3-001

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH JEAN-CLAUDE TRICHET

PRESIDENT OF THE ECB

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

BRUSSELS, 22 SEPTEMBER 2004

(For technical reasons, only the speeches in English and French have been typed)

COMMISSION ÉCONOMIQUE ET MONÉTAIRE

DIALOGUE MONÉTAIRE AVEC M. JEAN-CLAUDE TRICHET, PRÉSIDENT DE LA BCE

(conformément à l'article 113, paragraphe 3, du traité CE)

BRUXELLES, 22 SEPTEMBRE 2004

(Pour des raisons techniques, seules les interventions en anglais et en français ont été transcrites)

3-002

PRÉSIDENCE DE MME BERÈS

(La réunion est ouverte à 10h35)

La Présidente. – Chers collègues, je vous propose de reprendre nos travaux et j'accueille avec beaucoup de plaisir le président de la Banque centrale européenne, Jean-Claude Trichet, pour le premier dialogue monétaire de cette législature. Nous le faisons en présence de Madame Christa Randzo-Plath, à qui nous devons beaucoup...

(applaudissements)

...dans l'installation et l'appronfondissement de ce dialogue avec la Banque centrale européenne et dans la façon de faire vivre ce débat démocratique. Je me réjouis donc de sa présence parmi nous ce matin.

Monsieur le Président de la Banque centrale, j'ai le souvenir qu'il y a un peu plus de deux ans, votre prédécesseur était venu devant cette commission au moment où il se passait des choses aux États-Unis. Cette fois-ci, la FED vient d'augmenter d'un quart de point son taux et j'imagine que les collègues vont vous poser beaucoup de questions à ce sujet. Mais, je vois dans le fait que vous soyez ici, pour votre première déclaration publique depuis cette décision de vos homologues américains, un signe peut-être fructueux pour notre dialogue.

Par ailleurs, nous venons d'entendre Sir David Tweedie à propos de la mise en oeuvre des normes comptables et, notamment, de la déliquate question de la norme IAS 39 et je suis sûre que les collègues seront aussi heureux d'avoir votre point de vue sur l'applicabilité de cette norme pour l'économie européenne.

Je vous donne sans plus tarder la parole, Monsieur le Président.

3-003

Trichet, *BCE***.** – Je vous remercie, Madame la Présidente, de votre accueil. C'est ma première audition, vous l'avez souligné, devant la commission dans sa nouvelle composition et avec sa nouvelle Présidente. Permettez-moi de souligner combien je partage le désir, que vous avez vous-même, de continuer les relations étroites et fructueuses que nos institutions ont développées au cours des dernières années. Je me réjouis beaucoup de cet esprit, parce que je crois qu'il est essentiel pour le bon fonctionnement de l'Union économique et monétaire. Si je puis me permettre, Madame, je voudrais aussi vous dire un mot.

3-004

Ich möchte diese Gelegenheit auch nutzen, um der langjährigen Vorsitzenden dieses Ausschusses und seines Vorgängergremiums, des Unterausschusses für Währungsfragen, Frau Randzio-Plath, nochmals herzlich für die ausgezeichnete Zusammenarbeit während der vergangenen Jahre zu danken.

3-005

Trichet, BCE. - Madam Chairman, honourable Committee Members, in my testimony today I will provide you with the ECB's assessment of current economic and monetary developments. I will then address a number of other issues of topical importance, namely fiscal policy, the implementation of structural reforms and, finally, issues related to euro banknotes.

At the time of my last appearance before this Committee in April, I foresaw that annual inflation rates would edge up temporarily to above 2%, mainly on account of oil price developments and increases in indirect taxes. At the same time, I stated that we expected the economic recovery which had started in the second half of 2003 to continue, albeit at a gradual pace. In this light, I assessed that the outlook for price developments over the medium term remained consistent with price stability. Against this background, the Governing Council had left the key ECB interest rates unchanged at their historically low level of 2.0% since June 2003.

The data that have become available over the past few months in fact confirm the outlook I gave in April. They indicate that the economic recovery in the euro area has maintained its momentum. In the second quarter of 2004, real GDP grew at a rate of 0.5% relative to the previous quarter, after 0.6% in the first quarter. The conditions for a continuation of the economic recovery remain in place. On the external side, global demand remains robust, notwithstanding temporary fluctuations, contributing to euro area export growth. On the domestic side, higher corporate profitability and favourable financing conditions should support business investment. In particular, the level of interest rates is very low by historical standards, in both nominal and real terms. Private consumption should also be sustained by growth in real disposable income and, with some time lag, by an improvement in the labour market. Against this background, we expect the present gradual recovery to continue in the coming quarters and to become more broadly based, leading to a somewhat stronger upswing in the course of 2005. This picture is consistent with the most recent ECB/Eurosystem staff economic projections which, as you may be aware, are now published on a quarterly basis. The last projections, published on 2 September, envisage that euro area real GDP growth will recover from 0.5% in 2003 to between 1.6% and 2.2% on average in 2004, and will be slightly higher, between 1.8% and 2.8%, in 2005. I should add that forecasts from international organisations and other sources convey a broadly similar picture.

While this outlook for economic activity is surrounded by some uncertainty, overall the risks appear to be broadly balanced. On the upside, the momentum of the recovery, which was stronger in the first half of 2004 than was anticipated earlier in the year, may imply a

positive stimulus in the coming quarters. On the downside, there are still concerns about continuing economic imbalances in other parts of the world which could affect the sustainability of the economic recovery, at both the global and euro area levels. In addition, if oil prices were to reach higher levels than currently expected by markets, this could dampen somewhat both foreign and domestic demand, even if the recent rise in oil prices cannot, by any mean, be compared with the historical first and second oil shocks of the 70's and the beginning of the 80's.

Regarding the outlook for inflation, recent oil price developments, together with increases in indirect taxes, have pushed inflation rates in the euro area to levels somewhat higher than 2% over recent months. Nonetheless, there is little evidence as yet of stronger underlying inflationary pressures building up domestically. In particular, wage developments should remain moderate. Against this background, the ECB staff projections put average annual HICP inflation at between 2.1% and 2.3% for 2004 and between 1.3% and 2.3% for 2005. These projections are broadly consistent with other recently released forecasts. However, several upward risks to the outlook for inflation exist. Concerns relate in particular to oil price developments, which pose a potential risk of second-round effects emerging in wage and price-setting. Further risks relate to the future evolution of indirect taxes and administered prices.

Cross-checking the economic analysis with the monetary analysis also supports the case for strong vigilance with regard to the materialisation of risks to price stability. The prevailing low level of interest rates is fuelling monetary and credit growth. While M3 growth has been moderating since the summer of 2003 as a result of a normalisation of portfolio allocation behaviour (following the easing of the exceptional economic and financial uncertainty which had prevailed previously), it remains resilient and is increasingly driven by developments in its most liquid components. Given the strength of M3 growth over the past few years, there remains substantially more liquidity in the euro area than is needed to finance non-inflationary growth. As a consequence, inflationary risks could rise. In addition, high excess liquidity and strong credit growth could become a source of strong asset price increases.

