Rudolf Böhmler: Central banker education and financial stability

Welcome address by Dr hc Rudolf Böhmler, Member of the Executive Board of the Deutsche Bundesbank, at the Education Congress as part of the 13th Euro Finance Week, Frankfurt am Main, 17 November 2010.

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Mr Gierenstein,
Professor Hackethal (GBS),
Professor Tilmes (EBS),
Professor Steffens (FSFM),
Bundesbank colleagues,

Ladies and gentlemen,

I am delighted to be able to welcome so many of you here today. On the Bundesbank's Executive Board, one of my areas of responsibility is Human Resources – including the training. Our Training Centre covers further education, the Bundesbank's university of applied sciences in Hachenburg and the Centre for Technical Central Bank Cooperation. Having previously held the post of Director General of the Baden-Württemberg Ministry of Science, Research and Art, today's topic "education" is at last very well-known to me.

Inviting a member of the Bundesbank's Executive Board to hold a speech usually is risky business. The *Stern* magazine once wrote: "Bundesbank Executive Board members are boring. They talk of interest rates and monetary aggregates from each and every angle, lulling their audience into a deep sleep." But today I will be speaking about education and thereby avoid giving you any chance for dozing.

Today's conference on "Central Banker Education and Financial Stability" is making its debut appearance in the Euro Finance Week. It is the first time that the topic of education has featured so prominently in the financial market stability arena. I am sure you all agree that both the financial market crisis and the special role of central banks across the globe in resolving the crisis and containing its effects are justification enough for this decision. However, I will briefly come back to this point later on.

Education has long been an integral part of how financial centres tick and of their competitive environment. The focus is traditionally often on research and higher education. In the past, further education, that is the transfer of sound knowledge to practitioners, has been somewhat neglected; but now – thanks not least to business school initiatives – it is starting to catch up in ever greater leaps and bounds.

Today's programme is dedicated to central banker *education*. This morning's agenda features presentations by speakers from the Goethe Business School's House of Finance on the topic of "Leadership Challenges for Central Bankers – An Academic Perspective". This afternoon the focus shifts to central bank *operations* from a technical perspective – presented by representatives from the European Business School in Oestrich-Winkel. The third session begins at two o'clock when the Frankfurt School of Finance and Management will analyse in more detail "current and international challenges" faced by central banks.

Frankfurt is the ideal place to promote central banker education – and not just because of its geographic location in the heart of Europe. As the home of two Central Bank's, the Deutsche Bundesbank and the European Central Bank, Frankfurt lives and breathes the single currency. But what does this mean for education?

Central banks produce knowledge in such wide-ranging areas of central banking as monetary policy, cash management and payments. However, practical knowledge is mainly only available and applicable *within* central banks, which is only to be expected because central bank operations are very different from those of a "normal" bank. For the

Bundesbank, as the “bank of banks”, this also has an impact on recruitment channels. The Bundesbank thus provides training programmes for all career paths as it is generally not so easy to find a sufficient level of central bank knowledge on the market. For us, this means that knowledge has to be transferred internally. For instance, we bring in many of our employees from a wide variety of business areas to teach at the Bundesbank’s own university of applied sciences in Hachenburg, where we train the next generation of our central bankers.

It is of particular importance to us to communicate *practical* experience; as the German writer Wolfgang Eschker once said “practically speaking, we can save ourselves a lot of theory”. It is precisely just the financial crisis that has shown us that it can be necessary, even in such a sensitive environment as central banking, to roll up our sleeves and face new challenges with a hands-on, goal-oriented approach.

We believe that on-the-job further training is essential and, once again, we call almost exclusively on the services of our own internal specialists. After all, we have to ensure that our members of staff are kept up-to-date with the latest knowledge and that they have the opportunity to develop their soft skills. There are many factors behind the constant changes and increasing complexity and thus growing requirements: political decisions, such as establishing monetary union, the advance of globalisation and new technical innovations all require a continual examination of brand new processes and a high degree of mental flexibility. Today’s central bankers have their finger on the pulse – “action” is guaranteed.

