

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*

**LSE** events

Suggested hashtag for Twitter users: #lseuro



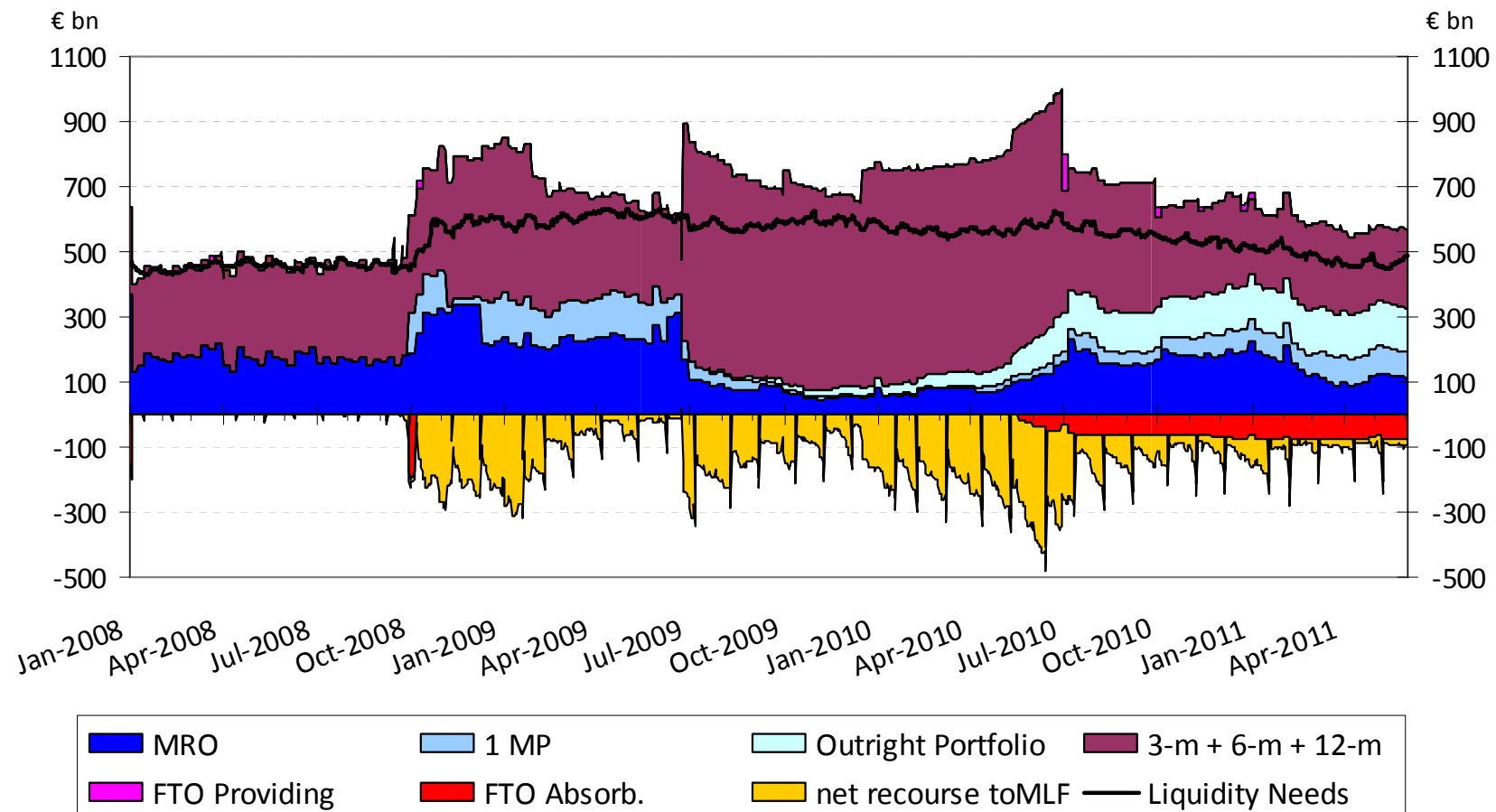
# The euro, its central bank and economic governance

