COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

MONETARY DIALOGUE WITH MR JEAN-CLAUDE TRICHET, PRESIDENT OF THE ECB (pursuant to Article 113(3) of the EC Treaty)

BRUSSELS, MONDAY 30 MARCH 2009

1-001

IN THE CHAIR: MRS BERÈS

(The meeting was opened at 4.35 p.m.)

1-002

President. – Mr President, welcome to this last exchange, within the context of our monetary dialogues, during this term of office.

I believe that during these last five years, we have developed a practice that we have tried to improve as the years have passed. I am certain that much still remains to be done to ensure that this exchange is understood and experienced, within the democratic debate, to the extent of what is, in my view, its true significance. That is to say, the moment when, as President of the Central Bank, you come before the parliamentary representatives to report on the Bank's activities and provide information on the strategies and ideas that you have implemented in order to fulfil the mandate with which the Treaty has entrusted you.

For this last exchange, we have selected two subjects, of which you have been notified: the consequences of the current crisis for the enlargement of the eurozone, and the role of the European Central Bank in the supervision of financial markets.

Obviously, on this second subject, the publication of the report by Mr de Larosière, with whom we will have a hearing on 23 April, has a certain resonance. Members of the Executive Board have had the opportunity to give their opinions on what the Central Bank's role should be in relation to supervision. We will be interested to hear your approach and your assessment on finding the balance between urgency, the need to act, and the ideal form that European supervision ought to take.

Without further delay, I give you the floor, after which, you will be entitled to a question and answer session, which is an exercise that you know very well.

1-003

Jean-Claude Trichet, *President of the European Central Bank. – (FR)* Members of the Committee on Economic and Monetary Affairs, I am delighted to be taking the floor for the third time before the European Parliament since the beginning of this year, and for the second time before your committee. I am not forgetting the joint meeting of the European Parliament and the national parliaments in February. In total, therefore, I have come four times, in varying forms, before the European Parliament.

As you have said, today's meeting is the last one scheduled for this parliamentary term of office. It is therefore – as you have just said – particularly important. I would like to take this opportunity to thank you for the stimulating, rich exchanges of views that we have enjoyed over the last five years. This is my 21st hearing before your committee, and this is a testament to the intensity of relations between the ECB and the elected representatives of European citizens. You have also made this point very eloquently.

1-004

(DE) Today I should like to focus on four topics: the current economic situation, the structure of housing finance in the eurozone, the implications of the crisis for the future adoption of the euro by Member States in Central and Eastern Europe and, finally, proposals for the review of financial supervision in Europe.

Thus, I hope to go into some of the important issues before the usual Q&A session.

1-005

I begin with the economic situation and our recent monetary policy decisions. Please note (but of course you know this very well) that with only three days before our next monetary policy meeting this Thursday, I am in the so-called 'purdah' period and I will remain with what I have already said, because I am not supposed to say anything that would anticipate our next decisions.

Since my appearance before the European Parliament on 21 January, the economic situation and outlook have weakened further. Inflationary pressures have diminished further, as confirmed by monetary and credit trends. In February, the inflation rate remained low, at 1.2%. As you know, the decline in inflation since last summer primarily reflects the sharp falls in global commodity prices over this period. Looking ahead, we expect inflation rates well below 2% for this year and 2010. The risks to this outlook are broadly balanced, but surrounded by a high degree of uncertainty.

Following the substantial weakening of the world economy in the wake of the financial turmoil, real GDP growth in the eurozone contracted markedly, by 1.5% on a quarterly basis, in the fourth quarter of 2008. The latest information suggests that economic activity has deteriorated further in the first quarter of 2009. Looking ahead, we expect demand to remain very weak throughout 2009, both at the global level and in the eurozone, before gradually recovering in the course of 2010. As is the case for inflation, this outlook remains surrounded by uncertainty. Risks to this outlook seem to be more balanced. On the one hand, the positive impact of governments' recent rescue packages for the banking sector and the macroeconomic stimulus that is now under way may be stronger than anticipated. On the other hand, the impact that the ongoing financial turmoil has on the real economy could be stronger than expected. In addition, protectionist tendencies are giving rise to considerable concern.

It was against this background that the Governing Council reduced the key ECB interest rates by another 50 basis points in early March. This took the overall reduction in our key rates to 275 basis points since October of last year. Overall, we expect price stability to be maintained over the medium term. We will continue to deliver on our mandate and ensure the firm anchoring of inflation expectations over longer-term horizons. Such anchoring supports sustainable growth and employment and also contributes to financial stability.

Let me also recall that the ECB has adjusted its liquidity management framework in order to counter the dysfunctional nature of the eurozone money market. The most important measures decided upon in October 2008 were the use of fixed rate tender procedures with full allotment for both main and longer-term refinancing operations, and the extension until end-2009 of the list of assets eligible for use as collateral in Eurosystem credit operations. We have thereby provided the banking system with unlimited liquidity support, at fixed rates, with maturities of up to six months. We have just decided to maintain this procedure for as long as needed, and in any case beyond the end of 2009. As a result of all of these measures, most of which are highly non-standard, banks have continued to have broad access to euro liquidity.

Let me now turn to the second topic, namely housing finance, which is covered in this year's ECB Structural Issues Report. As in previous years, I will present to you the general thrust of our report, which will be published later today.

The report analyses trends and differences in the characteristics of housing loans, in the funding of bank loans, and in the spread between mortgage interest rates and the funding costs of banks.

It also compares housing finance in the eurozone, the United Kingdom and the United States of America. Generally, eurozone banks are significantly stricter in terms of non-interest conditions on loans, partly explaining the significantly smaller sub-prime market here. On the funding side, relatively stable bank deposits continue to be the main source of funding for bank loans in the eurozone, with much less emphasis on the 'originate-to-distribute' function. These observations support the conclusion that housing finance in the eurozone should be more resilient to shocks.

Housing finance has an impact on the transmission of monetary policy to the economy. Two observations deserve particular attention. On the one hand, a higher degree of competition among mortgage suppliers leads to a strengthening of that transmission. On the other hand, the introduction of greater flexibility in mortgage contracts via the temporary suspension of payment or maturity extensions would result in interest rate changes having a smaller immediate impact on the economy.

Finally, it is clear that we have to assume a greater amount of retention on the part of banks, both as regards the amount and characteristics of loans granted to households and as regards their sources of funding.

Let me turn now to the third topic, which relates to the implications of the current crisis for eurozone enlargement. The global economic situation has deteriorated very significantly since September 2008 as a result of the intensification of the financial crisis. Some eastern and central European countries have also been hit hard, thus highlighting previous vulnerabilities. These weaknesses relate, in particular, to domestic and external imbalances, unsound fiscal policies, and domestic and external debt positions. However, it is very important to differentiate between the various countries in the region. A number of countries have shown a significant degree of resilience in these exceptionally difficult circumstances. And, not surprisingly, the countries that are most affected by the crisis are unfortunately those that had built up large imbalances and vulnerabilities in the past.

Overall, the financial crisis has highlighted the importance of avoiding macroeconomic imbalances and following a sustainable growth path supported by a sufficient degree of structural reform. This is particularly true for 'catching-up' economies, which have to balance the desire for swift convergence with the need to ensure the sustainability of their convergence process.

The adoption of the euro cannot be a substitute for the need for domestic policy adjustment. This would go against the economic logic which underlies the convergence process in Europe. And it is important to bear in mind that the premature adoption of the euro can make it more difficult for a country to cope with the challenges ahead. Without sustainable convergence, the monetary policy stance of the ECB could be inappropriate for the country concerned. In this case, the country in question could face the risk of excessive output and inflation volatility, as it would lack important tools to stabilise economic conditions at home. Thus, euro adoption cannot take place until major imbalances in the country have been eliminated and unless appropriate sustainable convergence has been achieved, as required by the Treaty.