Overall, while the prospects for price developments remain in line with price stability over the medium term, upside risks to price stability have emerged. The Governing Council will remain vigilant with regard to all developments which could imply risks to price stability over the medium term. The markets and the general public should rest assured that price stability will be maintained over the medium term.

3-006
Je me permets, Madame la Présidente, de redire cela, car je crois que c'est important. Au total, pendant que nous considérons que les perspectives pour les développements et les hausses de prix sont en ligne avec la définition de la stabilité des prix que nous donnons à moyen terme, nous constatons que des risques pour la stabilité des prix ont émergé.

Le Conseil des gouverneurs restera vigilant à l'égard de tous les développements qui pourraient impliquer des risques pour la stabilité des prix dans une perspective de moyen terme. Et donc, je veux dire ici, je le répète, que les marchés et le public en général, nos concitoyens dans la zone euro, peuvent rester confiants dans le fait que la stabilité des prix sera, grâce à notre vigilance, maitenue dans une perspective de moyen et long terme.

3-007
As regards fiscal policy, the latest budgetary notifications provide a mixed picture of public finance developments. The euro area deficit is expected to increase slightly. While some countries maintain sound budgetary positions, a significant proportion of the euro area countries are expected to have deficits near or above 3% of GDP. A majority of these countries are likely to miss the original budgetary targets set in their stability programmes. Euro area public debt is projected to increase further. With a few exceptions, public debt will remain largely unchanged or increase in countries with larger fiscal imbalances.

Although the period of significant further increases in public deficits seems to be coming to an end, important challenges for the consolidation of public finances are to be faced. Member States should use the improvement in the macroeconomic environment for renewed consolidation so as to comply with their commitments under the Stability and Growth Pact. Clearly, this would add credibility to the European fiscal framework and create confidence in the sustainability of public finances, thereby reinforcing confidence in the overall economic outlook. As recently stated by the ECOFIN Council, budgetary policies need to set the right priorities towards structural reform, innovation and competitiveness in support of the Lisbon agenda to promote economic growth and employment creation. Fiscal consolidations should be designed to form an integral part of such a comprehensive reform strategy.

As regards the European fiscal framework, the Governing Council is convinced that, whilst substantial improvements in the implementation of the Stability and Growth Pact are welcome, there is no need for changes to the text of the Treaty and of the Pact itself, namely the regulations concerned. The Pact is a very important and pertinent framework for dealing with countries' fiscal developments on a level playing-field, particularly within the single currency area. At the same time, we consider that improvements could be introduced in its implementation. There seems to be some common ground on elements to improve the implementation of the preventive arm, and the need for a stronger focus on public debt and sustainability. As regards the corrective arm of the Pact, the ECB's main message is that the nominal anchor of the framework, namely the 3% deficit-to-GDP reference value should not be undermined. Therefore, proposals that would allow for a loosening of the excessive deficit procedure, such as

suggestions put forward with regard to the definition of exceptional circumstances and the time frame for the correction of excessive deficits, and proposals to introduce country-specific elements are not contributing to the solidity and soundness of EMU in our view.

A sound monetary policy and a stable macroeconomic framework are necessary for sustainable economic growth in the euro area. But this alone is not sufficient. The implementation of well-designed structural reforms in labour, product and capital markets is of the utmost importance for the euro area at the current juncture. The economic recovery would be stronger and more sustained if ambitious, well-designed structural reforms were to be implemented that improve the microeconomic fundamentals of the euro area and its resilience to adverse domestic and global economic developments. In this respect, a convincing commitment to the implementation of structural reforms and a successful communication of their economic benefits to the general public is crucial for raising consumer confidence and, ultimately, growth and employment. We are aware of the fact that structural reforms normally take time to show up in improved economic outcomes, which often makes it politically difficult to implement such reforms. Against this background we very much welcome the positive steps undertaken over recent months by several governments and Parliaments in the euro area and we strongly encourage them to continue and intensify these efforts.

Let me now highlight a few issues related to the experience with euro banknotes during the first couple of years. Since the introduction of the euro banknotes and coins on 1 January 2002, circulation has steadily increased. Indeed, by end-August 2004 some 9 billion banknotes with a value of EUR 460 billion were in circulation, an increase of 10% in terms of volume and 18% in terms of value compared with circulation one year earlier.

As regards the quality of banknotes, the Eurosystem closely monitors the banknotes in circulation and takes the appropriate measures to refresh the cash cycle, when needed. At the same time, the ECB is currently examining ways to enhance the durability of banknotes.

Moreover, to avoid shortages of certain denominations within the euro area which may occur in the event of strong cross-border flows of banknotes, the Eurosystem has set up a cross-euro area stock management scheme. This system greatly enhances efficiency in the use of banknote stocks, since shortages in one country can be compensated for by excess stocks in another country.

Turning to the issue of combating counterfeiting, the rate of counterfeiting has been relatively stable during the past 12 months, with around 50,000 to 55,000 counterfeit banknotes per month withdrawn from circulation. Assessing this number against the number of genuine banknotes in circulation (approximately 9 billion), the population of the euro area countries (more than 300 million) and the number of cash transactions involving banknotes (estimated to be approximately 120 billion per year), the initial years of experience with euro banknotes have proven that European citizens can remain confident in the security of their money. That being said, to improve even more the efficiency of the fight against counterfeiting, the Eurosystem has recently issued updated communication material on the security features, which should help cash users to spot counterfeits. However, there is no room for any complacency.

Cooperation in this domain is constantly being improved. In this context, a steering group comprising representatives from the ECB, the Commission and Europol was established to ensure the exchange of information and the coordination of activities in the field of combating counterfeiting at the EU level. At the same time, the international dimension of combating counterfeiting has gained increased importance. To take account of this development, the ECB concluded a bilateral agreement with Interpol – as was already done with Europol – which focuses in particular on the exchange of information and assistance in training and education exercises. Moreover, the ECB cooperates at the technical level with central banks or law enforcement authorities in key countries outside the euro area where euro banknotes are circulating. In addition, bilateral cooperation agreements on combating euro counterfeiting have recently been concluded with the Bulgarian National Bank and the National Bank of Ukraine.

3-008
Madame la Présidente, Mesdames et Messieurs les Députés, je vous remercie de votre attention et je me tiens prêt à présent à répondre à vos questions.

3-009
Radwan (PPE-DE). – *(DE)*

3-010
van den Burg (PSE). – Madam Chairman, I should like to elaborate on your remarks on the Stability and Growth Pact.

Last week in plenary we had a debate in Parliament about the reforms proposed by the European Commission. My group very much welcomes the idea of reforms as well as the idea of putting the Pact on two legs - basing it not only on stability, but also on the growth element. If I correctly interpreted your comments, you are not very happy with the proposals of the Commission. You were rather positive on the question of the preventive issues that are taken into account to reach this position, but you were not so happy with regard to the 'loosening' - as I believe you called it - of the sanctions mechanisms.

What I did not hear - and this was interesting in the debate we had last week - is how the link that you would also like to see with the Lisbon strategy and investment and growth perspective could be made inside the Pact. In the debate last week, several members of my group and of the PPE-DE Group and the Liberal Group expressed themselves in favour of the so-called 'golden rule' and the idea of making a distinction between different types of government expenses and the way that they are calculated for the 3% deficit criterion.

