Introductory statement with Q&A

Jean-Claude Trichet, President of the ECB,
Lucas Papademos, Vice President of the ECB
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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to today’s press conference. We will now report on the outcome of today’s meeting of the Governing Council, which was also attended by Commissioner Almunia.

On the basis of its regular economic and monetary analyses, the Governing Council decided to leave the **key ECB interest rates** unchanged. The current rates are appropriate taking into account our decisions of early May, including the enhanced credit support measures, and all the information and analyses which have become available since then. We confirmed our expectation that price developments over the policy-relevant horizon will remain dampened by the marked weakening of economic activity in the euro area and globally. Recent survey information indicates that, following two quarters of very negative growth, economic activity over the remainder of this year is expected to decline at much less negative rates. After a stabilisation phase, positive quarterly growth rates are expected by mid-2010. This assessment incorporates adverse lagged effects, such as a further deterioration in labour markets, which are likely to materialise over the coming months. At the same time, available indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council’s aim of keeping inflation rates below, but close to, 2% over the medium term. The outcome of the monetary analysis supports the assessment of moderate inflationary pressure, as money and credit growth have further declined on an annual basis. Against this background, we expect price stability to be maintained over the medium term, thereby supporting the purchasing power of euro area households.

Let me now explain our assessment in some more detail, starting with the **economic analysis**. Reflecting the impact of the financial market turmoil, and in particular a sharp fall in global demand and trade, economic activity weakened considerably in the first quarter of 2009. According to Eurostat’s first estimate, economic activity in the euro area contracted by 2.5% quarter on quarter, after a decline of 1.8% in the fourth quarter of 2008. This will have a significant negative impact on the average growth rate for 2009. However, more recently, there have been improvements in survey data, albeit at very low levels. In line with such evidence, after the extremely weak first quarter, activity over the remainder of this year is expected to decline at much less negative rates. After a stabilisation phase, positive quarterly growth rates are expected by mid-2010.

This assessment is broadly in line with the June 2009 Eurosystem staff macroeconomic projections for the euro area, according to which annual real GDP growth will range between -5.1% and -4.1% in 2009 and between -1.0% and 0.4% in 2010. Compared with the March 2009 ECB staff macroeconomic projections, the ranges have been revised downwards, in particular for 2009. A substantial negative carry-over effect from the previous year and the very weak result for the first quarter of 2009 significantly contributed to this downward revision. The projected gradual recovery next year, with rates of growth returning to positive levels by mid-2010, reflects the effects of the significant macroeconomic stimulus under way as well as of the measures taken so far to restore the functioning of the financial system both inside and outside the euro area. Forecasts by international organisations are broadly in line with the June 2009 Eurosystem staff projections, taking into account the results of the first quarter.

In the view of the Governing Council, the risks to the economic outlook are balanced. On the positive side, there may be stronger than anticipated effects stemming from the extensive macroeconomic stimulus under way and from other policy measures taken. Confidence may also improve more quickly than currently expected. On the other hand, concerns remain relating to the following potential factors: a stronger impact on the real economy from the turmoil in financial markets, more unfavourable developments in labour markets, the intensification of protectionist pressures and, finally, adverse developments in the world economy stemming from a disorderly correction of global imbalances.

With regard to price developments, annual HICP inflation was, according to Eurostat's flash estimate, 0.0% in May, compared with 0.6% in April. As explained on earlier occasions, the further decline in inflation rates was fully anticipated and primarily reflects base effects resulting from the sharp swings in global commodity prices over the past 12 months.

Looking ahead, owing to these base effects, annual inflation rates are projected to decline further and temporarily remain negative over the coming months, before returning to positive territory by the end of 2009. Such short-term movements are, however, not relevant from a monetary policy perspective. Looking further ahead, price and cost developments are expected to remain dampened in the wake of ongoing sluggish demand in the euro area and elsewhere.

This outlook is consistent with the June 2009 Eurosystem staff projections for euro area inflation, in which annual HICP inflation is seen to range between 0.1% and 0.5% in 2009, revised slightly downwards from the March 2009 ECB staff projections. For 2010, Eurosystem staff project annual HICP inflation to range between 0.6% and 1.4%, broadly unchanged from the March 2009 ECB staff projections. Available forecasts from international organisations provide a similar picture.

Against this background, it is again important to stress that the indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term.