Now I turn to the final topic, which you mentioned a moment ago, Madam Chair, which is the review of the framework for financial supervision in the European Union. Already last autumn, the European Parliament asked the ECB and the ESCB to play an active role in macro-prudential supervision and financial stability. Such a role is envisaged in the report by the high-level group chaired by Mr de Larosière. I welcome its proposals on macro-prudential supervision, which relate in particular to a European Systemic Risk Council under the auspices of the ECB. Let me provide you with a few observations on this matter.

First, the output of the Systemic Risk Council will make a major contribution to financial stability in the European Union. In accordance with the de Larosière report, it will identify and assess risks and vulnerabilities in the EU financial system, issue risk warnings and adopt related policy recommendations. This will substantially improve the present arrangements for risk assessment at EU level.

Second, the proposed composition of the Systemic Risk Council reflects a recognition of the role played by central banks in macro-prudential supervision.

Third, the fact that the Systemic Risk Council would be set up under the auspices of the ECB and the ESCB would allow it to benefit from the analytical capabilities and technical infrastructures developed by central banks in its analysis of monetary and financial stability. In this context, the Systemic Risk Council will have to rely on a wide range of macro- and micro-prudential data. This implies that the ECB and the ESCB should have access to the relevant micro-prudential information from supervisors.

Fourth, for the proposed macro-prudential framework to function as intended, it is crucial that risk warnings be translated into policy action as effectively as possible. In this context, the Systemic Risk Council should report its risk warnings and relevant recommendations to the Ecofin Council.

Finally, we should provide an appropriate institutional basis for the establishment of the Systemic Risk Council and the related new macro-prudential tasks of the ECB and ESCB in order to ensure the necessary authority, accountability and legal capabilities. The activation of Article 105(6) of the Treaty could be a very useful avenue in this context.

I could not conclude today's introductory remarks without very warmly thanking you, *Madame la Présidente*, and all the honourable members of the Committee, for our regular exchanges of views over the past five years. These 21 hearings have been important opportunities to receive feedback from the Members of Parliament, and on behalf of the Executive Board, the Governing Council and the staff of the ECB, I thank you for your very kind attention on the occasion of these hearings.

1-006

President. – Thank you, Mr President, for your preliminary comments and for your appreciation of our monetary dialogues.

As I said in my introduction, I think that it will undoubtedly be a task for our successors to further improve the quality of this monetary dialogue so that there is more awareness on the part of the general public that something is happening in these exchanges and that it is in this forum that the issue of the Central Bank's democratic accountability is applied.

1-007

Jean-Paul Gauzès (PPE-DE). – *(FR)* Mr President, on behalf of our group, I would like to thank you for the diligence you have displayed with regard to Parliament and for the quality of the monetary dialogue that has been established. Of course, I would like to echo what Mrs Berès has said.

I would like to ask you about the role that the ECB intends to play in the field of supervision. You have spoken about this. Could you perhaps tell us what level of preparation has been reached for this new stage being ushered in by the de Larosière report?

I would also like to put to you a question that may be ever so slightly impertinent. Some commentators on the current state of the economy are saying that, in order to boost growth again and move out of the crisis more quickly, we would have to allow some inflation. This is quite a common topic on the radio and the television, perhaps because it is attractive to say that there is inflation. In the period – already long gone – when there was a lot of inflation, people had the impression that they were earning more and had greater purchasing power, although this was not in fact the case. That, then, is my second question, which is more impertinent than the first.

1-008

Jean-Claude Trichet, *President of the European Central Bank. – (FR)* I will answer the two questions in order.

With regard to the first – as I said to you just now – we think that the avenue that has been opened up by the de Larosière report on macro-prudential supervision is very important. I must say that I can see a development in this direction throughout the world, including on the other side of the Atlantic. This is particularly true of the feeling that this was a function that was not institutionalised, even though it was clear that it was certainly closely linked to the responsibilities for financial stability that the central banks, in general, have, either through their own mandate, or because their own natural function to ensure monetary stability gives them responsibilities and a specific vision in that regard.

Naturally, what is crucial is implementation. We are in close contact with the Commission. It is now for the Commission to make proposals. I imagine that you yourselves are, of course, in contact with the Commission, which will be the one holding the pen, and we have a number of contacts with it, so that we can ensure that, once again, this function is carried out in the most effective way possible.

Several questions arise. I cannot pre-empt the results of the analysis carried out by the Commission, which is working in close cooperation with us. We think it is very important for us to be able to be sure that the recommendations are actually going to the right place. That is why I expressly mentioned the Ecofin Council – the Presidency of the Ecofin Council and the Ecofin

Council itself. We think that this is where one of the important points of entry is located.

The Commission will itself be present within the newly created Council, and we believe that it is equally important for there to be – as I have explained – all the appropriate inputs from prudential supervision bodies, even though this is the macro-prudential sphere, not the micro-prudential one. On this point, the de Larosière report is very clear. We ourselves were available. We announced our availability. The report is very clear in this area, and we think that the report should now be implemented.

On your second question, I have to say that I am as bemused as you. If it were apparent – but, as far as I know, this is not the case anywhere – that the central banks were no longer concerned about future inflation, what would be the result? Our fellow citizens themselves would see that the central banks were no longer concerned about ensuring that their purchasing power was preserved. This would therefore be the worst signal that we could give to European citizens, and particularly to consumers, at a time when the most crucial issue is to re-establish consumer confidence. The financial markets would see that, as soon as we moved on from these present few months, we would have inflation after a certain period of time, and as a result, all the medium- and long-term interest rates, instead of being low, which is obviously desirable in the present circumstances, would of course rise because they would take account of forecasts of increasing inflation.

I therefore believe that, from the viewpoint both of confidence and of the functioning of the real economy, what is being discussed, and what I, like you, can certainly see being discussed here and there, is certainly the worst possible idea. I would say, very clearly, to our 329 million fellow European citizens, through you and through your question, that we will safeguard price stability in the medium and long term, pursuant to the Treaty, in line with our definition: below, but close to, 2%. They can count on us. That is what we will guarantee.

Once again, I think that, to promote confidence today, it is important to take decisions today that are appropriate in all spheres, including monetary decisions, and that it is, at the same time, very important to reassure all economic agents, particularly our fellow citizens, that we will preserve price stability in the medium and long term.

1-009
José Manuel García-Margallo y Marfil (PPE-DE). – *(ES)* Madam President, I would also like to thank Mr Trichet for the 21 meetings that we have had during this parliamentary term of office. I am sure that they will continue in the next.

Oscar Wilde said that there are no impertinent questions, only impertinent answers. I can guarantee that my questions are impertinent, and I invite you also to be impertinent in your answers.

The first question relates to the last joint meeting of the European Parliament with the national parliaments. The conclusion was reached that, in order for credit to start flowing again and, therefore, for the real economy to emerge from the abyss, there are two indispensable conditions: the cleaning-up of bank balances and the stabilisation of the price of assets, starting with property assets, but not being solely restricted to them.

The plan that the US Secretary of the Treasury has just presented, which is not very different from the Paulson plan, amounts to buying assets in a kind of public-private partnership, with considerable help – a strong guarantee – from the public authorities. However, the European Central Bank seems to have made the eligibility conditions for guarantees tougher, reducing the value of the assets it accepts as guarantees.

Do you not think that there is a contradiction between these two policies and that better coordination would be desirable?

My second question is a more local one: the Spanish banking system seems, according to official statements, to be very solvent and not lacking in liquidity. Interest rates are, however, quite a lot higher; at times up to 50% higher than in other countries in the area.

What is the reason for this higher level of interest rates in a system as solvent and as liquid as the government assures us?

