

Jean-Claude Trichet: A unique perspective

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the celebration of the publication of Otmar Issing's book "Der Euro", Frankfurt am Main, 15 April 2008.

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Meine sehr geehrten Damen und Herren,

es ist mir eine große Freude, heute anlässlich der Veröffentlichung von Professor Otmar Issings Buch über den Euro zu Ihnen zu sprechen. Der Zusammenschluss von jetzt 15 EU-Mitgliedstaaten in der Europäischen Wirtschafts- und Währungsunion, mit dem Euro als der gemeinsamen Währung für rund 320 Millionen europäische Bürgerinnen und Bürger, ist einer der größten Erfolge der Währungsgeschichte. Otmar hatte als Direktoriumsmitglied der EZB in den ersten acht Jahren ihres Bestehens und als Direktoriumsmitglied der Bundesbank in den acht Jahren davor maßgeblichen Anteil an der erfolgreichen Einführung und Etablierung des Euro. Sein Buch bietet damit eine einzigartige Perspektive auf die Erfolgsgeschichte unserer gemeinsamen europäischen Währung.

Why has the creation of the euro been a success story? Of paramount importance is the fact that, right from the beginning, the ECB was able to establish, and then maintain, a high level of credibility to effectively safeguard price stability in the euro area. During the transition to the euro, market interest rates on instruments denominated in euro became aligned all along the yield curve with the lowest – and not with the average – rates prevailing in the euro area prior to the euro. This demonstrated that the ECB had managed to inherit the high level of credibility that had been achieved by the most successful national central banks joining the monetary union, in particular the Deutsche Bundesbank. You know how proud I was myself to have run a monetary policy that had given my own national currency the same level of credibility as the DM before the euro. The ECB has fully maintained this achievement during the now more than nine years since the start of EMU. Despite a large number of unprecedented adverse macroeconomic and geopolitical shocks during this period, inflation expectations have been firmly anchored, which testifies to the success of the ECB's stability-orientated monetary policy, and vindicates the public's initial confidence in the stability of the euro.

The high credibility and success of the single monetary policy in the euro area rests on two cornerstones: the institutional framework of the ECB enshrined in the Treaty establishing the European Community, and the ECB's stability-orientated monetary policy strategy. The constituent features of the ECB's institutional architecture are a clear mandate to safeguard price stability in the euro area, and full independence in the pursuit of this mandate. These institutional provisions reflect the key insights gained by academic research and policy experience over the past decades that price stability is a necessary condition for sustainable growth and job creation and that monetary policy decisions are best placed in the hands of an independent central bank. Central bank independence is key for monetary policy to be credibly and effectively geared to price stability. The credibility of the single monetary policy, and the continued success of the euro, are therefore fully based upon the ECB's independence, guaranteed by the Treaty.

The ECB's monetary policy strategy, which comprises a quantitative definition of price stability and a two-pillar framework involving economic and monetary analysis for the assessment of the risks to price stability, provides a comprehensive and consistent framework for conducting our monetary policy, and for communicating with the public. Our strategy ensures that we take all information relevant to price stability in the euro area duly into account and pursue our mandate in a steady and forward-looking manner, thereby helping us to take sound and timely policy decisions. In being fully transparent about the

ultimate goal of our monetary policy and how we go about achieving it, our monetary policy strategy also makes an important contribution to the credibility and predictability of our policy. This ultimately facilitates the fulfilment of our mandate, as it enhances our ability to guide price and wage setters and financial markets in a way that is consistent with our price stability objective.

The beneficial effects of the euro are reflected in the much-improved performance of the euro area economies over the last nine years. I have already mentioned the stabilisation of inflation expectations in the euro area at unprecedently low levels, in line with our definition of price stability. A particularly noteworthy development is the marked improvement in the performance of the euro area labour markets. Since the start of EMU, 15.7 million new jobs have been created in the euro area during the first nine years, in comparison to approximately five million in the nine preceding years. At the same time, the euro area unemployment rate has fallen to its lowest level since the early 1980s.

However, these quite remarkable developments should not give rise to complacency. The euro area could and should do much better, particularly as regards the level of productivity growth. Monetary policy can make an important contribution to economic performance by maintaining price stability, and thereby eliminating distortions arising from high and volatile inflation. Yet, the development of growth and employment are ultimately determined by the structural features of an economy. More determined, well-designed structural reforms promoting flexibility in euro area product and labour markets are, therefore, crucial in order to fully reap the benefits and support the continued success of the euro.

Otmar Issing has contributed to the euro's success in many important ways. When he was a Board member at the Bundesbank he was one of the most fervent advocates of the absolute necessity of sustainable convergence as a precondition for EMU, in order to ensure that the new currency would be at least as credible as the most credible currencies joining the monetary union. As a member of the Executive Board of the ECB, Otmar played a crucial role in designing the ECB's monetary policy strategy and in the successful conduct of the single monetary policy in the uncharted territory of the early years of EMU. He has been the living symbol of the continuity between the most credible national currencies and the euro. His outstanding career as a central figure in European monetary policy in times that were decisive for EMU makes Otmar Issing's book on the euro indeed a remarkable book written from the unique perspective of a unique actor and a unique witness of this historical endeavour.