

Jean-Claude Trichet: Interview with Hospodárske noviny

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, conducted on 21 September 2008 in Bratislava by Ms Ľubomíra Raková (Hospodárske noviny), and published on 23 September 2008.

* * *

How will Slovakia's entry to the euro area change your decisions about interest rates?

We are working our monetary policy for the full body of the euro area. We are, as you know, presently 15, and we will be 16 as soon as Slovakia enters on the 1st January next year. We are presently 320 million and we will be 325.5 million. So it is for the sake of 325.5 million that we are taking our decisions. And on the bases of the integrated analysis that we have on the full body of the euro area, exactly like the Federal Reserve itself is looking at absolutely all the USA with Alaska, as well as Florida, California and Massachusetts. So, as soon as you are in, you are integrated in this overall assessment of what is appropriate for again 325,5 million fellow citizens, for whose, this fellow citizens, we have exactly the same definition of price stability, as we had since the very beginning. We started with eleven, then twelve, then 13, then 15, and so we clearly have the same definition of price stability in the medium term, which is less than 2%, close to 2% at the level of euro area as a whole. My colleagues and myself, Governor Šramko with all the other members of the Governing Council – we will be 22 to take the decision, not 21 as we are now – we will again make a judgement of what is good for 325,5 million citizens.

People in Slovakia are afraid of rising prices after January 2009. Even ECB describes some doubts about sustainability of inflation in Slovakia in the convergence report. What should our government do against the inflation?

The ECB is responsible for price stability at the level of the euro area. Price stability means in the medium term less than 2 percent, close to two percent as an average for the euro area. We have encouraged Slovakia, and all economies and countries before entering into the euro area, to care for price stability to be sustainable in the medium and long run. This is our strong message. And we have always given that message not particularly to Slovakia, but to all countries. We always insist on the sustainability of price stability. So we would call upon the authorities to prepare the changeover in the best fashion possible, with extreme care. We would also tell the people, the customers, the households: be vigilant, in a market economy prices depend on supply and demand. They depend on the vigilance of the consumers, who must have the maximum level of vigilance at the moment of the changeover, this is truth.

What should our government do against the inflation?

Again, structural reforms are absolutely of the essence, because they improve competition and competition is necessary to care for stable prices. It is a crucial element which permits to have stable prices. So we would encourage the government of Slovakia to pursue reforms. We would also ask all governments, not particularly in Slovakia, but including Slovakia, to strictly respect the stability and growth pact. It is essential for the coordination and solidity of the euro area. It also permits to avoid inflationary pressures.

As you look back on the two years of our current government, do you think it does enough in fiscal policy and structural reforms to fight against inflation?

One should always encourage governments to go in this direction, so I would say yes, number of structural reforms has been made and that is encouraging for the future, but this is not a reason for complacency and it has to continue very actively.

Slovakia just adopted a law which allows the government to regulate the prices in some cases. Do you think it is necessary to have such law for Slovakia because of the euro?

It has to be examined very carefully. I have to say, at this stage I do not have the complete analysis of this legislation, we will look at it very carefully. Again, what counts essentially in a market economy is the level of competition, that you have between the producers, and the vigilance of the consumers themselves so that they exert maximum pressure on competition to work well.

There was a suspicion about insider trading in Slovakia before second change of central parity. Did you hear about it and what do you think?

I heard about it because it was public. I have no opinion on that. We considered in the ECB that it was a matter to be examined by the authorities in Slovakia.

What impact could have the financial crisis on eurozone and what impact it would have on Slovakia after entering euro area?

Slovakia is part of the global economy and Slovakia is in the global economy, as is the euro area and of course the USA. So I don't think, that the financial turbulences that we are observing have to be analysed in connection with the transition with the entry into the euro area. All what I would say at this stage is that probably Slovakia, which is already in the eyes of all market participants in the euro area, doesn't feel the turbulences as perhaps others, that are not yet considered as being in the euro area. The euro area is certainly a protection against too much turbulences in the present universe. But that being said, we are looking very carefully in the ECB at the situation. We have said since the very beginning of the financial turbulences that we would have the monetary policy stance, that would be designed to deliver price stability in the medium term and we would implement that monetary policy and refinance the banks on the money markets in order for the short term interest rates in the money market to be as close as possible to our policy rates. This is what we have been doing since the very beginning. We just published recently staff projections and they are incorporating all information that was coming, not only from the USA but also from Asia, from Latin America, from the emerging markets of the other continents and from Central and Eastern Europe in order to have the best possible projections. We have to take into account absolutely everything at a global level when we are doing our own staff projections.

Some analysts say the crisis may be over in one year. What would you think about it?

I would say that it is an ongoing process. It is a market correction of great dimension which is ongoing with this episode of turbulences, of hectic behaviour of the markets.

You mentioned already your definition of price stability, but the inflation in euro area is higher. What are the dangers?

The present headline CPI is at a level which incorporates the price of oil, the price of commodities, the shocks at the global level we have to cope with. And we have to deliver

price stability in the medium term, which means less than two, close to two percent. That being said, in order to deliver price stability in the medium term, in line with our definition, we must avoid any second round effects of both price setting as well as wage negotiations. To the contrary, we will do all what is necessary for inflation to go down, back to our definition of price stability. As our mandate is requiring, and as our fellow citizens are asking us, and they are very keen on asking us to deliver price stability. This is necessary for sustainable growth and sustainable job creation. And that is the reason why we recommend not only towards the social partners but also price setters to strictly avoid those second round effects.