1-010
Jean-Claude Trichet, *President of the European Central Bank.* – Indiscreet questions may receive indiscreet answers, but I suppose you do not expect any indiscreet answers from me! What you do need, I would say, is some clear-cut answers.

On the first question, there are now, as you know, on both sides of the Atlantic, possible options for dealing with toxic assets, or particularly difficult assets, on the secondary markets. We have worked with the Commission, and introduced elements that the Commission has taken into account, to be as sure as possible that those new options, on top of the recapitalisation option, and on top of the guarantees option, will also permit us to maintain and preserve the level playing field in Europe. This is, of course, very important.

Let me simply state, in response to your question, that according to our own computations, in the eurozone alone, the earmarking of taxpayers' money or risks is of the order of magnitude of 23% of GDP. It is 29% of GDP in the United States of America, according to our own computations. Of course, I am counting everything, including the new options that you have mentioned.

What is needed now is not to pile up new decisions, or new potential avenues, but simply to implement what has been decided, which is already very important. I would certainly agree with you that what is of the essence here in Europe, as elsewhere in the world, is to put the financial sector back on its feet in order for it to be able to lend. We need a financial sphere that is back on its feet and able to lend. That is the top priority, and we have urged all the relevant authorities to be as active as possible in obtaining that.

As regards the second question, I do not want to embark on a particular assessment of a particular country because, as you know, we are responsible for 16 countries and 329 million people, but speaking of any country – and I know that this is the case for the previous speaker's country – where an enormous amount of outstanding past mortgages have been overwhelmingly indexed, as regards their value rates, to the 12-month Euribor, I have to tell you that, at the moment, the Euribor 12-month rate in euro is lower than the Libor rate in US dollars, and that it is also lower than a large number of other market interest rates, including sterling rates.

1-011
Werner Langen (PPE-DE). – *(DE)* Mr President, I, too, should like to thank you for attending today's committee meeting, for your very informed statements, and for the chance for us to discuss important things with you. I hope that this will also take place in this form in the next Parliament. In any event, it is a very good stage for you and for us.

I have two questions which follow on from, but also go beyond, the questions which have already been asked. One question concerns the current debate started by China on the foundation of a new global reserve currency in light of the problems with the dollar. What do you think of this proposal? Is it even realistic? Is it necessary, has it been pulled out of thin air or is it indicative of the new balance of power in the world?

My second question follows on from the issue addressed by Mr Gauzès, namely the massive injection of money into the US economy. The call for the G20 summit and the European states in particular to do more for the short-term economy and to accept increased public debt may result in our having to think about inflation in two or three years' time in totally different dimensions. At the moment there is little danger, but if the US keeps on injecting money into the economy, there is a definite risk of inflation. I would be grateful if you could give us your views on this.

1-012
Jean-Claude Trichet, *President of the European Central Bank.* – On the first question, I will not surprise you if I continue to refer to the agreed statement of the G7, which I signed and which, on this extremely important issue, says that 'we reaffirm our shared interest in a strong and stable international financial system' and that 'excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability'.

I stick to that. It is what has been signed by the Central Bank Governors, my friend Ben Bernanke and the other governors and ministers that participated in that meeting. I noted with great interest, I have to say, that on the occasion of their latest statements, Tim Geithner said a strong dollar is in America's national interest and President Obama said the dollar is extraordinarily strong right now and there is no need for a global currency.

At this stage, I would say these are very important statements and I would not envisage anything else in the present circumstances, which are extraordinarily tricky and extraordinarily demanding.

As regards the second question, I would make a general remark which is true for monetary policy and true for fiscal policy and fiscal activation of the economy. I would say that what is extraordinarily important for all authorities, at the moment we are speaking, is to be both appropriately bold as regards the immediate response to a situation which is extremely demanding – and I trust that we have been bold ourselves; you will remember that I explained to you only a few days after our decision what we had taken in August 2007, at the very start of the period of turbulence – and, at the same time, and this is true for the central banks and for the governors, to be able to show clearly the credibility of the exit strategy, to show clearly that, at the same time, we are determined to have a sustainable pace, a sustainable path to recovery. It is important that we can reassure our fellow citizens – and I understand your question as being very much inspired by this concern to reassure them – that they will be able to count on us to provide both price stability and fiscal sustainability. Otherwise, we would be shooting ourselves in the foot. We would do things that would not improve confidence but would, on the contrary, damage confidence, because our fellow citizens are clever and if they see that we are paving the way for a future which is uncertain and dangerous, they will not regain confidence. The same also applies to corporate business, to entrepreneurs, to all those who are participating in the decisions that are so important today to permit us to restore confidence and therefore restart the economy and put it back on its feet.

This is a very important issue and I think that we have to fully understand that, again, both of these conditions are of the essence.

1-013
Elisa Ferreira (PSE). – *(PT)* Mr President, I too would like to thank you for having appeared before Parliament and this committee so many times. I would also like to ask you three questions and make an observation. My observation is based on the statements you made in the *Wall Street Journal* on 23 March, in which you said that it is not necessary to increase the stimuli to the European real economy. This is despite the fact that the truly European stimuli are completely insignificant: as you know, they make up 15% of the recovery plan, many of

them are not even operational, and they are infinitely smaller than what the United States is doing. This leads me to my three questions.

What does the European Central Bank see as the recovery target? In other words, when will the economy be regarded as having recovered? Is it when the financial markets are working properly, when the economy starts to grow or when jobs start to appear? Parliament's position is based on jobs. What is the thinking at the European Central Bank?

The second question: can we expect a revitalisation of the financial markets and bank lending before the economy has recovered? In other words, can we expect the banks to lend if the prospects for companies are disastrous and does it, in fact, make sense to hope that this recovery will take place without the real economy having recovered?

The third question, which is a little more impertinent: the European Central Bank has been getting some of its forecasts wrong. The statement that you made takes the view that we will grow in 2010 and that, at that point, the crisis will be over. What, however, if the forecasts are wrong? Will new recovery efforts then be necessary? What are the reasons for the forecasting errors?

1-014
Jean-Claude Trichet, *President of the European Central Bank.* – I will take the three questions together. To the first question, I would say that we all have the same goal. That goal is to have growth and jobs. That is very clear. The only problem is, what does one do exactly to be as effective and efficient as possible in achieving that goal in a situation where a lot of imbalances have previously accumulated, and where you have a very large correction in all markets at a global level and in the real economy?

It is not necessarily justified to say that we are doing much less on this side of the Atlantic than is being done on the other side of the Atlantic. We have automatic stabilisers, for instance, that are much more important on this side of the Atlantic, thanks to our own system. We also have a proportion of spending in relation to GDP that is much higher, as you know, in Europe than in the US. One has to take all this into account when comparing the two sides of the Atlantic.

Let me also say that, taking into account the present level of treasury spreads on the financial markets, and looking at polls of our fellow citizens, asking whether or not they have confidence in the medium- and long-term sustainability of public finance, we really can state – and this is what all European governments (and I trust they are right) are saying – that everything has been taken into account at the present moment: the markets; the refinancing of outstanding debt and what in economic terms is called *Ricardian equivalence* – the fact that you have to improve the confidence of your fellow citizens, that you have to tell them they can count on you for the sustainability of finance and of fiscal position. I am sure that the governments are justified in this, and we fully share their analysis and can say that the optimum is being done.

As regards the second question, of how banks will lend, again, what is very important is to do what has been decided. A lot has been decided. We have to implement. I would say in response to the first two questions that the key word is implementation. A lot of things have been decided. We have to deliver *now*, and this is true also for public spending in terms of the acceleration of public spending on decisions already taken – the acceleration of disbursements. We must do what has been decided rapidly. As rapidly as possible. Time is of the essence in a situation like this.

