Jean-Claude Trichet: Interview with Süddeutsche Zeitung

Interview with Mr Jean-Claude Trichet, President of the European Central Bank, and Süddeutsche Zeitung, conducted by Ms Helga Einecke and Mr Martin Hesse, published on 29 April 2009.

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Mr. President, when will the end of the crisis finally be in sight?

It is an on-going phenomenon. That is why we have to remain constantly alert. In the summer of 2007 we experienced unusual events in the money market and were the first central bank to respond. Since mid-September 2008 we have been in a very serious crisis. The new, globalised financial world that has been created over the last 10 to 15 years is for the first time being put to the test. It is proving to be much more fragile and less resilient than it should be.

Can this world ever be brought back to health?

Yes, certainly. It calls for bold decisions today as well as credible exit strategies to improve confidence of our fellow citizens and of the corporate sector on our capacity to go back to medium – long term sustainable path. This is true for fiscal policies as well as for monetary policies. And we have to implement effectively, efficiently and as rapidly as possible the decisions the decisions taken in the G-20 meetings.

Who must accept responsibility for this crisis?

I don't see any value in looking for scapegoats. For instance, some may make banks or rating agencies the whipping boys. But to me the entire financial system has proved unsatisfactory. It must be reformed from the bottom up. All parts and parcels of global finance together have not delivered the stability that citizens rightly demand. Thus, significant improvements must be introduced everywhere. We owe this to the citizens and to the whole world.

Have central banks not been able to prevent this crisis?

In the past we have made no compromises on our objective of price stability. From 2003 to 2004 we were publicly urged by the heads of the governments of three large countries to cut rates. We said no. In December 2005 ten out of 12 governments in the euro area called on us not to raise rates. We still did it and we have delivered what our democracies and our fellow citizens had asked us to deliver, namely stable prices.

How great is the political pressure?

We are not subject to political interference or short-term thinking. The EU Treaty is crystal clear on this point and guarantees fully our independence.

Why did central banks not see the crisis coming?

In 2006 and 2007 I said – on behalf of the Governors of Central Banks meeting in Basel – that the quantity of risk and the price of risks were underestimated in global finance. Spreads were very low, risk premia were abnormally meagre and volatility was very modest. This called for a market correction and we asked market participants to prepare for that market correction.

You forecast the crisis?

Not the extent and the depth of this global crisis. But if anyone saw warning signs and voiced them, it was the central banks.

How can the central banks now help to find a way out of the crisis? With rates near to zero, can you do any more than print money?

The present circumstances are extraordinary. Central banks and governments must therefore resort to extraordinary measures. To prevent the collapse of the financial system, we have provided the banks with an exceptional framework of liquidity providing. But citizens can have full confidence that we will guarantee stable prices over the medium and long term. The 329 million citizens of the euro area are very clever. They would not improve their level of confidence and help restarting the economy if they had the sentiment that we were forgetting our primary medium term goal.

Do you think that governments will be able to quickly pay off the debts they are now accumulating?

We call upon the governments to do that. We support strongly the European Commission in its task of ensuring the respect of the Stability and growth pact in such exceptional circumstances.

Many people expect either a massive reduction in the value of money or tax increases – or both? Are the fears justified?

We are here to preserve the value of the money of our fellow citizens. They can count on us. As regards governments' fiscal policies they must be designed to incorporate the exit strategies to reassure people that these policies are on a medium term sustainable path.

Many experts, however, are worried about deflation, i.e. a lasting fall in prices. Are there grounds for such fears?

We should not confuse disinflation and deflation. At the moment I am speaking, we are experiencing very low inflation and in the months to come negative inflation due to the decrease of the prices of oil, energy and commodities, before it increases again at the end of the year. This is good for the purchasing power of households and is a correction of the high prices of the past. Deflation means steady decrease of all prices and negative inflation expectations. This is not the case today. As you know our definition of price stability is below 2% but close to 2%. And today's medium term inflation expectations, at 1,9%, are in line with this definition.

German companies are complaining of a credit crunch. Are they right?

Everything that we have done since the beginning of the crisis has been aimed at putting banks in the position to lend money. In the euro area 70% of all financing is via banks. We are doing everything we can so that banks can do their job. In addition, the governments have provided assistance for banks. It is the core function of banks to lend money and we are strongly encouraging them to do their job...

Have the banks given you any sign that they are satisfied with your liquidity provision?

The banks are in different situations. Some are better off, others are worse off. But they are receiving an enormous amount of support. All the risks and credit that have been taken over by the state amount to almost one-quarter of GDP in the euro area. I would not call for even more aid. The measures launched by governments now have to be implemented as professionally and expeditiously as possible.

Do we need a "bad bank" through which the state relieves banks of their risks?

I am not sure about that. But all options to deal with impaired assets should be carefully examined.

Does the euro ensure stability in the financial crisis or are weak countries such as Ireland and Greece proving to be a burden?

The euro ensures a very high level of stability. The years 1992/93 demonstrate what would happen in a crisis situation if the euro did not exist. At that time, there was dramatic turbulence in the European exchange rate system. Every member of this community must of course make its own contribution, in particular by keeping government finances in order.

Wouldn't it then be a good idea to bring the euro more quickly to the struggling countries in eastern Europe?

Participating in the euro area means joining a community and deciding to share a common destiny. No-one can simply adopt the euro because they are having a period of major difficulties. It is an alliance forever. We are open, we started with 11 countries and are now at 16. There are rules and criteria spelled out in the Treaty. Our position is "all the criteria of the Treaty, nothing but the criteria of the Treaty". These rules guarantee that the euro is good for new members and good for old members.

Wouldn't it be better to introduce the euro in Eastern Europe than to let those countries go bankrupt?

This is not about short-term thinking or to avoid temporarily major difficulties. It is about a commitment for life.

Can Eastern Europe survive the crisis on its own?

Yes, of course, even if the situation is difficult. Eastern Europe isn't alone and countries in this region are not at all in the same situation. First of all, the euro area economy is Eastern Europe's main customer. And those which need it are receiving help from the European Union, from the IMF and other institutions.

The crisis will change the world. What role should Europe play in this changed world?

Europe, which, as regards trade, is significantly more open to the rest of the world than US and Japan, will continue to play a major role in the global economy. It will participate as actively as possible in making the global economy and global finance as resilient as possible in the future. And it will continue to bring at the global level its own sense of stability and medium term perspective.