Institute of International and European Affairs

Governance of the ECB: Past, Present and Future

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Joint Committee of Inquiry into the Banking Crisis

Mr. Brendan Halligan: I welcome everybody here today. Could I ask everybody to take their seats as we are about to commence? Thank you very much. Good afternoon and you are all very welcome, but before we formally commence the proceedings, a little bit of housekeeping. Perhaps, as a sign of the era in which we live, you might all wish to check your mobile phone to ensure that it is either switched off or is on silent. Secondly, you will observe the exits, behind you in here and one here, should it be necessary for us to vacate the hall unexpectedly. Okay?

My name is Brendan Halligan. I am the chairman of the Institute of International and European Affairs, which is hosting this event here today. And the institute is delighted to welcome Mr. Jean-Claude Trichet, former President of the ECB, to deliver a lecture, to which there will be two respondents. The institute, for its part, is very proud of the key role it plays in informing decisions about Ireland's strategic decisions, direction, its policies and its investments. Our distinguished visiting speakers provide a vital complement to our own research programmes, and this year, for example, we have provided in-depth analysis from an Irish perspective on Britain and Europe, the dangers inherent in the potential British withdrawal. Equally, our work on banking union has brought compliments from across the European financial services industry and our work on climate change is, of course, renowned. We ... all of us live in political and economic times of great complexity and, indeed, uncertainty. The institute understands this context and its implications. Hopefully, we are acknowledged and appreciated because we narrow the assumptions which underpin the most effective strategic planning.

Today, as I said, our guest is Mr. Jean-Claude Trichet, former President of the European Central Bank and an honorary governor of the Banque de France. He is presently chairman of the Group of Thirty, based in Washington, which aims to deepen understanding of international economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and policymakers. He is also chairman of the Bruegel Institute, the leading economic think-tank in Brussels with whom we have a collaborative relationship, and he is chairman of the Trilateral Commission for Europe. He is also a member of the Institut de France. He was born in Lyon. He is an honorary inspecteur générale des finances, an ingénieur civil des mines. He is a graduate of the École Nationale Supérieure des Mines de Nancy and of the Institut d'Études Politiques de Paris in economics, and of the École Nationale d'Administration, the famous ENA, which some say governs France. In 1978 he was made an adviser to the Minister for economic affairs and was appointed adviser to the President of the republic. In '87, he became director of the treasury and an alternative governor of the International Monetary Fund and of the World Bank. He was appointed governor of the Banque de France in 1993 and became a member of the council of the European Monetary Institute, the precursor of the ECB, from 1994 to 1998, and thereafter a member of the governing council of the ECB. He was reappointed for a second term as governor of the Banque de France. In October 2003, he was appointed President of the European Central Bank for a term of eight years, ending on 31 October 2011. In late 2010 until the end of October, he was also chairman of the European Systemic Risk Board, the ESRB. He is a commandeur de la Légion d'honneur and has been honoured by governments of Austria, Belgium, Germany, the Netherlands, Poland and Portugal in Europe and many others besides, and, of course, by universities, research institutes and business organisations worldwide.

Our institute had the honour of first receiving him in November 1997 in his capacity as governor of the Banque de France when he spoke on EMU, the final preparations. We received him for the second time in February 2009, this time in his capacity as President of the ECB, when he spoke on the external and internal dimensions of Europe's competitiveness and during the visit, he engaged in widespread discussions with the Irish policy community and Irish policy leaders.

So today we are privileged to welcome you back for the third time, on this occasion in a personal capacity to speak on the governance of the eurozone, past, present and future, this lecture being part of a series we have already initiated on international economics and finance, the first speaker of which was only as late as last Tuesday, the governor of the Central Bank of Iceland. So it gives me great pleasure now to call upon Mr. Jean-Claude Trichet to address us on the topic of the Governance of the Eurozone: Past, Present and Future.

Mr. Jean-Claude Trichet: Dear chairman, dear members of the Institute of International and European Affairs, dear panellists, dear Members of the Irish Parliament, ladies and gentlemen, it is for me an immense pleasure and a great honour to be here today for the third time, first and foremost, to acknowledge the major achievements made in just four and a half years by your country. Ireland returned to market financing well before the end of the programme in end 2013. The stability of the banking system has been largely restored and, most importantly, since 2014 the economy has been recovering at an impressive pace, to the benefit of the Irish people. I'm also here because the crisis Ireland has been through has caused considerable hardship and much about the causes of that crisis still needs to be fully understood and explained. This is very important, not least as we all want to ensure that our economies become less vulnerable and better prepared to weather future adverse shocks. I hope that by offering my thoughts today, listening to your concerns and answering questions, I can play a part in that process. You will be familiar - but we are very familiar I have to say in the rest of Europe - with the story of the tourist in a remote area in Ireland who asks a local for directions to Dublin and the Irishman says, "Well, if I were you, I would not start from here." When the crisis started in mid-2007 and then exploded with the Lehman failure in 2008, many policy makers had the very same feeling: starting from here it's terribly difficult.

From my perspective as President of the ECB, I remember clearly the huge uncertainty about where we were and which direction we should head in. I remain convinced that had central banks across the globe in the advanced economies not come together to chart a course out of the crisis, the outcome could have been a repeat, if not worse, of the '30s. To sum up, we had experienced the worse crisis since World War II, could have been the worst crisis since World War I, with a great global depression and not only a global recession.

For policy makers in Ireland, I am sure there was similar uncertainty as the consequences of the burst of the property bubble flared up around them. The banking system was severely affected and real GDP contracted by 9% between 2008 and 2010, led by a 41% collapse in investment. As a result, the public debt level exploded from around 25% before the crisis to a level of almost 90% of the GDP by 2010. On the other hand, contrary to most other stressed European economies, the price competitiveness of the Irish economy, which had strongly deteriorated in the pre-crisis years, had by 2010 already significantly improved. It is important to remember that this painful adjustment had, to a remarkable extent, happened already before the financial assistance programme that started at the end of 2010 when both fiscal sustainability and the viability of the banking system came simultaneously under question.

At the same time, in the euro area, the crisis revealed major deficiencies in its governance, ranging from the refusal by some member states to comply with the fiscal rules of the Stability and Growth Pact to a benign neglect of the major divergences in price and cost competitiveness, from the absence of a crisis management and resolution framework, and, finally, to the lack of a banking union. A lot of progress has been made since then in Ireland, in Europe and at the global level. Against this backdrop, my thoughts today will focus on Ireland and the euro area, with main focus on the past, present and future of their governance.

And if you wish, I will commence by the past: governance failures at the heart of the crisis. Looking back to the years preceding the crisis, the Irish economy experienced the build-up of large imbalances that eventually inflicted serious damage on the economy. This was partly driven by the decade long upswing in the financial cycle, which was, of course, a global phenomenon, but the fact that this cycle was so pronounced in Ireland compared with many other countries suggests that this is not in itself a sufficient explanation. As I will argue, specific failures in domestic macroeconomic and financial governance played also a very important role. Before elaborating on this point, I should stress up front that weaknesses in European governance and its implementation also contributed to the crisis, though the main reason for the associated high costs lies in my view with national governments and, of course, not only Ireland, many national governments.

On the European governance and national responsibilities, I would say that the institutional architecture of the euro area, when it was launched in '99, was incomplete, mainly as it did not foresee that national policies could have led unsustainable imbalances to build up. It has been observed that this was also the result of the fact that several recommendations to strengthen economic governance beyond the fiscal framework by developing the EMU- Economic and Monetary Union which ... this call was made in the Delors report but they were not incorporated in the treaty signed in Maastricht in 1992 because this treaty concentrated on the fiscal governance and not in the economic governance at large.

Policy makers made one mistake in the period of benign neglect that preceded the crisis: They were wrongly convinced that the normal functioning of the economies in a single currency area would always provide for the "competition channel" to foster appropriate and timely corrections in the national real economy in case relative cost and price competitiveness would deviate from the average. This assumption proved right in a number of cases in Europe, but certainly not for all euro area countries. And if I sum up the weaknesses that I see in the governance framework, I would say that there are three broad areas which are affecting themselves the Irish situation in their own way, even if they were affecting, of course, the euro area as a whole.

First, the Stability and Growth Pact, SGP, was not properly implemented. The "spirit" of the pact was severely undermined when the large countries, namely France and Germany, under the Presidency of Italy opposed the full implementation of the SGP in 2003 and 2004. If the SGP had worked as anticipated and debt levels had been lower, the consequences of the financial and sovereign debt crisis would have been less severe. So, I know the point. It is extremely important. In my first speech in front of the European Parliament at the end of 2003 was to defend the Stability and Growth Pact at the time. I would say that if all euro area countries would have lived up to their promises, the crisis would not have begun with such a grave situation in Greece nor spread so dramatically across countries, including, even if it was not the case of Ireland because, as I already said, Ireland started the crisis with a very low level of debt outstanding, but, of course, the level of the crisis and the spreading of the crisis as a whole, it played an important role.

Second, there was no macroeconomic surveillance mechanism to prevent divergence in competitiveness levels and the build-up of imbalances, particularly external imbalances as well as domestic imbalances. Such a framework, if effective, could have drawn attention to the excessive wage and unit labour cost developments in several countries, including in Ireland, at a much earlier stage. Already in '05, long before the crisis, the ECB considered that on top of the loose implementation of the SGP, the main economic challenge in the euro area was the significant loss of relative competitiveness of a number of euro area countries and the ensuing constantly growing domestic and external imbalances. As there was no established, according to the secondary legislation of the euro area surveillance of these divergences, I decided to draw the attention of the Ministers of Finance every month, systematically, since 2005 - so a long time before the crisis – by circulating the national evolutions of unit labour costs, the nominal evolution of costs in the private and in the public sectors, and the positions of the various national current accounts. I have to say that these systematic warnings, which were repeated every month, were ignored as long as there was no financial crisis.

Third, and it is also important, there was no European framework to monitor and correct financial imbalances, nor appropriate crisis management and resolution tools to deal with the bank-sovereign nexus. As a result, capital flowed too easily into countries like Ireland in the upswing, and then, in the downswing, the increasing correlation between the creditworthiness of the banks and the creditworthiness of the sovereign caused capital to flow out extremely quickly, fragmenting the European financial market. This also seen from the standpoint of the ECB disrupted the transmission of monetary policy.

Now let me turn on the role of policies in the case of the Irish crisis. Again, Ireland was not alone, of course, in this dramatic crisis.

First of all, it should be acknowledged that during the pre-crisis years, fiscal and macro-prudential policies in this country were not up to the standard of a country exposed to financial liberalisation in the environment of monetary union. A consequence of monetary union is that interest rates converge and prevailing rates for the euro area must be attuned to the cycle and the challenges of the area as a whole. Seen from the monetary policy standpoint, namely, seen from the Governing Council of the ECB, what counts is the entire set of countries, the 330 million people around, that had a stake in the area and not this country or that country. It goes without saying, we have a single monetary policy. It is necessarily the same for all and it is designed to deliver price stability, without deflation and without inflation, to the entire euro area. If it was designed for country A or country B, then all the other countries - we were 15 at the moment of the collapse of Lehman Brothers - all the other countries would protest in saying that the area as a whole must be taken into consideration. That was very well known and that was really well understood before the euro was introduced but of course, the responsibility of the national policies is of course very important in such an environment.

At the moment of the crisis we had a toxic dynamic which was aggravated by a feedback loop, whereby the combination of a rapid increase of unit labour costs and the credit boom contributed to higher inflation in Ireland than in the euro area average before the crisis. This in turn led real interest rates to fall significantly below the euro area average. Of course it was fuelling the incentives to borrow, so credit to the private sector increased by 20% per year between 2002 and 2007, creating major vulnerabilities in the financial sector. Needless to say, the credit boom contributed to wider vulnerabilities. Above all, the economy, but you know that very well of course, became overly reliant on the construction sector as a driver of growth and employment and as a source of Government revenue.

By 2006 roughly half of fiscal revenues were from capital taxes largely linked to the construction sector, and the expenditure side of the budget was based on the assumption that those revenues would continue to flow forever. A prudent fiscal policy would have realised that the underlying fiscal deficits were much higher than those reported in real time. However, the total expenditure on compensation of employees in the public sector grew by close to 200% between 1998 and 2008, compared to the euro area figure average of around 45%. And we are speaking of the same currency, the euro, with the same international purchasing power but also the same international cost.

Turning to micro-prudential policies, that is financial supervision, similar failings materialised before the crisis. There are two very important reports analysing the origins of the Irish crisis: the so-called Nyberg report and the Honohan report. These reports document well the deficiencies in national banking regulation and supervision during the boom years, where financial stability risks were underestimated. I have to make a point also there - at the time, as you well know, the European Central Bank had no responsibility at all for banking supervision or for macro-prudential policies in member states. This changed after the crisis as a lesson learned from the crisis. But I would say that the principle-based approach to supervision, which was dominating at the time, assumed implicitly that banks would control their risk-taking as long as they are properly governed. It resulted in a much stronger focus on processes than on real outcomes, and what I would call an inadequate treatment and assessment of the risks taken by financial institutions.

Burgeoning credit growth and the consequent expansion of banks' balance sheets should have been causes for concern in themselves, but that this expansion gave rise to highly concentrated exposures to the construction sector and the property sector should have sounded the alarm. We have to recognise - but it's easy to do that now, it was more difficult to do that in real time - and this is good for Ireland, as well as for the entire financial sector in the advanced economy, we had unsustainable bank funding models.

Let me go now to a very, very important issue that has been discussed of course, thoroughly, which is the guarantee. It was also because of these unsustainable funding models that when the Lehman shock hit, a further prudential decision was taken. This decision, which would have very momentous consequences, was the introduction in 2008 of the Credit Institutions Financial Support CIFS scheme, better known as the guarantee, quote, unquote. As I said, this was to a significant extent a response to mounting, dramatic funding pressures on the Irish banking sector. And I must admit that, given the very difficult situation at that time, one could understand why such a decision was taken - also taking into account that all the big countries, after the sub-prime crisis and bankruptcy of Lehman Brothers, were about to give at that time some kind of blanket political guarantee to their own systemic banks, to make the private sector aware of the fact that they were behind their systemic financial institutions. But it is also important that the guarantee was introduced by the Irish Government without any co-ordination with the ECB or with any other European partners, and I was the witness of that, or any other international partner. The ECB, shortly after the fact, was critical of some aspects of the guarantee, as can be inferred by reading our legal opinions at the time. As we know, the guarantee triggered later an intense negative spiral between the banking sector on the one hand and the sovereign creditworthiness.

By late 2010, the imminent expiry of the original two-year guarantee - which in the meantime had been partially superseded by the so-called eligible liabilities guarantee, ELG, had left the Irish authorities in an extremely difficult situation. The so-called CIFS cliff, the wave of debt maturing in September 2010 issued under the guarantee, confirmed Ireland's loss of access to sovereign markets. Combined with other factors, such as the ever-worsening fiscal situation, the Irish Government was confronted with no alternative but to ask for official support. At the same time, it should not be overlooked that over the period 2009 to 2011 the holders of subordinated debt issued by Irish banks incurred substantial losses, what we now call burden-sharing, in the order of €14 billion. In the same vein, shareholders' write-downs exceeded €29 billion. As such, the private investors in the Irish banking system endured, of course, considerable losses, as is normal.

In this context the issue arose, which is being discussed in Ireland as regards the legacy of the crisis, on how to treat the senior bondholders of the banks that were receiving public support. The ECB's view was at the time, and still is, that a number of factors made this option extremely risky for Ireland. Before recalling the ECB view however, let me stress that the ECB simply gave advice on this issue. The ECB indeed doesn't have any authority to issue instructions to euro area governments or to ministers. Accordingly, the decisions on the modalities for the resolution of Irish banks were taken, and that goes without saying, by the Irish authorities.

