

## **Jean-Claude Trichet: Introductory statement before the Plenary of the European Parliament**

Speech by Mr Jean-Claude Trichet, President of the European Central Bank, before the Plenary of the European Parliament, Brussels, 25 March 2010.

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### **Introduction**

Sehr geehrter Herr Präsident,

sehr geehrte Damen und Herren Abgeordnete,

ich freue mich, anlässlich der Debatte zur Entschließung über den Jahresbericht 2008 der Europäischen Zentralbank heute bei Ihnen zu sein.

Aufgrund der Parlamentswahlen im vergangenen Jahr hat sich die diesjährige Debatte deutlich verschoben.

Aber dies eröffnet mir die Möglichkeit, die wesentlichen Entwicklungen im letzten Jahr vor der neu gewählten Plenarversammlung zu erörtern, und am Ende auch auf die aktuelle Lage einzugehen.

Comme vous le savez, la BCE se félicite des relations très étroites avec le Parlement, qui vont bien au-delà des obligations prévues par le Traité. Nous avons établi, au fil des années, un dialogue très fructueux.

Aujourd'hui, dans mon exposé, je passerai brièvement en revue les évolutions économiques observées en 2009 et les mesures de politique monétaire prises par la BCE. Ensuite, j'aborderai quelques points soulevés dans votre proposition de résolution et je terminerai par quelques remarques sur la situation actuelle.

### **1. Economic developments and monetary policy over the past year**

So what have been the key developments in the economy and in monetary policy over the past year?

In 2009, the European Central Bank was operating in an environment that future economic historians are likely to describe as the most difficult one for advanced economies since the Second World War.

Following the profound intensification of the financial crisis in the autumn of 2008, the year 2009 started with a continued synchronised fall in economic activity worldwide.

Until around April last year, economic activity was declining, month after month, faster than any model had predicted. That is why we have often characterised what we were experiencing as a “free fall” in economic activity.

The immediate policy action taken by central banks, governments and Parliaments across the world stopped this “free fall” and laid the foundations for a gradual recovery in Europe and elsewhere over the course of 2009. I would venture to say that if central banks, governments and Parliaments around the world had not acted as resolutely as they did, it could have become the most difficult episode for advanced economies since the First World War.

The ECB was in the vanguard of the world's central banks. We have confirmed our capability to take bold and timely action.

Our “trademark”, which was vital for maintaining confidence, has been the ability to take the necessary immediate and exceptional decisions whilst, at the same time, remaining inflexibly attached to our primary objective of maintaining price stability in the medium term.

The ECB’s medium-term orientation in its interest rate policy and in the design of non-standard measures has helped to contain the emergence of both deflationary and inflationary risks.

Inflation expectations remained well anchored throughout the crisis, while we provided essential support to the real economy through the banking system and the financial markets. Some of the most important non-standard measures that we used were an unlimited provision of liquidity to banks, an extension of operations for periods of up to one year and a moderate, yet highly effective purchase programme for covered bank bonds, which reactivated this segment of the bank funding market.

Overall, our non-standard monetary policy measures – which are known collectively as “enhanced credit support” – have served the euro area economy well.

They have supported the functioning of the money market, contributed to improving financing conditions and allowed for a better flow of credit to the real economy than could have been achieved through interest rate reductions alone. By and large, banks have been passing on the sharply lower key ECB interest rates to households and businesses.

Designing a timely exit strategy from our non-standard measures was a central part of the ECB’s response to the crisis. In September last year, we set out our overall strategy. In December, we decided on its implementation.

The guiding principle is that to the extent that the situation returns to normal, keeping such measures in place for longer than required risks changing the behaviour of financial market participants in an undesirable manner.

We do not wish to breed dependency.

Thus, in December 2009, we began to gradually phase out some of our extraordinary liquidity measures, taking account of improvements in financial markets. In particular, we scaled back the number, frequency and maturity of longer-term refinancing operations.

But we have committed to maintaining fully accommodating liquidity support to the euro area banking system until at least October this year.

The Governing Council is of the opinion that the current monetary policy stance is appropriate, and that the continued firm anchoring of inflation expectations bodes well for price stability in the medium term.

## **2. Specific issues raised in the European Parliament’s draft resolution**

Let me now turn to some of the issues you raise in your draft resolution.

On the issues of accountability and transparency, we very much appreciate the regular dialogue with the European Parliament and the constructive spirit with which this exchange is conducted.

I therefore welcome the ECON Committee’s repeated support for our quarterly monetary dialogue. An independent institution like the ECB, which is accountable to the European people, has to be in close contact with their elected representatives.

We consider the ECB to be one of the world’s most transparent central banks. Our practice of holding a press conference immediately after the Governing Council meeting on monetary policy each month remains a pioneering initiative that has not yet been replicated by our major sister institutions. With the publication of our comprehensive Introductory Statement in real-time, we explain policy decisions and their underlying rationale.

During the crisis, we have further intensified our communication efforts and thereby helped to smooth financial market reactions, to build confidence and to lay the foundations for recovery.

You also requested the views of the ECB on the establishment of a clearing house for instruments such as credit default swaps (CDSs) within the euro area. I would like to say that the robustness of euro-denominated CDS markets is of direct relevance for the Eurosystem as regards control over its currency and financial stability in the euro area.

Central counterparty clearing is very important not only for delivering transparency, but also for diversifying and sharing risk exposures and reducing the incentives to take excessive risks. Certain financial instruments, which were introduced for hedging, should not be misused for speculation. Regulators should be able to undertake effective investigations into possible improper conduct.

