

## ECB-Monetary Pragmatic Trichet to bring balance in ECB, more integration; form strong alliance with Papademos (2)

European Central Bank presidential nominee Jean-Claude Trichet has always been a strong advocate of European integration and European Monetary Union. He has regarded this just as strongly aligned with French national interests as Germany's leaders have seen these goals as quintessential to its long-term national strategic objectives.

The complete pragmatist, Trichet holds no adherence to any one economic approach but holds firmly liberal views. He thus exhibits a stronger bias toward the supply side but has sympathy with demand-side indications.

In the ECB board, Trichet is likely to balance any excessive stress on intermediate monetary reference aggregates with a more broad-based view. He should form a natural alliance with vice-president Lucas Papademos even while taking on board German money and credit analysis.

We therefore expect Trichet/Papademos to be a much stronger partnership at the head of the bank than their predecessors. The ECB is likely to move toward a more integrated stance with other European institutions such as the European Commission or the EcoFin. This is the second of a two-part profile.

**Asset conclusions:** Trichet to move ECB toward better cooperation with European institutions: clearer interest rate, currency message should aid euro

### Trichet non-conflictual approach in two decades of French public service

As his record in public service shows (EZA rpt 542/03Jun24), Banque de France Governor Trichet, approved as president of the ECB at the Greek European Summit, is the complete pragmatist. As far as possible, he is entirely non-conflictual in his approach. His ability to chart a course through the highly hazardous waters of the French public administration over the last two decades - when bitter arch-rivals Francois Mitterrand and Jacques Chirac held the key positions of power - demonstrates this most clearly. It has become the stuff of near legend in Paris.

Trichet has been regarded in his native country since the 1980s as the 'super-enarque' - such a supremely preeminent public official that his views, usually highly confidential and revealed only in the highest echelons, must be respected. Rarely are his real opinions aired in public; this would require those in political power to adopt a position on them. As a public servant Trichet regards public-domain positions as generating potential conflict, hindering his task of administration.

### Most wide-ranging, longest EMU experience; experience of franc attacks

When ECB President Wim Duisenberg retires, Trichet will have the most wide-ranging experience on European Monetary Union of anyone in the ECB council. During the 1980s he chaired the Brussels European Commission monetary committee for several years. As head of the French Treasury, he was fully involved in the late Aug93 negotiations in Brussels which followed the enormous speculative attack against the franc on currency markets.

In that meeting then-Bundesbank President Hans Tietmeyer offered a revaluation of the DM against all European currencies to reflect the upward pressure from the growth and demand surge of German unification. But The Netherlands refused. In a tense late night session, Trichet repeatedly left the meeting to consult

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with then-Prime Minister Edouard Balladur in Paris. France chose not to relinquish its hard-won currency credibility without unanimity, and declined to devalue.

**Trichet orders  
BdF FX officials  
to keep con-  
stant touch with  
hedge funds**

The Banque de France became much more market-oriented under Trichet's management. Its operatives were ordered to stay in touch with hedge funds in New York, Boston and London and to be aware of their perceptions about French interest rates and franc strength. BdF managers asked exactly what actions the funds wanted to refrain from speculation against the franc.

Trichet said in Dec93: "We have to deal with three markets: The short-term, the long-term and the exchange. These markets are interactive but have their own logic and their own specific inertia. It's like the cartoon character who keeps running after he's over the edge of the cliff and finally realises there's no ground beneath him. You go like that with long rates until the exchange markets realise they're subsidising them. Then the guy falls down. You must never be trapped into the single reasoning of one segment of one market."

**Top functionary  
seen as best of  
his generation**

When the BdF gained complete independence in 1994, Le Monde described its governor as, "Warm, simple, direct, never fanatical or cynical. Trichet does not give the impression of being a tyrant or a Macchiavellian. He is a top functionary through and through, without doubt the best of his generation; a functionary the like of which they don't make any more; a touch Gaullist, naively patriotic, loyal to all the powers that be in France and completely convinced that he is doing his duty to serve the higher interests of the nation. A functionary who can be stubborn but influential, adored by his team and listened to closely by ministers of state. But a functionary nevertheless".

**Instrumental,  
with Kohl, in  
converting  
Chirac to Europe**

Trichet is one of two people - the other is former German Chancellor Helmut Kohl - considered responsible during 1995 for converting President Jacques Chirac to the European cause and adherence to *franc fort*. This earned Trichet the sobriquet, Ayatollah of the Franc Fort. He has been accused of being a "Vassal of the King of Prussia" - a typically French oblique attempt to reassert nationalism and weaken the dependence of French monetary policy on the Bundesbank.

