1-001

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
MONETARY DIALOGUE WITH JEAN-CLAUDE TRICHET,
PRESIDENT OF THE ECB
(pursuant to Article 284(3) of the

Treaty on the Functioning of the European Union)
BRUSSELS, MONDAY, 22 MARCH 2010

1-002

IN THE CHAIR: SHARON BOWLES
Chair of the Committee on Economic and Monetary Affairs

(The meeting opened at 16.30.)

1-003

Chair. – It is very difficult when we have distinguished guests one after another. Anyway, I now wish to welcome the President of the ECB – whom we all know very well – for the regular monetary dialogue. Of course we expect the matter of Greece will perhaps be touched upon as part of our ongoing investigation into the problems and issues that surround the Greek situation.

As usual, Mr Trichet will deliver a speech for about 15 minutes, and that will be followed by questions and answers following the usual monetary dialogue format. I have the list of the questioners here. Following our recent experience, can I ask people not to ask really complex and long questions that squeeze out their colleagues further along in the queue and also make it impossible for Mr Trichet to answer in a fulsome way.

Thank you very much for being here, welcome to the committee and it is over to you, Mr President.

1-004

Jean-Claude Trichet, *President of the European Central Bank.* **–** Madam Chair, members of the Committee on Economic and Monetary Affairs, it is a pleasure to be with you today for the first regular hearing in 2010.

Over the last few months since our meeting in December 2009, the euro area economy as a whole has continued to gradually recover. But there are a number of issues related to country and financial market developments which have led to an intense discussion about the euro area and its functioning. This makes today's discussion all the more timely.

1-005

Jean-Claude Trichet, *President of the European Central Bank. – (DE) (Continuation)* We are seeing how the financial crisis is giving rise to major challenges for European economic policy. We are also seeing what a responsible economic and monetary policy means. The stability of the single currency is everyone's responsibility.

1-006

(FR) Today, as is the tradition, I will start my speech with an assessment of the economic situation, paying particular attention to the progressive elimination of non-conventional measures taken during the crisis.

Then I will tackle the two issues on which we agreed concerning, in particular, budget policy and global imbalances.

1-007

First, economic and monetary developments. As I have mentioned, since the previous hearing last December, economic and financial conditions have continued to improve, albeit only at a moderate pace. Economic activity is estimated to have increased by 0.1% from the third to the fourth quarter of last year. Recent information confirms that we can expect a moderate recovery in the current year: this is in line with the latest ECB staff projections. Also, forecasts by other institutions confirm this expectation, with an annual growth rate of around 1% in 2010, gaining pace in 2011. In the assessment by the Governing Council, the risks to this outlook remain broadly balanced but, as was predicted last year, the recovery is likely to be uneven across regions and sections and also over time. High uncertainty continues to prevail.

As regards price developments, we have continued to witness low inflation and low inflationary pressures over recent months. Inflation in February 2010 stood at 0.9%. The outlook for inflation remains in line with price stability, and risks to this outlook remain broadly balanced. Specifically, we expect inflation to stay around 1% in the near term and to remain moderate over the policy-relevant horizon, in line with a relatively slow recovery in demand.

Our monetary analysis continues to confirm the expectation of low inflationary pressures over the medium term, as reflected in weak expansion of money and credit. The growth of loans to enterprises in particular is anticipated to remain weak for some time ahead, while the annual growth rate of loans to households is positive and strengthening. These developments are still in line with regularities over past business cycles. We will monitor credit developments very closely in the months to come. While there is no clear evidence of credit constraints in the euro area as a whole, the situation differs across countries, sectors and company sizes. To a large extent, the weak growth of loans is due to the unprecedented severance of the 2009 recession.

Indicators of inflation expectations over the medium to longer term remain firmly anchored in line with our aim of keeping inflation rates below, but close to, 2% over the medium term. It is against this background that the Governing Council kept the level of key ECB interest rates unchanged earlier this month, regarding the current level as appropriate.

The significant monetary impulse stemming from our interest rate reductions last year has spread to market interest rates, and the transmission to rates charged by

banks to households and corporations has continued to perform well. This transmission needs to be seen in conjunction with the non-standard measures that the ECB has taken. These measures, notably the provision of full allotment of liquidity to banks with a one-year maturity against collateral, have been effective in providing funding to banks in favourable conditions, stabilising the money market and fostering the pass-through of our interest rate reductions.

In line with the above economic and monetary assessment, the Governing Council decided earlier this month to continue the gradual phasing out of some of the extraordinary measures. We do not wish to breed dependency. Banks are to take up their intermediation again and should have all appropriate incentives to do so. The 12-month operations have already been discontinued, and the 6-month operation upcoming next week will be the last one. In addition, we have now decided to reintroduce variable-rate tenders for the regular three-month operations as of late April. At the same time, we will continue to provide the euro area banking system with unlimited access to central bank refinancing through short-term operations (with one-week and one-month maturity), for as long as needed and in any case until mid-October this year. This is in order to continue to support the credit provision to the euro area economy.

Let me also say something about longer-term monetary policy issues that I know is of interest to you, namely the relationship between monetary policy and asset prices. The financial crisis has revived the long-standing debate on the relationship between monetary policy and asset price bubbles. This debate is centred on a straightforward question: should monetary policy aim to prevent the emergence of asset price bubbles? While this question has no simple answer, the ECB monetary policy strategy is an approach that is, we trust, well suited to cope with the challenges brought about by unsustainable asset price developments.

Our mandate is to maintain price stability over the medium term. Protracted, unsustainable financial trends or atypical swings in risk pricing in financial markets can pose risks to price stability down the road. The close link between monetary developments and evolving imbalances in asset and credit markets implies that our monetary policy needs to detect such imbalances at an early stage and to respond to the implied longer-term risks to price stability in a timely and forward-looking manner, thereby contributing to financial stability. Our monetary analysis, which concentrates on the monitoring of money and credit, does, we trust, just that. It is a strategic framework that embeds a degree of implicit 'leaning against the wind' of excessive money, credit and asset price growth. Judgement is, of course, necessary in addressing asset price dynamics. The ECB has developed considerable expertise in the analysis of monetary and credit developments and their implications for risks to price stability, which has proved an invaluable asset also throughout the financial crisis.

Now let me turn to fiscal policies. As you know, financial sector support and the budgetary loosening in the context of the financial and economic crisis has – in most euro area countries – caused sizable fiscal imbalances. Meanwhile, most countries in the euro area have exceeded the 3% reference value for the deficit ratio. Under these circumstances, the Stability and Growth Pact, which has been put in place to safeguard sound and sustainable fiscal positions, should be rigorously applied. The ECB calls for a strengthening of governments' commitment to strictly adhere to its provisions.

National policy makers should give fiscal consolidation top priority in the context of ongoing economic recovery and bring the deficit ratio to below 3% of GDP, in line with the Ecofin recommendations. Based on the Stability Programme updates, governments appear to be on track this year, but further measures will undoubtedly be necessary in the coming years to correct excessive deficits within the set time horizon.

As regards the composition of the fiscal adjustment, we welcome a focus on the expenditure side, because the size of the public sector has significantly increased in the crisis and because expenditure-based consolidation has proven to be more effective in the past.

Governments can enhance the credibility of fiscal consolidation by strengthening national budgetary frameworks and implementing structural reforms to increase potential growth. In this context, I welcome the European Commission's initiative for a Europe 2020 strategy and a stronger role of the Eurogroup in multilateral country surveillance, which is overdue. At the same time, it is important that fiscal surveillance under the Pact remains a process of its own right, and that the fundamental principles of the Treaty and the Pact are fully preserved.

A successful exit from the strong fiscal expansion in the wake of the recent crisis will require ambitious measures and a strong political will regarding implementation. I am confident that European fiscal policy makers will succeed in restoring the sustainability of public finance. The adjustment efforts undertaken by the Irish Government, and more recently by the Greek Government, can be seen as promising first steps in the upcoming consolidation process.

