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DRAFT REPORT

on the Council recommendation on the appointment of the President of the European Central Bank
(10057/2011 – C7-0134/2011 – 2011/0804(NLE))

Committee on Economic and Monetary Affairs

Rapporteur: Sharon Bowles

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PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on the Council recommendation on the appointment of the President of the European Central Bank
(10057/2011 – C7-0134/2011 – 2011/0804(NLE))

(Consultation)

The European Parliament,

– having regard to the Council's recommendation of 17 May 2011 (10057/2011)[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 Council consulted Parliament (C7-0134/2011),

– having regard to Rule 109 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A7-0000/2011),

A. whereas by letter of 20 May 2011 the European Council consulted the European Parliament on the appointment of Mario Draghi as President of the European Central Bank for a term of office of eight years with effect from 1 November 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 two-hour hearing with the nominee on 14 June 2011, at which he made an opening statement and then responded to questions from the members of the committee,

1. Delivers a *[favourable/ negative]* opinion on the Council recommendation to appoint Mario Draghi as President of the European Central Bank *[and requests the Council to withdraw its recommendation and submit a new one to Parliament];*

2. Instructs its President to forward this decision to the European Council, the Council and the governments of the Member States.

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[1] Not yet published in the Official Journal.

ANNEX 1: CURRICULUM VITAE OF MARIO DRAGHI

Born in Rome on 3 September 1947, he is married and has two children.

He was appointed Governor of the Bank of Italy on 29 December 2005. In this capacity, he is a member of the Governing and General Councils of the European Central Bank and a member of the Board of Directors of the Bank for International Settlements.

He is also Governor for Italy on the Boards of Governors of the International Bank for Reconstruction and Development and the Asian Development Bank.

Since April 2006 he is Chairman of the Financial Stability Forum, which became Financial Stability Board in spring 2009. The FSB, which brings together national and international authorities responsible for financial stability, has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies, and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.

He graduated from La Sapienza University of Rome under the supervision of Prof. Federico Caffé (1970) with an essay on economic integration and exchange rate variations ("Integrazione economica e variazioni dei tassi di cambio").

He received his Ph.D. in economics ("Essays on Economic Theory and Applications") from the Massachusetts Institute of Technology under the supervision of Profs. Franco Modigliani and Robert Solow (1976).

From 1975 he served as professor of economics at the Universities of Trento, Padua, and Venice. From 1981 to 1991 he served as professor of economics and monetary policy at the University of Florence.

From 1984 to 1990 he was executive director at the World Bank.

From 1989 to 1990 he was part of the working group set up by the then Financial Minister, and former Bank of Italy's Governor, Guido Carli to draft a new consolidated law on financial intermediation. In 1990 he served as economic advisor to the Bank of Italy.

In 1991 he became director general of the Italian Treasury, a position he held for 10 years under eight different governments. In this capacity, in 1993 he chaired the Committee for Privatizations and later the committee that revised Italian corporate and financial legislation and drafted the law that governs Italian financial markets (also known as "Legge Draghi").

He headed the Italian Delegation negotiating the Maastricht Treaty.

In 1999 he was appointed Chairman of OECD Working Party 3.

In 2000 he became Chairman of the European Economic and Financial Committee.

He was also a member of the G7 Deputies.

From 2002 to 2005 he was vice chairman and managing director of Goldman Sachs International.

He is on the Board of Trustees of the Princeton Institute for Advanced Study and the Brookings Institution.

He has also authored and edited several publications on macroeconomic and financial issues.

In 2009, he graduated honoris causa in Statistics at the University of Padua.

In 2010, he graduated honoris causa in Business Administration at the CUOA Foundation in Vicenza.

List of publications on macroeconomic and financial issues.

- Essay on economic theory and applications – Thesis Ph. D – MIT Dept. of Economics - 1977
- Studi di economia monetaria internazionale – Giuffrè Editore - 1978
- Produttività del lavoro, salari reali e occupazione — Franco Angeli Editore - 1979
- Aspettative razionali e politica economica – in Banca Toscana, Studi e Informazioni n. 2/ giugno 1983
- Debito pubblico, saldo di parte corrente e tassi di interesse – in Ricerche Economiche, n. 1 – gennaio – marzo 1984
- Macroeconomic policies in an interdependent world — comment on F. Giavazzi "Exchange Rate Question in Europe" – 1989- edited by IMF
- Economists as policymakers –in European economic review n. 36 - 1992
- The case for and against financial conglomerate groups –in Financial Regulation, World Bank - 1992
- Commento su privatizzazioni e struttura del controllo societario – in Le nuove frontiere della politica economica – collana "Le tematiche economiche e finanziarie" – Sole 24 Ore libri – aprile 1995
- Il processo di riforma dell'ordinamento finanziario – in Bancaria, n.9/95 ABI, settembre 1995
- Da Sim a Eurosim: nuovi assetti per mercati e intermediari – in Quaderni IRS, n. 14 – maggio 1996
- Il riordinamento normativo dei mercati finanziari e mobiliari – in Diritto e Economia, nn. 1-2-3 1997
- La riforma dei mercati mobiliari e il TUF – in Bancaria, nn. 7-8 1997 – ABI
- Il TUF nel panorama dei sistemi di corporate governance – in ll controllo delle imprese italiane: la necessità di una riforma, S. De Angeli (a cura di), Vita e pensiero – 1998
- Indagine conoscitiva sull'evoluzione del mercato mobiliare italiano - Audizione innanzi alla Commissione Finanze della Camera – luglio 1998 – in Rivista delle Società, n.43/1998

- Corporate governance e competitività – in Economia e Management n.6/98- SDA Bocconi
- Il percorso futuro delle privatizzazioni, il ruolo del Ministero del Tesoro – in Economia e Management n. 1/99 – SDA Bocconi
- Il mercato finanziario a una svolta: linee guida dell'azione di riforma – in La riforma dei mercati mobiliari italiani, G. Morelli (a cura di), collana ABI Diritto e fisco – 1999
- Ragioni e obiettivi del Testo unico della finanza – in Il Testo Unico della Finanza, collana ABI Diritto e fisco – 1999
- Strenghtening Financial System – in "Financial Liberalisation in Asia" – D.H Brooks – M. Queisser – Asian Development Bank - 1999
- Privatizzazioni e governo societario – in "Interessi pubblici nella disciplina delle public companies" – Giuffrè editore - 2000
- Reform: economic policy administration – in International Journal of Public Administration – Volume 23 – nn. 2- 3 - 2000
- Investor and consumers protection in global financial services markets – in "Globalisation of Financial Markets and Financial Stability", C. Randzio-Plath - 2001
- Prefazione a "L'Euro, scenari economici e dimensione simbolica", L. Sommo e G. Campani (a cura di) – Edizioni Guerini e Associati - 2001
- Transparency and risk management – 2003
- Transparency Risk Management and International Financial Fragility – coauthor (F. Giavazzi, Robert C. Merton) - Working paper 9806 – National Bureau of Economic Research - 2003
- Prefazione a "La Moneta", M. Merlino – Sperling & Kupfer 2003
- I conflitti d'interesse: un approccio internazionale – in Bancaria, n. 2/2005 – ABI 2005
- "Research of a New Bretton Woods: Riserve currencies and global imbalances" – Introductory remarks - 4th Florence Colloquium – Ass. Guido Carli e Fondazione Cesifin - 2007
- Public debt management – coauthor (R. Dornbusch) - Cambridge University press - 2008.

ANNEX 2: ANSWERS BY MARIO DRAGHI TO THE QUESTIONNAIRE

A. Personal and professional background

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

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

Concerning both question 1 and question 2:

I was appointed Governor of the Bank of Italy on 29 December 2005. In this capacity, I am a member of the Governing Council and the General Council of the European Central Bank and a member of the Board of Directors of the Bank for International Settlements.

I am also Governor for Italy on the Boards of Governors of the International Bank for Reconstruction and Development and the Asian Development Bank. Since April 2006 I am Chairman of the Financial Stability Forum, which became Financial Stability Board (FSB) in 2009. The FSB, which brings together national and international authorities responsible for financial stability, has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies, and to develop and promote the implementation of effective regulatory supervisory and other financial sector policies.

