Monetary Dialogue of the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank, in accordance with Article 113(3) of the Treaty on European Union

23 November 2000

Chairman, Mrs Randzio-Plath (PES/D)

Let me continue with the meeting of the Economic and Monetary Affairs Committee. I'm delighted to welcome the President of the European Central Bank for this, the 4th Dialogue this year on the transparency of monetary policy. Mr President, we're told that we can expect a pre-Christmas present from you in the form of future inflation forecasts, but we hope of course that that will be the first step towards a proper Christmas present, because of course, the European Parliament has been asking for at least four years for these inflation forecasts to be made available earlier to the European Parliament. We have had no further information on what's happening with regard to that request. I think it is important to set that out in the introduction and I hope that today's monetary dialogue will, like its predecessors, lead to a rise in the exchange rate of the euro against the dollar. I'm delighted to give you the floor.

Mr Duisenberg

Madam Chairman. As usual, I shall first report on recent monetary policy decisions taken by the ECB and on the reasons underlying these decisions and then in addition, I should like to inform you about the decision taken by the Governing Council of the ECB last week to publish, not what you call inflation forecasts, but economic projections for the euro area. Finally, I should like to say a few words about the progress report which has been published by the ECB as part of its initiative to improve cross-border retail payment services in the euro area. Doing all this, Madam Chairman, I apologise in advance that although we agreed informally that I should try to limit my introductory remarks to about 15 minutes, because of the attention I would like to pay to the projections for the future, I may take a few minutes longer than that.

Introductory statement by Dr. Willem F. Duisenberg, President of the European Central Bank continues as published above.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you President for those comments. I am pleased that you went into so much detail on the economic forecasts, the projections, as you call them, because some years ago, the European Parliament, even before the ECB existed, called for those to be supplied. But we did in fact have something slightly different in mind, because working papers from officials of course do not carry the same responsibility as the inflation projections. I do recall that you said in our plenary meeting of 26 October 1999 that you would be able to give us internal projections and that you reserved the right to decide in what form they would be given, and of course that is quite appropriately a matter for the European Central Bank, but during the second round, we will be looking at how far such announcements are in fact satisfactory. I think you have already given us a Christmas present, but to some extent you are taking it back with the other hand when you refer to the limits which necessarily apply to it, but I am sure that is something that will come up in debate.

Mr von Wogau (EPP/ED/D)

Unlike the Chairman, I'd like to do something which is perhaps slightly uncommon these days. I would like to explicitly offer my congratulations to the European Central Bank. First for the statements that you have given us particularly with regard to the announcements to the European Parliament, I think the same thing should apply to the Commission as part of its democratic dialogue with the European Parliament as enshrined in the Maastricht Treaty. It's time it took that seriously. We will of course carefully analyse this new factor of these projections. You seem to see these projections as a kind of early indicator of inflation dangers and, that being so, I think that they are likely to be extremely useful. You have made clear that in certain cases these forecasts may not be entirely accurate in terms of statements such as a likely inflation rate of over 2% and that the ECB policy will be directed to take account of that 2% margin. But overall I take quite a positive view of the work of the ECB in the last few months, and I think it is only fair to say so. I think the first task of the ECB is not to look at exchange rates – the main task of the ECB is to address price stability and you, Mr Duisenberg and the ECB as a whole, I think, have worked very consistently towards that purpose. Certainly that is what is required by a majority in the European Parliament and by the Maastricht Treaty, so I think that this very logical approach to your work to bring about internal stability has been successful. Let me say at the same time that current developments are a source of concern. The oil price hike is one thing : we were listening to Mr Solbes yesterday who made a forecast for the whole year 2001, and he said that in 2001, it was very likely that the inflation effect of the oil price rise will begin

to be felt. He suggested something of the order of 2.2 – 2.3% inflation, which is above the limit. My question basically is: there are two possibilities – either the ECB acts, or the Member States act, in terms of adjusting their own budgetary policies. What will the European Central Bank do to ensure that these projections in fact do not come to pass?

Mr Duisenberg

Thank you, Madam Chairman. As I said, the European Commission published its autumn forecast yesterday and for the year 2001, they foresee an average inflation rate of, I believe, 2.2%. Our expectation at this moment is that the rate of inflation which we are seeing at present – the last two figures were 2.8% in September, and 2.7% in October - will taper off. But because the oil prices have increased further and have remained at a high level for a prolonged period – longer than we had foreseen only a few months ago – the process whereby prices will again reach the limit we have set ourselves for the medium term of 2%, will take somewhat longer than originally thought, but we will get there. When we publish our projections in December - we don't yet have them so I can't say anything about them - there will be a range of HICP inflation to be expected for 2001 and also for 2002 which will reflect this tapering off process. If, under current conditions, oil prices were not to come down significantly in the near future, it may indeed be expected that the process for this tapering off of the price increases in the direction of the 2% limit will take longer than we had thought only 3 months ago. But what the precise figure is going to be, I don't know yet, but you may, as I said in my introduction, rely on the commitment of the Governing Council that it will do everything in its power to get there again over the medium term so that the public at large and you, as the European Parliament, can count on the ECB that we will again get inflation, barring any unforeseen circumstances, to within the limits we have set for ourselves.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Goebbels.

