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, 28 SEPTEMBER 2009

1-002

IN THE CHAIR: Sharon BOWLES

(The meeting opened at 16.35)

1-004

Chair. – It gives me a great deal of pleasure to welcome the President of the European Central Bank to the committee to take part in this monetary dialogue for the first time in the current term.

The last monetary dialogue was on 30 March 2009 and, for those who know how we compute these things, the next one will be on 7 December 2009. So you have had a bit of a holiday from us, but of course you did make up for it by having some seminars that were run by the ECB, as well as a lunch which several Members attended, and of course you discovered there how many questions we all have lined up for you.

So, without any more ado, I will ask you to present your comments and then, as usual, we will move on to the questions.

1-005

Jean-Claude Trichet, *President of the European Central Bank***. –** I very much appreciate the opportunity provided by this regular hearing to exchange views with you today early in the new parliamentary term. This is, as you said, the 22nd time that I have appeared before this committee.

Looking back, such frequent hearings have been instrumental in developing a very close relationship between the European Central Bank and the European Parliament. I hope to continue and to further deepen this relationship, especially in times that are particularly demanding.

1-006

(DE) Today, I should like to focus on two subjects. Firstly, I wish to inform you of our current assessment of the economic situation in the euro area. In so doing, I should also like to discuss the European Central Bank's monetary-policy measures and their effects.

1-007

(FR) And firstly, I should like to come to an important and topical issue: reform of financial supervision in Europe and, more specifically, the establishment of the European Systemic Risk Board.

I will be as concise as possible, though the issue is wide-ranging, as you can see, and I will then be at your disposal to answer your questions.

1-008

Let me start with economic and monetary developments. The economic situation and outlook have improved since the previous hearing before Parliament on 30 March 2009. Inflation and inflationary pressures have remained low over recent months. As expected, inflation turned into negative territory over the summer period, due to the large decline in oil prices since last year. In August, annual inflation was still slightly negative, at -0.2%, after a reading of -0.7% in July.

Looking ahead, inflation is expected to turn positive again within the coming months and to remain subdued, within positive territory, over the policy-relevant horizon. This also reflects the fact that economic activity is expected to recover at a very gradual pace. The risks to the inflation outlook are broadly balanced. 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.

Following the 'free fall' in economic activity that we witnessed around the turn of the year, the euro-area economy shows signs of stabilisation. After the strongly negative readings recorded earlier, economic activity in the second quarter of 2009 is estimated to have declined by -0.1%, compared with the previous quarter. In the period ahead, we expect to see a very gradual recovery. This expectation remains surrounded by high uncertainty, while risks to the outlook remain broadly balanced.

On the upside, the impact of macroeconomic stimulus packages and other policy measures may be stronger than expected, confidence may improve more quickly, and foreign demand may prove to be stronger than currently foreseen.

On the downside, the negative feedback between the real economy and the still strained financial sector may be stronger or more protracted than expected. Concerns also relate to potential renewed commodity price rises, further protectionist pressures and persistent global imbalances.

The assessment of low inflationary pressures over the medium term is also confirmed by our monetary analysis. In this context, we note in particular that money and credit expansion continue to decelerate. The annual growth rate of the broad monetary aggregate M3 declined to 2.5% in August, the lowest reading since the launch of the euro. As regards lending to the private sector, the annual growth rate of loans virtually stalled in August at 0.1%.

To a large extent, this development reflects the fall in production and trade, and the ongoing uncertainty regarding the business outlook which has affected demand for financing. Given that the pick-up in loans to enterprises typically lags behind the recovery in economic activity, further weak developments in loans to enterprises in the coming months appear likely.

At the same time, lower market interest rates continue to be passed on in lower bank lending rates. This has led to

a gradual improvement in financing conditions, which in turn is expected to support the demand for credit in the period ahead.

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

In addition, we have implemented five 'non-standard' measures to enhance credit support, taking into account the major role played by banks in funding the euro-area economy.

First, we have fully accommodated banks' liquidity needs at fixed interest rates. Second, we have further expanded the list of assets eligible as collateral. Third, we have further lengthened the maturities of our refinancing operations. Fourth, we have provided liquidity in foreign currencies, notably the US dollar, to address the need of euro-area banks to fund their dollar assets. Fifth, and finally, we have launched a direct covered bonds purchase programme to support financial markets.

Overall, these non-standard measures support the flow of credit to firms and households above and beyond what could be achieved through policy interest-rate reductions alone.

Let me emphasise two important points in this respect.

First, the strong intervention of the euro system in the euro-area money market cannot be maintained for ever. We have introduced exceptional measures under exceptional circumstances. We will have to phase them out once the rationale for these measures fades away and the situation normalises.

The Governing Council of the ECB considers that it would be premature to declare the crisis over. Now is not the time to exit. However, at some point in time, exit strategies will have to be implemented. The ECB has an exit strategy and stands ready to put it into action when the appropriate time comes.

Our exit strategy is an integral part of our overall monetary policy strategy. This means in particular that, if we judge that the non-standard measures trigger risks to price stability, we will unwind them. As in the past, the ECB is determined and able to act decisively whenever the need arises. It has both the operational flexibility and the institutional independence to implement this desirable course of action.

The second point I would like to emphasise concerns the relationship of liquidity and price stability. Some commentators ask whether our bold programme of liquidity provision could ultimately trigger inflation in the future. Let me explain why this fear is unfounded.

To start with, it should be noted that, although the liquidity provided by the ECB has increased substantially, this has not led to an increase in monetary aggregates. This would have been the case in normal times when banks use an increase in our liquidity provision to create credit for households and enterprises. However, at present this does not appear to be taking place on any significant scale. As I mentioned earlier, the growth in monetary aggregates – an overall important measure of liquidity expansion in the economy – is at its lowest level for at least a decade.

Furthermore, it should be noted that the ECB has all the instruments required to promptly withdraw its liquidity support if necessary, to counter the possible emergence of upside risks to price stability. It helps in this context that most non-standard measures are being phased out naturally, as the operations stop at maturity, unless we decide to extend them.

Let me now turn to the second major issue, the role of macro-prudential supervision and the envisaged European Systemic Risk Board (ESRB).

The financial crisis has shown that the present, highly sophisticated globalised financial markets and interconnected financial institutions are prone to systemic risk. Systemic risk concerns the possibility that the functioning of the financial system can be threatened or materially impaired as a result of the collective behaviour of market participants, investors and financial institutions. It derives, in particular, from their interactions in financial markets and from the close links between the supply of credit and the macroeconomy.

Systemic risks can emerge even when financial institutions manage their risks in a way that looks appropriate from their individual perspective. Given the interconnectedness in highly developed financial systems, the behaviour of financial institutions – especially systemically important ones – can have an impact on other financial institutions and the financial system as a whole.

Macro-prudential supervision has to take account of these externalities and focus on the interconnectedness of financial institutions, markets and infrastructures. Therefore it contributes to a very important public good, namely financial stability from a systemic standpoint.

Coping with systemic risks will continue to be of the essence, especially in view of the increasing sophistication of global finance that, in turn, is facilitated by rapid technological progress. Against this background, it is the right step to set up a body specifically responsible for macro-prudential oversight at European level in the form of a European Systemic Risk Board.

The envisaged composition of the Systemic Risk Board is appropriate. In terms of output, the Board's focus on the identification of risks and the provision of early warnings, where necessary, and of appropriate recommendations, is equally pertinent.

Let me emphasise that such warnings and recommendations will have to be more than mere words. The suggested provisions requiring addressees to take remedial action or, otherwise, to justify why they have not acted, should give the necessary 'traction' to the deliverables of the Systemic Risk Board. The principle of 'comply or explain' is the right one.

