Lucas Papademos: Policy-making in EMU - strategies, rules and discretion

Speech by Mr Lucas Papademos, Vice President of the European Central Bank, at the Banco de España (Bank of Spain), Madrid, 19 April 2004.

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I. Introduction

I am very pleased and honoured to have been invited to speak here today at the Banco de España. Thank you very much, Governor Caruana, for the invitation and your kind remarks. And thank you all for participating in this event. I believe that this is the first time that a member of the Executive Board of the European Central Bank has delivered a public address in Madrid since the terrible events of 11 March. I would therefore like to take this opportunity to convey, personally and also on behalf of all my colleagues at the European Central Bank, our sincere condolences and our solidarity with the people of Spain. We all stand united against these acts of terror, which have resulted in a great loss of life and have inflicted so much pain on so many innocent people.

In difficult times like these, when Europeans are drawn closer together, it is meaningful to focus on values and principles as well as on tangible proofs and actions which define our common identity and can pave the way towards a better and peaceful future. A specific and important symbol of European unity is our common currency, which is shared by more than 300 million citizens in 12 countries. For euro area central bankers in particular, there is indeed no greater a symbol of our European unity than the fact that we now have a single monetary policy and we are all part of the same central banking system, the Eurosystem. As an important and active member of the Eurosystem, the Banco de España plays a major role in the performance of all the System's functions, and not just in the decentralised implementation of monetary policy. Also in preparing, taking and communicating policy decisions, the Eurosystem would not be able to function effectively without the valuable contributions of all its components. And the Banco de España manifestly enriches the policy debate and enhances the performance of the Eurosystem.

The euro and the single monetary policy have been in place for more than five years. The economic and monetary constitution embedded in the Maastricht Treaty defines the EU's economic policy framework, which incorporates the main policy goals as well as a number of fundamental principles for good economic governance. These include price stability as the primary objective of monetary policy, the principle of central bank independence, and the need to secure sound public finances for sustainable growth.

More than a decade after the signing of the Treaty, the "Maastricht consensus" regarding these objectives and principles remains valid. At the same time, the conduct of the single monetary policy and of national economic policies and the interaction between them continue to be debated by both academics and policy-makers. The debate relates to several issues and reflects concern regarding policy effectiveness. One issue is the optimal assignment of policy objectives to instruments. Another is the appropriateness of the strategies employed by the authorities to achieve their objectives. A third topic, which has been the subject of discussion among economists for many years, concerns the merits of adopting rules versus exercising discretion in the conduct of policy.

In my address, I will concentrate, first, on the strategies employed by monetary and economic authorities to maintain price stability and foster higher sustainable growth and, second, on the role and effectiveness of rules versus discretion in policy implementation. In the context of the euro area economy, the assessment of the formulation and implementation of policies must take into account, among other things, the European Union's institutional setting.

II. The single monetary policy: strategy and implementation

I will examine these issues by focusing, first, on the single monetary policy. As you may recall, in 1998 the Governing Council of the ECB adopted an explicit monetary policy strategy. It is a rather novel strategy, one which is particularly appropriate for the special characteristics of the euro area economy. It incorporates many elements of the successful monetary policy strategies employed by the national central banks of the euro area before 1998. It provides a consistent, coherent framework both for

internal analysis and decision-making and for explaining to the public the decisions made. Last year, following a thorough evaluation, the Governing Council confirmed and further clarified this strategy.

There are many reasons for arguing that the ECB's strategy is well suited to the conduct of monetary policy in the euro area. One argument is that our strategy is rather robust, as it takes into account a comprehensive set of information based on a variety of analyses and empirically plausible models, which help the ECB to take appropriate monetary policy decisions in an uncertain and ever-changing environment. Indeed, the common challenge confronted by all central banks is to make decisions under conditions of uncertainty.

Therefore, the ECB, in seeking to maintain price stability, has to analyse all available information carefully and continuously in order to arrive at a comprehensive assessment of developments, of the shocks to the economy, and of the associated risks to price stability. In the end, we have to base our decisions on a sound evaluation of the possible outcomes under alternative scenarios about the future. At the same time, to reassure the public that we are committed and able to deliver price stability, we must present the information used in arriving at our assessment of the economic outlook and we must explain our decisions on the monetary policy stance in a timely, transparent and systematic manner.

