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

18 December 2001

Chairman, Mr Herzog (GUE/NGL/F)

We have the pleasure of welcoming Mr Duisenberg, the President of the Central Bank, for this final monetary dialogue of 2001, and without further delay as we are running a little late, I will hand him the floor. Mr President.

Mr Duisenberg

Thank you very much Mr Chairman, and I would like to extend my best wishes to the person you are replacing today, Mrs Randzio-Plath, who for health reasons couldn't be here I understand. My best wishes accompany her.

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

Chairman, Mr Herzog (GUE/NGL/F)

Thank you very much Mr President. So we begin the monetary dialogue with questions on monetary policy. You each have one minute, and we must be very strict. We start with Mr von Wogau.

Mr von Wogau (EPP/ED/D)

President, I'd like to raise this question of inflation development and something has happened that you have announced in advance and that is inflation rates are coming back to the ECB reference value: 2.1% in the eurozone. At the same time there is another development that causes concern and that is the development of deficits in the four countries that you mentioned. Now, in one of these countries, the deficit is 2.7% and that means this is moving very quickly to the borderline of 3% and my question is, how do you define the stability and growth pact in the present situation? My second question, are we in a phase of recession or are we moving towards

a recession? Do you share the view of those - this isn't my view - who say that the Stability and Growth Pact has to be changed to take into account the present situation?

Mr Duisenberg

Indeed the deficits in four countries are moving towards dangerous levels. Whether we are in a recession, I think not. We see virtually no growth in the third quarter and it is likely that there will be of very little growth in the 4th quarter of the year, but as I said, in the course of next year we expect growth to pick up again. So whatever the definition of a recession is, and I don't have one:I don't follow the American habit of defining a recession as two quarters of consecutive negative growth. I believe we are seeing the trough of the slowdown at the moment. The slowdown results in higher unemployment benefit having to be paid and less tax revenue coming in than anticipated for a period of normal growth, that deficits are coming under pressure, and for some countries it is coming close to the well-known 3% level. Yet I would not recommend, as I have stated and different from your perspective, that the Stability and Growth Pact ought to be changed. It is the first time that the Stability and Growth Pact is tested, but I think that it is of the utmost importance to reinforce confidence amongst consumers and investors that the players do not change the rules of the game whilst the game is underway. I think it will be confidence-inspiring if it is made clear to the public, to consumers and investors that governments stick to their medium term strategies as they have declared, and as they are declaring to my knowledge that they will continue to do, and I applaud that very much.

Mr von Wogau (EPP/ED/D)

I have a supplementary question. First of all I must thank you for your clear explanations, and I believe that we have to make it clear that the Stability and Growth Pact is still valid and the European Union will apply the sanctions if this 3% limit is overstepped. But my supplementary question is along the following lines: you said at the beginning of next year you expect there to be an upward trend in the economy. Is this related to your optimism about the situation in the US? Do you think the US economic situation will improve and that will have a positive impact on the European economy, or do you assume that growth forces, growth strength in the European Union will resume?

Mr Duisenberg

It is the latter. We are so to speak, on our own, in Europe. In Europe, contrary to the situation in the US, a current account deficit is absent, which is a problem which Europe does not have. It is

the absence of such major imbalance and the falling trend in inflation, which will support domestic demand. These factors and the very favourable financial conditions which are prevailing make me and the ECB think, that the resumption of economic growth will be predominantly domestic-led. Now, the assumptions about the US recovery, when and by how much, are indeed, I admit, a downside risk for these developments and these expectations, but my prognosis, if you may call it that, is not based on the assumption that the recovery would be US led. Indeed, in that respect we are on our own.

Mr Goebbels (PES/L)

Thank you President. I am one of those who believe that that the policy pursued by the ECB has generally been very positive. You have always succeeded in having less inflation than the US and I think the preparation of the euro has been a success as well, and when you see the enthusiasm of our fellow citizens for the coins then it is a pity that we could not secure the frontloading of a few low denominations banknotes as well. Nonetheless I think that your communication policy for the markets could be improved. You were our guest on the 12th of September last and no one knew that given the tragic events in the States there would be an uncertain economic climate and you mentioned this in your speech today. But at the time, on 12 September, you refused to give any indications about the monetary policy you intended to pursue and you said that we shouldn't panic. I quote you. You said that we shouldn't panic. Then a week later on 17 September the Federal Reserve Board reduced its rates and you followed and other banks followed in what one could call concerted action. However, markets were not warned in advance and your decision occurred when markets were underway, whereas Mr Greenspan was careful to warn the markets and to take the decision before the opening of Wall Street. Don't you think you could have a better information policy, a better PR, with the markets? Thank you.

Mr Duisenberg

Recalling the events of those days on the 12th of September, it simply was too early to grasp all the implications from the tragic events of the previous day. We needed some more time and so did the Federal Reserve. They needed time to come to a conclusion. And that conclusion was reached in the following days until the 17th of September, when the Fed was in a position to announce the change in interest rates before markets opened and we were in a position to announce the decision after the markets had closed, at least in Europe. It couldn't be done earlier. It also couldn't be preannounced and we had to make sure that whatever decision we

took, it also had to be in line with our medium term and forward looking monetary policy strategy. What we actually did on 17 September was to bring forward the decision that otherwise would have been taken 2 weeks later. We brought it forward exceptionally in very exceptional circumstances. But what this also demonstrated was that the governing council of the ECB can take such decisions in a very limited short period of time. Actually I called a teleconference myself (I was in Helsinki at the time). I called a teleconference at 3.00 in the afternoon to be convened at 5.00 in the afternoon, Helsinki time, and when I had done that we got together on the telephone at 5.00 o'clock and within one hour we had reached a decision, which also the other members of the governing council had also not been aware of to the full extent before the teleconference started. But it was exceptional and the communication was indeed extremely difficult.

