1-001

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, MONDAY, 7 DECEMBER 2009

1-002

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

(The meeting opened at 14.05.)

1-003

Jean-Claude Trichet, *President of the European Central Bank***. –** Madam Chair, members of the Committee on Economic and Monetary Affairs, this is our first meeting since the entry into force of the Lisbon Treaty.

The new treaty is certainly a reason to celebrate, in Europe generally, here at the European Parliament and also at the ECB. It will make the Union stronger, more effective and more efficient. The powers and responsibilities of the European Parliament increase, the ECB formally becomes an institution of the European Union and all its essential features, above all its independence, are confirmed.

1-004

(FR) We look forward to cooperating with Parliament in future within the context of the new treaty. In my view, this cooperation has been of the highest quality over the last few years.

1-005

(DE) Today's hearing is devoted to three important subjects: firstly our estimation of the current economic situation, secondly our exit strategy for phasing out the exceptional monetary measures that we introduced at the height of the crisis, and thirdly, the subject of systemic risks in the financial system.

1-006

Let me turn to the economic and monetary developments. The economic situation and outlook have continued to improve since my previous hearing before this committee only 10 weeks ago.

The euro area economy shows increasing signs of recovery. Economic activity in the third quarter is estimated to have increased by 0.4% compared with the previous quarter. In 2010 we expect to see a moderate recovery. This is in line with the latest Eurosystem staff projections, which were published last Thursday. However, these expectations remain surrounded by a high level of uncertainty. In the view of the Governing Council, the risks to the outlook remain broadly balanced.

As regards price developments, inflation and inflationary pressures have remained low over recent months. In line with our expectations, inflation rates turned positive again in November, reaching an estimated 0.6%.

Looking ahead, we expect inflation to remain moderate over the policy relevant horizon, in line with a relatively slow recovery in demand. Indicators of inflation expectations over the medium to longer term remain firmly anchored, in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term.

Our monetary analysis confirms the assessment of low inflationary pressures over the medium term. In particular, we see that money and credit expansion continues to decelerate. In the case of loans to households, the latest data provide further confirmation of a levelling off at low rates of growth. The growth of loans to enterprises follows turning points in the business cycle with some lag. The still subdued levels of production and trade, coupled with broader uncertainty regarding the business outlook, will dampen firms' demand for bank financing also in the coming months, especially for short term loans. At the same time, overall financing conditions continue to improve, which should support the demand for loans in the period ahead. Thus, at present we see no signs of a credit crunch for the euro area as a whole. We are monitoring all developments very closely.

It is against this background that the Governing Council continues to view the current level of key ECB interest rates as appropriate.

In response to the financial crisis, as the committee knows, the Eurosystem has introduced a number of non standard measures since October 2008.

As I explained to you before, the five key elements of our enhanced credit support have been the following: fixed rate full allotment; an expansion of the list of collateral; longer maturities for refinancing operations; liquidity provisions in foreign currencies; and financial market support through a measured but significant covered bond purchase programme.

These measures have served the economy well in critical times. They have supported the ability of banks to provide credit to the euro area economy, ensuring that money and credit market conditions properly reflect the monetary policy stance decided by the Governing Council.

As you know, all our exceptional measures were designed with phasing out in mind. In most cases, the phasing out occurs naturally, and our operational

framework is sufficiently flexible for us to be able to adjust liquidity conditions when warranted. Our institutional independence means that we are unrestricted in our ability to implement the appropriate decisions.

I have always stressed that the phasing out would be timely and gradual. It must be timely, because one should exit neither too early, nor too late – any ex ante bias is not justified. The phasing out must be gradual, because the situation is improving only gradually and downside risks remain.

Last Thursday, we took a decision to initiate the gradual phasing out of some of the extraordinary liquidity measures, as they will not be needed to the same extent as in the past. This will avoid distortions associated with maintaining non standard measures for too long. It is important to avoid a situation in which banks are heavily dependent on exceptional central bank financing.

In the context of the stabilisation in the money markets, incentives have to be strengthened for banks to restructure their balance sheets through recapitalisation. In addition, a timely and gradual phasing out should help activity in the money market and strengthen peer monitoring among banks.

It was against this background that the Governing Council decided to adjust the design of some of our refinancing operations. We will continue to fully accommodate banks' liquidity needs at fixed interest rates in all our main refinancing operations for as long as is needed – and at least until mid April next year. We thereby continue to provide liquidity support to the euro area banking system so as to facilitate credit provision to the euro area economy. As regards our one year operations, we decided to not engage in further one year operations beyond the December operation that was already announced.

The improved conditions in financial markets have indicated that not all our liquidity measures are needed to the same extent as in the past. Similarly, it is our intention to discontinue the six month refinancing operations after the last operation at the end of March next year.

Allow me to say a few words on the broader implications of our decisions on non standard measures, with a particular focus on the EU Member States outside the euro area. Macroeconomic and financial conditions in these countries seem to have stabilised, although there are significant differences across the region. A general 'sudden stop' in capital flows to central and eastern Europe has not materialised. The significant presence of foreign banks seems to have had a stabilising effect in this regard, as parent banks have, to a large degree, been able to maintain their exposures to the region. The ECB's extensive liquidity provision to parent banks established in the euro area has contributed to this. In addition, the ECB has provided liquidity support to some non euro area central banks in cases of market malfunctioning or to facilitate the functioning of the international financial system.

Finally, I would like to add a few comments on fiscal exit strategies. Many euro area governments are faced with high and sharply rising fiscal imbalances, which are not sustainable over the longer term. This could weaken public confidence in the sustainability of public finances, with adverse effects on market sentiment, leading to less favourable medium- and long term interest rates. Unsustainable fiscal positions may also complicate the task of our monetary policy to maintain price stability.

Communicating credible fiscal exit strategies is therefore crucial in order to anchor expectations. Such strategies need to include credible measures, notably on the expenditure side. As agreed by the Ecofin Council last week, governments need to set out concrete and quantifiable adjustment measures that will lead to a sustainable correction of fiscal imbalances. Several countries will have to start consolidation in 2010, and all others in 2011 at the latest.

Let me now turn to the last topic we selected, namely the issue of systemic risk in highly interconnected financial systems and ways to address it.

Systemic risk is the risk of a broad based breakdown of the financial system. It results from an impairment of the financial system, generally resulting from the high degree of interplay and interconnectedness within the system. Systemic risk is distinct from the risk that can affect the safety and soundness of individual financial institutions. Furthermore, systemic risk, when it erupts, is certain to seriously affect the financial intermediation process to such a degree that there are negative spill overs to the real economy.

The crisis has illustrated that systemic risk may be triggered by the collective behaviour of institutions and the manner in which they interact in financial markets. It has highlighted the importance of improving our knowledge and assessment of interconnectedness in the financial system, both via the direct links between financial institutions and the indirect ones created in financial markets.

Micro supervisory assessment, institution by institution, typically investigates the vulnerability of each entity, under various assumptions of stress. In contrast, systemic risk assessment investigates the possibility of the whole system, or significant parts of it, being vulnerable, and considers that major risks may emerge from the financial system itself. Such risks may arise, for example, because large parts of the system might have similar exposures, may rely on the same funding sources, can be exposed to rising financial imbalances, may comprehend large similar currency or maturity mismatches which would themselves induce liquidity vulnerabilities, and can be exposed to large scale underassessment and mispricing of risks. In the assessment of the systemic risk of the financial system

itself, the judgement on the robustness of financial infrastructures is particularly important.

