

Jean-Claude Trichet: Interview with Postimees, Hospodárske noviny and Delo

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in Postimees, Hospodárske noviny and Delo, conducted by Ms Laura Raus (Postimees, Estonia), Mr Ján Kováč (Hospodárske noviny, Slovakia) and Mr Miha Jenko (Delo, Slovenia) on 13 July 2011 and published on 19 July 2011.

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Question: What will happen if the US politicians fail to agree on lifting the country's debt ceiling? What would the implications be for the euro area?

Trichet: I have no doubt that the US authorities will find an appropriate way to cope with the present difficulties and that they will succeed. If not, it would create a problem of great magnitude for the entire world. But I'm sure that they'll find a solution.

Question: After the past bad experience with United States-based rating agencies, would you now be in favour of the creation of a European rating agency?

Trichet: The present framework of a very small number of global rating agencies is pro-cyclical, amplifying the booms and busts. This "oligopolistic" structure is not optimal. In any case, we encourage all initiatives that go in the direction of eliminating conflicts of interests (where they exist), improving surveillance and oversight and permitting more competition in this industry. Everything that goes in this direction is correct.

Question: Despite the continuing debt crisis in the euro area, the ECB has raised interest rates by 25 basis points recently. It could be the beginning of a series of increases to occur during the year, as economists forecast. Disparities between countries are strong in the area and higher rates may be especially detrimental to the weak economies (Greece and Portugal, for example). What is your answer to this criticism?

Trichet: Throughout the crisis we have always applied the separation principle between the "standard" measures of monetary policy on the one hand and the "non-standard" measures on the other hand. Standard measures are the interest rates. Non-standard measures are designed to help restore a more correct transmission mechanism of our monetary policy when financial markets or segments of markets are disrupted. The interest rates must be decided upon with a view to delivering price stability to the euro area as a whole in line with our definition of price stability: an inflation rate of less than 2% but close to 2%. Over the past 12 years we have delivered a rate of 1.97% as a yearly average for the euro area as a whole, exactly in line with our definition. And we will continue to deliver this level of price stability in the next ten years to come. That is our primary mandate, our contribution to stability and, therefore, to confidence in Europe. It is a necessary condition for growth and job creation in the euro area. I think that this solid anchoring of inflation expectations and the credibility of the ECB to deliver price stability in the medium term is positive for all countries in the euro area, including those that have adjustments to implement. In particular, if we were not credible, the medium and long-term interest rates would incorporate a higher level of inflation expectations and therefore these market interest rates would also be higher everywhere in the euro area.

Question: The Nobel Prize laureate Paul Krugman has also criticised the recent rate hike. He believes that the ECB intends to place on the periphery of the euro area the burden of economic adjustment to avoid the eruption of inflationary pressures in Germany. Is this true?

Trichet: We look at the euro area as a whole. We are responsible for the currency of 331 million citizens. Just as the Federal Reserve in the United States looks at all the states of

America and not particularly, for example, at Florida, California or Massachusetts. Our decisions are based upon our assessment of what the euro area as a whole needs to enjoy price stability in the medium term.

Question: *The European Commission wants to increase its expenses in the next financial framework (2014–2020). What do you think of this move, also considering that thousands of European Commission officials earn more than, say, the Estonian Prime Minister. Is such a situation fair?*

Trichet: These decisions are taken by the Council, namely the college of governments. In our view, governments should be very careful: if they increase spending at the level of Europe as a whole, they have to reduce their spending at the national level. Because when everything is taken into account – the national level plus the European level – Europe has a very high level of public spending as a proportion of GDP in comparison with, for example, all other G7 advanced economies.

Question: *Are you satisfied with the way the ECB, the EU and the governments are collaborating and managing the debt crisis and the financial crisis in Europe?*

Trichet: We first have to avoid such crises and considerably improve governance. I have spoken of the necessity of a “quantum leap” in the domain of governance. That is work in progress. There is at the moment a dialogue going on between the European Parliament, the European Commission and governments, namely the European Council. In the present circumstances, we encourage Europe to go as far as possible in reinforcing governance, which is the position of the Parliament.

Question: *Will the euro area still exist in its present form in five or ten years? Is it possible for you that any country (for example, Greece at the bottom or Germany at the top) might leave the club in order to manage its monetary policy by itself?*

Trichet: It is not an assumption which I envisage in any respect. By the way, it is not in the Maastricht Treaty .

Question: *How far do you think European integration will have developed by the year 2030? How far should it develop ideally?*

Trichet: European integration and construction is a long-standing historical endeavour, which started more than 60 years ago. You are absolutely right to ask the question on what will come 20 or 30 years from now. As I said in a speech in Aachen, it is perfectly legitimate not only to do all we can to improve the situation today within the current framework of the Treaty as regards improving economic governance, but also to ask what could be done tomorrow and also the day after tomorrow. My personal understanding is that the European construction has not yet been achieved in a long-term perspective and that we will have to go further. In particular, the Europeans might design a new type of confederation which will not be exactly like the US federation, but will incorporate European features and will fully take into account European history. But these possible developments will be decided upon by our fellow citizens, by the people of Europe.

