Jean-Claude Trichet: Interview with Le Point

English translation of the full Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in Le Point, conducted by Patrick Bonazza on 22 July 2011, published on 27 July 2011.

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Has the euro been saved, then, after last week's summit in Brussels?

The euro itself, that is the currency, has never been under threat. The risk was not to the stability of the single currency, but rather to the financial stability of the euro area owing to the fiscal problems in Greece. The euro is not in question: it is solid, strong and credible. The euro has kept its value for over 12 years. The European Central Bank (ECB) is an anchor of stability and confidence, which is very important, particularly in turbulent and difficult periods.

Yes, but aren't the struggling countries in the euro area putting the single currency at risk?

The pressure observed on sovereign risks is not solely a European problem, it is also a global problem. The United States and Japan also have major fiscal problems, as you well know. The paradox is that, from a global perspective, the euro area is in a far better situation, with a consolidated fiscal deficit of around 4.5% of GDP this year, compared with approximately 10% of GDP for these other two countries. On the other hand, individual countries in Europe, in particular Greece, are in a much more difficult situation. All the decisions taken in Brussels by the Heads of State or Government are important for the financial stability of the euro area.

What part did the ECB play in the decisions taken in Brussels on 21 July?

In such circumstances, it is necessary to take a close look at the role of the central bank. We are responsible for ensuring that the currency, savings and purchasing power of 331 million citizens across 17 countries remain sound and stable. As you know, inflation hits hard on the poorest and most vulnerable among us. Our democracies entrusted us with this responsibility and we are living up it! Since the launch of the euro 12 years ago, we have achieved an average annual inflation rate of 1.97%, which is in line with our definition of price stability, i.e. below, but close to, 2%. Moreover, by being in charge of a single currency for 17 countries and 331 million citizens, the Central Bank has an overall view that enables it to convey messages to those taking government decisions, knowing of course, that they are in full control of their own decisions.

Was your participation in the meeting between Sarkozy and Merkel on 20 July in Berlin planned?

Angela Merkel and Nicolas Sarkozy invited me to join them at the Chancellery in Berlin. The Governing Council of the ECB advised me, in real time, that it would be useful if I accepted this invitation so that I could put across the views of the ECB.

Another €109 billion for Greece, after €110 billion last year. Do you believe that Europe is going to be able to raise such large sums of money for a single country just like that?

What matters above everything else – and it is absolutely essential – is that Greece regains control of its economic balances, that Greece itself implements the measures for restoring its budget, government accounts and competitiveness as quickly and as rigorously as possible. What matters is that it implements rigorous structural reforms and resolves to embark on a privatisation programme.

Last year, France raised €4 billion and after the summit in Brussels it is going to borrow an additional €15 billion between now and 2014 to the benefit of Greece. Are you sure that the French, who have their own problems, will accept this indefinitely?

Greece is committed to doing everything, and will do everything – under the strict surveillance of Europe, which is something we have always called for – to restore confidence, regain stability and pay back its loans from Europe. The Europeans are not subsidising Greece to never see their money again. They are investing in its recovery. Of course, they need to monitor their investment closely.

The 17 euro area countries have bought Greece some time, but that's no guarantee that the country is going to accept the austerity measures being imposed on it.

We are not imposing "austerity" on Greece. Greece itself is correcting its years of mismanagement. Throughout the years in the run-up to the crisis, Greece continued to spend more than was coming in. Sound governance is the only way to once again achieve growth and job creation based on a newfound competitiveness.

Do you think that Greece's membership of the euro area is partly to blame for its downfall? Despite the level of inflation in the country, Greece has been able to borrow at very low rates, thanks to the ECB. This gave rise to a credit bubble.

No, I don't think so, because the euro area has only been in existence for just under 13 years, and prior to that, other countries, everywhere in the world, had experienced similar problems to those that Greece is experiencing today. Moreover, we are seeing today, unfortunately, that the issue of poor fiscal discipline is arising more often in developed countries, whereas before it was only an issue in developing countries – in Asia, Latin America or the Near East. Greece is a symbolic example of this turnaround.

And what is the reason for this turnaround?

The fact is that the monitoring of economic and fiscal policies in the euro area was not as good as it should have been. The ECB and the Banque de France – Christian Noyer and myself – have always said with regard to Europe that the Stability and Growth Pact was not an artificial creation conveying an ultra-orthodox view of the economy coming from across the Rhine. It was a fiscal framework that was absolutely necessary for a monetary union that had neither a federal government nor a federal budget. On behalf of the Governing Council, I publicly denounced the liberties that in 2004–05 Germany, France and other major countries wanted to take, and indeed took, in the form of a Stability and Growth Pact that was weakened both in letter and in spirit. We have constantly called for closer monitoring, not only of fiscal policies, but also of indicators of competitiveness and internal imbalances.

