

Jean-Claude Trichet: Conclusions of the G20 in Seoul – Interview in *Le Progrès*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *Le Progrès*, France, conducted by Mr Vincent Rocken and published on 13 November 2010.

* * *

Are you satisfied with the conclusions of the G20 in Seoul?

Let me first of all say how delighted I am to be here in Lyon, breathing my native air and soaking up the beauty of the city and its way of life.

With regard to the G20, I took note of the communiqué stating that risks remain for the global economy and that there is a need for extreme vigilance. I share this view entirely with the Heads of State and Government. Four further conclusions are particularly important to my mind. First, a commitment to pursue macroeconomic policies aimed at ensuring sustainable growth, including rigorous fiscal measures in countries where these are necessary. Second, the need to implement ambitious structural reforms to foster growth and employment. Third, the approval of the banking supervision reforms prepared by the Basel Committee. And fourth, a commitment to enhance the flexibility of the exchange rates of certain currencies which are not sufficiently flexible.

When France takes over the presidency of the G20 for a year, what guidelines and actions should it focus on at the financial level?

The global governance of the G20 is a long-term undertaking. Nothing is settled, and the French presidency will need to deepen and strengthen the main avenues that are currently the subject of global consensus. This is already a huge task. But the greatest responsibility that I see for the future presidency is the correction of large external imbalances at the global level; such a correction is crucial if we are to avoid another major crisis in the future. And in Seoul the G20 explicitly asked the French presidency to work on criteria for measuring these external deficits and surpluses.

The financial crisis is over, but its effects can now be felt in terms of the economy. Do you believe that all the necessary lessons have been learned in order to avoid a new global crisis when one sees measures here and there that are perceived as protectionist, in particular in the United States and China?

We are in the midst of reflecting at the international level on the lessons to be learned from the crisis. This is a considerable task and it is being undertaken by the whole of the international community, including emerging market economies. It will take some time. For example, in order to make the global financial system much less vulnerable, much more robust, the measures proposed by the Basel Committee and adopted by the G20 will necessarily take time to implement, given their scale. This applies in particular to a very considerable increase in banks' capital requirements at the global level. We foresee a transition period that will last until the end of 2018.

Are you still worried about the capacity of certain countries, such as Ireland and Greece, to reduce their public debt levels?

What is certain is that it is very important for all countries, and not just Ireland and Greece, to take measures to ensure medium-term fiscal stability. This is necessary in advanced economies, in the European Union in general and, of course, in the euro area in particular. A feature that is shared by the industrialised countries after the very significant recession triggered by the financial crisis is that they find themselves in a vulnerable fiscal position. The European Central Bank has always defended the Stability and Growth Pact, even when large countries such as France and Germany wanted to relax its rules.

The Federal Reserve System decided last week to inject massive amounts of dollar liquidity into the economic system, a decision which has the effect of reducing the value of the US currency. Has the currency war started?

That is, of course, a totally inappropriate expression to use. There are two main topics that need to be tackled seriously. On the one hand, there is the relationship between the major floating convertible currencies of the industrialised countries, such as the dollar, the euro, the yen and the pound sterling. These currencies – or, in the case of the euro, the currencies that preceded it – have been floating since the collapse of the Bretton Woods system at the beginning of the 1970s. The US Secretary of the Treasury and the Chairman of the Federal Reserve System say that a strong dollar vis-à-vis other major convertible currencies is in the interests of the United States. I share this view entirely. A dollar that is strong and credible among the major currencies of the industrialised countries is in the interests of the United States, it is in the interests of Europe and it is in the interests of the entire international community. On the other hand, the second topic is that of emerging market economies which have considerable current account surpluses and exchange rates that are not sufficiently flexible. On this issue, commitments have been made by the G20. A move towards more flexible exchange rates, involving a gradual and orderly appreciation of their currencies vis-à-vis the major convertible currencies, is also in the interests of the emerging economies concerned and in the interests of the international community.

Isn't there a risk that the fiscal consolidation in the majority of European countries will slow down the economic recovery?

No, I don't think so. A consolidation of the recovery and a return to sustainable growth crucially depend on confidence: the confidence of households, the confidence of firms and the confidence of savers. The pursuit of credible and reassuring fiscal adjustment measures will contribute to the consolidation of the recovery because such measures inspire confidence in all those on whom economic prosperity depends.

But has sufficient account been taken of the social risks involved?

The main problem consists of the level of unemployment. As I said, a return to confidence, in particular fiscal confidence, is essential for the consolidation of the recovery and thus for the creation of lasting employment.

The confidence to which you refer is measured in particular by the credit rating agencies. Isn't it necessary to reassess their role? Why can't the EU have its own credit rating agency?

This is one of the major areas that is being looked into at the global level. Past events have shown how risky it could be to rely blindly on the analyses of the credit rating agencies. Financial institutions and investors must assume overall responsibility for the decisions that they take.

How can monetary policy and EU economic policy be better coordinated?

We have a monetary federation, which has provided monetary stability on a continental scale for 330 million citizens. Necessarily, this must be accompanied by very close monitoring of fiscal policies and strict compliance by fiscal policies with the reference framework that we set ourselves. On behalf of the Governing Council, I have always asked for strict compliance with the Stability and Growth Pact and the introduction of closer monitoring of developments in competitiveness within the euro area. Today, we ask the European Commission and President Van Rompuy, who have been charged with this task, to put forward proposals that go as far as possible in this regard: we need to significantly enhance fiscal and economic governance in the euro area.

Does global governance simply mean the convergence or merging of the approaches followed by the main international bodies?

A lot of changes are happening in this regard: the IMF is in the process of reforming its internal governance, with emerging countries being granted more seats. The European countries have agreed to reduce their representation. With regard to the informal governance of the global economy and finance, the G20 has replaced the G7. This means that henceforth all the emerging countries as well as the industrialised countries with a systemic influence at the global level bear full responsibility for the governance of the integrated global economy.

How do you envisage this governance developing in the medium and long term?

Governance today is still founded on the notion of sovereign states in a “Westphalian” world, which does not correspond to the new governance needs of an integrated global economy. The big challenge right now is to speed up the move to a system of global governance that fits the new world that we have created over time, in particular over the past 20 years following the collapse of the Soviet empire and the conversion of large emerging countries to the market economy.

What is your view on the current economic situation in France?

France, like all of the other European countries, is asked to subject itself to a very sizeable fiscal consolidation exercise. This will help to engender confidence and thus to consolidate the recovery and, in turn, create jobs. Like all euro area countries, France is encouraged to continue to actively implement reforms. The euro area as a whole can and must increase its potential for growth and job creation. The extensive reforms that have been undertaken in all countries, such as the pension reform in France, are needed. They are a step in the direction of fiscal responsibility and the smoother functioning of the European economy, and of the French economy, and will lead to more growth and jobs.