

Jean-Claude Trichet: The Eurosystem team at ten years

Dinner address by Mr Jean-Claude Trichet, President of the European Central Bank, on the occasion of the 10th Anniversary of the Central Bank of Luxembourg, Luxembourg, 12 November 2008.

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Cher Jean-Claude, cher Yves,
Monsieur le Ministre,
Chers collègues de la Banque centrale du Luxembourg, dear colleagues of the Eurosystem,
Dear guests, ladies and gentlemen,

It is a great pleasure for me to celebrate with you this evening the 10th anniversary of the Banque centrale du Luxembourg (BCL) which, I might note, is of the exact same age as the ECB. The BCL was created with the aim to have it firmly anchored both within the European System of Central Banks and the national institutional environment. Looking at how the Banque centrale du Luxembourg has developed in the past ten years, I am impressed by the professionalism and the determination with which it accomplishes its mission. One extremely important factor when setting up of the BCL was to guarantee its full independence, in line with the provisions of the Treaty and the ESCB Statute. I am particularly pleased to note that this year, and most recently on 24 October 2008, amendments were made to the legislative framework of the BCL, which among other things further improve and strengthen the provisions relating to its independence and its role in the field of financial stability. The ECB was duly consulted and has welcomed these developments in its legal opinions.¹

Let me turn now to the institutional context in which the BCL operates: The creation of European Monetary Union is one of the most profound steps in the history of European integration with major significance for the everyday life of our fellow citizens. Indisputably, one of its main accomplishments is the introduction of a single currency and the set-up of a federally-structured European System of Central Banks. **No historical precedent exists for such a structure. It is unique.** The US Federal Reserve System is comparable only to a limited extent, as it is based on a *single* nation state and is therefore not applicable to the diverse and multilingual euro area which is made up of *individual sovereign* nation states.

I would like to recall that a very original **federal-type structure was chosen** since it corresponds best to the institutional diversity of the Community, keeping some continuity by:

- respecting the NCBs' institutional set-up, infrastructure and operational capacities and, at the same time,
- benefiting from their rich and vast experience.

The principle of decentralisation introduces a national anchoring that creates closeness to the local financial communities and the local general public.

At first glance, the decentralised set-up with its checks and balances, might seem quite complex and one might wonder how it can work in practice. Therefore, let us have a closer look at how the system functions and how it has evolved over the past ten years.

¹ Opinion of the European Central Bank of 15 April 2008 at the request of the Luxembourg Minister for the Treasury and the Budget on a draft law improving the legislative framework for Luxembourg as a financial centre and on a draft law relating to social insurance contributions (CON/2008/17); Opinion of the European Central Bank of 10 September 2008 at the request of the Banque centrale du Luxembourg on amendments to the draft law improving the legislative framework for Luxembourg as a financial centre and amending the Law of 23 December 1998 on monetary status and on the Banque centrale du Luxembourg (CON/2008/42).

In the Eurosystem architecture **the Governing Council has a decisive role** as the main decision-making body within the Eurosystem. Its members, through their **ad personam** participation, are required to focus on the European perspective. The **one-member/one vote** principle guarantees that each member has to assess the interest of the euro area as a whole, instead of the interest of any particular country, a feature which makes the ECB very different from other European institutions, like the Commission and the Council. In that sense I will dare say that the Eurosystem could be called one of the most truly European of all European institutions.

Let me add at this stage, in particular in current times of very high market tensions, it is of the essence to take decisions which reflect the collegial wisdom and expertise of all the members of the Executive Board and all the members of the Governing Council. In the present circumstances we have at times to decide rapidly *and* to have these decisions implemented timely, usually via the National Central Banks. As regards monetary policy since the start of the turbulences, let me stress once again that we have applied our “separation principle”. The Eurosystem has been able to preserve medium-term confidence in price stability, in constantly designing the monetary policy stance to that end, whilst at the same time refinancing the commercial banks, with short-term rates close to policy rates, with a view to smooth as much as possible market tensions.

Let me now turn to how the interaction between the component parts of the system, the ECB and the National Central Banks, which are an *integral part* of the Eurosystem, are organized. The Statute gives some guidance regarding the **distribution of labour** within the Eurosystem where it states:

- the ECB shall ensure that the tasks conferred upon the ESCB [Eurosystem] are implemented either by its own activities or through the NCBs (Art. 9.2);
- to the extent deemed possible and appropriate, the ECB shall have recourse to the NCBs to carry out operations which form part of the tasks of the ESCB [Eurosystem] (Article 12.1)

From these Articles it is clear that in the system of currently sixteen component parts the **ECB has a special position**: it is the “captain of the team”. The ECB and its decision-making bodies, the Governing Council and the Executive Board, are the **decision-making centre** of the Eurosystem, and many important decisions taken are – in full conformity with the principle of decentralisation – implemented by the (respective) National Central Banks; of course, on behalf of the Eurosystem.