Central banker education has therefore long played an important role in Europe. In the European System of Central Banks, the ESCB, a special training and development task force was set up to organise seminars throughout Europe. Its main focus is on introductory seminars to the ESCB as well as leadership and soft skill training. The work is shared between the European Central Bank and the national central banks but it is quite common for courses initially conceived by and for a specific central bank to be later “opened up” to other central banks. However, the typical scenario is a training course that is designed as a joint project by the national central banks together and then provided to all. The creation of a European central banking system itself gave rise to completely new aspects, also for training: since then the aim has been to network and multiply knowledge throughout Europe. The idea is to develop a common understanding of (monetary) policy processes to a joint culture.

But that’s not all: for more than 20 years now, in its technical central bank cooperation programme, the Bundesbank has also been providing a wide range of tailor-made international seminars for central banks in transition, emerging and developing countries on request. The main focus of these seminars is on exchanging knowledge and experience with partner central banks that request such services. The interest in these services is still high. To celebrate twenty years of central bank cooperation, last month we held a conference in our Convention Centre in Eltville am Rhein attended by central bankers from over 40 countries. To quote Mark Twain, “a little education makes the whole world related”.

The ESCB regularly uses our Convention Centre in Eltville to host conferences and events on the topic of education. The centre’s location in the Rheingau valley, with the river Rhine, vineyards, ruins and castles is ideal, as this is the image of Germany that we would like to project.

On balance, Bundesbank spends a lot of money for education and their training establishments. So we act according to the statement of John F. Kennedy who once said: “There is only one thing that costs more than education in the long run – the lack of it”.

But which approach is the Deutsche Bundesbank currently taking with its cooperation with the business schools that feature on today’s agenda?

The answer is simple: we want to promote central banker education. By using external experts and combining these with internal expertise, we can develop tailor-made seminars for an international target group. If we can successfully pair research and practical experience, we will have created “authentic education”. This is where we want to position ourselves. As the former Federal President, Richard von Weizsäcker, once said “as many people as possible should know as much as possible”. That is our aim.

As I said at the start, a solid grounding in the central banks’ role and functions is key to understanding how markets operate and interact. As a result of the crisis, in particular, central banks throughout the world have now become more important but have also had to take on added responsibility.

After all, financial crises pose a particular challenge for central banks. Disruptions in the financial system can not only delay the transmission of monetary policy impulses to the real economy, but, in the worst case, even nullify them altogether. This close link between monetary policy and the financial markets also explains why central banks require a great deal of financial market expertise.

The extensive provision of liquidity and decisive interest rate cuts by central banks made a crucial contribution towards containing the crisis. Or to put it in medical terms: monetary policy played the role of the “emergency doctor on the intensive care unit” in helping the almost crippled financial system back to recovery.

Now that the patient is in a better condition, our next step is to slowly but surely get him back on his feet again. The patient now needs to be slowly weaned off the strong medication to prevent him from becoming addicted; the patient is now on the road to recovery.

And at the end of the financial crisis, it is time to define the medium to long-term “lessons to be learned from the crisis”. To bring our analogy to a close: by the end of the recovery process, if not beforehand, it will be time to sit down and think about how we can prevent a future relapse.

The first issue that needed to be tackled in order to contain the crisis was to restore the confidence of the financial market players. Although policymakers did not waste any time in implementing measures to boost confidence, these were not all available straightaway.

In the Eurosystem, these emergency measures consisted primarily of three components. First, banks were provided with unlimited amounts of central bank liquidity at the prevailing key interest rate, provided that they had sufficient collateral. Second, in order to avoid any bottlenecks in lending, the range of eligible securities was expanded for a limited period of time. Third, more longer-term refinancing operations were carried out so that banks can ensure that their liquidity needs will be met over maturities of up to one year.

Monetary policy did not just play an important role in stabilising the financial markets; it also contributed towards stabilising the economy. As you know, the financial crisis in the autumn of 2008 escalated into a global economic crisis shortly thereafter. The Governing Council of the ECB reacted by decreasing the main policy rate from 4.25% to an all-time low of 1% within the space of just a few months. However, these interest rate cuts were only possible thanks to a sharp decline in inflation risks owing to the economic downturn.

