

The Stamp Memorial Lecture

The euro, its central bank and economic governance

Jean-Claude Trichet

President of the European Central Bank

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LSE events

Suggested hashtag for Twitter users: #lseuro



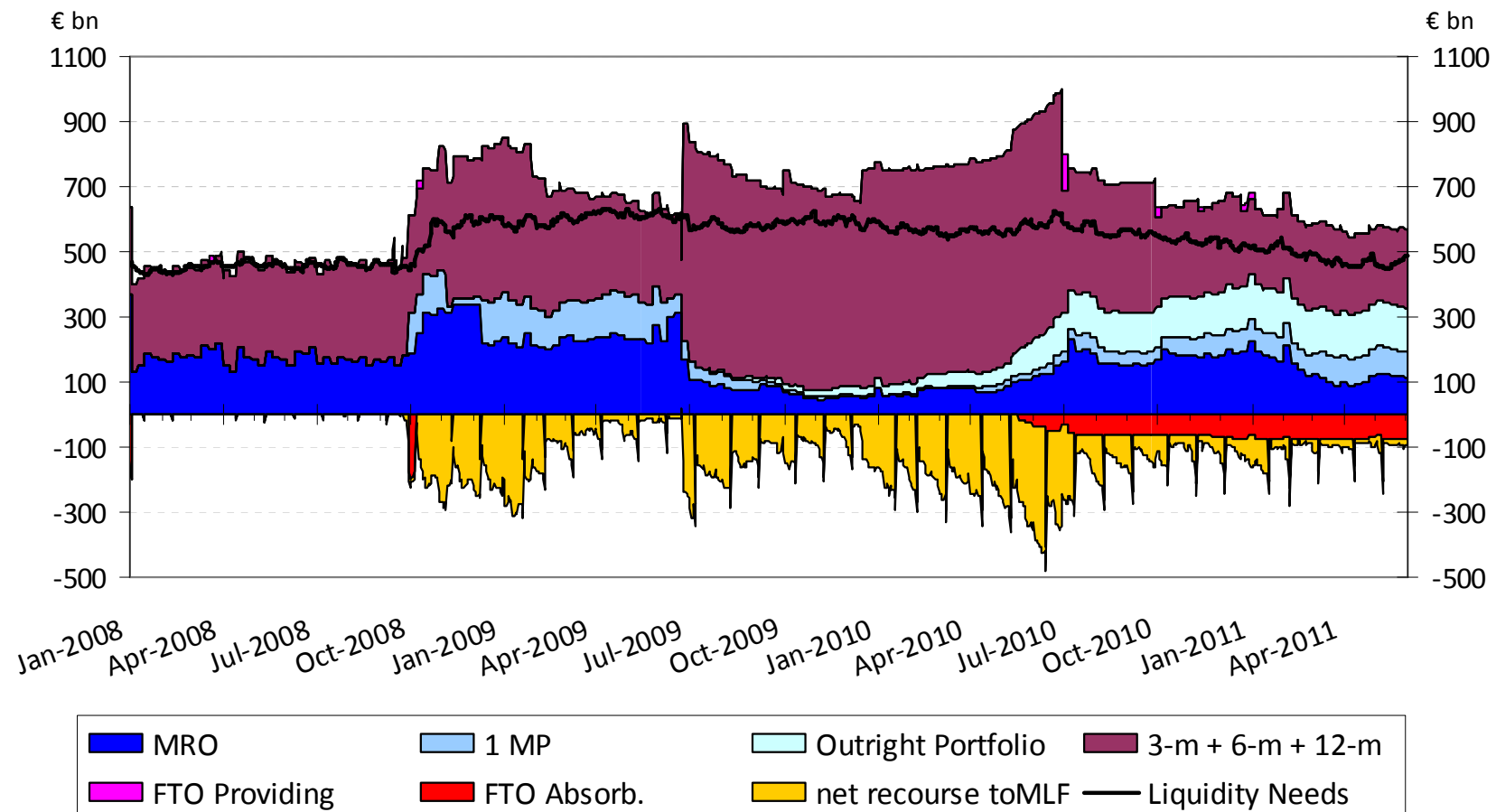
The euro, its central bank and economic governance

