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RECOMMENDATION

on the appointment of Mr Jean-Claude Trichet as President of the European
Central Bank
(10893/2003 - C5-0332/2003 - 2003/0819(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Christa Randzio-Plath

Symbols for procedures

- * Consultation procedure
majority of the votes cast
- **I Cooperation procedure (first reading)
majority of the votes cast
- **II Cooperation procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- *** Assent procedure
*majority of Parliament's component Members except in cases
covered by Articles 105, 107, 161 and 300 of the EC Treaty and
Article 7 of the EU Treaty*
- ***I Codecision procedure (first reading)
majority of the votes cast
- ***II Codecision procedure (second reading)
*majority of the votes cast, to approve the common position
majority of Parliament's component Members, to reject or amend
the common position*
- ***III Codecision procedure (third reading)
majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

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PROCEDURAL PAGE

By letter of 18 July 2003 the President of the Council consulted Parliament pursuant to Article 112(2)b of the EC Treaty on the Council's recommendation concerning the appointment of President of the European Central Bank (10893/2003 - 2003/0819(CNS)).

At the sitting of 1st September 2003 the President of Parliament announced that he had referred the recommendation to the Committee on Economic and Monetary Affairs as the committee responsible (C5-0332/2003).

The committee had decided to draw up a recommendation and appointed Christa Randzio-Plath rapporteur at its meeting of 2 July 2003.

It considered the draft recommendation at its meetings of 11 September 2003.

At the same meeting it adopted the motion for a resolution by 20 votes to 2, with 4 abstentions.

The following took part in the vote: Christa Randzio-Plath, chair and rapporteur; José Manuel García-Margallo y Marfil and John Purvis, vice-chairmen; William Abitbol (for Hans Blokland), Generoso Andria, Pervenche Berès, Jean-Louis Bourlanges (for Brice Hortefeux), Hans Udo Bullmann, Harald Ettl (for Bernhard Rapkay), Carles-Alfred Gasòliba i Böhm, Robert Goebbels, Christopher Huhne, Othmar Karas, Giorgos Katiforis, Piia-Noora Kauppi, Christoph Werner Konrad, David W. Martin, Hans-Peter Mayer, Peter Pex (for Astrid Lulling), Karin Riis-Jørgensen, Manuel António dos Santos (for Helena Torres Marques), Olle Schmidt, Peter William Skinner, Charles Tannock (for Jonathan Evans), Ieke van den Burg (for Mary Honeyball) and Theresa Villiers. Armonia Bordes did not participate in the vote.

The recommendation was tabled on 12 September 2003.

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the appointment of Mr Jean-Claude Trichet as President of the European Central Bank (10893/2003 - C5-0332/2003 - 2003/0819(CNS))

The European Parliament,

- having regard to the Council's recommendation of 18 July 2003 (C5-0332/2003),
 - having regard to Article 112(2)b of the EC Treaty,
 - having regard to Article 50 of the Protocol on the Statute of the ESCB and of the ECB,
 - having regard to Rule 36 of its Rules of Procedure,
 - having regard to the recommendation of the Committee on Economic and Monetary Affairs (A5-0307/2003),
- A. whereas at its meeting of 11 September 2003 the Committee on Economic and Monetary Affairs heard Mr Jean-Claude Trichet, the Council's nominee for the office of President of the European Central Bank, for a term of office of 8 years, and at the same meeting of 11 September 2003 considered the nominee's qualifications in the light of the criteria laid down by Article 112 of the EC Treaty,
- B. whereas the nominee has submitted a written statement and has given oral explanations in the Committee on Economic and Monetary Affairs on the 11 September 2003 for the consideration of the Parliament,
- C. whereas the ECB has to be politically independent, whereas, however, the nomination of the candidates for the ECB Executive Board is a political act,
1. Confirms the appointment of Mr Jean-Claude Trichet as an appropriate candidate for the office of President of the European Central Bank;
 2. Instructs its President to forward this opinion to the President of the Council, for forwarding to the governments of the Member States.

ANNEX 1: CURRICULUM VITAE OF THE CANDIDATE

CURRICULUM VITAE of Mr Jean-Claude TRICHET

Inspecteur général des Finances

Ingénieur civil des Mines, Licencié ès-Sciences économiques

Graduate of the Institut d'études politiques

Graduate of the École nationale d'administration (1969-1971)

