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French Banker Says Critics of Euro Have Got it Wrong

As the European Central Bank prepares to meet Thursday, it confronts a single currency that remains stubbornly below the level of its introduction a year and a half ago. Rejecting suggestions that the euro has proved to be a disappointment, Jean-Claude Trichet, governor of the French central bank and member of the governing council of the ECB, criticizes what he sees as misplaced views about the currency, in an interview with Joseph Fitchett of the International Herald Tribune.

Q & A / Jean-Claude Trichet

Q: Is the euro in trouble?

A: On the contrary, it is really a success story. Europe has an 11-nation money market functioning as smoothly as our separate national markets did — and very beneficially for this enlarged economy. We have strong growth in Europe, particularly in France, but elsewhere, too, partly because the investment climate has improved with the elimination of currency fluctuations. Mergers and acquisitions in Europe now match and sometimes surpass the United States. Demand for bonds denominated in euros has been stronger than people expected and helped us build up our capital markets in Europe. Think for a moment about what might have happened in some recent economic crises in Asia and in Russia and elsewhere without the perspective and the reality of the euro. Our commitment to the euro meant that none of these crises caused any turbulence among the European partners.

Part of the criticism comes from commentators who insisted that the euro could never happen, that it was too ambitious for Europe. Their analysis was faulty: The euro

does exist. But that hasn't stopped critics from using the old mental schema to suggest that the euro is somehow failing.

Q: Critics complain that the euro is weak against the U.S. dollar. But hasn't the exchange rate made French and German exports cheaper and spurred growth?

A: The European Central Bank has consistently maintained that a strong currency promotes economic strength. The euro is in a phase that mirrors the U.S. dollar in the mid-1990s, when it was undervalued against European currencies. The real point is that all our countries are now operating in a universe of floating exchange rates, which means that our currencies are subject to what I call a roller-coaster effect of rising and falling values. The momentum sometimes causes the markets to overshoot, meaning they misjudge currencies and require time to adjust. The markets look at currencies in terms of the economic cycles, and the euro was introduced when Europe was at the low end of its business cycle and the United States at a moment of strength. The market ended up overshooting, meaning that the euro is undervalued compared to our economic fundamentals.

Q: Can the European Central Bank be blamed for contributing to the markets' behavior? Has the bank failed to signal its policies as effectively as the U.S. Federal Reserve Board?

A: I admire the consistency of U.S. officials,

who have stuck to a single phrase for seven years: "A strong dollar is in the interest of the United States." The European Central Bank is equally clear about our philosophy, with a three-point message. "We are pursuing a monetary policy aimed at a strong, a solid currency. The euro has a great potential for appreciation. A strong economy goes hand in hand with a strong currency." We know that currency credibility is crucial to people's confidence in their economy and political system.

Q: But is your communications policy failing to get that message across?

A: It is simply wrong to criticize the European Central Bank and its governors on this point. The bank is exemplary in explaining its rationale and views. The head of the bank, Wim Duisenberg, gives a news conference every month in which he lays out the council's analysis of the economic outlook. Right after our meeting, in real time, he produces our findings and takes questions about our reasoning. No other central bank in the world can match this system of monthly statements and news conferences.

Q: Right now, France seems to be faring well economically with the euro.

A: France has become extremely competitive. Since 1997, we have been growing faster than our neighbors while maintaining the biggest export surplus in Europe. That amounts to a market verdict: that France has stayed very competitive.