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REPORT

on the draft Council recommendation for appointment of an Executive Board Member of the European Central Bank
(00003/2011 – C7-0058/2011 – 2011/0802(NLE))

Committee on Economic and Monetary Affairs

Rapporteur: Sharon Bowles

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PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on the Council recommendation for appointment of an Executive Board Member of the European Central Bank (00003/2011 – C7-0058/2011 – 2011/0802(NLE))

The European Parliament,

- having regard to the Council recommendation of 15 February 2011 (00003/2011)¹,
 - having regard to the second subparagraph of Article 283(2) of the Treaty on the Functioning of the European Union, pursuant to which the European Council consulted Parliament (C7-0058/2011),
 - having regard to Rule 109 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A7-0064/2011),
- A. whereas by letter of 18 February 2011 the European Council consulted the European Parliament on the appointment of Peter Praet as a member of the Executive Board of the European Central Bank for a term of office of eight years with effect from 1 June 2011,
- B. whereas Parliament's Committee on Economic and Monetary Affairs then proceeded to evaluate the credentials of the nominee, in particular in view of the requirements laid down in Article 283(2) of the Treaty on the Functioning of the European Union and in the light of the need for full independence of the ECB pursuant to Article 130 of that Treaty, and whereas in carrying out this evaluation, the committee received a CV from the candidate as well as his replies to the written questionnaire that was sent out to him,
- C. whereas the committee subsequently held a one-and-a-half-hour hearing with the nominee on 16 March 2011, at which he made an opening statement and then responded to questions from the members of the committee,
1. Delivers a favourable opinion to the European Council on the Council recommendation to appoint Peter Praet as a member of the Executive Board of the European Central Bank;
 2. Instructs its President to forward this decision to the European Council and the Council.

¹ Not yet published in OJ.

ANNEX (1): CURRICULUM VITAE OF PETER PRAET

Peter Praet was appointed executive director of the National Bank of Belgium in 2000 and is responsible for financial stability and oversight of financial infrastructures and payments systems. In 2002 he was also appointed executive director of the Belgian Banking, Finance and Insurance Commission (CBFA), where he is responsible for prudential policy for banking and insurance.

Before joining the National Bank, Mr. Praet served as chief of cabinet for the Belgian Minister of Finance from 1999-2000, as chief economist of Générale de Banque and Fortis Bank from 1988-1999, as professor of economics at the Université Libre de Bruxelles from 1980-1987, and as economist at the International Monetary Fund from 1978-1980.

Mr. Praet earned a Ph.D. in economics from the Université Libre de Bruxelles (ULB) in 1980. He has been a Professor in Economics at the ULB since 1980. He currently teaches money and banking at the Université Libre de Bruxelles, and from 2001-2004 he held the Chair of Business Ethics at the Faculté Polytechnique and the Solvay Business School of the ULB.

Mr. Praet serves on several high-level international committees, including the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System, and the European Banking Authority. He is First Alternate of the Board of Directors of the Bank for International Settlements. Also, he has been chairing the Banking Supervision Committee of the European System of Central Banks.

In these various capacities, he has been chairing a number of task forces and working groups. Currently he is Chair of the Working group on Fixed Income Strategies of insurance firms and pension funds of the Committee on the Global Financial System and also co-chair of the Research Task Force of the Basel Committee on Banking Supervision.

Mr. Praet has been a member of the board of the European think tank BRUEGEL (Brussels European Global Economic Laboratory) since 2004 and is a member of the International Advisory Council of the International Centre for Financial Regulation (ICFR).

PETER PRAET

Executive Director

Born in Herchen (Germany), 20 January 1949

Nationality: Belgian

Mandates

- Executive Director of the National Bank of Belgium, in charge of Financial Stability

and Oversight of Financial Infrastructures and payments systems

- Executive Director of the Banking, Finance and Insurance Commission (CBFA), in charge of Banking/Insurance Prudential Policy
- First Alternate of the Board of Directors of the Bank for International Settlements (BIS)
- Alternate member of the Global Economy Meeting of the BIS
- Alternate member of the Economic Consultative Committee of the BIS
- Chairman of the Banking Supervision Committee (BSC) of the European System of Central Banks

Member

Basel Committee on Banking Supervision (BCBS)
Basel Committee on the Global Financial System (CGFS)
Chair of the CGFS Working group on Fixed Income Strategies of insurance firms and pension funds
Co-chair of the BCBS Research Task Force
Basel Committee on Payment and Settlement Systems (CPSS)
Committee of European Banking Supervisors (CEBS), since January 2011 the European Banking Authority (EBA)
Board of the Brussels European and Global Economic Laboratory (BRUEGEL) (2004 – 2011)
Board of Directors of XBRL (Extensible Business Reporting Language)
High Council of Finance of the Kingdom of Belgium
2008 Lamfalussy Task Force for a new financial architecture in Belgium
Academic Advisory Board of Brussels Finance Institute - BFI
International Advisory Council of the International centre for Financial Regulation (ICFR)
Comité des risques et établissements financiers systémiques (CREFS)

Academic functions

Money and Banking, Solvay Business School and Economics Department,
Université Libre de Bruxelles (ULB)
Macroeconomic Coordination – Institute of European Studies

Degrees

Bachelors in economics - ULB (1971)
Masters in economics - ULB (1972)
Ph.D. in economics - ULB (1980)

Main Professional activities

1973 – 1975	Research assistant in the Department of applied economics and Institute of European Studies, Université Libre de Bruxelles (ULB)
1976	Military service
1977 – 1978	Research assistant at the Institute of European Studies, ULB
1978 – 1980	Economist at the International Monetary Fund, Washington D.C.
1980 – 1987	Professor of economics, ULB
	<i>Teaching:</i>
	<ul style="list-style-type: none">• Money and banking• Economic and monetary union• Coordination of macroeconomic policies
1987 – 1999	Chief Economist at the Générale de Banque, subsequently at Fortis Bank
1999 – 2000	Chief of Staff of the Belgian Minister of Finance
Nov. 2000 – present	Executive Director of the National Bank of Belgium
Nov. 2002 – present	Member of the Board of the Banking, Finance and Insurance Commission (CBFA)

ANNEX (2) ANSWERS BY PETER PRAET TO THE QUESTIONNAIRE

A. Personal and professional background

1. Please highlight the main aspects of your professional experience in monetary, financial and business matters.

My professional career has been focused on monetary and financial matters in academics, banking and as a civil servant and central banker.