Mr Goebbels (PES/L)

I realise of course that two days ahead you couldn't announce these rates but we know how the Federal Reserve proceeds. Listening to you today it would appear that there are drops in interest rates or will be drops in interest rates in the not too distant future unless you contradict me. You still repeat that your main aim, your main objective is to maintain price stability and I can follow that. But reading through your most recent bulletin in English you say that the European Central Bank expects that inflation will safely fall under 2% in 2002 which means of course that you have the necessary leeway to drop your rates.

Mr Duisenberg

In no way do I want to be interpreted as already today announcing the next move, when and by how much it will be. I have said in my introduction also that we regard, and continue to regard, the current monetary policy stance as appropriate for the circumstancesalso for the foreseeable future. In fact, safely below 2% in my mind means some points below 2%. The latest figure for November has just become available today, and that was 2.1%. We expect it to fall below 2% early next year and on average we expect inflation to remain there for the remainder of that year and the year thereafter. I don't precisely recollect the exact figures published in the ECB Staff Projections, but let me say here and now that it will be around 1.5 % for 2 years to come. That is safely below 2%, which , in my mind, is in the context of the monetary policy stance as it is today and something would have to happen to the hypotheses underlying these expectations in order to come to the conclusion that another monetary policy stance would have to be called for.

Mr Huhne (ELDR/UK)

Thank you Mr President. Perhaps I could return to the subject that Mr von Wogau was asking you, about the stability and growth pact. I'm a little confused about your position on this because on the one hand in the last hearing when you came before us in September you said very clearly that for those countries whose budget position is sustainable you were happy to see them using fully the automatic stabilisers, and for those 4 countries where that is not the case, you were happy for them to make partial use of the automatic stabiliser. And yet you have been quoted as saying that you also want to see countries move close to balance or to surplus in 2003. And I wonder how this squares, because if you take the German case, where the Commission is forecasting a deficit of 2.7% of GDP for next year, that would imply either phenomenal German growth between 2002 and 2003 with a cyclical uplift to the budget, or presumably it would imply a very dramatic fiscal tightening, which might make the recovery much weaker than it would otherwise be. So I wonder if your position on automatic stabilisers is consistent with what you appear to be saying about the timing on the move to broad balance.

Mr Duisenberg

I think it is consistent, Mr Chairman, to the extent that the upward tendency in the German deficit or for that matter in the euro area deficit has cyclical reasons. It is the reflection that the automatic stabilisers are working and that is permissible also in the German case. It should be even the larger part of the 2.7% figure, if that is the figure that is ultimately decided on by the German authorities. But then, the underlying trend in the budget, also for Germany, should be that, based on realistic macroeconomic assumptions, the target to reach a budget in balance or with a small surplus by, in the German case I believe 2004, should not be left aside or postponed to the future. That is not to say that the actual figures could not deviate from that if there are cyclical reasons for that, but I assume that by 2004 this cyclical downturn which we are going through now will by long have been a thing of the past.

Mr Huhne (ELDR/UK)

Just to clarify, I think this is very important. What you are basically saying is that the effective operational target that you're looking at is the underlying, cyclically adjusted budget, rather than the nominal figure, and that's what you want to see improve in the German case?

Mr Duisenberg

Effectively that is what I am saying.

Mr Lipietz (Greens/EFA/F)

Mr President, thank you for the details which you have given about the development of your policy following the attacks of 11 September. I would like to come back to the trends which were emerging well before 11 September. One year ago, you made a statement before us that nothing indicated that the new economy was enabling an acceleration in productivity gains, and therefore in potential growth in Europe; so we should not exceed a growth rate of between 1.5 and 2%, and your duty to avoid inflation was to prevent actual growth exceeding potential growth, and that was the reason for maintaining high interest rates. Indeed you have won across the board, as between the month of October 2000 and October 2001, industrial production has fallen by 2.7%, according to a very consistent trend. We have only seen a fall in the level of economic activity in Europe since you are following this policy. So my first question is, do you think that the fall in economic activity in Europe is sufficient to eliminate the overheating which you identified at the end of 2000? Secondly, as inflation has fallen, you say that the level of real interest rates is historically low. But for the two largest powers of the EU, Germany and France, which have inflation rates of 1.3-1.5%, the real level of interest is actually rather high historically. Can you tell us what your reference is for the real interest rate?

Mr Duisenberg

To quote some figures, for the euro area, the short term real interest rate for the period 1981 to 1998 can be estimated at 4.6%. The current value for the period 1999 until October 2001 is 1.9%, so that is dramatically lower than the historic value has been. For long term interest rates, the real interest rate for the euro area for the period 1991 to 1998 is estimated by the ECB at 5.2%. For the period 1999 to October last, it can be set at 3.0%. So both for the short term and the long term, real interest rates are, one might say, historically very low.

Mr Lipietz (Greens/EFA/F)

In any case, the real interest rates are higher than the growth rate, which is not normal according to economic theory. You have seen that your colleague from the US Federal Reserve has set a level of interest which is below that of inflation, that is to say a negative interest rate. So, I would like to know if it is normal that the short-term interest rate is above the growth rate of the economy? What are you thinking of doing for those virtuous countries where the inflation rates are lower, and therefore suffer from rather punitive interest rates? On the other hand, I would like a reply to my first question, do you feel that the drop in industrial activity over a year is

sufficient to take the growth rate below the potential growth rate, or do you intend to continue to cause industrial growth to fall in Europe?

