

# THE ECB AND ITS WATCHERS 1999-2007

On January 1, 1999 the EUROPEAN CENTRAL BANK (ECB) in Frankfurt assumed responsibility for European monetary policy, and from the start the ECB's policy actions have been critically monitored by various groups of academic experts. With its conference series "The ECB and Its Watchers", the Center for Financial Studies (CFS) aims at establishing

a platform for a mutually beneficial dialogue between the ECB, the various monitoring groups, independent academics and market participants. The conference series, which is now in its 9th year, was first organized by AXEL A. WEBER (CFS Director 1998 – 2002). Since 2004, it has been organized by CFS Director VOLKER WIELAND.



Jean-Claude Trichet

## What's New with "The ECB and Its Watchers 2007"?

This year's conference will be the first one without OTMAR ISSING on the ECB side of the debate. Yet this special way of interaction with the monetary authorities shall continue its successful path. The conference organizer, VOLKER WIELAND, tells us what is new about the 9th conference in this series.



Volker Wieland

*Why does the CFS continue this event in the Post-Issing era?*

**Wieland:** Over the course of the last year, representatives of all the groups involved in past conferences, academics, business economists as well as many journalists, have asked us repeatedly to continue offering this forum for public debate. It has become a widely known fixture of the European financial community.

*What about ECB participation in the conference?*

**Wieland:** The significant ECB representation shows that the ECB is committed to this aspect of central bank communication. This year we are expecting President JEAN-CLAUDE TRICHET, Vice-President LUKAS PAPADEMOS and JÜRGEN STARK, the Board Member in charge of DG Economics, to take part in the discussions.

*In which way will the ECB President be involved?*

**Wieland:** President JEAN-CLAUDE TRICHET will start off the conference with a speech on a topic of longer term importance. We are looking forward with great interest how he will shape his role in this forum.

*Have you modified the format of the conference?*

**Wieland:** Yes, there is indeed a new format. The conference will have fewer speakers but more time for exposition of arguments and debate. Instead of panels with 4 to 5 participants, the new format presents a series of debates, in most cases between one policy maker and one or two representatives of the academic or business community. Debates are focused on concrete questions. We certainly hope for some opposing views. Audience participation is of course greatly encouraged.

*What about the choice of topics? It appears you have again put the question of monetary policy strategy and the ECB's monetary pillar on the agenda even though it was presented in detail last year.*



**Wieland:** The ECB's two pillar strategy has received renewed interest in the last twelve months. It has been attacked by well known academics and various press reports. The ECB itself has presented new empirical evidence on its implementation. Thus, it seemed important to review this question in the post-Issing era. JÜRGEN STARK (ECB) will present new advances regarding the ECB's monetary analysis and with PAUL DE GRAUWE (K.U. Leuven) we have a well-known critic of the ECB's strategy debating with him.

*Another question concerns signaling of intended future interest rates. What do you expect from this discussion?*

**Wieland:** Last year, JAN QVIGSTAD from the Central Bank of Norway presented to us their formal procedure for announcing a future interest rate path. I am curious to hear from AXEL WEBER (Bundesbank) how the euro system is developing its position on this aspect of central bank communication further. This is also quite a topical issue. The ECB has practiced an informal approach to signaling likely interest rate moves one meeting ahead, for example also for the September meeting. By the date of the conference, that is the day following the September meeting, we will have found out how they handle such announcements once external situations – I mean the August credit crisis – suddenly change.

## Inspired by "The ECB and Its Watchers"

As the "The ECB and Its Watchers" conference is taking place for its 9th consecutive year in September 2007, the idea of creating an interactive platform for central bankers, market

professionals and academics to review and discuss monetary policy has carried over the Atlantic. Together with the Board of Governors of the Federal Reserve, professors STEPHEN CECCHETTI (Brandeis University) and ANIL KASHYAP (University of Chicago) created a similar forum in the United States.

In a newspaper article published on January 17, 2007, the Wall Street Journal reported on the "U.S. Monetary Policy Forum" (MPF). The article quotes PETER HOOPER (Deutsche Bank), explaining that the new U.S. event is modeled after the CFS conference "The ECB and Its Watchers".

The first meeting of this forum was held on March 9, 2007 in Washington D.C. and brought together academic economists, financial market participants and senior officials of the Federal Reserve. The discussions focused on a report titled "Understanding the Evolving Inflation Process" as well as a panel on "Liquidity and Monetary Policy" and a speech on Federal Reserve Bank communication and transparency by the former Federal Reserve vice chairman Alan Blinder. According to PETER HOOPER the conference is to concentrate "on issues of immediate interest to current monetary policy. Its intent is to help the academic and business communities and the central bank to learn from each other and in so doing, to enhance the transparency of monetary policy."

