of those who, with good reason, were calling for increased transparency in the decision-making process and already, at times, for the relaxing of monetary conditions. Above all, I will remember that outward detachment and that ease of expression that disguised exceptional intelligence and a mind constantly on the alert.

Mr Trichet, ladies and gentlemen, I ask you, in tribute to his memory, to the memory of this great European, to observe a minute's silence.

(The House rose and observed a minute's silence)

3-005

Jean-Claude Trichet, *ECB*. **–** *(FR)* Madam President, allow me to say that the European Central Bank is very moved by your having paid tribute to our first President. I myself said in Amsterdam, on behalf of the European Central Bank, on behalf of the General Council, of the Council of Governors and on behalf of all of the staff of the European Central Bank, that Wim had passed away, but that he was still among us and that he was still inspiring us.

3-006

Monetary dialogue

3-007

President. – We now turn to the monetary dialogue. Mr Trichet, you have the floor.

3-008

Jean-Claude Trichet, *ECB*. **–** *(FR)* Madam President, I am going to start my speech today by evaluating the current economic and monetary situation.

3-009
(DE) I would also like to state my views on current issues in fiscal policy and on how things are going as regards structural reforms. I would like to conclude by enlarging on the ECB's position on the follow-up to the EU Financial Services Action Plan.

3-010
Let me first address the issues of economic and monetary interest. At the time of my last appearance before the European Parliament in July, the underlying trend in real economic growth in the euro area remained modest. Looking ahead, we expected that positive fundamental factors – notably strong global demand and robust earnings in the euro area – would contribute to a certain pick-up in and broadening of economic activity.

The latest data and indicators have not changed this assessment. According to Eurostat's flash estimate, real GDP grew at a quarter-on-quarter rate of 0.3% in the second quarter of this year, compared with 0.4% in the first quarter, confirming that the underlying growth dynamics remained subdued in the first half of 2005. At the same time, the most recent survey indicators have, on balance, supported the view that economic growth *could* improve in the second half of this year. Looking further ahead, conditions continue to be in place for positive fundamental factors to influence the outlook and for economic activity to pick up beyond the short term. On the external side, ongoing growth in global demand and improvements in euro area price competitiveness should support euro area exports. On the domestic side, investment should benefit from the exceptionally low level of both nominal and real interest rates prevailing across the entire maturity spectrum, as well as from the robust growth of corporate earnings and ongoing improvements in corporate efficiency. Consumption growth should gradually rise, broadly in line with expected developments in disposable income.

As you know, we have produced our most recent ECB staff projections, which envisage euro area real GDP growing at rates of between 1% and 1.6% in 2005 and between 1.3% and 2.3% in 2006. Compared with the June projections, the ranges projected for real GDP growth have been adjusted slightly downwards. For 2005, this mainly reflects slight downward revisions of past data, while for 2006 this reflects the projected effects on disposable income of increases in oil prices.

This outlook for economic activity is subject to a number of downward risks, relating mainly to higher oil prices, low consumer confidence and concerns about global imbalances. In particular, the potential further dampening impact of oil prices on the outlook for growth is being monitored very closely. Oil prices have continued to rise, increasing considerably since the beginning of the year, and developments in future prices suggest that market participants still expect the current tightness in oil markets to persist.

Obviously, the situation has been further complicated by the tragic effects of Hurricane Katrina. All our thoughts are with the people of the city of New Orleans and all affected neighbouring areas and we are touched by the wave of global solidarity that has been expressed. I myself immediately expressed to our sister institution – the Federal Reserve – our deep compassion, solidarity and availability. At the same time, it remains difficult to assess the full extent of the damage and the period of time necessary for its repair. Normally, despite the significant wealth destruction resulting from such storms, the economic impact at the national level is limited to the short term and is increasingly offset by the positive impacts of rebuilding activity. At the moment, we consider that the global impact will most likely remain limited and temporary, but we will, of course, continue to monitor very closely any available further evidence.

Turning to price developments, recent increases in oil prices have pushed headline inflation rates to levels in excess of 2% over the last few months. According to Eurostat's flash estimate, annual HICP inflation was 2.1% in August, compared with 2.2% in July, and inflation rates are expected to fluctuate around current levels over the next few months, with some further increases towards year-end. At the same time, when analysing underlying domestic inflationary trends, there continues to be no significant evidence of upside pressures building up in the euro area. In particular, wage increases have remained contained over recent quarters and this trend should prevail for the time being, given the current situation.

This picture is broadly in line with the new ECB staff projections. ECB staff project average annual HICP inflation to lie between 2.1% and 2.3% in 2005 and between 1.4% and 2.4% in 2006. These projections constitute significant upward revisions to the Eurosystem staff inflation projections published in June, mainly reflecting the fact that oil prices have once again increased by more than was suggested earlier by forward rates.

Upside risks to this new baseline inflation scenario remain, relating to potential further rises in oil prices, administered prices and indirect taxes. More fundamentally, the main risks to the inflation outlook stem from potential second-round effects in wage and price-setting behaviour triggered by ongoing oil price rises. In this respect, it is essential that the social partners continue to meet their responsibilities. Against this background, we will continue to monitor inflation expectations *very* closely. Particular vigilance is required in order to ensure that longer-term inflation expectations remain well anchored in the euro area.

Turning to the monetary analysis, money and credit have continued to grow very robustly in the euro area over the last few months, mainly driven by the prevailing low level of interest rates. In particular, the growth of mortgage borrowing

remains very strong. In this context, price dynamics in housing markets need to be monitored closely. The liquidity situation in the euro area remains ample by all plausible measures, indicating risks to price stability over medium- to longer-term horizons.

In conclusion, oil price developments have again led to upward revisions of inflation projections for the year ahead. At the same time, medium-term domestic inflationary pressures remain contained, while the balance of risks to the baseline inflation scenario is tilted to the upside. Cross-checking the economic analysis with the monetary analysis confirms the need for particular vigilance in order to keep medium-term inflation expectations firmly anchored at levels consistent with price stability. By achieving this, monetary policy is making a significant contribution towards economic growth and job creation in the euro area.