The ESRB will have close links with the ECB. The members of the General Council of the ECB will be voting members of the ESRB, together with the three heads of the supervisory authorities and a member of the Commission; the members of the General Council of the ECB will elect the chair and vice-chair of the ESRB; and the ECB will provide analytical, statistical, administrative and logistical support to the ESRB, as suggested by the de Larosière group, communicated by the Commission, already decided by the ECOFIN Council in their own discussions and approved by the European Council in June this year.

As I mentioned to your committee, the ECB stands ready to place the necessary resources and expertise at the service of supporting the ESRB, in very close collaboration with the 27 national central banks.

The new institutional set-up for the ESRB, and the ECB's role in it, must rest on solid institutional and legal foundations. The ECB is closely and constructively participating in the ongoing legislative process on the establishment of the ESRB. The ECB's contribution in this process focuses on establishing in Europe the most effect and robust set-up for macro-prudential supervision possible.

Given the dramatic consequences of the current crisis, we cannot afford for Europe to be ill-equipped and powerless to prevent and mitigate systemic risks. Of course I stand absolutely ready with my colleagues of the ECB to respond to any questions you may have when Parliament is actively involved in this process. I also remember, Madam Chair, that most of the ideas that I see now taking some kind of material shape were launched here in previous meetings of this committee.

Let me conclude with a remark on accountability. The fact that the link between the ECB and the ESRB is very close does not mean that the reporting to your committee and to Parliament will be merged. The reporting will remain – and must remain – in the form of two separate accountability exercises because the mandates are clearly distinct.

For the European Central Bank, Article 105(1) of the Treaty states that 'The primary objective shall be to maintain price stability'. That mandate is very clear. As regards financial stability, the Treaty speaks of a 'contribution' in Article 105(5), stating that the ECB shall 'contribute to [...] the stability of the financial system'. As for the European Systemic Risk Board, the current legislative proposal that you will examine provides that 'The ESRB shall be responsible for the macro-prudential oversight of the financial system within the Community in order to prevent or mitigate systemic risks within the financial system' (Article 3).

The tasks include – in particular, not exclusively – the following: 'identify and prioritise such risks; issue warnings where risks are deemed to be significant; and issue recommendations for remedial action where appropriate.' We will have to report all this to your committee.

1-009
Chair. – Thank you very much for making it clear that you do not intend to merge those two reports. We are grateful for that confirmation.

1-010
Jean-Paul Gauzès (PPE). – *(FR)* Madam Chair, Mr President, once again we are pleased to welcome you here. You have provided us with some truly important and pertinent insights and, for my part, I am pleased to see you again, since it means that I am still in the European Parliament.

The last time we spoke with each other, I had asked you a slightly impertinent question on inflation. I would like to come back to it, if I may. It is an obsession in my country too. Some countries have a very considerable debt. With regard to Europe, to the currency area that you oversee, you have just provided guidelines that we take on board, but not everyone comes under the authority of the European Central Bank, and we have reason to fear that in some countries – and I am referring to the United States – the excessive debt that has arisen may conceivably be absorbed in part by monetisation and therefore prices will be allowed to slip.

In the event that this would be the case for that area, what might the European Central Bank's reaction or position be, in view of the provisions of the Treaty that you were reiterating and the ECB's active role in maintaining prices?

I would like to make a second comment, and just a comment, on the European Systemic Risk Board. This matter has, of course, been referred to Parliament, and I can tell you that we will ensure that what concerns you concerns us, too, and that it is reflected in the texts that we will receive in the coming days.

1-011
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* Mr Gauzès, I too am delighted to see you again, as well as some of your fellow Members.

These are very important questions.

With regard to the first question, I will firstly say that what I see on both sides of the Atlantic is that there is a broad consensus concerning the fact that not guaranteeing price stability in the medium and long term would have a truly destabilising effect. I make this first comment, since your assumption was that there was inflation on the other side of the Atlantic. That is certainly not the intention of the Federal Reserve, as far

as I can see, and they are convinced, as we are too, irrespective of our mandate, that it is necessary to maintain price stability – in our case, we are required to do so by a treaty, and I would therefore also answer one of your questions by saying to you that we will apply the Treaty, the whole Treaty, and nothing but the Treaty. Our principal mandate is to ensure price stability and you can count on us. From that perspective, we are an anchor of stability and confidence. I say confidence because our fellow citizens very often tell us that they are worried about the medium and long term. I believe that we can reassure them. We are here precisely to ensure price stability.

Were we not to ensure it, however, and this is true on both sides of the Atlantic – so it is a hypothesis that I totally reject, but let us imagine – what would happen? All markets would incorporate future inflation into their medium- and long-term market interest rates, over two years, five years, 10 years, 30 years, even 50 years, since a number of governments lend over 50 years. They would incorporate this future inflation into their market interest rates. So debt, instead of being gradually eliminated by inflation, would balloon in line with the size of market rates that incorporate inflation. By guaranteeing price stability, then, central banks are helping to move beyond a situation that is, undeniably, very difficult from the perspective of public finances.

I paid close attention to your comment on the Systemic Risk Board. We are at your disposal. We can certainly have an extremely productive dialogue. The truth is that it is the extension of what you participated in several months ago, since I remember that, on several occasions, it was Parliament that requested that the European Central Bank show that it was more active in this area and show that it was absolutely ready to participate actively in the Systemic Risk Board.

1-012
Gay Mitchell (PPE). – Madam Chair, I also join in thanking the President. The European Central Bank has been admirable in dealing with the issue of inflation, but not with asset inflation. For two years I questioned you here, Mr Trichet, about asset inflation in the country I know best, Ireland, and the implications for the Irish economy of what was happening there. The ECB seemed to be powerless to act.

This can happen in any Member State. Do you think it is time the ECB did have some power to act, or should some indication of asset inflation work its way into the harmonised index of consumer prices? Have you been consulted about the National Asset Management Agency (NAMA) in Ireland, which is making its way through the legislature at present there, and do you have any concerns about the approach being taken to deal with this particular issue in Ireland?

1-013
Jean-Claude Trichet, *President of the European Central Bank***.** – Thank you for this question. I can confirm that you have been very consistent in stressing this concern of yours, and for very good reasons.

At the level of the euro area, in line with our primary mandate we are looking at what is good for the entire euro area of 330 million people in 16 countries. Given that we are optimising monetary policy at the level of the continent, it is up to each individual country to ensure that apparent anomalies are corrected by national means that can be utilised at national level, such as structural reforms, fiscal policies, or any kind of prudential measures, such as Pillar 2 in the Basel regulatory framework. So there are a number of instruments that exist at national level.

At the level of the Governing Council of the ECB, in which all the governors of national central banks of the euro area participate very actively, if the suggestion is that we were not sufficiently decisive in aiming to prevent a bubble, I remember that we were heavily criticised at the beginning of 2004 because we were not decreasing rates. When we were asked to decrease rates we were at 2% and we were asked very eloquently to go to 1%, and we said 'no'.

We were heavily criticised when we increased rates in December 2005. We were at the level of 2% and we decided that it was necessary to increase rates. In both cases we were criticised by those who were looking only at the economic analysis, but we were also looking at the monetary analysis, at the evolution of monetary aggregates of credit and, through credit, at the evolution of asset prices.

So I would say that, thanks to the two-pillar concept that we apply – an economic analysis and a monetary analysis – we are probably the central bank that tries hardest to incorporate your preoccupation, which is very important. I have to say that the academic world is working hard to try to find out what might be the best concept.

At this moment it seems that we are approaching the best way of incorporating again this long-term preoccupation of yours, and I would say there is no contradiction between long-term price stability and long-term prevention of excessive dynamism in monetary aggregates, their components and their counterparts.

1-014
José Manuel García-Margallo y Marfil (PPE). – *(ES)* Madam Chair, I would like to make three very brief comments, and ask the following questions.

The Governor of the European Central Bank, whom I am delighted to be meeting again in this new parliamentary term of office, has pointed out that while confidence has increased, credit is still not reaching the real economy.