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

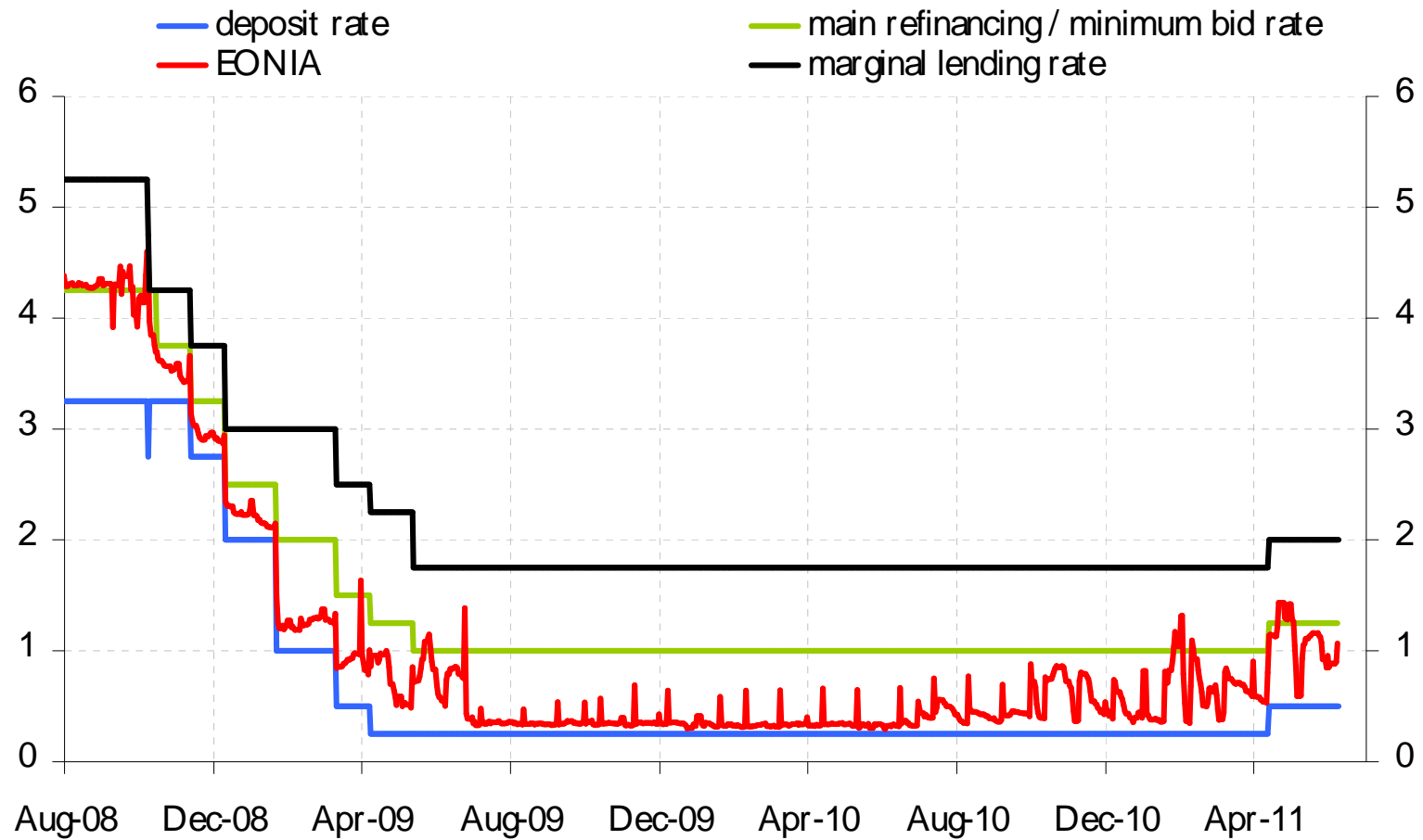
Non-standard measures

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

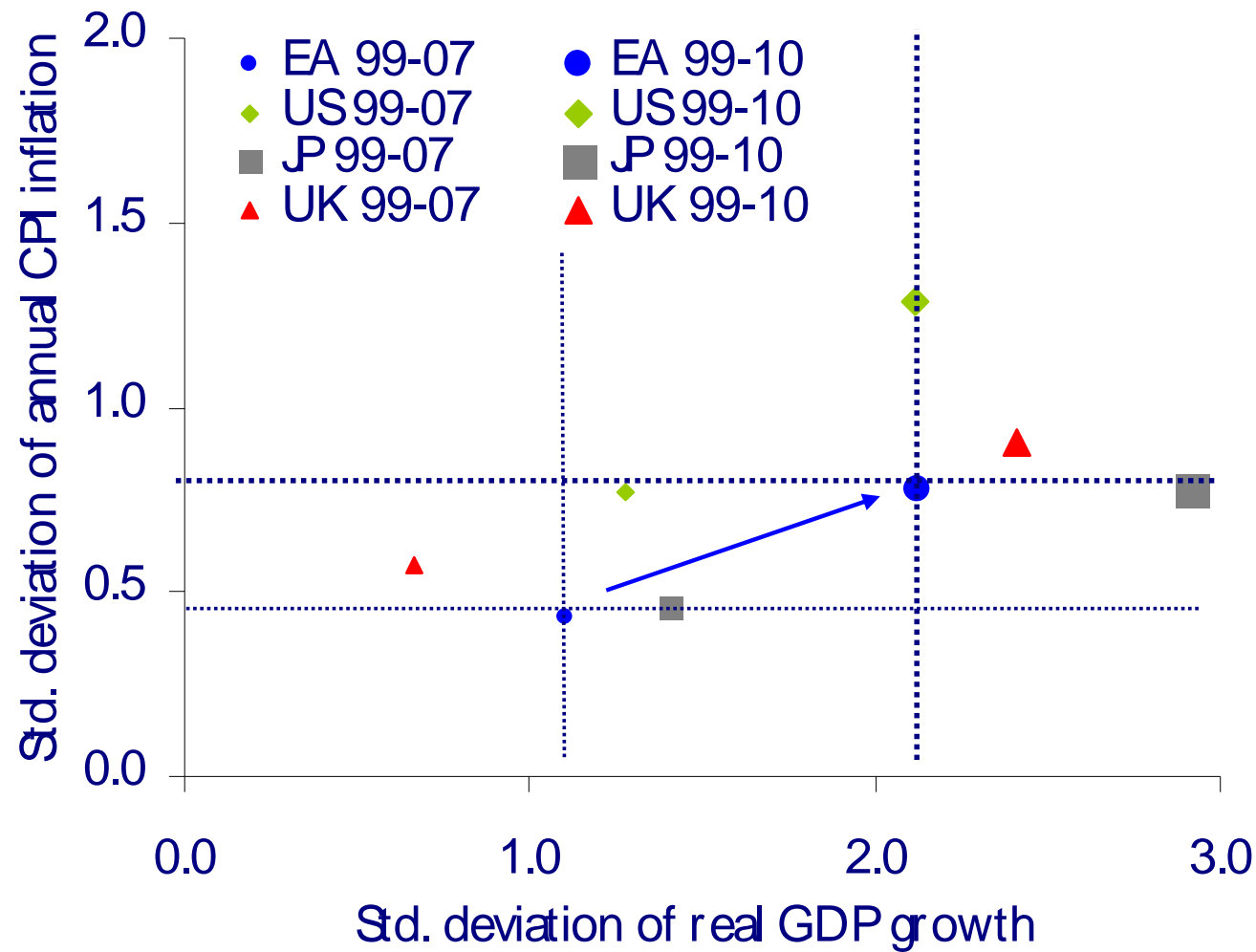
[Non-standard measures]