Still, at the beginning, it was probably hard to imagine how the Eurosystem would work in practice, since the Statute allows a degree of leeway on how to design the interaction between the ECB and the National Central Banks. It is clear that the major achievements of the Eurosystem which include the successful establishment and conduct of the single monetary policy, the smooth introduction of the euro and the launch of the euro banknotes, could only be accomplished through the **very close cooperation of the staff of the Eurosystem central banks**. The teamwork necessary to successfully master these challenges and the experiences gained in the process contributed to the emergence of a **shared identity which found its concrete expression in the Eurosystem Mission Statement, its Strategic Intents and Organisational Principles**. I regard the signature of this strategic document by all Eurosystem central banks in 2004 to be major achievement of our team and I am sure that Yves shares this view.

Together these documents **define the role of the Eurosystem, the principles it should rely on to achieve its main objectives, and how all its members should interact and cooperate on the basis of shared values**. In other words, these three tools aim at increasing the coherence and unity of the Eurosystem by basing its activities on common guidelines and by agreeing on high-level standards for the Eurosystem. With these aims in

mind, they demonstrate the Eurosystem's commitment to credibility, trust, closeness to the citizens of Europe and the shared identity of the Eurosystem.

The Eurosystem has explicitly committed itself to applying effective and efficient organisational structures and working methods. This means that all members in the Eurosystem strive at performing their functions with a spirit of cooperation, teamwork, efficiency, effectiveness and full transparency. We consider these values to be crucial to the successful functioning of the system. The principles also stress that the Eurosystem activities shall be performed by exploiting synergies, avoiding duplications and being cost efficient.

A very tangible example of implementing the Organisational Principles concerns the establishment of a common **Eurosystem Procurement Coordination Office (EPCO)**. EPCO will facilitate the adoption and exchange of best practices within the Eurosystem, develop a working infrastructure enabling purchasing power to be pooled, and coordinate the Eurosystem procurement agenda. Just imagine the significant synergies that could be achieved for example in the field of IT procurement, where the benefits would not only apply to pooling purchasing power but, at the same time, could bring the significant advantage of implementing systems/applications which are fully compatible across central banks which, in turn, would substantially enhance and facilitate cooperation. Eurosystem central banks will participate in EPCO on a voluntary basis; and also non-euro area central banks have been invited to join this initiative. Central banks expressed their interest in hosting EPCO, and participated in a competitive process. I mention this with particular pleasure here at the Banque centrale du Luxembourg, since the Governing Council decided in December 2007 to award the hosting of EPCO to the Banque centrale du Luxembourg until to end-2012. EPCO demonstrates that the before mentioned (organizational) principles are, indeed, pursued and implemented, but also that all NCBs participate on a level-playing field. EPCO is indeed a tangible proof of the team spirit at work within the Eurosystem.

The Eurosystem continues to strive for efficiency and effectiveness, using to the full extent the resources available in the Eurosystem. Further evidence of this are the major Eurosystem projects and initiatives currently either already in operation or under development. Allow me to mention just a few examples.

TARGET2 provides a centralised payment system based on a single technical platform. It guarantees a harmonised level of service for banks all over Europe combined with one single transaction price for domestic and cross-border payments and is one of the best individual payment systems in the world. This system was developed and is operated by a "consortium" of central banks – the Banca d'Italia, the Banque de France and the Deutsche Bundesbank – on behalf of the Eurosystem. **TARGET2 Securities** will be a platform for the cross-border and domestic settlement of securities against central bank money. The development and operation of this system was assigned to the Deutsche Bundesbank, the Banco de España, the Banque de France and the Banca d'Italia.

Following a review of the current Eurosystem collateral management handling procedures, in particular, the Correspondent Central Banking Model (CCBM), the Governing Council decided to again develop a single platform, called **CCBM2**, allowing the Eurosystem to manage collateral both for domestic and cross-border operations. Work will be undertaken by the Nationale Bank van België/Banque Nationale de Belgique and De Nederlandsche Bank based on their existing system. As you can see a range of different organisational models are explored to achieve maximum synergies, e.g. specialisation, attribution to one particular member of the Eurosystem team, decentralisation and, when and where needed, pooling, which means that a group of central banks provides a service for the entire Eurosystem. You will not be surprised that I would stress that in call cases it is important that the ECB ensures the coherence of the full team by exercising in an appropriate fashion its captainship.

Let me conclude by warmly congratulating the Banque centrale du Luxembourg on its 10th anniversary. I think I can say that both our institutions are looking back on a decade of challenges successfully mastered. During the ten years of the Eurosystem's existence, and

in particular during the recent months of financial crisis, we have proven that the Eurosystem functions well, even in periods of great stress. The Eurosystem has passed the test of its first decade of existence. Looking ahead, I am confident that with its unique architecture and a strong and enduring team spirit it is also prepared to tackle the challenges of the future.

I thank you for your attention.