Let me elaborate on certain key elements of the ECB's strategy, which are critical in reaching robust and sound decisions on the appropriate policy stance consistent with our mandate. First and foremost, the strategy makes unambiguously clear our commitment to maintaining price stability and establishes a quantitative definition of price stability and the policy aim. This provides both a firm anchor for inflation expectations in the euro area and a yardstick for holding the ECB accountable.

A second important feature of our monetary policy strategy is that it is forward-looking and has a medium-term orientation. Given the long and uncertain time lags in the transmission of monetary policy impulses to the economy, central banks cannot steer price developments in the short run, and with a high degree of precision, especially in the event of certain disturbances. For instance, monetary policy cannot offset the short-term impact on the price level of an unanticipated rise in commodity prices or indirect taxes. Consequently, it must be conducted with a view to preventing and minimising any secondary effects of such shocks, so as to maintain price stability over the medium term.

The medium-term orientation of our policy allows for a gradual response to some economic shocks. This reflects the notion that monetary policy should be made conditional on the circumstances. The precise policy reaction will, of course, depend on the nature and size of shocks. Supply-side shocks, for example those stemming from disruptions in the global oil supply, may require a more gradual monetary policy response than shocks on the demand side of the economy. Its medium-term orientation also implies that the single monetary policy can avoid inducing unnecessarily high output volatility in the economy, without compromising price stability.

Another key element of our strategy is that it is based on an eclectic analytical approach and a commitment to conduct analysis and to explain policy decisions in a systematic and structured manner. In so doing, we base our assessment on two analytical perspectives, or two pillars, which we refer to as "economic analysis" and "monetary analysis". This broadly based framework ensures that we arrive at a robust overall assessment of the current economic and monetary situation and the associated risks to price stability. An important reason for employing these two analytical perspectives in order to cross-check our assessment of the economic outlook and associated risks is that although, in theory, they can be combined in a unified analytical approach, in practice their integration has not been achieved in an effective manner.

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Some economists have argued that our monetary policy is too judgemental, seemingly discretionary, and difficult to explain. To reduce discretion, they would prefer it if the ECB had a simple strategy in which interest rates are changed quasi automatically in response to a single or a few easily observable variables. Others would even prefer the strategy to be replaced by the adoption of a policy rule, determining the monetary policy stance as an explicit function of some variables, or by an even simpler rule relating to an intermediate target. Such alternative approaches are, in my view, not well suited to the formulation of monetary policy in the euro area.

Let me start with simple rules. For instance, under the famous k-percent rule proposed by Milton Friedman in 1956, central banks would have to ensure that some specified measure of the money stock rises by a pre-defined fixed rate each year, irrespective of economic conditions and circumstances. The main problem with such a rule is that it would not accommodate money demand

shocks, including those of a more permanent nature relating to structural change and innovation in financial markets. This may lead to undesirably high volatility in interest rates, prices and output. For good reasons, such monetary targeting rules have never been applied in practice, at least not in their strictest form.

Several more sophisticated rules have been developed since then. In recent years, the most prominent are the Taylor-rules, based on a proposal by John B. Taylor in 1993. In their simplest forms, such rules express the monetary policy instrument - the short-term nominal interest rate - as a function of the deviation of a few key macroeconomic variables, typically actual or expected inflation and actual output, from their target levels.

There are, however, a number of reasons suggesting that great caution should be exercised in giving such rules an important role in the actual conduct of monetary policy. First, central banks would not be able to exploit - that is, use fully and effectively - all available information if they were to follow and respond to the developments in just two variables. In addition, our imperfect knowledge of the state of the economy and the possibility of non-linearities in the economy's structure and agents' behaviour make the normative use of such simple rules questionable. Indicators that are crucial for the application of these rules - in particular the output gap and the equilibrium real interest rate - are not observable and can only be estimated with a high degree of uncertainty. Recent research has shown that sizeable and persistent measurement errors can impair the quality of these estimates if they are based on real-time data, and that such errors typically lead to a significant deterioration in the effectiveness of such simple rules. This makes their systematic use for determining policy decisions a risky undertaking.

To avoid the drawbacks associated with Taylor-rules, the use of so-called "optimising" rules has been suggested. These rules allow a larger information set contained in a given model to be taken into account. Given the policy objectives and an empirically estimated model which links objectives to policy instruments, the optimal policy path and its response to potential shocks can be derived. Of course, such an approach, while optimal and internally consistent given available information, is only as good as the model on which it is based. Sometimes, even small changes to the model used can lead to very different results. Such a lack of robustness might cause serious policy errors in an uncertain and ever-changing economic environment. Indeed, a good strategy must perform well across a broad variety of empirically plausible models, and it has to allow for the judgement of policy-making bodies.