Concerning the ECB, we publish our own forecasts regularly, as you know. When I compare private forecasts, public forecasts, and forecasts from international institutions such as the IMF, OECD and ECB, and so forth, I see that we all review our forecasts and take into account new facts and new figures. We give ranges, as you know, to clearly state that we are in a world which remains uncertain. A lot depends on our capacity to reintroduce confidence in all economic agents' minds – in households first, and also in corporate businesses. This depends on us. If we are very effective and efficient in implementing what has already been decided, which is enormous, we can win back confidence. Growth in 2010 will depend on us. It is not something which is already decided, or some kind of *deus ex machina*. It is up to us. It is our own growth, and it depends on our capacity to reintroduce confidence.

1-015
Ieke van den Burg (PSE). – The first issue I would like to raise is the situation on the bonds market. You have already mentioned government bonds. I think there is a close link with the inflation expectation after the first deflation threats. There may be a high inflation risk and there is some talk about having inflation-linked bonds and a role for the ECB to play in this.

The other issue is corporate bonds. Business Europe has suggested that maybe the ECB could play a direct role in purchasing corporate bonds, including for SMEs, in a market which is still not functioning very well at present. I would like to ask you what you think about this.

As my last comment, since this is the last time I shall be participating in this dialogue, I would like to express a *cri de coeur* which relates to you as the CEO of a multinational company in which I hear some voices raised by staff about industrial relations and recognition of trade unions. There may be some improvement in the social dialogue and the way consultation is taking place inside the ECB, but I hope you will really do your best to create a model for multinational companies in general. I am raising this point also on behalf of my colleague, Udo Bullmann, who could not be here, but who also suggested that I ask this question.

1-016
Jean-Claude Trichet, *President of the European Central Bank.* – I take good note of your three points. On the first one, it is absolutely clear that the bond interest rates will, of course, incorporate both the real rates and the inflation expectations for the years to come. That is why it is so important that the very solid anchoring of inflation expectations remains of the essence. As you know, we are – as I have already said – extraordinarily keen on being able to deliver price stability, in line with our definition, and therefore solidly anchoring inflation expectations. However, I agree that this is extremely important for all of us, and for the recovery to be as prompt and convincing as possible.

As regards your second question, concerning corporate bonds, I said that I was in the 'purdah' period, which of course obliges me to repeat what I said last time I received this question, which was that we would have to see what we decide. If and when we decide, we will go public on that.

Your third point is a very important one. I will just mention that, after due consideration by the Executive Board and the Governing Council, we now have a union, and not just the Staff Committee, in the ECB. This is proof that we consider social dialogue to be important, because in the past, we had the Staff Committee but no union. Thank you very much for your question.

1-017
Wolf Klinz (ALDE). – *(DE)* Mr President, you will be getting a large bouquet from the liberals too as an expression of our gratitude for the joint meeting with you and as a sign of the fact that we have met with you in respect and friendship. You have not had to go through the grilling sessions which your counterparts in America go through.

I have three questions. When we were in America recently, we received complaints that our wish to clear credit default swaps centrally through a central clearing house established here in Europe was a sign of protectionism. I would like to hear your views on that.

My second question is this: the G20 summit is due to be held in London in a few days' time. It seems to me, without there being any fierce public discussion of this, that we already have a different interpretation of the objective between the US and the European Union. In the European Union, the talk is always of the need to regulate all sectors and all products, while in America, it was made very clear to us that 'every sector and every product of systemic relevance' should be regulated. That is a not insignificant difference. Where do you stand on this and do you see any actual danger of our drifting apart here?

My third question refers to something which Ieke van den Burg has already touched on. We have concluded that in America, the Chairman of the Federal Reserve Bank has exhausted his entire set of monetary policy instruments and has now turned from a lender of last resort into a buyer of last resort. When you have exhausted your set of monetary policy instruments, which basically consist of interest rates and refinancing, what additional possibilities will you then have? You need not say if you will apply them, when and where and how, but in theory what would they be?

1-018
Jean-Claude Trichet, *President of the European Central Bank.* – Thank you very much indeed for your questions.

On the first question, which is related to the central counterparty for credit default swaps, I would just say at this stage that we consider there to be a need for major improvement of the functioning of this particular market. As I understand it, this is the judgement that exists on both sides of the Atlantic. As far as we are concerned, we are asking for the central counterparty in question in the eurozone to be located in that area, with the euro being a major contributor in terms of the overall CDS market. This is work in progress, if I may call it that, at the present time.

As regards the possible difference of views on the two sides of the Atlantic, my understanding is that there has been a formidable and very welcome rapprochement between the two sides of the Atlantic. This is of the essence, because in the run-up to the G20, confidence is of the essence, and a display of unity is a crucial part of confidence.

I very much expect that we – or they, because the Central Bank will not participate in the G20 in London at the level of Heads of Government, although we had a meeting at a ministerial and governors level – will show unity. This is because the unity of all participants on diagnosis and necessary actions, and unity on the reform of regulations, prudentials, standards and codes, with sectors important for financial stability at global level being appropriately treated, is crucial. A lot of progress has been made, including, for instance, on the appropriate treatment for high leverage institutions. I think that such unity is of the essence.

I also trust there will be a lot of common ground on support for the financial sphere – the famous 23% of GDP on this side of the Atlantic and 29% on the other – as this is something that is very important. I expect, and hope very much, that fiscal activation will also be seen as being of the essence, and that quick disbursement and rapid implementation of what has already been decided – and which is very important – will be effected.

That is what I consider we can expect from this unity of diagnosis and display of unity from both sides of the Atlantic – and from the Pacific and with all our friends in the emerging world, because let us not forget that this is a global decision – we have a global economy and we need a global diagnosis and global decisions.

Regarding your last point, I would simply give you – and perhaps already have given you – a key to understanding what we have been doing since the very

beginning of this crisis. 70% of the financing of the European economy, in the eurozone, goes through commercial banks. In the US, it is less than 30%. That is the reason we have concentrated our non-standard measures on the supply of liquidity to banks – the unlimited supply of liquidity with very forthcoming eligibility for collateral. That is the way we consider we can help our own economy the most. As I have said, we will continue to reflect on the other elements and, if and when the time comes, I will be explicit on these. I would repeat that we are concentrating our efforts and we have been, in all areas, the most rapid central bank in dealing with this particular issue, be it with regard to the eligibility of collateral, with private papers being eligible in our own framework, or by providing unlimited liquidity, perhaps on a more durable basis such as for six months. As I said, we are fully committed to doing this until January next 2010.

1-019
John Purvis (PPE-DE). – Can I say on a personal note that it is my last time at these meetings, and I would just like to say a very personal thank you to Mr Trichet for his courtesy and also for the way he has run the Central Bank. He has been exemplary over these last few years. I have been very impressed, looking from outside the eurozone, at the way you have been running the eurozone.

I wonder, however, whether despite this Transatlantic – and I hope global – unity you are extolling, there is not a slight, or at least a very slight, difference of opinion as to what the big risk is. We seem to talk about inflation. You talk about inflation as still being the issue. Do you think our American cousins, and maybe even the British Government, are more concerned about deflation? When we met last December, you denied any likelihood of deflation, but I wonder whether deflation is not stalking the corridors, and whether people are not worried about it, at governmental levels at least. Maybe it is something we should be concerned about.

My second question is really a parochial one, which is that if the UK had been a member of the eurozone during these troubled and difficult times, would its differences in housing, finance, its financial services sector and its public finance policies have been a problem for you, or would you have been able to force the UK into a different sort of policy line, so that it would not have been a problem for you, but a problem for the British?

