

Jean-Claude Trichet: Interview with Le Point

Interview by Mr Jean-Claude Trichet, President of the European Central Bank, with Le Point, Frankfurt am Main, conducted by Messrs Romain Gubert and Patrick Bonazza on 15 March 2010 and published on 17 March 2010.

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Le Point: The countries of the euro area have just come to an agreement on helping Greece and saving it from attacks by speculators. Does this not reward bad behaviour and betray the principles of the Maastricht Treaty?

Jean-Claude Trichet: The countries of the euro area have just echoed the commitment made by the Heads of State or Government with regard to taking determined and coordinated action, should it prove necessary, to safeguard the stability of the euro area. One thing I see from the Greek crisis – and this is of fundamental importance – is that nobody is now questioning the principles of the Stability and Growth Pact. On the contrary, those principles have been robustly reaffirmed. The Greek government has just adopted a series of very significant, necessary, convincing and bold measures. It has clearly indicated its objective of complying with the fundamental principles of the Stability and Growth Pact within a reasonable period of time. This is important. Remember that in 2003 and 2004, a period that was less turbulent than the current situation, the Pact was strongly criticised – in particular by the previous French President and the former German Chancellor – and the ECB stepped in with a robust defence of the Pact in order to prevent it from being rendered meaningless. Now, nobody questions it. The people who vehemently criticised the Pact in the past have now realised the extent of the need to respect it – both for the cohesion of the euro area as a whole and in order to preserve and strengthen the confidence of households, firms and investors, thereby fostering growth and job creation.

Le Point: You're an optimist. The Greeks are demonstrating their dissatisfaction. They don't really seem ready to tighten their belts ...

Jean-Claude Trichet: Surveys – including those conducted very recently – show that the people of Greece understand well the need to put their public finances in order and adopt the measures necessary in order to return to growth and job creation. Like everyone else who shares the single currency, the Greek economy has – from the moment it joined the euro area – enjoyed a number of significant advantages in monetary terms. Being part of the euro area has strengthened the Greek economy. Thanks to the euro, it was no longer subject to exchange rate risk, it has access to an integrated economy comprising 330 million European citizens, and it has benefited from having a currency which inspires confidence and has therefore afforded Greece low medium and long-term market interest rates. Its external current account deficit has been financed by the very fact of belonging to the euro area. Of course, in exchange for these significant advantages, the rules of the Stability and Growth Pact must be fully respected.

Le Point: All the same, we have just found out that Greece cheated. It hid shameful secrets about its financial situation from its partners. How can we stop this happening again?

Jean-Claude Trichet: This situation is totally unacceptable. And it's a major problem because all of the countries in the euro area are suffering as a result of this misconduct. To ensure the good governance of our currency, the credibility of the budgetary information provided by the euro area countries must be absolutely above reproach. We fully support the European Commission: Eurostat, the European statistical office, must have extremely broad powers at its disposal. It must be able to check the information supplied by Greece in the country and on the basis of actual evidence with all of the necessary powers of investigation. Such a situation must not recur, either in Greece or in any other country.

Le Point: There are two scenarios in the coming weeks. The positive scenario: Greece is saved. In the second, Spain is the next weak link ...

Jean-Claude Trichet: At this stage, I have no reason to doubt the solidity of the other euro area countries, as long as they implement their respective stability programmes rigorously. Each country is determined to stabilise the situation as far as its public finances are concerned. I am keen to stress that the consolidated situation of the euro area as a whole, as far as its budget deficit is concerned, is not the worst among the industrialised countries. For example, the consolidated public deficit of the euro area amounts to 7% of GDP, while those of the United States and Japan amount to more than 10%. All of us, without exception, have very serious problems.

Le Point: Many people are criticising you, despite the crisis, for not having agreed to be more flexible – in short, for not having allowed the euro area countries to take on more debt in order to stimulate their economies. Do these critics have a case?