I should like to hear your views on distinctions between the types of expenses and the 'golden rule'.

3-011

Trichet, *ECB***. –** First, I should like to respond to Mr Radwan. As regards the advances that we could make in the implementation of the Stability and Growth Pact – and I respond also to Mrs van den Burg – we consider that it is very important to take better account of the business cycle in the preventive arm of the Pact, which means analysing exactly what close-to-balance or in-surplus means in terms of the business cycle or what could be done to gain a better understanding of what is happening in this period of the cycle. This is not new. We have said it already. The Commission mentioned that some improvement could be made in this domain, again with analysis of the structural deficit and finding a better way to put aside what is necessary in good times in order to weather the difficult times. The biblical metaphor of the *vache grasse* and the *vache maigre* is extraordinarily pertinent in this whole fiscal domain. The main problem we have is that during the good times we do not realise that we have to put aside what would be necessary for bad times. Most of the problems that we have to cope with come from these episodes, when we do not realise that we are experiencing very good times and have to be cautious.

The position of the ECB here is that most of the proposals made by the Commission in this domain seem to us to be well-advised, on the basis of very careful examination. We reserve our position and our opinion until we see exactly how the Council envisages crystallising the proposal of the Commission. In our view, it goes in the right direction and we think it is advisable.

However – again I respond to both Mr Radwan and Mrs van den Burg – we are of the opinion that, for the sake of the stability of EMU and taking into account the room for manoeuvre that already exists in the regulations, in regard to the recent decision of the Court of Justice on the relationship between the Commission and the Council there is no case for a change in the regulations. I should like to draw your attention to a particular point, which I feel very strongly about whenever I am outside the European Union or euro area: all my interlocutors are clearly aware of the fact that we in the euro area are very bold in having a single currency without having a single government and without having a single budget. It is true that we have been bold. Our response is 'yes, we have been bold, but we have the Stability and Growth Pact'. The Pact is precisely the concept which permits us to ensure that EMU - economic and monetary union - is coherent, stable and fully in line with the economic rationale.

Again, in the case of the Stability and Growth Pact, it is not that we want orthodoxy for the sake of it. Of course the Central Bank always adheres to its role of calling for orthodoxy. We understand that. On top of that, however, there is a very strong underlying economic rationale. We have a single currency. We do not have a single budget. We have an absolute need for that peer surveillance and that rule-based fiscal policy at national level. The US does not monitor the fiscal policies of California or Florida at Washington-level, because they have a federal budget. We do not have a federal budget of any magnitude and therefore we have to monitor from the centre – with peer surveillance from the Council and the Commission – what happens at national level.

As regards the greater power of the Commission, we stick to the *méthode communautaire*, which has proved its formidable efficiency over time, and to the decision of the Court of Justice. Nevertheless, I note that the Court of Justice has fully confirmed that the Commission had a monopoly of presentation. That has been very clearly stated.

As regards Athens and the Greek figures, I have exactly the same sentiments as those expressed by Mr Radwan: it is a real, enormous problem. We have to be sure that the figures that are presented are reliable and pertinent. It is not the first time that we have had a more or less dramatic change of figures. I can recall some other cases – and I see some Members of Parliament nodding. We must be absolutely sure that an independent institution, body or entity will guarantee that we can rely upon the figures that are presented. I do not want to enter into technicalities. I have some idea of one of the issues that explains the Athens problems: the computation of military spending, whether you compute it as you pay progressively for military purchases or whether you take it into account only when the purchases are delivered. There are a number of technicalities to understand but, in any case, we cannot weather these changes of figures and of facts.

As regards the so-called 'golden rule' referred to by Mrs van den Burg and distinguishing different types of spending depending on their nature, we cannot enter into such distinctions. We consider that if some types of spending have priority, then it is up to governments and parliaments to demonstrate that they themselves give priority to these types of spending, but certainly not by excluding them from the Stability and Growth Pact computation. The market will not exclude them. Savers and investors will not exclude them. The general public will have to pay, either by taxes or by servicing the borrowing. It is absolutely obvious that there is a difference to be made between those types of spending that are very useful or indispensable, and types of spending that are perhaps less useful and indispensable. Let me mention in passing that even in the euro area we have enormous differences, from country to country, in the level of public spending as a proportion of GDP. It is hard to believe but the difference between the lowest public spending as a proportion of GDP and the highest public spending as a proportion of GDP is almost 20%.

When one looks at the country with the lowest public spending, it is not obvious that there are enormous abnormalities. Therefore, I draw the provisional conclusion that there might be much lower public

spending as a proportion of GDP in some economies and that they might be much better off because, *par hazard*, in the low public spending countries there is lower unemployment and in the countries with higher public spending there is higher unemployment. That is not surprising in a world of competition, in a world where the overall competitiveness of the economy makes a job affluent or not.

As regards Lisbon, it seems that there is a general consensus that if we could couple the overall Stability and Growth Pact with the Lisbon reform programme, we would be taking a big step forward. It is absolutely clear that a number of the Lisbon reforms would permit more efficiency in the public sector, in the public spending sphere in general. Consequently we would certainly support – even though this is not our responsibility – all efforts that could be made to allow better coupling between the SGP and the Lisbon Agenda.

3-012
García-Margallo y Marfil (PPE-DE). – *(ES)*

3-013
Goebbels (PSE). – Monsieur le Président, deux questions. Première question: avant le lancement de l'euro, certains pays avaient une peur bleue d'un euro faible; ce fut d'ailleurs la raison du pacte de stabilité. Or, au fur et à mesure que des pays rencontrent des difficultés à respecter les règles du pacte de stabilité, l'euro monte face au dollar. Comment expliquez-vous cette contradiction? Est-ce que l'euro serait devenu une monnaie apolitique qui ne réagit plus au développement économique dans les différents pays de la zone euro.

Deuxième question: depuis le lancement de l'euro, la zone euro a obtenu des résultats plutôt bons en matière de lutte contre l'inflation et on doit féliciter la Banque centrale européenne d'avoir, en fin de compte, mieux réussi que la *Federal Reserve.* Or, dans tous nos pays, l'inflation perçue par les ménages est supérieure à l'inflation réelle constatée. Est-ce que l'euro baisse dans les têtes, mais pas sur les marchés? Comment expliquez-vous ces contradictions entre la politique monétaire officielle et la réalité économique?

3-014
Trichet, *ECB***.** – First, I should like to respond to the Vice-Chairman.

To be very clear, with regard to the preventive arm, a lot of the proposals of the Commission seem to be well thought out and need to be elaborated. I think we could very much go along with these orientations. With regard to the corrective arm, we believe that we should not touch the regulations. The nominal anchor of 3% should not be touched because it is an essential part of the stability of EMU. We would consider it very clear that references to the so-called national circumstances are very dangerous. We need fair and equal treatment for all. I take it that this is also part of the overall framework. Today we are12. Tomorrow we will be 15, then 20 and then perhaps many more. We really need a clear framework, a clear-cut conviction by each country and economy participating in the euro area that equal treatment is being applied.

