Jean-Claude Trichet: Adoption of the European Parliament resolution on the ECB's 2009 Annual Report

Introductory statement by Mr Jean-Claude Trichet, President of the European Central Bank, at the plenary of the European Parliament on the occasion of the adoption of the European Parliament resolution on the European Central Bank's 2009 Annual Report, Strasbourg, 22 November 2010.

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Monsieur le Président,

Mesdames et Messieurs les Membres du Parlement Européen,

J'ai l'honneur de vous présenter – comme le prévoit le Traité – le Rapport annuel 2009 de la BCE. Du fait du calendrier légèrement bouleversé par les dernières élections européennes, c'est en mars dernier que j'étais intervenu devant vous pour vous présenter le Rapport annuel 2008. C'est donc la deuxième fois cette année que j'interviens devant le Parlement au sujet du Rapport annuel.

Permettez moi tout d'abord de me féliciter du soutien, exprimé une fois encore par la proposition de résolution du Parlement européen, en faveur des auditions régulières devant la Commission ECON et plus généralement en faveur du maintien de relations étroites avec la BCE. Je m'en réjouis d'autant plus que cette année, le Parlement européen a démontré avec force sa volonté et sa capacité à faire prévaloir l'intérêt supérieur européen, notamment sur le paquet de supervision financière.

Ich werde Ihnen zunächst einen kurzen Überblick über die geldpolitischen Maßnahmen der EZB während der Finanz- und Wirtschaftskrise geben. Über die Krisenzeit hinaus möchte ich auch auf die Leistung der EZB während der ersten 12 Jahre zurückblicken. Schließlich möchte ich auf die dringendsten Herausforderungen, die uns im Jahre 2011 erwarten, eingehen.

Actions taken by the ECB during the crisis

2009 was a most challenging year for the ECB's monetary policy. It started with a severe economic downturn worldwide, following the outbreak of the financial crisis in autumn 2008. In this environment of subdued inflationary pressures, we continued with our policy of lowering our key rates further. Overall, within a period of only seven months (between October 2008 and May 2009) we lowered our main refinancing rate by 325 basis points. This brought our main refinancing rate to 1%.

To ensure that households and firms in the euro area would benefit from these most favourable financing conditions, we also continued in 2009 with and even extended our enhanced credit support to euro area banks. We did this in response to dysfunctional money markets that had weakened the ability of monetary policy to influence the outlook for price stability by interest rate decisions alone. Among those non-standard measures, as we use to call them, the most prominent one is the full allotment liquidity provision through our refinancing operations with euro area banks – against good collateral and at the main refinancing rate prevailing at the time for several maturities extending well beyond that of the weekly operations. In 2009 we also extended the maturity of our longer-term refinancing operations to up to one year.

As rightly emphasised in your draft Resolution on the ECB's Annual Report, this "enhanced credit support" has been successful in avoiding additional dysfunctional financial tensions which would have led to a depression or an even deeper recession. Let me emphasise that all our action was fully in line with our mandate to deliver price stability in the medium-term for the euro area as a whole. That we have been able to credibly deliver on our mandate is reflected in a favourable inflation outlook and well anchored inflation expectations in the euro area.

Following some improvements in financial market conditions in the course of 2009, renewed market tensions erupted in a number of segments of the euro area bond market. Since the smooth functioning of the bond market is essential to the transmission of the ECB's key interest rates, we decided to intervene in the euro area's debt securities markets with the aim to help restoring a more normal transmission of monetary policy to the economy. To this end we introduced our Securities Markets Programme. To ensure that the programme does not impact on our monetary policy stance, we re-absorb all the liquidity injected.

To sum up, let me emphasise that all our non-standard measures we have adopted during the period of acute financial stress are temporary in nature and were designed with exit considerations in mind. Some of the non-standard measures initiated in 2009 and early 2010 already have been phased out in view of improvements in conditions in some financial markets and taking the ongoing recovery of the euro area economy into account.

Achievements over the past 12 years

Before considering the challenges ahead, let me share with you for a moment a few thoughts on the track record of the euro. Three elements are fundamental.

First, the ECB has delivered what it is expected to deliver according to its Treaty mandate that is price stability. Indeed, euro area average inflation over the past now almost 12 years stands at 1.97%. This fully reflects our definition of price stability, namely our aim to keep annual inflation rates in the euro area below 2%, close to 2%. In this sense, the Eurosystem over the past 12 years has operated as an anchor of stability and confidence, including in the more recent times despite the challenging environment created by the global financial crisis.

