

Jean-Claude Trichet: Interview with Les Echos

English translation of an interview of Mr Jean-Claude Trichet, President of the European Central Bank, conducted by Ms Françoise Crouigneau and Mr Thibaut Madelin (Les Echos), 20 January 2005.

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With the inauguration of the new Bush administration, are you looking for a greater degree of visibility in respect of American politics and a thawing of transatlantic relations in terms of monetary cooperation?

Over the past 20 years, which have seen several major political changes on both sides of the Atlantic, I have observed great continuity of dialogue and a very high level of mutual confidence between the large central banks. The same can be said of cooperation within G7, among ministers and governors. As regards the future, John Snow, the US Secretary of the Treasury, has already spoken publicly about the need to reduce the budget deficit and maintain a strong dollar. This is of great importance and encouraging. However, let us not forget that we too have work to do on this side of the Atlantic.

Isn't it a case of a "dialogue of the deaf" with the Americans calling on Europeans for more growth, the Europeans calling on the United States for smaller deficits and both the Americans and Europeans calling on the Chinese to float free from the weakening dollar?

What you call a dialogue of the deaf, I, on the contrary, would describe as broad transatlantic consensus. We agree on the diagnosis and the measures to be implemented: the Americans have a savings shortfall to make up and the Europeans need more structural reforms in order to increase their growth potential. The problem we share is one of implementing these measures. Public opinion in our democracies must be convinced that everyone would benefit from the reforms and that there would be more growth and higher employment.

Do you really think that nothing has been achieved in the area of reform? Surely France and Germany feel the opposite is true?

Not at all. On the contrary, the European Central Bank (ECB) recognises that a number of courageous decisions have been taken in the euro area and it supports those governments and parliaments that are undertaking structural reform. We are mindful of the difficulties that they face and the resistance that they encounter in public opinion. This is why the ECB and the Eurosystem go to great lengths to explain the benefits of bold reforms.

Germany, which has on occasion been called "the sick man of Europe", has once again been hailed as the world's top exporter - and this despite the appreciation of the euro. What lessons can the other countries in the euro area draw from this?

As regards exchange rates, let me be clear: following the meeting of the Governing Council on 13 January, I confirmed our opinion, which we expressed when the euro rose sharply, namely that such moves are unwelcome and undesirable for economic growth. Furthermore, two major factors may explain the differences between member countries' external accounts: the dynamism of domestic demand and cost competitiveness. On the one hand it is clear that Germany's domestic demand has been less dynamic than that of the other countries, including France. Consequently, its imports have also been less dynamic. On the other hand, as regards cost competitiveness, Germany has fared better than the others in the past six years as it has had to close the gap in terms of competitiveness that stemmed from its reunification. Its export results attest to this. The building of Europe is a great and inspiring endeavour. The euro has provided outstanding protection against external risks. Think what the monetary situation within Europe would be like today if the former national currencies had had to face the external shocks that we have seen! This leads us to monitor competitiveness indicators within the euro area much more closely than before.

The fact remains that domestic demand is still weak in the euro area, where households are concerned about reforms and rising unemployment.

Confidence among households and businesses is essential if domestic demand is to be more dynamic. That of households depends on their confidence in price stability. Some still have concerns

which inhibit consumption. We say to them that they can and they should be confident: we are here precisely to ensure price stability at the level of the euro area as a whole.

Wouldn't a reduction in interest rates send a positive signal, if only a psychological one, to households and investors?

As we said in mid-January, our analysis indicates that current short-term interest rates are in line with our mission to maintain price stability. We remain vigilant, since vigilance is the guarantee of our credibility in the medium and long term. And our credibility is essential, not only in order to be true to our mandate, but also to provide Europe with the most favourable financial environment for growth and job creation. Two, five, ten and thirty-year interest rates are at their lowest levels since the Second World War. In particular, this stems from an exceptional level of confidence that investors and savers have placed in Europe's monetary team: my colleagues on the Governing Council, and among them the French Governor, Christian Noyer.

The Stability and Growth Pact is the subject of growing debate. Are you satisfied with the consensus that is emerging to strengthen the prevention of excessive deficit while relaxing the application of sanctions?

One has to fully realize the separate responsibilities that exist. The proposals fall within the competence of the European Commission and the decision lies in the hands of the representatives of the governments of the Member States, namely the Council of the European Union. Our responsibility is to remind all parties of the conditions which enable Economic and Monetary Union to function coherently. Since the introduction of the euro, the main criticism by many economists across the Atlantic has been that, in launching a single currency before achieving a political federation and a federal budget, we have put the cart before the horse. We took indeed a bold step. But our response to these criticisms was the Stability and Growth Pact. The preventative arm of the Pact can be improved on and we welcome certain proposals that have been made in this regard. In our view, however, the corrective arm of the Pact must be upheld.

The Deutsche Börse has made ambitious moves towards consolidating the European stock exchanges. Are you in favour of closer integration of the financial markets?

European financial integration is extremely important for the smooth operation of a single market with a single currency. For manufacturing goods, the single market works well, but for services in general it is much less effective. Financial services are no exception to this. The European Commission intends to take steps in this regard since it is clear that this offers further potential for growth. That said, we are in market economies and it is not our place to judge past, present and future restructuring, which are the outcome of decisions taken freely by free agents. We simply wish the single market to operate in the best way possible.

Do these deficiencies point towards the need for a European financial authority?

Like the Federal Reserve System, the Governing Council of the ECB approves of having a link between the central bank and the prudential supervisory authority for banks. The Treaty provides for a decentralised system entrusted to national authorities. The ECB is strongly in favour of fostering dialogue and cooperation to the maximum extent possible between the competent prudential authorities, as advocated by Alexandre Lamfalussy.

There is less and less talk of setting up an international financial framework for averting global financial crises. Is it the case that there is no longer any systemic risk?

We live in a world filled with opportunity and promise: advances in science and technology, international trade developments, a very broad consensus in favour of the market economy, and improved global governance in which developing countries are actively involved. However, risks also exist. To give just two examples, first I would mention precisely a certain tendency among financial markets to underestimate risks and, second, the issue of external imbalances at a global level.

A moratorium on debt has been declared for certain countries affected by the tsunami. Does this bode well for the cancellation of the debts of the poorest African countries, as recommended by the British government?

I was extremely moved by the response, generosity and compassion shown globally in the wake of these tragic events. I have myself worked very closely on debt strategy, which has evolved considerably over the past 20 years to offer assistance to developing countries, and especially the

poorest countries, in return for their efforts towards good governance. Good debt strategy plays a crucial role in global financial stability.

There is often controversy when you speak in English. Do you really prefer the language of Shakespeare to that of Molière?

I am very attached to the French language and culture. Over ten years ago, I founded the Club of French-speaking central bankers whose members represent 59 countries and 45 central banks. I am called upon to speak as the representative of an institution which has international responsibilities. For this reason, I speak English and other languages. But everybody knows my passion for the French language.