There are only few things in life which we Germans fear more than inflation. We can, however, place our trust in the ECB Governing Council’s commitment to stability. No concessions will be made when it comes to upholding its definition of price stability, namely to keep inflation in the euro area below, but close to, 2% over the medium term. This is a policy that Bundesbank President Axel Weber holds close to his heart and one which he firmly believes is in the finest tradition of the Bundesbank.

There have been a number of experts in recent times, particularly from the “other side of the pond”, who thought they were giving central banks good advice by suggesting that they allow higher inflation targets, at least for the time being. IMF Chief Economist Olivier Blanchard spoke of 4% to 5%, and Kenneth Rogoff went as far as to say 6%. Let me put this bluntly: inflating debt away might seem like the ideal solution for some, but that is someplace Germany and the rest of Europe do not want to go. We will not tolerate a monetisation of government debt. Even today, the wise words of Otmar Emminger, a former Bundesbank President, still hold true: “If you flirt with inflation, you’ll end up marrying her”.

All in all, the Eurosystem central banks – and for this we may also give ourselves a pat on the back – successfully managed to contain the crisis.

The fact that the Eurosystem is obliged to pursue the objective of price stability is precisely the reason why it was time to start planning a suitable exit strategy once the economy and the financial markets had gotten back on their feet again in the autumn of last year. With that I mean an exit from both the extremely expansionary orientation of monetary policy and the various non-standard measures, as these can entail risks for price stability if we wait too long to scale them back. As you can see, we are walking on very thin ice.

This is why monetary policy has to perform a kind of balancing act: on the one hand, it has to swiftly counter any risks to price stability, but at the same time it must ensure that no new turbulence is triggered on the financial markets when scaling back its non-standard monetary policy measures. The Bundesbank’s overarching mandate cannot be seen in isolation from the stability of the financial system, as financial stability is an important prerequisite for price stability. Distortions on the financial markets can have an impact on monetary policy, either directly or indirectly, by substantially dampening economic momentum and growth. Financial market crises make it more difficult for monetary policymakers to maintain price stability.

The main reason why the stability of the financial system is so important is because financial crises cause substantial damage to the real economy, too. This was clearly illustrated by the recent financial crisis. The panic in the financial markets following the insolvency of Lehman Brothers spilled over to the real economy at an incredible speed. The global economy plunged into the most serious crisis since the Second World War. There were even fears of a prolonged depression just like 80 years ago. Fortunately, today we do not need the comfort of Mark Twain who betimes realised, that only “Education remains when the last dollar is gone”.

It is therefore essential that the financial markets are better and more stringently regulated in future – although “regulation” should not be confused with “strangulation” – and that the financial system becomes more resilient on the whole. The central banks will play an important role in safeguarding the stability of the financial system; the primary objective of monetary policy, however, will still be to maintain price stability. This is what the Bundesbank and the European Central Bank stand for.

Ladies and gentlemen, I hope I was able to spark your interest in central banking topics. Topics which are of interest to members of staff of *one* central bank may also be of interest to members of staff of *other* central banks. This is why selected seminars should be packaged and also offered to other central banks as a collective further education programme. The opening up of seminars to foreign participants promotes intercultural exchange and also helps to develop a common understanding, especially with regard to stability-oriented policies.

And, of course, I also have a positive example of this to share with you: just over a year ago, the Bundesbank – in cooperation with the Oesterreichische Nationalbank, BaFin and the Goethe Business School – launched the European Supervisor Education Initiative (ESE), a seminar programme for financial supervisors from all over Europe, which was a great success.

The Bundesbank, together with the Business Schools, would like to cordially invite you to join us for the actual launch of our further education and training initiative, which will kick off with our “Summer School” in July 2011 to be held at the Bundesbank’s Convention Centre in Eltville. The focus will be on topical central banking issues.

Today’s conference provides you with a platform for exchanging ideas about specific topics and educational issues. This education congress is, of course, also a perfect opportunity for the Business Schools represented here today to give us some interesting presentations about themselves.

I hope that this event will be a great success and that you enjoy some stimulating discussions.

Thank you very much for your attention.