Risks to these projections are broadly balanced. On the downside, these risks relate in particular to the outlook for economic activity, while on the upside they relate to higher than expected commodity prices. Furthermore, increases in indirect taxation and administered prices may be stronger than currently expected owing to the need for fiscal consolidation in the coming years.

Turning to the **monetary analysis**, the latest data confirm the continued deceleration in the pace of underlying monetary expansion and thus support the assessment of moderate inflationary pressures. In April, the annual growth rate of M3 declined further to 4.9% and that of loans to the private sector to 2.4%. However, especially with regard to M3 growth, the pace of decline in annual growth rates was slower than in previous months, reflecting a brisk growth in monetary aggregates in April.

The latest developments in M3 components continue to reflect to a large extent the impact of past reductions in key ECB interest rates, which have led to declines both in the levels of different deposit interest rates and in the spreads between them. This has implied, for instance, lower opportunity costs for market participants to shift funds into highly liquid overnight deposits and explains the strengthening of annual M1 growth to 8.4% in April. At the same time, the reduced remuneration of other short-term deposits and marketable instruments continues to foster the allocation of funds to instruments outside M3.

The outstanding amount of MFI loans to the private sector contracted somewhat further in April. This development is again mainly due to a negative flow of short-term lending to non-financial corporations, which partly reflects a lower need for working capital in view of the sharp deterioration in economic activity and business prospects during the first few months of the year, and greater recourse to liquidity buffers in financing such working capital. By contrast, longer-term lending to non-financial corporations remained positive. The past reductions in key ECB rates have continued to be passed on to lending rates to both non-financial corporations and households. The resulting improvement in financing conditions should provide ongoing support for economic activity in the period ahead. However, given the challenges which lie ahead, banks should take appropriate measures to further strengthen their capital bases and, where necessary, take full advantage of the government measures to support the financial sector, in particular as regards recapitalisation.

To sum up, the current key ECB interest rates are appropriate taking into account our decisions of early May, including the enhanced credit support measures, and all the information and analyses which have become available since then. We confirmed our expectation that price developments over the policy-relevant horizon will remain dampened by the marked weakening of economic activity in the euro area and globally. Recent survey information indicates that, following two quarters of very negative growth, economic activity over the remainder of this year is expected to decline at much less negative rates. After a stabilisation phase, positive quarterly growth rates are expected by mid-2010. This assessment incorporates adverse lagged effects, such as a further deterioration in labour markets, which are likely to materialise over the coming months. At the same time, available indicators of inflation expectations over the medium to longer term remain firmly anchored in line with the Governing Council's aim of keeping inflation rates below, but close to, 2% over the medium term. A **cross-check** with the outcome of the monetary analysis supports the assessment of moderate inflationary pressure, as money and credit growth have further declined on an annual basis. Against this background, we expect price stability to be maintained over the medium term, thereby supporting the purchasing power of euro area households.

As the transmission of monetary policy works with lags, our policy action will progressively feed through to the economy in full. Hence, with all the measures taken, monetary policy will provide ongoing support for households and corporations. Once the macroeconomic environment improves, the Governing Council will ensure that the measures taken can be quickly unwound and the liquidity provided absorbed. Hence, any threat to price stability over the medium to longer term can be effectively countered in a timely fashion. As has been emphasised many times, the Governing Council will continue to ensure a firm anchoring of medium-term inflation expectations. Such anchoring is indispensable to supporting sustainable growth and employment and contributes to financial stability. Accordingly, we will continue to monitor very closely all developments over the period ahead.

Regarding **fiscal policies**, the latest projections by the European Commission point to a sharp increase in the euro area general government deficit and debt ratios in 2009. The deficit ratio is projected to rise to 5.3% of GDP in 2009 and further to 6.5% in 2010, from 1.9% in 2008, with the debt ratio exceeding 80% of GDP in 2010. A large majority of euro area countries are expected to exceed the 3% of GDP deficit reference value in 2009 and 2010. To ensure trust in the sustainability of public finances, an ambitious and credible adjustment effort will be required to return as soon as possible to sound fiscal positions, supported by a full application of the provisions of the Stability and Growth Pact. The rapid attainment of sound fiscal positions will be necessary to enable countries to deal with the additional fiscal burden owing to demographic ageing as well as the risks arising from government guarantees that were provided to stabilise financial sectors.

