Jean-Claude Trichet: Interview with Frankfurter Allgemeine Zeitung

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, and the Frankfurter Allgemeine Zeitung conducted by Mr Benedikt Fehr, Frankfurt am Main, 17 December 2008.

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Mr Trichet, ten years ago you were Governor of the French central bank. How did you celebrate the historical event, the introduction of the euro?

At midnight I invited all employees, who had worked extremely hard towards this event, to join me to celebrate both the euro and the New Year with foie gras and champagne. And I told them that the people of Europe were very fortunate that they had performed this task so well, as had all other colleagues in the euro area.

What did the introduction of the euro mean to you personally?

I can tell you that I was full of pride on that day. I had been in favour of the creation of the euro for a long time. In the early 1990s I had negotiated, on behalf of the French Government, the Maastricht Treaty regarding the creation of the currency union; and it was an honour to negotiate with Horst Köhler, then German Staatssekretär and now President of the Federal Republic of Germany. As the Governor of the independent Banque de France, which became fully independent on 1 January 1994, I had, together with my colleagues on the Conseil de la Politique Monétaire, conducted a monetary policy which resulted in inflation in France averaging 1.4% per year in the five years prior to 1 January 1999. If we had not achieved this, the euro could not have been introduced.

Have you ever doubted the success of the euro in the past ten years?

No, certainly not. But of course we are living in times when one cannot sit back complacently. Like all central banks, the European Central Bank has had to manage many challenges and shocks, such as the Asian crisis, the bursting of the internet bubble, the oil and commodity price shock or the threats to the Stability and Growth Pact. But I was always convinced that the euro is a success – and proof of the fact that the people of Europe are able to put into effect a historic plan that they have undertaken.

Not all Europeans share your enthusiasm. According to some surveys, many Europeans are still critical of the euro.

The survey I have in mind was conducted by the European Commission (Eurobarometer). 52% of the citizens of the euro area trust the ECB. And according to another survey, 80% of our fellow citizens consider it important that the ECB be independent from governments in order to deliver price stability. And I can say in particular to every German citizen – together with Jürgen Stark, member of the Executive Board of the European Central Bank and Axel Weber, President of the Deutsche Bundesbank – that in the past ten years the euro has been as good a store of value and as confidence-inspiring as the Deutsche Mark was previously.

Since the intensification of the economic and financial crisis, risk premia on the government debt of some euro area countries have risen strongly. Does this worry you?

The capital markets are sending signals that we have to follow attentively. Following an episode in which the pricing of risks was, in general, too low, markets now have a tendency to overvalue risks. But it does not affect the euro as a currency. Rather, it is clear that the single currency has proved to be an anchor of confidence and stability during this crisis. If you think back to the European currency turbulence and its consequences in 1992 and 1993, you can imagine what consequences the crisis of recent months would have had for the euro area without the euro – both on the interest rate markets and on the exchange markets.

The euro is a currency without a state. What is necessary in order for that to be a success?

The euro was established to be as solid and confidence-inspiring as the best national currencies. The euro is the currency not of one single country, but of 15 countries – soon to be 16 with the addition of Slovakia. This union of 15 states shares a common destiny. Those countries have decided to participate in a single framework for fiscal policy: the Stability and Growth Pact. The Pact is a "quid pro quo" for the absence of a federal government. It establishes common rules for all in the area of fiscal policy and provides for the monitoring of the rules by all members and, when and where necessary, the imposition of sanctions.

Do you consider that recent developments pose a threat to the Pact, for example the rule that countries' budget deficits should not exceed 3% of economic output?

The rules of the Pact were changed some years ago, not least at the request of the German Government. On behalf of the whole of the Governing Council of the ECB, I reiterate that the countries of the euro area should make appropriate use of the important leeway that the Pact currently gives several countries in terms of fiscal policy. However, those countries that have modest leeway or no leeway at all should respect the Pact as it stands. They should not forget that these rules are very important for the cohesion of the euro area. These rules are also underpinned by strong financial and economic principles. Governments have to take into account the fact that if their citizens consider that the fiscal policy of their government is not sustainable, confidence will drain away. And in such a case, when confidence is lacking, additional public expenditure will not have a positive effect on growth.

Does the euro area need greater coordination of monetary and fiscal policy, a European economic government of the kind that the French Government would like?

Monetary policy is geared to ensuring price stability. According to our definition, that means keeping annual inflation below, but close to, 2% over the medium term. We have to achieve price stability in accordance with our definition in all circumstances – even if, as I have said, there are severe economic shocks, and even if we are confronted with fiscal policies that appear not to be as sound as necessary. There is no "ex ante" coordination between monetary policy and fiscal policy. That in no way prevents the governments of the euro area from coordinating their activities and conducting peer surveillance as regards the policies they are responsible for, particularly the implementation of the Stability and Growth Pact. Governments have also committed themselves to very important structural reforms within the framework of the Lisbon agenda. The national governments therefore have a lot to do, fully independently of the central bank.