Turning to fiscal policies, the latest available information suggests that the pace of fiscal consolidation in many euro area countries remains unsatisfactory. It is of particular concern that targets for correcting excessive deficits are at risk in some cases. Moreover, countries that have recently breached the 3% deficit limit are being granted relatively long periods to correct the situation in what constitutes a very generous application of the reformed Stability and Growth Pact. Against this background, it is important to recall that the best contribution that fiscal policies can make to stability, growth and cohesion in the euro area is to tackle existing fiscal imbalances effectively as part of a determined and well-designed economic reform programme. In this context, it is the position of the ECB that rigorous implementation of the new rules is needed. This would reinforce the credibility of the Stability and Growth Pact, boost expectations of sound fiscal policies and thereby help increase confidence in economic growth prospects.

As regards structural reforms, the European Commission recently presented the 'Community Lisbon Programme', which contains a list of measures at EU level to relaunch the Lisbon Strategy. The ECB fully backs this initiative, in particular the measures to further open EU markets and to simplify the regulatory framework within which business operates. Let me insist on this particular point: our analysis is that these structural reforms are of the essence and we fully back the Commission initiative and the will of the Council to further implement this set of measures, which are absolutely decisive.

I would like to say a few words about the Green Paper on Financial Services Policy for 2005-2010. As already expressed in its contribution to the Commission's public consultation, the Eurosystem supports the key policy orientation of the Green Paper, which highlights the need to focus on the consolidation and consistent implementation of the legislative framework for financial services.

As regards the area of financial regulation, the Eurosystem totally concurs with the emphasis placed by the Commission on the objective of rationalising the existing framework. The proposal for 'better regulation' based on open, transparent and evidence-based policy-making is fully supported. The Eurosystem also supports the suggestion by the Commission to launch a feasibility study on the development of one body of consistent law. We regard such a 'financial services rulebook' as a tool to rationalise the existing set of EU rules for financial institutions and, in particular, to reduce complexity and legal uncertainties as well as to eliminate possible inconsistencies.

Let me also make a specific reference to the issue of securities clearing and settlement, to which the Eurosystem attributes great importance. An efficient securities clearing and settlement infrastructure is fundamental to the integration and smooth functioning of financial markets. In particular we support the Commission's intention to put forward a proposal for a directive on securities clearing and settlement.

In the area of financial supervision – which is also very important – the Eurosystem fully supports the Commission's view that the current institutional set-up should be exploited to the maximum extent before any potential structural change is considered. In particular, the Eurosystem agrees that the main policy objective in the area of financial supervision is twofold: first, to enhance the competitiveness of EU financial markets and institutions and to facilitate the development of cross-border finance both in terms of institutions and in terms of products and services – i.e. the financial integration angle; and second, to ensure the effectiveness of standards for supervision in a more integrated financial system – i.e. the so-called financial stability angle. In this respect, we attach particular importance to the consistent implementation of financial services legislation and the pursuit of supervisory convergence, as well as to the effective cooperation between home and host authorities. It is important that this home-host coordination be developed on a robust and consistent basis for the financial groups involved in a way that ensures effective supervision and reduces compliance costs. The Level 3 Committees play a very important role in this respect. Furthermore, we see a need for the current regime for the supervision of liquidity risk to be reviewed against the background of financial market developments, including the introduction of the euro.

As regards financial stability, which is of particular interest to us, we are of the opinion that the refinement of financial stability arrangements should remain a key priority for the EU. There are three broad areas where the Eurosystem sees room for enhancing the present arrangements, namely financial stability assessment, the management of financial stress and deposit insurance. Let me recall that the provision of emergency liquidity assistance, which is a central banking function, is important and there is an agreement within the Eurosystem on how this facility operates in the euro area. In our

view, there are no specific issues relating to the provision of emergency liquidity assistance that need to be addressed in the context of post-FSAP work.

Finally, let me stress again that the Governing Council of the ECB is very strongly attached to the full completion of the single market for banking and financial services, and to a level playing field making absolutely no difference between nationalities.

I am now ready to answer your questions.

3-011
Alexander Radwan (PPE-DE). – *(DE)* Mr Trichet, Madam Chairman, yesterday, Commissioner Almunia held out to this House the prospect of the first new countries joining the euro zone, and said that he expected this to happen in 2007.

At the moment, of course, we are seeing the Stability Pact being made more flexible, or, as some would say, being done away with. What that means is that the old countries already have problems adhering to the laws in force or to the current framework for the euro zone, while, at the same time, the Commission is talking in terms of admitting new countries to it. I would, then, be interested to know whether these countries will be required to accept and abide by the old criteria or the new ones.

Can I ask you for your assessment of the situation? How ready do you think these countries are in economic terms, to what extent are they already prepared, to join the euro zone, and – in view of the experience we have had with Greece – what procedure would you like to see adopted?

Secondly, there is at present lively debate in one Member State about the Italian central bank, and this is also an issue for the European Central Bank to deal with. We know that there is a great deal of debate in Italy, which now involves policy-makers right up to Mr Berlusconi, about the extent to which an internal market actually exists and the extent to which the Central Bank has acted against it. I would be glad if we could hear something of your thinking about this.

I just want to say something brief about clearing and settlement. We have produced a report on this subject, and I hope that the ECB will not take decisions about the implementation of certain standards and thereby anticipate the vote whereby Parliament will decide whether there is to be a directive, and, if so, what form it should take.

3-012
Jean-Claude Trichet, *ECB*. – As regards the first question I would say that the position of the Governing Council is that all provisions of the Treaty and the Maastricht criteria have to be applied rigorously for entry into the euro area. We do not see in this respect any change in the Treaty itself or any change in the Maastricht criteria themselves. So we are in agreement with the Commission and the Council calling for strict and rigorous implementation.

As regards the new Stability and Growth Pact and the new framework – as I have already said we call all Member States of the EU, including of course the new euro area members which are, as you know, under particular provisions as regards their own behaviour – we are for a rigorous implementation of the new framework. You know our position. We told this committee what we thought very clearly. We were not advising changes. These changes have been made. The Council has been unanimous. Now we have to apply these new rules rigorously. It is as simple as that and it is the clear-cut position of the Governing Council of the ECB.

As regards the decision-making process, we again call for a decision-making process that would be fully in line with the Treaty, applying it rigorously. We would be particularly concerned if we were to take any risk to observe what you have mentioned and that unfortunately had been observed in certain particular cases in the past.

