

Jean-Claude Trichet: Joint Eurosystem - Bank of Russia seminar

Address by Jean-Claude Trichet, President of the European Central Bank, at the Joint Eurosystem - Bank of Russia seminar, Helsinki, 25 May 2004.

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Governor Louekoski, Chairman Ignatiev, distinguished guests, fellow central bankers, colleagues, ladies and gentlemen,

“Dobry Vietsher, ia otshen rad vstreche s Vami v etot vecher v Khelsinki” - Good evening, I am very happy to see you all here in Helsinki.

It gives me great pleasure to welcome you to this first Joint Eurosystem - Bank of Russia Seminar. I would like to emphasise the word “joint”, as it demonstrates that this event represents a common undertaking by the ECB, the national central banks of the euro area and the Bank of Russia. Let me take this opportunity to thank Governor Louekoski and the Bank of Finland for hosting this seminar here in the magnificent House of Estates. Finland shares a border of approximately 1,300 km with the Russian Federation and it takes less than two hours to fly from Moscow to Helsinki. Helsinki is clearly an ideal venue for this event as not only is it in the euro area but it has the Russian Federation as its neighbour.

Our seminar is not only conveniently located but has also come at a very appropriate time, as it is being held against the background of two major developments that have shaped the European and Russian economies over the past few years. In the European Union, the euro has been firmly and credibly established as the common currency for more than 300 million citizens. At the same time, the Russian Federation has fully recovered from the 1998 financial crisis in terms of both growth and monetary stability.

The seminar also marks an important step in deepening relations between the Eurosystem and the Bank of Russia, the central bank of a key EU partner. Given our crucial role in macroeconomic management and in the financial sector, effective bilateral and multilateral cooperation between central banks is needed to enhance prosperity and meet global challenges. Indeed, representatives of our institutions regularly discuss global economic and financial issues at international meetings and fora, such as the IMF, G20 and the BIS. Seminars of this kind add value to this dialogue by providing an excellent platform to focus on the central banking dimension of economic and financial linkages among the partner countries. This relates to challenges we are facing on a global, regional and bilateral level. In this spirit, the ECB has organised, together with several Eurosystem national central banks, high-level meetings with central bank governors of the ten new EU Member States and accession countries, and with Latin American, Mediterranean and East Asian central banks. In previous meetings there has always been an extremely fruitful exchange of views, contributing to a better understanding of issues of common interest.

Our discussions at this seminar will reflect three developments that have had a strong impact on our bilateral relations over the past decade. There is first the integration of the Russian economy into the global economy. Closely related to this is the emergence of a Europe without dividing lines. Finally, there have been profound changes in the monetary and financial environment in our economic areas. Let me briefly discuss each of them.

The integration of the Russian economy into the world economy

More than twelve years ago the Russian Federation embarked on a road that would lead the country through the difficult transition from a centralised system to a market-driven economy, from a fully closed to an open society. It has been a bumpy road, but the ground that has been covered is impressive. Indeed, since 1999 the Russian Federation has contributed substantially to global growth and has become a major holder of foreign exchange reserves. The Russian Federation's share in global trade has been on the rise since 1998 and on international capital markets Russian corporations have gained the status of key borrowers, benefiting from the country's transition to investment grade status.

Against this background, our institutions are facing the same challenges in relation to developments in the international monetary and financial system. Examples are the increasing degree of financial

globalisation, including its implications for reforming the international financial architecture, and the conduct of policies in an environment characterised by large global imbalances. Chairman Ignatiev and his colleagues have been a pleasure to work with in this respect, as they have enriched discussions in the respective fora by providing their invaluable assessments and perspectives.

The EU and the Russian Federation

The Russian Federation's integration into the world economy is most evident when looking at the development of economic and financial linkages to the EU. Russia is our largest neighbour, and has been brought even closer thanks to enlargement. Since 1999, exports to the Russian Federation have grown at double figure rates, and in 2002 it was the EU's fifth largest trading partner. On the other hand, the enlarged EU accounts for more than 50% of total Russian trade. The Russian Federation is a major supplier of energy products to the EU and will in future become an even more predominant source of these products.

The EU accounts for the majority of total accumulated foreign investment in Russia. In 2003, more than two-thirds of foreign inflows into the country originated from EU countries. Loans, the major source of foreign capital flows to the Russian Federation, are predominantly granted by European banks. In the third quarter of 2003, BIS reporting banks from the EU accounted for almost 90% of the Russian Federation's outstanding bank debt. Finally, there are signs that the euro is being used increasingly as an international currency.

I firmly believe that we have just begun to discover and explore the mutual benefits of economic integration in terms of trade and investment flows. Enlargement will lead to an acceleration of this process. The EU is committed to sharing the advantages of enlargement with its neighbours, as outlined in the Commission's communication on the recently published "European Neighbourhood Policy". This applies first and foremost to the Russian Federation. The concept of a common European economic space is a clear indication of this. In this respect we welcome the bilateral agreement that has been reached with the EU on the accession of the Russian Federation to the WTO. Russia's WTO membership should certainly bring about benefits for world trade, but most of all it would benefit trade between two large economic neighbours: the Russian Federation and the EU.

The Bank of Russia and the Eurosystem

Against the background of these global and regional developments, the Eurosystem and the Bank of Russia have significantly extended cooperation on central banking issues over the past few years. The most visible form of this is the Eurosystem's involvement in the EU TACIS project with the Bank of Russia on banking supervision. Its wider objective is to enhance the stability of the Russian banking system through capacity-building at the Bank of Russia. Since last November the ECB, nine national central banks of the euro area and three non-central bank supervisory authorities of EU Member States have been jointly implementing an intensive and multifaceted project. I would like to take this opportunity to thank everybody involved for their efforts and open and constructive approach to meeting the challenges such a complex programme entails.

With this seminar we want to strengthen and broaden our dialogue on all central banking issues, taking account of developments not only on a global and bilateral level, but also in our own economies. In this context, the Russian Federation's rebound is - as a recent IMF publication put it - remarkable. Indeed, it is worth bearing in mind that when Europe was preparing for the third stage of EMU, Russia was hit by a severe financial crisis. Since then, the Russian Federation has not only witnessed several years of strong growth but also the gradual emergence of an environment conducive to monetary and financial stability. Inflation has fallen to almost single digit levels, the external value of the rouble has stabilised, market interest rates have declined significantly and the government budget has just recorded its fourth annual surplus in a row. Furthermore, these positive developments have been supported by a high level of oil and gas revenues. But its rebound has not only been based on oil and gas. A package of structural reforms has been implemented in recent years, covering such areas as taxation and budgetary systems, the judiciary and land reform. Finally, and most importantly from a central banking perspective, stability-oriented macroeconomic policies have been pursued.

However, many challenges remain. They can be found on each policy level I have touched upon: global, regional and domestic. We will focus on three of them, namely the conduct of monetary policy

under integrated capital markets, the current state and outlook for the economic integration of the EU and the Russian Federation and the development of our domestic banking sectors. Since frank and open discussions are the basis for a better understanding of issues and policies, I would like to conclude by encouraging all of us to participate actively in this seminar. I very much look forward to an exciting exchange of views.

Thank you very much. Bolshoie Spassiba Za vnimanie.