

Mr Duisenberg presents the ECB's Annual Report 1998 to the European Parliament

Introductory statement by Dr Willem F Duisenberg, President of the European Central Bank, to the European Parliament in Strasbourg on 26 October 1999.

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I have great pleasure in presenting the first Annual Report of the European Central Bank to the European Parliament at today's plenary session. Almost ten months have passed since the euro was successfully introduced and the ECB took over full operational responsibility for the single monetary policy. Many of us feel that, with the launch of the single currency, the process of European integration has gained a new quality. Indeed, the transfer of a core competency of the modern state, namely monetary policy, to a truly European and independent organisation such as the ECB must be regarded as a historic event which marks an unprecedented degree of economic and political integration within the European Union.

The smooth transition to this new era of European integration and the successful operational start of the ECB was the outcome of several years of intense and thorough preparation. The Annual Report of the ECB gives a detailed account both of the final preparatory work conducted by the Eurosystem in the run-up to the introduction of the single currency and of the main economic and monetary developments within the European Union in 1998 and in the first few weeks of 1999.

To mention some of the issues addressed by the Annual Report, it explains the Eurosystem's stability-oriented monetary policy strategy, the operational framework for the implementation of the single monetary policy and the foreign exchange rate policy framework of the euro. The Report also contains chapters on the other tasks conferred upon the Eurosystem by the Treaty establishing the European Community, including the implementation of statistical requirements for Stage Three, the Eurosystem's responsibilities in the area of payment systems, the preparations for the introduction of the euro banknotes, the Eurosystem's tasks related to banking supervision and financial stability and the Eurosystem's cooperation with other international and European institutions and forums.

However, since the information contained in the Annual Report is of a self-explanatory nature, it might be more useful if I concentrate my remarks on some of the issues addressed by the draft Resolution prepared by your Committee on Economic and Monetary Affairs. I shall then be happy to answer any questions you might have.

1. Accountability and transparency of the ECB

I should like to start by commenting on the discharge of the ECB's accountability vis-à-vis the European Parliament. The Treaty establishing the European Community contains various provisions to ensure the democratic accountability of the ECB, one of the cornerstones of which is certainly the presentation of the Annual Report to the European Parliament and the Council of the European Union. However, apart from this annual exercise, the ECB and the European Parliament have established several other contacts.

First and possibly most importantly, I should like to mention the regular hearings held by the European Parliament's Committee on Economic and Monetary Affairs. Within the scope of these hearings, which – in line with the European Parliament's rules of procedure – take place on a quarterly basis, I provide detailed explanations regarding both our assessment of current economic and monetary developments and the decisions taken by the ECB. Transcripts of these hearings are published on the websites of both the European Parliament and the ECB. Moreover, the European Parliament has invited members of the Executive Board of the ECB and staff of the ECB to participate

in additional hearings on a number of specific issues, including the external representation of the Eurosystem, the preparation of euro banknotes and statistical matters.

Furthermore, the ECB has also had the opportunity to welcome delegations of members of the European Parliament's Committee on Economic and Monetary Affairs to its premises in Frankfurt. The ECB attaches great importance to these visits and will be pleased to continue to host such events. However, since these visits to the ECB are of a more informal nature, it goes without saying that they have to be considered as an additional tool for communication between the two institutions and cannot be seen as a substitute for regular public hearings at the European Parliament.

In setting up its communication policy, the ECB decided to go beyond the transparency requirements of the Treaty. Thus, while the Treaty requires the ECB to publish a quarterly report on its activities, the ECB has decided to publish such a report on a monthly basis, the Monthly Bulletin, which gives a detailed presentation of economic and monetary developments.

In addition, there are a number of other communication tools that the ECB regularly uses. First, let me mention the extended press conferences that the Vice-President and I hold immediately after the first meeting of the Governing Council of the ECB every month, transcripts of which are also accessible via the ECB's website. You may also be aware of the broad range of publications that the ECB has issued on specific subjects related to its fields of responsibility. I should like to draw your attention, in particular, to the ECB's series of working papers, the aim of which is to disseminate the findings of the ECB's internal research. Finally, various statistical data, as well as the speeches held by the members of the Executive Board, can also be accessed via the ECB's website.

The ECB's communication policy gives clear priority to maintaining and enhancing the credibility of the Eurosystem and confidence in the euro, both of which are crucial elements in the successful conduct of monetary policy. In this context, one should always bear in mind the fact that the Governing Council acts as a collegial body, and that all decisions have to be communicated to the public in a clear and consistent way. Speaking a common language is particularly important for a central bank operating in a monetary union comprising several countries. Contradictory indications about the decisions taken by the ECB and the underlying reasons might trigger unwarranted market expectations and increase uncertainty, thereby running counter to the very objective of being transparent with regard to the conduct of monetary policy. I should like to stress that the information provided at the press conferences held after the meetings of the Governing Council, together with the analysis contained both in the ECB Monthly Bulletin and in the other channels of communication I mentioned earlier, comes very close, in substance, to the publication of "summary minutes". In view of the broad variety of publicly available information issued by the ECB, it is my firm belief that the ECB can stand comparison with other central banks in the field of transparency.