In his initial statement, he said that the reasons for this lack of credit relate to demand. He said that the decrease in economic activity was resulting in a lack of demand for loans. It seems to me that this perception is not shared by many businesses and many families, at least in

my country, where they believe the reason there are no loans is simply because the banks are not giving them. A survey has recently been carried out on this subject and I would like to know whether or not it confirms that lenders are also imposing restrictions and proving reluctant to hand out money.

Secondly, I completely agree with the view that this is not the time to take the crutches away from the patient, but on the other hand it is time to start thinking about the need to prepare the patient to walk by himself in the future.

If I have understood correctly, in one of the replies the Governor of the European Central Bank says that many of the non-standard or extraordinary or non-orthodox measures, whatever the adjective is, will disappear of their own accord.

Among these measures, will the increase in collateral that the European Central Bank is going to accept also disappear of its own accord?

Secondly, I would like to talk about the time frames for the repayment of loans, a subject that we have discussed at length. I believed that a six-month loan was a long-term one, when in fact it was a short-term loan; now a short-term loan is a one-month loan. Is this another of the measures that the Central Bank is planning to withdraw once the crisis is past, or is it to be permanent?

The third and last question relates to the fact that on the European Systemic Risk Council the Central Bank is going to issue alerts and make recommendations. How are we going to ensure that countries follow these recommendations? Are they going to be made public, is some type of sanction going to be laid down, etc., or are we going to embark upon a toothless system of cooperation, of the sort with which we have had bad experiences in other spheres?

Thank you very much, Madam Chair, for your kindness, and I congratulate the President of the European Central Bank on being here with us.

1-015

Jean-Claude Trichet, *President of the European Central Bank***. –** Thank you for your questions, which are very important. As regards the distribution of credit, it is clear that the main reason for the recent figures we have observed, showing that credit is stalling, is that the real economy has diminished very substantially, as you mentioned, and so demand is much less dynamic than it used to be.

Together with the Commission we sought to understand better what was going on, particularly for small and medium-sized enterprises, and we had the following results that were published: 77% of requests for credit had received a totally or partially positive response, while 12% triggered a 'no'.

Those figures demonstrate that the system of allocation of credit is functioning. Unfortunately we cannot compare with the response in normal times, but to the extent that the role of banks in a market economy is from time to time to say 'no', this figure of 12% 'no' is, frankly speaking, something which seems to be a normal attitude. The 77% 'yes' is also what I would hope to see in normal times, provided it is judged appropriately. The fact is that demand is the main culprit for the absence of dynamism that we are observing in terms of outstanding credit.

As regards the non-standard measures, as I explained we have embarked on five types of non-standard measures. We were, by the way, the first in the constituency of central banks to embark on medium-term refinancing – over periods of six months to a year – and we were the first to enlarge collateral eligibility in a very active fashion. In this respect we were also the first to give a diagnosis of the situation, which we judged back in August 2007 to be very grave. Unfortunately we were proved right in this diagnosis.

But having said that, we will have to do all that is necessary to be sure that we do not do anything to endanger price stability, which is not only the primary goal given to us by the people of Europe, but is a necessary condition for the recovery to be sustainable.

I do not want to elaborate more on the fact that in any case future inflation expectations are incorporated into today's interest rates, so if we want to support the recovery we have to continue to be credible in the delivery of price stability. We will do whatever is necessary to ensure that we can deliver on price stability; as regards the timing, I would say again that today is not the time. You can only count on us to be sure that we do what we have to do when the time comes.

On systemic risk I fully agree with you. The task of the ESRB will be to identify risk, to engage in early warning and to make a recommendation, not to decide in the place of the various authorities, and that makes the follow-up very important, as you underlined.

1-016

Antolín Sánchez Presedo (S&D). – *(ES)* Madam Chair, I too would like to thank Mr Trichet for being here, and I would like to say that strengthening relations between the European Central Bank and the European Parliament will have a very productive and positive effect on the European project.

I am also going to refer to two issues. The first is more specifically relevant to small and medium-sized enterprises, and the second to macro-supervision.

It seems that the financial crisis – at any rate the most acute phase of it – is passing. It is clear that the crisis, in its broadest sense, will make it necessary for us to restore economic growth and employment and also to correct some global imbalances. About a month ago, your colleague in the Federal Reserve, Mr Bernanke,

was saying that there would be no recovery until lending to SMEs restarted.

Very recently a report on small and medium-sized enterprises was published by the European Central Bank and the Commission. Small and medium-sized enterprises depend to a large extent on the banks for finance. Their needs are therefore more vulnerable to changes in bank financing. They have growing requirements, but it seems that their access to bank financing is getting more difficult.

When can this situation be brought back to normal? What is your assessment of this situation?

The second issue is macro-supervision. The main lesson of the financial crisis is probably that there is a need for supervision that goes beyond individual institutions and is systemic in nature.

It is clear that the European Central Bank, under the Treaties, has a view and is being consulted during this process, and we are therefore very interested to know whether, in the European Systemic Risk Council, the powers that are initially planned are sufficient for it to fulfil its remit, because alerts were given prior to the economic crisis by the BPI, the International Monetary Fund and the European Central Bank itself.

The real issue, however, is whether recommendations are enough. Would it not be necessary to go further in order to make this institution effective, so as to ensure that there are no risks at the European level? Could Euroform even have a specific structure within this Council? Finally, how is international cooperation to be achieved?

1-017
Jean-Claude Trichet, *President of the European Central Bank***. –** On your first question I confirm that, in our own analysis, since the end of the second quarter of this year we have been at the end of the free-fall episode in the European and global economy that we have experienced since mid-September last year, when we had to cope with a single event which had a dramatic impact on the entire global economy. We are out of the free-fall period but we have to remain prudent.

As you know, our staff considered that the projections had to be reviewed upwards, both as an average for this year and for next year, but in both cases growth remains very negative this year, even if it is 0.5% more than was previously foreseen, and the same for next year, it remains slightly positive, very close to zero. So there is still a bumpy road ahead of us. We have to be prudent, to be very cautious and to be permanently alert. This is no time for complacency in any respect.

As regards the SMEs, they are extremely important: these companies are creating the jobs that are needed, and so we are following as carefully as possible what happens there. As you know, we have concentrated all our non-conventional measures on the banks, because we consider that SMEs in particular have access to credit only through banks, they do not have access to markets, and so it was very important for us to concentrate on the channel of bank financing. This is a different approach from the one taken on the other side of the Atlantic, but this difference is very well explained by our situation and by our concern for the SMEs.

We are telling the banks about everything we are doing for you, namely all the non-conventional measures that I mentioned and the level of interest rates that we are practising – all this is done not for you, but for the real economy, for you to participate as actively as possible in the recovery at which we are all aiming.

I have to say that in a number of cases we are telling the banks: if you need more capital, then you should take advantage of what the governments put aside as possible new capital. I consider that, at present, our assessment is that 55% of the capital that was earmarked by governments for possible recapitalisation options has been utilised, but 45% has not. So there are still possibilities, and there is always the possibility to have direct recourse to markets. But having said that our message to the banks is clear: do your job.

As regards the Systemic Risk Board, I agree again with your remark on the fact that it is extremely important that the follow-up is very well organised. The concept which has been adopted at this stage is really one where we have a strong moral suasion in the hands of the Systemic Risk Board, but no substitution for other responsibilities. That is the concept.

We take it as it is. I have always said that my colleagues and I stand ready to participate actively in the Risk Board, which again is not the ECB. The ECB is very actively providing everything to which I referred in the introductory remarks: contributing to the success of the Risk Board, having a very dense intertwining with the Risk Board; but I am not confusing the responsibility of the ECB with the responsibility of the Risk Board.