Although the forum is inspired by its successful CFS forerunner, there are, however, some noteworthy differences. First, one of the key issues of the MPF was a report presented in collaboration by a group of business and academic economists, including the organizers. To this

## PROGRAM 2007

### Conference

#### "The ECB and Its Watchers IX"

to be held at: Auditorium of Commerzbank AG  
Frankfurt am Main  
Friday, September 7, 2007

Organization:  
Volker Wieland (Goethe University Frankfurt and CFS)

|               |   |
|---------------|---|
| 8:15 - 8:45   | Registration and Coffee   |
| 8:45 - 8:50   | Welcome<br>Volker Wieland   |
| 8:50 - 9:30   | President's Address<br>Jean-Claude Trichet (President, European Central Bank)   |
| Segment 1:    | Debating Monetary Policy Strategy<br>Chair: Volker Wieland  |
| 9:30 - 10:30  | 1 <sup>st</sup> Debate: What role should money play in monetary policy?<br><br>• Jürgen Stark (Member of the Executive Board, European Central Bank)<br>• Paul De Grauwe (K.U. Leuven)  |
| 10:30 - 11:00 | Coffee Break  |
| 11:00 - 12:30 | 2 <sup>nd</sup> Debate: How should central banks signal their intentions regarding future interest rates?<br><br>• Axel A. Weber (President, Deutsche Bundesbank)<br>• Charles Wyplosz (HEI Geneva)<br>• Julian Callow (Barclays Capital)   |
| 12:30 - 13:30 | Lunch Break   |
| Segment 2:    | European and International Challenges - Searching for Appropriate Policy Responses<br>Chair: Michael Binder (CFS)   |
| 13:30 - 15:00 | 3 <sup>rd</sup> Debate: Diverging unit-labor costs in Europe – what is the proper policy response?<br><br>• Lucas Papademos (Vice-President, European Central Bank)<br>• Ignazio Angeloni (Italian Ministry of Economy and Finance)<br>• Joachim Fels (Morgan Stanley)  |
| 15:00 - 15:30 | Coffee Break  |
| 15:30 - 16:45 | 4 <sup>th</sup> Debate: Successful budget consolidation in Europe – do we still need a revised Stability and Growth Pact?<br><br>• Pervenche Berès (Member of the European Parliament, Chairwoman of the Committee on Economic and Monetary Affairs)<br>• Teresa Ter-Minassian, (Director, Fiscal Affairs Department, International Monetary Fund)<br>• Wolfgang Münchau (Eurointelligence) |
| 16:45 - 17:45 | 5 <sup>th</sup> Debate: Liquidity crisis and credit crunch in the US and Europe – How should policy makers respond?<br><br>• Stephen Cecchetti (Brandeis University)<br>• Michael Dicks (Barclays Wealth)   |
| 17:45         | End of Conference   |

date, the CFS has played a neutral role as organizer of the ECB and Its Watchers conference. Second, the ECB and Its Watchers conference has given ECB staff and policy makers the opportunity to present their research findings, which the MPS has not so far.

The conference organizers intend to make the MPF into a conference meeting once a year.



## PROGRAM 2006

## "The ECB and Its Watchers VIII"

|               |  |
|---------------|--|
| held at:      | Auditorium of Commerzbank AG<br>Frankfurt am Main<br>Friday, May 5, 2006   |
| Organization: | Volker Wieland (Goethe University Frankfurt and CFS)   |
| 8:15 - 8:45   | Registration and Coffee  |
| 8:45          | Welcome<br>Volker Wieland  |
| 8:45 - 10:15  | <b>Panel I (Part 1): ECB Watch – Current Policy Performance and New Challenges</b><br>Chair: Volker Wieland  |
|               | <ul style="list-style-type: none"> <li>• Elga Bartsch (Executive Director, Morgan Stanley)</li> <li>• Giancarlo Corsetti (European University Institute and CEPR)</li> <li>• Peter Hooper (Chief US Economist, Deutsche Bank)</li> <li>• Angel Ubide (Director of Global Economics, Tudor Investment)</li> <li>• Manfred Neumann (University of Bonn)</li> </ul>               |
| 10:15 - 10:45 | Coffee Break   |
| 10:45 - 11:45 | <b>Panel I (Part 2): ECB Watch – Review of the ECB's Strategy and Alternative Approaches</b><br>Chair: Volker Wieland  |
|               | <ul style="list-style-type: none"> <li>• Huw Pill (Head of Monetary Policy Stance Division, ECB)</li> <li>• Jan Qvigstad (Executive Director and Chief Economist, Bank of Norway)</li> <li>• Richard Clarida (Global Strategy Adviser Pimco and Columbia University)</li> <li>• Athanasios Orphanides (Adviser Division of Monetary Affairs, Federal Reserve Board)</li> </ul> |
| 11:45         | Reply to Panel I and Discussion<br>Otmar Issing (Member of the Executive Board, ECB)   |
| 12:30 - 13:30 | Lunch  |
| 13:30         | The ECB and Its Watcher: 1999-2006<br>Axel A. Weber (President, Deutsche Bundesbank)   |
| 13:45 - 15:30 | <b>Panel II: The Revised Stability and Growth Pact – Is it working?</b><br>Chair: Wolfgang Schill (Director General DG Economics, ECB)   |
|               | <ul style="list-style-type: none"> <li>• José Manuel González Páramo (Member of the Executive Board, ECB)</li> <li>• Michael Hüther (Director, Institut der Deutschen Wirtschaft)</li> <li>• Lars Calmfors (Stockholm University)</li> <li>• Servaas Deroose (Director Economy of the euro area and the Union, European Commission)</li> </ul>                                 |
| 15:30 - 16:00 | Coffee Break   |
| 16:00 - 17:45 | <b>Panel III: On the Road to the Euro? Progress and Prospects of New EU Members</b><br>Chair: Lucrezia Reichlin (Director General Research, ECB)   |
|               | <ul style="list-style-type: none"> <li>• Lucas Papademos (Vice-President, ECB)</li> <li>• György Szapáry (Deputy Governor, Magyar Nemzeti Bank / The Central Bank of Hungary)</li> <li>• Willem Buiter (London School of Economics)</li> <li>• Daniel Gros (Director, CEPR)</li> </ul>   |
| 17:45         | Concluding Remarks<br>Otmar Issing   |

