

Jean-Claude Trichet: Interview with Kyodo News, Nikkei, Nippon Hoso Kyokai and Yomiuri Shimbun

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, by Mr Shogo Akagawa (Nikkei), Mr Keiichi Hirose (Kyodo News), Mr Hiro Nakamura (Yomiuri Shimbun) and Mr Shuji Noguchi (Nippon Hoso Kyokai), conducted in Tokyo on 9 February 2008 and published on 10 and 11 February 2008.

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How do you assess the discussions at this G7 and the G7 statement?

I think it was a very, very good discussion – a very important one too because the discussion took place at the moment where we are experiencing the market correction, which is significant, which is ongoing and from that standpoint I think it was a very, very timely G7 meeting. And very stimulating, very interesting. A very good Presidency. So from that standpoint, I am very happy.

How should the G7 behave in order to overcome the problems caused by the sub-prime turmoil? And what are your opinions about financial supervision and regulation and about the transparency and efficiency of the new financial products?

First of all I think it is extremely important that we learn all the lessons from the present events, exactly as in the past we drew – in my opinion very wisely – a lot of lessons from the Asian crisis. In Japan, everybody knows, perhaps even better than in Europe, what the Asian crisis meant and I think a lot of lessons have been drawn and they are good ones. And now it is exactly the same.

We are experiencing a market correction of great amplitude. We have the first stress-test in real magnitude of the new global finance with all the financial innovations and new instruments. Therefore it is very important that we draw all the lessons. We have a provisional report that was made by the FSF – the Financial Stability Forum – which was created after the Asian crisis, by the G7.

And so we know that we have to improve in a large number of areas, they are mentioned in the communiqué and we will have a definitive report in the occasion of the April meetings of the international community in Washington. So it is a work in progress. We have a full agreement in the G7 on the methodology that permits us to draw lessons from the present turbulences and we know already that we will have to make very important progress in a large number of areas. Including transparency; including better implementation of the banking surveillance; including progress in valuation of sophisticated instruments; progress in the functioning of the credit rating agencies and so forth.

What are your views on the prospects for EU / euro area economy?

In this G7 meeting I have mentioned the fact that as regards our own economy, we have economic fundamentals that are good. I mentioned the fact that we have no domestic or external imbalances. We have a current account, which is balanced. We have savings, domestic savings that are financing our domestic investments. And we are experiencing the ongoing growth.

That being said, we have the influence of the financial turbulences and uncertainty has to be taken into consideration. The European Central Bank has a mandate which is to deliver price stability, to be credible in delivering of price stability over the medium term and to solidly anchor inflationary expectations. This is something that is very important for future sustainable growth and job creation in Europe and also very important in a period of turbulences, because in solidly anchoring inflationary expectations we contribute to the

stability of financial markets, of European financial markets and we diminish the potential volatility of these markets.

With regards to Japan: compared with the US and Europe, Japan is not so much affected by the sub-prime issue, at least so far. How do you see the state of the Japanese economy and what kind of role did Japan play in the G7 meeting?

I would say that the Japanese economy has an enormous potential, in my own understanding: human resources are absolutely exceptional and you have a level of technology, of the capacity of innovation and of creativity, which is remarkable.

That being said, there is a great problem, undoubtedly, which is the overall level of the public debt outstanding and the fiscal policy in general. So what I expect and what we all expect of course, is the Japanese economy to continue to make progress, to become more sound, and to have a capacity to contribute, progressively, more and more to global growth and global prosperity. But again I will insist very much on the potential on the Japanese economy, which should not be underestimated from outside. When you are in Japan, you see what the potential is.

Your colleague, Mr Toshihiko Fukui participated today for the last time in the G7 meeting in his capacity of the Governor of the Bank of Japan as his term of office comes to an end. How do you evaluate his last 5 years? And as regards the successor Mr Toshiro Muto is seen as a leading candidate. What do you think of him?

I would say Toshihiko, because as you might know we use our first names when we discuss, Toshihiko has been, and is, a remarkable Governor of the Bank of Japan, in my opinion. I have enormously appreciated cooperation with him on a bilateral basis and also in the occasion of the G10 meetings that we had in Basel as well as in the occasion of the global economy meetings that take place in this city. I have presently the privilege of being the chair of these meetings and I can say that we all appreciate enormously the contribution of Toshihiko Fukui.

And I will certainly see him leaving us with a great deal of regret because he has given an enormous contribution.

As regards his potential successor, I know him and I appreciate him enormously.

Next question is about emerging market, you have often said, in a press conference in January, that the slowdown of the US economy will be offset by the growth in the emerging markets. Has the sub-prime issue had any influence on China or India? And do we see decoupling effect here?

