

Jean-Claude Trichet: Interview with Expansión

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, in Expansión, conducted by Mr Daniel Badía González on 14 September 2011, and published 20 September 2011.

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1. At the last meeting you said that the risks to inflation are balanced and you noted downside risks to growth. However, the ECB raised interest rates in April and July. Does this new scenario leave room for possible rate cuts in the medium term? In 2008, following the bankruptcy of Lehman Brothers, there was a major shift in your monetary policy.

At the last meeting of the Governing Council we delivered two main messages. In our assessment the outlook for the real economy has deteriorated and we think that there are downside risks to growth. This is a significant change compared with the assessment three months ago, when we thought that the risks were balanced. On the other hand, in July there were upside risks to inflation, but now they are balanced. We will continue to keep price expectations solidly anchored. This is a major asset for Europe: it protects us from the materialisation of the risk of inflation as well as the materialisation of the risk of deflation.

2. Investors are very concerned by the departure of Jürgen Stark, just a few months after Axel Weber stepped down. What are the consequences of his departure for the ECB and do you have any reassurance to offer in this regard?

The Governing Council has been totally faithful to the primary mandate of the ECB which is price stability. The track record for the first 12 years is impressive: price stability is the best it has been for the last 50 years for 332 million fellow European citizens. We will continue to fulfil our mandate with dedication. Jürgen has been a marvellous partner and colleague for me for the past 18 years. He has always demonstrated a very strong commitment to the consolidation of European unity. We have worked together for five years at the ECB and I must stress his constant loyalty to our institution. I have a deep esteem for him.

3. These two resignations were related to opposition to the purchase of sovereign bonds. What is the limit of the Securities Markets Programme?

The Securities Markets Programme (SMP) is a non-standard measure that the Governing Council decided on in order to help restore a more correct monetary policy transmission mechanism at a time when we are observing major disruptions to markets or segments of markets. Since the start of the crisis in 2007 we have applied a strict “separation of principles” between the two categories of measures. On one side are the standard measures – the interest rates – that are designed to deliver price stability, and on the other are the non-standard measures designed to be commensurate with the degree of disruption to markets. This is the case for all our non-standard measures: the supply of liquidity with a full allotment at fixed rate, the purchase of covered bonds and the SMP. In the case of the SMP, we consider that governments have the responsibility to ensure, individually and collectively, financial stability, which will re-establish a more correct functioning of markets. It is their responsibility and it is the commitment they took on 21 July.

4. Has the current crisis exceeded all your expectations?

I said myself, on behalf of the central bankers participating in the Global Economy meeting in 2006 and at the beginning of 2007, that a significant market correction was likely because risks were underestimated, insurance premia too low and volatility abnormally low. Since August 2007 we have experienced several episodes of a global crisis that is extremely demanding and calls for all authorities and entities, public and private, to live up to their responsibilities.

5. But what is the real source of the problem?

The current episode of the crisis is a crisis of the sovereign signatures, due to fiscal imbalances. The Governing Council of the ECB constantly advised governments that they should strictly respect the Stability and Growth Pact, individually and collectively. I was on record, on behalf of the Governing Council, in stating, many many times, that we have a single currency and no federal budget, meaning that the Stability and Growth Pact was fundamental for the stability of the Economic and Monetary Union (EMU). We fiercely defended the Stability and Growth Pact against the major countries of Europe when they wanted to dismantle it in 2004 and 2005. Let me also stress that it is a global crisis, hitting all major advanced economies, with its epicentre in Europe.

6. Angela Merkel sent us a very optimistic message about Greece this week. Do you think that, at present, there is a real risk that Greece will become insolvent?

Greece has to strictly implement its adjustment programme and reach all its targets. This is absolutely fundamental. All governments have to fully implement their decisions which were adopted on 21 July in Brussels.

7. Nouriel Roubini, Bill Gross of PIMCO and George Soros, among other renowned economists, have been issuing catastrophic messages about the future of the euro since the start of the crisis. Don't you think they should be more cautious, given that their views often have an impact on the market?

One should not confuse the issue of financial stability in the euro area and the necessity to adjust fiscal policies, which are an important and pressing problem, with the euro as a currency. Since its inception, the euro has kept its value remarkably. Price stability has been ensured in a better fashion than with the previous national currencies. It is the currency for the euro area as a whole. And the euro area as a whole has a balanced current account and a public finance deficit much lower than many big advanced economies. Such a currency, with such strong underlying fundamentals, is solid and credible.

8. Do you think that Spain is implementing sufficient reforms? What else can it do to restore investor confidence?

Spain should resolutely continue to place particular emphasis on further structural reforms in order to have the highest possible level of growth potential, to improve its productivity and to restore investor confidence.

9. Most European governments have completed the process of restructuring their financial sectors, but the Spanish government will still have to inject a large sum into several financial institutions at the end of September. What is your view of the situation of Spain's financial sector?

The situation has improved considerably, but one should remain permanently alert. Every month the Governing Council of the ECB calls upon all the banks in Europe to do all that is necessary to reinforce their balance sheets, to retain earnings, to be cautious and moderate as regards remuneration and to have recourse to a public backstop, where necessary.

10. What are the challenges facing the new President, Mario Draghi?

Every central banker faces the challenge of being the guardian of the currency, and therefore an anchor of stability and confidence in a very demanding period. Mario Draghi needs no particular advice from me. He is a long-standing member of the ECB's Governing Council and has been closely involved in all the decisions we have taken over the years.

11. Could you give us your view of your eight years in office? Do you have any regrets or is there anything that you wish you had done differently?

I have not gone yet and I have a very demanding task ahead of me in the remaining month and a half. In any case, I can assure you that it has been very inspiring to be President of a monetary institution that is responsible for issuing the common currency for 332 million people

in 17 countries, including Spain. This is a great responsibility. As you know, in the Governing Council of 23 members, we are a team, together with Miguel Ángel Fernández Ordóñez and José Manuel González Páramo. We are all very close and this is something that is very inspiring. The team's spirit means so much to me.

12. What is it that has gone wrong in this crisis? What recommendations would you give?

Emerging economies have shown remarkable overall behaviour in the face of this crisis, unlike the advanced economies. I think the main lesson to be learnt is that we have to make a difference as regards the resilience of the advanced economies. And this requires the implementation of a very robust fiscal policy, a very strong monitoring of competitive indicators in all economies and in particular in the euro area, and bold structural reforms.

13. The markets fear liquidity problems in the European banking sector. Do you think this is an understandable concern? The ECB has just announced a joint action with the Federal Reserve System to lend dollars to the European banks. What has brought us to this situation? Could the ECB embark upon other measures, for example more twelve-month tenders? In addition, the liquidity crisis is reducing the banks' capital. In this context, will they be able to strengthen their positions themselves or will they require external support, perhaps through the European Financial Stability Facility or some other means?

As I already said, the European banking sector has to reinforce its balance sheet and improve its resilience. As regards its access to liquidity, I think it is important for observers and market participants to know that the ECB is supplying liquidity in euro on an unlimited basis at fixed rates for durations of one week, one month and three months. And the eligible collateral in the hands of the banking sector is a multiple of the amount of liquidity we are presently supplying (around €530 billion). As regards the liquidity in dollars, we just announced last Thursday the agreement between five central banks, which has been well understood by the observers and illustrates the very close cooperation which exists, in particular between the Federal Reserve System and the ECB.