Question: *Do you think that the EU will have a common finance ministry in 20 years?*

Trichet: I can't say that this will come at a particular date in time. As I said in Aachen, I think, as a citizen, that at a certain moment we might have a confederation with various ministries, including a ministry of finance. Yes.

Question: *Do you think the debt crisis will cause another recession in Europe?*

Trichet: We have no recession in our baseline scenario (in accordance with the IMF, the European Commission and other international institutions) and, in the view of the Governing Council, the risks to the present scenario are balanced.

Question: *Why are you unable to stop the debt crisis?*

Trichet: This is being discussed by governments; we encourage them to find appropriate solutions as soon as possible.

Question: The ECB should stop its current policy of buying sovereign debt papers because the “risks are becoming too big”, according to one of your former colleagues from the ECB’s Governing Council. Is the ECB going to continue to buy this kind of papers?

Trichet: We are fully transparent in this domain and we publish every week what we do – or do not do.

Question: Whose fault do you think it is mainly that the euro area is in a debt crisis? Some experts say that Germany is also responsible for the crisis, since it lent money to Greece and other indebted countries recklessly in order to make them buy German goods. Do you agree?

Trichet: The sovereign risk tensions are a global phenomenon which, after the crisis of the financial system, is affecting the sovereign bonds of a number of advanced economies. A small number of European countries are particularly affected, but it is a global issue.

In Europe there is a paradox because the euro area as a whole is in a better situation than several other advanced economies. For instance, at the end of this year, our public finance deficit will probably be at the level of around 4½%. So we will have a yearly deficit level which will be half the level of the public finance deficit of the two other very big economies of the G7, namely Japan and the United States. We have to keep that in mind.

The tensions and problems are due to the absence of sound, rigorous and correct management by the countries themselves: they have the primary responsibility. Second, they are due to the lack of rigorous surveillance by all the other countries, which is required by the Stability and Growth Pact.

Question: Could more euro area countries (e.g. Italy) need an international bailout package this year, or is such a scenario out of the question?

Trichet: As I just said, I am fully confident in their capacity to reinforce their credibility.

Question: The economists say that the bankruptcy of Greece is inevitable. They also say it is possible to avoid a chaotic bankruptcy. Don’t you think that your aversion to rescheduling the debt might even worsen the situation of Greece?

Trichet: On behalf of the Governing Council of the ECB, I said that a credit event, selective default or default should be avoided.

Question: Your biggest objector among the euro countries is Germany. They want to prolong the repayability of Greek bonds and they want the participation of the private sector. Under which conditions would you support this?

Trichet: I have already mentioned the message of the Governing Council of the ECB.

Question: In what way can default be avoided?

Trichet: That is the responsibility of the governments.

Question: Is it possible for Greece to pay back the extra money that they will get from the European countries?

Trichet: That depends entirely on their capacity to adjust public finances and economic competitiveness, to redress the situation, to deliver a significant primary surplus and to engage in large-scale privatisations in a professional and active manner. All the conditionality of the international community and of the European Union is designed to produce this result.

Question: Why does the ECB consider the default of Greece such a bad solution? What will happen with the euro area if Greece defaults?

Trichet: Again, the message of the Governing Council of the ECB is known. The decisions are in the hands of governments. That being said, who would consider the default of any sovereign issuer – in the context of a European and global crisis of public finances in the advanced economies – a “good solution”?

Question: Estonia did not participate in the first bailout package for Greece since it was not in the euro area at that time. Do you think Estonia should now contribute to the second bailout package for Greece, considering that wages in this country are much higher than in Estonia?

Trichet: When one is a member of the euro area, one should participate as actively as possible in the discussion of the rigorous surveillance of the policies of the member countries. And, of course, participate actively in the discussions of the conditionality of the assistance programme, if any. Once you have decided on the conditionality, all countries in the euro area should act together. Being a member of a single market with a single currency creates a high level of interdependency. I always say that it means sharing a common destiny.

Question: According to our opinion poll, a huge majority of Slovaks don't want to help Greece. They also don't support the European Financial Stability Facility and the European Financial Stabilisation Mechanism. Why should they pay for the bad budgetary control of EU countries or too much risk-taking by the banks?

Trichet: Being a member of the euro area creates a lot of interdependencies, which are some of the advantages of the single currency area. Of course, the loans agreed to help finance the adjustment must be based on strong conditionality, which today is defined by both the European and the international community. Every country must participate very actively in the surveillance of other members and in the discussions on conditionality. And all countries must act together.

Question: Inflation in Slovakia is above the euro area average. Why is it so?

Trichet: In the long run it is important that national inflation is close to and oscillates around the average, which we know in advance will be less than 2%, but close to 2% over the next ten years (as it has been for the last 12 years). The main danger for any country is to be trapped in a spiral of cost, wage and price increases, which would lead to a deterioration of its competitive position. One has to look very carefully at the unit labour costs in each country. It is the new pillar for surveillance which we have asked for since 2005 and which will be integrated into the new legislation which is being discussed at present in Brussels.

