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, 27 SEPTEMBER 2010

1-002

IN THE CHAIR: SHARON BOWLES

1-003

The Chair. – I should like to welcome Mr Trichet to our meeting.

1-004

Jean-Claude Trichet, *President of the European Central Bank***. –** Thank you very much indeed. Madam Chair, Honourable Members, we are holding our regular meeting at a time of considerable progress in Europe on matters of economic governance and financial regulation.

I would like to congratulate Parliament, and especially this committee, on the adoption of the EU financial supervisory package. Witnessing how Parliament has worked on this issue makes it clear to me that it has truly made a quantum leap in its role, following the Lisbon Treaty. Parliament has been instrumental in the pursuit of an ambitious reform with a true European perspective. As a European institution, the European Central Bank is impressed by your efforts and also your support in this regard.

1-005

(FR) Another legislative package will arrive on your committee's table this week: the reform of economic governance. I have full confidence in the ability and willingness of Parliament – and of the Committee on Economic and Monetary Affairs in particular – to once again pursue a resolutely European approach to this dossier.

Here too we are in need of a true quantum leap, to ensure that our single market of 27 works better and that monetary union is fully cohesive, as it is the heart of European integration.

1-006

(DE) As usual, I will begin by informing you of the assessment of the Governing Council of the ECB regarding the current economic situation. Following that I should like to focus on two subjects: the reform of the economic policy framework of the monetary union and the future of international and European financial market regulation.

1-007

Let me first turn to the economic and monetary developments. Since the previous hearing in June, incoming data have been better than expected at that time. The economy grew strongly by 1.0% quarter-on-quarter in the second quarter of this year, which would correspond to an annualised rate of growth of around 4%. Looking ahead, we expect the recovery to proceed at a moderate pace, with a positive underlying momentum but also with continuing uncertainty surrounding the outlook.

The annual rate of inflation in the euro area stood at 1.6% in August, a slight decrease from the figure of 1.7% in July. This is in line with our expectations. Looking ahead, the rate of inflation could increase slightly in the short term, but it should remain moderate over the policy-relevant medium-term horizon. In our view, risks to this outlook are tilted slightly on the upside, but euro area inflation expectations remain firmly anchored in line with our definition of price stability.

Our monetary analysis confirms that inflationary pressures over the medium term remain contained. This is reflected in weak growth of money and credit. The subdued growth in loans conceals the fact that growth is positive for households but – in line with patterns observed in earlier recoveries – still negative for enterprises.

As regards our non-standard measures, we decided earlier this month to continue conducting our regular refinancing operations with fixed interest rates and full allotment of the amounts demanded by euro area banks, at least until mid-January 2011. We will also carry out three additional fine-tuning operations in the remainder of this year when the six-month and 12-month refinancing operations mature, in order to ease the transition to the regular refinancing operations. Through our Securities Markets Programme we have continued to intervene in moderate amounts in some segments of the euro area bond market. As I have explained to Parliament before, this intervention is designed to help improve the functioning of the transmission of our monetary policy.

Overall, the Governing Council views the current monetary policy stance as accommodative. Given moderate price developments and firmly anchored inflation expectations, the ECB's key interest rates are appropriate. Let me re-emphasise that all non-standard measures taken by the Eurosystem during the period of acute financial market tensions are fully consistent with our price stability mandate and they are temporary in nature.

Turning to budgetary policies, a return to credible, sound and sustainable fiscal positions is urgently needed. We call on all countries to undertake ambitious fiscal consolidation. Positive fiscal developments, which might arise, for example, from higher-than-expected economic growth, should be used to make faster progress in this respect.

Let me now turn to the specific topics, beginning with the reform of economic governance. President Van Rompuy has recently informed you about progress made by the Task Force under his chairmanship. Work has advanced on some issues, notably on the European Semester. On other issues, such as reinforced budgetary surveillance and a new macroeconomic surveillance framework, more ambition is required. Both for the ECB and for euro area governments, the central objective must be to achieve all that is necessary to ensure the smooth functioning of our monetary union.

Once the European Commission has presented its legislative proposals, the European Parliament, as co-

legislator, will have the responsibility of designing an effective framework for economic governance. The negotiations over the supervisory package have demonstrated that the Parliament is not willing to accept compromises based on the 'lowest common denominator'.

Ideally, a 'quantum leap' in strengthening EU and euro area economic governance would require a Treaty change. This means that, short of an immediate or rapid Treaty change, we have to exploit to the maximum all the possibilities for EU secondary legislation under the current Treaty to achieve this 'quantum leap'. The ECB counts on the support of the Parliament in its belief that the appropriate reform of economic governance – especially of the euro area – needs to exploit to the full the scope offered by the Lisbon Treaty.

ECB Board member Lorenzo Bini Smaghi has recently presented to you our position on the various aspects of economic governance reform, including a number of important issues related to crisis resolution. He has also outlined the economic rationale underlying our position. Let me stress today what we consider to be the indispensable elements of a reformed framework of fiscal and macroeconomic surveillance, which is the centre of ongoing discussions.

The new framework should be well targeted, notably on countries with high debt levels and significant losses of competitiveness. Public debt levels, as well as the evolution of deficits, can be a source of financial instability and contagion across countries sharing a common currency. So, debt should receive a reinforced status in budgetary surveillance, in both the preventive and corrective arms of the Stability and Growth Pact.

Progressive losses of relative competitiveness within the monetary union are another source of severe instability. A new system of surveillance to check and correct macroeconomic imbalances where they are emerging is needed. The idea has garnered support in principle, but concrete measures to make it operative and sufficiently binding are still to be agreed.

Once imbalances and vulnerabilities have been identified, there must be effective follow-up, including dedicated country missions, specific policy recommendations, increased public peer pressure and eventually a set of clear adjustment measures. Since the vulnerabilities of any one member can have direct effects on other members, this surveillance framework must be supported by a graduated system of incentives and sanctions, which can be activated sufficiently early in the process and which should be commensurate with the severity of the infringement.

Indeed, a core, absolutely indispensable, element of an effective surveillance mechanism is a functioning mechanism of incentives and sanctions – both financial and non-financial – in particular for the countries in the monetary union. I am sure that Parliament will adopt an ambitious stance on this matter.

The relevant procedures should be 'quasi-automatic', based on Commission proposals rather than recommendations. The ECB has proposed a reversal of the voting procedures that lead to the adoption of incentives and sanctions. Such decisions would be considered adopted unless a qualified majority in the Council were to vote down the Commission proposal. The role of the Commission would therefore be significantly strengthened.

Moreover, in order to internalise the requirements of membership in monetary union, the European rules must be 'owned' by the Member States. Strong national fiscal frameworks, including the creation of independent monitoring institutions and the adoption of national fiscal rules that reflect the requirements of the Stability and Growth Pact, are essential steps in this regard.

We also call for a strengthening of the duties and powers of the European Statistical System and a reinforcement of the mandates for data collection, adequacy of resources, accuracy and relevant auditing. We believe that those changes must go beyond the recent Council Regulation on Eurostat.

Crucially, the independence of analysis, judgement and surveillance should never again be brought into question. I expect that the Commission will come forward with concrete proposals for governance reform to address this issue. To reinforce the independent fiscal monitoring, the ECB is also in favour of an advisory body of 'wise men and women' at EU level who would provide a second opinion.

To summarise, the checklist for a review of proposals for euro area governance would be affirmative answers to the following five questions. First, does the fiscal surveillance framework effectively address the weaknesses that might give rise to a future crisis? Second, is there an effective macroeconomic surveillance framework that can trigger effective adjustment of imbalances, of external indebtedness and of losses of competitiveness? Third, are the enforcement mechanisms of fiscal and macroeconomic surveillance quasi-automatic and the enlarged sanctions sufficient to protect other members and the monetary union as a whole? Fourth, does the framework include appropriate independence in surveillance, and impeccable quality checks of analysis and statistics? Finally, are the new principles of economic governance anchored within national frameworks?

