

## Willem F Duisenberg: The European Central Bank, the Eurosystem and the European System of Central Banks

Speech delivered by Dr Willem F Duisenberg, President of the European Central Bank, at the ceremony to inaugurate the new building of the Banque centrale du Luxembourg, Luxembourg, 18 May 2001.

\* \* \*

Your Royal Highness, Prime Minister, Governor Mersch, distinguished guests,

Allow me first to congratulate you on the inauguration of the new premises of the Banque centrale du Luxembourg. You decided to name parts of them – very appropriately, I find – after Pierre Werner, the author of the first blueprint for Economic and Monetary Union in Europe. His report of 1970 laid the conceptual foundations for many aspects of the institutional set-up and policy framework of today's European Central Bank (ECB) and European System of Central Banks (ESCB). Most significantly, Werner presented a lucid account of a fundamental requirement of monetary unification in Europe: no single currency without a common central bank, or rather a "Community system of central banks", as he called it. The distinctly federal character of what Werner saw as the future European monetary authority was in itself a reflection of the fact that Europe is not a single nation, but a group of nations.

Twenty years later, the Treaty on European Union established the European System of Central Banks, with the European Central Bank at its core, and transferred to it the task of conducting a single monetary policy. In addition, the authors of the Treaty recognised that a functioning monetary union requires centralised decision-making and harmonised governance over all those tasks which are closely related to monetary policy. Consequently, responsibility for the management of foreign exchange reserves, for activities to support the oversight of payment systems, for the collection of euro area-wide statistics, for measures to ensure financial stability and for the issuance of banknotes has also been assigned to the ESCB. At this point, I should like to clarify that, for as long as there are EU Member States outside the euro area, all these tasks are being carried out by what we call the Eurosystem, rather than by the ESCB as a whole. The Eurosystem comprises the ECB and the national central banks (NCBs) of the euro area Member States. The Eurosystem's clearly defined policy responsibilities, together with its independence, the strict orientation of monetary policy to stability and the federal institutional model could be regarded as the cornerstones of the "monetary constitution" of the Community.

The Banque centrale du Luxembourg, is – in this sense – a "child" of the success of monetary integration in Europe. Moreover, given today's festive occasion, one could even regard these new premises of the Banque centrale du Luxembourg as a tangible – or shall I say, concrete – expression of the federal character of the Eurosystem. In accordance with the Treaty, the NCBs are integral parts of the Eurosystem. Consequently, the tasks conferred upon the Eurosystem are to be carried out in a *collective* manner. In line with the principle of subsidiarity, which – in itself – embodies recognition of the fact that responsibilities should be distributed among the central institution and federated units on the basis of functional requirements, the NCBs play an indispensable role in the conduct of the tasks and functions of the Eurosystem.

In the run-up to Stage Three of Economic and Monetary Union, many observers felt that the decentralised monetary policy framework would become too complex and inefficient. However, these concerns have not been borne out by experience, not least because highly developed information technologies make decentralisation entirely feasible. Making use of the NCBs' considerable experience in dealing with their national counterparties has been, and continues to be, a real benefit to the whole system.

Ladies and Gentlemen, it would, however, be an incomplete account of the role of the NCBs in the Eurosystem to focus exclusively on implementation, or "downstream", activities. The NCBs also make a crucial contribution to decision-making further "upstream". The federal character of the Eurosystem is most clearly reflected in the composition of the ECB's decision-making bodies. As members of the Governing Council, the NCB Governors participate – in a personal capacity – in deciding on all centralised policy functions. In addition, the various ESCB Committees provide a tight network of

professional, as well as human, connections between NCBs and the ECB. In the work of these Committees, expert knowledge and specific national experience are brought together, so as to provide input into the deliberations of the Eurosystem decision-making bodies.

Last, but by no means least, the NCBs play an indispensable role in communications. Undoubtedly, the multinational, multi-lingual set-up of the Eurosystem presents a challenge, to say the least. In this context, the NCBs' assistance in conveying the ECB's policy messages in their national languages and their intimate knowledge of the respective national cultural context and communication conventions represent invaluable assets, especially in these early years of the euro. By explaining the reasoning behind the ECB's policy actions in the national political arena, the NCBs make an essential contribution to informing the public debate in their Member States. The upcoming physical introduction of euro banknotes and coins will pose a further communication challenge, since the task of ensuring a smooth changeover will, to a considerable degree, also rest on the shoulders of our colleagues from the NCBs.

Ladies and Gentlemen, before I conclude, allow me briefly to address some of the institutional challenges which the Eurosystem will be facing in the future. First, there is the process of constantly reviewing practices and procedures *within* the Eurosystem. In this context, I am referring to our joint efforts to fine-tune the existing framework in the light of the experiences of the first two years, so as to increase efficiency and respond to market developments. The reality of the single currency has stimulated changes in market structures which have altered the outlook for and practices of market participants and regulators. It is thus appropriate for the Eurosystem also periodically to review its own procedures which, after all, were designed *before* the euro came into existence.

In such a dynamic and changing environment, closer co-operation within the Eurosystem can also be beneficial in those policy fields that are not directly linked to core monetary policy tasks, but which have traditionally been a realm of central bank activity. Speaking with one voice and presenting a common view – as, for example, in our recent joint statement on "The role of central banks in prudential supervision" – can help to strengthen the influence of our policy messages and to amplify their public and political impact. Naturally, any such joint, and mutually beneficial, efforts are without prejudice to the distribution of responsibilities between the ECB and the NCBs.

A great challenge for European institutions in general, and for the Eurosystem in particular, will be the forthcoming enlargement of the EU to take in 12 or more countries from central, eastern and southern Europe. In purely institutional terms, the accession of new Member States entails an immediate enlargement of the ESCB, though not of the Eurosystem. However, since enlargement will be a gradual and seemingly open-ended process, it is obvious that the "Eurosystem" as an additional construct to clarify the relationships between the "ins" and the "outs" within the ESCB is here to stay for the foreseeable future. Even so, it is also clear that the introduction of the euro is the final destination for accession countries. In fact, there is even a certain – I believe, understandable – impatience on the part of future new Member States to adopt the euro as soon as possible. However, the Treaty lays down clear criteria for entry into the euro area, and requires their fulfilment in a sustainable manner.

The eventual entry of new Member States into the euro area will also require an adaptation of the institutional framework of the ESCB. Examples of central banks from around the world, such as in United States or in Germany, show that it is possible to design appropriate structures which allow effective decision-making in federal, decentralised systems and to reconcile efficiency demands with considerations of adequate representation. Therefore, I am confident that we will be able to find a solution that guarantees the efficient conduct of a stability-oriented monetary policy also in an enlarged Eurosystem.

Ladies and gentlemen, thank you very much for your attention.