

Guy Quaden: Recent developments in the Belgian economy

Speech delivered by Mr Guy Quaden, Governor of the National Bank of Belgium, on the occasion of the celebration of the National Bank of Belgium's 150th anniversary, Brussels, on 12 May 2000.

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Your Royal Highnesses, Ladies and Gentlemen, dear friends,

I should like to begin by telling you how delighted and proud I am, as are the other members of the Board of Directors and the Council of Regency of our Bank.

First, I am delighted to see so many friends of the National Bank of Belgium coming to Brussels this afternoon to celebrate the 150th anniversary of our institution with us. Friends who have come from Belgium, elsewhere in Europe, the rest of the world; from the world of public and private finance, but also from the political, economic, social and academic world.

Allow me to express my special thanks to my colleagues and friends, the governors of the various groups to which the National Bank of Belgium belong: the European System of Central Banks, the G10, the Belgian Constituency at the International Monetary Fund. All are present or represented here. The world of central banks is exceptional because of its position at the boundary between the State and the markets, between action and deliberation, and between tradition and modernity, but it is also exceptional in the fellowship which prevails there. I am glad to be a part of that.

Next I would like to tell you how proud I am, how proud we are, of two things. First, we are proud to be the guardians of a long and illustrious history, the history of an institution which, as the Prime Minister reminded us in his speech and as the video we have just seen also showed, has made a positive and substantial contribution not only to the economic and financial history of Belgium, but also to European unification and international monetary cooperation.

In particular, I would like to pay tribute to the three people who have preceded me at the head of our institution, whom we are delighted to have here with us this afternoon: Cécil de Strycker, Jean Godeaux, Alfons Verplaetse.

In the second place, we are proud that, right from the start, the National Bank of Belgium has become a member of the European System of Central Banks and more specifically the Eurosystem, which, in managing the new common European currency, links the European Central Bank and the eleven national central banks which are currently members. This represents the realisation of a great political and economic dream, and the National Bank of Belgium is proud to have contributed to it, both in planning the arrangements at European level and in ensuring that our country satisfied the conditions for membership. It was vital that Belgium should meet the convergence criteria: the fact that it succeeded is, of course, due primarily to the effort made by its people, but also to the pursuit of an appropriate economic, fiscal and monetary policy in which the central bank lent its assistance together with the political authorities. We have also been successful in preparing with the sectors concerned for the introduction of cashless transactions in euros.

There has been a marked strengthening of economic growth in the euro area in general, and in Belgium in particular, over the past year. Business and consumer confidence has now reached record levels. Of course, the euro cannot take all the credit for this welcome change of climate. The international environment has also improved. But the introduction of the euro has contributed to this revival of growth by giving the area a stable internal environment, by irrevocably fixing the mutual parities of eleven currencies, damping down inflation and curbing budget deficits. And the fact that growth is strong, confidence buoyant and inflation low, also proves to my mind that the monetary policy of the new Eurosystem has not been inadapted.

The appreciable gain in stability brought about by the euro was particularly evident in Belgium. You will recall that in the middle of last year our country was the victim of a localised or asymmetric

economic shock: the dioxin crisis. As I have already said, it is thanks to the euro that the macro-economic cost of that crisis was very small. Without the introduction of the single currency, it is highly probable that the exchange rate of the Belgian franc and the level of interest rates in our country would have come under pressure. The consequences of that crisis would have extended far beyond the boundaries of the sectors directly concerned.

Here in Belgium, our motto is: strength in unity. At the National Bank of Belgium, we are certainly not nostalgic for a monetary sovereignty which in any case had become largely illusory for highly integrated small and medium-sized economies. The switch to a single monetary policy, decided by the Governing Council of the European Central Bank, did not mean any loss of monetary power for Belgium: on the contrary, since the Government and the Bank had decided ten years ago to peg the Belgian franc to the most stable European currency, Belgium was in reality already importing its monetary policy from Frankfurt. The difference is that, today, our monetary policy continues to be decided in that same city, but around a different table at which there is at least one Belgian. Moreover, the implementation of monetary policy is decentralised. And being closer to their respective national territories, the affiliated central banks retain an inimitable role in their contact with the financial players, and in communicating with the general public.

In the Eurosystem, which is not modelled on any other existing central bank, the principle of subsidiarity prevails; that is a principle to which we, and I imagine our other partners, too, are deeply attached. It means that the European Central Bank has to be allocated all the resources which it needs for the proper performance of the tasks entrusted to it, but that the national authorities retain competence over the tasks not assigned to it.

One would distort the character of the monetary union if one tried to force a move towards centralisation contrary to the provisions of the Treaty and one would thus deprive the monetary union of its democratic legitimacy. True, like any man-made edifice which aims to last, monetary union is bound to evolve. But if we want this edifice to remain legitimate, any proposed changes must be set out in totally clear terms, and on each occasion we shall need to check that the citizens approve of those changes.

Studying the national and international economic environment, issuing banknotes and coins, including in our case printing banknotes, and controlling and sometimes actually developing reliable and efficient payment systems are three activities closely linked with monetary policy, activities which the National Bank of Belgium developed long ago and which we intend to continue to pursue in cooperation with our partners in the Eurosystem.

Moreover, modern central banks are rarely just central banks. They are also enterprises providing services for public authorities, the financial world and the national economy as a whole. However, the National Bank of Belgium stands out from many of its colleagues in the diversity of the public service functions which the legislative body has entrusted to it for various reasons, notably the Bank's acknowledged expertise. In passing, I would say that in view of this diverse range of activities, certain hastily drawn comparisons concerning the number of staff used by each central bank are inapt.