One important issue in assessing systemic risks is to measure the degree of procyclicality which is embedded in the financial system itself, namely the capacity of the system to amplify fluctuations and to produce after a certain period of time excessive booms and busts starting from relatively modest initial shocks, up or down. This 'procyclical systemic instability' of the system is itself a very complex concept which calls for analysis of the interplay between diverse phenomena such as herd behaviour, contagion from common or correlated exposures, counterparty relationships, and the undesired procyclical effects of prudential rules, of accounting rules, of the behaviour of credit rating agencies etc.

Another important domain in assessing systemic risk is the analysis of the inter linkages between the financial sector itself, taken as a whole, and the real economy. Financial imbalances often mirror real economy imbalances. The adverse feedback loop between a fragile system, prone to procyclicality, and the real economy might be devastating, as has been demonstrated by the recent crisis experience. This means that unsound macro policies over time, including macro imbalances, can themselves trigger financial imbalances, which in turn would aggravate instability and fragility in the real economy.

Sources of systemic risk are particularly difficult to assess. By definition, they stem from the interrelations between the various elements in the system and are hence inherently complex. We know that the evolution of systems under stress is particularly difficult to capture. Furthermore, the materialisation of a risk is very often a sharp, abrupt, rapid non linear phenomenon which calls for non standard analysis. For example, in a very large and highly complex financial system, the channels through which risks are propagated are difficult to capture comprehensively. A deep understanding of leverage, correlations and concentrations of exposures is key in this respect, but the identification of the different channels of propagation does not suffice. The robust modelling of the system is, in itself, a formidable challenge.

In practice, analysts can rely on early warning indicators and models, indicating when clusters of financial institutions or markets of systemic relevance are approaching 'danger zones'. In assessing the resilience of the system, macro stress tests have become an important part of the risk assessment toolkit. They can also help in prioritising the risks identified and are a pertinent tool to support the formulation of policy recommendations.

Central banks and supervisory authorities around the world are working to enhance and develop those tools. In my view, the European Systemic Risk Board (ESRB) can make a significant contribution in fostering systemic risk analysis, coordinating analytical efforts and concentrating central banking and supervisory expertise from all EU countries. I am also confident that the role of the ESRB in translating risk assessments into appropriate risk prioritisation, early warnings and concrete policy recommendations to mitigate systemic risks will contribute to the much more resilient EU financial system we are all looking forward to.

1-007

Burkhard Balz (PPE). – *(DE)* In view of the time, I have three short questions. My first question relates to the exit strategy that you mentioned and the non-standard measures. You have just described how you are removing liquidity from the market. I would be interested to know how this is being coordinated with the national authorities, the finance ministers, who have, of course, also put in place their own programmes to a large degree and who are naturally also cutting back accordingly on some of these programmes now. Thus, it is the coordination that I am interested in.

Secondly, within the context of your non-standard measures, you have, as the European Central Bank, also accepted some – significant I would say – risks onto your own books. To what extent have you assessed these risks? How often are these risks assessed? And are these risks also constantly monitored? The second part of my question is if these assets are then to be removed from the books do you plan to do this earlier rather than later? I would be also interested to hear the answer to that question.

My third question is: you explained very well that there is a credit crunch in some areas. Now that consumer confidence is returning and growth is also returning to the euro area, there are nevertheless concerns that the crisis will continue to get worse yet because banks are not able to provide as much credit as the market is actually demanding. To what extent do you have connections with the large European banks and to what extent are they coordinating with one another? As the European Central Bank, do you envisage taking renewed short-term measures in this regard?

1-008

Jean-Claude Trichet, *President of the European Central Bank***.** – As regards the progressive, gradual and timely unwinding of our non-standard measures, they are unwinding naturally. They have been designed for that purpose and they are accompanying what we are observing on the market itself. It is absolutely clear that the market situation when we introduced those measures, after the collapse of Lehman Brothers, was very different from the situation today. That is the reason why we have taken a number of decisions.

This is very clear. We always said that we would unwind – again in a gradual and timely fashion – our non-standard measures to accompany the fact that the market is obviously behaving much more properly than it was at that time. It seems to me that there is a very good understanding by the different national authorities of what we are doing. They themselves are being asked exactly the same kind of questions, but in a very

different manner from country to country, because in some countries, as you know, the situation in the financial sector has been particularly difficult and acute. In other countries it was less difficult, so there has been an adjustment to the situation by each nation. So, I see no particular problem as regards your first question, namely the interface with different national authorities.

As regards the second question, we are looking very carefully at the situation as a whole. As I mentioned in my introductory remarks, we see no sign that we will have a significant supply-of-credit problem. We do see that the credit outstanding is diminishing as regards the non-financial corporate sector, particularly for credit of less than five years. For credit of five years and more, we are still seeing an increase in the credit outstanding, month after month, which might be explained by a number of reasons. Taking everything into account, the credit outstanding is diminishing month after month now but, since we are looking at it extremely carefully to understand exactly what is going on, we see clearly that the demand for credit has diminished, as is always the case after a recession.

We had a recession. We are now seeing black figures for growth but, as you know, we had a recession of great amplitude, so the fact that the demand for credit is much weaker than before is unfortunately a phenomenon that is always associated with such a cyclical episode. Again I would say that, after analysing the situation very carefully, we see that demand is the major factor.

On the last element of your question as to whether we could still have shocks or major difficulties, I would say yes. We have to remain alert. It is clear that we are still in a situation which calls for alertness – a situation where unpredictability remains an important factor and where uncertainty must unfortunately be regarded as a major element that always has to be taken into consideration.

1-009
Othmar Karas (PPE). – *(DE)* The Council did not issue a statement on the supervision of the European financial markets until last week. The European Parliament issued an immediate cross-party response to the effect that this was a disappointing statement. It will not receive our approval. What is the European Central Bank's view of this proposal? That is my first question, as the proposal moves away somewhat from what we need, namely more integrated European financial market supervision.

Secondly, an intense debate is going on about the leverage ratio. The European Union had provided for the leverage ratio, but following consultation removed it. The Americans have introduced it, but have set it very low. What components would you include in the leverage ratio?

Thirdly, Iceland has announced that it wants to join the euro by 2014 and Greece has a more than 12% deficit. What is your opinion of these current statements from these two countries?

1-010
Jean-Claude Trichet, *President of the European Central Bank***. –** Your first question, as I understand it, is of course very wide-ranging because you are asking for the ECB's views on the supervisory package envisaged by the Council. I would say at this stage that of course I expect it to be a matter of great interest for Parliament. As you know, this is not what I would call our 'first best' solution in the view of the ECB, and I can be more precise on that of course. But nevertheless I would say that, taking into account the complexity of the sensitivities and the relationships between the various governments concerned inside the 27, I consider that the Swedish Presidency did a good job. So I would say that, while it is not our 'first best' solution, it is certainly a result which is quite remarkable when you take into account the very difficult constellation of sensitivities which existed within the ambit of the various executive branches in Europe.

As regards the leverage ratio, as you know there is intense discussion inside the governance of the Basel Committee grouping and inside the Financial Stability Board on the lessons to be drawn from the present crisis.

The idea of working very hard to avoid procyclicality is a major avenue for improving the situation of banking prudentials.

Also the idea of having the Basel II weighted capital requirements – weighted according to risks – themselves comprehensively envisaged and not, as was the case with Basel I, forgetting, for instance, the risks embedded in the securitisation process. All this is also very important.