Now, nevertheless, I would like to expose to you the main arguments that we see in the ECB for your consideration, the main argument that explains the decision of the Government of Ireland at the time. First, it is very simple to read what happened with today's glasses. One has to remember the situation at the time. There were neither clear rules back then nor precedent in mature economies for how burden-sharing with senior private creditors should take place. The Bank Recovery and Resolution Directive (BRRD) was only adopted in April 2014. And this lack of rules on how to deal with heavily distressed financial institutions, coupled with the very high uncertainty at the time, meant that the situation in financial markets was extremely volatile and that is why all the leaders of the major advanced economies had given the blanket political guarantee that I was mentioning. This ... especially after the so-called "Deauville Declaration" in October 2010, market concerns that possible future bailouts may involve burden-sharing even with senior private investors caused a dramatic surge in yields in stressed euro area countries, first and foremost in Ireland. I remember well the concerns expressed in those very difficult days by Minister Brian Lenihan, to whom I would like to pay tribute today and with whom I had constantly, in those dramatic circumstances, a very close and confident co-operation. As you know, Brian passed over and he was attacked by a terrible disease precisely in this traumatic period. These concerns were formulated in a letter Brian wrote to me on 4 November 2010. That letter was made public, and I could quote a passage from the letter. And it is Brian Lenihan, the Minister for Finance of Ireland writing:

> ...it is very noticeable that over recent days the widening in spreads has accelerated on the basis of speculation on the conditions that may be necessary to apply to the debt of countries accessing the European Financial Stability Facility and reported policy comments of senior political figures. It is the case that many market commentators attribute these comments as being the primary driver of the increased spreads of peripheral countries, including Ireland, in recent days.

Let me also stress that Ireland, in particular, was very vulnerable to an escalation of market tensions and financial instability at that very juncture. It is no exaggeration to say that the nature of the crisis facing Ireland, and, in particular, its banks in late '10 was more acute than in any other country.

Second, it should not be overlooked that the introduction of the CIFS guarantee scheme had, effectively, limited the potential for any burden-sharing for the two-year period of its validity. This means that, apart from any other consideration, the guarantee had prevented the Irish Government from fully bailing-in its senior bondholders in the Anglo Irish Bank well before the start of the programme. And when, by late '10, the CIFS was succeeded by the ELG scheme, which relaxed this limitation, the potential scope for burden-sharing had been reduced considerably because the stock of outstanding debt had fallen.

Third ... and I think I have also to mention that by late '10, Ireland was facing a trade-off between large financial stability risks whose materialisation could have in the end impacted more dramatically the real economy and the citizens of Ireland even more profoundly than what had been experienced, and the trade-off would be with the potential gains from burning the senior bondholders. The consensus view - and I reiterate it was still a consensus in late '10 - was that burden-sharing with senior bank holders at such a critical juncture was too risky to countenance. It was a consensus view, in my own observation, in Europe, it was a consensus view at the global level so it was not the Europeans which were at stake.

When burden-sharing was discussed later ... and I was speaking of '10, now I go to spring '11, with the new Government, it was made clear by the Irish authorities that they didn't wish to pursue the issue of burden-sharing with the so-called pillar banks, Allied Irish Bank and Bank of Ireland. These banks had a retail deposit base that had remained relatively stable during the years of turbulence and acted as a stabilising force. And that is important to note, that during this dramatic period, the creditworthiness of these institutions, so-called pillar banks, had been maintaining order. And, of course, it was because appropriate decisions were taken by the successive Governments. These banks ... anything that could have undermined confidence or called into question the safety of those deposits and led to outflows would have been, you know, placing additional funding and would have created deleveraging pressure on the system, which was already under significant pressure. And if that had happened, reliance of Central Bank funding would likely have increased further. This would have resulted in greater recourse to emergency liquidity assistance, ELA, which, from an economic perspective, implies a higher level of contingent debt on the sovereign. Above some threshold, this could have further affected confidence in sovereign debt sustainability and, hence, confidence in the deposit guarantee.

All in all - and I have referred to the consensus in Europe, the consensus in the world - the ECB assessment at the time was, and with the benefit of hindsight still is - that the repercussions from bailing-in senior bondholders may have far outweighted the gains, or the potential gains. This is the reason why I think that the Government of Ireland was right to take this difficult decision. More generally, the actions taken by the Irish authorities during the programme laid the foundations for the significant and rapid rebound in confidence in the Irish banking system, in the Irish sovereign and in the Irish economy. And this confidence is a whole ... confidence was shared by the three, I would say, constituencies I have just mentioned. And it is that confidence which makes, clearly, Ireland the major success of the very dramatic adjustment through which a number of countries had to go through in the crisis. And, again, in the crisis that did not start here but came here dramatically.

Now, let me turn to the present: reforms and recovery. Fortunately, much has happened in the euro area, especially in Ireland, since those difficult days in '10 and '11. At the European level also, considerable work has gone into addressing the governance weaknesses, and some major steps forward have been taken in terms of European integration. Jean Monnet's observation that "Europe will be forged in crises" has proved true again, which doesn't mean that we should be happy with the crisis, but it's clear that a number of decisions were taken in the crisis. In Ireland, the "r" of reforms has been noticeably coupled with the "r" of recovery, with remarkable outcomes and very important lessons for other European countries. And this has to be said very clearly.

Now, at the European level, we have reinforced the Stability and Growth Pact. We have now the "two-packs" and the "six-packs", which have given the Commission and the EU Council more tools to ensure sound fiscal policies. As important as the reinforcement of the SGP has been the setting up, in my own vision, for the first time, of a distinct instrument to survey competitiveness developments and macroeconomic imbalances. We call that the Macroeconomic Imbalances Procedure, MIP. Retain this acronym. MIP is as important as SGP. It is, what lacked at the very beginning of the euro area ... the absence of surveillance of relative competitiveness. So we have that now. SGP re-enforced, MIP setting up... set up from scratch. And we have the banking union, moreover, which represents a strengthening of the financial framework, moving away from the ... what was existing before with the total segmentation between the various nations of the surveillance. The single supervisory mechanism lowers the risk of national forbearance for both micro and macro-prudential supervision. And with the single resolution mechanism, we now have a comprehensive toolkit for dealing with failing banks, including clear procedures and a clear waterfall approach to bail-in liabilities which is known ... *ex ante*. This, together with the, as I said already, SGP and MIP, should help ensure that if banks fail, they don't bring down their sovereigns with them.

Well, living through such dramatic events, one does not always appreciate their significance. An I believe that the pace and the scope of institutional reform that the euro area has seen since 2010 will, one day, be considered historical by historical standards. As noted by Herman Van Rompuy, it took only 15 years from the creation of the ... of ... after the creation of the euro area to create a single European banking supervision. In the United States of America, it took something like 150 years after the creation of the US dollar. It is not to say that we are very happy with what has happened, it is to say that undoubtedly the Europeans have been ... tried to be up to the lessons of the crisis. But, I have to say that, of course, we should not be complacence in any respect. I am well aware of the ... governance reforms are not solving all our problems. I see that the sole implementation of what has been decided is not easy, in particular, despite all the lessons of the crisis, the SGP. I see also that the MIP is not considered as it should ... as a major governance pillar for the Europeans but, again, we have to insist and stress how important it is to apply by the rule. And the rules were just re-enforced after the crisis.

Now let me concentrate a little bit on progress in Ireland and the contribution from the euro system. Progress in Ireland ... many reforms have been implemented in recent years to reverse the macroeconomic vulnerabilities that built up before the crisis - and a lot of headway has been made. These measures have been in large part driven by the Irish people themselves. I have to pay homage to the Ministers, Governor, Prime Minister who have led the country through the programme and post-programme phases until today. They had to cope with huge global, European and ... national challenges and they succeeded. A few examples. Fiscal strategy has benefitted from the plans devised by the Irish authorities prior to entering the programme. This ultimately ensured a very high degree of national ownership and underpinned the credibility of the consolidation strategy. The need for fiscal adjustment was enormous at the very beginning of the programme and we had a the fiscal deficit-to-GDP ratio, excluding the cost of financial support, which was around 11% of the GDP. Everybody can see that at the end of the programme it had declined down to 5.8%. And recent forecasts point to the conclusion that in '15 it will be well below the 3% reference value. So, there you see the progress.

Structural reforms have also played a role in the turnaround in this country. Ireland already had a fairly flexible economy before the programme, with measures of business conditions consistently ranking amongst the top countries in the world. The programme concentrated mainly on tackling the massive increase in unemployment during the crisis - to around 15%. It is noteworthy that, unlike in some other stressed countries, unemployment levelled off and then began to fall already ... already in the first quarter of 2012, thanks to the flexibility of the Irish economy. To the decisions taken in ... spontaneously, if I may, in the private sector and with a full understanding by all Irish citizens that what was necessary to do precisely to get competitiveness and, through competitiveness, jobs. The financial sector measures programme had been a cornerstone of the recovery in the Irish financial sector. The liquidity and funding assessment helped produce a more appropriately sized banking sector and improved the sustainability of bank funding models. All those ... progress has been confirmed by results of the balance sheet assessment conducted at the end of the programme ... by the end of the programme in '13 and the ECB's comprehensive assessment in '14. I would say ... and, again, we should never be complacent, but the overall restructuring of the Irish banks has resulted in a smaller, stable sector, more... much more focused than before on the domestic economy, as it should.

Last but not least, the European Central Bank has also played its role in supporting the Irish economy through this difficult period. It helped prevent the financial crisis - starting in '08-'09 - from turning into a dramatic great depression - like in the '30s. I mention this ... ECB, because we are in Europe. I should mention also the other major central banks which took extraordinarily important decisions. On many occasions after the start of the crisis, the ECB intervened to uphold the integrity of the euro area and remove fears of a break-up - an event from which all Member States would have suffered ... suffered hugely. Let me here just mention, amongst several standard and non-standard measures, the full allotment, at fixed rate, under monetary policy operations, which we started 9 August 2007 - so before Lehman Brothers and at the moment of the ... I would say, start of the so called sub-prime crisis. I would mention also the securities market programme introduced in May '10 and through which we purchased the treasuries of three countries - including Ireland, in May '10 - in order to show that we are caring for ... helping to restore a better transmission of monetary policy in Ireland, which was particularly shocked by the crisis ... as two other countries. The two other countries were Greece and Portugal at the time. We renewed the SMP purchases in August '11, and we purchased again some Irish securities And, of course, the announcement of the outright monetary transactions in summer of 2012, which was an off-balance sheet, if I may, commitment also designed to help restore a better transmission of the monetary policy.

For Ireland in particular, the euro system has provided unambiguously positive support. The level of liquidity provided by euro system to the Irish economy was simply extraordinary. And I would ... only for you to have the order of magnitude in mind. And, again, the paradox there exists in criticising the ECB for not having sufficiently supported Ireland. The figures are the following. At a time ... in the heat of the crisis, 25% of the total refinancing ... total support by the euro system to Ireland ... 25% of the total refinancing for the euro area as a whole was for Ireland. When Ireland, of course, has a very small proportion of the GDP of the euro area and 1% of the capital of the ECB - 25%. If the United States of America, would have asked the Fed to do for the United States what we have done for Ireland, then they would ask for 100% of the GDP support. And 100% of the GDP support is not $4 trillion, as is the case in the piling up of the QE, successive QE.

It would be something like the GDP of the US, namely, something like $13 trillion not $4 trillion, $13 trillion. So you see what has been done for Ireland for very good reason, I don't regret that in any respect. We had to do that, we did that and it proved to be a full success, thanks to you. But remember that, this is very, very important to have in mind you had our full support from the ECB, not only at the level of Europe but also full support in taking some kind of global benchmark. That being said, a central bank can only lend to banks that are solvent and have good collateral. When these conditions are no longer met, we have, in the central banking, a legal duty to make that clear, which we did through my letter to Minister Lenihan on 19 November 2010. This letter has been published, the exchange of letter, the four letters, so I don't go to that it's already public. I would only say that this situation, which was extremely grave with a problem of solvency at the level of the banks, was of course due to the underlying weaknesses of the Irish economy, of the financial sector and only, of course, a credible programme and the help of the international, European and international community, could permit Ireland to get out of this dramatic situation.

If we take stock now, we can see that this combination of measures permitted Ireland to correct its very large unsustainable domestic and external imbalances and paved the way for renewed growth and job creation as I already said. The hard work done, and we have to pay homage to all the Irish citizens that have done this hard work in the fiscal, structural, financial and monetary fields, has paid dividends for Ireland and, as I already said, the strength of Ireland's return to soundness has been impressive. The ability of the return to market credibility has been impressive with confidence being there and competitiveness has been largely restored.

Now, In many ways the experience of your country has set an example for other euro area member states. I would draw, in particular, three broad lessons from your experience for the other Europeans in the euro area. First, it has shown the advantage of a flexible economy in a monetary union. While the crisis was particularly severe here, both the real and nominal economic adjustment and the subsequent recovery have been quicker than in other, I would say clearly than in all other countries, and less flexible economies, of course, have experienced much more difficulty. Second, it has shown the advantage of undertaking necessary yet difficult reforms and fiscal adjustment at an early stage when a crisis hits. Throughout the programme, Ireland not only took complete ownership but also managed to comply fully with the memorandum of understanding and it was an impressive demonstration of determination and professionalism in the conduct by the nation of the recovery in this difficult time. I already said that, but the Irish experience has shown the decisive importance of reinforcing confidence. Confidence is an encompassing concept. Ireland gained the confidence of the Irish people in the ultimate success of the programme, the confidence of the European friends, the confidence of the international community and the trust of the external savers and investors coming back on top of that.

Now, what are the challenges for the future? I will be very rapid on that and I think the questions will be numerous in this domain. I think it is no time for complacency. We have done a lot at the level of Europe, Ireland has done a lot but it is certainly totally out of question to declare victory, time is not for complacency. In Ireland, while you know the domestic priorities much better than I, let me briefly recall, in my own understanding, what are the two main challenges. The first is working through the legacy of the crisis. Despite the progress in recent years with private sector deleveraging, the debt overhang is still very large. The level of youth unemployment also remains very high, at around 22% perhaps in the last quarter of 2014 according to statistics. It is below the euro area average, which is a disgrace, and much below the crisis high in Ireland, which was reached in early 2012, but it remains unacceptable. Finally, while the situation in the banking sector is improving, there is some way to go in terms of resolving the still-large stock of non-performing loans. The second challenge is making sure that the right institutions are in place to prevent bubbles from accumulating again. Despite the reforms of recent years, it would be naive to assume that the Irish growth model is no longer susceptible to boom-bust cycles. I will not insist on that, I think that giving a prominent role to the Irish Fiscal Advisory Council is particularly important in order to prevent the return of pro-cyclical budgets. Fully implementing the macro-prudential measures recently introduced by the Central

Bank of Ireland on mortgage lending is also certainly of the essence and very good and intimate and confident co-operation between the Irish staff and ECB staff within the joint supervisory teams of the single supervisory mechanism also of the essence.

If I turn now to the European governance, I have already mentioned three dimensions where we have made a lot of progress, remains to be fully implemented: the SGP, the MIP and banking union. But my intimate conviction is that in the longer term, further progress in Europe, in the euro area, have to be made. First, we could deepen the fiscal dimension of the European Union, more particularly of the euro area, so that the management of the fiscal union would rely not only upon the respect of the SGP rules but also directly on an embryo of federal budget. Several proposals have been made in this direction, including the transfer at the level of the centre of new responsibilities. The main difficulty of course relies on making sure that such transfer of national spendings to the central budget would not augment the overall public spendings across all levels of governance in the Union. Second, we could reinforce the executive branch of the euro area in setting up a minister and ministry of finance of the area. I made this proposal myself in a speech I delivered in 2011 in Aachen in the occasion of the Charlemagne prize. I don't insist on that but it is a way to reinforce the executive branch, of the equivalent of the executive branch of the euro area. Last but not least, I think that one of the major issue for the present governance of the euro area is that we have improved the governance through SGP, MIP, banking union but the democratic accountability and legitimacy of the decisions taken by the European institutions, when they design the recommendations according to those governance pillars, is not perfect. Nobody can dispute that the Council of Ministers is legitimate. They are members of legitimate governments, nobody can challenge in my opinion the legitimacy of the Commission, which now goes through a process which is also implying the European Parliament. Still, I think that it would be necessary, when we have a conflict between the centre and its recommendation, the open institution at the centre, Commission and Council and a particular country, it would be good in my opinion that the country which disagrees with the recommendation made to it could ask for arbitration, for a final say, which could be made by the European Parliament, deciding in a format composed of the Members of Parliament representing the voters of the euro area. And that final decision should be taken in close, I would say, contact with the national parliament concerned. So in such a case, we would be sure that the governance function on a way which would be effective, namely, decisions are taken which would be democratic, final say representative of the people of Europe, at least the people of the euro area. Of course, it would also respect the subsidiarity principle, because it would be activated only in exceptional cases ... absolutely exceptional cases, because it would be a case where there is an open disagreement between the Council and the Commission, on the one hand, and a particular country, on the other hand. That country asking for the final say being taken by the representative of the people. I stand ready of course to respond to questions on that particular point.