2. Publication of forecasts and national data relating to the euro area

In this context, I should also like to comment briefly on the request to publish the ECB's internal forecasts. First, it would clearly be premature to consider such a step since the Eurosystem has yet to gain experience with its forecasts. More time will be needed before we can assume that all the technical issues have been addressed properly, and the publication of forecasts can be considered without endangering the ECB's credibility. I am confident that we can achieve this in the course of next year. Let me also emphasise that the role of the ECB's internal forecasts in the decision-making process should not be overestimated. Such forecasts constitute one piece of information made available to the Governing Council, but certainly not the only one. The role of the ECB's internal forecasts within the monetary policy strategy of the Eurosystem therefore differs from the role of inflation forecasts in a strategy of direct inflation targeting. Finally, I should like to recall that the Monthly Bulletin – especially in its extended quarterly version – provides a forward-looking analysis, including reviews of the outlook for price developments.

The ECB has also been asked to publish reports featuring national data relating to countries participating in the euro area. However, the publication of such data would be misleading since the single monetary policy cannot be directed at country-specific situations. On the contrary, the

Eurosystem must take a euro area-wide perspective in its assessment of the economic situation in general and the outlook for price stability in particular. Publication by the ECB of detailed reports for each country participating in the euro area would run counter to the necessary creation of an area-wide perspective in the conduct and discussion of monetary policy. However, it should be recognised that the national central banks of the Eurosystem continue to produce their own regular reports that address national economic and financial developments in some detail.

3. The ECB's contribution to the general economic policies in the Community

I should now like briefly to expand upon another issue which I know to be a fundamental concern of the European Parliament, namely the contribution of monetary policy to the general economic policies in the Community. The Treaty provides for a fundamentally sound allocation of objectives and policy instruments between the monetary and governmental authorities in Europe. The Eurosystem is responsible for maintaining price stability. To this end, the Eurosystem has adopted a monetary policy strategy that is forward-looking and acts promptly to address threats to price stability. The Treaty also states that, without prejudice to its primary objective of price stability, the Eurosystem shall support the general economic policies in the Community.

By maintaining price stability, monetary policy makes the best contribution it can to achieving a high level of output and employment in the medium term. Price stability has beneficial effects on general economic performance – including growth and employment prospects – through many channels, of which I should like to mention the following:

- first, in an environment of price stability, the market mechanism will allocate resources more efficiently to their most productive uses. Markets function most effectively when relative price signals are not distorted by fluctuations in the general price level;
- second, a climate of price stability reduces the inflation risk premia in interest rates, particularly in longer-term rates, and thereby improves the conditions for financing investment;
- third, lasting price stability serves the interests of social justice and helps to protect the weakest members of our society, such as pensioners and the unemployed, who depend on fixed incomes and who cannot protect themselves against the costs of inflation with other assets, such as property or shares.

Broad agreement exists that there is no long-term trade-off between price stability and economic growth. Attempting to use monetary policy to raise real economic activity above its sustainable level will, in the long run, simply lead to ever higher inflation, not to faster economic growth. Such an attempt will simply forfeit the benefits of stable prices which I have just outlined and would therefore prejudice growth and employment prospects over the medium term.

While the contribution it makes through maintaining price stability must not be overlooked, monetary policy clearly cannot solve the serious structural unemployment problem in the euro area. Other policy areas have the instruments needed and are thus responsible for solving the structural problems. Decisive action in this field is certainly required to improve growth and employment prospects.

Safeguarding sound government finances is a means of strengthening the conditions for price stability and achieving strong sustainable growth which is conducive to employment creation. In this context, the Stability and Growth Pact sets the right incentives for the conduct of sound and disciplined fiscal policies across all participating Member States. In addition, structural reforms in labour and goods markets, as well as a moderate development of wage costs, can best address the root causes of currently high unemployment in Europe.

The clear division of policy responsibilities I have just described enhances the credibility of monetary and economic policies in Europe, increases transparency and facilitates accountability. It provides the proper incentives for the policymakers in individual policy areas. If all parties concerned respect the fundamental allocation of these responsibilities and act accordingly, the achievement of the objectives of all policy areas will be the natural outcome of their individual policy choices.