Over the coming days we will follow very closely the responses to those questions given by the Van Rompuy Task Force, on the one hand, and by the College of the Commission, on the other. I hope that they will be up to the crucial challenges at stake. If this were not the case, and if the responses were too timid in our opinion, we would make the point clearly and inform your committee.

Let me now briefly turn to the last topic, namely financial sector issues. There is considerable political momentum at global and EU level for strengthening regulation and oversight. We need to sustain this momentum because there is still a great deal of work to do, particularly in terms of implementation.

Basel III is a key achievement in this context. It forms the core of the financial reform, striking the right balance, we trust, between the overall objective of strengthening the resilience of the financial sector and the need to support lending to the real economy.

I cannot speak about supervision without, once again, commending the European Parliament for the adoption of the EU supervisory reform package. The establishment of the European Systemic Risk Board and the European Supervisory Authorities, coupled with the changes to the Capital Requirements Directive, should make the regulatory and supervisory framework more robust. It should enable supervisors and regulators to steer the financial sector towards a more sustainable condition: to be truly serving the needs of the real economy, withstanding shocks including systemic ones, and avoiding dangerous imbalances and excesses. As the date of establishment of the ESRB is approaching, the ECB is reaching out to ESRB members to ensure that the new body will become fully operational as of 1 January next year.

The new supervisory architecture is only one aspect of the financial reform agenda. For instance, the directive on alternative investment fund managers is under consideration to ensure proper management of alternative investment vehicles. Here, we believe it is equally essential to ensure appropriate and timely reporting to authorities on investment activities, so as to control systemic risk. Progress on the recent legislation on short selling and OTC derivatives is equally essential, to ensure proper market functioning and regulatory oversight.

Finally, moral hazard posed by systemically important financial institutions needs to be kept in check, and the problem of adverse incentives stemming from the over-reliance on external ratings also needs to be addressed.

This is what I have in mind when I say that we need to maintain the momentum on financial sector reform. It will be a long process, and authorities will achieve the objectives that I believe our citizens are calling for only with sustained and indefatigable efforts.

(Applause)

1-008

Jean-Paul Gauzès (PPE). – *(FR)* Madam Chair, Mr President, first of all let me congratulate the future Chair of the European Systemic Risk Board. Parliament, which you praised on this point a moment ago, wanted it to in fact be the President of the European Central Bank who, by virtue of carrying out those duties, assumed the chairship.

Next time we meet, I would like you to be able to say the same about the Directive on Alternative Investment Fund Managers as you have said about supervision: in other words, that it is timely and that it provides some interesting solutions. You know that the negotiations are under way. It must be said that they are quite hard, because Parliament wants to put a dose of Europe in there too, and that is sometimes a little difficult.

I would like to know, Mr President, what you expect from this directive with respect to your duties and, perhaps, what advice you can give us to bring the negotiations to a successful conclusion.

1-009

Jean-Claude Trichet, *President of the European Central Bank. – (FR)* Madam Chair, I would express again my appreciation of the extraordinary work that has recently been carried out by Parliament and I do not doubt that you will do the same for this directive. The directive is important because it addresses an issue that, in a way, is not as clear and as simple as the regulation of banks itself, and in it we are dealing with an enormous subject: the subject of how markets work best; the problem of highly leveraged institutions.

I must tell you that, in my eyes, there is a first consideration in this area that is essential: it is that we in Europe might have an oversight or transparency system that is at the highest international level. From this point of view, I believe that it is very important to make sure that there is no difference between Europe and the United States. In fact, any difference between Europe and the United States would pose a problem that would, in my opinion, be extremely serious: a problem of lingering global instability, as the various operators would go to whichever place were less regulated. Clearly, regulatory arbitrage in this area is extraordinarily dangerous for world financial stability. Naturally, from that point of view, there would also be a transfer of activities and that transfer would be immediate.

We therefore need to achieve a level playing field in collaboration with our partners in the US; it must also be global and enable us to ensure financial stability, which remains indispensable. From this point of view, it is clear that we must move towards greater transparency, which is absolutely essential. It is also clear that we – by which I mean authorities, as well as universities and academics – are still in the process of attempting to better understand the elements of systemic instability that may be linked to how these markets operate, as well as to the herd behaviour of the institutions in question.

I must say that it is still an area in which we in the European Central Bank – but I think that I can say the same for all central banks and for all universities – have an enormous amount of work to do to be sure that we really have the measure of the systemic instabilities associated with this behaviour.

1-010

Burkhard Balz (PPE). – *(DE)* Madam Chair, Mr President, I have two questions for you. We convened just two weeks ago at your headquarters in Frankfurt. This enabled me to see for myself that your office, the ECB, is working hard in preparation for the President's role as Chair of the European Systemic Risk Board (ESRB). What I wish to ask you today is: Do you believe that you will be ready in time and will you be able to take up all of your duties with effect from 1 January 2011? After all, you will be able to draw on the already existing structures of the ECB.

My second question: In recent years, we, as Members of the House, have frequently pointed out that the EMU is not well-balanced. A common monetary policy can really only work if there is cooperation and agreement in the other areas of economic and financial policy. We are naturally pleased to see that the Heads of State or Government have obviously finally understood this. However, as so often, the devil is in the detail. How would you assess the agreements reached at the last summit for the mutual presentation of budgets, and, above all, do you believe this will be enough to compensate for the one-sidedness of the EMU in the future?

1-011
Jean-Claude Trichet, *President of the European Central Bank***. –** On your first question, I would say that we are doing all that we can. We have been doing that since the very beginning of the idea of having a Systemic Risk Board. We are doing all we can to be fully prepared for starting on 1 January. I am sure that we will do that. We are in contact with the authorities and with the fellow governors of the 27 countries and the members of the General Council. I am very confident about our capacity to start.

Of course the responsibilities are very heavy. When we have the ESRB – as soon as 1 January next year – we will see how we should organise our work and what kind of approach we will have, but the tools and the instruments will be there. I have to reserve comment concerning the authorities because, as you have mentioned, they have to go through their own setting-up process. It is possible that the authorities will not be fully operational at the very beginning but nevertheless the heads of the various European groupings that are currently responsible for banking surveillance, insurance surveillance and market surveillance will be there. We are already in contact with them. That is something that will perhaps take a little more time and which is not our direct responsibility but, as far as the ESRB is concerned, I am very confident.

As regards your second question, my sentiment is that, in the domain of surveillance of fiscal policies – sound fiscal policies – that will have to be implemented by all governments, we are never at the real optimum. There is a permanent under-assessment of what is necessary in this domain, particularly in the euro area. That is why our message is always the same.

You know that in the past there was a bizarre under-assessment of the situation. Even in 2004 and 2005 we had to fight to maintain and preserve the Stability and Growth Pact, which was considered an abnormal, excessive constraint on fiscal policies. Now we are observing what has happened and I think everybody knows that it is extremely important. As I said in my introductory remarks, we continue to call on all governments to do the job. I have also to say that the whole question of governance is at stake. We will certainly be in contact in the future because you will have the immense responsibility of designing the new governance.

1-012
José Manuel García-Margallo y Marfil (PPE). – *(ES)* Madam Chair, Mr Trichet, you will have observed from the discussions that we have had about the Systemic Risk Board that the Trichet fan club in Parliament has grown considerably. I would like you to respond to your fan club with complete transparency and precision.

On the subject of budgetary stability and the Stability Pact – and I am focusing only on economic sanctions and discounting political sanctions – the questions are very clear:

Do you think – and I want your personal opinion as the President of the European Central Bank – that sanctions should be automatic or subject to the discretion of the Council of Ministers?