Let me only conclude what is extremely important is that ... to recognise that the hardship of the crisis ... the global financial crisis which came in Europe ... in Ireland because I ... immediately through the financial channel ... and then was aggravated by the sovereign risk crisis at the end of '09, this hardship has caused for many, many citizens real tragedy but it was not an accident. It resulted from a series of failures, both domestic and European, and I would say also global level but it is not the subject of my exposition. What is important today is to be sure that we take all the lessons for the future to fix what needs to be fixed at European-global levels and, of course, at national levels. But I have to say that when I look at what Ireland succeeded in doing over the past years, I am confident that, at the level of individual countries, a lot of very, very good ... and I know, better than anybody, very hard work can be done and be successful.

I thank you very much for your attention.

Mr. Brendan Halligan: President Trichet, I wish to thank you for this very comprehensive and erudite presentation, which remained faithful to its task - that of reviewing the past, assessing the present and shaping the future. I think its many dimensions will merit great attention and study in the future. I want to thank you personally for the time and thought you have put into this presentation, particularly your proposals on the future governance of the eurozone. And I think we would all wish to thank you for delivering this speech here in Dublin, and to our institute. So thank you again.

The first respondent to the presentation ... is that from Dr. Michael Somers, who is a founding member of the Institute ...formerly with the Department of Finance, he was Secretary General of the Department of Defence and, of course, is well known to us as the first CEO of the National Treasury Management Agency from 1990, which arranges Irish debt and manages the national debt. He chaired a group that established the European Bank for Reconstruction Development, has been a member of the European Union Monetary Committee, he has a Legion d'honneur from France and has many other honours in his CV, too numerous to mention on this occasion. Suffice it to say that he is somebody whose advice we have always valued and his contributions have always been particularly helpful. It gives me great pleasure then to ask Dr. Michael Somers to make the first response to President Trichet's address.

Dr. Michael Somers: Brendan, Jean-Claude, ladies and gentlemen. I am not quite sure why I am here today, whether I am the last person who did not say no or I did not say no forcibly enough or what. But when I woke up this morning I was thinking, you know, I'd love to stay in bed for another hour but I have to get up and write something to say here today. And Brendan has warned me not to go beyond ten minutes ... so at least I think many of you down here have much more interesting questions and comments to make than I will have to make.

I know Jean-Claude for very many years. I'll just make a few comments about the interaction we have had over the years. I first met him in 1987, when I was appointed as the Irish representative through the EC monetary committee and Jean-Claude was the head of the French Trésor. This was all new to me, I had not been at this particular group before. In fact, I had spent the previous few years as Secretary of the Department of Defence and when I went in ... it's always interesting to see the interaction between different people ... but Jean-Claude was the French representative and Hans Tietmeyer was the German representative. And I'm not sure whether you remember this or not Jean-Claude, but you used to come under increasing pressure from Hans Tietmeyer to devalue the French franc and you had decided you were going to adopt a strong French franc policy. And I remember Hans saying to you that you had to devalue the French franc and you absolutely refused, and he said "If you won't devalue the French franc, I will revalue the Deutschemark". And you said to him "If you revalue the Deutschemark, I'll revalue the French franc on the same day by exactly the same amount". This went on, you know, over several months. And anyway it was a stalemate ... nothing happened.

But we came together actually then in 1990. When the Soviet Union broke up, I got a phone call one time from our then Taoiseach, Mr. Haughey, who told me that President Mitterand had been in touch with him and felt there should be a new body set up to fund investment in Eastern Europe, in the former Soviet Bloc, and to go over and talk to this man Attali. I didn't know what I was supposed to be doing and I rang Jean-Claude and he kind of gave me a bit of guidance. And he met me in his ... the hotel I was staying in and the two of us drove over to Jacques Attali's apartment. I don't know whether you remember any of this Jean-Claude. And the problem was that my French wasn't very good. They were all speaking French. Attali had two parrots, or some sort of birds anyway, who proceeded to talk as well. So in the end I said "Well, look, you'll either have to talk in English or you'll have to talk a lot more slowly because I don't know what I am supposed to be doing". Anyway, we eventually met as the 12 member states sat around the table and ... it was kind of an interesting exercise. We used to meet almost every weekend, trying to sort out a new bank. And it was actually, I think ... I chaired the EU group, then there was the OECD group, then there was the wider group, which included the Russian Federation and all these other countries. But we got the thing signed, sealed and delivered by May. The Irish had the Presidency for the first half of 1990. We started in January, we had the whole thing done by May. And the thing was set up very quickly afterwards. So it was a great success.

I had a lot of interaction with Jean-Claude then thereafter in various guises. I visited him in Bercy when he was the head of the Trésor. I visited him in the Banc de France when he was Governor of the Bank of France. I used to meet him on and off but one of the most difficult things was, when the currency crisis broke, and the NTMA was not particularly involved with the banking sector. But when NAMA was being born, the late Brian Lenihan said to me "Would you go over and meet Mr. Trichet and tell him that we need an awful lot of money?", and I said "Well would it not better if the Central Bank or the Department of Finance went over because it's really up to them?" So he said, "No no, you know him, you go over, you'll be able to persuade him." So anyway, I went in to see Jean-Claude and after the usual pleasantries and telling him where we stood, I said to him "By the way, we have a bit of an issue here. We're going to need a fair bit of money in the near future" and I said "This is going to be the end of a beautiful friendship". I said "We need about €60 billion." I thought he'd fall off his chair but he didn't. He just looked at me and we continued on. We did get an awful lot of money from the ECB, and I think Jean-Claude was always a good friend to us. Certainly he was ... personally, we have always been very close, so I was delighted to see him again here today.

As I said, Brendan has warned me not to go on. Just to say to you, I was for many years responsible for managing the national debt, both in the Department of Finance and in the NTMA. And we could never borrow enough money of course, in the State here, to fund our requirements. So we borrowed in every currency and country that you could think of and we had exposures then in a vast range of different currencies. The challenge, of course, was to try and manage these so that the cost to us wasn't enormous. Because there was always the risk ... well, first of all, that our currency would devalue, which it did fairly regularly, and secondly, that other currencies would revalue, so we' get a double whammy. And we tried every imaginable device to try and minimise the exposure we had and the exchange rate, with very mixed results I have to say. I mean, I became convinced that you couldn't actually predict foreign exchange rates. So within the EMS then, of course, that provided a certain amount of stability for us because, in theory, the currencies only moved a little bit against each other. But, of course, you could devalue. I remember in '92-'93 ... in '92, when the British left the EMS arrangements, we came under ferocious pressure from the international markets. And I remember ... because they reckoned we were going to be next and they would force us to devalue. And, you know, when the markets take a view on you, it's very hard to resist. But anyway, the Central Bank ... there was no good economic reason, we thought, to devalue the Irish pound, and to try and protect the Central Bank by jacking up interest rates to 100% each weekend, you know, to catch the speculators. Eventually, in early 1993, the clinch point was when the banks threatened to push up mortgage rates, and we think mortgage rates are high now, they were 14% then, and the banks threatened they were going to shove them up to 18%. And I remember the late Maurice Doyle, who was Governor of the Central Bank, saying, "Look, we fought the good fight. There is a point when, you know, courage turns into stupidity and we'd have to agree to a devaluation." So anyway, we devalued the Irish pound by 10% and moved on.

So I was delighted, really, when the single currency came along, because it meant that we could borrow, first of all, at very low rates of interest, and secondly, without any exchange rate risk and the amounts were certainly adequate for our purposes. We didn't have to go into all these other capital markets again in the future. So by the time I eventually left the NTMA, towards the end of 2009, our net national debt was down to about 25% of our ... of our, I can't remember if it was GNP or GDP. But anyway, it was very low.

The real problem was, when we joined the single currency, as I've said many times before, you know, we joined ... we effectively joined a German team or a German, whatever you like to call grouping, but we continued to play by our own rules, and that eventually caught us out, and so we end up in the difficult situation which we found ourselves for the last few years. Much of it of our own doing, I have to say. And so be it. Okay. So, I've nothing in particular more to say. I thought Jean-Claude's exposé of the whole system was extremely interesting and I'm sure that people will pore over every word he said for many years to come and it'll probably end up in all kinds of textbooks. So thank you all indeed very much and thank you, Jean-Claude, for your very interesting speech.

Mr. Brendan Halligan: Thank you very much. The second respondent is Professor Gavin Barrett, who is a Jean Monnet professor of European and constitutional economic law, associate professor and deputy dean and head of research of the Sutherland School of Law in UCD where he teaches, among other subjects, of the law of the eurozone. A barrister, he is the author or editor of several books and studies, including *EMU, the Third Stage*, which was published by the institute, where he was one of the first team of researchers that we hired. He is an author as well of numerous books, chapters and articles and legal journals. He's also published some legal themes in *The Irish Times*, *Sunday Business Post* and *The Sunday Times*, and has appeared on television and radio in both Ireland and abroad. He has spoken before parliamentary committees in several countries, including Oireachtas joint committees in 12 occasions, and the House of Lords European Union affairs committee twice. His work has been cited both in the German Federal Constitutional Court's Lisbon decision and the House of Lords reports. It gives me pleasure to invite Professor Barrett to respond.

Professor Gavin Barrett: Mr. chairman, President Trichet and Chairman and members of the Oireachtas banking committee, and ladies and gentleman, I'm sure you will agree with me that the paper we've heard delivered today is a highly interesting one. It refers to two different levels, the Irish level and the European level. Part but only part of its focus has been on Ireland's recent past, and I think that focus is entirely understandable. There has been a lot of controversy, it's fair to say, about the ECB's rule in relation to the bank guarantee. I think it's fair to say that that discussion has not always been contextualised by an adequate understanding of the positive role that the European Central Bank has had. The fact that, for example, its liquidity assistance prevented the collapse of the Irish banking sector and with it, the economy. The fact that it intervened effectively to diffuse a sovereign debt crisis that could've destroyed the eurozone. The fact that the banking crisis and a sovereign debt crisis never developed into a currency crisis as well. Now none of that is meant to diminish the importance of the debate about the bank guarantee, but it does put it in its context and I think we do need to remember that context in discussing the role the ECB has played in recent Irish history.

President Trichet's paper focuses just as much, however, on the past, present and future of the eurozone and that's appropriate too. As he points out, since 2010, the eurozone has seen an astonishing level of institutional development. It is rapidly becoming the focal point of European level constitutional change and indeed, not to put too fine a point on it, the eurozone is developing into the new European Union. It's vital for us in Ireland to participate fully in the debate about that eurozone, of which of course we are a founding member. Otherwise, we may miss the larger picture. Now, given that President Trichet's paper is about euro area governance past, present and future, I'd like to make a few brief observations if I may, in relation to each.

So first of all, what can we say about the past of EMU? Well firstly, the eurozone, as designed at Maastricht, was and is, like no other area of European Union integration. For one point, there is a very weak representation of the common interest. Strikingly, the traditional supranational institutions are weak. The Commission, which does enjoy an inclusive right of initiative here, is not to the same extent a policy leader. The European Parliament lacks a role as co-legislator. It's essentially a junior partner, more a spectator, really, than a player. And remarkably ... well, there's also "an executive deficit," to quote Nicolas Véron, and remarkably, the euro group of finance ministers is not even an institution in its own right. Although, it's increasingly important, it's still essentially a forum for discussions.

The major institutional exception in this regard is the European Central Bank. The ECB functions, in effect, as a kind of supranational technocracy. A trustee for the public good of price stability, which Article 127 of the treaty expressly makes the primary objective of the European system of central banks. And what we got, at Maastricht in 1993, when it entered into force, was very much an ECB-centric model of EMU. It's also noticeable that representative institutions, generally, do not take centre stage in the eurozone. The ECB is independent to an unparalleled degree. The formerly dominant and famously independent Bundesbank's independence was and is protected only by ordinary German legislation. In contrast, the ECB's independence is written into the treaties. It is especially forbidden to take instructions from unions or governments by the treaty. It is made deliberately very difficult to remove executive board members from office. And of course, the central bank members on its Governing Council are all themselves representatives of independent institutions.

All that independence reflected two things: a dominant belief in the 1990s in independent central banks to ensure currency stability and also the political reality that Germany, whose participation in the eurozone was necessary in order to give the euro the great significance it has, could not give up Europe's then most stable currency, the Deutsche Mark, without adequate guarantees and stability. And ECB independence gave it that guarantee. In any case, this untypical architecture of EMU was its first striking feature.

Secondly, and as President Trichet has correctly identified in his paper, that same institutional architecture of the euro area, when it was launched in 1999, was incomplete. Although, I'm not sure all of the signatories to the Treaty of Maastricht would have agreed. It was built with a unified monetary policy represented institutionally by the ECB but a far from unified and indeed, inadequate economic aspect. To borrow the words of another great Frenchman, Alexandre Lamfalussy, "the M in EMU was far better developed than the E."

Thirdly, the original model of EMU was never going to last and of course, it didn't last. As Jean Pisani-Ferry has written:

> Governance by rules and procedures [and that was the original Maastricht model] can work fine in fair weather conditions, but it cannot be relied on in stormy weather. That kind of weather requires leadership, it requires innovation, and it requires change.

And of course we got the perfect storm of the banking and sovereign debt crisis to drive real change in Europe.

President Trichet quoted in his paper, the Jean Monnet observation that Europe would be forged in crisis. Monnet also added that Europe would be the sum of the solutions to those crises. And that's how exactly how things have worked out. As President Trichet observes in his paper, the pace and scope of institutional reform that the euro area has seen since 2010 has been remarkable by diplomatic standards. Although it's fair to say, it didn't seem that way at the time judged by the demands of rapidly changing international markets. It, at times, seemed painfully slow and very last minute in nature, but it came. And that leads us on to the present of the eurozone - where are we now? And the answer is that we are in a quite different place to where we were before. I would see three huge changes. Institutionally, we've seen the creation of bailout funds undreamt of, indeed, thought by some to be illegal at the time of Maastricht. We saw, first of all, the two temporary funds, the EFSM, the EFSF and now the permanent European stability mechanism, now, of course, given the imprimatur of the European Court of Justice in the Pringle case. That's a €500 trillion institution ready to lend to sovereigns and, if necessary, recapitalise banks to rescue them from insolvency.

Secondly, we have seen the SGP transformed into a vastly more comprehensive, if still not proven, suite of budgetary legislation in the form of the six-pack, the two-pack and the fiscal stability treaty and that, of course, takes into the macro-economic and balances procedure and the European semester.

And thirdly, we have seen the creation of a European banking union, including a single supervisory mechanism and a single resolution mechanism involving the very new role of banking supervisor for the ECB.

We have also seen the ECB, however, take on an evolving and at times controversial role. It has played a key role in efforts to re-establish economic, financial and fiscal stability. I'm not sure that every signatory to the Maastricht treaty anticipated the extent to which the ECB would be so involved and, indeed, it's noticeable that despite the importance of financial stability as a classic central banking tool, the drafters of the Maastricht treaty didn't include that as an objective of the ECB, although they did give it some legitimatising mention in the treaty. Overall, however, and fortunately, they left the ECB the legal flexibility to act subject, I should say in that regard, to what the ECJ decides in the Gauweiler case in which the outright monetary transactions policy is being challenged but the advocate general has already reported in that case and expressed approval of the OMT programme.