ECB policy rate



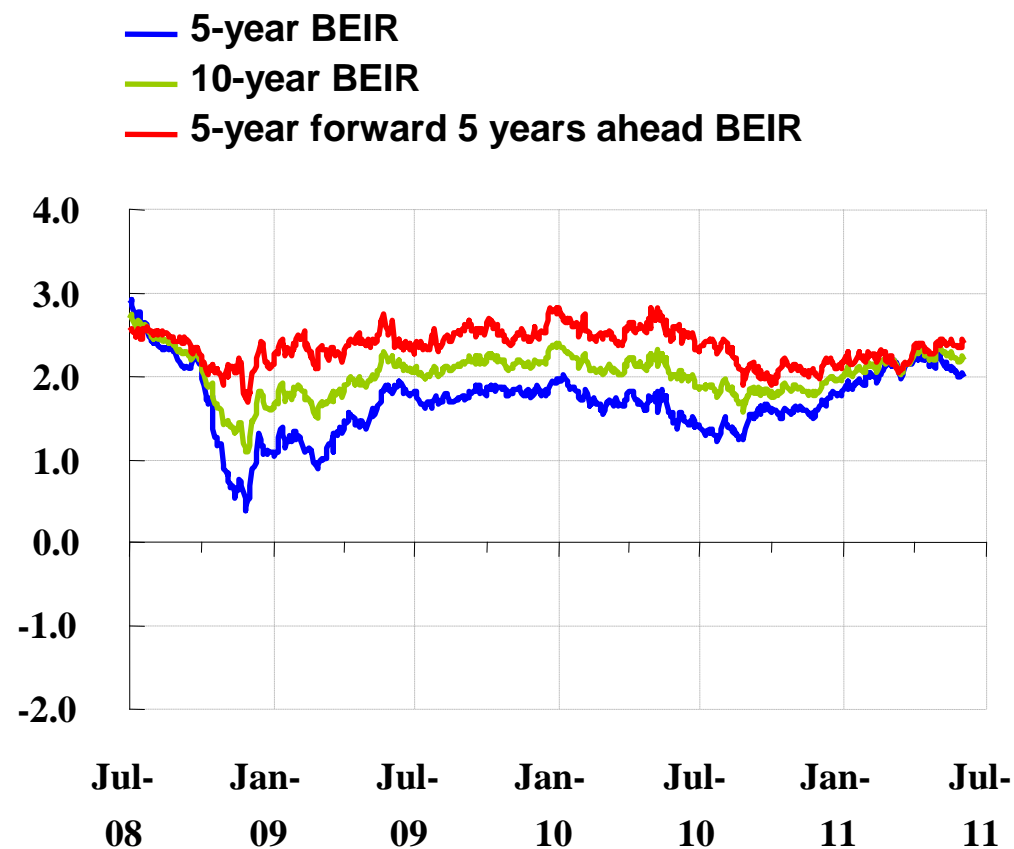
Macroeconomic Volatility



Sources: OECD, ECB calculations

Inflation Expectations in the Euro Area

Euro
area

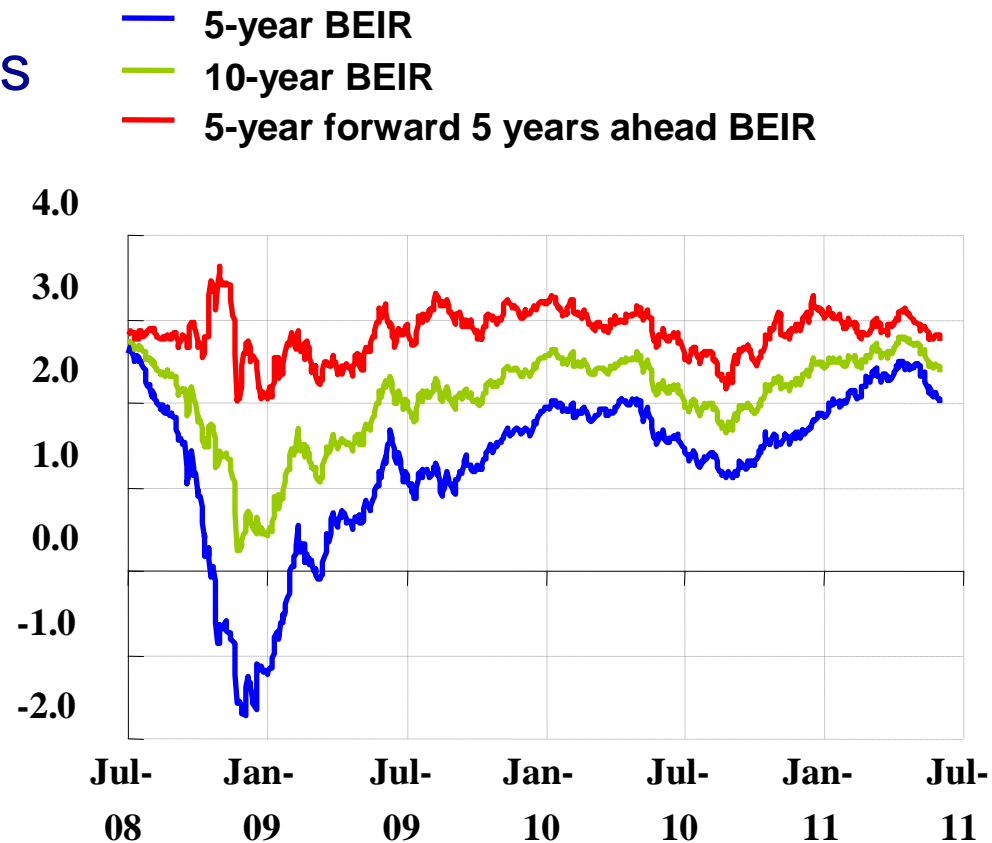


Sources: Eurostat, ECB calculations

Note: BEIR is Break-Even Inflation Rate from comparison of inflation-indexed and conventional sovereign bonds.

