Introductory statement with Q&A

Jean-Claude Trichet, President of the ECB,Lucas Papademos, Vice President of the ECBFrankfurt am Main, 6 September 2007

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Ladies and gentlemen, let me welcome you to our press conference and report on the outcome of today's meeting of the ECB's Governing Council. The meeting was also attended by the President of the Eurogroup, Prime Minister Juncker, and Commissioner Almunia.

On the basis of our regular economic and monetary analyses, we decided at today's meeting to leave the **key ECB interest rates** unchanged. The information that has become available since our previous meeting has confirmed that the medium-term outlook for price stability remains subject to upside risks, as identified by both our economic and monetary analyses. Incoming macroeconomic data also confirm the strong fundamentals of the euro area economy and support a favourable medium-term outlook for real GDP growth. Against this background, our monetary policy stance is still on the accommodative side with, inter alia, money and credit growth vigorous in the euro area. At the same time, the financial market volatility and reappraisal of risk of recent weeks have led to an increase in uncertainty. Given this high level of uncertainty, it is appropriate to gather additional information and to examine new data before drawing further conclusions for monetary policy in the context of our medium-term-oriented monetary policy strategy aimed at delivering price stability. Accordingly, the Governing Council will monitor very closely all developments. On the basis of our assessment, and by acting in a firm and timely manner, we will ensure that risks to price stability over the medium term do not materialise and that medium-term inflation expectations remain firmly anchored in line with price stability. This is all the more important at times of financial market volatility and increased uncertainty. As regards the financial markets, we will continue to pay great attention to developments over the period to come.

Allow me to explain our assessment in greater detail, starting with the **economic analysis**. All in all, the data available suggest that economic activity in the euro area is continuing to expand at sustained rates. Euro area real GDP growth in the second quarter moderated to 0.3% quarter on quarter, compared with 0.7% in the previous quarter. However, due account should be taken of the volatility of these growth rates. Accordingly, economic growth during the first half of 2007, as a whole, was in line with potential growth. Data on activity in the third quarter – from various confidence surveys and indicator-based estimates – remain favourable overall and support the assessment that real GDP is growing at sustained rates. In particular, the latest data on unemployment are favourable and the levels of all confidence indicators to August were high. Global economic activity is expected to remain robust, as the likely slowdown in the United States is expected to be largely offset by the continued strong growth in emerging markets. This will continue to provide support to euro area exports and investment. In addition, consumption growth in the euro area should strengthen further over time, in line with developments in real disposable income, as employment conditions improve further. That said, in view of the overall potential impact of increased financial market volatility and the re-pricing of risk on the real economy, appropriate monitoring of the economy's evolution is necessary.

This outlook is also reflected in the September 2007 ECB staff macroeconomic projections for the euro area, which for the first time include Cyprus and Malta. The projections foresee average annual real GDP growth in a range between 2.2% and 2.8% in 2007, and between 1.8% and 2.8% in 2008. In comparison with the June Eurosystem staff projections, the range projected for real GDP growth in 2007 has been revised slightly downwards, mainly reflecting the assumptions of somewhat higher oil prices and slightly tighter market financing conditions due to higher average risk premia.

In the view of the Governing Council, the ranges presented serve as a good reminder of the general uncertainty surrounding economic projections, which it is worthwhile emphasising given the current volatility in the financial markets. The risks to these projections for economic growth are judged to lie on the downside. These downside risks relate mainly to a potentially broader impact from the ongoing reappraisal of risk in financial markets, global imbalances and protectionist pressures, as well as further oil and commodity price rises.

With respect to price developments, according to Eurostat's flash estimate, annual HICP inflation was 1.8% in August 2007, the same rate as in the previous month. However, over the remainder of this year, inflation rates are likely to increase again to above 2%. In the September 2007 ECB staff projections, annual HICP inflation is projected to lie between 1.9% and 2.1% in 2007, and between 1.5% and 2.5% in 2008. In 2008, a declining impact from indirect taxes and energy prices is expected to be compensated by higher pressures from unit labour costs. Compared with the June 2007 Eurosystem staff projections, the new ranges for 2007 and 2008 are within the ranges previously projected.