The slow growth concept seems to me to be dangerous. If one is in a slow growth episode, then as far as the computation of the overall debt outstanding as a proportion of GDP is concerned, there is a problem of denominator, because the denominator is growing slowly by definition. So if one concludes that one could be much looser on the fiscal side and on the deficit side, then one would augment the numerator and have a denominator grows much less buoyantly. One would considerably deteriorate one's overall outstanding debt as a proportion of GDP. Those things have to be examined very carefully, but *a priori* we do not feel that we can follow this line.

That having been said, we have always taken the position that implementation could be much better, that there is a lot of room for manoeuvre in the present framework. Again, the Court of Justice said exactly what the relationship was between the Commission and the Council in this domain and that it would not be advisable to touch the text of the regulations.

3-015
Trichet, *BCE***.** – J'en viens aux questions de M. Goebbels. En ce qui concerne la première question, depuis le début, nous sommes dans un système de changes flottants au niveau mondial. Il faut donc se garder, aujourd'hui, de surinterpréter les mouvements des changes flottants, comme il fallait se garder, hier, de le faire. Mais c'est vrai que nous cristallisons une grande confiance dans l'euro.

Le premier succès de l'euro n'a pas été assez souligné, à mon avis. On a souligné que c'était un succès politique remarquable que de faire l'euro le 1er janvier 1999, que c'était un succès technique remarquable que d'avoir un fonctionnement du marché monétaire impeccable dès le premier jour. On a souligné que c'était remarquable d'avoir une introduction aisée des billets et des pièces. Mais on n'a pas dit que le premier succès - si je puis me permettre, Monsieur Goebbels - c'était que la courbe de rendement des taux d'intérêt de 3 mois à 30 ans au Luxembourg a été exactement la même avec le franc luxembourgeois qu'avec l'euro, exactement la même!

Cela veut dire que la crédibilité de l'euro a été, dès le premier jour, au même niveau que la crédibilité du franc luxembourgeois, lequel avait la même crédibilité que les plus importantes crédibilités européennes. Chacun reconnaîtra les monnaies qui étaient à ce niveau de crédibilité, acquis difficilement et sérieusement pendant quarante ans, cinquante ans.

C'est ça le succès de l'euro et d'où vient ce succès, c'est-à-dire le fait qu'il cristallise le même niveau de crédibilité et de confiance que les monnaies les plus crédibles, et peut-être même plus, comme le dit M. Goebbels? Eh bien, je me permets de le dire, il vient de la confiance dans la Banque centrale européenne, dans l'eurosystème, dans notre propre système de décision. Les marchés, les observateurs, les investisseurs nous font confiance pour donner stabilité des prix en ligne avec notre définition sur les trente prochaines années, puisque nos taux à 30 ans incorporent une anticipation

d'inflation qui est en ligne avec notre définition de la stabilité des prix. C'est un succès remarquable et je dois dire que c'est un succès qui correspond aussi à un environnement financier très favorable pour l'ensemble de la zone euro.

3-016
Goebbels (PSE). – Monsieur le Président, je suis tout à fait d'accord avec vous et je crois que l'euro est un succès remarquable. La politique monétaire conduite par la Banque centrale européenne est remarquable; les résultats sont là. Mais est-ce que cela ne diminue pas l'importance du pacte de stabilité, puisque, manifestement, l'impact des développements politiques internes est bien inférieur à ce que l'on craignait?

3-017
Trichet, *BCE***.** – Très franchement, je ne crois pas du tout. Je crois d'abord que vu de l'extérieur de l'Europe - contrairement à ce que certains ont dit -, le pacte de stabilité n'est, bien entendu, pas mort du tout. On en discute, chacun voit bien que tous les gouvernements sans exception, à ma connaissance, ont dit que les 3 % étaient effectivement une ancre très importante dans leurs propres perspectives. Ils demandent plus de temps pour y revenir, mais le fait que nous ayons absolument besoin d'avoir un concept qui soit basé sur des règles au sein de la zone euro est, me semble-t-il, très clairement perçu par l'extérieur de l'Europe.

Le fait que nous soyons dans une situation de discussion est, naturellement, un élément que, je dois dire, pour ce qui nous concerne, nous préférerions ne pas observer. Mais je crois qu'il est très important de bien voir que dans les circonstances présentes, au total, la confiance raisonnable du monde extérieur qui nous observe est que nous allons trouver les moyens d'arriver à une solution en ligne avec cette exigence que nous avons, dans une zone à monnaie unique, d'avoir un *framework* parfaitement crédible.

Je ne dis pas que les marchés sont convaincus à l'avance que tout ce que nous avons recommandé va être observé, mais je dois dire qu'ayant observé la manière dont la présidence néerlandaise dirigeait nos travaux, en ce moment - du moins les travaux de l'Ecofin et de l'Eurogroup -, je comprends que les observateurs extérieurs se disent que le résultat de ces discussions va être sérieux.

En tout cas, pour ce qui nous concerne, notre devoir est évidemment de donner notre avis. Nous n'allons pas décider, c'est le Conseil qui va décider en dernière analyse, mais notre devoir est de donner notre avis et notre avis est extrêmement clair sur ce point, comme je l'ai déjà dit.

En ce qui concerne la question de l'inflation perçue et réelle, vous avez raison de souligner qu'il y a là un problème. L'inflation perçue par les ménages est largement supérieure, nous semble-t-il, à l'inflation que nous donnent les instituts spécialisés et les statisticiens européens. On peut le comprendre. Il y a une plus grande facilité à noter les prix qui bougent dans les achats que l'on fait quotidiennement et à noter les prix qui bougent dans l'autre sens, qui descendent, s'agissant des biens manufacturés et de certains produits que l'on achète plus épisodiquement. C'est un phénomène qui est bien documenté par les analystes et les universitaires. Ceci dit, c'est un réel problème et il est très important que nous puissions dire nous-mêmes aux ménages européens, comme je l'ai dit moi-même il y a déjà un certain temps: vous pouvez avoir confiance, nous maintiendrons la stabilité des prix sur longue période - non seulement sur courte période mais aussi sur longue période - et de ce point de vue nous sommes là, de par le Traité, pour vous assurer que votre pouvoir d'achat sera préservé sur longue période.

C'est un problème important, parce que la confiance des ménages dépend de leur confiance dans le maintien de leur pouvoir d'achat grâce à la stabilité des prix. Dans certaines économies, ils sont d'ailleurs très alertés sur cette perception de l'inflation et nous avons des travaux universitaires qui documentent très clairement l'existence d'un lien entre cette perception, la confiance des ménages et donc la consommation.

Donc, nous avons, en effet, un rôle positif important à jouer en garantissant aux ménages européens qu'effectivement, ils peuvent compter sur la stabilité des prix. C'est une des manières que nous avons d'aider, de contribuer à la croissance et à la création d'emplois.

3-018
Klinz (ALDE/ADLE). – *(DE)*

3-019
Kauppi (PPE-DE). – Madam Chairman, you repeatedly emphasised the very favourable financial conditions in the euro area. You mentioned, for example, that external demand and export growth have been very robust globally. However, there is still a great lack of investment in the euro area. Do you think that there are over-capacity problems with European industries, and what is the relationship of the possible over-capacity problem with the euro/dollar exchange rate? What do you think could be done in regard to internal demand? Even though your assessment is that private consumption will grow and consumer confidence and internal demand in the euro zone is developing in the right direction, we still do not see as much internal demand as we could if the structural reforms and necessary government reforms were carried out.

