

2011-07-07 - Interview Jean-Claude Trichet RTE

Part 1:

Question: President, you've said repeatedly that your interest rate policy is designed for all of the Eurozone, and you mentioned 331 million citizens. Nonetheless, is there any discussion or debate or unease at the ECB level at the effect that this interest rate increase will have on the peripheral countries like Ireland and the danger that this could strangle the very growth that we need?

Trichet: Well I have to say that of course our mandate is to deliver price stability for all Europeans. And it is exactly the same in the US. You have enormous differences between states in the US, surprisingly same difference as regards the amount of [dispersion] as you have in Europe in the euro area. And of course nobody is asking the Fed whether they take into account Wyoming and Florida and California. It's the overall situation of the 331 million people.

That being said, if we maintain price stability for the 331 million and if we are credible for the next years to maintain that price stability, then of course Ireland, as all other countries, is benefiting from the fact that whatever risk premium you might have, you are at the lowest level in terms of inflation expectations. So there is a joint interest of all countries to have a very solid anchoring of inflation expectations. And is the same in the United States, of course.

So, again, we took our decision today with a view to be sure that we will deliver price stability, in line with our definition, in the medium run. And I have to say that given the case of Ireland also, the fact that the prices are well contained is very, very important, particularly in those circumstances in terms of the people of Ireland and I would say also the most vulnerable part of the population, which is true for all countries by definition.

Question: But you sympathise with people who have suffered so much austerity, they've made so many sacrifices and yet here again they're going to see their monthly income, their monthly mortgage repayments rising to perhaps an unsustainable level.

Trichet: Again, they would rise much more in terms of hampering the situation of the various citizens if we were losing control of inflation expectations because all market grades will increase. If the anticipation is high inflation, all interest rates are increasing. So we are maintaining order. We are maintaining confidence. It benefits all, absolutely all citizens.

Question: Are you also concerns about the credit rating agencies, because they've come under a lot of criticism this week about their downgrading of Portugal and the decision on the French plan. Is there a concern, in your view, that this kind of move could then trigger a similar downgrading of the Irish credit rating and that this once again will push our return to the market back further.

Trichet: I have explained today that we had taken a decision as regards Portugal, which, by the way the same decision as we took as regards Ireland, namely taking into account the fact that we have a program, that this program is implemented with great determination, which is also the case of course in Ireland. We were taking the view that we had to waive the threshold. We did that for Ireland. We did that today for Portugal.

Let me only say that the issue of rating agencies exerting a pro-cyclical influence on the cycle, on the booms and the busts and in the present period, after having fed, in many respects, the boom, creating problem for the bust is a real issue, a real issue at the open level. It's a global issue. It's a global issue which is examined through global entities like the FSB, the Financial Stability Board. And we have to respect a number of principles there, no conflict of interest, full transparency, appropriate overseeing and progressively probably the end of this small oligopolistic structure which creates also problems per se. I have to say that it's work in progress. We have to work hard at the global level on this issue.

Question: Were you surprised at the Irish government's move a few weeks ago to seek to impose losses on senior bondholders at Anglo Irish Bank and Irish Nationwide Bank?

Trichet: I have no particular comment on that. As you know, we consider what is extremely important is to regain credibility, to regain credit worthiness as soon as possible. And all what goes in the direction of regaining credit worthiness and credibility is important.

Question: So a move like that you think would go against the whole credibility question?

Trichet: I do not qualify.

Question: There have been quite–

Trichet: I'm sorry because this is very difficult, can we stop there? Cancel what was just said because I want to be sure that I understand your question. I have in mind something which is probably totally different. And I have to be clear. We had these particular bondholders that had guarantee on the government. You're not making an allusion to that?

Question: No. This was when the Finance Minister, Mr Noonan, went to Washington, well, he spoke to Mr [Geithner] and spoke to the IMF. And afterwards he said that they were seeking to impose losses on senior unsecured bondholders at Anglo Irish Bank and Irish Nationwide Bank. There's about €20 billion of unsecured senior debt, which the government wants to impose losses on that.

Trichet: I'm sorry. It's very new?

Question: Well this has been an issue for some time. The government regards Anglo Irish as no longer a bank, simply a warehouse. And this move by Mr Noonan happened about – was it three weeks ago?

