

Jean-Claude Trichet: Interview with Il Sole 24 Ore

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, and Il Sole 24 Ore, conducted by Mr Beda Romano, published on 9 April 2009.

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The G20 meeting in London has just finished. A joint strategy between the largest countries in the world has been devised, even if drive is sometimes lacking in many areas. What is your judgement of this, at least with regard to international cooperation?

This meeting represents a very, very important turning-point in the area of international cooperation. The G20 now seems to be an indispensable forum in the management of this crisis. It has to be said that the G20 is not a totally new informal institution. It actually came into being at the end of the 1990s as a reaction to the Asian crisis and also proved to be very useful at that time. But now it has made a clear jump in quality, complementing very significantly the G7 or the G8. So, the meeting in London was a very important, historic occasion.

Many decisions were taken: new financial rules, new money for the International Monetary Fund, a new, more structured set-up for the Financial Stability Forum. Which are the most important?

I would not focus on one particular measure. They are all important and are viewed together. It seems to me that they cover all the most relevant aspects of this crisis. What is now important is that they are introduced quickly, rapidly and as professionally as possible. At this point it is also important to progressively introduce anti-cyclical measures, in particular in the area of regulations.

Do you mean by any chance that, in spite of everything that has happened, governments have been slow to introduce measures to alleviate the effects of the crisis and to help the economy and the financial system?

I wouldn't say that the governments have been slow. I would say rather that at the global level – and thus also at the level of the euro area – they have not been quick enough to be entirely convincing in the eyes of economic agents. A great deal of support has been decided – in the EU, it represents 23% of GDP – but it has not always been implemented in an effective manner. And this is why the measures agreed in London must be introduced quickly, rapidly and in the most professional way possible.

And yet, Jürgen Stark, member of the ECB's Executive Board, has criticised the decision to increase the resources available to the IMF, speaking of "denaro distribuito a man bassa"?

Jürgen Stark spoke on a personal basis. As regards the IMF resources, the ECB agrees that the IMF has an essential role to play in the present circumstances to assist countries in need, and the gravity of the global situation justifies the significant increase of the resources available to the IMF. These resources have to be distributed on the basis of appropriate economic policies in the borrowing countries. As regards the SDRs allocation, there is not yet an assessment of the Governing Council, which in any case will have to participate in the process. As a central bank we have to remain permanently alert and caring for medium and long term price stability – as mentioned in the communiqué of the G20.

The Chinese authorities have suggested a new reserve currency based on the Special Drawing Rights of the IMF, which, after all, represent a basket of currencies. The aim is to leave behind a monetary system which is too heavily focused on the dollar. What do you think of this idea?

The subject of exchange rates is by definition extremely delicate. As far as convertible currencies are concerned, I will stick to the positions contained in the last G7 communiqué. I would only add that I warmly welcome the statements of Ben Bernanke, Tim Geithner and President Obama, that a strong dollar is in the interests of the United States. In this area, it is important for all partners to be highly responsible.

On the subject of the financial situation: markets have been rising over the past few weeks, as have raw materials prices. Is there light at the end of the tunnel? Or is it wiser to remain cautious?

I have been asked this question with a certain regularity for 18 months now, both before and after 15 September 2008 when the crisis intensified as a result of the sudden failure of Lehman Brothers. We are experiencing a market correction that is very large, very challenging and very turbulent. It is a process that is still under way. We have to demonstrate responsibility, at the public and the private level, and we have to be ready to deal with unexpected events, which have been a characteristic of this crisis. In short, we have to remain permanently alert.

It seems that the financial crisis spilled over into the economy and that this economic crisis could in turn now weigh on the financial system and on banking results, for example via an increase in the number of failures.

Until the middle of last September, the crisis was largely financial. You will recall that until the failure of a systemic US institution, the emerging economies had not been affected, or barely, by the economic slowdown. Following the bankruptcy of the US investment bank, the crisis suddenly worsened and spread throughout the whole world, affecting not only the financial system but also the real economy at the same time. A type of adverse feed-back loop was thus created, which has characterised the last two quarters. I repeat: we are in a period of market correction which is still under way and is of a very great magnitude.

In this context, the hypothesis is being discussed in many countries of just nationalising the banks. Some say that this would be a way of giving back confidence to the markets and to investors, which are still concerned that credit institutions remain too fragile. What do you think of this?

When speaking of nationalisation, there are two options. The first option is that the state takes control of a bank, but without changing the legal framework. The company would remain governed by private law and the government is a simple shareholder. The second option is that the state changes the very nature of the credit institution, which becomes governed by public law. From my point of view, if State control were to prove necessary, it would by far be preferable it to be carried out on the basis of the first option.

The aim is thus to guarantee a temporary state presence in the company, giving the government an exit strategy?

Precisely. The credibility of the choices is also dependent on the existence of a strategy to return to a normal situation. In the same way that we, as a central bank, have to have an exit strategy from monetary policy in exceptional times, governments must think of an exit strategy from extraordinary measures of economic policy.

For monetary policy, “exit strategy” means that interest rates cannot fall any further?

For central banks exit strategy means the clear path for unwinding the unconventional measures taken. This is essential to guarantee our fellow citizens that they can count on us not only to take today's bold decisions but to make sure that price stability is ensured in the medium and long run.

Coming back to nationalisations, do you believe that public control of the banks is inevitable in order to get out of this crisis?

In these circumstances it is very important to be humble. And to look at the facts and the figures in each particular case. There is certainly not one unique solution for all. In certain exceptional cases, however, it could turn out to be necessary and inevitable for the state to take control of a credit institution.

The financial crisis has affected shareholders first and foremost, with the fall of stock exchanges and shares. Do you think that bondholders will also have to suffer consequences, beyond the fall in prices on the secondary market?

I observe that governments throughout the world have committed themselves not to allow systemically important financial institutions to fail. In so doing, they have committed themselves to preserve creditors from such failure, whilst shareholders have to accept their own risks. This commitment cannot be seen as a half-promise. If we want to eliminate the risk of a systemic failure, we have to be clear on this point: ambiguity in this area would be harmful.

Finally, let's turn to the economic situation in the euro area. The March projections of the Eurosystem economists refer to a contraction in economic activity of around 2.7% in 2009. Do you think they will be revised downwards? How can they be reconciled with the much more negative projections of the OECD?

When we reduced interest rates by 50 basis points in March and by another 25 basis points in April, we took into account a further alleviation of inflationary pressures. At the moment I am speaking, after these two reductions, we consider we took into account the additional informations which have surfaced since the beginning of March. In any case 2009 will be a very difficult year, with a strong contraction in activity. Quarterly data will probably not return to positive territory before the course of 2010. We expect a gradual recovery next year, on the condition that the economic policy measures announced thus far at the international level are introduced, as I have already said, in a rapid and highly professional manner.

You have preannounced new developments in May. You have not ruled out further reductions in the cost of money – the key interest rate is currently at 1.25% – and new, unconventional monetary policy measures: from the extension of the refinancing operations to the purchase of bonds on the market. Can you give us any more details?

As regards the main refinancing operation rate I have said, on behalf of the Governing Council, that I did not exclude that we could – in a very measured way – go down from the present level. As regards the deposit facility rate, I said that at 0.25% it is already at an extremely low level and that I did not expect that we will change that level in the period to come. As regards possible further unconventional measures, I said indeed that the Governing Council will take its decision in our next monetary policy meeting in May. The Governing Council did not want to pre-empt in any respect what we may say then.