Turning to **structural policies**, there is a strong case for undertaking further efforts to support potential growth in the euro area. It is crucial that the focus is now on strengthening the adjustment capacity and flexibility of the euro area economy in line with the principle of an open market economy. In this respect, the current situation can be seen as a catalyst to accelerate the implementation of necessary domestic reforms, notably labour market reforms to facilitate appropriate wage-setting and labour mobility across sectors and regions, as well as product market reforms to foster competition and speed up restructuring and productivity growth. At the same time, many of the policy measures taken in recent months with a view to supporting specific segments of the economy need to be phased out in a timely manner.

We are now at your disposal for questions.

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Transcript of the questions asked and the answers given by Jean-Claude Trichet, President of the ECB, and Lucas Papademos, Vice-President of the ECB

Question: *I have a few questions on the details of the covered bonds plans: Will you sterilise the purchases? Also, were there calls today for expanding the €60 billion to a higher amount? And part of the same question is: can you confirm that the initial package discussed last month was for €125 billion and that it also included commercial paper and covered bonds?*

And my last question would be: you repeated that you consider interest rates at the current level as appropriate, so can we take that as a sign that interest rates have reached a floor? And also, were there calls for further rate cuts this month?

Trichet: As regards your questions on interest rates, they are appropriate, as I just said on behalf of the Governing Council. And I also have nothing to add to or change in terms of what I said a month ago– and I quote this word for word – that “we did not decide today that the new level of our policy rates was the lowest level that can never be crossed, whatever future circumstances may be”. As regards the present level, I repeat: we consider the present level of interest rates to be appropriate, taking into account all available information and analysis.

As regards your questions on the programme for the purchase of covered bonds, we decided on €60 billion and no other decision has been taken at this stage. We will carry out the programme, which is explained in the press release that you have been given. I will not comment on the discussions that took place. As always, there were discussions. What counts is what was decided unanimously by the Governing Council. What counts is today’s decision which we consider was – and is – the appropriate decision, taking into account all circumstances. And, we don’t expect in any respect that it will hamper our attachment to the delivery of price stability in line with our definition. We consider all this to be fully in line with our monetary policy strategy. I have repeated several times that we are inflexibly attached to the solid anchoring of inflationary expectations in line with our definition of price stability, which is the main asset that we have in the present circumstances.

Question: *Extraordinarily, Chancellor Angela Merkel made some statements about monetary policy the other day, lashing out more maybe at the Fed and at the Bank of England, but also, in a slight sideswipe at the ECB, and expressed her concerns about expansive monetary policy and called for a return “to policy of common sense”. What do you make of these statements and what do you say to that criticism?*

Trichet: I was privileged to talk to Kanzlerin Merkel yesterday by telephone. I can tell you that she confirmed to me that she fully respects the independence of the ECB. And I told her that we were very strongly determined to both, taking the appropriate decision in the current exceptional circumstances and being absolutely crystal clear on the exit strategy. This is something we consider to be necessary because it is what our primary mandate given by the Treaty calls for; but also because it will contribute to confidence today. An appropriate exit strategy will contribute to improving confidence today. I also confirmed to Kanzlerin Merkel that we have a proved track record in terms of the fierce independence of the ECB. We did not decrease rates when in 2004 a German Chancellor asked us to decrease rates. We did not decrease rates when other Heads of State and Government asked us to change our policy. We increased rates in December 2005, when 10 governments out of 12 were calling on us not to increase rates, and I could quote a number of similar circumstances. Everything we do is done without bowing to any influence or pressure. We decide on the basis of our own judgement, and I was extremely happy that Kanzlerin Merkel could confirm that she fully backed our independence and appreciated what we were doing.

Question: *I have just one additional question. Why did she say that the independence of the ECB was at stake?*

Trichet: I don’t think that she said that. Perhaps you read that, but it is not what she said. She said that she fully supports our independence and she did not consider that our independence had been “polluted” in any respect. In any case, you know what we are doing; you know that we are fiercely independent; and you know that we can prove that. I do not want to elaborate any further on that. But I could give many other examples.

Question:*I was wondering whether you could tell us a little bit more about the bond programme. Will you let us know when you are buying them, like you do with your refinancing operations and things like that? You are going to be buying them from next month until the end of June 2010. Do you see yourselves buying a lot initially and then seeing how the market takes that, gradually slackening off, or will there be a month-by-month plan? Also, it would be great to know how long you’re going to hold the bonds once you have bought them and what your exit strategy is going to be when this plan comes to an end.*

Trichet: At this stage, I would stick to what we have decided today. I can only tell you that, as regards the duration of those bonds – and I won’t pre-commit, because we will have to optimise these operations, taking into account the market situation and the various constraints that we might have – we might perhaps concentrate on the medium to longer term, say, three to ten years. But again, this is not a pre-commitment, and we will see how exactly we optimise the purchases. When we say that we will end the programme at the end of June next year, it doesn’t necessarily mean that we will “tranche” the purchases equally month by month. We have room for manoeuvre in order to optimise our operations on the basis of the decisions already taken.

