Introductory statement to the press conference (with Q&A)

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting.

Based on its regular economic and monetary analyses, the Governing Council decided to increase the **key ECB interest rates** by 25 basis points, after raising rates by 25 basis points in April 2011 from historically low levels. The further adjustment of the current accommodative monetary policy stance is warranted in the light of upside risks to price stability. The underlying pace of monetary expansion is continuing to gradually recover, while monetary liquidity remains ample with the potential to accommodate price pressures in the euro area. All in all, it is essential that the recent price developments do not give rise to broad-based inflationary pressures over the medium term. Our decision will contribute to keeping inflation expectations in the euro area firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. Such anchoring is a prerequisite for monetary policy to contribute to economic growth in the euro area. At the same time, interest rates across the entire maturity spectrum remain low. Thus, our monetary policy stance remains accommodative, lending support to economic activity and job creation. As expected, recent economic data indicate some deceleration in the pace of economic growth in the second quarter of 2011. While the underlying momentum of economic growth in the euro area continues to be positive, uncertainty remains elevated. We will continue to monitor very closely all developments with respect to upside risks to price stability.

The provision of liquidity and the allotment modes for refinancing operations will be adjusted when appropriate, taking into account the fact that all the non-standard measures taken during the period of acute financial market tensions are, by construction, temporary in nature.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. In the first quarter of 2011 euro area real GDP posted a strong quarter-on-quarter increase of 0.8%, following the 0.3% increase in the last quarter of 2010. Recent statistical releases and survey-based indicators point towards a continued expansion of economic activity in the euro area in the second quarter of this year, albeit at a slower pace. This moderation reflects the fact that the strong growth in the first quarter was in part due to special factors. The positive underlying momentum of economic activity in the euro area remains in place. Euro area exports should continue to be supported by the ongoing expansion in the world economy. At the same time, taking into account the present level of business confidence in the euro area, private sector domestic demand should contribute to economic growth. However, activity is expected to continue to be dampened somewhat by the process of balance sheet adjustment in various sectors.

In the Governing Council's assessment, the risks to this economic outlook remain broadly balanced in an environment of elevated uncertainty. On the one hand, favourable business confidence could provide more support to domestic economic activity in the euro area than currently expected and higher foreign demand could also contribute more strongly to growth than expected. On the other hand, downside risks relate to the ongoing tensions in some segments of the financial markets that may potentially spill over to the euro area real economy. Downside risks also relate to further increases in energy prices, protectionist pressures and the possibility of a disorderly correction of global imbalances.

With regard to price developments, euro area annual HICP inflation was 2.7% in June 2011 according to Eurostat's flash estimate – the same rate as in May. The relatively high inflation rates seen over the past few months largely reflect higher energy and commodity prices. Looking ahead, inflation rates are likely to stay clearly above 2% over the coming months. Upward pressure on inflation, mainly from energy and commodity prices, is also still discernible in the earlier stages of the production process. It remains of paramount importance that the rise in HICP inflation does not translate into second-round effects in price and wage-setting behaviour and lead to broad-based inflationary pressures. Inflation expectations must remain firmly anchored in line with the Governing Council's aim of maintaining inflation rates below, but close to, 2% over the medium term.

Risks to the medium-term outlook for price developments remain on the upside. They relate, in particular, to higher than assumed increases in energy prices. Furthermore, there is a risk of increases in indirect taxes and administered prices that may be greater than currently assumed, owing to the need for fiscal consolidation in the coming years. Finally, upside risks may stem from stronger than expected domestic price pressures in the context of increasing capacity utilisation in the euro area.

Turning to the **monetary analysis**, the annual growth rate of M3 increased to 2.4% in May 2011, from 2.0% in April. Looking through the recent volatility in broad money growth owing to special factors, M3 growth has continued to edge up over recent months. The annual growth rate of loans to the private sector continued to strengthen slightly, rising to 2.7% in May after 2.6% in April. Overall, the underlying pace of monetary expansion has continued its gradual recovery. At the same time, monetary liquidity accumulated prior to the period of financial market tensions continues to be ample, with the potential to accommodate price pressures in the euro area.