1-018
Robert Goebbels (S&D). – *(FR)* Mr President, I am also pleased to see you again and I would like to ask you the following question: I think that the European Central Bank has fully played its role in allowing banks to refinance themselves, particularly after the interbank market dried up in the wake of the Lehman Brothers affair.

Nonetheless, all your actions and the reduction in loans have, up to now, only been of limited benefit to businesses and consumers; as you said yourself, there was a 0.1% increase in loans in August. And as my colleague, Mr Sánchez Presedo, has just said, there is no recovery without credit.

So, all this enormous liquidity that you have made available to banks, what has it been used for? It seems to me that, at best, the banks have bought treasury bonds with this money. You are not in a position to finance

governments but, in a way, you indirectly subsidise loans to States and you thus allow banks to pocket easy money.

Moreover, and above all, it appears to me that banks have used this money to speculate, particularly on money markets and other markets where there is very brisk speculation. My question, then, is: should the ECB not attach slightly more restrictive conditions to this financing, particularly financing with very long-term maturity?

1-019
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* I would say that our message to the banks has always been what I just said, namely that we are not doing what we are doing, in all areas, in terms of both monetary policy and non-conventional measures, for your sake, but so that you can do your job, which is to finance the economy.

When 77% of small and medium-sized enterprises say that they have had a wholly or partially positive response to their request for finance, I cannot say that the situation is as negative as you make out. However, I take from your question that it is indeed important that we be as clear as possible in our message. This is the message of the central banks, since we are actually doing a great deal. I say that it is the case for the ECB – I stand, as president of the ECB, before you today – but it is the case for all the central banks of the 27, without exception, of course, and in more general terms, it is the case globally.

However, governments have also decided to follow this course, and they needed to do so, we ourselves asked them to do so. We told them that we had a considerable systemic problem with liquidity and that we could deal with it, but that we could not deal with the systemic solvency problem. And from this point of view, recapitalisation options, guarantee options for medium- and long-term financing, and impaired asset options are options for governments and, clearly, governments are not doing that for the sake of the banks either. I must therefore say that, in view of everything that has been done, our message does need to be strengthened.

That said, we are in a market economy and we would be very foolish if we decided to take the place of banks. In a market economy, there must, of course, be decentralised decisions, otherwise we are in another universe. However, moral suasion must apply as strongly as possible. And in that regard, I agree with you.

1-020
Wolf Klinz (ALDE). – *(DE)* Mr Trichet, I agree with you that the situation is indeed showing signs of improvement. As a member of the German Free Democratic Party, I should like to add that one reason for my optimism is the results of yesterday's Bundestag elections; these give us cause to be optimistic about the future.

Lord Turner of the UK Financial Services Authority made a few unconventional proposals as to how to make the financial system more robust and resilient. These included introducing a maximum leverage ratio, a minimum core deposit ratio and certain other things.

Do you think that one of the tasks of the European Systemic Risk Board, once it is established at the ECB, is to factor in such proposals, or would you say that this is the job of the supervisor and that your role is merely to determine systemic risk? I should like to put another question too. Would it not make sense to create an international credit register, so as to give a rapid overview and make immediately evident where the risks and possible cluster risks lie, which can be determined only with great difficulty as things stand?

1-021
Jean-Claude Trichet, *President of the European Central Bank.* **–** As you know better than anybody, the institution I represent, the ECB, issues the currency for all sensitivities – for the sake of all our people, our 330 million fellow citizens. I think it is important that we see the future Risk Board putting itself in the right place amongst the various forms of international cooperation, if I may put it like that, because many concepts for supervision in the domains of insurance, banks and markets in general, are devised at a global level.

By the way, I am very happy that the oversight body of the Basel Committee – in between the G20 Summits in London at ministerial and government level, and in Pittsburgh at the level of heads of state – has been able to work out a consensus on how to advance in the domain of bank supervision at a global level with all parties concerned, including the emerging countries. I can see that Pittsburgh has backed this move towards better supervision.

At the level of the Risk Board, I think we will have to see what is of a macro-prudential nature, and what could be the right messages which could be sent by this Board to improve macro-prudential measures, fully taking into account the responsibility of micro-prudential authorities. These will be included because, as you know, we have a membership comprising the three heads of the three authorities in Europe.

But again I do not think it is possible to say what we will do in advance. I am assuming that nothing should be excluded ex-ante, provided we are doing the job which we are called upon to do, namely if necessary to engage in early warning and make recommendations, which could be of the kind suggested by Lord Turner. Of course I do not make any pronouncement on any particular one of these suggestions.

As regards the idea of having a leverage ratio, it is part of the global consensus to consider that we have to work on it. Of course we have the Basel II requirement for capital based on weighted risks, but on top of that, we could imagine that the idea of working on a leverage

ratio – which should normally not bite in normal times, because what would bite would be the requirements that are based upon weighted risks – could, in some exceptional cases, be useful. This is now part of the global avenue that we have to work on and, as I have mentioned, we will continue to work very actively on that.

1-022
Derk Jan Eppink (ECR). – *(NL)* Usually, we regulate the previous crisis and, in so doing, we sow the seeds of the next one. It is therefore very important that there are no flaws in our supervisory system. For that reason, when it comes to the European Systemic Risk Board (ESRB), I really cannot wait to hear what scale it will have. How many members will it have and how will it be determined when a systemic risk exists?

Looking back to the Federal Reserve, in the United States, there were people who said that the US mortgage market gave rise to a systemic risk, but the Chairman of the Federal Reserve himself said that that was not the case. How is that decision to be reached? Will there be a vote or would a unanimous decision be required?

Secondly, what is the ultimate jurisdiction of the Authority in the case of emergencies, or what have come to be called 'emerging situations'? There is also the problem, in this regard, of countries inside and outside of the single currency. Suppose there is a problem in the UK – I am merely citing an arbitrary example here – will the Authority then say to the Bank of England, 'look, you are on the wrong track, you have to do what we say'? I also read a sentence in the proposal – it does sound somewhat Byzantine – but perhaps I might read it out? The sentence does, in fact, set out the aim with the Authority:

1-023
'the Authority should be empowered to adopt, as a last resort, decisions directly addressed to financial institutions in areas of Community law directly applicable to them aimed at mitigating the effects of the crisis and restoring confidence in the markets.'

1-024
(NL) Perhaps, Mr Trichet, you could tell us in the language of ordinary folk what this means?

1-025
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, although you are putting this question to me, it is not we who have worded all that. What we said is that we were standing ready to participate very actively in the body considered by Europe as appropriate to cope with this systemic risk. Please do not ask me questions which, it seems to me, should be put to the Commission and perhaps to the Council. In any case there is codecision for that purpose.

To be as clear as possible, as I understand it the situation is the following. First you have the governors of the 27 central banks: it is a 27-member institution. In our own vocabulary it is an ESCB concept, not a Eurosystem concept with 16 countries: it is a 27-member ESCB concept.

Second, as I have said, there will be not only the central bank governors and the Vice-President and the President of the ECB, there will also be three heads of authorities, of macro-supervision authorities, and a representative from the Commission. It will be a wise body, a body which is looking to the medium-to-long-term sustainability of European finance and, based on its own wisdom and capacity to have a medium-term vision, will make recommendations or warnings.

It will not be a substitute for the authorities in question, whether they are public or private, but will report to you and decide whether or not to make such recommendations public. It will of course have influence, and we expect that the follow-up would be designed to permit those wise recommendations to be followed by action, but again this body will not be a substitute for those who have to take the decisions.

1-026
Sven Giegold (Verts/ALE). – *(DE)* Madam Chair, Mr President of the ECB. It is good to see you again, Mr Trichet. I have a question regarding the ECB's exceptional measures. Collateral has been accepted that, in normal times, would be considered extremely dubious. Firstly, I should be interested to hear – having seen the data in your Annual Report 2008 – what proportion of all the collateral accepted from private banks in 2009 consists of non-marketable assets, uncovered bank bonds and asset-backed securities.