1-020
Jean-Claude Trichet, *President of the European Central Bank.* – Thank you, Mr Purvis. On your first question, we have to take everything into account – the present situation and the disinflationary trend. Certainly, it is our common goal to avoid the disinflationary trend we are observing being transformed into a deflationary episode. So I think there is no dispute there. The only problem is that you might have a judgement and an assessment which is more or less acute as regards the risk of deflation. At the present time, I would say that there are no international institutions in the eurozone – and certainly not the ECB – which consider the risk of deflation to be elevated and substantiated. That being said, we have to remain permanently alert, and I say that candidly. We have to remain permanently alert but, at the present time, we do not see that risk being substantiated. Our inflation expectations remain solidly anchored in the medium term, in line with our definition. To be clearer, according to the survey by professional forecasters, our medium-term inflation expectations have, since the setting-up of the euro, oscillated between 1.7% and 2%. That is the range, and at the present time, we are at 1.9%. From the standpoint of the danger of deflation, that is, of course, reassuring, even if we have to remain permanently alert.

We should also not be confused about a disinflationary trend: this is due to the decrease in the price of oil and commodities, which is not contractionary but, on the contrary, expansionary – the increase in the price of oil and commodities was both inflationary and contractionary, but the decrease in the price of oil and commodities is disinflationary and expansionary, which is natural. We can see that in the present episode, we are giving purchasing power, through the fall in the price of oil and commodities, to our fellow citizens.

So we should remain permanently lucid on the situation, even if analyses of the danger of deflation might differ – and rightly so. It is not my mandate to qualify the situation on the other side of the Atlantic, for instance, but they do not see the same things as we do. We are obviously in different situations – but we all agree that inflation in the medium and long term would be absolutely inappropriate and would not help recovery at all at the present time. I think that there is a very large convergence of views on that point on both sides of the Atlantic and on both sides of the Channel.

I will not comment too much on your second question. I am sure that it is in the interests of the UK to be a member of the eurozone. I have always said that. I also know that this is not the majority sentiment of the people of the United Kingdom. I am sure that a time will come when they will consider that it is in their interests and in the interests of the United Kingdom. You know one thing: you are welcome. That is clear.

1-021
Gunnar Hökmark (PPE-DE). – I would like to join all the others who have complimented you and thanked you for this period and your firmness as chief executive officer of the ECB.

I would like to ask you about a thing that we have touched upon, that is: what happens in the European economy when we see more and more spending financed by deficits and borrowing? We see the trends in some countries in the EU already, as has been mentioned by others. But what sort of impact will it have when we see ongoing increases in public spending and increasing budget deficits?

I say this because from some perspectives, the way out of the crisis is that we should accelerate public spending, and we see the differences between the US and Europeans in this sense, but sometimes there is a tendency to forget the inflationary pressure you will get. Of course, as always, it will not come next week or next month. But it risks coming when we should be on the way up in the economic cycle and I would like you, for pedagogical reasons, but also for purely political reasons, to give a statement on that.

1-022
Jean-Claude Trichet, *President of the European Central Bank.* – I think you have a very important point. Again, I feel that we have to do whatever is necessary today to cope with a very difficult situation, and must never forget that if we lose the medium- and long-term sustainable path, then we are not doing what we want to do today – namely to reinforce confidence and permit the economy to recover.

I do not see there being any contradiction between the short-term and medium/long-term elements of the fiscal policy. They are both very important, and if we do not have both, then we will not obtain what we are aiming at.

If we only concentrate on short-term considerations, we will lose long-term confidence and lose the financial markets' confidence and then, through those two channels, we will not be better off, but worse off.

That is my understanding: confidence today, which is of the essence. There is only one concept of confidence, which is confidence for households, confidence for enterprises and confidence on the markets. This depends both on what we do today and what we have the credibility to do tomorrow and the day after tomorrow. This also relates, of course, to the interests of our children.

So I see a lot of good reasons to be sure of remaining exactly at the optimum, and the optimum I feel is what we have today in Europe.

1-023
Gunnar Hökmark (PPE-DE). – I am happy with this response, but it would be a good thing if this could be more a part of the European public debate. The approach of the Central Bank not to intervene in the public political debate is highly respectable, but here we have a balance between the nature of monetary policy and the view on fiscal policy, and I think there is a lack of debate and argument. What you win by increasing public spending could very well be lost by expansionist monetary policies. In some way, that debate is a little bit asymmetrical, so I urge you to be a part of it, and to see not only the monetary perspective, but the macro perspective as well.

1-024
Jean-Claude Trichet, *President of the European Central Bank.* – Just to say that I could send you public remarks that I have made in the European and international media that say, precisely, let us not do any more in terms of immediate spending as we are at a level which is already the highest we could imagine. This is truly demonstrated by both the Ricardian equivalence channel, if I take the economists' language, and the spreads and CDS that I am observing on all markets.

1-025
Zsolt László Becsey (PPE-DE). – *(HU)* Mr President, I, too, wish to congratulate you along with all those here who have honoured your endeavours and presidential activities. It has been a valuable experience for me, as someone from a country that is, and will, for a long time, remain outside the eurozone, to hear about your activities.

My comment concerns, first of all, the eurozone and its expansion – not much has been said about this today. You said that these countries need help in order to reach stability, or equilibrium, and in order that sustainable convergence may continue. I understand this, but nevertheless I feel that we are caught in a Catch-22 situation. There is an enormous repatriation of capital going on from these countries, there is a great imbalance of payments, our currencies are being devalued and, as a result, the foreign currency-based credits are soon going to collapse in these countries. Under these circumstances, and considering such a drain on capital, I do not know how, without monetary union, it would be possible for more of us to enter the eurozone, which would constitute a so-called 'safe haven'.

My question has to do with this: can the European Central Bank, by means of swaps, for instance, help these countries, or will extending liquidity continue to be the preserve of the eurozone? Do you see any possibility that these countries may enter the exchange rate mechanism – ERM II – in the near future, or will this, too, be achieved only later, in some distant nirvana? And do you see any possibility of giving those countries that wish to enter the eurozone a fixed deadline, so that, with the utmost effort on both sides, these countries may be able to enter the eurozone?

1-026
Jean-Claude Trichet, *President of the European Central Bank.* – As I said, we in the ECB are of the opinion that it is very important that we maintain the Treaty provisions and we apply the Treaty provisions as they are, because we trust that it is extremely important that the convergence which is required by the various criteria is attained in the interests of the countries concerned and in the interests of the eurozone itself.

Appropriate convergence, according to the Treaty, seems to us absolutely of the essence. If a country enters the eurozone without being duly prepared by this convergence exercise, not only on a snapshot basis but also on a sustainable basis, then it will have a lot of difficulty. If it is well prepared, of course, it will contribute to the success of its own economy and to the success of the eurozone as a whole. So it seems to us, and we believe this profoundly, that there is a joint

interest in fully and very professionally preparing the convergence exercise.

When we started, we were 11 countries; we are now 16, so we do not have to prove that the eurozone is an open shop and not a closed shop. We believe that for everyone's sake, it is very important that we continue to organise convergence, as the Treaty calls for. That would be my response on this point, very like the remarks I made in my introduction, because this was one of the issues that your President asked us to elaborate on.

1-027
Pervenche Berès (PSE). – *(FR)* I, too, would like to ask you a few questions. The first is that, when we look at the conclusions of the de Larosière report, we realise that perfection can never be achieved immediately and that, at the moment, there is an emergency. Perhaps, then, we should act right away to implement this. Do you not believe that this also has implications for the very way in which the Commission is organised, and do you think that the way in which macroeconomic approaches and the financial markets are dealt with within the Commission is the best possible way?

You said that it is a matter of urgency for the banks to start lending again. Is one of the reasons why they are not lending because, fundamentally, they have capital-related problems, given the nature of their capital, which has grown weaker, and because, if they want to lend, they will have to recapitalise and thus appeal to the State, which is something they do not want to do because, at that point, the States would have a certain right to become involved in the banks' remuneration policies, their stock option policies, and their policies of operating in tax havens?