I graduated from the University of Rome, under the supervision of Professor Federico Caffè (1970) with an essay on “Integrazione economica e variazioni dei tassi di cambio” (“Economic integration and exchange rate variations”).

I received my Ph.D. in Economics from the Massachusetts Institute of Technology under the supervision of Professors Franco Modigliani and Robert Solow (1976).

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In 1991 I was appointed Director General of the Italian Treasury, a position I held for ten years under eight different Governments. In this capacity I chaired the Committee for Privatisations and subsequently the Committee that reviewed the Italian corporate and financial legislation and drafted the law that governs Italian financial markets (known as “Legge Draghi”).

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From 2002 to 2005 I was vice chairman and managing director of Goldman Sachs International.

I am on the Board of Trustees of the Princeton Institute for Advanced Study and the Brookings Institution.

I am author or editor of several publications on macroeconomic and financial issues.

In 2009 I graduated *honoris causa* in Statistics at the University of Padua.

In 2010 I graduated *honoris causa* in Business Administration at the CUOA Foundation in Vicenza.

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

In what follows I will only briefly mention the moments of my professional life in which I have participated to important decisions with a leading role:

1991: I headed the Italian delegation negotiating the Maastricht Treaty;

1992: the Italian lira leaving the ERM;

1993-2001: in my capacity of Director General of the Italian Treasury, I chaired the Committee for Privatization. In the same capacity, I chaired the Committee that revised the Italian law on corporate governance and the functioning of financial markets;

2008: the delivery of the first Financial Stability Forum report (the first comprehensive Report on the causes of the financial crisis). Its 77 recommendations were endorsed by the G20 Summit of the Heads of State and Government in London.

2007-2008: the ECB response to the financial crisis;

4. *Do you have any business or financial holdings or any other commitments which might conflict you with your prospective duties, and are there any other relevant personal or other factors that need to be taken account of by the Parliament when considering your nomination?*

No.

B. Monetary and economic policy

5. *What would be the guiding objectives you will pursue during your eight-year mandate as President of the European Central Bank?*

First and foremost, I shall fully respect the Treaty mandate.

I firmly believe that three principles remain fundamental in guiding the action of the future President of the European Central Bank, taking into account the objective of price stability as enshrined in the Treaty. First, the highest level of credibility in the pursuit of the very same price stability objective. Second, acting with full independence in the general interest of the euro area, the EU as a whole and of their citizens. Third, medium-term orientation – coupled with retained healthy dose of pragmatism – in the assessment of the permanently evolving financial and economic environment.

Let me add that I regard integrity, transparency and accountability as crucial values for the exercise of the important responsibilities entrusted to the ECB.

6. *What is your assessment of the monetary policy as it has been implemented by the European System of Central Banks (ESCB) for 12 years? What changes, if any, would you promote when becoming President?*

In line with our mandate under the Treaty, we are expected to deliver price stability over the medium term for the euro area as a whole.

In this respect, the ECB has been very successful in delivering price stability to all citizens in the euro area. This is evidenced by an average inflation rate in the euro area of below, but close to 2%, over the past 12 years, in line with the ECB's definition of price stability. This achievement is even more noteworthy when considering the numerous headwinds the euro area has had to weather, such as substantial increases in oil prices, almost on a continuous basis, and other commodity prices, and the financial crisis, to name only a few.

In addition, and as a reflection of the credible delivery of stable prices over the past 12 years, inflation expectations have remained firmly anchored at a level consistent with our aim to maintain inflation rates in the euro area below, but close to, 2% over the medium term. Such anchoring is important for the effectiveness of monetary policy, i.e. the delivery of price stability also in a forward looking manner. In my opinion, this anchoring is a clear signal that financial markets and the public at large attach great credibility to our commitment and capacity to conduct our single monetary policy in a way that allows for the achievement of price stability.

The fact that inflation expectations remained broadly stable even during the financial crisis, when some commentators were painting deflation scenarios, and when inflation was negative for several months, can be seen as an indication of the credibility of ECB's monetary policy. In light of this, I see no reason for introducing changes to the way we have conducted monetary policy in the past 12 years.

7. *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?*

Before the financial crisis one of the main themes debated by observers, academics and policymakers was the so-called 'Great Moderation'. A trend decline of inflation and its volatility had occurred over the previous 30 years, and it has been interpreted as the consequence of better monetary and fiscal policies, as well as of structural changes like globalisation (most likely, a combination of both factors). With the financial crisis the attention has shifted from the real economy to the financial markets; it has been argued that central banks, while having been successful in defeating goods and service inflation are now facing a new challenge posed by asset price inflation.

This is not entirely true, because maintaining price stability on a lasting basis always remains a challenge. Central banks are well advised not to take it for granted that the fight against goods and service price inflation has been definitely won. Central banks must preserve their own hard gained credibility over the past 30 years and remain focused on their price stability objective.

At the same time, one cannot deny that the development of financial markets and their integration at the global level has probably made asset price dynamics more relevant for monetary policy than 30 years ago. Paradoxically, it can be argued that the success of monetary policy in taming developments in inflation dynamics could itself be one of the factors that, by reducing the risk premium demanded by financial markets, may have contributed to fostering unsustainable developments in some asset prices. Looking forward, the challenge for central banks is to take due account of the implications of asset price developments for medium to longer term risks to price stability.

To be sure, 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. However, central banks must invest in their understanding of financial market dynamics and the changing relationships between the real and the financial sector of the economy.

In this perspective, monitoring the building up of monetary and credit imbalances and asset price developments is one important element in a robust monetary policy strategy; a medium-term orientation is also crucial. The ECB's strategy is designed to duly incorporate in the routine assessment of the risks to price stability those risks originating in unsustainable monetary, credit and asset price dynamics, that could materialise over a longer horizon and often herald painful and abrupt adjustments, even after some time that asset price bubbles have developed and grown.

Monetary analysis therefore plays an important role in shaping the medium to longer-term outlook for price developments; due consideration to 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 approach is important, since it helps monetary policy to adopt a pre-emptive attitude towards incipient asset price imbalances that are reflected in the dynamics of monetary and credit aggregates. By "leaning-against-the-wind" of unsustainable money, credit and asset price dynamics, monetary policy can better limit the build-up of asset price bubbles, rather than simply intervening ex-post, when the bubble bursts, and the costs in terms of macroeconomic instability can be extremely high.

8. *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)?*

As I already indicated, the ECB's monetary policy is geared to maintain price stability over the medium term. Therefore, a crucial assessment is whether commodity price increases are of a transitory or a permanent nature and whether they risk triggering second round effects.

In principle, if commodity price changes are of a temporary nature, one can look through the volatility in inflation triggered by their first-round effects. However, the risk of second round effects must be contrasted, in order to prevent that they have a lasting impact on medium-term inflation expectations and developments. In particular, monetary policy needs to avoid that temporary increases in inflation lead to the emergence of second-round effects in the wage and price-setting behaviour, for instance due to the indexation of wages and prices to past inflation, or more generally to a worsening of inflation expectations.

In addition, in case that a persistent upward trend in commodity prices systematically affects inflation, there is an even more pressing need to pre-emptively contrast the risk that such a sustained upside deviation from the price stability objective undermines the firm anchoring of inflation expectations. In such cases, an adjustment of the monetary policy stance would be required to preserve price stability and keep inflation expectations well-anchored.

At the current juncture, the ECB very closely monitors all developments with respect to upside risks to price stability.

As regards the second part of the question, in the longer term there is no trade off between growth and inflation. Rather, price stability is a necessary condition for sustainable growth. Therefore, I full share the view that guided the Governing Council decisions so far: to fulfil the ECB's primary mandate to ensure price stability in the medium term is the main contribution monetary policy can make to fostering sustainable economic growth and job creation in the euro area economy.

9. *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?*

The existence of secondary obligations under Art 127 of the Treaty on the functioning of the EU does not entail the existence of a trade off between the ECB's primary objective of maintaining price stability and support of the general economic policies in the Union.

