

## **Jean-Claude Trichet: Interview in *La Repubblica***

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *La Repubblica*, Italy, conducted by Ms Elena Polidori on 16 June 2010 and published on 24 June 2010.

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***Mr President, you always get angry about governments' lack of discipline in terms of managing public finances. Now, after the case of Greece and the speculation that followed, many countries – including Italy – have taken measures. Are the steps that have been taken correct? Are they sufficient?***

“The delicacy of the current situation requires credible measures, this is very important. It is necessary in order to correct divergent paths. Sustainable fiscal policies will help to consolidate the recovery. Governments have solemnly stated that they are aware of this need, and have decided to bring forward consolidation measures. But the credibility of their measures will be subject to constant scrutiny.”

***Are you saying that you will monitoring them?***

“That is the task of the European Commission, in liaison with the ECB. We are very attentive in this respect.”

***Italy has also launched a fiscal adjustment package, which is, however, half the size of the packages of France and Germany. Is it enough? Or will a further package be needed shortly?***

“The measures taken on 25 May go in the right direction, namely they underpin the stability programme of the country. We are reviewing the situation at this stage and attach importance to the assessment of the Commission, taking into account its Treaty responsibility to monitor, evaluate and make recommendations to the Council.”

***But the Commission has already given its preliminary assessment.***

“To my knowledge, the package has not yet been assessed in detail. As I said, the Italian measures go in the right direction, underpinning the stability programme.”

***The Italian plan is lacking measures with regard to growth and employment. Are these not important? Do you have any suggestions for the government?***

“We call upon all governments, not just the Italian government, to show determination in making structural reforms to increase potential growth. I place great emphasis on the need to increase labour productivity, for in the medium and long term, growth is dependent on this very factor. And that is why we say that this is a crucial reform for all countries, and Italy as well.”

***One cut after another: many economists say that there is a clear risk of deflation. What are your views on this?***

“I don't think that such risks could materialise. On the contrary, inflation expectations are remarkably well anchored in line with our definition – less than 2%, close to 2% – and have remained so during the recent crisis. As regards the economy, the idea that austerity measures could trigger stagnation is incorrect.”

***Incorrect?***

“Yes. In fact, in these circumstances, everything that helps to increase the confidence of households, firms and investors in the sustainability of public finances is good for the consolidation of growth and job creation. I firmly believe that in the current circumstances

confidence-inspiring policies will foster and not hamper economic recovery, because confidence is the key factor today.”

***Which countries are most at risk after Greece?***

I have no particular comments on that. All countries are on their way to put their house in order.

***There is talk of difficulties in Spain and among Spanish banks ...***

I have just responded to the question.

***Will you say whether the euro itself is at risk?***

“The euro is a very credible currency. It has kept its value from the start in a way that is remarkable and has ensured price stability for 11½ years. Average annual inflation in the euro area over this period has been 1.98%, in line with our definition of price stability, and this is the best result recorded since the Second World War in all of the euro area economies. A currency which safeguards price stability is a major asset in the eyes of investors, both domestic and international.”

***Is the sovereign debt crisis worse than the sub-prime crisis?***

“I will say that the situation we are experiencing at the moment, in Europe and in the world, was triggered by the financial crisis, which had a very significant impact on the deterioration of public finances everywhere. It is a global phenomenon. I am confident that governments will manage to overcome these difficulties.”

***Truthfully, did you expect all of this turmoil?***

“I am convinced that we always have to be alert. Credibly alert. Without causing alarmism.”

***Do you think that there will be a federal government of Europe?***

“European integration is a historic process which can only be understood from a long-term perspective. We will see whether in the end the institutional framework will be a political federation or a confederation of sovereign states, or whether other imaginative options will be explored. In the end, it is the people of Europe who will decide. That said, when you have a single currency, you need a set of very strict fiscal rules.”

***There is the Stability and Growth Pact...***

“...which for us should be the equivalent of a federal budget in terms of ensuring sound policies. This is why we want the Stability and Growth Pact to be strong, solid and fully respected.”

***Maastricht is going to be reformed and made stricter.***

“Yes. All the aspects relating to multilateral surveillance are to be strengthened, at the level of the 27 EU countries and of the 16 euro area countries. We consider that a “quantum leap” has to be made in terms of improving the surveillance of fiscal policies, of competitiveness and of structural reforms. We made our proposals to the Van Rompuy task force and I explained to the European Parliament that we had to use absolutely all the possibilities offered by the “secondary legislation” of the European Union to strengthen surveillance.”

***Do you just look at fiscal policy?***

“No. We also have to look very closely at the evolution of competitiveness and, in particular, of indicators of competitiveness such as unit labour costs and the level of national inflation by comparison with that of the euro area. It is also important to monitor very closely the information on the structural reforms of every member country.”

***How do you keep at bay members of the ECB's Governing Council, such as the German Weber, who are opposed to purchasing the bonds of weak countries?***

“I have no comment on that, the decisions are taken by the Governing Council.”

***Germany has implemented a tough austerity plan, which has been subject to a great deal of criticism. Is it a good or a bad thing?***

“It is important that all countries that have budget problems demonstrate that they can implement credible policies in the medium to long term. This will increase the confidence of households, investors and firms and, therefore, consolidate the recovery.”

***But is it a good thing or a bad thing?***

“Good. I am pleased that the German government is concentrating on discipline. And what I think about Germany also applies to the others.”

***The IMF is intervening in the European crisis. You were sceptical about this at the beginning, were you not?***

“I thought from the very beginning that we needed the full involvement of the European peers, with the Eurogroup in particular assuming all its responsibilities. It is what has been decided. Provided that the Commission and the Eurogroup were fully involved, the cooperation between the Commission, the ECB and the IMF was desirable and has been excellent.”

***Are concrete results to be expected from the G20 in Toronto with regard to the future financial system? Will you be discussing a bank tax, banks' capital or rating agencies?***

“These are all important elements. We had a good preparatory meeting in Korea, at the level of ministers and governors. I am confident that we are on the right track, knowing that a number of important decisions are to be taken at the G20 meeting in November this year.”

***Mr President, your mandate is coming to an end. Governor Mario Draghi is one of the candidates to succeed you. What kind of profile will your successor need?***

“I have a very heavy responsibility, with all my colleagues of the Executive Board and of the Governing Council. And my mandate expires in one year and four months. That is a long and demanding period of time. It is premature for me to comment on my possible successor.”