Today, in the light of the crisis, everyone can see that we were right.

And that you have a better chance of being listened to…

I sincerely hope so.

Over the last few weeks, you have fought against the idea of asking the private sector (banks, insurance companies, funds, etc.) to incur losses to help Greece. It would seem that the Heads of State did not listen to you?

Once again, we have always said publicly that it is not the Central Bank that takes the decisions, but the governments themselves. With regard to private sector involvement and Greece, we have had three very clear messages. First, we said that any participation had to be voluntary. As far as this is concerned, our advice has been followed. Second, we said that it was necessary to avoid a "credit event", and at the moment, it looks as though we have done so. Lastly, our third message was that a "selective default" should be avoided. However, in the event of such a default, governments would have to recapitalise the banks and provide credit enhancement for the collateral accepted by the ECB for its refinancing operations. We secured this guarantee which was essential to protecting the integrity of the

ECB in the event of a "selective default". It was essential for the ECB, and all the Eurosystem central banks in order to maintain stability and confidence in Europe. The protection of the integrity of the central bank is non-negotiable.

Following the summit in Brussels, the European Financial Stability Facility (EFSF) is to provide cheaper loans to programme countries and will also be able to purchase bonds and recapitalise struggling banks. With this, are we not getting sucked into in a costly and vicious circle?

We have advised governments to incorporate more leeway and flexibility into the EFSF – taking into account that we are experiencing exceptional circumstances since the onset of the worst crisis since the Second World War. A more versatile and flexible EFSF will be a more efficient tool for helping to ensure the financial stability of the euro area as a whole.

With regard to private sector involvement, the Heads of State have affirmed that these solutions would only be applied to Greece. Why the special treatment?

The creditworthiness of a country is absolutely essential. Whether you are a household, a company or a country, you will be granted loans on good terms if the lender is confident that he will be paid back. That's why confidence is so important. The Heads of State or Government wanted to remove all ambiguity, and in their own words they said: "All other euro countries solemnly reaffirm their inflexible determination to honour fully their own individual sovereign signature. The euro area Heads of State or Government fully support this determination, as the credibility of all their sovereign signatures is a decisive element for ensuring financial stability in the euro area as a whole". I could not have put it better myself.

Did you look into the possibility of Greece leaving the euro?

Not for a minute did anyone consider that option.

But what do you have to say to the many people who don't believe that Greece will pull through unless its debt is drastically reduced?

The problem that Greece has is that it needs to return to a path of sound governance as quickly as possible, i.e. it needs to restore its budget to health, implement a rigorous privatisation programme and carry out essential structural reforms. The proposals from the private sector and the decisions of the European governments, i.e. lowering interest rates and extending the duration of the loans, will ease Greece's debt service burden considerably. Furthermore, the outstanding debt will decrease through bond swaps and debt buybacks. But what is important is that Greece carries out the adjustment itself, helped by this very important decrease of the yearly service of the debt.

After Brussels, will countries like Spain or Italy avoid the Greek contagion?

Without exception, every country is aware that it is experiencing an exceptional crisis. For example, the Italian government has just adopted a fiscal programme that will reduce its deficit to less than 3% from 2012. How many major developed countries, outside Europe, can say that? Spain has started to carry out ambitious reforms, as noted at the meeting on 21 July. The European Central Bank has called for all countries to strictly adhere to the letter and spirit of the Stability and Growth Pact, to strengthen competitiveness and, in particular, to monitor production costs and carry out the necessary structural reforms. That is the path to sustainable growth and job creation.

The crisis has been enlightening. Within the euro area, those countries that have been very attentive to their budget and their competitiveness, such as Germany or Austria, have succeeded in creating jobs and reducing unemployment, even during the crisis. The same applies to countries outside the euro area, for example Sweden, which has had much better results than any other country outside the euro area.

With each crisis, the usual suspects call for greater federalism in order to prevent the next crisis. This time, they want euro bonds and greater sharing of the debt burden. Is this a responsible and helpful response? And can we take steps towards federalism without asking the people for their opinion?

