

Jean-Claude Trichet: Short address in honour of Axel Weber

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the Deutsche Bundesbank Festakt, Frankfurt am Main, 2 May 2011.

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Ladies and gentlemen,

ich freue mich sehr, heute bei Ihnen zu sein. Ich möchte im Namen des EZB-Rats Axel Weber für seinen Beitrag über die vergangenen sieben Jahren danken und Jens Weidmann als neues Ratsmitglied begrüßen.

The Eurosystem is a large team, and it is a cohesive one, with a variety of perspectives linked by a common purpose. The Eurosystem is also a very successful team. Ever since the introduction of the euro we have been fully faithful to our mandate of maintaining price stability over the medium term, defined as medium-term inflation at “below, but close to 2%”.

As you know, the average annual inflation rate in the euro area over the past twelve years has been 1.97%.

This is a remarkable achievement, also considering that the economic environment during those 12 years can hardly be described as benign. The beginnings were marked by a severe oil price shock, which compounded the cost pressure and inflation implications of a secular decline in European productivity trends. Due to these adverse supply side adjustments, the bursting of the dot-com bubble brought a downswing with no disinflation. Later, over the recovery that followed – Axel remembers – there was no time or disposition within the Governing Council for complacency, as we were all too concerned about insistent signs of excessive credit market euphoria, about – once more – strong pressures on commodity and food prices and – ultimately – about the global imbalances that such a combination of forces were causing worldwide. Axel became member of the Governing Council in 2004, at a time when many voices, including in the executive branches and in the international financial institutions were calling for looser monetary policy. We rightly resisted these calls based on our own assessment of the risks to price stability. Back then and throughout the past seven years Axel has made influential contributions to the discussions shaping the view of the Governing Council on the appropriate monetary policy stance.

The fact that we have been able to solidly anchor inflation expectations in the euro area at a level consistent with price stability throughout all these phases has bolstered our credibility. The Eurosystem clearly stands in the tradition of best practice in central banking – as exemplified by the Bundesbank prior to the introduction of the euro. The Eurosystem’s two-pillar monetary policy strategy inherited the concept of the Bundesbank monetary pillar – which my own previous institution, the Banque de France had also chosen in January 1994 as soon as it became independent. The Eurosystem’s two pillar strategy is built on the conviction that, in the medium to long term, inflation is a monetary phenomenon and that independent central banks have the strategy and the instruments to achieve price stability. The Eurosystem’s track record proves that this important insight translates one for one to the monetary union context.

I would like to take this opportunity to also express my gratitude, not only to Axel Weber but also to all Bundesbank staff, for the commitment shown on a daily basis during the past twelve years and in particular during the financial crisis. The Governing Council of the ECB knows and highly appreciates the crucial contribution of national central banks to the smooth functioning of monetary union. The financial crisis has made more visible to a broader public the essential tasks that national central banks carry out day by day within the Eurosystem.

For the sake of brevity allow me to focus here on two such activities, and I am fully aware that there are many other tasks that equally deserve our full recognition. On both

dimensions, the Eurosystem benefited enormously from the Bundesbank's dedication to our common cause, and on both dimensions the Bundesbank contribution found in Axel its voice.

The first task is financial supervision, the importance of which cannot be underestimated. For one thing, the information gathered in supervision has been particularly useful in the preparation of monetary policy decisions during the financial crisis. This has been especially true when and since the Governing Council of the ECB decided to introduce non-standard monetary policy measures to ensure the proper transmission of the monetary policy stance. The information also helps the Governing Council of the ECB assess the interconnectedness of national financial systems and vulnerabilities threatening financial stability in the euro area as a whole.

In this context the Bundesbank has done a crucial job in containing the fallout from the financial crisis. After the collapse of Lehman Brothers immediate and determined action was crucial to avoid a meltdown of the financial system in Germany and the other euro area countries. The Bundesbank under the leadership of Axel offered the best possible diagnosis to protect the stability of the German banking sector at the height of the crisis.

Nonetheless, the financial crisis has revealed serious weaknesses in existing supervisory arrangements both at the national and euro area level. In response to these shortcomings, the EU among other initiatives has created the macro-prudential European Systemic Risk Board (ESRB) in which the Eurosystem is very actively involved. Axel has generously devoted his time to the Steering Committee of the ESRB as he has done for the Financial Stability Board at the international level.

The second task for which the Eurosystem has to rely critically on the support of the national central banks is the implementation of monetary policy. This role comprises the conduct of monetary policy operations, the design and operation of payment systems and the provision of banknotes and coins. At several points in time the efficient and effective functioning of the infrastructure has been absolutely essential to the success of the euro. This was true in the very beginnings in 1999, it was true at the moment of the cash changeover in 2002 and it has been true most recently during the financial crisis. The Eurosystem infrastructure has been exposed to a formidable stress test and it has proved its robustness throughout.

Again, Bundesbank expertise proved immensely valuable, for example in the design of our new payment system TARGET2 but also in the design of our non-standard monetary policy measures, most notably our covered bonds purchase programme, which as you know are a German innovation dating back to the time of Friedrich des Großen. Their success over hundreds of years shows that asset-backed securities need not be toxic. Pfandbriefe are a prime example of finance at the service of people's well-being. Therefore the Governing Council in May 2009 decided to lend its support to this asset class, following Axel's advice.

Damit komme ich zum Schluss. Beruht der Erfolg des Euro nur auf Glück? Erlauben Sie mir, darauf mit einem Zitat zu antworten, das Axel Weber in anderem Kontext zugeschrieben wird: „Nicht Glück – Können!“¹ „Und Beharrlichkeit“ würde ich in unserem Kontext hinzufügen. Das Eurosystem ist für die Zukunft sehr gut gerüstet.

Lieber Axel, ich wünsche Dir alles Gute für Deine Zukunft!

Lieber Jens, as you know, we are still living in a very demanding environment. The crisis is not over. The responsibilities of the private sector and public authorities are as important as ever during the last three years. The Eurosystem has kept and will keep its sense of direction, strictly separating the standard measures, designed to deliver price stability, from the non-standard measures, designed to help restore a more correct monetary policy transmission mechanism. We shall never forget that we are issuing a single currency for

¹ See the article "Axel Weber – ein Porträt: 'Nicht Glück – Können!'", authored by Marc Neller and Marietta Kurm-Engels, published in the Handelsblatt of 16–17 July 2010.

17 sovereign countries and 331 million citizens. This is a situation which has no equivalent in the world. More than ever, the unity of the Eurosystem and the unity of the Governing Council is of the essence.

Lieber Jens, herzlich willkommen im Eurosystem!