What do you think is the relationship between external demand, internal demand and lack of investment?

3-020
Langen (PPE-DE). – *(DE)*

3-021
Trichet, *ECB***. –** Regarding sanctions, we suggest that no change is made to the regulations as they stand. We would certainly call for the system of sanctions to remain, and not to be changed.

It is important to realise that in having a single currency we all, by definition, share the same monetary credibility

or absence of monetary credibility, and that we have exactly the same system of interest rates, depending on the quality of the various signatures; but the underlying credibility of the currency is there. If one particular country behaved improperly, all things being equal, there would be an incorporation of risks by savers in Europe and in the rest of the world. An implicit taxation is spread all over the euro area through that need. It is the economic rationale and also the moral rationale for these possible sanctions. It means that we do not have unilateral sanctioning because of the bad behaviour of others, but a capacity on the part of the others to have a kind of reciprocal way of telling the potential bad behavers that there is some form of punishment that could be associated with this behaviour.

This was considered at the time of the negotiation of the Maastricht Treaty and then the negotiation of the Stability and Growth Pact. It has a profound economic and moral rationale. That is why we adhere to this point. Let me add that fair and equal treatment for all is very important to the overall good functioning of the framework.

As regards the euro as the international currency, as my predecessor said many times and as I have repeated to the Commission, we consider that it is up to market participants, investors, savers and all economic agents and entities in Europe and the world to see whether or not they have an appropriate use for the euro, its monetary and financial instruments, and whether they want to have reserve assets in euros. We are not actively promoting the euro. We are not discouraging anyone from use of the euro. We are observing what happens – the decisions that are taken on the basis of comparing the various monetary and financial instruments. I believe we will gradually see more and more important international use made of the euro at a global level. We do not call for brutal rules in this domain. Brutal rules are not welcome in any case. We would be happy to see a gradual, orderly increase in its use, taking into account that the world is observing a very important increase in its own growth, its own international trade. I remind you that over the last 20 years we have probably observed, in terms of volume, a doubling of growth at a global level and a more than tripling of international trade. That calls for the international use of currencies.

Again, we are not actively promoting or discouraging. We are observing on the basis of the advantages and interests that are associated with the use of our instruments denominated in our own currency.

3-022

Klinz (ALDE/ADLE). – The last question concerned the behaviour of other central banks and whether, applying the best practice principle, you could see things that you might want to introduce in your own policies.

3-023

Trichet, *ECB*. – We are very active in international cooperation with sister central banks. I have the honour and privilege to be chairman of the G-10 grouping of industrialised central banks today. We have very close and trusting cooperation with central banks. We constantly observe what is going on.

I have a question on transparency. Transparency is one of the domains in which we have observed what was going on since the very beginning of the ECB. I know this is not necessarily the view of all of us here, but we were very innovative and creative, as early as January 1999, in introducing a new concept of transparency – which, at the time, did not exist in the state of the art of central banking – which was the immediate, real-time explanation of our diagnosis the moment we decided to increase or decrease our rates. Under Mr Duisenberg it was decided that we would go much further than other central banks. The state of the art of central banking at the time was that one would publish explanations only five or six weeks afterwards and leave observers and citizens without any particular information during that period of time. We considered that this was not advisable. We considered that it was very important to give an immediate explanation. We had the introductory remarks of the president and then a press conference. A press conference, at the level of the big central banks in the world, is not customary at all. We introduced that concept of real-time explanation and real-time press conferences. I insist on that because we are embarking on very close and trusting cooperation. We have all the experience we have gained. We have done this because we have a single currency and twelve cultures, twelve economies. It was absolutely necessary for us to have overall terms of reference, to explain to everyone in Europe what we had done. Had we waited for six weeks there would have been all kinds of gossip, in various languages, translated more or less correctly, and we would have had to cope with cacophony. We had no cacophony because we were transparent in real time from the very beginning.

As regards the lack of investment that has been underlined, it is clear that from our understanding of what is happening in Europe, we have diagnosed a gradual recovery. You may remember that when I spoke on behalf of the governing council, I diagnosed that a gradual recovery was materialising in Europe. We said that at the beginning of this year. There was a lot of scepticism at the time. A number of observers told us that we were a little too confident and that we should act in our own domain and perhaps reduce rates because they were not convinced that there were signs of a gradual recovery.

When we computed the first quarter of this year, the figure was 0.6%, which was a confirmation of what we were experiencing at the level of the euro area. I have to admit that economies are not behaving in exactly the same fashion all over the euro area. But we have to look at the euro area as a whole because we have a single currency. It is not only the way in which we look at it that is important; in the governing council it is our duty to look at the euro area as a whole.

We are now seeing these signs of gradual recovery. Clearly it has been triggered by net exports at the level of the euro area, which have played a very important role, and the normal sequencing is that we would then have the booster of investment, and then the booster of consumption. We have the feeling that this recovery is

more and more broadly based, so that we will progressively observe this sequencing occurring in some economies with a lot of difficulty, in other economies with a very active and more buoyant capacity for growth.

At the level of the euro area as a whole, at present, I would confirm that we have the feeling that this gradual recovery is continuing and is more and more broadly based. Our own diagnosis is that if we had a more supple and flexible economy in general, taking into account the overall global environment and the overall financial environment that we currently have in Europe, we should become more buoyant. This is a gradual recovery, which is progressively materialising. We could help it by embarking on the famous structural reforms that we all call for but which are difficult to implement.

3-024
Langen (PPE-DE). – *(DE)*

3-025
Trichet, *ECB***.** – The opening up of markets in the world, globalisation and the extraordinary chances and opportunities and growth that were due to this globalisation were associated with risks, but I also insisted on the opportunities and the successes. What is happening now in China and India is like a dream becoming a reality. Immediately after World War II, the idea was that these enormous countries with very poor citizens would grow and see their standard of living improve – which is now the case. A lot remains to be done, but this is very positive.

In a market economy, in general, there cannot be big successes without some risks. We have risks and we have to work to minimise them as much as possible and, when they materialise, to weather those risks as well as possible. One of the reasons why structural reforms are of the essence is that an economy that has made structural reforms is better equipped to weather risks when they materialise. That economy becomes more resilient, which is a good reason, in a world which is not without risks, for embarking on structural reforms.

3-026
Berès (PSE). – Permettez-moi de vous poser une question un peu plus technique, mais qui intéresse directement cette commission. Dans la réponse que la Banque a envoyée à l'ISB, vous avez suggéré que les banques précisent clairement que l'utilisation de l'option de la *fair value* ne puisse se faire qu'avec l'objectif de réduire la volatilité artificielle et quand il n'existe pas de solution alternative satisfaisante.

Derrière ce souhait émis par la banque, plusieurs questions nous intéressent. Comment déterminer cette notion de volatilité artificielle au regard de la volatilité du marché? Comment est formalisé cet engagement et quelles en sont les conséquences juridiques? Qui va déterminer si une banque n'a pas respecté cet engagement ou qu'il existe une solution alternative - auditeur ou régulateur? Si ce sont les régulateurs, envisage-t-on une convergence de vues sur le sujet?