On top of the capital requirements based on weighted risks the idea of having a plain leverage ratio is envisaged and has been discussed, and the Basel Committee is continuing to work on it. This ratio should not normally be used in the front line: I would say you should normally have the weighted risk capital requirements in the front line. But as a fall-back requirement and a means of avoiding aberrant situations the leverage ratio could play a role. This is being discussed at the level of the Basel Committee.

The third point was about two totally different countries as I understand it. One is outside the EU. The other is in the EU and in the euro area. I would not make any comparison myself. I would just say that the situation in Greece is very difficult, obviously. We all know the figures and we all know the very important and courageous decisions that will have to be taken to put the situation back on track, both as regards the fiscal policy and, I would say, the macro-strategy of the country.

So this calls for very difficult, very courageous but absolutely necessary measures. I am confident that the

Government of Greece, being completely lucid, seeing the situation, which is an objective situation, will take the appropriate decisions.

1-011
Markus Ferber (PPE). – *(DE)* Mr Trichet, are there indications that banks are using the liquidity provided by you, in other words the European Central Bank, to speculate on a large scale, with the result that a new bubble is being created? We were talking earlier about the credit crunch, then on the other hand you also mentioned the extensive provision of liquidity. My question is, therefore, whether there is large-scale speculation going on that is creating the next bubble. If so, should the liquidity not be withdrawn? Would you also take appropriate action? If it is not the case, how is it that the cheap money that you are providing as liquidity is not ultimately reaching those who want to take out credit? I hope that was sufficiently brief, Madam Chair.

1-012
Jean-Claude Trichet, *President of the European Central Bank***. –** This question is extremely important. We have to wait permanently – we at the ECB and, I would say, at all the sister central banks – to see which risks are associated with the measures that we have taken in exceptional circumstances because we were in the heat of the crisis: the risks that we take whether we exit the unwinding too early or too late. That is the reason why I said very clearly that there is no acceptable *ex ante* bias. We are very often called to consider that there are more risks associated with an early exit than risks associated with a late exit. We do not accept that *ex ante* bias. The situation is such that we have to find the exact and appropriate way of balancing the risks. Your question is extremely pertinent.

First of all, that is the reason why last Thursday we took the decision we did. We considered that it was time – gradually, progressively and in a timely manner – to start the unwinding of these exceptional measures. That being said, we have a very clear message for the banks. We are telling them that everything we have been doing has not been done, I would say in French, if you permit, '*pour vos beaux yeux*' – for your beautiful eyes: it has been done because you have an essential role to play in market economies. You have to sort out risks and lend. That is your function, and everything that we have been doing – and I dare say that everything that has been done by the governments, by the parliaments and by the taxpayers, the risks that have been put on the table – has been done exactly with the same purpose and certainly not for any other purpose. It is a very strong message.

That being said, I also have to say that our analysis at the moment is that the main reason for what we are observing on the credit-outstanding front is due to demand and not due to a credit crunch, which would be a supply problem. But that does not prevent us from being very strong in our message to financial institutions in general and to banks. Those who think that nothing has happened, and that we are now in a 'business as usual' situation because the market is functioning again, are plain wrong. We have avoided a depression because we were prompt enough, and bold enough, to take these measures I have just mentioned. When I say 'we', I mean we, the central banks, and the governments themselves. Not realising that is wrong because, again, I dare say that I do not expect that the taxpayer could twice put on the table the risks that they put there to avoid a depression. So we are absolutely bound to put the system in a much more resilient mode. That is absolutely indispensable.

1-013
Edward Scicluna (S&D). – From the previous replies, can I therefore take it that with regards to the reversibility of these five non-standard measures, they are all reversible, but it depends on the timing – in other words, if left too long, there could be difficulties unwinding them?

The second meaning of reversibility concerns the exit measures themselves. Can we say that in the worst-case scenario, when you are taking this exit strategy, it can be stopped, or is there a momentum which makes it difficult in the case of, as I said, a worst-case situation?

Finally, the ECB says that it will not wait for European governments to commence their own fiscal strategy. We can understand that: that is too complicated as compared to one institution which is independent like the ECB; you have so many governments in the eurozone, all with different problems and different programmes. But do you foresee any problems in this regard?

1-014
Jean-Claude Trichet, *President of the European Central Bank***. –** I would say of course that this question is extremely important.

As I said, we try to judge the appropriate moment to accompany the improvement that we are observing in the financial markets in general and the money market in particular, and therefore to take the appropriate decision.

We have to balance the risks of taking too long to unwind the non-standard measures against the risks of acting too early. We reject, as I have said already, the idea that we should have an *ex ante* bias, and your first remark, which is extremely pertinent, was perhaps stressing the dangers that are associated with the unwinding process taking too long, and being too late. I agree with that. There is then a danger that markets could become 'addicted', and we are back to the previous question on the counterproductive effects that might have on speculation on different markets with different kinds of financial instruments. So that is a very important point: we have to be timely.

The second point. Could you be blocked at a certain point and unable to stop some measures? I trust that all the measures we have designed ourselves have been designed to permit unwinding. I do not think that this is challenged by observers or by market participants and so I would be inclined to say, or rather I really think, that we will not be trapped in such a situation.

Of course I said also that we were in a largely unpredictable situation as regards the future. Uncertainty remains of the essence and we are guided by our objective observation of the money market and the financial market. But my feeling is that we will not be stopped at any point by the intrinsic nature of the non-conventional measures that we have taken.

As regards governments, I would say, let us consider what is happening in practice. In a number of cases government support measures are already being unwound. I see that in a large number of countries commercial banks are repaying the government loans or the government support that has been given, sometimes in the form of stocks and shares of various kinds.

So you see that the fact that the market is behaving much better also calls for the 'natural' unwinding, if I can use that term, of some of the measures that have been taken.

Also, in a large number of cases the option of guarantees for medium-term refinancing designed for a number of banks is not being utilised in practice because the market is functioning better.

So it seems to me that what we are observing now, for reasons that are very natural, is the parallel unwinding of a number of the forms of support which have been given and are no longer appropriate or needed. Of course this is a good thing, and of course it would be wrong to continue to provide support which is no longer necessary today.

1-015
Arlene McCarthy (S&D). – Mr Trichet, I want to come back to this point about the relationship, and the role you will play, with the European Systemic Risk Board (ESRB). I really want to know how you are going to ensure very close cooperation on the analytical work and research, the information and the analysis you will gather in relation to the ESAs. I would like to know how that is going to work.

I also understand that you have already begun a programme of data collection and knowledge gathering on systemic risk – to prepare the work, obviously. I would like to know what that involves. How far on are you? Who is doing the work? Is it being done in-house? Are there any early lessons that you are able to learn from the work that you have carried out? Have you already started a recruitment procedure for those people who are going to work on the ESRB functions?

1-016
Jean-Claude Trichet, *President of the European Central Bank***. –** First of all, I think that the ESRB itself has been designed to permit close cooperation with the work of the ESA. The heads of the authorities are members with voting rights in the ESRB and the design of the ESRB is such that there is close cooperation with the micro-supervisors.

So, it will be extremely important to ensure that all the relevant information in the hands of all participants in this exercise – the Central Bank and the supervisory authorities, including those at national level – functions as well as possible. It is the clear desire of the central banks themselves to participate in this exercise in as confident and as professional a way as possible, again with a view to concentrating not on the micro-supervision – and it has clearly been designed to avoid any blurring of responsibilities – but on the systemic aspect itself.