Mr Duisenberg

Regarding the current rate of the real interest rates, I can give them only in ranges:they are estimates. For short-term real interest rates we estimate them to be between 1.0 and 1.8%. Long-term real interest rates between 2.2 and 3.1%. If you believe, as I do, that the long-term growth potential is in a range of 2.0 to 2.5%, then, provided there are no further structural reforms of course, then the long-term real interest rates seems compatible with those figures. The only way, we strongly believe, to lift the long-term growth potential of the euro area economy is to apply structural reforms in labour and goods markets, and that is a movement where some progress has been made but where still quite a lot remains to be done. It is the major challenge we believe for economic policy-makers, governments in particular that has to be met.

Chairman, Mr Herzog (GUE/NGL/F)

Thank you, well its my turn now. I would like to come back to what your basic diagnosis was about the healthy nature of the economic situation in Europe and particularly in the euro zone. What I am wondering about is that you have drastically reduced your forecasts between June and November. You have dropped the forecast by, I think, about 1.5 points if I am not mistaken, which is huge and which cannot only be accounted for by the impact of 11 September obviously. So, there must be somewhere, something in the initial diagnosis, some kind of over-estimate of the causes for the slow-down in the countries of Europe, and today, you are announcing that tomorrow things will be better, you are not going to change that basis and here again you are forecasting rapid recovery, tempered a little bit by the fear for deterioration in the American situation. I would like you to come back to that initial diagnosis and perhaps you could give us some details, something you repeated earlier, that "we're on our own". Obviously, the euro does give us a certain amount of protection, some sort of resistance, but aren't we more vulnerable due to external trade reductions? Are we not also vulnerable as far as the stock markets are concerned, there is a great deal of volatility there, and that's not just something that we can look at on the basis of external shocks?

Mr Duisenberg

First of all Mr Chairman, the slow-down in economic activity has been underway basically since March/April of this year and it has been exacerbated by the events of 11 September. Now, what

are the main reasons for what is indeed a large correction in the forecasts that we and, may I say, all international institutions that are engaged in forecasting business have made? There are two main factors: the first factor is that world economic growth in 2001 has developed far less favourably than we assumed in our June projections. We have, I admit that freely, been fooled into believing that the United States would show the so-called "V-shaped recovery", a very short sharp fall and a very quick equally large upward correction. That assumption has been proven wrong and that is the major cause for us now to revise our forecast substantially in a downward direction. The prolonged dismal state and dismal performance of the Japanese economy is also something we had not anticipated fully when making our forecasts in June. So, the external developments have had a negative impact on euro area exports, on investments and on inventories in 2001., But then I would also like to remind you that when we published our June forecast, we already mentioned that, I quote, "the international environment could develop less favourably than assumed". Well, like other international institutions, Eurosystem staff at this time chose to treat this possibility as a risk rather than to include it in their base-line assumptions for world GDP growth. These are the main factors explaining this drastic revision for world GDP growth. On top of these have come the events of 11 September, which have severely, if hopefully only temporarily, undermined the confidence of consumers and of investors world-wide. The projections now assume that they will result in temporarily even lower investment and consumption in the second half of 2001 and early 2002.

May I add a few words about our expectations for 2002, because I don't want to be misunderstood. We expect the recovery to get underway in the course of 2002. I think that it will happen even in the first half, i.e. the first signs of the recovery will then become visible, but this means that we enter the year at a very low level of economic growth and at a low pace and the full speed of the recovery will only become noticeable towards the end of 2002. That means that the average figure for the year as a whole will be still a very low one. But looking for example to the quarterly growth figure on an annualised basis, I expect that in the last quarter of next year we will already see a growth figure which will be very close, if not equal to, the potential trend rate of growth.

Chairman, Mr Herzog (GUE/NGL/F)

My supplementary question is on your interpretation of the liquidity trap. Do you have an analysis of the use of this? Do you consider that this is something which is provisional?

Mr Duisenberg

I do recognise the phenomenon, and it also underlines my belief that monetary policy, at least alone, cannot lift the economy out of the trough that we are experiencing. As J.M. Keynes has said, "you can lead a horse to water, but you cannot force it to drink", and that is the same for ample provision of liquidity. You can have ample liquidity, and as I have said, we have reasons to believe that liquidity is very ample in the euro area, yet we do not fear inflationary forces coming from that, but we do continue to assess the liquidity situation on a continuous basis and we come to conclusions later on.

Mr Blokland (EDD/NL)

I would like to ask Mr Duisenberg a question about the Stability Pact. Recently, there have been discussions about whether or not we should stick stringently to the Stability Pact. Now, the Stability Pact was initially intended in times of threatening recession to ensure that Member States would be bound to follow a stringent monetary policy, and now it would appear that any new discussion has a direct effect on the euro rate and therefore the Central Bank has had to take a very strong position, which I support, but I would like further clarification about the Stability Pact. Don't you agree that in the end the discussion at some point is going to have to be finished about this? On 1st January, the euro will be a fact, and that is something that I think we can celebrate, if, we could do everything to ensure that we keep the value where it is, keep the value up, and ensure that anything which undermines the value of the euro would be something that we would no longer do. So that's my point about the Stability Pact. I also think that it is very much in the interests of the stability of the euro for the President and the President alone, to decide when he leaves. Thank you.

Mr Duisenberg

With the last remark, I agree. I think one of the most remarkable developments over the last few months has precisely been not the volatility but the stability of the exchange rate, if that is the rate you are referring to. I also want to underline that one of the most impressive benefits that Europe has derived from having adopted the euro has been that when an area undergoes an external shock like the events of 11 September, that there has been no, nor could there be, movement in intra-European exchange rates. This has never even been discussed. I had no doubt in my mind that had such an event occurred in the old times of the Exchange Rate Mechanism, that we would have seen havoc in the European exchange markets, that the German mark would have appreciated, that the lira would have depreciated and that the French franc

would have been somewhere in-between. That is what we would have seen. Now nothing of the sort could happen, and that is one of the greatest achievements, I believe, of having adopted the euro. Contrary to what the honourable speaker is suggesting, I have seen no discernible effect of the developments and the events in the last quarter of this year on the exchange rate of the euro.