So that's the past and the present. What can we say about the future of EMU? As Mr. Jean Pisani-Ferry, another Frenchman, has written most, perhaps not all, but most of the architects of the euro, expected monetary unification to be a stepping stone. In other words, they regarded choices made at the time of the Maastricht treaty, namely monetary union without a significant federal budget, limited co-ordination of budgetary and structural policies, no integrated financial supervision, no strong political counterpart to the central bank, as temporary. They regarded these things as temporary and that's where president Trichet's paper is particularly interesting. It contains, as we have heard, suggestions of three kinds. First of all, suggestions aimed at securing the economic viability of the eurozone as a single currency area. So, Mr. Jean-Claude Trichet makes suggestions concerning an embryonic federal budget, possibly centralising, for instance, part of unemployment insurance. And I think, surely, if one is seeking to safeguard a currency union against asymmetric shocks, the development of some kind of federal budget, at least initially embryonic, is a step we have to be thinking about, instead of the current exclusive reliance on strict budgetary discipline to provide member states with the latitude to dig themselves out of difficulty alone, albeit aided, if necessary, by eurozone level loans.

Secondly, ... yes ... one minute. That's all I need.

Secondly, we see suggestions aimed at remedying the ongoing institutional deficit at eurozone level. There is no doubt, I think, that the eurozone is inadequately institutionally served. It suffers from an executive deficit and weak representation of the general European interest. The Eurogroup of eurozone finance Ministers, for example, don't even enjoy the decision-making capacity of the ECOFIN Council at EU level, so I think the setting up of a eurozone ministry and minister for finance, perhaps modelled on the high representative for foreign affairs and security policy, seems a sensible way to unify and professionalise tasks currently scattered across the Council of the Commission, European Council of the Eurogroup, and the economic and financial committee.

Thirdly and finally, president Trichet has suggested ideas for combatting the democratic deficit - he has correctly, I think, in his paper, identified the Achilles heel of EMU in his observation that the ultimate question of democratic legitimacy in Europe is still not sufficiently addressed. His suggestion the European Parliament be used as a democratic arbiter of disputes concerning recommendations under the SGP and the imbalances procedure may or may not be the way forward. Personally, I would be nervous about squaring off national parliaments and the European Parliament, but there is no doubt that this kind of innovative thinking is exactly what we need to be doing in the eurozone, and, in particular, we need to be doing it in Ireland. The late Garrett FitzGerald pointed out that small member states like Ireland can punch well above their weight in the marketplace of ideas. It's one place we can make a difference. The IIEA has played a huge role in that regard and I hope that today's event not only looks at the controversies of the past, as important as these are, but also makes some contribution to the broader ongoing debate about which way the eurozone should develop.

Mr. Brendan Halligan: Thank you. Thank you very much indeed for that very important analysis, which we're going to study very carefully and which I will probably invite you to expand upon later as part of our research programme.

Now, at this point I want to welcome the members of the Oireachtas committee of inquiry into the banking crisis, led by their Chairman, Deputy Ciarán Lynch. I wish to welcome the committee staff and other Members of the Oireachtas who are here present.

We will now have a question and answer session, which will consist of four parts. First, I will read out two questions which have been composited from those submitted by members of the institute and to which President Trichet will reply. Second, there will be a serious of six questions to be put seriatim by members of the committee in the form and in the order which the committee has determined for itself and to which president Trichet will reply. Third, I will put two more questions to President Trichet again based on a composite of those submitted by members of the institute. Finally, there will be a second set of six questions to be put seriatim by members of the committee in the form and order which the committee has determined for itself. The proceedings will be brought to a close by brief remarks, very brief remarks, by myself.

So question No. 1, which president Trichet has in front of him is a composite of those presented by Michael Tutty, who heads our economic governance group, and by C.J. Walsh, a longstanding member of the institute.

The question has three parts: 1. There have been significant developments recently in the EU on banking supervision and bank recovery and resolution, as well as on economic governance through the fiscal compact, the six -pack and the two-pack. Do you think that these moves are enough to complete EMU or what other developments do you think are needed?; 2. What would be the best institutional relationship between EU member states refusing to participate in the euro and the eurozone?; and 3. When and how will the economic governance in the EU be brought within the Community method?

Mr. Jean-Claude Trichet: Thank you, thank you very much for these issues and questions. I would say I would agree, of course, that the developments have been remarkable, provided they are implemented in the fiscal compact, six-pack, two-pack, what we call the European semester, all the fiscal elements. I think we that we should not forget the MIP and the full implementation of the macroeconomic imbalance procedure, which again, as I already said, seems to me as important as the SGP because you can have a pretty good fiscal positioning and you can lose at the same time competitiveness, embark on big imbalances and then, of course, have a crisis. But all what has been decided, including, of course, the banking element and also the tools that have been set up through a treaty - the ESM has been established through a new treaty - all this is good; it is not sufficient. So I would respond yes, these moves are not sufficient and I would insist particularly on the fact that we must have, as I already said, more capacity to sustain cycles at the level of Europe through the fiscal embryo of federal budgets I have already mentioned and an element .. additional element for the executive branch, so to give more clout to the equivalent of a minister of finance of the EU area, which would have, of course, the responsibility to care for the SGP and MIP, on the one hand, and also to represent the euro area in international institutions so that we would appear as really a single entity. And again there is my call for more democratic accountability for difficult decisions in exceptional cases and we know that it might happen that there are disagreements between the European institutions and a national government. We are observing that now. We must have a way to have a final say which would be unchallengeable democratically.

As regards the relationship between the ins and outs. First of all, the working assumption of the Maastricht treaty was at the time they will all be in, right or wrong. At the present moment, out of all the members of the European Union, you have only two countries that have an opting-out clause, as you know, Denmark and the UK and the paradox is that Denmark with an opting-out clause is totally following the monetary policy of the EU area. As you know, there is a total, absolutely total imitation of what we are doing at the level of the euro area by Denmark. So ... and when we had the negotiation of the fiscal compact, again, practically all countries, but two, decided not to join in the discussion, because all the others were making the working assumption that later, or sooner, they would be a member of the euro area. So, the best would be for me to have as encompassing as possible the governance of the euro area, the SGP after all is for all, but for the euro area members it bites, not for the non-euro area members, with the recommendation ... possible sanctions. The decision-making process, I imagine, of course would go only for the members of the euro area, but the rules should be as they are, applied to all, and the same for the MIP. I would say it’s very important that we continue to be as united as possible, including with the outs, in my opinion in the European Union. And after all, we have embarked on a historical process. We have to judge what we do at the level of historical endeavours. We started 65 years ago with ideas, speeches, Robert Schumann’s speeches, the activity of Jean Monnet. We are 65 years later, and we have, you know, made a lot of progress. We have enlarged considerably, even in the crisis, and it is something which I found absolutely striking. We were 15 members of the euro area at the moment of the crisis when Lehman Brothers collapsed, and we had countries in great difficulty. Ireland knows that better than anybody.

The 15, at the moment I am speaking, are all there. Of course, with Ireland, which is a fantastic success, but also with Greece, at the moment I am speaking, and four of the new sovereign countries entered in the euro area, so that we are 19 not 15, 19. So, it gives an idea of what is a historical endeavour, which goes on even in a terrible, terrible period.

Last point - I would very very much call for economic governance in the EU in general and in the EA also, going through quasi-federal method, community method, and not through Government corporation. That being said, I have to say that in the crisis, with all the major difficulties of the crisis, governments find out ways to go through it, and I think we have to accept and recognise that, all taken into account, the sense of the unity of Europe triumphed. But of course it goes without saying that in the medium and long run, we have to be much more community-oriented.

Mr. Brendan Halligan: Question No. 2 is composited from a number of members, but mainly questions submitted by Blair Horan, a trade union member of the institute. It reads:

> As part of the architecture of the single currency, the treaty provided in Article 127(6) for the Council in defined circumstances to confer specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions to the ECB. Do you consider, President Trichet, that the banking crisis in Ireland would have been avoided if the ECB had been given this responsibility when the euro was established in 1999?

Mr. Jean-Claude Trichet: It is a very, very tough question because nobody should say that we have now the ideal system. What is absolutely clear for me is that the chances for having the drama we went through, not only in Ireland but at the level of Europe as a whole, would have been much more meagre, had we had this centralised supervision at the level of Europe as a whole. So I would say, in terms of probability, to have a full-fledged crisis, it is much lower now, say, because we have as a lesson of the crisis decided to centralise at the level of the ECB. You know why it was at the level of the ECB, because the ECB proved credible in exceptional circumstances and dramatic circumstances. By the way, also other central banks proved credible in the advanced economy and it is now more or less a consensus, including in the UK, including in the US, that it is legitimate to give the central banks a lot of responsibility in this area. So, I would say again, much more chance to avoid drama but let's not be complacent. We might be surprised in the future because, you know, the global market economies are moving, technology is moving, the new challenges are coming and coming and coming, and we have to be vigilant personally ... I would say, all the time.

Mr. Brendan Halligan: Thank you. We now move to the questions from the committee, as I said previously, in the order in which the committee has determined for itself. The first question will be posed by the Chairman, Deputy Ciarán Lynch, and I now invite him to do so.

Deputy Ciarán Lynch: Thank you, very much Mr. Chairman, and good evening, Mr. Trichet. If I could maybe deal with one matter before we then continue with the proceedings this afternoon, and if you could then maybe explain the relationship between the European Central Bank and national parliaments in terms of accountability and why it precludes a representative from the European Central Bank appearing as a witness before the banking inquiry.

Mr. Jean-Claude Trichet: Well, I cannot speak of course on behalf of an institution, of which I'm no longer the president, and I have to be prudent there. I can only say that according to the legal analysis of the ECB as an institution ... and I think that my successor, President

Mario Draghi, made it clear to the Members of the European Parliament representing Ireland in the ECB, the ECB is accountable only to the European Parliament, where it comes to parliamentary accountability, as a European institution. So it's not possible in our own legal analysis to participate in national parliamentary inquiries, but of course we are fully at the disposal of the European Parliament. I think, when I look at the treaty that it is fully in line ... this analysis with the letter and also with the spirit of our treaties, because accountability has to be exerted on the level where decisions are made. For the ECB, clearly, as I said, it is the European level. At the moment I am speaking, the Governing Council of the ECB decides for what it is the best in its own view, taking into account the fact that we are 330 million fellow citizens and 19 countries, and that is clearly a responsibility that calls, it seems, to accountability at the level of the European Parliament. That does not prevent me to respond to you at the present moment.

Deputy Ciarán Lynch: That you, Mr. Trichet. The committee will be following up its own work with the ECB with Mr. Vitor Constâncio as well in the coming period. But if I can deal with some of the matters we would like to touch on with you this afternoon, can you tell us as to when you, maybe, have determined that there were issues with the Irish banks and at what time did you speak to anyone about this in Ireland's Central Bank or the Irish Government? And, added to that, can you tell us what, if any, controls were in place at an EU-ECB level to draw official attention to the rapid increase of funding in Irish banks in the years leading up to 2008?

Mr. Jean-Claude Trichet: This is, of course, very, very important. I would say that Irish banks, as others in the euro area, encountered liquidity and funding challenges from mid-2007. This was the subprime crisis and, for the ECB, it was 9 August 2007 that we had to embark on the first non-standard measures that we took in the crisis, which was 9 August 2007, to give liquidity to all banks in the euro area, without any limit, provided, of course, they had collateral. And that was an Irish issue, clearly a very, very important Irish issue, but it was an issue at the level of the euro area as a whole and we adapted again our market interventions to this potential illiquidity over a period. Fortunately, we could regain control of the money market after 9 August, but at the end of the year, we had again enormous problems, we embark again on an unlimited ... a limited supply of liquidity. But when we deal, as central banks, with liquidity issue, we have to stress that solvency issues were at the time not our problem but the problem of the Irish Financial Regulator and we have to rely upon, because there was no centralisation of supervision, we had to rely upon the judgment made by the national authority at that time and there was absolutely no suggestion that I could mention from the regulator that Irish banks were insolvent at the time. So, we enhanced our own survey of what was happening in Ireland in 2009, after Lehman Brothers collapsed, in light of concerns not just on the banking system but also on the fiscal situation and I would say that we had special attention, without being responsible, because again don't forget that the ECB is responsible for price stability without deflation, without inflation, for the euro area as a whole, but what we understood from the situation in '09 and '10 was that the funding challenges facing Irish banks was particularly acute and that providing assistance, in assisting the banks - and we responded to the crisis at the time - there was an immense call - I have mentioned that already - for refinancing coming from the banks in Ireland. And it became clearer and clearer over time that the funding concerns were, you know, due to deeper, more fundamental issues that were underlying. All taken into account, we, as I said, refinanced the Irish economy in a proportion which has been absolutely without any precedent or equivalent.

Deputy Ciarán Lynch: I have a final supplementary on that, just because I've a little bit of time. Prior to the eve of the guarantee, were the ECB engaged with any way with the Central Bank or the Irish Government? That's the guarantee of September 2008.

Mr. Jean-Claude Trichet: I'm sorry, because the sound is not very good.

Deputy Ciarán Lynch: Yes. Sorry, Mr. Trichet, if you could just clarify, in the period of .... prior to September 2008, were the ECB engaged in any way with the Irish Government or the Irish Central Bank or Irish financial services in any manner related to the implementation or the design or the structure of a guarantee?

Mr. Jean-Claude Trichet: No contact between the Irish Government and either me or the ECB or, to my knowledge, other governments, because I had myself the other governments calling on me and saying, "What's happening?" Because at the time, you know, it's extraordinary in this time of crisis, the simple fact that the Irish Government had given the guarantee was considered by the global market a much better guarantee than any private signature and so the money was affluent and you can imagine which marketplaces were absolutely appalled to see that the money was getting out their marketplaces and going in Dublin. Of course, after, it appears that the views of the investors and savers were totally different and they considered that the creditworthiness of Ireland itself, the sovereign, was at stake.

Mr. Brendan Halligan: Thank you very much indeed. The second question is from Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat a chathaoirligh agus cuirim fáilte roimh iar-cheannaire an ECB chuig Baile Átha Cliath, an t-Uasal Trichet. Mr. Trichet, you said in your opening statement that the ECB had no responsibility at all for bank supervision or macro-prudential policies in member states, so, therefore, can you confirm that when the Irish financial stability reports were issued between 2004 and 2007, which indicated risk to financial stability, what the ECB did or did not do in relation to that? I want to particularly draw your attention to the stability report of 2004, which it states that: "It doesn't preclude the possibility of adverse developments which, should they materialise, would have serious financial consequences for households, corporates and banks". They talk about the risk of an unanticipated and sudden fall of residential property prices, accompanied by an increase in the default among mortgage holders and it goes on to say that this risk poses the greatest threat to the health of the banking system. So, did the ECB take any actions, any measures, as a result to try and intervene, to stop, to mitigate the risks that were outlined in that report published by the Central Bank? Was it discussed at the ECB board, for example, and if no action was taken, do you regret that? And should action have been taken?

Mr. Jean-Claude Trichet: Again, we have to be very clear. You have your own responsibility and each institution should ... and I know that a number of questions are also very concentrating on were you over and above your own responsibilities. Our own responsibilities were at the time very clear. We were responsible for monitory stability in the euro area, the treaty the primary mandate, and, again, without deflation, without inflation. Beyond that responsibility, we observed that the Stability and Growth Pact was not respected. We made the point extraordinarily clear several times that this was absolutely necessary, in our view, for the cohesion of the euro area. Beyond our primary mandate, we could see that nobody was surveying the evolution of competitiveness. We made the point since '05 at each meeting of the Eurogroup, every month, that some countries were losing their competitiveness. Ireland was part of the countries that were losing their competitiveness. All the figures were circulated every month to the governments. Again, we had no responsibility. It was clearly to the governments, to the Commission in some respect, to look at that, but we point to the figure.

As regards from a more general standpoint, the final, short stability issue at the time, where we had no particular responsibility in this domain, we made public remarks regularly on ... I would say both at a global level and at a European level. We considered, right or wrong, but it was strictly our own responsibility, that we had no responsibility in banking surveillance in Ireland; that it was the responsibility of the national authorities, and the national authorities - I'm not saying that in Ireland particularly - but all over the euro area were very, very keen in saying, "It is our responsibility" and I don't, you know, criticise them from that. It was the implementation of the system as it was at the time. It was not a good system and that's the reason why it has been totally changed.