As regards knowledge and information gathering, we do a lot of work on financial stability in the ECB and in the central banks in general. This is an important responsibility that we have. It is because the central banks have a stake in medium- and long-term preoccupations and in price stability and financial stability, and because they are independent, that it has been considered appropriate to give these 'wise' institutions this responsibility of concentrating on the systemic risk – again without substituting any particular institution and without blurring responsibilities. We are therefore doing a lot of work on both the practical and the conceptual aspects. A lot of work has to be done all over the world and especially in Europe given our further ambition to have a single market which functions as well as possible. This is extremely important at the level of the 27 when we speak of the Risk Board.

Inside the ESCB, we have started a procedure to take advantage of the knowledge that exists and of the specialised staff in the 27 central banks in order to ensure that we involve not just the ECB, with its own knowledge and accumulation of human capital, but also the full body of the ESCB, in this new responsibility that I know Parliament has been very keen on since the very beginning.

1-017
Sylvie Goulard (ALDE). – *(FR)* Mr Trichet, let us continue, if you do not mind, with this issue of supervision. You responded to Mr Karas, who expressed a view shared by many, namely that we wanted to be ambitious in this Parliament. May I ask you how your 'first best' solution is to be interpreted in relation to these issues and, in terms of the work that we will have to do within Parliament, now that the Council has outlined its vision, what, in your view, are the most important elements when it comes to strengthening these supervisory bodies, given that it is very important for us, as you said, to show the populations that we are not taking a business as usual approach and that we want a risk control system that is genuinely effective?

1-018
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* Thank you very much, Mrs Goulard. I shall summarise the 'first best' solution as simply as possible.

As far as the European Central Bank is concerned, we have always expressed the view that a central bank that is close, very close, but strongly linked to micro-

supervision is a better idea than a central bank that is totally isolated from micro-supervision. We said this in the Governing Council of the European Central Bank long before the crisis. We said it publicly. This was our position long before the crisis.

When we were questioned by the de Larosière committee, we said that we, the ECB, were willing to exercise, where necessary, an arbitration role as regards the micro-supervision of banks and financial institutions carrying out cross-border operations within the eurozone. Thus the European Central Bank, as the Central Bank of the eurozone, not as a European institution at the level of the 27, could have performed this role, but it was not taken up by the de Larosière committee and it was not taken up, as you know, by the Council or the Commission, either. I mention this in passing.

The second 'first best' solution that we also adopted was the one that consisted in the prudential supervision authorities, where appropriate, having as many responsibilities as possible at European single market level. On this occasion I stand on the side of the 27. It is clear that what was decided does not correspond to our 'first best' solution at the European Central Bank. However, I also said that I paid tribute to the Swedish Presidency's ability to achieve a result in spite of a constellation of very different positions.

Yes, of course, I am before Parliament and I am well aware that Parliament holds a key. I have no doubt about that. That is why I am very happy to reply to the question that was put to me concerning our 'first best' solution.

That is everything as regards micro-supervision and as regards your question, Mrs Goulard.

1-019
Kay Swinburne (ECR). – I would like you, if you are able to, Mr Trichet, to comment on the current strength of the euro vis-à-vis the other major reserve currencies, particularly versus the major countries in which the eurozone exports.

Given that, in the hearings we held last week, it was highlighted that the Swedish model was successful in the early 1990s only after the Swedish krona devalued, and then they had a decade of very strong export-led growth, a growth-led strategy for recovery, given the strength of the currency in the euro area at the moment lessening the opportunities for export, might be quite challenging.

Could you comment on the strength of the euro and the growth strategy going forwards?

1-020
Jean-Claude Trichet, *President of the European Central Bank***. –** There are two questions in your remarks and in the question you are asking. One is on the euro vis-à-vis the other major floating currencies, and the other is on the functioning of the single market itself inside the 27, with the various currencies involved.

As regards the position of the euro as one of the major floating currencies, I would say something that you know I consider extremely important, namely that the US authorities state, and are very keen on repeating, that a strong US dollar is in the interests of the United States. I would say that this is also in the interests of the partners of the United States inside the major floating currencies constituency, and is also very important for the stability and the prosperity of the global economy.

Still on the position of the euro as one of the major floating currencies and as regards currencies that are not floating at the global level – particularly those of emerging countries and especially in Asia, which are at a level that is under-assessed for a number of reasons including intervention – then I would say that a gradual, progressive and orderly appreciation of these currencies vis-à-vis the dollar and the euro, i.e. the major floating currencies, is certainly something which is also in the interests of global prosperity and stability.

Turning to inside the single market, the Treaty says that the exchange rate relationship is a matter of common interest. I would say that it is important that no particular country claims it is very happy to have a currency which is as weak as possible inside the single market of the 27. We are in different situations. We have to cope with different situations, but I am sure that no country is trying to gain an advantage based on such a policy. That is not the case to my knowledge, and certainly not the case in Sweden in particular.

1-021
Philippe Lamberts (Verts/ALE). – *(FR)* Thank you, Mr Trichet, for your usual straight talking. I shall therefore continue in English, while challenging you to continue along the same lines.

1-022
The thing that does concern us – and I would really like to have your candid views on this – is what has been referred to in the press of late as the quasi-fiscal role that the ECB has assumed as part of its enhanced credit support. By that, I mean the fact that the Bank has accepted as collateral all sorts of instruments, including asset-backed securities, for which we have no real clarity or understanding of the way you value them. It is of course important to value them because we want to understand to what extent those banks that come to you with such securities actually receive support that may distort competition within the single market versus others. It is also questionable whether it is still within the remit of the ECB to operate in that way. That is my first question.

My second question – and one that is quite hard to answer – is: how big still, according to your estimates, is the exposure of EU-based financial institutions to losses that they could incur in 2010-2011? There are all sorts of figures circulating – half a trillion, a trillion, things like that. What is your view on that?

1-023

Jean-Claude Trichet, *President of the European Central Bank***. –** As regards the first question, before the crisis started on, for us, 9 August 2007, when the turbulences began, we had, as you know, a collateral framework which was more open than the collateral framework of a number of central banks. We were accepting not only public papers as guarantees, but also private papers. As you might know, on the other side of the Atlantic there have been big changes in their own way of looking at collateral, and they have decided also to accept private papers because of the crisis. So the fact that we have accepted ABS and private loans since the very beginning is something which, again, is in line with what we had decided since the very beginning of the euro, not just at the time of the crisis. During the crisis we have enlarged the collateral framework, but we have also always said that we are following our risks extremely closely. Recently you might have seen that we have taken decisions that were justified by the fact that we specifically wanted to avoid taking undue risks in this domain.

As regards the way we value the ABS, we have our own way of going through a hub in the system. This is done by the system itself in ways which I considered appropriate but that we can improve at any time if we judge that they should be improved – as we have demonstrated very recently, because the last improvement dates from only a few days ago.

As regards the exposure of our banks in the euro area to future new impairments or write-offs, I would say at this stage that you are right to say that we should be very cautious and prudent, because there are a number of figures that have been presented and have been changed. The IMF has embarked on this exercise. We are ourselves prudent. We are much closer because the IMF has reduced its own level of assessment, but it is always a little difficult because the banks are not at all in the same situation. You have banks that are in a very good situation and were very prudent and cautious, and others that were not. You also have to take into consideration that, at the moment, in the euro area, the previous ancient toxic assets are certainly not the main problem, even if the idea might persist in articles and perhaps in public opinion that look to the past that this is the main problem. It is not the main issue at all. The main issue has already been mentioned. We have had a recession which has been very strong. We are in black figures now, but there are lags and there are a number of credits that would call for write-offs. Then you must have the appropriate provisioning. At the present moment, however, I would say that, taking the banking system of the euro area as a whole, the provisioning that has already been made, the provisioning which will be made and the profits that are expected in the year to come until, say, the end of next year, would be commensurate with the new write-offs that are likely to come out of the lag effects of the recession.