### **3. The outlook for EMU during challenging times**

Mr President, honourable members of the European Parliament,

An economic recovery is in progress, but this does not mean that the crisis is over.

For one thing, we know that the pace of recovery will be uneven and we cannot rule out setbacks.

For another, we are still facing numerous challenges regarding the reform of our financial system. Finance must play a constructive role, and not a destructive one, in our economies.

The litmus test for a constructive role is that finance serves the real economy. To ensure such a role, we still need to improve the functioning of financial systems considerably further. Thus far, a great deal of attention has been focused on the banking sector. But effective reforms also have to look very closely at non-bank financial institutions and at the set-up and functioning of financial markets.

Financial markets are not always efficient.

They are not always deep and liquid. Nor do they always represent a fair competition of views and positions. Often, specific market segments can be oligopolistic, dominated by a few large players. In such markets, the views of powerful players can trigger trends that move valuations way out of line with fundamentals.

We have to devise mechanisms and incentives to ensure that finance does not spiral out of control in the destructive way that it did just prior to the crisis.

We have to contain systemic disruptions that lead to economic hardship for the people of Europe. Setting up the European Systemic Risk Board, legislation for which is currently being considered by the Parliament, is part of the correct response to this challenge.

There are other challenges facing the European economy, and these are associated with public finances and sovereign financial health.

Within Europe's economic and monetary union, there is a clear allocation of responsibilities.

With respect to that allocation of responsibilities, everyone can count on the commitment of the ECB to maintain price stability in the euro area as a whole over the medium term.

Meanwhile, we have not only this commitment, but we also have a track record of nearly a dozen years.

Based on our latest staff macroeconomic projections for this year, the average annual inflation rate in the first 12 years of the euro is likely to stand at around 1.95%. That is in line with our definition of price stability: "below 2%, but close to 2%". The ECB's commitment, strategy and track record are consistent.

But the smooth functioning of Europe's economic and monetary union cannot rest on a single pillar. EMU rests on two pillars, the monetary and the economic one.

Policy-makers at the national level must likewise contribute to the success and stability of EMU and they need to deliver policies that are in line with its principles. In particular, they must keep public finances sound and their economies competitive.

In the current circumstances, where Europe faces further pivotal decisions, it is more important than ever to recognise that a prosperous union requires determined action by all. Whatever direction the upcoming decisions regarding the current situation may take, the most important issue is that Europe's policy-makers live up to their responsibilities.

Monetary Union in Europe is far more than a monetary arrangement. It is a union of shared destiny.

*Wir teilen ein gemeinsames Schicksal. Nous partageons un destin commun. Condividiamo un destino commune. Compartimos un destino común.*

This destiny is for our common good, and it is the vision of our founding fathers. Monetary Union is not a matter of convenience. It is part of an overarching process of advancing the integration of the people in Europe that began after the Second World War.

It received a new impetus with the fall of the iron curtain. Europe has seized the opportunity to unite people of sovereign nations in a union of prosperity, stability and values. I am, of course, aware of the great breadth of discussions about underlying decisions and actions – both within Europe and outside Europe. Many people are questioning the direction in which we as European citizens, European nations and European policy-makers are going.

In my view, this discussion is under way not because we have failed – it is because we have been successful. Europe has succeeded in virtually everything it had wanted to achieve. Uniting a continent in which many capital cities have, at diverse points in history, been capitals of the world is an achievement that is often overlooked.

I believe we often play this achievement down. And we are often too quick to criticise our institutions and processes. But they have generally worked well, even in the most difficult times. During the financial crisis, for example, European institutions and processes have remained effective. We have avoided on this side of the Atlantic dramatic events that could have triggered a new intensification of the crisis, which started in the U.S. in September 2008. And we have not had any mishap with the passing in any of our numerous Parliaments of a financial support package. Europe is functioning and it is delivering what its citizens need.

Through our Economic and Monetary Union, we have achieved a considerable degree of cohesion and stability – and we must protect that achievement. It is within this context that I appreciate the commitment of euro area Member States, made on the occasion of the last European Council meeting, to take determined and coordinated action, if needed, to safeguard financial stability in the euro area.

Let me also take advantage of my presence in front of the European Parliament to lay out what I already mentioned in the hearing before the Economic and Monetary Committee on Monday. It is the intention of the ECB's Governing Council to keep the minimum credit threshold in the collateral framework at investment grade level (BBB–) beyond the end of 2010. In parallel, we would introduce, as of January 2011, a graded haircut schedule, which will continue to adequately protect the Eurosystem. I will provide the technical details when reporting on the Governing Council decisions of our next meeting on 8 April.

## **Conclusion**

The introduction of the single currency just over a decade ago represents the greatest achievement in the history of European integration to date – a process that has ensured six decades of peace and prosperity in Europe.

The global financial crisis has brought fresh challenges to which we in Europe have all risen. Our Monetary Union and our very close ties, inside the single market, with all EU Member States' economies have prevented the crisis from being compounded by currency crises, as in the traumatic experiences of the early 1990s.

Today, Europe faces further pivotal decisions. Our common task is to ensure continued peace and prosperity, to make our union an even more attractive place to live and work in.

For this purpose, we need strengthened surveillance and strengthened cooperation. We also need to revive the sense of common purpose, the shared ideals that motivated our founding fathers. Their endeavour was visionary and all what we see in today's world confirms their lucidity.

Thank you for your attention.