Inflation Expectations in the United States

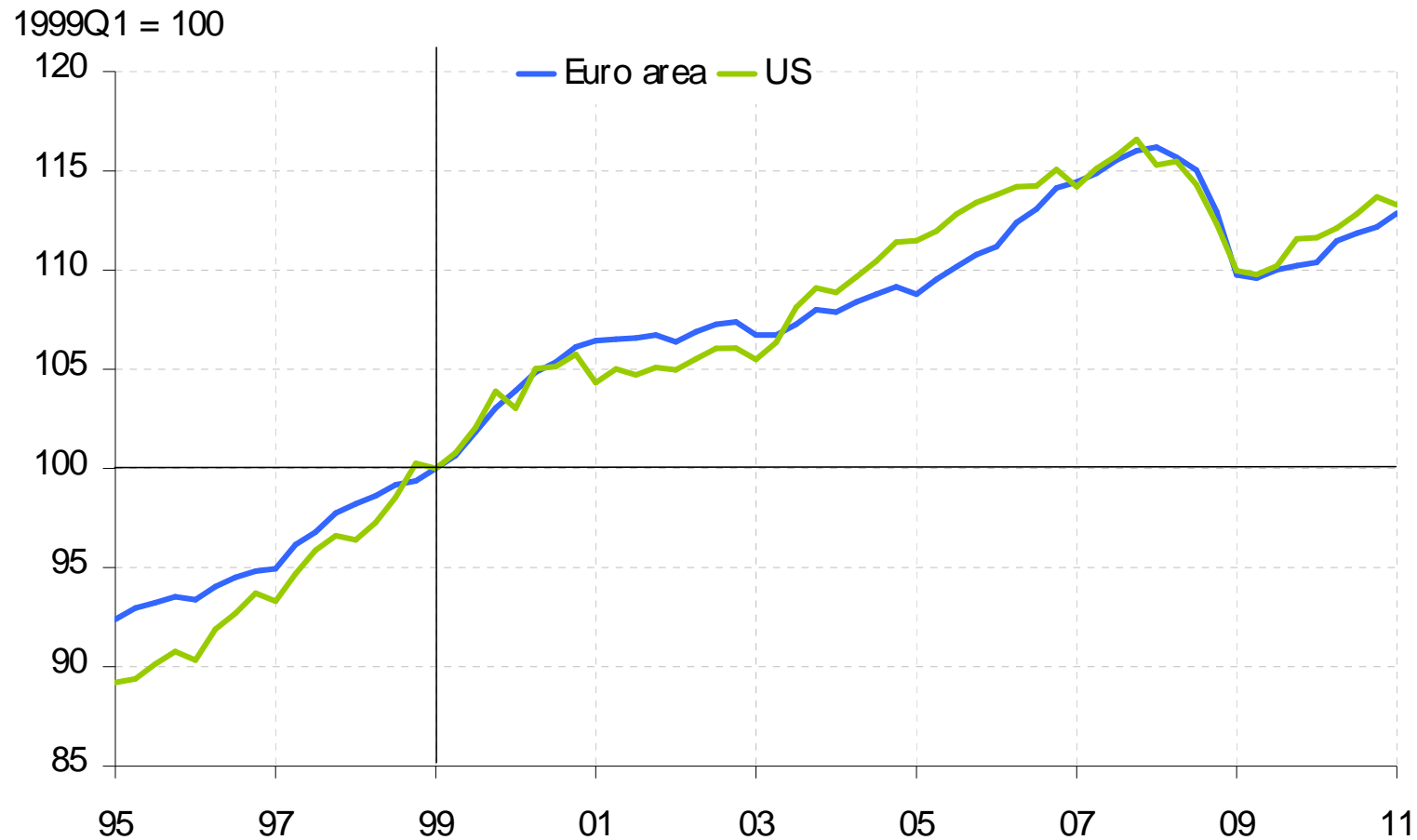
United States



Sources: US Bureau of Labor Statistics

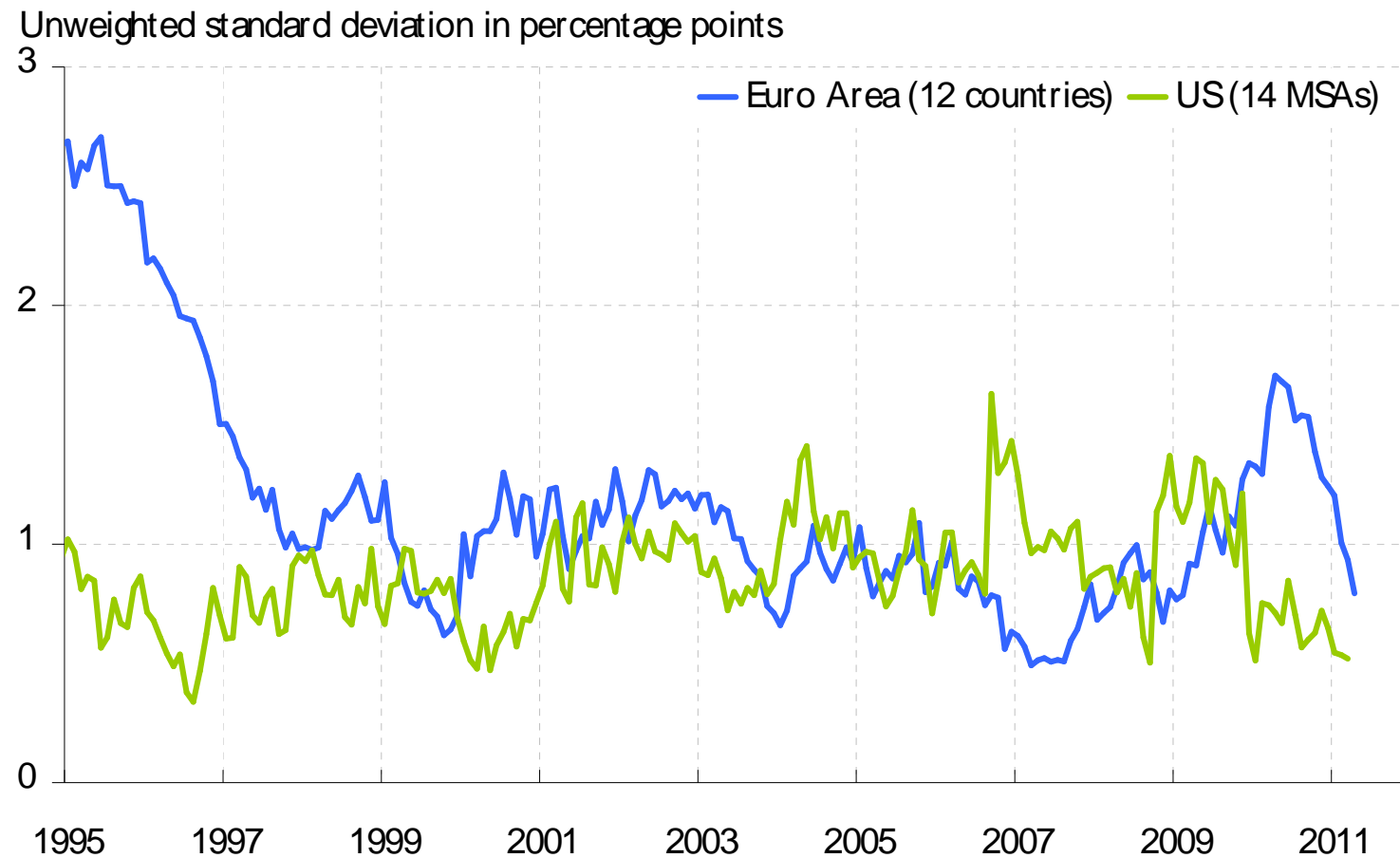
Note: BEIR is Break-Even Inflation Rate from comparison of inflation-indexed and conventional sovereign bonds.