- 1966 1968 Engineer in the competitive sector
- 1971 Deputy Inspector of Finance
- 1974 Assigned to the General Inspectorate of Finance
- 1975 Assigned to the Treasury Department
- 1976 Secretary General of CIASI (the Interministerial Committee for Improving Industrial Structures)
- 1978 Adviser to the President of the Republic on Industry, Energy and Research
- 1981 Head of the Development Aid Office at the Treasury Department
- 1981 Deputy Director of Bilateral Affairs, Treasury Department
- 1985 Head of International Affairs, Treasury Department
Chairman of the Paris Club - sovereign debt rescheduling (1985-1993)
- 1986 Director of the Private Office of the Minister for Economic Affairs, Finance and Privatization
- 1987 Director of the Treasury Department
Deputy Governor of the International Monetary Fund
Deputy Governor of the World Bank
Censor of the Banque de France
- 1992 Chairman of the European Monetary Committee (1992-1993)
- 1993 Governor of the Banque de France (1st term)
Member of the Board of the Bank for International Settlements
Governor of the World Bank
Member of the Group of Thirty
- 1994 Chairman of the Monetary Policy Council, member of the Board of the European Monetary Institute
- 1998 Member of the Governing Council of the European Central Bank
- 1999 Governor of the Banque de France (2^d term)
- 2003 President of the G10 Governors
- Officier de l'Ordre national de la Légion d'honneur
 - Officier de l'Ordre national du Mérite

- Foreign honours (Commander of the National Orders of Merit in Austria and Argentina, Brazil, Cote d'Ivoire, Ecuador, Germany, Yugoslavia)

ANNEX 2: QUESTIONS AND ANSWERS

Answers provided by Mr. Jean-Claude Trichet to the questionnaire drawn up by the Committee on Economic and Monetary Affairs

A-1

Please highlight the main aspects of your professional experience in monetary, financial and business matters.

After studying science and obtaining a civil engineering degree from *Ecole des Mines*, I studied economics, obtaining a master's degree in economics from *Université de Paris* and the diploma from the *Institut d'Etudes Politiques de Paris*. I then worked in the competitive sector while preparing the competitive examination for *Ecole Nationale d'Administration*.

I held a number of national and international positions in the monetary, financial and economic spheres. Notably, in France, I occupied the positions of Secretary General of the *Comité Interministériel pour l'aménagement des structures industrielles* (1975-1978), economic adviser to the Minister for Economic Affairs (1978), adviser to the President of the Republic on energy, research and industry (1978-1981). I then held the posts of Head of the Treasury and Censor of the Banque de France (1987-1993), and Governor of the Banque de France (1993-2003). Internationally, my main positions include Governor of the World Bank, Alternate Governor of the International Monetary Fund, Chairman of the Paris Club (1985-1993), and Chairman of the European Monetary Committee (1992-1993). I am currently Chairman of the Governors of the Group of Ten (G10) central banks.

A-2

Please highlight the three most important aspects of your European and international experience.

The three following aspects of my European experience marked my career:

- The Maastricht Treaty for which I was the negotiator, acting under the instructions of my country's government, together with my eleven colleagues from the European Union;
- The Chairmanship of the European Monetary Committee;
- The economic and monetary convergence strategy to which I contributed both as Head of the Treasury and as Governor of the Banque de France.

I wish to add that at the international level, an important experience when chairing the Paris Club was rescheduling government debt in a period marked, in particular, by the financial problems facing Latin America, Soviet Union and Central and Eastern European countries.

A-3

What are the three most important decisions to which you have been party in your professional life?

- First, I would cite the series of decisions aiming to implement an economic reform and solid currency strategy, which was adopted by my country and pursued in the 1980s and

1990s. I participated in these decisions either in the capacity of adviser, or by taking them within the limitations of my executive responsibilities, or, over the last 10 years, as head of the Banque de France, made independent in 1994;

- second, I would like to mention the historic decisions aiming to create a single European currency;
- and third, I would like to evoke in the area of international debt, the innovative move of the debt strategy, that led to exceptionally favourable rescheduling, including Polish debt, facilitating this country's transition to a market economy.

A-4

What lessons did you learn from your experience regarding the appropriate balance between pragmatism and application of monetary and economic theory a central banker should observe?

All the decisions of a central bank must be methodically prepared, and as well-informed and as scientifically-founded as possible. However, they can never simply be steered by the results of a calculation, the final stage of an algorithm or the functioning of a mechanism. A decision must be based, ultimately, on a judgement that is also shaped by experience and wisdom that, in the case of independent central banks is always a collective wisdom because monetary policy decisions are taken by a council; the Governing Council in the case of the European Central Bank.

A-5

On the basis of your own experience and philosophy, and in view of the uniquely independent position of the ECB, what do you believe should be the guiding principles for a European Central Banker?

I believe that three principles are fundamental in guiding the action of a European Central Banker, taking into account the objective of price stability assigned to the European Central Bank by the Treaty :

- The highest level of credibility in the pursuit of the objective of price stability. Without this credibility there can be no credible and stable Euro ;
- Independence, enshrined in the Treaty, vis-à-vis any power or type of influence whatsoever;
- Lastly, realism and pragmatism in the assessment of a financial and economic environment changing rapidly, due to new technologies, changes in the behaviour of economic agents and the general economic and financial globalisation trend.