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

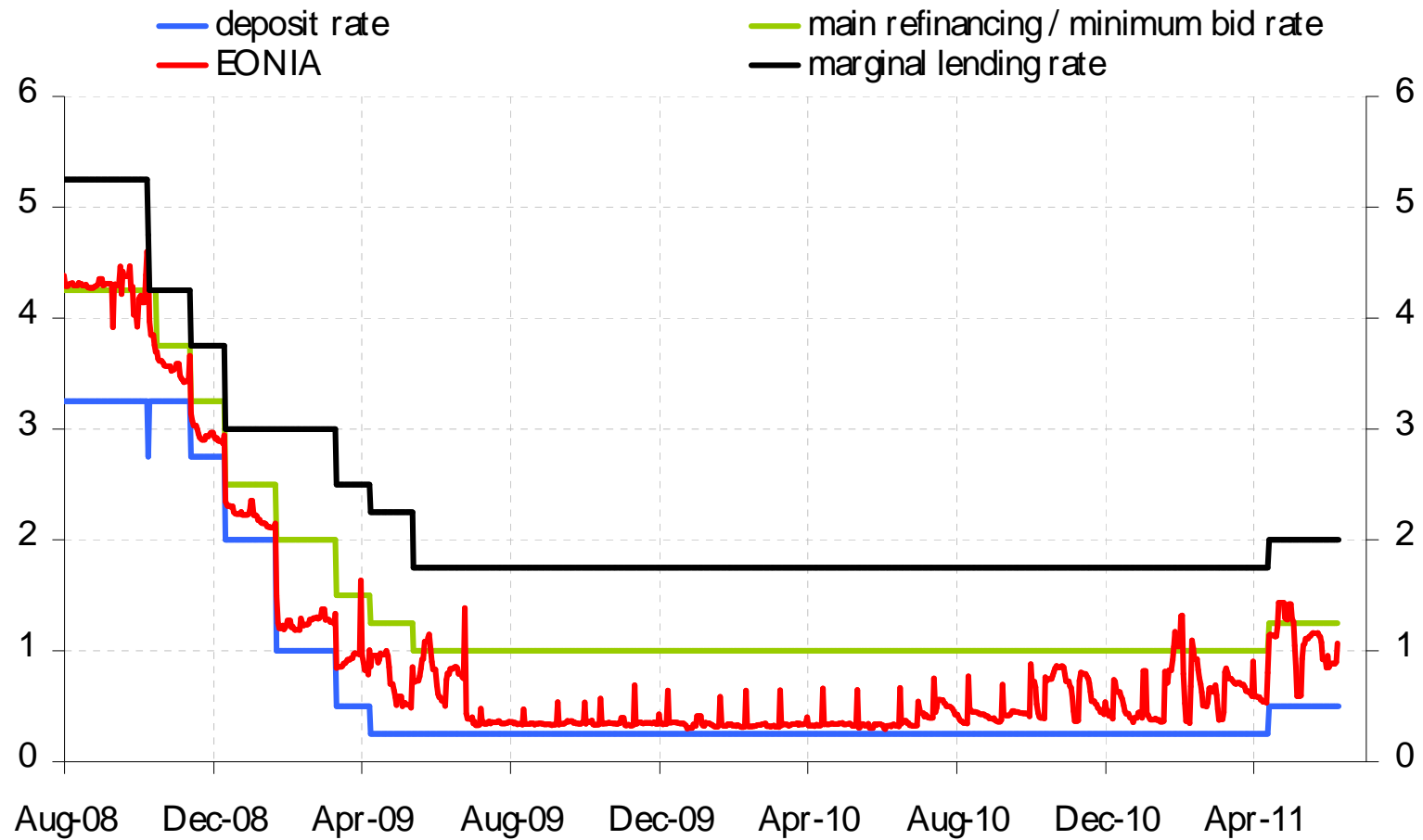
# Non-standard measures

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

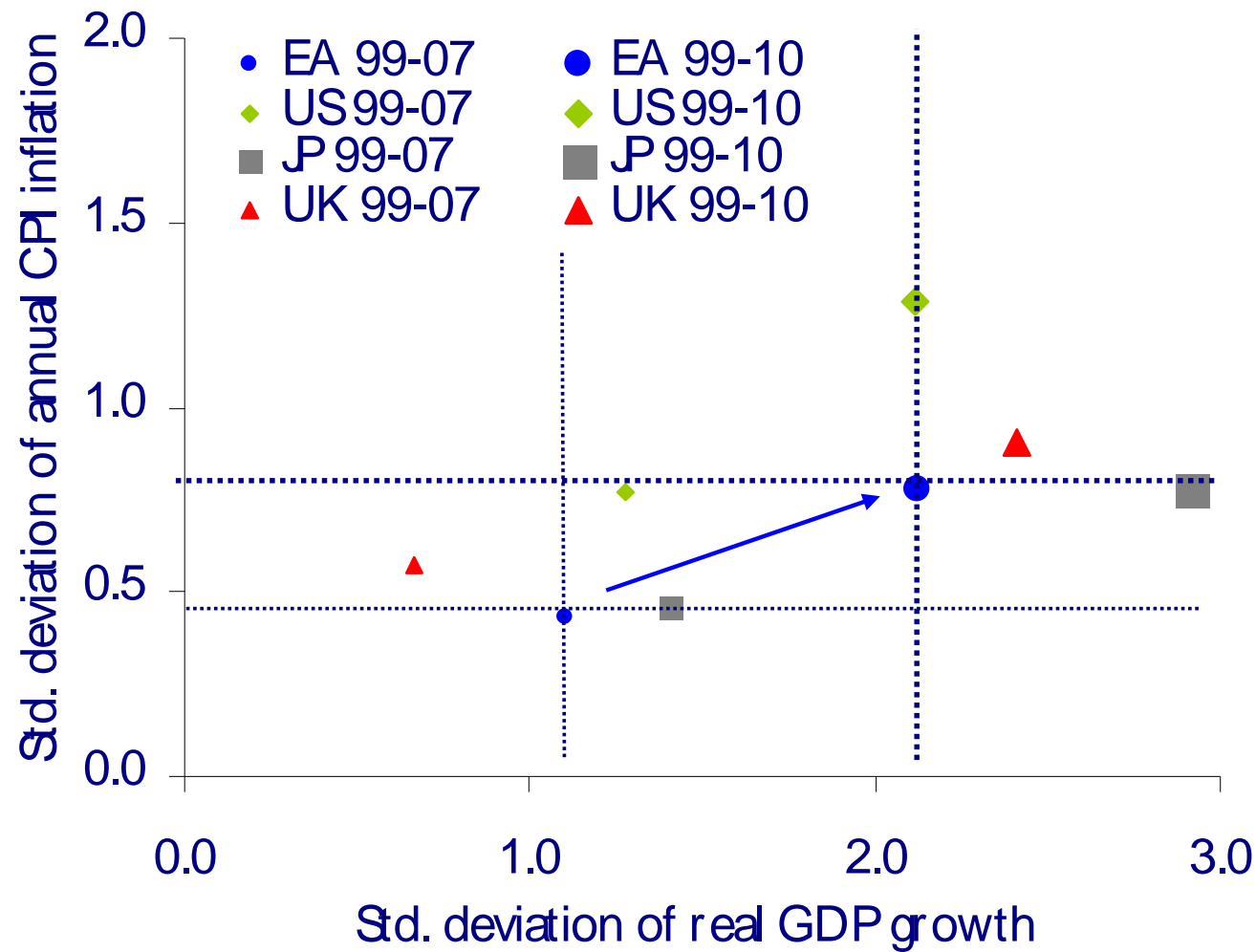
# [Non-standard measures]