In this regard the Eurosystem supports the idea of a dialogue between monetary policy and other policy areas in the form of an open exchange of information. However, such a dialogue should be clearly distinguished from any attempts to coordinate policies ex ante, so as to achieve a certain “policy mix”, which would blur the fundamental responsibilities I described. Such coordination would tend to decrease accountability, reduce the transparency of the policy framework for the public and increase uncertainty about policy actions, potentially threatening to destabilise the economy. Finally, the debate on a “balanced and appropriate policy mix” should not be used to deflect attention from the structural reforms that are urgently needed to address the euro area’s serious structural unemployment problem.

4. The ECB’s contribution to financial stability

The ECB’s contribution to financial stability, and in particular the question of the provision of emergency liquidity to financial institutions in distress, is another issue upon which the interest of the European Parliament is focused. Allow me to explain some of the main considerations in this regard. The main guiding principle within the Eurosystem with reference to the provision of emergency liquidity to individual financial institutions is that the competent national central bank would be responsible for providing such assistance to those institutions operating within its jurisdiction. The ECB does, however, have to be informed of this in a timely manner. In addition, in operations of relevance to the single monetary policy, the decision-making bodies of the Eurosystem will be involved in assessing the compatibility of the envisaged operations with the pursuit of monetary stability. In the case of a general liquidity crisis resulting from a gridlock in the payment system, for instance, the direct involvement of the Eurosystem could be expected.

For the markets it would be sufficient to know that there is a clearly articulated capability and willingness to act if really necessary. It is not common practice among central banks to disclose the conditions and practicalities of emergency liquidity assistance arrangements. In particular, there are typically no official documents describing the conditions under which emergency liquidity would be extended or what procedures would be followed. Indeed, ex ante commitments would be counter-productive in this field, since they would restrict the ability of the central bank to act to contain systemic disturbances with unforeseen features. Moreover, this policy of “constructive ambiguity” can limit the associated problem of moral hazard.

5. Improving cross-border retail payment services in the euro area

Finally, I should like to turn to a different issue which has also been raised by the European Parliament on several occasions, namely the question of cross-border retail payment services in the euro area. The ECB is aware of the criticism that has been expressed with reference to the low level of efficiency and high costs involved in the processing of such payments and fully shares the concerns expressed by the European Parliament in this regard. The current situation is particularly unsatisfactory in the area of cross-border credit transfers, whereas the situation in the area of cross-border card-based payments raises fewer concerns.

As you will be aware, one of the basic tasks conferred upon the Eurosystem by the Treaty is the promotion of the smooth functioning of payment systems. However, the involvement of central banks in retail payment systems is, in general, less pronounced than in large-value payment systems, mainly because retail payment systems entail significantly lower systemic risks. Nevertheless, the Eurosystem is concerned with efficiency issues related to cross-border retail payments.

At present, the performance of cross-border retail payment systems is clearly lagging behind the policy objectives of Economic and Monetary Union and, indeed, the expectations of many European citizens and small enterprises. After the introduction of the euro banknotes and coins on 1 January 2002, these differences in service levels for national and cross-border payments within the single currency area will become even more apparent.

Against this background, the ECB strongly advocates the creation of a single payment area in order to fully reap the benefits of the single currency. In order to give a clear signal to the banking industry and the public, the ECB published a number of objectives in September which it expects the industry to fulfil and which should contribute towards substantial improvements. The current inadequacies are linked, in part, to the still predominant recourse to correspondent banking and the lack of adequate interbank infrastructures. More efficient funds transfer arrangements have been set up in recent years, but they are too fragmented and economies of scale are very limited. One pre-condition, therefore, for achieving a substantial enhancement in the processing of cross-border retail payments is undoubtedly the fact that the banking industry must implement common technical features in the processing of funds between banks.

However, this is unlikely to be sufficient. The banking industry must also improve substantially its internal procedures for processing cross-border payments, as well as its communication with the customer. This, in turn, requires a more extensive use of automation and standardisation. In this respect, I should like to draw attention to the standards agreed within the framework of the European Committee for Banking Standards, which I consider to be of particular importance. The ECB is organising meetings with all parties involved in order to bring the implementation of the standards forward.

Once the conditions related to interbank processing and internal procedures have been met, it should be possible for the banking industry to decrease substantially the price of cross-border credit transfers and to reduce the execution time to that needed for domestic payments plus one day.

The ECB expects the banks in the euro area to achieve substantial improvements by 1 January 2002 at the latest. The ECB will act as a catalyst for change and will, together with the national central banks of the Eurosystem, discuss these issues with the euro area banking industry in order to play a supportive and coordinating role in this regard. At present, an operational involvement of the ECB does not appear to be justified since there are some indications that the general appreciation of the problem by the private sector is now increasing. The ECB will, however, closely monitor further developments in this area and will inform the European Parliament and the general public about the progress achieved.