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Europe's central bank

The impeccable Mr Trichet

Sep 8th 2011, 16:26 by P.W. | LONDON

THE French president of the European Central Bank usually presides over his monthly press conference, which follows the monetary-policy meeting of the governing council, with an unruffled bonhomie. But today, in what will be his penultimate performance—he steps down at the end of October after eight years in the job—Jean-Claude Trichet made an impassioned defence of the bank's record.

Stung by a question reporting the criticism levelled by German politicians at the "European bad bank"—thanks to its rising pile of dodgy government bonds, which since August includes Italian and Spanish debt—Mr Trichet lauded the ECB's record in almost 13 years in keeping inflation lower (averaging around 1.5% a year) than in any previous such period in Germany's post-war history. The bank had remained true to its mission of securing price stability and had delivered it "impeccably, impeccably". The bargain-breakers were governments (including Germany and France early on) that had failed to keep a grip on public finances.

These are difficult days at the ECB, as its usual task of setting interest rates to meet its inflation target of below but close to 2% is overshadowed not just by criticism about its unorthodox bond-buying programme, but by fears that the euro area may not survive a further 13 years in its present shape. At times, today's conference seemed to be more about fiscal than monetary policy—and especially Italian fiscal policy. Mr Trichet delivered one bromide after another about how foot-dragging governments should adopt austerity, insisting that early and substantial fiscal tightening ("front-loading") was vital to restore confidence.

Still, Mr Trichet did offer some clues for those looking to its monetary-policy stance in the months ahead. As expected, the bank, which had raised its main rate in quarter-point steps in April and July from 1% to 1.5% left it unchanged for a second month running. But the president also revealed new staff projections, which showed GDP growth both this year and next to be lower than previously forecast. Their midpoint for 2011 had fallen from 1.9% to 1.6% and for 2012 from 1.7% to 1.3%.

Equally important, the governing council now judged that the risks to growth were on the downside, whereas in August they had considered them balanced. What is more, the risks to inflation were now balanced, whereas a month ago they had been on the upside. These were two major changes in the council's position, Mr Trichet underlined.

At the least, this new tone suggests that interest rates will not move up again this year, as had once been feared. Whether the ECB will swallow its pride and lower them soon, as some hope, seems unlikely. The decision to start raising rates this spring looked premature and may well have been a mistaken gesture to demonstrate the bank's independence. Italy's top central banker, Mario Draghi, will succeed Mr Trichet in November. When he emerged as a front-runner Bild, a German tabloid, worried that inflation belonged to the Italian way of life as tomato sauce to pasta. What would the ungrateful German public conclude if his first step were to announce a cut in interest rates?

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Courtjester wrote: Sep 8th 2011 6:00 GMT

The ECB cannot be envied for its task to square the circle between the stronger and weaker members - a much more difficult task than the Bundesbank ever had.

It is only the scapegoat in a game where nobody want to deal with the issues - as Mr. Trichet rightly pointed out, it was Germany who first broke the Maastricht criteria.

One hint for Angie - there is a way out for her:

Greece insists on keeping the EURO - hoping for more help. If she would be bold enough (contradiction in terms?) to lead the Germans out of the Euro, she would solve two problems at once:

The German populace gets back their strongly desired strong currency, the German government can repay its debt in Euros, all for the price of restructuring the German banking system - a long overdue task hindering growth in Germany, necessary whatever happens.

If done quickly enough, she might even save the entire EU from disintegrating - not a small feat for the history books.

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Nada Townie wrote: Sep 8th 2011 7:07 GMT

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Darko Oracic wrote: Sep 9th 2011 6:59 GMT

ECB's monetary policy leads to a new recession. The annual growth rate of money supply (M1) declined from 10.4% in May 2010 to only 0.9% in July 2011. This contractionary policy will bring negative economic growth in the second half of 2011 and esp. in 2012. That will be a rerun of the previous recession, also created by the ECB.

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AfuvudRsXg wrote: Sep 9th 2011 2:16 GMT

"The German populace gets back their strongly desired strong currency, the German government can repay its debt in Euros, all for the price of restructuring the German banking system - a long overdue task hindering growth in Germany, necessary whatever happens.

If done quickly enough, she might even save the entire EU from disintegrating - not a small feat for the history books."

The development of the EU since the days of the coal and steel union has always been more about politics than economics. And a unilateral decision by Germany to leave the eurozone would be a political upheaval of such proportions that it could well trigger the end of not just the political unification process in the EU, but break-up of the whole economic trading block.

Anyone who thinks that Germany could simply leave the eurozone and everything would be hunky-dory is deluding themselves.

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