Do you believe that the operating conditions for the support plans for the banks – I mean the two first tranches – have been properly defined? Would we not be in a much better situation today if, across Europe, we had defined European conditions of use for these plans, by taking into account the priorities in terms of strategy and investment in SMEs and sustainable development, legislation on stock options, and operations in tax havens, to mention just a few points?

Finally, with regard to toxic assets, it is clear that this is a subject that is topical again. It is not our job to be historians but, in fact, if we were to rewind events, what should we have done, because this issue of toxic assets has existed, in a certain sense, since the time we realised that sub-primes had contaminated the system? Now, we can see clearly that today, we are beating around the bush, that the more the crisis continues, the more the question of assessing these toxic assets becomes a crucial question, and, all of a sudden, in the face of public opinion … When I hear Dominique Strauss-Kahn say that we need to continue to support the banking system in order to put it back on its feet… We understand the importance of safeguarding the economy's mode of financing, but I believe that this is somewhat difficult to explain to our fellow citizens. What should we have done and what should we do now to get past this question and to get down to reality, which is a recovery in economic activity and employment?

1-028
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* Madam President, on the first point, I believe that the de Larosière report has taken the situation as it is and has attempted to be as practical as possible in its proposals so that these can actually be applied, taking into account the wide range of positions and sensitivities that can exist in Europe.

In my view, the report's great merit is that it is practical and has identified the areas where we can really make progress right away. I understand that you yourself may think that one could perhaps go further, but this is what is said, and said explicitly, I might add, in certain spheres: there should be a first stage, and then subsequent stages.

With regard to the Commission, all I can say is that, in the European Central Bank's contacts with the Commission – inevitably, we are in contact with several commissioners, but our main contact is with Mr Almunia – I am happy with all our relations with the Commission. In each sphere, I encounter a very professional Commission, with cohesive views, and so I do not think that there can be specific difficulties in connection with the fact that more than one commissioner is responsible for this range of subjects. In fact, I see at least three commissioners who are involved, to a greater or lesser degree, in these subjects.

What I have always observed, however, is that there was a very high level of unity, if I can put it that way, and we have been able to overcome all the difficulties, including those which were really not a simple matter for the Commission, when it was a question of ensuring that there was a level playing field in Europe, that the single European market was operating smoothly, while mobilising the States to assist their own financial systems in disarray.

With regard to your second question, I have to say that, here too, the Commission has had to deal with an absolutely enormous problem. We ourselves, at the Central Bank, have said to the Member States that we now have a dam against the risk of systemic liquidities, which is an absolutely enormous risk. We think that we have built an appropriate dam, but we do not have the resources ourselves to build a dam against the risk of systemic insolvency.

That is what the governments have done under extraordinary circumstances, with a speed that was required by the gravity of the situation, and in very difficult circumstances. I believe that the European states have been able to take very important decisions very quickly. I must say that I rather think that Europe has been able to respond with its institutional diversity. We do not have a completed political federation, we do

not have a place where decisions are taken, as in the United States, but, in any case, the appropriate decisions have been taken. One can always say that we could have done a little better, or a lot better, but personally I would say that, on this side of the Atlantic, we have not had the equivalent of a Lehman Brothers. On this side of the Atlantic, we have not had major problems such as have occurred elsewhere with regard to the acceptance or otherwise of a daring plan to combat systemic instability, and for this, the decisions taken by the European bodies, as well as by the states, the governments and the Commission, not to mention the Central Bank itself, deserve credit.

With regard to your third question on toxic assets, I think that we must understand the complexity of the situation in which we find ourselves. Nobody has any way of knowing, and the situation is constantly changing. We have a situation subject to constant change. I do not think, therefore, that it is surprising that we have – at this moment – three main options on the range of choices which, in a certain sense, exists on both sides of the Atlantic: recapitalisations, guarantees for the medium- and long-term refinancing of the banks, and this latest point, which is more recent on our side of the Atlantic, and which is in response to the other side of the Atlantic, namely the option of dealing, in various different ways, with toxic assets, to use the accepted term.

Therefore, I am not surprised at the position we are in, and I believe that it is a good thing that we have this range of choices.

1-029
Elisa Ferreira (PSE). – This is on behalf of other colleagues who could not be here. My question is the following: in times of crisis, there is an opportunity to readdress more substantial issues than when life is 'business as usual'. In that sense, I would like to know your opinion on, and whether you have been debating the issue of, the sustainability of the common currency when there are so many asymmetric impacts across different member countries – both those that have adopted the euro currency and those that are outside the currency area.

This really seems to be a very critical issue, because even if we manage to keep the euro, these asymmetric impacts are creating a very serious political problem. Also, they have been amplified owing to the crisis, as you know, and the means of reaction are completely different across Europe.

What are your in-depth thoughts? Is it sustainable in this period?

1-030
Jean-Claude Trichet, *President of the European Central Bank.* – I think we have two questions which are of a different nature. One question is on the eurozone itself and one question is on the European Union: the eurozone on the one side and a number of other countries with different currencies on the other side.

If I take the eurozone, you know that we have analysed greatly the differences and the similarities between the vast continental economy which is the eurozone and the vast continental economy which is the United States of America. I have already, on other occasions, explained to you that we could see the same order of magnitude of standard deviation for inflation, the same order of magnitude of deviation for growth and the same range of dispersion as regards the unit labour cost on both sides of the Atlantic.

So the characteristic of a vast, single, continental economy is that you have major differences. The signature of California is not at all the signature of Wyoming or the signature of Massachusetts. So you have in both cases states and economies that are in different situations and rightly so, because they themselves have varying features and, as you said, all shocks are not symmetric.

Nevertheless, I have to say that as regards the nature of shocks on both sides of the Atlantic, there are a number of economists who consider that there is more symmetry in our case because the economies of the various nation states, as members of the eurozone, are more diversified than the states in the US, which are more specialised – which is easy to understand because they have been in a single market with a single currency for a very long period of time.

So in the eurozone, I think the rules are very simple. We have a single monetary policy. We optimise the single monetary policy at the level of our 329 million people, and then you have all the other weapons that are in the hands of governments and parliaments and social partners to adapt to a situation which, from time to time, is obviously very demanding and, at other times, less so.

Today, of course, the situation is demanding for absolutely all partners, not only at the eurozone level, but at the global level as well.

As for the European Union as a whole, again there are very different situations, as I already said, including in my introduction, between the various nations and states concerned. Some have shown a level of resilience which has been really remarkable. Not surprisingly, this is because, for various reasons, they had better macro policies than others. Others have difficulties and some have been helped, as you know, by the Commission and the European Union and by the IMF.

So again, we have to recognise the various situations, and not necessarily to treat the central and eastern European countries which are members of the EU as if the EU was a single entity. As a matter of fact, there are a lot of differences. The countries themselves are very keen on making the point that they are different, and I truly believe that they are different. We all have to adapt – the European Union itself, the Commission and the Council – and take into account those different situations.

1-031
Sophia in 't Veld (ALDE). – I, too, would like to join in the chorus of people who have expressed their thanks, and would like to emphasise in particular your prudence, your discipline and your responsibility, which I am sure has contributed to the well-being of many Europeans.

I would like to elaborate a little more on the issue of the non-euro countries and, in particular, the central and eastern European ones, because all the arguments that you mention are, of course, correct, but I think there would be good reasons to consider accelerated accession as an option – as a lesser of two evils maybe – because it is in our interests to have one stable area in Europe. I sometimes get the feeling that we are applying double standards, because those countries who are already 'in', some of which did not remotely meet the criteria when we started out, are not sticking to the Stability and Growth Pact. In some cases, that is due to the crisis, but some others have rarely ever met the criteria and are now going in the opposite direction.

It therefore strikes me as a bit odd that we should be ultra-strict when it comes to applying the accession criteria. Would one option not be to consider support measures for those countries that will not have a major impact on the eurozone anyway, while accepting, of course, the differences between those countries?

