

## **Jean-Claude Trichet: Interview with Die Presse, Der Kurier, Der Standard and Salzburger Nachrichten**

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, by Ms Christine Domforth (Die Presse), Mr Reinhard Göweil (Der Kurier), Mr Andreas Schnauder (Der Standard) and Mr Richard Wiens (Salzburger Nachrichten), conducted on 28 April 2008 and published on 30 April 2008.

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**Will the next decision of the ECB be to cut interest rates or is it possible that you will raise them?**

**Trichet:** As you know, we at the ECB's Governing Council take the decisions on monetary policy on a monthly basis after a thorough analysis of the facts and figures. We believe that the current monetary policy stance will contribute to delivering price stability and to firmly anchoring inflation expectations.

**Some days ago Governor Noyer of the Banque de France hinted that the ECB could increase interest rates instead of lowering them. Was he expressing the opinion of the whole ECB council?**

**Trichet:** I do not comment on declarations made by members of the Governing Council in their own capacity. As you know, the President is the "porte parole" of the Governing Council and expresses the opinion of the whole Council. This is what I have done on behalf of the Governing Council. Our opinion is that we believe that our current monetary policy stance will contribute to delivering price stability. Allow me also to stress the formidable team spirit that we have in the Eurosystem. I would like to praise the work of Governor Liebscher in particular for his invaluable contribution to our work.

**The European Commission delivered a new, more pessimistic, outlook for 2008 and 2009. Does this change your projection?**

**Trichet:** There is a wide range of forecasts for this year and next; there are a lot of figures, from the EU, from the OECD, from the IMF and from private institutions. In the case of growth, as well as inflation, it depends very much on new data that are incorporated, so it is often a question of timing. What we are observing in the first quarter of 2008 is that the economy was quite robust and in the first half of the year it will probably be reasonably resilient. At this stage we consider that the projection of the IMF for the EU may be too pessimistic. We will see what happens. As you know, the ECB's staff projections do not give a precise figure for growth, but rather a range. The range for GDP growth in 2008 is 1.3% to 2.1%.

**Would you say that the current monetary policy of the ECB accommodates sustainable economic growth?**

**Trichet:** I would say that delivering price stability and being credible in this delivery is a precondition for sustainable growth and sustainable job creation. There is no contradiction between these goals. Our past track record argues in favour of this. We have created 15.7million new jobs in Europe, almost three times more than in the nine years preceding the euro. This was more than the jobs created in the United States during the same period. As you know, at the global level, there is now a mainstream sentiment among economists that price stability permits sustainable growth and job creation. We have maintained medium-term inflation expectations in line with our aim of price stability – less than 2%, but close to 2% – whilst contributing to creating a significant number of new jobs.

**The Federal Reserve lowers the interest rates, the Bank of England does it. Do you think that the pressure on the ECB will get stronger to lower interest rates as well?**

**Trichet:** Each of us has its role and responsibilities. We have to face different economies, with different features, different levels of flexibility and very different kinds of shocks within each economy. There is one thing we have in common: We have to deliver price stability and we have to be credible. And we have to continue to solidly anchor price expectations. That is true for all central banks. Otherwise we would jeopardise medium and long-term growth and job creation and we would also create problems for the financial markets.

**When the Fed makes another cut of interest rates, will there be more pressure on the US-dollar and because of this more problems for the European export industry?**

**Trichet:** There have been, at times, sharp fluctuations in the exchange rates of major currencies. We are concerned about their possible implications for economic and financial stability. Also, I trust it is important that the US President, the US Secretary of the Treasury and my colleague Ben Bernanke said that a strong dollar is in the interest of the United States.

**You stressed many times that extreme exchange rate volatility is highly unwelcome. But the markets tend not to listen to you and other central bankers. Why is this so?**

**Trichet:** I think that observers and market participants are certainly listening to what we say, on both sides of the Atlantic.

**Two questions: What are your expectations as regards the financial market crisis and what repercussions will it have on credit activities for businesses?**

**Trichet:** At the moment outstanding loans to the non-financial corporate sector are growing at a rate of 15%, which is dynamic. On the one hand we see a progressive slowdown as regards loans to households and the housing sector. At the same time credit standards have tightened and we have to look at the situation very carefully. As regards the very significant ongoing market correction we will continue along our path: on the one hand adopting the appropriate monetary policy stance to deliver price stability and, once that decision is made, we have to ensure the smooth functioning of the money market in line with our policy rate. As you know, we have also been in close contact with other central banks, including the Federal Reserve.