I also wish to ask what, in your view, will be the consequences for banks when they have to take back these risks and this collateral; that is, when the exceptional measures are discontinued. I should also be interested to hear your estimation of the stability of the banks when this collateral is returned.

Finally, the magnitude of this collateral gives rise to the question as to what would happen if these risks became a relevant part – especially as, according to the data at my disposal, the collateral accepted significantly exceeds the ECB's capital.

1-027
Jean-Claude Trichet, *President of the European Central Bank***.** – First of all, let me again mention what I have already said, namely that even before the start of the turbulence – which in the ECB we date from 9 August 2007 – we were accepting private paper and not only treasury paper, as was the case with a large number of other central banks. We were accepting asset-backed securities as collateral when others would not. We were not only accepting asset-backed securities, we were even accepting loans.

So we were in a situation where we had a collateral framework which was more open. We have enlarged it in the non-conventional measure but, in comparison with the starting point, obviously not much. What has happened is that there has been – for obvious reasons,

with the development of the turbulence and the open crisis since September last year – a will on the part of the banks to present to us much more this kind of private paper than the kind of public paper that was presented before.

You have a point, and I fully agree that the unwinding of these exceptional measures that we have taken – these non-standard measures – will call for progressive moves in the behaviour of the banks. That is true for the particular element that you have underlined. It is also true of the possibility they have today to be refinanced for a full year or for six months.

At the very beginning of the crisis, our permanent steady state was three months – not six months, and not a year. So, again, this is part of the exit strategy. As I have mentioned, today is not the time to exit, but that time will come and, when it does, the kind of questions you raise will have to be dealt with. We are publishing all our figures so I will not bore you with a lot of figures. What I would say is that your question is pertinent.

1-028
Jürgen Klute (GUE/NGL). – *(DE)* I should like to return again to the subject of Lord Turner, who has just been mentioned. He made another public statement that showed the causes of the financial crisis in a different light. He strongly criticised the size and influence of the City of London, and criticised global financial business in general. He also suggested that it may be overinflated – that is, that the financial sector as a whole is overinflated. Those so inclined could also interpret this as stemming from a faulty distribution policy in our societies.

My question in this regard is as follows. What are your views on this as President of the European Central Bank? Can you envisage any scope for cutting the financial sector back to normal size, as it were? After all, that would be the logical conclusion to draw from Lord Turner's comments.

On the other hand, is there even any scope within primary European law for effecting such a change in the financial market, as far as you can see? Lord Turner advocates a Tobin tax. This would be one way of limiting the size of the financial sector somewhat, of course, at least in certain fields. However, the question then arises as to whether primary European law even fulfils the preconditions for this.

A second aspect is that, at the G20 Summit in London in April of this year, the Chinese Vice-Minister for Finance proposed replacing the dollar as a reserve currency, and not by the euro, as some have said. The idea of a reserve currency, such as the dollar or euro, could be replaced by Special Drawing Rights in order to prevent crises such as we have just experienced. I should be interested to hear your position on this.

1-029
Jean-Claude Trichet, *President of the European Central Bank***. –** You have addressed a lot of very important questions. I shall first say that my understanding of what has happened is that we have experienced the fragility of global finance and, by way of consequence, the fragility of finances at the level of the European Union, of all entities that make up the global economy.

This is something which has to be corrected. We cannot accept living in a world that is so fragile. The absence of resilience is the element that we have to take care of. My understanding is that, as with a disease which is very hard to treat, you have to practise multiple treatments. As I see it, it would be a big mistake to scapegoat any particular part of global finance, because if you scapegoat, say, the investment banks, the commercial banks, the rating agencies and so forth, then you are saving the others; they are not targeted.

Everything has to be changed; everything has to be fixed. I am very happy that this is the way we are proceeding because we have an accord on the methodology at global level, at the level of the emerging world, as well as the industrialised world, and we have decided to try to treat everything.

I would not consider that there is any part which does not need to be very substantially improved, because the fragility came from the system itself.

As regards the Tobin tax, I am against it, at least if you are referring to the taxation normally known as the Tobin tax. I do not want to say more on that, but I am against the Tobin tax.

As regards the dollar, I would say that in the present situation it is extremely important that we can have, in the framework at the level of global finance and the global economy, a strong dollar, as the authorities in the United States are claiming. Ben Bernanke, Tim Geithner and the President of the United States are all saying that a strong dollar is in the interests of the United States. I trust that; I trust that it is true and that what they say in this respect about the solidity of the dollar is very important.

1-030
Godfrey Bloom (EFD). – Thank you for your time, Mr Trichet. I spent 35 years in financial services in various ways, and I see this from a slightly different perspective.

Most politicians are economic laymen: they do not really understand these things. When we talk about where this all actually started, you hear Lehman Brothers mentioned and all the banks being blamed and so on and so forth, but I would argue – and I would be interested in your view – that this chain of events was perhaps started by politicians – American politicians – who brought in the Community Reinvestment Act. I rather agree with my colleague, Mr Eppink, who made mention of this.

We do not seem to hear that this was part and parcel of political engineering of the very worst kind which was picked up by the banks and run together with the banks,

which made profits out of it. They have been backed up with taxpayers' money and by politicians who made the mistake. The regulators have made nothing but mistakes – and I hear Lord Turner's name mentioned. The FSA in London have just paid themselves 10% salary increases and bonuses and heaven knows what else for presiding over what is probably the biggest muck-up in the history of banking in Europe, and I do not think we need to listen too much to what he might have to say.

Should we not be looking towards the British dominions – Australia and Canada – which have not had this problem? The Australian banks and the Canadian banks do not have this problem because they have a completely different sort of regulation which is not prescriptive and not box-ticking. I think it is time somebody spoke up for the taxpayer who has had to clear up this mess.

1-031
Jean-Claude Trichet, *President of the European Central Bank***. –** As I said, I am working on the assumption that global finance needs to be fixed. We should not point the finger at any part of the system, because it is global finance itself that proved very abnormally fragile, demonstrating an absence of resilience that triggered a free fall of the global economy. It is this we must fix.

In identifying what has to be done, it is clear that those national systems that have proved the most resilient need to be looked at very carefully, because a lot of lessons have to be drawn from that. I would echo what you said that when I look, for instance, at Canada, the Canadian way of dealing with its own financial system in the Western hemisphere has been quite resilient, and here again we probably have lessons to learn. I do not want to single Canada out for praise, but it is an example where we can see that resilience has been preserved.

1-032
Burkhard Balz (PPE). – *(DE)* Madam Chair, Mr Trichet, I was very impressed by your statements on the European Systemic Risk Board (ESRB), particularly when you declared that not only the ECB but also you and your deputy are involved with the Board. The experience of recent weeks has taught me that you can also issue warnings and recommendations. My question is as follows. Can you envisage ever needing to justify yourself if such warnings and recommendations were to prove incorrect? Also, how can this be reconciled with the ECB's primary objective of an independent monetary policy? My very specific question is this: do you envisage any conflicts of interest here?

My second question is as follows. Before I joined this House, I worked in the financial sector for 15 years. Over the last few months, a discussion has been taking place throughout Europe on the issue of what constitutes a 'systemically relevant' institution. So far, no one has been able to give me a satisfactory answer to this. Can the President of the ECB help me out at all on this?

My third question concerns the 'sovereign wealth funds', particularly those outside the euro area, but also in general. In your view, have these sovereign wealth funds contributed to the stability of international financial markets in the last 12 to 18 months?

1-033
Jean-Claude Trichet, *President of the European Central Bank***. –** As I have already said, the ESRB will consist of a number of participants. I should also have mentioned that observers will come, when necessary, from the various supervisory authorities. There is certainly no conflict of interest, because the ECB itself has the Treaty of Maastricht, and, as I said at the end of my introductory remarks, it is so to speak a sanctuary for monetary policy.