Does it make sense at the moment to maintain different sanctions for the countries that are in the euro area and for those that are not?

Thirdly, should economic sanctions follow the same procedure for infringement for deficit and for debt?

Finally, my fourth question is as follows: what is your view of sanctions for failing to comply with the principle of competitiveness, which is the sacred principle in globalisation?

1-013
Jean-Claude Trichet, *President of the European Central Bank***. –** Thank you very much for your question. As you have said yourself, regarding the extension of sanctions, there are some sanctions that can be very easily expanded within the present Treaty, exploiting all the possibilities of the secondary legislation, and others that might be more difficult. It is still being examined whether political penalties – if I understood what you said correctly – such as suspension of voting rights and so forth can be utilised or not. We would be in favour of this, because it is something which is not a financial sanction but which has a big impact. But it is possible that it would need the Treaty to be amended.

Our own perception is the following. During all those years that we have had a single currency without a political federation, as I said, we have been very bold. We do not have a political federation. We have a single currency. We have to get the best possible framework

for controlling and enhancing surveillance – not only of the fiscal situation but also of the relative competitiveness and imbalances.

For that to function in the best way possible, not only quasi-automaticity but also a reversal of the burden of proof seems to us to be very important. We will see. The devil is in the detail. What is proposed, as I said, is that we will make a judgement ourselves. But we consider that we can go very far with the present secondary legislation without immediately changing the Treaty.

On the last question on debt and deficit, it is clear that what counts for external observers, for the euro zone, for entrepreneurs and for investors and savers is the combination of debt outstanding and deficit which makes it possible to control the debt outstanding as a proportion of GDP and to have the capacity to reduce the debt outstanding as a proportion of GDP sufficiently happily to be credible and to improve confidence.

That is why we consider that, until now, the debt criterion has been much too easily forgotten and that we must consider both factors, as is the case in the Treaty and as is the case in the famous Maastricht criteria: debt and deficit together. This is fundamental in redressing a situation where you have to regain, improve and consolidate confidence.

1-014
Pervenche Berès (S&D). – *(FR)* Mr President, you said that there were five issues with respect to economic governance that needed positive responses. It seems to me that there is one issue that you have not covered: that of what will become of the crisis management mechanism put in place at the time of the outbreak of the Greek crisis, which weakened or jeopardised the entire euro area.

If we really want to introduce economic governance, do you not think that this mechanism would be an extremely powerful tool if it were made permanent? In exchange for making it permanent, we could move towards the mutualisation of part of the debt, which would enable European capital markets to become as attractive as the US market, at a time when we are in a really paradoxical situation. Indeed, foreign funds and sovereign funds continue to show an interest in the US market, which is where the crisis started, while, by contrast, we are seeing many European countries experiencing difficulties in financing themselves on the international capital market.

1-015
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* As I have said, you have already had a member of the Executive Board here, who answered many questions specifically on the crisis mechanism and financial stabilisation in a crisis period. Therefore, I personally have focused on, let us say, anything that will prevent us from ending up in that type of situation, and we must avoid …

1-016
Pervenche Berès (S&D). – *(FR)* Mr President, allow me to interrupt you: mutualisation of the debt is not a crisis mechanism.

1-017
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* I was answering the first part of your question. As you are well aware, the European Central Bank's position on the mutualisation of debt has always been very clear. We believe that different treasuries and governments have their own responsibilities, and that it is not bad for them to have their own responsibilities and to be responsible for their policies.

The least that could be said about it is that what has been most lacking up to now is the very incentive to manage themselves well. I myself have expressed my deep concern about it: I have said very firmly that surveillance of the Stability and Growth Pact has worked particularly poorly. We have not had the impression that governments felt that it was absolutely in their best interests to carry out proper surveillance on their peers. As you know, at one time they even wanted to 'sabotage', as it were, the mutual surveillance mechanism. It is not us, therefore, who have changed position on this point: our position has not changed.

That said, unfortunately, a crisis mechanism seems necessary to us; this is in addition, of course, to the series of measures that we are advocating, which we hope are positive responses to the five issues that I have mentioned. However, I hope that in the future the determination of Parliament and of the Council, and the lessons of the experience through which we are currently living – which is, objectively speaking, a very difficult experience – will enable us to massively strengthen all of these surveillance tools. This should enable us to prevent situations of the type that we have been experiencing.

1-018
Thijs Berman (S&D). – *(FR)* Mr Trichet, in France a high-ranking official of the Financial Markets Authority has said that there was manipulation of the markets during the Greek crisis. You have just heaped praise on us for having voted for these European Supervision Authorities. Do you think that these authorities, these agencies will have sufficient resources to detect manipulation if it takes place, whether or not it is concerted? Another question: What would be required to be able to detect such manipulation? Do you feel that the legal arsenal is sufficient in this area?

Moreover, since manipulation is often detected late in the day, the central banks and the European Central Bank clearly have an essential role to play in thwarting it when it occurs. Nevertheless, there are limits to what a central bank can do. Do you have any concerns on this issue? Finally, the European Commission has a project aimed at regulating naked short selling and credit default swaps. Do you have any comments on this project and should certain derived products not simply be banned here in Europe and elsewhere?

1-019
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* Things are very clear regarding your first question: there is conduct that is legal and conduct that is not. There are transactions that are authorised and transactions that are not. We live under the rule of law and we must be thorough when identifying what is authorised and what is not.

I myself would not say that this or that transaction has been manipulated or not. Nevertheless, if it has been manipulated, investigations must be launched – investigations in which both parties are able to give their side must be carried out – and those responsible for manipulation must be punished. This is true for Europe, naturally, but it is also true for all markets: it is equally true of the other side of the Atlantic.

The central banks have their own responsibilities, which are considerable. They have their point of view, which is one of price stability in the medium and long terms. Their point of view is also one of medium- and long-term financial stability, in so far as it depends on this fundamental concept of price stability. They also have very important responsibilities, since they are, by virtue of their own roles, inclined towards the medium and long terms, and not towards the short term. They are also independent, which enables them to make the most appropriate judgment possible. However they may – or may not – have prudential supervision responsibilities, regarding banking or other matters. They may – or may not – have supervisory responsibilities in the field of insurance, which is the case in a small number of countries.

Therefore, we must not get confused. As a matter of fact, in the legislation that I was recently praising, the European Systemic Risk Board, which was created for systemic risk, does not confuse its own role with that of the supervisors themselves. The supervisors still have their own responsibilities, both at national and at European level.

Once again, I think that your question was addressed more to these private supervisors, which are either the supervisors of banks and insurance companies, if the errors were made by financial institutions, or, if need arises, the supervisors of financial markets, if market anomalies were observed.

To conclude, I will return to what I said in response to the first question: I believe that there is a consensus, not just in Europe but throughout the world, in thinking that we must always strive for the greatest possible transparency. If there are obscure areas where transparency is lacking, then we will probably find abnormal behaviour there. From this point of view, I must say – and I would really stress this – that all the subjects that are currently under discussion in Europe and in the United States must lead to us giving responses that are truly in parallel. I say this because, if we failed to give such responses, we would then have the same imbalances and financial instability problems at world level, alongside what we call regulatory arbitrage. This would lead to the creation of very significant movements towards areas of weak regulation, which is totally contrary to what we are trying to do both at G20 level and at the level of governments worldwide.

1-020
Ramon Tremosa i Balcells (ALDE). – Mr Trichet, now that you are the President of the European Systemic Risk Board I would like to ask you how compatible or incompatible the objective of price stability is with the objective of financial stability, and whether your new function as the President of the ESRB will affect the euro area monetary policy?