**2006**» The 8th conference of the CFS series „The ECB and Its Watchers“ brought together 22 distinguished speakers from private sector financial institutions, think tanks, central banks, and academia to discuss various issues with ECB policy makers. This time, the record number of 250 professionals had registered at the conference, including up to 50 media and press representatives.

## Current Performance and New Challenges

In the first panel, **ELGA BARTSCH** (Morgan Stanley) stated that the ECB should not give too much direct guidance regarding its future interest rate decisions. In this way, she warned the ECB of trying to be too transparent. By not achieving its own predictions in the face of unexpected macroeconomic developments, it could seriously undermine its future credibility. Instead, the ECB should use its communication strategy to improve informing on the risks of inflation and the discussion on macroeconomic outlook.

**GIANCARLO CORSETTI** (European University Institute and CEPR) suggested that the ECB long-run inflation target be raised if the European trend growth continues to remain low and if the Stability and Growth Pact is not to be changed. He



Otmar Issing

insisted that a budget deficit, including debt service costs, at 3% of GDP would only be consistent with a 60% debt to GDP ratio if nominal GDP were to grow at 5% per year. Moreover, he argued that a greater inflation buffer would be needed to avoid hitting the zero-lower bound on nominal interest rates in a world with lower trend growth and equilibrium real interest rates.

## ECB Watch-Review of the ECB's Strategy and Alternative Approaches

**JAN QVIGSTAD** (Norges Bank) discussed the publication of policy rate forecasts as possible strategy. He presented an approach of the Central Bank of Norway, which gradually set up its current practice of publishing forecasts for the interest rate three years ahead. According to Qvigstad, the published path of interest rates is what the bank perceives as the appropriate policy for stabilizing inflation near target within a reasonable time horizon. The result of publishing this path is that monetary policy should be more effective in managing expectations. Qvigstad reiterated, however, that the private sector should understand the announced interest rate path as a forecast conditional on current knowledge rather than as a promise on future policies.



Athanasios Orphanides

The consequences of limited knowledge and imperfect measurement for the conduct of monetary policy were pointed out by **ATHANASIOS ORPHANIDES** (Federal Reserve Board). In his opinion, these issues are more controversial than other elements of good policymaking such as giving primacy to the objective of price stability. Given the constraints on information, simple rule-based policies have a clear advantage over policies based on optimal control experiments.

In response, **OTMAR ISSING** (ECB) emphasized that the general public's understanding of the ECB's strategy and policy intentions had advanced over the years, although room for improvement still remains. Issing pointed to the difficulty of communicating with an audience like

that of the ECB, which is heterogeneous with respect to not only professional background but also to language and cultural idiosyncrasies.

He also stressed that long-run inflation trends were quite accurately predicted by the real-time analysis of monetary developments. Thus, monetary aggregates should not be ignored in monetary policymaking. Furthermore, he addressed the question why more than one pillar was needed for successful monetary policy. Here, Issing drew attention to the different time horizons for monetary policy.

According to Issing, the two pillars stand for two different perspectives from which the ECB looks at the underlying data. While monetary analysis is used to extract information about longer-term trends in inflation, economic analysis is mostly concerned with the correct assessment of shorter-term risks to price stability. Thus, he concluded that as long as there is no satisfactory model, which incorporates both elements, monetary policy should continue to rest on two separate pillars.

Finally, Issing addressed questions raised by the panels and the audience asking whether the ECB had engaged in too much or, indeed, too little stabilization policy in the face of recent economic shocks. He strongly rejected the criticism that the ECB had not given enough stimulus to demand, but also ruled out the notion that the ECB had been excessively gradualist in raising rates.

## The Revised Stability and Growth Pact – Is it Working?

In the second panel, **LARS CALMFORS** from Stockholm University stated that the pact was working in general, although some of the revisions had weakened fiscal discipline in some countries. While, the legitimacy of the pact may have increased by allowing for more sensible judgment, the widened scope for discretionary fiscal policymaking at the national level may ultimately lead to a loss of credibility. The Stability and Growth Pact might be further weakened in response to violations by some of the large member countries. In order to overcome such problems, Calmfors suggested that member states should be given more incentives to tighten their fiscal policy stance. Monetary policy, in turn, should become more expansionary to ease the economic burden of fiscal adjustment.