Looking at M3 components, the annual growth rate of M1 moderated further in May, whereas growth in other short-term deposits increased. These developments reflect in part the gradual increase in the remuneration of short-term time and savings deposits over recent months. At the same time, the steep yield curve implies a dampening impact on overall M3 growth, as it reduces the attractiveness of monetary assets compared with more highly remunerated longer-term instruments outside M3. However, recent information suggests that this impact may be waning.

On the counterpart side, the annual growth of loans to non-financial corporations and to households remained unchanged from April at 0.9% and 3.4% respectively, confirming the pattern of developments in previous months.

The overall size of bank balance sheets has remained broadly unchanged over recent months. It is important that banks continue to expand the provision of credit to the private sector in an environment of increasing demand. To address this challenge, where necessary, it is essential for banks to retain earnings, to turn to the market to strengthen further their capital bases or to take full advantage of government support measures for recapitalisation. In particular, banks that currently have limited access to market financing urgently need to increase their capital and their efficiency.

To sum up, based on its regular economic and monetary analyses, the Governing Council decided to increase the key ECB interest rates by 25 basis points, after raising rates by 25 basis points in April 2011 from historically low levels. The further adjustment of the current accommodative monetary policy stance is warranted in the light of upside risks to price stability. A **cross-check** of the outcome of the economic analysis with that of the monetary analysis indicates that the underlying pace of monetary expansion is continuing to gradually recover, while monetary liquidity remains ample with the potential to accommodate price pressures in the euro area. All in all, it is essential that the recent price developments do not give rise to broad-based inflationary pressures over the medium term. Our decision will contribute to keeping inflation expectations in the euro area firmly anchored in line with our aim of maintaining inflation rates below, but close to, 2% over the medium term. Such anchoring is a prerequisite for monetary policy to contribute to economic growth in the euro area. At the same time, interest rates across the entire maturity spectrum remain low. Thus, our monetary policy stance remains accommodative, lending support to economic activity and job creation. As expected, recent economic data indicate some deceleration in the pace of economic growth in the second quarter of 2011. While the underlying momentum of economic growth in the euro area continues to be positive, uncertainty remains elevated. We will continue to monitor very closely all developments with respect to upside risks to price stability.

Turning to **fiscal policies**, the current environment is very demanding and requires decisive action. Euro area countries must, as a minimum, comply with their fiscal consolidation commitments for 2011 and beyond, as foreseen under the respective excessive deficit procedures. Adequate and more frontloaded adjustment should ensure that structural fiscal consolidation targets are met, in line with the ECOFIN Council recommendations, and any better than expected economic and fiscal developments should be exploited to achieve faster deficit reduction. The announcement of fully specified consolidation measures for 2012 and beyond is essential to convince the general public and financial market participants that the corrective policies will be sustained and that public debt developments will be put on a sustainable path.

At the same time, it remains essential that substantial and comprehensive **structural reforms** are urgently implemented in the euro area to strengthen competitiveness, flexibility and longer-term growth potential. This is particularly relevant for countries with high fiscal and external deficits or with past losses in competitiveness. We welcome the introduction of the European Semester, including the recent submission of countries' National Reform Programmes that incorporate commitments made under the Euro Plus Pact. We also support the European Council conclusions calling for more ambitious and well-defined reforms that should be frontloaded in order to foster competitiveness. In addition, the removal of labour market rigidities would strongly support the adjustment process. Measures which enhance wage flexibility, such as the elimination of automatic wage indexation, would help to accomplish the necessary adjustment.

We are now at your disposal for questions.

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Question: *A few questions, Mr President. First of all, last month, you kept the inflation forecast for next year unchanged at 1.7%, on average. That is clearly below your target or goal. Does that mean that there is less need to raise rates further on, or – given that you also mentioned, obviously, the acceleration of growth lately – does the fact that real interest rates have been negative for such a long period of time mean that the borrowing costs need to be tightened further? Along those lines, economists expect one more interest rate increase this year and I wonder if you feel well understood, both in the markets and also among ECB watchers?*

And my second question is: when you suspended collateral requirements for Ireland and Greece earlier, you said that you would rely on your own judgement in deciding on the quality of collateral. Now you are saying that you cannot accept ones that have defaulted, that have been rated defaulted by rating agencies. So my question is: what has happened to your own judgement?

