

## Jean-Claude Trichet: Interview with *Die Welt*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, conducted by Jan Dams and Martin Greive on 7 October 2011.

\* \* \*

***WELT: Mr Trichet, at the time you took up office, did you think it conceivable that you would be dealing with such a serious crisis in the currency union?***

***Jean-Claude Trichet:*** Even before the outbreak of the financial crisis, the ECB warned that it was highly likely that there would be major corrections in the financial markets. However, the fact that the crisis would call into question the whole economic and financial strategy of all developed economies was not quite so foreseeable.

***You have had to take harsh criticism of your crisis management from Germany. How disappointing is that for you?***

That reminds me of a Goethe quote: “*Against criticism a man can neither protest nor defend himself; he must act in spite of it, and then it will gradually yield to him.*” The ECB must accept the criticism. The only thing that matters is that we are faithful to our primary mandate and take our decisions fully independently.

***It is about precisely that that increasing doubts are being expressed. Under your leadership, the ECB has lost its independence because it has financed hard-up euro area countries by printing money.***

This criticism is completely inaccurate. We are fiercely independent of governments and pressure groups. All our decisions are made fully independently by the 23 members of the ECB’s Governing Council. And we are totally devoted to our primary Treaty mandate of price stability. We have delivered price stability over 13 years with an annual inflation rate of 2.0% for the euro area as a whole and 1.55% for Germany. This is better than any time over the previous 50 years. For the last four years we have been experiencing the worst global crisis since World War II, and not surprisingly it is hampering our monetary policy transmission. That is why we have had to take some non-standard measures but with caution and prudence. With our decisions since the outbreak of the crisis, we have reacted appropriately to the market failures in the financial markets. We have lived up to our responsibilities.

***The two German members of the ECB’s Governing Council, Axel Weber and Jürgen Stark, both resigned because they could no longer support the buying up of government bonds.***

Jürgen is a very good European and a very close friend. Over the last 18 years he has been closely involved in the European construction and European unity. He has been an outstanding ECB Chief Economist. He is one of the greatest champions of the European Union that I know. When, after serving the euro for many years, such a person, who has been totally loyal to the institution, announces his resignation for personal reasons, one has to fully respect his decision.

***According to opinion polls, a majority of Germans now want the Deutsche Mark back. Is the euro at risk of losing its backing in Europe’s largest economy?***

There are different opinion polls! In early September *Die Welt* published the results of a survey in which two thirds of respondents in Germany called for “more common policies in Europe”. The citizens of Germany know how important European unification is for their country; the fall of the iron curtain would not have been possible without a united western Europe.

***In that case, how do you explain the growing mistrust?***

I believe there is a problem of communication. Contrary to how things are often portrayed, we do not have a crisis of the euro as a currency. The euro is a credible, stable currency. In spite of the global crisis, its external value today is significantly higher than when it began. For 13 years the ECB has provided for stable prices. And observers and markets are anticipating the same stable prices for the next ten years. This achievement in particular is not valued highly enough by some commentators in Germany, and I do not understand why that is. Of course, there are shortcomings in the financial sector, in fiscal policies, and as regards financial stability: the financial markets are too unstable, some euro area countries are uncompetitive, and reliable fiscal policy is lacking in several countries. However, none of these problems have to do with the currency. They are the responsibility of the governments of the euro area.

***Do you have the impression that the Heads of Government have understood what is at stake?***

I believe they are conscious of their extraordinary responsibility. They all have to make decisions in the context of democracies which, in the advanced economies, are very inward-looking, which is a real problem at the time of the worst global crisis for the last 66 years.

***What will happen if the European Heads of Government do not get the crisis under control?***

My working assumption is that the Heads of State and Government will overcome the crisis. Europe must realign its fiscal policy, as other large developed economies must also do. This year, at 10%, the deficits in the United States and Japan will be around twice as high as in the euro area on a consolidated basis. In spite of this, Europe is the epicentre of the government debt crisis. The reason for this is the mutual dependence of the 17 euro area countries. This is why it is so important that every euro area country plays by the rules. A few days ago in the European Parliament, I quoted what I told the Members of the Parliament in my first hearings, eight years ago, four years before the crisis, concerning the absolute necessity to stick to the Stability and Growth Pact.

***At your Governing Council meeting last week you reactivated all the crisis instruments. Is the euro in serious danger?***

The euro as a currency is evidently not in danger. It is the financial stability of the euro area as a whole which is at stake, and this creates difficulties for our monetary policy transmission. Taking into account the reality of the situation we have reactivated a number of non-standard measures.