Mr Della Vedova (NI/I)

Thank you President. I very much appreciated your statement, in particular, what you said about economic and monetary policy, and what you said about the stability and growth pact. Two brief questions, can one say that the fact that certain important countries have failed when it comes to the commitment of the Stability Pact, that this would actually force the ECB to have recourse again to increases of interest rates? Second question, would it not be better for everyone to do their own homework, for politicians to deal with economic policy and to leave monetary policy to the autonomous Central Bank? You have said quite rightly in your statement that there is a need to accelerate the rate of structural reform, liberalisation on the one hand, and reduction of the fiscal burden and restructuring of welfare expenditure, on the other. This is something the ECB keeps saying, as a constant reminder. What I don't understand is, whether there is a judgement from the ECB on whether the measures that have been adopted in this year's national budgets are appropriate and will help to maintain economic growth. I believe that given that governments throughout the last year, officially or unofficially, kept on talking about reducing interest rates and asked you reduce interest rates, they should accept the judgement of the ECB on the appropriateness of the reforms underway in the Member States governments.

Mr Duisenberg

If countries were not to adhere to their medium-term targets as embedded in their participation in the Stability and Growth Pact, you will always hear the ECB, although the ECB has no direct role in the mechanism of the Stability and Growth Pact. You and the governments will hear the ECB loud and clear signalling that; also, in the interest of monetary policy. One of my predecessors in the Central Bank in the Netherlands used to say "the Central Bank has a very far-reaching mandate, mainly to stabilise the value of money, but it has been endowed with instruments which alone are not enough to reach that goal, therefore the instruments have to be supplemented by the use of the force of your voice in the direction of other instruments". The Central Bank can be compared with a pilot onboard a ship, who when the ship comes into

dangerous waters, takes over from the captain on how to steer the ship into safe harbour, but only there and then. If countries deviate from their commitments in the Stability and Growth Pact, that in itself will not be a reason for the monetary policy stance to change. The main target, under any circumstances, of the ECB is the mandate given to it in the Treaty, that is to maintain price stability, and it is only that criterion which will make us change our stance.

Mr Marinos (EPP/ED/EL)

I would have liked to ask a lot of questions about the Stability and Growth Pact. I am rapporteur on this. My Committee has instructed me to write a report on this Pact and having heard your statement Mr Duisenberg, and after the questions from Mr von Wogau and other colleagues, I don't actually have much to add, but I would like a couple of things clarified. I would like to know which countries actually meet the undertakings set out in the Stability Pact, which countries were not able to comply with it, and who are above the 3% limit that was set beyond which penalties come into play. My second question, given that you said there should not be a change in the Stability Pact, and you stressed that at this point in time the Pact is valid, I would like to know whether changes will be introduced into the Stability Pact after a certain period of time, and under what conditions? Third question, very quickly, linked to the euro: many journals, newspapers and research publications show there is a marked increase in prices of consumer goods, and this on the eve of the introduction of the euro, and some of these price increases are around 30% - is that true? You said that there is a very low inflation rate, do you think there will be a sudden burst in inflation rates after the 1 January, and how would you react if that were the case?

Mr Duisenberg

No country has violated the 3% limit. The countries that already had their budget in balance or in a small surplus, are 7 at the moment, I believe, but I couldn't mention them by heart at the moment. When I say no changes in the Stability and Growth Pact, I can think of more sophistication or small changes. But I think it is much more important, as I formulated it earlier, not to change the rules of the game when the player is still on. It is much more important for the public to understand that governments stick to a declared strategy over the medium-term. That is important to underscore the confidence of the public at large.

Now on the exchange rates, may I ask you to repeat your third question.

Mr Marinos (EPP/ED/EL)

It was on prices increases because of the launch of the euro. A lot of price increases have been announced, and in Greece it has been mentioned as a scandal, in France, Italy and in some countries these price increases due to the euro will be up to the tune of 30%. I don't know about Germany, perhaps this is not happening in Germany, could this explain the way the economy is growing?

Mr Duisenberg

We are monitoring very closely and very frequently together with all the national Central Banks and the National Statistical Institutes, the development of prices, and we tried to determine to what extent changes in prices can be attributed to the cash change-over. Our findings for the euro area so far, are that it is very difficult to discern any effect at all in the price developments stemming from the cash change-over. If there is an effect, it is likely to be very very small indeed. That is on the basis on the enquiries we madeand the investigations that are being made by all national Central Banks., So we are rather confident we will not see any significant effect on prices stemming from the cash change-over.

Mr Pérez Royo (PES/E)

I have two brief questions that I would like to put to you. The first is a point of clarification. When you were replying to Mr Huhne, you had already said that figure of the estimated deficit percentage in Germany, which you thought was compatible with the Stability Pact, was an adjusted figure according to the cycle, you called it the cyclically adjusted deficit, and you referred to a figure of 2.7%. Does that mean that there has been a modification vis-à-vis the objectives of the nominal figure that has been set?

Mr Duisenberg

I wish to interrupt you. It is not what I said. The 2.7% figure is a figure which is calculated by the European Commission with which, as far as my knowledge goes, the German authorities are not yet in full agreement, but it is the overall figure. It does include any cyclical impacts on government spending and revenue.