Trichet: First, I would say that, as you know, we have not published the projected central inflation rate of the range, but the full range. So, I will not deny that the centre of the range is very close to the figure you have given. But again, we publish ranges and these ranges allow us to capture existing uncertainty much better, taking into account all the parameters that have an influence on the consumer price index. All that being said the staff projections were incorporating increases in interest rates. So, you should not deduce from the fact that our projections were below but close to 2% in the medium term, at least in this horizon, that we do not need to increase rates simply because such increases, as anticipated by the markets, were incorporated in this projection.

I would confirm that we have taken an important decision today. I have explained why we took it. We always do what the Governing Council judges to be necessary to deliver price stability and to solidly anchor inflation expectations. The latter is of fundamental importance precisely for the delivery of price stability and also for providing the European economy with a sound anchor in terms of both price stability and confidence. We have no pre-commitments, and you will see what we will do when the time comes. I have no further comment on future decisions. They will be taken, as always, as were the two last decisions, at the moment that is appropriate, in our view, to deliver price stability over the medium term.

Question: *But do you have reason to change market expectations at the moment?*

Trichet: There is nothing to add to what I have said. Market expectations are changing with our own decisions. Market expectations were not incorporating any interest rate increase for this year until we said, in March, that we were likely to increase rates one month later, namely in April. And then you could all see market expectations sharply changing, as this is normal on the basis of the information given by the Governing Council of the ECB.

On your second question, let me only tell you that today the Governing Council has decided the following on which you will be getting a press release at 3.30 p.m. immediately after the press conference. We have decided to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements for the purpose of Eurosystem credit operations in the case of marketable debt instruments guaranteed by the Portuguese government. This suspension will be maintained until further notice. And we took that decision, taking into account the fact that the Portuguese Government has approved an economic and functional adjustment programme which has been negotiated with the European Commission, in liaison with us and the International Monetary Fund. The Governing Council has assessed the programme and considers it appropriate.

Now let me turn to the last point you mentioned, implicitly or explicitly. Indeed, the position of the Governing Council is that we say “No” to a selective default or a credit event.

Question*: Is it the ECB that is going to judge whether a country is in selective default? Will you rely on your own view on that or are you going to be dictated to by the rating agencies?*

Trichet: I have no further comment on this, apart from that we say “no” to selective default.

Question: *The Dutch Minister of Finance, Jan Kees de Jager has called for a forced participation of the private sector in the second Greek rescue, as he says that it is unrealistic that they will contribute voluntarily. What is your stance on that?*

Trichet: The position of the Governing Council has not changed at all, and as far as I am aware, the position of Eurogroup has not changed either.

Question*: I would like to come back to the fact that you are saying “no” to selective default. I find there to be a discrepancy between the fact that you suspended the application of the minimum credit rating threshold for Greece and now even for Portugal and then for Ireland, and the fact that you accept collateral until the fourth rating agency has decided that there is a selective default. There is a discrepancy here because if you have suspended the application of the rating threshold, you don’t care if they declare a selective default or not. Maybe you could explain this because many people did not understand?*

Trichet: A selective default is associated with this issue of private sector involvement, which was not taken into account when we waived the threshold requirement for Portugal today. Our position is clear: in the case of Portugal, we are waiving the threshold requirement and in the case of Greece, in relation to which the debate on the nature of private sector involvement is ongoing, we say “no” to selective default.

Question: *I have not seen any judgement about the plan made by French banks…*

Trichet: It is the full responsibility of the governments and the members of the Eurogroup to discuss with private creditors. It is our responsibility to deliver price stability for the 331 million citizens of the euro area, which we did, are doing, and will continue to do, with great determination. In the present circumstances, we call upon all authorities to fulfil their responsibilities, each of them in their own sphere of responsibility.

Question**:** *Given all of this debate over private sector involvement in a second Greek rescue, do you think the debate over this is doing more harm than good, and should governments instead focus on austerity, privatisation and official assistance and set this whole issue aside?*

And secondly, given the nature of bank lending, it seems that interest rate changes tend to filter through more quickly in the periphery. Are you doing more damage to the periphery with these rate increases?