Second, and favourably reflecting on the credibility of the ECB's monetary policy, inflation expectations have remained solidly anchored at levels in line with price stability.

Third, this success is firmly grounded in the full independence of the ECB from political influence, in its primary mandate to maintain price stability and in its transparent communication. The ECB's two-pillar monetary policy strategy allows for a forward-looking and medium-term oriented course of action that is underpinned by a solid analytical framework. Such framework must include a thorough analysis of monetary and credit developments, taking the monetary nature of inflation over the medium to longer term into account. Such a comprehensive approach allows for well-informed and consistent decision-making, while being steady and looking through the short-term volatility.

And fourth, as regards the ***external dimension*** of the euro, our currency has established itself internationally. In 2009, the euro represented around 30% in the stock of international debt securities, and in the stock of global foreign exchange reserves.

Speaking of the external dimension of the euro, let me say a word on the present foreign exchange rate issues, domains where I would call for great prudence.

There are two major topics. On the one hand, there is the relationship between the major floating convertible currencies of the industrialised countries, such as the dollar, the euro and the yen, the pound sterling, the Canadian dollar. These currencies have been floating since the collapse of the Bretton Woods system at the beginning of the 1970s. I should underline the strong view of the International Community that excess volatility and disorderly movements in the exchange rates have adverse implications for economic and financial stability. And I appreciate the recent statements by the US authorities – namely the US Secretary of the Treasury and the Chairman of the Federal Reserve – reiterating that a strong dollar vis-à-vis other major convertible currencies is in the interest of the United States. I share this view entirely. A dollar that is credible among the major currencies of the advanced economies is in the interest of the United States, of Europe and of the entire international community.

On the other hand, the second topic concerns the currencies of emerging market economies which have current account surpluses and exchange rates that are not sufficiently flexible. On this issue, the international community agrees – and it was restated in Korea last week – that moving towards more market-determined exchange rate systems, enhancing exchange rate stability to reflect underlying economic fundamentals, and refraining from competitive devaluation of currencies, are in the interest of the emerging economies concerned and of the international community.

Challenges ahead

This is no time for complacency. The challenges lying ahead of us are manifold. All relevant authorities as well as the private sector must assume fully their responsibilities; governments and parliaments, central banks, regulators and supervisors, private sector and financial industry. In particular, the current crisis has clearly demonstrated that implementing ambitious reforms in ***economic governance*** is in the interest both of the euro area countries and the euro area as a whole. The proposals put forward by President Van Rompuy on the reform of the EU's economic governance and approved by the European Council meeting of 28–29 October 2010 represent an improvement to the current surveillance framework at EU level, and seem broadly appropriate for the EU countries not participating in Monetary Union. However, as regards the specific requirements of the euro area, they fall short of what the ECB views as necessary to ensure the best possible functioning of the single currency economy.

I am convinced that, over the coming months, the European Parliament will help Europe making the necessary quantum leap in economic governance a reality. With its legislative role concerning financial supervision and the ESRB, the Parliament showed its determination when it comes to major issues. I would like to take this opportunity to thank you for this, and to express again my conviction that the influence of the Parliament will be decisive in the economic governance debate.

Another important challenge ahead relates to ***financial regulation***. We should fully draw the lessons of the crisis and keep the momentum for financial reform. As advocated in your draft Resolution, a consistent and speedy implementation of Basel III is of crucial importance in this regard. The Commission's legislative proposals on short-selling and Over-The-Counter derivatives are also indispensable to make the financial system more transparent and resilient.

Ladies and Gentlemen, Honourable representatives of the European citizens:

We are facing a decisive year. 2011 should see the adoption of the revised governance framework, in-depth discussions on the crisis management framework and possibly the launch of the procedure for a Treaty change. We need to get all these reforms right, so as to ensure that the euro area can meet the future challenges with even greater capacity and conviction.

2011 will be also the first year of existence of the European Systemic Risk Board. (ESRB). As you call for in your draft Resolution, the ECB is doing its utmost to support this new body. At the same time, the full independence and the primary mandate of the ECB, enshrined in the Maastricht Treaty, are of course unchanged as I have already stressed before the Parliament. As it has done over the past 12 years, the ECB will continue to deliver on its mandate. This is what the Treaty calls upon us. And this is what our fellow citizens expect from us.

Thank you for your attention.