Question: The deficit of the Slovak public finances is planned to be 4.9% of GDP. Do you think such consolidation effort is enough?

Trichet: I think that Slovakia, like all other countries, has to be fully in line with the Stability and Growth Pact and has to make sure that it reaches its 2013 target of 2.9% of GDP. All decisions that permit any country to be ahead of the curve are very important in the present situation.

Question: In Slovenia, having one of the lowest inflation rates in the euro area, people are not happy with the decision to raise interest rates. We expect money will be more expensive, slowing modest economic growth. Is the ECB therefore acting pro-cyclically in some euro area countries?

Trichet: As I said before, the ECB takes its decisions with a view to ensuring price stability in the euro area as a whole. This is extremely important. We look at each country as part of an overall economic area comprising 331 million people. We do what we judge to be necessary for all from the standpoint of the single market with the single currency.

It is very important that national governments fully take into account the fact that monetary policy is designed to ensure inflation of less than 2% but close to 2% as an average for the euro area, and that they take their own national economic policy decisions in the light of this.

They have to take their decisions precisely with a view to optimising the overall situation of the country.

Question: Slovenia is called a “new member”; however, our country has been an active “new member” since January 2007, having now its own financing challenges, and simultaneously fully participating in financial bailouts for Greece, Ireland and Portugal, assuring essential sums of money for a nation of two million. What is your message to our citizens and taxpayers in this regard? Should they sacrifice for new bailouts for Greece and other countries in order to save the euro?

Trichet: First: it is not to save the euro. The euro is a very solid currency which is credible and has all the characteristics of a highly stable currency which keeps its value over time. As you know, the ECB has delivered price stability at the level of less than 2%, close to 2% per year over its first 12 years of existence. It is the public finance situation in some countries of the euro area which is at stake.

Second: this money that has been lent must be repaid. This is not a subsidy, it is not a transfer. It must, of course, be lent on the basis of very strong conditionality, which is based on European as well as international conditionality.

Question: What is your message to the decision-makers in Slovenia after the failure of pension reform in the June referendum?

Trichet: We have called for all appropriate measures to be taken to redress the situation of public finances and of competitiveness in the euro area. This is a message for all countries. Everything that goes in the direction of sound public finances is essential for sustainable growth, job creation and, particularly, for resilience in the situation of a global crisis. The efforts which were made by some countries in this direction have been amply rewarded. Germany, for example, is seeing its unemployment rate fall during the crisis. This is a reward for sound past decisions in the field of public finances and structural reforms. There are other examples from advanced economies outside the euro area: take the case of Sweden or Canada, for example, which proved to be remarkably resilient owing to their wise management. Sound management is always rewarded. It is regrettable that the pension reform in Slovenia was not supported.

Question: Slovenia doubled its “Maastricht” debt in the last three years, from 22% to 45% of GDP, while the government deficit stays relatively high at 5.5% of GDP for the third year in a row. Is the fiscal position of Slovenia becoming critical?

Trichet: Again, to Slovenia as well as to all countries in the euro area or Europe as a whole, the message is: be at least as sound and reasonable as required by the Stability and Growth Pact. Be ahead of the curve. It is the best way to be resilient and to create growth and jobs.

Question: Does the debt crisis mean a lot of additional work for you? Do you have holidays this summer?

Trichet: For all members of the ECB’s Executive Board and the Governing Council, for all the staff of the ECB and the national central banks, the present crisis, which started four years ago in August 2007 and which has been the worst financial crisis since the Second World War, means additional work, permanent alertness and extreme attention. This is, of course, what is needed in demanding times. We all work very long hours on normal working days and also many hours on Saturdays and Sundays.

I will have holidays in the summer. But there is, of course, permanent availability to work even on holiday.

Question: What has been your most difficult moment as President of the ECB?

Trichet: There is no “most difficult” moment. One permanently has to be prepared, alert and ready to take appropriate decisions. I have to say that ever since its creation, the ECB has had many challenges – the bursting of the dot-com bubble, the terrorist attack of 9/11, oil and

commodity price shocks. I was not President at that time, when my predecessor, Wim Duisenberg, had to cope with the 9/11 shock. And all my colleagues and myself have been coping for four years with a succession of tensions that are all demanding.

Question: *What do you consider your biggest achievement as President of the ECB?*

Trichet: The biggest achievement of the ECB is to be able to tell 331 million fellow citizens that 12 years after the introduction of the euro, we have average yearly inflation of 1.97%, which is fully in line with what the democracies in Europe have asked for, fully in line with our primary mandate and with our definition of price stability. And a better result than what was achieved in the euro area countries over the previous 50 years. But it's not an achievement of mine particularly, it's an achievement of the Executive Board, of the Governing Council, of all the staff of the institution and of the Eurosystem as a whole.

Question: *Are you planning to write your memoir? It would be very interesting reading for all of us.*

Trichet: Until the end of the month of October, I have no plans.