Now let me say a word on the imbalances. One of the main drivers of the financial crisis were the large global external imbalances. These imbalances implied massive capital inflows into deficit countries. Those inflows had partly been financed by the issuance of financial instruments, whose value was shattered in the turmoil. The imbalances reflected a lack of medium-term orientation towards stability and sustainability of macroeconomic policies in key deficit and surplus countries. The euro area did not contribute to the build-up in global imbalances. Its current account has remained close to balance over the years.

The crisis has induced a partial reduction in global imbalances, but this correction appears to be largely cyclical. Some important structural factors that led to unsustainable imbalances remain largely in place. A risk that unsustainable global imbalances might re-emerge in the period ahead can therefore not be ruled out. Ruling it out would require rigorous policy adjustments in key deficit and surplus economies.

The G20's decision to create a process of mutual assessment of its members' macroeconomic and structural policies is fundamental in this respect. To be successful, this process requires that peer surveillance is executed fairly and without complacency, and that the countries and economies concerned have the will and the operational capacity to change their domestic policies accordingly. These are necessary conditions to pave the way for a better functioning of the global economy. The euro area can enter this process from a positive standing, given its medium-term orientation in monetary, fiscal and macroeconomic policies.

Let me conclude by recalling that macroeconomic imbalances are not only confined to the global level but also appear within the euro area. These imbalances remain a challenge, largely reflecting a lack of adjustment in a number of Member States. It remains indispensable that the countries concerned bring their monitoring of cost competitiveness indicators, their structural reforms and their fiscal consolidation efforts more into line with the principles and rules underlying the functioning of monetary union. This would allow euro area economies to reap fully the macroeconomic benefits of EMU.

1-008
Chair. – Thank you very much. As usual, the questions should be one and a half minutes and the answers three and a half minutes, so that we can get through the dialogue.

1-009
Jean-Paul Gauzès (PPE). – *(FR)* Madam Chair, I would like to thank the President for his analysis. If I may, I would like to tell you, as I told Mr Juncker earlier, that our citizens do not understand much of it. Overall they have much confidence in the euro; they have, I believe, a good impression of the European Central Bank, and today, with the current turmoil, they no longer understand whether we are in an interdependent area, with a common single currency, or if there are quarrels again between some over how to treat those who are part of our zone.

I know your opinions – and I have to say that I appreciate the position you have taken publicly – and I would quite simply like to ask you to give us your current thoughts on acceptable aid vis-à-vis Greece or a state that finds itself in such difficulties, and secondly – you have already touched on the subject – to give us your opinion as to whether it is necessary to reinforce the preventative aspect of the Stability and Growth Pact, the measures that can be taken when difficulties sometimes appear a little late.

1-010
Jean-Claude Trichet, *President of the European Central Bank.* **–** *(FR)* Madam Chair, while trying to be as brief as possible, I would firstly like to tell you that the European Central Bank has always been extremely attached to budgetary wisdom.

We have demonstrated that in a difficult period: in 2004–2005, several countries wanted to get rid of the Stability and Growth Pact; let me tell you that at the time the three big countries of the euro area were of the opinion that we should greatly weaken the significance of the Stability and Growth Pact. We defended it vigorously and have always stressed that there are three letters in Economic and Monetary Union: EMU. We are responsible for the monetary union and we need the economic union.

Budgetary wisdom and peer monitoring are at the heart of the economic union. Peer monitoring of what other peers are doing, is, if I may say so, absolutely fundamental.

Today we have a clear demonstration of this. I must tell you that, in the most difficult times, we have always said that if we ignore the importance of budgetary wisdom, we will store up great difficulties for the future.

I therefore share entirely your feelings that we must do everything we can to ensure that the Stability and Growth Pact – which has been reformed precisely to reinforce the preventive aspect and not to weaken the punitive aspect – is rigorously applied once more.

In the present circumstances I will say two things to you: firstly, I think that verbal discipline is of utmost importance. One of the difficulties of comprehension that you mention is probably the multiplicity of statements. Personally, I would prefer the various institutions to think first and then express their positions in as clear a way as possible, as done in the last summit of the Heads of State and Government. I feel that the latter expressed a clear position – itself understood extremely well by all those who heard it – which, moreover, has been followed by outcomes regarding new decisions taken by the Greek Government in circumstances that everyone knows were difficult.

A word now on your third question concerning the conditions of support. In my opinion, we must respect the following conditions: firstly, we should not confuse a transfer or a subsidy with a non-concessional loan, like those granted by the IMF. To my mind, it can only be a question of a non-concessional loan without any subsidy element. This must be extremely clear and I feel that sometimes there is confusion between a subsidy, a transfer and a non-concessional loan. As far as the European Central Bank is concerned, a non-concessional loan is obviously the only possibility.

Secondly, it is extremely important that, in addition to the normal application of the Stability and Growth Pact, there is a specific, extremely rigorous conditionality. I

think that the recent decisions which were taken by the Greek Government – that I myself considered courageous and that we in the Governing Council of the European Central Bank considered convincing – are only one element of this compliance, which moreover was demanded by the Heads of State and Government of the euro area.

Another element, which I feel is very important for potential non-concession, non-subsidy-based support is that the country itself really needs it, that is to say it faces serious and immediate problems. It should by no means simply be an ordinary situation. There must be an extraordinary situation and this extraordinary situation must naturally also be a problem for the whole of the euro area, as stated by the Heads of State and Government in their declarations.

Those are the conditions that the European Central Bank sees for such support. It is therefore non-concessional support with rigorous conditions, like those that I have just mentioned, allowing an element of stabilisation for the whole of the euro area.

I can see that you think I have spoken a little too long, Madam Chair.

1-011
Chair. – I hesitate to tell members to make their questions less interesting, but we will have to try to be a bit more disciplined.

1-012
Corien Wortmann-Kool (PPE). – *(NL)* Thank you, Mr Trichet, for joining us today. I would like to use my questions to clarify the detail of your comments on the Stability and Growth Pact. You said that the preventive arm of the Stability and Growth Pact should be strengthened and that we should apply it rigorously. Now, history teaches us that this is not going to happen of its own accord, because it was actually because of the actions of France and Germany that the Stability and Growth Pact was weakened in the first place, in what were relatively good times. However, even in today's climate, when we look at, for example, European banking supervision and the weak compromise secured by the Council, it is evident that the interests of some Member States are going to become paramount again, the minute the crisis has passed. In the light of that, I ask you: when you say that the preventive arm of the Stability and Growth Pact should be strengthened, what, specifically, do you have in mind? How far do we have to go? In our competition policy, for example, where the Commission has the ultimate competence, should we go as far as taking action without paying any regard whatsoever to whether or not the Member States have reached a mutual agreement on it? Or do you have any other suggestions: how can the preventive arm of the Stability and Growth Pact be strengthened?

1-013
Jean-Claude Trichet, *President of the European Central Bank.* **–** Let me stress that you are absolutely right in mentioning that, at a certain moment, even countries that did not usually suggest it were asking for weakening of the Pact.

Indeed, in January 2005 the view was published that it is not possible to measure whether a fiscal policy is right and promotes stability and growth equally solely by compliance with the deficit reference value of 3% of GDP. This indicator is inadequate. The most significant criterion would be the pursuit of a sound policy for growth and employment, for which the country must be given leeway. These were terms of reference at a time when we – I am speaking of the sphere of the executive branches – were probably tempted by some kind of benign neglect: we gave much thought to that.

I think that the main problem for prevention, for each member of the euro area – and also for the 27, because let us not forget that the Stability and Growth Pact applies to the 27: the only difference with the euro area is that in the euro area there are sanctions that can be decided upon by the peers, the members of the euro area, but the principles, the rules of the Stability and Growth Pact are valid for the 27 – is to have peers that exert moral pressure on those members of the European Union and of the euro area that are not behaving properly.

It can be seen that any of us can influence the euro area as a whole. This is being demonstrated before our eyes. It is like a wake-up call for the responsibility of each individual member government of the euro area. So it seems to me that the determination to exert moral pressure is very strong. Of course one could imagine using other measures – as you mentioned yourself – in other domains, for example for the transfer of subsidies according to the normal mechanism in Europe. Many possible channels can be considered to convey the appropriate message, but what is very important in my opinion is the high level of responsibility and the political commitment to stability which is at the heart of the Stability and Growth Pact, peer pressure being of the utmost importance.