Question: *I have a couple of questions. I am not sure whether I understood or whether you have answered the question about sterilisation. Will these purchases by sterilised or not? And if they won't be sterilised, then would you call this "quantitative easing"? And if not, why not?*

Secondly, I am curious to know if you could give us a sense of your measures of success for this programme. How will you know if it is working, and whether an expanded programme in terms of assets or money will be needed?

And then finally, could you talk a little bit more about inflation expectations? Market expectations are, as you say, anchored, but consumer expectations are at a record low. Does that concern you? Maybe you could help us to understand a little bit of the disconnection between your contention that price stability will be anchored in the medium term and your projections, which, as far as I can see, don't support that?

Trichet: On your last point, we, as you know, follow with great attention the medium to longer-term inflation expectations, which in our last reading of the Survey of Professional Forecasters were at the level of 1.9%. And when we look at the information we can extract from financial markets, namely the five-years forward five-years break-even inflation rate, which we consider one of the most pertinent indicators of information that we can extract from financial markets, we are at a level of 2.5% which is in line with our definition of price stability taking into account the risk premia that are embedded. Again, we consider at the moment that we have solid, firm anchoring of inflation expectations in the medium to long term. And that is extremely important. It is probably our main asset, because it served us extremely well in the period where we had very significant inflationary pressures. Until now we have seen it withstand in the new low inflation environment in which we find ourselves. That being said, we remain constantly alert and we will continue to look very carefully at these various indicators.

As regards our own €60 billion operations, we expect automatic sterilisation. If anything were necessary in order to be fully in line with our monetary policy strategy, we would do it. I don't call what we have decided "quantitative easing". I would qualify it as further "enhanced credit support". We are not at all embarking on "quantitative easing" with these decisions.

Question: *Two questions: firstly, just to follow up on your comments on Angela Merkel's comments, perhaps you could answer the substance of her point, which was that actions taken by central banks around the world, the Federal Reserve, the Bank of England, but also yourselves with this covered bond programme, her accusation was that these are sowing the seeds of the next crisis by unleashing potential inflationary risks. Can you tell us, is she right on that?*

And the second question, with the fast-moving developments in the Baltic countries at the moment, I wonder whether you could offer these countries any assurance that the ECB stands ready to help?

Trichet: On your first question I have nothing to add to what I have already said. Kanzlerin Merkel supports the ECB totally and fully respects its independence, as I have already had the opportunity to explain. We are in full agreement that exit strategies are of the utmost importance and that what we do today should not in any respect hamper the medium to long-term delivery of price stability, which is a crucial element for all our fellow citizens. Those who think that there is a contradiction between the decisions we take, on a short-term basis, to face up to the enormous challenges that exist today and that have existed for a certain period of time are mistaken. Indeed, we were, if I may immodestly say so, the first to diagnose that we had a real problem, and the first to take very important decisions, as early as 9 August 2007. That being said, it is extremely important for the success of what we are doing today, that the confidence of economic agents, businesses and fellow citizens, is reinforced by the judgement that the steering of medium and long-term policies is reasonable, wise and in line with the overall interest of all such agents. This is true for monetary policies as well as for fiscal policies. And that is true in all countries. All the information I have from all the euro area countries and fellow citizens points in the same direction, without a doubt.

With regard to your second question, on the Baltic countries, we are closely following the situation in all countries, not particularly only that in the Baltic countries. We are observing the most recent events with confidence that the appropriate solutions will be found. And I am confident that the solidity of the Baltic States will continue to be demonstrated.

Question: *A simple question. Did you call Chancellor Merkel or did she call you?*

And secondly, talking about exit strategies, have you decided how you handle the bond purchases within the Eurosystem and how any losses might be divided?

Trichet: It was a phone call, and I would not comment further. There was a very good meeting of minds.

As regards your second question the monetary policy operation involving this unconventional measure of the purchase of covered bonds, what we have decided is to earmark these covered bonds and, taking into account the current exceptional situation, we will have a notional amount of revenue which will be considered to be shared, but it would be an ex ante notional amount of revenue to simplify our own operations inside the Eurosystem.