1-024
Nikolaos Chountis (GUE/NGL). – *(EL)* Madam Chair, Mr Trichet, when EMU and the euro were introduced, no provision was made for a borrowing mechanism of last resort for a country facing problems or in which speculation is rife. If the country does not belong to the European Union, it can either print new money or take recourse to the International Monetary Fund in such cases. If the country belongs to the European Union but not to the eurozone, as you said today, if I understood you correctly, provision has been made for a borrowing mechanism.

However, for countries which are in the European Union and in the eurozone, such as Greece, no provision has been made for some such mechanism for borrowing from the European Central Bank. So what happens in practice? The Greek merchant banks borrow from the European Central Bank at a rate of interest of 1% and then lend to the treasury at a rate of interest of 4% and, as you will appreciate, it is a risk-free investment which borders on speculation. This situation creates an impasse in which the merchant banks win and the real economy, which does not see any of the European Central Bank's money, loses.

This being so, I ask you, Mr Trichet, what is your take on this situation? How can this problem be addressed? And, as you referred to Greece, what did you mean by 'courageous decisions that will have to be taken'?

1-025
Jean-Claude Trichet, *President of the European Central Bank***. –** I would say first that it is not by chance that the euro-area countries are not eligible for some exceptional measures like, as you mentioned, the IMF or the balance-of-payment aid coming from the EU itself.

The very fact of belonging to the euro area means that the current account deficit is automatically financed, so immense help is given by virtue of belonging to it and there is per se the formidable help in the implicit, but extremely important, solidarity that exists between the various countries belonging to the same single currency area. That has been very visible lately.

As regards the measures that need to be taken, these are governed by the situation. You ask the question with regard to one country, but it is extremely important for all countries, without exception, to be able to reassure their households and corporate businesses, whether financial or non-financial, that they have a sustainable strategy for their public finances.

If that is not the case, you have an absence of confidence in both the household constituency and the corporate constituency. How could you have a recovery if there is no confidence in those two constituencies?

There is also, of course, the price of refinancing the treasury. If there is no confidence because there is no credible medium-term or long-term strategy and no sustainable strategy in the fiscal domain, how would you diminish the spreads? The market has no particular reason to be more confident than households and corporate businesses, and then you have a lot of difficulty due to the fact that refinancing the state is a problem. You very rightly said that the treasury remains

the best signature and that is true. In all countries, the treasury is still considered the best signature, even if that signature has problems. If it is the best signature, then it means that all the other private-sector participants would have to refinance themselves and get access to credit at a higher price.

So these are very strong reasons to take the decisions that would ensure credibility in the medium- and long-term strategies to redress the situation.

1-026
Hans-Peter Martin (NI). – *(DE)* You certainly have at present one of the most responsible and arguably most interesting jobs in the entire world. As far as Greece is concerned: at the beginning you said twice that you deem the situation there very, very critical. What does that mean? Could you perhaps be a little more specific with regard to this? Would you go so far as to say there is even a danger that the situation could progress in a similar way to the one experienced in Argentina. Could you envisage Greece having to leave the eurozone, because it is emerging time and again that it would not, in fact, have been permitted to join in the first instance? That is my first question.
My second question is that if you now look at what legislative proposals and initiatives are in the pipeline at national and European level in order to try and resolve the problem concerning shadow banks, which were in a position to carry out off balance sheet banking activities and also worked with a correspondingly high leverage, do you think enough has been done to bring such a widespread issue under control?
And my third question is: do you share the view of many observers who feel that your strategy on the part of the European Central Bank will only face the litmus test once the European Bank's one-year fixed tender estimated at EUR 442 billion expires mid-year – or dare I say is this even the precise figure?

1-027
Jean-Claude Trichet, *President of the European Central Bank***.** – On the first point, I never mentioned Greece in my introductory remarks. I had a question on Greece. I did not mention Greece myself. I want to make that clear. Iceland and Greece were mentioned in a question, and I responded to the question as I always should.

I never mentioned the name Argentina. And, responding to another question on Greece, I said that my remarks are valid for any country. Any country. It is clear that in that particular case, as in the case of Ireland, for instance, we are in a situation which is particularly demanding. In the case of Ireland, very tough decisions have been taken by the Government, and rightly so, again because the situation was difficult.

I said that I was confident that the same kind of very courageous and absolutely necessary decisions would be taken in the case of Greece too. Once again, the remarks are valid for all countries at varying degrees of gravity, as everybody can see. It is, however, perfectly true that if you can rely on a credible medium- and long-term strategy, then this is a very important element that would help foster growth and recovery.

As regards the second question on shadow banks, everything that we are doing at the global level, at European level and at the level of the Basel Committee is designed to avoid being trapped again in this shadow-bank anomaly, which was one of the main triggers of the drama that we all experienced recently.

We are all very keen to avoid this kind of anomaly and remove a large part of the risks of financial institutions because of the absence of a sufficient understanding of what exactly is meant by 'securitisation'.

As regards the decisions that we have taken, I must confess that the ECB and the Eurosystem – the European team of the euro area – was put in a situation which was extraordinarily demanding, as were all other central banks in the world and particularly our sister institution on the other side of the Atlantic. We responded in a manner which I trust has been prompt and, when necessary, bold, but without losing the fundamental needle in our compass which is the credible delivery of price stability, thereby solidly anchoring inflation expectations. I say that with some pride. We have, remarkably, maintained the solid anchoring of inflation expectations in line with our definition of less than 2% but close to 2%.

All our actions, including the unwinding of the one-year operation that I have already mentioned, are designed both to respond to the circumstances and to maintain this essential credibility. We are doing this not only because this is what the Treaties and our fellow citizens ask of us, but also because it is a remarkable way of preserving medium- and long-term sustainable growth and prosperity.

This helped us considerably during the period of crisis by preventing the materialisation of the deflationary risk which was important at the time of the crisis immediately after Lehman Brothers.

1-028
Sławomir Witold Nitras (PPE). – *(PL)* I will leave aside the questions you have already answered, even though they always give rise to other ones.

I would like to ask for your evaluation, as you look to the future, of plans to establish institutions for financial supervision. We do not have a common European market of banking institutions, for example. This market is completely different in different countries. In some it is fragmented, and is dominated by local banks which have a significant share of the market. In some countries the market is completely dominated by large international institutions. I would like to ask the following question: can you see the danger of this situation? For some people are starting to say that there is a danger here. Without calling the idea of financial supervision into question, I would like to ask whether, in your opinion, financial supervision brings with it the risk

of large-scale destabilisation of local markets, especially in the first phase of its operation and when binding mediation is introduced. Is this not especially true of markets dominated by financial institutions which have their head offices outside the country?

1-029
Jean-Claude Trichet, *President of the European Central Bank***. –** One first remark – it seems to me that, when we look at the reality of the situation in all the non-euro-area countries and economies that are members of the European Union, the fact that in a number of cases – as is the case in your question – a large part of the banking sector had the presence of foreign institutions has played a stabilising role, because those banks had the capacity to get the liquidity from their group or headquarters.