1-014
Rodi Kratsa-Tsagaropoulou (PPE). – *(EL)* Madam Chair, I should like to come back to what you referred to as the European Central Bank's objective of reducing dependency on support and extraordinary measures and to apply it to Greece.

Would the European Central Bank accept Greek government bonds with a lower rating as security for the loans it grants, as a means of supporting the Greek economy and efforts to restructure and develop in these specific circumstances?

1-015
Jean-Claude Trichet, *President of the European Central Bank.* **–** We accept as collateral the Greek Government bonds on the basis of our present rules.

1-016
Rodi Kratsa-Tsagaropoulou (PPE). – *(EL)* Madam Chair, I should like to clarify that my question refers to the process of withdrawing support measures and to

whether Greece will receive special treatment. I do not mean today, I know that it is receiving special treatment now; but, as it withdraws the special support measures, do you think that the Bank will propose special treatment for Greece in this direction, because it will continue to need more support than other countries which have suffered fewer consequences from the crisis.

1-017
Jean-Claude Trichet, *President of the European Central Bank***.** – At the present moment I qualify the decisions which have been taken by the Greek Government – and we expect them to be fully implemented with maximum determination – as both convincing and courageous.

I also expect – this is the working assumption that we are making in the ECB – that the observers, the market participants and, I would say, all financial institutions will progressively realise that this is convincing. The reason why this is my working assumption is that we will not have any difficulty when we withdraw the exceptional measures that we have taken for the collateral because there will not be downgrading of the signature of Greece.

If it appeared that this working assumption was too optimistic – which I do not believe – then we would look at the situation, but at this stage it is my working assumption. I consider that, taking into account the measures that have been taken, the credibility of the recovery programme should be progressively recognised by observers and markets.

1-018
Udo Bullmann (S&D). – *(DE)* Mr President, I have three very brief questions. You mentioned the provision of credit in the European Union, in the euro area. Naturally the situation of the Member States plays a part in the credit terms, but there are also artificial distortions such as those caused by speculation. In the current situation, do you recognise particular players and/or products as contributing to such unacceptable distortion? If so, what are we doing about these?

My second question is this: there are politicians that have talked of the necessity of expulsion from the euro area. Do we now have an *à la carte* Europe or euro area from which countries can be ejected if they make a mistake, or that people can leave and join again at will? Until now it has been my belief that we have an *acquis communautaire* which sets out that we are part of the euro area. What is your view on that?

Thirdly, you mentioned the imbalances that also exist within the euro area and within the European Union. In the present economic situation, what economic policy should those Member States that currently have high current account surpluses or high productivity or both – high productivity and a high current account surplus – pursue in order to behave most sensibly in the view of the European Central Bank?

1-019
Jean-Claude Trichet, *President of the European Central Bank***.** – If I understand correctly, your first question is on the market spreads, your second question is on membership of or expulsion from the euro area, and your third question is on the surpluses and high productivity and relative competitiveness of some states.

On the first question, let me tell you that I will refrain from accusing the markets, accusing instruments, accusing the CDS and so forth. I do not think we should do that on the basis of one particular observation.

We have a problem with making the market much more transparent; we have a problem with making financial institutions, including non-banks, including highly leveraged institutions, much more transparent. We have a problem with making financial instruments, including derivatives, much more transparent. This is processed through the G20, the Financial Stability Board, mediation. We are very active in these areas and we understand that there is really a great deal to do.

But, that being said, again I think that we should not necessarily lose our focus on the big picture, which is a fundamental reform of financial markets at global level, and we have a lot to do in this domain and in particular cases.

I really believe that if, at the present moment, all participants were to recognise clearly what is being done, by Greece for instance, we would see the market spreads diminishing quite substantially: this is my working assumption, whatever the underlying instruments. But that does not mean that I treat it lightly. It is a very serious question.

On membership of the euro area: the euro area is not à la carte. We entered the euro area to share a common destiny and that is the reason why all those who are inside the euro area came in, on the basis of a very large multi-partisan, bi-partisan consensus. Inside the euro area we share a destiny in common.

(The speaker repeated 'we share a destiny in common' in French and German.)

I said that I considered the hypothesis of leaving the euro area absurd. In any case it is legally impossible and so it is a non-question today. I suggest that it should not be a question for tomorrow either, because it seems to me that it is not in line with the very essence of what the euro area is.

If there is something we need to reinforce, it is precisely this sentiment of responsibility – responsibility exerted, without hesitation, on peers when they are not behaving properly.

As regards the countries that have good relative competitiveness, good unit labour costs and current account surpluses, I do not share the view that we should criticise them, if you look at how they have helped. They are the three or four countries in the euro area which

have posted current account surpluses over the last 11 years. They generally had inflation of below the average. We will deliver inflation at around 1.95% over the first 12 years of the euro, which is exactly in line with the definition of price stability of less than, or close to, two. We are incredibly credible.

We would have delivered that price stability in any case but, if some countries had had higher inflation, then our monetary policy would have had to be tougher. So all countries have to recognise that. We would have had a tougher monetary policy if some countries had not behaved as they did.

I am thinking not only of Germany but of a small number of countries. The same applies to their current account surplus. Had they not had a current account surplus, how would we have financed the current account deficits of others?

We are balanced. We are not imbalanced at the level of the euro area as a whole and we succeeded – within the euro area, as I said – in not contributing to any disequilibrium at a global level because the surpluses of some financed the deficits of others.

I am not satisfied with that. In a permanent regime, in a steady state, we should all oscillate around the average. Of course I call on the poorly behaving economies to augment their own relative competitiveness and to be more balanced and more competitive. Of course I expect that those who were better than the average will not always continue to be better than the average because this would not fit with the long-term constraints of the euro area.

As far as the ECB is concerned, and on the basis of inflation, we are delivering over the first 12 years of the euro. If at the end of the year we attain what I said, probably 1.95%, this is a little bit better than, for instance, the Bundesbank during the same period before the euro – even the Bundesbank during the 20 previous years – so we are very much in line with an appropriate level of price stability which is, by the way, considered at a global level to be more or less the benchmark.

1-020
Udo Bullmann (S&D). – So the answer to that question is that you would urge the other Member States also to have surpluses?

1-021
Jean-Claude Trichet, *President of the European Central Bank***.** – In the long run, in all countries, all economies – unless of course further attention is given to them – you have to take the demographics into account. A country which has very poor demographics is fully legitimate in having a current account surplus of some magnitude. A country which has, on the contrary, a demographic which is extraordinarily dynamic is in a different situation.

So you have to take into account each country, but – all things being equal – I would say that all countries should oscillate around what I would call the average inflation of the euro area, the average unit-level cost of the euro area. Again, taking into account their demographics, it has to be seen whether they are in surplus (or very much in surplus) or in deficit.

But what I would call for is that the euro area as a whole should continue to be balanced. It seems to me that this is the appropriate positioning for a big industrialised economy in the present world.

1-022
Chair. – We are having a bit of inflation in our timekeeping.

1-023
Edward Scicluna (S&D). – Mr Trichet, I remember very clearly – about five years ago – you defended the Stability and Growth Pact when some Member States suggested that it should be diluted or weakened, but I do not remember the Bank protesting when the ministers decided not to have the Commission proposal accepted – not to have the public finance statistics audited.

Regarding surveillance: are you happy about the fact that the interviews involving the IMF are wider? We have here the European Central Bank talking to central bankers – they are independent, that is true – and the Commission talking to ministers. But why not also open up the interviews to unions, the opposition or independent economists? Because sometimes, especially with the back-up of data, more information would be forthcoming.

Finally, are you happy with the procedures being taken in the context of the excessive deficit procedure?

1-024
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, I can tell you that we were appalled when it was decided not to generalise the audit and the on-the-spot controls of the facts and figures. I expect that the appropriate decision will be taken today. It is absolutely indispensable. Full transparency in this domain and total elimination of the games that have been played in the past are absolutely of the essence. That is absolutely clear.