In the next presentation, **SERVAAS DEROOSE** (European Commission) stressed that the concerns with respect to the Stability and Growth Pact might be exaggerated. He pointed out that over the last year, most countries respected the 0.5% adjustment benchmark and employed realistic budgetary projections. Over and above these achievements, he demanded that national fiscal policies should focus more on the long term, with an aim to ensuring fiscal consolidation in good times.



Richard Clarida

## On the Road to the Euro? Progress and Prospects of New EU Members

In reviewing the progress that the new EU member countries have made towards joining the euro zone, **WILLEM BUITER** (London School of Economics) concentrated on the five central and eastern European economies aiming to join the ERM within the next three years (the Baltic States, Slovenia and Slovakia). Since these countries are small and very open, there is a strong case in favor of them joining the single currency. The costs of admitting these countries to the euro area would be mild due to their sustainable fiscal stance and their limited size.



Manfred J.M. Neumann, Giancarlo Corsetti and Angel Ubide

**LUCAS PAPADEMOS** (ECB) stressed the progress in convergence of all new member states. He underlined the need to differentiate between structural measures with a permanent effect on the economy and short-term measures. In addition to nominal convergence, real convergence is also of great importance.



## PROGRAM 1999

## “The ECB and Its Watchers I”

held at: June 17 &amp; 18, 1999 in Frankfurt

17.06.1999 Organization:  
Prof. Dr. Axel A. Weber (CFS)

## Welcome Address

Prof. Dr. Axel A. Weber (CFS)

## The ECB's Monetary Policy Strategy

Ignazio Angeloni (ECB)  
Vitor Gaspar (ECB)  
Oreste Tristani (ECB)1st Group: Centre for Economic Policy Research (CEPR)  
David Begg (Birkbeck College)

## The ECB's Monetary Policy Strategy

2nd Group: Zentrum für Europäische Integrationsforschung (ZEI)  
Jürgen von Hagen (ZEI, University of Bonn)3rd Group: Centre for European Policy Studies (CEPS)  
Daniel Gros (CEPS)  
Thomas Mayer (Goldman-Sachs)

## On the Theory of Monetary Policy Strategy

Interest Rate Rules  
John Taylor (Stanford University)  
Discussant: Charles Bean (London School of Economics)  
Discussant: Stefan Gerlach (Bank for International Settlements)Inflation Targeting  
Lars E.O. Svensson (Institute for International Economic Studies)  
Discussant: David Vines (Oxford University)  
Discussant: Frank Smets (ECB)

## The ECB and Its Watchers

Otmar Issing (ECB)

18.06.1999

## Welcome Address

Ernst Welteke (Landeszentralbank in Hessen)

## The ECB, Financial Supervision and the Lender of Last Resort Function

4th Group: European Shadow Financial Regulatory Committee (ESFRC)  
Harald Benink (University of Maastricht)  
Reinhard H. Schmidt (Goethe University Frankfurt)

## The International Role of the Euro

Philip Hartmann (ECB)  
Marvin Goodfriend (Federal Reserve Bank of Richmond)  
Kunio Matsuda (Bank of Japan)  
Michael Artis (European University Institute)

## Monetary/Fiscal Policy Coordination

Gerd Jan Hogeweg (ECB)  
Mathew B. Canzoneri (Georgetown University)  
Ignazio Visco (OECD)  
Tony Yates (Bank of England)  
Jürgen Kröger (European Commission)

## Concluding Policy Panel: The ECB and the Challenges Ahead

Chair: Prof. Dr. Axel A. Weber (CFS)  
Daniel Gros (CEPS)  
Harald Benink (University of Maastricht)  
Manfred J.M. Neumann (University of Bonn)  
Vitor Gaspar (ECB)

## Luncheon Speech

Tommaso Padoa-Schioppa (ECB)  
Edwin M. Truman (Institute for International Economics)

## Looking back: “The ECB and Its Watchers” Conferences 1999 – 2005

The European Central Bank (ECB) was established on June 1, 1998 and became responsible for conducting monetary policy for its member countries as of January 1, 1999. At the start of monetary union the euro area included eleven countries, i.e. Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Greece joined in 2001 to be followed by Slovenia six years later. In 2008 Malta and Cyprus will become its most recent members. These countries have in common that they met a series of legal and economic preconditions laid out in the Treaty of Maastricht prior to becoming members. Moreover, by joining they gave up their responsibility over monetary policy to the European Central Bank.

The path to establishing the ECB was a long one and dates back as far as the 1950s when Jean Monnet and others first bore the idea of a European cooperation. What followed in the years to come were a number of processes aimed at achieving further monetary and economic integration among the participating countries. With his committee report published in 1989, Jacques Delors became a decisive player in laying out specific steps to achieving a European Monetary Union (EMU) and leading to its actual establishment. Setting up the ECB as



Otmar Issing

well as launching Europe's new currency in form of the “euro” in January 1, 2002, has undoubtedly been a world premiere. There has not been a single economic union between sovereign nations that went this far. The full range of implications of this unique experiment was unknown to central bankers and economists together.