The Governing Council is of the view that risks to this outlook for price developments lie on the upside. These upside risks include increases in indirect taxes beyond those anticipated thus far and further increases in oil prices and prices for agricultural products. More fundamentally, stronger than expected wage developments and an increase in the pricing power in market segments with low competition may occur. Such developments would pose upside risks to price stability. It is therefore crucial that all parties concerned meet their responsibilities. The potential materialisation of these risks – or their abatement – requires close monitoring.

The **monetary analysis** confirms the prevailing upside risks to price stability at medium to longer-term horizons. On the basis of the latest available data (covering the period to the end of July), the underlying rate of monetary and credit expansion remains strong. This is reflected in the rapid growth of the broad monetary aggregate, M3, which grew at an annual rate of 11.7% in July, and the strength of MFI loans to the private sector, which continue to increase at double-digit rates on an annual basis.

When identifying and assessing the policy-relevant underlying trends in monetary expansion, it is important to look through short-term volatility and the impact of temporary factors on developments in specific monetary aggregates. Taking the appropriate broader and medium-term-oriented perspective, there are several indications that increases in short-term interest rates over recent quarters have influenced monetary developments. For example, increases in short-term rates have contributed to a more modest expansion of M1, as the opportunity cost of holding the most liquid components of M3 has increased. Moreover, higher short-term rates have led to some stabilisation in the growth of MFI credit to the private sector, albeit at double-digit annual rates, with the growth of household borrowing moderating as house price dynamics and real estate activity have slowed. However, these developments are yet to dampen the overall rate of monetary expansion, as the flattening of the yield curve has increased the attractiveness of monetary assets relative to less liquid longer-maturity instruments, thereby causing broad money growth to rise. Furthermore, the growth of loans to non-financial companies has shown renewed vigour in recent months.

In the current situation, let me remind you that volatility in financial markets can temporarily exert considerable influence over monetary dynamics. In previous episodes, private sector perceptions of and attitudes towards risk, and the resulting portfolio behaviour, have strongly affected monetary developments. The monetary data for July may already have been partly influenced by such portfolio considerations and this could possibly apply even more to the August data to be released later in September. However, as has been demonstrated in the past, an in-depth and comprehensive analysis of the monetary data can help in our understanding of the impact of financial developments on monetary developments and to extract the policy-relevant signal in monetary growth with regard to longer-term inflationary trends. In such circumstances, the broad-based approach adopted in the ECB's monetary analysis is at a premium.

Overall, the continued vigour of underlying monetary and credit expansion points to upside risks to price stability over the medium to longer term. Monetary developments therefore continue to require very careful monitoring.

To sum up, a **cross-check** of the information identified under the economic analysis with the outcome of the monetary analysis has confirmed the existence of upside risks to price stability over the medium term – against the background of the strong fundamentals of the euro area economy. Accordingly, our monetary policy stance is still on the accommodative side with, inter alia, money and credit growth vigorous in the euro area. At the same time, given the high level of uncertainty, additional information is needed before further conclusions for monetary policy can be drawn. Accordingly, the Governing Council will monitor very closely all developments. On the basis of our assessment, and by acting in a firm and timely manner, we will ensure that risks to price stability over the medium term do not materialise and that medium-term inflation expectations remain firmly anchored in line with price stability. In the current context, it is all the more important that inflation expectations remain firmly anchored in line with price stability. As regards the financial markets, we will continue to pay great attention to developments over the period to come.

In the area of **fiscal policy**, progress in structural fiscal consolidation remains slow and there are risks that some countries will pursue expansionary pro-cyclical fiscal policies. For the execution of 2007 budgets and the planning of 2008 budgets, it is crucial that the mistakes made during the previous economic upswing of 1999-2000 are not repeated. At present, countries with fiscal imbalances need to correct them in line with the requirements of the Stability and Growth Pact. The commitment in the Eurogroup to reach medium-term budgetary objectives in 2008 or 2009, and by 2010 at the latest, has to be respected by all euro area member countries. Those countries that have already achieved sound fiscal positions need to abstain from pro-cyclical fiscal policies.

Turning to **structural reform**, the Governing Council welcomes further efforts to increase the productive capacity of the euro area through higher employment. Euro area labour markets have shown clear signs of progress in the last few years, partly reflecting the impact of past labour market reforms. Further progress is needed, however, to enhance occupational and geographical labour mobility and skill creation, so as to overcome the comparatively low rates of labour market participation and still high unemployment rates in some countries and regions.