After a Ph.D. in Economics at the Université Libre de Bruxelles (ULB) and two years as economist at the IMF, I was Professor of Economics at the ULB between 1980 and 1987.

From 1987 until 1999, I was chief economist of major banks in Belgium. This provided me a good knowledge of the various dimensions of the banking business.

Between 1999 and 2000, I was chief of staff of the Belgian Finance Minister. Since 2000, I have been executive director of the National Bank of Belgium (NBB), responsible for financial stability and oversight of financial infrastructures and payments systems. In 2002 I was also appointed at the Managing Board of the Belgian Banking, Finance and Insurance Commission (CBFA), where I am responsible for prudential policy for banking and insurance. In these two capacities (NBB and CBFA), I have served on several high-level international committees (see question 2).

2. Please highlight the main aspects of your European and international experience.

Since 2000, I was a member of several high-level European and international committees, including the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Committee of European Banking Supervisors which very recently became the European Banking Authority. Also, I was appointed by the Governing Council of the ECB to chair the Banking Supervision Committee of the European System of Central Banks between 2007 and 2011.

In these various capacities, I was invited to chair a number of task forces and working groups. Currently, I am Chair of the Working group on Fixed Income Strategies of insurance firms and pension funds of the Committee on the Global Financial System and co-chair of the Research Task Force of the Basel Committee on Banking Supervision. I am also a member of the EFC Ad Hoc Working Group on Crisis Management.

Between 2000 and 2005 I was responsible at the National Bank of Belgium for international policy issues, covering the IMF, BIS, OECD and EU.

I have been a member of the board of the European think tank BRUEGEL (Brussels

European Global Economic Laboratory) since its inception in 2004 and a member of the International Advisory Council of the International Centre for Financial Regulation (ICFR).

3. What are the most important decisions to which you have been party in your professional life?

I have been party to many decisions at the national, European and international level in economic and financial matters.

At the national level, as chief of staff of the Belgian Minister of Finance, I was involved in major taxation and regulatory reforms. I would also like to mention the creation in 2002 of a new Financial Stability Department at the National Bank of Belgium, strengthening the focus on analysis and research in this area. More recently, I actively participated in the management of the financial crisis in Belgium, and was a member of the Lamfalussy high-level group, which outlined a new supervisory architecture for Belgium.

I also recently contributed to major international policy groups in response to the crisis. At the European level, I actively participated in initiatives to reinforce cross-border crisis management in the financial sector. As a member of the Basel Committee, I have ardently worked on making the financial system more resilient via the so-called Basel III package.

B. Monetary and economic policy

4. What would be the guiding objectives you will pursue during your eight-year mandate as a Member of the Executive Board of the European Central Bank?

I will first and foremost be fully devoted to the Treaty mandate of the ECB.

In line with the competences of the ECB, I will act with independence in the general interest of the Euro area and the EU as a whole and of their citizens.

I highly value integrity, transparency and accountability. I also believe that collegial decision-making and a highly professional staff are major assets for the ECB.

5. What is your assessment of the monetary policy as it has been implemented by the ESCB for 12 years? What changes, if any, would you promote when becoming a Member of the Executive Board?

Overall, monetary policy in the euro area has developed satisfactorily in my view. Surveys and financial market indicators for inflation expectations have been overall in line with the ECB's definition of price stability. This anchoring of inflation expectations witnesses the large degree of credibility that markets and the public attach to the ECB's commitment to deliver what it is expected to deliver, i.e. price stability. The ECB has achieved this objective despite many exceptional challenges it had to weather in the past 12 years. The ECB reacted promptly when the financial turmoil erupted in 2007 and when it next turned into a financial crisis. Even in this period, with a few months of

negative inflation rates, the medium to longer-term inflation expectations remained well-anchored.

This being said, the financial crisis has raised a number of questions on the relation between monetary policy and financial stability. A better understanding of the role of the financial sector in the transmission mechanism of monetary policy is of the essence. As mentioned in answer 6, monitoring asset price developments is one important element in a robust monetary policy strategy.

6. It is often asserted that due to structural changes in the world economy inflation has shifted from inflation in consumer prices to inflation in asset prices. What is your view on this assertion and which consequences for the monetary policy do you see?

Over the last 30 years the level of inflation and its volatility have declined first in developed and, at a later stage, developing economies. Until before the eruption of the financial crisis, the debate had long focused on possible interpretations of this so-called Great Moderation like structural changes including globalisation and more efficient monetary policy. The most likely answer is that both these factors significantly contributed to reduce inflation and its volatility.

Nevertheless we cannot say that the fight against inflation has been definitely won and that we have entered into a new era where inflation reveals itself in asset rather than consumer prices. At the same time, it is true that the tamed developments in inflation dynamics, by reducing the risk premium demanded by financial markets, may have contributed to fostering unsustainable developments in some asset prices. Looking forward, central banks must preserve their own hard gained credibility over the past 30 years and remain focused on their price stability objective, while taking due account of the implications of asset price developments for medium to longer term risks to price stability.

Monitoring asset price developments is one important element in a robust monetary policy strategy. Unsustainable developments in asset prices may herald quite painful adjustments – even far away in the future – that may jeopardise a central bank's ability to maintain price stability on a lasting basis. The ECB's monetary policy strategy, for example, is designed in such a way as to duly incorporate the longer term risks to price stability emanating from unsustainable asset price dynamics into monetary policy deliberations. In the monetary analysis, which plays an important role in shaping the medium to longer-term outlook for price developments, the assessment of money and credit developments makes it possible to follow the interactions between price formation in asset markets and credit and liquidity creation in the financial sector. This encourages monetary policy to adopt a leaning-against-the-wind attitude to incipient asset price imbalances that are reflected in the dynamics of monetary and credit aggregates. It helps monetary policy to limit the build-up of asset price bubbles over financial cycles and thereby to maintain price stability on a lasting basis.

Nevertheless, monetary policy is not necessarily the most appropriate instrument to deal with credit/asset price booms. The use of macro prudential instruments targeted on the sources of financial exuberance may be more appropriate. At the same time, we have little experience with these instruments.

7. How do you assess the consequences of rising commodity prices for the monetary policy? Is there a conflict in terms of monetary policy between fighting the recession and remaining vigilant about inflation (expectations)?

The monetary policy of the ECB focuses on price developments in the medium term. Changes in the monetary policy stance take some time to affect the economy and, ultimately, prices. Rising commodity prices, as currently observed, therefore will affect monetary policy only to the extent that they create upside risks for price stability in the medium term. Short-term effects on overall inflation, stemming from direct effects of higher commodity prices on inflation, and indirect effects from its use as input in the production process, are in principle no reason for the ECB to react as the effect on consumer prices would only be temporary.

Things start to become different if this short-run upward pressure on prices would become entrenched in the behaviour of consumers, producers and financial market participants leading to the emergence of second-round effects. Also, in case of sustained upward trends in commodity prices the central bank may need to intervene when a sustained deviation from the price stability objective risks undermining the firm anchoring of inflation expectations. In such cases, a monetary policy tightening would be required to return to a situation of price stability and well-anchored inflation expectations. In the current situation, we need to closely monitor the prices of commodities and their pass-through to the economy and inflation.

The ECB's primary mandate is to maintain price stability in the medium term. To achieve that, it sets interest rates, and currently it also implements non-standard measures that aim at ensuring that low interest rates are transferred to the economy as in normal times. Ensuring price stability is the best contribution the ECB can make to raising prospects for a sustainable economic recovery (see also the answer to the question 8).

8. Without prejudice to the objective of price stability, how in your view should the ECB fulfil its secondary obligations under the Treaty (to contribute to economic growth and full employment) and what instruments could the ECB use to do so?

In line with the Treaty, the ECB has set a clear numerical benchmark for the achievement of price stability. It aims to maintain inflation below, but close to, 2% over the medium term and has fully accomplished this goal from the start. A broad consensus exists on the fact that a central bank cannot influence economic growth in a sustainable manner by changing the money supply. However, price stability is the most important contribution that monetary policy can make to achieve a favourable economic environment and a high level of employment. It makes a structural contribution to the other objectives of the European Union by increasing the growth potential of the euro area economy.

Without prejudice to the objective of price stability, the Treaty also envisages the support by the ESCB of the general economic policies in the Union, with a view to contributing inter alia to the sustainable development of Europe based on balanced

economic growth and aiming at full employment. During the financial crisis, monetary policy reacted to economic and financial shocks with the appropriate medium-term orientation to ensure a solid anchoring of inflation expectations and to stabilise macroeconomic developments. Without endangering price stability, the ECB has been giving a sufficient degree of support to the economy by using its interest rate instrument. Moreover, in addition to conventional interest rate cuts to historically low levels, the ECB's response was sufficiently flexible as circumstances required. It adopted so called non-standard measures with a view to ensuring the smooth transmission of monetary policy in a context of unusually high uncertainty and instability in financial markets.

9. How do you judge the institutional relation between the ECB, the Council and/or the Eurogroup? Do you think that the coordination and economic surveillance inside the Eurogroup should be improved?

The ECB takes part, on a permanent basis, in the meetings of the ECOFIN Council, the Eurogroup and their preparatory committees. The ECB President is also regularly participating in relevant parts of the meetings of European Council. This close cooperation allows the ECB to inform Ministers about its monetary policy decisions and its assessment of economic and financial developments. Conversely, via its participation in these fora, the ECB is engaged in discussions about EU Member States' fiscal and other macroeconomic and structural policies (as covered by the EU Semester), international financial affairs and financial sector policies.

Nevertheless, the Commission's legislative proposals on economic governance in the EU, coordination and economic surveillance should indeed be strengthened. The Eurogroup has a crucial role to play, embodying the "Economic" pillar of EMU. This strengthened cooperation should be aimed at avoiding the build-up of unsustainable imbalances that might endanger the smooth functioning of economic and monetary union, ensuring sustainable fiscal positions and enhancing the growth potential of the euro area.

10. What do you think of the "economic governance reform" draft legislative proposals currently debated in the European Parliament? Would you think that integrated surveillance is a step forward or would you rather focus on budgetary surveillance?

While the proposals put forward by the Commission represent an important broadening and strengthening of the existing framework for fiscal and macroeconomic surveillance in the EU, they do not go as far as the "quantum leap" in the economic governance framework of EMU to achieve a deeper economic union called for by the ECB. In this respect, I welcome the efforts by the European Parliament and hope that they will fully use the room available in the Treaty to reinforce economic governance to the maximum possible in the upcoming dialogue discussions with the Council and the Commission.

The main lesson we should draw from how surveillance was practiced in the past is that rules need to be adhered to strictly and that any deviations are followed by quasi-automatic corrective steps. This can be achieved through clear and timely procedures

that are straightforward to interpret and implement.

The recent crisis has shown that macroeconomic imbalances can pose large risks to public finances, which might materialise very quickly. It has also become very clear that these risks were not sufficiently monitored and addressed in the current governance framework. A more integrated approach to surveillance is therefore needed. It is good that under the European Semester, the timing of the various surveillance processes will be aligned to ensure consistency, while they will remain legally and procedurally separate.

11. What roles, relationships and challenges do you see for the ECB and the forthcoming European Stability Mechanism?

A number of tasks are foreseen for the ECB in the Eurogroup statement on the European Stability Mechanism (ESM) of 28 November 2010, endorsed by the European Council on 16-17 December 2010.

First, the Commission and the IMF, in liaison with the ECB, will negotiate and monitor economic and financial assistance programmes for euro area countries seeking ESM assistance, as is the practice for the Greek Loan Facility and for assistance under the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). However, the ECB should not take a leading role here as a too strong involvement in monitoring of programmes might weaken its independence.

Second, prior to ESM assistance, the Commission and the IMF, in liaison with the ECB, will conduct a thorough debt sustainability analysis, on the basis of which the Eurogroup will take a unanimous decision on providing assistance.

Third, the overall effectiveness of the framework foreseen for the ESM will be evaluated in 2016 by the Commission, in liaison with the ECB.

12. What would the issuance of Eurobonds imply for economic governance in the euro area?

Jointly guaranteed bonds, or ‘Eurobonds’, have been suggested from various sides both as an instrument to increase liquidity in sovereign debt markets of the euro area and as a possible mechanism to help resolving the ongoing sovereign debt crisis.

However, several key aspects need first to be tackled. Most importantly, jointly guaranteed bonds with a single area-wide interest rate create a significant common pool incentive problem. They might impair the incentives for fiscal prudence at the domestic level and make it less attractive for countries to take politically costly measures to prevent and resolve crises themselves. The adverse incentive effects might apply not only for the countries benefiting from lower interest rates on such joint bonds, but also for those paying up as they would no longer reap the benefits of past fiscal prudence.

Joint Eurobonds make more sense in an environment where a considerable amount of fiscal competence is transferred from the national to the union level and where the union has sufficient instruments to countervail the adverse incentive effects of joint bonds. This would be akin to current financial arrangements between the central

government and regional authorities within federal states.

13. What do you think are the most important objectives for the strategy for jobs and growth until 2020? How could the ECB and the instruments of economic and policy coordination contribute to the success of this strategy? Please list in order of importance the structural reforms which you believe are a priority in the EU.

It is crucial for Europe to raise its growth potential. The best way to do so is to create a climate for innovation to flourish and spread. The main asset of Europe is human capital. Innovation should help tackling the environmental challenges and higher productivity is needed to raise the living standards and help bringing public finances on a sustainable path despite the costs of ageing.

Improved and strengthened surveillance over Member States' policies, including the new macroeconomic surveillance mechanism proposed by the Commission, is essential for the success of the EU 2020 strategy. Besides ensuring price stability, the ECB should also contribute to financial stability to create a growth facilitating environment.

In terms of the priority of structural reforms, it is crucial that substantial and far reaching structural reforms, which complement fiscal consolidation, are urgently implemented in order to restore competitiveness, and to achieve higher potential economic growth and employment. Moderate wage-setting, effective incentives to work as well as reinforced efforts on education and training and the removal of nominal and real labour market rigidities would contribute significantly to lower structural unemployment over the coming years. In the case of product markets, policies that enhance domestic and cross-border competition and support innovation should be further developed to speed up restructuring and investment and to facilitate advances in productivity growth. This includes in particular the implementation of the services directive to enhance cross border services competition. Structural reforms should also be supported by an appropriate reorganisation and consolidation of the banking sector. Sound balance sheets, effective risk management and transparent, robust business models remain key to strengthening banks' resilience to shocks and to ensuring adequate access to finance, thereby laying the foundations for sustainable growth and financial stability.

14. What is your opinion regarding the pace at which the New Member States should join the monetary union and adopt the Euro, considering all of the convergence criteria and the participation in the exchange rate mechanism (ERM II)? What are your views on the future of the European monetary union in the longer term and what are the main challenges ahead?

All New Member States should adopt the euro once they have achieved a high degree of sustainable convergence as prescribed by the Treaty and Protocol. There is no predefined timetable for euro adoption. A first step on the way to the euro is participation in ERM II. During this period Member States should demonstrate that they can maintain price stability, fiscal discipline and also competitiveness without major changes in the exchange rate. The assessment of the convergence criteria is based on the

idea that sustainability is of key importance. Without sustainable convergence, the monetary policy stance of the ECB is likely to be inappropriate for the country, and it may face a risk of a series of boom-bust cycles as it lacks important policy tools to stabilise domestic economic conditions.

The economic and monetary union has a strong future, but there is a need to enhance the growth potential of the European economy (see question 13) and strengthen the economic pillar of EMU. In this respect, I agree with the ECB which advocates a 'quantum leap' in the economic governance framework of EMU to achieve a deeper economic union. More specifically, there is an urgent need to broaden and strengthen the euro area's macroeconomic and budgetary surveillance. First and foremost, this means creating stronger and more binding rules for fiscal policy, backed up by reinforced sanctions or mechanisms to ensure compliance. Secondly, a new framework is needed to monitor competitiveness and to ensure that measures are taken to prevent imbalances emerging in the private sector (e.g. excessive credit growth). To the extent that the strengthening of fiscal and macroeconomic surveillance does not fully contain the risk of sovereign debt crises, a permanent crisis management framework should be established which can, as ultima ratio, safeguard the stability of the euro area as a whole.

15. What is your view on the taxation of short-term financial transactions? Do you think that a currency transaction tax is compatible with EU Treaties which guarantee the freedom of capital movements? Do you think that a tax on currency transactions involving the euro could have beneficial effects – for example by stabilising the exchange rates of countries wishing to join the euro area in the future?

The financial crisis has highlighted problems related to asset-price overshootings and excessive volatility. These issues have to be addressed. However, I am not yet convinced that a tax on short-term financial transactions would be an effective way to address these issues. In any case, we should tackle these problems within the new macroprudential framework

Technical issues stand against the introduction of a tax on financial transactions. For this tax to be effective tax avoidance has to be minimised (e.g. geographical relocation of trade towards areas where the tax is not applied as mentioned above and mobility across different financial products). To this purpose, the tax should be adopted on a global scale, and cover a wide range of products. This would pose serious coordination issues in the definition of the legal framework and in its strict implementation.

Also, a tax on financial transactions risks producing opposite effects to those advocated by its supporters, namely reducing volatility and deterring speculation. I agree with the importance of these objectives but believe that there are other ways like stronger regulation that would be more efficient here.

Looking in particular at foreign exchange transactions, a tax on all foreign exchange transactions could produce perverse effects as it cannot discriminate between customers who require currency for the purchase of foreign goods or services and speculators. A considerable portion of the foreign exchange market is comprised of dealers redistributing order imbalances between themselves. Therefore, one customer order may

precipitate a chain of several transactions between dealers. In this case, a tax applied to the notional transaction amount at each stage in the chain, would lead to multiplication of the total tax whose cost would presumably be entirely passed on to the customer.

I am not a legal expert but I note that the ECB in an official opinion raised legal questions on currency transaction taxes in EU member countries including with regard to the compatibility with the Treaty.

16. What is your view on the respective roles of the Council and the ECB in terms of external representation of the euro zone?

The representation of the ‘monetary leg’ of the EMU is unified and consistent. The single monetary policy is represented through the ECB in all relevant international institutions and fora. Monetary policy is an exclusive EU competence implying that the Union has sole responsibility to represent it externally. A similar clarity applies to exchange rate matters, which is also an exclusive Union competence. The representation of this competence is ensured through the ECB and the ECOFIN Council (in euro area composition).

The external representation of euro area economic policies is in line with the division of internal responsibilities between the Union and Member States which remain responsible for economic policies, subject to a European framework. While Member States are members of international economic fora such as the IMF, where they may bear financial responsibilities, they need to act in close association with the responsible Union institution whenever all or parts of a subject-matter fall under a Union competence.

Efforts are underway for more coordination. Article 138 of the Treaty foresees for the Council (in Euro composition) the possibility to adopt “common positions on matters of particular interest for EMU” and “ensure unified representation within the international financial institutions and conferences”. In the longer term, I personally favour, as economic governance is strengthened and positions become more coordinated, a single euro or EU representation in international fora, provided the internal European decision making mechanisms are efficient.

17. How do you assess the recent evolution of the USD/EUR exchange rate? How do you assess the recent evolution of the Renminbi/EUR exchange rate? Do you think that Central Banks are able to fight efficiently against excessive volatility? Do you think that the international role of the Euro should be encouraged?

Exchange rate developments over the last 14 months were to a large extent shaped by the evolution of the economic recovery, fiscal conditions and monetary policy around the world. In the first half of 2010 the euro depreciated against the US dollar reflecting rising concerns about the sovereign debt situation in some euro area countries and a stronger macroeconomic recovery in the United States than in the euro area. In the second half of the year the euro rebounded, amid some volatility, owing mostly to the alleviation of concerns about sovereign debt and an additional economic stimulus in the United States. In January and February 2011, exchange rates mainly reflected

uncertainty about future developments in some oil producing countries.

Since the exit of its de facto peg to the US dollar in June 2010, the renminbi has appreciated by about 4% against the US dollar, but it has depreciated by more than 7% against the euro and 3% in nominal effective terms. I think the Chinese authorities should use the flexibility offered by the new policy framework to allow a gradual appreciation of the renminbi in effective terms. The international community agrees – and it was restated by G20 Leaders in Seoul last year – that moving towards more market-determined exchange rate systems, enhancing exchange rate stability to reflect underlying economic fundamentals, and refraining from competitive devaluation of currencies, are in the interest of the emerging economies concerned, including China, and of the international community.

It is clear that excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. Regarding central banks' ability to address excessive exchange rate volatility, the euro area has adopted a flexible exchange rate regime, implying that the external value of the euro vis-à-vis the currencies of third countries is determined by the market. This allows the ECB to focus on its objective – the preservation of price stability – and should contribute to limit exchange rate volatility.

I agree with the policy of the ECB, followed since the beginning of monetary union in 1999, of not campaigning to foster nor hinder the international use of the euro. Developments in the role of the euro abroad are primarily the result of market forces and private sector decisions. The credibility of the monetary policy of the ECB will foster a greater use of the euro in international transactions.

18. How do you assess the achievements of the G20? What are your views on the current level of coordination?

The G20 has been instrumental in providing high-level political impetus for crisis containment, crisis management and future crisis prevention. G20 cohesion must be ensured also once the crisis is over. It is hence highly welcome that G20 Leaders, most recently at their Seoul Summit in November 2010, underlined the importance of continued international policy cooperation to address the root causes of the financial crisis and to lay the foundations for sound global economic growth. I must say that I am encouraged by the high level of collective responsibility by G20 members. At the same time, I note that the heterogeneity of the membership of the G20 makes it much more difficult to coordinate and agree on common positions. Also, it is important that the process becomes more inclusive, to involve other countries.

Among the various items on the agenda of the G20, I would highlight the following:

First, the G20 Framework for Strong, Sustainable and Balanced Growth is a useful mechanism in multilateral cooperation. It is now vital that all G20 members, together with the IMF fully live up to their commitments made within this framework. In this respect, bold measures to safeguard fiscal sustainability and ambitious structural reforms are key. Europe should lead by example.

Second, G20 Leaders endorsed the key building blocks for the transformation of the financial system, including the important work done by the Basel Committee and the

FSB. It is now important for G20 members to make further progress on implementing the agreements reached.

C. Financial Stability and Supervision

19. What would you recommend to strengthen the links between macro and micro supervision? Do you believe the ESRB and the ESA's will have effective powers?

The newly established European System of Financial Supervision is the first step to boost the cooperation between the micro and macro prudential supervision. The System should be developed on a common culture of supervision between the authorities in order to improve the complementarities of micro and macro prudential supervision and to strengthen cross-border supervision. The three ESAs and the ESRB should act upon an adequate and effective exchange of information, analysis of data and methodologies.

To be effective, the ESRB and the ESAs should fully exploit the competences and instruments that the regulations provide them. In particular, the legal framework foresees certain binding powers for the ESA's, including technical standards enforceable when transposed into EU law, authority to investigate on EU law breaches and a possible trigger of legal instruments binding for firms or market participants. Conversely, the legislator gave the ESRB an "act or explain" role. These powers can be effective whilst anchored on credibility, institutional reputation and excellence. Such intellectual authority relies, among other, on the ESRB and the ESA's independence, adequate staffing and budget endowment.

20. As far as the ESRB is concerned, do you see a potential conflict of interest with the ECB mandate in relation to monetary policy?

I see no conflict of interest. The policy responsibilities of the ECB and the ESRB are clearly distinct. The ECB's primary objective is to maintain price stability in the euro area. Furthermore it contributes "to the smooth conduct of policies pursued by the competent authorities relating to... the stability of the financial system" and promotes the smooth functioning of market infrastructures. The ESRB instead is responsible for macro-prudential oversight across the EU's financial system, identifies risks to financial stability and, where necessary, issues risk warnings and recommendations for action to address such risks. There is a clear and efficient assignment to use monetary policy to maintain price stability and a (to be further developed) macro-prudential tool set to address risks to the financial system.

Having said this, one has to acknowledge that price stability and financial stability cannot be analysed independently from each other. In the long run, price stability contributes to financial stability, while financial stability is a prerequisite for the central bank's ability to maintain price stability. Thus both, the ECB's and the ESRB's objectives, mutually reinforce each other.

Nevertheless, one could also think of situations, in which the use of monetary policy instruments affects financial stability and vice versa in which macro-prudential policy instruments have an impact on inflation. I am confident that the independence of the

ECB and ESRB will make sure that the respective policy instruments will be geared to the objectives for which the tools have been designed. Furthermore, due to representation of central bank governors in the ESRB, the necessary information flows with respect to both the macroeconomic situation and financial stability risks is guaranteed quasi by definition.

Even when macro-prudential policy would fail (in the sense of being either ineffective or being implemented in an insufficient manner by the competent authorities), there is no long run conflict for the central bank due to the alignment of price and financial stability in the long run (see question 6). In the short to medium run, the central bank in that case might have to “lean against the wind” of growing financial imbalances and accept to live with a temporary deviation from its quantitative definition of price stability (e.g. slightly lower consumer price inflation in times of a growing general asset price boom). Such a policy would secure price and financial stability in the long run, as it would help to contain the financial imbalance and thus avoid strong dis- or even deflation during the unravelling phase of these imbalances. The principle of leaning against the wind has always been an implicit part of the ECB’s two pillar strategy through the monetary pillar and especially the link between money and credit developments and costly financial boom and bust cycles. Also such more challenging situations for monetary policy makers are likely to be diminished in terms of frequency and severity, due to the establishment of the ESRB.

21 How do you see the ECB’s role in banking supervision in the future?

The establishment of the ESRB, as a new body responsible for macroprudential supervision of the EU financial system, and the parallel strengthening of the EU coordination framework among national authorities for micro-prudential supervision through the setting-up of the European Supervisory Authorities, represent an important step forward to address the challenges and the lacunae shown by the financial crisis.

The ECB will play an important role in the new framework, as it provides the analytical, statistical, administrative and logistical support to the ESRB, including the Secretariat of the ESRB. The ECB should also bring to the benefit of the ESRB, with the participation of all the members of the ECB’s General Council, the macro-economic, financial and monetary expertise of all EU central banks. This contribution will be underpinned by the activities of the ECB and ESCB in the various central banking areas (financial stability analysis, macro-economic analysis, collection of statistical information) and by the overall synergies in terms of expertise, resources and infrastructure of the EU NCBs. The Banking Supervision Committee of the ECB, which I chaired between 2007 and 2011, was already active in this domain. Its experience and preparatory work will be useful for the new Advisory Technical Committee of the ESRB.

Finally, the ECB participates in the meetings of the EBA as well as the level 2 European Banking Committee (EBC) and will bring its contribution to the technical discussions in these forums. Furthermore, as you know, the ECB provides legal opinions on all EU (and national) initiatives that may affect financial stability, like for instance CRD IV.

22 What do you see as the most pressing issues in the financial services

legislation?

Firstly, the new Basel III rules, including new measures on leverage ratios, liquidity standards and counter-cyclical buffers. Implementation of these new rules is underway in Europe via changes to the Capital Requirements Directive (CRD IV), which the European Commission is currently working on. I would like to stress here that there are elements of the prudential regulation which are very closely linked to macroprudential supervision, such as the counter-cyclical buffers where the ESRB is expected to play an important role in collaboration with the EBA.

Secondly, the work on systemically important financial institutions (SIFIs). This should be completed in 2011.

Thirdly, crisis management and resolution. As for the EU, the European Commission has issued a public consultation in January. The proposed framework would contain provisions to improve the crisis preparedness of both authorities and institutions. The new EU framework should harmonize the national regimes and provide for cooperation mechanisms to effectively handle cross-border bank failures. Credible financing arrangements are also needed, for which purpose bank levies could be used to raise the resources for resolution funds.

Fourth, the shadow banking sector. The FSB was requested by the G20 leaders at their November 2010 meeting in Seoul to develop recommendations by mid-2011 to strengthen the regulation and oversight of the shadow banking system.

Fifth, Macroprudential Supervision. Work has been carried out at the national, regional and international level, namely by the BIS, IMF, FSB on (i) bridging data gaps and enhancing analytical tools to identify and assess systemic risk, (ii) in designing policy responses addressing financial institutions, markets and infrastructures, and (iii) overall efforts in developing a coherent frameworks for macro-prudential oversight and policy.

Sixth, Consumer Protection. The G20 has mandated the FSB, the OECD and other international organizations to explore options to enhance consumer protection. It will enable taking into account the existing rules or principles for consumer protection that have already been implemented at a European level, such as in the MiFID or credit consumer directive, offering consumers a high level of protection.

Lastly, Accounting standards. The recent efforts by the Financial Accounting Standards Board (FASB) and the IASB two Boards in response to the G20 call for convergence between US GAAP and IFRS are welcome. However, significant conceptual differences between key areas remain, such as the classification and measurement of financial instruments that need to be resolved with a view to responding to the G20 request for a single set of high-quality accounting standards.

D. Functioning of the ECB and democratic accountability and transparency

23. Shouldn't the different responsibilities of Board members change with time, in line with the changes occurred in the ECB's tasks and priorities?

I would like to emphasise that the ECB's Executive Board is a collegiate decision-making body. Within this collective responsibility for the overall functioning of the

ECB, I understand that the Board, for operational/practical reasons, agrees on the reporting lines of each ECB's business area. This concretely means that each business area reports to individual Executive Board members while the Executive Board as a whole is collectively responsible for the ECB's decision-making. Having said that, I also understand that the Executive Board reviews the allocation of reporting lines over time, which I consider a very good practice as it on the one hand allows to take into account specific expertise and, as the case may be, to take into account adjustment to external developments (such as the creation of new business units, e.g. for dealing with T2S) and it eventually also strengthens the collegiality of the Board.

24. What system do you think is appropriate to ensure an equitable rotation of membership on the ECB-executive board also in terms of nationalities?

The criteria for the appointment of ECB's Executive Board members are very clearly set out in the Treaty on the Functioning of the EU and in the Statute of the ESCB and the ECB "the members of the Executive Board shall be appointed among persons of recognised standing and professional experience in monetary or banking matters"; and "only nationals of [euro area] Member States may be members of the Executive Board".

In my view, this procedure upon a recommendation from the Council and following consultation of the European Parliament and the ECB ensures that the two requirements for the appointment of members to the Executive Board of the ECB are best met.

Moreover, I would like to insist on the supranational character of the ECB which implies that the decisions of its decision-making bodies are taken exclusively with a euro area perspective and not with a view to particular national interests. This is also why the members of the ECB decision-making bodies do not represent their Member States but participate in the decision-making in their personal capacity. I consider the requirement to appoint "persons of recognised standing and professional experience in monetary or banking matters" sufficient to guarantee a competent and euro area oriented composition of the ECB's Executive Board.

25. What is your view on the need to increase the diversity of backgrounds represented in the ECB board rather than relying solely on central bankers?

The Treaty requires that members of the Executive Board "shall be appointed among persons of recognised standing and professional experience in monetary or banking matters". There is no requirement as such to appoint only central bankers. Obviously, this requirement is fulfilled by central bankers, but, certainly does not exclude any other professional background and experience. In fact, my own professional experience, as well as many senior central banking officials, is quite diverse and not limited to central banking. Also looking at the curricula of the current members of the Executive Board you will find diversity of backgrounds which add valuable expertise to the decision-making process.

26. Could you elaborate on your views on the concept of democratic accountability with regards to the ECB and central banking in general?

I consider that central bank independence needs to be balanced with accountability to the public and its elected representatives. In general terms, accountability is a fundamental precondition for, and a core element of, democratic legitimacy. It can be understood as the obligation of an independent central bank to properly explain and justify its decisions to the citizens and their elected representatives, thereby making it responsible for fulfilling its mandate. Accountability also ensures that the central bank's tasks are performed with a high level of professionalism.

As a body established by virtue of the Treaty, and acting within the limits of the powers conferred upon it, the ECB has the statutory task of maintaining price stability and of performing other central banking functions for the euro area as a whole. Therefore, the ECB is accountable first and foremost to EU citizens, and – more formally – to the European Parliament, which is the only European institution directly elected by EU citizens.

The ECB has a number of established means for discharging its accountability. Apart from the monthly press conferences of the President and Vice-President (see also answer 28), the ECB publishes its Monthly Bulletin, and its Annual Report is presented to the European Parliament (and Council). The ECB President appears before the ECON Committee on a quarterly basis, while other members of the Executive Board are frequently invited to appear in ECON/Parliament on specific topics. I personally am in favour of a regular dialogue between ECB board members and European parliament members. In addition, the members of the Governing Council take on numerous public engagements and give interviews at local, national and international level.

27. The ECB has long refrained from accepting the European parliament's request to publish the minutes of its Governing Council's meetings. What do you think are the impediments and inconveniences of such publications? Would you be in favour of the publication by ECB of the minutes of its Governing Councils meetings in the near-term future?

The publication of the minutes of the ECB Governing Council meetings could be seen as one possible means through which the ECB would exercise its accountability. However, it is important to recognize that the ECB Governing Council is a collegial and, at the same time, a supranational body. This means that the members of the ECB Governing Council, coming from different Member States, are jointly responsible for the decisions taken by the Council and thus are collectively accountable.

There is a concern that the publication of the minutes could hamper the independence of the Governing Council members, because it could expose them to undesirable attempts to impede on their impartiality and thereby to make them individually accountable. Also, I personally am concerned by the fact that it might lead to a categorization of governing council members according to their countries which they do not represent in the governing council.

Therefore, I consider the current practise of the President's press conferences, held immediately after each monetary policy meeting, and the publication of the introductory statement, which provide a comprehensive summary of the policy-relevant assessment of economic developments, to be an effective means of presenting and explaining the Governing Council's stance to the public, while at the same time protecting the

individual positions of the members. As this approach provides the public with comprehensive information and all relevant explanations in real-time, I see no strong reason to change the current practice. Besides, the central bank needs to explain the analytical framework used for its internal decision-making and its assessment of the state of the economy, and to frequently make clear what the economic rationale underlying its policy decisions is and how a balancing act is being made.

28. What conclusions do you draw from the comparison between the transparency policies followed by the Federal Reserve Bank and by the ECB? What do you think about the publication by the Fed or the Bank of England of the minutes of their meetings? Do you think this policy could be applied by the ECB?

A state of the art transparency regime requires the central bank to clearly explain how it interprets its mandate and to be forthcoming about its policy goals. This helps the public to monitor and evaluate the central bank's performance.

With regard to monetary policy, the bank's overriding concern with regard to transparency must be the effectiveness of monetary policy in meeting its statutory objectives. The ECB has announced a formal monetary policy strategy and explains monetary policy decisions applying that strategy de facto, in real-time.

Nowadays, most central banks consider transparency to be a crucial component of their monetary policy framework. Efforts to enhance transparency are welcome, if they contribute to ensuring that monetary policy is better understood by the public and becomes more credible and effective. In this respect, most central banks, including the Fed and the ECB, have stressed the importance of effective communication and proper interaction with the public. Because a central bank may have several options to enhance its communications, it is not always clear what transparency mode is best under given circumstances.

Concerning the publication of the minutes of decision making bodies, this is one possible element in the array of means of communicating decisions. Under certain circumstances, it may provide useful additional information on the diversity of views within a decision making body and the reasoning underlying the decision. However, as I explained in the answer to question 27, it may entail notable downsides which do not enhance communication. Against this background, the approach by the Fed and the Bank of England to publish attributed minutes is one possible approach.

The fact that the ECB does not publish its minutes has to be seen in light of the specific needs and circumstances of the ECB and the Eurosystem more broadly. It allows the Governing Council to make monetary policy decisions in full independence and with a view to emphasising the members' collective accountability. Moreover, it is in line with the Treaty requirement to keep the deliberations of the Governing Council confidential.

29. What is your opinion of the monetary dialogue? Might ECB Board members discuss monetary policy and its decisions with other political actors or would this harm the bank's independence?

The quarterly meetings between the President of the ECB and the Committee on

Economic and Monetary Affairs are a prime opportunity for the ECB to explain its monetary policy to the representatives of the European citizens and to receive feedback. This is complemented by further appearances of Executive Board members in ECON and in plenary as well as by informal visits of MEPs to the ECB including notably the annual visit of the ECON Committee. All of this forms part of the discharging of the ECB's accountability towards the European Parliament and should contribute to a very productive and constructive dialogue between the two institutions.

Beyond that, there is regular interaction with European institutions and bodies such as the Eurogroup and the ECOFIN Council. Exchange of information at the technical level with the Commission and national governments also takes place, i.a. in various EU committees, in line with the provisions of the Treaty and respecting the bank's independence.

30. What do you see as the most important risks and challenges facing the ECB?

The current times are quite challenging in many respects but let me focus on three main ones.

The first one is the normalisation of monetary policy. Gradually, the euro area is recovering from the deep economic and financial crisis, although progress is not even among countries, markets and sectors. At some point in time, the ECB will return key interest rates to levels as seen before, while non-standard measures will be phased out to the extent that they would no longer be needed to ensure the transmission of monetary policy to the economy and, ultimately, prices. Setting the right timing for these actions is a challenge, especially in the current environment which is still characterised by uncertainty and vulnerabilities.

The second one, I already mentioned earlier: the financial crisis has raised a number of questions on the relation between monetary policy and financial stability. A better understanding of the role of the financial sector in the transmission mechanism is of the essence. Also, a good working relation with the ESRB and the ESAs will be essential.

The third main challenge I would like to mention here concerns the future of Europe and EMU. The national policies adopted in the run-up to the current crisis have fallen short of what is needed for EMU to be stable and smoothly functioning. Fiscal consolidation, structural reforms and correction of imbalances have in many cases been insufficient, and European rules have sometimes been ignored or even amended if they did not fit the domestic political agenda. A new European governance framework is therefore needed, reminding Member States that benefits of the EU and especially of EMU come with responsibilities. As the ECB said, we need a "quantum leap". Just muddling through is no option for a viable Europe at the current juncture. These developments are relevant to me not only as a dedicated European, but also as a monetary policymaker since they affect the conditions under which the ECB conduct its monetary policy with a view to achieving its primary objective of price stability.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	16.3.2011
Result of final vote	+: 42 -: 0 0: 0
Members present for the final vote	Burkhard Balz, Sharon Bowles, Udo Bullmann, Pascal Canfin, Nikolaos Chountis, George Sabin Cutaş, Rachida Dati, Leonardo Domenici, Derk Jan Eppink, Diogo Feio, Vicky Ford, Ildikó Gáll-Pelcz, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Sven Giegold, Sylvie Goulard, Liem Hoang Ngoc, Wolf Klinz, Philippe Lamberts, Astrid Lulling, Hans-Peter Martin, Íñigo Méndez de Vigo, Ivari Padar, Antolín Sánchez Presedo, Olle Schmidt, Edward Scicluna, Peter Simon, Peter Skinner, Theodor Dumitru Stolojan, Ivo Strejček, Marianne Thyssen, Corien Wortmann-Kool
Substitute(s) present for the final vote	Sophie Auconie, Elena Băsescu, David Campbell Bannerman, Saïd El Khadraoui, Ashley Fox, Danuta Jazłowiecka, Olle Ludvigsson, Thomas Mann, Sirpa Pietikäinen, Catherine Stihler