Real GDP per Capita



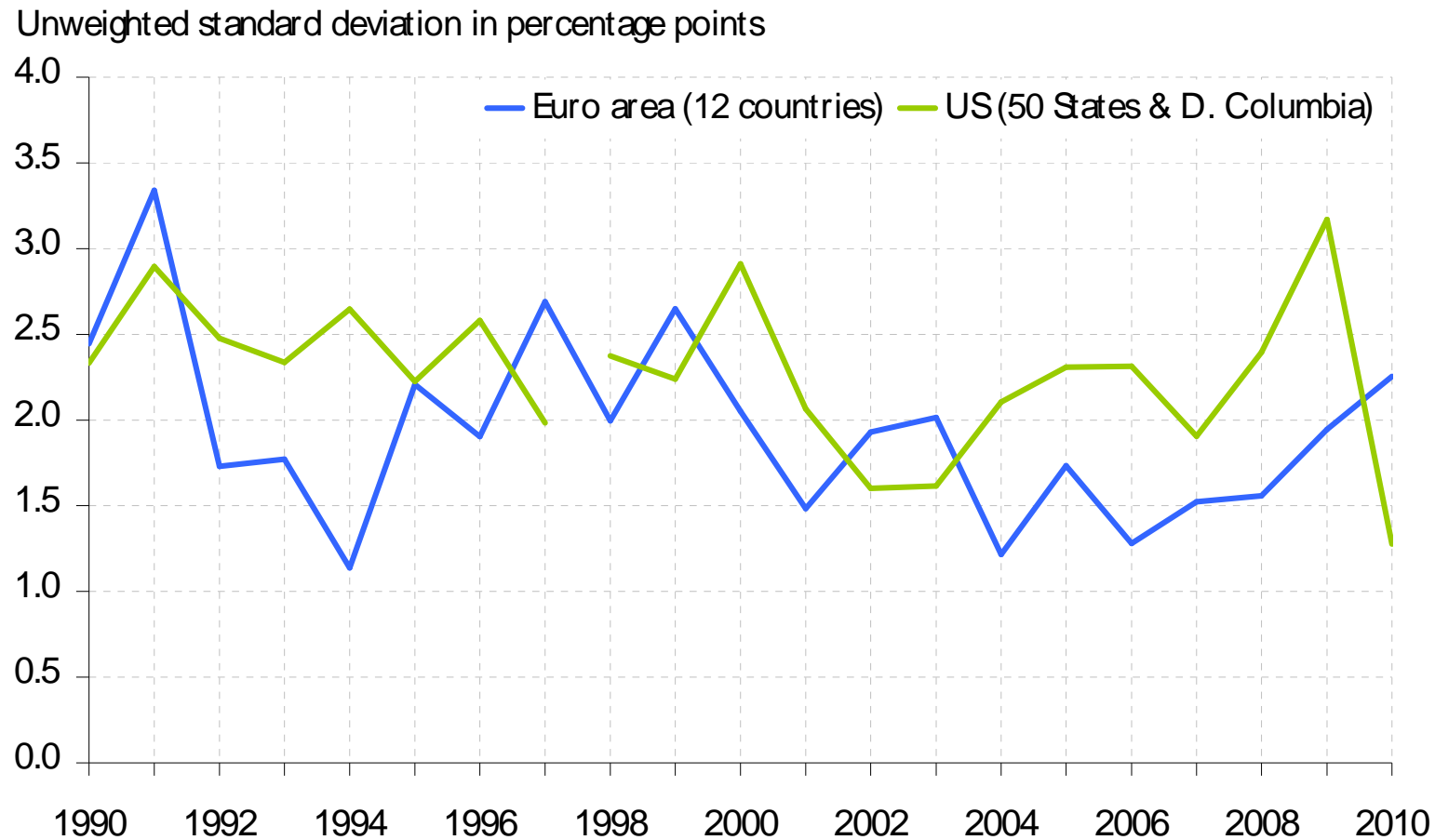
Sources: US Bureau of Economic Analysis, Eurostat, ECB calculations
Note: Output per capita is real GDP divided by total population

Dispersion of Annual Inflation



Sources: Eurostat, US Bureau of Labor Statistics, ECB calculations
Note: MSAs: Metropolitan Statistical Areas