1-021
Jean-Claude Trichet, *President of the European Central Bank***. –** Thank you very much indeed. First of all I am not yet President of the ESRB, because we need to have everything legally operational, which is not exactly the case yet. Secondly, the ECB is the ECB; the General Council of the ECB with its 27 governors is the General Council of the ECB; and the Governing Council of the ECB is the Governing Council of the ECB. Nothing has changed as regards the ECB; the ECB has its constitutional framework, its primary mandate, and will not change its activities as the ECB.

Your question was on the euro area, so it relates to the ECB Governing Council. I will take advantage of your question to mention *en passant* that our primary mandate is price stability. Eleven and a half years have now passed since the start of the euro. The average inflation in the euro area is 1.97%; the definition we gave at the very beginning was less than 2%, but close to 2%. We are at 1.97%, less than 2% but close to 2%; I have to say that, in terms of arithmetic, this is remarkable. It could be 1.95%, it could be 1.90%; I prefer 1.97% to 2.01%, frankly speaking. At the end of the year we will make the computation. It is the best result in terms of price stability for 50 years for the countries, economies and the Central Bank that are members of the euro area. It is better, for any 10- or 11-year period for Spain, Italy, France and Germany, than at any time in the last 50 years.

So this is our mandate – price stability – and this is the track record. As regards future prices, observers, the various planners and the financial markets predict the same stability in the next ten years. These are facts: facts, figures and judgement, appreciation as regards the future. I would point out, *en passant*, that I am practically the only one who says that, which is a surprise for me, because this is the reality that we have achieved since we were created. We will continue to do that, and we are trusted to continue to do that.

The ESRB is a different institution, with not all the members of the Governing Council in it and with a number of other members from the authorities that I mentioned, from the academic world or the scientific world, and from the national authorities – the national supervisors – and who have a stake in assessing systemic risk, making a judgement on the kinds of challenges we

might face from that standpoint and embarking, if and where needed, in recommendations, in early warning.

It is true that this institution, this new body, has been placed close to the central banks: not only the ECB, but the national central banks in general. I think it is not too surprising that on both sides of the Atlantic – given that systemic risk has been a formidable issue in the present period – it has been decided by you here, and also by Congress on the other side of the Atlantic, to put this new entity close to the central banks because of their stake in the medium and long term, their independence and their stake in stability. But again, the two are not confused.

1-022
The Chair. – Thank you very much. I would also remind you that you have said on a previous occasion that you would report to us separately and not as part of the monetary dialogue. Then I will have to discipline Members to ask the right questions at the right time, which I think will be the harder of the two tasks.

1-023
Derk Jan Eppink (ECR). – Mr Trichet, during the recent Ecofin Council in September there was an exchange of views on the financial transaction tax. There was much disagreement about it, but your view was very clear. You made it clear, according to sources who were there, that the FTT is a very bad idea for the EU, prompting banking relocation to New York, Zurich, Geneva, Singapore, Shanghai and Hong Kong, and that an FTT should therefore be strongly discouraged.

I could not agree more, and perhaps you could explain this once again to this committee. Many members here are in favour of an FTT. Perhaps you could spread your wisdom among us as to why it is such a bad idea.

1-024
Jean-Claude Trichet, *President of the European Central Bank***. –** I was a little less eloquent than you say as regards the various marketplaces which could benefit from such an initiative in Europe. It is true that I said that, in our own analysis, it was a concept which was not advisable, both for economic and financial reasons and for technical reasons. The latter include the enormous difficulty implementing it and because, if implemented here, it would, as I have said before concerning a number of changes, have to be done at a global level, and we know that it is not possible at a global level at this moment. So what I fear is that, if we had an initiative here, of whatever kind, it could simply displace financial transactions to other locations. I did not mention any particular marketplace, but they are all thinkable.

So there are three reasons in our analysis. That being said, I understand that it is an idea which could be seductive, and I understand that a number of parliaments, perhaps including the European Parliament (I do not remember whether you stated your position), but certainly a number of national parliaments are entertaining this idea with great joy. I think it is our duty to highlight a major difficulty when we feel that there are major difficulties. I confirm that I spoke a little less eloquently than yourself, but I gave a warning on the occasion of ECOFIN.

1-025
The Chair. – I can remind Members that in our resolution we actually asked the Commission to come up with an impact assessment. This committee did not say it was for or against: we wanted to know more.

1-026
Sven Giegold (Verts/ALE). – I will resist the temptation to open an economic discussion about the merits of a financial transaction tax. I too regard tax policy as being outside the mandate of the European Central Bank and therefore not part of our discussion here, but I think the settlement process of the ECB could potentially be a very important tool to enforce the actual application of an FTT.

But I have another question which concerns the lessons from the situation in Ireland. We should be very concerned about the situation in Ireland; the bond spreads are at a very high level, and this should not be the case in a monetary union. At the same time, Ireland has always been a good example, and a good pupil, so basically it reduced public spending, it reduced wages where the State could have an influence, and now it is the first country to see a double dip.

So I would like to hear a few more of your thoughts. What lessons should we draw from the situation in Ireland? What are the consequences from your perspective for an exit strategy out of the financial crisis situation? I would be very interested in what this means too as a consequence for what you said in the past about the Irish situation, where you welcomed strongly what the Irish Government has done in the field of economic policy and in reforming fiscal spending. So I am interested in your thoughts on the consequences of this situation.

1-027
Jean-Claude Trichet, *President of the European Central Bank***. –** First of all let me reiterate what we have always said on the European Union as a whole, on the euro area and on any individual country. We have always said that, when we could see that we were out of the recession, we would not declare victory; we would call for maximum caution and prudence.

We could have said that we are out of the recession now. We are in black figures. You may remember that I said that we have reviewed our rate of growth for the euro area this year very substantially upward, by 0.6%. But we are not declaring victory; we think that caution and prudence are of the essence, this year and next year.

We have also observed that a number of countries have done a good job. Ireland, for instance, in terms of unit labour cost, lost an enormous amount of competiveness in this latest period. A number of decisions that were taken have made it possible to regain, in terms of unit

labour cost in particular, a significant part of the lost competitiveness.

But the challenges are different on a country-to-country basis and there is no single situation which is the same throughout the European Union, throughout the 16 – tomorrow the 17 – in the euro area. So, as I said before you asked your question, we are continually calling on all countries to face up to their own difficulties.

However, their difficulties are not the same. In the case of Ireland you have the additional issue of a very big financial sector, which is of course one of the challenges that the country has to cope with. Ireland has proved in the past that it is able to deal with the difficulties and the challenges which it has had to face. I think the government and parliament of Ireland understand pretty well what they have to do in the present period.

We call on all countries to be as alert and vigilant as possible as regards their own fiscal policies, their own competitive policies and their difficulties. We are still in a demanding period that calls for permanent alertness.

1-028
Jürgen Klute (GUE/NGL). – *(DE)* Madam Chair, Mr Trichet, Mr Giegold has anticipated my question. We could again widen the debate to include Greece. Greece was not rewarded for implementing these cost saving measures. The rankings dropped further instead of rising higher. This is a similar development.

I will rephrase my question a little. In Germany I recently understood from a discussion with finance officials from local authorities that the financial position had further deteriorated this year and that three quarters of this year's financial problems can be traced back to the financial crisis. I come from North Rhine-Westphalia, which has been under a lot of financial pressure and stress for many years at local level. Despite the financial pressure from the EU, there is absolutely no scope for more savings – in my region at least. The question is whether we should not try to solve the problem another way. I must state quite clearly that support for the EU is declining among a whole section of the population. The question for me once again is how the banks and those who caused the crisis can be made to pay a bigger contribution to financing the solution. According to what I have heard from the finance officials at local level, it is not possible for them to meet the demands from their own funds.

1-029
Jean-Claude Trichet, *President of the European Central Bank***. –** I am not sure that I have understood exactly what is being said against the EU in your particular case. I missed something. What is the precise criticism of the EU?