***Many people nonetheless fear that the continuous flooding of the markets with new money will lead to inflation in the medium term.***

This fear is totally unfounded. First the Securities Market Programme (SMP), namely the purchase of Treasuries on the secondary market, is not at all a quantitative easing programme. We are rigorously withdrawing all the liquidity which is provided. As regards all our non-standard measures, the balance sheet of the ECB has expanded by 77% since the beginning of the crisis; that of the US Federal Reserve System by 226%. This gives a measure of our relative prudence in this very grave crisis. And we are fully credible to deliver price stability over the next 10 years, according to observers and market participants.

***In the spring, the ECB spoke out against the restructuring of Greek debt which was being discussed at that time. Now there is again discussion of a debt restructuring. Does your opposition still stand?***

In the spring, the Governing Council of the ECB unanimously made the following points. We cannot accept the securities of a state in default, even for a short period of time, as collateral for the refinancing of banks without an appropriate credit enhancement. Similarly, we said that a credit event should be avoided. Our position has not changed. In any case, we call for

the full implementation of the decisions taken by the Heads of State and Government on 21 July.

***Then providing funding to Greece remains the only option. How many years will Europe have to support Athens?***

Greece must pursue an adjustment which must be very strong and credible under the permanent surveillance of the IMF and of the European institutions. A key element, in my opinion, is the technical assistance of Europe, now being organised in Athens by Mr Reichenbach.

***Can the European safety net protect the euro area from a conflagration?***

We welcome the decisions of the Heads of State and Government of 21 July through which the flexibility of the safety net was enhanced. It is now their responsibility to make the safety net operational as soon as possible.

***Do you believe that the ECB will then be able, as planned, to cease its controversial buying up of government bonds?***

In the future, the EFSF will be able to intervene in the secondary market. The stability of the European financial system will in the future be guaranteed by the governments via the EFSF.

***How large should the capacity of the EFSF be?***

The governments must first implement all the decisions of the EU summit of 21 July and provide appropriate leveraging of the fund.

***Should the EFSF be granted a banking licence in order to be able to obtain money directly from the ECB?***

The ECB's Governing Council does not consider that appropriate. The governments themselves have several means to leverage the EFSF.

***Yet again the banks are deeply in crisis and clearly need to be recapitalised. Can the euro area afford another banking crisis?***

We have to deal with the sovereign risk tensions and we have to deal with the banking tensions. It is crucial that the banks put their balance sheets in order as quickly as possible. They need to build up a stronger equity position by retaining profits and being less generous with bonus payments. In so far as is possible, they must recapitalise in the market. If a financial institution has no access to the capital markets, the Government must stand ready to recapitalise solvent banks. In addition, where it would be necessary, the Heads of Government have decided that the EFSF can be mobilised to recapitalise banks.

***How can it be prevented in future that taxpayers have to continuously save the banks?***

The global financial system must be much more resilient. That is the reason why we have to apply rigorously and fully the new Basel III rules, to be sure that systemically important financial institutions do not put the sector in danger. In this regard we have to be inflexible and oppose any pressure group.

***Under your leadership, the ECB has risen to become Europe's secret government. Is it not deeply undemocratic when representatives of an unelected institution like the ECB can dictate austerity plans to an elected government like Italy's?***

We do not dictate anything to anyone. We do not replace any government. We do not take any political decisions. We are only giving messages to Governments individually, and to the Eurogroup as a whole. This has always been our task since the setting-up of the ECB. Do you not think it was appropriate for us to tell the big countries in 2004 that they should not weaken the Stability and Growth Pact?

***Almost all experts agree that Europe must come closer together. How do you imagine the Europe of the future?***

I would make a distinction between the immediate future, and – after a change in the Treaty – what I would call “tomorrow” and the “day after tomorrow”. Immediately we must apply completely and rigorously the new governance which has just been approved by the Parliament and the Council. “Tomorrow” we must have the possibility to impose decisions on a country that is not applying the recommendations and, in so doing, is putting the system as a whole in danger. And “the day after tomorrow” we should have a significantly stronger political union with an executive branch and, in this executive branch, a European Finance Minister. He would be responsible for surveillance of fiscal and economic policies, for the monitoring of the financial sector and for the representation of the European economy in international institutions.

***At the end of the month, your term of office comes to an end and you will step down after years as President of the ECB. What headline would you like to read over your period in office?***

Despite successive oil shocks and the global crisis, the ECB Governing Council has delivered greater price stability than in the previous 50 years to 332 million fellow citizens.

***Do you already know what you are going to do with your spare time in future?***

I have not made any specific plans, because I am concentrating fully on my last weeks in office. My greatest privilege will surely be that I will have more time for reading, for meditating on the present history of Europe and to spend with my four granddaughters: Eléonore, Diane, Anna and Marie.