Trichet: On the first question, I would say that we have clearly indicated our position on private sector involvement. We have said publicly since the concept was first floated that we ask governments to stick to the international doctrine, to the IMF doctrine, to the doctrine applied recently in Asia, for instance, where we had the last crisis only a few years ago. We are constantly transmitting this message to governments. And again, we do not want to – and cannot – take on the responsibilities of the various authorities concerned. So, we are giving our own advice to governments as clearly as possible on the subject of private sector involvement, namely: “Don’t depart from the global doctrine. If you depart from the global doctrine, you are weakening what you are aiming for – namely maintaining financial stability in Europe as a whole and in the euro area as a whole.”

As regards our decision today, as I said the last time we took such a decision, we consider that maintaining stability for an entire continent, for 331 million fellow citizens, maintaining price stability and maintaining confidence is essential for the prosperity of our continent – particularly, for the 17 economies that are part of the euro area. Everyone is benefiting from the confidence and stability preserved by our own actions in line with our Treaty mandate, in line with what the people of Europe are asking of us. And the fact that we have, at the same time, difficulties in some countries such that there are significant risk premia can not in any respective make us forget that the solid foundations underlying the functioning of the euro area are precisely the stability and the confidence that we are preserving. Again, if there were any increase in inflation expectations over the medium term that increase in inflation expectations would be transmitted to all market interest rates – all market interest rates in all countries.

Question: *These countries that are in the troika programmes, should these countries still be ahead of the curve in terms of consolidation to give extra guarantees to the markets, even though they have no specific room for manoeuvre as a result of better economic growth? Or should they strictly apply the programme as approved by the ECB and the other international organisations in order not to damage growth itself?*

And secondly, with Moody's recently downgrading Portugal, do you think that contagion from Greece to other countries is now stronger?

Trichet: First, I would say that rigorous and strict respect for the commitments and decisions that have been negotiated, discussed and approved by the government concerned and by the international community, by the European Union, is absolutely of the essence. That being said, being ahead of the curve is always a positive, in all circumstances. You have heard me here repeating and repeating, month after month, that all countries would benefit greatly from being ahead of the curve. I have to say that, in the case of the Portuguese government, I thought that it was very good indeed that some decisions taken by the government were on top of what had been put in the programme. For instance, the privatisation goes beyond what was in the published programme. And that is something which I consider to be very positive. We also have the government's decision – which was not in the programme – on the taxation of Christmas bonuses. I also noted – this was not a decision which went beyond what had already been decided – that 80% of the Portuguese parliament approved the adjustment programme, which is something I believe to be very important.

As regards your second question, I have no particular comment to make on any recent decisions.

Question: *Just two Irish questions for you. First of all, the interest rate hike is obviously, as my colleague said earlier, going to be very difficult for the periphery. Do you have any sympathy for the hardship that the interest rate hike will impose on the people of Ireland? And do you have any concerns that it could ultimately undo Ireland's ability to complete the programme which it has agreed with the international authorities?*

And then, separately, on the topic of the Irish programme, our government is now saying they hope to be able to carry out next year's budget without cutting social welfare and without increasing income tax, do you think that this is going to be possible to do?

Trichet: First of all it is extremely important that the programme is applied, and I shall not elaborate any more on that. Our interest rate increase is once again designed to permit us to continue to deliver price stability for Ireland and for our other fellow citizens, a total of 331 million people, and that is what we have in mind when we take such a decision. And Ireland, like all the other countries, is benefiting from the fact that we are credible in delivering price stability and we have a solid anchoring of inflation expectations. All countries, without exception, enjoy the positive, which is a solid anchoring of inflation expectations.

As regards your second point, on the implementation of the programme, I have to say that the results that I see are going in the right direction. For instance, the current account of Ireland was positive last year – the latest figures we have. And that demonstrates that the adjustment is proceeding in line with what was foreseen.

Question: *A couple of questions, one very quick one: was today's decision unanimous or was anyone suggesting that you should not raise interest rates today?*

Secondly, could you tell us how you imagine the global doctrine as regards dealing with countries facing solvency and liquidity issues, because in the past we have had countries that have defaulted? I am not *quite sure what you are saying when you say "uphold the global doctrine". Perhaps it would be possible if you could spell out exactly what that means.*

And the final question is: a lot of people, particularly in Germany worry now – it is apparently now the biggest worry of Germans – about the stability of the eurozone rather than unemployment, which is what it was before. Can you give the people of the eurozone an assurance that whatever happens in Greece, even if, against your wishes, there is a selective default, the ECB will do whatever is necessary to preserve the stability of the financial system in the eurozone, even if that means for instance allowing emergency liquidity assistance in the case of Greek banks, or such measures as accepting their collateral even if the bonds have defaulted?