Deputy Pearse Doherty: Okay. Mr. Trichet, you make the point that ... you pointed the finger to try and point out some of these issues and it's clear that the record will show that you yourself, as President of the ECB, had been warning as far back as 2005 in relation to the real estate prices and also the lending into construction. I would ask for your views in relation to the actions that were taken at a national level, after you pointed the finger in that direction, but can I also ask you ... you gave in your opening speech, a critique of the policies that existed up until the boom and the Irish economy that existed in that period. You mentioned unsustainable growth levels, half of fiscal revenues were from capital taxes linked to construction, public and private sector wages unrealistic, unit labour cost increased by 50%, loss of competitiveness, high inflation and so on. Can I ask you to respond to people who believe that you cheerleaded that type of scenario and what would be your response to that? Can I put to you in particular, when you came to Dublin on 10 May 2007 and held a press conference, and in response to a question about the Irish economy you said, "Very often I and my colleagues of the Governing Council are mentioning the Irish economy as a role model in many respects to the euro area in terms of growth, in terms of dynamism, in terms of job creation, in terms of long-standing reform strategy, with economic reforms that are paying off in many respects." How could that, in the mouth of the crisis, like, that comment stand given the critique, and very strong critique, that you had of the economy at that time? Thank you.

Mr. Jean-Claude Trichet: First of all, you have assets and liabilities in all countries. It is true that during all these times, before the crisis, during the crisis, after the crisis, the Irish economy proved a level of flexibility which had no equivalent in the rest of the European countries. So it is not surprising that I was praising that, because it was one of the major, major criticism that we had before the crisis, during the crisis and after the crisis on other countries. If Ireland has been the country that came out of the crisis more rapidly than others, and I would say, with all the painful exercise that it represents, more successfully than the other crises, it is because of this flexibility. I'm not surprised that at times I could be very laudative *vis-à-vis* this feature of the Irish economy when I would criticise others. To go back to the criticism, what is a lesson, a terrible lesson of the crisis, is that you can present the figures, show that you're losing competitiveness, show that you are going in front of future problems at the level of the euro area as a whole, at the level of any individual countries, in the United States of America, in the UK, everywhere, as long as there is no financial crisis the spontaneous tendency of the, I would say, executive branches is to say, "Let's go on. Why don't you ... it is not broken, why would you fix it?" And it is a terrible lesson that we have. We cannot rely upon market discipline to discipline the various entities at stake. We have to have a good governance. And that governance has to be applied, and this is the reason why SGP and MIP are, in my opinion, absolutely essential. As long as the crisis does not erupt everything was going admirably in the advanced economies.

Senator Sean D. Barrett: Thank you, Chairman. Were you personally aware of the deteriorating liquidity and solvency position in Irish banks in Ireland in 2008, in particular September 2008?

Mr. Jean-Claude Trichet: I was aware of the liquidity constraint, I have to say all over Europe, because, again, all the European banks, when they were desperately looking for liquidity, on 9 August 2007, and you are speaking of mid-2007, we decided, and it was a very, very important decision, and most important at that time, even in comparison with the UK, US, we decided to give liquidity without limit. We were asked that day, 9 August, €95 billion, much more than $100 billion, of liquidity. And the Irish banks were part of it. But again, at that time, it was a general problem.

Senator Sean D. Barrett: Did the Governor of the Central Bank of Ireland brief you or your officials in the ECB on the liquidity-solvency situation and the options being considered?

Mr. Jean-Claude Trichet: In September 2008 we had the collapse of Lehman Brothers, and we had again a problem, which was not an Irish problem at all, it was the house of cards of global finance which was collapsing. And after a sequence of events that were not on this side of the Atlantic, but were on the other side of the Atlantic, you had Bear Stearns, Freddie Mac and Fannie May, Lehman Brothers, after Lehman Brothers, AIG; you name it. This was the sequence of drama that we were observing. And we had at the level of the major central banks of the world to cope with that in a few half days and, as you might remember, it was on the Thursday following the Monday of the collapse of Lehman Brothers that we decided to provide liquidity on a global basis through swaps that we had with the FED and the other central banks in order to be sure that all banks all over the world would have normal access to liquidity, even if they had no collateral in dollars, but collateral in the local currency. So that is the situation in September '08.

I would say the ... Ireland was one of all the advanced economies, one of course of the 15 I already mentioned in Europe, and we had the same, I would say, message for all, "We are in the worst crisis since World War II, make no mistake, it is exactly the situation, it is absolutely dramatic, you have to take that into account. On our side we are doing all that we can on the liquidity basis, you are responsible, your governments, for the solvency basis." No different message for Ireland than for any for any other country at the time. And they were all, I have to say, in a dramatic situation.

Senator Sean D. Barrett: And did your officials give any advice to the Irish Government, or the Governor of the Central Bank on the decisions that had to be taken to deal with that situation in September 2008?

Mr. Jean-Claude Trichet: I mean, again, I did not provide particular advice on the situation in '08 because there was dramatic advice across the board for all nations, all governments. We were not kept abreast of any development in Dublin by the Irish authorities, and as regards the guarantee, we learned the guarantee through the media. So that was the situation. I don't blame anybody, I don't blame anybody. You have to understand that Ireland was one of the ships in a terribly agitated sea or ocean where, you know, everybody could sink, and the decisions were taken, again, at a global level. My main responsibility was to discuss with Ben Bernanke to see what we could do at the global level in order to avoid the drama.

Senator Sean D. Barrett: Thank you.

Senator Susan O'Keeffe: Mr. Trichet, *bienvenue en Irlande*.

Mr. Jean-Claude Trichet: *Merci beaucoup*.

Senator Susan O'Keeffe: The late and former Minister for Finance, Brian Lenihan, re-called in an interview that he did in September 2010, that he had picked up a message on his telephone, his own mobile telephone, from you on Saturday, 27 September 2008 that said, "You must save your banks at all costs." Can you tell us what your recollection is of that phone call, and what communication either preceded that or followed that, or what was going on at that time?

Mr. Jean-Claude Trichet: I have not read this paper. I had, you know, contacts with Brian Lenihan that we're extremely confidant, and you can see in the letters which have been published, which was the nature of our exchange, we had the sentiment that we cannot only rely upon oral discussions, that we had also to make things clear from his side and from my side, and that is the reason why we have written letters, which were at the time, as you know, totally confidential. I have not said that to Brian. We have said, all my colleagues and myself, not to Brian, to all governments, "Be careful." We had drama coming from Lehman Brothers. It's bankruptcy, it's an absolute drama, and all Heads of State and Government, to my knowledge, said there will not be a new Lehman Brothers in my courtyard. It was said by the Council European. It was said by the President of the US, it was said by Gordon Brown in the UK, it was said by all Heads of State and Government, and there was absolutely nothing peculiar for Ireland at that time - nothing. Ireland was particularly aware of the fact that it was very vulnerable, and I guess that it is the reason why the guarantee was decided.

Senator Susan O'Keeffe: So, just to clarify, Mr. Trichet, you or the ECB never gave any message to Ireland in September 2008 that no bank should be allowed to fail.

Mr. Jean-Claude Trichet: No message to Brian, no message to the Government of Ireland, but, if you read the papers at the time, all central bankers of the world were telling all governments, "Don't do again Lehman Brothers." So, put that in your mind. There was no call from me to Brian. It would not have been, you know, in line with what we were doing at the time, again, as I explained.

Senator Susan O'Keeffe: And again, during the hours that followed Saturday, through Sunday, through Sunday night, there were no phone calls, messages, conversations taking place between the ECB or its representatives and any member of the Irish Government or officials over that 24 or 36 hours?

Mr. Jean-Claude Trichet: To call for the guarantee?

Senator Susan O'Keeffe: Yes.

Mr. Jean-Claude Trichet: Again, no information of the guarantee, no call for the guarantee. And, again, what I am referring to was a blanket political guarantee but not a legal guarantee which was given by the various Heads of State and Government. They generally gave blanket political guarantee but not legal guarantee. The legal guarantee was criticised by the ECB-----

Senator Susan O'Keeffe: Yes.

Mr. Jean-Claude Trichet: -----in public, and the legal guarantee was the responsibility of the Government of Ireland. And, again, in a dramatic situation, I don't criticise the Government of Ireland myself, even if there was a point that we noted as not being optimal from our own legal standpoint.

Senator Susan O'Keeffe: So the Government didn't seek your advice and you didn't give it?

Mr. Jean-Claude Trichet: No.

Senator Susan O'Keeffe: And finally, you say in your own statement on page 7 today, "The wave of debt maturing in September 2010 issued under the guarantee – confirmed Ireland's loss of access to sovereign markets. Combined with other factors [...] the Irish government was confronted with no alternative but to ask for official support." Are you suggesting there, Monsieur Trichet, that the guarantee, effectively, the guarantee caused the bailout to happen?

Mr. Jean-Claude Trichet: No, I don't say that. I say that in the circumstances it was clear that there was a particular pressure which was exerted on Ireland. I would also say that it is difficult to redo the history of these dramatic events. As I said, at the time of the guarantee given by Ireland to its banks, we ... they had to cope with a total collapse of the banking system because, again, it appeared that the banking system in Ireland was probably one of the most vulnerable of the world, taking into account the dimensions of this banking system, the particular, I would say, inflation of balance sheets and so forth. So, the possibility would have been, perhaps, a total collapse of the Irish economy at that time, and we would not be there to discuss the recovery of Ireland and the success story of Ireland because there would be something totally different - a dramatic depression - in Ireland.

Again, we are speaking of a Government which is not there anymore. We are, unfortunately ... and I am very sad that, speaking of a Minister of finance that passed over ... I think that he did what he thought was the best in absolutely dramatic circumstances. And, of course, a lot of responsibilities were here but these dramatic circumstances were coming a few days or half days before from an incredibly dramatic event coming in New York and which the wave was coming immediately, in Ireland particularly but in the rest of the world also, as I said.

Senator Susan O'Keeffe: *Merci beaucoup*.

Deputy John Paul Phelan: Mr. Trichet, I want to ask you was there - and specifically in relation to liquidity and the collateral rules that were in force at the time - was there any request made by, or discussions with, members of the Government or the then Governor of the Central Bank, Mr. John Hurley, or any of his representatives in 2008 prior to the guarantee for additional or emergency funding from the ECB?

Mr. Jean-Claude Trichet: Prior to the guarantee ... so we are there after Lehman Brothers ... I have absolutely no memory of anything in particular at that time. Again, the problem was generalised; the problem was drama all over the world. And again, Ireland was touched dramatically as well. Only for you to know, I had to be in touch with many, many, many, many governments to explain that we had a global crisis and that the global crisis ... that we were doing all what we could but that we could do only liquidity assistance and not solvency assistance.

Deputy John Paul Phelan: I specifically asked the question because we've had evidence from a number of witnesses to the inquiry that has alluded to the fact that there were requests for changes to the collateral rules prior to the guarantee coming into effect, and those changes happened subsequently, a little more than two weeks after the guarantee came into effect in Ireland. Those changes meant that Irish banks had access to liquidity two weeks after the guarantee that they did not have access to prior to the rules being changed, and I just want you to recollect, if you can, why those requests from Mr. Hurley appear to have fallen on deaf ears.

Mr. Jean-Claude Trichet: Again, we are a set of 15 countries at the time - 320 million people, 330 million people. You're telling me that one particular country was saying, "Change the collateral for us." Is that right?

Deputy John Paul Phelan: Change the rules in general.

Mr. Jean-Claude Trichet: Change the rules, yes. I mean ... again, no pre-negotiation, no pre-discussion on the guarantee of any kind, no call for any dialogue on that. We have the guarantee which comes. The guarantee is a thunderbolt for many, many countries. As I told you already, no further discussion with anybody, no further discussion with any other governments, and all governments were, of course, shocked by the fact that one particular country was taking an extraordinary decision, including some of your neighbours. And, of course, I don't even imagine that there was anything linking guarantee in Ireland, collateral and so forth.

Deputy John Paul Phelan: Just that the rules were subsequently changed about two weeks later.

Mr. Jean-Claude Trichet: If rules were changed, they were not changed for Ireland; they were changed for 15 countries and 330 million people.

Deputy John Paul Phelan: Can I ask you in my final supplementary did you try to achieve any changes, or the ECB as well, try to achieve any changes in the decision on the guarantee before it was put into place?

Mr. Jean-Claude Trichet: But I already said that there was no contact with the Government before the guarantee was decided.

Deputy John Paul Phelan: I'm talking about subsequent to the announcement but before the legislation was enacted.

Mr. Jean-Claude Trichet: We were, as is obvious because it was published, to my knowledge - I don't have here the paper but you have it; it is public - we were criticising the guarantee.

Senator Michael D'Arcy: Could you outline the involvement of the ECB in the recapitalisation of the Irish banks to merging of the Irish banks and the nationalising of Anglo Irish Bank in 2008?

Mr. Jean-Claude Trichet: Again, all these decisions were decisions of the Government of Ireland if I am not misled. We had 15 countries that had all more or less the same problem, the same difficulty, with many countries obliged to sustain some of their institution by various means. I cannot say anything but, we at the time were supporting Ireland through our own refinancing more that any other country and I have to say, more to my knowledge of all other advanced economies, whether they are in the euro area or out of the euro area. I already told you that at the time our help to Ireland represented 100% of the GDP of Ireland. So you have to realise what it means for a central bank to do something which represents a multiple of what the Fed. did for the United States of America. I mentioned that *en passant*.

Senator Michael D'Arcy: Mr. Trichet, in evidence this morning, Mr. Brian Goggin, CEO of Bank of Ireland, stated that he had discussions with representatives from he Central Bank of Ireland to take over Irish Life and Permanent and in that scenario, Anglo Irish Bank and Irish Nationwide would be stood down. He also stated that he was told that is ''was virtually certain'', his words that Anglo Irish Bank would default the next day.

Were you aware that Anglo Irish Bank was virtually certain to default the next day? And if you were not aware, should you have been aware?

Mr. Jean-Claude Trichet: Again, it was not the responsibility of the ECB to survey the banks. We were relying of course upon the local authorities for surveillance and on possibly governments in case the drama would unfold. So no memory, no I would say responsibility in this domain. I trust again in these very difficult circumstances I understand fully and it's normal that everybody can't see whether good decisions were taken or so forth. All taken into account, taken the drama which was unfolding it seems to me that the decisions which were taken by Ireland, and I don't want to enter if it was the previous Government, the following Government, the various institutions concerned, those decisions were probably the best ones or the least worst in dramatic circumstances. That's my understanding.

Senator Michael D'Arcy: Should you have been aware? Governor Hurley was in the room, he was a member of the Governing Council of the ECB.

Mr. Jean-Claude Trichet: It has to be reflected upon. You are telling me that a bank was about to collapse the next day?

Senator Michael D'Arcy: Yes.

Mr. Jean-Claude Trichet: And that it was known by the local authorities ... by the local surveillance authorities.

Senator Michael D'Arcy: Yes.

Mr. Jean-Claude Trichet: And I ... my working assumption is that the local surveillance authorities was probably considering that they would avoid the drama. I cannot respond. I don't know.

Senator Michael D'Arcy: It is unbelievable you were kept in the dark.

Mr. Jean-Claude Trichet: Pardon me?

Senator Michael D'Arcy: It is unbelievable that you were kept in the dark as the president of the ECB.

Mr. Jean-Claude Trichet: I don't know what is believable or unbelievable.

Senator Michael D'Arcy: Is it believable?

Mr. Jean-Claude Trichet: Pardon?

Senator Michael D'Arcy: Is it believable?

Mr. Jean-Claude Trichet: Is it believable? I mean ... was a solution found? Was a solution found ... in that case?

Senator Michael D'Arcy: Can I ask you Mr. Trichet -----

Mr. Jean-Claude Trichet: No, I'm sorry. You are asking me things that of course you remember. I have in mind 15 countries and many, many, many, many, many, many issues. So you are asking me a very specific point. And you seem to reproach if I understand well, to the head of the national supervision in Ireland not to have told me something which was very, very grave. I have to, again, know better the circumstances. What happened the next day? There was a bankruptcy?