It is this combination of credibility, independence and realism that bolsters and enhances the confidence of public opinion, that makes it possible to solidly anchor price stability in the expectations of economic agents, and that generates the best possible conditions for lasting job-creating growth.

A-6

What would be the guiding objectives you will pursue during your eight-year mandate as the President of the European Central Bank?

During this mandate, I would observe the following principles:

- Professionalism: all the decisions, be they of a monetary or a management nature, shall be taken in the light of rigorous analyses, carried out by a staff of top professionals;
- Collegial decision-making: the President is the head of a team, and not a single player. The Executive Board is a team. The Governing Council is a team. And the success of the ECB, and that of the Eurosystem, can only be achieved through teamwork;
- A medium- and long-term outlook: monetary policy decisions must always be taken with a medium-term perspective on account of the lags in the transmission of monetary impulses. Our monetary policy strategy is based upon price stability “in the medium run”. The ECB and the Eurosystem must also be managed in a medium- to long-term perspective, in view of the nature of these institutions, their profound uniqueness and, above all, the historic European integration process underway.

A-7

Do you have any business or financial holdings or any other commitments which might conflict with your prospective duties, and are there any other relevant personal or other factors that need to be taken account of by the Parliament when considering your nomination?

No, I do not carry out an economic activity, nor do I have a business or financial holdings or any other commitment that might conflict with my prospective duties. I see no other factors that need to be taken into account by the Parliament when considering my nomination.

B-8

To what extent do you think the recent review of the ECB's monetary strategy has met so far the objectives the ECB wanted to achieve?

I believe that the clarification of the ECB's monetary strategy has been well understood by observers, market participants, academics and public opinion as a whole.

By specifying that our definition of price stability was based on an inflation rate below but close to 2%, we have given a triple message:

First, we highlighted the fact that the ECB has been able to maintain average euro area inflation expectations below, but close to 2%: consequently, expectations, derived, for instance, from French ten-year OATei (indexed on euro area HICP), have hovered between 1.7% and 2% since the euro's creation. At the time of replying to this question, expectations stood at around 1.8%, demonstrating full consistency between our clarification and the public's understanding of our policy.

Second, the clarification, called for by the Governing Council, makes it possible to avoid a misunderstanding: less than 2% in the medium term does not mean maintaining an inflation “corridor” of between 0% and 2%, with an average inflation at 1% as some had understood, but rather ensuring that the ECB's decisions give full credibility to medium- and long-term inflation expectations at below, but close to 2%.

Lastly, this clarification shows that the ECB, by aiming at an inflation rate below, but close to 2% over the medium term, is committed to guarding against the risks of deflation.

Likewise, I have observed that the clarification we offered regarding the two pillars of our monetary policy was extremely useful. Some have criticized us of being ambiguous because we were not clear enough in our handling of the two pillars. The ECB's Governing Council has taken the very useful step, I believe, of specifying that we should first consider a wide range of economic and financial variables acting as leading indicators for price developments over the short and medium term. And that we should carry out a monetary analysis aimed at cross-checking the findings of the economic analysis, taking into account a broad range of monetary indicators including M3, its components and counterparts. I believe that it is important that we stressed that, given the medium-to long-term perspective from which the relationship between money and prices is examined, we will no longer conduct an annual review of the reference value for M3 growth, but will continue to assess the underlying conditions and assumptions.

B-9

What further improvements in the design of Euro-area monetary policy do you envisage in the medium term? Do you consider the review process as an ongoing evolving process or as a one-off change devised for the long-term?

I believe that we must adopt a credible and stable monetary policy concept over the medium-to long-term. The recent clarification process has greatly helped in this respect, because it has enabled us to better explain our strategy by clearing up misunderstandings. It is possible that other misunderstandings might emerge in the future, even though I cannot think of any at present. Perhaps further clarification will be necessary that I cannot foresee. At any rate, this will be a collective decision. It is the collective wisdom of the Governing Council that will decide on the best course of action when the time comes.

B-10

How far from a standard inflation targeting policy is the current ECB's monetary strategy? What are the advantages of not adopting an explicit inflation targeting policy?

It is maybe a little bold to talk about a standard inflation targeting policy as the concept in itself is recent, much more recent than the monetary policy concepts used by the US Federal Reserve System and the European national central banks that have since merged within the Eurosystem.

Moreover, I am not sure that it is by pure chance that the United States and Europe opt for a concept of monetary policy different from direct inflation targeting.