1-030
Jürgen Klute (GUE/NGL). – *(DE)* The question that citizens are asking is: Why should we as citizens pay for the follow-up costs of the crisis at local level? We did not cause the crisis, it was other people. That is the question I am hearing at local level. The austerity policy set down by the EU is looking for the taxpayer to foot the bill for the follow-up costs of the crisis.

1-031
Jean-Claude Trichet, *President of the European Central Bank***. –** I will respond first that the crisis is a global crisis. The EU did not invent the crisis; the crisis revealed a fragility of global finance everywhere in the world, certainly not in the EU in particular. That is my first observation.

That global crisis creates problems, and that is the reason why we are asking the financial sector to be much more resilient. There was a lot of criticism of the new regulations which were discussed at European level and at global level, and I consider that this is totally unacceptable, precisely because of what you have said. Our people are telling you – and, I have to say, all authorities in the world, not only in Europe – that we do not want to see again the kind of fragility of the financial system and the global economy that we have observed.

But why hold the EU up as a scapegoat? Why? The EU and the various governments, the Japanese Government and the US Government, have to face exactly the same kind of major difficulty; it is a difficulty, I would say, for all of us. You are in the euro area. At least one institution has delivered exactly what it was called on to deliver and, as I explained, this is remarkable. But it is not communicated as actively as I would like, because this would go some way to reassuring the population, our fellow citizens, about this price stability to which they are extraordinarily attached.

I fully accept that it is very difficult in the present circumstances to be sure that we are doing all we can to avoid a repetition of this crisis. It is also very difficult – though we are discussing this – to be sure that all governments are doing what is required to maintain confidence and stability. It is true all over the world, just as it is in Europe. The message which comes is that the situation is the same for all, and I think that it would not be correct to put the European institutions in the position of a scapegoat: it is not appropriate.

We are all in a situation where we have to cope with exceptional circumstances. This is not easy, and it does not facilitate the task of the European Parliament, of the ECB, of all national governments. I accept that fully, but let us not scapegoat any particular institution. The EU should not be made a scapegoat in my opinion.

1-032
Nikolaos Salavrakos (EFD). – *(EL)* Madam Chair, I should like to assure Mr Trichet that I value his action and his contribution towards resolving and addressing the crisis, in particular in connection with the memorandum for Greece and the arrangements made; I am a Greek MEP and I thank him. I would also like to assure him that Greece, acting on the recommendations of the European Union and the International Monetary Fund, has taken very harsh measures in order to limit its financial deficits. However, what worries me is that,

apart from your perfect technical approach, we need to look at this issue from a political perspective, because the problem does not only affect Greece, it affects the whole of Europe and, more importantly, the people of Europe, who face massive problems at present. You saw what happened in France the other day. We have seen one strike after another and problems in other countries in the euro area as well, especially in the south.

However, apart from financial prudence and the usual methods to fast track growth, competitiveness etc, what worries me is that an important factor of the crisis is the so-called markets, which do not appear to be self-regulating and this is not a legal or criminal issue. In my opinion, this needs to be addressed with economic moves and I would be obliged if, during discussions on the new regulatory authority, you would take measures to balance the technical approach to the matter with a social approach. If we do not address the markets, I think that whatever else we do, we shall still fall short.

1-033
Jean-Claude Trichet, *President of the European Central Bank***.** – I agree very much with what you say, but I will enlarge on your observation; we are now in a global economy, in a global financial system where the balance between liberty and regulation – regulation of banks, regulation of non-banks, regulation of pension funds and insurance institutions etc. – is now being discussed. This is being discussed not only inside Europe, not only inside the industrialised world, but also at a global level with all the emerging countries. It is extremely important that we are able to work out appropriate standards and regulations at a global level.

If it is not done then we are creating further instabilities, a further possible crisis and also a displacement of activities, which are not at all in our interests. Again, I fully agree with you: we are in a situation which calls for extreme wisdom on the part of all the parties concerned at a global level.

I have seen myself the formidable change in the interaction between the various economies and countries in the world. Since the crisis, the emerging world has taken its own place in the global discussion. The G20 is a symbolic representation of this dramatic change. But there is what I call a 'silent revolution' everywhere, in all the workshops. We have to be as sure as possible that we are doing what is necessary.

There is one thing I am sure of – and I am sure that all the honourable Members of Parliament who have spoken would perhaps agree with me – our people will not forgive us if we have the same drama for the second time: not in the US, not in Europe and not in the rest of the industrialised world or the advanced economies.

We are obliged to find the appropriate way to make the system much more resilient. But making the system much more resilient also calls for efforts, and some people are not necessarily happy with the efforts that are necessary.

1-034
Hans-Peter Martin (NI). – *(DE)* Madam Chair, Mr President, I would like to read you a quote: 'The key issue remains of what a world without excessive leverage will be like. What is clear is that capital will be less readily available and cost more, so that it will be possible to finance less growth. At the end of the day, deleveraging means that all actors, in other words households, industrial companies, banks and states, will have to retrench to a level of debt that they can easily service, even in times of increased volatility. When capital becomes more expensive and growth declines, then the margins also necessarily decrease.'

Is there anything you can learn from this assessment? Do you agree with it? Do you believe that this is the prospect that awaits us here within the euro area in the immediate future, with all the associated consequences?

1-035
Jean-Claude Trichet, *President of the European Central Bank***.** – I think that the deleveraging process that we have observed at global level – not only in the euro area, not only in the European Union, but also in the United States of America and elsewhere in the world – is a process which followed this race to leverage which had driven us to the crisis that we had to cope with.

What we have to do – and it seems to me that there is a large consensus on this – is to try to have enshrined, in the functioning of global finance and of the global economy, elements of anticyclicality that would enable precisely this excessive leverage – which is always succeeded by excessive deleveraging – to be avoided.

Then we have these booms and busts that often characterise the functioning of the economy. But what we have just experienced was the worst bust since World War II, so we are dealing with something which was really exceptional and which came after a period of leveraging which was also the most acute since World War II.

How we can be sure that we have a global system – and a national system and continental evolution – that would be less prone to booms and busts is one of the fundamental questions which we are asked. We have various ways of responding, trying to eliminate as far as possible the procyclical mechanisms that are enshrined in the functioning of global finance. We have these capital requirements that could themselves be anticyclical and have been mentioned by the global community as part of the tools that we could utilise.

It is not easy, but it is necessary.

1-036
Diogo Feio (PPE). – *(PT)* Madam Chair, Mr Trichet, I would like to clearly express my gratitude for how you have been handling the subject of economic governance. On behalf of Parliament I would say that there is great support for the solution being one that is European, one that is clear, and one that is effective, with important

roles for both the European Central Bank and the European Parliament.

Regarding the workings of the European Semester, I would like to ask you, Mr President, how far should the European Commission's power of evaluation go as regards projects submitted to it in the budgetary area? There has been a lot of talk about an analysis of the big numbers. What big numbers should be on the table?

You also said, Mr President, that it will be important for there to be specific recommendations on competiveness for the Member States. I am reminded of the Portuguese case, in which public spending is currently hard to bring under control, the debt –the new public debt – is being paid at a very high rate of interest, and there are competitiveness problems. What specific recommendation do you think should be given to a state in that situation?

1-037
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, the great benefit of the concept of a European Semester is to grasp the possible difficulty as early as possible and to pin down one's peers to examine each one's situation in a way which is as candid as possible.

All the countries that are members of the European Union know that they are interdependent on each other's situations because of the single market, and all the countries that are members of the euro area know that they are even more dependent on one other because of the single market and because of the single currency. They have now seen under the stress of the crisis what this means so there is motivation, and I expect the European Semester to be implemented as well as possible.