As regards the recent decisions that were taken in Italy, first, as I said in my introductory remarks, the Governing Council of the ECB is inflexibly attached to the completion of the single market and to the implementation of the single market without any consideration for nationalities. It would be contrary to European law, contrary to what we think is important in achieving the ambition that we have in the European Union and in the euro area. We are also calling for the closest possible cooperation between the various authorities concerned, and this is the position of the Governing Council. I will also mention that the Governing Council, according to the Treaty, has a particular role in contributing to the smooth functioning of the surveillance authorities, but we are not responsible. It is, as you know, a decentralised system with powers being exercised at national level. But called upon as we are by the Treaty to contribute to the smooth functioning of this particular responsibility, we have asked the *Banca d'Italia* to tell us what it has done. We are engaging in a dialogue with *Banca d'Italia* to be further aware of all the aspects of these particular decisions. It is an ongoing process. They are powers that are exercised in Italy by the advisory board of *Banca d'Italia* and by the government. I can tell the honourable Member that we received only yesterday the new draft law for *Banca d'Italia* which was sent by the Minister of Finance following consultations with the Governing Council of the ECB. We will respond as soon as possible. There are also powers exercised by other Italian institutions, including the parliament, because there is a draft law. The Commission itself

has launched a specific study to check how European law has been applied in that particular case. We shall continue to monitor this situation.

3-013
Cristobal Montoro Romero (PPE-DE). – *(ES)* Madam President, Mr Trichet, President of the European Central Bank, I would like to talk to you about the euro/dollar exchange rate.

Now that some time has passed, it has become clear that the strength of the euro, compared to the dollar and other international currencies, has slowed down the growth of the European economy, it has been an obstacle to growth in Europe, and that, in itself, is negative, and we are in a very delicate and critical situation at the moment.

At the same time, the strength of the euro compared to the dollar has contributed to low inflation in Europe and this has also helped to keep interest rates low in the European Union and has allowed budgetary policies, European fiscal policies, to become rather relaxed; you have criticised these budgetary policies this morning, and I agree with you.

I would also like to hear your views about the exchange rate, however, because that strength of the exchange rate may continue and be positive from one point of view, but it may also prejudice the growth of the European economy in the short and medium term.

3-014
Jean-Claude Trichet, *ECB*. **–** As regards exchange rates, you know that there are terms of reference between the major industrialised countries – Europe, the US, Japan and the other members of that grouping. We will have another opportunity in Washington to discuss this situation. I cannot say in advance what the results of those discussions will be, but as you know our main message, collectively, is certainly to call for a stable, smooth and orderly appreciation in the exchange rates of a number of Asian emerging currencies. That is our main message.

For the rest I will not comment, particularly on the present situation. In the past, when we judged that certain comments and observations were useful, I made those comments and observations before this committee. At the present time I will only comment on this message that we have concerning emerging Asian currencies.

3-015
Ieke van den Burg (PSE). – Mr Trichet, the last time we met was at our July part-session. As you know, in the end we rejected the report as we could not a reach a compromise on the Bank's policies. The week after that part-session, I was part of a small delegation to the US and had the opportunity to speak to Mr Greenspan and also to listen to him at a hearing in Congress. I must say that I was really impressed by the way he prioritises and focuses on growth and employment, and the same was the case with John Snow, the Treasury Secretary. I wondered whether you have had any second thoughts after that debate in Parliament, which some papers referred to as a Socialist rebellion.

My second point concerns the case of Antonio Fazio, the Governor of the Bank of Italy. Following your answer to Mr Radwan's question, do I understand correctly that you think what the Italian authorities have done in this case is sufficient? Do you not think that this is a case where national interests may be at stake, and even more than national interests, and where the European level has a role to play in enhancing and restoring confidence in central banking? Impartiality should apply not only for national preferences but also for specific businesses. Unless confidence is restored, this case will damage the whole image and position of central bankers. You must also send a clear signal to condemn this type of behaviour.

3-016
Jean-Claude Trichet, *ECB*. **–** As regards the remark about the US, we all have our responsibilities which are specific to each of us, and we are in a different environment. If you are in favour of having the same kind of structural environment that exists in the US – and I understood from what you said that you envisaged that – then I can tell you that we will have more jobs in Europe, there is absolutely no doubt because the Americans are in a very different environment.

As regards the contribution of the European Central Bank to growth and unemployment, we can and must contribute, but it is not a sufficient condition. Let me reiterate that, since the euro was set up, our nominal and real rates are and have been at levels which were considered a dream before the euro was set up. We were *very* successful in capturing the confidence that existed before and that permitted very low levels of medium- and long-term interest rates. Mrs Berès paid homage to the transition which was a formidable success for Wim Duisenberg and the entire ECB team.

I would add that when we went down to a lower level of interest rates, we were below the lowest level which had been obtained in the preceding 50 years, which, again, was certainly not foreseen by anybody because it was obviously an extraordinary circumstance which took place because of our success in terms of credibility. Interest rates in no other big industrialised countries were going down lower than the level which had been observed during the previous 50 years. We have succeeded in maintaining the control of inflationary expectations without increasing rates over the last two years. It is because we remain fiercely credible in the eyes of observers and market participants. We have made considerable efforts to contribute to growth and job creation. This has been based on our credibility, and our ability to maintain inflationary

expectations in line with our definition of price stability. I mention all this because I truly believe that the ECB's contribution to growth and job creation is underestimated. It is a necessary condition to have a good monetary policy. Unfortunately it is not a sufficient condition, and that is why we are also calling for structural reforms.

As regards Italy, I said what I had to say. A number of institutions have responsibilities in the area. That responsibility exists in Italy. Under the Treaty, those decisions are decentralised and are under the authority of national institutions, but there also other institutions with responsibilities in Italy. Brussels has its responsibility and we have ours. I mentioned the Treaty provision according to which we have to contribute to the smooth functioning of this area. It is what we are doing in the process I have mentioned.

3-017
Pervenche Berès (PSE). – *(FR)* Mr President, you mentioned in your introductory statement the situation created by oil prices. Basically, this is the second time since the euro was introduced that the euro area has been faced with an oil crisis, and this is the second time that we note a failure to implement what could be a coordination of economic policies. It seems to me that, over and above the budgetary and fiscal strategies of each of the Member States, an external shock is a factor that should, to some degree, make it easier and simpler to coordinate economic policies and to coordinate responses.

Yet, what do we observe? We observe each Member State becoming entrenched in its own logic, without any implementation of what this type of coordination could be. I read just this morning that, in this country, in Belgium, a proposal to reimburse 17.5% of excise duty and VAT was envisaged; elsewhere, the PIPP is being spoken about again. Therefore, do we not ultimately have a missed opportunity here to implement a real coordination of economic policies, and, if that were the case, what ought to be the paths we should follow in a scenario such as the one we currently find ourselves in?

The second issue relates to the negotiation in progress on Basle 2, where attention is focused on the issue of SMEs' ratings. I would like to have your opinion on this matter, in particular with regard to the net lending of SMEs and the risks that that could entail.

3-018
Jean-Claude Trichet, *ECB*. – *(FR)* Madam President, as regards the price of oil, I would say that, virtually since the creation of the euro, we have in fact witnessed a series of successive increases in the price of oil. For us, this has meant as many successive crises, to which we have had to respond in the best way possible. That is not necessarily easy for a central bank, whichever it may be, as it must above all maintain the credibility of inflation expectations. I believe that we have done the best we can to achieve that; the staff has significantly increased the inflation expectations as a result of this recurring rise in oil prices.

I also note in passing that this increase is not a traditional supply crisis like the one we observed during the first and second oil crises, in 1974 and then in 1980. In that, we have a phenomenon that is clearly due to a very rapid increase in demand. The price therefore increases as a result of demand and not because the supply tap has suddenly been turned off. That paints a quite different picture from the one we had in the past. It is very important to understand what is happening. In fact, there is an overall change in relative prices in the world, which seems to be linked to the development of the world economy itself and, of course, to the economic explosion in, particularly, the emerging Asian markets, that is to say those of China and other emerging Asian countries, in a context of rapid growth at international level.

It is obviously the responsibility of the Council to respond to you on the issue of the effectiveness or the lack of effectiveness of the coordination. I simply note that, as you know, following the Informal Ecofin Council in Manchester, Eurogroup, on the one hand, and Ecofin, on the other, published a number of terms of reference, which capture, if I may say so, what is currently the consensus within governments in responding to this crisis. Among the items of consensus that I myself have observed is the idea that we should not respond to this new situation by reducing oil taxation but that, I quote what was said:

3-019
'Ministers confirm that where short-term targeted measures are taken to alleviate the impact of higher oil prices on the poorer sections of the population, they should avoid distortionary effects.'

3-020
(FR) The idea, within Eurogroup in particular, is therefore to avoid changing oil taxation and to concentrate, if the need arises, on our poorest and most destitute citizens in order to help them. I note that. It is the governments' responsibility.

For our part, what we believe is that it is crucial to avoid making the same mistakes in this area that were made, as you know, during the first and second oil crises and for which Europe has paid an extremely high price, since the disruption in the growth of the European economy clearly dates back to the first oil crisis. As you will recall, the productive sector, en masse, was forced to withstand the transfer of wealth linked to the oil crisis, and that placed the European economies in a very difficult situation over a long period of time.

Our message to ourselves, the Central Bank, is extremely clear: above all, not to force the productive sector to bear the expense of this additional transfer. Economic agents must accept to some degree that this transfer might be funded by them, otherwise we are weakening the European economy over a long period of time. Yet, once again, what was debated in Manchester reiterates in no small way this idea that the European economy must be protected from what could hinder it in the future.

3-021
Wolf Klinz (ALDE). – *(DE)* Madam Chairman, Mr Trichet, the Member States in the euro zone can, at present, incur deficits subject to virtually the same conditions, despite the significant differences in the size of their deficits and in their fiscal policies. What that means is that the markets seem to work on the assumption that there is such a thing as a bail out or a free ride, even though that has always been disputed by the European Central Bank.

My first question is whether it would not be much more desirable that the markets should – as they do with businesses – make qualitative distinctions between one Member State and another, thus resulting in interest spread. How do you think this might develop?

The second question I have relates to China, whose central bank announced at the end of July its intention that the Chinese currency should become increasingly free-floating. It was observable that this announcement was followed by an actual change of just 2.5%. Is that merely reassurance for the United States of America, or do you think the Chinese are actually beginning the free-floating process right now? If that is indeed the case, what effects will that have on the other Asian currencies, the yen in particular?

Thirdly, in some countries in the euro zone – France and Spain in particular – the housing market is booming, not to say overheated, and one might therefore expect a sudden and very abrupt slump or collapse. What would the European Central Bank prescribe as a response to that?

Last but not least, even though the new Member States that want to join the euro zone have no opt-out clauses, one cannot exclude the possibility that they will, like Sweden, decide in a referendum that they do not want to join. How would you react to that this time around?

3-022
Jean-Claude Trichet, *ECB*. **–** I am not sure I fully understood your question about debt, but there is a market appreciation of the quality of the various signatures. There is no bailing-out framework, as you know, in the European Union or the EU area. Markets have identified the differences between the various signatures: the best performers are rewarded in terms of low spreads and perhaps those who are behaving less properly are punished. Again, this is a market responsibility – a market appreciation – but there is no bailing-out framework in Europe and the quality of signature exists and is important.

As regards the Ren Min Bi, a decision has been taken. I have already mentioned the signals we are sending and which are being received from across the Atlantic and at a global level. I must confess that I would have preferred these matters to be dealt with more discretely, because it is very unusual to have such a public display of such matters that interact with speculation and market behaviour. So it is a *very* touchy question. That being said, the small appreciation that has been observed in the past is a good move. I said that myself, on behalf of the ECB and the Eurosystem. As I said, I expect an orderly and smooth further appreciation of the currencies in question – not only the Ren Min Bi, but also a number of Asian currencies belong to this emerging economy grouping.

As regards the property market, I have been very impressed by the work you have done in your committee. It is clearly a matter for very close monitoring by us. It is complex because sectors of the euro-area economy are very different: Germany does not look at all like Spain, just to mention two economies. At our level, we have to make a synthesis. The synthesis at the present level is that we have to understand what is happening and to follow it very carefully. At this stage we at the euro-area level are not alarmed, but it has to be monitored carefully and it is absolutely clear that there is an interaction between the dynamism of loans in the housing sector and what we are observing as regards real estate capital gains. That is part of our monitoring of our monetary pillar, because those loans, which are extraordinary dynamic, are the counterpart of M3. Monetary aggregates are very important for inflation in the medium- to long- or even very long-term perspective.

As regards the new Member States, as you have mentioned, only two countries amongst the 25 have an opt-out clause. The other 23 have no such clause, which means that once the criteria are met they are committed to entering the euro area. As far as we are concerned, we will stick to this legal analysis.

3-023
John Whittaker (IND/DEM). – Mr Trichet, do you not think it is time to begin publishing minutes of your governing council meetings – like the Federal Open Market Committee in the United States and the Bank of England – in a spirit of openness and transparency? The board of the Federal Reserve system is similar to the European system of central banks in

having representation from the various federal reserve banks, and publishing minutes does not seem to have caused them any problems, in particular it has not limited their scope for future action.

A related issue: I make a plea for more individual country data and analysis in your reporting, for instance in the monthly bulletins. We all know that there are wide differences in key variables across euro zone member countries, and these are highly relevant. Yet apart from highlighting debt and deficit figures, you talk unhelpfully of one economy – the euro zone economy – and data is all aggregated.

You and your late predecessor have established high credibility in controlling inflation and particularly inflation expectations. Surely this credibility will be further advanced by more openness of the kind I have just described. In an article in the May bulletin you acknowledge that national information is relevant in your decision-making. Please, let us have disclosure of the extent to which national considerations influence your interest-rate decision-making.

3-024

Jean-Claude Trichet, *ECB*. **–** The answer to your first point is that in January 1999 we became the first central bank in the world to introduce the concept of real time, detailed explanation of our analysis and on the reasons why we had decided to increase, decrease or leave the rate unchanged. That was not the case in the US or the UK at that time. Information was only available five weeks later. We were introducing a new concept in the art of central banking. All the other central banks have followed up, and now there is not a single central bank in the world which does not give an explanation, whether succinct or detailed, in real time when a decision is taken Why? Because the market called for such explanation when we started the concept.

This detailed explanation has the approval of the Governing Council, it is five pages long and is the introductory remark I make myself at the press conference which follows. Amongst the major central banks we are still the only one to hold a press conference immediately after decisions are taken. So in terms of transparency, we are really bold and innovative. The only thing we do not do is publish the individual decisions taken by individual members of the Governing Council. I understand why you are calling for that. After much thought, we decided that it was not appropriate in our case because we want to project the pertinent entity of the college, the Governing Council as a whole, and it would not be appropriate to embark on a discussion on individual decisions. We are very keen to maintain that concept. We are not exactly like the US. We are not a fully-fledged federation. We have 12 countries and 12 different national central bank governors. We are attached to full transparency, but not to displaying individual decisions.

As regards the monthly bulletin and the various information available on all the economies concerned, let us not forget that we are in a decentralised system. We have national central banks and we take it that everyone in Europe can access the wealth of information available, in particular on the Internet, not only about the ECB, but on the full body of the system.

3-025

Karsten Friedrich Hoppenstedt (PPE-DE). – *(DE)* Mr Trichet, I would like to revisit the subject of South-East Asia, where the central banks, in common with those in Asia, have, of course, always argued that the USA's budget deficits had to be substantially reduced. Now that the opposite has happened, in part as a consequence of the terrible disasters in the USA, what is your assessment of the situation? Will the central banks keep their counsel much longer?

My second question has to do with something else that you mentioned – M3, the money aggregate, which is still above the target you have set. This may be, as you have said, because loans are cheap and consumers or businesses would rather use that cheap credit to get into debt and leave the money they have invested untouched. How can you address this discrepancy in future?

3-026

Jean-Claude Trichet, *ECB*. **–** As regards imbalances in the world, you might recall that I mentioned these imbalances as one of the risks that we have to analyse and live with, because it is, obviously, a downward risk for the global economy and for all economies that belong to the global economy. Our working assumption is that if every part of the world does what is required, we would progressively solve these *very* large imbalances, which constitute a major risk. I would remind you that would mean structural reforms in Europe and in Japan, and, in the US, it would certainly mean raising the level of household savings.

As regards the growth of monetary aggregates, the growth rate for M3 in July was 7.9% for the last 12 months. It was 7.6% before that. So it is very dynamic. M1 – which is particularly sensitive to the low level of interest rates – is particularly dynamic: 11.1% in July, compared with 10.9% in June. So it remains very dynamic.

Loans to the private sector are also very dynamic, perhaps two and a half times as rapid in terms of growth as GDP in value terms. It was 8.2% in July. Loans to households stood at 8.4%. These are elements that we analyse in our monetary analysis. As I have already said, it calls for particular vigilance, because we have elements that are very dynamic. Taking into account economic and monetary analysis and the fact that we have not yet seen these second-round effects that are a

matter to which we need to pay particular attention, we concluded that there was no need to change rates, but that particular vigilance was required.

3-027
Gay Mitchell (PPE-DE). – Mr Trichet, I want to return to the housing question according to the Centre for Economic Policy Research in London, there are several arguments for the European Central Bank to try to take into account asset prices, and especially housing prices, in its inflation forecasts and to try to use them as an indicator or reference value in its policy decision-making.

While you comment on the ECB's position on the present global housing boom affecting many OECD countries – which may be the biggest bubble in history in terms of valuation – you also say that you are not alarmed at the situation in the euro zone but that price dynamics in housing markets need to be closely monitored. What are the risks to financial stability in the euro zone of an abrupt bursting of this housing bubble? While the housing bubble in the euro zone is relatively smaller, and perhaps less dangerous, than it is in other EU or OECD countries, have you examined the case of individual Member States such as the Republic of Ireland, which has a population of about one tenth of that of England, but which is building about half as many homes as England? One economic commentator, our former Prime Minister Dr Garrett Fitzgerald, has raised the possibility of real difficulties for the Irish economy if there were to be a sudden downturn in construction, because of its enormous contribution to the Irish economy at this time. Clearly this is fuelled by low interest rates and growth in personal disposable income. What view does the European Central Bank take of this, and are there lessons to be drawn from the Irish experience for other euro zone Member States?

3-028
Jean-Claude Trichet, *ECB*. **–** As you know better than anybody, Ireland is one of the major success stories in the euro area and that has triggered a number of elements which are extraordinarily dynamic in the Irish economy, not only growth, job creation and the speed of GDP capita increases, but also the development in house prices that you mentioned.

Again, at the level of the Governing Council of the ECB, we must take into account the whole of the euro area – Ireland as well as Germany, and I am oversimplifying – in the same way as the Open Market Committee has to take into account South Carolina, Massachusetts, Alaska, Florida and California. The same phenomenon can be seen in the US from time to time: one state could be *very* depressed and experiencing reshaping and restructuring of its own economy, and another state could be booming. Therefore, by definition, the Federal Reserve can only take a picture of the overall vast continental economy. We are more numerous in the euro area than the US: we have 307 million inhabitants. Again, we are taking the full body of this vast continental economy into account.

I maintain what I said: we must monitor what happens very closely. There are some worrying elements in the various sectors of the market. At the level of the euro area as a whole, we are not alarmed, but we will follow the situation very closely. It is clear that we are not in the same situation as a number of industrialised countries which have such a real estate boom, and the ability to liquefy the capital gains in the properties. That boosts consumption. The dynamism of consumption in a number of states is highly dependent on these capital gains. That is not the case in most of the economies in the euro area and it is perhaps a little less the case in Ireland and in some non-European economies like the US in particular. That said, there must be very close monitoring and examination of developments and appropriate decisions taken at the level of the euro area as a whole, taking into account the full body of the zone.

3-029
Udo Bullmann (PSE). – *(DE)* Mr President, it is obvious that the economic situation in the euro zone can be summed up in one phrase, and that phrase is a crucial one: lack of coordination.

Our problem is that the internal market is developing in very different ways from one nation state to another. For example, the German economy is in urgent need of a kick-start, whilst the Spaniards have to be careful that theirs does not run away with them. There are differing developments on the export front, too: Germany and Austria are very strong exporters, but, contrariwise, there are fears in such countries as Spain and Italy that foreign earnings from trade could dry up.

There have been quite a number of contributions to this debate over the summer recess. Speaking on behalf of the French Government, Mr de Villepin called for more intensive dialogue between monetary policy and budgetary policy, between the national governments, and between the Eurogroup and the European Central Bank. Your colleague from the ECB, Mr Smaghi, said that there had been enough talking and that national budgetary policies needed to be better coordinated. It is quite obvious that there is a need for the machinery not only to respond more pro-actively to external shocks, but also to guarantee the euro zone's convergence and to enable us to be more focused on pursuing our own targets, such as those set at Lisbon.

I would be interested to know what you think about the possibility of coordinating national budget policies. In what way might the European Central Bank's role in this be enhanced?

3-030
Jean-Claude Trichet, *ECB*. **–** We are at the heart of a number of decisive issues.

Those economies – Germany in particular – that were used to very low interest rates because they had a very high level of confidence and credibility have maintained that position. I would not say that some are in a better situation than before, but it is at least as good as it was before.

Compared with economies that faced major exchange risks before, an area of 307 million inhabitants now has no exchange risks. It is a win-win situation. Those who were used to very high interest rates have much lower interest rates and are avoiding the kinds of intra-European crises that they were used to. For them it is a win-win situation too. But that does not mean that national policies should not be as efficient and as optimised as possible, and we have to embark on structural reforms. I said that we are backing all the efforts being made by the Commission and by the Council in this field, where we are clearly lagging behind expectations.

I also insist on the fact that in a vast continental economy of more than 300 million inhabitants, you might have oscillation around the developments in unit labour costs and cost-competitiveness of the zone as a whole. The development of unit labour cost is of extreme importance. Germany has been catching up over the last few years. Germany was catching up on its lost cost-competitiveness following the historical challenge of reunification. That puts the German economy in a situation which is more and more competitive in terms of cost, but perhaps with a domestic demand which is less dynamic. It is a normal process of catching up process. The reverse happens in some other cases. For example, The Netherlands which was over-competitive in terms of unit labour cost and is progressively going back to the average position in cost competitiveness.

We have to understand that the fact that we are in a single currency area means that the monitoring of fiscal policies and unit labour cost development is extremely important for the sake of each particular economy and for the economy of the euro area as a whole. As far as we are concerned, we call on the Council to be as active as possible in being fully aware of the fact that we are running a single economy in a single market with a single currency.

3-031

Margarita Starkevičiūtė (ALDE). – *(LT)* Mr President, I would like to ask how you estimate the prospects of potential new members of the euro area joining in 2007? Even though a similar question has been raised already, you have not expressed your view. What main problems can you foresee that could interrupt this process? I would also like to ask another question: while visiting other foreign countries, non-European Union states, sceptics say that if the euro area expands too much, then with regard to, let us say, different economic cycles, it will be difficult to maintain the stability of the euro. What response would you give to those critics? How can we ensure that the euro will remain a stable currency even with the addition of new euro area members?

3-032

Jean-Claude Trichet, *ECB*. **–** It is an issue that the Governing Council has examined *very* carefully. As you know, we have already prepared for a decision-making process that would maintain the integrity and the credibility of the Governing Council and the credibility of the decision-making process, even when there will be many more of us. As I said, according to the Treaty, we are virtually 23 in the euro area. We will deal with those issues *very* seriously and professionally. I said that all the criteria had to be applied rigorously according to the Treaty. In our own institution we are determined that there will be effective and *very* successful preparation in order that the convergence – nominal, real and sustainable – will be obtained. Once there are more of us, I take it that the market already knows that our decision-making process will function perfectly well within the enlarged grouping. In any case, let us not forget that when you look at the consolidated GDP of the newcomers, it is a very small fraction of the consolidated GDP of the previous Member States of the European Union. Therefore, one should not overstate the structural transformation which is associated with this progressive integration of the new Member States.

3-033

Zsolt László Becsey (PPE-DE). – *(HU)* Mr President, I have two half-questions. First: Mr Verhofstadt also appeared before this committee, and the discussion touched on several theories according to which indirect taxation should be given preference over direct taxation. This would give an added impetus to economic growth and would make it easier to achieve fiscal consolidation. How do you view this matter? What is your opinion on this issue, and would it perhaps be worthwhile stimulating such a move, for example by increasing the minimum standard VAT rates or encouraging such an increase?

My other half-question is still on the subject of the enlargement of the euro area. In concrete terms, it relates to whether the 58 million inhabitants of the key new Member States, Poland, the Czech Republic and Hungary, will really be ready to join in 2010 on the basis of the strict Maastricht criteria. What is your view on this? This is the target date for them to join the euro area, but there is quite a lot of doubt in the markets as to whether they will be able to achieve this, particularly from a fiscal point of view.

3-034

Jean-Claude Trichet, *ECB*. **–** Again, we will see and we will check. I cannot predict in advance what will and will not be done. As you have said, there are a number of countries and Hungary is one of them. Of course we are encouraging the

Hungarian authorities to ensure there is convergence, to fully respect the Maastricht criteria, because we consider it to be decisive for the smooth functioning of the zone.

You mentioned indirect taxation, and I am not sure I understood exactly what you would like. As far as we are concerned, we believe the framework of the Stability and Growth Pact to be of extreme importance for the cohesion of Europe as a whole, as well as in terms of paving the way for the best future possible – not just for the newcomers, but for Europe as a whole. I must remind you that we are over and above the proportion of public spending as a proportion of GDP that can be observed in the rest of the industrialised world. Therefore, we must never forget that we are in a situation which, all things being equal, is less competitive than the average industrialised country, because of the level of public spending as a proportion of GDP. We also believe that taxation policy is a very important structural tool to foster economic growth and job creation. I cannot embark on a long explanation, but that is *very* important.

3-035
Gunnar Hökmark (PPE-DE). – First, as mention has been made today of some sort of Socialist rebellion against the monetary policy of the ECB and Parliament's view on that, I wish to underline that twice last spring in its reports on the broad economic and policy guidelines Parliament underlined the need for the independence of monetary policy. It rejected policies on some sort of coordination. I just wanted to say that, not least because we have also discussed the coordination of economic and fiscal policy. In some ways it is a matter of balance, because you, on the one hand, can say that it is difficult to develop monetary policy because you have to consider all the different economies involved. You mentioned Florida and the differences in the US as well as the differences in the European Union.

How do you see the request for more coordination in the other part of economic policy – fiscal policy? If you have harmonised monetary policy, you could say that centralising coordination would create a problem because fiscal policy provides an opportunity of settling differences that monetary policy cannot settle.

3-036
Jean-Claude Trichet, *ECB.* **–** Let us be very clear. Of course I could have mentioned that Parliament had refused to vote for the call to decrease rates, and I must confess that when I was told that Parliament had not agreed with our monetary policy I mentioned that Parliament had never asked us to change our monetary policy, so Parliament had a very subtle position.

But having said that, we believe that our independence is absolutely decisive. It is enshrined in the Treaty. We are exercising that independence in Europe's interests because it is crucial for our credibility and our long-term market rates and low inflationary expectations.

As regards the dialogue between the Central Bank, the Commission and the Council. We in the Governing Council of the ECB organise a dialogue every fortnight to which the President of the euro group and the Commissioner concerned are invited. The Vice-President and I have the privilege of being invited by the euro group every month. Nothing of that sort exists to my knowledge in the other central banks in the world. There is a physical dialogue which fully complies with the principle of independence. That goes without saying, otherwise we would not be complying with the Treaty. It is as simple as that.

As regards the organisation of the governments themselves within the Council, that is the responsibility of the governments. It is clear that there are areas where coordination might look appropriate, and areas where these various countries and the ways in which they are organised as states are in competition, and competition is good in a market economy. So I really believe there is also competition between states to be the best-organised in terms of effectiveness and efficiency. It is this coordination between the governments and competition between the various state-level economies on which Europe – not only the euro area – is based.

3-037
Dariusz Rosati (PSE). – Mr Trichet, the new Member States must join the euro zone as soon as they fulfil the convergence criteria. That has already been discussed. However, on this road to the euro they are faced with some important policy dilemmas. First, because of the presence of the Balassa-Samuelson effect in those countries, the inflation rate tends to be a bit higher than usual. In that case, in order to fulfil the inflation criterion as formulated in the Treaty, they would have to conduct a restrictive monetary policy, which could have negative implications for growth. At the same time, such a restrictive monetary policy could lead to a steady nominal and real appreciation of their currencies, which may pose additional risks, including the risk of a currency crisis. How would you advise these new Member States to solve these dilemmas on the road to the euro?

My second question concerns the argument that you have used several times, including today, that further reductions in interest rates in the euro zone are not justified, because interest rates are already at historically low levels. Historical analogies are of limited use in this case, because we must also remember that unemployment rates are at historically high levels, the exchange rate is also at a historically strong level and consumer confidence is very low. From that point of view I would simply ask whether you will take into account the historical context of this.

3-038
Jean-Claude Trichet, *ECB*. **–** As regards the second part of your question I would only mention the fact that when we look at the situation we look at our economic analysis, we look at our monetary analysis, and we conclude on the basis of these two analyses. We do not conclude on the basis of historical considerations at all. The historical point I was making was only an observation for the attention of some who are permanently asking for changes in rates.

As regards our present rates, we believe according to our last meeting that they are appropriate. I am not preparing the market for an increase in rates, I am not preparing the market for a decrease in rates, they are appropriate and we remain vigilant. But again, we are not taking into account historical considerations.

I could dispute what you said about exchange rates. I do not think that what you said is correct when you look at past developments. Fortunately we are not at the highest level, but we should certainly not be satisfied with the present level of unemployment. Having said that, we all have to work to create the best conditions possible for confidence and to create the best environment possible as regards price stability and all that goes with price stability in our analysis. Our analysis is not unique. I was in the US recently at a very stimulating meeting. My US counterpart reiterated that price stability was a necessary condition for sustainable growth and job creation. We all share that view.

As regards the convergence process in the new Member States, you are absolutely right to mention the Balassa-Samuelson effect. Even if it should not be overstated in our analysis, we trust that the dimension of this effect can be well absorbed and taken into account with the rules of convergence as they are, and it is true that the conduct of policies in general and monetary policy in particular has to take into account the special situation of convergence, which is not new at all. We experienced it with the EU-12 in the previous ERM I mechanism. We are not inventing totally new issues and challenges. We have already experienced these things. I trust that what is being done today will all be taken into account. Of course, there are various countries and various situations, but it should all be taken into account in the right direction.

3-039
John Purvis (PPE-DE). – A day or two ago I was very interested to receive the August edition of this occasional paper of yours on hedge funds and their implications for financial stability. I have not had time to read it all, but I tend to go to the conclusions first. In those I detect that you are still finding it a very vague area with a lot of uncertainties and unpredictabilities. The article states, quoting yourself, Mr Trichet: 'At the same time if there are indeed important financial stability concerns to be addressed, this can only be done effectively in a strongly coordinated manner at the international, i.e. transatlantic level'.

First, do you see it as essential that we get a better handle on this area? Are you concerned that there is a major financial stability problem, and, on the other hand, an interest from the retail sector and other investors in a new type of investment? Lastly, what form of transatlantic consultation are you developing? Is something happening, or do you plan to make something happen?

3-040
Jean-Claude Trichet, *ECB*. **–** Hedge funds and the very rapid development that sector is a matter that needs to be better understood. It is clear that there has been an immense explosion of these activities, which corresponds to something which is probably profound in the market. Again, we have to understand that better and take into account the new challenges to financial stability.

The present view, which is probably a global consensus, is that we rely very much now on the vigilance of counterparts and in particular on the brokers' vigilance in order to be sure that excessive risks are not taken at national and global level.

The very important – although not particularly visible – institution where such issues are looked at from all angles at a global level is the Financial Stability Forum, which is chaired by Roger Fergusson, the Vice-President of the Federal Reserve. The people there have intimate knowledge of market functioning and are specialised in surveillance and ensuring financial stability. My sentiment is that we have continued to work. We have to beware of provision and conclusion happening too fast, because the hedge funds are rendering to the national and global market service in terms of the liquidity of the functioning of the market, which is not negligible. It is clear that we are not yet at the optimum level in terms of avoiding the accumulation of risks and problems and we must continually re-check the situation. Therefore, I am of the opinion that we must continue to work actively. We are working in the ECB, as you know. I know that very good work has also been done by the FSA in London, for instance, on this particular case. The Fed is working and the Financial Stability Forum is integrating a lot of observations. When the time comes, if we decide we must change a number of elements in the regulation, then I am adamant that it be global, because otherwise we will create an abnormal segment in a global market which, in my opinion, has to remain global.

3-041
Enrique Barón Crespo (PSE). – Mr Trichet, you said in your opening statement that the best contribution that fiscal policies can make to stability, growth and cohesion in the euro area is to tackle existing fiscal imbalances effectively as part of a determined and well-designed economic reform programme. Taking into account that you often meet with Prime

Minister Juncker and the euro group, and bearing in mind Adam Smith's observation that when businessmen meet to drink coffee they are conspiring to fix prices, are you plotting together to draft this well-designed economic reform programme?

A related question: do you think that the proposal made by Mr Bini Smaghi on synchronising the presentation of national budgets would be useful in this sense?

3-042
Jean-Claude Trichet, *ECB*. – I have two observations. First, there is a very strong link between fiscal policies and structural reforms. Many structural reforms have made the frameworks within which state and local authorities work more efficient by providing the same service with fewer resources. That, of course, is a structural reform which would call for a lower level of spending and, therefore, a better fiscal policy. There is obviously a link between the two and we would certainly insist on that.

As regards the good effects of such structural and fiscal policies on confidence, that is very important. One of the anomalies in Europe today is that the level of confidence in the household, in economic agents in general and in corporate business is much too low compared with the fundamentals themselves. It is particularly true in some countries, but it is true for the euro area as a whole. That perhaps is due to the fact that economic agents, households and businesses are not convinced that we are paving the way for the best future. That is why both fiscal policies that would be sustainable to people with common sense, and structural reforms that would be growth conducive are very important. As far as we are concerned, we are part of this confidence-building exercise and we will do everything we can to be more efficient in terms of conveying confidence. We must inspire confidence in the true sense of the term: we must not only gain the confidence of the people, but also create an environment where they can feel confident.

That being said, concerning the best possible organisation inside governments, I would say that some of the remarks made by a member of the Executive Board stem from the fact that he comes precisely from an area where such discussions took place. Clearly, a lot of improvements could be made in this field and in many others.

3-043
Enrico Letta (ALDE). – *(FR)* Madam President, I would like to return to the Bank of Italy. The Italian Parliament is in the process of debating the reform presented by the Government. The reform eliminates a typically Italian anomaly, which is that of the unrestricted length of the Governor's term of office. Mr Fazio is in his 13th year as President of the Bank.

Some people maintain that this reform, which sets the term of office of the Governor of the Bank of Italy at seven years, must only be applied to Mr Fazio's successor. Others maintain, as I do, that this reform must be applied to Mr Fazio. Supporters of the argument that this reform must not be applied to the current Governor state that this is an obligation that the European Central Bank is imposing on the Italian authorities. What is your opinion on this point?

3-044
Jean-Claude Trichet, *ECB*. – *(FR)* As I have said, I have officially received the letter from the Italian Minister, Mr Siniscalco, requesting our opinion on the text. We are going to look at that immediately, and – this is my first remark – I cannot judge in advance what the Council of Governors' position will be, since it is an opinion that will be issued by the Council of Governors of the European Central Bank.

My second remark on the length of the term of office is as follows: on the basis of our position, I have already been led to state publicly that the restricted length of the term of office was clearly in line with the international and European consensus.

Thirdly, with regard to applying these new provisions to the current Governor, whoever he may be, we have already been led to respond to a previous request made by a former Italian Minister, at a time when there was another law that was able to be presented to Parliament.

We gave a response – it is a general response, not specifically related to Italy – aimed at protecting the independence of the national central banks; otherwise the Governor could be changed at any moment by means of simply changing the previous legal provisions, which would obviously be a disastrous precedent for the independence of all central banks.

If my memory serves me correctly, we said that it was necessary to respect the provisions of the Treaty and therefore to apply a further minimum length of time in accordance with the Treaty. I will not say any more about it at this stage because I do not wish to judge in advance the position of the Council of Governors.

3-045
President. – *(FR)* Thank you very much, Mr Trichet. Here we have listened to two – lively - hours of discussion in the practice of our monetary dialogue. I have the impression that we are making some progress. We have an arrangement to meet for a forthcoming dialogue on 21 November and then we will visit you on 12 December. You were entitled to 26 questions, from 16 Members. I propose that, on one or two points, you might complete in writing the responses that you will have been unable to completely finish on account of our rules of procedure.

3-046
Jean-Claude Trichet, *ECB*. – *(FR)* The rules of procedure are merciless …

(Applause)

3-047
(The meeting was closed at 11.20 a.m.)