That said, the main disadvantage of applying direct inflation targeting to a vast and complex

economy is the mechanical aspect of monetary policy instrumentation. A system of equations and the calculation of a law of probability are supposed to indicate the appropriate conduct to be adopted by Monetary Policy Councils. In theory, we find the same mechanical instrumentation as that which was criticised in the policies based on the target growth of monetary aggregates. Naturally, in reality, central banks never allow themselves to adopt a totally mechanical approach and they know very well that the extraordinary complexity of reality cannot be reduced to an equation or a system of equations.

In this context, I believe that our European concept of monetary policy has many advantages:

- It is precise as regards the definition of price stability and thus enables the public and economic agents to scrutinise the central bank and judge its performance;
- It builds on price stability as defined in the European economies with the lowest market interest rates and therefore the most credible currencies before the creation of the euro;
- It takes account of economic, monetary and financial analyses, by not rejecting any data or indicators, contrary to the concepts essentially based on an equation or on a system of equations – such as direct inflation targeting and the target growth of monetary aggregates – and, at the same time, takes account of the summary judgement, based on experience and collective wisdom, delivered by the Governing Council.
- Finally, I think that the very complex problem of asset prices is more naturally and better taken into account in our strategy.

B-11

Would you support the ECB making explicit inflation forecasts over the medium term? Given the fact that the recently clarified ECB's definition of price stability is inflation rates for the Euro area "below, but close to, 2% over the medium term", how do you contest the view that explicit inflation forecasts over this medium term would improve the ECB's communication policy?

The staff of the Eurosystem, under their responsibility, make inflation projections over 1-2 years. The Governing Council believes that its decision should take account of all available data and analyses, including those made by academics or by the private sector. Naturally, and rightly, it attaches great importance to the studies made by Eurosystem staff but has no intention of restricting a priori the scope of its information or its considerations, nor of reducing the extent of its analyses.

Since the definition of price stability in the medium term has been clarified, I believe that the ECB's communication is very clear. And, to date, it has been well understood by the public and the markets because inflation expectations in the euro area have been solidly anchored at around 1.8%.

B-12

What is your opinion on the frequently reiterated request from the European parliament to the ECB to produce US-style "Beige book" looking at the individual circumstances in each country? Isn't there room to allow at the same time the fully-

fledged national central banks to make their own analysis and the ECB to produce such "beige books"?

The "Eurosystem" comprises the European Central Bank and the 12 national central banks. It is a close-knit team in which each member has its tasks and responsibilities. It is natural, in this team, that monetary policy decisions, and economic analyses of the euro area as a whole be conducted by the ECB, together with the NCBs, while in-depth analyses of each of the national economies be carried out primarily by the NCBs. The fruitful co-ordination of these analyses is for instance documented in the preparation of the Eurosystem staff projections for the Euro area prepared and published twice a year.

There no doubt remains progress to be done before achieving more uniform methodologies and the most fruitful overall coordination of analyses.

B-13

How do you think the problems resulting from the combination of a "one-size-fits-all" monetary policy and decentralised fiscal and structural policies could be resolved in the Euro area?

The fact that the single currency area is not at the same time a single fiscal policy area, a single taxation policy area, a single social policy area, a single structural policy area, was a deliberate decision on the part of the governments which negotiated and signed the Maastricht Treaty, and on the part of the Parliaments and the people who ratified this Treaty.

A minimum level of mutual surveillance, consultation and coordination is indispensable to the equilibrium of the single currency area. By adopting the same currency, twelve economies and twelve nations have decided to share a common destiny.

As regards fiscal policy, which is the natural counterpart of monetary policy in traditional economic analysis, the Stability and Growth Pact was designed to ensure that Economic and Monetary Union (EMU) remains balanced. Without the existence of the Stability and Growth Pact, we would not be able to refute two common criticisms stressed by some academic observers: how is it possible to ensure that EMU fiscal policy does not become seriously unbalanced if it continues to stem from twelve independent national policies, amongst which a number may be erratic? How can the fiscal channel be used to counter an asymmetric shock in the absence of a real federal budget? The Stability and Growth Pact enables us to respond to these two criticisms. It is therefore an important concept for the overall consistency of EMU.

Moreover, all central bankers wish to see EMU Member States resolutely embark upon structural reforms, in accordance with the consensus of the Heads of States and government reached at the Lisbon European Council.

B-14

The ECB has often contended that price stability is the best way to guarantee growth and full employment and that there is no trade-off between price stability and growth; however recent experience has shown that price stability can go with subdued growth. In this context, could the ECB do more to attain its secondary objective, i.e. support the

general economic policies in the Union with a view to contributing to economic growth and full employment?