Now I do not want to start putting myself in the place of the Commission, but it is clear that we have considered, and since 2005 we have very strongly recommended, that members of the euro area not just implement rigorously the Stability and Growth Pact – and unfortunately that has not been the case, as you know, contrary to what we were calling for, what the Commission was calling for, as were a number of countries, I have to say, and as was Parliament.

No, we are also asking for competitive indicators to be followed very carefully: unit labour cost, imbalances – external and domestic imbalances – current account and so forth, because we trust that this is extremely important in a single currency area where the benchmark is very simple.

The message coming from the ECB is: the past 11 and a half years, less than or close to 2%; the first twelve years, probably less than or close to 2%; next ten years, less than or close to 2%.

So we cannot be any clearer – you know what universe you are in. Take appropriate decisions as a consequence of this vast continent of stability that we are ensuring. Of course, if unit labour costs are galloping, if national HICP inflation is higher than the average, if nominal evolutions are going too fast, then competitiveness is lost and this creates problems after a certain period of time.

So that is the message for all the countries concerned, for Portugal as well as for others.

1-038
Rodi Kratsa-Tsagaropoulou (PPE). – *(EL)* Mr Trichet, as the discussion has turned to Greece, I too should like to ask a question that relates to my country. I should like to ask, firstly, what you think about the lag in revenue, after the harsh austerity measures introduced. There is no point is saying how worried we are about this lag in revenue in terms of the economic and social consequences and in terms of achieving the objectives of financial restructuring.

The second question which I should like to ask you has to do with articles in the Greek and international press about whether or not the memorandum will be extended after 2013. While the European Commission is opposed to this, the International Monetary Fund appears to be willing to do so. I should like to know what the European Central Bank, as third lender, thinks about this and whether you believe that there should be a common position between the European Commission, the European Central Bank and the International Monetary Fund, because this lack of clarity is not helping national efforts or the objectives that we all need to achieve together.

1-039
Jean-Claude Trichet, *President of the European Central Bank***.** – I have to make a point again. Would you ask Ben Bernanke to say what he thinks of Texas, California, Massachusetts, Alaska and so forth, doing this or that?

We are in the same position as the Federal Reserve. We are called, each of us, to take our decisions at the level of 330 million people – 16 countries today and 17 countries on 1 January 2011. Each member of the Governing Council is an expert for 330 million fellow citizens. They have the same vote – one person, one vote – whether it is the governor of country X or country Y; and whether the difference of population between country X and country Y is 1:50, 1:100 or 1:200. You have to remember that. That is the Governing Council. There are the six members on the Directorate of the Executive Board. That is our job – to ensure price stability at the level of a continent of 330 million people. I have already said what the result of this job was.

You have governments which are responsible for their own policies. You have a Council which is responsible for surveying these policies. We are not the ones, according to the Treaty, who have to do the job instead of governments or in instead of the Council. You have a Commission which has to assess the situation and make the appropriate recommendations. We are calling on all

those institutions to take their responsibility and to have a sense of direction and a sense of their own responsibility. That is our message. It is as simple as that.

I thought it would be useful to remind you of that, because this is the way we operate. In certain circumstances we give our own views and advice, but our responsibility is a responsibility at the level of the entire continent.

Many of the questions which are asked of me should be asked of the Council, the Commission and the government in question. All I can say from what I see myself is that there has been a very important change in the trajectory of the macro-policy of the country in question, namely Greece; that we called for that change; that this change has taken place; that we had to make a judgement on the wisdom of the new orientation, in liaison with the Commission; and we said that it was going in the right direction.

My only message now would be to implement rigorously what has been decided, which is well oriented, in our opinion, and which is monitored every quarter by the IMF on the one hand and the Commission, in liaison with us, on the other. If this is done well – as we trust – and in an effective manner, then I expect that it will be recognised and change the overall judgement, which is progressively changing.

1-040

Gunnar Hökmark (PPE). – We do need resilient financial systems as you underlined some minutes ago, but to have resilient financial systems we also need stable public finances and a resilient economy, and to some extent that means calling for what I might call a holistic perspective – always a dubious expression, but still.

I say this because today we have an average deficit of 7% in the Union. If we count on having maybe an annual decrease of 1%, that brings us to 2017. And then we need to reduce the debt burdens. So that brings us to 2020 and a decade of austerity.

But we also need growth in order to decrease the debt burden and reduce the deficit, which means other activities and other reforms are needed that can stimulate growth at the same time; we cannot question the austerity policies because we can see that every time they are challenged we see new problems arising.

I would like you to give an assessment of what you think the impact would be if we were to regulate the financial markets in a such way that we risked creating a second credit crunch combined with austerity, because I do not think it is enough to plan for and discuss a resilient financial system if we do not take into account the resilience of the economy as such. I wonder if you would like to reflect on this balance of sometimes contradicting need for reforms.

1-041

Jean-Claude Trichet, *President of the European Central Bank***.** – Thank you very much indeed. I have two remarks.

The first is on fiscal policies. You mentioned the average, the order of magnitude of the deficits. You will remember that, when we were negotiating the Maastricht Treaty and the Stability and Growth Pact, 3% was a threshold which appeared very high, not to be exceeded. We can see that the average now is much higher. We explained that very well, because we had to cope with the worst crisis since World War II. So that is clear. But if you think that when you are, on average, at a level of 7% or even more, you are in exactly the same situation as if you were at minus 2%, that does not make sense.

The counterfactual – doing nothing – means that you lose confidence. Households are losing confidence. They do not consume, because they know that they will have an immense problem – including with taxation – later on. Enterprises are not investing; investors and savers have no confidence, and a price has to be paid for that on the markets.

I think the real counterfactual should not be to say that, if we did nothing or even increased the deficit, we would be in a better state in some kind of linear model. The counterfactual should be that if we did nothing, we would be in a much worse situation. That is a point which is, in my opinion, very clear now, but I accept that it has perhaps been ignored in the past. We are paying a price for that. It is still, perhaps, being ignored. I would not suggest that it is ignored in Europe – because it seems to me that there is a general recognition in Europe, in the 27, that this is true, and that you have to ensure there is confidence in the future – but this might still happen at global level.

There is another issue which you also addressed, namely the question of regulation and whether, by hardening regulation and standards, as we have done and as we are seeking to do, we are hampering recovery. If you read the best international media, you will see the reflection of both considerations.

Some will say that you are too timid, that it is absolutely impossible to imagine that we could be back again in 2008, observing the fragility of the system, and that you should have been tougher on the definition of capital and the capital requirement. You have read that, I expect.

Others will say that you are going much too far and you will hamper the recovery, because it will be impossible to get the new credits that are necessary, that the credit crunch is very close because of the toughness of your new regulation.

It seems that what we are doing is trying to strike the appropriate balance. We must be reasonably sure – and it seems to me that this sums up the feeling of my colleagues at European and global level – that in the permanent scheme of things we will really have made a difference in terms of the solidity of the system and that

we can really tell our people that they can be confident that the banking system in particular will not be as fragile as it proved to be in the past.

On the other hand, we have the transition which is taking care of the fact that we do not want to hamper the recovery and go in the direction of aborting the present recovery. So that is the balance we are to trying to strike. I am sorry for speaking for so long, but these were two very pertinent questions.

1-042
Leonardo Domenici (S&D). – *(IT)* Mr Trichet, in your speech today about economic and monetary developments you gave a positive assessment, I believe, of the progress made in the second quarter. To what extent were exports and internal demand within the euro area countries responsible for this positive progress in the second quarter?

However, in the second half of your speech on economic and monetary developments you used some very cautious words, talking about slow rates and uncertainty. Why? Is it perhaps because of concerns that the euro will appreciate, that our currency may become stronger and have a negative impact on exports?

In short, how can we prevent fiscal consolidation and the necessary, if unbalanced, structural reforms from having a negative impact on internal demand and on social cohesion, too? I believe that this is closely connected with the problem of restoring confidence, which you rightly talk about very often.