# ECB policy rate



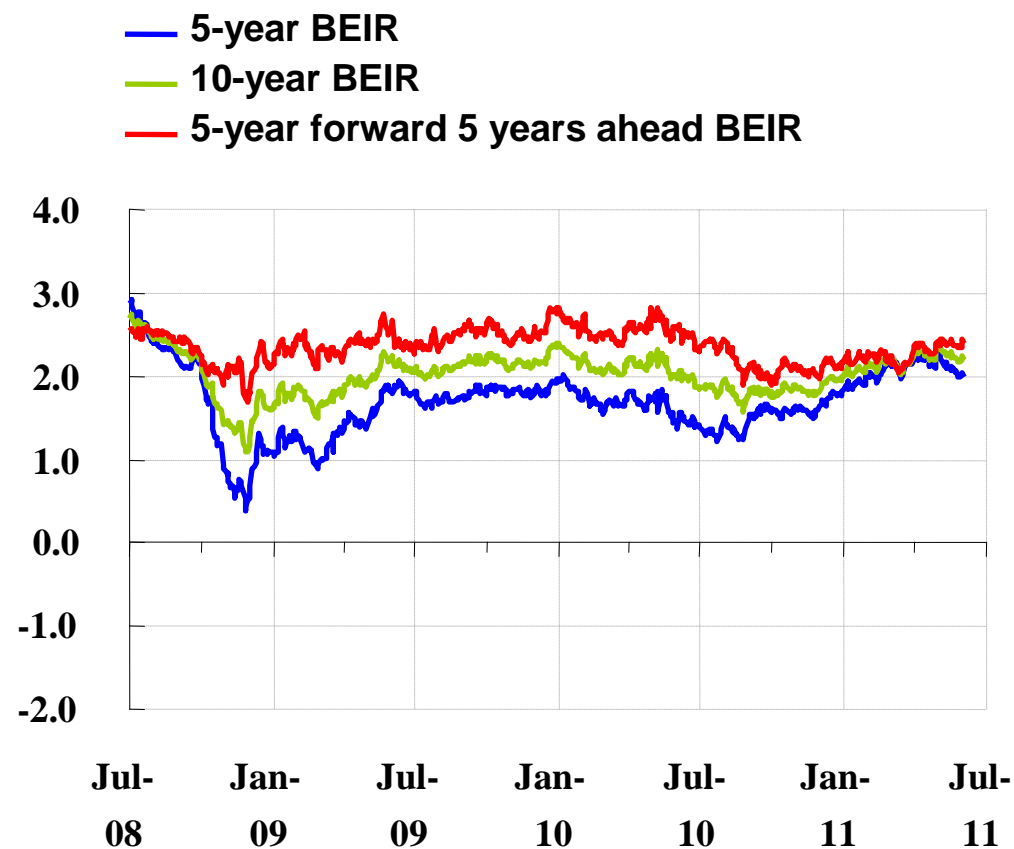
# Macroeconomic Volatility



Sources: OECD, ECB calculations

# Inflation Expectations in the Euro Area

Euro  
area

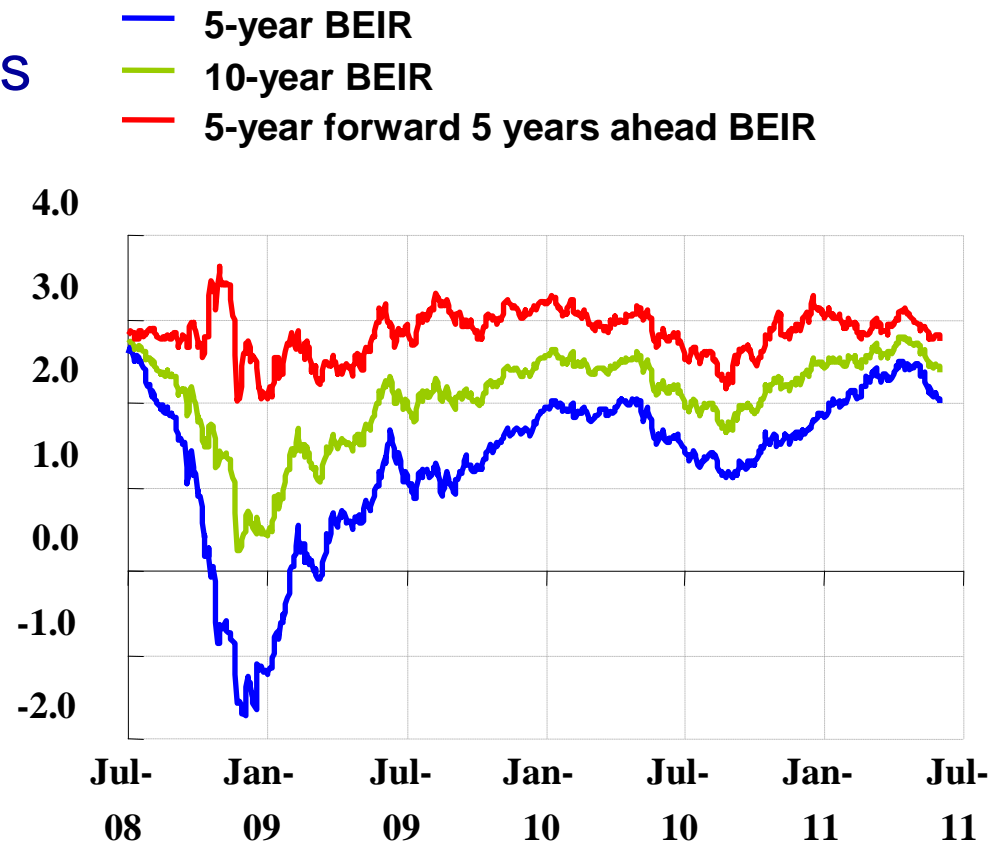


Sources: Eurostat, ECB calculations