C'est un point technique mais qui intéresse à la fois beaucoup l'extérieur de cette commission et cette commission qui devra, si elle veut être en phase avec les travaux de la Commission, s'exprimer d'ici la semaine prochaine. Elle en a l'intention et sera donc heureuse d'avoir votre éclairage là-dessus.

3-027
Trichet, *BCE***.** – Madame la Présidente, comme vous le savez, nous avons en effet réfléchi à cette question très importante en liaison avec la Commission. J'ai moi-même écrit le 6 septembre dernier à l'IASB, à Sir David Tweedie, que, je crois, vous avez vu. Cette lettre, vous l'avez, puisqu'elle a été rendue publique.

Concernant le point précis que vous soulevez, nous l'avons médité en liaison étroite avec le Comité de Bâle, qui réunit les superviseurs bancaires et qui est présidé par Jaime Caruana, le gouverneur de la Banque centrale d'Espagne, lui-même membre du Conseil des gouverneurs de la Banque centrale européenne. C'est avec lui que nous avons regardé cela de près.

Pour répondre très clairement à votre question, notre sentiment est qu'il incombe aux surveillants bancaires d'être très attentifs dans ce domaine et d'être, en effet, responsables de ce jugement, de cette appréciation. D'ailleurs, des contacts directs ont lieu entre le Comité de Bâle et l'IASB. Le Comité de Bâle regroupe, comme vous le savez, non seulement les Européens mais le monde entier. C'est donc une question très importante. Nous attendons de l'IASB et, en dernière analyse, de la Commission - de l'Europe, qui a le pouvoir et qui décidera finalement quelle est la bonne décision à prendre - et nous souhaitons beaucoup, comme nous l'avons dit et écrit, que nos propres recommandations et donc, le cas échéant, ce couplage avec les surveillants bancaires puisse être conforme à ce que nous recommandons dans cette lettre.

3-028
Bullmann (PSE). – *(DE)*

3-029
Riis-Jørgensen (ALDE/ADLE). – *(DA)*

3-030
Wagenknecht (GUE/NGL). – *(DE)*

3-031
Lipietz (Verts/ALE). – Monsieur le Président, je suis le rapporteur, pour notre Parlement, de la politique de la Banque centrale à partir de votre rapport de 2003. Si vous n'avez pas ce rapport, vous le pourrez trouver à l'entrée dans sa première version.

Nous avons décidé en tant que commission de ne pas rentrer dans le détail des projets de modification, de réforme ou d'amélioration du pacte de stabilité. Je n'en discuterai donc pas avec vous, sauf peut-être pour vous faire remarquer qu'on ne peut pas dire qu'il n'existe pas de règles sur les déficits budgétaires aux États-Unis. Il y a toujours des règles pour n'importe quel budget décentralisé, que ce soit dans un pays centralisé comme

la France, l'Allemagne, les États-Unis. En France, une autorité locale doit être équilibrée quant à son budget de fonctionnement. Donc, on retire tous les investissements; c'est une règle aussi stupide, selon l'expression consacrée, que les 3 % mais c'est une règle. Elle est aussi arbitraire qu'une autre, mais il y a toujours des règles, dès qu'il y a décentralisation.

Je voudrais plutôt vous interroger pour approfondir un point essentiel, celui de la responsabilité qu'assume la Banque centrale européenne quant aux autres objectifs que la stabilité des prix. L'article 105 du Traité demande à la Banque centrale, sans préjudice de la stabilité des prix, de contribuer aux objectifs de l'Union tels que définis par l'article 2. L'article 2 précise: croissance et emploi aussi élevés que possible. C'est sur ce point de la croissance et de la contribution du mandat des traités à la Banque centrale de contribuer à la croissance la plus élevée possible que je voudrais vous interroger. Dans votre premier paragraphe...

(La présidente demande à l'orateur d'être bref.)

Je suis rapporteur, Madame la Présidente! J'ai le regret de ne pouvoir poser ma question en une minute et donc je laisse la place à la personne suivante.

3-032

Krasts (UEN). – Madam Chairman, I have two brief questions, returning to the Growth and Stability Pact issue.

The Stability Pact reform includes the proposal to broaden the definition of exceptional circumstances by including the notion of prolonged periods of sluggish years, suggesting that account is taken of country-specific conditions. Of course, flexibility of economic approach is not a bad thing, but it is natural for politicians to argue that failed internal policies are the result of exceptional circumstances.

In the event that this Stability Pact reform is adopted, will it not make it more difficult for the ECB to set a single interest rate for the whole area, for all the economies, for countries in sluggish economic growth, for countries in a rapid economic development phase, for countries that have just joined the European Union after transition periods and that have their own specific conditions? Will this make the ECB's life more difficult?

3-033

La Présidente. – M. Krasts, je crois que, malheureusement, vous n'avez pas le temps de poser la deuxième question. Je suis obligée d'être très stricte avec le temps de parole. Le président va donc répondre à votre première question.

3-034

Trichet, *ECB***. –** As regards Basel II, there is consensus that in view of the present situation on both sides of the Atlantic, including Japan and the rest of the world – for it is not being negotiated only at the level of the industrialised world, but at the level of the whole world – this is the correct framework and we consider after having looked very carefully at the whole situation again that we can go along with it. So I take it that we have a clear-cut consensus after very long and due consideration at the level of the Basel committee and under the chairmanship of Jaime Caruana, our colleague from Spain.

As regards the question on innovation, research and development, I entirely agree, and there is an overall consensus in Europe today – part of the Lisbon Agenda – that we have a lot to do in this domain; a lot to do to encourage innovation, research and development at the level of the private sector – big, small and medium-sized companies. It is one of the areas in which we are lagging behind the most advanced economies in the world. It is part of the Lisbon Agenda. We back this diagnosis.

As regards the beauty contest of the various economies, depending on their proportion of public spending, I fully agree that what counts is the quality of spending. There might be differences that are only due to the various structures, whether social protection is largely private or public. So this has to be looked at very carefully. Nevertheless, let us not forget that we live in a world of market economies, that jobs come from one's own competitiveness, the competitiveness of the productive sector in any particular economy. That is the rule of the game in Europe and the world. There is not a single part of the world now that would not admit that it is the appropriate rule – including communist China, perhaps more than others. Let us be very conscious of the fact that when we have more burdens as a result of a very high level of public spending, this burden is supported by the productive sector and might hamper growth and job creation. Ireland is one of the best success stories in Europe and the euro area and Ireland is certainly helped by its quite low level of public spending.

Mrs Jørgensen, I will not elaborate much on what you said about the fair and equal treatment of all countries concerned. We fully subscribe to that and the credibility of the Pact is very much associated with the sense that there is no unfair treatment. I agree with all that has been said about public spending not being a recipe for growth and job creation. That is clear enough.

As far as the currency is concerned, I am President of the ECB. We have a decision-making process that is very well known. Mr Juncker will be chairman of the Euro Group, a very important responsibility. He will be the chairman of the ministers of finance of the euro area. We both have very important responsibilities in our own domains. My domain is currency and monetary policy and Mr Juncker's will be enormous: coordinating economic policies, depending on the ministers of finance; improving cooperation between them; embarking on structural reforms, where the ministers of finance have a decisive role to play; monitoring the Stability and Growth Pact, particularly in the euro area. These are enormous responsibilities.