Trichet: On your first question the response is, we were unanimous.

On your last question, when a country is determined to practise cost monitoring in the best fashion possible in order to regain competitiveness (and don't forget that at the start of the euro Germany had a current account deficit and a low level of competitiveness considerably hampered by reunification), when a country is very attentive to its costs, when nominal costs and prices evolve in a sound and orderly manner over time, you obtain the ensuring benefits, and the benefits are growth, as well as diminishing unemployment and increased employment. Germany is a country which has less unemployment today than immediately before the collapse of Lehman Brothers. From time to time people ask whether sound management, low unit labour costs, adjustment and where necessary austerity are paying off? Yes, they are paying off! You can see that with your own eyes. Of course, it has required great attentiveness in the past. And attentiveness – specifically, the surveillance of other governments – is what should have been exerted in relation to other countries. And I would also say that when you run sound policies and improve competitiveness you not only have growth and jobs, but you also have resilience, which is demonstrated by the fact that the German success has taken place during the worst crisis since the Second World War, perhaps could have been the worst since the First World War. Germany is not alone in this situation, but Germany is a very good case in point. I would draw the provisional conclusion that the significant reinforcement of governance that we have been calling for – for the EU 27 and more particularly for the 17 euro area countries – is extremely important. And otherwise I would say each authority has its own responsibility: we are ourselves responsible for the euro area as a whole and for the price stability of the euro area as a whole, which is one of the preconditions for stability and confidence. We expect the other authorities, without any exception, to be up to their own responsibilities, in the case of the fiscal problems of the countries concerned.

Question: *You said that any country should avoid at all cost default or selective default. Who should decide if there is a default or a selective default?*

Secondly, the Securities Markets Programme (SMP) has been dormant for 14 or 15 weeks. Can we expect that this is going to continue to be the case or may there be changes?

And lastly, are you happy with the central role the rating agencies have in today's financial system?

Trichet: First of all, I have to go back to Mr Atkins because I did not respond to part of his question, if you permit. As regards the so-called "global doctrine", the presumption of the international community is that if you have a particular country problem, you do what is necessary to have a very, very strong and credible conditionality which is part of the global doctrine with the adjustment programme negotiated by the IMF. Then you are financing the adjustment with a view to going back to normal creditworthiness and normal market financing as soon as possible thanks to the rigorous implementation of the adjustment programme. For instance, in the case of the last Asian countries crisis, all Asian countries that had problems, and engaged in adjustment programmes with the help of the IMF and the help of their neighbour countries, different kinds of help, came back to appropriate creditworthiness, except for Indonesia. So you have a possible exception to the rule at the global level. That is something which we had under our eyes in recent episodes that I am mentioning. What is not in the global doctrine, not at all in the global doctrine, is the idea that, as soon as, on top of the IMF loan, there is a loan supplied by a neighbouring country, you ask for restructuring, haircuts, you name it. That is not the international doctrine. Again, you cannot eliminate a failure, eliminate a drama, but you cannot presume that it is a normal situation to have this kind of private sector involvement. It's clear, it's what has been said repeatedly, and it's what has been decided by the Eurogroup. I have here the Eurogroup decision which was taken, if I'm not mistaken, at the end of November, and which explicitly refers to the international doctrine. But it has to be repeated, so you gave me a good occasion to repeat it.

Now I'm coming back to your own question. Could you remind me of the first one?

Question: You said that defaults or selective defaults should be avoided at all cost. My question is who decides if there is a default or selective default for the ECB?

Trichet: Again, we say "no". We don't take the decision. Decisions are taken by governments in that particular case and by those who are negotiating and discussing. So again, we are saying "no", but we are not the decision-makers and we do not want to take the place of the decision-makers. Every institution, every authority has to take up its responsibility. The default or selective default could be a consequence of some of the actions and then we would say: "No, it is not what we would consider appropriate in the circumstances". Credit event or selective default or default, we say "no", full stop.

Question: About the SM, it's not been used for 14 weeks, I think, so I wanted to ask you if that is going to stay that way?

