

21st November 2000

# INTERVIEW DE M. LE GOUVERNEUR PAR LE JOURNAL JAPONAIS MAINICHI

## PROJET

*1/ Joint intervention in the foreign exchange markets by the ECB, FED and the Bank of Japan has defended the euro against further depreciation. However, the euro is still hovering near its lowest level at under 90 cents. Some market participants have said that the intervention will only have a temporary effect and that in the medium term the euro will fall again.*

***How does Mr Trichet see the euro's future and does he think that the ECB will be able to ensure that the euro recovers?***

It is the conviction of the ECB Governing Council that the present external value of the euro has lost touch with economic fundamentals and does not reflect the favorable conditions existing in the Eurozone.

This opinion is shared by the "Eurogroup", that is the group of the eleven Finance Ministers of the eurozone. At the Versailles meeting, the Eurogroup has fully agreed with the European Central Bank that "a strong euro is in the interest of Europe". This short sentence is certainly the most obvious and the most accurate summary of the position of Europe about the external value of the euro.

*2/ The Federal Reserve Board participated in the joint action to support the euro. However, the Secretary of the US treasury has said « The strong dollar is in the interests of the US ». Many foreign exchange market traders therefore doubt that the US will intervene to support the euro again if it dips in value in the future.*

***Does Mr Trichet think that the cooperative structure of the G7 countries will function to support the euro again if intervention is once more required in the future ?***

In this matter, we need to refer to the precise terms of the communiqué issued by the G7 countries in last September in Prag : the G7 countries state that they « have a shared interest in a strong and stable international monetary system : at the initiative of the European Central Bank, the monetary authorities of the United States, Japan, United Kingdom and Canada joined with the European Central Bank on Friday, September 22, in concerted intervention in exchange markets, because of the shared concern of Finance Ministers and Governors about the potential implications of recent movements in the euro for the world economy ». And let me stress the last sentence of this statement : « In light of recent developments, we (the G7 countries) will continue to monitor developments closely and to co-operate in exchange markets as appropriate ».

The most recent interventions recently taken by the ECB are completely in line with the G7 Statement and should be seen as a continuation of the September 22 concerted intervention.

*3/ Mr Trichet has pointed out that factors such as higher oil prices are pushing up the inflation rate in the euro zone. However, some economic figures show that German economic growth is slowing and German officials argue that any interest rate hike will, in fact, prove to be an obstacle to sustainable growth in the euro zone.*

***What does Mr Trichet think about the argument put forward by these German officials ?***

Eurosystem monetary policy decisions are not determined by the situation in a particular member country. Instead, they are rooted in the prospects for price stability in the euro area as a whole, within the framework of our monetary strategy, which is based on two pillars : money and a wide range of economic indicators. As far as the second pillar is concerned, euro area real GDP has been growing at a high rate for four consecutive quarters, including the second quarter of 2000. A few monthly indicators which extend into, or cover, the third quarter of this year could point to more moderate growth rates. In particular, the pace of growth in industrial production appears to have declined somewhat, and some survey findings also indicate that the pace of activity has been more moderate. However, survey findings remain at high levels and should be bolstered further by positive factors such as strong growth in employment. There is thus good reason to remain confident that growth will continue to be sustained in the euro area. Moreover, these developments tend to strengthen the convergence among member economies. In the case of Germany, to take the example you referred to, year-on-year GDP growth was 1.2 percentage point below the euro-area average in the first quarter of 1999. In the second quarter of 2000, it was only 0.1 percentage point lower.

*4/ Denmark has held a referendum on the euro. The Danes chose to reject the euro. In the wake of Denmark's decision, some economists say that the credibility of the euro could be damaged and it could trigger a further fall in the euro.*

***What does Mr Trichet think about the result of the Danish referendum ? How does he think the foreign exchange markets will react to the Danish decision in the medium term, not the short-term ?***

The Eurosystem has taken note of the decision taken by the Danish electorate in the referendum of 29 September 2000. We acknowledge the decision by the Danish people not to apply for the adoption of the euro as their currency. The Danish authorities are committed to keeping the Danish krone in the European exchange rate mechanism and within the existing narrow bands. Thereby, the euro will continue to act as the anchor for monetary policy in Denmark, and the result of the referendum will not affect the co-operation between Danmarks Nationalbank and the Eurosystem. The foreign exchange markets has taken note of this steady situation.