Mr Goebbels (PES/L)

Mr President. A very simple question. Are you satisfied with the outcome of your work at the head of the European Central Bank and are you satisfied with the strategy of communication which you and your colleagues have chosen in order to communicate with the outside world?

Mr Duisenberg

I didn't quite get the entire question but I believe it was 'am I happy with the communication strategy that we have chosen'. I am never very happy but I am satisfied. We are continuously trying to improve our communication with the public at large, we are continuously trying to explain our thinking and our actions better and better. Publication of macro-economic projections, as I announced here in this Parliament today, is part of that effort.

Mr Goebbels (PES/L)

Mr President, I must admit that personally I am not always satisfied with your communication strategy. I can agree with Mr von Wogau when he says that the work of the Central Bank in trying to combat inflation, is positive, but I sometimes get the impression that your communication strategy is rather ambiguous. On the one hand you say that in your view the euro is not in line with the growth potential of Europe, but at the same time you criticise governments. Who are they supposed to believe? The Wim Duisenberg who tells us that there is a growth potential for the euro, or the Wim Duisenberg who is blaming the governments for their inaction and not carrying out structural reform? Which of those is right, and how are the markets supposed to react to your intervention on the markets? Isn't your strategy one that would take the markets by surprise? Wouldn't it be better if you were to pin your colours to the mast? To do this loud and clear so that the markets know what to expect?

Mr Duisenberg

The fact that in our opinion the euro exchange rate is clearly out of line with the fundamental relationships between the two major economic areas in the world – that is, the euro area and the United States - we also communicate and explain and justify that judgement on many occasions and with much reasoning. The development of the interest rate differential, the narrowing growth gap between the two areas, the huge differences in the current account balances of the two areas, all seem to justify the judgement that the euro exchange rate does not reflect, or in other words has not responded yet, to the fundamentals. Secondly, I did not say that no structural reforms were being undertaken. What I said was on the contrary, many structural reforms are being undertaken but it is all important that that impetus is being continued, and there are signs of the political will to pursue this process further. Although much has been done already, the political will has to be maintained. One aspect of that is - one major achievement, I think of the process towards the creation of monetary union - the catalyst function that that process has formed in getting government households in order and getting them under control.

What I did signify and felt obliged to signify, was that current developments in the fiscal field seem to point to a weakened tendency to proceed further in that process. That process is necessary because we have not yet achieved the goals that governments set for themselves in the context of the stability and growth pact. I believe it is my duty to point out that, not so much for this year - although the tendency is already there - but more so for the year 2001, the government deficits tend to deteriorate rather than to further improve. That is the result, as I said, on the one hand, of very desirable measures to improve the structure of our economies also through the fiscal instrument – that is by reducing taxes and social security contributions, especially at the lower end of the tax scale, thereby improving the chances for labour to get and find work. At the same time, on the other hand, less restraint is being shown on the expenditure side than is necessary to further pursue this process of getting government finances under control and to achieve, on a lasting basis, a situation where, on the average conjunctural cycle, budgets would be in balance, or even show a small surplus, particularly in those cases where debt ratios are still far in excess of the desired maximum figure of 60%.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Huhne

Mr Huhne (ELDR/UK)

Thank you, Madam President. First of all, Mr Duisenberg, may I congratulate you on deciding to publish the staff projections, and I look forward to the notes that you will give to the Oxford English Dictionary on the difference in definition between projections and forecasts. But certainly, it sounds very much as if it is a white rabbit that you have pulled out of a hat - it is a white rabbit whichever way it runs, and we look forward to seeing that. This now means that the ECB is meeting three of the five transparency measures that the European Parliament requested in October 1999 and I am sure it will help the ECB's standing in the market and its relationship with this committee. Perhaps on some of the detail of what you proposed – you said that you would publish details of some of the components of GDP – could you confirm that that will include exports and imports and the balance of payments projection? Whether you would also consider , since it didn't seem to be covered by your statement, publishing something about monetary growth and velocity and about earnings, growth and labour market developments? And particularly in view of your answer to Mr von Wogau's question, you might find it worthwhile publishing an end-of-year projection on inflation as well as the average for the whole year, as that would make clear the path that your inflation projection was taking. As a

second part of my question, I'd like to remind you that there are two outstanding transparency measures which we called for and which we called for again this year. A summary minute of council meetings and a regular review of the euro area economy, country by country, to highlight different productivity trends and sustainable wage increases. Given your own somewhat unfortunate experience of informal transparency, can I ask you to reconsider a further step towards a more formal, predictable and regular communication strategy with the markets in the form that the Parliament has suggested. Perhaps, in that context, I could ask you whether you regret the interview that you gave to The Times and whether you think it might, in retrospect, reinforce the case for more formal transparency as we suggested?