And the last question was, if you think that the importance of the rating agencies in today's financial system is the right thing.

Trichet: On the SMP, I would only say that we are totally transparent. Week after week, you see what we are doing, or not doing. And you have been a good observer of what was done in the last weeks. I have no other comments. We continue to be totally transparent. I would also say that we are continuing to withdraw the liquidity that had been supplied by the SMP and that also is transparent and done every week and published every week.

On the rating agencies, I think we have to reflect on it at a global level as is being done, by the way, by all authorities concerned on both sides of the Atlantic and elsewhere in the world. We reflect on that at a global level through the Financial Stability Board. It is clear that there is an element of pro-cyclicality which is embedded in the functioning of the credit rating agencies that is not optimal. That's clear. It is also clear that a small group, a small oligopolistic structure, is not what is probably desirable at the level of global finance. And taking into account the fact that there are big advantages in having a large set of private authorities, private institutions and private participants in global finance that could challenge their views and not exert an overwhelming influence, but all that being said, I would say, it's work in progress and it would be a little bit naïve to think that we have a clear cut solution and the solution is easy to apply. It's complex.

Question: *Still on rating agencies, what comments do you have on the recent decision by an agency to downgrade a country that was just one month into the programme that the IMF, the European Commission and the ECB have developed? Would you support any analysis, that said that this type of decision could actually be some kind of attack on the euro itself?*

And finally, were a country to default and impose losses on other countries and the ECB, could it be considered a severe violation of the Treaty?

Trichet: On your last question, as you say, we are saying to those who have a number of decisions in their hands and who are responsible: "avoid such events". We are saying "no" to default.

As regards the position that has been taken, the position of the Governing Council today is, in a way, a response, an immediate response. And I have no comment to make on your question of an attack on the euro.

Question: *Mr Trichet, the Italian government has just approved a €40 billion fiscal plan which is, in the words of the finance minister, designed to bring about a balanced budget within three years. At the same time, the Italian spreads over the German Bund are today at record highs, so I was wondering what, in the eyes of the ECB, your evaluation of these measures was, i.e. if they are sufficient, if they are far enough ahead of the curve or if you would have expected more from Italy given the fact that the bulk of these measures have actually been brought forward to 2013 and 2014?*

Trichet: I would say that these decisions, which are not that easy to take, are of course good and are a step in the right direction. We did not discuss this in the Governing Council, so that is my personal view. As I said, we are sending the message to all countries, without exception, that being ahead of the curve is good, not only in the present circumstances, but at all times, and it is rewarded by more growth and more job creation. By being ahead of the curve, I also particularly mean engaging in the structural reforms that remain the problem that Europe has. The main problem that Europe has as a whole, taking a bird's eye view is not that we are in a worse situation than other comparable advanced economies from a public finance or current account point of view. The main problem that Europe has is too much rigidity in the functioning of its economies; insufficient flexibility. So, all structural reforms are welcome, and being ahead of the curve in structural reforms is very important because it would give much more flexibility to the European economy and therefore elevate its growth potential.

Question: *A couple more Irish questions. There is concern in Dublin that the turmoil from Greece is going to make it very difficult for the Irish government to make its return to private debt markets next year or in 2013. Do you agree with that proposition and what should the government do about it?*

Secondly, Mr Bini Smaghi was quoted by Les Echos last week saying that the ECB was working on a new funding plan for Irish, Portuguese and Greek banks. Is there anything you could tell us about that?

Trichet: I have to say I am being asked a lot of questions on Ireland, Portugal and, implicitly or explicitly, Greece. Can I remind you that we are responsible for the monetary policy and price stability of 330 million persons, similar to the population of the United States of America? The Governing Council is called on to take decisions with the euro area as a whole in mind. We are all experts for the euro area as a whole, according to the Treaty. And again, those issues that you are constantly addressing, which I can understand in some respects, should be addressed to governments. They, the governments, are responsible. And again, as far as we are concerned, we try to live up to our responsibilities.

On your second question, I do not comment on what is said by colleagues. Otherwise, I would have to comment on 22 declarations. We are following the interaction with the banks in the three countries that have programmes very cautiously and very attentively because they are all part of the overall programme that had been negotiated.