The recommendations that we will make in terms of macro-supervision will perhaps not be so very different from what we ourselves are saying without the Risk Board, on fiscal policies and on the necessity of structural reforms. So we make recommendations in this domain. It seems to me that, although it is of course not the same, it might show you how it could function.

Again, we will not have executive authority. We will make recommendations. We are responsible for our recommendations when we have discussions with you before your committee. Very often I have to respond to questions on structural reforms, on whether we are right or wrong to call for structural reforms in such and such a domain. We try to explain in the best fashion possible, and it seems to me that this is also part of what we are doing.

As regards the systemically relevant financial institutions, this is a matter of judgement. Very unfortunately we recently had big examples of systemically relevant financial institutions when governments on both sides of the Atlantic decided to try to avoid catastrophes. They judged that it was systemically relevant. I trust that their judgement was correct. In one case we could see that a single event could trigger, all over the world, the synchronising downwards of decision-making processes in emerging countries, in industrialised countries and in the financial and non-financial corporate world. We could see there that this concept of a systemic event was a real one, but I agree with you that it is of course a matter of judgement.

Regarding your last question, I have no particular assessment to make on the government funds. I think they continue to play their role but at this stage I have no judgement to make.

1-034
Alfredo Pallone (PPE). – *(IT)* Madam Chair, Mr President, I wanted to ask some questions on the regulations because, with regard to the three authorities, it occurred to me how the process concerning the single currency and the European Central Bank was constructed, by means of a wide-ranging democratic process and thus with great autonomy of the ECB.

This is my question: I read the regulation and I remained very puzzled by a passage that says that the new

regulation would, in fact, rule out the possibility that we could find ourselves in a situation in which the main body – the European Systemic Risk Board and the Steering Committee – may, in theory, not include the governor of the ECB. It is something that left me very puzzled indeed, as did then seeing the three authorities be appointed, not as you were appointed, Mr President, directly by governments and by Parliament, but appointed directly by members of the board of supervisors.

So I ask you, Mr President: do you not think that it is necessary to guarantee two points, particularly with regard to macro- and micro-prudential supervision? And that the ECB should therefore be strengthened and not weakened, and that a debate should be held that represents the accountability of these authorities, and that therefore the debate should be taken more to the governments of citizens, to national governments, and not only to the boards of director-generals of the various supervisors that are in our countries?

1-035
Jean-Claude Trichet, *President of the European Central Bank***.** – If I correctly understand the question, you are addressing the proposal which is made at micro-supervision level, and I have to say that we are working on that very actively. We are not, as you said, directly involved, but we will have to make up our minds in the normal consultation process, so we are working actively to study what has been proposed for micro-supervision.

We are much more familiar with the macro-prudential body because we have, since the very beginning, been directly involved at this level so I will be very prudent on all the remarks you made at the level of the micro-supervision authorities.

I hope that you will forgive me for that because, again, we will see exactly what is the judgement of the Governing Council of the ECB, which will have to make up its mind.

You said at a certain moment that the President of the ECB would not be part of something, and I am afraid I did not catch exactly what.

1-036
Alfredo Pallone (PPE). – *(IT) (first part of the speech without a microphone)* … could not be affected by a new regulation.

1-037
Jean-Claude Trichet, *President of the European Central Bank***.** – Again, you are back to the micro-supervision authorities. This has been explicitly suggested by the de Larosière group – and I have to say that this was not the position taken by a large number of MEPs, who told us that we should be involved in micro-supervision – but it was not what was adopted by the de Larosière group or, at this stage, by the Commission and the Council.

Of course you will make up your own minds, but for me it is something that has already been more or less decided for some time. We will have to make up our minds and respond to your question in the name of the Governing Council, because this is the consultation process.

1-038
Othmar Karas (PPE). – *(DE)* Madam Chair, Mr Trichet, I shall begin straight away with reference to your last statement. In the Banking Directive, the European Parliament stated very clearly that it wanted to see a step towards integration with regard to supervision, and also deeper involvement by the ECB. As far as I am concerned, what is now on the table is insufficient. This is particularly valid in view of what you said, namely that we have a global financial market structure, but we do not even have a European financial market supervision system. How do we plan to bring about a global supervision system? We have not got far enough yet. I should like to know whether you share my view.

My second point concerns pro-cyclicality. An important question is what the costs of pro-cyclicality would be in terms of the capital issue and the accounting rules. It must also be clarified whether this needs to be examined, as the subject has to be discussed in autumn.

My third point is as follows. At the start, you said that the problem lay in the structure rather than in particular products or institutions. I share this view, but can you give me a specific example of a structural problem that needs solving?

My final question concerns debt, inflation and the exit strategy. Not only easier money, but also debt can lead to inflation. How do you view this in relation to the 2% limit it is your task to maintain? What role does debt management play in your exit strategy?

1-039
Jean-Claude Trichet, *President of the European Central Bank***.** – On the first remark, what we are trying to do at global level, and what has been decided at the level of the G20, the grouping which includes both the industrialised countries and the emerging world, is to work out the same concepts and the same principles. I am happy with that; it is extremely important. We need a level playing field. If we want the system to be much more resilient we also must have a level playing field and the same principles applying everywhere.

This was the theory of the old Basel Committee. It was created at the time of the terrible crisis that we had in the 1980s, the crisis of the sovereign risk, and so it is a long-standing necessity to have a single set of principles and of concepts of prudential measures at global level.

Is it being applied correctly or not? I shall let you judge, but it was clear that we had to improve considerably on the fair implementation of the same principles at global level, and the question then arises of whether to ask for a single authority to be responsible for their implementation? Of course, the concept relies upon

implementation by a constellation of authorities, certainly at global level, and also even at European level.

I know pretty well what Parliament's position is because you have made it very clear, including in this committee, and I would say that in the first instance it is a very good idea to have a single authority in Europe to do that at micro-supervision level. But this is not what has been proposed. I trust that it is very unlikely that there is a possibility of proceeding, taking into account the positions of the various countries at this stage, and I understand that you regret that, but I tend to consider at this stage that it is a fact of life.

It is all the more important, then, that we be sure that the same single principle – in the case of Europe, the same directive – is implemented fairly, exactly in the same fashion, with exactly the same concept, for each particular country.

As regards the exit strategy, I understand your question as telling me not only that there must be an exit from the non-standard measures, but that you have to run your own monetary policy and take your decision as regards interest rates, and I always said that goes without saying. Again we have to do whatever is necessary so that we can continue to tell you and our fellow citizens: you can rely upon us, we deliver price stability in the medium and long run.

By the way, when we compute at the end of the year what we have done since the setting-up of the euro, over the first 11 years, you will see that we were capable of fulfilling the primary mandate that you, the democracies of Europe, gave us.

My colleagues and I are proud of that, but it is the fact that we are credible for the time to come that enables us to have, incorporated in the present market rates, medium- and long-term, this definition of price stability 'below 2%, but close to 2%', which is credible in the eyes of all market participants, investors and savers in Europe and in the rest of the world.

1-040
Edward Scicluna (S&D). – Mr Trichet, first of all, like my colleagues, I would like to thank you for the importance you are giving to our meetings and our questions.

My question concerns monetary and fiscal policy, which should normally go hand in hand – or, at least, the left hand should know what the right hand is doing.

On the monetary side, you were very clear. You said, regarding the exit strategy, that it is not the time yet to exit, and we agree.

I feel that, on the fiscal side, especially in the eurozone, such guidelines are more ambiguous in the sense that, while the Commission is also agreeing and saying that it is not the time to step down from the fiscal stimulus – not to increase taxes but not to reduce them for the moment – at the same time it is slapping tight deadlines on the excessive fiscal deficit procedures and ignoring the fact that this recession is a special circumstance in itself.

Do you not agree that at least we should, on a country-by-country basis, wait for each country at least to see some – one quarter at least – upturn before reducing its deficit?