Mr Duisenberg

I can confirm that we will publish projections on exports, imports, real consumption, investment, i.e. the components of GDP and the HICP average figures, not the year-end figures. We will not publish balance of payments current account figures, not that we don't want to, but the statistics and the difficulties in achieving reliable estimates for that are - especially in the new situation of the euro area, where a huge amount of intra-European trade has to be excluded from balance of payments figures and the balance of current account figures, because it is now really domestic trade - do not yet put us in a position that enables us to publish reliable figures. I do not exclude, however, that over time, such a figure will be included in the projections to be published. Data on monetary growth and velocity will in a sense be published in another way, namely in the annual review of the reference value for monetary growth, but not as part of these economic projections. We will not include labour market developments in the projections nor the rate of growth of employment, nor the development of unemployment, mainly because this data is not directly relevant for a monetary policy institution, not that they are not important, but monetary policy cannot directly influence developments in these areas and therefore we, as an exception to other European institutions which you look at, are not a forecasting institution. Basically, we are a policy-formulating institution. Therefore it is mainly data which is most relevant to our policy formulation that we will include in our projections to be published. We will not produce country-by-country analyses almost for the same reason – we are not a forecasting institution – we are a policy-formulation institution for the euro area as a whole and not for the individual countries. We leave that to national forecasting institutions or international forecasting institutions if they choose to do so. Of course, they form an input in our exercise to publish euro area forecasts. Thirdly, do I regret the interview? What I most

regret are the implications the interview has had and the implications that markets have derived from that interview which were totally unintended by me. In that respect, I regret the interview.

Mr Huhne (ELDR/UK)

Yes, but there was one aspect as to whether there are consequences for more formal transparency in the other two measures the Parliament has asked for : the country by country review and the summary minutes of the Council meeting.

Mr Duisenberg

On the summary minutes, as I indicated over and over again, we do believe that the monthly press conferences which I give after the first Governing Council meeting in a month adequately reflect and give an account of the decisions and the underlying reasoning behind the decisions of the Governing Council. My introductory statement at the press conference is published immediately after a meeting of the Governing Council, i.e. without delay. Therefore the essence of what is being deliberated on and said in the Governing Council is being made public within hours after the meeting of the Governing Council. We continue to believe that it is not in our interest and it would not be appropriate, nor would it be in the interests of the individual members of the Governing Council, to publish precisely all individual contributions to the discussions in the Governing Council. In that respect, we do not intend to meet that wish of the European Parliament.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Abitbol.

Mr Abitbol (UEN/F)

Thank you very much. Mr President, your satisfaction in terms of your inflation performance isn't really justified if you look at the figures published by Brussels, which are less reliable than yours maybe, which show that inflation within the EU, outside the euro zone, is quite a lot lower than within the euro zone : in the UK, Sweden and Denmark, inflation is a lot lower than it is in the euro zone. So you should at least be congratulating the governors of the Banks of England, Sweden and Denmark on their achievements. Now, you won't be judged on 2% at one year before the introduction of the euro. Public opinion's confidence in the euro will be based on the exchange rate which, at the moment, is the reason for people's suspicion of the euro. We

haven't mentioned the Danes – we should be congratulating the Danes on their decision because there is a suspicion of the euro that is growing. So, I'd like to know, at what rate vis-à-vis the dollar or the yen, would you consider it your duty to call on the political authorities to say the currency has failed: when it has depreciated by 30%, 40% or 50% ? At what point would you consider the euro being a failure and come back to the political authorities, the governments, to say that this failure has come about because this currency is too independent and therefore not working?

Mr Duisenberg

I disagree, Madam Chairman, with the statement that public confidence in the euro will be based on the development of the exchange rate. What the public charged us with is to maintain price stability and that is domestic price stability. Public confidence will, over time, be bolstered by the fact, and I firmly believe, that we will achieve the situation where over the medium term, price stability is being preserved – that is domestic price stability. So at what point would I say that we can talk about a failure? That would be if, over the medium term future, we were to have domestic inflation of our own making, not caused by external factors, but of our own making, which would over time, continue to exceed the definition of, at maximum, 2% inflation. Then we would be justified in speaking of a failure, but this is a hypothetical situation which I do not envisage happening at all.