Question: *First, to come back to interest rates. In April you said you had not decided that you had started an interest rate hike cycle, and now we have seen two hikes, and you have said that still monetary policy remains accommodative and there are still upside inflation risks. Are we now in a rate hike cycle?*

The second, related question is about the interest rate corridor. Why did you decide not to rewiden it now when you lifted interest rates?

And I would like to ask about your confidence in the general economy: you sounded relatively confident that this soft patch that we are currently seeing in the economy will pass. What are your reasons for that thinking?

And if I may very quickly come back to the plans for dependent banks, is your solution still being developed, or is it done and are you just waiting for the right moment to implement it?

Trichet: On the first question, I said we have taken the decision to increase rates by 25 basis points. In April I said that we did not decide that we would have a series of interest rate increases. This is fully in line with our own doctrine. You know that our doctrine is that we are never pre-committed, never! And we take the decision according to our judgement on the basis of facts, figures and the assessment of the Governing Council when we meet. This is true even when we say that we are in a mode of "strong vigilance", which has significance in terms of the probability of what might happen. But, nevertheless, I always say at the same time that we are not pre-committed. So, you will see ex post what will happen. It is undeniable that we have increased rates two times since we increased rates today.

As regards the corridor, we left the corridor as it was because we thought it was appropriate to leave it as it is to date, taking into account all elements.

On the third point, I have, on behalf of the Governing Council, emphasised the level of uncertainty quite a lot in the last month. When we were observing very good results which were the case for the first quarter of this year, at the same time, we were saying that the second quarter would slow down quite significantly. It was clear. Today I mention again, on behalf of the Governing Council, this elevated uncertainty which is a mark of the times, and, as you remember, we were very cautious and prudent during the whole period since the start of the recovery. Uncertainty surrounds the prospects not only for European growth but also for global growth. That being said, in some respects we see the indicators as being less flattering now than they were before. We don't conclude that we have to review our baseline projections. Our profile was exactly the profile that we are observing now, namely a very good first quarter and then a slowing-down. So what counts is that we are reasoning in the medium term for our baseline scenario. We said that, in terms of risks on the upside or on the downside; we do not see a bias; we see the risks as being balanced as regards growth for the euro area, within the context of general uncertainty.

Trichet: Could you repeat your last question?

Question: *I asked about the dependent banks, banks dependent on ECB funds, if you have a programme?*

Trichet: We already said that they are to a large extent in the countries that are under review and it is a work in progress.

Question*: I have one question about the suspension of the collateral framework. Does that mean you fear further downgrades of Portugal by the other rating agencies?*

And my second question refers to your answer when you said that we should ask governments all our questions about Ireland, Portugal and Greece. Many commentators would argue that the ECB became a big player in this field by buying government bonds and by suspending the collateral framework. Would you say that it is a problem for your credibility if you accept more and more paper and collateral with ratings lower than investment grade?

Trichet: In answer to your first question, no, it is not because we fear anything. It is because we consider that the programme, which has been signed and is being upheld by the Portuguese government, is not only approved by the international community and by the European Union, but is being implemented, I would say, to some extent "ahead of the curve" as regards privatisation and taxation. All this explains the decision of the Governing Council.

As regards our non-standard measures, without exception, they were taken to help our monetary policy transmission mechanism return to a more normal functioning. With regard to those who fear for our credibility, I would draw their attention to the fact that, of the big central banks of the advanced economies in the world, we are the only one that is taking a number of decisions that are not generally considered anodyne and not generally considered without any element of credibility for the central banks taking such decisions. So, I have to say that we are credible in this respect – very credible! And a central bank that, over the last 12 years has delivered average yearly inflation less than 2%, which betters the achievements of every other big central bank in Europe over the last 50 years, does not need to receive a lecture on credibility!