I also have to say that when we ourselves embarked, after the intensification of the crisis, on such exceptional, non-standard measures as I have already mentioned, we told our banks in the euro area: to the extent that you have subsidiaries, in central and eastern Europe in particular, you have to continue to supply liquidity. What we are doing, we do for the stability of the banking sector in general but with a view that you have responsibility in your group, including in central and eastern Europe. Again, that was part of the part of the message that we sent them at the time and that we still, of course, send them now.

As regards the impact of the new authorities – the timing for which will depend entirely on Parliament's decisions, of course – I do not echo the fear that you are suggesting. It seems to me that it has been appropriately balanced and so I do not see that you should fear unfair – if I understand correctly – functioning of these authorities if there are particular problems in your country.

1-030
Werner Langen (PPE). – *(DE)* Mr President, firstly, I would like to emphasise that the European Central Bank has traded very carefully and steadily during this financial crisis, and stabilisation is in part due to your positive account balance.
On the subject of systemic risks: the financial market has increased dramatically between 2000 and 2007 from three-fold to eleven-fold of real Gross Domestic Product (GDP). Do you think that the financial market, for instance, should shrink back to the levels seen in 2000? And what do you think of the suggestions proposed by America to take steps towards decentralisation within the banking sector? As some banks have become even bigger now than they were because of the financial crisis, the risks for the states have increased and not diminished. And on the subject of systemic risks: are transparent and accurate balance sheet figures not also promptly required? So in my estimation, the problem goes back to the fact that not all risks were in the bank balance sheets and that banks therefore no longer trust each other and that the high liquidity of the Central Bank has not made any significant changes with regard to this issue. How would you rate this?

1-031
Jean-Claude Trichet, *President of the European Central Bank***. –** As regards risk, and the Systemic Risk Board, you asked a question as to whether the shrinking of the financial markets, of institutions, of the banking sector and other financial sectors is opportune. I should not like to give an overly simple response.

I think we have to look at the situation from all angles. And, of course, what we are required to do in the Systemic Risk Board is to look at it from the standpoint of systemic stability, bearing in mind that we had this terrible experience. That calls for us to reflect on all intriguing phenomena. To echo what you just indicated, I have to say that it is intriguing when you see that the notional amount outstanding of derivatives in general increased sevenfold over a period of seven or eight years from 2000 to 2007.

What phenomenon can underlie a structural transformation on that scale? That question has to be asked. I do not say that we have to conclude immediately that it is totally abnormal, that it is much too rapid an evolution and that we have to counter it. I say the question has to be asked, and the question has to be asked systematically. I believe that this is the type of question that should be asked at European level, at US level and certainly at the level of global finance through appropriate dialogue across the various oceans.

I would say the same for the highly leveraged institutions. For instance, the capital under management by highly leveraged institutions increased sixfold over the period that you have mentioned. This also calls for understanding of what is happening and whether or not it is a factor of stability or instability. The Risk Board will have to ask itself this kind of question.

But, again, I think that we should avoid being too rapid, too quick, in our response. It has to be looked into very carefully, very systematically and very professionally.

As regards the institutions themselves, you mentioned the fact that some of them were getting bigger and bigger. Again, we have to look at it very carefully. I would say that simply saying 'this is too big, we should not have any institutions over and above a certain size', is probably too simple a response. The argument that institutions are 'too interconnected' would also probably require further – I would say, humble but systematic and highly professional – analysis.

My understanding is that what we have to do first of all is, of course, to look at big and heavily interconnected institutions with a view to analysing the systemic risk that they represent per se. Then, if necessary, we must augment the prudentials, reinforce the way they would cope, because they would have to internalise the fact that they have a systemic risk; that is the first thing.

Secondly, in the event that, despite the prudentials designed to avoid the materialisation of that risk, they collapse, then appropriate 'living wills' and appropriate

improvement of the legal environment for such big and interconnected institutions should be introduced in order to minimise the danger for the system itself, and that calls also for hard work. And, of course, we have to work permanently on the system itself and on its resilience because the systemic influence of any particular institution depends entirely on the fragility or the resilience of the system itself.

1-032
Iliana Ivanova (PPE). – I have two short questions. The first relates to the exit strategies and the red flag that you mentioned during your presentation, in other words the fiscal imbalances. Given the fact that many EU countries face huge indebtedness and growing budget deficits, how do you think the withdrawal of this extra liquidity will affect them? What will be the ECB's policy towards highly indebted countries when there is no longer a way to support liquidity under the previous favourable conditions?

My second question relates to the non-eurozone Member States. I think it is important that the ECB, the eurozone Member States and the Commission encourage the process of economic and monetary integration and the enlargement of the eurozone, especially in the context of the economic and financial crisis. My question is: how will the ECB support the efforts of non-eurozone Member States to join the eurozone, especially in cases when they have a proven track record of good fiscal discipline, in order to show those countries that they are going in the right direction?

1-033
Jean-Claude Trichet, *President of the European Central Bank***. –** On the first question, I would say that we have a very strong sentiment in the ECB that it is extremely important to have a sustainable strategy for fiscal policies in the medium and long term. I am also happy to see that this sentiment is shared by the Eurogroup and the Ecofin. As you know, a number of decisions were taken by the last Ecofin meeting which go exactly in this direction. We totally support the Commission in its role – which is a difficult role but one that it performed well in very difficult circumstances – and we give our very strong backing to the avenues that have been identified by the Commission and decided by the executive branches. We call on most of them to apply what has been decided, and on some of them to take the appropriate decisions in the next weeks.

As regards the enlargement of the euro area, we see this as very important and as requiring the appropriate convergence mentioned in the Treaty. We consider – and I think this view is now shared by all governments – that it is important to fully respect the Treaty as it is. I always mention the fact that it is extremely important that the countries coming into the euro area be fully prepared for their own prosperity because if they are not fully prepared they will have difficulties inside the euro area. I would say it is also of extreme importance for the euro area as a whole to continue to have the kind of credibility that it currently has and which has been promised to all the people of the euro area. So this is how we look at it.

1-034
IN THE CHAIR: Arlene McCARTHY
Vice-Chair of the Committee on Economic and Monetary Affairs

1-035
Olle Ludvigsson (S&D). – *(SV)* Madam Chair, I would like to thank Mr Trichet for being here to give us information and answer our questions.

As we all know, unemployment is high throughout Europe. Employment has fallen sharply. There are now signs that, in many countries, there will be an upturn in growth next year. In certain industries we can even see that the number of new orders coming in is gradually increasing, but we must not forget that this is starting from a very low level.

Unfortunately, it seems as if the jobs crisis and unemployment are persisting and are even getting worse. Those hardest hit by this crisis are often those who are poorly established in the labour market and have a poor educational background. Many assessors consider there to be a risk of unemployment staying at a permanently high level. How does the European Central Bank assess the possibility of getting the high rate of unemployment down? What economic measures, training for example, does the European Central Bank believe to be appropriate?

1-036
Jean-Claude Trichet, *President of the European Central Bank***. –** First of all, you are absolutely right that we have particular difficulties at the present time that are due to the lag effects of the recession. The recession has produced a lot of potential unemployment, and we see this unemployment rising even if we are now in the black.

These black figures are, however, not high enough to counter the lag effects of the previous recession. That is a particularly important element because it is bad from the standpoint of confidence, which is why we are insisting on all the elements that could improve confidence and allow the economy of the euro area and of Europe as a whole to benefit from this improved level of confidence.