The European labour market is still highly fragmented...

That is true. There are many reasons for this, such as the differing rules and regulations and also cultural differences. The labour market is an important factor in an economy's costs and is therefore important for the relative competitiveness of the individual countries within the Single Market in the presence of a single currency. In any case, it is important to make the Single Market a reality in all markets, including the labour market. I think that in the euro area we are moving in the right direction in this respect, particularly as regards the younger generation, but a lot remains to be done.

Do you think that the euro will lead to greater political integration?

That will be a decision to be taken by our master, the people of Europe, our fellow citizens. At present, the democratically taken decisions in the euro area countries have told us that a single currency was necessary, but not a fully fledged political federation. But as I have already said, the Stability and Growth Pact contains far-reaching rules for national fiscal policies. That is very important if one considers that the desire to be able to decide over fiscal burdens and taxation was to some extent the midwife of political democracies. In response to the observation that we do not have a fully developed political federation, I therefore stress that the Stability and Growth Pact is already a very important element of political union that is enshrined in Economic and Monetary Union.

The crisis has led several EU countries to consider joining Monetary Union. Could the entry procedure be accelerated for them?

No. There is no fast track to Monetary Union; there is a Treaty. The Maastricht Treaty lays down precisely what criteria a country must meet to join. This is important in the interests of all: in the interests of the euro area itself, but also, very importantly, in the interests of the candidate country itself, which must be fully prepared.

Which countries will, in your opinion, follow Slovakia as the next members?

I do not want to speculate on that. The Treaty says that, before it can join, a country must have brought its economy into line with the euro area – and that this convergence must not only be observed at the moment of entry, but also be sustainable in the medium and long term. But history shows that the euro area is not a "closed shop": we started in 1999 with 11 countries. When Slovakia joins on 1 January 2009 there will be 16 euro area countries. The euro area will then have around 329 million citizens.

The enlargement of Monetary Union is not the only subject of public debate; there are also concerns that individual countries such as Italy or Greece could leave the Union. Could you imagine that happening?

I don't envisage such fantasies for one second!

Ten years are behind you: what future challenges face the euro and the ECB?

We must look far into the future, very far, for generations. I believe that all major central banks face four big challenges, and the ECB two additional ones. The first challenge is globalisation. In 10, 20 years' time the world economy will have a completely different structure, as a result of the rise of emerging markets such as China and India. This will have an influence on monetary policy.

To what extent?

Over the past few years, we have started to see this happen: with their large populations and extensive resources, these countries are developing rapidly and catching up rapidly. As a result of these economies entering into the world market, there have already been periods during which they have fostered disinflation, i.e. very low or falling prices of manufactured goods, which have then been followed by periods where they have triggered inflation through energy and commodity price increases. This of course has a strong, as well as complex, influence on monetary policy. The same applies to the second challenge of scientific and technological progress: a significant increase in productivity triggered by the advent of new technologies means that costs and prices change in the economy, as does the assessment of inflation risks by the central bank. The third challenge is the ageing population.

Because price stability is particularly important for pensioners?

That's not what I mean. We have to ensure price stability in line with our definition of price stability in every situation. However, monetary policy must take into account the fact that the age structure of a population influences savings and investments, and thus is an important factor for real interest rates in any given economy. This has to be taken into account by monetary policy and this is why intensive research into these issues is being conducted at universities and central banks. The fourth and final challenge for central banks is the fragility of the financial system which has come to light during the present financial crisis. This calls for all appropriate lessons to be learned without any complacency.

And the two ECB-specific challenges?

The fifth challenge is that the Single Market with its single currency is not yet achieved. We are still significantly changing the structure of our own euro area economy. Unlike elsewhere, a look into the euro area's past provides hardly any indications for the future. And the sixth challenge for the ECB is enlargement. We are currently 15 members, soon to be 16, but the Treaty stipulates that we must be ready to be 25 one day and we have to manage this historic enlargement process in the most professional and successful way possible.

How is the ECB preparing itself for these challenges?

Excellent staff! Both at the ECB and in all national central banks of the Eurosystem – in Germany at the Deutsche Bundesbank. There is the feeling that we are all working together on a task of historic proportions. The world in which we are living is changing very rapidly, requiring us to act intelligently, as well as boldly and courageously if necessary.

Will the euro one day be as important a currency as the US dollar?

That is not the aim; the euro was not created for this purpose. My predecessor Wim Duisenberg and I have always said that the euro was not created to either compete with or replace another currency. We are not campaigning for the international use of the euro. The euro was created in order to achieve the single European market. If we can achieve this goal, we will provide an important basis for prosperity, stability and peace in Europe.