Indeed, price stability is a prerequisite for sustainable growth and job creation. In particular, but not only, via three main channels: first, by preserving and bolstering consumers' purchasing power, which is good for consumption, and therefore good for growth; second, by enhancing the confidence of savers who accept lower market interest rates, which is good for investment, and therefore good for growth; third, by limiting the rise in unit production costs, all other things being equal, which sustains business competitiveness and is therefore good for growth. Moreover, an environment of price stability results in reducing uncertainty, which improves market efficiency and helps fostering investment and growth

However while price stability is a prerequisite for sustainable growth, it is not the sole condition. Three other conditions must also be met: fiscal rectitude, an appropriate balance of productivity gains and moderate nominal compensation growth, and structural reforms that raise the economy's potential growth rate. The latter is particularly important and the European Council, itself, clearly stressed this point, by adopting the Lisbon reform agenda.

The Governing Council of the European Central Bank demonstrated that it intended to give growth and job creation every chance, through ensuring credible price stability over the medium term. The fact that we have, in the euro area, the lowest key interest rates for half a century (the lowest for 56 years in France, and the lowest since the creation of the Bundesbank in Germany, for example) is not enough underlined by observers.

B-15

Do you think the Stability and Growth Pact (SGP) should evolve in the near-term future? If so, how and under which conditions? In particular in case the Euro area faces stagnation, recession or deflation, should the SGP be amended to allow fiscal policies more flexibility?

The Stability and Growth Pact is, in my opinion, an important element in the construction of Economic and Monetary Union. When countries share a common destiny because they share a single currency, they cannot leave fiscal policies completely to national authorities' autonomous decisions without running a major risk of disrupting the functioning of the Economic and Monetary Union.

As I write these lines, no government – as far as I know – has requested that the text of the Stability and Growth Pact be amended. I am pleased to note this because I believe amending this text, whose main provisions – and particularly the 3% threshold – are enshrined in the Treaty itself, could undermine the credibility of the Economic and Monetary Union as a whole.

The Commission has in fact made some proposals which should allow us to monitor the structural features of deficits more closely. I believe this is an avenue to be explored because one of the main difficulties of implementing the Stability and Growth Pact is that meeting the nominal – i.e. unadjusted for cyclical effects – criteria is easy in times of prosperity and therefore no sufficient efforts are made to gain the appropriate buffer necessary for hard times. Work carried out by the Commission has in fact shown that the nominal threshold of

3% of GDP offers enough fiscal leeway in the event of cyclical fluctuations, provided that structural fiscal positions are kept close to balance or in surplus over the medium term, implying that excellent nominal fiscal positions be attained in times of prosperity.

Be that as it may, both the EU Commission and Council need to establish guidelines and make decisions under the watchful eye of the European Parliament and European public opinion. Each body has to face up to its responsibilities in a context that is naturally complex and ever-changing. The European Central Bank has its own responsibilities with regard to price stability and has to take into account the impact of whatever decisions are taken by the Council.

Lastly, a point that must be emphasised: it would be mistaken to believe that in difficult times, from the standpoint of growth, one is necessarily better off recording a deficit. Our fellow citizens are intelligent and anticipate the future. If, in a situation where spending and deficit are already high, they judge public expenditure and deficits to be taking a turn for the worse, their reluctance to consume and invest will cancel out the positive “Keynesian” effects that are expected to arise from the expenditure. Ultimately, compliance with the Stability Pact boosts confidence and, therefore, growth.

B-16

With Japan, China, and several other Asian economies already experiencing declining prices, and with the USA facing a probability of an unwelcome substantial fall in inflation, what are the risks for the Euro area to fall in a deflation scenario?

Fortunately, we do not presently perceive any deflationary risks in the euro area. Inflation expectations appear to be solidly anchored at slightly less than 2%. The current rise in the Harmonised Index of Consumer Prices (HICP) comes to roughly 1.9%. Our fellow European citizens would be greatly surprised if we told them today that there was a considerable risk of decreasing prices given that they are still under the impression that prices are rising too quickly. Let me also note that, year-on-year, the monetary aggregate M3 grows about three times as fast as nominal GDP and that several euro area economies are experiencing substantial nominal increases in incomes and wages.

There are already enough negative factors that are dampening economic growth in Europe, particularly the lack of confidence linked to structural handicaps. I do not believe it is useful to artificially create an additional menace that, thankfully, is currently non-existent.

However, should a deflationary risk transpire, there is no doubt that the Eurosystem would immediately proceed to stamp it out. As evidenced by the recent clarification of our monetary policy, the Governing Council of the European Central Bank shows no complacency whatsoever towards deflation.

B-17

How is it best to cope with deflation and what should the role of the central bank be in this situation? In particular do you agree that in case of protracted deflation, monetarisation of government debt and excessive money creation are no longer a problem for the central bank?

As I have just said, I am not sure that it is appropriate to transpose a major debate on deflation to Europe. That said, in the presence of a real deflationary phenomenon – which, once again, is absolutely not the case in Europe – a central bank could legitimately make use of unorthodox monetary weapons.

B-18

How do you analyse relations and interdependence between the exchange rate of the Euro and price stability in the Euro area?