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*: The absence of the words "strong vigilance" from your statement may be interpreted by the markets as meaning that rate increases are off the agenda, at least for October. Are they right to draw that conclusion? Secondly, could you say a bit more about your assessment of the balance of risks? Which would you single out as being the greatest currently? And lastly, was today's decision a unanimous one?*

Trichet: First, the decision taken today was unanimous. Second, I would say that you have noted that I did not say the words "strong vigilance", and I don't want to comment any further on that. It is up to you, observers and the market to make your own judgement on the overall statement I have just given on behalf of the Governing Council. And third, as you know, we do not compare the risks to price stability with the risks to the economy, and we don't weigh these risks against each other. We judge the risks for the economy to the extent that they have a bearing on the risks to price stability, because the needle of our compass is always price stability; and the anchoring of inflation expectations is always the most important thing for us, because it's what our primary mandate calls for – price stability and credibility in the delivery of price stability over time. What counts as far as decisions on the monetary policy stance are concerned is our judgement regarding price stability.

Question*: I have a couple of short questions. Can you give us a sense of the debate in the Governing Council today in terms of how you need to balance the needs of the money markets with the longer-term objective of delivering price stability, i.e. you are obviously still concerned about inflation and, for the time being, your projections don't show that you think that the current market turbulence will affect growth, nor inflation risks next year. So, do you still, against that backdrop, see a further need for withdrawal of monetary accommodation, and how wide do you think that window is at the moment, in the light of other central banks maybe having to cut rates, and also, looking at stubbornly high three-month rates, was there support in the Governing Council today for cutting the marginal lending rate?*

Trichet: The important issue is the fact that we have on the one hand our primary mandate, the delivery of price stability, credibility in the delivery of price stability over time, and the solid anchoring of inflation expectations, and on the other hand we have to care for the proper functioning of the money market. We would say that we have both responsibilities. We must be credible in the delivery of price stability over time – and as I said, on behalf of the Governing Council, this is all the more important in a period of market volatility, because it provides markets with a solid anchor for all expectations in the medium term. It is a crucial part of our responsibility in this present episode to continue being extraordinarily attentive to the solid anchoring of inflation expectations. And separately we have to help ensure the correct functioning of the money market. The market has to function. We helped it to function, you will remember, in an expeditious and, I must say, successful fashion when we had to cope with the dislocation of the money market on 9 August. We conducted a number of quick tenders; we conducted an exceptional operation as regards the LTRO, the three-month refinancing operation. Yesterday we announced a quick tender, and today we displayed the results of this quick tender. This is, again, an important responsibility that we have. We must ensure that the money market functions in an appropriate fashion. But we don't mix the two responsibilities. We have the two responsibilities, and they have to be fully accepted, but they do not influence one another. That is absolutely clear.

Question*: Do you still see a further need for a withdrawal of monetary accommodation to prevent inflation from accelerating? And also, was there a debate in the Council regarding the lowering of the marginal lending rate?*

Trichet: As regards other decisions taken in the Governing Council concerning the money market, I have to mention – and you will have a press release at the end of this press conference – that the Governing Council has decided to launch a supplementary longer-term refinancing operation, the details of which will be given in a few minutes. It will be carried out as a variable rate tender, with no preset allotment amount, and we will apply the standard tender procedure. Again, we are living up to our responsibility vis-à-vis the functioning of the money market – and I'm proud of that. I have to say, I am proud of everything that we have done vis-à-vis the money market and the expeditious way in which we have taken decisions whenever and wherever appropriate. And again, this should not to be linked with the monetary policy stance; these are two different things. We did not discuss at all the last point that you mentioned. As regards the monetary policy stance, I have expressed the view of the Governing Council. There are, in our view, upside risks to price stability, and on the other hand we have noted a number of uncertainties, and this has led us to take the decision announced today.