For these very reasons, optimising rules have also never been applied in a pure form. However, they may be seen as providing a theoretical basis for "inflation targeting", a framework for monetary policy decision-making, which in various forms has been adopted and pursued quite successfully by a number of central banks.

There are different views on how inflation targeting should be defined. In its broadest definition, inflation targeting is simply a monetary policy framework that accords overriding importance to low and stable inflation or price stability. In this sense, almost all central banks that strive for price stability can be described as "inflation targeters", including the ECB.

In a narrower sense, however, inflation targeting is sometimes defined as a framework in which forecasts of future inflation play the central role and are used as the overriding or even sole, all-encompassing tool for internal decision-making and the external communication of policy decisions. At the extreme, inflation targeting is sometimes viewed as an approach that effectively boils down to a simple policy rule, whereby changes in official interest rates are, more or less, mechanically determined as a function of the deviation of an inflation forecast from the inflation objective at a specific fixed time horizon, typically of around two years.

In my view, such an exclusive, narrow focus on an inflation forecast would neither do justice to the intrinsic complexity of the decision-making process, nor would it provide a transparent means of communicating this complexity. Indeed, for these reasons, a number of central banks employing an inflation targeting strategy have decided not to publish inflation forecasts. This includes the Banco de España when it adopted, in 1995, a monetary policy framework based on the setting of a quantitative direct inflation target. This approach had the advantage of providing a clear benchmark for inflation expectations, while helping to avoid a situation where the public was under the impression that the complexity of monetary policy making could be subsumed under a single forecast figure.

A further problem posed by strict forms of inflation targeting is that limiting attention to a pre-specified horizon is arbitrary. Central banks may have to react differently to different types of economic shocks.

Inflation forecasts or projections, while useful and indeed indispensable ingredients of a monetary policy framework, cannot be the only input in decision-making. The same inflation forecast figures can be associated with quite different states of the economy, reflecting the effects of different factors and shocks, and thus potentially requiring different policy responses on the part of the central bank. For this reason too, monetary authorities carefully take into account the specific determinants of the economic situation and outlook as well as the nature and size of the threats to price stability. Such an analysis may require adapting, to a certain extent, the appropriate monetary policy horizon for restoring price stability in response to the nature and magnitude of shocks. In this respect, it is notable that quite a few "inflation-targeting central banks" have recently relaxed their emphasis on a fixed horizon, in favour of the more flexible medium-term notion, thereby moving closer to the approach adopted by the ECB.

All in all, the uncertainty and our imperfect knowledge of the state, structure and dynamics of the economy severely limit the usefulness of relying on a single model and on simple and fully defined policy reaction functions for determining the appropriate monetary policy stance. If monetary policy bases its decisions on just one single equation or set of equations, it effectively assumes to have perfect knowledge of the key structural aspects of an ever-changing economy. In a complex and changing economic environment, a mechanical use of fully specified decision rules is too restrictive to ensure an optimal, robust policy. Simple rules limit the amount of information used and underrate the need for judgement in the use and interpretation of any economic model. They are no substitute for an ongoing articulated analysis of all the economic and monetary forces at work in the economy and for the need to check all policy proposals for their robustness across a variety of frameworks.

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My remarks on rules should, however, not be interpreted as implying that I am advocating unconstrained discretion in the conduct of monetary policy. On the contrary, monetary authorities need to behave in a systematic and predictable manner in order to enhance policy effectiveness and credibility. There are two main reasons for this. The first is precisely the same reason as the one which argues against the adoption of simple or specifically defined rules, namely the uncertainty and imperfect knowledge about the functioning of the economy and the monetary policy transmission process. Consequently, the uncertainty facing policy-makers suggests that extremes - that is, simple rules and unconstrained discretion - should be avoided. The second reason is the need to ensure that the public and market participants have full confidence in the central bank's commitment and ability to fulfil its mandate and achieve its overriding objective of price stability. There can be - and there must be - no doubt concerning our determination to maintain price stability over the medium term. And in order to do this effectively, there must be no discretion in the sense that monetary policy would deliberately try to surprise the market. Indeed, predictability is a pre-condition for a successful monetary policy that reduces unnecessary volatility and stabilises inflation expectations.