From the very beginning the ECB faced a number of challenges. For example, while euro area members share a single monetary policy, they remain responsible for their own fiscal affairs. Furthermore, structural economic diversities persist. Thus, raising or lowering interest rates will have different implications for the individual economies.

In an effort to create a platform for discussing the challenges lying ahead with other experts, the ECB and the Center for Financial Studies represented by OTMAR ISSING (ECB) and AXEL A. WEBER (CFS) created the conference series “The ECB and its Watchers” in 1999. Since then the conference has taken place once every year bringing together academics, central bankers, market participants, media and press representatives from around the globe for a debate on monetary policy. Moreover, the conference, which is by invitation only, encourages recommendations, new research findings, awareness as well as criticism. The ECB has welcomed this exchange and has been ready to answer to, clarify on, take up or reject initiatives raised by participants.

As indicated by a review of the conferences from 1999 to 2005, the ECB watchers have addressed a number of key issues in line with the ECB's development and policy actions. These topics included among others ECB transparency and communication, divergence of inflation rates and deflation fears in the euro area, the two-pillar strategy of the ECB, inflation performance, international imbalances as well as economic weakness and the revision of the stability pact.



Rudolf Ferscha, Gertrude Tumpel-Gugereit and Vitor Gaspar

From the very first conference in 1999, the ECB has been responsive to the continuous demand for a monetary policy which is not only more transparent, but also better communicated to the markets. For example, TOMMASO PADOA-SCHIOPPA (ECB) reassured participants of the first conference that the role of the ECB is “to have a view, to have a single view, and to make it felt.” Picking up on this notion, the ECB watchers again discussed the question of communication in the 2nd conference in 2002 and a series of recommendations were made with respect to improving the ECB communication strategy: presenting inflation forecasts, publishing



Axel A. Weber

the minutes of the ECB council meetings, issuing the arguments put forward at the ECB council meetings in the ECB monthly reports, adopting a more instrument-driven monetary policy strategy as soon as the data have improved in the EU, as well as publishing a comprehensive and timely summary after every interest rate decision. It was also criticized that the ECB's communication policy tried too hard to present a uniform front and single point of view. The attempt to reach unanimous decisions in an ECB Council, which was believed to be too large, was suspected to cause delays in the decision making. In its reply, the ECB agreed that there was a communication problem between the bank and the general public. Taking in consideration the suggestions made, the ECB emphasized that there were however limits to how far the ECB could or even should meet these demands in the face of a complex, uncertain and changing economic environment.



Harald Uhlig

The 3rd “ECB and Its Watchers” conference focused on the divergence of inflation rates across EMU countries. HARALD UHLIG (Humboldt University and CEPR) argued that the ECB should not worry about divergent inflation rates because they may reflect necessary relative-price adjustments. AXEL A. WEBER (CFS) presented new evidence about inflation diversity and convergence in the euro area. He found that inflation convergence took a specific form, whereby inflation rates are mean-reverting in the sense that regions with initially high (or above average) rates on inflation tend to have subsequently lower (or below average) inflation rates. Overall, inflation diversity should not be a concern for the ECB since a 2% area-wide inflation ceiling is sufficiently flexible to allow for European national and even regional inflation diversity without exposing European regions to sizeable deflationary risks. HANS-WERNER SINN (University of Munich and CESifo) addressed fears of potential deflation in the euro area and pointed to possible problems in the years to follow. If the ECB achieved its goal of a 1.5% inflation rate for the whole euro area this would translate into a deflation in countries such as Germany, given the inflation differentials in the EMU.

OTMAR ISSING (ECB) responded to these concerns, as well as to questions regarding the ECB's definition on price stability, extensively in the 4th conference in 2002. First, he argued that the ECB's definition of price stability did not focus too

## PROGRAM 2000

## “The ECB and Its Watchers II”

held at: June 26, 2000 in Frankfurt

Organization:  
Prof. Dr. Axel A. Weber (CFS)

## Welcome Address

Prof. Dr. Axel A. Weber (CFS)

## Panel I: The Academic ECB Watchers

Chair: Axel Siedenberg (Deutsche Bank Research)  
Carlo Favero (Bocconi University and CEPR)  
Xavier Freixas (Pompeu Fabra and CEPR)  
Daniel Gros (CEPS)  
Thomas Mayer (Goldman Sachs)  
Jürgen von Hagen (ZEI)  
Manfred J.M. Neumann (University of Bonn)  
Lars Svensson (Institute for International Economic Studies)

## Panel II: Issues in Monetary and Fiscal Policy Coordination

Chair: Axel A. Weber (CFS)  
Opening Statement: Vitor Gaspar (ECB)  
André Sapir (European Commission)  
Marco Butti (European Commission)  
Matthew Canzoneri (Georgetown University)  
Paul de Grauwe (University of Leuven)  
Jacques Méliet (University of Strathclyde and INSEE)  
Michael Hüther (DGZ · DekaBank)