Broad consensus exists, both from academic research as well as from historical experience, on the fact that a central bank cannot influence economic growth in a sustainable manner by changing the money supply, but can instead contribute to growth by fostering an environment of stability. By firmly anchoring inflation expectations, the central bank's credible achievement of a price stability environment fosters overall macroeconomic stability which best insulates the economy from the consequences of unforeseen shocks.

In this respect, I observe that – precisely thanks to its credibility and without endangering price stability – the ECB has indeed also been able to provide crucial support to the economy during the latest financial crisis, via conventional interest rate cuts to historically low levels and in addition to "non-standard measures" with a view to ensuring the smooth transmission of monetary policy.

In addition, as we have seen in recent years, financial instability poses a serious threat to growth and employment. The analysis of evolving financial stability risks and participation in framing supervisory, regulatory and other financial policies to strengthen the resilience of financial system and to head off financial stability risks, directly in areas where the ECB has authority or through its participation in other bodies, are also ways to contribute to conditions for sustainable growth.

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

The ECB participates, on a permanent basis and in line with the relevant Treaty provisions, in the meetings of the ECOFIN Council, the Eurogroup and their preparatory committees. In addition, the ECB President frequently takes part in sessions of European Council meetings that discuss matters of concern to the ECB. Symmetrically, the President of the Ecofin Council - as well as the Commissioner for Economic Affairs - is regularly invited at the meetings of the ECB Governing Council. Such a close institutional relationship enables the ECB to inform Ministers about its monetary policy decisions and appraisal of economic and financial developments.

In addition, the ECB discusses, with EU Member States, their budgetary, structural and other macroeconomic policies (as part of the EU's economic surveillance), international financial affairs and financial sector policies.

Therefore, there are many opportunities for the ECB to interact with the Council and the Eurogroup, bearing in mind the respective responsibilities of the various institutions and the independence of the ECB.

Notwithstanding the above, there is a need for Member States to further improve policy coordination and for economic surveillance to be reinforced. In particular, to ensure a smooth functioning of EMU and to fully abide by what membership of a single currency area means, the Eurogroup must focus its discussions on achieving sustainable fiscal positions in the euro area, enhancing its growth potential and, generally, avoid unsustainable imbalances from arising. This also requires enhanced peer pressure between Member States.

11. *What do you think of the "economic governance reform" draft legislative proposals currently discussed?*

The current efforts to strengthen economic governance in the EU and the euro area are of the utmost importance. In particular within the euro area, there is a need to deepen and broaden surveillance so as to reflect the deep level of economic integration that has already been achieved and to support the smooth functioning of EMU.

Existing rules and procedures did not guarantee prudent fiscal policies in all countries: many Member States entered the crisis with an already high public debt and insufficient margins of manoeuvre. Moreover, macroeconomic imbalances were not given an adequate role in the design of EMU governance: sovereign debt tensions hit not only countries with problems of public finances, but also those with a high external deficit, unbalanced growth and/or a highly indebted private sector. Finally, an appropriate framework to safeguard the financial stability of the euro area in crisis situations was missing altogether.

In this respect, the new focus on correcting high government debt and containing public spending growth are important steps to reinforce fiscal surveillance. In addition, the build-up of lasting macroeconomic imbalances within the euro area needs to be addressed convincingly in the new framework. I therefore very much support the broadening of the scope of surveillance. To be effective, the new macroeconomic surveillance framework must focus on the most harmful imbalances, in particular persistent losses of competitiveness, and take into account the specificities of the euro area.

The introduction of the so-called "European Semester" should ensure that the various surveillance processes lead to consistent results, while remaining legally and procedurally separate.

I very much welcome proposals by the European Parliament to introduce greater automaticity in surveillance procedures so as to immediately correct deviations from sound policy making. In my view, this is key in improving compliance with policy recommendations and enhancing the credibility of the surveillance framework. We should therefore exploit all possibilities in this regard, including greater use of reversed qualified majority voting where possible: proposals by Parliament to introduce political and reputational measures to foster early compliance with the surveillance framework; earlier and more gradual application of financial sanctions and the introduction of a new fine in case of falsification of statistics; as well as stricter minimum requirements for the national budgetary frameworks of euro area countries are further steps in the right direction to make surveillance more effective and correct some of the mistakes that were made in the past.

It is now of the greatest importance that the reform momentum that has been created is used to conclude successfully the ongoing trialogue by the June 2011 deadline set by the European Council, resulting in an ambitious compromise between the Council and the Parliament, also involving the Commission, exploiting fully the possibilities offered by the Treaties.

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

The Term Sheet on the ESM agreed by the European Council on 24-25 March 2011 foresees the involvement of the ECB in parts of the ESM's processes.

First, following a request for financial assistance from a euro area Member State, the ECB will liaise with the Commission and the IMF in assessing whether there is a risk to the financial stability of the euro area as a whole warranting an activation of the ESM and, if so, in conducting a rigorous debt sustainability analysis.

Second, if, on the basis of a sustainability analysis, it is concluded that a macroeconomic adjustment programme can realistically restore the public debt to a sustainable path, the ECB will liaise with the Commission and the IMF in assessing the actual financing needs of the Member State concerned.

Third, ECB staff will contribute, with its technical expertise where relevant, to the negotiation of a macroeconomic adjustment programme and the subsequent monitoring of the implementation of such programme. This follows the established practice for the Greek Loan Facility and for assistance under the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM).

As for Eurosystem monetary policy operations, debt instruments issued by the ESM (like EFSF bonds) will be eligible as collateral; the ESM itself will not be granted access to Eurosystem monetary policy operations.

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

'Eurobonds', or bonds guaranteed in a joint and several manner by all euro area Member States, have been proposed as an instrument to increase the size and liquidity of sovereign debt markets which, in turn, would reduce borrowing costs and constitute a possible mechanism to resolve the ongoing sovereign debt crisis.

However, the current institutional framework where fiscal policies are decentralized is not compatible with a concept of Eurobonds as described above. Most importantly, a single euro area-wide longer-term interest rate would introduce an implicit subsidy from fiscally sound to fiscally less sound Member States. This might unduly reward unsound policies and impair incentives for fiscal prudence in the future. At the same time, fiscally sound Member States would see part of the benefits of their prudence transferred to other states.

There are more complex proposals, in which Eurobonds do not fully replace national issuances, but at this stage they also seem to present technical and economic problems.

For these reasons, the issuance of Eurobonds would only seem appropriate in an institutional framework where some degree of fiscal competence is transferred from the national to the union level, thereby internalising both the benefits and the responsibilities related to Eurobond issuance.

This avenue, however, would require major institutional changes that appear unlikely to gain widespread support at the current juncture.

14. *How in your view should the ECB react if a haircut on government bonds of a Eurozone Member State became reality?*

A haircut in government bonds is the consequence of a sovereign debt restructuring process. A debt restructuring is an option whose costs would outweigh the benefits.

With the adjustment programme for Greece being fully implemented, the debt-to-GDP ratio would start declining in a durable manner after 2013. It is clear that this represents a major challenge; however, compared to any alternative, delivering the economic programme remains, with all probability, the least costly way forward for all parties involved

In case of a restructuring, the collateral adequacy of the government bonds concerned - and probably of all other issuers of the country - would be undermined. In the same vein, the financial soundness of the domestic banks (that are generally heavily exposed to the restructured bonds) would be most likely impaired.

Moreover, a sovereign debt restructuring would imply severe financial and macroeconomic risks. A restructuring in a euro area member state poses a significant risk of destabilising the financial system, with severe consequences for the growth outlook of the euro area.

Finally, significant spill-over effects on other euro area countries cannot be excluded, with a negative impact on confidence and expectations of further restructuring in the country concerned or elsewhere. Doubts about debt sustainability and higher spreads could emerge across euro area countries.

The way forward to solving any sovereign debt crisis in the euro area relies on fiscal discipline and consolidation when needed. More specifically, countries should maintain ambitious consolidation efforts until excessive deficits are corrected, clearly specifying the underlying tax and spending measures as soon as possible. Fiscal governance should be strengthened (adopting stringent multi-annual fiscal rules with sanctions in case of non-compliance) to foster credibility of the fiscal target in later years. In case of countries under EU/IMF programmes, full implementation of the programme is envisaged as the only way for the country to regain fiscal discipline and credibility vis-à-vis its debt holders. Economic reforms to stimulate competitiveness and growth are also crucial.