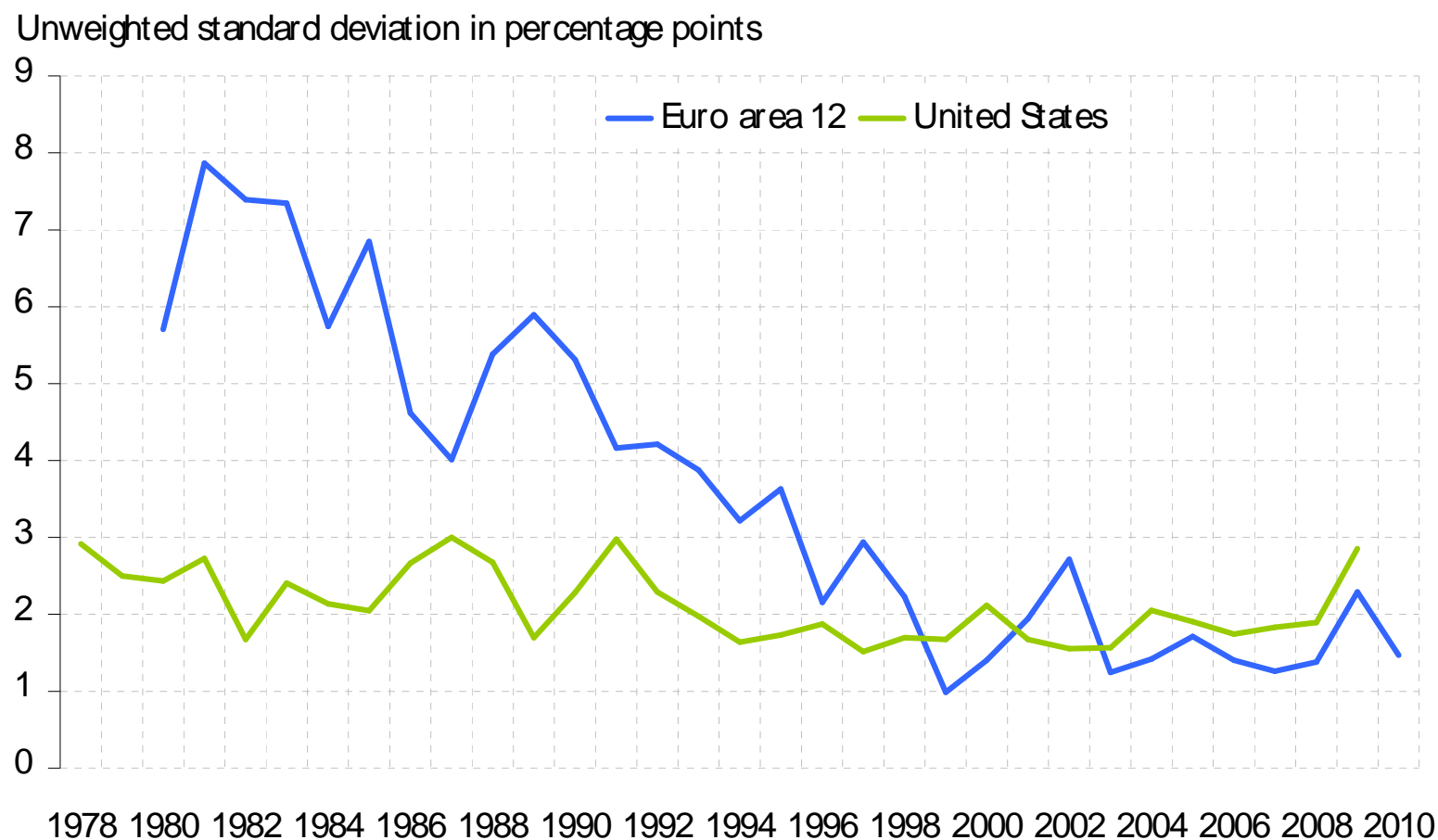
Dispersion of Real GDP Growth



Sources: European Commission, US Bureau of Economic Analysis, ECB calculations

