

## **Willem F Duisenberg: Presentation of the European Central Bank's Annual Report 1999 to the European Parliament**

Introductory statement by Dr Willem F Duisenberg, President of the European Central Bank, in Strasbourg, on 5 July 2000.

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One and a half years have passed since the euro came into existence and the ECB took over responsibility for the conduct of monetary policy. During this period, the Eurosystem, i.e. the ECB and the 11 national central banks participating in the euro area, has had to prove its ability to implement the conceptual framework that was thoroughly prepared during the previous years. It has also had to prove its ability to achieve the goals conferred upon it by the Treaty establishing the European Community (EC Treaty). Looking back, I believe that these challenges, from both a policy and an operational point of view, have been met.

Therefore, I have great pleasure in presenting to you today the second Annual Report of the ECB. It gives account of the activities of the Eurosystem during 1999 and at the beginning of this year. I consider today's presentation as an important demonstration of the ECB's accountability vis-à-vis the European Parliament, supplementing the exchanges of views held in your Committee on Economic and Monetary Affairs, in which I participate on a quarterly basis. In addition to this regular dialogue, other Members of the Executive Board of the ECB have attended Committee meetings, on several occasions, in order to present reports drawn up under the responsibility of the ECB and to participate in exchanges of views on various issues.

In view of the large range of topics included in the Annual Report it will clearly be impossible to address all of them at our meeting today. Therefore, I shall concentrate on some of the most pertinent issues, which have also been raised in the draft resolution prepared by your Committee on Economic and Monetary Affairs.

### **1. Monetary policy issues**

Reviewing the first year of the existence of the single currency, I should like to start by reporting that the primary objective of the ECB, the maintenance of price stability, has been achieved. Indeed, with consumer prices in the euro area increasing by just 1.1% in 1999, inflation has reached one of the lowest levels in the past 50 years.

In line with its mandate, the ECB remains vigilant regarding risks to price stability, as evidenced by its monetary policy decisions in order to nip inflationary pressures in the bud before they materialise, rather than to react once price stability is already in jeopardy. The Eurosystem will continue to pursue this forward-looking strategy in order to maintain an environment of stable prices, which is also conducive to sustained economic growth and job creation in the euro area.

I share the analysis of your draft resolution that governments should take advantage of the favourable economic environment in order to step up the efforts directed towards consolidating budgets and reducing public debt and go beyond the objectives laid down in the stability programmes. At the same time, structural reforms in the labour, product and capital markets should be pursued vigorously. The comprehensive implementation of this policy agenda will contribute to subduing inflationary pressures and thereby support the ECB in accomplishing its tasks.

In your draft resolution you also briefly address the potential implications of a "new economy". Thus, I should like to comment on the possible emergence of a new economy in the euro area. Let me start by noting that various definitions of the new economy exist. In my view, the most useful definition is that which characterises the new economy as a phenomenon which increases the growth rate of productivity over an extended period of time.

There is some evidence - although not uncontroversial itself - of the emergence of a new economy in the United States. By contrast, it is difficult as yet to find clear evidence of a new economy in the euro area. Of course there is a need to monitor developments further, with the emphasis on identifying new economic trends and potential structural breaks in traditional economic relationships as early as possible. In any case, it is important to stress that for the euro area the achievement of more flexible markets is a prerequisite if the potential gains from new technologies are to be realised in the form of substantially higher productivity growth.

We recognise that a crucial feature of the potential emergence of a new economy is increased uncertainty. This concerns, in particular, the evolution of the production potential and the reliability of indicators which are derived from it, such as estimates of the output gap. In this respect, the Eurosystem's monetary policy framework is well equipped to cope with such uncertainties. It provides the flexibility necessary to address changes in the economic structure with the aim of maintaining price stability over the medium term. By relying on two pillars, the ECB's strategy explicitly acknowledges uncertainty regarding the structure of the economy and the transmission of monetary policy within it.

In the context of this discussion, some observers have urged the ECB to keep interest rates low in view of the new economy. In response, let me emphasise the following point. The new economy is primarily a supply-side story. An inappropriately lax monetary policy would not create better conditions for the emergence of a new economy. On the contrary - by jeopardising the maintenance of price stability - such a policy could seriously endanger the credibility of the ECB. It would thereby undermine confidence, raise risk premia in interest rates and damage the prospects for economic growth and job creation. It is for precisely this reason that the ECB will, in line with its mandate, continue to preserve price stability in the euro area. This ensures that monetary policy makes its full contribution to overall economic welfare, while also providing an environment in which the new economy - should one emerge - will be able to flourish.

## **2. Transparency and communication policy**

I should now like to turn to another issue which has been frequently discussed within the framework of our regular dialogue, namely the issue of transparency. I have already referred to the regular dialogue between the European Parliament and the ECB, the transcripts of which are published on the websites of our institutions. Moreover, at the press conferences held after the first meeting of the Governing Council every month I present the ECB's assessment of the economic environment underpinning our monetary policy decisions. You will also be aware of the broad variety of ECB publications, in particular the Monthly Bulletin, and of the numerous press releases issued and speeches held by the members of the Executive Board of the ECB. These, as a rule, are also made available to the public via the ECB's website.