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

# Inflation Expectations in the United States

## United States

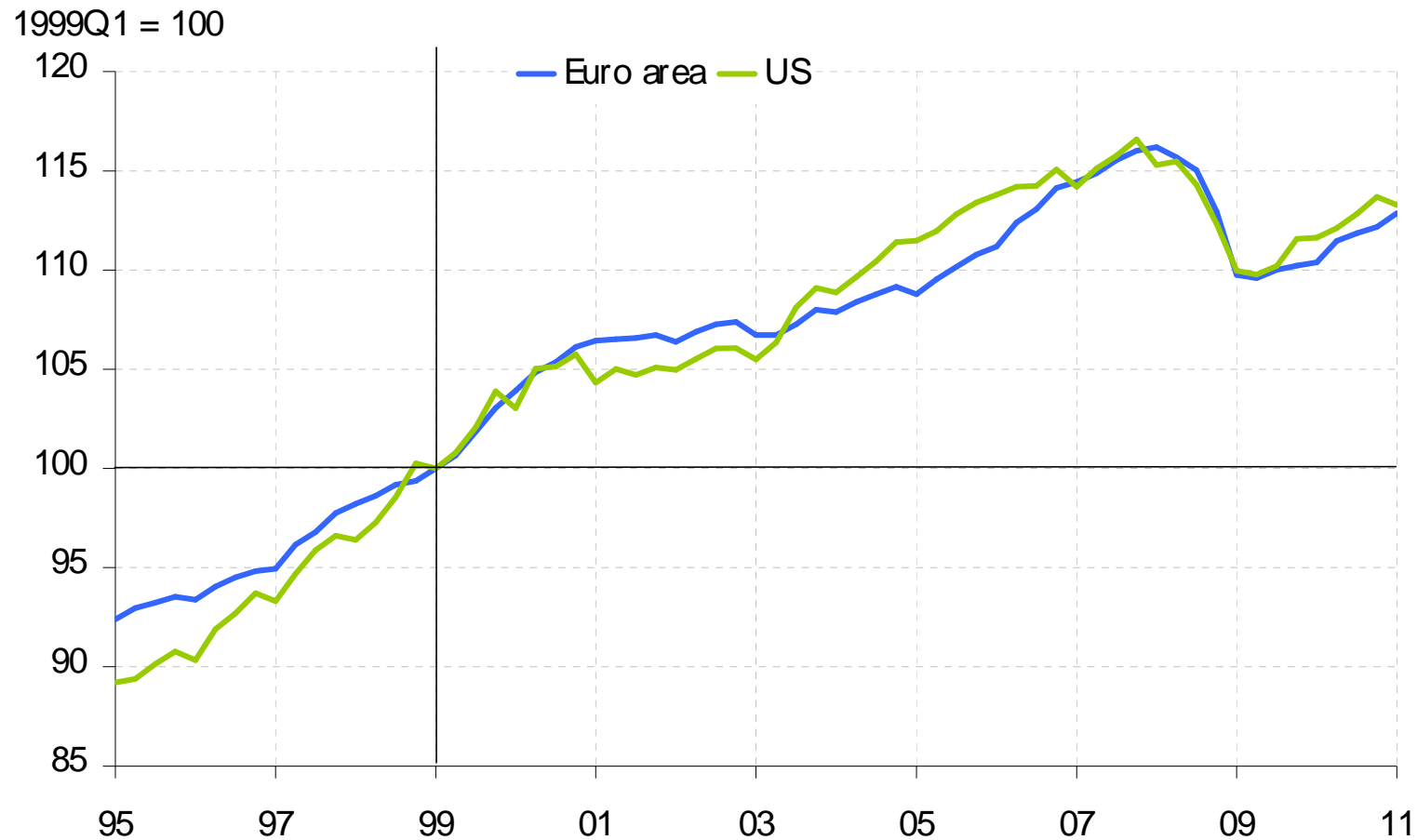


Sources: US Bureau of Labor Statistics

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