1-032
Jean-Claude Trichet, *President of the European Central Bank.* – Thank you very much indeed for your question. I understand your question and why you make these points.

I would again make the point that, for the sake of the countries themselves – some of which are in a situation that is not at all easy – it would, in my opinion, be moving too quickly to think that the solution is entry into the eurozone even if you are not correctly prepared. This is implicitly what is meant by the idea of acceleration, which I myself interpret as something that would consist of not fully respecting the criteria. Otherwise, there is no acceleration.

So I consider it very important that the ECB maintain the position that we want the whole Treaty, and nothing but the Treaty, in the run-up to the euro, which remains not a closed shop but an open shop. We went from 11 to 16 members and will continue to enlarge according to the Treaty. It seems to me that we have to maintain these rules, which are in the interests of all.

I really feel that the idea that, because we are in a crisis, we have to considerably accelerate entry into the euro, is something which does not fit with the idea that entry into the euro consists of sharing a common destiny for a very long period of time. It is not in order to avoid difficulty here and there or at the present time. It is sharing a common destiny.

So there should be an open shop and, with the criteria in the Treaty, we will continue to enlarge. Our understanding is that, at a certain time, there will be 25 of us, because 25 countries are under an obligation to enter the euro when the criteria are met. Only two countries out of 27 have an opt-out clause. Out of the two, one is already following the monetary policy of the eurozone, because Denmark, as you know, has an opt-out clause but is following our monetary policy very closely.

1-033
Astrid Lulling (PPE-DE). – *(FR)* Mr President, I would like to ask a very small question. Perhaps my question is a little strange, but there is something that I do not understand. I have learnt that the Central Bank of Luxembourg lent EUR 800 million to Kaupthing Bank and EUR 1 billion to Landsbanki. What do you think of this? Is there any dialogue on this subject? It is an enormous risk, after all!

1-034
Jean-Claude Trichet, *President of the European Central Bank.* – *(FR)* The Central Bank of Luxembourg, Mrs Lulling, is one of the central banks of the Eurosystem, and therefore it applies the Eurosystem rules in Luxembourg just as the Bundesbank applies the Eurosystem rules in Frankfurt, and just as all the other central banks in the eurozone apply their own rules. Once again, taken as a whole, we are the Central Bank of the eurozone and we apply the collateral eligibility rules for the whole of the eurozone.

I do not know the details – you are very well informed; you are better informed than I am, I have to say, at the moment – but I have no doubt that the Luxembourg bank is complying precisely with the requirements imposed by its position as a member of the Eurosystem and is applying the Eurosystem rules to the banks that submit eligible collateral to it.

1-035
John Purvis (PPE-DE). – The margins in the public debt of the Member States of the eurozone are beginning to diverge, and quite rightly so, depending on the credit standing of the different countries.

Is there a contingency plan somewhere, in case one of the Member States really got into very substantial difficulties and was unable to fund its public debt?

Is there a plan B – a contingency plan?

1-036
Jean-Claude Trichet, *President of the European Central Bank.* – First of all, I would say that I view this dimension in those margins and those spreads I was talking about a moment ago when I said there is a time for taking into account the markets when you design your fiscal activation. It is absolutely obvious that in the eurozone, as well as elsewhere in the world, we have clear signs that appropriate moderation and reserve is of the essence in this domain.

Second, I would say that we rely on, and have full confidence in, the various governments of the eurozone

to be fully responsible for their own credibility and the credibility of their signature. I say very firmly that we have that confidence in the various governments of the eurozone to take care of their credibility and creditworthiness and, as you know, in Europe in general, it is something which is absolutely of the essence that each government and, I have to say, also each parliament, is responsible for its own fiscal policy.

I have nothing to add in this domain, but – you did not ask this question, and I am responding to a question you did not ask, and had you asked that question I would have said – it is absolutely absurd to imagine that one member country of the eurozone could be in a situation which would create a problem for the eurozone as a whole.

1-037
Ieke van den Burg (PSE). – You were quite firm in saying to us that there was a rapprochement between the US and Europe in preparation of the G20 on this issue of the supervision of systemic risks and the sectors in general, but you did not say in which direction that convergence is going. Could you be a bit more precise on this?

1-038
Jean-Claude Trichet, *President of the European Central Bank.* – My understanding clearly is – and you are absolutely right to ask the question – that the rapprochement is very much in the direction of accepting that it is necessary to embark on an appropriate level of regulation and surveillance.

The last declarations made both by the Secretary of the Treasury, Tim Geithner, and by the President of the United States, were very clear in this respect. I also have to say that the declarations made by Gordon Brown are quite clear. I see some changes, which is not surprising because we now have the facts under our eyes. It seems to me, from that standpoint, that one certainly – and, again, not surprisingly – has the feeling that to permit global finance and the global economy to be more resilient, less fragile and less prone to boom and bust, and ups and downs, it is important that we have a correct treatment of the various parts and parcel of global finance.

It seems to me, again on the basis of all the information I have, that there is a very broad consensus on the fact that we need much more transparency for financial instruments, markets and institutions, and much less of the short-termism which was a characteristic approach. We need a much more efficient and effective combating of pro-cyclicality, through a number of avenues that have been very clearly identified by the Financial Stability Forum, with the help of all the partners concerned on the major marketplaces at the level of global finance. After the meeting of G20 ministers and governors in which I participated, it seemed to me that there was a good deal of consensus. Again, I take it that it is very likely that when we implement – and, as I said, rapid implementation is of the essence – we will probably discover that it is a little bit more complex. But as to the diagnosis and the avenues that are necessary to make our global finance much more resilient, I personally see a great deal of unity, both at the level of the industrialised world, and at the level of the emerging world and the entire economic system, taken together. Again, this is based upon the information I currently have.

We will see what happens, of course. It is now a matter of days, or half-days.

1-039
Margarita Starkevičiūtė (ALDE). – Madam Chair, I would like to ask a question which is very straightforward, but it is the type of question citizens usually like to ask. Mr Trichet, could you say when we can expect recovery in the economy, at least at a sustainable pace? This is the most important question for the people.

My second question is, as we have seen for some time that the European Union is not ready for enlargement because Ireland still has to ratify the Lisbon Treaty, what about the eurozone? Do you think that the eurozone is ready for enlargement? As you said, the eurozone has grown from 11 to 16 members. Do you face any problems in the management of monetary policy in the eurozone? Maybe you also need a type of small Lisbon Treaty?

1-040
Jean-Claude Trichet, *President of the European Central Bank.* – On the first question, I would confirm that what we see today is more or less in line with what private and public projections say, including our own staff projections, from which I would not wish to depart, and which are close to those of the IMF and OECD, even if specific figures vary: they all say that 2009 is a very, very difficult year where you have to expect negative growth, probably throughout the year

In 2010, if – again the working assumption – if we do what is necessary, without making mistakes, if we re-inject confidence that has been lost in the various constituencies that are key, namely households and enterprises, then we will have a progressive recovery crystallising in the course of the year. But it depends on us. Again I say: it is not written already; it depends on us. If we do what is required by the very difficult circumstances, I trust that we will have this recovery in the course of 2010.

As regards the enlargement of the EU and enlargement of the eurozone, these are, of course, very different questions. On the enlargement of the EU, I can only say that this is a matter for other institutions than the ECB. On the eurozone, I say again that we are not a closed shop. Nobody would have predicted that we would start the euro with eleven countries. I have no memory of such an expectation. I negotiated the Maastricht Treaty myself and I remember what we had in mind for the start of the euro: it was much less than eleven, so it was already a formidable success to start with eleven countries.