Question: *If the euro area crisis is ever to be resolved, does it not require much more fiscal sharing of resources and centralisation of fiscal policy than is currently envisaged?*

Trichet: Currently, we are calling for a "quantum leap" in governance, namely in terms of the surveillance of fiscal policies, as well as surveillance of competitive indicators and macro policies to the extent that they influence competitiveness and imbalances. We have not just said that on the occasion of the crisis, and by the way we are experiencing the worst crisis since the Second World War, we also said it before the crisis. From the very beginning of the euro, the importance of the Stability and Growth Pact has been constantly reiterated, by Wim Duisenberg and all the Members of the Governing Council, and by myself and all the current Members of the Governing Council. I have to say, however, that this has not necessarily been the sentiment of all countries, including big countries, and they were wrong. The current discussion between governments and the European Parliament on improving governance is a difficult one. We are encouraging a solution that goes as far as possible in reinforcing governance, without, because it is the rule of the game at the moment, necessitating a change to the Treaty. Tomorrow and the day after tomorrow, we might contemplate going further. But today is today, and today we certainly have to significantly improve our surveillance of economic policies, fiscal policies, macro policies and competitive indicators. All this is the primary responsibility of governments, not of the central bank.

Question: *On 29 June the Greek parliament passed the legislation updating the memorandum in order to pave the way for a new bailout and the release of USD 12 billion of the previous package. At the same time, there were some rather unpleasant sights right in front of the parliament. There were pictures of police using tear gas against tens of thousands of demonstrators. Are you sure that these policies are* *politically sustainable, given the opposition we're seeing in Greece and the potential opposition in Portugal and Spain? Is there concern on this question?*

Trichet: It is up to the various authorities concerned to live up to their responsibilities. If you have absolutely necessary corrections today, it is because decisions were taken in the past, including nominal developments were observed, there were conducive to a big loss of competitiveness and, of course, to the accumulation of deficits. All this has to be corrected in any case. It will be corrected; it will all be corrected. And this is dependent on the wisdom, determination and courage of all those who have responsibilities in this area – on it being corrected in the best fashion possible.

Question: *But there is a question as to whether this is politically sustainable …*

Trichet: It depends on the wisdom of those who have important decisions to take.

Question: *Next week the stress tests on European banks will be published. What do you expect from these stress tests? And will you follow the results of these stress tests?*

Trichet: We will, of course, follow the results of the stress tests extremely carefully. The EBA is responsible for these tests, but we have also been involved, providing some assumptions. I understand that they should be published in the second half of next week. We have called for this to be done in the best, most professional fashion possible. It is extremely important. We are waiting for the publication of these stress tests and we expect that observers and markets will trust them. We have confidence in the EBA.

Question: *A question on centrally issued euro bonds: is there any change in your thinking on the usefulness or feasibility of such a device?*

Trichet: We have put forward a number of very clear suggestions regarding the reinforcement of governance. We have sent clear messages on governance. On eurobonds I have to say that the Governing Council did not change its thinking and is of the opinion that things should change in this domain.

Question: *Mr Trichet, is it true – as reported in the* Financial Times *– that you consider the French private sector involvement plan to be more bother than it is worth?*

Trichet: I have never expressed any opinion on that. It is a matter falling in the responsibility of those who are in charge.

Question: *Sorry to ask another Greece question, but I just want to be clear: is there a point when you cannot accept Greek sovereign bonds as collateral; and, if that happens, what would you do to prevent the collapse of Greek banks, or is that the responsibility of governments, as you have alluded to before?*

Trichet: I have already said what our message for those who are in charge was, and that message was: no credit event, no selective default, no default. That is the message of the Governing Council.

Question: *Two questions on Greece! You have always said that credit events and selective default should be avoided, but I think these two events do not necessarily come together. For example, the International Derivatives Swap Association says that the current plan would not be a credit event for CDSs. But, on the other hand, the rating agency says that it could be a selective default. So my question is: if you can avoid a credit event, but you cannot avoid a selective default, is that an acceptable situation for the ECB?*

And the second question is: if the Greek banks take money not only from the ECB, but also from their own central bank by using emergency liquidity assistance, if the Greek bonds are downgraded to selected default and ECB cannot take them as collateral, should the Greek central bank also follow the decision and stop accepting the bonds?

Trichet: I am sorry because my response is very simple: our message is "no credit event, no selective default – no default!" It is as simple as that!

Question: *And on the second question: ELA, emergency liquidity assistance?*

Trichet: No comment! We are not using this working assumption. We are not the actors – the governments and the authorities are the actors. We have said very clearly what our message was.

I am sorry, but our time has elapsed. Next time, could we agree that we all concentrate on the first part, on our monetary policy which is much more, I would say, important than some of you suspect. And then, of course, we can address other issues. Thank you very much indeed.

European Central Bank

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