

Jean-Claude Trichet: Interview with Le Figaro magazine

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, and Le Figaro Magazine conducted by Mr Ghislain de Montalembert, 23 January 2009.

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Le Figaro Magazine: On 15 February, the European Central Bank (ECB) decided to cut its main interest rate by 50 basis points to a historical low. Is this a sign that the recession is worsening?

Jean-Claude Trichet: I indicated, on behalf of the Governing Council, that we had observed a further decline in inflationary pressures – linked, in particular, to a slowdown of economic activity – which justified a further cut of our interest rate by 0.5%. Overall, in the space of three months, we have lowered our rates by 225 basis points, which is a significant amount. Each of our decisions is made with the will of the Council in mind; that is, to provide our fellow citizens with medium-term price stability that is in accordance with our definition: “below, but close to, 2%”.

Le Figaro Magazine: In your opinion, have the priorities changed? After the fight against inflation, which was brought back to 1.6% in the euro area, is it not imperative to stimulate growth?

Jean-Claude Trichet: Price stability is a necessary condition for sustainable growth and sustainable job creation. There is no contradiction between price stability and growth. We have put our rates at 2% because the risks to price stability have fallen significantly and this decision was justified in order to continue to firmly anchor medium-term inflation forecasts at less than 2%, to avoid inflation, but close to 2%, to protect ourselves from any danger of deflation, knowing that this risk does not exist at present in Europe. As I have explained by recounting the work of the Governing Council, this decision supports sustainable growth and job creation and contributes to financial stability.

Le Figaro Magazine: The ECB's resourcefulness has been a positive surprise in the last few months...

Jean-Claude Trichet: Maybe it is the impression of journalists which has changed! You know that we have an impressive track record of intervening vis-à-vis the refinancing of commercial banks. When the shock of 11 September 2001 happened, it took half a day for the ECB to decide to provide the European financial system with abundant liquidity on 12 September. The crisis, still ongoing, since 9 August 2007 led to us taking even more impressive decisions almost immediately, for example the decision to provide the financial system with a 24-hour loan of EUR 95 billion in the summer of 2007. This decision appears to have strongly increased the ECB's global and European visibility. We were the first central bank to react immediately when the international financial turbulence first appeared. Today, the Eurosystem provides considerable support to the European financial system, since we refinance, with full allotment and at fixed rates, the euro area's commercial banks in a week, a month, three months and six months. This was something that was unthinkable before the financial turbulence intensified. I would also like to underline the speed with which the public authorities as a whole, including governments and parliaments, reacted. Together, they showed that Europe was able to take decisions, even in the most difficult circumstances.

Le Figaro Magazine: The *Financial Times* named you “*Personality of the year*” in 2007. Do you see this as a way of getting back at those who criticised the ECB's “psychoridity” in the past?

Jean-Claude Trichet: These criticisms turned out to have no basis, as we saw, and have, it seems to me, largely disappeared. Those who systematically sung the praises of the most accommodative monetary policies have come to realise, over the last 18 months, that this

was too simplistic a view. The ECB's Governing Council does what the Treaty on European Union asks it to do, on behalf of 329 million European citizens in the euro area. While I was Governor of the Banque de France, there was also a public debate on the decisions of the Monetary Policy Council, which some 70% of French citizens approved, across all public sensibilities. I have noticed that public support for the ECB's policy of price stability is also very strong and is an element of trust which is important for the economy as a whole.

Le Figaro Magazine: Was the euro not responsible, in part, for inflation?

Jean-Claude Trichet: On the contrary. Over the last ten years, we have managed to maintain a stable rise in prices of 2.2% per annum on average in the euro area. This is a good result given the spectacular rise in the prices of raw materials and energy which has been recorded over this period. Nevertheless, it is true that, when the euro was introduced, a few sectors in some European economies tried to take advantage of the changeover to increase certain prices abnormally. This led to an average rise of around 0.2% at the time of the changeover. In the case of France, Christian Noyer explained this phenomenon, which is insignificant in the life of the euro thus far, outstandingly well. It has become clear that we have done what has been necessary to guarantee price stability in the euro area. We will have very low inflation for some months in the course of 2009, and I already predict some people saying to us that it will be too low! This is a result of the fall in oil prices, as it was the high inflation in 2008 which resulted from their rise.

Le Figaro Magazine: The euro celebrated its ten-year anniversary on 1 January 2009. Without it, where would we be?

Jean-Claude Trichet: The euro is evidently an advantage for those democracies that have chosen to adopt it. It has proven its stability, its resistance to shocks and its resilience in the face of financial and economic turmoil. Once again, I would say, as we have faced many tests over the last ten years: the bursting of the internet bubble, the Asian crisis, the raw materials and oil price shock... In ten years, the euro has been a key factor in achieving the Single European Market and has provided a shield against international turmoil.

Le Figaro Magazine: Is the euro, therefore, a total success?

Jean-Claude Trichet: It is a big success. We have given European citizens a single currency which is in line with what was promised: a currency which retains its value, which inspires confidence, a stable currency, at least as stable as the legacy currencies. Ten years ago, many believed this promise could not be fulfilled.

Le Figaro Magazine: In terms of job creation, has the euro kept its promise?

Jean-Claude Trichet: It is not correct to say, as some have done, that the euro has acted against job creation. On the contrary, in the first ten years of the euro, the number of people in work increased by approximately 16 million, which is at least 3 million more than in the USA in the same period. We have also created many more jobs than we did in the decades preceding the euro, in Europe as well as in France.

Le Figaro Magazine: Can the euro hope to one day take the place of the dollar as an exchange and reserve currency?

Jean-Claude Trichet: The single currency has not been created to compete with the US dollar, nor has it been created to replace it. On the contrary, I am convinced that active and confident monetary cooperation with the United States is important for the stability and prosperity of the world today. I strongly disagree with those who say that the euro has been created to compete with the US dollar. Let's be clear: the ECB is not campaigning for the international use of the euro. We are letting the economic and financial players make up their own minds, without trying to influence them.

Le Figaro Magazine: With regard to the crisis, some European countries – such as France – today allow themselves discrepancies, notably budgetary discrepancies, with the Maastricht criteria. Do you blame them?

Jean-Claude Trichet: An area with a single currency which unites 16 sovereign states, each with their own budgetary policies, must respect the principle of a close collegial coordination and monitoring of budgetary policies, in which the Commission plays an important role. The Stability and Growth Pact has been revised in the last few years and European countries agreed unanimously on the new rules. The ECB requires that these rules are respected, especially since they authorise, given the exceptional circumstances that we are currently experiencing, a certain room for manoeuvre for those countries which have the possibility to do so. Our recommendation is therefore extremely clear: let us respect the Stability and Growth Pact and know how to use all its room for manoeuvre... but only its room for manoeuvre.