

Jean-Claude Trichet: Interview with Al-Ahram

Interview with Mr Jean-Claude Trichet, President of the European Central Bank. Questions answered in writing in response to Ms Inas Nour of the Egyptian newspaper, Al-Ahram, on 24 November 2008.

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Question: Ten years have passed since the establishment of the European Central Bank and next January, we will celebrate a decade since the launch of the euro. How do you evaluate both experiences? Are they factors of stability within the European Union market?

Trichet: Indeed, the European Central Bank – the ECB – as well as the European System of Central Banks, which comprises the ECB and the central banks of all the EU's Member States, were established on 1 June 1998. The euro was introduced first on 1 January 1999, while the euro banknotes and coins were put into circulation on 1 January 2002. As you may remember, the euro area first comprised 11 Member States, then 12, 13, and currently 15. It will comprise 16 countries as of 1st January 2009, when Slovakia will join the euro area. The ECB's Governing Council is presently taking monetary policy decisions for 320 million fellow citizens and as of next year for 325.5 million.

The primary objective of the ECB and the national central banks of the euro area, which together form the Eurosystem, is to maintain price stability in the euro area over the medium-term. Concretely, the ECB aims at maintaining inflation rates below, but close to, 2% over the medium term. We have been able to broadly achieve this objective since the creation of the euro. This record compares favourably with the average inflation rate of 3% that was achieved in the member countries during the nine years preceding the introduction of the euro. Therefore, the euro enjoys that same level of stability and credibility as the most successful legacy currencies that it replaced. Nevertheless, there is no place for complacency. The success achieved so far needs to be complemented and consolidated.

Question: Do you think that the euro pays a stability factor in the world economy?

Trichet: The euro which will be ten years old next January, has rapidly achieved a well-recognised status worldwide as a stable anchor also in turbulent times. This certainly is of utmost importance in the current circumstances.

Question: Do you see a united European role in the global financial crisis, especially between members of the euro zone and non-members? How are you facing that?

Trichet: As the financial market turbulence developed, central banks in Europe and across the globe strengthened the already high levels of cooperation, first, through enhanced information exchange and collective monitoring of market developments and, later on, through coordinated steps to provide liquidity. I would like to emphasise that the ECB was one of the first central banks in the world to react immediately, on August 9th, 2007, when we saw the first elevated tensions on the money markets. Since then, the ECB and other major central banks in Europe and across the world have reacted promptly and consistently during the various phases of the market turbulences, in order to ensure the smooth functioning of the money market. Cooperation among central banks at the global level has been essential in this respect.

Besides the measures taken by central banks, governments also have a very important role to play. I was impressed by the scope of the decisions and orientations taken by European governments and by their unity over the past months. I would like to also stress the very good and close cooperation among EU institutions and have often repeated my support for the initiatives of the European Commission. Clearly, in the current circumstances, cooperation and unity among all institutions concerned, wherever they are located, are of paramount importance.

Question: What challenges does the euro zone face these days? Are these challenges different in the non-euro zone European countries? Are there any concerted efforts between Central Banks in both regions (euro and non-euro zone) to tackle the crisis?

Trichet: As far as the ECB is concerned, our main objective and challenge is to maintain price stability in the euro area, in other words to maintain the euro's purchasing power for over 320 million citizens. We will permanently strive to preserve and consolidate the remarkable success of the euro and, through monetary stability, to preserve the strength and reinforce the resilience of the euro area economy. To this aim, it is essential, in particular in the current uncertain environment, that in the euro area structural reforms be further implemented and labour productivity be fostered.

Of course, the period of intense turbulences, which we are currently experiencing and which correspond to a very significant market correction at a global level, remains very demanding for all institutions, market participants and authorities, including central banks, in Europe and across the world. As I explained before, the ECB and the Eurosystem together with other central banks have taken a number of decisions to address elevated pressures in short term funding markets that were appropriate in view of the exceptional circumstances we were facing. As we have often said, central banks will continue to work together and are prepared to take whatever measures are necessary to provide sufficient liquidity in short-term funding markets.

Question: How long could the present crisis last? What are the most severe scenarios? How to tackle it?

Trichet: My assessment is that we are experiencing, since August 2007, an ongoing market correction of great dimension, at a global level, with episodes of turbulence, high levels of volatility and considerable strain in financial markets and institutions. It depends on all of us that we surmount the present situation. All institutions, whether private or public, must be up to their responsibilities.

Question: In your point of view how long could the present global recession last?

Trichet: Well, as far as the euro area is concerned, we will see what the Eurosystem macroeconomic projections, which we will publish at the beginning of December, will be. Indications from all private and public entities are that following the intensification of the financial turbulence, in particular since mid-September, the impact on the real economy is more and more important. Negative figures for growth in 2009 are gradually appearing. Again, in the case of the euro area, we will see exactly what the macroeconomic projections are in the forthcoming days. That being said, to my knowledge, all forecasters are projecting positive growth in 2010.