Therefore, I can only confirm my conviction that this wide range of communication tools, in which not only the considerations in favour, but also the arguments that were raised against a decision are presented, resemble in substance "summary minutes". It should also be borne in mind that, by virtue of the regular press conferences and the rapid publication of the transcripts of the questions and answers on the ECB website, detailed information about the Governing Council's reasoning is made available very shortly after the meetings. We thereby avoid the delays that are inherent in the publication of all forms of official minutes.

Let me also seize this opportunity to recall that we always take our decisions from a euro area-wide perspective. This is fundamental to the conduct of a truly single monetary policy. The publication of ECB reports on the economic developments of individual euro area Member States, as suggested in your draft resolution, has to be considered against this background. We clearly do not want to blur the ECB's focus on the euro area as a whole.

The draft resolution also calls for the publication of macroeconomic forecasts by the ECB. In this context, let me reassure you that preparations for publication continue in earnest. I still envisage that

publication of forecasts will commence towards the end of 2000, in line with the statement I made last September at the European Parliament's plenary session on the previous ECB Annual Report.

I should like, however, to sound a note of caution. Forecasts are only one input into the decisions of the Governing Council. Forecast publication by the ECB should not be viewed as a panacea which will meet all the communication challenges faced by the ECB as a new institution in a testing multilingual and multinational environment. Forecasts themselves have important shortcomings - for example, they are surrounded by considerable uncertainty and may quickly become outdated if the external environment changes.

We are aware of these shortcomings. Therefore, as is made clear in the ECB's monetary policy strategy, monetary policy decisions cannot be made only on the basis of a central inflation forecast. Rather, it is the comprehensive analysis of the monetary and macroeconomic situation and of the economic disturbances affecting the euro area economy which is the relevant input to forward-looking policy decisions.

The ECB's approach to communication has always placed a premium on honesty. To continue in this vein, it is my view that we must publish forecasts in a manner which accurately reflects their limited role in policy decisions and the uncertainties inherent in them. Any other approach would not be transparent and would therefore be potentially misleading.

Let me now turn to a related issue, namely the publication of the ECB's economic and econometric models. I should make clear that the ECB does not rely on a single econometric model, but rather uses an extensive set of models. The results obtained from the models are critically evaluated using expert judgement. Policy-makers use analysis undertaken using models developed by the ECB staff, in some cases with input from staff of national central banks, as one input, among others, into their policy assessments and decisions.

The ECB has established a working paper series where technical economic research produced, inter alia, under the responsibility of ECB staff can be reviewed and assessed by the public and external professional experts. The respective authors are responsible for the content of these papers. Therefore, they do not necessarily reflect the view of the ECB or the Eurosystem. Through this and other channels, there is a professional dialogue and exchange of views between ECB staff and many outside experts, which is of mutual benefit.

Several econometric models have already been published in the working paper series of the ECB. For example, an econometric study of the demand for M3 in the euro area conducted by ECB staff members was published in September 1999. Other models will be published in the near future. An "area-wide model" used at the ECB, which models the aggregate behaviour of the euro area economy, will be published in this working paper series by ECB staff, probably at the end of this year or in the course of next year.

### **3. Issues related to banking supervision and payment systems**

I should now like to turn to the contribution of the ESCB to the maintenance of financial stability and to prudential supervision. In this regard I should like to mention the Banking Supervision Committee (BSC), which is promoting cooperation between the ECB, the national central banks and the supervisory authorities of the 15 Member States. The main focus of activity of the BSC is the analysis of structural developments and the monitoring of potential vulnerabilities in the banking sector. The BSC also provides the forum for the exchange of relevant information between the Eurosystem and the supervisory authorities. Finally, the BSC may also act as a forum for supervisory cooperation not related to the tasks of the Eurosystem. In the latter respect, I should like to stress that the need for multilateral cooperation among banking supervisors has increased since the establishment of Economic and Monetary Union (EMU) for two reasons. First, EMU has introduced an unprecedented geographical separation between the area of jurisdiction of monetary policy and that of prudential supervision. Second, the introduction of the euro has fostered further integration of the banking and financial sector. Against this background, I perceive the BSC as the main forum in which multilateral cooperation among banking supervisors can be enhanced.

Regarding the issue of cross-border retail payments, which has been raised by the European Parliament on various occasions, I should like to recall that, in September 1999, the ECB published a report entitled "Improving retail cross-border payment systems - the Eurosystem's view". The report called on the banking sector to provide substantially improved services by 2002. Since the publication of the report, the banking sector has subscribed to the Eurosystem's objectives in principle. It has begun to cooperate closely with the Eurosystem in order to identify the practical impediments to the achievement of these objectives, and in order to investigate and, where possible, agree on effective solutions.

I fully share the European Parliament's concern that very little progress has been visible to customers. However, there are rather strong indications that banks are making considerable efforts to prepare the ground for a more efficient handling of cross-border credit transfers. In particular, progress is under way in the areas of standardisation and simplification of the balance of payments reporting requirements.

The ECB will prepare a progress report by autumn 2000 in which it will update its assessment. The Eurosystem would prefer to maintain its present stance of cooperation but, if necessary, will step up the pressure on the banking sector. However, it would be unrealistic to expect the service level for cross-border payments to reach that of domestic payments in all respects by 2002.

Let me close by emphasising again that the introduction of the euro has indeed been a milestone in the ongoing process of European integration. The ECB, as the guardian of the single currency, shall continue to pursue its stability-oriented monetary policy in order to fulfil its mandate and to deliver the policy results that European citizens rightly expect.