***Question**: Given the fact that in all probability the root of the problem we have in financial markets at the moment is that there was too much "easy money" around for too long a time, how concerned are you that you, as central banks, you yourself and the Fed, are being forced, in a way, to throw oil into the fire, which you will later on have to withdraw?*

Trichet: Again, let us not confuse the appropriate functioning of the money market and the monetary policy stance. I would say that, at whatever price, at whatever level of interest rates, the market has to function. And it is very important to make a clear separation between those two factors. Second, and this is clear in the eyes of the ECB as well as in the eyes of the Fed – even though I do not want to speak on behalf of the Fed – in the eyes of all of my central banking colleagues: for quite a long period of time we had said that we were diagnosing a level of risk appreciation in global finance that was signalling under-appreciation of risks in general, which was illustrated in particular, but not exclusively, by the low level of spreads, the low level of risk premia and the low level of volatility in a number of markets. So this diagnosis was clear. I could myself find first pages of financial papers in which I had expressed that opinion, and it was very much the opinion of the central bank constituency. So, in what is observed today, there are elements of correction that were diagnosed before the correction took place and, as is very often the case in such circumstances, there are hectic episodes in this correction, there is a level of volatility that can be quite high and there is also a large deal of overshooting. Again, we have to play a very important role in the central bank constituency, in both having the preoccupation of the medium and long-term solid anchoring of inflation expectations, and having a good understanding of what the pertinent trends are in the medium and long-term, of the global economy and of each particular economy; and, on the other hand, having to care for the appropriate functioning of the money market. The long-term, the medium-to-long-term responsibility has to be fully assumed, and we have also, at whatever level of interest rates we are deciding to meet our medium-term goal, to help the money market to function.

***Question**: I have a couple of questions:*

On market expectations: your comments today I guess pushed out expectations as to whether the next increase in interest rates might not be for a couple of months, maybe towards the end of the year. Would you say that is a reasonable interpretation of your remarks today?

And secondly, I wonder if I could ask you a more general question about your diagnosis of what has been happening in the last few months, whether the events we have seen in credit markets and money markets, and in the banking sector, reflect something that central banks can tackle through the market operations that you have been conducting and which you are obviously proud of today, or whether there is a deeper problem that has to be addressed, a confidence problem, something that is going to feed through into a more macroeconomic impact. I wonder whether you could just give us a diagnosis of how you see the events of the past few weeks and what they actually mean for the macroeconomy.

Trichet: On your first question: in what I said on behalf of the Governing Council, I was very clear on the fact that, for us, risks to price stability are on the upside, that in our baseline scenario we will certainly have to consider that those risks are on the upside. I also said that we were in a period of increased uncertainty, which is associated with all the observations we have made since 2 August, but our baseline scenario, our main assumption, remains that the real economy in Europe will behave properly. That is our main assumption, but we fully accept that the level of uncertainty has augmented in a significant fashion. And with all of this taken into account, again, we will follow the situation very closely. It is perhaps a little bit early to draw definitive conclusions from what we have observed. But first of all I repeat that I am very proud of the ECB and of the capacity of the ECB to face up to exceptional circumstances in a responsible and expeditious fashion. On a certain Thursday morning – 9 August – we had in front of us the dislocation of the money market; we were able to respond in real time. And that reminds me of what we did before. I always said this institution had proved in the past that it had the capacity to be wise in its diagnosis and expeditious in its action. And we continue to prove that, and we have proven that today: I have told you what has been decided today. As you mentioned yourself, the functioning of the market, particularly the money market and the commercial paper market, the ABCP market – as regards the short-term segment of the market, the one-month, two-month and three-month segments – is significantly hampered by an absence of confidence, an absence of confidence between the various economic agents and financial agents that are concerned, investors and savers. It is a problem we see in a large array of segments of the money market, and a provisional conclusion I would draw from that situation is that once again – but it is an observation I could make each time we had an episode of very excessive volatility in the market – transparency is of the essence. What we are observing is that a large number of institutions, agents, investors, savers, are displaying attitudes of fear and of an absence of confidence which are probably due to a large extent to an absence of sufficient transparency. For instance, an absence of sufficient transparency as regards the risks that have been taken by institutions, as regards the very nature of the various assets that are backing commercial papers. I would myself call for increased transparency across the board as part of what we should probably do. But again, I am prudent and cautious, and we have to be sure that we draw all the appropriate conclusions with the benefit of hindsight. Let me only remind you that after the Asian crisis we drew the same conclusion: the absence of sufficient transparency had driven a number of investors and market participants to consider that each particular issuer in Asia was to be treated with great caution and fear, because they were not sure of the accuracy of the information and data which were displayed. The international community drew the conclusion that it was necessary to increase transparency as regards monetary policy, fiscal policy and the level of reserve assets in these emerging markets. And it worked, in my opinion, pretty efficiently. So again, it is a lesson that we learnt in the past. We will see what conclusion we will draw now. It has to be drawn at a global level, of course. And we will certainly discuss that with our colleagues in the near future.

