

Jean-Claude Trichet: Interview with Het Financieele Dagblad

Interview by Jean-Claude Trichet, President of the European Central Bank, with Het Financieele Dagblad, The Netherlands, conducted by Msrs Cor de Horde and Klaas Broekhuizen on 16 November 2009 and published on 25 November 2009.

* * *

Q. How stable is the Stability and Growth Pact nowadays, with bigger and bigger differences between countries deficits?

A. "The Stability and Growth Pact (SGP) is more important than ever. We have a single currency and no full fledged political federation with a full-fledged federal budget. The SGP is an essential element, which is fully part of the overall Economic and Monetary Union (EMU). It is the E in EMU. Sustainability of public finances in the medium term will reinforce confidence of households and corporate business. The recovery can only succeed if we improve confidence. "

Q. Confidence is the key word?

A. "Yes, absolutely."

Q: Does that mean the path towards sustainable deficits should be realistic, rather than too ambitious?

A. "It has to be credible, but it has to be ambitious in order to signal very clearly medium term sustainability. If governments are not able to be convincing in their capacity to deliver fiscal sustainability in the medium term, households and enterprises will not regain confidence."

Q. For some countries 2013 will come too soon to have their deficit under –3% GDP.

A. "First: the redressing exercise must start in 2011 at the latest. Second: taking into account the situation of practically all countries, they have to engage in recovery programs that should deliver significantly more than 0,5% of GDP in structural terms of improvement every year. And in many cases more than 1%. We expect the Commission to make the analysis as rigorously as possible and we will back its rigorous implementation of the Pact."

Q. Does that mean "one size fits all"?

A. "A few countries have been wise, sound and reasonable in the past, they are in a better situation. The efforts for them will be relatively easy. But many others, that are in a very difficult situation, in particular because they did not behave properly in the past, will have to engage in an ambitious and tough recovery program. But for all the medium term goal is clear: implement the provisions of the Pact which are the same for all."

Q. You mean deliver more than 1% deficit reduction per year?

A. "For some it is a necessity that has already been agreed upon by the Ecofin."

Q. Greece has had problems ever since the beginning of the Euro. Does that mean SGP-sanctions are not effective?

A. "In that particular case, it's up to the Euro Group, the Commission and the Greek authorities to first of all improve definitively the way the figures are produced, the way they are computed, the way they are certified and stamped by the national authorities and by the European authorities. That is essential. We must work on the basis of reliable figures. On top of that the Stability and Growth Pact has to be applied fully and rigorously for all countries, as I said earlier."

Q. Some economists call a loose monetary policy the real cause for the crisis. In let's say 2005, did you see the danger of that policy?

A. "The Governing Council of the ECB has demonstrated its dedication to its mandate during this period. We refused to decrease rates when we were called upon to decrease rates, in the beginning of 2004 by the chancellor of Germany, the president of France and the prime minister of Italy. In December 2005 we decided to increase rates. This decision was criticised by ten out of twelve governments that belonged to the euro area at that time. Not by the Dutch government, by the way. The international institutions and many economists were calling upon us not to increase rates. In 2006 and 2007 we mentioned publicly that global finance had to prepare for a correction due to a marked underassessment and underpricing of risks. I was public myself in January 2007, before the start of the turbulences, expressing the sentiment of most central bankers, who were diagnosing this underpricing of risk."

Q. Some economists say interest rates are so low for so long, that the new bubble is being born now?

A. "The Governing Council of the ECB has always taken decisions commensurate with the challenges we had to cope with, and quick and expeditious when exceptional circumstances were requiring it. At the same time we have always been dedicated to our mandate and did not hamper, in any respect, our capacity to deliver price stability in the medium term. We can tell our 330 million fellow citizens: you can have confidence, we will deliver price stability. Our credibility has helped us solidly anchoring inflation expectations which has also proved very important in the crisis: we have avoided the materialisation of deflationary risks thanks to this solid anchoring."

Q. What are the lessons learned from the last five years?

A. "Global finance was much too fragile. The lack of resilience has been paid dearly. Taking into account the interplay between the financial sector and the real economy, we saw that the system as a whole, financial and non-financial, was extraordinary fragile. We have to improve everything in the system. And we should not exclude anything from the review we have embarked on. Private sector of course, where the responsibilities are obvious and large. Public sector as well, we have to improve the rules and regulations, the standards and codes, the prudential regulations, the accounting rules, the auditing and I would not exclude the improvements in the institutional framework, in particular on both sides of the Atlantic."

Q. Do you think bankers have learned their lessons?

A. "They have to understand very clearly that all that we've been doing, central banks – in the form of non-standard measures – as well as governments, has not been done for their 'beaux yeux', but it has been done to avoid the collapse of the financial system in order to avoid a depression of the real economy. A lot of taxpayers' money from the government is at stake, in order to permit the bankers to continue to do their job. Their job is to finance the real economy in the best fashion possible. It's a clear message. On bonuses, we expect all financial institutions to apply the rules that have been worked out by the Financial Stability Board. On top of that I would say it is not only a question of rules and regulations but an issue of values. The financial sector must understand that it has to respect values that are acceptable by the society at large. Your country, influenced by Calvinism, is particularly attached to these values of measure and moderation."

Q. Do you think the economic recovery came so soon it might stop politicians taking bold restructuring measures?

A. "No, taking into account in particular the situation of unemployment, I wouldn't say the recovery comes too soon. That being said, this is no time for complacency. The future is not written. It will depend on our capacity to engage resolutely in structural reforms, to draw all the lessons from the present crisis, without accepting any taboos and to be fully dedicated to our own responsibilities both in the private sector and the public sector."