

Jean-Claude Trichet: Interview with Izvestia

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, and Izvestia, conducted by Ms Anna Kaledina on 11 October 2007.

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- May I ask you your opinion about the global liquidity crisis? At what stage is it at the current juncture? After the difficulties with Northern Rock, it seems the American crisis spilled over into Europe. Is this the case? Or are the problems limited to Deutsche Bank?

First let me remind you that the ECB as well as the other central banks had indicated that there was a degree of under-pricing of risks in the global financial system and that financial institutions as well as market participants should prepare for the market correction to be as orderly and smoothly as possible. We are experiencing a significant market correction with episodes of high volatility and turbulence. As far as the ECB is concerned, we have clearly indicated that we will ensure price stability in conformity with our primary objective and determine our monetary policy stance accordingly. Once this monetary policy stance is decided, we have the responsibility to pave the way for the proper functioning of the money market. These two responsibilities are clearly separated and this has been well understood by market participants.

- To solve the consequences of the subprime turmoil, did the ECB inject more liquidity than the US monetary authorities? Why are Europe's monetary authorities the main ones to act to get out of a crisis that is first and foremost American? In general, do you have any problems of cooperation with the US Fed?

Each and every central bank has its own responsibilities, within the context of economies that are different, circumstances that are different and challenges that are not alike. The comparison of the volume of refinancing on both sides of the Atlantic is not pertinent because in the euro area, in normal times, the needs for refinancing are vastly superior to the needs in the United States. As regards the interventions in the money market I think we did well on both sides of the Atlantic. And I am very proud of the capacity the ECB demonstrated in working out a good diagnosis and embarking on decision-making which was expeditious and effective.

- Doesn't the rise of the euro to unprecedently high levels worry you? What level of the EUR/USD bilateral exchange rate would pose a serious threat to the European economy? Does the ECB intend to take action to support the level of the USD? Among others, this is what the ECB's opponent Nicolas Sarkozy is calling for. What do you think of his calls to see the euro depreciate?

It is a very important issue, where I call on all partners in Europe, in the executive branches, to be highly responsible and to demonstrate verbal discipline. Let me repeat the position of the ECB, as well as the position of the euro area as a whole: Exchange rates should reflect economic fundamentals and excess volatility and disorderly movements in exchange rates are undesirable for economic growth. In emerging economies with large and growing current account surpluses, especially China, it is desirable that their effective exchange rates move so that necessary adjustments occur. Concerning the dollar, I have noted with great attention that the US authorities have reaffirmed that a strong dollar is in the interest of the US economy. Concerning the yen, as stated by the Japanese authorities, the Japanese economy is on a sustainable recovery path. These developments should be recognized by market participants and incorporated in their assessment of risks. Markets should be aware of the risks of one-way bets.

- Will the ECB interest rates be changed in the near future?

I have nothing to add or withdraw from what I have said in my last press conference after the meeting of the ECB Governing Council in Vienna on 4 October.

- With what main difficulties are you, as a person in charge of the euro area, confronted with? As far as I understand, it is difficult to avoid imbalances in the euro area, which unites countries that are at very different stages of development.

It is true that there are differences among euro area countries, but I would not say that these differences are bigger than those between the different states of the USA, and certainly also not bigger than the differences in economic landscape between certain parts of the Russian Federation. From that standpoint there is no particular difficulty in implementing the single monetary policy at the level of our very vast economy, for the euro area as a whole, which is of the size of the USA.

That being said, we call for the implementation of structural reforms in order to fully achieve the single European market and to improve the flexibility of all markets of goods and services, of the labour market and of the financial market in the euro area.

- A number of countries (including Lithuania and the Czech Republic) postpone the euro adoption. How can this be accounted for? Possibly, do they fear inflation or is their economy just not ready for such a step? And do you see Russia as a member of the EU? There is the view that our country should more lean towards Asia. What do you think about that?

First let me say that we are all delighted that Cyprus and Malta are joining the euro area on 1 January next year, after Slovenia joined on 1 January this year. It is very impressive to think that there will be 15 of us; that thanks to new countries there will be 320 million citizens in the euro area. As a comparison, the United States has 300 million citizens – so the populations are really of the same order of magnitude and it is impressive. It also shows that we are not a closed shop but an open area, provided that the Maastricht criteria are met. But we have to make an assessment of each country, case by case. And there are many differences within the group of countries that are in the European Union but not yet in the euro area. It is up to these countries to decide at what date they would like to join the euro area and to embark on the appropriate strategy of convergence. And it is up to the Commission, to the ECB, and to the European Council to judge whether these countries meet the Maastricht criteria and therefore qualify for the adoption of the euro.

As regards the question on whether Russia would be a member of the EU in the future, of course the enlargement of the European Union is an issue which is not covered by the mandate of the ECB. Therefore is not for the President of the ECB to say whether or not this is a realistic option for Russia to become member of the European Union, both from the standpoint of Russia and from the standpoint of the European Union. As a French citizen and a European citizen I would say that in the very long run it is a decision which will be taken or not by the people of Russia and by the people of Europe. We are experiencing a formidable historical evolution in Russia, in Europe and in the world. The biggest mistake we could make would be to underestimate the rapidity of the pace of history. Everything is possible.

- What do you think about global imbalances? In particular, the fall of the USD can only worsen these imbalances. How to solve this problem?

