

# 'Price stability is our clear objective' – Trichet

PICTURE: Reuters

In last week's business supplement of the *Irish Times*, European Central Bank president Jean Claude Trichet gave an interview to that paper's economics editor, Paul Tansey. Here, we reproduce an extract from that important piece to demonstrate the ECB thinking on Lisbon, inflation and price stability. The messages are critical for Ireland and for farming. Our thanks to the *Irish Times* for permission to edit and use this piece.



## Q&A

### Is the worst behind us in this credit crisis?

My assessment is that we are experiencing, since the month of August last year, an ongoing very significant market correction with episodes of turbulence, episodes of a high level of volatility and of hectic market behaviour. Again, it is an ongoing process.

### Are conditions today comparable to the oil shock of the 1970s?

The situation is not identical. The structure of the global economy has changed with the increasing influence of

emerging economies. But today as in 1973-1974, there is a major transfer of resources from oil consumers to oil producers.

Trying to deny that there is such a transfer of resources to oil producers is and would be a major mistake.

One of the challenges the ECB has to deal with is that the cycles in the euro countries are different. What can be said to those countries like Ireland, Spain and Portugal who are in a difficult position now and for which the rate hikes are painful?

The ECB has to care for the superior interest of the euro area. My message to the fellow citizens is that they share a common destiny with an entire continent as populated as the United States of America.

When we look at the differences in growth between states and countries in the US and in Europe, we have approximately the same level of differences. A large vast

continental economy has necessarily to give breathing space to its components.

And our monetary policy must be optimal at the level of the whole euro area; exactly like the Fed would not look what is in the interest of Missouri, California or Texas.

That being said, there are numerous aspects of economic policies which are under the responsibility of the countries themselves: in particular the fiscal policies, the structural policies and the surveillance of the evolution of unit labour costs.

### Do you think the Irish no to the Lisbon Treaty has any impact on the euro area or on the ECB's behaviour?

As the President of the ECB, I would like to say that the Lisbon Treaty does not affect the EMU framework, and therefore, the present difficulty of ratification does not affect in any respect our work. We have a very clear

policy objective — price stability in the medium term and a very inspiring road map: achieving the integration of the single market with a single currency and progressively enlarging the euro area according to the criteria of the Treaty of Maastricht. As a citizen, I hope very much, and I am confident, that we will find a way to overcome the current difficulties.

### Inflation in the US is now around 4%. Would you say that the risks to price stability are greater in the euro area than in the US?

I certainly will not judge the policies that are pursued by other central banks. Do you know that interest rates in Britain as well as in Australia, New Zealand, Sweden and Norway, for example, are higher than in the euro area?

I trust that all central banks are doing what is necessary to counter inflationary pressures and to be

credible in the delivery of price stability over time. To deliver price stability in the medium term is necessary for five reasons.

- First, it is what the European democracies have asked us to do when they created the ECB.
- Second, it is what our fellow citizens are asking us to do in the present circumstances.

- Third, it is particularly necessary for the most vulnerable and the poorest segment of society.

- Fourth, it is a necessary precondition for sustainable growth and job creation.

- Fifth, it is particularly important to solidly anchor inflation expectations in a period of financial market tensions and volatility.

We cannot change today the prices of oil and commodities. But we must avoid prices that depend on us — for instance prices of services or the wages and salaries.

### Has the ECB any other responsibility other than

### price stability?

We have a primary objective, which is to maintain price stability. It is a precondition to contribute to the achievements of the objectives of the European Union.

### Would you be surprised and accept it if the political leaders decided to change the ECB's mandate to a dual one, with price stability and growth?

That is a highly theoretical question. We have a primary mandate enshrined in a Treaty which has been negotiated, signed and ratified either by Parliaments or by the people — by 27 exemplary democracies, 25 without an opting-out clause.

The people of Europe gave us this mandate because they rightly trust that price stability is a prerequisite for sustainable growth and job creation so that there is no contradiction but 'complementarity' between the two.