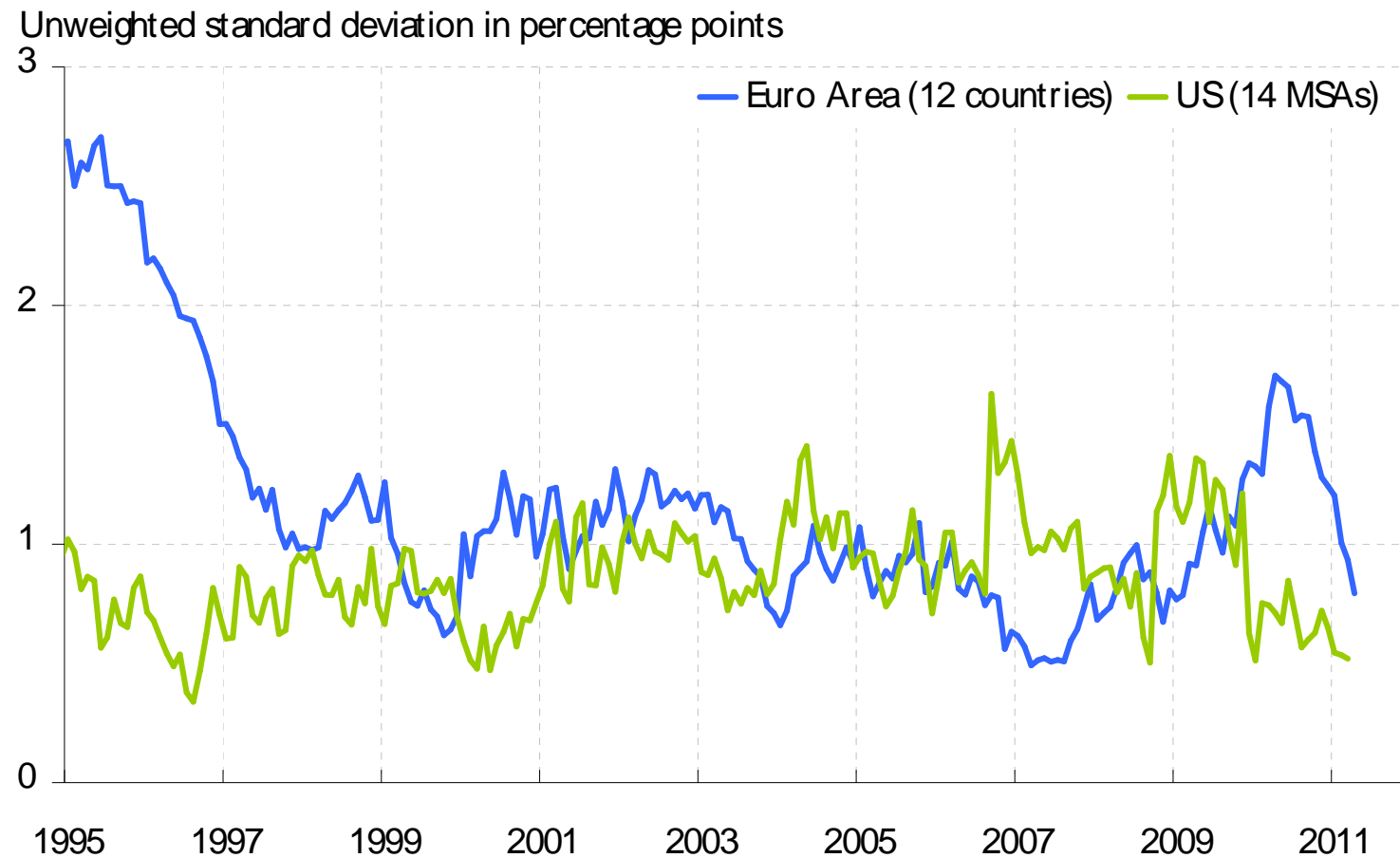


# Real GDP per Capita



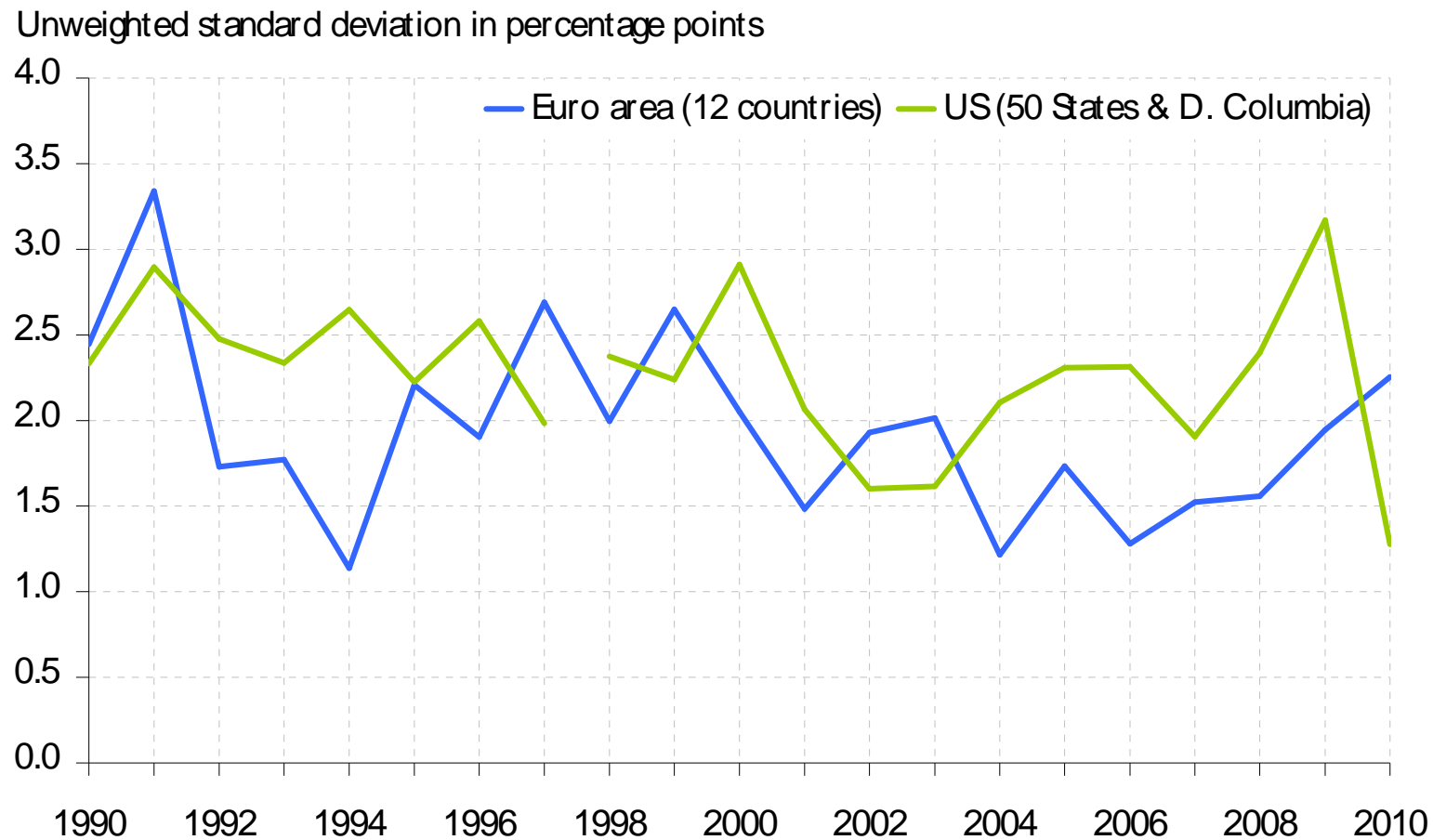
Sources: US Bureau of Economic Analysis, Eurostat, ECB calculations  
Note: Output per capita is real GDP divided by total population