Therefore, in the unfortunate event that such an outcome occurs, the ECB would of course have to operate within the margins set out by the Treaty (also see question 16).

15. *Does the ECB´s mandate and the fact that it holds bonds of Eurozone Member States create a conflict of interest*?

Let me first of all recall three essential features of our Securities Market Programme (SMP): it is by its very nature temporary, it is of limited amount and its monetary effects are fully sterilised.

The decision to purchase (government) bonds of euro area countries was taken (in addition to other temporary non-standard policy measures already in place) to support the depth and liquidity in those euro area public and private debt securities market segments which had become dysfunctional, in order to preserve the functioning of the monetary policy transmission mechanism. Such functioning is indispensable for an effective conduct of monetary policy. In this respect, the ECB’s intervention in some government bond markets have been essential in allowing the ECB to continue to deliver what it is expected to deliver, namely price stability over the medium term for the euro area as a whole.

Thus, the ECB’s actions to continue achieving its mandate are in no way affected by the fact that it holds sovereign bonds of some euro area Member States. The ECB intends to hold the bonds purchased until maturity. Its balance sheet is therefore not affected by any fluctuations in market prices on account of changes in the monetary policy stance. More in general, decisions on the ECB’s standard measures – the key ECB interest rates - are taken independently of the non-standard measures. This ensures that the ECB’s monetary policy stance can be adjusted in time to counteract risks to price stability over the medium term, while addressing remaining impairments in the transmission mechanism by means of non-standard measures.

Let me add that the mere possibility of bond market interventions may have contributed to limiting contagion spreading from the countries directly affected by the sovereign debt crisis to other countries, which would have implied a stronger hampering of the monetary transmission process in the euro area as a whole if the SMP had not been in place.

16. *The ECB President has threatened to withdraw liquidity of a Eurozone Member State´s banking sector, in case that a Member State would try to restructure its public debt. Are you willing to use your powers in such or a similar way?*

The Eurosystem can only provide liquidity to financially sound banks, against adequate collateral, in line with the TFEU and Statute of the ESCB. Currently, the ECB accepts Greek government bonds as adequate collateral following a suspension of the application of the minimum credit rating threshold in the collateral eligibility requirement; this is because the ECB has carefully analysed the EU/IMF programme and approved it as being appropriate to tackle the current sovereign debt crisis. This positive assessment and the strong commitment of the Greek government to fully implement the programme are therefore the basis for the suspension announced (see question 14).

This programme does not consider a debt restructuring. Rather, it ensures that Greece would pay off their full debt when due. In this sense, adherence to the programme adds credibility to the Greek debt in order to qualify as eligible collateral.

17. *How do you evaluate the grown Target II liabilities and receivables of the ECB members?*

TARGET2 liabilities and claims on the ECB are a mirror image of cross-border flows conducted through banks in the euro area: when cross-border flows transit through the payment system TARGET2, the National Central Bank (NCB) of the payer in a given country gets an obligation towards the NCB of a payee in another country. This creates intra-Eurosystem obligations; they are aggregated and netted at the end of a business day, which results in each NCB having either a claim or an obligation towards the ECB.

An NCB develops a TARGET2 liability vis-à-vis the ECB if it provides more funds to its counterparties (that is, the banks to which it lends liquidity against collateral) than they would need in normal times (in the aggregate, the normal need equals the sum of the reserves banks hold at the NCB plus the ‘net autonomous factors’ - essentially banknotes in circulation and government deposits at the NCB minus the NCB’s net financial assets). Currently, for instance, the NCBs of Ireland, Greece, Portugal, and Spain have a negative balance, that is, a liability vis-à-vis the ECB.

Indeed, in current crisis times some commercial banks face difficulties in accessing market funding, possibly exacerbated by deposit withdrawals. To compensate for cross-border outflows, the banks’ liquidity needs may be accommodated by their NCB. In contrast, in countries where banks face cross-border inflows, the banks need less liquidity from their respective NCBs than in normal times (and the latter NCBs develop a TARGET2 claim on the

ECB).

As I have already mentioned on various occasions, it is essential that the issue of over-proportional bidding by some banks at the Eurosystem's refinancing auctions is addressed.

The TARGET2 claim on an NCB's balance sheets, however, does not constitute in itself a financial risk exposure of the NCB concerned.

18. *How will you ensure transparency regarding ECB purchases of government bonds on the secondary market and the covered bonds (Covered Bond Purchase Programme)? Will you disclose which bonds have been purchased and for which price?*

First of all, I would like to recall that the Governing Council is transparent on the total amounts it has purchased under both programmes. As you know, the CBPP ended in June 2010 when it reached its announced amount of EUR 60bn. The outstanding amount is published daily on the ECB's web site. The same holds true for the SMP, where the publication frequency of the outstanding amount is weekly and is contained in the weekly financial statement, as well as in the announcement of the weekly absorbing operation aimed at sterilising bond purchases conducted under the SMP.

Secondly, let me recall the aim of both programmes, which is to preserve the functioning of the transmission mechanism of monetary policy in the euro area. To that end, the CBPP aimed at supporting a market segment that has suffered during the financial crisis, which is important for maintaining the flow of credit to the economy. The SMP was started in the wake of the outbreak of the sovereign debt crisis, in May 2010. Here the focus is on securities, such as government bonds, issued in euro area member states, which are vital for the transmission process of monetary policy as they usually play a crucial role in banks balance sheets.

The full disclosure of the security-by-security position of the ECB acquired under both programmes would have made it more difficult for the ECB to reach its goal. For example, market participants could have tried to make a profit out of the SMP by developing high frequency trading strategies, which would risk severely hampering the effectiveness of the programme. The consequences of a lack of effectiveness of the SMP would hinder the transmission mechanism of monetary policy, which is key for the ECB to reach its goal of maintaining price stability in the euro area.

In the Governing Council assessment, the costs of disclosing security-by-security information about the purchases of the ECB largely outweigh the benefit. For this reason, we decided not to disclose the detailed breakdown of the holdings and we do not foresee any such disclosure.

19. *Bubbles on real estate markets have played an important role in this economic crisis. What measures do you recommend to European policy makers to limit asset price fluctuations on European real estate markets in the future?*

The crisis has confirmed that the bursting of asset price bubbles has severe impacts on the real economy. The recent experience, as in previous cases, has shown that asset price bubbles and the deviation of real estate values from their 'fundamental' value came together with a strong build up of financial imbalances in the private sector.

A first recommendation is hence to closely monitor the nature of asset price movements and build up in leverage, and to invest in tools for detecting imbalances and misalignments. Looking routinely and in detail at money and credit developments, as it is inherent in the ECB's monetary policy strategy, can provide important insights into the interplay of excess creation of liquidity and over-extension of credit, on the one side, and the fuelling of unsustainable asset price developments on the other. Recent efforts at the EU level in the context of enhanced macro surveillance procedures, such as reflected in the Scoreboard alert mechanism, are steps in the right direction towards the creation of early warning indicators.

A second recommendation is to work towards agreement on an effective toolkit of 'ex-ante' measures to prevent the build up of imbalances, and a clear understanding on the comparative advantages of different policy areas in this prevention process. Monetary policy has no role in targeting asset prices, although it may effectively "lean against the wind" when taking into account the consequences of the building up of monetary and credit imbalances and their unwinding in the medium-term outlook for consumer price stability (see also answer to Question 7). But countering the emergence of full-blown asset price bubbles with central bank interest rates alone is not the first-best solution. Tools available to other policy areas, such as fiscal and regulatory policies are more effective in such circumstances.

Overall, authorities should consider the implementation of a range of policy measures, taking into account the specific features of the real estate markets in the respective jurisdictions. In this context, the proper definition and the effective and consistent implementation of macro-prudential measures across jurisdictions are of key importance.

The first truly macro-prudential tool is the counter-cyclical capital buffer (CCB) that will be implemented gradually from 2016 onwards and activated in periods of excessive credit growth which is accompanied by the build up of systemic risks. Since credit booms frequently originate from – and help fuel – asset price bubbles, the CCB may help curb asset booms by requiring all banks to hold additional capital for loans in these periods.

