

Jean-Claude Trichet: Interview in *Der Spiegel*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *Der Spiegel*, Germany, conducted by Messrs Thomas Tuma and Christoph Pauly on 13 May 2010 and published on 17 May 2010.

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SPIEGEL: Mr Trichet, how have you been sleeping these last few days?

Trichet: I always sleep well!

SPIEGEL: Not had any nightmares?

Trichet: No.

SPIEGEL: Nevertheless, the financial world has changed since the weekend before last. The countries of the euro area have put together a previously unimaginable rescue package with a value of over €700 billion in order to save reeling Member States from default. Even your institution has relented on a few of its firmest principles and now intends to purchase even poorly rated government bonds.

Trichet: No, we have not relented on our principles. Price stability is our primary mandate and compass. That being said, it is clear that since September 2008 we have been facing the most difficult situation since the Second World War – perhaps even since the First World War. We have experienced – and are experiencing – truly dramatic times.

SPIEGEL: That's been evident from the way that you and others have been behaving over the last few days.

Trichet: At times like these, you have to keep your composure and analyse the situation as lucidly as possible. Back in August 2007, we were the first major institution in the world to correctly judge what was happening on the capital markets with the start of the turbulence. And we reacted swiftly.

SPIEGEL: What exactly happened between Thursday and Sunday of the week before last, when Europe's Heads of State and Government launched the largest financial rescue package in the history of Europe?

Trichet: On Thursday afternoon and throughout Friday we had a continuous deterioration of the situation in the financial markets, both in Europe and, as a consequence, at the global level. On Friday markets closed and number of important indicators, spreads on sovereign bonds in Europe, CDS spreads and the situation in the interbank market were signalling the spreading of severe tensions. I made those points to the Heads of State and Government on Friday evening. That is what happened between Thursday morning and Friday evening. Being permanently alert is of the essence when you have important responsibilities.

SPIEGEL: Hedge funds and other speculative investors currently manage assets with a total value of USD2.6 trillion. But even an unimaginable sum like that should not really be enough to bet against the euro area. So, do you think that we're vulnerable?

Trichet: Not if we do our job, properly.

SPIEGEL: The speculators just exacerbate existing problems?

Trichet: One has to put one's own house in order first. These big and highly leveraged institutions are a major issue to be addressed at the global level.

SPIEGEL: So, what was in danger? Just the banks? The euro? The European Union?

Trichet: We are now experiencing severe tensions, which are coming after the events of 2007–08. At that time, private institutions and markets were about to collapse completely.

That triggered a very bold and comprehensive financial support by governments. And now we see the signature of some governments put into question. This is a problem for almost all industrialised countries. In the G7, the major economies have a yearly deficit of around 10 % of GDP. In the euro area as a whole it averages 7% of GDP. In this situation with extremely elevated deficits across the globe, the markets have singled out a weak link: Greece. Also taking into account the fact that its statistics were incorrect at one time, market pressure was concentrated there and a drastic adjustment programme was necessary.

SPIEGEL: Apparently it was not only Greece that came under attack. Portugal was next...

Trichet: In the market, there is always a danger of contagion – like the contagion we saw among the private institutions in 2008. And it can occur quickly. Sometimes it is a question of half days. This is an issue for the industrialised world as a whole.

SPIEGEL: Allegedly, even Asian central banks have lost confidence in the euro. And they are key players.

Trichet: A currency which keeps its value fully in line with its definition of price stability – with annual inflation rate of less than 2%, close to 2% – over almost 12 years is a currency which inspires confidence.

SPIEGEL: In the case of Greece, the debate in Berlin just a few weeks ago was about providing assistance to the tune of €3 billion. Now talk is of three-figure sums. What has the Federal Government's hesitation over Greece cost us?

Trichet: There is much more to this story. The Greek government took too long to acknowledge the extent of the problem and take the necessary measures. We at the ECB were loud and clear in our warnings that the government must act quickly and decisively. In very demanding times, in times of severe tensions deciding swiftly and decisively is of the essence.

SPIEGEL: The financial markets were not impressed by the first aid package for Greece.

Trichet: As I said the situation was already starting to get worse on Thursday afternoon and throughout Friday of the week before last. A number of markets were no longer functioning correctly; it looked somewhat like the situation in mid-September 2008 after the Lehman Brothers' bankruptcy.

SPIEGEL: Was the attack on the euro not more dramatic for Europe than the Lehman affair?

Trichet: It is not an attack on the euro. It is an issue for the states' signatures and, as a consequence, of the financial stability of the euro area. It is clear that it is the primary responsibility of the Europeans to take the appropriate measures in order to counter the present severe tensions which have erupted in Europe.

SPIEGEL: In the course of the crisis, the Governing Council of the European Central Bank decided, for the first time, to buy the government bonds of troubled EU countries – thus breaking a taboo. The President of the Deutsche Bundesbank, Axel Weber, his Dutch counterpart and the ECB's chief economist, Jürgen Stark, voted against this move. Seldom is there so much dissent within the highest decision-making body for the euro.

Trichet: As you know, I never comment on individual views. Our measures are explicitly authorised by the Treaty. We are not embarking on quantitative easing. We are helping some market segments to function more normally. And as I said, we will take back all the additional liquidity that we will supply in our Securities Markets Programme.