The international monetary system is a system of floating exchange rates. The euro, US dollar, yen, pound sterling, Canadian dollar and Swiss franc, in particular, float freely as dictated by demand for and supply of the various currencies. In this context of floating exchange rates, the various central banks concerned conduct domestic stability-oriented policies geared towards maintaining price stability in their respective economies. *De facto*, the system is thus characterised by quite large exchange rate fluctuations over the short to medium term –due to the floating nature of the system- and a pattern of stability over the long term –stemming from the long term influence of stable domestic monetary fundamentals-.

These exchange-rate fluctuations have a first round impact on price stability: “imported inflation” in the event of the depreciation of the currency, and “imported disinflation” in the event of an appreciation in the currency. The impacts of these fluctuations should tend to offset one another in the long term if economies are sufficiently flexible.

B-19

To what extent do you think the ECB can adjust its monetary policy to take into account an unwelcome evolution of the exchange rate of the Euro? In this regard, how do you analyse in retrospect the previous phases of Euro depreciation and appreciation?

The ECB adjusts its monetary policy to achieve its objective of price stability, which is laid down in the Treaty. The Governing Council takes into account all the available information, relevant data and analyses provided in the report by the member of the Executive Board in charge of the economic and monetary analysis. Exchange rates and their impact on monetary and financial conditions and price developments of course feature in these data and are factored into the analyses and assessment of the outlook for price stability together with all the other elements.

As regards the last five years, perhaps the initial depreciation of the euro was partially due to the vast outflows of direct and portfolio investment that were observed in Europe in 1999 and 2000. The trend reversal in exchange rates seems to be somewhat simultaneous with the drying up of the substantial capital outflows that characterised the period following the bursting of the “bubble”. That said, one must of course remain very prudent when looking at exchange rate fluctuations as the influences are not only numerous but also highly complex.

B-20

What developments do you envisage in the foreseeable future for the international role of the Euro?

It must be borne in mind first and foremost that the euro was created to enable the European economy and Single Market to function as smoothly and efficiently as possible and not to vie with the dollar or with any other currency. On the contrary, even more so now than before, it is indispensable for monetary authorities to co-operate in the most genuine and close manner possible. The euro shall progressively occupy the position that users of monetary and financial instruments spontaneously award it as is shown, in particular, in the international bond market. In any case, any sudden changes would be totally inappropriate.

B-21

How can the representation of the Euro area and its currency be further enhanced, in particular in international financial institutions? What do you think about the respective roles of the ECB, the Commission and the Member States in the external representation of the Euro? How do you consider the idea of designating a "Mr/Mrs Euro" for this external representation?

I am not sure that any overhaul in the monetary arena is necessary in the short term.

The ECB together with the national central banks of the Eurosystem constitute a federal European entity. The single decision-making processes are clear. In particular, in the monetary policy field, which is an exclusive competence of the ECB and ESCB, governed by the decision-making bodies of the ECB, the ECB represents the Euro area externally. This is consistent with the principle of "parallelism" according to which the community or national authority responsible for a given policy within the Union assumes such responsibility also at the international level. Moreover the ECB is involved in the process of international co-operation as long as other matters in its field of competence are concerned. The ability to make decisions efficiently and rapidly has been proven. And to rephrase a question ascribed to Henry Kissinger, our partners know the ECB President's telephone number. When in September 2000, it appeared within the G3-G7 framework that a clear signal needed to be sent to the international markets, the operative sentence of the press release published in Prague started as follows: "At the initiative of the European Central Bank, the monetary authorities of the United States and Japan, etc".

With regard to European and national executive bodies, however, there is perhaps some room for improvement, but I believe that this is entirely these bodies' responsibility. I do not consider the current "constellation" of the Council, Commission and national Governments to be entirely optimum either in the IMF, the World Bank, the OECD, or within the informal but extremely useful G8, G10 or G20 structures. I believe nonetheless that it would be a mistake to consider that the organisation of the European executive bodies currently constitutes a serious handicap for international co-operation.

B-22

What are your guiding principles regarding co-operation with other major central banks in the world, as President of the ECB as well as Chairman of the Governors of the Group of Ten?

Central banks are very lucky in that they enjoy a grand and long tradition of co-operation,

dialogue, candid exchanges of views and analyses. At the international level, we meet every two months at Basel for the meetings of the Bank for International Settlements, in an atmosphere of complete trust and open dialogue. The “European monetary team”, a cohesive monetary team that brings together the ECB and all the euro area National Central Banks, plays an active role in this open and fruitful international co-operation. As President of the ECB, I shall strive to pursue the work of Wim Duisenberg, who is a wonderful team leader. And as President of the Group of 10, I shall take up the baton for the work carried out by Eddie George, who strove, with remarkable success, to extend the close dialogue established among industrialised nations to the whole world.

