

## **Jean-Claude Trichet: Interview with *Corriere della Sera***

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, conducted by Ms Marika De Feo and published on 28 September 2011.

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***Corriere della Sera: Mr President, are you satisfied with the outcome of the meetings in Washington?***

**Jean-Claude Trichet:** It is always extremely important for world leaders in the areas of economy and finance to exchange views, compare notes and work out a diagnosis of the situation which is lucid and without any complacency. We are in the fourth year of a very demanding global crisis. The epicentre of the crisis is in Europe, but it is a global crisis. On behalf of the ECB's Governing Council, I called on all European authorities to be up to the very demanding challenges of the times and to demonstrate their sense of direction. And I told our partners in the rest of the world that we needed support and strong encouragement for European affairs, but not public lectures.

***The G20 pledged on Thursday to “take all necessary actions to preserve the stability of banking systems and financial markets”. Which strong and collective action do you suggest?***

First, the full, comprehensive and speedy implementation of all decisions already taken individually and collectively in Europe and in the world. As regards the Europeans, full and swift implementation of the decisions taken on 21 July.

Second, as has been underlined by the European Systemic Risk Board, coordinated efforts to strengthen bank capital, including recourse to backstop facilities.

Third, we need to stand ready to respond to new challenges that can arise at any time. Permanent and credible alertness is more important than ever in the present circumstances.

***Are governments responsible for the dangerous development of the crisis?***

I am on record as having stressed, on behalf of the Governing Council, since the inception of the euro, that fiscal soundness was of the essence, that the Stability and Growth Pact was fundamental in a single currency area without a federal budget, and that the surveillance of competitive indicators by peers was absolutely necessary. All this is clearly documented.

Now, in the present very demanding circumstances, what counts is that all authorities are up to their responsibilities. Now is the time for effective action, implementation, verbal discipline and a stronger team spirit on the part of the European executive branches.

***European countries were urged to boost the rescue fund (EFSF) to contain contagion and avoid recession. What do you think of that? Could the EFSF be leveraged, for example, through the European Central Bank, or receive a bank licence? Or is it better to anticipate the creation of the ESM, as Germans suggest?***

I call for the full and swift implementation of the decisions of 21 July taken by the 17 Heads of State or Government. And for them to stand ready to face up to acute new challenges in a period which is so demanding.

***Mr President, growth seems to have deteriorated quickly, downside risks to growth are augmenting. Are these reasons strong enough for the ECB to become more aggressive in the fight against the crisis, involving also monetary policy?***

As you know, we consider that being a very solid anchor of stability and confidence in the turbulent times we are experiencing is a fundamental contribution to growth and job creation. The remarkable anchoring of inflation expectations, which is due to our credible monetary policy, protects us against the risk of inflation and the risk of deflation. You know our well-established concept: we are never pre-committed, and our interest rates are always designed to deliver price stability in line with our definition and the anchoring of expectations.

***Would the ECB go as far as introducing also other liquidity operations, for example 12-month liquidity operations, as was suggested in Washington?***

Do not forget that we are presently refinancing all our banks on the basis of full allotment at a fixed rate at one-week, one-month and three-month maturities. This is the most important of our non-standard measures, designed to help restore a better monetary policy transmission mechanism. These non-standard measures have to be exactly commensurate to the degree of abnormal functioning of markets in the assessment of the Governing Council.

***Do you think that the downgrading of Italy recently decided by Standard & Poor's is justified?***

I do not comment on decisions by rating agencies. Investors and savers know that what counts is their own judgement. What counts are fundamentals and actions taken by governments and parliaments to enhance and consolidate confidence.

***And are you satisfied with these actions until now?***

As you know, we sent messages to Italy that were followed by action and, after some hesitation, the decisions were confirmed rapidly by the parliament. Of course, this is work in progress, all this has to be implemented as soon as possible, and there are other measures upon which the authorities are reflecting.

***Which measures are still missing?***

We would encourage everything that goes in the direction of structural reforms to unleash the capacity of Italy to grow faster, to have a better growth potential. The potential of Italy is immense, and the present growth potential is not in line with the overall capacity of Italy. I think there is a general consensus among economists on this, and everything that goes in the direction of unleashing productive forces is welcome.

***Which other strengths do you see in the potential of the Italian economy?***

One of the major strengths of Italy is its entrepreneurial spirit. The capacity of individuals and families to start a business, take risks and be devoted to their enterprises is exceptional. But this entrepreneurial spirit, which is shared by society as a whole, needs to be allowed to develop fully through structural reforms aimed at increasing the flexibility of the economy.