As regards the employment issue, we consider it a general principle that the structural reforms that have been decided in principle by Europe, by all the executive branches, would result in an economy which, all things being equal, would be more active, more dynamic and more jobs-oriented. That is true for all of the Lisbon Agenda that has been decided by different governments.

We consider that inside the Lisbon Agenda, inside the set of structural reforms that are appropriate, the reform of training and education is extraordinarily important. We are a knowledge economy and will become more and more of a knowledge economy. In the division of

labour at global level, we accord more and more importance to knowledge, good education and appropriate training. We have to become more and more specialised as regards tradable goods and tradable services to concentrate on high value-added and very technologically advanced tradables, goods and services, and that calls for particular attention in this domain.

We also trust that, particularly in a number of countries at the moment, appropriate structural reforms in the area of the labour market would be extremely important to foster the growth of job creation.

1-037

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

1-038

Peter Simon (S&D). – *(DE)* Mr President, in times when we are concerned about combating the current crisis or rather preventing future crises, third parties are already beginning to think about ways in which to deal with a further crisis and the failure of systemically relevant financial institutions. One of the most prominent leaders in this field is undoubtedly the CEO of the Deutsche Bank, Mr Ackermann, who publicly announced a few weeks ago that the bank was considering setting up a fund in which private institutions, banks and government should invest, as it were, for the worst case scenario should things go wrong again. This, at least, has caused a certain amount of public outrage throughout Germany, because it cannot be ignored that institutes such as the Deutsche Bank that are once again bringing in record profits would eventually, in the event of the failure of their institutionalised activities, like to nationalise losses. I would be grateful for your opinion.

1-039

Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, it is extremely important to make the system as a whole more resilient. That is the standpoint from which to view what we are doing at the level of prudentials in particular, though of course with appropriate respect for the present situation, which is still very difficult. But in 2012 we have the feeling, as you know, that capital requirements for financial institutions should be more important than they have been hitherto, specifically in order to make every institution, and hence the system itself, more resilient.

So, in a way, the idea of putting aside when times are good the resources that might be necessary in times of difficulty is a concept which seems very natural. We are also envisaging some kind of anti-cyclical measures that would make it possible, within the Basel II framework, to ensure at systemic level that each and every institution sets aside appropriate means to cope with difficulties which may arise in the future.

To ask governments *ex ante* to put aside whatever might be necessary in the event of any further problems of that kind is, it seems to me, a question for parliaments. As I said, my feeling at the present moment is that it is very unlikely that the taxpayers would be prepared to shoulder for a second time the kind of risks they have accepted in the case of the present crisis. I would not suggest that that is necessarily a very useful avenue at the present moment. We have first to make the system itself more resilient before asking taxpayers to step in even more. But we shall see whether, even after we have done everything we consider appropriate to ensure the private sector is much more resilient and less fragile, in some cases the taxpayer might have to step in again. Personally, I do not totally exclude that possibility. But, there again, it does not seem to me to be the right way to approach the problem now.

1-040

Ramon Tremosa I Balcells (ALDE). – There are countries in the eurozone that are starting to recover and some others, like Spain, where the absence of reforms will condemn them to remain in recession for the coming months or years. In France, for instance, household lending and house purchase are now growing, while in Spain the housing market remains flat and lifeless.

Under a European divergence scenario it could happen that the optimum currency-area assumptions would not be valid any more and an average monetary policy would start being harmful instead. For example some European countries, such as Germany or France, have started to have positive inflation rates, while other countries, such as Spain, Greece, Portugal or Ireland, continue in deflation.

So in this case implementing an average monetary policy could be harmful, especially if the higher growth rate of the French and German economies led to the average monetary policy becoming slightly restrictive. This would lead to further rounds of deflation in the deflationary countries.

Has the ECB a plan to cope specifically with this issue, or will the ECB continue with the average monetary policy it has pursued until now?

Just another very short question about transparency. I think that transparency reinforces independence and I believe that there is no trade-off between transparency and independence.

To increase its legitimacy, the ECB should publish the minutes of Governing Council meetings in accordance with the practices of the US Federal Reserve System, the Bank of England or the Bank of Japan. And should not this transparency also apply to the internal models used to value liquid collateral? Please do not feel you have to mention possible national interpretations of transparency. This crisis has increased out awareness that we are all in the same boat.

1-041

Jean-Claude Trichet, *President of the European Central Bank***.** – My first observation is that we are in a single monetary union. This is a message not only for

you, but also for your colleagues who were asking questions about entering the euro area. Entering the euro area means you understand that you are in a single currency area. The euro itself is single. Seen from Asia or America, there are not two euros – one euro for Spain and one euro for the rest of the euro area. There is only one euro. There is only one credibility for the euro. There is only one interest rate for the euro. There is only one exchange rate for the euro and there is, of course, an institution which is responsible for the credibility of the euro and for overall price stability in the euro area as a whole – an area of 330 million people and 16 countries. This is of the same order of magnitude as the United States of America. Nobody thinks that the United States of America designs its monetary policy for the sake of California, Massachusetts, Florida or Wyoming. The monetary policy of the United States is designed for the continent of the United States. We design a monetary policy for the continent of the euro area, and these two continents are of approximately the same dimensions. I reiterate that this is extremely important.

Of course, when you have a monetary policy that has been designed for the stability and the prosperity of 330 million people, you have a number of national decisions as regards fiscal policies, as regards the monitoring of unit-labour costs in the economy and as regards structural reforms. The amplitude of what can be done through national channels is considerable. I call for an understanding of the importance of what remains national in the framework. This is very important. We have peer surveillance of fiscal policies. We have more and more peer surveillance of the trends in competitive indicators, including unit-labour costs – and that is good – and we have the surveillance of structural policies.

As regards transparency, we were the first central bank in the world to publish in real time an introductory statement of five to six pages to explain in detail the reasoning of the Governing Council. This did not exist before the ECB was created. We transformed the way in which transparency is looked at. When we were created, we were the first major central bank to introduce press conferences immediately after decisions of the Governing Council. That was introduced by my predecessor, Wim Duisenberg. This is also a way to be as transparent as possible: to respond to questions in real time immediately after the decisions of the Governing Council and to have five or six pages of explanations to explain our judgements, our diagnosis and the way we look at it, with a press conference immediately afterwards.

We consider that it is not appropriate to mention individual votes when these are individual votes. We consider that it is appropriate to take into account that we have 16 different countries and that each member of the Governing Council has to defend the decision that has been taken by the relevant entity which is the College, the Council of Governors.

1-042

Danuta Maria Hübner (PPE). – For me the exit strategy is a set of properly sequenced policy steps which would allow us to abandon all those unsustainable monetary, budgetary, but also financial-sector, policies, and it, of course, implies the need for an efficient coordination mechanism. That brings me back to this link between monetary and fiscal exit. But I would like to look at it from a slightly different angle than my colleagues.

We know that the crisis has divergent impacts on various Member States and some of them will recover sooner than others and we will, as a result, have differentiated timing for the fiscal exit. But for each Member State, in my view, it will be important that the monetary exit follows the fiscal exit to avoid that trap which could be the case if repaying public debts takes place at an increased interest rate.

So my first question to you in this context is, do you see that the dismantling of all the special measures that the bank is going to carry on in the very near future can be done in such a way that it is not understood as a preparation for the increase of interest rates? Because, if we have the expectations of increasing interest rates, then of course this would further strengthen the euro and undermine the recovery.

The second question in this context is: do you, as the ECB, see the need to have a plan to facilitate the coordination of those fiscal exit strategies so that the monetary exit can proceed as smoothly as possible, and what in your view should be the institutional framework for the efficient coordination of the fiscal exit, because I think that the efficiency of the monetary exit will depend heavily on the good coordination of the fiscal exit strategy?