## Panel III: The ECB and Its Communication Strategy

Chair: Axel A. Weber (CFS)  
Opening Statement: Otmar Issing (ECB)  
Christa Randzio-Plath (European Parliament)  
Francesco Giavazzi (Bocconi University, Milan)  
David Wessel (Wall Street Journal Europe)  
Claus Tigges (Frankfurter Allgemeine Zeitung)  
Michael Heise (DG - Bank)  
John Lipsky (Chase Manhattan Bank)

## Panel IV: The Euro and the International Financial System

Chair: Axel A. Weber (CFS)  
Opening Statement: Ignazio Angeloni (ECB)  
Peter Kenen (Princeton University, International Finance Section)  
Barry Eichengreen (University of California, Berkeley)  
Giancarlo Corsetti (Yale University, New Haven/University of Bologna)  
Norbert Walter (Deutsche Bank Research)  
Marc-Olivier Strauss-Kahn (Banque de France)  
Martin Hüfner (Hypo Vereinsbank)

## PROGRAM 2001

## “The ECB and Its Watchers III”

held at: June 18, 2001 in Frankfurt

Organization:  
Prof. Dr. Axel A. Weber (CFS)

## Welcome Address

Prof. Dr. Axel A. Weber (CFS)

## Opening Statement

Otmar Issing (ECB)

## Statement

Christa Randzio-Plath (European Parliament)

## Panel I: The Academic ECB Watchers

Chair: Axel A. Weber (CFS)  
Francesco Giavazzi (Bocconi University, and CEPR)  
Harald Uhlig (Humboldt University, and CEPR)  
Daniel Gros (CEPS, Brussels)  
Guido Tabellini (Bocconi University)  
Jürgen von Hagen (ZEI, and CEPR)  
Manfred J.M. Neumann (University of Bonn)  
Lars E.O. Svensson (Institute for International Economic Studies, and CEPR)

## Panel II: Monetary Transmission and EMU

Chair: Hermann Rempesberger (Deutsche Bundesbank)  
Opening Statement: Ignazio Angeloni (ECB)  
Paul de Grauwe (Catholic University of Leuven)  
Juan J. Dolado (Universidad Carlos III de Madrid)  
Sylvester C.W. Eijffinger (CentER, Tilburg University)  
Carlo Monticelli (Deutsche Bank AG)

## Panel III: The Transformation of Financial Markets in Europe

Chair: Thomas Mayer (Goldman Sachs)  
Opening Statement: Tommaso Padoa-Schioppa (ECB)  
Giancarlo Corsetti (Yale University, and University of Rome III)  
André Sapir (European Commission)  
Niels Thygesen (EPRU, Copenhagen University)  
Norbert Walter (Deutsche Bank Research)

## Panel IV: Price Stability and Macro Adjustment in EMU

Chair: Jürgen Pfister (Commerzbank AG)  
Opening Statement: Vitor Gaspar (ECB)  
Matthew B. Canzoneri (Georgetown University)  
Francesco Giavazzi (Bocconi University)  
Bennet T. McCallum (Carnegie Mellon University)  
Hans-Werner Sinn (University of Munich, CESifo)  
Axel A. Weber (CFS)

much on the upper bound, but in fact the objective was symmetric, with zero being the lower bound. Second, the ECB's definition of price stability (0-2%) was not excessively ambitious. Research suggested that the risk of reaching the zero bound for nominal interest rates was quite small with an inflation target as low as 1%. Last, the definition of price stability left room for relative price movements due to the Balassa-Samuelson effect. Thus the risk was small for current EMU members. While this effect might play a bigger role for the accession countries, these economies were relatively small and the convergence criteria made sure that entrants had a low level of inflation.



## PROGRAM 2002

## "The ECB and Its Watchers IV"

held at: June 10, 2002 in Milan

Organization:  
Prof. Dr. Axel A. Weber (CFS)

## Opening Statement

Francesco Giavazzi (Bocconi University and IGER)

## The Academic ECB Watchers

Chair: Axel A. Weber (Cologne University and CFS)

CEPR Report: "Monitoring the ECB", 2002

David Begg (Birkbeck College)

Fabio Canova (Universitat Pompeu Fabra, and London Business School)

CEPS Report 2002

Daniel Gros (CEPS)

Carlo Monticelli (Deutsche Bank Research)

Observatorio del Banco Central Europeo (OBCE)

Juan J. Dolado (Universidad Carlos III de Madrid)

Discussant: Marco Mazzucchelli (San Paolo IMI)

Discussant: Steven Cecchetti (Ohio State University)

Comments: Otmar Issing (ECB)

## Panel I: EU Enlargement

Chair: Vitor Gaspar (ECB)

Christian Thimann (ECB)

Carlo Bastasin (La Stampa)

Riccardo Barbieri Hermitte (Morgan Stanley)

Ilian Mihov (INSEAD)

László Halpern (CEPR, Institute of Economics)

## Panel II: International Economic Linkages and Policy Coordination

Chair: Ignazio Angeloni (ECB)

Guido Tabellini (Bocconi University and IGER)

Martin Eichenbaum (Northwestern University)

John Lipsky (JP Morgan)

Daniel Gros (CEPS)



Lars E. O. Svensson

the ECB monetary policy strategy or specifically, the "two-pillar structure" of this strategy. For example, it was criticized for being insufficiently clear and intransparent. Critics such as LARS E. O. SVENSSON (Institute for International Economic Studies and CEPR) discussed the choice between monetary and inflation targeting and concluded that the first pillar of the ECB monetary strategy contradicted inflation targeting. Svensson proposed looking only at the second pillar and to take into account the money supply as one of the many indicators used to derive a specific inflation forecast. Like others, he expressed a clear preference for inflation targeting.