Question*: Just two quick questions. First one: there are, or there have been, calls for the ECB to relax its criteria for the collateral the bank is accepting, as the Fed has done and today the Australian central bank has done, what is your response to these demands? And the second question is: you mentioned the issue of lack of transparency. Would you go as far as to call for more regulation in order to increase transparency? And related to that, if that transparency is achieved, do you think that what we saw – this new financial system where a risk is not held by a bank but is spread out to the entire financial community – that on balance this is beneficial for the economy, or are the risks higher than the rewards?*

Trichet: On the first question: we are communicating in acting. As far as the money market is concerned, you could see what we have done and decided since 9 August and even today. I will not comment on a number of other issues. If we decide something, we will communicate the decision. At this stage, the overall level of collateral that we see seems to be sufficiently comfortable. But again, if we take any decision, you will be informed. As regards the usual discussion on whether or not more regulation is appropriate, you know that we have ourselves a preference for what can be done on the basis of a voluntary benchmark of good behaviour, voluntary code of conduct, voluntary principles. And I remain of the opinion that it is really of the essence that the industry itself work out its own benchmark and its own code of appropriate behaviour. But, of course, if the industry is not able to do that and if the voluntary working out of the industry does not permit an appropriate level of financial stability, then we certainly will have to do more. In any case, we need more transparency. The illustration that we have in front of our eyes as regards the functioning of commercial papers, asset-backed commercial papers in particular, is clearly that we presently pay a high price for the lack of transparency. And the same in the interbank money market, as I said.

Question*: M. Trichet, two questions. The decision made today by the Governing Council may be interpreted by the markets as meaning that the ECB has not – at this time – a clear idea of the global impact of the sub-prime crisis and its collaterals. And so you mention this degree of uncertainty, which is already at a high level; maybe it will increase, instead of falling after the decision made today by the Governing Council. This is my first question. Was this issue discussed during the discussion? And the* *second one: you underlined that there are some risks in public finance policies in the euro zone and appeal for countries, certain countries, to meet expectations as regards an equilibrium in finances, so do you say that France will maybe have to make this particular effort?*

Trichet: On the first point, I think we are absolutely clear in the Governing Council. We consider that we have to gather additional information, to examine new data, before being able to draw further conclusions for monetary policy. I mentioned on behalf of the Governing Council the fact that we presently have a high level of uncertainty. I also mentioned, and this is very important, that the anchoring of inflation expectations is all the more important in a period of volatility of financial markets, of volatility of global financial markets, because it provides for all agents, investors, savers, in Europe and in the world a solid base for their medium-term and long-term decisions. This is the reason why we have to meet our responsibility. As I said, on both sides, we have to meet our responsibility in the anchoring of medium-term inflation expectations and meet our responsibility as regards the functioning of the market at whatever level of interest rates. As regards our message for fiscal policies, we say very clearly: all countries which are members of the Eurogroup must stick to the decision which was taken in Berlin – all countries, of course, without any exception. And this decision in Berlin called for the medium-term objective to be met at the latest in 2010.

***Question**: Are you satisfied with the banking supervisory systems in the euro area? Some critics say that the system is not at the top of the news on the financial innovations of the markets. This is one of the main problems of the financial markets.*

Trichet: As I have said, it is too early to draw a definitive conclusion from the episode that we are experiencing, and don't forget that I think we are presently in a period of high uncertainty. It is possible that, with the benefit of hindsight, we would say that this has been an episode of correction of the pricing of risks in the global economy and in global finance, and that we have finally been through a hectic period, including episodes of overshooting and intense volatility; but that has driven us to a better appreciation of risk and risk premia, both in general and in terms of global finance, making global finance healthier and global economic growth more sustainable in the long run. But, on the other hand, we cannot exclude that the present episode would appear to include elements that would have a serious bearing on the real economy. We cannot exclude anything at this stage. That said, we will have to draw lessons in all areas, the surveillance authorities, the level of vigilance of the financial institutions themselves and the risk management within the financial institutions. We will have to look at the functioning of the market in general and question the very rapid expansion of derivatives, structured products, CDOs and ABCP. We need to have a better understanding of what has driven this very rapid expansion. We will therefore have to think about this again, and it might be appropriate to draw lessons in transparency from what we are observing now. We have the rating agencies, and again we should look methodically at all the components of global finance and our own financial system. I would not be too hasty in drawing my own conclusions and I certainly would not start to look for scapegoats. We all have to ensure a better functioning of this very complex system. But again, if I had to specify one thing which I think is appropriate at the present time, it would be increased and improved transparency.

