

## Jean-Claude Trichet: Interview in *Handelsblatt*

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in *Handelsblatt*, Germany, conducted by Ms Marietta Kurm-Engels and Mr Andreas Hoffbauer on 12 May and published on 14 May 2010.

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**Handelsblatt (HB):** Mr Trichet, you intend to withdraw all of the liquidity that you are currently injecting into the markets via the purchase of government bonds. Do we have to face inflation in the euro area?

**Trichet:** No, not at all. Price stability is our primary mandate and over the past 11½ years we fulfilled our mandate successfully. We have not changed our monetary policy stance. The additional liquidity that we are providing through the purchase of government bonds will be withdrawn again. Interest-bearing time deposits are an appropriate way to withdraw this liquidity.

**HB:** What induced you to take this extraordinary step on Monday morning? You had made no mention whatsoever thereof at the press conference just three days earlier.

**Trichet:** On Thursday afternoon and Friday, we were facing a situation that we regarded as fundamentally abnormal. That situation deteriorated abruptly, sharply and extensively. The very moment where the agreement was reached in Europe to provide Greece with financial support and the imminent decision of the International Monetary Fund (IMF) to approve the Greek standby should have contributed on the contrary to ease tensions in the markets ...

**HB:** ... which was not the case?

**Trichet:** No, the contrary happened. The situation in a number of financial markets was hampering the transmission of our monetary policy, a monetary policy stance that we had judged to be appropriate precisely the previous Thursday. That had to be put right. The exceptional circumstances demanded that we act swiftly.

**HB:** What volume will the purchase programme have?

**Trichet:** I do not provide any figures at the moment.

**HB:** The markets would like to know in somewhat more detail how you intend to absorb the liquidity again.

**Trichet:** Allow me to repeat myself: We are not changing our monetary policy stance. We are not embarking on quantitative easing. We will withdraw the liquidity that we will inject mainly through tendering term deposits.

**HB:** Will that be possible?

**Trichet:** Of course. It does not present technical difficulties. That is what we intend to do. And let me say, that what counts, is our determination and the fact that we are true to our primary mandate of safeguarding price stability. The Governing Council will not tolerate inflation.

**HB:** Is Greece an isolated case? Could the same happen to other countries as well?

**Trichet:** Greece was clearly in a unique exceptionally grave situation before it embarked on its adjustment programme. But I call solemnly upon all countries to implement programmes commensurate to recover sound fiscal situation.

**HB:** What has to be done?

**Trichet:** What we must achieve first, are sound and rigorously implemented adjustment programmes fully in line with the commitment of Governments to take all measures needed

to meet their fiscal targets this year and the years ahead in line with excessive deficit procedures and to accelerate fiscal consolidation and ensure the sustainability of their public finances.

**HB:** Do you see any risks for European taxpayers?

**Trichet:** Our message from the very outset has been that risks for European taxpayers will not materialise if all governments concerned are faithful to all their commitments. They must keep to the rules and commitments. They must behave themselves properly and alert their peers, the other Governments, to also behave properly. Mutual surveillance is essential.

**HB:** Do you now start the same what the central banks in the United States and the United Kingdom have already been doing for a while?

**Trichet:** That is not comparable. What the Federal Reserve and the Bank of England have done was “quantitative easing”. They were injecting liquidity into the markets and that with the explicit goal of augmenting the overall liquidity. As I said already what we are doing through the Securities Market Programme is not quantitative easing.

**HB:** Is the ECB violating the spirit of the Treaty of Maastricht?

**Trichet:** No, not at all. We cannot imagine doing anything that would violate the Treaty – not even for a moment. What we are doing is of course in conformity with the Treaty’s letter. What we are doing is in full conformity with the spirit of the Treaty.

**HB:** Why are you now being criticised by the banks?

**Trichet:** Are we? If so, it is probably because we are doing things that we have not been asked to do by them. That would be proof of our independence vis-à-vis interest groups. That refutes the argument that we have acted as a result of pressure from the banks. I am therefore very pleased to be being criticised by the banks.

**HB:** You don’t see any threat to the ECB’s credibility?

**Trichet:** After the first 12 years of the euro, despite all difficulties - oil and commodities shocks and financial crisis – we will have delivered price stability fully in line with our definition, less than 2% close to 2%. That is the proof. The Executive Board and the Governing Council are inflexibly attached to price stability. And our credibility does not rely on words but on deeds and on our own track record.