B-23

What challenges do you think the ECB's monetary policy will face during the preparation of Euro entry by the accession countries and after their entry?

The ECB's monetary policy aims to ensure price stability in the euro area. Once the acceding countries join the euro area, this policy will, of course, have to take into account their economies, exactly like those of all the other participating countries. No more, no less. But it is not up to the euro area to modify its monetary policy to facilitate accession of new Member States to the Euro area. It would probably be a mistake in so far as it could hamper the credibility of the single currency and therefore the confidence of consumers, investors, and savers, which is an important engine for growth and job creation. The ECB and the Eurosystem should not facilitate the adoption of the Euro by the new Member States through modifying the single monetary policy, but should actively embark upon reinforcing technical cooperation in all relevant fields with national central banks of acceding countries.

Co-operation between the central banks that form the European System of Central Banks (ESCB) must be as trusting and close as possible, and it is towards this goal that the ECB is currently striving and will continue to strive. After some acceding countries join the euro area, we shall have, as we do today, two “circles”: the Eurosystem and the European System of Central Banks. I am convinced that, within each circle, the former acceding countries' central banks, which will have become members of the ESCB or, in some cases, of the Eurosystem, will play their roles fully, with responsibility and efficiency.

B-24

What is your opinion regarding the pace at which the accession countries should join monetary union and adopt the euro, considering all of the convergence criteria and the participation in the exchange rate mechanism?

Adopting the euro is an extremely serious affair. Countries adopt the currency once and for all and do not give it up. Hence it is of the utmost importance to have achieved not only nominal but also sustainable convergence, according to the Maastricht Treaty, before adoption. Rushing the process for reasons of facility without rigorously laying the groundwork would be an error, first and foremost for the relevant acceding countries, and also for the system as a whole. The pace at which countries adopt the euro therefore depends entirely on the quality and results of the preparation period; there can be no general rules other than that of the greatest possible professionalism.

B-25

Which responsibility and role should be ECB's concerning financial stability? Would you be in favour of the publication by the ECB of financial stability reports?

Financial stability is an important responsibility for central banks. Monetary and financial stability mutually reinforce each other. The ECB makes a fundamental contribution to preserving financial stability through its policy geared towards maintaining price stability over the medium term. As leader of the Eurosystem and the European System of Central Banks' monetary team, the ECB has important responsibilities in this area. These responsibilities are in particular, but not only, underscored at the global level by the ECB's presence within the Financial Stability Forum, at the European level by the Banking Supervision Committee, which was devoted to preserve financial stability, and most importantly by Article 105-5 of the Treaty, which provides for the ESCB to contribute to the smooth conduct of policies relating to financial stability.

The ECB is carrying out systematic monitoring of financial stability conditions in the EU/Euro area with the assistance of the Banking Supervision Committee (BSC). The ECB has already made available to the public in its Monthly Bulletin parts of its output in the financial stability field. Moreover, in February 2003, the ECB published a report entitled "EU' Banking Sector Stability" summarising analyses conducted by the BSC.

Whether or not it is appropriate for the ECB to publish either regular broader reports on financial stability or a financial stability review is an issue that could be examined by the Executive Board and the Governing Council.

C-26

How do you foresee the decision making process in the enlarged ECB Governing Council and what could be the role of the ECB's President in this context? Do you see any increase reliance on voting procedures as opposed to consensus? Which further reforms should the ECB undergo in view of enlargement?

Much thought has been devoted to this issue within the Governing Council and we have arrived at a solution, which the European Parliament is familiar with, and which I believe to be a good one. It not only preserves the total credibility of the decision-making procedure but also takes into account the specific group dynamics arising from an enlarged system. In my opinion, while the President's role will remain basically unchanged as team leader of the enlarged team of the European System of Central Banks, it will adapt progressively to this enlargement, which presupposes direct, trusting and close relationships with a larger number of partners, and ensuring that all relevant views and analyses are fully taken into consideration.

I do not think that enlargement in itself will have any bearing on the proportion of decisions taken by consensus or vote. It is more likely to be the internal group dynamics of the institution that are affected.

With regard to enlargement, I do not believe that new reforms should be undertaken within the ECB, efforts should rather aim at ongoing, pragmatic and realistic adjustment in order to ensure that all our procedures remain as efficient after enlargement as they were before it.

C-27**Ho do you perceive the balance between the functions the President, the Vice-President and the Chief economist of the ECB?**

This is a highly traditional –tried and tested- structure in central banks. Similar to my remarks concerning the Eurosystem, the Executive Board of the ECB is a close-knit team. All actors know their responsibilities and for five years we have all observed the excellent balance that has been achieved. The Executive Board discusses and decides on issues in a collegial manner. I know and greatly respect Professor Lucas Papademos and Professor Otmar Issing. It is a privilege to be called upon to work with them as with the other members of the Executive Board.