We are open to any dialogue. We have, of course, a permanent dialogue ourselves with economists. We participate extremely actively in colloquiums and discussions, of which we have a lot, including in our own headquarters, so we are totally open. We participate in the macro-economic dialogue with the unions in Europe very regularly and, from that standpoint, it seems to me that it is our duty. We are independent. Being independent, we are responsible vis-à-vis the representatives of the people and, more generally, we are accountable to public opinion in general. So I see absolutely no situation where we would be timid and would not explain what we are doing or respond to the various questions which are asked, frankly speaking.

1-025

Chair. – The excessive deficit procedure. Are you happy with it?

1-026
Jean-Claude Trichet, *President of the European Central Bank***. –** We can see where we are today, and we can see the extent to which we have to reinforce the implementation of the procedures of the Stability and Growth Pact, that is clear. We are at the heart of a very difficult situation.

We should not be too negative, if I may say so, concerning the euro area, because there is a tendency in Europe – which is a complex set of institutions, with the European Parliament, the Commission, the Council – perhaps to concentrate too much on things that are not working well. It could work much better, it should work much better.

But take the euro area as a consolidated economy, as I did when I said we are balanced vis-à-vis the rest of the world: we are not contributing to the imbalances. The consolidated annual public finances deficit represents around 7% of GDP in the euro area: 7% of GDP. Very unfortunately, some are over and above the 7%. Others are below. But the average is 7%. What is the level of the US? Around 10.5%, which is 3.5% over and above the euro area. Where is Japan? Around 10.5%: again, 3.5% over and above the euro area. The two other big economies in the G7. And if I took other G7 economies, I would also find some that are over and above our own level.

So this only to mention that perhaps, even if poorly implemented – and very poorly implemented in the case of some, and this is so obvious – as a whole, the fact that we are disciplined might have played a certain role in preventing us from being at the far end, compared with, say, the US and Japan, as regards the present level of annual deficits.

1-027
Sylvie Goulard (ALDE). – *(FR)* Madam Chair, I would like to thank the President so much for bravely using the phrase common destiny and in several languages.

It is not the most widespread feeling if you read the European press at the moment. You even get the impression that a number of people have forgotten what we have done by creating a common currency.

I have a slightly more philosophical kind of question – I hope you do not mind me leaving the technical side. You tell us that we have a common destiny and that it is enough to have rules and a little peer pressure – which, incidentally, scarcely translates into French – for it to work. However, without wishing to blow things out of proportion, God also gave Moses the tablets of the Law on Mount Sinai and, in that case, peer pressure was damnation itself. That has not stopped man from sinning and conducting his own affairs for millennia. What makes you think that peer pressure that already exists, rules that more or less already exist and a solemn commitment to have a common destiny that already exists will give us the assurance that this magnificent project, the euro, will not be ruined in the years ahead?

1-028
Jean-Claude Trichet, *President of the European Central Bank***. –** *(FR)* Madam Chair, the correct French translation of peer pressure is *la pression des pairs*. Moreover, the word peer probably comes from Old French or Anglo-Norman.

Of course, I agree with you about the fact that what I am trying to convey on behalf of the European Central Bank is effectively that we share a common destiny much more than you perhaps think and it is not so surprising that the crisis, which is the worst crisis that we have known since the Second World War and, as we have often said here, might have been the worst known crisis since the First World War, had incredibly brave decisions not been taken by the central banks and governments, has revealed that we are in fact getting back to the founding principles.

It is true that I remember thinking, along with many of my colleagues as we listened to what the euro's founding fathers said, that this idea of sharing a common destiny was a very strong one. Furthermore, we can say that the twenty seven Member States also share a common destiny and when they wanted to establish their union, it was on the basis of establishing prosperity and peace and the idea of sharing a destiny of prosperity and peace across the continent of Europe.

Really, it has been an absolutely huge success – and I speak under the supervision of the representatives of the people of Europe – for those of us who have experienced the entire historical period that we have gone through.

I would say that in fact what we are witnessing at the moment in philosophical terms, since you are asking us to look at things with some detachment, is a full understanding of what we are experiencing. It is true that the simple fact that a country that only represents 2.5% of the euro area's gross domestic product – in other words a tiny fraction of the euro area – has an influence on the whole of the euro area that is visible and perceptible to all of our fellow citizens is precisely a way of realising that we do indeed share a common destiny and that all of us therefore – I am talking of the governments here – are justified in exercising this common responsibility, this collective responsibility which is essential.

Our own message consists in asking everyone to fulfil their responsibilities, all of their responsibilities, all of the time and, of course, that also implies putting friendly pressure on other governments which might potentially pose problems or might in the long run pose problems for the whole area, to protect all of our fellow citizens, just as I believe the treaties provided for, as the founding fathers provided for and as we ourselves think it is appropriate to do.

There is no question that we ourselves are in a unique situation. We are a completely federal institution. We have only one currency and all we have to defend is the credibility of one currency, one entity. All our decisions are made in the best interests of 330 million of our fellow European citizens.

1-029
Kay Swinburne (ECR). – The interaction between monetary and fiscal policy will be crucial in the short- and medium-term for economic recovery, and therefore the role of the ECB, the US Federal Reserve and other central banks will be critical.

If, as you have stated, you would like to continue to keep inflation rates below 2% for the foreseeable future, what effect will the failure of governments to reduce their borrowings have on this strategy, given that economic recovery and its absence will inevitably lead to an upward pressure on interest rates from financial markets and central banks?

What level of fiscal consolidation do you therefore think will be necessary to be credible? And, on a related, specific issue, do you believe that the ECB should have a role in coordinating the euro zone sovereign debt issuance, maybe in assisting Member States in debt maturity planning, given the current glut of refinancing due in the next few months?

1-030
Jean-Claude Trichet, *President of the European Central Bank***.** – As far as the decisions already taken are concerned, as you know we have a set of decisions of the Ecofin Council on the basis of the report of the Commission and on the basis of the acceptance by national governments of their medium-term programme.

So it seems to me that what we are calling for, as I said in my introductory remarks, is full implementation of the programmes that have been decided upon: from memory, according to the new Treaty, with the peers deciding and the country in question not having the right to vote. That is the new rule that has been introduced by the new Treaty.

So on that basis, it seems to me that we have something reasonable, not only not to overburden monetary policy, but also – and this is very important – to reinforce confidence. Because my understanding is that the confidence channel is absolutely essential in the present period. It is absolutely essential that we are able to convince our people – convince households, convince entrepreneurs and economic agents in general – that they can have confidence that households and their own enterprises' future will not be overburdened by the dramatic, unsustainable pace of fiscal positions.

This seems to me particularly acute, of course, in those countries that have a real, immediate problem. But it is true for all, and it is not only true for the euro area, it is true for Europe as a whole; and it is not only true for Europe as a whole but for the whole of the industrialised world. That is something which I have also mentioned.

I would guard against involving the ECB too much in helping coordinate treasuries' issuance, helping coordinate the appropriate handling of their stock of debt or new flows of debt by the various countries.

The only remark I would make is that I am struck by the fact that, in a number of cases, countries, because they were attracted by short-term rates, had a tendency to reduce the duration of their outstanding stock of debt. This is not good, because it is a recipe for being more unstable or more vulnerable.

So I would say it is very important to maintain an appropriate duration for the average duration of the stock of outstanding debt. But this is a general message for all countries. Again, I do not think it would be appropriate for the ECB itself or for any central bank to involve itself too much in the handling of treasuries.

1-031
Pascal Canfin (Verts/ALE). – *(FR)* Madam Chair, Mr Trichet, I would like to return to the questions put by Mr Bullmann on current account surpluses and deficits because your answers were interesting and I think it is at the heart of what we can contribute to European economic governance.

One of the lessons of the crisis is that observation of the development of current account surpluses and deficits in the euro area shows at once a rise in deficits on the one hand and a rise in surpluses on the other.

We have talked a lot about figures and you know Greece's current account deficit is 14% of GDP, which is unsustainable, whereas Germany records an extremely high surplus, the equivalent of 7% of GDP.