Mr Pérez Royo (PES/E)

Thank you. My question anyway was whether this figure, the figure that you think is compatible with the Stability Pact, would deviate from the nominal figure, the nominal objective

that has been set in the Stability programme for Germany? Do you feel that it is compatible with the Stability Pact? The fact that the figure for the deficit for the year 2002 is different, is higher than that which is normally established in the Stability Programme?

Mr Duisenberg

Well, not having the final figure yet, I also do not have a final judgement, but let me say in general to the extent that the deterioration in the actually foreseen deficit figure can be attributed to the economic downturn, to that extent, I would not be worried about the deficit. To the extent that if you adjust it for this cyclical impact and it still would show a deviation from the goals set in the Stability programme of Germany, I would be worried. But, I would make that known directly to the German authorities when the budget is under discussion in the Economic and Financial Committee, of which the ECB is a member.

Mr Pérez Royo (PES/E)

Well, I had understood you correctly and so as far as I see it this is a slight correction, but anyway, my second question was as follows. You today have said that the growth forecasts are better than what they were a few months ago, and you mentioned this in the first intervention, then in a reply to a question, you talked about the reasons for having a slightly more optimistic view of the future. You have seen that there are not any major imbalances really in the European economy, there are good financing conditions and the drop in the price of crude and food have allowed, together with a whole series of other conditions, have allowed us to have an improved idea of the inflation rate. Now, you referred to the inflation rate, saying that the conditions reigning now were the same as they were at the beginning of this year. Financing conditions were good, but then all of a sudden there was a break, an interruption in growth, which still seems to be continuing. The only thing that has changed is everything relating to inflation. So, my question is as follows. Do you not think that in order to take account of these improved inflation conditions, and because we do have price stability, if this objective is met, would it not be a good measure to lead to a recovery by a decrease in interest rates as soon as possible, which I think would be the positive contribution of the European Central Bank to economic recovery?

Mr Duisenberg

First of all, if there is a change in the monetary policy stance, the effect of that will become visible or known in the economy one year, or one and half years later, which would in this

particular case be at the moment that the economy, I assume, is already growing at its potential growth rate; second, the actual level of real short-term interest rates which we can influence are already at a level safely below, and not higher than the level of real short-term rates experienced between 1999 and October 2001.. I would under no circumstances, be prepared to jeopardise price stability. So, the answer in short to your question is you have not convinced me.

Mr Schmidt (ELDR/SV)

Thank you very much Mr Duisenberg. Well, we are sitting here and we are a little bit jealous because we are not going to be part of monetary union in a couple of weeks time, and I hope that this disappointment is something that you can at least empathise with. I'd like Sweden to become a member as soon as possible, and I think the economic criteria are very clear for my country, but however, Mr Duisenberg I think there is some doubt about the legal criteria. The most important lawyer in the Swedish Central Bank thinks that the constitution would have to be changed as far as the monopoly on the minting of coins is concerned, and also on monetary policy. Now Mr Duisenberg, the Swedish Minister of Finance has also expressed a certain amount of concern about the reduction in the independence of the Swedish Central Bank, so what I would like to ask really is with all that as a background, would Sweden already fulfil the legal requirements for participation in EMU? Has the ECB got any contacts with the Swedish government to check whether they could be any way of getting rid of the doubts about legislation in Sweden and whether or not that fits in with the fixed criteria for economic and monetary union? This Mr Duisenberg could mean that there may be some problems that should be traced and detected as quickly as possible. So Mr Duisenberg, are there are any constitutional changes necessary ? Should the Swedish Parliament take the necessary decisions to ensure that Sweden could become a member? We do need information on that, and I would like to have some guarantee on that from you. Thank you very much.

Mr Duisenberg

If Sweden were to apply for membership of the euro area, Sweden would have to conform with all the convergence criteria that have been applied to the other participating countries as well, and that includes the legal requirements of full independence of the Central Bank. The Charter of the Swedish Central Bank would have to be made to conform with the requirements of the Treaty. So whether this is only a matter for the Constitution or the Bank Act, I'm not in a position to judge, but there would have to changes made. In the 2000 Convergence Report, and

in the other convergence reports of '98 and '97 of the EMI, it has been pointed out that a range of amendments would have to be made, and that has been made public, namely in Chapter 9, Article 12 of the Constitution Act, Chapter 9, Article 13 of the Constitution Act and in Chapter 9, Article 11. All these changes are regarding the Central Bank's powers in the field of monetary policy, regarding the exclusive rights to issue bank notes and coins and regarding the Central Bank's powers of exchange rate policy. The Swedish authorities are fully aware of this because I have confirmed this in a letter to Minister Ringholm on 19 July last.

Mr Schmidt (ELDR/SV)

But were you satisfied by the answer of Mr Ringholm in his letter to you in the autumn? You have got the letter, were you satisfied by his answer?

Mr Duisenberg

The issue is not very acute at the moment, so I think that it remains on the table; also the requirements remain there. I could still respond again to Mr Ringholm and that would indicate that I would not be totally satisfied with his answers.

Mr. Schmidt (ELDR/SV)

Mr Chairman, on the other hand the issue is very acute if we have to change the constitution.

Mr Duisenberg

Yes, that is true. We have taken note of that.

Mr Abitbol (EDD/F)

Thank you very much President. Mr Duisenberg, one of the reproaches against you is that the ECB pursues a single target of price stability. But this reproach is only made against ECB because that's the role referred on the ECB by the Treaty. The Statutes give you that single objective. Mr Greenspan was saying that the ECB was, all of the Central Banks in the world, the only one with a single target, a single objective, and so there is a debate underway in France. You know that we are entering into an electoral campaign period now which is very important for France and one of the main candidates has said that he is in favour of a change in the way in which the ECB works and, as with the Federal Reserve, growth and employment would be added to the simple price stability criteria. So my question is straightforward: I would like to know whether that is a feasible idea for a central bank like yours, not today because now you are

applying the Maastricht treaty as it stands, and you can of course discuss the way in which you apply this target, but is it feasible, or perhaps totally out of the question, that the management criteria that have been conferred on you by the Maastricht treaty might be changed in the context of the Treaty review for 2004?