***Question**: The ECB makes a clear-cut distinction between liquidity help for the money market and monetary policy in the medium term. Some economists argue that it is not really possible to make this distinction and that you have to use monetary policy, let's say the interest rate instrument, to rebuild confidence in the financial markets. What would you say to these people? What is your argument on that?*

Trichet: I would say exactly what I have already said. We have two responsibilities. If we were to tell the market that the short-term considerations are now such that we are hampering our medium-term responsibility, then we would not improve the situation, but make it worse. As I said, the dis-anchoring of inflation expectations would probably be the worst thing that we could do in the present circumstances. We therefore have to live up to our Treaty responsibility – our mandate – and continue to solidly anchor inflation expectations. This is necessary for paving the way for appropriate sustainable growth and job creation, which is also essential as an element of confidence in the present circumstances, but we also have to continue doing what we have been doing, namely responding wisely, quickly, expeditiously and professionally to the challenges we face as regards the functioning of the money market, something I believe we have done well and will continue to do.

Question*: Would you say, in the light of you not giving more than €5 billion in the regular money market operation this week and you then announcing this short-term tender yesterday and today, that there was perhaps some kind of mistake in calculating how much liquidity would calm the markets?*

Trichet: No. The liquidity needs are very volatile in the present period. But we have a level of 4% for our main refinancing operation and we will take care that this level is reflected in the market. Of course, the short-term interest rates in the market can go up and down, but we have set a level of 4 % for our MRO and we will care for a normal functioning taking into account this level.

Question*: Just a question of understanding, Monsieur Trichet. Obviously you talk among the big central banks, but in the good old days – which was, of course, then in the currency market. How much concertation is there between you and the Fed and maybe the Bank of Japan, and how much could there be if maybe the situation gets more tight?*

Trichet: I would only say that in the present episode, as in all previous such episodes, we have been in close contact with our friends, in particular on the other side of the Atlantic, on the other side of the Channel and on the other side of the Pacific. It has functioned, as it always functions, in a very simple, confident fashion. So, we have been in permanent contact.

Question*: I have a final question. It appears that some European politicians are now starting to claim credit for your decision to hold rates today. The French President, Monsieur Sarkozy, has just called today's rate decision small progress and said that debating about the ECB can bring about results.*

Trichet: We are independent. We are independent because the Treaty calls upon us to be independent. By the way, the Treaty calls upon all executive branches in Europe not to seek to influence the central bank: Article 108 of the Treaty. The world over, nobody thinks that we could be influenced. But those who are claiming that they are influencing us are placing themselves outside the Maastricht Treaty. And I draw your attention to the fact that it is very telling to read Article 108. That being said, we take our decision, and we took today's decision, unanimously, on the basis of our own analysis and on the basis of the various arguments that I just explained to you a moment ago. And we will continue to do that. And if such calls that are contrary to the provisions of the Treaty were to have any influence, it would be in the reverse direction, for obvious reasons. But it is not the case, precisely because everybody knows that we are fiercely independent and that there is not the slightest doubt that we decide in this totally independent way. If we were not deemed by the market to be totally independent, I draw your attention to the question of what market interest rates would be for bonds issued on a 50-year basis. Some governments are borrowing through 50-year bonds. If the signature of government A, B or C was substituted for our own ECB signature as regards the credibility of the currency, I let you draw your own conclusions in terms of market interest rates on a 50-year basis. We are deemed by the market to be able to deliver price stability during the next 50 years. And it is because we are deemed to be able to do that that the market interest rates have a low level taking into account our credibility, this level of credibility. So thank you again for your question.

Question*: I wonder if you could tell us if there are any other instruments that you might use to tackle possible liquidity bottlenecks that we haven't already mentioned.*

Trichet: I will only signal that what we have been doing until now is to be able to decide, in a very expeditious and responsible fashion, to use quick tenders, utilising a weapon that we have, which we have utilised before. We have decided now twice to utilise another instrument that we have, which is the three-month refinancing operation. We think that these instruments are efficient, these instruments are suitable to be used any time there is a need. This is what we have been doing, and it is what we will continue to do.