*5/ Denmark's rejection of the euro could delay the entry of both the UK and Sweden. It could also affect the future expansion of the euro into applicant countries such as Poland and Hungary.*

***Does Mr Trichet think that the euro will be credible even if the UK does not choose to participate ?***

The eurozone represents an area of 293 million inhabitants and a GDP of above 6 100 billion euros with a monetary policy based on a stability-oriented strategy, managed by the independent Eurosystem. This strategy has been understood by financial markets and the public at large : for instance, the yields on long-term bonds denominated in euro are clearly indicating that the Eurosystem already enjoys a significant level of credibility. Moreover, the high level of confidence in the euro is guaranteed by the homogeneous functioning of the Eurosystem : all the components of the Eurosystem - the ECB and the national central banks - work constantly hand in hand, as shown by the latest interventions on the foreign exchange markets.

As regards the UK, I would like to stress that this country is unanimously and warmly welcome in the euro area. The euro is the necessary, last major tool for achieving the single market to which belongs the UK.



6/ The Euro-zone governments, especially the French government, insist that the Euro-zone must have a harmonized financial regulation system.

**Does Mr. Trichet think that this idea could work or will it raise fears among small countries that they will lose their financial sovereignty?**

European financial systems have already accomplished impressive progress towards more integrated and efficient structures.

Concerning the regulatory area, harmonization – not necessarily unification – is certainly the key. The authorities seek to further enhance the operation of the single market principles, in line with the Financial Action Plan and with the principle of subsidiarity. Securities markets still operate in a framework of different national rules, from bankruptcy laws to disclosure requirements and accounting standards, from regulation on insider trading to tax treatment of financial transactions. An effort for further integration is therefore warranted for the complete implementation of the principle of mutual recognition, thus alleviating remaining regulatory obstacles to a fully-fledged market integration.

Besides, I am firmly convinced that strengthened co-operation between all interested national authorities is the right tool for enhancing the degree of integration of European financial systems. The Report on Financial Stability adopted this year by the Economic and Financial Committee (an advisory body of the ECOFIN Council) indicated that, to deal with an increasingly integrated European financial market, present institutional arrangements based on national competence and co-operation are adequate provided co-operation between national authorities is strengthened. As to the regulation of securities markets, some decisions are still underway. Further harmonization of rules and Cupertino of national authorities contribute to a fully efficient European financial market.

7/ The euro-zone governments want to play a bigger role in determining policy for the euro and want to set inflation targets for the ECB.

**Does Mr Trichet think that this could lead to serious friction developing between governments and the ECB?**

Euro-zone governments have never expressed such views to set inflation targets. This would be against the Treaty, against the Eurosystem's independence and in contradiction with the practice and the national laws in effect before Monetary Union. The sharing of tasks established by the Treaty is very clear: the independent Eurosystem defines and implements the monetary policy of the euro area and conducts foreign exchange operations. Concerning the latter, the Council may, acting unanimously on a recommendation from the ECB or from the Commission, conclude formal agreements on an exchange rate system. In absence of an exchange rate system – in the floating system experienced at present by the main world currencies – the Council may formulate, in exceptional circumstances, general orientations. In this context, the Treaty grants the Eurosystem the exclusive competence of conducting foreign exchange operations, without prejudice of its ultimate objective of price stability.

8/ The Bank of Japan recently abandoned its 'zero interest' policy and raised interest rates. Many Japanese politicians criticized this change because the Japanese economy is still in the early stages of recovery.

**Does Mr Trichet think that the BOJ's monetary policy is correct or does he think that the decision to raise interest rates was taken too early?**

The Bank of Japan is an independent body. It is an experienced and wise institution that is better than any other body in the position to assess the Japanese monetary and economic context and to choose the right time to act. It has a tradition of prudence and I have no doubt that the decision it has taken has been carefully considered.