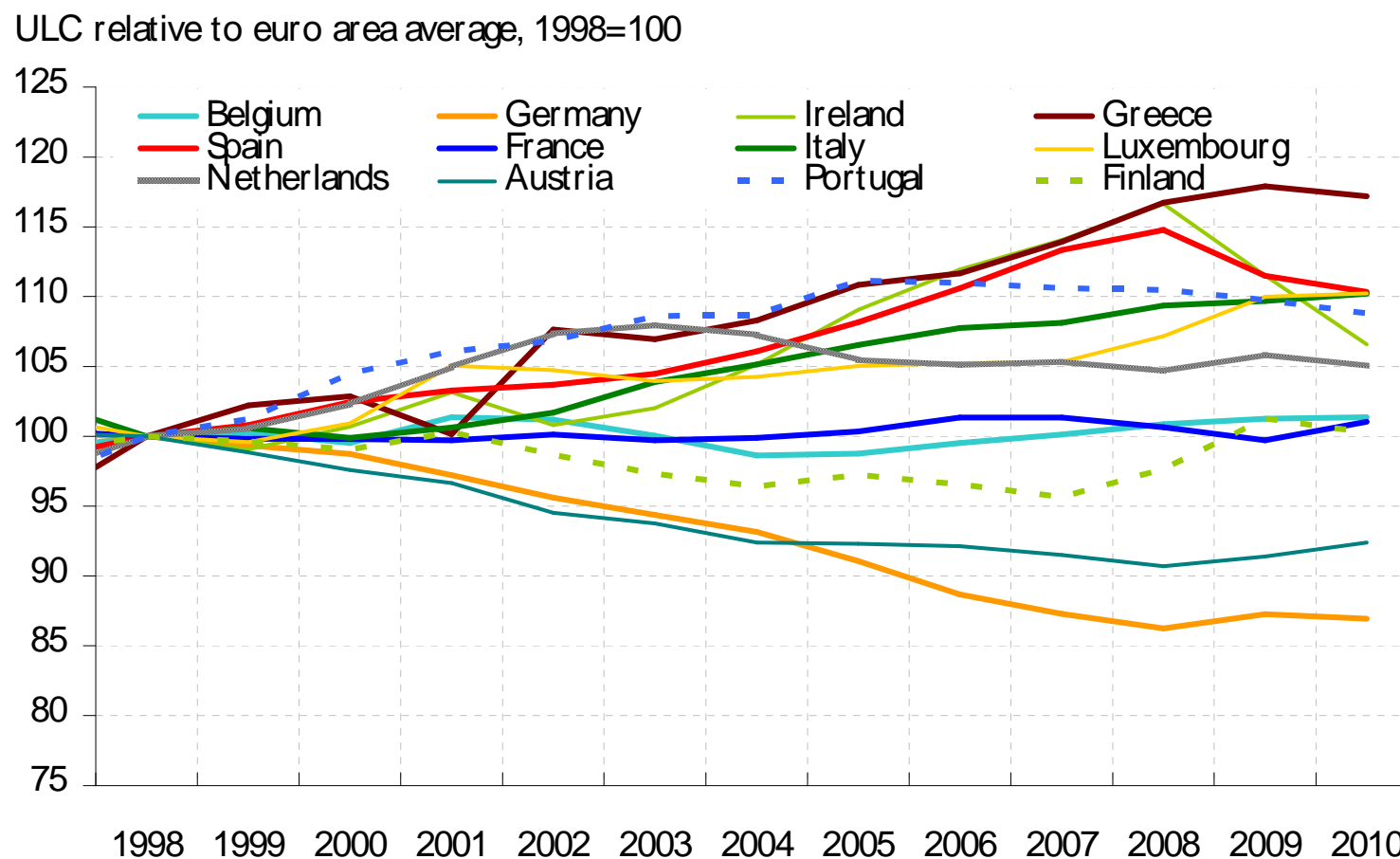
Note: There is a statistical break in the US regional data in 1998. For the US States the data refer to Gross Domestic Product (GDP) by state.