Mr Duisenberg

It is feasible, but I do not regard it as desirable. Let me say that. One always has to remember that monetary policy in the longer term does not have an impact on the real performance of the economy but has an impact on inflation, and that is the basic reason why in the Treaty this target is given so much preponderance. I would at the same time say that the Treaty also says: "without prejudice to price stability the ECB should support the goals of the European Community." That is, without prejudice to price stability, the ECB should contribute to reach high levels of growth and low levels of unemployment. But we do believe that the best way to do that, to achieve this secondary target of the ECB, is to provide the European economy with a climate of price stability and predictable price stability, so that investors and consumers can rely on the ECB to preserve the value of their money. And creating such a climate of stability over the medium term is, I personally believe, indeed the best contribution that the Central Bank can make to achieve this target.

Chairman, Mr Herzog (GUE/NGL/F)

Well I would just like to interject that what Mr Duisenberg is saying about the relationship between monetary policy growth and inflation, that it has no impact on long term growth but an impact on inflation, well it is 100% Milton Friedman. Allow me to say that, as an academic it is 100% Milton Friedman's recipe.

Mr Abitbol (EDD/F)

I just wanted to know whether it was feasible or desirable. You say it is feasible but not desirable. I don't agree with you at all. But I think it is feasible and one would wonder why the other Central Banks have broader and different targets to those of the ECB . If it wasn't feasible to achieve these targets they wouldn't have them. I'm sure that one of the most important political goals in the review of the treaties that are starting now should be to bring about this review of the ECB targets. Thank you.

Chairman, Mr Herzog (GUE/NGL/F)

Thank you very much, now I will give the floor to Mr Mann.

Mr Mann (EPP/D)

Thank you very much Mr Duisenberg, last Sunday, well the night of Sunday to Monday morning, I was before the stock exchange in Frankfurt am Main together with the president of the Bundesbank, and we said goodbye to the deutschmark and hello to the euro because we received our euro starter kits. Enthusiasm was great among the people, but there was still a lot of concern about price increases of which you have said that these aren't so serious. You say consumers have to be attentive, of course they can switch from one company to another, but very often you have the same supplier behind both companies. And my second question: we keep saying that the exchange rate is not so important, it's the actual internal value. Agreed, but you can see for yourself that the differences are still vital. So how do you gauge the risk of a weakening of the euro if in Central and Eastern Europe they are placing a lot of emphasis at the moment on the Swiss franc and the dollar?

Mr Duisenberg

The main movement that we see, both inside the euro area and in Central and Eastern Europe, is that most of the currency in circulation will be exchanged into euro, or is being dug out and being converted into euro bank deposits. There is some, but hardly noticeable, movement into Swiss francs and US dollars, but we are not at all concerned about that. We also have to realise that the money in circulation in total is only a small part of the total of stock of liquidity. To be precise it is only 6% of M3, which takes the forms of notes and coins in circulation. So changes of the type you and I just mentioned are changes in only that 6% part and they are minor. So their impact on the exchange rate, to finally answer your question, will be zero.

Chairman, Mr Herzog (GUE/NGL/F)

Thank you. Mr Bullmann now.

Mr. Bullmann (PES/D)

Thank you Mr Chairman. President Duisenberg, I'm going to have to come back to a question related to the path towards growth that we want to try and define. Mr Von Wogau opened up the debate, and unlike him I don't hear that many experts saying that we should dissolve the Stability and Growth Pact. I don't hear many people saying that. What I am hearing rather is the voice of the very experts we should be taking seriously. Admittedly, many of them are those

well known radical left-wingers, such as Norbert Walter of the Deutsche Bank, or I could quote economists from the Bayerische Hypothekenbank. No doubt my Bavarian colleagues could confirm that these are also leading advocates of Socialism - Marxism even! *(laughter)* But these are experts who are saying that we have a very serious problem. And they are saying that the European Central Bank is not discussing this, to the benefit of the German government. But they are looking at this on the basis of figures from the Commission. And if you take a look at the autumn forecasts for the Commission for the year 2002, their forecast said that the growth rate for the year 2002 would be below that for the year 2001. 1.4% for the year 2002, rather than 1.6 in the year 2001. And this was then further reduced to 1.3% at the Laeken Summit by the Commissioner responsible. So 1.3% growth for the year 2002. If, as Mr Duisenberg correctly says, monetary policy is meeting its objectives, shouldn't we be working towards a co-ordinated fiscal policy? Should we not be doing more to make sure that Europe acts in a more co-ordinated way if we do not want to depend on US growth rates? Is there not a need for action, and what would your specific advice be?

Mr Duisenberg

My specific advice I have given. This is not a time which calls for fiscal activism. I have said there is always a need for more co-ordination amongst the finance ministers, amongst governments and with the European Central Bank. As long as co-ordination means the full exchange of information I am in agreement. But that there never can be, and never will be, I believe, a co-ordination of monetary and fiscal policy, because that could endanger the mandate of the ECB which is first and most of all to preserve price stability, and excludes co-ordination if that co-ordination brought about changes in the monetary policy stance which were not inspired by the expected inflation performance of the economy, that would I believe seriously undermine the credibility of the monetary institution. So there will not be. Otherwise, there is the fullest co-operation of the ECB with the fiscal authorities, with other authorities, in the form of a full and frank exchange of information, where the fiscal authorities have the big advantage of knowing what the policy of the ECB is and will be at all times.