**HB:** And is this also valid for the decision taken during the weekend?

**Trichet:** As regards our Sunday decisions they were of the same nature as those taken earlier in the crisis when we adopted non-standard measures. Where necessary we take our decisions swiftly, like in 2007 and 2008, but without ever losing our sense of direction: medium- and long-term price stability.

**HB:** The Governing Council’s most recent decision was not unanimous. Was there an argument?

**Trichet:** I can confirm that three of the four decisions were unanimous or taken on the basis of a consensus. One decision namely the Securities Market Programme was decided, as I have already said, by an overwhelming majority. All our decisions – including last Sunday’s – are taken after weighing up all the pros and cons.

**HB:** Were you not in contact with authorities?

**Trichet:** Yes, I was in contact with my good friend Ben Bernanke, the Chairman of the Federal Reserve and other central bank governors, throughout the evening and the night. It was not only a European but also a global serious situation.

**HB:** For more than ten years, the ECB was able to keep inflation in the euro area under control. Now, all of a sudden, the Union has stopped functioning properly. What has happened?

**Trichet:** We are currently facing challenges on a global scale. The events that we are now seeing have ceased to be a matter solely for Europe. The challenge of running sound sustainable fiscal policies is the problem affecting most of the world's major industrialised countries. That needs to be understood. The crisis in private financial markets has now been followed by severe tensions in the public sector. Ultimately, all industrialised countries are very much in the same boat.

**HB:** From Athens are coming only nice words, just words...

**Trichet:** No, nice words aren't the only thing coming out of Athens. Tough measures are already being adopted – measures that were certainly long overdue. But these are not just nice words.

**HB:** What was agreed?

**Trichet:** The Commission in liaison with the ECB and the IMF will monitor very closely the implementation of the measures. But what is also decisive that all Governments take fully their responsibilities of surveillance. It is true for all the other 15 and of course for Germany amongst them. Germany is the largest economy in the euro area and a country which has a tradition of sound fiscal management. I count on the very active role of all countries including Germany inserting the function of surveillance.

**HB:** Should the ECB not also have been tougher and more vocal in its criticism of European governments in recent years?

**Trichet:** The Governing Council has been public in asking Governments to embark on better and sounder fiscal policies on the occasion of all our monthly meetings. You have heard me being vocal in all my press conferences. I had to counter in the name of the Governing Council, the attempt to destroy the Stability and Growth Pact in 2004 and 2005. This attempt was engineered by the big countries of the euro area, including Germany and France and by the Chancellor of Germany and by the President of France of the time. And in all Euro group meetings since five years I call Ministers to regain control not only of their budget but of all nominal evolutions including unit labour costs.

**HB:** What needs to be changed?

**Trichet:** We certainly do need change in Europe – fundamental change. Not only in the area of surveillance and monitoring of fiscal policy, but also as regards structural reform policies and competitiveness policies.

**HB:** Examples?

**Trichet:** We need to improve drastically everything: the quality of the diagnosis and recommendations by the Commission, much more stronger procedures – and where necessary automatic procedures and tools – to prevent ex ante bad policies, and much more effective sanctions ex post. I will make all these points with the greatest energy in the Van Rompuy Committee.

**HB:** Will the measures adopted by the ECB now dampen growth in Europe?

**Trichet:** No. It is a complete fallacy to say that fiscal soundness dampens growth. It is exactly the contrary. It is the absence of fiscal credibility which dampens growth. Medium term sound and credible fiscal policies are a major prerequisite for confidence. And confidence of the households, confidence of the entrepreneurs and confidence of the investors is what is indispensable for the recovery.

**HB:** Did you ever think that you would have to take such difficult decisions as President of the ECB?

**Trichet:** I have had to take difficult decisions throughout my career – including as President of the Paris Club in the 80's and Chairman of European Monetary Policy Committee in the 90's as well as Governor of the Banque de France. I have been involved in just about all of

the crises of the last 30 years. But it is true that the decisions taken today, in the context of the worst global crisis since World War II at the level of the euro area as a whole are of an extreme importance; it is for my colleagues and me an immense responsibility.