Dispersion of Unit Labour Cost



Sources: European Commission, US Bureau of Labor Statistics and US Bureau of Economic Analysis

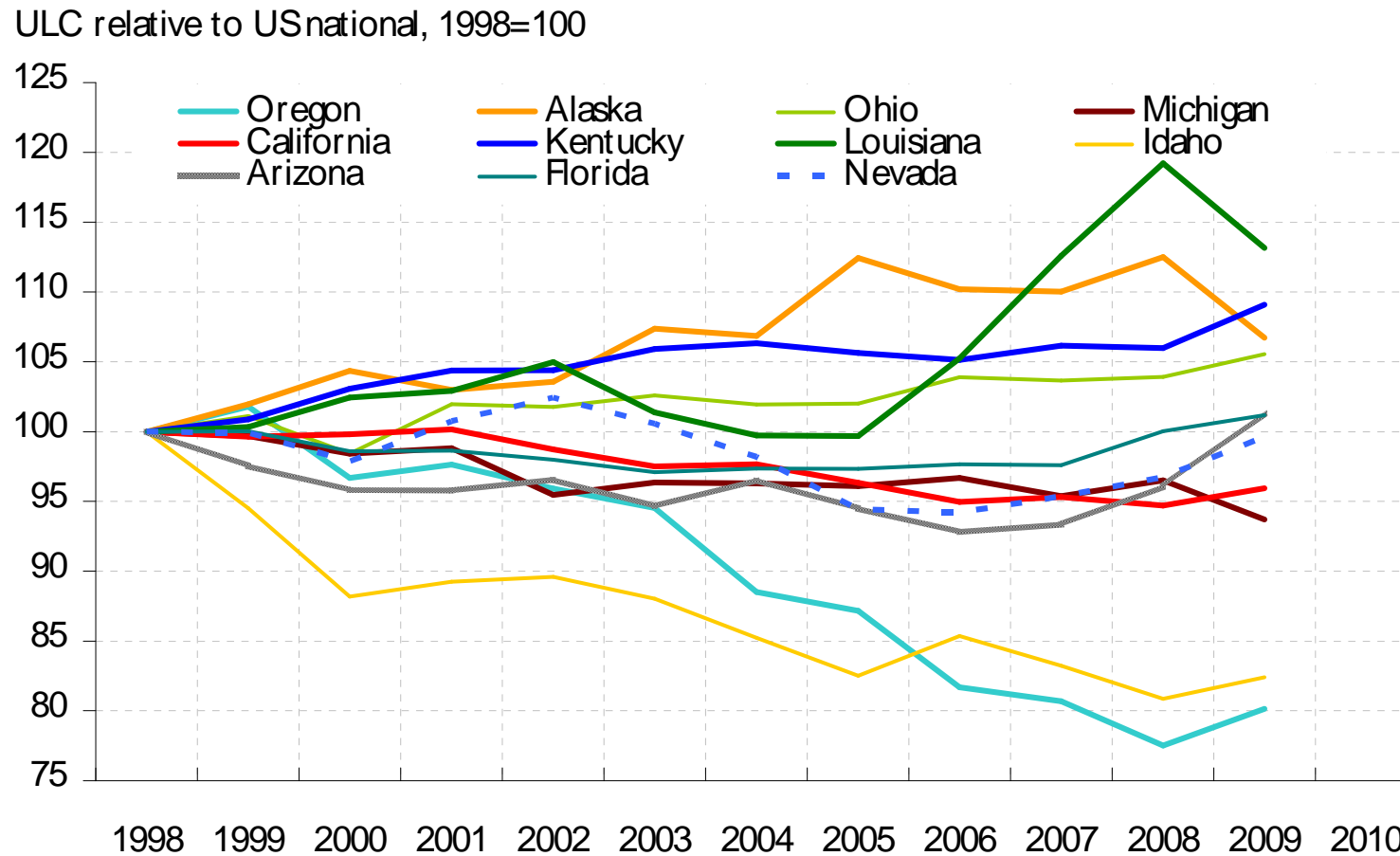
ULC Dynamics in the Euro Area



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



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

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