Chairman, Mr Herzog (GUE/NGL/F)

Mrs Villiers is the last speaker on this topic of monetary policy.

Mrs. Villiers (EPP/ED/UK)

President Duisenberg, I very much wanted to draw your attention to a topic which has been raised on a number of occasions in this committee, and that is the ability of the markets to read the ECB. I would put it to you that the ECB does continue to have a communication problem in that the markets feel that they are able to read and predict the signals that come, for example, from the Fed or the Bank of England. But the persistent criticism of the ECB is that is very difficult to predict and its very difficult to read on the part of the markets. I would strongly urge you to address your communication strategy, and to try to work out a way to give clearer signals to the market, and to open up in ways that have been recommended by this committee on many occasions to make the ECB a more transparent operation. I am very interested in your views as to how you intend to review your communication strategy, because of course your relationship with the market as we all know is absolutely crucial in determining the external value of the euro. So I am sure that this committee would very much appreciate your thoughts on your current communication strategy and whether you have any intentions of modifying it or updating it or changing it in any way in the year to come.

Mr Duisenberg

We are continuously scrutinising it. We also are continuously, I believe, improving it. But we are faced with one major problem. We have to communicate to the public and markets at large in 11 official Community languages and in even more different cultures and we have to explain ourselves. So what we continuously are trying to do is to speak with one voice, but through more than one mouth. But increasingly, the tendency is to let the sound that is coming from those mouths, basically be the sound that comes out of my mouth. That's the form of discipline that we are imposing on ourselves and we know that markets are continuously guessing or outguessing what the ECB thinks or does. It is, I admit, one of the reasons why, whereas we think there is a need to maintain our bi-weekly meeting schedule, that we have publicly announced to the market that it is only during one of the two meetings per month that we will discuss monetary policy. Then, in particular when changes in the monetary policy are apparent or dawning, then, we have agreed amongst ourselves, that it is primarily to me to whom the markets should listen. Those are all tiny improvements, but I believe they are improvements and so is our experience also of the past two or three months, after we have executed these measures and have come to this understanding amongst the members of the Governing Council.

Mrs. Villiers (EPP/ED/UK)

Can I ask a brief supplementary. Would you say, Mr Duisenberg, that some of the reasons why the euro hasn't recovered from the significant losses that it saw in the first few months is because the markets still find very difficult the coherence of the policy of the ECB, that your communication difficulties mean that the markets really can't see or can't accept that the ECB is pursuing any long term or coherent strategy, and that affects their confidence in the currency?

Mr Duisenberg

I can't understand that. And I also say openly that I also have difficulty in explaining why the euro stays where it is for such a long time. I still do believe that the euro has a strong potential to appreciate. But as for not having a strategy, or a clear strategy, I would say the ECB is the only central bank in the world that goes out of its way to explain its strategy, or even has a strategy. Thank you.

Chairman, Mr Herzog (GUE/NGL/F)

One additional question in the last 10 minutes on the euro. Mrs Thyssen

Mrs Thyssen (EPP/ED/B)

Thank you very much Mr Chairman. President of the Central Bank, I have got a question which may not seem to be that important, but I think it is something which is very important for the people out there who are very much concerned by the details of all this. We have heard discussions with Minister Reynders, who has been presiding over the Eurogroup for the past year, and I think it is a bit of a shame that we didn't get the two to overlap because Mr Reynders did say very clearly that, even though it was on a personal basis and he did try to be very prudent in what he said, that he actually would have liked to have seen a bit more frontloading of notes, of euro notes to the consumer. He said that it is not excluded that here and there may be some ATM machines which may be tested and therefore will have to be loaded with euro notes before 1 January. I have seen here that the European Parliament is probably not the only institution which is in favour of frontloading of notes for consumers and I would like to ask you whether you are going to decide this week that since the coins and have now been distributed and it is going very well, people are not now trying to use the coins they are just getting them to get their hands on them, to learn what they look like, to see how they will use them, wouldn't you perhaps therefore give the green light to the banks and to the post offices, just a few days before New Year, to give perhaps small denominations of notes out to the public? The notes are there, the banks have them, the post offices have them, its just a very small sign that you

would have to give to make it possible and to allow people to get their hands on the notes. So I think it would it allay a lot of fears. And then an additional question. What are you going to do when you see that the notes are being distributed just before New Year anyway, what would you do about that ?

Mr. Duisenberg

I have to disappoint you and Mr Reynders. The main thing that we wanted to be sure of was that the introduction of the banknotes would take place simultaneously in all 12 participating Member States. That's the main thing. Once you have done that, you have to pick a date, which admittedly is somewhat arbitrary, and you have to pick one date and then not deviate from that. We have to take into account that at all costs we have to avoid confusion. I know in some countries the retail sector, for example, would appreciate some of the notes to be distributed earlier. I know also of countries, and big ones, where the retail sector thanks us for not distributing the notes, even a few days before the fixed day. All the logistics of the various sectors is geared towards distributing the notes on 1 January, and it would take a sizeable investment and create a lot of confusion if we deviated from that stated policy. But then we have only 12 days to go anyway. The problem will soon be all over.