I think that it is very important, of course, at the global level that when one economy is slowing down it is offset by other economies that are picking up.

I have always said that it was very important to see how and to which extent the slowing down of the US economy, which is now very, very probable, would be offset by the Asian, particularly the emerging Asian economies.

That being said, I have always been of a certain mind, that we are in a universe where we are all interdependent on one another. If the US slows down, it has an influence on all other economies. And I would equally say, if the US economy picks up, it has a positive effect on the rest of the world.

And it is exactly the same for Europe. Europe, as you know, is a very important commercial power. We are more open than other big economies. We are more open, in terms of trade, than Japan or the US.

So we are all influencing the other partners and I expect and I hope that in this very globalised world, emerging Asia, which has an immense potential, will contribute to the global prosperity. And as I said, the question is to which extent it will offset the slowing down in the US, knowing that we are all interdependent.

I will not make use myself of the expression “decoupling”. I think that decoupling does not capture the fact that we are all interdependent. But decoupling, in a way, captures the fact that Asian emerging economies can partially offset the slowdown in the US.

You used the word “unusually high uncertainty” in your introduction statement. What does “unusually high uncertainty” mean? And the inflation rate in the Eurozone is now above 3%. Will inflation expectations be more moderate in the medium term?

Your question is very pertinent, because we only have one needle in our compass and the needle in our compass is price stability. We analyse absolutely all parameters and all influences with this idea that we have one needle and that we have to deliver price stability in the medium term. And again that is very important, and as you see I take all occasions to utilise this message, which is very well known.

We have this mandate of price stability that is clear. We trust that by delivering price stability in the medium term and by being credible in the delivery of price stability in the medium term we anchor inflationary expectations. By doing so, we are delivering a necessary condition for sustainable growth and job creation and also in a period of turbulences for markets to be as stable as possible.

I mentioned, on behalf of the Governing Council, the fact that as regards the real economy, we were in an unusually high level of uncertainty and that is very explainable because of the financial market turbulence. This market correction of great amplitude, that we are observing, creates an additional element of uncertainty as regards the future evolution of the real economy. But again, that being said, the needle in our compass is price stability.

And it is not only our clear mandate but it is also what the people of Europe, our 320 million fellow citizens, are asking from us.

Why don't you use the instrument of hump?

As regards the headline consumer price index I utilised the expression of a protracted period of high level of inflation, which will be progressively reduced, in the course of the year, to go down over the medium term to our definition of price stability.

Would you like to explain how price stability in the medium term brings job creation and long-term economic growth in the Eurozone and not raising taxes?

I have to say that this is something that is accepted now by the main stream of economists as a result of the past observations. You might remember that there has been a period of the so-called stagflation in the 70s, which has permitted the economic analysis to make important progress. And the idea that we could have a medium to long term trade-off between inflation and growth is now rejected and that is the reason why you either have a monetary policy concept of our own kind in Europe or the so-called inflation targeting concept, which is very much generalised around the world and which is underpinned by exactly the same idea: by giving the central bank the task of delivering price stability, we pave the way for sustainable growth and job creation.

By the way, when I look at Europe, since the setting up of the euro and I examine the job creation during the first nine years of the euro, I have to tell you that we have had a remarkable success in this respect: we have created around 15 million new jobs, in net terms. And I say this not because we are always compared with the US but we have created in Net terms around 2 million more jobs than in the United States over this period of 9 years. So again, as far as the Euro is concerned, it has experienced a period precisely of price stability with very high level of job creation and we of course are happy about it.

Is there no risk for the labour market in the Eurozone from this recent turbulence?

Again, the evolution of the real economy depends on the fallout of the present turbulences with their unusually high uncertainty. But we are sure of one thing: we are there as an institution that is responsible for price stability in the medium term. If we are credible, then we

introduce in a period of turbulence an element of confidence, an element of stability, of trust, which is in itself contributing to alleviating the pressure that might come out of these turbulences and to be better off in terms of growth and job creation.

Let me just follow up on this question on policies of the ECB. What about the opinions from the markets that it is very much the time for the ECB to cut rates because almost all of the indicators are getting weaker and weaker. How do you respond to the voices that the ECB should follow for example the Federal Reserve or the Bank of England to help support the economy? Because, as you say, it is very much interdependent.

First observation, I said our economy fundamentals are sound and we think that we have an ongoing growth, which is significant. Even if the risks for the real economy lie on the downside as I have said last Thursday and as I said today. But again, an ongoing growth is there and the economic fundamentals are sound.