As the pilot of European monetary policy you cannot have a single monetary policy in the euro area if the relative competitiveness of countries deviates more and more each year. Thus I wanted to return to what you recommend to avoid such a situation. We have in fact a dual stowaway effect: the Greeks benefit from the euro and do not have potential devaluation of their currency, since they no longer have it, but neither do the Germans have a revaluation of the Deutsche Mark, since there is the euro, whereas there would have been a revaluation of the Deutsche Mark, if there still were different currencies.

This situation is unsustainable for the euro in the long term. What do you recommend in terms of common management tools for current accounts, without passing moral judgment – with good countries on the one hand and bad countries on the other – but in terms of economic equilibrium, because, as you yourself said, the whole of the euro area must be stable and cannot allow itself to have such significant internal imbalances without compromising the euro's very existence?

1-032
Jean-Claude Trichet, *President of the European Central Bank***.** – *(FR)* Madam Chair, I am not sure that

'without compromising the very existence of the euro' is a phrase that I can go along with.

Within a huge continental zone with a single currency, there are all sorts of – shall we say economic – correction mechanisms that work, in particular through competitiveness. However, it is possible that they work too slowly, too laboriously and therefore prevention and anticipation are always necessary, and I agree with you entirely on this point.

I must tell you that, in our dialogue with the Eurogroup, and thus with the governments, a dialogue we have been having every month since 2005, I point out to members of the Eurogroup that one of the main areas in which they must exercise mutual supervision is the development of relative competitiveness, in particular of costs per unit of production, and the general development of costs in different economies.

I have to say that when, on the tenth anniversary of the euro, we tried to learn lessons for the future, I myself insisted on the fact that, as well as budget policies, we also need to closely monitor relative competitiveness and that we, of course, also need to monitor the impact of this relative competitiveness on current account surpluses and deficits.

That said, I would nevertheless put the current account surpluses and deficits in context: take into account the fact that countries with extremely low population growth, like Germany, must have current account surpluses. We must not therefore think without taking population growth, which plays a very big role, into consideration. It is right that we should put by what we are going to need when pension and retirement systems are forced to work to full capacity, because unfortunately the age pyramid will have changed shape entirely. It is less true for others, but it is true for several of the countries that are within the euro area.

I return to the core of what I consider to be the real question: the development of relative competitiveness. Here, I will say exactly the same thing as I said earlier on the permanent regime.

In the euro area's permanent regime we have inflation that is less than two per cent, close to two per cent. We now know it is what we have had after twelve years, it is the definition of price stability. I must say that at the same time it is a global benchmark: two per cent, less than two per cent, that is more or less what all the inflation targeters in the whole world have. It is also what my American colleague would tell you. If you asked him, 'what in your opinion is a comfortable zone for inflation', he would reply, 'less than two per cent'. He might not necessarily add 'close to two per cent'. However, this can be seen more closely.

That is what we guarantee then. National inflation must fluctuate around this average. If for some countries national inflation is permanently above this, it is clear that there is a loss of competitiveness year on year. I therefore advise all national governments – and certainly those facing a situation of poor competitiveness, indicated either by the loss of parts of the market, or current account deficits in the balance of payments – to either be at the level of our definition of price stability or below it if they have to make a wage adjustment.

That is what Germany did. Germany entered the euro with a situation of relative non-competitiveness following reunification. It had competitiveness problems. For quite a number of years it has had national inflation slightly lower than the euro area average. It has strengthened its competitiveness. This is nothing unusual. It is the normal functioning of a vast continental zone with a single currency. What it has done shows that we can improve relative competitiveness within the euro area when it is necessary, when it is essential.

Once again, do not interpret the current German surplus simply in terms of relative over-competitiveness. It is a necessity so that Germany can prepare for its demographic future.

1-033
Chair. – I think we are going to have to ask for less exciting questions again.

1-034
Nikolaos Chountis (GUE/NGL). – *(EL)* Mr President, as you admit and as we have all seen, these are times of conflicting messages and I should like to draw the following syllogism: until recently, you too, when the crisis broke, were saying that every country had to deal with its own problems. Recently, you too, unless I am mistaken, stated that a support mechanism needed to be found. My question is: as this support is outside the treaties, what will its institutional basis be and on what terms will it be provided?

I have another very specific question. The Greek Government announced last week that it will extend the programme to support the liquidity of the Greek banks. EUR 11 billion has been given – we do not know if it will reach the real economy – and that leaves another 16. My question is: do you think that the Greek Government will continue to support the liquidity of the Greek banks at a time when it is fighting to reduce the public deficit, which is the main problem? In other words, would you advise the Minister of Finance to continue with such a policy of support for the banks at a time when he faces these problems?

1-035
Jean-Claude Trichet, *President of the European Central Bank***. –** I have already said what my understanding was of the conditions for the governance of the euro area to express what I called a non-concessional loan: if strong conditionality were imposed, if this were a purely non-concessional instrument, if it corresponded to an immediate and grave threat for the country in question and if it had an impact on the euro area as a whole, as has been said by the European Council itself. You will remember that the European

Council said that euro-area Member States will take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole. So I have nothing to add to what I have already said, which I hope is clear.

As regards the issue of the support which has been decided upon by the various governments for their own financial spheres, this has indeed been an enormous amount of support. The ECB, when computing this financial support – and only computing the financial support to banks and the whole financial sphere – arrived at 25% of the GDP of the European Union and of the US. So on both sides of the Atlantic the dimension is approximately the same. Of course this support, in the form of taxpayer risk that has been decided by government and which comes on top of what the Central Bank has done, does not mean at all that it would necessarily be utilised and that it would mean losses; in a large number of cases, profit would be made. But nevertheless, it was necessary to mobilise this level of taxpayer risk.

In the case of the particular country you mentioned, there has also been the equivalent of the support which has been given at the level of our continent, of the United States of America and of other industrialised countries.

1-036
Niki Tzavela (EFD). – *(EL)* Mr President, the Greek banks are basically branches of the European Central Bank. At present, the Greek banking system is still strong and healthy. Thank goodness, the Greek banks are not presently in difficulty. We are taking a preventive stand at the moment and I should like to emphasise that.

As long as the crisis persists in Greece, I am concerned that the Greek banks may have liquidity problems. As these banks are basically branches of the European Central Bank, will you state that, if they have liquidity problems, the European Central Bank will support the Greek banks?

1-037
Jean-Claude Trichet, *President of the European Central Bank***. –** We will, of course, apply all our rules, as we did with Ireland, as we did with all countries that are members of the euro area. Absolutely. It goes without saying.

1-038
Enikő Győri (PPE). – *(HU)* Mr President, I, too, wish to welcome you. I am always very pleased that we have an opportunity for a personal exchange of views. You are no doubt aware that debate on the new system of financial supervision is now on the agenda of the Committee on Economic and Monetary Affairs, and I would like to ask you some questions in connection with the European Systemic Risk Board. My first question is that, as we know, this organisation will, in my opinion, build in quite a positive way on the European Central Bank. Please help me, convince me as to what tools this new Board will have available that will enable it to work more effectively as regards the prior signalling, analysis and control of risks than the current system. In other words, where, in your view, does the strength of this new organisation lie? My other question about the Systemic Risk Board is that we have just submitted proposed amendments to the Commission's proposal. The original proposal by the Commission states that five members of the General Council will sit on the Steering Committee, but without specifying in what distribution. A proposed amendment was included that had been put forward by both the Polish and the Hungarian parties, and hence by myself as well, stating that there should be a guarantee that the Steering Committee will comprise members of the General Council from both within and outside the euro area. I consider this very important, since the crisis knows no borders between euro area and non-euro area, and I consider it very important that countries from outside the euro area be allowed to be there as well. I should like to ask your opinion on this matter, and ask for your support in this regard.

1-039
Jean-Claude Trichet, *President of the European Central Bank***. –** First of all I would say that the Risk Board will of course benefit from the mobilisation of the ECB, and of the 27 national central banks, which would help provide enlightenment for the Risk Board through their governors, but also with the benefit of their 'techno-structure', if I may put it like that.

