

## Euro-Dollar rate: Abstract of ECB PRESS CONFERENCE

Jean-Claude Trichet, President of the European Central Bank,  
Lucas Papademos, Vice-President of the European Central Bank,  
Frankfurt am Main, 8 January 2004.

**Question:** *Mr President, I suppose you would not like to comment on the level of the exchange rate of the euro to the dollar, but perhaps you could tell us whether you have any concerns about the dynamics of the movement of the exchange rates. Are there any particular risks arising from these?*

**Trichet:** I will only say that, like all central banks, we have a stake in financial stability. By this I mean stability in general, and it is clear that we do not particularly like excessive volatility or excessive turbulence.

**Question:** *Do you consider the fact that the euro is beating a new appreciation record, every other day a sharp movement and, if so, are you satisfied with this?*

**Trichet:** As I have said, we have a stake in financial stability and in stability in general and we have no particular preference for excessive volatility or excessive turbulence.

**Question:** *Your predecessor said "The euro is me, I am Mr Euro." Hence your refusal to give us an indication of the exchange rate policy is rather surprising, because in spite of everything, the Maastricht Treaty does say that you can make proposals and you can indicate a position. So the question still needs to be asked: are you satisfied with the present level of the euro and the current dynamics of the euro? My second question is a more practical one. At present, opinion polls show that there is a growing mistrust in the euro. In France this morning's *Nouvel Observateur* states that 56% of the French population think that the euro is bad and that it has had inflationary pressures, and the same is true in many countries in southern Europe, for example in Greece or Italy. Is that not worrying, because any mistrust in the currency does not really inspire confidence?*

**Trichet:** As a central bank, as the European Central Bank, we, of course, are concerned about ensuring that there is both financial stability and stability on the markets in general. So we were not particularly satisfied with what I called the excessive volatility or excessive turbulence or excessive shifts in general. And I can only reiterate that. Now, as to your question on confidence, I think that the issue of confi-

dence is an extremely important one. Take, for example, the situation in the euro area, where we have a very favourable financial environment, with short-term rates at zero in real terms and extremely low long-term rates. This was the case in much of Europe, and has now been attained throughout the euro area. If I also look at the level of savings and at the availability of capital, it is quite clear that there are many factors which should create a new dynamism in Europe, which would be very satisfying. But as for confidence, I think that that is one of the most significant problems that we are facing and we therefore feel that we should do everything in our power to increase confidence.

**Question:** *For some days there has been speculation that the central banks, presumably because of the weakness of the dollar, will record considerable losses on their 2003 balance sheets. Can you please tell us what the European Central Bank's situation will be and comment on the speculation?*

**Papademos:** Yes, the strengthening of the euro, or the depreciation of the dollar, in 2003 had an impact on the financial results of the ECB. In general, the ECB's profitability is subject to considerable fluctuations due to large exchange-rate and interest-rate exposures arising from the structure of its balance sheet. You all know that the bulk of the foreign reserves of the ECB is held in US dollars. So the strengthening of the euro implies that the euro value of the ECB's holdings of US dollar-denominated assets declined, and this resulted in unrealised losses. We pursue an accounting policy based on the principle of prudence and therefore we treat unrealised losses as realised losses. I should also say that the low interest rates, which prevailed in the year 2003 and their evolution both on the foreign reserves of the ECB as well as on the euro assets also adversely influenced the ECB's interest income. We have estimated that the financial accounts of the ECB, which will be published towards the end of March, will show a loss of the order of half a billion euro. I should mention, however, that the ECB has substantial buffers to cover this loss.

Source: European Central Bank <http://www.ecb.int>