

Jean-Claude Trichet: Interview with *Le Monde*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *Le Monde*, France, conducted by Mr Frédéric Lemaître, Mr Stéphane Lauer and Mrs Marie de Vergès, on 31 May 2010.

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Is the euro in danger?

The euro is a very credible currency which keeps its value. Since its introduction 11½ years ago, average annual inflation has been below but close to 2%, in line with our definition of price stability. The euro's capacity to maintain its value is absolutely essential for the confidence of investors both inside and outside the euro area.

So what is the problem?

The issue is that of financial stability within the euro area on account of bad fiscal policy in certain countries, in particular Greece. It is imperative that this be corrected.

The responsibilities of each of the countries concerned are the primary cause. But there is also a true collegial responsibility. Close multilateral surveillance, which is fundamental in the spirit and the letter of the Stability and Growth Pact, has been terribly neglected. This is not particularly surprising, given that in 2004 and 2005 the Pact was unfortunately subject to severe criticism, including from large countries such as Germany, France and Italy. They set a very bad example, both in terms of managing and being accountable for their own fiscal policy, and as members of the Eurogroup and thus essential figures in the surveillance of the fiscal situation in each country. All of Europe's monetary team – including Christian Noyer and the Banque de France – joined the ECB in opposing these attempts to dismantle the Stability and Growth Pact. The dismantling of the letter of the Pact was prevented, but its application suffered enormously.

Economists have underlined the positive impact on growth of a lower euro. Do you share this view?

As I just said, the euro is a credible currency which inspires confidence. Confidence is the most important ingredient for the consolidation of Europe's economic recovery.

How do you interpret the fact that the financial markets are still very nervous, even though a massive rescue plan was drawn up some weeks ago?

In order to reinforce the strength and financial stability of the euro area, in addition to what had already been decided on for Greece, European countries in liaison with the European Commission agreed to mobilise, if necessary, €500 billion. Only a few weeks ago, domestic and international investors would never have imagined that this could be possible. They need a certain amount of time to take in decisions of such magnitude. This will happen gradually. But the measures are so significant in terms of both their nature and their scale that there is no doubt that they will have a positive effect on the markets.

The amounts involved are indeed sizeable, but it appears that the markets are unclear about the way in which they might be mobilised...

In my view, the concrete implementation of the mechanism is taking place properly, and the most remarkable aspect is the speed with which parliamentary decisions have been taken in the countries in question.

If, for some reason, Greece does not honour its commitments, might there be a need for a “plan B”?

That is not part of our working assumption. Greece must and will honour its commitments. The European Commission, together with the ECB on the one hand and the IMF on the other, is following developments in the recovery programme very closely.

Should we anticipate a debt restructuring programme?

No, but allow me to make a general comment: the euro area has an average annual deficit – as a percentage of gross domestic product – of around 6.5% and 7%, which is substantially lower than that of the United States, Japan or the United Kingdom, where it is around 10% or higher of their gross domestic product.

Sometimes, one imagines a sort of Anglo-Saxon plot against the euro. What do you think of this?

No, one should be wary of any conspiracy theories. I simply believe that some international investors struggle to understand Europe and its decision-making mechanisms. They have difficulty in gauging the historical size of the European construction and in anticipating the capacity of Europeans to take decisions that are just as important as those taken a few days ago. Having said that, one should not be complacent: we have some very serious problems and we need to draw some serious lessons. The supervision of fiscal policies, of developments in competitiveness in the euro area economies and of structural reforms needs to be radically improved. We are a monetary union. We now need the equivalent of a fiscal union in terms of monitoring and supervising the implementation of policies on public finances.

Can this be achieved by creating new institutions?

As a first attempt, we have to take the Treaties as the starting point, as they stand. However, if we fully exploit everything that the Treaties permit and greatly improve the “secondary legislation” from Brussels, I believe that we will be able to make the “quantum leap”, the radical improvement that I would like. Europe, as an historic construction, has often been able to make radical progress during times of difficulty and crisis. The Governing Council of the ECB is ready – within the scope of its responsibilities – to help Europe to make essential, new progress. This supposes of course that each of the European partners takes all its responsibilities which are, today, fully of a historic nature.