Senator Michael D’Arcy: It was a guarantee. As you know.

Mr. Jean-Claude Trichet: Yes. I’m sorry you are speaking of the guarantee given by the Government?

Senator Michael D’Arcy: Yes.

Mr. Jean-Claude Trichet: Yes, of course I told you the guarantee was not pre-negotiated before. Full stop.

Senator Michael D’Arcy: Can I ask you Mr. Trichet, if you got a phone call during the night of 29 September 2008 and been told that the Irish Government had decided that Anglo Irish Bank and Irish Nationwide Building Society were being allowed fail as a result of their insolvency, what would your reaction have been?

Mr. Jean-Claude Trichet: It’s an assumption ... a hypothesis. I’m sorry, what is exactly your question?

Senator Michael D’Arcy: Exactly the question is if you had got a phone call during the night -----

Mr. Jean-Claude Trichet: If I had ... if I had it -----

Senator Michael D’Arcy: Yes.

Mr. Jean-Claude Trichet: If I had a phone call during the night -----

Senator Michael D’Arcy: That Anglo Irish Bank and INBS were going to fail the next day, what would your reaction have been?

Mr. Jean-Claude Trichet: Same reaction as with all Heads of State and Government all over Europe. Same reaction as all my colleagues would have had in the other advanced economies. You could see what happened after Lehman Brothers. You are in exceptional circumstances ... it’s the worst crisis ever since World War II. Could have been by the way, the worst since World War I. Assume fully all your responsibilities. That being said, the central bank does not substitute and should not substitute in any respect to the responsibility of the executive branches and certainly not to the responsibility of the parliament.

Senator Michael D’Arcy: Okay.

Chairman: Thank you very much, Senator. Now we will go back to the questions from the members. This question is framed around one put by Michael Tutty. Do you think that there is equal treatment in the euro area between big and small countries, for example, France being regularly allowed to delay reaching the 3% deficit target, and surplus and deficit countries, for example, no action being taken to reduce the German current account balance of payment surplus? And, if not, what should be done about it?

Mr. Jean-Claude Trichet: Good question. As I already said, the first breach of the Stability and Growth Pact came with the big countries. And I had to counter myself France and Germany under the chairmanship of Italy that were very, very, fiercely attacking the Stability and Growth Pact. It was ... I am on record *vis-à-vis* the European Parliament to have said that the stability and the cohesion of the euro area were depending on ... heavily depending on the Stability and Growth Pact ... and it was the big countries. We saved the letter of the pact, the spirit of the pact was largely destroyed and we saved a letter of the pact with the small countries ... clearly ... that were appalled by the big countries. In the present period, I call for all countries to go by the rule. I think that experience has demonstrated, and we learned the hard way, that we have to respect the framework of the European euro area governance ... and I will call for all countries to apply by the rule. So it's a big problem ... big and small.

Second part of the question - surplus and deficit. It is true that the MIP is a very important pillar to survey both, I would say, the loss of competitiveness and the external imbalances of the kind of deficits and also of the possible excessive imbalances when there is an accumulation of surplus countries. And there again, I think that it is very important that the Commission and the Council apply by the rules of SGP and MIP. The Commission because it has a decisive role to play of course in handling this governance pillar and the Council because the decisions are taken by the Council.

Mr. Brendan Halligan: And the last question is from Mr. Pat Cox, the former president of the European Parliament. "Do you accept that without a stabilisation policy capable of responding to asymmetric economic shocks, that there cannot truly be a genuine economic and monetary union?"

Mr. Jean-Claude Trichet: I think that it is a very, very important point. We normally have a certain capacity in the euro area to respond to asymmetric shocks because, let's not forget, in normal times the fiscal balance should be balanced or in surplus ... in normal times. And it's in difficult times that we can go down to minus 3%. So normally, all countries should ... in normal times ... in times of asymmetric shocks, those who are hit by the asymmetric shock should have 3% of GDP of fiscal cartridge, if I may, to utilise and try to resist the crisis. That's one. You will tell me perhaps 3% is very meagre, it should be higher and so forth - but it is the rationale behind the balance of in surplus rule.

Another very important point is the point of banking union and, I would say, capital union more generally as is mentioned now. Because it is clear in the United States of America that to resist an asymmetric shock the capital union, or the financial union, of the United States of America plays a very important role - because the financial risks are disseminated all over the US and because the credit is more abundant to finance states that have more difficulty. So I think that through both the SGP, on one hand, and this banking union ... capital union, on the other hand, we have two ways of being perhaps on the safer side. Now, when we speak of the embryo of budget of the euro area, or more than a number of budgets of the euro area, we are also thinking of a possible cushion in terms of problems. But, it is more for perhaps for the euro area as a whole, for the entire euro area, if there are particular shocks to weather. But again I think that we should not forget that not only the fiscal channel is important to resist and, I would say, weather asymmetric shocks but also the capital union ... financial union.

Mr. Brendan Halligan: Thank you very much for that response. We move now to the second round of questions from the committee and I'm calling on Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you, Mr. Halligan. Mr. Trichet, my questions relate to burden sharing and whether or not the ECB sought to influence the decision of the Irish Government on burden sharing with senior bondholders from 2008 to 2013. Just to give some context to the question, in September 2010 the guarantee expired and some €20 billion of unsecured senior bonds came out of the guarantee. Roughly €4 billion of these bonds were issued by Anglo and INBS, two banks that no longer exist. So did you or the ECB influence or seek to influence the decision of the Irish Government to repay these unsecured, unguaranteed senior bonds?

Mr. Jean-Claude Trichet: I again have to go back to what we already said. In 2010 it seems to me that there was a broad consensus that burden sharing, this kind of burning of senior debt, was a very unwise course of action. The Irish authorities considered that it was an unwise course of action, but I can refer to the way all other Europeans were looking at it and the way , I would say, the way the international communities - of the advanced economies, on the other side of the Atlantic, everywhere - were considering. So, again, it's very ... all this is very complex. The guarantee was the initiative of the Government of Ireland without pre-discussion with anybody ... surprising other governments which, for most of them, embarked only on what I have called a blanket political guarantee. That's for one. So an initiative of the Government of Ireland, which was not at all a global consensus or a European consensus.

For the particular problem of the burden sharing, in '10 there was a consensus, it seems to me ... very clear. Later, in 2011 there were discussions on this particular point. I have to say that the overall risk of a new round of financial instability at the moment where the main goal of Ireland was to regain creditworthiness, to get back the investors and savers instead of having them putting their money out, was, in my understanding, justifying the decision which was taken. As far as we were concerned, we had put 100% of the GDP of Ireland to help support Ireland and all the entities in Ireland.

Deputy Eoghan Murphy: Mr. Trichet-----

Mr. Jean-Claude Trichet: There is no equivalent of that anywhere in the world ... and, of course, it was because you had a loss of creditworthiness and also credibility-----

Deputy Eoghan Murphy: Mr. Trichet, I don't mean to interrupt ... if I could take you back to 2010 though. These were unsecured, unguaranteed senior bonds and there was not consensus with the IMF on whether or not they should be repaid. Is that correct? Did the ECB and the IMF have a different view on whether these bonds should be repaid in 2010 - Q3, Q4?

Mr. Jean-Claude Trichet: In '10?

Deputy Eoghan Murphy: Yes, in '10.

Mr. Jean-Claude Trichet: In '10 I have no memory-----

Deputy Eoghan Murphy: In September-----

Mr. Jean-Claude Trichet: I'm sorry, I have no memory of anything that would have been a difference of views between the IMF and the ECB. Absolutely. In '10.

Deputy Eoghan Murphy: In '10. Prior to the bailout and coming in to the negotiations of the bailout, did the ECB and the IMF have the same view on burden sharing in the course of those negotiations in relation to unsecured, unguaranteed bondholders?

Mr. Jean-Claude Trichet: Again, I was myself not in touch with the IMF, it was my collaborators. So, I don't think, again, that in '10 there was, at least I have not in mind the fact that there was not a broad consensus that burden sharing was unwise. Perhaps a collaborator of the IMF thought otherwise, certainly not the IMF, certainly not the board of directors of the IMF, certainly not the MD of the IMF. I cannot discuss with individuals, you know/ You are asking the question, perhaps you could give me the name of the individual who said to you that, that would help.

Deputy Eoghan Murphy: An adviser to Brian Lenihan at the time claimed that-----

Mr. Jean-Claude Trichet: Pardon me?

Deputy Eoghan Murphy: An adviser to the Minister for Finance Brian Lenihan, at the time, Alan Ahearne-----

Mr. Jean-Claude Trichet: An adviser of Brian-----

Deputy Eoghan Murphy: Of Brian Lenihan's, claimed that the IMF agreed that, in principle, the unsecured, unguaranteed bondholders should not be repaid. This is in the course of the negotiations for the Irish bailout.

Mr. Jean-Claude Trichet: Again, I have the memory that. In '11 it might have been the case, not in '10. But, again, I give you my own memory.

Deputy Eoghan Murphy: If we can go to '11 then, seeing that's the point in time which you do remember clearly. In March of 2011 the new Irish Government was considering not repaying €6 billion in Anglo Irish bonds. There was three phone calls between the ECB and the Irish Government on 31 March - two between yourself and Minister Noonan and one between yourself and the Taoiseach. And after that the decision to not pay those bonds was reversed. Did you say, in effect, that an economic bomb would go off in Dublin if these bonds were not repaid?

Mr. Jean-Claude Trichet: You are referring of ... conversations ... phone calls?

Deputy Eoghan Murphy: Conversations that you had with our Minister for Finance at the time ... 31 March 2011, Michael Noonan and with An Taoiseach, Enda Kenny. And you said to the effect that an economic bomb will go off in Dublin -----

Mr. Jean-Claude Trichet: I will certainly have utilised metaphor of that kind ... would have been totally not in line with the relationship I had with the Government. What I certainly said, because we had discussed that in the governing council of the ECB, was that it was unwise to do that. And that was our strong feeling at the time where Ireland was helped by us more than any other country in ... as I already said, in Europe, and perhaps in the world. So let's put yourself in the situation. We have a country which is progressively regaining competitiveness in very, very difficult times. We expressed only the sentiment of the Governing Council to the Government or Ireland. The Government of Ireland is responsible and the Government of Ireland takes decisions.

Deputy Eoghan Murphy: And Ireland was receiving assistance from you at the time, but did you threaten to withdraw ECB assistance to Ireland if we did not repay those bonds?

Mr. Jean-Claude Trichet: That has no meaning. That has no meaning.

Deputy Eoghan Murphy: Did you threaten to withdraw European assistance to the Irish national sovereign if we decided to-----

Mr. Jean-Claude Trichet: No, certainly not. No. You know exactly what were our relationship. We have published our letters. Full stop. You have to know ... you know with the adjective, the comma, the full stop, exactly what was our relationship with Ireland. You have the letters ... the four letters that have been published. The rest of it I can only ... I assume totally the fact that the Governing Council of the ECB considered it was not appropriate for Ireland in the situation in which Ireland was, which was one of the worst you could imagine, to go along this burning and that you would have had probably a lot of very adverse consequences. It was finally what was decided by the Government, if I'm not misled. The decision was not taken by the ECB.

Deputy Eoghan Murphy: Thank you.

Mr. Brendan Halligan: Deputy Joe Higgins ... okay, then Deputy Kieran O'Donnell.

Deputy Michael McGrath: No, I think, Chairman-----

Mr. Brendan Halligan: Well, this is the order that I have.

Deputy Michael McGrath: No, I'm next, Chairman.

Mr. Brendan Halligan: Okay, sorry. Michael McGrath.

Deputy Michael McGrath: Okay.

Mr. Brendan Halligan: My apologies to you. I was wrong, which is very unusual.

Deputy Michael McGrath: Thank you, Chairman.

Deputy Kieran O'Donnell: We're all apologising today, Chairman.

Deputy Michael McGrath: Thank you, Chairman. You're welcome to Ireland, Mr. Trichet. As you said in your opening remarks during the lecture, "The ECB indeed does not have any authority to issue instructions to any euro area government or its ministers." So, against that backdrop, can I ask you to identify what article, if any, of the treaty establishing the ECB, provides for the type of direction issued to Brian Lenihan in your letter on 19 November 2010 pertaining to issues that would appear to be outside of your direct mandate in terms of fiscal consolidation, structural reform, etc.? And is it not the case that in that letter the ECB issued a very clear, direct and unambiguous threat to the Irish Government, that if it didn't apply for a bailout the ECB would turn off the life support machine for Irish banks?

Mr. Jean-Claude Trichet: Thank you very much. It's a very important question. And, as I referred to a moment ago, it was because Brian and I wanted to be absolutely clear on what was the relationship between the ECB and the Government on top of all of, I would say, exchange of views in this very, very dramatic circumstances. Responsibility for the provision of ELA lies with the NCB concerned, so the national Central Bank of Ireland. In this particular case, as in all other cases, and you have a number of cases even today, the Governing Council's related competence is based on Article 14.4 of the statute of the European system of central banks and of the ECB itself, the European Central Bank. The Governing Council of the ECB may restrict the performance of national functions, such as ELA operations, if it considers that such operations would interfere with the euro system objectives and tasks. This means that if the ELA is provided in large amounts, the Governing Council needs to assess the features of the transactions, their liquidity effects, and whether it would be appropriate to impose specific conditions in order to protect the integrity of the ECB's monetary policy.

Additional procedures underlying the Governing Council's role with regard the provision of ELA are aimed at adequately ensuring that these arrangements and their potential effects do not interfere with the single monetary policy. Moreover, the Governing Council has to adhere to the prohibition of monetary financing. In the case of Ireland, the level of liquidity provided by the euro system in support of the Irish economy had reached, by November 2010, around €140 billion, including ELA. It was representing around 85% of Irish GDP. I mentioned 100% at the peak afterwards and 85% was, of course ... has no equivalent the world over. So this represented one quarter of the ECB's total lending at the time; one quarter for Ireland in a euro area where you have Spain, Italy, Germany and the like, and it was a totally unprecedented level, of course. And in the letter you are referring to, implicitly we ... I was saying ... whenever ELA is provided in significant amounts, the Governing Council needs to assess whether it is appropriate to impose specific conditions in order to protect the integrity of our monetary policy. In addition, to ensure compliance with the prohibition of monetary financing it is essential to ensure that ELA recipient institutions continue to be solvent. And it is this latter consideration, the solvency of the institution, that is reflected in the four points mentioned in that letter, that would be absolutely necessary in the view of the Governing Council of the ECB to ensure continued solvency of the Irish banking system.

Deputy Michael McGrath: But, Mr. Trichet, with respect, the letter goes way beyond the solvency of the institutions. The letter refers to issues that form part of a national competence, fiscal consolidation, a general reference to structural reforms. And, would you not agree with the comments of the IMF mission chief to Ireland, Ajai Chopra, during an address to Oxford University, where he said your letter represented an outrageous over-reach of the ECB mandate? Did you not, in effect, put a gun to the head of the Irish Government to apply for a bailout, or else the banks would have the life support machine cut off?

Mr. Jean-Claude Trichet: No, I would certainly say, taking into account that the 100% correlation between the creditworthiness of the country and the creditworthiness of the banks, we had, again, a problem which was the problem of the country and the problem of the banks, and it was our duty to express, as we did with other countries ... it's not ... certainly not the case of Ireland ... orally or in a written form, and exactly as I did, the fiscal policy consisting ... or not following the Stability and Growth Pact is a bad one. It was the duty of the ECB to say that and it was equally the duty of the ECB to list the issues where we thought, *en âme et conscience*, as we say, to the best of our own observation and knowledge in dramatic circumstances where we had already helped Irish ... Ireland more than any other country in the world, it was our duty to list what we considered appropriate. By the way, the Government of Ireland ... and I knew that through Brian, was itself reflecting along all those lines, and it was, you know, referring to what was fortunately in the pipe in Ireland and has been successful in Ireland.