During the 5th conference in 2003, professionals and the ECB discussed the results of the ECB's monetary policy strategy review: specifically that the numerical inflation target was clarified to be below but close to 2% and the two-pillar structure was confirmed, albeit the order of pillars switched. OTMAR ISSING (ECB) emphasized that the ECB was not dissatisfied with the strategy. It was only natural that, after a period, the council would want to go back and reflect on the accumulated experience in a systematic way. He concluded that the ECB's reflection on monetary policy was an ongoing process.

The longer-term performance of inflation in the EMU became an issue for discussion in 2004. HARALD UHLIG (Humboldt University and CEPR) based his presentation on the 5th MECB (Monitoring the European Central Bank) report of the CEPR's ECB watcher group. Uhlig criticized the ECB for failing to keep inflation below 2% for most of the time. He considered the ECB's inflation target too ambitious and suggested replacing it with a range from 1 to 3%. OTMAR ISSING (ECB), in turn, considered euro area inflation performance of roughly 2% in earlier years a great achievement of the ECB. While recognizing the repeated under-estimation of inflation mentioned also by MANFRED J.M. NEUMANN (University of Bonn), Issing also rejected possible suggestions that this might have been deliberate and stated that the ECB's inflation projections were done in an objective way using state-of-the-art techniques.

International macroeconomic imbalances – another topic which was on the agenda for several years – still loomed large at the 6th conference held for the ECB and its watchers. In particular, discussion focused on the U.S. current account deficit and its implications for the euro area. TED TRUMAN (Institute for International Economics) argued that the U.S. current account deficit was unsustainable,

but that the extent and timing of its adjustment were uncertain. As to fiscal policy he urged the U.S. to address its fiscal imbalances, but saw less cause for compensating fiscal action in the euro area. Instead he indicated a major responsibility for the ECB in sustaining growth and stimulating demand. CARLO MONTICELLI (Ministero dell'Economia e delle Finanze) also pointed to the uncertainty about the size of the required adjustment in the U.S. economy. In response, OTMAR ISSING (ECB) noted that a temporary current account deficit – or surplus – should be regarded as a natural phenomenon in an increasingly integrated world economy, but the U.S. current account deficit may become a matter of concern. He indicated that the role of monetary policy in resolving international imbalances was to provide a stable environment in which structural reforms could develop their fullest potential.

Conference organizer VOLKER WIELAND (CFS) once again gave various ECB watchers the opportunity to express their views about the current stance on monetary policy at the beginning of the 7th conference in 2005. THOMAS MAYER (Deutsche Bank) stated that the ECB was caught between a rock, i.e. economic weakness, and a hard place, i.e. strong liquidity growth. In his opinion the ECB had paid more attention to near-term economic weakness so far. As inflation was mainly a monetary phenomenon the recent liquidity development represented a major danger for price stability in the euro area. Insufficient investment growth and a relative total factor productivity decline as a major reason for decline in relative output growth in Europe depicted DANIEL GROS (CEPS).



Lucas Papademos

Fiscal policy had always been an important question for discussion at the ECB watchers conferences. In 2007, following the reform of the Stability and Growth Pact, LUCAS PAPADEMOS (ECB) argued that a rigorous and consistent implementation of the reformed Pact was crucial for sound public finances in the euro area. He noted that the credibility of the reformed Pact would be tested in the coming months as the budgetary provisions of countries with excessive deficits would be assessed by the European Commission and the European Council.

The Center of Financial Studies is now hosting the event for nine consecutive years. The "ECB and Its Watchers" conference has evolved into a unique and well-established forum for public exchange of opinion between leading central bank critics and central bank decision makers. It was and remains of vital importance to the organizers to reflect the ongoing processes, developments and challenges of the ECB.

by Celia Wieland

## PROGRAM 2004

## "The ECB and Its Watchers VI"

held at: July 2, 2004 in Frankfurt

Organization:  
Volker Wieland (Goethe University Frankfurt and CFS)

## Welcome

Volker Wieland

## Opening Address

Otmar Issing (ECB)

## Panel I: ECB Watchers

Chair: Volker Wieland

CEPR-MECB: Harald Uhlig (Humboldt University)

CEPS: Daniel Gros (CEPS)

Roberto Perotti (IGIER – Università Bocconi)

EMU-Monitor: Jürgen von Hagen (ZEL, University of Bonn)

Manfred J.M. Neumann (University of Bonn)

OBCE: Angel Ulbide (Tudor Investment)

