



EUROPEAN CENTRAL BANK
EUROSYSTEM

Jean-Claude TRICHET

President

COURTESY TRANSLATION

Ms Rodi Kratsa-Tsagaropoulou
Member of the European Parliament
European Parliament
60 Rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 April 2011

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Re.: Your letter

Dear Ms Kratsa-Tsagaropoulou,

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.

As regards your first question, on the impact of an interest rate increase on specific countries in the euro area, and on whether the European Central Bank (ECB) has assessed the extra burden for banks and economies of Member States with high debt ratios, let me clarify first that the ECB's monetary policy is geared towards maintaining price stability in the medium term for the euro area as a whole. 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 in the euro area as a whole in the medium term. Another policy-orientation would be harmful for all euro area countries, including the countries currently facing particular challenges; 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, including those with particular challenges, and result in higher government deficits and debt.

As to your second question, on what other policies must be implemented to avoid a widening of imbalances between European economies, it is essential that undue imbalances that have built up in the past are

unwound, to ensure that countries currently facing particular challenges return to higher economic growth. This requires a rapid correction of excessive current account and fiscal deficits, a return to close-to-balance or surplus budgetary positions, the decisive implementation of far-reaching structural reforms to strengthen growth potential, competitiveness and job creation, and a strict supervision over banks. As I said on 7 April 2011, on behalf of the ECB's Governing Council, banks themselves need 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.

Yours sincerely,

[signed]

Jean-Claude Trichet