Other macro prudential tools can be more adequate to stem the risk of overheating in the real estate market. These include the application of maximum loan-to-value (LTV) ratios for housing loans as well as defining maximum loan-to-income (LTI) or mortgage debt servicing-to-income (DTI) ratios. These instruments are relatively well understood, and have been already used in some countries. In principle, however, there is a vast array of tools (as microprudential or fiscal ones) that can be used for macroprudential purposes, to counter the insurgence of asset booms and the related systemic risk.

Other measures may include additional capital requirements by supervisors under Pillar 2 of the Basel II framework for individual banks that are considered by authorities to be particularly exposed to certain types of risks (e.g. concentration risk in housing markets). Furthermore, intensified supervision, accompanied by specific stress tests, may also contribute to more cautious lending policy by banks. Eliminating undue tax incentives for mortgage loans may also be considered as a potential macro-prudential policy tool to mitigate excessive credit growth in this market segment.

Our understanding of the functioning of these tools from a macroprudential point of view is still at an early stage, both theoretically and from an empirical viewpoint. The ESRB and other macroprudential authorities worldwide are working on these issues.

Finally, let me mention that enhanced transparency and more efficient communication of risks to customers (including increased financial literacy) may also support a better-informed decision making in housing finance and a more cautious behaviour of clients in this field.

20. *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 policy co-ordination 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 and justify your choices.*

Europe needs to strengthen the key conditions for achieving and maintaining high levels of long-term economic growth. This requires appropriate conditions for innovation and the building up of human capital. Higher productivity is needed, not only to raise our standards of living but also to help bring public finances on a sustainable footing, also considering the impact of an ageing population, and to allow for a more efficient use of natural resources and energy while preserving our environment.

In order to achieve these objectives, Europe needs to facilitate advances in productivity growth and to speed up economic restructuring and investment. Therefore, substantial structural reforms should be aimed at restoring competitiveness, strengthening education, job training and research, increasing incentives to work and employment; they need to be urgently implemented.

The removal of nominal and real labour market rigidities as well as policies which moderate wage growth would contribute significantly to lower structural unemployment over the coming years. These measures are to be flanked by policies that enhance domestic and cross-border competition in product markets. In this respect, the services directive needs to be fully implemented to enhance cross border competition in services and to make further progress in fulfilling the objective of a Single Market.

Structural reforms should also be supported by a consolidation of the financial sector. In addition, 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.

Improved and strengthened surveillance over Member States' policies, including the new proposed macroeconomic surveillance mechanism, is key to make the EU 2020 strategy a success. I believe the ECB contributes best to creating a growth-facilitating environment by ensuring price stability, and by contributing to strengthening the framework for financial stability in Europe.

21. *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, especially in view of the current difficulties?

By signing the Treaty, the Member States that have joined the EU since 2004 have committed to adopting the euro. The convergence framework, as embedded in the Treaty and Protocol, stipulates that Member States can adopt the euro once they have achieved a high degree of sustainable convergence. The convergence criteria are the benchmark against which the ECB and the Commission assess this. The timing of euro adoption depends on how quickly Member States achieve a high degree of sustainable convergence and this timing differs across countries. During ERM II participation, which precedes euro adoption, Member States should demonstrate that they can maintain price stability, fiscal discipline and competitiveness at the same time without major changes in the exchange rate.

One of the lessons drawn from the crisis is that the economic governance framework of EMU needs to be significantly enhanced. Policymakers in euro area countries need to realise that participation in the euro area has implications for economic policies pursued at the country level. A key priority is an economic governance framework that helps to ensure prevention and correction of fiscal and macroeconomic imbalances. Such a framework provides the pre-conditions for sustainable growth and financial stability in the euro area as a whole.

I therefore share the view that the proposals for a stronger economic governance framework thus far do not go far enough. We need more automatic surveillance procedures, including the new macroeconomic surveillance framework that is currently being discussed. I am encouraged by the fact that also the European Parliament has shown more ambition in its approach, particularly as regards greater automaticity and the broader and timelier use of sanctions. In my view, it would also make sense for macroeconomic surveillance to have a clear focus on the euro area countries with large current account deficits, significant losses of competitiveness and high levels of public and private debt.

22. *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?*

I am sceptical about taxation of financial transactions.

First, I doubt that there are beneficial effects. By increasing transaction costs, such a tax would reduce market liquidity. Contrary to the hopes of some proponents, a transaction tax could therefore probably increase, rather than decrease, volatility. Moreover, such a tax would also affect non-speculative business transactions, especially in modern production processes involving a great number of international suppliers and subcontractors. A single trade-related transaction in foreign exchange markets tends to set off a spate of related transactions, as dealers redistribute order balances between themselves. If each individual transaction is taxed, the cost of doing business could increase significantly for both importers and exporters.

Second, the implementation of such a tax would entail enormous practical difficulties. Unless adopted worldwide, a tax on short-term financial transactions would almost certainly drive foreign exchange markets offshore. If one tried to exempt non-speculative flows, it would also lead to a host of further complications in distinguishing between transactions. More generally, it could lead to tax-structuring activity designed to reduce market participants' tax liability, which would tend to reduce market transparency. I am also concerned about the compatibility with EU treaties, and I note that the ECB has raised legal questions about this in an official opinion.

For these reasons I also do not believe that such a tax would be beneficial for euro candidate countries. Stable exchange rates should instead be achieved through sound macroeconomic policies and through the existing European Exchange Rate Mechanisms.

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

In the euro area, monetary policy is a Union competence. Its external representation is therefore ensured by a Union institution, the ECB. The ECB also represents the other tasks of the Eurosystem in international institutions and fora. A similar reasoning applies to the euro exchange rate policy, for which both the ECB and the Council bear responsibility and which is represented jointly by both institutions at the international level.

Economic policies are largely a national responsibility, conducted within a European framework. As a consequence, the external representation of economic policies devolves primarily on Member States, who also bear financial responsibility associated with their membership in international institutions and fora. That said, Member States need to coordinate closely with the competent Union institutions whenever a subject falls partly, or wholly, under Union competence.

However, as Member States step up EMU's 'economic leg' in the future, they could achieve a more coordinated representation of their policies at international level, in particularly for the euro area, given that the enhanced coordination framework for economic policies will be more stringent for the countries sharing the single currency.

One way forward for the euro area is to make use of Article 138 of the TFU, which allows euro area countries to adopt "common positions on matters of particular interest for EMU" and to "ensure unified representation within the international financial institutions and conferences". For the above reasons, I would personally see merits in exploring this option further, which of course is ultimately a political issue for Member States.

*24. 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?*

In line with the ECB president's stance, I also prefer not to comment on exchange rates. Having said that, I fully share the assessment of President Trichet, the United States Secretary of the Treasury Geithner, and the Chairman of the Board of Governors of the Federal Reserve System Bernanke that a strong and stable dollar vis-à-vis major floating currencies is in the interest of the United States and the global economy.

Since the exit of its de facto peg to the US dollar in June 2010, the renminbi has appreciated by almost 5% against the US dollar, but it has depreciated by more than 8% against the euro and by almost 4% in nominal effective terms (as of 24 May 2011). We encourage the Chinese authorities to use the flexibility offered by the new policy framework to allow a gradual appreciation of the renminbi in effective terms. The international community agrees –as restated by G20 Leaders at their Summit 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.

Together with the authorities of the other major floating currencies, we have a shared interest in a strong and stable international financial system. Exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. This implies to continue to monitor exchange markets closely, and cooperate as appropriate.

The academic literature suggests that, in exceptional circumstances, cooperation in the form of e.g. foreign exchange interventions can be effective if and when such interventions are concerted, consistent with fundamentals and official communication, and undertaken when the magnitude of exchange rate misalignment is relatively large. In this respect, concerted interventions by the G7 (for instance, in 2000 on the euro; or 2011 on the yen) are widely viewed as having been successful.

On the international role of the euro, I agree with the neutral stance adopted by the ECB in 1999, neither trying to hinder nor trying to foster its international use. This policy position remains fully valid since the international use of currencies should be the outcome of a market-driven process in which foreign economic agents decide on whether a currency is an attractive store of value. By pursuing a stability-oriented monetary policy and fostering financial integration in Europe, the ECB and the Eurosystem might contribute indirectly to the international use of the euro which has become the second-most important reserve currency in the world.