Would you like to be able to inspect Member States’ budgets prior to their adoption by national parliaments as the Commission proposes to do?

Each institution has its own responsibilities. The ECB is very closely involved in the work of the Commission and the Eurogroup. I support the Commission’s proposal, which I consider to be perfectly aligned with the goal of improving governance in the euro area. I have noticed some negative reactions, in particular in France, and I don’t understand this, especially in a country that has a tradition of favouring a strong “economic governance”.

Can non-democratically elected bodies grant themselves a supranational inspection right?

The governments of the Eurogroup all stem from a democratic process! They are the ones who, following any clarifications from the Commission – and where necessary from the ECB – take the decisions. Economic and Monetary Union includes a very close supervision and, when necessary, injunctions and sanctions imposed collectively by the governments participating in the Union. We are interdependent, which means that bad management on the part of a single member leads to problems for all of the others.

Austerity plans are multiplying in Europe but certain economists are warning against an overzealousness that could jeopardise growth. What is your view on this?

When a household systematically spends more than it earns, so that its debt rises exponentially, its situation is clearly untenable. Correcting this situation demonstrates both wise and sound judgment. It is also wise and sound judgment for a country to return to a sustainable fiscal situation in the medium term. There is a semantic issue here. What you call austerity plans I call plans for a progressive return to a sound fiscal situation. In any case these wise policies are favourable to growth since they increase the confidence of households, businesses and investors. Today this confidence is – as I have said – essential for the recovery.

The OECD has just raised its growth estimates for 2010 and 2011. Do you share this view?

At the global level we are seeing very robust growth among the emerging economies. This is true of China and Asia in general, but also of Latin America, in particular Brazil and Mexico. Africa is also performing better than expected. All these emerging economies are driving global growth.

Within the euro area, some recent data suggest a phenomenon of a recovery in growth in the second quarter of 2010 that is slightly higher than expected. But we must remain very cautious. Our future growth is nowhere set in stone. It depends on all of us and on our ability to strengthen confidence as quickly as possible.

When the ECB decided on 9 May to purchase government bonds that had found no takers in the market – a decision criticised notably by the President of the Deutsche Bundesbank – did it endanger its independence? Does it run the risk of becoming a kind of “bad bank”?

As you know, I never comment on what my colleagues have said. On the basis of our decision, which was taken by the Governing Council with an overwhelming majority, I would like to emphasise the following points. First, we are totally independent of governments and pressure groups of any kind. It is not by chance that we have guaranteed price stability, but by taking decisions which have pleased neither governments nor lobby groups. Second, our mandate is price stability. From 1999 to the present we have delivered average annual inflation of 1.98% for 330 million European citizens. We are unswervingly committed to price stability. Third, we re-absorb all of the liquidity that is injected through our interventions. We are not printing money and there is no change to monetary policy. Fourth, the aim of our interventions is to enable certain markets to function more normally, in order to ensure the correct transmission of our monetary policy, which is unchanged. Fifth, we have taken note of the decision by governments not only to strictly comply with their undertakings to reduce deficits, but also, on the part of a number of them, to step up their budgetary consolidation efforts. For us, this is absolutely of the essence.

Does the situation of the Spanish banks concern you?

I have no particular comments at this stage. On the international level, prudential supervision by the Banco de España has always been regarded as rigorous, particularly with its concept of dynamic provisioning.

What do you think of the European Commission's proposals for each country to create an insurance fund specifically for banks to assist them in case of need?

We take a very cautious view on bank taxes. It seems to us that we must first draw the lessons from the financial crisis with regard to prudential regulations, in particular the Basel III rules. The question of a possible tax should come second. That said, I am deeply concerned by this gulf between the values of our democracies and those of the financial world, reflected particularly in the abnormal behaviours observed so often in recent years. This problem is faced by all of our democratic societies, and certainly on both sides of the Atlantic. The values of the financial world must change. In the prevailing ethos, they will no longer be tolerated as they are.