# Dispersion of Annual Inflation



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

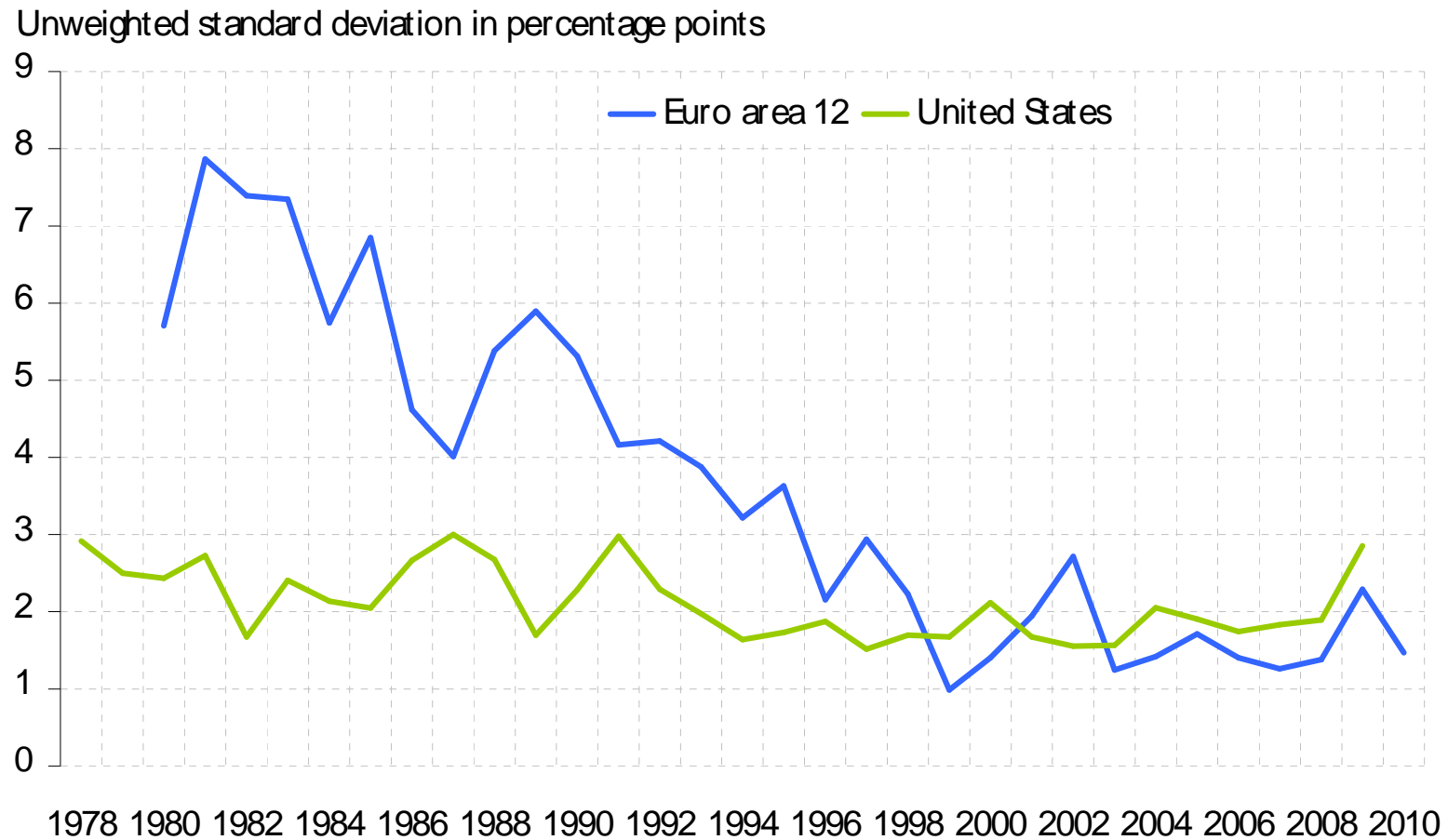
# Dispersion of Real GDP Growth



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