As regards the exchange rate I already said what my position was. As regards global imbalances, this issue is constantly studied and discussed in the central bankers' community; we have discussed it just recently with our colleagues from the Bank of Russia, earlier in a similar gathering we organise with Latin American central banks. Every two months in Basel I meet all my colleagues of other central banks at the level of the global economy. Together with Chairman Ignatiev and the other colleagues we look at the best ways to prevent a disorderly unwinding of global imbalances and to pave the way for an orderly and smooth reduction of these global imbalances.

- How do you assess the Russian banking system, its general soundness and in particular at the current juncture?

I would first of all like to clarify that – of course - the assessment of the Russian banking system is the responsibility of the pertinent Russian authorities. The Bank of Russia and the Eurosystem discuss relevant financial developments and stability in both economic areas, including the occasion of our annual seminars. As you know, during 2003-2005 the Eurosystem implemented a very important technical assistance project with the Bank of Russia in the field of banking supervision. This project was financed by the EU and in the Bank of Russia it was implemented under the captaincy of the late First Deputy Chairman, Andrey Kozlov. Let me take this opportunity to express my emotions in paying tribute to Andrey Kozlov, who was extremely dedicated to our central banking cooperation project. He is present in all our memories.

- In our country many observers are in favour of taking away banking supervision from the central bank. What is your view?

The ECB Governing Council has indeed expressed a clear opinion in this respect. In our case, financial stability and supervision, according to the Treaty the Eurosystem, contributes to the smooth conduct of policies pursued by the authorities in charge of prudential supervision of credit institutions and the stability of the financial system. The position of the Eurosystem is very clear: we are in favour of a significant involvement of central banks in prudential supervision. We believe that this observation is valid for any free-market economy and is quite universal. In our case, maintaining the close involvement of the central banks in prudential supervision is an important condition for allowing us to contribute adequately to monitoring the risks to financial stability in the euro area and to safeguard smooth cooperation between the central bank functions and the supervisory functions, carried out at a national level. Let me add that we share this view with the Federal Reserve System of the US.

- In general, what piece of advice can you give to your Russian colleagues?

We are conducting a confident and friendly dialogue. This dialogue is beneficial for both sides as we live in an increasingly globalised world, not only, but in particular, with regard to financial markets. At the same time, Russia and the EU are neighbours, and real and financial integration between the EU and Russia is advancing rapidly, also reflecting the growth we have seen in both economic areas. Clearly, there is a need to discuss and exchange views on the central banking dimension of these economic and financial links. Thus, it is not a matter of giving advice but to engage in a confident and candid exchange of views as central bankers on the various issues which are at the core of our task.

- Quite recently French President Nicolas Sarkozy was visiting Russia and this visit raised questions on bilateral relations between the Russian Federation and the euro area. What would be your opinion in this respect?

I am personally impressed by the developments in Russia and certainly the trade relations between Russia and the European Union are very intense, supported by the impetus of robust economic growth in both the euro area and Russia. Let me also say that I am

impressed by the importance of our relationship as regards foreign direct investment between the two economies, and particularly by the significant augmentation of this investment during the first half of 2007. Three-quarters of the foreign direct investment in Russia comes from the European Union. So we have a very important relationship not only in trade, but also in direct investment. And this is exactly what we want; we want to embark on a really strategic relationship. I think that the relationship demonstrated during our seminar is a good example in this respect and I am sure that this relationship will also intensify in other areas.

- How do you assess the cooperation between the ECB and the Bank of Russia?

The high-level Eurosystem – Bank of Russia seminar which has just taken place here in Moscow demonstrates that cooperation between our institutions is excellent. Moreover, while this has been the fourth event of its kind, I would like to stress that our cooperation goes deeper as there have been various forms of cooperation between our institutions at all levels. Our partnership has the full legacy of the bilateral relations that several national central banks of the Eurosystem and the Bank of Russia have been developing since the 1990s. With regard to technical cooperation, we are currently holding discussions among our staff and with the EU Delegation to Russia to prepare a new important technical assistance project which in terms of scope and time would closely follow the first project I have just referred to.

- Do you think Russia is a safe borrower and an appealing country for investors?

The facts and figures are quite impressive. I would observe that spreads on international Russian bonds have declined substantially over the last years, while the amount of cross-border claims, in forms of foreign direct investment (FDI), bonds and loans, has been increasing rapidly. This also reflects the strong growth and macroeconomic stability of the Russian economy in recent years. Thus, it is not surprising that Russia has become an important destination for investors in general, but in particular for investors from the European Union. For example, the European Union has become Russia's largest single FDI partner, both in terms of inflows and outflows. The recent enlargements of the EU have further strengthened investor relations between our two economic areas.

- In our country the most important problem for the population is how to earn money and where to put savings. Is this also the case in the euro area?

I think that the issues you have mentioned are quite universal and valid for every household, every citizen all over the world. This is why central banks are so important as independent institutions in our modern societies. We are there to deliver price stability, to preserve the purchasing power of all our citizens and particularly to preserve and to protect the most vulnerable parts of the population, those who cannot hedge against inflation.

- And yourself, where do you save and invest your own money? Is there a different approach of the ECB President and you as a citizen?

In this respect my situation, as well as the situation of my colleagues from the ECB Governing Council, is very clear. According to the Code of Conduct of the ECB Governing Council we shall strictly avoid any situation liable to give rise to a conflict of interest.