These arguments do not exclude the possibility that a central bank might exercise discretion to mitigate the effects of sizeable unanticipated disturbances on the economy. Although an activist monetary policy aiming to fine-tune the economy should normally be avoided, there may be particular circumstances involving severe shocks which could warrant prompt discretionary measures. Such a policy response, however, should be exercised with caution, and it should be constrained by and fully consistent with the central bank's commitment to its primary objective of maintaining price stability over the medium term.

In order to guide market expectations and clearly specify the orientation and commitment of our policy of stability, we have announced an explicit monetary policy strategy. In addition, we regard it as crucial that the continuous and systematic explanation of monetary policy decisions in the context of our strategy helps the public over time to understand and broadly anticipate how monetary policy reacts to observable data and indicators. In this sense, decision-making in the Governing Council could be described as "rule-like" in the broad sense that it is based on an explicit strategy involving a comprehensive analysis of all available relevant information, which is then explained and justified in a transparent and systematic manner. However, given the complexity of the real world, data and parameter uncertainty and ongoing changes in our knowledge of the structure of the economy, the "policy reaction function" of a central bank cannot be written down in stone, in a precise quantitative form. There is a need for judgement in the conduct of monetary policy. In other words the central bank needs some flexibility (or if you prefer "discretion") in the sense that there is no possibility of it committing itself to a fully specified reaction function.

III. The EMU fiscal policy framework

The debate about rules also applies to fiscal policy in the euro area, but the relevant arguments and conclusions are not the same. Indeed, some rules are contained in the Maastricht Treaty and the Stability and Growth Pact. The usefulness and effectiveness of these rules have been the subject of quite extensive discussions among economists ever since their introduction. And the debate over these rules has intensified in the light of recent fiscal developments.

The rules of the Treaty and the Stability and Growth Pact have a solid economic rationale. A sound fiscal policy contributes to a stable macroeconomic environment with low inflation and favourable financing conditions. This, in turn, promotes investment and long-term growth. A sound fiscal policy also creates room for manoeuvre to cushion the effects of the economic cycle. And, by reducing the burden associated with debt servicing costs, it facilitates the task of governments in pursuing basic economic and social objectives.

The case for fiscal rules relates to the notion that fiscal policy is prone to suffer from a deficit bias. There is no shortage of evidence that fiscal policy is influenced by the electoral cycle. In consequence, a vicious cycle of increasing deficits and debt can easily set in, which is very hard to reverse later on.

In the usual setting, in which the jurisdiction of monetary and fiscal policy coincides, a case for some kind of fiscal rule to ensure budgetary discipline can be made. In a monetary union, the case for fiscal rules is much more compelling. To understand why, it is worth comparing the implications of inappropriate fiscal behaviour for the performance of an economy inside and outside EMU.

In a country that is not an EMU member, a lax fiscal policy is punished primarily by financial markets, particularly by the foreign exchange market. Excessive government borrowing leads to higher credit risk-premia and greater inflation uncertainty. Higher interest rates are required by investors to hold the larger stock of government debt, and the exchange rate is likely to come under pressure.

In a monetary union, the situation is somewhat different. By relaxing its fiscal policy, the government of a Member State may hope to enjoy the short-term benefits of increased economic activity while the negative consequences are spread across the entire euro area. Of course, given the "no-bailout" clause in the Treaty, which stipulates that neither the Community nor the other Member States shall be liable for or assume the commitments of another Member State, financial markets may also punish this country via higher credit risk spreads. However, financial markets tend to react very slowly and sometimes in a discontinuous way.

In view of such incentives, the case for rules to protect against lax fiscal policies is much stronger in a monetary union than in a national setting. Rules are needed to defend both a country's own interest and the common interest in fiscal discipline, and to provide an early warning against the emergence of possibly greater and longer-lasting problems.

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Fiscal rules are essential for the proper functioning of a monetary union. But what form should these rules take? The current EU fiscal framework is based on a set of rules contained in the Maastricht Treaty and the Stability and Growth Pact. The general government deficit should be kept below 3% of GDP and budgetary positions should be maintained close to balance or in surplus over the medium term. By respecting the "close-to-balance-or-in-surplus" rule, a government can create sufficient room for the automatic stabilisers to operate and help cushion the effects of cyclical downturns without breaching the 3% ceiling.