C-28**Do you envisage to implement the gender mainstreaming strategy embedded in the Treaty of Amsterdam in the ECB as it has to be done in the other European authorities and institutions? Will you take specific actions, and if so what actions, in order to increase female participation, in particular at managerial level, in the ECB, the Eurosystem and the financial services sector in Europe?**

The Governing Council, which defines the conditions of employment for its staff, and the Executive Board naturally apply the fundamental EU principles, particularly with regard to equality between women and men. The European Court of Justice ensures compliance with these principles and has jurisdiction in any possible dispute between the ECB and its staff.

The policy of equality between women and men in working life adopted by the ECB with regard to recruitment is based essentially on the fact that in the event that candidates have equal qualifications for a position, gender may be used as a criterion for selection with a view to ensuring a balanced representation of men and women in the ECB's staff.

It will be up to the ECB to decide whether to go any further, if need be, in a proactive policy that is in the spirit of the new wording of Article 141 of the Treaty establishing the European Community, notably by considering the implementation of positive discrimination measures.

C-29**What will be your personal approach of the social dialogue with the ECB Staff?**

Social dialogue is an essential component in the smooth functioning of institutions and companies whatever their responsibilities, nature or legal status. I intend to continue to keep up and consolidate the good social relations that currently exist, in close co-operation with the Vice President Lucas Papademos, who, traditionally, also keeps a close eye on relations with staff representatives.

D-30**Would you be in favour of a confirmation procedure by the European Parliament**

(notwithstanding the constitutional issues that such a change would raise)?

I am convinced that the existing procedure of hearings by the European Parliament, and the consequent giving of its opinion, are of great importance. I believe, as a citizen, that an official confirmation procedure would be indispensable in a totally federal political structure. Should political Europe evolve in this direction official confirmation would, in my eyes, become necessary.

D-31

How can the democratic accountability of the ECB be further improved?

All independent institutions in modern political democracies are accountable, in the last resort, to the public. This holds true for independent central banks. It is also true for the European Central Bank. Our modern democracies are increasingly advanced, complex and demanding, rightly so. Since its creation, the ECB has scrupulously adapted to these demands. It must continue to do so.

As regards relations with European political or administrative institutions, I believe they are much closer – notwithstanding the strict respect shown for the independence of each institution – than we usually give them credit for. Every fortnight, the EU Council and Commission are invited to attend the deliberations of the ECB Governing Council, and to communicate their analyses and opinions where necessary. The President of the ECB and some members of the Executive Board frequently appear before the European Parliament. The President is invited to Eurogroup and ECOFIN Council meetings. The informal ECOFIN Council meetings bring together the Ministers of Finance and several members of the ECB Governing Council. I am very surprised to hear at times that relations between the ECB and European institutions are too distant. In fact, overall, I find contacts between the Central Bank and political institutions in Europe at least as close and frequent as in other institutional framework the world over.

D-32

The ECB has long refrained from accepting the European parliament's request to publish the minutes of its Governing Council's meetings. What are the impediments and inconveniences of such publications? Would you be in favour of the publication by ECB of the minutes of its Governing Councils meetings in the near-term future?

At the instigation of its President Wim Duisenberg, the ECB has since January 1999 pursued a principle of broad-based, direct and real-time communication on the Governing Council's assessment of the economic, financial and monetary situation, and on the rationale governing its decisions. In 1999, this was unprecedented. At the time, conventional central banking wisdom had it that this assessment was published five or six weeks after the meeting was held. We therefore really broke new ground in the direction requested by the European

Parliament. This new practice has in fact been copied, and today, no central bank would take a decision without providing immediate, albeit sometimes succinct, explanations.

We believe that going further in the publication of our deliberations by publishing the minutes would be inappropriate. But most importantly, we believe that the real-time publication of the President's "introductory statement", which opens each press conference, provides the public, analysts and market participants with all the information they need to understand the reasoning of the college that takes the decisions.

D-33

Regarding monetary policy decision, would you be in favour of publishing the details of voting if this procedure, as opposed to consensus, were to be more used in the Governing Council? If not, why? How important is the risk of "nationalising" the debate?

I believe, as does Wim Duisenberg, and all our colleagues, that the publication of the positions taken by each member in the event of a vote on monetary policy decisions currently presents more drawbacks than advantages. The Governing Council is the competent decision-making body. We all identify with the collective wisdom of the Council, irrespective of the mode of decision, consensual or not. Admittedly, we are wary of misinterpretations and errors that could wrongly be induced, in the eyes of some observers, by taking into account the different nationalities of the members of the college. The single monetary policy is that of the Euro area as a whole. Once we have crossed the threshold of the Governing Council, each one of us seeks only the interests of the euro area as a whole.