The Stamp Memorial Lecture

The euro, its central bank and economic governance

Jean-Claude Trichet
President of the European Central Bank

Peter Sutherland
Chair, LSE

Suggested hashtag for Twitter users: #lseuro
The euro, its central bank and economic governance

Jean-Claude Trichet
President of the European Central Bank
London, 13 June 2011
Non-standard measures

- Fixed-rate full-allotment
- Longer-term liquidity provision
- Expansion of collateral
- Liquidity provision in foreign currencies
- Financial market support via purchases of covered bonds
Non-standard measures

- MRO
- 1 MP
- Outright Portfolio
- 3-m + 6-m + 12-m
- FTO Providing
- FTO Absorb.
- net recourse to MLF
- Liquidity Needs
Macroeconomic Volatility

Inflation Expectations in the Euro Area

Euro area

Sources: Eurostat, ECB calculations
Note: BEIR is Break-Even Inflation Rate from comparison of inflation-indexed and conventional sovereign bonds.
Inflation Expectations in the United States

United States

Sources: US Bureau of Labor Statistics
Note: BEIR is Break-Even Inflation Rate from comparison of inflation-indexed and conventional sovereign bonds.
Real GDP per Capita

Sources: US Bureau of Economic Analysis, Eurostat, ECB calculations
Note: Output per capita is real GDP divided by total population
Dispersion of Annual Inflation

Unweighted standard deviation in percentage points

- Euro Area (12 countries)
- US (14 MSAs)

Note: MSAs: Metropolitan Statistical Areas
Dispersion of Real GDP Growth

Unweighted standard deviation in percentage points

Sources: European Commission, US Bureau of Economic Analysis, ECB calculations
Note: There is a statistical break in the US regional data in 1998. For the US States the data refer to Gross Domestic Product (GDP) by state.
Dispersion of Unit Labour Cost

Unweighted standard deviation in percentage points

- Euro area 12
- United States

ULC Dynamics in the Euro Area

ULC relative to euro area average, 1998=100

Source: European Commission
Note: ULCs are computed as the ratio between compensation per employee and real GDP per employed person
ULC Dynamics in the United States

ULC relative to US national, 1998=100

Source: US Bureau of Economic Analysis
Note: ULCs are computed as the ratio between compensation per nonfarm employee and real GDP per employed person.
Reform of European Economic governance

• Fiscal Surveillance
  – Ex Ante Economic Policy Coordination (EU Semester)
  – Faster and more automatic sanctions
  – Earlier, Less Discretionary Enforcement Mechanisms
  – National Fiscal Frameworks Aligned with SGP Requirements

• Macroeconomic Imbalances Surveillance
  – Alarm System Based on Macro Indicators
  – Missions, Reports, Enforcement Mechanisms
Financial Governance Reforms

• Need to ensure full implementation of reforms
  – More stringent banking regulations
  – More ambitious capital requirements

• Key areas with work in progress
  – Treatment of systemically important financial institutions
  – Mechanism of bank crisis management
  – Oversight of the shadow banking system
  – Further regulation and oversight of financial markets
The euro, its central bank and economic governance

Jean-Claude Trichet
President of the European Central Bank
London, 13 June 2011