Mr Dell'alba (TDI/I)

Thank you Mr President. I am speaking on behalf of the Italian Radicals, in particular on behalf of Mr Della Vedova who could not be here. In its bulletin of last July, the ECB included as essential to its analysis, the ageing of the population and the implications of the ageing of the population in future years for the public finances of the Member States and for the Union's monetary policy. The Bank, at that time, stated how urgent it was to reform pension systems which are now calling on outside capital more. We agree with this, but we would like to know whether, in view of the magnitude of the problem, the solution can be just an incentive to reform the second and third pillar without there being a radical reform of the first pillar, that is the social security system. In other words, shouldn't we think more in terms of capitalisation plans? Secondly, a capitalisation plan would help to create monetary stability in the EU and in the short term, we can see that there's likely to be a draw on public finances and a threat to the stability plan, so my question is – what do you think of the proposal to turn these budgetary constraints into dynamic constraints, and force the Member States to carry out those reforms which would

mean they would permanently reduce in the medium and long term, spending on pensions, even though such reforms would, in the short term, require a temporary increase in the public accounts?

Mr Duisenberg

Well, I can be brief on that one, Madam Chairman. We applaud all efforts that are going in the direction of restructuring pension systems in the form of making them more capital-based or capitalised if, at the same time, the endeavours to structurally improve the situation of the government household are being maintained. Now the situation differs very much from country to country and I won't go into detail about individual countries, but I must say that in some countries, there are satisfactory or laudable efforts underway to improve the pension system. In some other countries, there is still very little to be seen in that respect. It means that we will continue, I believe, together with the European Parliament, to urge governments to face this problem in a responsible way. That is handling a double-edged sword, which is at the same time, sanitising further the government households in the direction of achieving the aims of the stability and growth pact and setting the pension systems on a sound and sustainable footing in the context of this problem of the ageing of the population. This incidentally not only affects the euro area, but also affects almost the entire industrialised world.

Mr Dell'alba (TDI/I)

Mr President. My question was do you think capital-based pension schemes are so important that you would temporarily accept an effect on the stability pact in the public accounts – in other words – this increased effect on public accounts in the short term?

Mr Duisenberg

No, I would not. That is my personal opinion, but I believe it would be shared by the entire Governing Council. I would not, but on the contrary, may I also add the element that I very much welcome what I see in the practical world, that the proceeds of one-off measures that have been taken, such as the sale of UMTS licences, are basically being used by governments in the right, or let's say, the correct direction, in my opinion, namely either to further reduce the outstanding government debt or they are being used to improve the situation of the prevailing pension funds and setting them on a sounder footing.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you. Mr Blokland.

Mr Blokland (EDD/Nl)

Thank you, Madam Chairman. I'd like to say the following to President Duisenberg. From this morning's discussion, it seems again that everyone is asking why the dollar – euro exchange rate has developed in the way it has. There is an article which gives some interesting reasoning about this and I'd like to tell you about it. The reasoning is that the expectations at the beginning of 1999 about the development of the European and the American economies were that the European economy would grow more quickly than the American economy. This didn't happen though and the reality was the opposite. Can this be an explanation for the exchange rate of the euro because the consequence of that wrong forecast was that the market got the wrong impression at the beginning? When the opposite happened, it reacted very strongly. Couldn't there be a remedy to this, and following on from what you have already said about projections and forecasts, wouldn't the remedy be to make a greater effort to get better forecasts and projections in the future so that this sort of surprise does not happen again? What is your reaction to that? Because this does, of course, have consequences for collecting statistics, for the efforts which have to be made by statistical officers. In brief, it has consequences.

Mr Duisenberg

First, Madam Chairman, it is true that, not so much the prognoses, but the expectations, at the beginning of 1999, were for a much more rapid closing of the growth gap, even a reversal of the growth gap between the United States and Europe and that these expectations were disappointed. Certainly this is, in part, an explanation for the relative exchange rate development that we have seen ever since. However, I do say 'in part'. It is very difficult to explain the remaining part, even though I do not know how big that remaining part is. We do believe that markets have overshot in a direction which we don't like. We also do firmly believe that that overshooting will be reversed at some point. That is at least our expectation, not the projection. That is the basic reason why we continue to say, although you may by now almost consider it a platitude, that the euro has a strong potential to appreciate. That is our belief and we will continue to believe it. It does, as you indicate, underline how necessary it is to have as correct a forecast as we can possibly have, but we live in a world which is full of uncertainties. That is one of the basic reasons why in our projections to be published, we use ranges rather than point estimates for the future : that is to reflect the uncertainties with which we are inevitably faced.

Publishing point estimates would, in our view, give a false impression that we know more than we do actually know, but it is a disadvantage that we have to accept.

Mr Marinos (EPP/ED/Gr)

Thank you very much Chairman. Mr Duisenberg. Let me read something out : "Mr Massimo Ponsellini said at the weekend, the European Union's planned enlargement towards Central and Eastern Europe could further damage the struggling euro. The euro will weaken further when these countries join the European Union. "

That would therefore lead to a further weakening and I have two questions. How would you react to that text, and has the ECB looked at the potential effects of the enlargement of the European Union in terms of currency stability and the exchange rate in particular?