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

The G20 has played a crucial role in providing high-level political impetus for crisis containment, crisis management and future crisis prevention. G20 cohesion must continue to be ensured, as we put the crisis behind us, not least to ensure that policies agreed to date are fully and consistently implemented. It is hence highly welcome that G20 Leaders underline 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. Having myself attended many meetings of G20 finance ministers and central bank governors, as well as Summits, I must say that I am encouraged by the high level of collective responsibility by G20 members.

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 key mechanism in multilateral cooperation. The aim of this framework is to help manage the transition from crisis response to a strong, sustainable and balanced pattern of global growth as well as to address the global imbalances that contributed to the financial crisis. It is now important that all G20 members 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.

Second, G20 Leaders endorsed the key building blocks for the transformation of the financial system, including the work done by the Basel Committee and the FSB. It is now crucial for G20 members to fully and consistently implement the agreements reached and to lead by example in living up to the commitments made. Work is underway at national and regional levels to implement the G20 objectives and the FSB's concrete, detailed and ambitious recommendations for strengthening financial stability, and this is already delivering results. But important tasks remain, *inter alia* to fully implement the new Basel III bank capital and liquidity standards, to address systemically important financial institutions, as well as to strengthen the monitoring and regulation of shadow banking. Other important areas include improving the robustness and transparency of OTC and commodity derivatives markets, developing macroprudential frameworks and tools and achieving convergence on strengthened accounting standards.

Third, important efforts are underway to strengthen the functioning of the International Monetary System. Work has begun *inter alia* on devising coherent approaches and measures to deal with potentially destabilizing capital flows as well as the management of global liquidity. With regard to the area of capital flows, I would stress that, as a rule, temporary controls of capital inflows should be seen as a policy instrument of last resort and not a substitute for sound macroeconomic, macro-prudential and structural measures. To limit the distortions and negative externalities of capital controls, it is indeed important to strengthen international cooperation e.g. by agreeing on principles and best practices. As far as the management of global liquidity is concerned, I would emphasize that efforts to better understand financial interconnectedness are welcome. That said, any mechanism to channel cross-border liquidity at the global level will not work without the direct or indirect co-operation of central banks, since only the latter have the ability to provide the desired amounts of liquidity. In that context, central banks cannot, and should not, commit ex ante to the provision of international liquidity in a crisis.

C. Financial stability and supervision

26. 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 interplay and coordination between micro- and macro-prudential supervision are ensured by the inter-institutional structure of the ESRB whereby the ESAs are represented through their chairs as voting members. Furthermore, the cooperation between the ESRB and the ESAs (and more generally the national supervisors) is ensured by the provision in the legislation of a broad duty of cooperation and exchange of information among the components of the European System of Financial Supervision (ESFS[1]).

The cooperation between macro and micro supervisors will be in particular crucial as macroprudential supervision is expected to be implemented mostly through prudential supervisory and regulatory tools. Therefore, the implementation of the macroprudential mandate assigned to the ESRB will require proper coordination with the national supervisory authorities that will be the addressee of the ESRB's recommendations. In this context, of particular importance will be the role of the ESAs, which are mandated by the legislative framework to ensure the proper follow-up to ESRB warnings and recommendations.

As regards the ESRB, the legal framework provides it with the power to issue risk warnings and policy recommendations. This largely reflects the recommendations of the De Larosière Group for the establishment of a body responsible for macro-prudential supervision, based on and drawing upon the competence and expertise of the ECB, national central banks and national supervisors.

Legally established on 16 December 2010, the ESRB already had two meetings of its General Board, has established its advisory committees and is now fully operational. The ECB has been entrusted by the legislative framework with the provision of analytical, statistical, logistical and administrative support to the ESRB. In this context, the ECB is making the utmost effort to enhance its capability and analytical tools to conduct systemic risk analysis. More specifically, the ECB role in supporting the ESRB (apart from providing the Secretariat) is as follows:

- The ECB will provide *regular products* to the ESRB for the identification and assessment of systemic risk in the EU by relying on the organisation adopted for performing the ECB financial stability tasks;
- The regular contribution of the ECB will be supported by: (i) *analytical infrastructure* which will develop and maintain analytical tools and methodologies for systemic risk analysis; (ii) *infrastructure for macro-prudential data* drawing on the ECB statistical function; and (iii) *market intelligence* networks to be developed.

The success of the ESRB will crucially depend on the availability of high quality and timely information that enables macroprudential supervision. This will require a close collaboration between the ESRB, the three ESAs, the ECB and the relevant national (supervisory) authorities and central banks. The exchange of information will be needed mainly in aggregated form (whenever possible with dispersion measures) on a regular (usually quarterly) basis or for individual institution-level basis and, following the ESRB regulation (Art. 15), can only occur on an ad-hoc basis. Cooperation and information sharing with other jurisdictions and similar bodies around the world will also be important.

As regards the microprudential pillar of the EU institutional framework, the ESAs have been

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[1] The ESRB and the ESAs, together with the national financial supervisors and the Joint Committee of the ESAs, form the European System of Financial Supervision (ESFS).

allocated a significant set of competences, related to rule-making, enforcement of rules and coordination of supervision and with a set of effective tools to exercise these tasks. First, as regards rule-making, the ESAs can issue technical standards for financial regulation and supervision, which may either become legally binding through adoption by the Commission or have a soft law nature. Through these tools the ESAs are expected to set up a EU rulebook, thereby addressing the above-mentioned main lacunae of the current framework, namely the existing divergences across countries in key regulatory elements.

Second, the ESAs should ensure that supervisory rules are applied in a consistent manner. To this aim, the ESAs are granted a very effective power, namely the possibility to take legally binding decisions addressed to national supervisors or (in case of non compliance by them) even to specific financial institutions in some specific instances, when justified by financial stability considerations. Such important powers (subject to a specific procedure) may be triggered for addressing in particular (i) the breach of EU law by supervisors; (ii) the disagreement between national supervisory authorities in cross-border situations; and (iii) when the Council declares an emergency situation. In the latter two cases the ESAs' powers are subject to the important "fiscal clause" laid down by article 38 of the ESA regulation, providing that ESAs' powers can not impinge on the national fiscal responsibilities. Finally, I note that the ESAs are not allocated any specific tool as regards crisis management and resolution.

From the ECB's point of view it is very important to underline in the short term the following key challenges for the ESAs:

1) the definition of the operational framework concerning the cooperation and exchange of information of the ESAs with the ESRB, together with the latter and the ECB.

2) the completion of a credible stress-test regime.

In the medium term, a key challenge, as highlighted by the EBA Chair and the ESRB Vice-Chair during their hearing at the European Parliament, might be the resistance of the financial sector itself against increased regulation, and therefore against regulatory measures stemming from ESAs' powers or from recommendations for regulatory interventions formulated by the ESRB.

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

The policy responsibilities of the ECB and the ESRB are clearly distinct. As you are well aware, 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. On the other hand, the newly created ESRB is importantly responsible for macro-prudential oversight across the EU's financial system, identifying risks to financial stability and issuing any necessary risk warnings and recommendations for action to address such risks.

This notwithstanding, it is clear 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, are mutually self-reinforcing. Indeed, while fully respecting the ESRB's role as the body responsible for EU macroprudential policy, it will be important for there to be dialogue between the two bodies on policy issues that can affect systemic risk.

I am fully confident that the institutional independence of the ECB and ESRB will make sure that the respective policy instruments will be geared to the objectives for which these have been designed.

28. How do you see the ECB's role in banking supervision in the future?

The ECB's role in financial supervision is clearly defined by the Treaty in terms of contribution to the smooth conduct of the policies pursued by competent national authorities in the field of banking supervision and financial stability. Moreover, the Treaty provides Member States with the possibility to assign to the ECB specific tasks concerning policies relating to the prudential supervision of credit and financial institutions. This possibility has been exploited for instance by attributing to the ECB the responsibility to provide the analytical, statistical, logistical and administrative support to the ESRB.