Deputy Michael McGrath: Mr. Trichet, did you attend a meeting at the G20 summit in Seoul on 11 November 2010 along with Olli Rehn, Timothy Geithner, Wolfgang Schäuble, where it was, effectively, decided that Ireland had to enter into a bail-out programme to stop the threat of a wider banking crisis, and was that conveyed by telephone to Brian Lenihan the following day, on 12 November?

Mr. Jean-Claude Trichet: The G20 would have decided what Ireland should do?

Deputy Michael McGrath: A meeting you had on the fringes of that with the persons I named.

Mr. Jean-Claude Trichet: A meeting I had?

Deputy Michael McGrath: Yes.

Mr. Jean-Claude Trichet: Ireland was present in the-----

Deputy Michael McGrath: No, Ireland was discussed.

Mr. Jean-Claude Trichet: Pardon me?

Deputy Michael McGrath: Ireland was discussed. The situation in Ireland was discussed and that was the conclusion.

Mr. Jean-Claude Trichet: I'm sorry, who told you that, in order for me to have the memory of a meeting on Ireland in the G20 in Seoul on which day?

Deputy Michael McGrath: 11 November.

Mr. Jean-Claude Trichet: 11-----

Deputy Michael McGrath: I'm asking you did it happen. I can't confirm it happened because I wasn't there, but you can confirm whether or not such a meeting took place.

Mr. Jean-Claude Trichet: On 11 November, there was a meeting in Seoul. Whether we discussed and with whom exactly, Ireland, to impose Ireland, if I understand. So it's not the ECB which is at stake now.

Deputy Michael McGrath: No, to arrive at a conclusion that they tried to contain the crisis and to prevent contagion elsewhere in Europe and indeed globally, that it was in the best interests of Ireland to enter the programme, and you subsequently had a conversation with Mr. Lenihan on 12 November, delivering that message.

Mr. Jean-Claude Trichet: So who told you that on 12 November, I had a conversation with Brian?

Deputy Michael McGrath: This has been reported Mr. Trichet, and I'm asking you to confirm whether or not it took place. I wasn't there, I wasn't party to a conversation, you can say whether it happened or not.

Mr. Jean-Claude Trichet: No, I cannot because... because I have to look at all my notes and all my papers. So all I can say-----

Deputy Michael McGrath: I think you would remember-----

Mr. Jean-Claude Trichet: But you have the letter, if I am not misled. So what do you need, on top of the letter?

Deputy Michael McGrath: I suppose, what I am asking you is if it had been decided before that. Now we know, it certainly has been reported that persons from within the ECB were briefing the media, in the days leading up to the formal announcement of a programme, that Ireland would have to enter into a programme. So the question is, had the ECB arrived at a conclusion, prior to that letter to Minister Lenihan on 19 November, that Ireland would have to enter a programme? And you backed that up with a very firm threat in the letter on the 19th.

Mr. Jean-Claude Trichet: So the idea... the question is, whether a decision was taken by, I don't know whom .... governments in the occasion of the G20 or the Central Bank. I mean it is clear, the sentiment of the Central Bank Governing Council is clear, and you have the succession of letters. A first letter, a response by Brian, second letter and if I am not misled, a response by Brian. So you see exactly what was the position I was expressing always on behalf of the Governing Council. And that has nothing to do with any meeting with bodies or persons, I don't know. I only can say that it was clear that without embarking on a clear-cut plan that would improve credibility of the signature of Ireland, would have been probably impossible to get back to the success we can.... we can see now. And my own, you know, sentiment, the sentiment of the Governing Council is absolutely clear in the letter and I am very happy that there has been a letter because otherwise we would discuss ... you know leaks coming from beyond there.

As regards the collaborators of the ECB, I don't imagine for one second that there would have been any press briefing on what Ireland should ... should do or not do, it is not the way the ECB operates and I would... I have absolutely no memory of anything which would look like that and it doesn't seem to me that Brian had told me that. Brian told other things, he was not happy at all, as we know, with other things and particularly with the Deauville agreement in particular. But for what you have said, again I have nothing to add to what I said myself in writing.

Mr. Brendan Halligan: Okay. Deputy Higgins?

Deputy Joe Higgins: Go raibh maith agat, a chathaoirligh. Mr. Trichet, was the involvement ... what was the involvement of the European Central Bank in the decision of the Ireland Government to seek a so-called troika bailout? And did the ECB threaten sanctions if it wasn't sought?

Mr. Jean-Claude Trichet: I already responded to this question. We had, again, a situation which was totally dramatic-----

Deputy Joe Higgins: Yes, okay. Let me be more specific then. In your letter then to the Minister for Finance on the 19th November you said "It is the position of the Governing Council that it is only if we receive in writing a commitment from the Irish Government, vis-à-vis the Eurosystem on ... four ... points that we can authorise further provision of [emergency liquidity]." And then you say that a request must be sent to the Eurogroup. "The request shall include the commitment to undertake decisive actions in the areas of fiscal consolidation, structural reforms and financial sector restructuring." , what we call savage austerity in Ireland. Mr. Trichet, plain people, plain-speaking people in Ireland would call that blackmail. Would they be justified?

Mr. Jean-Claude Trichet: Sir, we had helped Ireland more than any other country. It seems to me that there is something which is missed here. We were the institution which was helping Ireland much more than any other central bank did for any country. In the case of the United States, the Fed would not have $4 trillion in its own balance sheet, at the moment we are speaking, but if the Fed would have done for the United States of America what we have done for Ireland, the Fed would have been, probably something like, $10 trillion, $12 trillion, $13 trillion. So let's... we have to have that in mind.

Second, what is not clear enough in your observation is that the relationship with Brian was extraordinarily confident. Brian knew that we were helping Ireland more than any other country, we had a lot of discussion on that. He was thanking me for the help he received. And he was in favour, of course, of a recovery programme, of a good plan that would permit to put Ireland back on it's feet. So it's nothing to do with the kind of presentation one could make.

Deputy Joe Higgins: Well-----

Mr. Jean-Claude Trichet: It's exactly the contrary. We were together on the same side, trying to get out of a situation which was, unfortunately, the most dramatic you could imagine. And it's succeeded.

Deputy Joe Higgins: Yes.

Mr. Jean-Claude Trichet: We are in a situation were you get out of that, remarkably well.

Deputy Joe Higgins: The question Mr. Trichet is, were you there to save the Irish people or were you primarily interested in saving the big European bankers who were heavily exposed in Ireland? And up to 2008, capitalist European bankers and bondholders, as you know, gambled wildly and speculated on commercial and residential property. And created a huge bubble in pursuit of super profits. Now that is what capitalists do in the financial markets. But when their gambles crashed Mr. Trichet, how do you justify placing their massive burden of private debt, private debt, onto the shoulders of the Irish people who had no hand, act or part in their dealings? How do you justify the taking of €60 billion from the public services and the living standards of our people, putting them into the European financial markets? How do you justify that morally?

Mr. Jean-Claude Trichet: You have a very very important question of course, which is more general, because the question is asked to all governments the world over and particularly to all, I would say, advanced economies. Because we are speaking of a crisis of the advanced economies, which started in New York, as you know with the sub-prime and with Lehman Brothers. And that has happened everywhere and I fully agree with you. This speculation was totally unleashed, Ireland was very unfortunately a case in point as were, unfortunately, all financial markets in the world. Otherwise we wouldn't have this generalisation of the drama to all advanced economies of the world. So the question is absolutely right and absolutely good in all the advanced economies.

The only issue is, would have we been better off for our fellow citizens if we had had the Great Depression, '29 and '30 like? In which situation would have been our people if we would have had the Great Depression? In the opinion of, to my knowledge, all Governments without any exception they all considered that, it's not the Irish Government particularly, they all considered that it would have been much more dramatic and that it was good for us to avoid the dramatic Great Depression.

That is all of what I can say, but never again. I fully agree with you, never again.

Deputy Joe Higgins: Well, Mr. Trichet, you didn't address if it's moral just and right that the private debts of bankers, because of their reckless activity, should be put onto our people and seven years of massive austerity. And my last question to you, Mr. Trichet ... you spoke of a consensus in late 2010 that essentially burning bondholders was too risky. Can I ask you, Mr Trichet, who was the consensus with because I would suggest to you that perhaps hundreds of millions of European citizens would agree that the big financial institutions should take a hit, not ordinary working people? And you spoke about democratic accountability and legitimacy in your address. Can I ask you how is it democratic that faceless, unelected financial speculators in the so-called financial markets can dictate to elected governments, can dictate to the ECB that they should not be burned out ... that they should be compensated for their gambling and that the majority should suffer? How is that democratic in the European Union?

Mr. Jean-Claude Trichet: In the European Union and in the rest of the world, because again we are speaking of a drama which has gone in the US, in the UK and was anticipated, if I may, with the Japanese problem. So the questions you are asking are very good ones. They have been examined by the international community as a whole because the problem that you are asking has been considered by every nation in the circumstances, and the response was we were taking the least bad decision, taking into account that the possible event would have been absolute drama of a great depression in one particular country in the advanced economies as a whole. And this was driving us to this blanket political guarantee, I have been mentioning ... You know pretty well in the UK there has been nationalisation of two banks, that in the US they have managed to avoid AIG, that in a number of other countries, the various institution were also ... they avoided the drama. All that being said, why did we do that? I mean I'm speaking of the governments because we were delivering ourselves liquidity. The central banks, the governments had to come up with a solvency issue. They did that because they wanted to avoid the much more dramatic consequence on their own people, on our fellow citizens, should not be repeated. How should not repeat ... how manage not to repeat that? The system must be much more solid so we have improved at the level of the international community the prudentials considerably, we have improved the capital requirements, we have improved the liquidity ratio, we had ... are tackling with a lot of other issues.

I do not want to say that it's over. In my opinion, we are exactly at the middle of the road in terms of making the financial system much more resilient, much more solid to avoid to be placed in this ridiculous situation, and with a system much more solid where you can have bankruptcy of an individual institution without putting the entire system at stake, you must have rules ex-ante and we have now rules ex-ante in Europe in order to know in which order you are burning creditor A, creditor B, creditor C ... of course, first, the shareholders, second, a number of creditors that are not sub ... and, and, and in order to be sure that we know what to do in such circumstances. It is true that when Lehman Brothers collapsed there was no such rules. The system was incredibly fragile. I gave you that my own mind was entirely, after Lehman Brothers, concentrating on how to avoid the collapse of the house of cards because it was exactly what we had in front of us. So whether or not we have taken all the necessary decisions drawing on the lessons of the crisis is the right question. I would say we have taken a lot of them; we still have a lot of hard work to do. And it's true at the level of each nation, true at the level of Europe, true at the level of the world.

Deputy Kieran O'Donnell: I want to welcome Mr. Trichet to Ireland and can I just ... a couple of points on the bailout. The letter that you sent to Minister Brian Lenihan on 19 October 2010, and then the follow-up letter that you sent subsequently on the ... sorry, 15 October was the first letter and the follow-up letter of 19 November 2010, where you effectively requested the Irish government to seek a bailout, is a complete change in tone, Mr. Trichet. What was the reason for that change in tone? And if the Deauville Declaration had not happened, would Ireland have ended up in a bailout?

Mr. Jean-Claude Trichet: I think that, again, because we exchanged letters, you have exactly the situation. After Lehman Brothers, I have mentioned the fact that within two days, two working days, we had to devise at the global level, mechanism permitting to try to avoid the collapse of the system. And it was at the global level; things are going pretty fast in terms of dramatic crisis. It's clear seen from the letter that the situation on the 15th, was not the situation of the 19th, as you said, so, say four or five weeks afterwards. And I have to say that the letters, the exchange of letters, made clear that as lender of last resort, looking at a situation which was deteriorating by the day, we could not continue to be the lender of last resort to institutions which were clearly considered insolvent by all their environment, their financial environment.

Deputy Kieran O'Donnell: Mr. Trichet, did you envisage in your letter when you wrote on 15 October ... did you envisage that Ireland would be going into a bailout?

Mr. Jean-Claude Trichet: Pardon me?

Deputy Kieran O'Donnell: When you wrote the letter to Minister Brian. Lenihan on 15 October, did you envisage that Ireland would be going into a bailout? Did you think Ireland would be going into a bailout?

Mr. Jean-Claude Trichet: Again, the Irish were - with Brian which was my interlocutor in the circumstances - doing all that they could to put the country on its feet. Going to a bailout is always a very difficult decision ...

Deputy Kieran O'Donnell: But you didn't request ... there was no request in the letter of 15 October?

Mr. Jean-Claude Trichet: Yes, the letter is the letter. The letter is there.

Deputy Kieran O'Donnell: Can I ask as well that ... there was a very dramatic moment in Ireland on 18 November, the day before you wrote the letter of 19 November were Governor of the Irish Central Bank, Professor Patrick Honohan, from Frankfurt rang our national broadcaster, RTE radio, to basically signal that Ireland would be going into a bailout. He was to attend a meeting of the governors, your ECB governors that morning, that day. Did you instruct him to effectively go on Irish airwaves to say that Ireland would be going into a bailout?

Mr. Jean-Claude Trichet: You are referring now to a public remark made by the Governor of the Central Bank?

Deputy Kieran O'Donnell: Correct.

Mr. Jean-Claude Trichet: After the meeting of the Governor -----

Deputy Kieran O'Donnell: No, before the meeting. The meeting was at 8.50 ... He came onto national ... he rang national radio, "Morning Ireland", RTE - It's a very well known radio programme, well respected - and he effectively asked to go on the airwaves and he announced ... we would appear, unbeknownst to the Irish Government that Ireland would be going into a bailout. The two questions I have: did you, as ECB governor, request that he do that? And, secondly, what view did you take after he had made that public announcement?

Mr. Jean-Claude Trichet: I have absolutely no memory of any public announcement by the Governor. I certainly didn't ask him to make public anything. If I wrote the letter, it is because we had ... I had a position of the governing council. Remember, all what I say, all what I write is because there is a governing council decision. There is no individual *vagabondage* if I may. All is the position of the institution. So I cannot tell you why the Governor said that. Is it because we had already had...

Deputy Kieran O'Donnell: Well. if you had ... You must have had a meeting very early in the. .. morning ... you must start very early in the morning in Frankfurt, Mr. Trichet.

Mr. Jean-Claude Trichet: All the governors?

Deputy Kieran O'Donnell: No. It was a meeting. He rang from Frankfurt at 8 o'clock in the morning to the national broadcaster, RTE "Morning Ireland", to state that Ireland would be going into a bailout programme.

Mr. Jean-Claude Trichet: I tell you, if he said that, it was because probably he was aware of the fact that the governing council position was that we could not continue to do what we had done. You have all the positions of the governing council in my letter.

Deputy Kieran O'Donnell: In the letter ... I'm quoting from the letter of 19 November. "As Patrick Honohan knows, [it's the second paragraph] the Governing Council has been asked yesterday to authorise new liquidity assistance which it did." The letter is dated 19 November so that is from - this happened on 18 November. Would you have told Professor Honohan, as Governor of the Irish Central Bank, that that was the last ELA that would be provided to Irish banks unless Ireland went into a bailout programme?

Mr. Jean-Claude Trichet: Sir, you have the letter. You know the position of the governing council through the letter. That's a simple-----

Deputy Kieran O'Donnell: You would provide no further ELA funding unless Ireland went into a bailout.

Mr. Jean-Claude Trichet: The letter is there. It was returned in order to avoid any ambiguity. There is not any ambiguity thanks to the letter. You see exactly what the letter is saying but I didn't ask anybody to speak publicly on such matters. And by the way, the letter as you know, was considered totally confidential by both Brian and I. All the exchanges of letters was totally confidential.

Deputy Kieran O'Donnell: If Ireland had not gone into a bailout programme, what would have been the consequences, Mr. Trichet, for both Ireland and Europe?

Mr. Jean-Claude Trichet: You know better than I. You are an Irish citizen. You can judge by yourself whether the measure of adjustments which have been taken and which drove to a level of creditworthiness which is remarkable, as I already said; level of competitiveness, which has considerably improved in comparison with the level that you had at the moment of the crisis; and growth which is growing now clearly and so forth. So I mean it goes without saying that the Government of Ireland took a good decision. And, you know, we could also have continued on our side after having gone up to 100% of the GDP go to 200% of the GDP, and why not 300% of the GDP? Then what would be the Commission inquiry asking for? You would say, "Were you totally crazy at the ECB to continue, when we were going in the wall at 100 miles per hour, to continue to provide liquidity and liquidity and liquidity?" And you would be right to say that.