Mr Duisenberg

There are 12 accession countries currently recognised as negotiating partners to enter into the European Union. The negotiations will take some time to come. That is about entry into membership of the European Union. The second step after that will be for these countries to become a member of the exchange rate mechanism. The third step is that ultimately - I'm talking about a process many years from now - when they have complied with all the Maastricht criteria on a sustainable basis, these countries will come into a position where they can also adopt the euro as their currency, so that they can become a member of the monetary union in addition to being a member of the European Union. In the meantime, these countries are making great efforts to transform themselves into market-oriented economies and let me say, from what I already now see, that on average these efforts result in remarkable progress in catching up with the rest or the core of Europe. They are expected to have, on average, over the next couple of years higher growth rates than the euro area. That is how the 'catching up' process is proceeding. Talking about a time which is still considerably some way off from today or even from the moment of entry into membership of the European Union, we are talking about entirely different economies which will then be fully fledged partners in the European Union, also in the sense of monetary union. Therefore, I disagree when it is said that the accession of those countries in the future, when they are different economies, would pose any danger to the stability or the strength of the euro. We have examples in the present also. As from 1 January 2001, we will have Greece as the twelfth partner in monetary union, coming in later than the others for good reasons but in the meantime having shown an economic, fiscal and political

performance which is laudable and to be greatly appreciated and which, in no way endangers the euro or its strength or stability. Here also, we have an economy which has managed to catch up with the rest of Europe, in both a qualitatively and quantitatively respectable way.

Mr Agag Longo (EPP/ED/E)

Thank you very much. Mr Duisenberg. The initial evaluation by Mr Goebbels and Mr Von Wogau – the positive evaluation of the management of the European Central Bank is something that I would endorse, in particular in terms of price stability. Alongside that global positive evaluation, I do have one or two comments I would like to make. In the course of the meetings we have had together, you have put emphasis on two things. Firstly, the value of the euro does not reflect properly the fundamentals of the economies that make it up and secondly, the process of internationalisation of a currency is a gradual one. In the case of the euro, it depends on the health and credibility of the policies followed by the countries in the euro zone and therefore patience is the watchword. We agreed that patience was required, but there is one question where it seems to be the ECB that has failed to show patience. I'm talking in particular about the interventions that we have seen recently – unilateral interventions carried out by the ECB have been interpreted by markets as a sign of concern or even desperation on the part of the European Central Bank, trying to break the lack of sensitivity in the market. Experts talk about the risk, whereby if the market anticipates the interventions by the Central Bank, that would seriously undermine the credibility of the Bank itself. So I have three questions in this regard: first of all, Mr Duisenberg, do you think that the transient and limited effect of these interventions could really help this price stability in the longer term – if that is the purpose of the European Central Bank? Don't you think the absence of a response to the breaking of the inflation ceiling could lead to a loss of credibility in the ECB and ambiguity over what objectives you are following? And finally, keeping interest rates, which are still low in my view, don't you think that's more a question of the fear of the impact it would have on German and French economies, and don't you think that political will of the governments to actually introduce the necessary reforms is being damaged by this? Thank you very much.

Mr Duisenberg

To demonstrate that I have learned my lesson about speaking about interventions, I'll be brief! First, to my mind, it is far too early to be able to make a judgement about the effect of the series of interventions that we have had. I know that media are sometimes inclined to already come with their final judgement the day after the interventions have taken place. We strongly believe

that one needs more time. If I may, in one breath, recall the experience, also talking about unilateral interventions, of a few years ago. We have had also in 1995, a series of interventions. There were in fact several rounds of interventions during the year 1995. They were undertaken respectively by the G2 – that is United States and Germany – by the G3 – that is United States, Germany and Japan – by the G10, by an even larger group of central banks, and unilaterally. They were all aspects of an episode where it was thought necessary to intervene. Therefore it is too early to judge the effect of the recent interventions. I do want to underline that we do not have an exchange target. We have a price stability objective so interventions are not supposed to achieve a certain exchange rate. They are mainly used so as to break a prevailing thinking pattern, or philosophy, prevalent in markets that market participants only have a one-way risk or a one-way street which they can safely walk on. No, they have and should have, a two-way risk and that is what we hope to achieve to instil that feeling on markets without having the aim of reaching a particular exchange rate. So I don't believe in judging the impact of interventions immediately, but rather some time after they have worked their effects through, and that may be a considerable period of time. I witnessed the experience of 1995 and I also witnessed other experiences last year and I think you would be inclined to come to a different judgement if you put them in the right perspective, namely what can and is being achieved by interventions and taking into account that you need some time to let it sink in.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you Mr President. I would like to ask whether perhaps there is some change in monetary policy, when I hear you saying that you are sticking to your definition of price stability. If you take the current inflation rate and simultaneously look at what you have said today, that external factors ought to be left aside in terms of determining an assessment of inflation, does that not mean that the ECB, as two members of the Governing Council have already suggested, should come to a core inflation rate? Is that intentional or is that a substitute definition because of the impact of oil price changes on the inflation rate? We have also heard assertions that the euro, in terms of ECB intervention, was affected by that ECB intervention which was intended to keep the inflation rate down?