Part of this irritation was reflected in Jan97 when Chirac nominated two new members to the BdF monetary policy committee more open to growth and cyclical approach to monetary policy than their predecessors.

**Highly pragmat-  
ic monetary  
policy in 1990s**

In the run-up to EMU Trichet was very wary of cutting short rates lower than Germany for fear of triggering a speculative attack on the franc. This would have been counter-productive to the general impression of stability he wished to enhance in European currencies in general. In its penultimate independent move, the CPM cut the BdF intervention rate by 5bp to 3.10% on Jan. 30 1997.

The Bundesbank's intervention rate was 10bp below the French, cut to 3.0% on Aug. 22 1996. The German rate was raised by a quarter point in Oct97, in one of its most glaring monetary misjudgments. The BdF did not follow suit.

**Shares French  
aims in mone-  
tary union with  
Germany**

In the 1990s, Trichet was always a strong adherent of the strategy of pursuing the Maastricht process into the single currency to achieve France's own long-term strategic objective. Paris has long wanted to harness German industrial power, eliminate growth- and job-destructive currency parity changes - mostly due to dollar volatility - and boost the geo-strategic position of continental Europe particularly in competition with the US and the rapidly growing Asian economies.

His assessment of the economy in France was that the cycle remained two years behind that in Anglo-Saxon countries. "You had your recession in 1991", he told an American questioner in Jan97. "Ours was in 1993. The 'feel good' effect

appeared only three years after recession in the US. Maybe in one year's time the feeling will be different. In the US it will be cooling down and here it will be moving up."

**Keeps BdF diplomatically above French political fray**

Asked in Dec96 about the call from his former boss, former president Giscard d'Éstaing, for a franc devaluation against the Deutschmark, Trichet laid out his reasons for franc stability: "You know yourself that I have every reason, both professional and personal, to have a great respect for Valéry Giscard d'Estaing. He gave Europe a certain spirit which has turned out to be decisive.

"However the BdF - which is at the service of all French people - does not get itself involved in political polemics and keeps well apart from the main debates in order to better earn their confidence. The external stability of the franc versus those currencies that are the most credible in the European Monetary System is an essential and integral part of our monetary policy. This stability is designed within the framework of the European strategy laid down by the president of the Republic."

**Closest to Papademos in pragmatism, personality**

At ECB president, we expect Trichet to bring his economic pragmatism to full effect in the monetary discussion in the six-member board and the Council. It has long been planned that former ECB vice-president Christian Noyer would take over Trichet's old job as BdF governor, and therefore return to membership of the Council which he relinquished on his retirement last year (EZA rpt 500/03Feb14).

Trichet should be more of a counterweight to views that give higher priority in the strategy and stance to liquidity conditions. These are almost solely represented by economics board member Otmar Issing, supported by his economics staff, where virtually all key positions are held by German or Dutch nationals.

In this respect, Trichet is closer to Papademos both in his economic approach and in his personality. A good example came in the early 1990s: at the BdF Trichet persuaded the newly independent CPM to institute a reference rate for monetary growth to mirror the Bundesbank's broad money M3 target. French broad money was supposed to be kept to 'around 5%/y' growth. For the markets this was designed to exhibit an apparently common Franco-German approach to policy. In reality, it was never genuinely regarded internally in the BdF as remotely important. The only genuine objective was the stability of the franc vs the DM.

**Need to become more open, informative for public domain**

Trichet's careful diplomacy and desire for confidentiality is not all positive for his future position at the head of the ECB. For markets and other officials and politicians, expectations will need to be led. Firmer positions will need to be held and discussed in the public domain than Trichet has been accustomed to doing.

While we fully anticipate that he will show much more dexterity and diplomacy than Duisenberg in handling highly sensitive questions on euro currency value and the future direction of interest rates, it will be important that his rhetoric does not remain virtually devoid of content. He will need to overcome the natural tendency of the enarque to reveal information only to a privileged élite, and learn to lead the discussion in the public domain.

Global markets require better guidance from the ECB on fundamental issues concerning the world's second global currency than they have had in the past. This is destined to become still more pertinent over the next eight years of Trichet's ECB mandate when the euro currency area expands to the borders of Russia. **EZA**

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