1-043
Jean-Claude Trichet, *President of the European Central Bank***. –** First question: in the second quarter we saw that this growth, which was much more flattering than previously expected, was very much due to internal demand and not much to external demand. I would say that 0.1% of the 1% was due to net external demand. So there was a positive contribution, but a relatively modest one.

To sum up, we had 0.1% contribution coming from the external side, something like 0.2% coming from inventories and the remaining 0.7% coming from domestic demand, whether investment or consumption – either private consumption or public consumption. So that was the situation. We will see what happens, but I cannot say that this growth was only due to a really pleasant surprise on the external side.

We remain very cautious because our own analysis does not show very many changes to the profile of future growth. To give you a very simple example: we have reviewed growth upward this year, based on a range – the middle of the range was around 1% and now the middle of the range for this year is around 1.6%. So this is a really significant change but it does not mean that the profile we see for next year has changed.

For next year the very same ranges moved, if I take the mean point, from 1.2% to 1.4% and this +0.2% comes from the carry-over of 2010 and 2011 because we have reviewed upwards average growth in 2010.

So you can see that we feel we have to remain very prudent and very cautious. We can see that we have underestimated the recovery up until now but we think it would once again be inappropriate to declare victory and say that we can now be sure that we are in a situation where growth is very, very flattering. We have to remain cautious and prudent.

I responded to the question on future quotas, I think. Well, the main conclusion from my standpoint, taking advantage of your question, is that we have to raise our growth potential. We have to raise our growth potential taking into account the fact that demography is not very dynamic in Europe.

The main difference between the US and Europe is demographics. If I take growth per capita in the US and in the EU area or in Europe as a whole – it is not very different, but I take the EU area because then I am sure of the figure – this comes to 1% growth per capita over the last ten years in the EU area and 1.1 % in the US. But because demographics are much more dynamic in the US, the figures we have in mind are differ greatly, with much more growth in the US than in Europe. The advanced economies have a real problem of potential growth per capita and the conclusion for us is structural reforms, structural reforms.

1-044
Antolín Sánchez Presedo (S&D). – *(ES)* Mr Trichet, I congratulate you on the non-standard measures implemented by the European Central Bank. It has been shown that they are compatible with the Bank's fundamental objective and that they help to improve the dissemination of monetary policy in channels that are not functioning properly, and some critics say that there is a risk of addiction or opportunistic use.

Do you think that this risk is materialising? What is your assessment of the situation?

The second question concerns the global reform in response to the crisis. I have not interpreted your words as indicating that you are strongly opposed to the tax on financial transactions. It seems to me that you have reservations. I think that your position is more nuanced.

The thinking is as follows: if what we want to do is carry out a thorough reform, it will not be sufficient to reform regulation and supervision. There are two aspects that also need to be highlighted: macroeconomic cooperation and even the fiscal dimension.

Do you not think that the European Central Bank should also put these aspects on the table, and that a position with excessive reservations could fail to induce a complete response to the crisis?

1-045
Jean-Claude Trichet, *President of the European Central Bank***. –** As regards our non-standard measures, I

would say that they were all designed to permit our monetary policy transmission mechanism to function as correctly as possible in exceptional circumstances. That is the reason why we have embarked on this exceptional measure, namely the unlimited supply of liquidity at a fixed rate that we made general after the crisis intensified in mid-September 2008, as well as the other measures, including covered bonds purchases and bonds purchases in the SMP.

Everything we have done was designed to permit the correct transmission of monetary policy. We consider that the standard measures themselves must always be commensurate with our primary mandate, which is delivering price stability, being credible in the delivery of price stability. This is our mandate, which is what the people of Europe demand of us, and which is also what is good for overall financial stability. If inflation expectations were not solidly anchored, we would be in a much worse situation in terms of financial stability.

On the taxation of banks and of transactions and so forth, I reiterate that we are not in favour of taxing financial transactions. On banks – returning here to a previous question – we have always said that we should first be sure that we have new standards that would be as appropriate and commensurate as possible to permit the financial sector to be much less fragile and much more resilient. Once we have done that, various governments might themselves desire or decide to embark on taxation.

There are very different positions, both in Europe and globally, and I understand that each of these diverse positions is more or less driven by recent experience. Where recent experience was particularly dramatic and the taxpayer had to mobilise himself to support the banks, there the call for taxation on banks is very strong. Where you had no such experience, the call for this is much less strong.

1-046
Wolf Klinz (ALDE). – Mr Trichet, you underlined in your opening remarks the importance of very close coordination between the EU, or the eurozone, and the United States of America.

In fact the G20, in their various meetings, gave all of us the impression that this is exactly what they have in mind: to come up with the same or very similar answers, since it is a global crisis.

Now, two years later, I must say personally – looking at what has been done in the US and in Europe – that there are substantial differences in many areas. There are some similarities, but there are differences as well. I find this disappointing and we certainly cannot talk about a G20 approach.

Looking at the reality in the financial sectors, in my country, Germany, banks that have been rescued by the government – and which now belong to the government – are already paying millions of euros in bonuses, even though they were basically dead a few months ago. This gives the people, the citizens, the feeling that it is business as usual and that nobody has really learned their lesson.

The second point is that, whether we like it or not, the European Financial Stability Facility will run out in three years time and we do not know at this point in time whether it will be renewed or not. Should we not now prepare for such a moment? Because it is in nobody's interest for Greece, Ireland and so on to face the same type of difficulties they faced a half a year ago.

Therefore, would it not make sense to ask whether or not we should have a new facility, or whether we should have an insolvency or restructuring mechanism on the agenda?

1-047
Jean-Claude Trichet, *President of the European Central Bank***. –** On the first issue, I would agree with you that it is extremely difficult in our democracies to be sure that what is done is done on the basis of a global consensus and is perfectly coordinated. But perhaps you are being a little bit too severe, if I may say so.

There are differences. Take the European Systemic Risk Board. Was it thinkable that we would say: 'We have to discuss all the details of that with the US'? There are areas where we would say, well you have your own tradition, you have your own history, you have your way of dealing with the same issue, and we do not have the same concept on both sides of the Atlantic.

Nevertheless we have exactly the same inspiration, and as I said regarding systemic risk, what has been done on both sides of the Atlantic is to take this into account where it was not before, to place the entity with a special responsibility close to the Central Bank, and so on.

I do not want to be too complacent or naïve, but it seems to me that perhaps the judgement on what is done at global level might be a little more nuanced. I would also say that, as regards the banking regulation, for example, clearly what is being discussed is discussed not only with the US and the other industrialised countries but also with the emerging countries. It is not easy, but I would not be too negative about what is being done. That being said, it is very hard work and there is no time for complacency: I fully agree with you.

Regarding the facility, the working assumption would certainly be that we are making a difference now; we are making a difference now in the handling of this surveillance of policies, macro-policies as well as fiscal policies. I agree with you that it is important that we have a capacity to say that this is the concept we would utilise if the worst came to the worst and we were not able to avoid such issues.

1-048
Werner Langen (PPE). – *(DE)* Madam Chair, Mr President, I have a number of questions about the proposal by a few Members, which was also mentioned during the crisis meeting, that the debt should be shared

out. We now have the protective package in place for a period of three years. This gives us three years to implement more structural reforms. However, after these three years are over, at some stage the time will come to consider whether this should not become a permanent instrument. From there it is only a short step to the introduction of Eurobonds.

My first question is this: How would you assess these three years and the subsequent measures that may be necessary? Secondly: Do you believe that harmonisation will be necessary in other areas, for example pension age and similar matters of social policy, or corporation tax, for example in Ireland, where massive distortions of competition exist? Is it not necessary that this crisis, which is less a crisis for the euro than for the Member States, should, like all previous crises in the European Union, give a new impetus to Community policy, where it will be important that the European Central Bank retains its independence, but that the Member States may need to implement new measures on a retrospective basis that have not so far received majority support?