***What more should be done to increase growth? For instance, reducing protection in non-tradable sectors and monopolies, approving the liberalisation of closed professions, higher pension age, making labour markets more flexible and an overall increase in productivity?***

A lot of things can be done, in particular but not exclusively the liberalisation of closed professions, improved flexibility of the labour markets, improved education and training, and measures to boost innovation.

***How do you evaluate the fact that Italy is going to have a primary surplus as a percentage of GDP from next year onwards?***

It is of course something which is important, and maybe not sufficiently well-known by external observers. We encourage Italy to follow this path and to do all that is necessary in order to consolidate this primary surplus and reach the goal of having balanced overall public finances in 2013.

***Do you think that this objective can be reached with the measures taken until now?***

What counts is the goal. The decisions which were taken recently make it possible to advance significantly in the direction of that goal. Whether new decisions will have to be taken, taking into account the overall situation and the evolution of the real economy, is an open question. But the goal is the goal; it has been affirmed, and it is very important.

***Would it have been better to publish the messages you sent to Italy?***

As you know, we have sent messages and we do that on a permanent basis, through various means, addressed to individual governments. We do not make them public. But we are calling for all governments without exception to permanently ensure sound fiscal and macroeconomic policies. We do this every month in the Eurogroup and in ECOFIN, so this is not something extraordinary.

***The SMP is temporary, how long will you go on with the programme?***

We are implementing this programme – like all non-standard measures – for monetary policy reasons, to restore a better transmission of our monetary policy, because some markets or segments are disrupted and not functioning properly. These disruptions, in the case of the Securities Markets Programme (SMP), are due to the fact that governments, individually, still have to ensure their full credibility in the markets, and that the peer surveillance called for by the Stability and Growth Pact was not exercised correctly. It was on the basis of the commitments of 21 July made by the EU Heads of State or Government that the Governing Council of the ECB decided to activate the SMP, taking into account the commitment of governments to give the EFSF the capacity to intervene on the secondary market.

***Are you buying sovereign bonds to help Italy in particular?***

No. We are embarking on the SMP to help restore a better transmission mechanism for monetary policy at a time when governments have not yet implemented their decision of 21 July.

***What will happen when you stop this programme?***

I already explained how we see this programme and the commitment of the governments to step in individually and collectively.

***Many are calling for Greece to default, also from the Governing Council...***

We have decisions which were taken with the signature of 17 Heads of State or Government on 21 July, and the Governing Council considers that it is extremely important that all the decisions be implemented. Moreover, the key to everything are the decisions of the Greek government, which has to adjust in a decisive way, in the interests of the Greek people.

***But some observers from outside have the impression that you are also losing patience with Greece.***

Our message is crystal clear.

***Are you satisfied with this first agreement of the Troika?***

When we have a report, we shall see.

***Will the role of the EFSF be enough to substitute for the ECB?***

The decisions which have been taken by the European governments have to be fully implemented, and they explicitly include the possibility of intervening on the secondary bond market.

***People say that we are at a crossroads for Monetary Union, where the euro may break apart, remain only 10–12 countries, or have a more integrated governance.***

Since 9 August 2007 we have been experiencing the worst crisis since the Second World War. This global crisis is challenging the strategies of all the big advanced economies, Japan, the United States and Europe. So it is not surprising that we are all in very demanding times. As regards Europe, it is absolutely crucial to make a distinction between the currency itself and the tensions that we have observed in some countries. The euro has kept its value remarkably over 13 years, has preserved price stability, is backed by strong fundamentals and is considered by markets to be solid and stable for the next ten years, when we look at inflation expectations. On a consolidated basis, public finances in the euro area are sounder than in the United States or in Japan, with a public finance deficit of 4.5% of GDP, whereas it is around 10% in the other two countries. That being said, we have a number of countries that undoubtedly have to correct their policies. And that calls for a strong enforcement of their national policies in the domain of public finances and structural reforms. We must have a “quantum leap” in the governance of the 17 members of the euro area.

***Mr President, did the role of the ECB change during the crisis, and if so, how?***

The ECB is an anchor of stability and confidence in Europe. Its track record in terms of price stability is remarkable and better than what any of the euro area countries experienced over the last 50 years. The crisis did not change anything in this respect. On the contrary, in times of difficulty, turbulence and crisis, the role of the ECB as an anchor is even more important.

***Is there still a vision for a united Europe?***

I profoundly believe that the people of Europe feel that, in the present world, a united Europe is more important than ever. The rise of the big emerging economies, the structural changes at the global level, and the rapid advances of science and technology call for Europeans to unite, with a profoundly improved governance structure.

***How many hours do you work every day, how many days a week? Do you still have room for private interests and family?***

I would say 10 to 11 hours a day and probably, as an average, 6 to 6½ days a week, depending on the European and international working weekends. It is demanding, particularly in times of turbulence. I thank profoundly my wife and family for their understanding.