Question*: Looking back over the last month, how often did you talk with other central bank governors like Mr Fukui or Mr Bernanke? How is the relationship with those governors? And a second question: what do you expect of the Bank of Japan when it makes a decision later in September?*

Trichet: As you know, in the constituency of central banking, we don’t embark on giving good advice to colleagues. We consider that each of us has its responsibility; we are speaking of central banks that have major responsibilities. I have full confidence in the monetary policy committee of the central bank of Japan and in Governor Fukui to take the decision which is appropriate, taking everything into consideration. As regards the frequency of our contacts, which were phone contacts, I would say we were frequently in contact. Don’t forget that the trigger of these problems came from the sub-prime mortgage market – it came from across the Atlantic. Perhaps I have been in touch with Ben something like five or six times during the period; with Governor Fukui a little less, because we had perhaps fewer exchanges of views to make, but nevertheless frequent contact. It is the mark of the present period. We are all calling one another by our first name; we all have a very close relationship, a high level of mutual confidence and it is certainly part of the present world, a reassuring component of the present world that the network of central bankers is functioning very well.

Question*: You pointedly mentioned that you did not use the words “strong vigilance”. Can you reassure us that you will use that phrase again, or are we in a period of exceptional uncertainty as regards the ECB decisions as well?*

Trichet: If and when the time comes, I will utilise the words “strong vigilance” of course. But as for the particular words that were utilised on 2 August, I would like you to go back to what I said on 2 August in the press briefing. I said: “…strong vigilance is therefore of the essence to ensure that risks to price stability over the medium term do not materialise”. I also said “Let me also stress that we never pre-commit, we decide at the moment of the meeting of the Governing Council on the basis of the information that we have, facts and figures, and according to the judgement that we make at that moment. I re-emphasise that we never pre-commit.” I said that, thinking about what I could say today, because I was addressing the next Governing Council. I also said: “Let me also say that we are experiencing a period of market nervousness, a period where we see volatility in markets in general and re-appreciation of risks… We will continue to pay great attention to the developments in the market…” It was a very short introductory remark to this press briefing and you have everything there. But again, certainly, we can utilise the expression “strong vigilance” in the future.

Question*: I have two short questions. The first one is regarding the ECB’s fine-tuning operations. The ECB has been doing several fine–tuning operations as of today, and other central banks are doing the same thing, but there is a big difference in the size of the injection of cash into the money market. Tell me please, where is the big difference coming from? And the second question is: the timing regarding the market turmoil, how and when do you think the market turmoil will be over? What do you think is needed in order to make the market turmoil come to an end and make the money market come back to completely normal?*

Trichet: On your first question, which is a good question, and I think permits me to provide clarification: For reasons that are manifold, the Eurosystem has a relationship with the commercial banks which is such that the level of refinancing operations is very large in comparison with a number of other central banks, and in particular, I have to say, in comparison with the US Fed. It is due, crucially, to the fact that the outright portfolio that is in the balance sheet of the Fed is significantly bigger than ours. So in normal times the order of magnitude of our outstanding refinancing operations, and of course, it is only an order of magnitude, because it depends very much on the analysis of the liquidity need, it could be something like €400 billion. That would be something which would be normal for us; it could be more, it could be less, but it is an order of magnitude. In the United States it is about one tenth of that, so you might be surprised when you compare the figures, but they are not comparable. I have to add that on top of this difference in the outright portfolio you have also the reserve requirements which we have and which are also contributing to this difference in the order of magnitude. As regards what I would call the present episode of market correction, with its hectic episodes, elements of overshooting and increased volatility, I would say we have to be pragmatic, as realistic as possible, and we have to do our job as well as possible. I think that the main ingredient which is lacking is confidence. Of course, anything that can improve confidence on our side by again continuing to anchor solidly expectations in the medium run and by meeting our responsibility in the money market is of extreme importance, but we have to work to improve confidence in general. I think it is our duty and we will continue, calmly, but resolutely, to help to restore confidence. I also said before, twice, in front of you, that keeping one's composure was the rule of the game in periods that are difficult. Obviously, it is certainly the rule for public authorities, for central banks. It is, of course, very essential for the various institutions, financial institutions, private financial institutions concerned and I think that if we can all maintain the necessary composure and sangfroid in the circumstances, we will facilitate the return to confidence, which is of the essence.

Thank you for your attention.

CONTACT
European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts