**Welcome by Hermann Remsperger,** Chairman, Stiftung Geld und Währung

**IMFS Conference on Monetary and Financial Stability 2013**

**Economic and Legal Limits of Central Banking**

**Tuesday, 26 November 2013, 8.45 am – 4.00 pm**

**Goethe University Frankfurt, Campus Westend, Casino, Renate-von-Metzler-Saal**

Ladies and Gentlemen,

also on behalf of my colleagues from the "Foundation for Monetary and Financial Stability" I would like to warmly welcome you to the conference on „Economic and Legal Limits of Central Banking".

First of all, let me extend a special welcome to the distinguished speakers who certainly will make this conference a stimulating event.

At the same time many thanks go to the organisers of this event. I think we all agree that Günter Beck, Helmut Siekmann and Volker Wieland managed to compile an excellent program.

Regarding the Foundation, I would like to mention that it was set up as a Federal institution by Act of Parliament in 2002 to promote public awareness of the significance of price and financial stability. To meet this objective, we focus on four priorities.

*First*, we set up the Institute for Monetary and Financial Stability. With three endowed professorships, the IMFS, as we call it briefly, has been our flagship since 2006/2007.

Located in the House of Finance at Goethe-University here in Frankfurt, the name of the Institute represents at the same time its key research activity, which is monetary and financial stability.

In addition to its research activities the IMFS offers political and legal advice.

*Second*, the Foundation sponsors two PhD programs, one in Frankfurt and another one jointly at the universities of Jena and Halle.

*Third*, we support important projects in financial and monetary matters. For example, and as early as in 2005, we decided to finance a research project on macroeconomic stress tests for the banking system.

The study by the Kiel Institute for the World Economy in cooperation with the universities of Tübingen and Gent was completed in 2008.

Currently we are financing research on the institutional design of centralized banking supervision and resolution in Europe.

This very topical project by Isabel Schnabel and Elke Gurlit at the University of Mainz distinguishes between a short-term perspective taking the current legal framework as given, and a medium-term perspective allowing for changes in the European primary law.

I´m sure that potential conflicts of interest in a broad design of central banking will belong to the key issues of this study.

As another important example for our sponsoring activities let me point to the Commentary on the European Monetary Union, which was edited by Helmut Siekmann and published just a few months ago.

On more than 1600 pages 15 legal experts discuss all provisions of the European Union law, which are related to the European Monetary Union, in particular the Statute of the European System of Central Banks and the ECB.

*Fourth,* the Foundation supports academic conferences such as today´s on "Economic and Legal Limits of Central Banking". And yes, there are difficult questions all around. Let me mention only a very few of them.

On *objectives* in central banking, my key question is whether the broad trend towards broader mandates for central banks will be sustainable.

What will be the new paradigm or the new normal after the financial crisis? “Central banks unlimited” - aiming at multiple targets, including employment, real growth and financial stability on top of a symmetrical interpretation of price stability?

Well, at least there are risks relating monetary policy to real variables (Charles Goodhart).

And if you agree that financial stability still remains a vague concept, you certainly end up discussing the risks of too high a burden for central banks with a broad mandate.

Of course, you can try to manage this burden by the implementation of multiple *instruments*. No doubt, a large tool box helps to achieve a broad mandate. But let´s not forget that every central bank instrument has its specific limits.

*First*, there are limits in the area of interest rate and liquidity policy because of legal provisions, economic side-effects and unintended consequences.

*Second*, there are also limits to forward guidance in central banking because of limited forward-looking capacities. Just think of experimental monetary policy in the US and the UK or the recent rate cut by the ECB: Surprise, surprise instead of forward guidance.

I wonder whether a central bank ever will be able to provide clarity, certainty and credibility all at once.

*Third*, and with regard to financial stability, we know very little about the transmission process of individual macroprudential instruments and even less about their interaction. At least once a week, adies and gentlemen, I ask myself by re-phrasing a famous song: Where have all the measures gone?

*Fourth* and finally, there also will be limits to the tool box of banking supervision as a new weapon for the ECB.

From the perspective of governance the Single Supervisory Mechanism (SSM) is anything else but a mechanism. The term “mechanism” gives the false impression of a technical matter. Actually, the SSM represents a delicate political governance system and thus a very difficult decision making process.

And, yes of course, what is true of the SSM is also true of the Single Resolution Mechanism.

But I better stop here. Otherwise I run even deeper into well-known systemic risks of welcome remarks: either too long to stimulate or too judgemental to convince. Let´s hope that our conference today will find convincing answers to demanding questions.