One speaker thought we needed to be less vigilant about inflation in Europe. I think, however, that there is a popular feeling that we have to be vigilant. There is a perception that inflation is important and even, in our view, more so than is really the case. Perhaps you could help us to demonstrate to the people of Europe that they

overestimate inflation. In my view, it would not be appropriate to underestimate this sentiment.

We have to demonstrate permanently to the observers, savers, investors and all market participants in Europe and the rest of the world that we are vigilant. It is because we are vigilant that they can have confidence in us for the next 4, 10, 20 or 30 years. Many economies are borrowing at the level of the treasuries on a 30-year basis. Why do they have very low market interest rates on a 30-year basis? Only because there is trust in our vigilance and in our capacity to deliver price stability over time. So it is not only in our mandate to be vigilant, to deliver price stability; it is called for because the people of Europe want us to be vigilant on the price front. It is also good for growth and job creation because we all benefit from a yield curve which is exceptionally favourable and which relies entirely on long-term credibility, not just medium term.

Mr Lipietz, when the European Parliament and the citizens ratified the Maastricht Treaty and when the Convention and then the governments of Europe subscribed to the new Constitution – which is exactly the same as the Maastricht Treaty – the idea was that price stability was a necessary condition for delivering growth and job creation on a sustainable basis. It was not a sufficient condition, but a necessary one. Other conditions would be required. We do not see any contradiction between this objective of price stability and growth and active job creation.

This is true amongst central bankers, where there is close cooperation. It is especially true in Europe. Let us never forget that the average market interest rates of the currencies that make up the euro were, before the setting up of the euro – perhaps two years before – at the level of 200 to 250 basis points over and above the level that we have attained. It is an illustration that the euro was, from the very start, as credible as the Luxembourg franc. That is something of the utmost importance for Europe. The credibility of price stability permits a financial environment which is favourable to growth and job creation, even more in Europe than the rest of the world because we have a single currency, which is an endeavour that has no precedent.

Regarding the 'one-size-fits-all', it could be said that taking the UK, comparing Northumberland – at a certain period of time – with Wales, London, Northern Ireland, in a single currency area one can always find, with the same business cycle in the overall area, that there are quite substantial differences. It is the same in the US. In the US there can be, at the same time, Massachusetts remaining steady, California booming and perhaps North Carolina having a lot of difficulty. It is part of a large, and in the case of the US and Europe, continental single market with a single currency that we can observe some differences from country to country or from state to state. In the opinion of Mr Mundell, the Nobel Prize winner, that does not cause us to conclude that in the US there should be different currencies in different states, or that we should have this in Europe. In our opinion, with the single currency, we are achieving the goal of the founding fathers: the common market is becoming a single market, with a single currency as a normal feature. The single market, with a single currency means, in a way, that the objective of the founding fathers is becoming reality. Let us not forget that at the moment of the setting up of the common market we were in the Bretton Woods system, so that the variations between the currencies of Europe were extremely meagre and the question of the single currency was not put forward immediately because we were in a very fixed system at the time.

3-035
Samaras (PPE-DE). – *(EL)*

3-036
Villiers (PPE-DE). – President Trichet, you mentioned current inflationary pressures in your statement. If oil prices stay high, and this leads to another round of price increases in the euro zone, would you be prepared to increase interest rates – even to increase them aggressively – in order to comply with your duty to maintain price stability?

Secondly, with regard to the rapid decline of the US dollar, would you be concerned if that led to a euro/USD rate of 1.30 at any point in the future? Would you want to take action in those circumstances?

3-037
Rasmussen (PSE). – Mr President, as you correctly said, we do not have a European situation characterised by an over-heated economy. But do we have a recovery? You said that we have a gradual recovery. I would question that. Perhaps we could meet in the middle by saying that we have small signs of recovery but we do not yet know whether this recovery will be strong, consistent and growing. It is still very weak and very uncertain.

Secondly, we have an exchange rate with the American dollar which has the effect that export-led growth from Europe is weakening. It costs growth, one could say. Look at it from our side. It is not our fault, but it is a fact of life.

The structural reforms that are needed in Europe can only go hand-in-hand with growth, as we know. Do we not risk finding ourselves in a trap if we ask our countries to reform, without the public seeing that the result will be new jobs? In other words, do you not think it is time for Member States to coordinate their economic policies to obtain a stronger growth structure? Would you add your interest rate policy to ensure that the gradual recovery will be a sustainable recovery?

3-038
dos Santos (PSE). – *(PT)*

3-039
Starkevičiūtė (ALDE/ADLE). – The entry of the Estonian, Lithuanian and Slovenian currencies into an exchange rate mechanism has raised some concerns in our countries. Do you see advantages in the early

introduction of the euro in the new Member States? What are the main risks as regards the timing of this decision?

3-040
Becsey (PPE-DE). – Ten new countries joined the Union on 1 May. What are your relations with the authorities of these new countries – not only those who joined ERM II, but those who have not joined yet? Are there discussions with them on the statistical, methodological questions, the central rate, etc.?

Secondly, if there is economic growth in the newly acceded countries in order to catch up with the others – because they are lagging behind – how do you evaluate their economic performance in the light of the Maastricht criteria? You mentioned the rational evaluation, which is sometimes necessary in their case, if they can prove the sustainability of their economic growth – i.e. 3% inflation.

Thirdly, what do you recommend they do in the event of higher economic growth? Should they set aside resources for bad times, or should they invest, or should they embark on structural reforms? What do you recommend?

3-041
Montoro Romero, Cristóbal Ricardo (PPE-DE). – *(ES)*

3-042
Barón Crespo (PSE). – Madame la Présidente, je poserai ma question en franglais, parce que je vais me référer à la déclaration du gouverneur. Je vous salue, cette rencontre à nouveau va me rappeler des satisfactions.

Je me réfère à la déclaration du Conseil sur le pacte de stabilité. Vous avez été très clair et le Conseil dit "*no change to the text"*. D'accord. Vous avez insisté sur le fait que c'est important, parce qu'il n'y a pas de budget. Je suis tout à fait d'accord avec vous, mais le pacte de stabilité et de croissance ne peut être ni une camisole de force, ni un cache-sexe. Vous déclarez: *"We consider that improvements could be introduced in its implementation. There seems to be some common ground"*. Je suis sûr qu'après les louanges que vous avez faites sur le franc luxembourgeois, vous n'aurez pas trop de problème pour vous mettre d'accord avec Monsieur Junker.

(Rires)

Mais vous faites une critique serrée des propositions de la Commission, où est-ce que vous voyez le *common ground*? C'est çà la question précise.

3-043
La Présidente. – Je m'excuse auprès de tous les collègues qui n'auront pas pu poser de question, mais je crois que la densité des réponses du président justifie que nous lui laissions le temps

3-044
Trichet, *BCE***.** – Madame la Présidente, toutes les questions sont extrêmement pertinentes et je remercie les membres du Parlement. En même temps, je dois dire que je vais être moi-même obligé de comprimer mes réponses.

3-045
Trichet, *ECB***. –** There are a number of questions on monetary policy itself, on whether our interest rate level is perhaps too high, perhaps not fully in line with what would be the optimum.