1-049
Jean-Claude Trichet, *President of the European Central Bank***. –** The ECB is independent – truly independent – and it will continue to transmit messages. As I have said, our messages are very simple.

We have our responsibility. We have delivered on price stability credibly over the past and we shall do so into the future. We have to deliver what goes with belonging to a single market – and belonging to a single market with a single currency. We will continue to emphasise this message. In the past we were, to a certain extent, a voice crying in the wilderness; we can see this now under the stress of the worst crisis – a global, not a European crisis – since World War Two.

As regards the idea of having European bonds: if it is to finance the treasuries of the various countries, this is something we have always been against. We think there is a loss of responsibility associated with it.

I will not commit myself to a statement on the best way to finance a stability fund of the kind that has been recently set up – as you said, it is really up to the governments to take their own responsibility and to see how they manage that. The fund exists for a limited period of time but can address longer-term issues.

You envisage that we will still have, in three and a half or four years' time, new problems that we will have to cope with. We will see. Again, my working assumption is that we will have to do the job of prevention. I fully understand this idea of wishing to know in advance how to deal with the situation, if the worst came to the worst and such problems were to arise. I understand what you are saying.

Each government has to do its job. The Council and Commission have to do their jobs. We ourselves are delivering what we are called upon to deliver. We are delivering it so well that it has almost been forgotten that we are delivering price stability over this very impressive period of time.

I would say that our position perhaps gives us a special responsibility in transmitting messages to the Parliament and to the executive branches.

1-050
The Chair. – I think, if passion could do it, all our problems would be solved.

1-051
Sławomir Witold Nitras (PPE). – *(PL)* Mr Trichet, Mr Langen mentioned the possibility of coordination and your opinion on this, including in relation to pensions policy in the Member States. I would like to ask how you evaluate the proposal of some Member States, and the current debate in the Council on this matter, in relation to relaxing or changing the method used to calculate public debt in the context of transfers to independent pension funds. As you know, at least nine Member States have drawn attention to a certain difference in treatment in this context.

I would like to ask you, as you are probably the most consistent defender of convergence criteria, for your assessment of the effect of a possible decision to go ahead with this proposal on the stability of public finances in Europe. In relation to this, I would also like to ask if this is not the time to make a serious start to talks about future obligations for the budgets of Member States. I am referring to future obligations such as pension funds, and in particular pension obligations – obligations which, today, do not in any way affect reported deficits in public finances.

1-052
Jean-Claude Trichet, *President of the European Central Bank***. –** I think you have a very important point; I fully accept that. There is a paradox in the present concept of computing the overall liabilities associated with pensions in general, namely, that those who have the best lucidity over the medium- and long-term are penalised in the accounting procedure. I must admit that there is a point there. I know that your own country is very attached to that.

I fully accept that we have a real problem and we have to solve that problem. However, as you know, it is not us who are responsible for this particular point. But I fully accept that there is a problem which has to be solved, because the way we are preceding now seems to be unjust, simply unjust in terms of assessing the real situation.

1-053
Edward Scicluna (S&D). – Mr Trichet, I do not question the need for a country to undertake ambitious fiscal consolidation, especially if this country or a group of countries requires it.

But to ask it now of all countries, so that it becomes almost like a philosophy, like a model to be practised – 'one size fits all' – is a little bit troubling. We are

reaching a stage where we are saying that saving is better than spending, wage restraint is a virtue, or exports are better than imports. It reminds me of advising somebody to stand on a box to see over the crowd – if you give everybody a box, the method will not succeed.

But my question is not about this philosophy, it concerns the European Central Bank. Is the Central Bank's accommodative monetary policy, with the non-standard measures, adequate in terms of stabilising the economy if all countries, by next year, are undertaking all these austerity measures at the same time?

1-054

Jean-Claude Trichet, *President of the European Central Bank***. –** Thank you very much for your question. First of all, as regards our policy, I confirm that we consider it accommodative; I confirm that we consider it to be made up, as regards the standard measures, of what is appropriate to deliver price stability in the medium and long run and, as regards the non-standard measures, of what is appropriate – taking into account the fact that markets are not functioning perfectly – to be sure that our monetary policy is transmitted correctly.

We will continue to take all the decisions necessary to deliver price stability, whatever the circumstances, whatever the new elements that might come from within Europe or from outside of Europe at any time. We are credible in this respect because, once again, the observers are looking at the past and they draw their conclusions for the future. I said to what extent we are in line with our definition of less than or close to 2%, which permits us to anchor expectations to a remarkable extent, and to avoid the materialisation of the inflationary risk or the deflationary risk .

Now that being said, once again I feel that we have to be very cautious as regards the counterfactual. We are not necessarily – in a majority of countries – in a situation where there is a linear evolution of the economy and where the linear models would be appropriate. In many cases we are in a situation where non-linear effects are involved, and by embarking on fiscal policies which are reassuring in the medium term you are better off, not worse off: that is our firm conviction.

Because we have to cope with lack of confidence in a number of cases, the confidence channel functions negatively and would function very negatively in the event that no decision were taken. I think this is the situation in which we are. As far as we are concerned, as I said, we will continue to provide what is necessary to ensure price stability, credible price stability in the medium term.

I mentioned a number of points as regards the evolution of monetary aggregates and loans. This was, of course, one of the very important issues and, implicitly, it is also one of your issues. Let me just mention that this morning we heard that growth of M3 for the last month, the month of August, was at the level of 1.1%. We were at 0.2% in July, 0.2% in June. If I look at the counterparts of M3 I see a slight increase in loans to households and a reduction in the negative figure for loans to corporates: we are now at -1.1% instead of -1.4%, so we see the phenomenon which, in monetary analysis, shows that things are heading towards a little more dynamism.

That is not surprising; we always observe loans picking up after a recession, first household loans then corporate ones, so what we are seeing is in line with what we have seen before but, of course, we had a very significant and very unfortunate recession.

1-055

Vicky Ford (ECR). – Thank you, Mr Trichet, for your comments right at the beginning about sustainable finances and incentives to encourage Member States to manage deficits.

I would like however to talk about sanctions. If an individual gets into problems, we expect them to manage their spending, but also to manage their debt and go through their wallets cutting up expensive credit cards, ones with high fines or high interest rates.

When a country is getting into trouble, the Commission and Member States are now suggesting high fines, and other people are suggesting withholding funds, which is another way of taking away money from that country just at the time they may need it. Then I was also looking at their interest rates and the EFSF with its very complicated, over-collateralisation system which appears to be a very expensive way of borrowing for that country.

So with this combination of high fines, high interest rates and high borrowing costs, are we not just giving these Member States a very expensive credit card? And are we therefore jeopardising those Member States' ability to remedy their own deficit?

1-056

Jean-Claude Trichet, *President of the European Central Bank***. –** It is not surprising that when one has behaved improperly, really improperly, one has to pay a certain price for that; that is clear.

Of course the fact is that the help itself comes at a higher price, from one's peers – the governments themselves – who are saying: We cannot be in a position where we would ourselves create a moral hazard by intervening in a way which would be too forthcoming and thus creating an incentive to behave improperly. So it is always delicate. There is a lot of logic in what is done and I cannot tell you that we should act in a totally different fashion.

These situations should not be allowed to exist. We have to prevent them. I have to say, that the issue of moral hazard is a real issue that any parliament should look at with great care, and I am sure you are also looking at it with great care.

1-057

The Chair. – Thank you very much. Thank you for those questions, many of which, as I said, you have answered with spirit and passion. Our committee's next meeting with you will be on 30 November at 16.30.