The National Bank of Belgium acts as the State Cashier. In its Central Balance Sheet and Credit Offices it gathers and processes information on enterprises and individuals, and its statistical tasks expanded considerably in connection with the modernisation of the Belgian statistical system, launched in 1994; in particular, since that time the Bank has been responsible in particular for the foreign trade statistics and for compiling the national accounts.

Two key features are characteristic of the recent evolution of many central banks including our own: the banks have to contend with increased pressure of competition and they enjoy greater independence. These changes require us to modify our behaviour.

Most of our activities, be they connected with monetary policy or other functions in the public interest, are naturally affected nowadays by the establishment of monetary union, but also by the spread of new technologies and the concentration taking place in the financial sector. Having long been sheltered from competition, the central banks, too, are now inhabiting a more competitive environment. While they still hold a monopoly on the issue of banknotes, notes are less and less predominant as means of

payment. Also, membership of the Eurosystem is naturally encouraging a process of benchmarking and emulation among the various member central banks.

The ethos of an enterprise such as ours has centred on optimum quality of service. This is an aspect of excellence which we must, of course, preserve. But at the same time, greater attention is required to the cost effectiveness of our service. The concern about our production costs is nothing new, but it has increased.

Under the Maastricht Treaty, the countries of Europe also opted for the model of a European central bank alongside national central banks with a large degree of independence. According to this idea, once the central bankers have been appointed by the political authority - because, fortunately, they do not coopt themselves - they act to the best of their knowledge and belief, without seeking or accepting any instructions, in taking the decisions which they consider most appropriate for attaining the objectives assigned to them by the Treaty on European Union and the national laws.

Most people believe that such a system ensures the optimum credibility and effectiveness for monetary policy, in particular making it possible to keep interest rates relatively low. But this greater autonomy also entails greater obligations for us: we are aware of these and I shall pay particular attention to them. First, there is the obligation to be more conscientious than ever about ensuring objectivity and total impartiality in our analyses, decisions and recommendations. Then there is the obligation to render regular and clear account for our actions, to be unflagging in explaining our actions and, if possible, winning support, because the ultimate foundation of the independence of a central bank is not a law, nor even a treaty, but the acceptance by the people concerned of the policy being implemented.

With this in mind, I think it was among others wise to keep the Bank's Council of Regency in existence, even if it has finally lost all monetary power. It offers an irreplaceable opportunity for dialogue between the directors of the central bank and the experts representing the main spheres of Belgian society.

The Bank's board of directors have duties towards the population; they also have duties towards the staff of the Bank. The standards expected of the Bank and its staff are traditionally high and have been accentuated by the profound changes which I have already mentioned. We need to adapt our organisation without being over-hasty but also without dragging our feet, because anticipating probable developments is the best way of controlling them.

Our staff, thanks to whom the switch to monetary union, in particular, was successfully accomplished, work hard and efficiently, and we still expect a great deal of them in meeting the challenges ahead and fulfilling our ambitions. But we must also be able to define for our staff - and this must be done in collaboration with our partners in the European Central Bank and the Eurosystem - clear prospects for the foreseeable future, without which, we know, enthusiasm could give way to bitterness.

My colleagues on the Board of Directors and I myself have held a strategic reflection aimed at increasing the quality of the Bank's response to today's challenges, and especially the challenges of tomorrow. That reflection will shortly be extended, by degrees, to include all our staff. I have no doubt that they will enrich the discussion and that together we shall be able to realise the objective of a bank that is ever better equipped to meet the expectations of Belgian society, and to maintain its position in the concert of Europe and in international cooperation.

We shall probably need to specialise more, perhaps giving up certain activities; we shall undoubtedly need to adjust the scale of others, but we shall also have to develop our action in fields whose importance is increasing. I will give two examples.

The National Bank of Belgium like all central banks, has since long shown an interest in the security and stability of the financial system. But due to its integration in the European System of Central Banks, the Bank has been given an explicit responsibility in this field and the Belgian law has recently entrusted the Bank with the surveillance (or "oversight") of payment systems and securities clearing systems.

To prevent excessive debts the Government has also decided in principle to set up a “positive” credit centre, responsible for registering all credits taken out by households preventing default on payments. The competence which it demonstrated in managing the Negative Centre, responsible for registering cases of default only, and the commercial neutrality which typifies the National Bank it, seem to render her very well-suited for that function.

Ladies and Gentlemen, the National Bank of Belgium is 150 years old. I cannot tell you what will have become of it in 50 years’ time, in 2050. But I will venture to tell you what it aims to be in 5 years’ time, in 2005.

In 2005 the euro will have been in circulation for three years in Belgium and in ten other European countries in the form of coins and notes, some of which will have been printed by the National Bank of Belgium’s printing department. The National Bank will continue to ensure the quality of the notes and coins in circulation. There will be less branches but the Bank will maintain its presence in each Belgian province. The National Bank of Belgium will be a faithful, active and appreciated partner in the Eurosystem. The Bank will also have maintained the quality and relevance of its research and sometimes increased its originality. In its service activities, the Bank will endeavour to offer the best in terms of value for money; it may develop some of its activities with similarly reliable partners. External and internal communication will have been stepped up. The corporate ethos, centred on the pursuit of excellence, will encourage creativity and initiative more than it does today. In our various areas of activity, the National Bank will be able to recruit the best people. The entire population will regard it as an independent, competent and accessible public interest institution which provides real added value for Belgium’s economy and society.

Ladies and Gentlemen, we are proud of the Bank’s history and ambitious for its future.