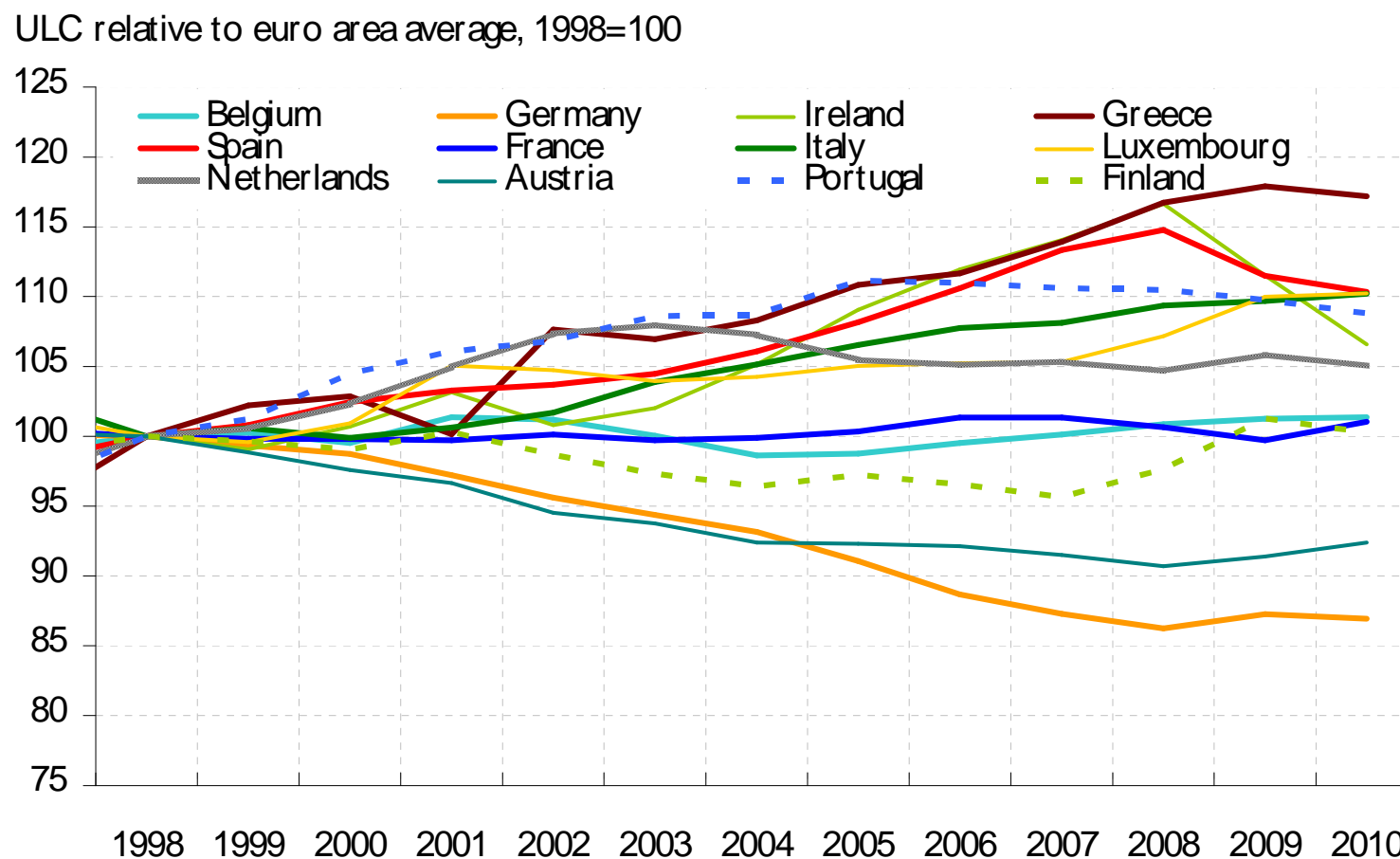
Note: There is a statistical break in the US regional data in 1998. For the US States the data refer to Gross Domestic Product (GDP) by state.