Jean-Claude Trichet: Frankly, I don't know how anyone could want our current budgetary situation to be any worse! Do we really want to be responsible for burdening our children and grandchildren with our debts? I believe that, in the face of the worst crisis since the Second World War, central banks, and the ECB in particular, have acted quickly, clearly and boldly. Governments in Europe and throughout the world have taken the necessary decisions in real time. In my opinion, they have done their job well. Weighing down their budgets even further would not have been at all sensible.

Le Point: You are, conversely, also being criticised for having provided liquidity support to the banks. And for having prompted the creation of speculative bubbles ...

Jean-Claude Trichet: That is not the case. We have adopted a host of bold – or “non-standard” – measures since the summer of 2007 in order to provide European banks with the necessary liquidity. This was essential in order to allow banks to continue financing the real economy in spite of the crisis. That said, the markets are now slowly recovering, and, as they gradually return to normal, we are progressively unwinding the exceptional measures that were introduced in order to refinance the banks.

Le Point: Given their sheer size, would the return of inflation be the only way for governments to eliminate their debts?

Jean-Claude Trichet: Throughout this crisis, since the summer of 2007, the European Central Bank and all the central banks of the euro area, the Banque de France among them, have always acted with a view to restoring confidence. Do you really believe that by suggesting we give inflation a looser rein we would have restored that confidence? Households' confidence? Firms' and investors' confidence? If I were to say to you today – obviously an absurd hypothesis – that I'm not against a rate of inflation of around 4%, you would see, in real time, every single market participant drastically raising market interest rates to price in future inflation. What's more, a sizeable risk premium to cover possible further changes would be added. Households would lose confidence. Financing would be much costlier for firms. And governments would see the cost of servicing their debt soar. Inflation – which, incidentally, our fellow citizens have said a firm “no” to – is most definitely not the solution!

Le Point: Since the onset of the crisis, politicians have been saying they will carry out a thorough review of the financial system. But they've only tackled tax havens and traders' bonuses. Not much of a review, is it?

Jean-Claude Trichet: There is a global consensus among industrialised countries and emerging economies, first, that the principles of the market economy remain the best way of creating wealth, second, that the global system has to be a lot less fragile and much more robust and resilient and, third, that the best methodology consists in working together in the G20, the Financial Stability Board and, in particular, the Basel Committee. We have an obligation to achieve results. Our democracies would not forgive us if, in the future, we had

another crisis as deep as the one we experienced in 2008 and 2009. We're not looking for scapegoats. We have to strengthen, systematically and methodically, the frailties of the global financial system. Those who say that once the storm has passed, we should return to "business as usual" are grossly mistaken. That's not the way we will achieve growth and create the jobs that are so necessary.

Le Point: Would you, for example, be in favour of the creation of a European rating agency?

Jean-Claude Trichet: It is true that rating agencies have a great deal of influence. It is not ideal to have a global oligopoly of just three agencies. That said, artificial creations must always be avoided. We are closely monitoring this issue.

Le Point: And the creation of a European monetary fund (EMF)?

Jean-Claude Trichet: The Governing Council of the ECB has not yet taken a position on this issue. I will only say that, if my understanding is correct, this would be a possible source of financing, subject to extremely strict conditions and without constituting any form of subsidy, that would aim to prevent phenomena that could cause financial instability in a euro area country. It would not be a monetary entity, so that adjective does not seem appropriate to me. In any case, I believe that the activity of such a fund, if created, should be strictly controlled and confined to cases of an extremely serious and specific threat. But I would repeat that the Governing Council of the ECB has not yet taken a position on this issue.

Le Point: Could a scenario be envisaged in which a country is no longer able to meet its obligations and leaves the euro area?

Jean-Claude Trichet: I have always said that I will not comment on absurd hypotheses. Joining the euro area is a major decision. It is not a membership that can be adapted to suit the circumstances. It is about sharing a common destiny with other countries. All the current members have joined the euro area not only on the basis of the Maastricht criteria, in accordance with the Treaty, but also on the basis of a broad consensus across the major strands of the political spectrum of each country. This seems to me to be essential, precisely because it involves sharing a common destiny.