1-041
Jean-Claude Trichet, *President of the European Central Bank***. –** First of all, I have to say that we totally support the Commission in its very difficult task of ensuring the implementation of the Stability and Growth Pact. It is a difficult task but it is very important.

It is also a question of confidence. If our people and the investors, the savers, and the markets do not feel that the fiscal situation is under control in the medium and long term, we will not be able to work out the recovery. We will be blocked.

The message being given by the Commission – with our full support – at the level of Europe as a whole, and the euro area in particular, is that starting to return to normal in terms of fiscal policies should coincide with, and not be later than, the recovery, and in any case should involve a step-up for a large number of countries in 2011. That is what the Commission says, and we fully support that.

Of course some countries have additional difficulties in terms of outstanding debt as a proportion of GDP, and in terms of the size of the deficit. This is noted by savers and markets in terms of spreads and also by our fellow citizens in terms of losing confidence. All this is very important, but I believe that there need not be a contradiction between demonstrating that we are able to go back to a sustainable pace and helping the recovery. It is the confidence channel that is the most important today. It is the absence of confidence which created the crisis.

1-042
George Sabin Cutaş (S&D). – The recent stabilisation of the eurozone, as you said, and the hopes for the possibility of relaunching growth are a source of optimism, including for the countries that have yet to join the eurozone.

But, as you know, the deficits – which you have already mentioned – of a large majority of Member States are expected to surpass 3%, and average government debt levels are predicted to reach 80%. However, the need for new Member States to deal with the facts of recession conflicts with the need to respect the Maastricht criteria. The high impact of the crisis on the new Member States is also partly a consequence of the differentiated policy responses between the eurozone and the non-eurozone, as happened in the case of asymmetric liquidity and credit management by parent banks.

My question is this: given the actual context, what additional measures do you consider necessary in helping the new Member States to join the eurozone? To draw a parallel with your previous speech, what medicine do you prescribe to remedy this situation?

1-043
Jean-Claude Trichet, *President of the European Central Bank.* **–** Entry into the eurozone is a matter of strategic will, of political will in the noblest sense of the term, namely multipartisan will, and I always note that those countries inside the euro area went into the euro area on the basis of a large multipartisan consensus, making it a multinational and multipartisan area. This is not surprising: after all, the ECB itself is running a currency for all sensitivities. That is my first comment.

Secondly, there are the criteria, and there is currently very broad agreement that the criteria for entering the euro area have to be met. We try, in the constituency of the central banks, to be as cooperative as possible in our mutual understanding. We meet in the General Council of the ECB every quarter. We have permanent contacts. We have a lot of technical assistance of all kinds inside the European Union, inside the 27, and we will continue to cooperate very closely. The ESRB will to some extent intensify this cooperation, because we will have to cooperate at the level of the 27 for risk identification and recommendations.

I would say our own responsibility is to keep the euro area in order, and in correct order, because the euro area is the first client and the first supplier of the eastern and central European countries, and the fact that we are on our feet is something that is extremely important. However, at this stage I would say: let us all try to facilitate the good functioning of the European Union, knowing that 25 countries are committed to enter when the time comes and when they meet the criteria.

1-044
Olle Schmidt (ALDE). – Hopefully it is 25 – I do not know that. It could be one less. I have been trying to understand the consequences of these documents, the proposals from the Commission last week, and it is not that easy. I think you can enlighten me.

The recommendations on the ESRB are not legally binding, as you have said. If those recommendations that you are putting to the different authorities and the different Member States are not fulfilled, if they do not follow them, what will happen? Is there not a danger that the authority of the ESRB would be impaired if that were the consequence?

I totally agree with you that the euro and the eurozone have been the anchor in this crisis, including for those countries outside the eurozone. Now, for the post of chairperson of the ESRB there is a possible choice among a whole range of different governors and representatives, but would it not be dangerous for the authority of the ECB, if it did not chair the ESRB? I do not mean that you should chair it in person; that is not my question. I am asking you about the authority of the ECB.

My last question is related to some of the questions from colleagues here. You could say that Europe has been more unified after this crisis, but you could also say that it has been more divided, with the euro countries on the one side, and the rest of us on the other side. Does that not suggest, not only to you but also to other politicians, that the interpretation of the criteria must be a bit more flexible, as the IMF proposes?

1-045
Jean-Claude Trichet, *President of the European Central Bank.* **–** On the first point – which is very important – I would say that, in the text as it is, it would be a matter of judgement as to whether the recommendation of the ESRB is made public or not. What the recommendation then says would be a matter of judgement, but even the decision whether or not to publish would be a matter of judgement.

This exercise of judgement would, I hope, help to answer your question, because you were – if I understand correctly – thinking that, if there is a recommendation based on the 'comply or explain' concept, and the recommendation is not followed, it would perhaps put the institution in question in a more difficult situation.

Of course if you take your reasoning to the extreme, then let us change absolutely nothing – if you consider that even recommendation, without substituting any authority, would be counter-productive. But again I think that the right answer to your question is that it can be public, but that in some cases it would perhaps seem more effective not to be public. This is what has been provided for.

As regards the Chair and Vice-Chair of the ESRB, it has already emerged that these posts would be filled by the General Council of the ECB. My colleagues, then, would say whatever they want: I cannot give a better answer than that because it would be up to them.

1-046
Olle Schmidt (ALDE). – The ECB could try to change the proposal.

1-047
Jean-Claude Trichet, *President of the European Central Bank.* **–** Well, frankly speaking, this proposal seems to me to be correct. You have the 27 in the General Council of the ECB and it would be clear that the Risk Board is at the level of the 27 – not at the level of the euro area alone or the non-euro area alone, but really the 27. I think this was the idea of the European Council when they reflected on it.

I do not think that we would do any good for Europe if we changed the criteria. In any case, entry into the euro area is not something that you do to avoid a crisis, to prevent a difficult time or to have an umbrella. It is a decision you take which is of extreme importance: it

means sharing a common destiny. That is what we do in the euro area. So I think that the idea that one has to respect the criteria is, frankly speaking, a good one. I am sure of that.

1-048
Sławomir Witold Nitras (PPE). – *(PL)* Mr President, it is a great pleasure to listen to you today. Actually, you have already answered one question, since I wanted to ask if you think the convergence criteria are criteria which should be applied, because I think that people, and not only those in the new Member States, are increasingly pointing out the unreasonableness and inadequacy of these criteria. There are even some who are saying in jest that the criteria only apply to those who are outside the euro area.

I would like to ask you the following question. In countries which are applying to enter the euro area we often hear that the strategy, quite honestly, only involves telling those countries to prepare, and that there is no EU policy on enlargement of the euro area at all. It seems that, not only at a time of crisis, but generally, enlargement of the euro area is something which nevertheless brings stability and allows for more rapid development. I would like to ask for your opinion on something. If the European Commission were to take the lead and create a long-term strategy for enlargement of the euro area, or if the European institutions were to do this, what would be the position of the European Central Bank and your own position on this?

1-049
Jean-Claude Trichet, *President of the European Central Bank***. –** I negotiated the Maastricht Treaty with my fellow State Secretaries, including Horst Köhler, who is now President of Germany. We had in mind that we should start the euro area with six or seven countries in order to have the critical mass.

The Heads of State and Government at the time had the idea that it might even be possible for as few as two countries to start the euro, and they said in any case that we had to start before 2000. On 1 January 1999 it was decided in Maastricht: the euro would go ahead, even with only two countries. And yet when we started there were 11 countries, which was fantastic. This was proof that the concept of the euro area was embracing a much larger number of countries than was foreseen at the moment of the negotiation. Then very rapidly we were 12. Today we are 16, including two former communist countries in the euro area, at the heart of the euro area.