As you know, the summit in Brussels was not convened at all with the aim of causing institutional upheaval. That said, the view that Europeans need to reflect on their long-term vision of how they want European institutions to evolve is, for me, a valid one. The construction of Europe really started 60 years ago. Evidently, it has not yet been completed, and it is also very clear that it is up to our democracies to take the decisions and thus, ultimately, to the people of Europe to say what they want. Speaking as a European citizen, and not as the President of the ECB, I think that the Europeans will go on to invent in a long term prospective an entirely new type of confederation of sovereign states, which would not be a carbon copy of the United States of America.

We were sold the euro area as an area of prosperity and stability and instead we get austerity. Go figure!

Since the introduction of the single currency, the euro area has seen a growth rate per capita that, at around 1% a year, is comparable to that in the United States, and has created even more jobs: 14 million compared with 8 million in the USA. Not enough people know these facts and they do not receive sufficient attention. In addition, it was never claimed that the euro would do away with the need for good public finance management; indeed, we said precisely the opposite. The euro area is redressing its public finances, just as the United States and Japan must do, and as the United Kingdom has also started to do. Two things are certain. First, everywhere in the world, whenever budgets are managed carefully, the costs of production are controlled and the social partners act with prudence, the reward is growth and job creation, even after the worse crisis since 1945. Second, the euro area as a whole is faced with fewer problems than the United States or Japan, but it must take tremendous steps to strengthen its governance.

Is speculation the big bad wolf that will devour the euro?

The euro itself is not in question. The euro is a very credible currency that has done a remarkable job of ensuring price stability. Also, it is issued in an economic area for which the overall results are sound compared with other ones. As far as government or corporate bonds are concerned, the financial markets are complex and very sophisticated. Some investors have confidence (or not) and invest (or not), and others can forward buy or sell and speculate up or down. Market participants are thus motivated by varying degrees of confidence, as well as by fear and greed. When serious crises arise, such as the one that we have been in since 2007–08, they expose weaknesses as sure as x-rays show up the skeleton inside the body. A good way of not letting speculation take hold is to identify ones own weaknesses upfront and to correct them. In the years that preceded the crisis, countries in particular, had a false sense of security. Unfortunately, this sentiment was not only shared by some Europeans, but also by the whole of the international community, not to mention many economists. Once again, the lesson that we Europeans must draw from this is to strengthen the governance and monitoring of economic and fiscal policies. That does not mean to say that the functioning of the financial markets does not need to be substantially improved. At the moment, the key word for all industrialised countries is “confidence”.

Yes, but it is possible to speculate on whether Greece will default.

Such a speculation would be a sure-fire way of losing money given the decisions taken last Thursday. And let me say again, the euro, as a currency, is sound and credible, and is not affected by the pressures on sovereign risks.

Don’t the rating agencies play the speculation game?

I think that this is an important issue for financial stability at the global level. Here we see a very small number of institutions having an enormous international influence. The patently oligopolistic way in which the rating agencies work is certainly not optimal in terms of market organisation. This configuration is structurally "pro-cyclical", in other words it fuels the creation of bubbles during cyclical upturns and exacerbates the busts during cyclical downturns. These failings must be addressed. This is easily said, and more difficult to do…

You will be relinquishing your duties this coming November. What does this mean for you?

My professional life has been shaped by both the pursuit of long-term or very long-term strategies such as the construction of Europe and by a series of crises. When I started my career as a civil servant I had to deal with the first oil price shock in 1973–74, which was an enormous blow to the whole of the industrialised world. Unfortunately, because we responded poorly, particularly in Europe, this shock was the start of mass unemployment. I have also lived through the sovereign debt crises in Latin America, Africa, the crisis in the Soviet Union, the crises of the Exchange Rate Mechanism of the European Monetary System in 1992 and 1993, and of course the Asian crisis, the bursting of the dot.com bubble and the ongoing crisis that started in 2007–08. The truth is, I have always been living through crises. This has led me to conclude that, in a world that is undergoing extremely rapid transformation thanks to science and technology, the global spread of the market economy and the fantastic progress made by China and India, it is necessary to be constantly on one's guard and in a state of alert. I first elaborated on this view in a speech I gave in 2005 at Jackson Hole in Wyoming, where central bankers from all around the world meet every year on an informal basis. Back then, I explained that one of the conditions for boosting long-term confidence was to remain visibly and constantly in a state of alert. The experience of the most serious crisis since the Second World War has only strengthened this conviction. More than ever, the benefit that the European Central Bank brings to Europeans is to be an anchor of stability and confidence in a turbulent and demanding period.