Trichet: I'm sorry, I need to re-examine the situation because if it is what I think, my response is we are not advising to do that. I want to be sure that we are speaking of the same thing.

Question: Okay.

Part 2:

Question: Were you surprised by the government's announcement that they wanted to push to have losses imposed on senior unguaranteed bondholders in Anglo Irish Bank and Irish Nationwide Bank? This is something that the Irish government pushed a few weeks ago and for weeks they feel that there is support now emerging in Europe.

Trichet: I don't know which Europeans are supporting that. All what I can say is that as far as the ECB is concerned, we call for full respect of the plan as has been approved. And all the plan, nothing but the plan, including all what had been said at that time of the approval of the plan.

Question: And the plan would, I presume, dictate that senior bondholders are not touched?

Trichet: The plan, nothing but the plan, all what has been said at the time.

Question: The other thing that the Irish government is keen on is to get some kind of medium-term facility for the Irish banking sector to restore confidence in the international markets. This is something that the ECB may be interested in. Is it something that might be possible?

Trichet: We are, on that point, very, very clear. We have ourselves said publicly what we would do, both, I would say, as regards the normal refinancing that we are seeing for very, very important amounts. We have also the exceptional ELA, which is

delivered by the National Bank of Ireland. And all this, accompanied by remarkable efforts that have been made to restructure, to, I would say, deleverage in a very organised and impressive manner will progressively help, as I see it, the banking sector to go back to absolutely progressively, of course, and with time a better position. It is clearly what is going on and it should go on.

Question: Just to be clear, is it a possibility that some kind of medium-term facility—?

Trichet: No, I don't think it's a possibility. It is not. It is not. It's been said very, very clearly that we had our present instruments and that we were utilising the present instruments, the present weaponry.

Question: Are you concerned at all at the tone of the debate in Ireland, which has become more euro-sceptic in recent months? And indeed today the leader of the opposition has said that the decision to raise interest rates was a foolish one. This could destroy the euro itself and that the ECB was being arrogant and needed to reform. Are you concerned about that level of debate in Ireland?

Trichet: Well, as you know, we are helping Ireland considerably. We are refinancing the Irish banks, both us and the National Bank of Ireland in euros for amounts that have absolutely no precedent, no precedent or equivalent in Europe and no precedent in the world. So this is what we are doing.

On the other hand, I have to say that I think that the Irish government, the Irish society and the Irish population is doing an incredible good work. I have a lot of testimony now that Ireland, which had lost a lot of competitiveness in the boom, which has been an extraordinary boom, is now regaining its competitiveness. I see FDIs that are coming back in Ireland because Ireland is back to competitiveness. So the adjustment, which is of course a difficult one, which is a courageous one, is being processed in a very, very professional way. And I think that all the Europeans are looking at Ireland, again as a flexible economy, able to correct difficulties rapidly and with great professionalism.

But we are formidably helping Ireland. And what we are doing with our monetary policy helps Ireland, because again, if we would lose the control of our inflation expectations, Ireland would not be better off. It would be a big, big blow to what is necessary, rebuilding confidence, rebuilding competitiveness.

Question: Those credentials that you mentioned are certainly things that the Irish government has been very keen to stress publicly in the context of trying to separate Ireland from Greece. Do you think Ireland can be separated from Greece, from its particular problems?

Trichet: I think that of course all countries have their own characteristics, their own assets, their own liabilities, their pros, their positives and their negatives, and there are no countries that are alike in Europe. There are no states that are alike in the United States of America. There are enormous differences between states. And I am always struck, when I look at the US, you have the best state, which is at 3.5% level of unemployment, and the worst state is at 14% level of unemployment. So you have enormous difference.

The differences are a characteristic of an immense continental economy, an immense economy [too], if I'm speaking of Ireland. And what I would say that the positives of Ireland are very clear. The positives of Ireland are its people, and not because I am Breton myself that I say that, its people, the entrepreneurial spirit which you see everywhere in Ireland, the flexibility of the economy. The way Ireland got back to competitiveness is remarkable.

And of course you have also a lot of difficulties. You have a lot of negatives that are associated with the previous boom, and that's absolutely obvious. But the positives are strong, very strong.

Question: Okay. President, thank you very much.

Trichet: Okay.