

## **Gertrude Tumpel-Gugerell: Ten years of European Monetary Union – what is the role of national central banks today?**

Speech by Ms Gertrude Tumpel-Gugerell, Member of the Executive Board of the European Central Bank, at the Austrian National Bank's High Level Evening Panel Discussion: "Ten years of European Monetary Union: what is the role of national central banks today?", Brussels, 6 May 2008.

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Ladies and Gentlemen,

I would like to thank very much the Oesterreichische Nationalbank for inviting me and I am very pleased to be here today in Brussels to speak about "10 Years of European Monetary Union: What is the role of National Central Banks Today". In less than one month's time, the Eurosystem will celebrate its 10-year anniversary, as it was on 1 June 1998 that the European Central Bank (ECB) was founded and with it the Eurosystem. As many of you know, I have had the opportunity to work and contribute to the Eurosystem activities from both sides: from the perspective of a NCB, as a former Board Member of the Oesterreichische Nationalbank, and from that of the ECB, in my current position. Therefore, it is a particular pleasure to speak today about the achievement of EMU and the role of the NCBs in the success of European monetary policy over the last 10 years.

### **1. The main achievements of EMU**

The introduction of the euro has undoubtedly been one of the most important steps towards European integration. We cannot stop if the whole world around us is in motion Jean Monnet wrote in his memoirs. However this is not to say that the path has been easy and without criticism and scepticism on the part of some. It has been almost 40 years since the first European consultations and discussions on a monetary union took place. The first attempt, under the chairmanship of the Luxemburg Prime Minister Werner, to establish a monetary union failed as the discrepancies in the national policies appeared still too large. It was over 15 years later that the Delors group started working on a report that culminated in the Maastricht Treaty in 1992 that provided a three-stage plan for the establishment of a European Monetary Union. However, related to the difficulties faced by the European Monetary System in the beginning of the 1990s the enthusiasm for a common currency at that time was still limited.

Today the euro belongs to the everyday life of over 300 million people and right from its very first days, the euro has been a success. Despite what many sceptics expected, the ECB and the euro have been credible from day one. This credibility is based on the sound institutional setting for EMU enshrined in the Maastricht Treaty. The Treaty provides the ECB with a clear mandate to safeguard price stability in the euro area and the Eurosystem enjoys full independence in the pursuit of this mandate.

Over the past ten years the ECB's stability-oriented monetary policy strategy has made a significant contribution to the delivery of price stability and to the anchoring of inflation expectations in line with this primary objective of monetary policy. Despite the fact that a large number of unforeseeable and adverse macroeconomic and geopolitical shocks have hit the euro area economy since 1998, inflation in the euro area has remained on average in the close vicinity of 2%. It is – therefore – remarkable that even amidst such disturbances, inflation expectations have remained anchored at levels consistent with price stability over the medium term. And, it is undeniable that this is a significant improvement compared with the decades prior to the introduction of the euro.

Indeed, the euro has resulted in significant advantages for euro area citizens and companies, notably by creating an environment of monetary and financial stability. The euro has brought favourable financing conditions with market interest rates being much lower than in pre-EMU times, thereby supporting investment and sustainable economic growth. The citizens of the euro area ultimately benefit in terms of more competition, favourable prices and better employment prospects.

Moreover, the euro and Eurosystem institutions have contributed to a more efficient functioning of the financial system and to greater financial integration. The financial market participants benefit from lower costs of capital and a more efficient allocation of resources.

The success of the euro has only been possible with a great team effort among the today 15 NCBs and the ECB. It is a great success that the Governing Council consisting of at the beginning 11 and today 15 national central bank Governors with very different and diverse monetary policy experience and history and 6 ECB Executive Board members conducted a joint monetary policy for the euro area independently of national interests. In this context, let me reflect further on the role of the NCBs in the overall Eurosystem policy-making process.

## **2. The role of NCBs in the Eurosystem**

The Eurosystem operates very much like any other large organisation with a decentralised structure. The different roles of the ECB and the NCBs can be characterized by the following analogy: the ECB is the “captain of the team”, and NCBs are team members.

Turning to how the ECB and the NCBs share the tasks in the regular cycle of the Eurosystem’s monetary policy decision-making process, I would like to highlight the following:<sup>1</sup>

- First, the preparation stage involves both NCB and ECB staff as well as the Eurosystem committees. The aim being to gather information and agree on technical contributions that may be of relevance for the decision-making process. The exchange of information within the Eurosystem has been crucial in this respect. In this context, Committees provide fora that allow best practices and expertise to be shared at the technical level, foster cooperation within the Eurosystem and ensure regular and fruitful interactions between the ECB and the NCB staff.
- Second, the decision stage involves the Executive Board and the Governing Council of the ECB. The Executive Board prepares the meetings of the Governing Council. This includes drawing-up the meeting agendas and preparing the necessary documentation. The decisions on all euro area monetary policy related issues are then taken by the Governing Council.
- Third, the implementation stage, involves the NCBs implementing the decisions in a decentralised manner and ensuring that the Governing Council’s guidelines are followed. In this context, NCBs have been fully involved in the development of the Eurosystem’s infrastructure and in the implementation of monetary policy, thereby contributing their valuable expertise and experience in running the daily tasks and operations of a central bank.