Mr Duisenberg

Why the ECB intervened, I just explained Madam Chairman, but I think it is of the greatest importance to emphasise that there is no change in our monetary policy strategy, nor in the aim that we try to achieve with our monetary policy: that is containing overall, or some would call it

headline, or others would say HICP, inflation. There have been certain misinterpretations in the past, I must say, of our aim in putting more emphasis on only part of inflation, namely to explain that one should not underrate the significance of, let me say it, temporary or one-off changes in certain variables, such as oil prices or the exchange rate and that one should abstain from taking them into account. No! At every press conference I give after a Governing Council meeting, I do explain to the audience - that is basically the public at large - that inflation does this and that, but you have to take into account that the underlying causes for inflation doing this and that, might be at some time, specific factors, such as the oil price or the development, in particular, of the very volatile element of unprocessed food. That is not to say that we ignore those factors, it is to say that they are only temporary or very volatile anyway. We should not forget that the future tendency for inflation is what counts most, because of the lag in the monetary transmission mechanism, which can be put at between approximately one-and-a half and two years. We have to have a forward looking assessment of the likely price development. We expect, if, for example the oil prices remain where they are, then over time the effect of the increase in the past will disappear from the impact it has on the actual inflation figures. Then we will be back, barring any unforeseen new circumstances, so *ceteris paribus* we will be back at our measurement of headline inflation without disturbing short-term factors such as I just mentioned. But again, let there be no misunderstanding, there is no change in neither the aim we intend to achieve, nor the strategy with which we intend to achieve our ultimate aim and our ultimate responsibility where we ultimately will be judged on, and held accountable for by the public, including the European Parliament, I might say.

Chairman, Christa Randzio-Plath MEP (PES/D)

Thank you. Just a further point, the oil crisis was the first external shock for the euro zone. Do you believe that the existence of the euro will alleviate shocks on the economies in the Member States?

Mr Duisenberg

The prolonged period of high and increasing oil prices will inevitably have, and it already has, a so called terms of trade effect, which will take away some of our immediate growth potential. Nevertheless, as I said in my introduction, the European economy has, over the years, become significantly less oil-dependent than it was, say 20 years ago when we also had oil price shocks. Nevertheless, we do expect robust growth to be maintained over the years 2001 and 2002, and

that includes the effect of the increased oil prices working their way through. If the oil prices are to come down again, the outlook for our economy would be even rosier than I just indicated.

Mr Skinner (PES/UK)

Thank you. May I welcome the move towards greater transparency. It is quite clear that the great European public is very interested in how you make your decisions and on what basis you gather your information. But, it is quite clear also from your answer to Mr. Huhne that certain things will not be made available and I am just wondering about some of the reasons why. Whether or not there is anything you mentioned or did not mention to Mr. Huhne, perhaps for example, acknowledging a trigger floor for the exchange rate of the euro and the reasons therefore for the ECB intervention. Because although you said, just now and before, that the number one target is inflation, the stability and of course the international role of the euro and its effects on bringing about inflationary pressure inside the euro-zone is an objective partner of that, so I am just wondering whether you have an answer to some of those questions?

Mr Duisenberg

I believe, Madam Chairman, that I have already answered those questions. Again, we are not a forecasting institution, we are an institution which carries policy responsibility and it is the areas most relevant for the determination of our policy stance that we are going to publish, and then not all of them, simply because we can't. We can't publish all the elements, all the inputs in actual Governing Council decisions because we don't even know them. Yet, I should add here: there are always developments in between the moments that we publish projections, twice a year. Developments can happen, both domestically and externally, which may stimulate the Governing Council to come to a judgement to change the monetary policy stance, in whatever direction. Whether it is at one of the bi-weekly meetings or even in between, we have the liberty to do it at any time that we think it is justified to take such measures. Again, being an institution which has, contrary to most forecasting institutions, the responsibility for a major part of economic policy, namely monetary policy, that imposes certain limitations on our actions, and it also imposes some limitations on our audience, how to interpret, how and what we are doing.

Mrs Riis-Jørgensen (ELDR/DK)

Thank you very much. Mr. Duisenberg, in your introductory statement, you said how important it was for Member States to limit their public expenditures and Members States, should, at the

same time, establish a strategy for limiting public expenditure growth. You have also said that in Europe, we benefit from the advantages of the new economy. In the light of these statements, do you think that European tax levels of around 50%, because in Sweden it is over 50% and in Denmark, we are talking about roughly 50% tax, do you think that such tax levels prevent us from benefiting from the gains in the new economy which would allow for economic growth and investment coming in, which we have seen going into the United States, and the United States has much lower tax levels than we do in Europe? Thank you.