We are credible today in delivering price stability in line with our definition of it not only in the medium term but also in the long term and very long term. This is something priceless. We have it. We benefit from it. As with all things that we have, we do not realise how remarkable and important it is. We follow very carefully the inflationary expectations that are enshrined in the financial markets and that can, at present, be found in the survey of economic agents and market participants that we are carrying out. Our definition of price stability is close to 2%. Most surveys we have carried out have shown, from the outset, that there is an oscillation – inflationary expectation of between 1.7% and 1.8% or 1.9%. We are exactly in line with this definition of price stability, thanks particularly to the clarification of our monetary policy that we pursued under the chairmanship of my predecessor last year.

When one compares nominal rates here and there, one may ask why the rate is lower here or higher there. At the moment we are at the level of 2%. The US Federal Reserve put its own level at 1.75% and the London interest rate is 4.75%. These are important differences. They are justified by the fact that we all have mandates and responsibilities within very different environments. What counts is that because we are credible in aligning expectations with our own definition of price stability, we have a financial environment that is extremely favourable to both. If I said to you that after due consideration we think that it would be better to have a 2.5% or 3% rate, you would immediately find the entire world aligning their medium- and long-term market rates to take account of the fact that the ECB had said that the definition of price stability for which it is responsible would change. All our market interest rates would rise immediately. We are living in a world of transparency, in a world of decentralised, free decisions taken by all market participants, investors and savers the world over: in New York as well as in Tokyo; in Shanghai as well as in Hong Kong; and in Frankfurt, Paris, Rome, Madrid, Luxembourg, Brussels, Amsterdam, London and Dublin. That is the world in which we live. We operate under the watchful eye of the all market participants throughout the world.

As regards oil, I will only say that we have to be very vigilant about the possible second round. Everything depends on the risk and danger of possible second-round increases triggered by the first-round increase in the price of oil. We are reflecting on the medium-term perspective. This is what we have in mind. We had to be vigilant. Nevertheless, the first and second oil shocks of the 1970s and early 1980s were not of the same nature as this oil shock. Fortunately we have seen a much less serious increase, in nominal terms, in the price of oil.

Secondly, we are much less dependent on energy in general. Thirdly, we are much less dependent on oil, as far as energy consumption is concerned. Per output, our understanding in the ECB is that we have reduced by half our sense of dependence on energy per unit of output since the first oil shock. These are important factors that we should keep in mind.

On exchange rates, I will refer you back to the G7 communiqués of Boca Raton and Washington and I will not comment on this particular point.

As regards the definition of the kind of recovery we are currently experiencing, we can say that we have seen small signs of recovery but that it is weak and uncertain. When I referred to the figures produced by the ECB staff, which were published very recently, I also said that we were in line with what I understand is the general feeling among international institutions and the mainstream of market participants. We will see how it goes. We are very pragmatic. We look at facts and figures. In this respect we have to be very humble. So far, however, this diagnosis of a gradual recovery progressively materialising has been confirmed. I am not particularly optimistic. I am lucid. Those who were overly pessimistic were, fortunately for all of us, proved wrong. It is normal, after all, in a totally transparent world where everybody has access to all information, that we should have both schools of thought. I accept that. It is a normal feature of our present world. We have to crystallise our diagnosis and take decisions accordingly. My feeling is that we are in line with the overall environment of the ECB. Our own assessment of price stability is more or less ratified by the expectations I have mentioned.

I would confirm that structural reforms are essential to growth and new jobs. We are convinced of that. We will do all we can to back those governments and parliaments that are embarking on these reforms. We are fully aware of the difficulty of implementing the reforms and of the resistance of some components of society. We understand why. They do not see the link between these structural reforms and growth and job creation. It is up to us and others to help demonstrate that after a certain period of time those countries that have embarked on structural reforms, and that had mass unemployment before, will benefit from the reforms and may see a significant fall in unemployment.

As regards how the definition of price stability is linked to the conditions for growth and job creation in Europe, it is very important, in terms of this anchor for all expectations, that we have a definition that is less than or close to 2%. It was implicitly a definition in line with a currency that had a high level of credibility and therefore had the lowest level of market interest rates at the moment of the introduction of the euro.

As regards ERM II, we now have four currencies in the system: the Danish krone and three new currencies from the ten newcomers. We are fully satisfied with the way in which it has operated. It was implemented in a very professional fashion, after appropriate discussion on a bilateral basis with the three countries concerned. It was most important that there should be a very smooth entry. It was particularly important to our Danish friends that the ERM II mechanism would continue to function as smoothly as before. They were alone in the ERM II mechanism before the new entries. They were fully satisfied with the functioning of ERM II. One of their main messages was that it must continue to be run very efficiently, smoothly and professionally. That was the case. We are dealing with a very delicate issue there. I do not want to elaborate on what will happen next. All I can say is that entry into the euro area – when the time comes – is a very important decision. Entry into the euro area is for forever. One has to be absolutely sure that everything is in order at the moment of entry, as regards convergence. It is in the interest of the countries concerned. If they make a mistake at entry then they cannot correct the mistake. It is also in the interests of the euro area. Participants have to remain as credible as they are today and as they have been since the beginning of the chairmanship of my predecessor.

As regards relations with the authorities of the ten countries, they have been excellent. We have seen very close cooperation with the central banks and their governors. I am very happy with the meetings we have had. We have had bilateral and multilateral meetings with them. They are members of the General Council of the ECB. We have had the pleasure of seeing all the members around the table. Very recently we held a General Council that was a success.

It is a great joy to us that we are so numerous. I would like to express my enthusiasm for enlargement and the fact that we are now 25. I know that the 10 newcomers have no opting-out clause so they explicitly say that in the normal course of events they would enter the euro area when the time comes, when all criteria have been met and when they are fully ready.

3-046

Trichet, *BCE***.** – Je répondrai à M. Barón Crespo en français, puisqu'il a eu la gentillesse de parler français. C'est une grande joie que de le retrouver. J'ai des souvenirs de toutes nos réunions antérieures.

Je voudrais simplement lui confirmer que nous sommes tout à fait prêts à accompagner des modifications de la branche préventive du pacte de stabilité et de croissance. Je l'ai dit très clairement et, bien entendu, cela dépend de ce qui sera finalement décidé. Mais nous voyons beaucoup de possibilités d'amélioration assez substantielles pour toute cette partie-là.

En revanche, je l'ai dit, pour la partie corrective, nous pensons qu'il est très important pour la stabilité du système de rester avec cette ancre nominale des 3 % sans affaiblir l'ancre nominale des 3 % et donc sans toucher au texte lui-même. Encore une fois, un certain nombre de choses ont été dites par la Cour de justice sur la coopération nécessaire entre la Commission et le Conseil.

3-047

La Présidente. – Merci beaucoup, Monsieur le Président, de ces premières réponses de ce premier dialogue de la législature. J'ai conscience de toute la frustration de tous les collègues qui n'ont pas pu poser de question, mais je crois que ce premier échange aura été extrêmement fructueux, évidemment centré sur la question du pacte. Nous aurons d'autres occasions de vous retrouvez ici ou à Francfort et nous nous réjouissons de ce dialogue permanent ainsi engagé.

(La réunion est levée à 12h40)