Deputy Kieran O'Donnell: One final question, Mr. Trichet. If on the night of the guarantee, the Irish Government and the Irish authorities had contacted the ECB and looked for approval to provide ELA funding, emergency liquidity assistance to Anglo Irish and Irish Nationwide Building Society for a period of a week, would ... what view would the ECB have taken in terms of nationalising those banks or an orderly wind-down of those banks, which have cost the taxpayer over €34 billion, certainly in respect of Anglo?

Mr. Jean-Claude Trichet: Could you repeat? In which circumstances are you placing yourself?

Deputy Kieran O'Donnell: You are saying that you were never contacted by the Irish Government or by the Irish Central Bank prior to the guarantee being put into place.

Mr. Jean-Claude Trichet: To the guarantee?

Deputy Kieran O'Donnell: Correct. If you had been contacted prior to the guarantee, what view would you have taken in terms of assisting Ireland as a country in terms of a banking crisis?

Mr. Jean-Claude Trichet: We never hesitated to assist Ireland as a country. We did much more than any other Central Bank did for any country in the world. First remark and am strong on that because these are facts. Second, I would probably have said this is a new concept of extreme importance. You should discuss that immediately with the other governments of the euro area, because the impact on all the euro area of the guarantee was considerable. I had a number of governments calling me and saying: "What can we do? Ireland just gave a guarantee to its banks." So I would have said this is absolutely a, I would say, new concept. You are introducing a new concept. Discuss it immediately in the Eurogroup or even in the European Council, because all the decisions at the time were going up to the Heads of State and Government.

Deputy Kieran O'Donnell: But you would have been open to such an approach. You would have been open, you would have been receptive to such an approach from the Irish Government.

Mr. Brendan Halligan: We've gone now, I'm afraid, 11 minutes.

Mr. Jean-Claude Trichet: If I may. As you know, we were not in favour of this guarantee. We are on record in writing. I urge you to look at the writings, instead of looking at somebody said this and that because-----

Mr. Brendan Halligan: Thank. you. Senator Mark MacSharry, please.

Senator Marc MacSharry: Thank you very much, Mr. Trichet. You are welcome. You said in your opening statement ... you spoke particularly to do with the burning of bondholders, the treatment of senior debt, that this option was extremely risky for Ireland, in your own words. You also spoke of the terribly agitated sea in which Ireland was but one boat. Against this background, presumably with the euro tying all the bolts together, did you tell Brian Lenihan either in personal phone calls, at ECOFIN meetings or in any other way , not to burn bondholders?

Mr. Jean-Claude Trichet: My relationship with Brian, written and clear enough. The burning of any kind of such senior bonds was, as I said already, in the time of Brian considered by consensus as an extraordinarily bad move.

Senator Marc MacSharry: So at no time, is it fair to say, "yes" or "no", that Mr. Lenihan exercised the preference to burn bondholders?

Mr. Jean-Claude Trichet: You mean envisaged to do that?

Senator Marc MacSharry: Did Mr. Lenihan ever express the view that the Irish Government intended and wished to burn the bondholders?

Mr. Jean-Claude Trichet: Again, I have the very clear memory of what happened afterwards with the new Minister, and I have been already, I would say, very clear on that. With Brian, it seems to me that there is an overwhelming sentiment that it would be a very bad idea, and I have no memory of Brian envisaging to do that.

Senator Marc MacSharry: You have no memory of him saying that they would like ... that the Irish Government would like to burn bondholders? Is that the case?

Mr. Jean-Claude Trichet: I have the memory of his successor saying that, not him. I have no memory of him.

Senator Marc MacSharry: But not him. Can I ask, is it a matter of fact or not, that the decision not to burn bondholders was one that had a fiscal cost on the Irish people of €4 billion. Would you agree or not with that statement?

Mr. Jean-Claude Trichet: Certainly not. I think that had this decision taken, the cost for Ireland would have been considerably higher because it would have destroyed the creditworthiness of Ireland. By the way, at the time, do you know another country which embarked on such a move? It is a question I ask.

Senator Marc MacSharry: This is an opinion, of course, that was-----

Mr. Jean-Claude Trichet: By the way, at the time, do you know another country which embarked in such a move?

Senator Marc MacSharry: Sorry, can you repeat that?

Mr. Jean-Claude Trichet: By the way, do you know at the same time another country doing that in the rest of the world, in the rest of Europe or the rest of the world at the time? It's a question that I ask.

Senator Marc MacSharry: Like you were considering all 15 votes, I am only interested in the buoyancy of one, as you will appreciate.

Mr. Jean-Claude Trichet: There are the 15 votes, and all the other votes that are not in the euro area, and are in the rest of the world ... in the advanced economies. But it's important for you to have an idea of what's going on anywhere.

Senator Marc MacSharry: You mentioned that ... you mentioned that ... in your statement ... that you provided advice only, in the context of the issue of senior votes. Can I ask, did that advice manifest itself at any time in the form of letters, as the advice provided in that of 19 November?

Mr. Jean-Claude Trichet: No, I don't think there has been any letter.

Senator Marc MacSharry: So there is no correspondence between the ECB and the Irish Government in the context of burning bondholders.

Mr. Jean-Claude Trichet: Not to my knowledge.

Senator Marc MacSharry: In 2010? Or '11?

Mr. Jean-Claude Trichet: Not to my knowledge.

Senator Marc MacSharry: Not to your knowledge. Would you think-----

Mr. Jean-Claude Trichet: But again ... the positions are very clear so I don't see exactly what is the, you know, problem. I made candidly, a role analysis ... the analysis of the governing council of the ECB, it's very clear-----

Senator Marc MacSharry: Were there telephone ... were there telephone in context, providing advice, similar in tone to that provided in the letter of 19 November?.

Mr. Jean-Claude Trichet: I mean, when we have a position of the governing council, I don't hide it. So, it's pretty possible that ... not by telephone ... Brian ... I was seeing Brian, in any case, every month and perhaps even more frequently because we had more of ... more discussion, in the Eurogroup, everywhere, in other meetings. So, discussion with Brian had been very numerous, and very, as I've already said, confident and friendly in circumstances that were totally dramatic for all reasons-----

Senator Marc MacSharry: Very difficult, yes.

Mr. Jean-Claude Trichet: -----for him and for me, and he had two reasons to be in a really dramatic situation himself.

Senator Marc MacSharry: I understand. Can you say, with absolute certainty, that Brian Lenihan or the Irish Government, never saw it, to burn the bondholders?

Mr. Jean-Claude Trichet: Did I say that? Did I say-----

Senator Marc MacSharry: No, I'm asking you. I'm asking you, can you say, with absolutely certainty, that the Irish Government of the day, where Brian Lenihan was the Minister for Finance, did not seek to burn the bondholders? This is what you implied because you said you remembered Minister Noonan, the next Minister-----

Mr. Jean-Claude Trichet: Yes. Yes.

Senator Marc MacSharry: -----seeking to do it. Would you-----

Mr. Jean-Claude Trichet: Yes, I mean Brian can-----

Senator Marc MacSharry: Would you agree-----

Mr. Jean-Claude Trichet: Brian was a friend. Brian was a friend with whom I had discussion on, you know, a hundred of other issues than that one. I cannot ... I cannot be ... I would say the ... I cannot have the knowledge of all of what he thought at any moment in time. So it's-----

Senator Marc MacSharry: So it is possible in your view, or impossible?

Mr. Jean-Claude Trichet: We should ... I mean, we cannot ask him the question.

Senator Marc MacSharry: We cannot ask him. But is it possible or impossible that there was ... was there ever an ECOFIN meeting, for example, where Minister Lenihan or his officials stated Ireland would like to burn the bondholders?

Mr. Jean-Claude Trichet: Again, I have the very clear memory of the new Minister ... position the debate in Ireland for the first ... again, this is minuscule in comparison with a legal guarantee which was given by the very same Government-----

Senator Marc MacSharry: In the-----

Mr. Jean-Claude Trichet: -----again. And Brian has also the right to think something and then to say, well, after all it's not a good thing to do. I mean, it's up to ... up to him.

Senator Marc MacSharry: I'm almost there, thank you. The ECB representatives at the troika negotiations or the bailout negotiations ... is it possible that they overruled attempts or approaches by Brian Lenihan or his officials in seeking to burn the bondholders?

Mr. Jean-Claude Trichet: The Government of Ireland is responsible for all its decisions.

Senator Marc MacSharry: Okay, of course-----

Mr. Jean-Claude Trichet: And the-----

Senator Marc MacSharry: Is it ... Would that be a yes or a no?

Mr. Jean-Claude Trichet: No, no, no, I'm sorry. I'm sorry, I don't respond by yes or no. I would tell you only that the Government of Ireland takes the decision. Full stop. The troika is there because they have to present the case then, either to the IMF or to the European Council, or say to the-----

Senator Marc MacSharry: Would the negotiators-----

Mr. Jean-Claude Trichet: -----Eurogroup.

Senator Marc MacSharry: Would the negotiators-----

Mr. Jean-Claude Trichet: And the Euro group decide whether or not to help ... whether or not to lend. That's the way it operates.

Senator Marc MacSharry: I appreciate that. Very finally-----

Mr. Brendan Halligan: Thank you very much. I want to move to the final questioner-----

Senator Marc MacSharry: Well other people have been 11 minutes, Chairman, if you wouldn't mind, I'm at eight minutes twenty seconds-----

Mr. Brendan Halligan: And I'm going to eat into your time.

Senator Marc MacSharry: I'm just finishing up if that would be okay. And we are timing it here. This is important. Would the officials negotiating for the ECB have had a mandate to tell the Irish negotiators, you cannot burn bondholders?

Mr. Jean-Claude Trichet: I have already tell ... You are referring to '10 or '11?

Senator Marc MacSharry: '10.

Mr. Jean-Claude Trichet: '10. Overwhelming consensus ... certainly overwhelming consensus in the ECB. So, no particular instruction. It went without saying. It was considered that it would be a very bad move, and I'm saying that for the tenth time. And that being said, the Government of Ireland could take any decision it wanted to take, and it could've said, "No, finally, I don't want the loans coming from Europe, or I don't want the loans coming from the IMF, or I don't want ... this and that." I mean, let's not forget ... and until now, the Government of Ireland took always full responsibility for what it has been doing, and that is why Ireland signature is as good as it is. And you have other examples which are exactly the reverse and you could see also the consequences on the quality of the signature.

Mr. Brendan Halligan: Deputy Lynch.

Deputy Ciarán Lynch: Thank you very much, Mr. Chairperson. If I could maybe just wrap up one question, just to conclude where we are at in the moment, and maybe just revisit some issues for a very, very brief moment as well. Just following on from Senator MacSharry's questioning, Mr. Trichet, I would like ... or invite you to comment upon a statement from former European Commissioner, Mr. Ray MacSharry, which appears on page 111 of the book, *Brian Lenihan: In Calm and Crisis*, published last year, and a section in that books says, "One morning I got a call about a quarter past eight and it was Brian, he told me that he was able to burn the bondholders and he was very happy because E.C.B. President Jean-Claude Trichet had told him he could do it. This would have improved Ireland's position significantly and it was going to be a big story, but later that day a now despondent Brian rang me back. He said Trichet had changed his mind because he realised that the main casualty if the bondholders were burnt would be big German and French banks." Would you care to comment on that?

Mr. Jean-Claude Trichet: I will comment. It is totally absurd. Totally absurd. First of all it's absurd for me to say, "Yes, you burn the bonds," when nobody in the world was burning the bonds. Absolutely nobody. And it's absolutely obvious you can go to all what was done, everywhere in the world. So the idea that I was in favour and not in favour for reasons that are an absolute disgrace, I would say absurd. Full stop.

Deputy Ciarán Lynch: In your earlier comment, Mr. Trichet, you mentioned that there were concerns with regard to the solvency of the Irish banks in your final letter to Mr. Lenihan, then Finance Minister. Which banks had you solvency concerns about? Was it all of them or specific banks?

Mr. Jean-Claude Trichet: Our problem again, was with that we had refinanced all the Irish banks for 85% of GDP at that time. And we had a general problem of banks' solvency, which was very easily expendable. The solvency of Ireland itself was at stake and that the global level, the correlation between the solvency of the state and the solvency of the banks was about 100%. And, not surprisingly, because all the states had said, more or less publicly, we are backing our banks. So we had a problem of solvency of the banks, which was coming from the problem of solvency also of the country.

Deputy Ciarán Lynch: So just to clarify, again, this afternoon, it was the entire banking sector in Ireland, it wasn't individual banks-----

Mr. Jean-Claude Trichet: I would say ... I would say yes. Of course, you had banks that were more, I would say, in a better situation than others, that goes without saying, but the problem we had was an overwhelming problem of credibility ... creditworthiness of the country.

Deputy Ciarán Lynch: I just want to bring you back to an earlier engagement you had with Senator Barrett this afternoon, at which time you introduced some conversations you had with Ben Bernanke . And I'm not too sure what the context was actually about, but if I can maybe ask you or invite you to discuss or to explore with us any conversations you had with Mr. Ben Bernanke that related to the Irish financial crisis and any suggestions, recommendations or ideas that Mr. Bernanke might have shared with you, in regard to what should happen in Ireland.

Mr. Jean-Claude Trichet: In Ireland?

Deputy Ciarán Lynch: No?

Mr. Jean-Claude Trichet: No, nothing.

Deputy Ciarán Lynch: Okay, thank you very much. With that said, Mr. Trichet, I just want to thank you for your engagement with the committee this afternoon. I'd like to thank Mr. Brendan Halligan and the Institute of International and European Affairs for facilitating this event this evening and I particularly would like to thank the committee members for their engagement as well to make this happen along with the secretariat. The purposes of this event were at all times to provide the inquiry with an engagement that would be evidential, that would be admissible in terms of our final report when we do so in November and would be admissible information and evidence as well with regard to future witnesses that may come before the inquiry in the coming period, and in that regard I would like to thank all parties concerned for assisting and facilitating the co-operation and their co-operation for getting this event put in place today and especially to Mr. Halligan and his institute. So, thank you.

Mr. Brendan Halligan: Well, thank you very much, Deputy, for your very kind remarks. It has been a unique event, it called for a certain degree of creativity and co-operation and I want to thank all of those who were involved in that process. I hope that the committee will regard it as having been of assistance to it and its work and I'm sure that it will be regarded positively by the general public, many of whom who would have been able to see this transmitted live on TV. Again, I thank you for your attendance and for your adherence to the modalities which had been agreed. I would also thank your own staff, committee staff, who have been highly professional at all times, and it was a pleasure, indeed, to work with you. You can take it that I would also want to thank the two respondents, Dr. Somers and Professor Barrett for their contributions and it would be remiss of all of us if we did not thank the staff of the institute who have laboured heroically over the past month to make this happen. I think it is customary for a politician, even a former politician, to thank the owners of the hall for the use of the premises, which I now do, so I thank the Irish State for the use of the hall and thank the security forces and so on for ensuring that the thing went as smoothly as it did. But most particularly, I want to thank you, sir, for your presence here - I know you've had a very long day, you were up early this morning to get a flight which landed in here just after 11 o'clock. You still have some duties ahead of you. You're showing remarkable resilience and stamina and I want to thank you for all of that and most particularly for your disposition in dealing with the questions that were put to you, both by behalf of the members and also the members of the committee. So thank you very much being here and may I just maybe perhaps try to entice you to come back on some future occasion by giving you this history of Dublin, a city you have begun to express an interest in and its history. This is a 1,000-years-old city, as old as Paris, as you know and of course much more distinguished in terms of intellectual life and architecture.

Mr. Jean-Claude Trichet: No doubt.

Mr. Brendan Halligan: So perhaps you will visit us again at some future occasion. Thank you so much for being with us.

Mr. Jean-Claude Trichet: Thank you very very much.

Mr. Brendan Halligan: Okay.

END.