Question: *You mentioned that you are expecting the covered bond purchases to be sterilised automatically, by which I take it that you are assuming that a bank which buys these bonds takes less money from your normal refinancing operations, which is not totally under your control. In other words, my question would be: what do you do if the banks actually take more money?*

Trichet: I have already said we will look at it very carefully, and if it is not the case, then we will take appropriate measures.

Question: *I have a second question. I remember when the ECB's policy was attacked, or criticised by French President Nicolas Sarkozy, you were verbally very aggressive, in saying that you are independent and defending your independence. It seems to me that you are a bit softer now that you are attacked from the German side and I wonder whether you prefer being attacked by Germany rather than by France.*

Trichet: No, I am not softer. I have exactly the same language for all Heads of State and Government. And again I could quote a very large number of cases where I reiterated our fierce independence. I told Kanzlerin Merkel that we were fiercely independent and Kanzlerin Merkel told me precisely that she was defending our independence, fully respecting our independence, and very satisfied with our decisions. There is no unequal treatment.

Question: *I have a question on the inflation expectations of between 0.6% and 1.4% in 2010, given the fact that you don't see any un-anchoring of inflation expectations. Can you give us a hint if interest rates could go further down as some market operators and economic agents are thinking?*

Trichet: On the interest rates, I stick to what I have said and there is nothing else to add.

Question: *It is really great that you are sounding a bit more optimistic and see growth rates turning positive again in mid-2010. There has been a lot of talk of green shoots and things like that – I wondered if you could tell us what sectors you think are driving this recovery, and which government stimuli have helped the most, and whether you think that this could be a sign that we are going to come up again, or what shape the recovery might be?*

Trichet: I remain very cautious. That being said, all observers and, to my knowledge, all international institutions that have published their own projections are in line with our own staff projections, namely, that the pick-up of growth into positive territory is to be expected in the course of 2010. So I have to say there is nothing new there. It is fully in line with the overall observation of those who are making projections. I would only add that the future growth depends on us. We are not passive in looking at what is going on. The future course of the economy depends on the rapidity of the implementation of decisions already taken. And I have to say, in this respect, you might see that in the introductory statement of the Governing Council, there is this recommendation for the financial sector in particular to accelerate the strengthening of the capital bases of the banks and also to utilise more fully the decisions that have already been taken as regards recapitalisation in particular. The figure I have in mind – *but the Vice President knows that better than anybody* – is that out of the 100% of decisions that were taken, we are at the level of 56% of recapitalisation. This is something which has been decided and we think that it is extremely important to implement that rapidly. I have to say the same for the fiscal activation that we have mentioned. We said that it was absolutely necessary to also have an exit strategy. At the present moment, decisions have been taken and the rapidity of the implementation of these decisions is also extremely important. And it is not only important from a mechanistic standpoint. It is important because it would improve confidence and confidence is the most important ingredient in the present situation. Everything that we do to improve confidence will help confirming that 2010 will be the year of the recovery. And everything that we do ourselves is inspired by the necessity to improve confidence and, in particular, not to hamper in any respect the long-term delivery of price stability which is our primary goal.

Question: *I have a question concerning the situation in Latvia. The currency there is under fire. Do you feel that the Swedish central bank has a responsibility in stabilising or helping out the lat?*

Trichet: The Swedish central bank – the Swedish authorities – have been very helpful in the past, and that is important. In the previous situation we all had to cope with, there were joint efforts involving the European Union, the IMF, the EBRD and us, and also on a bilateral basis by Sweden. I think it was extremely helpful. So I'm sure if needed, we will continue to have these joint efforts.

Question: *Do you have a view on whether they should devaluate or not?*

Trichet: I never comment on that, but I have full confidence that the Government of Latvia will take the decisions that are appropriate for the domestic context without a change in the currency.

Question: *These €60 billion worth of bonds that you are planning to buy in both markets, do you already have a percentage? Will it be 50:50, 60:40 …?*

Trichet: A percentage of what?

Question: *Of bonds that you are planning to buy in the primary market and in the secondary one?*

Trichet: No, we will see exactly what is most appropriate. But we will do both, that is absolutely clear.