# Dispersion of Unit Labour Cost



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

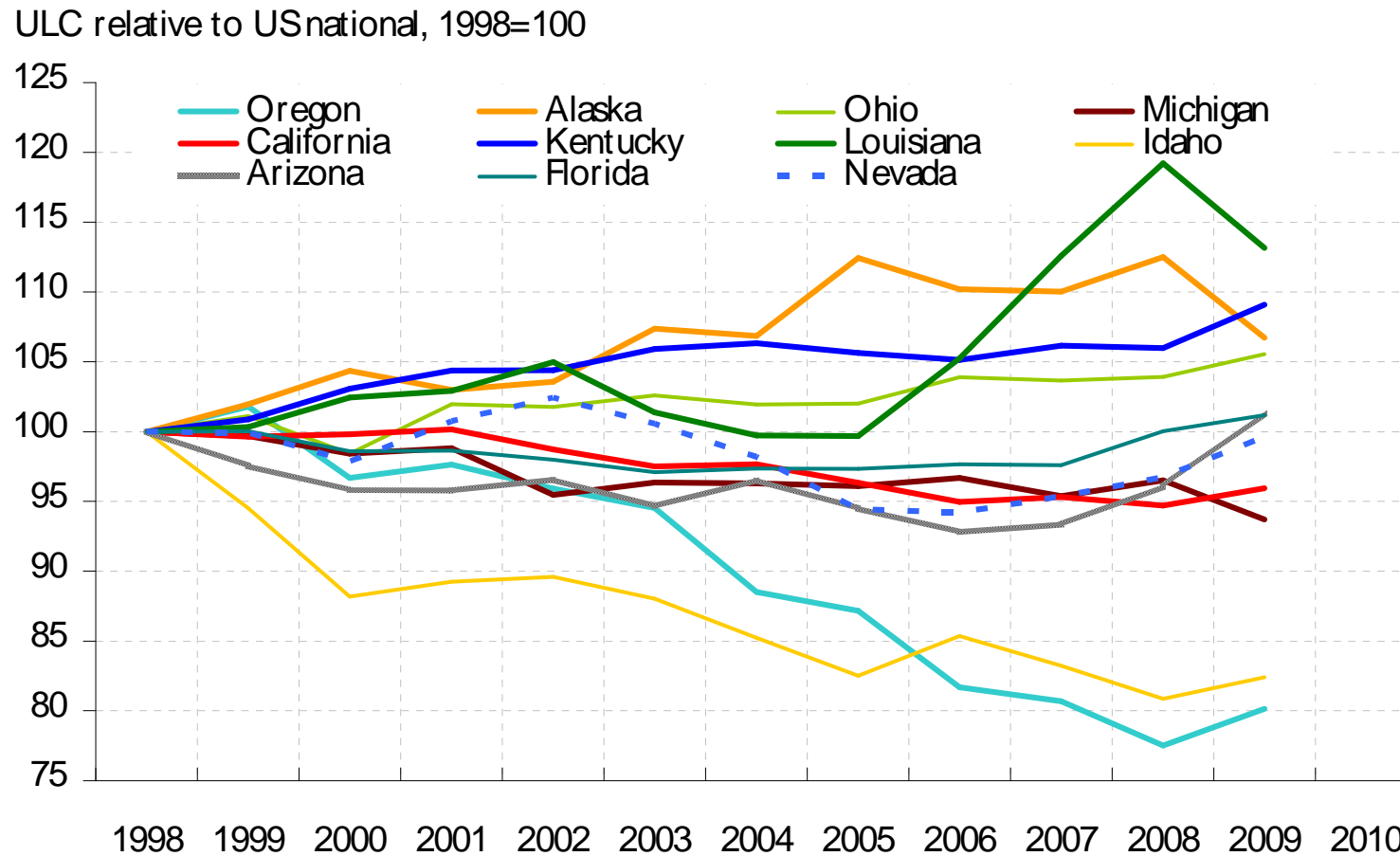
# ULC Dynamics in the Euro Area



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



# The euro, its central bank and economic governance

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