Nobody could have imagined that ten years later, there would be 16 countries, so again it is an historic process which appears to be of the first magnitude and extraordinarily rapid, taking into account its historic nature. We are not a closed shop. I said a moment ago that we would enlarge according to the Treaty up to 25. I equally said that it has to be done in a very professional fashion. We are speaking of a matter which is very grave: to share one's destiny in common, and I have to say that this has to be done as professionally as possible, because we are responsible today for 329 million people who share this currency, and tomorrow for more.

So, in the interests of all concerned, all countries and all groups of countries concerned, we have to be as professional as possible. I say that in full consciousness of the responsibility that my colleagues and I have. Again, we have a larger population than the United States of America sharing this single currency in 16 countries and, again, we have to continue to be very responsible.

1-041
Margarita Starkevičiūtė (ALDE). – We understand that we have to be responsible, but in the excellent speech which you delivered in Dublin, you mentioned four types of countries in the eurozone. My country, Lithuania, which is outside the eurozone, perfectly fits into your description of countries in the third and fourth groups, which are inside the eurozone. I cannot understand what the difference is.

1-042
Jean-Claude Trichet, *President of the European Central Bank.* – I will then, perhaps, enter into more technicalities. You remember what happened. The decision was taken by the Council, on the recommendation of the Commission, and with the appropriate evaluation from the ECB. But I take note of what you say.

1-043
Pervenche Berès (PSE). – *(FR)* Unusually, we have a little time left, and I would therefore like to take the opportunity to come back to a few points.

At the moment, as you know, we are discussing the revision of the CRD, which is the directive implementing Basel II within the European Union, and we have just debated with Mr Wellink the issue of the retention thresholds that ought to apply to banks when they are issuing securitised products. A debate has begun among us, and it has emerged, basically, that, at a time when the Americans are envisaging a 10% threshold, the initial proposal of a 20% threshold would not be a disadvantage for the European Union. Could you give us, beyond what you have been able to assess in the opinion that the Central Bank has issued on this draft directive, your own evaluation?

Question two: in response to Mrs van den Burg, you said that there was a considerable degree of convergence with the Americans regarding the need to supervise all entities, and so on. What struck us, as we talked about this too with Mr Wellink, who clearly seemed to share our viewpoint, is that, when one looks at the conclusions of the G20 ministers of finance, this notion of a systemic entity is introduced – I believe that Mr Klinz mentioned this point. At heart, by introducing this notion of a systemic entity, are we not considerably reducing the effectiveness of the principle by which all entities that are active on the financial markets must by regulated or supervised to an extent that is commensurate with the level of debt or risk-taking in which they are involved? Is there not a risk, however, with this notion of a systemic entity, that we will basically allow ourselves to rebuild or re-establish a shadow banking system?

Finally, you mentioned the importance of macroeconomic imbalances. From this viewpoint, do you think that the qualitative leap that will be made between the G20 conclusions in Washington and what is envisaged or what can be seen in the air for London is sufficient, in view of the importance placed by all academics, experts and politicians on the handling of these global macroeconomic imbalances?

1-044
Jean-Claude Trichet, *President of the European Central Bank. – (FR)* On the first question, I would say that I will stick to what Nout said to you. He is chairman of the Basel committee and has the extremely important task, which I must say is absolutely systemic, of developing proposals that can correspond correctly to this boosting of stability and of the resilience of the international financial economy, and thus to update several provisions which seem, in the light of this extraordinary life-size stress test that we are experiencing in the world at the moment, insufficiently counter-cyclical. One of the major difficulties we currently face is to properly identify what is needed to make the system much more solid and much more resistant.

In a certain sense, recently, during the last 15 years, for extremely varied reasons and subject to very strong pressure, sometimes from the market authorities themselves, we have removed a certain number of shock absorbers. For example, it was impossible to get various authorities to agree that it was legitimate to make *ex ante* provisioning, the famous dynamic provisioning, which Spain itself introduced. There was huge resistance, both from accountants and also, I have to say – and quite legitimately, in some respects – from the authorities in charge of taxes, the taxation authorities, who considered that this amounted to a reduction in taxes, and therefore that it was not a good idea.

Now, we can clearly see that we need to have significant shock absorbers. A metaphor that I used once, not when speaking before you, was to imagine that we were in a car and that there were airbags and shock absorbers more or less everywhere. We have carefully removed the shock absorbers and the airbags and we have had an accident. And we are surprised that we have scars more or less everywhere.

We should say that, in fact, the preceding period was a period during which we were led to remove these shock absorbers and airbags, for various reasons that were all perfectly understandable, at the individual level, and just as much at the level of the prudential authorities as at the level of the accountants, and the other authorities, such as those that were supervising the financial markets, as I have just said.

Now, we are absolutely obliged to have an overall picture and to tackle the problem of financial stability at an overall systemic level, taking into account the fact that, in the end, the world financial sphere is a single entity.

On the second question, it is clear that, with regard to rapprochement, which I consider to be truly a significant rapprochement, coming in particular from the United States, as I said, it is in the application that we will see if there are remaining difficulties. Clearly, we do not regulate for the pleasure of regulating, but in order to make the system resistant. It seems to me that this is the aim of all regulations. From this viewpoint, talking of a systemic entity does not seem to me to be surprising. In any case, I signed the G20 statement, because we were with the ministers and the governors, and so I am not going to disavow my signature. I have to say, though, that this rapprochement is very important and, personally, I welcome it enormously, because it is the key to world confidence: the fact that we are able to show that we are united in our diagnosis and united in the main approaches to finding appropriate solutions. Once again, we must continue to be very energetic in applying the measures.

The last point is also very important. It is true that nobody has mentioned it up until now. The question I ask myself is what do we need in order to succeed, in the end, in an extraordinarily difficult period? What we need – and this is not in any order that implies any kind of rank of precedence – what we need is to implement immediately support for the financial sphere at the same time. The banks and other financial entities must start lending again; this is extremely important. Implementing everything that has already been decided on is a major task. We need a reform of all the regulations, standards and codes, as we have just been talking about, prudential rules, more transparency, less short-termism and a much more counter-cyclical approach in the system.

It is clear, however, that we also need to have supervision of macroeconomic policies. We need to be able to have, in a global economy which is now truly globalised, and which is thus a relevant entity in itself, an IMF that can exercise very close supervision over macroeconomic policies and a consensus by the main nations or the main economic groups, such as the eurozone, and such as Europe. The consensus must be sufficient for peer pressure to be exercised on each of the governments of systemic importance because, if this is not the case, that will be a recipe for piling imbalance upon imbalance, whether they are positive or negative, and we will find ourselves once more with a set of imbalances that will trigger a new crisis.

I therefore think, in fact, that the final pillar, if I can call it that, of what we need is really a consensus of systemic nations or systemic economic entities, accepting that recommendations may be made to them and accepting in advance that they will modify their macroeconomic policies for the common good. This common good is an international economy that is once again as resistant as possible and able to give us what we all want: sustainable, lasting growth and the creation of sustainable, lasting employment, since this is our common goal.

1-045
President. – Thank you very much. All that remains for us to do is to conclude this final monetary dialogue of this parliamentary term of office. I do not know if I should thank you, because, as you know, you have to come. It is therefore normal for us to have this exchange, but, at the same time, it is true that we have been able to conduct it usefully, on both sides.

I think, once again, that we will have to make progress in the way in which this dialogue is conducted, but I know that the Members attach considerable importance to the way in which we carry out this responsibility. I believe that, when we look at what is happening on the other side of the Atlantic, the situations are not comparable, but that, in spite of this, we must be up to the mark with regard to the organisation of this monetary dialogue. I think that both our institutions share this concern, and I welcome that.

Thank you very much. We will all look closely at the outcome of the G20 for which, as I think this hearing has demonstrated, the stakes for the European Union's economy and finances are very high.

(The meeting was closed at 6.30 p.m.)