Question: *About the recapitalisation of banks. Could you say a word about stress tests and the debate within the Governing Council about supporting the stress test for the whole system or for individual banks in different countries because of high differentiation between institutes?*

Trichet: As you know we are in a decentralised system as regards banking surveillance and, indeed, all kinds of surveillance. It is up to the national authority to proceed with the appropriate testing and checking of the situation of its respective financial institutions – its respective banks. And I know that this is done very seriously and professionally. As regards the system itself, we are undertaking at the European level through the Committee of European Banking Supervisors a systemic checking that will culminate in September. We are ourselves involved in judging the appropriate macro environment indicators. This is the combination of a systemic approach at the level of the single market as a whole and of national responsibilities that have to be discharged and are discharged in a very professional and strict fashion.

Question: *I wonder whether you could talk a little bit about the volatility in the overnight rate and what the ECB's perception of that is. Can you talk a little bit about what you think is behind it? Whether it is a normalisation or a change in the way banks manage their reserves and also about the impact on rates further down the curve and whether that in fact means your monetary policy is a little bit tighter than you want it to be?*

And similarly about the 5% trade rated rise in the euro since December?

Trichet: On your second point, I will only say, with some solemnity, that it is very important and we appreciate enormously the fact that the US authorities are repeating that a strong US dollar is in the interests of the United States. This has been repeated by the Secretary of the Treasury and by Ben Bernanke recently. It is extremely important and we regard it as an extremely important message.

As regards your first question, we are looking at it very carefully because it is a very complex set of influences, but it is clear that the revival of the money market – which was one of our major goals and we were very clear and candid in explaining to you that a number of our decisions were taken with that in mind – has led to a certain increase in the EONIA rate. We assume that there is currently a "learning by doing" process among market participants. We saw the EONIA decline again in the most recent period, and there might be a number of other reasons for this, given that we are at the end of the maintenance period. So we will continue to look at it but we are very mindful of the need for our money market to function as well as possible. In any case, the spreads are now clearly at pre-Lehman levels, and this is not only true in our case, it is also the case across the Atlantic and across the Channel.

Question: *Will the stress test results be disclosed, as is happening in the United States?*

Trichet: That is really a matter which has to be decided upon at the level of the various national surveillance authorities and at the level of the various nations. Some have already disclosed a number of information; others have said that they were fully satisfied with the position of their banks, and so forth. We must respect the present decentralised framework. All I can say is that we encourage the national supervisory authorities of course to do their job in the most active, professional and serious fashion. This is very important.

Question *Given your staff projections and you just mentioned you want to be very careful when you talk about 2010, do you actually think that the average GDP growth will be negative next year still?*

And in terms of deflation, do you think that the risks have actually increased now that the HICP has slowed now more than expected in May?

Trichet: On 2010, I just mentioned the ranges. Uncertainty is of course involved there. 2010 is a year, at least in the view of the majority of forecasters, including our own staff – the staff of the Eurosystem, not only the staff of the ECB – when the first half of the year will probably be at a level of zero and the second half positive, and the year will have a profile which would pick up. But you also have the negative carry-over coming from the year 2009. So, when you compute the arithmetic average, you can be a little bit below zero or at zero. And again, I reiterate the fact that the final result depends on us. Nobody is the sole master of the future: the future of the economy is made by all of us. The future is made by our fellow citizens, to a very large extent. If they have confidence, then they consume more and we are in a different, more positive economic universe. And this, in turn, would trigger investment by the corporate sector and starting acceleration of investment. So, we are not passively expecting future economic developments. They depend on our capacity to increase confidence.

On your second question: no, we do not see a change in those risks. There are indications that are going in one direction but also indications that are going in another direction. There is some downward revision of inflation in a short-term perspective. But at the same time, the market more or less believes that there are also risks in the other direction. I am speaking at a global level, not so much at our own level. But at this stage I would say, we remain very alert, but we do not see a change in the risks to price stability.

Question: *I was confused by your comments when asked specifically about Latvia, because first you expressed confidence that the government would take the appropriate decisions without any change in the currency. Does that mean you imagine the current exchange rate mechanism will remain as it is?*

Trichet: I was referring to the domestic measures that the government has to take in order to continue the adjustment in the best fashion possible, and I do not have any other comments on that.

Question: *You also referred to past joint efforts, including European Union institutions, in which the ECB has taken part, and you said that they would be continued if necessary, so are you saying that the ECB would in future be prepared to help support such exchange rate mechanisms in the future as well?*

Trichet: No, I was referring to the bilateral relationship we had in the form of a repo agreement with the national central bank of Latvia. We had a repo agreement, and I was only referring to that.

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