Mrs Torres Marques (PES/P)

Thank you very much Mr Chairman. I wish to pick up on a point that the President of the ECB has insisted upon, the euro starter kits. Apparently they have run out. In Portugal they have run out and in other countries as well. This is extremely successful and there is a desire on the part of our citizens to get their hands on the euros, on the coins. And I think that this has been far more successful than anyone could have guessed. The Belgian minister when he first spoke to us said that we are facing something very new. There is a great degree of enthusiasm on the part of the people to have these coins and notes. Now as a lawyer I don't really know what the difference is between having coins or notes, because all of them are euros. This was the point made by the Belgian Minister as well. But he was saying that we are going to have to test some, one or two ATMs to see whether they do actually give us euros, and as he said this is quite a new phenomenon - this enormous demand for euros, and I think the ECB should have the right kind of capacity to cater for this kind of phenomenon.

Mr Duisenberg

As far as the testing of ATMs is concerned, Mr Chairman, we have already opened a facility a year ago where all the producers of automatic teller machines have been invited to test their machines and they have done so. They are compatible with giving you euros when asked. In addition we have established other test centres all over the European Union for the machines to be tested, so what you are asking for is already being done and is in place for a long time already.

Chairman, Mr Herzog (GUE/NGL/F)

I suggest we listen to the last two colleagues and take those two questions together. Mr Maaten.

Mr. Maaten (ELDR/NL)

Thank you. I would like to talk about the introduction so far of the euro. I think things are going very well, apart from some problems that people had expected but which did not occur, so I think things are going very well. But I do have a question. The enthusiasm for the euro kits, the starter kits, is a very good sign for the euro, but it also means that the national central banks have been very surprised. People weren't actually expecting this. So is there going to be any adjustment made now for the distribution of notes on the 1st of January, because I think you can also expect the same kind of enthusiasm on the 1st of January for the notes? Maybe the demand is going to be higher than availability? In connection with the coins which are already distributed, I have heard that in some places there are shopkeepers who are already accepting the coins and that transactions are being carried out in euros. Is this going to lead to any problems?

Mr Radwan (EPP/ED/DE)

Well I'm always the last to get the floor so I must be doing something wrong. But I would like to make a brief comment and then ask a question. Your responses to Mr Marinos and Mr Mann were I felt a little bit disappointing. I think in the media at the moment this issue of hidden price increases with the introduction of the Euro rounding up is very important. People are talking about a third of the products being subject to this. This is what is being said on German television, and I would be very happy if the ECB could say something about this. You do have a very calm serene position and perhaps you could put this discussion on a more factual footing. I had heard in the Commission that there were price increases and we are talking about 0.1% of the inflation rate there. I don't know where these Commission figures actually came from but I would be very grateful if the ECB could say something here. There is a discussion which is taking place across Europe about the hidden price increases, perhaps you could say something

factual about that to allay people's fears? Finally, in the European Parliament last week we decided on the regulation on cross-border transfers and you said explicitly that you did welcome the aim but you didn't like the means. Now more than a year ago, we did ask the ECB to play a co-ordinating role within the European banking world and to try to ensure that there would be uniform standards which would then lead to self regulation. Now we have still got 18 months before the regulation, will take effect and in the European Parliament we are always open to this kind of self regulation but I would still be interested in what kind of action the ECB is starting to ensure that the self regulation will kick in time and will allow the banking world to be a little better co-ordinated.

Mr Duisenberg

First, if there are too few euro kits with coins, will the same happen with notes? I don't think so. 15 billion bank notes are ready. They are available already. Our estimate is that to replace the current currency in circulation in the form of notes, we will need about 10 billion notes, so that the remaining 5 billion notes are a logistical stock, which is available already. Then, in addition we very much encourage banks, and it is being done in particular in the Netherlands, to concentrate the issuance on low denominations in the first days of next year. So the automatic teller machines in many banking systems, including in the Netherlands, will be filled almost exclusively with five and 10 euro bank notes. In those countries where social welfare payments are still made in cash, and those countries still exist, the payments will be made in low denomination bank notes and the estimates have been made for that. So I don't think that that problems will arise. That there are too few kits available right now, I am not aware of, but I am also trying to push that responsibility where it belongs, namely to the Ministers of Finance. Be a little bit clearer about hidden price increases? I say over and over again, we try to monitor it as closely as possible together with the national central banks and the national statistical institutes. We honestly cannot find a significant effect on prices. Maybe some of it has already happened. Maybe that already last spring, when we saw this jump in inflation in the euro area, up to a figure of 3.4% in April. I don't exclude that part of that was already due to price increases which would no longer have to be made in order to reach nice round euro figures at the day of the conversion. But that is a thing of the past. At the moment we do not discern significant motives or developments pointing to the phenomenon of hidden price increases. We do however monitor it closely. We do welcome the announcement by the governments in July last that they would do the rounding in such a way that the outcome would be in favour of the customer, or the consumer, as far as administered prices are concerned, and we do call on the

consumer organisations to remain vigilant. I know of some countries where they are very vigilant indeed in nailing down those enterprises whenever they see this movement developing and not without success.

On the cross border retail payments: just let me say we share the aim, namely to have basically in one monetary area also one tariff, completely transparent, for domestic as well as cross border retail payments. We have given our opinion on the draft Regulation which was before the European Parliament. Many of the critical remarks which we had included in our opinion have been taken on board. Some have not, and the main thing that has not been accepted is that we are of the opinion that one should have given the banks somewhat more time, even a few years to change their software systems and to change their administrations because we simply think that they cannot cope with the substance of the Regulation in such a short time. We don't want to lose the very co-operative stance of the big banking associations, like the European Banking Federation, who are very co-operative in helping us to achieve the ultimate aim which you, and I, and they also share.

Chairman, Mr Herzog (GUE/NGL/F)

Thank you very much. Well, we didn't follow that point of view when recently we adopted the Regulation on cross border payments, but that's all part of the same debate. Anyway thank you very much, President, and we wish you a merry Christmas, but I hope that first of all we will meet you outside for the inauguration of the euro statue.