

INTERNATIONAL  
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**Trichet on the ECB's coming challenges**

By Jean-Claude Trichet

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Ten years ago, on June 1, 1998, the European Central Bank was founded, together with the European System of Central Banks, the ESCB.

It was the will of the democracies of Europe that led to the creation of the ECB. It was given its mandate of price stability and its independence by the people of Europe on a multinational and multipartisan basis.

Jean Monnet, the French conceptual founder of the European Community, writes in his memoirs: "Nothing is possible without men. Nothing is lasting without institutions." The ECB is, in my opinion, a remarkable illustration of his lucidity: The institutional construction is solid and has proved to be effective.

Since its inception, the single currency has inherited the degree of credibility and confidence that was the privilege of the most credible national currencies before the euro was created. The medium and long-term market rates of the euro were at the same low level as those experienced by the most reliable national currencies. In spite of a series of global shocks resulting from the prices of oil and commodities, yearly inflation since Jan. 1, 1999, has been 2.1 percent on average. Price stability in the medium term is essential not only because it protects the incomes of all our fellow citizens - particularly the most vulnerable and poorest ones - but also because it is one of the preconditions for growth and job creation. Since the euro came into being 15.7 million jobs have been created.

With the benefit of hindsight, one can understand the skepticism of observers prior to the creation of the euro. Europeans were embarking on an enterprise which was deemed impossible because it had never been tried. As Tocqueville said: "History is a gallery of pictures in which there are few originals and many copies."

The first 10 years have been extremely busy for the Executive Board, for the Governing Council, for the ECB and for the Eurosystem. The remarkable motivation of our staff members is, in my opinion, due to their awareness of, and pride in, making history - monetary history certainly.

But it is more than that: The single currency is the most advanced feature of the European "building" and, in many respects, the symbol of European unity.

This anniversary is certainly no time for complacency. It calls for continuous efforts, because the challenges lying ahead for the Economic and Monetary Union over the next 10 or 20 years will be numerous and demanding.

There are, first of all, the challenges of the Monetary Union itself. Like the other central banks in the industrialized world, the ECB is facing three major challenges affecting its monetary policy: globalization in all its dimensions, including the transformation of global finance, an acceleration of technological progress, and population aging.

Globalization requires the attention of central banks because of its effects on the relative prices of goods and services and, in particular, on the prices of oil and commodities as well as food.

INTERNATIONAL  
**Herald Tribune**

Globalization also affects global finance and, by contributing to its structural transformation, creates new challenges for financial stability, the preservation of which is an important task of central banks.

The second challenge common to all central banks lies in the rapid progress of science and technology and in their effects on productivity, potential growth and inflation.

The third challenge is population aging, which leads to, all other things being equal, a simultaneous decline in both savings and investment. The net effect of these two factors determines the evolution of the equilibrium real interest rate, the implications of which are analyzed by monetary policy.

In addition to these three major challenges, common to all the central banks, the ECB and the Eurosystem will face two important challenges of their own.

The first is the deepening of economic and financial integration at the continental level with the progressive completion of a single economy that has a single currency; we are the only central bank which is actively contributing to a major structural transformation of its own economy. It is a permanent challenge for monetary policy since there is a constant need to anticipate the structural transformations that lie ahead.

The second challenge is enlargement: We are called upon to extend progressively the euro area across the European Union as a whole; we are also the only central bank to undertake such an endeavor.

The "Economic Union" part of the Economic and Monetary Union itself has its own challenges for the next 10 to 20 years. I see three major ones.

First of all, the full and complete implementation of the Stability and Growth Pact, which is a crucial component of EMU in the absence of a European federal budget. Beyond the medium-term objective of a balanced budget, let us not forget that public finances have to confront the considerable burden imposed by population aging on the viability and solvency of pension systems.

The second challenge for the Economic Union is the resolute pursuit of structural reforms which are decisive in order to raise Europe's long-term growth potential.

The third challenge is the careful monitoring of national competitiveness indicators, including unit labor costs, in such a way as to ensure a smooth functioning of the fluctuations of relative competitiveness within the euro area.

So, there are many challenges over the next 20 years. Seen from an historic perspective, they represent the "new frontier" challenges of the ECB and of the Economic and Monetary Union.

Today, more than half a century after the launching of the European Community idea, the Economic and Monetary Union, which is only 10 years old, is contributing to stability and prosperity for our continent in a global environment undergoing very rapid change. In 20 years, when the ECB and the euro will be 30 years old, the center of gravity of the world economy will have shifted. Brazil, Russia and Mexico will be much more important economic players. China

INTERNATIONAL  
**Herald Tribune**

and India might be competing - along with the United States and the European Union - to be the world's leading economy in the second half of our century. There is little doubt that in this profoundly changed world Europeans will regard their Economic and Monetary Union as even more justified than at the time of its creation - and the idea of its founding fathers as even more visionary.

*Jean-Claude Trichet is president of the European Central Bank.*