SPIEGEL: The general public has gained the impression that the governments pressured the ECB to take this decision. That would be an appalling signal in terms of its independence and credibility.

Trichet: That is ridiculous! We take our decisions completely independently and have a track record of taking positions contrary to those of the Heads of State and Government – in 2004

in refusing to decrease rates, in 2005 in increasing rates against their wishes, and throughout this period in fiercely defending the Stability and Growth Pact including defending it against the German Chancellor of the time. Just who has been weak over the past few months? It was not the ECB. The governments with their high debts were weak. Was I weak myself when I explained to all floor leaders in the German Bundestag just why it was important to decide rapidly? Was I weak when I informed the Heads of State and Government in full independence that the situation was grave and that they had to live up to their responsibilities? We took our decision on Sunday in full independence.

SPIEGEL: Thus far, the ECB has been strong and independent because it had repeatedly rejected demands from the political domain for lower interest rates or too expansionary a monetary policy. You have now consented for the first time.

Trichet: We have consented nothing to the Heads of State and Government. We always take our decisions taking into account only our own assessment of the situation and not the “recommendations” of governments, markets or social partners. We decided on 9 of August 2007 to supply €95 billion of liquidity in a few hours because our money market was being disrupted. And I could give many such examples. As I have already said, if there has been any direction of influence, it has been more in the opposite direction, from the ECB to governments, when making recommendations to them. And, let me tell you that those who took very significant responsibilities were those not applying the spirit and the letter of the Stability and Growth Pact. And neither were those who did not carry out their surveillance as they should have, and as we constantly asked them to do.

SPIEGEL: In a talk he gave to the Spiegel a few months ago, Jürgen Stark, the ECB’s chief economist, said that the ECB was not permitted to buy government bonds. Who is right?

Trichet: I have already said that this is explicitly authorised by the Treaty. Over the past 11½ years, we have ensured price stability in Europe and have successfully met our target of keeping inflation below, but close to, 2%. We have done a good job fully in line with what the best central banks in Europe were doing before the euro. Those who believe – or, even worse, are suggesting – that we will tolerate inflation in the future are making a grave error. The Governing Council of the ECB did not hesitate to increase rates in July 2008 in a period of financial turbulence in order to ensure price stability. We were criticised at the time by the markets. This is a measure of our inflexible determination.

SPIEGEL: The Germans react particularly sensitively because the Bundesbank had always refused, even in times of crisis, to purchase government bonds. Can you understand these specific German concerns?

Trichet: I fully understand the particular sensitivity of my German friends. But facts are facts: inflation in Germany has never been as low as it has been over the past 11 ½ years. The German fellow citizens can see that the euro has indeed been a good store of value over time.

SPIEGEL: But people are concerned about the future. They fear that inflation will return and that their savings will lose value.

Trichet: At one time the Bank of England and the Federal Reserve decided to embark on “quantitative easing”, namely the purchase of public bonds in order to supply as much liquidity as possible to the market. What we are doing at present is totally different. We will withdraw all the additional liquidity that we supply.

SPIEGEL: Many Germans also fear that their government is becoming the paymaster of Europe.

Trichet: I understand the Germans’ fear of inflation, and their anxiety about their budget and their contribution to Europe. In France, I have occasionally been called the “Ayatollah of the Franc Fort” ...

SPIEGEL: ... what has two meanings: Frankfurt and a strong euro ...

Trichet: because I advocate a strong currency policy. Inflation is destructive for societies and democracy. Inflation is a tax on the poor and the weak. That is my very firm conviction.

SPIEGEL: There is always a great temptation for politicians to spend more money than they have. Inflation helps them to reduce their debt.

Trichet: Of course, we must now demand extensive adjustment programmes from the governments, which the Heads of State and Government committed to the Friday before last. They are committed to accelerating the consolidation of their budgets. They know what is at stake now.

SPIEGEL: Would it not be good if a country such as Greece were able to leave the euro area?

Trichet: No. This is excluded. If a country joins the euro area, it shares a common destiny with the other members. There is a need for a quantum leap in the governance of the euro area. There need to be major improvements to prevent bad behaviour, to ensure effective implementation of the recommendations made by “peers” and to ensure real and effective sanctions in case of breaches. The ECB is calling for major changes, and I will explain this in the task force chaired by Mr. van Rompuy.

SPIEGEL: What makes you so sure that Europe’s top politicians will not now use the ECB as a money printing machine permanently?

Trichet: Again, we will take all the additional liquidity that we are bringing into the system back out. Our monetary policy stance is unchanged. We have never hesitated for one second to take the decisions needed in order to ensure price stability, without taking into account any pressure groups.

SPIEGEL: But the banks, too, are being spoilt by the ECB. As part of your so-called non-conventional measures, you have again made it possible for them to borrow countless billions. In doing so, are you not handing out even more play money to the financial markets?

Trichet: Again, we do what we believe we have to do in all consciousness in order to be able to deliver price stability over the medium term. We do not take into account pressure groups and lobbies. We supply liquidity to the banks so that they can finance the real economy and support the recovery, they know that.

SPIEGEL: Have you made any individual mistakes in the last few weeks?

Trichet: This is not for me to judge. History will do that. Last week Helmut Schmidt described the performance of the ECB as flawless.

SPIEGEL: Mr Trichet, thank you for talking to us.