



Modest Growth Seen in Europe

Consumer Behavior 'Steady'

Q & A / Jean-Claude Trichet

Jean-Claude Trichet, the governor of the Bank of France, will join the Group of Seven finance ministers and central bankers in Washington over the weekend for discussions on ways to prevent the world economy from slipping into recession. He spoke to Alan Friedman of IHT-TV.

Q. Even before the terrorist attacks in the United States, the European economy had begun to slow. How much worse are things now?

A. Now, with the events of the 11th of September, we have observed extremely carefully the behavior of the consumers and the behavior of the enterprises. It's very early, of course, to draw a definitive assessment on the situation, but what we have observed until now is a little bit reassuring, because it seems that the overall behavior of consumers has been quite steady — at least in France. But I trust also all over Europe consumers have continued to buy.

Q. What is your assessment of growth for France?

A. We are told until now by enterprises that growth continues in France at a level of course which is more modest than what was previously forecast, but it is still growth. I will not be surprised if growth, as an average for 2001, would be around 2 percent.

Q. The European finance ministers, together with Pedro Solbes, the European Union commissioner for economic and monetary affairs, said last weekend that they thought growth in 2001 would be less than 2 percent. Is your forecast 2 percent, or something slightly below that?

A. It is perfectly possible for the euro zone to be a little bit below 2 percent. For France, because you know we have our own survey on the French economy, again, I would not be surprised if we are around 2 percent, which would mean that we are a little bit above the average of Europe.

Q. The World Bank a few days ago put out a forecast for the countries of the Organization for Economic Cooperation and Development. The bank had previously forecast 2.2 percent average growth for the OECD in 2002. Now the bank says growth could be as low as 0.95 percent in 2002. What do you think?

A. I see absolutely no use in permanently changing a forecast. The future is uncertain. It can be good, it can be less good, we will see. What counts is how you react to the future. So I have absolutely no opinion on whether it will be 2.2 percent or 0.95 percent.

Q. How would you describe the impact of the Sept. 11 events on the "Euroland" economy?

A. What is absolutely clear is that we have to follow on a day-to-day, week-to-week basis the behavior of the consumers and the behavior of the investors. I'm telling all French citizens, entrepreneurs, households, that if you had projects, if you had decided to do this or that, continue to realize those projects. Invest, if you had decided to invest. Consume, if you had decided to consume. The best gift you

could give to the terrorist would be to change your own project. I trust that keeping one's nerve is the best quality in the present circumstances and keeping one's nerve means continue to do what you had decided to do.

Q. Should the French government reconsider the 35-hour workweek?

A. What the Banque de France always said was that it was advisable to alleviate the ceiling for overtime work, particularly of course in all sectors where we had scarcity of labor and particularly scarcity of skilled labor.

Q. Is there any reason at all to stimulate growth through American-style tax cuts in Euroland?

A. I really think that we have an overall sentiment on what should be done in this respect, which is apply the stability and growth pact, and there is an overall consensus on that.

Q. Do you believe that tax cuts are a good idea?

A. Tax cuts have already been decided as you know in Germany, in France and in a number of other countries. Depending on the overall global finance situation you have room for maneuvering, or you don't have room for maneuvering. It is absolutely obvious that in part of Europe, and particularly in the big European countries, there is not much room for maneuvering.

Q. The chief economist of the World Bank, Nicholas Stern, recommended that European governments engage in a coordinated policy of fiscal stimulants through public spending. What do you think of that recommendation?

A. I think that it has already been examined by ministers of finance and that the situation of the various countries is not the same.

Q. How closely linked would you say Euroland's economic performance is to the U.S. economy?

A. I think we are all intertwined — very, very clearly — and that we each depend on the other economy. All things being equal, if there is 1 percent less growth in the U.S., it materializes as 0.2 percent less growth in the European and French economies. Likewise, if Europe grows 1 percent, the U.S. will benefit 0.2 percent. So there is some kind of symmetry in the relationship. That is the real economy-trade relationship, but of course on top of that you have the psychological element, and the psychological element is perhaps more difficult to assess and is also less symmetric.

Q. How do Asia's economic troubles affect Europe?

A. It is clear that we are all touched by the slowing down of Asia and by the permanent problems that are observed in Japan. So I would think that if we could observe that Japan is picking up even a little bit, it would of course have a very positive impact on the rest of the world and particularly on the U.S. and on Europe.

Q. Do you think the European Central Bank should be taking an easier monetary policy?

A. All I can say is that when we decided the last time to make our move, we considered that the interest rate level after our move was appropriate.