In particular, NCBs play an important role in Eurosystem tasks that require a high degree of specialised expertise. Let me explain this in more detail using the area of payment systems as an illustration. For example, TARGET, the real-time gross settlement (RTGS) system for the euro, started operations in January 1999 at the same time as the launch of the euro. By

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<sup>1</sup> See P. Moutot, A. Jung and F. P. Mongelli (2008), “The workings of the Eurosystem, monetary policy preparations and decision-making – selected issues”, ECB Occasional Paper No 79.

tradition, the NCBs have been actively involved in the operation of payment systems, each in their national environment.

The central bank community soon realised that an enhanced TARGET system was needed to maximise efficiency and to satisfy the fast-evolving needs of the market. This is why the Eurosystem started to discuss the new generation of TARGET – what we call TARGET2 – when the first generation had barely started to operate. After years of careful preparation, TARGET2 began live operations on 19 November 2007. Whereas all payments in TARGET were processed by the NCBs through their local RTGS systems, TARGET2 uses a single technical platform, provided jointly by three Eurosystem central banks – the Banca d'Italia, the Banque de France and the Deutsche Bundesbank – and operated on behalf of the Eurosystem, the owner of the TARGET2 system.

In that sense, TARGET2 is a perfect example of a joint-effort based on the experience and expertise of all national central banks, which has led to greater financial integration in the euro area, particularly in the area of payment services provision.

### **3. Challenges for the governance of the Eurosystem**

The unique structure of the Eurosystem, comprising 15 NCBs and the ECB, poses challenges to its governance and organisation that need to be addressed.

Overall, the close cooperation between ECB and NCB staff and the Eurosystem's committee structure has significantly contributed to the fulfilment of the Eurosystem's tasks by ensuring that its operations run smoothly. The federal structure of the Eurosystem has several advantages in addressing a number of challenges.

First, the euro area enlargement is in many respects an important challenge for the Eurosystem. An increase in the number of members of the Eurosystem could influence the Governing Council's capacity for timely and effective monetary policy-making in a substantially enlarged euro area. In view of this, the Governing Council took the initiative ahead of time and proposed a reform of its voting modalities, which was eventually ratified by all EU Member States. These new modalities will ensure continued efficient decision-making in an enlarged Governing Council.

Second, communication in a multicultural and multilingual currency area is a continuous challenge. The diversity across the euro area implies that the Governing Council needs to speak many languages and to be aware of different cultural traditions. So far, our communication has been one of the key success factors and the NCBs have made an enormous contribution to that success. In the presence of 23 official languages in the European Union and 13 official languages in the euro area, it is very important to ensure that the very same message is conveyed to citizens in all countries. Speaking with a single voice in many languages and respecting diversity in communication traditions have ensured that information regarding the decisions of the Governing Council reaches all citizens in a timely and comprehensive manner.

Third, it remains challenging to constantly improve existing governance structures, and, where possible, to minimise efficiency losses that may result from an unnecessary duplication of tasks. The announcement of the Eurosystem mission statement as well as the agreement on a set of common values and organisational principles were steps to promote a shared identity, a spirit of cooperation and teamwork among all members of the Eurosystem.

Furthermore, new organisational models are emerging as the Eurosystem has embarked on a number of initiatives aimed at achieving greater efficiency in cost, technical, operational and organisational terms by exploiting synergies across Eurosystem participants. Similarly, NCBs have over the few last years also initiated a number of reforms and structural changes with a view to increasing efficiency. Many central banks have, in fact, reorganised internally,

reducing the number of branches and regional offices, streamlining their internal operations and restructuring their cash processing and services functions.

Finally, a challenge, of course, is to constantly improve the interaction, cooperation and exchange of information between the ECB and the NCBs. Recent developments in financial markets have proven once again the importance of such cooperation and interaction.

It is crucial to further deepen the cooperation on these matters to guarantee a smooth functioning and successful policy making of the Eurosystem.

#### **4. Conclusion**

A closer look at the first ten years of the euro shows how Europe and European citizens have benefited from the establishment of the Eurosystem, and the provision of a truly European public good, the euro. The euro has successfully turned out to be a stable currency, resulting from the sound reputation and credibility of the Eurosystem's policy framework. The Eurosystem's federal structure has made it possible to integrate the expertise and knowledge of the NCBs. Today, NCBs play an important role in running the daily tasks and operations of the Eurosystem, in providing infrastructures and in communicating with national audiences. The Eurosystem's joint effort and team spirit have been crucial in making the euro a truly European success story!

When asked about the prospects of the common currency in 1998, a famous economist replied "I think it's a big gamble and I'm not optimistic." I am both proud and happy to be able to say today that reality has proven his pessimism wrong!