1-043

Jean-Claude Trichet, *President of the European Central Bank***. –** I have a number of remarks. First of all, as you said yourself, there is not a single concept for fiscal policy exit. You have countries that were remarkably well managed, that were exemplary, so the problem does not even exist for them. Others are extremely heavily indebted. Some have already started their fiscal exit. Ireland has started its fiscal exist strategy. Others will start in 2011. As I said, some in 2010, all in 2011. So you see the concept has already started in a way. In any case, it has been decided, upon the proposal of the Commission, to have a set of appropriate policies at the level of the various governments.

As regards the other concept of support to the financial sector, the exit has, as I said, already started. The considerable support to the financial sector is not to be confused with the fiscal policies themselves, but consists of having recapitalisation options for banks, a guarantee option for medium-term refinancing, an impaired option or an insurance option and so forth. All this was designed, as were our own non-standard measures, to cope with an exceptional situation which was hampering

the normal functioning of a large number of markets. This is already being unwound as normally accompanies improvements observed in the market.

As regards our own set of decisions, we have the non-conventional measures and we have the conventional measures.

Last Thursday, and I repeated that here very clearly, we considered the interest rate appropriate, and the fact that we are starting the unwinding of a number of non-conventional measures has no bearing on the interest rate. At the present moment, we consider the interest rates appropriate, and it is not our intention to convey to you any message on interest rates at the present moment.

Everybody knows that we have only one needle in our compass, as I said, and if there is a need to modify our monetary policy stance we will do so because we will maintain price stability in the medium- and long-term and the credibility of price stability.

1-044
Enikő Győri (PPE). – *(HU)* Mr President, I am pleased that you have already mentioned Central and Eastern Europe in your introduction, saying that it seems the situation is stabilising. However, we are all aware that in terms of the real economy, some countries are still experiencing extremely serious problems. You may remember that three months ago I asked you whether the European Central Bank carried out swap transactions differently in the countries outside the eurozone. You answered at the time, just as you have said now, that banks are being monitored extremely closely to see what they are doing in the region and they were asked to provide liquidity in the market.

If we take a look at the current situation, especially as far as Hungary is concerned, market operators are certainly complaining that there is still insufficient credit available. I would like to ask you whether the current situation is being closely monitored and how satisfied you are with the level of liquidity.

Again, on this point, the banks are complaining that the capital requirement increase set in the European Union will have a detrimental effect on them. They argue that while their Western European counterparts have received sufficient injections of capital through hefty bank rescue packages, almost nothing of the sort has happened in Eastern and Central Europe. Only minimal bank rescue measures have been taken. Therefore, if a higher capital requirement is going to be imposed on them, their Western European competitors will be able to meet this more easily.

The requirements are definitely being raised for the East Europeans. As they have not had access to this kind of state assistance, they will find it more difficult to cover this, which will mean even less credit available on the market. I would be interested to know whether you share this concern, as well as what I should say to Hungarian bankers. In what way can I put their minds at rest?

1-045
Jean-Claude Trichet, *President of the European Central Bank***. –** I remember your questions last time.

Let me just mention that, as regards our relationship with the Central Bank of Hungary, it is a very close and a very confident relationship. As you know, the financial relations between the two central banks are working well. It seems to me that what we are doing directly with the Central Bank of Hungary, and what we can achieve through the messages that we are giving to the commercial banks of the euro area, when dealing with their own correspondent institutions or subsidiaries in central and eastern Europe, are two methods that we are utilising to try to help, but of course what also counts enormously is the clarity of the medium-term strategy of the country itself. That is absolutely fundamental and has helped considerably.

1-046
Vicky Ford (ECR). – Thank you very much, Mr Trichet, for giving us such a clear explanation about what the ECB is doing to help move forward from the financial crisis and about what you are going to be doing with the Systemic Risk Board.

This has, however, left me very confused. At our last meeting in September, we discussed the potential for conflicts of interest between your role as head of both those institutions, and you explained that, in order to keep the two jobs separate, not only would there be separate staff, but you would actually report to this Parliament on two separate occasions regarding the two roles.

Yet the criss-cross of responsibilities that has become very clear today shows to me that we have already, or maybe you have already, broken your own rule on keeping these two separate.

Would you agree with me that the accountability of the way that this role is set up and also of the new supervisory authorities is deeply unclear?

My second point is about the responsibilities of these authorities, and I would like to thank Ramon for mentioning Spain. A delegation from this committee went to Spain last week and yes, they still have a deep economic and social crisis, but they avoided the worst of the financial crisis thanks to a much more cautious national regulatory approach over recent years.

Indeed, the Bank of Spain had 70 people sitting on the floors of Banco Santander with a very hands-on regulatory approach. I compared this to the figures I was given last week of CSER currently having 30 people, moving towards 80 people, and I compared that to the 3 000 plus that sit at the FSA in London, and I questioned how much responsibility we should be giving to these new organisations.

When we were in Spain, the Bank of Spain, the larger banks, the smaller banks, the markets regulator and representatives of the insurance industry all said that responsibility for supervision and ultimate decision-making regarding individual firms should stay a national competence. Do you agree?

1-047

Jean-Claude Trichet, *President of the European Central Bank***. –** First of all, I am still only in front of you as the President of the ECB. There is no President of the European Systemic Risk Board because it has not been created yet, and I confirm entirely what I said before. If my colleagues are kind enough to appoint me as President of the ESRB, I will of course report to you on the ESRB. That would be a totally different report from the report on the ECB.

The ECB is involved in setting up the ESRB and will bring analytical and administrative support and so forth, as has been pre-decided. It is up to Parliament to see what exactly it wants, but I entirely confirm what I told you. This is very important. These are two different responsibilities. That is absolutely clear.

As regards the position of micro-supervision – not macro-supervision – first of all, I appreciate enormously that you say the concept of having the central bank deeply involved in banking supervision is a good one. As you know, this is not considered as appropriate everywhere in Europe, but we trust that it is appropriate ourselves and we said that a long time ago.

Secondly, when you have to deal with cross-border institutions, you have a problem of having the appropriate concept of supervision for the group as a whole. It is there that the usefulness of the new authorities – both in the banking sector and in the insurance sector – can appear to be important. As far as we were concerned, as I said, it was important for these institutions to have the capacity to have a pan-European view on micro-supervision, provided you have transnational or multinational institutions in front of you and not just one particular national institution where – I agree – there is no need.

There is nevertheless a need to generalise concepts that are good. It is absolutely true – I share your view – that the Spanish supervision with dynamic provisioning had introduced a concept that was not generalised at the level of the Basel Committee, at the level of Europe or at the level of the world, but which proved to be remarkably useful in the circumstances. So this idea of having the same rule book for banking supervision at the level of the single market in Europe – if we really want a single market, which is our strong resolve – seems very natural to me. I trust that this is the direction in which we are proceeding. In certain cases, you need a central authority to conduct the appropriate arbitrage if there are disagreements between the various micro-supervisors, which I hope will not be the case very often.

1-048

President. – If we are in the future to have two sets of reporting back, I hope Members will remember that they have to separate their questions. This time I think we did ask rather a lot of questions about the Systemic Risk Board although this is the monetary dialogue.

Thank you very much for coming. Your words have all been written down here and many other places as well. We look forward to seeing you again in another three months.

(The meeting closed at 16.07.)