Mr Duisenberg

As I indicated, Madam Chairman, I highly applaud the movement towards a reduction in the tax burden that we see in almost all countries in Europe. What I did raise my warning finger for is that these reductions have to be put in a responsible context, namely that they should not, in any way, endanger one other major objective of all European governments, namely to comply with the standards set for themselves in the stability and growth pact. Whilst reducing taxes, governments should at the same time continue to strive to achieve the aims of the Stability and Growth Pact, of achieving, over the medium term , over the conjunctural cycle, a budget which is in balance or even is in surplus. And that implies that over time, over the medium term and over the cycle, tax cuts have to be matched by cuts in the growth of expenditure. That is all I said, but it is quite a lot.

Mrs Villiers (EPP/ED/UK)

Mr. Duisenberg, I want to ask you firstly, a very simple technical question on the Blair Government's policy on the euro. Their view is that there are five economic tests and the answer to those, yes or no, will determine whether it is appropriate for the UK to join the euro zone. I would very much like your expert opinion on whether you think that those five economic tests would be an accurate guide for someone in the UK, deciding whether the euro would be good for them or not? But secondly, I really must press you on the topic, which has been brought up by a number of colleagues, particularly Mr. Agag, and that is the exchange rate intervention. I mean, you have very frankly admitted that it is impossible for you to defend a particular level of the exchange rate, and I think that frankness is refreshing, certainly, but it does give considerable anxieties in effect that the intervention has failed and you have set yourself a new goal, which is changing the psychology effect in the psychology of the market. We do tend to think that selling the euro is a sure thing, a guaranteed profit and that is what you are trying to change now, you say, with your interventions. But, I think they must be seen as a

failure and damaging to the credibility of the ECB, because it makes the ECB look increasingly beleaguered and really, to a large extent, I think desperate, so I would urge you to re-think your exchange rate intervention policy.

Mr. Duisenberg

If I may, Madam Chairman, I urge Parliament and I beg Parliament not to put words in my mouth which I did not use. And I did not talk about defending a particular exchange rate, I explicitly said, we don't have an exchange rate target. Now on the first question, the self-imposed five tests that the UK Government handles are somewhat different from the tests that any new country, new Member country of monetary union has to comply with. Those are the criteria as enumerated in the Treaty of Maastricht. All I can say about that is that it is only those criteria, the Maastricht criteria, which I regard as relevant for eventual entry of the UK into monetary union. Why? Because when the time is ripe, it is on those criteria that the European Central Bank will write a convergence report as a help for the ultimate judgement to be made by the political authorities.

Mr Mann (EPP/ED/D)

Thanks Chairman. The euro was presented as an alternative currency, a kind of way of facing up to the US dollar, but for the moment the muscle seems to be lacking. How are we supposed to interpret that? On the one hand, we have a kind of confrontation and on the other, it seems that by intervening in support of the euro, we can only succeed if the ECB acts in concert with the US bank and the Bank of Japan. Then second, ECB pro-euro intervention, you said, is intended to bring about price stability. But we need to remember the external value of the common currency as well. You say that the aim and the strategy remain unchanged. I understand that. But perhaps we can balance the two. Maybe there was an insufficient level of support? I think it is worth recalling that with regard to the yen, there were 17 interventions before any form of stability was achieved. Finally, when we visited Frankfurt at the beginning of the last but one Strasbourg session, which is my electoral constitutency, there were displays of large sculptures of euro coins, most of which have since disappeared. In answer to many colleagues who have asked me, I can say that this is not because people don't want euros, but rather that the proceeds from their sale went towards helping children who were sick with cancer. We are looking forward to the euro, the sooner the better, and we are proud to have this institution, and are not about to let it go.

Mr Duisenberg

I never presented the euro as an alternative currency, Madam Chairman. I always emphasised that there is no confrontation and there is no confrontational policy. I only present the euro as the single currency; the single currency and the only one for the participating eleven, and soon the twelve Member States. An international role for the euro will, given the power and the size of this economic area of soon more than 300 million people, will come by itself and from itself, and that's all I would like to say on that. On interventions, they have to be seen in the context of our fight against inflation in this sense, that we had witnessed a continuous walking down a one-way street, it seemed, of the euro, namely in a downward direction. That had lasted for so long that, that in itself, had an impact on internal price stability, on inflation. We have explicitly mentioned, in our last two interest rate increases, as an explanatory factor, the development or the protracted development of the exchange rate over the past few months. To break that psychology, the euro could move only in one direction and that was downward, that was one of the major causes or justifications for our intervention action. Not to reach, as I repeatedly say, a certain or uncertain exchange rate target, but to break the back of a one-way psychology.

