



EUROPEAN CENTRAL BANK
EUROSYSTEM

Jean-Claude TRICHET

President

COURTESY TRANSLATION

Mr Nuno Teixeira
Member of the European Parliament
European Parliament
60 Rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 April 2011

L/JCT/11/377

RE: Your letter

Dear Mr Teixeira,

Thank you for your letter passed on to me by Sharon Bowles, Chair of the Economic and Monetary Affairs Committee, and accompanied by a covering letter dated 22 March 2011.

In your first question, you have asked whether the European Central Bank (ECB) is contemplating interest rate increases in the near future. As you know, the ECB's Governing Council decided on 7 April 2011 to increase the ECB's key interest rates by 25 basis points, after maintaining them unchanged for almost two years at historically low levels. As I said on 7 April 2011, on behalf of the ECB's Governing Council, the adjustment of the very accommodative monetary policy stance was warranted in the light of upside risks to price stability. Developments in individual euro area countries or groups of euro area countries are taken into account in monetary policy decisions to the extent that they affect the outlook for price stability for the euro area as a whole in the medium term. Answering your question in a forward-looking manner, I would like to repeat what I said in the press conference following the Governing Council meeting of 7 April, namely that the Governing Council did not decide on 7 April that the interest rate increase will be the first in a series of interest rate increases. We will decide in the future to do what we judge as necessary to deliver price stability over the medium term.

Turning to your second question, as regards the possibility of the single monetary policy contributing to growth differentials in Europe, let me recall that ECB's monetary policy is geared towards maintaining price stability in the medium term for the euro area as a whole. This is the necessary and central contribution that monetary policy makes to economic welfare, growth and job creation, including in those countries of the euro area that are currently facing particular challenges. Another policy-orientation would be harmful for all euro area countries, including the latter countries, as such a policy would increase uncertainty, negatively affect medium and long term inflation expectations and consequently cause higher longer-term interest rates. This would raise funding costs in all countries, and result in higher government deficits and debt. In any case the Treaty provides for a clear and efficient allocation of policy responsibilities, with price stability being clearly assigned to an independent ECB as its primary objective.

Finally, let me emphasise that some differences in economic growth between various economies are a normal feature of a monetary union and are observed also between the various states in the US. Provided that the correct policies are put into place, such differences could be expected to be less pronounced than they have been in the recent past. To that effect it is warranted that all countries ensure the sustainability of their fiscal balances and embark on wide ranging structural reforms to increase their growth potential and to foster employment growth.

Yours sincerely,

[signed]

Jean-Claude Trichet