We are ourselves recruiting from the 27 additional brains so that we can be up to the new responsibilities, and I assume that with the addition of the presence of the heads of the various authorities as regards micro-supervision – taking into account the presence of the central bank governors, a large number of whom are also responsible for micro-supervision – we will really have what was suggested by Mr de Larosière, has been accepted and proposed by the Commission, and is now being considered by Parliament in liaison with all parties concerned. I hope very much that we will find out the appropriate way of having the best possible Risk Board.

In any case we need an entity to give thought to systemic risks. We have seen what it was to have to cope with systemic risks of the magnitude I have already mentioned.

As regards the amendments in question, I would say that the legal problem that perhaps your amendment would have – but again it is not for me to intervene in your own discussion, because it is Parliament now which is discussing it – might be the extent that the euro area increases over time. We started out with 11. Now there are 16 of us. If we say 'there are three in the euro area and two outside it', or the reverse or whatever, we might totally miss the point – when the euro area becomes much bigger and you know that there are only two countries out of the 27 that have an opt-out clause.

So I think it goes without saying that the five should represent the structure of the 27. It seems to me that it is

exactly what is needed. And, if that is your main point, it seems to me that it goes without saying.

The problem is that it is not obvious that you have to put it in the Treaty itself or in the legal texts themselves, because again it would not necessarily fit with future developments. But I take your point of course: it goes without saying.

1-040
Othmar Karas (PPE). – *(DE)* Mr President, I have the following questions for you. Last week the Greek Prime Minister told Parliament's crisis meeting that while on the one hand Greece had to abide by the rules of the IMF, on the other it was not getting any money. There is indeed a debate as to whether we should have a European Monetary Fund to provide long-term financing in order to close precisely this gap. What is your view on that possibility?

Secondly, the Greek Prime Minister has stated very clearly that he does not want any money and he does not need any money. What he needs are two measures: protection from the global financial market as regards both speculation and high interest rates. What could the European Union and the European Central Bank do to achieve this?

Thirdly, you spoke about economic union. In my view, the Stability and Growth Pact is not sufficient to bring about economic union. What is needed to bring about economic union? What do you think of the proposals made in recent days by Commissioner Rehn concerning influence over budgetary policy?

1-041
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, we are speaking of a problem which is immediate in nature – Greece's recovery programme, the implementation of that programme and the credibility that Greece has to regain. Of course that is the very urgent issue.

The idea of a new construction, of (if I understand correctly) a 'European Monetary Fund', is of course something which would be for the longer term. We do not like the adjective 'monetary' very much because we believe that there is already a monetary institution in Europe, namely the ECB. We do understand, though, that behind this idea of the European Monetary Fund there is the idea of organising some kind of possible non-concessional support in exceptional cases, and with a very strong conditionality reinforcing the already strong conditionality of the SGP.

I understand that this is what is behind this European Fund. We will see. As far as we are concerned, I would say that all the conditions I mentioned for possible non-concessional help to Greece today will be exactly the same very strong conditions for the future, but we will see.

This is a proposal which has been made by a government. It seems to me that it has to be examined by other governments on the basis of the precise proposal. The only point on which I would be very negative – as you might already have heard – is this idea of the possible expulsion of a country. I do not think it fits with the very nature of the euro area.

As regards the remarks which were made in the second question, on protection from speculators and so forth, again I do not want to engage in comments other than those I have already made. I said that there is a general issue, which is how to be sure that the financial markets are functioning correctly overall.

I will say that in individual cases we have to look at the cases themselves and it is clear that, if we had a very strong and clear position, we would perhaps see the tensions evaporate a little. I have always called for verbal discipline. Verbal discipline applies to everyone and of course also to Greece.

As regards the last point, the SGP, I would say that it is clear that what is needed is the full involvement of the governments themselves in the SGP. We have the instruments. I do not think that Europe should forever be refocusing on changing institutions, embarking on new laws and regulations and so forth. It is the determination of the governments which is important – their strong sense of responsibility. I guess that the present experience is good from that standpoint, because it calls on all of us to exercise the maximum level of responsibility.

1-042
José Manuel García-Margallo y Marfil (PPE). – *(ES)* Madam Chair, I would like the President of the European Central Bank to consider three points: global imbalances, internal imbalances and supervision in the case of Greece.

As far as global imbalances are concerned, we have been warning that the Chinese currency is undervalued since 2003. Now, in 2010, the Chinese current account surplus is ten times more than it was in 2010. What are we going to do about it? What can the Central Bank do? What will happen if the Chinese begin to divest their dollars?

As far as tax imbalances are concerned, we also know that the preventive arm of the Stability and Growth Pact has not worked well. The assessment of the fourteen stability programmes recently conducted by the Commission was simply a bureaucratic exercise. I ask you whether the time has not come to include additional criteria, such as the current account deficit or relative competitiveness in order to establish the duties of each Member State.

As far as sanctions are concerned, since they were approved we have been told that they would not be applied to all European Union countries; that they would be applied only to euro countries in 2004 and 2005; that they would not be applied to all euro countries; that they would never be applied to the major countries – and now we know that they will not be applied to anyone.

Here lies the problem: should we not forget about the current sanctions and link transgressions to access to budget items that are not strictly sanctionable?

My last and most specific question is: do you believe that the conspiracy to disguise the public accounts between various banks and the Greek Government mentioned in the press would have been easier or more difficult if the prudential supervision had not been carried out by a national supervisor but by a European authority that would have acted as the principal of the Greek supervisor and would therefore have instructed the Greek supervisor?

If that had been the case, I think the Greek supervisor would be sitting here this afternoon to explain what happened.

1-043
Jean-Claude Trichet, *President of the European Central Bank.* **–** I think you are absolutely right on the global imbalances. They are largely responsible for the dramatic crisis we had to cope with at the global level, and if there is no efficiency and effectiveness in the surveillance exerted at the level of the G20 on each individual economy, particularly on those who, at the global level, are very heavily imbalanced, then this will be the best recipe for the next crisis.

So we have not only to learn all the lessons for the financial markets, but also all the lessons for the macro-policies of the countries which are responsible for the big imbalances, whether surpluses or deficits.

From that standpoint you know pretty well the position we, the Europeans, are taking vis-à-vis China. We repeated in the last G7 meeting what we had said in Istanbul, and the message is that a progressive and orderly appreciation of the Chinese currency would be both in the interest of China and in the interest of the prosperity and stability of the global economy.

As regards the Stability and Growth Pact, again I would make a plea for implementing the Pact. It has been decided upon, it has been reviewed, it is anchored in the Treaty itself. We know what happens when it is treated with benign neglect. Let us apply it. I would not necessarily call for changing it. I think again what we have to do is to do the job, and again I take what is happening now as a very important wake-up call in this respect.

On the sanctions, I would certainly not say 'forget about the sanctions'. It is true that there has been strong opposition in the past. It is true also that we ourselves resisted this stronger position. We said that it was not at all appropriate. You will remember there was a fierce battle between the Council and the Commission itself, which they took to the Court of Justice.

I would say more than ever that this idea that the Pact has to be applied, including by the use of sanctions, seems to me appropriate, and without waiting until we are in a situation which is so difficult that it appears well-nigh impossible. But again, this is something which we have to think about in the medium- and long-term: we should not be too short-term in our thinking today.

I fully agree with your last point. We need Eurostat to be able to go and get all the information on the spot – as we say in French '*sur pièce et sur place*' – to be sure that all the information is available and to register this information.

We cannot accept in the future the kind of tricky operations, what I would call the false figures, which give a false image of reality which is always dramatic and plays a particular part in destroying credibility.

So that is a very strong point and I am sure that all governments are fully aware of that, because it is true that in the past they were hesitant to commit themselves to overly bold decisions in this area.

1-044
Anni Podimata (S&D). – There are two issues which I believe need further qualification.

The first is whether you believe we need a strictly European mechanism of support for a country facing extreme economic difficulties, such as Greece is at the moment.

Secondly, under what circumstances do you believe that such a mechanism should be mobilised? Do you believe that the 6.25% interest rate deal that Greece was facing at the beginning of March qualifies as this kind of extraordinary, unusual situation which threatens the euro zone as a whole and which would, therefore, justify the mobilisation of such a mechanism?

1-045
Jean-Claude Trichet, *President of the European Central Bank.* **–** I do not want to go back to what I have already said. I mentioned the conditions that seem to me to be all the necessary conditions for any such set of non-concessional loans, if I understand correctly what is in the mind of the Council. A non-concessional set of loans could be envisaged, and I do not want to go back to the strong conditionality – to the fact that this is absolutely non-concessional, without any element of subsidy, and to the fact that there has to be a grave and immediate threat for the country concerned, which is considered by the Council as also being a threat for the financial stability of the euro area as a whole. In my opinion, the level of spreads is not part of this conditionality. That is not the question. The question is the grave and immediate threat for both the country in question and the euro area as a whole.

1-046
George Sabin Cutaş (S&D). – *(RO)* In the context of the current European Union, we talk about responsibility, solidarity and monitoring, which are all 'software' measures, if you will permit me to use an IT analogy. What I would like to ask you is whether we can

do anything at 'hardware' level. This is why I would like to know what your view is about the future vision or architecture of fiscal governance in the European Union, bearing in mind all the players involved: the national central banks, the national treasuries and the European Central Bank. How do you see this future architecture?

1-047
Jean-Claude Trichet, *President of the European Central Bank***. –** I think all the institutions have to live up to their own responsibilities. What is expected of the ECB is to be credible in the delivery of price stability in the medium term, to anchor expectations solidly in line with this definition of price stability, and thereby – as, I would say, Europeans strongly believe – contribute to sustainable growth, job creation and also financial stability.

The responsibility of the governments themselves at national level is to provide an appropriate fiscal policy that will inspire confidence, and to ensure they do not overburden the next generation and their children and are not considered untrustworthy by their own people and by the economic agents, which would hamper growth and job creation.

I think that this is the right approach. Of course in the euro area – and the European Union as a whole – on top of that you have peer surveillance by the governments, which have a responsibility because that is the way the people of Europe have decided to run this surveillance system, according to the Treaty and the Stability and Growth Pact.

So I think that the hardware is there. Of course we are in a difficult situation because we have had to cope with the worst crisis since World War II, perhaps even potentially the worst crisis since World War I. That does not simplify the task of any of the institutions concerned, be it the national governments, Parliament, the Council, the peers, the governments collectively.

So I do not underestimate the difficulty of the task, but again I would say, let us make the best use of the present hardware. I would not suggest it is necessary to change the hardware.

1-048
Olle Schmidt (ALDE). – Mr Trichet, you were speaking about the common destiny. The common destiny is not only for the countries within the euro zone: it is for the whole of Europe and especially for those 27 Member States.

As you perhaps recall, I come from a country outside the euro zone. I am very eager for us to join the euro zone. In 2008 – after the ECB's intervention – and in 2009 it was easy to explain why, and the critics were silent at that time. But nowadays they are raising their voices again and reminding me what they said when we had the referendum in 2003. The euro zone is a non-optimal currency area. It will never function. It will only function if we have a fiscal union.

What kind of extra, added-value arguments can I get from you today, Mr Trichet, to convince me that those arguments are false, that Greece could not do without the euro, and that it would be of no benefit for those countries actually wanting to join the euro to stay outside? What is the added value for being a euro-zone member these days, Mr Trichet?

1-049
Jean-Claude Trichet, *President of the European Central Bank***. –** It is a good question.

I do not think it is that difficult. When the concept was first created, there was a clear view that in addition to the surveillance exerted within the Stability and Growth Pact – and you have heard how strongly I stress 'EMU': E for economic union, M for monetary union, we are responsible for monetary union, economic union, and the heart of it is the Stability and Growth Pact – but at the very beginning of the drafting, of the designing of the concept, the very same founding fathers decided that, on top of peer pressure and the surveillance of the Commission and possible sanctions, market sentiment could also be influential, and therefore that it was good not to have the merger of all treasuries.

And if I want to be positive, I would say that Greece was very much on the wrong tracks and that the peer pressure of the Heads of State and Government, particularly at the last European Council, plus market pressure, pushed the Government of Greece in the direction of what I myself call convincing and courageous measures.

So, in a way, what you have in front of you is an episode in the functioning of what since the very beginning the founding fathers had considered an appropriate, very precious mechanism.

Now we are at a point where we can still see that part of the market is hesitating, which in my opinion is only a transition, because again the decisions which have been taken by the Greek Government are courageous and convincing, and will be progressively recognised as such by the judgement of their peers .

So we will see what happens from now on. On top of that of course there is this sentiment which has been expressed again by the Heads of State and Government, and I want to read it again because it is there, it has been signed by the Heads of State and Government: 'euro area Member States will take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole'.

So it seems to me that there you have the appropriate response to the question that we are being asked.

Now in addition to that you can also say, as I have already said, that the consolidated position of the euro area is better than that of the major members of the G7, so that is also something which we should not forget. We are observing something which looks very intense; it

is intense, certainly, for Greece and for the Greek Government.

On the other hand, it is something that was designed to function like that in difficult times – and they are difficult.

But I am confident – you see what I am saying.

1-050
Gay Mitchell (PPE). – Mr Trichet, you will be aware that I raised with you for over two years the issue of asset inflation before the bubble burst. I want to raise another issue with you – a specific issue, because I think we sometimes concentrate too much on the macro problem and maybe we do not concentrate enough on the micro or the particular.

I want to raise an issue that is of concern to my constituents in my country, and I think it may apply in other countries as well. We are in the trouble we are in because the financial system was on automatic, and I believe that to some extent it still is. If we created one or two jobs in each small and medium-sized enterprise throughout Europe our unemployment problem would be solved, but I think we have a problem because we no longer have something called a bank manager.

Banks are meant to take calculated risk. Any enterprise that does not take risk cannot thrive. I do not want banks to be gambling as they were, but I want them to return to taking calculated risk, based on the character of the applicant, the track record of the applicant and the knowledge of the applicant's business. That can only happen if there is a bank manager who knows the person he or she is dealing with.

Here is my question – and I am going to campaign on this and I will not go away on this, just as I did not go away on the asset inflation question. I want to ask you, Mr President, if you will raise with your colleagues in the European Central Bank and in the European System of Central Banks the need to take up with their Member State banks the issue of returning to traditional bank managers who are in the business of taking calculated risk?

That is the question. I think it is an important one and I hope I can rely on your support for pursuing that line.

1-051
Jean-Claude Trichet, *President of the European Central Bank***. –** I would certainly echo totally what you said. I think you are absolutely right. I think that the wisdom and experience of those members of the techno-structure in the commercial banks that are able to, as you said, calculate risk, particularly in the medium-sized enterprises, the small and medium-sized enterprises, are absolutely decisive.

The reason why we market economies have an absolute need of banks is to sort out the various risks and not to function as 'no' institutions in difficult times and 'yes' institutions when we are in times of boom.

They have to say 'yes' or 'no' depending, as you say, on knowing their customer, on being exactly up to the case – the various cases. No one enterprise looks like another. So I am sure that all my colleagues would echo that and that the Governing Council as a whole would push in this direction at the level of the various banking systems concerned throughout the euro area and the 27. I fully agree.

1-052
Robert Goebbels (S&D). – *(FR)* Madam Chair, Mr President, in your answers you insisted on different write-back of the necessary conditionality of any potential loan to a Member State. You spoke of very rigorous conditions.

Well, since the crisis began, the European Central Bank has assumed its role as a lender as a last resort, and it has provided European banks with very important liquidity at a very favourable rate. You said yourself once that you would not require the passport of those banks that come to the ECB for refinancing.

However, is there any conditionality attached to this refinancing or can the banks come to you to refinance themselves in order to speculate on the money markets?

Secondly, you underlined that the ECB was a federal institution and you are right. Now, before you, you have the European Union with the Eurogroup, which remains a collection of states without real economic or fiscal governance, without budgetary solidarity within the European Union – its budget is one per cent, while the United States federal budget absorbs some 30% of American GDP – and you have sixteen different bond markets.

Should we not at least aim for the creation of a common market of Eurobonds, which would have much deeper liquidity and would consequently be more favourable, even for the most virtuous countries of the Eurogroup?

1-053
Jean-Claude Trichet, *President of the European Central Bank***. –** *(FR)* Madam Chair, on the first point I would say to you simply that we have rules to refinance the banks.

The banks must therefore abide by these rules. We do not exercise any control other than that exercised by the banking supervision bodies, which are sometimes the central bank members of the euro system and sometimes independent authorities, as you know, in different countries.

This responsibility that is brought to bear on the activities of the banks is exerted by those responsible for banking supervision. As for us, we ensure and we have ensured the banks' liquidity. However, as far as the exceptional operations that you mentioned implicitly are concerned – refinancing over twelve months, refinancing over six months – I said in my introduction that we are

now eliminating them gradually to accompany the return to a situation that is much more normal.

As for your second remark, it is true that the euro area was constructed by leaving the states responsible for their own budgetary management, and that is why we ourselves have always said that rigorous supervision of budgetary policies is an essential element of the single currency. It is the E in EMU and I would add supervision of budgetary policies and supervision of the development of costs of relative competitiveness, which are, moreover, linked. Indeed, if you let your wages and salaries gallop ahead in the civil service or in the public sector in general, you will destroy your budget and significantly weaken your relative competitiveness. There is therefore a link between the two.

However, you will not be surprised to hear that we are not in favour of issuing by all the linked and interdependent European treasuries of the euro area, because there we are effectively mixing up all the budgetary policies. There could be advantages in this, as you have indicated, in terms of liquidity and market size, but there is one very big disadvantage in that we can no longer distinguish in any way between good management and not so good management. Now, precisely because we are in a system that is not a perfect federal system, it is not necessarily a very good thing not to distinguish between good management and not so good management. That is why we have never been in favour of issuing treasuries in the euro area or the European Union in general under one single signature.

1-054
Ivo Strejček (ECR). – Mr President, in your opening speech you touched on global imbalances and the importance of global imbalances. My question concerns the future development of global imbalances because one of the key causes of the current financial crisis was the accumulated large imbalances on the real estate and housing markets. My three questions stem from this point. They are short and very easy.

First, should the central banks throughout the world – including the ECB – take the development of real estate and house prices more into account in the conduct of their policies in the future? Secondly, will the ECB listen to the voice of many experts and support increasing the weight given to housing prices within the consumer price index? Thirdly, will it take due account of imbalances on this front in the future?

1-055
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, I would say that you are absolutely right that real estate bubbles – and of course not only housing real estate, but also commercial real estate bubbles –historically play a very important role in the episodes of boom and bust that we have to cope with. All central banks in the world, to my knowledge, are reflecting a lot on how to deal with that, given that real estate plays a crucial part in the asset price bubbles that we have already mentioned.

So not only academia, but all the central banks in the world are working on the question. Responses are not that easy to give. We have very different behaviours and experiences in this respect with, in certain cases, some kind of automatic stabilisation of housing prices in particular, as we can see even in Europe. In other cases, on the contrary, a dramatic free fall in prices is triggering additional major difficulties.

As to the CPI capturing part of this bubble through various means, we are still reflecting on that. It is a very important issue. There has been discussion inside the central bank constituency. We have also had discussions with Eurostat on that. There are a number of different schools of thought. I have to say that at this stage I am very prudent and cautious. I have a tendency to consider that our present harmonised consumer price index is probably the best indicator we can provide. But I fully accept that, while it is perhaps the best we can provide, it may not exactly be the best, at least in theory. But I must confess that, as you see, I am quite cautious in this respect.

You had a third point: did I respond to that?

1-056
Ivo Strejček (ECR). – Will it take due account of imbalances on this front in the future?

1-057
Jean-Claude Trichet, *President of the European Central Bank***.** – I would certainly say yes. As you know, we are looking at all the information we can extract from monetary aggregates – not just the components but also the counterparts. In the counterparts you have the credit. In the counterpart of outstanding credit and of the flow of new credit, you of course have housing credits.

We are looking at this very closely. I have mentioned in several press conferences and several times before Parliament that these indications contributed to our understanding of what we have to take into account when we take our decisions on the interest rates themselves.

1-058
Astrid Lulling (PPE). – *(FR)* Madam Chair, I was told that I did not have the right to put questions to Mr Trichet.

I would like to ask a question because, on the subject of this aid instrument for Greece, the President of the Eurogroup said, 'there are clearly no bilateral guarantees'. However, he spoke of 'bilateral aid'.

Can you explain to me why some countries would not participate in bilateral guarantees for Greece? Would these countries not participate in bilateral aid for Greece either?

I must say that I do not understand the difference between bilateral guarantees and bilateral aid. If some do not want one, do they want the other? How do you view this instrument?

1-059
Jean-Claude Trichet, *President of the European Central Bank***. –** *(FR)* Madam Chair, firstly I would not necessarily say that it is a question of aid.

As I have said, there must not be an element of subsidy in what is done. No concessional element and no subsidy element.

The President of the Eurogroup speaks about what he is responsible for, should there be harmonisation of decisions taken by the different governments. May I say that I myself am not responsible for that.

What I have expressed are the conditions that I consider necessary to allow the commitments made to be followed through, should these conditions be met. For me it is therefore a question of non-subsidy elements that would be agreed by the different Member States of the euro area, as mentioned in the communication of the Heads of State and Government.

However, it is up to the President of the Eurogroup, Mr Juncker, to reply to this question because it is his area.

1-060
Sven Giegold (Verts/ALE). – I should like to ask a very brief question on the imbalances. You were saying there is a problem with the imbalances, including for some surplus countries, but not for Germany because it faces a big demographic challenge.

If you look at the current account, you could say: OK, there is a reason for saving more. But a demographic challenge does not justify letting unit labour costs develop strongly below the inflation target set by the European Central Bank.

So I do not understand your explanation there. I would rather call on your help, in the way you pronounce in public on these issues, as you seem to have done for many years internally, for the people in Germany who want Germany to behave in a Europe-friendly way and a euro-friendly way.

1-061
Jean-Claude Trichet, *President of the European Central Bank***. –** To sum up: first, when you judge the level of public current account deficit or surplus, you have to take into account the demographics of the country. You know that there are immense differences inside Europe, which is quite surprising.

But they are there. I am not saying that the whole of Germany's current account surplus can be explained by that, but part of it can, and we have to take that into account – first.

Second: as regards the unit labour cost, it is true that Germany started in the euro with a level of competitiveness which was insufficient. So it is not abnormal that the unit labour costs in Germany have been less dynamic than the average, because there was a catching-up exercise. So that is also part of the truth.

Now we might have a last point. This is that, from now on, if one considers that I would be very likely to agree that the relative competitiveness inside the euro area of that particular economy has caught up so that we do not have further catching up to envisage for the future, and taking into account our own benchmark which, for inflation in the euro area, is less than or close to 2%, I can imagine that in the future – in the long term (we always have to reason long term) – there could be an oscillation around the average for those economies (this is not only the case for Germany) that might suggest that the average – I would say relative – competitiveness inside the euro area is more or less correct, not imbalanced, not massively imbalanced.

That is the best way I can sum up a concept which is not that easy. It is complex. And of course, each country has to be analysed through that grid, which is: first, what are the demographics? Second, where do you stand as regards your relative competitiveness? Third, are you gaining market shares or are you losing market shares inside the euro area? And fourth, other considerations might also be taken into account.

But you see, I am nuanced in my judgement – as you expect from me, because I am responsible for all 16 countries, all 330 million fellow citizens.

1-062
Chair. – Thank you very much. I think we have got our money's worth or almost our deficit's worth. It has been a long session. Thank you to the members. I am sorry if my timekeeping was a little erratic but we have got to the end in good time. Thank you to the interpreters for staying with us, sometimes when people were rushing.

We reconvene for our committee meeting at 9.30 tomorrow morning, a slightly later start.

(The meeting closed at 18.40)