Unfortunately, as we all know, respect for these rules in recent times has been mixed at best. A number of countries failed to reach close-to-balance budgetary positions during the upturn in 1999 and 2000. As a result, they soon found themselves close to or in breach of the 3% ceiling when the economic situation deteriorated. Portugal breached the 3% ceiling in 2001. Germany and France breached it in 2002. It now seems that the Netherlands and the United Kingdom joined France and Germany in 2003, and the European Commission predicts that in 2004 Italy, Portugal and Greece may also exceed the 3% limit. Thus half of the euro area countries now find that they have no budgetary room for manoeuvre and most of them have to consolidate their public finances during a period of still relatively weak economic growth.

Those who criticise the rules of the Stability Pact argue that they are not flexible enough and that the EU should look for a better set of fiscal rules. But this is easier said than done. I acknowledge that the rules of the Pact may not be perfect. I would stress, however, that the Pact's rules and procedures are much more flexible than commonly perceived. Moreover, we also need to keep in mind that a lot of

thought went into the design of the existing rules. The arguments presented in the ongoing debate are not new. They were all known when the Treaty was drafted. Many of the alternatives now proposed were also considered in the past, and it was felt that they involved problems of their own. I am therefore sceptical whether these alternatives would be an improvement on the current rules.

Economic theory suggests a number of desirable properties for fiscal rules. Fiscal rules should be simple, transparent, flexible and enforceable. The problem is that a fiscal rule designed to exhibit one of these desirable properties will often, as a result, exhibit less of another. There is, typically, a trade-off to be faced. This is often a trade-off between what is theoretically right and what is operationally feasible in the real world. And it is natural that academic economists tend to favour the former, while policy-makers, including central bankers, also take into account the latter. These trade-offs become even more acute in a multinational environment of twelve countries. These considerations only strengthen my conviction that revising these rules is not likely to help us very much.

Having said this, I do not deny that the implementation of the rules and procedures of the existing fiscal framework could be improved. And in some respects improvements have been or are in the process of being made. A good example is the assessment of the long-term sustainability of public finances. According to the Maastricht Treaty, Member States' debt levels should be kept below 60% of GDP or at least be declining towards this level at a satisfactory pace. This provides a useful benchmark against which to assess the long-term health of the public finances. But a comprehensive assessment of long-term sustainability clearly needs to go beyond reliance on a single indicator. It also needs to be forward-looking taking into account future liabilities, especially as regards spending on pensions and health care, which can be expected to increase substantially as a result of ageing populations. The measurement of such liabilities is, however, shrouded with methodological difficulties and subject to a high degree of uncertainty.

The Commission and the Member States have made considerable efforts to address methodological issues and to draw up comparable measures of long-term sustainability. Moreover, in recent years, sustainability has been as an integral part of the assessment of Member States fiscal plans in the context of the Stability and Growth Pact. This progress is welcome and should continue. Ultimately, however, a certain degree of judgement, or "discretion", when assessing long-term sustainability cannot be avoided, given the complexities involved. Assessments of long-term sustainability do not therefore lend themselves to be summarised in terms of a single debt variable that could serve as the basic benchmark for multilateral surveillance. For this reason, such assessments should preferably be seen as providing additional information, as a complement to or as a means of better implementing the EU's current fiscal rules rather than as an entirely different or new approach.

In other areas too, the implementation of the EU's fiscal rules is being or could be improved. The problems now faced by a number of governments reflect, to a large extent, a failure to strengthen the public finances during periods of robust growth. In this context, fiscal surveillance has been complicated by the difficulty of identifying budgetary trends. And there is no doubt that, in recent times, there has also been a lack of political willingness on the part of some Member States to abide by the rules and to apply peer pressure on others to do so. It would therefore help if we can strengthen incentives to reach sound budget positions in good times. It would help if we continue to work on and improve our analysis of structural budget balances. And it would help if we can find ways of bringing more pressure to bear on Member States that deviate from the fiscal rules.

But, once again, such improvements do not require the Pact itself to be changed. They can be made within the existing framework. By changing the rules of the Pact in the ways suggested by some economists, we might solve some problems. But we would also create new and possibly greater problems than we have today.

