

## **Jean-Claude Trichet: Welcome message at the Annual General Assembly of the Manufacturers' Association of Israel (MAI)**

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, at the Annual General Assembly of the Manufacturers' Association of Israel (MAI), Tel Aviv, 21 January 2010.

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Dear President Brosh,  
Ladies and Gentlemen,

It is a pleasure for me to extend a welcome message to the Annual General Assembly of the Manufacturers' Association of Israel. Your meeting is taking place in challenging times for the global, European and Israeli economies. Not surprisingly, Israel, as a very open economy, has been adversely affected by the global financial crisis. I also note that the Israeli economy has been quite resilient compared with other advanced economies. Israel can rightfully take pride in its recent economic performance, as well as in its achievements in economic development more broadly.

Your country has close economic ties with Europe and is highly integrated into the global economy, so I think it would be useful to consider two questions: what is the outlook for the euro area economy; and what are the lessons of the global financial crisis?

In the euro area, real GDP growth in the third quarter of last year returned to positive territory following five quarters of contraction. We expect the euro area economy to grow at a moderate pace in 2010. I should add, though, that the recovery process is likely to be uneven, and the outlook remains subject to high uncertainty.

The upside and downside risks are broadly balanced. On the upside, there may be stronger than anticipated effects stemming from the extensive macroeconomic stimulus that has been provided by the authorities. Confidence may also improve further and foreign trade may recover more strongly than projected.

On the downside, concerns remain as regards negative interactions between the real economy and the financial sector, which may be stronger or more protracted than expected. Renewed increases in oil and other commodity prices, the intensification of protectionist pressures and disruptive market movements related to the correction of global external imbalances remain other downside risks for economic developments in the euro area and beyond.

Budget deficits in euro area countries must be reduced in a timely fashion to maintain confidence in public finances. Avoiding protectionism and disruptive market movements related to global imbalances will require a high degree of international cooperation among policy makers in advanced and emerging market economies.

This brings me to my second point: what are the lessons of the financial crisis? Given the magnitude and the negative spillovers of the financial crisis on economic growth, on unemployment and on public finances, the citizens in our countries will not forgive us, if we fail to draw the right lessons from the crisis. In my view, there are three main lessons to be learnt:

- first, the need to build a more resilient financial sector,
- second, the need for fully coordinated measures to that end at the global level, and
- third, the need for all systemic economies to embark on sound macroeconomic policies over the medium and long term.

The epicentre of the crisis was located in the financial sector. Therefore the global financial system has to be made more resilient. Current efforts are under way, and the focus must now be on implementation. This concerns both financial regulation as well as oversight. In the EU, financial sector supervision is on the way to be strengthened in a two-pronged approach. A European System of Financial Supervisors will be established to permit better coordination among national authorities that oversee financial regulation. And a European Systemic Risk Board will be responsible for macro-prudential supervision. This new body will provide early warnings and issue recommendations to help prevent any renewed build-up of excessive risk in the financial system as a whole.

These measures are not the end of the road on regulatory and supervisory reform, but, once implemented, a significant step forward. Although they are aimed at the financial sector, they will serve the economy as a whole, not least manufacturers. The manufacturing industry has a stake in a stable and resilient financial system.

The crisis has revealed the very high level of interconnectedness of the global financial system. This constitutes a compelling case for very close international cooperation and solutions at the global level. There is an overwhelming need to implement global reforms in a coordinated fashion and along the same concepts, in order to preserve a global level playing field that would be solid and resilient.

Finally, the crisis has again stressed the need for all policy-makers to contribute to financial, macroeconomic and price stability over the medium and long term. In the area of monetary policy, a sound legal and institutional framework for central banks promotes medium-term and stability orientation. The primary mandate of the ECB is to maintain price stability. To fulfil this mandate, the ECB and national central banks are institutions whose independence is firmly enshrined in law.

This framework has been crucial to anchoring inflation expectations. It has also facilitated our task of maintaining price stability in the euro area, both at times of heightened inflationary pressures and at times of deflationary risks stemming from financial distress. I am convinced that a clear commitment to price stability by independent central banks has beneficial effects in countries and regions all over the world.

Ladies and Gentlemen,

Let me conclude by saying that business is, by its very nature, an act of trust, an expression of confidence. This is all the more true in the manufacturing industry, where decisions on investment are often made with a long time horizon. Confidence is exactly what has been short in supply during the crisis. Central banks have to be anchors of stability and confidence – and not only in turbulent times. When the crisis unfolded, they reacted swiftly and decisively. This was true worldwide, including in Europe as well as in Israel under the leadership of my colleague Stanley Fischer, with whom I enjoy an extremely confident and friendly relationship.

By solidly anchoring expectations of price stability over the medium term, central banks are consolidating confidence and contributing to a sustainable recovery.

I wish you a successful meeting and thank you for your attention.