So we are all in our own environment, with our own responsibilities – the Bank of England has its responsibility; the US Fed has its responsibility. The European economy is not the US economy and both sides of the Atlantic are not in the same situation.

Second observation, we had, as you said, some economic news in the euro area that are going on the downside in a number of cases but in other cases – I shall give you a few examples – we see positive figures. Recently industrial production was a little bit better than before. We have seen the Ifo Institute of Germany releasing better index than was foreseen. When I look at credit, despite the fact that we have a banking lending survey which says there has been a tightening of the credit standards, nevertheless it is something that has to be noted that we have had a very dynamic outstanding credit to non-financial corporations. The figure is 14.4% on a yearly basis in our last observation. So these figures are there as well.

And again, the Governing Council of the ECB, taking into account the situation as a whole, decided that 4% for our present interest rate was the right level. The level that would permit us, in this multidimensional situation, to deliver price stability in the medium term.

As I said publicly, we have had inside the governing council, no call for an increase in rates, which has been noted with great attention. But equally no call for a decrease of rates, and we will in the future do whatever is necessary to solidly anchor inflation expectations and we know that in so doing we pave the way for sustainable growth and job creation.

You said that you do not deny that all the subjects were discussed, and some participants interpreted that even if it was not the official call among the members of the Governing Council there was maybe an unofficial discussion about rate cut?

No, that would be a wrong interpretation. We had a very thorough discussion because the situation is complex and of a multidimensional nature. Perhaps even unusually multidimensional, taking all elements into account. As I said, there was no call for a rate increase and no call for a rate cut.

The French government has the problem of Société Générale while many banks will be announcing results later this month. Do you expect in the euro area that financial situation is better than in the US and that there should be no huge problems from the sub-prime crisis?

First of all I think that the case of Société Générale it is something that is very different from the sub-prime issue. But I don't want to comment on this particular case because in our system it is Banque de France that has responsibility for banking surveillance in France and the Governor of Banque de France Christian Noyer said what had to be said in the circumstances.

On the issue of the banking sector, I will say that in Europe in particular the message I would ship is exactly the message that we agreed at the level of the international community, namely transparency is of the essence. Transparency as regards the so-called sub-prime

exposure, transparency as regards the appropriate valuation of the various instruments, transparency as regards the losses. In any case it seems to me that at the global level we are in the presence of a very small number of global accounting firms that will have to certify all the accounts of all the banks. And I am speaking on behalf of all banks on both sides of the Atlantic or on both sides of the Pacific and I expect that we will have the display of the right figures fully respecting the transparency principle which is certainly of the essence.

About the euro, after Thursday's press conference the value of the euro has somewhat changed. How do you see the current level of the euro, is it at the permissible level reflecting the current fundamentals?

You know that I consider verbal discipline to be absolutely of the essence as regards the exchange rates. I have just signed with my colleagues of the G7 the communiqué. It speaks by itself. And I will certainly not comment on the day-to-day basis of the ups and downs of the exchange market. But I would say that I have always appreciated the mention by the US Treasury Secretary and by Ben Bernanke that a strong dollar is in the interest of the US.

In relation to the Europe – Japan relationship: because of the rise of China it seems that Japan has somehow eclipsed in the international arena. However, I observe that there should be much stronger relation between our two areas. So what would be your recommendation, how would you see to re-enhance our ties between Europe and Japan?

I think that it is not true that Japan is not considered a major industrial power, a major economic power. And as far as we are concerned in the ECB, but I think I can speak on behalf of all Europeans, we know what Japan is, what its importance is in the global economy and also what its potential is. In terms of GNP, in terms of economic influence in the world, Japan is of considerable importance. The G7 is today here in Tokyo under the chairmanship of Japan. And that is very important point.

It is of course true that the emerging Asia is doing marvellous, I would say not only China, but India and the ASEAN countries which are also representing, if I am not mistaken, a population of 500 million, which is something considerable. What we see is a fantastic change, for the best, at a global level. And I would say it is not only Japan, as an industrial power with those new economic powers coming in, it is all of us: it is Japan, plus Europe, plus the US. So, again, I would say, don't trust for one minute that Japan is under-assessed by the Europeans. And perhaps, don't trust either that it is under-assessed in the US. It is not the way we see the situation, I am sure.

Is the euro already a key currency like the US dollar?

I will let you have the responsibility of the question. I would only say that as far as the ECB is concerned, my predecessor and I have always said that we are not campaigning for the international use of the euro. We let market participants, investors, savers to make their own judgement. But, again, we are not campaigning for the international use of the euro.