Again, it is not a closed shop. It must not be a closed shop. But each individual country has decided to enter, not because it was the implementation of a strategy, but because they felt they were ready. They thought they had to share a destiny in common. There was a kind of all-embracing feeling of multi-sensitivity and the criteria were there.

I think we should continue: 16 countries now, when we started with 11, is a big increase. We are speaking of a phenomenon of historic proportions. Looking at it from a historical perspective, this is absolutely remarkable. We will continue to enlarge, and we have to enlarge on the basis of the strong preparation convergence that is necessary.

1-050
Enikő Győri (PPE). – *(HU)* I too come from a country which is outside the euro zone, in other words, in "the rest" category, and unfortunately, we were the first country which needed the European Union's financial assistance in the wake of the crisis. This situation was, undoubtedly, mainly a consequence of our own flawed economic policy. We cannot therefore and must not deny this fact either. Unfortunately, we still have not emerged from this difficult situation and we are currently going through a serious crisis which revolves around taking risks.

The banks are very reluctant to lend their money, preferring to leave it where it is, which means that we have little chance of economic growth taking off. Quite apart from the misery caused by the crisis itself, we also had exasperating experiences during the crisis management process. In fact, I have already mentioned this to you once at a previous meeting. It was our experience that we definitely found only slight evidence showing that the principle of equality between Member States was being applied during the management of the crisis. I am thinking of one event in particular. In October 2008 the Magyar Nemzeti Bank requested from the European Central Bank a swap transaction, which we were not granted authorisation for, while other countries outside the euro zone, and I am thinking about Sweden and Denmark, were allowed to carry out such a swap. This goes to show that we are certainly among those who are not equal. While the Member States in the euro zone and those outside the euro zone cannot be equal, the Member States outside the euro zone are definitely not equal either.

At this point I would like to make a request to you. When the new institution, the European Systemic Risk Board, is up and running, I would ask for it to take a more personal interest in dealing with the problems of central and eastern European countries and for our problems to feature as part of the Community's problems. I also have a specific question for you. In Hungary the collapse of currency-based credit has been a serious problem, and the MNB (The Central Bank of Hungary) is now putting forward a bill on this. Does the European Central Bank have any initiative in this area?

1-051
Jean-Claude Trichet, *President of the European Central Bank***. –** Your last question was on the ESRB but I am afraid I missed the point in the translation.

1-052
Enikő Győri (PPE). – *(HU)* I had a request and a question. The request was that during the establishment of the new European Systemic Risk Board, the principle of equality between Member States should be applied more effectively than in those bitter instances I referred to earlier, and that the problems of central and eastern

Europe be considered Community problems. This was my request.

My question, on the other hand, referred to the serious problem in Hungary caused by the collapse of currency-based credit, which preoccupies the country today. Does the European Central Bank have any initiative in this area to possibly detect this risk?

1-053
Jean-Claude Trichet, *President of the European Central Bank***. –** Let me just say, firstly, that when we engaged in the non-conventional measures of first magnitude in the euro area – as the central bank of the euro area, which is the Eurosystem – we told our banks with subsidiaries in central and eastern Europe that they had to continue to provide liquidity in central and eastern Europe. The message was crystal clear. As I see it, this was a way – perhaps a less visible way – of helping your country and others. I should also mention that we had a repo agreement – a bilateral repo agreement with the central bank of Hungary – in order to facilitate the situation in this difficult time.

The ESRB, by definition, is an institution of the 27 – you are absolutely right – and we have to make a judgement from the point of view of the risks for the 27. The idea of looking at this question of loans in foreign currency – one of the difficulties you mention – is a typical issue that could be examined, in my opinion, in the ESRB, at the level of the 27.

1-054
Zoran Thaler (S&D). – Mr Trichet, it gives me great pleasure to address you today. I agree with your statement that exceptional times call for exceptional measures. Your decision on enhanced credit support is welcome, and the same goes for the preparation of an exit strategy, but the facts still remain clear: the euro interest rate is historically low. In June the euro area faced deflation for the first time. In August the annual deflation was already 0.7%. The banks are giving strong negative signals to borrowers. Borrower and consumer confidence is extremely low.

I believe that keeping interest rates at low levels could present a great threat. We should all think of Japan's financial crisis in the 1990s and the consequences of lowering interest rates for Japan's economic recovery. So firstly I would like your clear answer about the danger of beginning the deflation spiral, or stagflation, in the euro area.

Secondly, we know that lack of confidence is one of the key obstacles to economic recovery. We should be aware of the fact that the non-confidence spiral is getting lower and lower. Do you support the idea that banks, since they were mostly bailed out with taxpayers' money, should make the first move in making borrowing less complex? How are you going to force them to do so? Do you have any additional ideas on how to make the banks take action?

1-055
Jean-Claude Trichet, *President of the European Central Bank***. –** Firstly, on the deflationary phenomenon: as I said, we saw a long time ago that we would have a decrease of inflation – algebraically speaking, that we would be in the negative for a certain period of time and then we would be back to positive.

Everybody understood that – the market, the observers, the market participants – and clearly we will proceed as we have said from the very beginning, because all this is due to the base effect. What is absolutely clear is that the deflationary risk has not materialised in Europe, and I think that this is now clear in the eyes of observers.

Regarding the lack of confidence, I agree entirely with you. Confidence evaporated on 15 September last year, and we have to do all that we can to re-inject confidence – in the household constituency, in the corporate businesses and in all decision-making processes. It is what we try to do ourselves by being both bold, including non-conventional measures, when necessary (as you were kind enough to say in your introduction) and also by being absolutely clear that we will never agree to depart from our primary goal, which is to deliver price stability in the medium and long term.

This is what we stress because the inflationary expectations are in line with our definition of price stability in the medium and long term, whatever the present situation with very low inflation may be. Of course I can confirm to you that we will do all that we can to improve confidence. This is our message.

1-056
Lajos Bokros (ECR). – Thank you for giving me the opportunity to raise this issue. I want to follow up on those questions which relate to the Maastricht criteria.

It has been made crystal clear by you, Mr Trichet, that entry criteria should be met and there should be national political consensus on that. I fully agree with you, but still the question arises of the consistency of these criteria for the cohesion of the eurozone, not so much for entry to the zone but for those who are already there, which is a critical issue.

Some people say that the crisis may have changed our thinking regarding the consistency of the Maastricht criteria. Some people say we need a criterion on the current account, because if a country has a twin deficit and a twin debt then that is a whole different ball game: it represents a different vulnerability as compared with just having a fiscal deficit and a large amount of fiscal debt. Others say: no, we have to eliminate the fiscal criterion, partly because most of the countries at this point in time cannot meet it and will not be able to do so in the foreseeable future.

What is your thinking? I am not asking you as the Governor of the European Central Bank but as a monetary theorist. How would you address this issue in order to strengthen the further cohesion of the eurozone?

1-057

Jean-Claude Trichet, *President of the European Central Bank***. –** When I say that we in the ECB Governing Council stick to the criteria, we are only repeating what is being said by the Commission itself and also – to my knowledge – by most of the countries concerned. They would not like to suggest that they are entering with an abnormal situation that would not prove to be sufficiently convergent.

That being said, I would agree on the fact that you have to look at the criteria, but you also have to look at other elements that are part of the proper functioning of an economy. Inside the euro area, we have the Stability and Growth Pact which, as you know, bites much more inside the euro area than it does outside that area, because there are sanctions that can be activated by peers and by a proposal of the Commission.

But I always call for a very careful monitoring of the unit labour cost inside the euro area – of competitive indicators inside the euro area – even if we do not have that in a framework like the Stability and Growth Pact, because it is important for proper functioning. Of course we are also constantly calling for structural reforms to be implemented, even if there is no equivalent of the Stability and Growth Pact, because it is certainly very important for the proper functioning of any economy, and of the euro area in particular.

1-058

Chair. – That was quite a *tour de force*, and many thanks.

(The meeting closed at 18.35.)