Mrs van den Burg (PES/NL)

Thank you Madam Chairman. First, I'd like to make a comment following on from what others have said about the positive reception given by the European Parliament to the decision to publish these projections. We have to see this in the context of the developments since the Lisbon Summit and social economic policy in general, and having structural indicators which go beyond the economic area, but which include social indicators, in the area of education for example. I think that what the bank is now doing is a good contribution to all of this. I have a question again, about interventions. I wondered why the national central banks weren't involved? For example, what are they going to do with their monetary reserves in dollars? Surely they don't need them now, and couldn't it have been more effective to have used these rather than the temporary interventions by the ECB? Couldn't this have helped to strengthen the exchange rate of the euro against the dollar, and couldn't the national authorities have made this extra money available to put into funds, to resolve the problem of the ageing of the population? Don't they have money available for that? But is what I am saying exaggerated, what do you think?

Mr Duisenberg

On the first remark, I would say Madam Chairman, that I appreciate the appreciation such as I, in the current circumstances, appreciate any appreciation. On the so-called excess reserves, I would say the following. I don't know to what extent the reserves can be termed excess reserves. I would warn against one thing. The reserves that the euro system has are ample, there is no doubt about that, but they are not lying still there. They do earn their money also in whatever currency , whether they are denominated in dollars or in yen or in anything except the major part of gold holdings, which have their own value as you know, just as when the capital of the central banks were to be denominated exclusively in euro. And so, those benefits are there anyway, in whatever denomination the assets of the central banks are expressed. What I do object to, is the suggestion implied in the question that the assets of the Central Bank, whether they are denominated in dollars or in euro, would be turned over to Treasuries. That would amount to monetary financing of government deficits, which is, may I say, in the Treaty, explicitly forbidden. That profits are being turned over to Treasuries, OK, but turning over the capital itself, that is, in essence, monetary financing, and to put it in an unfriendly but not less valid way, that is called inflationary financing, and that is something I would oppose.

Mr. Tannock (EPP/ED/UK)

Madam Chairman, President Duisenberg. I believe the Wall Street Journal stated "silence is golden" regarding the ECB's public comments on euro intervention. And I believe also that this rule has proven to be a wise one generally. But, nevertheless, I would like to congratulate you on your decision to start publishing twice yearly economic forecasts, although I take the point that the responsibility of the Governing Council is only limited in this area. This is a good start, but do you not think that the time has now come for the bank to go much further by following the example of say the Bank of England in my country, by publishing the minutes of the Governing Council, as already mentioned by Mr. Huhne, and the votes in particular, not mention by Mr. Huhne, when interest rate decisions are taken. Mmany of us on this Committee are unhappy with the constant allegations of incoherent policy making, poor presentation and lack of understanding by the markets of how you reach your decisions. I am interested, for instance, in knowing, although I realise you won't want to make any specific or direct comments on future currency interventions, whether you now consider that finally the capital account exodus of funds from euroland is shrinking sufficiently, particularly as the bullish growth prospects in the USA are beginning to diminish, to make support and stabilisation of the

euro a more realistic prospect for Central Banks and no longer make it possible for this so called "one-way bet" for currency speculators to make their fortunes? Thank you.

Mr. Duisenberg

To take the last question first, Madam Chairman, as far as the capital account is concerned, we have figures for the first eight months of this year in which figures we see that in as far as foreign direct investment is concerned, there has been a net inflow into Europe which was almost of the same magnitude as the net outflow in the same months of 1999. In portfolio investment there has been an increase in the net outflow, particularly to the United States, but as you know, portfolio streams are much more quickly reversible than direct investment streams. In total, foreign direct investment and portfolio investment taken together, the net outflow in the first eight months of the year 2000, was about half of the net outflow in the first eight months of 1999. So that there is something going on that there is something changing, is very clear indeed, but it is too early to draw definite conclusions from these developments at this moment in time. Then on the other question regarding the minutes, I don't think I have to repeat myself. Regarding the votes, that is to my mind the same as for the minutes. In particular, it rarely occurs that we vote in the Governing Council. We are usually able to reach a consensus, which may take time. Votes are not excluded, neither are they entirely absent, but it rarely happens, so you wouldn't be helped very much by that. For the rest, I do concur with the statement that on some subjects, as the honourable speaker said, "silence is golden", and this reminds me of the founder of the nation I am a citizen of, who was called William the Silent.

Chairman, Mrs Randzio-Plath (PES/D)

Thank you, President. I hope nevertheless that your responses in future will not be too silent or taciturn. Thank you very much indeed for your presentation and statements today on the economic projections we will be receiving. We will be reading them in the December Bulletin very carefully, and we will be looking at how they do help us to understand monetary policy decisions. We hope that the ECB continues to work successfully and not just internally but also outside the euro area. Thank you very much.