In the end, what matters for Europe is that there remains a public consensus on the importance of sound fiscal policies. Ultimately, it is crucial to understand that fiscal rules are in the interest of everyone. Then, it will also be much easier for Member States to follow the rules, as it will be understood and accepted that it is in their very own interest and also in the interest of the euro area as a whole to do so.

IV. Raising the EU's growth potential: the Lisbon strategy

The EU's macroeconomic framework, notwithstanding current fiscal problems, has delivered price stability. But to what extent has it been effective in delivering economic growth?

There is no doubt that the EU currently suffers a growth deficit, at least when compared to "the other big economy", the United States. Since the mid-1990s, the EU has grown at around just 2% per year on average compared with more than 3% in the case of the US. This largely reflects different demographic developments but also, to some extent, different rates of productivity growth.

But it is not only the pace of growth in Europe which is slower than that in the US; also per capita income is 40% higher in the US than in Europe. And Europe is not catching up - more recently it has even been falling further behind. Some economists have argued that these facts and developments are largely due to different preferences for work and leisure, as reflected in a higher labour force participation rate and longer working hours in the US. But arguing that the gap of per capita income is a consequence of a general preference for more leisure time in Europe can only provide a partial explanation. In my view, lower participation rates and shorter working hours in Europe can be ascribed, to a considerable extent, more to rigid labour market institutions and the disincentives set by tax and social security systems than to the free choice of individuals to work less or stay unemployed. In other words, I am convinced that with more flexible labour markets, fewer restrictions and lower taxes on labour, many people would decide to work more than at present. And indeed, this would be one important response to the mounting problems related to the ageing of the European population.

It is a fact that our employment rates, our working hours per employed person, and our productivity continue to lag behind those on the other side of the Atlantic. Some EU countries have employment rates comparable to those in the US and others can match the US in terms of productivity. But none manages to do both. Clearly, Europeans would benefit from a narrowing of this gap by raising employment rates and working hours, increasing productivity, and thereby raising the EU's growth potential.

Increasing the Union's growth potential ultimately requires decisive structural reforms. This fact has long been recognised by EU policy-makers, most notably by the European Council when it adopted the Lisbon Strategy four years ago. On that occasion, and in the years since then, the European Council has identified a considerable number of measures to improve the functioning of product, capital and labour markets. And there is no doubt that some progress has been made. But there is also no doubt that we are confronted with an implementation gap. There is a gap between rhetoric and real action that needs to be closed if the goals of the Lisbon strategy are to be achieved.

One of the main difficulties in implementing the Lisbon Strategy is that structural reforms often involve short-term adjustment costs to specific members or groups of society, while the benefits are more dispersed and, in some cases, realised or become more visible over a longer-term horizon. The implementation of structural reforms therefore requires considerable far-sightedness and perseverance on the part of policy-makers and social partners. It also requires convincing explanations to the public of why reforms are needed and of the significant and permanent benefits they will bring for society at large. One positive consequence of such reforms is that they enhance the shock absorption capacity of the economy and the effectiveness of macroeconomic policies. Greater market flexibility and higher productivity growth will facilitate, other things equal, the conduct of policies to support growth, consistent with the maintenance of price stability.

V. Concluding remarks

Let me conclude by saying that the euro area approach to policy-making reflects the need to balance rules and discretion in the monetary and fiscal domains. A stability-oriented monetary policy, sound fiscal policies that respect the rules of the Maastricht Treaty and the Stability and Growth Pact, and structural reforms to raise employment and productivity, lay a solid foundation for achieving sustainable non-inflationary economic growth and higher social welfare.

The benefits of these policies can already be seen in some countries of the euro area. And here in Madrid, I cannot help but mention Spain as an outstanding example. In Spain, progress in structural reforms has contributed to a positive economic performance and a significant reduction of unemployment in recent years. Spain also provides an example of how the rules of the Stability and Growth Pact can be respected even in difficult times. And Spain has clearly benefited from the

favourable financing conditions that have resulted from the transition to EMU and from the ECB's conduct of a stability-oriented monetary policy.

I hope it has become clear from what I have explained - maybe somewhat too extensively - that I am not just praising Spain's monetary and economic policy achievements because I want to be a polite and complimentary guest. Spain's performance provides telling evidence that we can be confident in the ability of our policy framework - with its combination of strategies, rules and constrained discretion - to deliver stability and growth in Europe. The challenges are manifold, but I believe that we are on the right track. On such an optimistic note, I should like to end and thank you very much for your attention.

Muchas gracias.