Question: What has been the impact of the international crisis on Egypt and emerging economies? What role could the emerging markets economies play to overcome the global financial crisis?

Trichet: I think that since the start of the turbulences in August 2007, emerging economies demonstrated a remarkable resilience, which has been quite impressive at a time when we could see the industrial economies heavily affected. Having said that, it is clear that even the emerging economies at the present moment, and in particular since mid September, are affected by what has happened in the industrialized economies and what has now become a truly global challenge. We live in a global economy and are all interdependent. None of us can be out of the influence of the others. However, it is absolutely clear that for the global economy to get out of this difficult period we have to very much count on all major emerging economies, as the potential for global growth is there.

I would like to add that there is a general consensus that emerging economies – taking into account their growing influence and the size of their GDP and the contribution of their growth to global prosperity – should become more influential at the level of the global economic institutions. The G20 is taking more and more influence, which I welcome. Furthermore,

there are also calls for the Financial Stability Forum to open itself more to the emerging countries. I think that the growing role of emerging economies is fully legitimate. In that perspective, let me underline that the Minister of Finance of Egypt, Yousef BOUTROS-GALI, is Chairman of the IMFC of the IMF and it says a lot on the increasing influence of the emerging countries.

Question: Could we consider the G20 summit as a new “Bretton Woods” in which the dollar is not the key currency anymore, in favour of others such as the Euro, the Yen, or the Saudi Riyal?

Trichet: There are over 60 years that lie between the original Bretton Woods conference and the recent G20 summit. The G20 summit, taking place after the G20 Ministers and Governors in Sao Paulo, has shown that the world’s largest economies take responsibility for measures to resolve the crisis. It is particularly important that these economies represent both industrialised and emerging economies. The objective of the summit has not been to change the role of individual currencies in the global economy; it has been to lay the ground for an action plan to strengthen the resilience of the global financial system and ensure a basis for sound macroeconomic policies that are stability-oriented over the medium and longer term.

Question: Egypt has benefited from diversifying its foreign currency baskets and relying solely on the US currency. Is it thinkable to review the global pricing policy taking other currencies – i.e. euro – into account to apply it on commodities such as oil?

Trichet: First, we never engaged in a campaign for the international use of the euro. The use of the international role of currencies is very much the outcome of efficient, market-driven processes, which we as policymakers take as given. What we have seen over the past ten years, since the euro was introduced, is that there has been a very gradual increase in the international use of the euro in some markets. These gradual changes reflect the fact that the use of currencies is characterised by a considerable degree of inertia. This certainly applies to invoicing practices in international commodity markets, where I would consider that any fundamental and rapid change in the use of currencies is very unlikely.

Question: You were chairing the “Paris Club” for rescheduling the debts. Did that help you in your present function, and what are the perspectives for these countries in overcoming the high debts?

Trichet: I have a very vivid memory of the crisis of the emerging countries debt in the 80s. And I was very happy to contribute, as Chairman of the Paris Club, to the success of the Egyptian debt rescheduling at the end of this difficult period. We always learn a lot – all of us – from such demanding experience. That being said, we are in a totally different situation today with the difficulties starting in the industrialized world.

Question: Various central banks see the need to preserve the stability for prices. You are quoted as saying that there is no need to have a global monetary policy. Could you elaborate?

Trichet: To my knowledge all central banks are aiming at ensuring price stability. This is very important. But the fact that they pursue the same goal does not mean that they have the same monetary policy stance for a very simple reason: their economies are not the same with different structures, a different environment and different shocks to cope with. So, we must be clear on what we understand with international policy coordination. It does not mean a unique policy stance for the entire world. But it means monetary policies geared towards domestic price stability, sound and sustainable public finances and flexible economic structures. It also means very close and confident cooperation between policymakers of all systemically important economies of the world.

Question: Are there any agreements expected to take place during your visit in Egypt?

Trichet: Today, 26 November, I will have the pleasure to sign with Dr Farouk El Okdah, Governor of the Central Bank of Egypt, a Memorandum of Understanding which will intensify the cooperation between the ECB and the Central Bank of Egypt ahead of the start by 1 January 2009 of a new programme of technical assistance in the field of banking supervision. The aim of this programme, which will involve the ECB in partnership with the national central banks of Bulgaria, the Czech Republic, France, Germany, Greece, Italy and Romania is to gradually strengthen banking supervision in Egypt towards basic Basel II compliance, in line with the strategy devised by the Central Bank of Egypt. The European Commission will finance the new programme starting next year in the framework of the cooperation between Egypt and the European Union.

Furthermore, I will have the great pleasure together with Dr. Farouk El Okdah, Governor of the Central Bank of Egypt to host tomorrow, 27 November, in Alexandria a high level Euro-Mediterranean seminar, bringing together Eurosystem and Mediterranean central banks. I look very much forward to the seminar, which is a very useful platform for discussions and exchanges of views with our friends and colleagues from Mediterranean central banks on issues of mutual interest from a central banking perspective.