Jose Alzola (Citigroup)

Reply: Otmar Issing

## Panel II: European Financial Integration

Chair: Vitor Gaspar (ECB)

Opening Statement: Gertrude Tumpel-Gugerell (ECB)

David Wright (European Commission)

Rudolf Ferscha (Eurex)

John Lipsky (JP Morgan Chase)

Claudio Borio (Bank for International Settlements)

## Panel III: International Imbalances:

The U.S. Current Account and the Euro Area

Chair: Michael Wickens (University of York)

Edwin M. Truman (Institute for International Economics)

Francesco Giavazzi (IGIER – Università Bocconi)

Carlo Monticelli (Ministero dell'Economia e delle Finanze)

## Panel IV: International Imbalances:

The Role of the Exchange Rate and Monetary Policy

Chair: Ignazio Angeloni (ECB)

Takatoshi Ito (University of Tokyo)

Charles Wyplosz (Graduate Institute of International Studies)

Joachim Fels (Morgan Stanley)

Peter Garber (Deutsche Bank)

Thorsten Polleit (Barclays Capital Plc.)

## Closing Remarks

Otmar Issing

## PROGRAM 2005

## "The ECB and Its Watchers VII"

held at: June 3, 2005 in Frankfurt

Organization:  
Volker Wieland (Goethe University Frankfurt and CFS)

## Welcome

Volker Wieland

## Panel I: ECB Watchers – Academic and Market Perspectives

Chair: Volker Wieland

Jordi Galí (CREI, Universitat Pompeu Fabra, and CEPR, Barcelona)

Giancarlo Corsetti (European University Institute and CEPR, Florence)

Daniel Gros (CEPS, Brussels)

Joachim Fels (Chief Global Fixed Income Economist, Morgan Stanley, London)

William Dickens (Brookings Institution, Washington, DC)

## Panel I continued: ECB Watchers – Academic and Market Perspectives

Chair: Volker Wieland

Laurence Meyer (Meyer's Monetary Policy Insights, Former Member of the Board of Governors, Washington)

Thomas Mayer (Chief European Economist, Deutsche Bank, London)

Ulrich Kater (Chief Economist, DekaBank, Frankfurt)

## Reply to Panel I and Discussion

Otmar Issing (Member of the Executive Board, ECB, Frankfurt)

## Panel II: Monetary and Fiscal Policy – The Political Economy of the Stability and Growth Pact

Chair: Manfred Neumann (University of Bonn)

Caio Koch-Weser (State Secretary of the German Federal Ministry of Finance, Berlin)

Lucas Papademos (Vice-President of the ECB, Frankfurt)

Klaus Regling (Director General for Economic and Financial Affairs, European Commission, Brussels)

Willem H. Buiter (Chief Economist of the EBRD, London)

Michael Deppler (Director of the European Department, IMF, Washington)

## Panel III: Monetary Policy and Central Bank Communication

Chair: Lucrezia Reichlin (Director of Research, ECB, Frankfurt)

Marcel Fratzscher (Adviser, ECB, Frankfurt)

Richard Clarida (Chief Economist of the Clinton Group and Columbia University, New York)

Vincent Reinhart (Director of Monetary Affairs, Federal Reserve Board)

Lars Svensson (Princeton University)

David Walton (Chief European Economist of Goldman Sachs, London)

## Closing Remarks

Otmar Issing

All quotes are drawn from previous conference summaries published in CFSnewsletters.

## PROGRAM 2003

## "The ECB and Its Watchers V"

held at: July 11, 2003 in Frankfurt

Organization:  
Prof. Dr. Axel A. Weber (University of Cologne and CFS)

## Opening Remarks on the Review of the Strategy

Otmar Issing (ECB)

## Panel I: Academics as ECB Watchers

Chair: Axel A. Weber (University of Cologne, and CFS)

Daniel Gros (CEPS)

Manfred J.M. Neumann (University of Bonn)

Niels Thygesen (EPRU, University of Copenhagen)

Jürgen von Hagen (ZEL)

Reply: Otmar Issing (ECB)

## Panel II: Market Participants as ECB Watchers

Chair: Matthew Canzoneri (Georgetown University)

Opening Statement: Gert Jan Hogeweg (ECB)

Joachim Fels (Morgan Stanley)

John Lipsky (JP Morgan Securities)

Thomas Mayer (Deutsche Bank Research)

Paul Mortimer-Lee (BNP Paribas)

Thorsten Polleit (Barclays Capital Plc)

Angel Ulbide (Tudor Investment Corp)

## Panel III: The Press as ECB Watchers

Chair: Lars Svensson (Princeton University)

Opening Statement: Bernhard Winkler (ECB)

Christian Burckhardt (Börsen-Zeitung)

Jörg Eigendorf (Die Welt)

Beda Romano (Il Sole-24 Ore)

Tom Sims (The Wall Street Journal)

Pam Woodall (The Economist)

## Closing Statement

Vitor Gaspar (ECB)



John Lipsky and Carlo Monticelli

An important part of the debate between academics, market professionals and the European central bankers over the first few years had also been

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