

Jean-Claude Trichet: Interview with the Financial Times Deutschland

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in the Financial Times Deutschland, conducted by Mr Wolfgang Proissl on 14 July 2011 and published on 18 July 2011.

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FTD: The euro crisis is eating its way from the periphery to the core of the euro area. Is the euro in danger?

Jean-Claude Trichet: No, not the euro. The euro is a currency and the European Central Bank is responsible for it. The euro is a highly credible currency. It has been stable and has kept its value extremely well over the past 12 years. That is what the Treaty demands of the ECB. That is what the people of Europe and of Germany are asking for. And it is consistent with the aim of the Governing Council of the ECB, which is an inflation rate of just below 2 % and close to 2 % over the medium term. The average yearly inflation has been 1.97 % over 12 years which is a better result than over the last 50 years. In Germany the stability of prices is even more impressive: 1.5 % per year from 1 January 1999 to 31 December 2010.

FTD: So is the talk of a crisis an exaggeration?

Trichet: There are important problems at present which are related to bad public finances, by way of consequence, to financial stability. But these problems are the responsibility of the governments in question. Each government must keep its own house in order. In addition, the European Commission and all governments are responsible for ensuring that the fiscal policy of all euro area countries is constantly surveyed and monitored in line with the Stability and Growth Pact. We always made publicly the point that governments must live up to their responsibility.

FTD: Now that the markets are losing confidence in Italy and Spain, can Europe still manage this crisis?

Trichet: Naturally the Europeans can manage the issue. It is not a question of technique. It is a question of will and determination. And the situation, at the level of the euro area as a whole, is more sound than in the equivalent advanced economies. For example at the end of the year the euro area will post around 4 ½ % of GDP public finance deficit when the US and Japan will post around 10 %.

FTD: The ECB argues against private sector involvement in the second rescue package for Greece on the grounds that, in international terms, this is not usual in such cases. But even the International Monetary Fund is now in favour of involving private bondholders. Why is the ECB still resisting such a move?

Trichet: If you read carefully what the IMF writes, you will see that it is much more prudent. In any case you know the position of the Governing Council on Greece, which I repeated in our last press conference. More generally, all over the world, the best private sector involvement is foreign direct investments, privatisation and going back as soon as possible to spontaneous market financing.

FTD: Is the ECB sticking to the line that any solution for Greece that leads to a credit event, a selective default or a default must be avoided?

Trichet: The Governing Council has not changed its position. Again we are in a domain where Governments are responsible. Our duty is to say clearly what we judge appropriate in order to avoid the risk of adverse developments in the euro area and in Europe. As you know there has been several times in the past when our advice was not followed, such as when we advised solemnly against watering down the letter and the spirit of the Stability and Growth

Pact. If this advice had been followed, we may have avoided some of the problems we are facing today.

FTD: How is the ECB helping to battle the crisis?

Trichet: The most important thing for the Governing Council of the ECB is, for the future as it did in the past, to stick to its mandate and ensure price stability for the euro. The fact that the euro is a stable and credible currency is a prerequisite, a necessary condition for mastering this difficult situation. The ECB is an anchor of stability and confidence which is particularly fundamental at a time when everything else seems to be moving and shifting.

FTD: To cope with the crisis the European Central Bank used non-standard measures. The Securities Markets Programme, special treatment for government bonds of Greece, Ireland and Portugal, the liquidity provision for banks. How far does the ECB go with its special rules?

Trichet: We can not accept to put in questions our role as the anchor of stability and confidence in the euro area and in Europe. If a country defaults, we can no longer accept as normal eligible collateral defaulted bonds issued by the government of that country. Because, in the eyes of the Governing Council, this would impair our ability to be an anchor of confidence and stability.

FTD: What does the ECB say to the fact that, in the context of the second package for Greece, governments have nonetheless been talking about solutions such as a debt rollover or a partial debt buyback, which could lead to default?

Trichet: The responsibility for this lies with the governments. The governments have been warned, in no uncertain terms and using all possible means. I have said so publicly. I have explained in detail to the Heads of State and Government and to the finance ministers, on several occasions, that, if a country defaults, we will no longer be able to accept its defaulted government bonds as normal eligible collateral. The governments would then have to step in themselves to put things right. That would then be their duty.

FTD: What does that mean in concrete terms?

Trichet: In the event of a decision by the governments leading to a selective default or a default, which, again, we are warning against loud and clear, the governments would have to take care that the Eurosystem is presented collateral that it could accept.

FTD: When it comes to deciding whether a default has occurred, will the ECB rely, as it has until now, on the rating agencies, or might the decision not be dependent on what they say?

Trichet: Again, it is not the working assumption of the Governing Council.

FTD: Let's talk about the crisis management of the euro area governments. The Heads of State and Government and the finance ministers give the appearance of being a chaotic bunch. They often create such a cacophony that it inflames the crisis rather than dampening it. What needs to change?

Trichet: There is an absolute need to improve "verbal discipline". The governments need to speak with one voice on such complex and sensitive issues as the crisis. It is, of course, complex to take into account the need for sound, shared management of the Economic pillar of the Economic and Monetary Union, whilst fully respecting the functioning of the 17 democracies of the euro area. But speaking with one voice in a period of crisis is of essence. And, after all, it is what was possible after Lehman Brothers at the end of 2008.

FTD: Some euro area governments have said that Chancellor Merkel has frequently acted too slowly and has thus made the crisis even worse. Is that true?

Trichet: Not in the least. I would see a discussion of this kind as being completely misplaced in the current situation.

FTD: Do you fear that the euro area countries could fail to get the crisis under control?

Trichet: No. The countries of Europe have always demonstrated that they pull together when the challenges are very high. My strong belief in the continued integration of Europe, as a key historical endeavour to ensure stability, prosperity and peace, has not been shaken in any respect by the crisis.

FTD: Some governments want to beat the crisis by merging national government bonds to create eurobonds. Is this a good idea?

Trichet: The Governing Council has looked at the various proposals and is not in favour of them at present. What counts now is that we make optimal use of the instruments at our disposal. This includes a quantum leap in the economic surveillance governance of euro area countries. In addition, the adjustment programmes for Greece, Ireland and Portugal must be implemented in a decisive manner. It also means that the European Financial Stability Facility (EFSF) should be used as flexibly and effectively as it possibly can be.

FTD: The stress tests are very detailed in terms of various exposures of the tested banks (sovereign risk, housing risk, etc.) Some critics fear the stress tests will now lead to speculation against certain banks. Do you think this fear is justified?

Trichet: I welcome the publication of the EU-wide stress-testing exercise, which was prepared and conducted by the EBA (European Banking Authority) and the national supervisory authorities. I trust it is an important tool to enhance transparency in the EU banking system. I also support the EBA recommendations to promptly remedy the capital shortfall of the banks that do not meet the threshold ratio of 5 % core Tier 1 capital (as of end-April) and to strengthen the capital position of those banks that are above but close to the threshold.