**In the course of the financial crisis the impression of many people is that gains are privatised and losses are socialised. Do you regard this as a problem?**

**Trichet:** I think the issue of moral hazard is very important. It is absolutely clear that if those who have behaved improperly are not punished and do not take their losses then we cannot pave the way for sound decisions of financial institutions in the future. Therefore we have always made the point that what we are doing is not, in any manner, aiming at bailing out any individual or institution and at diminishing the losses that would be made because of bad management. It is all about protecting those who behaved properly against the harm that has been done to the market as a whole by those who have taken bad decisions. That has been very well understood by observers and by market participants.

**But there are tendencies in the European Union to think that bailouts would be considered if distortions of the economy are at stake.**

**Trichet:** I was speaking for the ECB, the Eurosystem and central banks in general. In exceptional cases one can imagine that the executive branches and the parliaments would consider that the systemic risk associated with the collapse of one particular institution because of a solvency issue would make it worth mobilising taxpayers' risk and taxpayers' money. This is something which cannot be excluded. As central banks we exclude taking such risks associated not with a liquidity issue but with a solvency issue of a given financial institution.

**But the European Union has already proposed sharing the burden in case of a collapse in order to divide the rescue costs.**

**Trichet:** There can be no decision ex ante to mobilise taxpayers' money. In very exceptional cases, the decisions, if any, would have to be taken ex post. To my knowledge there is absolutely no consensus of ex ante burden-sharing of taxpayers' money.

**We can now have a lively discussion about the stronger regulation of financial markets. Do you think that we need tougher equity rules for banks? And what should be done with hedge funds that oppose stronger disclosure rules?**

**Trichet:** You know that we have 67 recommendations that were made public by the Financial Stability Forum and approved by the G7 and the international community. We are not at a level at which we are still exchanging ideas. We have come to an agreement. What inspired these recommendations was the idea of transparency – more transparency for both institutions and for the sophisticated financial instruments that were the source of the market correction. It is exactly the same as we did in the case of the Asian crisis. We have to correct all the components of global finance if we want to avoid new significant market corrections with all their negative consequences. We have to correct the elements of procyclicality which currently exist in global finance and which amplify both the booms and the busts.

**Would off-balance risks be one of the components that have to be adjusted?**

**Trichet:** That is something which has been identified as one of the main problems. It calls for a review of the “originate and distribute” model that has been generalised in commercial banking. It appears that it was a dangerous way of distributing credit. We have also noted that the rules of Basel I were very complacent regarding these structured investment vehicles or conduits or other off-balance-sheet entities. Basel II rules are fortunately much more stringent in this respect. Had we generalised Basel II earlier, it is likely that we would have fewer of these operations and therefore fewer damages. So it is important that more countries implement Basel II and that we see how we can improve and update this framework. And we are also strongly encouraging the private sector to improve its risk management.

**So everything is left to the behaviour of the private sector?**

**Trichet:** Certainly not. Surveillance authorities have to be as alert as possible, as recommended in the Financial Stability Forum (FSF) report. And we have to update and improve regulation. I also welcome the work which has been done by the private sector. It seems fair to me to give the financial institutions a chance to work out good practices and benchmark principles for their own voluntary behaviour. If they are not able to do that or if we judge their work insufficient then we have a case for regulation. In any case we should implement the 67 recommendations of the FSF as actively as possible. Some recommendations should be implemented in 100 days, others by the end of the year.

**How do you judge the plans to create a World Financial Organisation proposed by the Austrian Chancellor?**

**Trichet:** I would take the Chancellor's suggestions as a call to “work as actively and as well as possible at the level of Europe and the international community”. I have to say we have the FSF, which has been created after the Asian crisis. It is a group which brings together all the relevant financial institutions and groupings. We have the International Monetary Fund, we have the Bank for International Settlements, we have the G7 and we have the G20. So my sentiment is that there is a will to make the present framework function as well as possible, and this is good.

**The new ECB tower in Frankfurt is being planned by the Austrian architects COOP HIMMELB(L)AU. Are there any delays in the work on this building and when will the tower be ready?**

**Trichet:** We must be very alert, cautious and prudent, but at the moment there are no delays that I know of. The inauguration could take place at the end of 2011.

**One final question. Do you ever listen to politicians like Prime Minister Berlusconi or President Sarkozy when they are criticising the ECB – or does a central banker have to ignore such comments?**

**Trichet:** Let me say that the Maastricht Treaty has given us full independence. This is very well known the world over. I do not know of any observer or market participant who would call into doubt the fact that we are fully independent and that the President and the members of the Governing Council are fiercely attached to this independence, as required by the Treaty.