I support the new EU institutional framework centred on the ESRB and the ESAs and I expect that the smooth interplay and effective functioning of its two pillars, macro and microprudential supervision will provide an effective framework to promote financial stability in the EU.

29. What do you see as the most pressing issues in the financial services legislation?

Under the auspices of the G20, the Financial Stability Board, which I have the honour to Chair, has done a remarkable amount of work. However, both at international level as well as at European level the work is far from finished. Let me mention four issues on which work needs to progress and stay apace.

Firstly, as regards Basel III, the main challenge ahead lies in a timely, full and consistent implementation of the new framework, as well as a fuller assessment of and possible adjustments to some of the new measures, such as the leverage ratio and liquidity standards, during the observation period. Adjustments to these measures will be based on the information gathered during the observation period, and will address any unintended consequences for individual banks, the banking sector, the financial market and the economy as a whole. Furthermore, in order to create a level playing field and avoid regulatory arbitrage, globally as well as in the EU, it is important that Basel III is fully and consistently transposed into national legislation and regulation (in Europe via CRD IV), in both letter and spirit. I note, with reference to recent discussions of the draft CRD IV text, that Basel III sets minimum standards which countries should be free to exceed.

Secondly, as regards systemically important financial institutions, the Financial Stability Board and the Basel Committee on Banking Supervision are committed to delivering to the November G20 Summit for endorsement recommendations on the identification of G-SIFIs, as well as the appropriate degree of additional loss absorbency and measures to improve resolution tools and regimes. It is crucial that these are implemented in an internationally consistent way, and the FSB will establish a Peer Review Council to monitor this.

Thirdly, development of a consistent crisis management and resolution framework that can credibly address cross-border institutions is crucial if we are able to deal effectively with crisis in the future. In this context, the legislative proposal of the European Commission on a crisis management framework expected in the fall will constitute a landmark. As regards the development of a resolution framework, it is essential that a comprehensive toolbox of powers and credible financing arrangements that avoid the reliance on state budgets is agreed upon. While there much agreement at international level as regards the most effective resolution tools in a domestic context, the FSB is currently further working on recommendations to address cross-border issues, and on analysing the potential for bail-inable debt from different perspectives (i.e. recapitalization or absorption of losses by subordinated and senior debt holders).

Lastly, it is vital that work progresses on strengthening oversight on what is referred to as "shadow banking". It is important to better understand the complex chain of activities and entities involved in credit intermediation outside the regulated banking sector and consequently assess the adequacy of the current regulatory framework and identify areas of systemic risk concerns that are outside the perimeter of regulated banking activities.

In all of the above, we will fall short of our commitment to, and collective responsibility for, a more resilient financial system if implementation of agreed reforms does not occur in a consistent manner across major jurisdictions. The US and the EU have a special responsibility in this regard. It would be a serious mis-judgment of national and regional authorities to allow national interests to weaken implementation of global reforms necessary to avert future crises.

D. Functioning of the ECB and democratic accountability and transparency

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

The responsibilities of the ECB's Executive Board are laid down in Article 12 of the Statute of the ESCB and the ECB ("the Statute") which allocates to it the tasks of implementing monetary policy in accordance with the decisions laid down by the Governing Council and of preparing the meetings of the Governing Council. In addition Article 11 of the Statute stipulates that the Executive Board shall be responsible for the current business of the ECB.

Both articles refer to the Executive Board as a whole, which is in line with the construction of the Executive Board as a collegiate decision-making body. All decisions are taken by the Executive Board in its totality without allocating responsibility to any individual Executive Board member. Therefore, all Executive Board members are by definition involved in all areas of the Executive Board's competence, be it monetary policy, payment systems, banknotes, etc. The Executive Board's nature as collegiate decision-making body is also reflected in the way the organisational structure of the ECB is usually shown in its publications.

However, given the multitude of issues that the Executive Board has to deal with, it makes perfect sense that, for administrative reasons, Executive Board members agree among themselves which ECB business areas should primarily report to which Executive Board member, without, however, giving up the collective responsibility of the entire Executive Board.

I am, of course, aware that the Rules of Procedure attribute a special responsibility to the President, when it comes to the ‘portfolio distribution’, which allows taking into account the expertise of individual Executive Board members and to make best possible use of it for the benefit of the Bank. As the Executive Board members are appointed in a staggered approach, this allows reviewing the allocation of reporting lines from time to time. The change from time to time of responsibilities among Executive Board members also strengthens the collegiality of the decision-making process.

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

The Treaty – and to my mind rightly so - mainly focuses on the criterion of professional experience and expertise, by stating that the members of the ECB’s Executive Board ‘shall be appointed among persons of recognised standing and professional experience in monetary or banking matters’’. These articles restrict consideration of nationality to stipulating that only nationals of euro area Member States may be members of the Executive Board. In this manner, the legal texts consciously refrain from laying down any pre-requisites related to nationality (other then the self-evident limitation to euro area nationals) or gender.

Let me add that the supranational character of the ECB implies that the decisions of its decision-making bodies are taken exclusively with a euro area perspective, and not taking into account particular national interests. The members of the ECB decision-making bodies do not represent their Member States but participate in the decision-making in their personal capacity.

Introducing further considerations into the appointment procedure, such as nationality and gender representation, would introduce arbitrary elements which might actually be counter-productive in choosing the most competent persons. The appointment procedure foreseeing the consultation of the European Parliament constitutes an important safeguard in the overall selection process in order to ensure compliance with the stipulated criteria.

32. 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 and the Statute require, as I have said before, that members of the Executive Board have to be ‘persons of recognised standing and professional experience in monetary or banking matters’. Of course, this does not mean that they necessarily have to be central bankers but it is not surprising that a rich central bank experience is relevant and to be taken into account.

This does not mean that other professional backgrounds and experiences would not be very valuable. As a matter of fact, if one looks at the curricula and the professional experience of the current and past members of the Executive Board, it is obvious that they were not always and only central bankers but have a diversity of expertise and experience which adds valuable input to the decision-making process. In fact, my own professional experience, as well as that of many senior central banking officials, shows that in the course of my career I have broad and diverse insights in a range of positions both in the public and the private sector as well as academia, which would certainly serve me well in the ECB context.

33. *What will be your personal approach of the social dialogue at the ECB?*

ECB staff is the Institution's main asset. I would like to nourish a fruitful and effective social dialogue with staff, also fostered by maintaining a constructive cooperation with the staff representatives who have been elected to represent the interest of all staff (i.e. the Staff Committee) and those who, in compliance with the relevant criteria, represent a specific constituency (i.e. recognised trade union representatives). My approach would be to share information with both, involve them at an early stage and consulting them on relevant matters. All in all, I aim at working with staff representatives amicably in a spirit of partnership, good faith and mutual respect.

Besides, at ESCB/Eurosytem level, the ECB maintains a dialogue with the staff representatives of the constituent central banks and the federations of trade unions to whom they are affiliated, by issuing a bi-annual newsletter and by hosting two annual ESCB Social Dialogue meetings in Frankfurt. These are important tools whereby developments concerning ESCB/Eurosytem projects can be shared and discussed with the staff representatives and the federations of trade unions. I intend to continue with these practices with a view to foster intra-system cooperation and team spirit.

34. *Would you be in favour of a confirmation procedure by the European Parliament (notwithstanding the constitutional issues that such a change would raise)?*

The European Parliament has in recent years gained a wide range of far reaching competences, in particular under the Lisbon Treaty. The Treaty also provides for a clear appointment procedure for members of the Executive Board of the ECB, giving a consultative role to the European Parliament which holds a hearing and vote on the candidates proposed by the Council.

I believe that this appointment procedure has served well the ECB over the years. It is essential that such a procedure runs smoothly and ensures, as it has done, appropriate continuity at the helm of the institution and credibility of the selection process towards EU citizens and markets. In line with the spirit of the requirement to appoint 'persons of recognised standing and professional experience in monetary or banking matters', the procedure has provided persons of high competence, commitment, independence and integrity. I therefore do not see the need for changes to the current procedure, considering the outcomes that the procedure has obtained.

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

In order to effectively fulfil their mandate, central banks need to have a high degree of independence. This independence must go hand in hand with accountability. The democratic accountability of central banks can be viewed as their obligation to properly explain and justify their decisions and to assume responsibility for fulfilling their mandate towards the citizens. By being accountable and transparent, central banks increase their credibility, which is a solid asset in normal times and a significant element in crisis times like those we have been experiencing.

The ECB's independence is firmly established within the Treaty which also provides for its accountability. The ECB's accountability is first and foremost to the European citizens and, institutionally, to the European Parliament, as the institution comprising the directly elected representatives of the European public. The discharging of the ECB's accountability towards the European Parliament is central to the ECB's democratic legitimacy. I am aware that in the past the ECB has always highly appreciated its exchanges with the European Parliament, not only on economic and monetary issues but also on the reform of the EU supervisory framework last year and on the governance legislative package this year. I am looking forward to pursuing this fruitful dialogue.

I also view as very important the array of other, well established, means, through which, as you very well know, the ECB discharges its accountability going beyond statutory obligations. The ECB's Annual Report is presented to the European Parliament (and Council); the ECB's President appears before the ECON Committee on a quarterly basis; other Executive Board members are invited to hearings on specific topics. Complimentary elements include the ECB's monthly press conferences with the Introductory Statement by the ECB President; the ECB's Monthly Bulletin; other official publications; speeches and interviews by Executive Board members. I am convinced the ECB meets the highest requirements in terms of central bank transparency and accountability and I intend to preserve these achievements.

36. 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?

An independent central bank must comply with its legal accountability requirements. Accountability is a fundamental precondition for, and a core element of, democratic legitimacy; it imposes discipline on an independent central bank to perform its tasks with highest standards of professionalism and it is essential in order to contribute to the maintenance of price stability over the medium-term.

The process of accountability follows the principles set out in the Treaty. First, the ECB is accountable to EU citizens, and their representatives in the European Parliament, which is the only European institution directly elected by them. Second, the Statute of the ESCB stipulates that the proceedings of the meetings shall be confidential.

Accountability should be effective in providing the public with information relevant for the understanding of the Governing Council's monetary policy decisions. In this respect, publication of too detailed information may be even counterproductive, because policy messages may become unclear.

It is true that the publication of minutes with the balance of votes of the Governing Council members would provide the public with additional information on the diversity of views within the Governing Council. However, the ECB's Governing Council is a collegial decision-making body, and like many other monetary policy committees, pursues collective accountability. This means that the members of the Governing Council are jointly responsible for the decisions taken by the Governing Council. A timely publication of minutes could have the undesirable effect that Governing Council members face undue attempts by the media to make them individually accountable, thereby hampering collective accountability and personal independence.

At the same time, other communication tools already ensure that the public receives the information needed to fully understand the ECB's monetary policy decisions. The quantitative definition of price stability and the monetary policy strategy help the public to assess the performance of the ECB; this external assessment of the ECB is facilitated by the timely publication of relevant information such as in press releases, the ECB's Monthly Bulletin and the President's Introductory Statement following the monthly press conferences.

37. *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?*

I believe that transparency is essential for central banks aiming at price stability, and that this is confirmed by the practices followed by all the major central banks. Transparency contributes to a reduction in uncertainty about future policy actions and in inflation volatility and contributes to the anchoring of inflation expectations. The ECB, the Fed and the Bank of England have improved their practices and today they can be seen among the leading contenders in the world in terms of central bank transparency.

Transparency requires the central bank to clearly explain how it interprets its mandate and to be forthcoming about its policy goals, in order to help the public to monitor and evaluate the central bank's performance. In addition, 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 the economic rationale underlying its policy decisions.

There is a common tendency towards greater transparency among central banks, and I believe that in the past the ECB has led the way in many respects. The ECB has announced a formal monetary policy strategy and regularly explains monetary policy decisions applying that strategy. Both the ECB and the Bank of England have clearly specified in quantitative terms what price stability means. This has not been the case for the Fed in the past, but recent communications give indications that the Fed defines price stability in a similar manner as the ECB.

All three central bank, the Fed, the Bank of England and the ECB, have stressed the importance of effective communication and proper interaction with the public. However, there are several options to enhance communication; the publication of minutes is just one of several possibilities. For the Bank of England's MPC, which applies individual accountability, it makes perfectly sense to publish minutes of policy meetings. In the case of the Fed there is a formal requirement to publish minutes, but the published voting records may not fully reflect the diversity of views in the internal deliberations of the FOMC; to communicate the latter, the Fed has used other tools.

As I mentioned in my previous answer, the ECB is required to keep the deliberations of the Governing Council confidential and this allows the Governing Council to make monetary policy decisions in full independence and with a view to emphasising its collective accountability. However, the ECB uses other communication tools which provide information that can be compared to minutes of the other central banks mentioned. Notably, the President's Introductory Statement at the press conference provides a comprehensive summary of the policy-relevant assessment of economic developments. It is an assessment along the lines that have been collectively agreed by the Governing Council. This information is provided almost in real-time. Moreover, the monthly press conference includes a question and answer session which provides a platform for a timely and even-handed explanation of monetary policy decisions to the public.

I believe the success of the ECB's practice to give press conferences, to provide the public and the media with more extensive information on the decisions, is clearly shown by the fact that it has been followed by other central banks, notably the Bank of England and most recently (since last April) the Fed.

38. *What's your opinion of the monetary dialogue with the European Parliament? Might ECB board members discuss monetary policy and its decisions with other political actors or would this harm the bank's independence?*

The Committee on Economic and Monetary Affairs of the European Parliament holds hearings of the ECB President on a quarterly basis. This regular interaction is complementary to the ECB's independence and is fundamental to the discharging of the ECB's democratic accountability. It provides a very important occasion for the ECB to explain its policies to the directly elected representatives of the European citizens.

This framework of regular hearings has allowed for a thorough and fruitful interaction between the two institutions and has helped to increase the understanding of the ECB's policies throughout Europe.

The institutional framework pertaining to the ECB's relations with other EU institutions and fora is also well established. The current framework allows for an effective interaction between the various policy makers as, for example, within the Eurogroup and ECOFIN Council, or at lower level in the Economic and Financial Committee and the Economic Policy Committee of the EU. Also this interaction takes place on the basis of the Treaty provisions and in full respect of the ECB's mandate and independence.

E. General

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

As regards the main challenges and risks facing the ECB, let me restrict myself here to three of them:

As regards monetary policy, to fine tune the exit from the still very accommodative monetary policy stance and the phasing-out of the remaining non-standard measures is certainly a great challenge. Standard monetary policy (i.e. the setting of our policy rates) should be adjusted as always with the aim to deliver on the ECB's mandate, i.e. to maintain price stability for the euro area as a whole in the medium term; non-standard measures need to be phased out to the extent that they are no longer needed to support the functioning of the transmission of monetary policy to the economy and, ultimately, prices. The continued high degree of uncertainty on the macroeconomic and financial environment together with remaining vulnerabilities requires a careful assessment of the overall situation and outlook. This in turn warrants an element of gradualism in changing standard and non-standard monetary policy.

Another challenge I would like to highlight relates to financial stability. The financial crisis has raised a number of questions on the relation between monetary policy and financial stability, while emphasizing that there is no trade-off between the objective of price stability and the support that the ECB can lend to other areas, such as financial stability. A better understanding of the role of the financial sector in the transmission mechanism is of the essence in this respect.

Finally, let me mention Europe itself. The sovereign debt crisis is a real test for the political will in Europe to do whatever is needed to ensure the achievements of economic and monetary integration in Europe. In this sense, it is also a real test for the solidity of European and national institutions. Decisive action is needed, especially from the governments of the countries affected by the sovereign debt crisis, to regain confidence and avoid contagion. Looking forward, institutions should be put in place that avoid the renewed build-up of imbalances, and - should they nevertheless re-appear - can resolve them effectively.

This requires placing national developments increasingly in a European context. Fiscal policies, structural reforms and financial supervision should fully respect the European dimension, and particularly the euro area dimension. Only by policy actions in line with strengthened European requirements can countries in Europe fully realise all benefits of being part of economic and monetary union. This formidable challenge not only matters to me as a dedicated European, but it also relevant for the ECB's monetary policy as it affects the environment in which the ECB operates.